

# Directors' report

The directors present their annual report for the year ended 31 December 2008.

## Principal activities of the group

Brammer plc is a holding company. Its principal operating subsidiaries, all of which are wholly owned except where stated, are listed earlier in this document together with details of their activities and locations.

As at 31 December 2008 the principal activity of the group is the provision of value added business to business services, through being a leading value added supplier of power transmission components and related inventory management, procurement and logistics services in Europe.

## Financial results and dividend

The chairman's statement, the chief executive's operational review and the financial director's review report on the group's activities during the year and likely future developments. The key performance indicators of the business, which are considered to be sales per working day, revenue per head, gross margin, return on capital employed and interest cover, are reviewed in the chief executive's review and the finance director's review.

The directors recommend a final dividend of 5.1p per ordinary share for the year ended 31 December 2008 (2007 5.1p), which, together with the interim dividend of 2.6p (2007 2.1p) per ordinary share, brings the total dividend paid and proposed to 7.7p (2007 7.2p) for the year. Subject to the approval of shareholders at the annual general meeting, the final dividend will be paid on 2 July 2009 to all shareholders on the register at close of business on 5 June 2009.

## Directors

Details of each of the directors who served throughout the year are shown on page 20. Svante Adde stepped down from the board on 30 June 2008. On 1 July 2008 Bill Whiteley was appointed as independent non-executive director. All directors are subject to retirement by rotation under the company's articles of association.

The directors retiring by rotation are David Dunn and Terry Garthwaite who, being eligible, offer themselves for re-election. Bill Whiteley was appointed as a non-executive director on 1 July 2008. He retires as he was appointed after the last annual general meeting and offers himself for election. Subject to this appointment by shareholders at the annual general meeting in 2009, the appointment will be three years from 1 July 2008.

Each non-executive director is appointed for fixed terms of three years. David Dunn was initially appointed in November 2001, Terry Garthwaite was initially appointed in June 2004, and Bill Whiteley was appointed in July 2008.

Details of directors' attendance at board and committee meetings and a statement on board evaluation is set out in the corporate governance report.

Further details of the directors' service contracts are set out in the remuneration report.

## Directors' and Officers' liability insurance and indemnities

The company purchases liability insurance cover for directors and officers of the company and its subsidiaries which gives appropriate cover for any legal action brought against them. A review of this cover took place in December 2008. The company has also provided an indemnity for its directors to the extent permitted by the law in respect of liabilities incurred as a result of their office. The indemnity would not provide any coverage to the extent that a director is proved to have acted fraudulently or dishonestly.

## Directors' interests

The beneficial interests of the directors and their immediate families in the shares of the company are set out in the remuneration report.

## Substantial shareholdings

As at 23 February 2009, the company had notification that the following were interested in 3% or more of the company's issued share capital.

AXA Framlington Investment Management	14.64%	Gartmore Investment Management Limited	4.71%
Artemis Investment Management Limited	9.91%	Edinburgh Partners	4.48%
Majedie Asset Management	7.23%	M&G Investment Management Limited	3.89%
JP Morgan Asset Management	6.51%	Discretionary Unit Fund Managers	3.78%
Legal & General Investment Management	5.49%	Aberdeen Asset Management	3.68%

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## Charitable and political donations in the United Kingdom

No charitable donations were made during the year (2007 £nil). No political donations were made (2007 £nil).

## Payment to suppliers

The group's policy is normally to pay suppliers according to agreed terms of business. These terms are agreed with suppliers upon entering into contracts and the group's policy is to adhere to the payment terms providing the supplier meets its obligations.

## Purchase of own shares

During the year the company purchased 971,914 of its own ordinary shares of 20p, representing 1.7% of the issued ordinary share capital of the company as at 31 December 2008, through the Brammer plc Employee Share Ownership Trust ("the Trust") for an aggregate consideration of £2,320,000.

The Trust currently holds a total of 351,535 shares in the company in order to meet part of the company's liabilities under the Brammer plc Performance Share Plan. The Trust deed contains a dividend waiver provision in respect of these shares.

