

# Business review

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“Total Group sales increased by 3% to £518.7 million.”



**Spirax Sarco helps Campil to reduce energy consumption, down time and maintenance costs.**

**The customer**

Campil is based in Portugal and makes tomato pastes at a tomato pulp plant.

**The challenge**

The plant has several water evaporators that use steam to concentrate tomato pulp.

Peak loads made it difficult to achieve the stringent steam quality required and at times the boilers tripped out causing shut down of the entire plant.

**Our solution**

We provided a complete control sequencing and supervision system, including steam meters, control valves, controllers, modulating feed water controls and other equipment to improve steam quality, all linked by central software supervision.

**Results**

The plant now runs efficiently with improved steam quality, lower fuel consumption and reduced maintenance costs. The expected payback period is two years.



### Current environment

The abrupt decline in world economic activity impacted our business starting in late 2008 and the rate of sales decline accelerated until mid-year 2009. Since then, market conditions in most geographic regions have generally stabilised and in recent months sales growth has turned positive versus the early months of 2009. Whilst conditions vary considerably from market to market, taken as a whole, market conditions have slowly improved throughout much of Asia, South America and the USA but conditions in Europe continue to be challenging.

Energy prices remain comparatively high and we are encouraged that our energy saving initiatives and, perhaps more importantly, the companion emissions reductions that are achieved through improved system efficiency, continue to be of value to our customers.

### Trading

Total Group sales increased by 3% to £518.7 million (2008: £502.3 million). The Group benefited from favourable movements in exchange rates. Sales

at constant currency declined less than 7% for the year, recovering from the 9% decline reported in the 9th November 2009 Interim Management Statement covering sales year-to-date through October. The constant currency sales decline was widespread across all geographic regions, indicative of the wide-ranging impacts of the global economic recession. Acquisitions contributed less than 1% to sales growth.

For the Spirax Sarco steam business, sales increased 2% (down 8% at constant currency). Sales increased in both the Asia Pacific region and the Americas, although sales declined slightly in the Europe, Middle East and Africa (EMEA) geographic segment. In constant currency, sales declined across all geographies and nearly all product segments. However, we achieved constant currency sales growth in our heat exchange solutions business by refocusing our sales engineers and from winning good projects in China, Korea and Italy. Watson-Marlow sales increased 11% for the year (down 1% at constant

#### Note

Unless otherwise stated, all profit measures exclude exceptional headcount reduction costs of £11.4 million (2008: £nil), the amortisation of acquisition-related intangible assets of £2.4 million (2008: £1.9 million), of which £0.4 million (2008: £0.3 million) relates to Associates, and the impairment of goodwill and intangible assets of £nil (2008: £3.1 million).



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currency), benefiting from currency movements and a 3% contribution from the acquisition of MasoSine in late August.

The Group's adjusted operating profit was £89.9 million (2008: £85.7 million), giving an increase of 5% in sterling and down 12% at constant currency – a very good overall result against the record operating profit achieved in 2008. The increase in operating profit arose from cost reductions, pricing, limited pay increases, global resourcing of materials and favourable exchange rates, offset by decreased manufacturing efficiency from lower volumes. Higher material prices in the first half-year were matched by falling prices in the second half, leaving material prices broadly flat for the year. All of this resulted in the adjusted operating profit margin improving to 17.3% from 17.1% in 2008.

## Europe, Middle East and Africa (EMEA)

	2009	2008	Change
Revenue	<b>£225.5m</b>	£226.1m	0%
Operating profit	<b>£35.6m</b>	£39.2m	-9%
Operating margin	<b>15.8%</b>	17.3%	

Sales were broadly unchanged at £225.5 million (down 8% at constant currency) as deteriorating market conditions impacted virtually all our companies in the region. Exchange movements had a positive effect with

the average sterling exchange rate 13% weaker against the euro than in 2008. Our larger companies in Italy, France and Germany did well and increased sales in sterling terms due to good day-to-day maintenance activities and the shipment of several projects from backlog in Italy that carried over from the prior year. Additionally, after a slow start in the first half-year for our Russian company, market activity improved markedly in the second half-year and for the full year we saw sales growth in local currency. Sales in the UK domestic market suffered from a decline in spending by the National Health Service but there were some good project wins in December. The decline in the global export markets served by many of our European OEM customers impacted sales at several of our companies that depend more heavily on OEMs.

Shipments from our main factories in the UK and France fell more sharply early in the year due to lower demand from our sales operations worldwide as they reduced local inventories, but improved in the second half-year as market conditions stabilised.

Operating profit of £35.6 million was down 9% from £39.2 million in 2008. At constant currency the operating profit was down 18%, spread across most companies but mitigated by tight cost control and temporary government employment support measures. The

Sharpening our edge through consolidation of manufacturing sites

We are investing to develop a world-class manufacturing and supply facility, consolidating three sites in Cheltenham into one unified site to ensure a leaner and more efficient operation.



**“This shows our commitment to world-class manufacturing facilities in the UK and confidence in our people.”**  
Mike Gibbin, Divisional Director – Supply and North America

## Sharpening our edge through improved sales tools

The application knowledge and skills of our 1,200 sales and service engineers are central to our customer service. An online, benchmarked skills assessment programme, creates tailored development plans for every sales engineer and we will use this to strengthen our market leadership.



**‘All sales people are assessed against the same standard.’**  
Suzanne Beadnell,  
Project Manager

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“We have continued to increase sales coverage in China by adding a number of new sales people.”

performance in South Africa improved markedly following the restructuring in late 2008. Operating profit fell at our major factories due to lower volumes, although this was somewhat offset by the cost reduction actions and the benefit of our global materials resourcing programme. The operating margin was 15.8% (2008: 17.3%). The underlying headcount, excluding acquired businesses, was down 8% across the EMEA segment at year-end 2009 compared with the prior year.

