



## As we close the first quarter 2010, there is improving momentum in our order book, with certain end markets showing signs of recovery

What a year 2009 turned out to be. I don't think anyone expected it would be quite so difficult. Virtually every one of our global markets turned down, with one notable exception, medical. In fact we grew our medical business 9% in 2009 compared to 2008. For me this is the clearest indication there is, that market position is the single most important determinant of likely success in business. We can all be very proud of the results we achieved; managing to maintain double digit margins and actually growing margins in the second half compared to the first half. During such a difficult time it was great to receive acknowledgement that our efforts to provide excellent customer satisfaction were noted when Grundfos announced MTC Stourport as their supplier of the year.

Revenues for 2009 were £206.0 million (2008: £212.2 million), a decrease of 3%. This included £45.9 million (2008: £41.4 million, for 9 months of ownership) of revenue contributed by the businesses acquired from Carpenter in 2008. The underlying year on year revenue decrease at constant currency (including Carpenter acquisition on a full 12 months basis) was 19.4%.

Despite the unprecedented economic conditions, the Division was in the main able to substantially protect profit margins which were 12.2% for the year (2008: 14.9%). EBITA for the year was £25.1 million (2008: £31.6 million) with the second half performance showing an improved EBITA margin of 13.4% (H1: 2009: 11.1%).

In response to the weaker global market conditions, we took early action to protect our margins and placed emphasis on our continuous operational improvement programme and cost reduction initiatives. We also maintained our focus on positive mix shift, moving towards higher margin, higher value-added end markets such as medical and aerospace. These actions all contributed to supporting operating margins in very difficult market conditions and delivered benefits in the second half of the year, driving the improved margins seen over the first half.

Although the overall market demand declined in 2009 there are some areas that are now showing positive signs of improvement. The most notable example of this is our initiation of a production ramp-up to meet demand for the next generation of components for Hard Disc Drive (HDD) products which is currently under way. Our European business had a difficult year in 2009 being consistently

challenged by weak market conditions in general industrial markets and construction. This principally affected our business in Germany, which supplies products for thermal processing applications. In both Europe and North America a highlight of 2009 was the continuing strength of our medical business. Increasing our exposure to this sector remains an important focus for the Division.

Work on consolidating our footprint continued in the second half of the year. In July we announced and started the move of business from our Auburn site into the Hayward location in California and expect to see the full year benefits of this coming through during 2010. In October we completed the sale of our small Metal Injection Moulding (MIM) business which was based in our New Bedford site, to make room to expand the medical business there. The Shanghai site, which produced mostly commodity products for domestic applications, was successfully closed on time and to plan during the first half of the year.

As we close the first quarter 2010, there is improving momentum in our order book, with certain end markets, particularly in the USA, showing signs of recovery. The principal challenge for us is to convert the strengthening order book into profitable sales and get back on our profitable growth road. To do that effectively we need to keep a close eye on costs to make sure we only add back what we absolutely need. There are several key projects for us to deliver this year. The HDD ramp at Bedford has begun and as that moves to full production we must replace it in the new business pipeline with more high quality opportunities. We will be continuing to work to develop our relationships in the important Japanese market and continuing work to deepen our understanding of the Indian market.

Training and development programmes will continue to be at the heart of our investment plan and we will maintain our focus on individual leadership development, linked to the needs identified in our business plans. I am also delighted to say as in previous years we will be supporting the recruitment of graduate engineers to strengthen the pool of talent available to grow our organization and to work on new ideas for our customers.

I'd like to thank all our employees for their dedication and hard work and our customers for their continued loyalty and support. Having risen to the challenge of 2009, I look forward to a better 2010 for us all.

**Andrew Hosty CEO**