Shareholders' authority existed at the end of 2008 for the purchase by the company of 5,289,869 ordinary shares of 20p each representing 10% of the issued ordinary share capital of the company as at 25 March 2008. The company has made no purchases of its own shares pursuant to this authority save through the Trust as set out above. The company will seek to renew this authority at the 2009 annual general meeting.

## Interim report

Current regulations permit the company not to send copies of its interim results to shareholders. Accordingly the 2008 Interim Results published on 29 August 2008 were not sent to shareholders. Furthermore the 2009 Interim results and subsequent interim results will not be sent to shareholders. The Interim Results and other information about Brammer are available on the company's website at [www.brammer.biz](http://www.brammer.biz).

## Financial risk management

The group's financial risk management objectives and policies and exposure to price risk, credit risk, liquidity risk and cash flow risk are disclosed in the notes to the financial statements on page 54.

## Employees

The group values the commitment of its employees and recognises the importance of good working relationships and communication.

The group is committed to open and regular communications with employees about business developments and issues of general interest and concern to them, both on a formal and informal basis. The performance of the group is communicated regularly to all staff. Copies of the annual report together with details of preliminary and interim announcements of the group's results are available to them. Translations of the executive statements are available to all the group's employees.

In 2000 a formal human resources policy framework was adopted throughout the group. The framework includes a process of appraisal and development to ensure companies get the best from their people; emphasis has been placed on career pathways with individual training and development programmes. Motivational events are organised during the year. The group operates internationally and therefore its employment practices are varied to meet local conditions and requirements. These are established on the basis of the best practice for each individual country. New and existing staff at all levels are trained to become familiar with products, markets, systems, service standards and management skills in order to better satisfy customer needs and to enhance their own career prospects. In 1999 the Brammer European Council was established with each company in the group selecting a representative. The council meets once in each year. The purpose of the Brammer European Council is to encourage freedom of association amongst Brammer staff representatives from its operations in Europe.

Both employment policy and practice in the group are based on non-discrimination and equal opportunities. The company remains supportive of the employment and advancement of disabled people. Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicants concerned. In the event that members of staff become disabled, every effort is made to ensure that their employment with the company continues and the appropriate training is arranged.

The group has carried out the fifth Brammer Employee survey which was conducted electronically in late 2008 by Digital Opinion. Response rates were high across all territories with an overall response rate of 62%. Overall the relative scores of the 2008 survey showed consistent results to 2007 and were generally pleasing. The results showed that Brammer's core values and strategic priorities were being positively adopted by the workforce.

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## Corporate social responsibility

### The environment

Brammer recognises that it is part of a wider community of employees, shareholders, customers, suppliers and other stakeholders and recognises that group companies have a responsibility to act in a way that respects the environment.

It is the policy of Brammer, so far as is reasonably practical, to protect and conserve the local and wider environment from any adverse impacts caused by operations. It is the policy of Brammer across all its operations to:

- meet all relevant legislative requirements on environment issues;
- seek to conserve energy and natural resources by minimising waste, recycling where possible and maximising the use of our renewable resources;
- consider the life cycle environmental effects of investment in premises and equipment; and
- ensure all contractors follow our practices while working on site and respond promptly and efficiently to adverse occurrences.

The group's aim is to encourage more recycling and reduce energy costs. The UK is leading the way in this regard. The group will extend this policy to other countries. Group initiatives include the following:

### *Working environment*

Use of energy saving lamps wherever possible and that all lights are turned off when they are not in use.

A recent transition across the group has been made to flat screen computer monitors with employees encouraged to leave all computers on standby mode if they are away from the computer.

At weekends all servers, faxes and printers are shut down and all computers are turned off nightly. Better control of temperature and regulation of the hours of use of oil at National Distribution Centres ("NDCs") to reduce consumption now takes place. The promotion of electronic mail and telephone rather than post is encouraged.