## Americas

	2009	2008	Change
Revenue	<b>£104.6m</b>	£101.9m	+3%
Operating profit	<b>£13.9m</b>	£12.1m	+14%
Operating margin	<b>13.2%</b>	11.9%	

Sales in the Americas increased modestly in sterling by 3% to £104.6 million from £101.9 million in 2008. Sales benefited from average sterling exchange rates weakening by 19% against the US dollar and by 7% against the Brazilian real. At constant currency, sales declined 9% from 2008 spread across all our operations in the region. Sales in the US did relatively well from stabilising market conditions and higher shipments from backlog in the second half-year, although market conditions have remained weak in Canada. Sales in South America were down from the effects of the decline in demand from export-oriented customers.

Operating profit in the Americas increased 14% to £13.9 million, which compares with £12.1 million in 2008; at constant exchange the operating profit was down just 5%. Year-on-year, operating profit was buoyed by favourable exchange transaction benefits on imports into the region, cost reduction actions taken early in the year and the elimination of the closure costs of UltraPure (£1.1 million in 2008) and its operating losses. Profit declined in Brazil from competitive pressures as the currency strengthened in the second half-year. For the region, the operating profit margin improved to 13.2% as against 11.9% in 2008. Headcount in the Americas was down 13% at year-end 2009 as compared with the prior year.

## Asia Pacific

	2009	2008	Change
Revenue	<b>£104.7m</b>	£98.9m	+6%
Operating profit	<b>£23.1m</b>	£21.1m	+9%
Operating margin	<b>22.1%</b>	21.4%	

Sales increased in Asia Pacific by 6% to £104.7 million (2008: £98.9 million). Favourable exchange rates had a positive effect on sales, as the Chinese renminbi strengthened 21% on average against sterling; the Japanese yen was 32% stronger. At constant exchange, Asia Pacific sales were down 5%. Market activity in the region was mixed, although local currency sales increases were achieved in China, Korea and

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Malaysia. As expected, the second half-year benefited from higher shipments, particularly in Korea, and the backlog was reduced at our Chinese operation. We have continued to increase sales coverage in China by adding a number of new sales people.

The operating profit was £23.1 million, which compares with £21.1 million in 2008, an increase of 9%. At constant currency operating profit declined 14%. We saw good profit gains from China, which again produced the largest profit in the region, and from Malaysia. The good second half in Korea recovered the profit decline seen in the first

half-year. Our India operation (reported as an Associate) achieved both a sales and profit increase, and did well to improve the volume of small ticket maintenance purchases to replace the sales value of the large Reliance refinery project shipped in the prior year. The overall operating profit margin in Asia Pacific was therefore 22.1% in 2009 (2008: 21.4%). Headcount in Asia Pacific was down 3% at year-end 2009 as compared with the prior year, despite a 7% increase in employees in China.



## Watson-Marlow MasoSine replaces gear pumps at chocolate factory

### The customer

Kinnerton, part of Zetar plc, is a confectionery specialist based in Norfolk, UK.

### The challenge

Like many other ingredients, caramel is very viscous when cool and Kinnerton required pumps which would perform effectively in a new line for caramel production.

### Our solution

In place of the gear pumps already used by Kinnerton in similar applications we recommended the MasoSine SPS2 sanitary pump, which is part of a range that can handle flow rates up to 90,000 litres per hour and pressures up to 10 bar. MasoSine pumps have a very gentle pumping action which is frequently used in sanitary applications to handle chocolate, cheese curd, yogurt, concentrates, yeast, batter and stews.

### Results

Kinnerton have now standardised on MasoSine pumps. "Not only does the SPS2 handle all its pumping requirements without problem", says plant engineering supervisor Phil Barwick, "once again ease of cleaning is very impressive. Even after pumping glucose a simple but thorough flush-through is all that is required." This means that hygiene standards are consistently met.



## Watson-Marlow

	2009	2008	Change
Revenue	£83.8m	£75.4m	+11%
Operating profit	£22.3m	£18.4m	+21%
Operating margin	26.6%	24.4%	

Sales increased at Watson-Marlow by 11% to £83.8 million (2008: £75.4 million). Sales benefited from the weakness of sterling against the US dollar and were down 1% at constant currency. The acquisition of MasoSine in late August 2009 added 3% to sales. The geographic sales trends at Watson-Marlow were similar to the steam business, with sales growth weakest within the EMEA region but with similarly good performances from the French and German operations. Strong year-on-year growth in tubing shipments contributed positively to EMEA sales and provides a good base for the new tubing extrusion plant completed in December 2009. Bredel product shipments were particularly impacted by exposure to the weaker mining and general industrial markets.

Sales in the Americas region of Watson-Marlow benefited from several biopharmaceutical projects in the US. Our developing sales teams in the Asia Pacific region performed strongly, with sales well ahead on a relatively small base, highlighting the good opportunities for growth in China and Korea in particular.

The operating profit was £22.3 million, which compares with £18.4 million in 2008, an increase of 21%. At constant currency, operating profit was down 3%, including a small contribution from the MasoSine acquisition. Operating profit benefited from exchange transaction effects of weaker sterling and the stronger US dollar. Constant currency operating profit was nicely ahead in the US and in Asia. The operating profit margin was 26.6% in 2009 (2008: 24.4%). Underlying headcount at Watson-Marlow, excluding acquisitions, was 2% lower at year-end 2009 as compared with the prior year.

