

Strategy and Key Performance Indicators

Our objective is to deliver shareholder value over the long term by supplying productivity-enhancing solutions for our customers.

Strategy

Focusing on operational excellence

We continue to focus on improving all aspects of our business through a range of actions including: process efficiencies, value pricing, optimising the business mix, cost competitiveness, designing products for low-cost production, reducing inventory and improving supply chain management.

Strengthening market positions through innovation

We invest around 6–7% of sales each year in R&D in order to maintain our market-leading positions. We work closely with customers to develop solutions which are tailored to their specific requirements, based on standard platforms customised through high added value applications engineering. Much of our technology is proprietary and protected by patents or process know-how. New products and applications may be developed in house, by acquiring bolt-on product lines or by collaboration and licensing agreements for proprietary technology in partnership with universities and other institutions.

Progress

- > Internal processes improved, taking cost out of the business
- > Lean manufacturing programmes and just-in-time projects being implemented at a number of sites
- > Low-cost sourcing initiatives continue to drive down cost of current and new products

- > On a reported basis, expenditure was £58.2 million in 2009, or 7% of sales
- > A significant number of new products were introduced during the year throughout the group

Key Performance Indicators

We monitor progress against the delivery of our strategic goals via four key performance indicators. In 2009, the adverse market conditions severely curtailed our ability to make progress on our KPIs.

Sales

Sales growth is a measure of how we are growing our business organically. We aim to achieve year-on-year growth in sales, on a like-for-like basis, which excludes the effects of currency translation and acquisitions or divestments.

Total sales growth, continuing businesses %

07	3
08	19
09	0

Organic sales growth, continuing businesses, at constant currencies %

07	6
08	3
09	-16

Return on sales

Return on sales is a measure of improving profitability in our business. Return on sales is defined as adjusted operating profit as a percentage of sales. Our intention is to achieve a mid-teens return on sales margin on average throughout the cycle. This was achieved in 2007. Our aim is to sustain or improve margins over time.

Return on sales, continuing businesses %

07	15.8
08	15.0
09	10.1

In 2009, the impact of the downturn in the automotive market severely impacted performance in the Test and Measurement segment. Excepting this segment, return on sales was 15.0%.

Increasing regional expansion with a focus on emerging markets

We seek to grow our businesses around the world, with particular emphasis on emerging markets such as China, India and Latin America. We continue to establish sales and support facilities in these regions so that we are able to support our global customers wherever they are based.

- > On a constant currency basis, sales to China in 2009 grew by 16%
- > Recent acquisitions provide an opportunity to develop our channels globally, particularly in emerging markets
- > Investments in infrastructure and service channels to support our customers globally

Growing existing businesses through acquisition

We seek to enhance the growth potential of our businesses by pursuing an active but disciplined approach to acquisitions, focusing on businesses which are strong players in specific application areas where there are significant barriers to entry.

- > Invested a total of £26.6 million in two acquisitions in 2009:
 - Lochar, a company based in Australia providing environmental noise and air quality monitoring services
 - MicroSafe, an Italian supplier of microbial detection and monitoring products to global pharmaceutical manufacturers

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

We aim to grow our existing businesses organically by developing new products as well as pursuing opportunities for growth in new markets, such as nano-technology and life sciences. Our investment in R&D enables us to maintain our leading market positions and acquisitions are targeted at both existing and new markets.

- > Product development programmes focused on building positions in our key market segments
- > Acquisitions made further strengthen our positions in the pharmaceuticals and life sciences market and the growing environmental monitoring market
- > Aftersales, service and consumables are an important part of our business, representing 27% of sales in 2009, compared with 24% in the prior year

Cash conversion

We focus on cash generation and use cash conversion as a performance measure as we believe cash represents an effective measure of the quality of our earnings. Our target is to deliver high cash conversion of operating profit in each financial year. Cash conversion is defined as operating cash flow as a percentage of adjusted operating profit.

Cash conversion

	%
07	99
08	86
09	133

Earnings per share

Earnings per share is a commonly used measure of financial performance for shareholders. We aim to achieve growth in adjusted earnings per share. Adjusted earnings excludes certain non-operational items as defined by management in Note 3.

Adjusted EPS

	pence
07	58.1
08	72.8
09	45.4

Adjusted earnings per share is defined as the ratio of adjusted net profit for the year to the weighted average number of ordinary shares outstanding during the year.

Growth

	%
07	33
08	25
09	-38