### *Transport*

Deliveries are in the main carried out overnight so that vehicles do not get held up in traffic, thus reducing their emissions. Vehicles with diesel particle filters are preferred and cars with low fuel consumption (fleet scheme) are utilised.

Employees are encouraged to optimise their use of car pooling, use public transport and limit the amount of air flights. Drivers are asked to drive at low speeds as this is more energy efficient.

### *Recycling and waste reduction*

Recycling is implemented where possible in relation to paper, glass, residual waste. Recycling is encouraged within NDCs by reusing old packaging.

Electronic purchasing is utilised to minimise paper usage. Printing is now to be carried out through central printers in order to reduce paper consumption. A number of projects have been implemented to reutilise boxes for all internal transport and to improve the recycling rates at both NDCs and branches.

Suppliers are asked to use reusable pallets rather than disposable ones. The use of more environmentally friendly packaging is encouraged as well as packaging more products in the same pack, where possible, in order to save material. Employees are encouraged to separate waste.

### *Accreditation and conformance with European legislation*

Brammer is working to ensure that all our businesses across the group achieve an environmental accreditation such as ISO 14001. Brammer is committed to reducing its carbon footprint through reducing energy consumption and proactive waste management.

### *Specific country initiatives are as follows:*

- For Brammer Germany a new environment policy in relation to motor vehicles is being prepared for implementation in early 2009 which will lead to reductions in fuel consumption and CO2 emissions.
- In Spain, anti-spill tanks and anti-spill emergency kits have been installed to cope with safety requirements for the warehousing of chemicals and to act in case of emergency. High capacity outdoor safety cupboards have also been installed to comply with safety requirements and to increase the capacity to store flammable products.
- In the UK, all the NDC employees have received environmental training and awareness, which along with some maintenance improvements brought about compared with 2007 a 19.1% reduction in the amount of waste sent to landfill; and a 19.2% increase in the volumes of cardboard sent for re-cycling. In 2008, 77.3% of all waste in the UK is now recycled compared with 9.5% in 2005. Waste sent to landfill was less than 3 tonnes per month per month down from 7.9 tonnes per month in 2005. Cardboard recycled up from 0.76 tonnes per month in 2005 to nearly 4 tonnes per month in 2008. Fuel is a significant cost for Brammer UK which they seek to minimise along with CO2 emissions. Better planned delivery routes have been introduced to reduce fuel costs.

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## Health and safety

The group strives to provide and maintain a safe environment for all employees, customers and visitors to its premises and to comply with relevant health and safety legislation. In addition the group aims to minimise the risk of work based accidents by ensuring systems are in place to address health and safety matters. The group encourages the involvement of employees and aims for continual improvement in health and safety matters through a formal structure with a reporting and review process. Compliance with health and safety policies and legislation is monitored on a country by country basis. The goal of the group is to achieve best practice in all its operations. Progress on implementation of country health and safety plans is closely monitored.

The group's health and safety policy statement, which is published on our website, focuses on establishing a suitable environment, providing proper training and communication with employees.

Reports on health and safety performance are made to meetings of the board on a quarterly basis. A new format of health and safety reporting was introduced in 2007 so that the board can monitor more carefully injury statistics and trends across the group, especially where there are locally notifiable incidents.

A major investment programme in our NDCs over the past few years has given us the opportunity to introduce vehicle movement practices both on branch forecourts and indoors. This has significantly improved the workplace transport flows involved, separating workplace vehicle movements from people movements and significantly reducing the opportunity for accidents.

Brammer's use of vehicles and the composition of its fleet are continually under review to ensure that the most appropriate vehicles are used for delivery from branches. Deliveries from the NDCs to branches are normally carried out by an external logistics company.

A review of Fork Lift Truck ("FLT") procedures took place in 2008 across the group. Following this review, standardisation of external training for FLT drivers is being introduced.

### *Health and safety in specific countries:*

Brammer UK have accreditation to OHSAS18001: 1999 which require health and safety audits to be conducted at all locations and additional actions and controls have been implemented to ensure that employees can carry out their functions in a safe and effective manner. Investment in automation at the NDC in relation to the picking and despatch processes has led to further reductions in the amount of manual handling.

