

## Chief Executive's Review

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John O'Higgins  
Chief Executive

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### Introduction

The tough market conditions experienced in the second half of 2008 continued into 2009, with the global economic downturn resulting in low production levels in many of the industries we serve and more limited visibility of orders than normal. However, in the last quarter of the year we began to see an improvement in demand in many of our markets. For the full year, sales were flat on a reported basis. Acquisitions contributed 6% and the beneficial effects from currency were 10%; on a constant currency organic basis, therefore, sales decreased by 16%.

Weakness in the automotive market, where sales were down 26% across the group, particularly affected the Test and Measurement segment, which has the largest exposure to this market. Elsewhere, across the markets we serve, demand was strongest from energy and utilities customers, followed by the aerospace sector. Demand was also good from pulp and paper and academic research markets. On a geographic basis, sales at constant currencies grew in China, Brazil, South Korea and Africa.

Our actions from the beginning of the year in response to declining markets focused on restructuring and accelerating post-acquisition integration. These activities included combining production facilities, streamlining sales channels, consolidating hardware and software platforms to reduce engineering and development costs and speeding up time to market. Total restructuring and post-acquisition integration costs for the year were £14.0 million, of which nearly £10 million were incurred in the Test and Measurement segment. The benefit from these actions was £15.0 million, which was supplemented by temporary cost savings of £27.6 million. We expect £16.0 million of restructuring benefits in 2010 over and above 2009. As a consequence of the restructuring, which was substantially completed in 2009, we have improved our operational gearing. This provides us with a solid platform to benefit from growth in 2010, notwithstanding the reversal of some, or all, of the temporary cost savings realised in 2009.

Operating profit after restructuring declined by one-third, due to the volume reduction and the one-off charge of £14.0 million described above. As a result, operating margins were 10.1%. With the exception of Test and Measurement, operating margins in the other three business segments, in aggregate, were 15.0%.

### Strategy

Despite the challenging operating environment encountered during the year, we continued to make further progress in strengthening our businesses in order to deliver shareholder value over the long term. The key elements of our strategy and the progress we have made are as follows:

#### Focusing on operational excellence

During the year we focused on improving our own internal processes in order to take cost out of the business wherever practical, whilst preserving our ability to take advantage when markets recover. Lean manufacturing programmes and just-in-time systems are being implemented on further product manufacturing lines at a number of our businesses. Further work was undertaken in respect of inventory management processes. Low cost sourcing initiatives also continue to drive down the cost of both current and new products.

## The year in review

### Focus on operational excellence



During the year we focused on improving our own internal processes, with lean manufacturing programmes and low-cost sourcing projects helping to drive down the cost of new and current products.

### Research and development



We continued to invest in the development of new products and applications to maintain our market-leading positions. At £58.2 million, expenditure was 7% of sales.

### Increasing market presence



We saw continued growth in emerging markets in 2009. On a reported basis, sales to emerging regions grew by two percentage points to 30%. On a constant currency basis, sales to China grew by 16% compared with the prior year.

### Adding value



We completed the integration of the LDS Test and Measurement business and the Siemens Machine Vision Business, both acquired in 2008, enabling us to provide customers with higher added value systems.

### Lochard acquisition



In February, we acquired Lochard, an Australia-based company providing environmental noise and air quality monitoring services, strengthening our position in the global noise management market.

### MicroSafe acquisition



In September, we acquired MicroSafe, an Italian supplier of microbial detection and monitoring products to global pharmaceutical manufacturers, enabling us to offer full capabilities for monitoring sterile manufacturing environments.

### Strengthening market positions through innovation

In order to retain our market-leading positions, we decided to continue our investment in research and development and expenditure was maintained at 7% of sales, or £58.2 million (2008: £57.0 million). Expenditure was focused on programmes which would deliver benefits in the short term, and this resulted in a large number of new products introduced during the year throughout the group, examples of which are described in the Operating Review which follows.

# 30%

Of group sales are to emerging regions

### Increasing regional expansion with a focus on emerging markets

On a reported basis, sales to emerging regions grew by two percentage points to 30% of total group sales. On a constant currency basis, sales to China grew by 16% compared with the prior year. Although recent acquisitions have been targeted primarily at companies serving developed markets, these provide us with an opportunity to expand our sales more rapidly in emerging markets. In addition, we have invested in infrastructure and service channels to support our customers globally.

### Growing existing businesses through acquisition

During the year, we invested a total of £26.6 million in two acquisitions to strengthen our existing businesses. In the first half of the year, we acquired Lochard Limited, an Australia-based company providing environmental noise and air quality monitoring services for airports as well as local communities and industry. In the second half of the year, we acquired the assets of MicroSafe, an Italian supplier of microbial detection and monitoring products to global pharmaceutical manufacturers. We also took the opportunity to accelerate the integration of LDS Test and Measurement and the Siemens Machine Vision Business, which were acquired in 2008. The companies acquired in 2009 and their strategic fit to our businesses are described in more detail in the Operating Review which follows.

### Building our presence in key strategic growth areas, both organically and through acquisition

Product development programmes during the year were focused on building our positions in our key market segments. The two acquisitions made during the year further strengthen our positions in the pharmaceuticals and life sciences market and the growing environmental monitoring market. We also strengthened our service offering: aftersales, service and consumables are an important part of our business and accounted for around 27% of sales in 2009 (2008: 24%). We will continue to make investments in both organic and inorganic growth opportunities in our key strategic growth areas.

**John O'Higgins**  
Chief Executive