Other accreditations are 'Safecontractor' for the installation, repair and maintenance of gear box systems at customer premises; and Approved House Assemblies: a certification mark by the British Fluid Power Distributors Association has been obtained.

A driver online assessment programme which was introduced and implemented in 2007 is being extended to all drivers in the near future. The aim is to reduce the number of road accidents involving employees whilst driving company vehicles. Improved reporting of accidents has led to better accident prevention.

In France, the health and safety committee meets quarterly and continuously works on improving safety. This committee has made a major contribution in reducing the number of accidents in the past few years. Road traffic accident prevention has been a major initiative in 2008. Improvements in manual handling training and fire prevention have taken place during the year.

A health and safety committee was introduced in Germany in 2006. The external health and safety expert appointed by Brammer Germany has extended audits to smaller locations.

In Spain, an external expert company ensures compliance with current health & safety legislation. A work risk prevention system has been established and is implementing actions to improve awareness of all employees leading to the prevention of accidents and work related illnesses. Routine medical examinations of employees are carried out in accordance with Spanish health & safety legislation in order to monitor the health of employees.

During 2009 all the FLT drivers in Spain will be externally trained and tested in the use of such vehicles. They will also have to attend a refresher course. All new starters in the NDCs or warehouses that use FLTs will in future have to provide a certificate to show that they have completed an FLT course. As a result of the Warehouse Risk Evaluation carried out in 2008, there are some improvements being undertaken in order to increase safety and capacity in warehousing operations to increase quality of service, reduce package costs, error rates and transport incidents at branches. These improvements include:

- safety mirrors in corners;
- new plastic pallets;
- new cardboard storage area;
- changes in the packing and dispatching area;
- expansion of shelves in the europallet storage area; and
- marking transit areas for pedestrians and FLTs.

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During early 2009, the four Boada branches in Catalonia will be externally audited in order to bring the Boada branches up to the same standards as Brammer Iberia.

In other countries, external safety technicians have been appointed to carry out health and safety training of all employees as well as for new employees.

## Corporate governance

The company's statement on Corporate Governance is included in the Corporate Governance report on pages 31 to 35 of these financial statements.

## Takeover directive

The company has only one class of ordinary shares and these shares have equal voting rights. The nature of individual directors' holdings are disclosed on page 41. Shareholders' authority existed at the end of 2008 for the allotment by the directors of 17,632,899 ordinary shares of 20p each representing 33.3% of the issued ordinary share capital of the company as at 25 March 2008. The directors have not exercised this authority save in relation to options exercised under the Executive Share Option Schemes.

## Going Concern

As highlighted in the financial review, the group meets its day to day working capital requirements principally through a €165m central borrowing facility which is fully committed until 28 February 2012.

The current economic conditions create uncertainty particularly over (a) the level of demand for the group's products; and (b) the exchange rate between sterling and Euro. The group's forecasts and projections, taking account of sensitivity analysis of changes in trading performance and exchange rate movements, show that the group is well placed to operate within the level of its banking facilities and covenant constraints.

Therefore after making these enquiries, the directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

## Auditors

So far as the directors are aware, there is no relevant audit information of which the auditors are unaware. Each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

## Re-appointment

A resolution to re-appoint PricewaterhouseCoopers LLP as auditor to the company and to authorise the directors to determine their remuneration will be proposed at the annual general meeting.

## New articles of association

It is proposed that new Articles of Association are adopted by the Company at the 2009 annual general meeting. Details of the proposed changes are set out in the circular to shareholders.

## Annual general meeting

The annual general meeting of the company is to be held at 13.00 on 19 May 2009 at 43-45 Broad Street, Teddington, Middlesex TW11 8QZ.

The notice of meeting appears in the document accompanying this report and accounts. Five resolutions will be proposed as items of special business at the meeting and explanations of these resolutions are given in the enclosed circular.

By order of the board

**Chris Short**

Secretary

23 February 2009