

Chief Executive's Statement

John O'Higgins, Chief Executive



"We are pleased with the strategic and operational progress we made in 2008. We have grown sales and profits and have made good progress on delivering against our strategy."

Introduction

Spectris delivered a good performance in 2008, with sales and profits from continuing businesses improving compared with the prior year. At constant currencies, sales increased by 7% and operating profit increased by 2%. Sales growth in the second half of the year was slower than in the first half as tougher economic conditions led to demand reducing in some of our markets. However, this weakening was offset to some extent by the contribution from acquisitions made in the year and by continuing good demand in markets such as energy and pharmaceuticals.

Strategy

We continued to deliver against our strategy:

- Strengthening market positions through innovation
- Increasing regional expansion with a focus on emerging markets
- Growing existing businesses through acquisition
- Focusing on operational excellence
- Building our presence in key strategic growth areas, both organically and through acquisition.

Strengthening market positions through innovation

In late 2007, we took the decision to make strategic growth investments in research and development and during 2008 we increased expenditure on R&D by over £12 million to £57 million, or 7.2% of sales (2007: 6.8%). The increased investment was targeted primarily at speeding up time to market for selective product development programmes, particularly in the Materials Analysis segment. Examples of the new products and applications launched during the year are described in the Operating Review which follows.

Increasing regional expansion with a focus on emerging markets

Total group sales at constant currencies increased in all major regions. Sales in Asia grew by 8%, with China continuing to see good growth of 14%, however, sales in Japan declined by 7% due to a slowdown in the electronics, automotive and semiconductor industries. Sales in North America increased by 8%. In Europe, sales increased by 3%, with Germany up 10%. Sales in industrialising markets such as Latin America, Russia, the Middle East and Africa increased by 24%, reflecting the continuing growth in these regions. Asia and the other industrialising countries now comprise 35% of total group sales.

We continued to invest in initiatives to expand our direct sales presence in key markets. In January 2008, HBM acquired its distributors in the Nordic countries. In May, PANalytical and Malvern Instruments opened a new joint headquarters in North America, extending their applications laboratories and training facilities. In August, Particle Measuring Systems acquired its distributor in China, increasing its direct sales presence in the key market of electronics in Asia. Service and consumables account for around 24% of sales, reflecting the importance of the aftermarket business, particularly as customers look to outsource this area of their business in order to reduce their own costs.

Growing existing businesses through acquisition

During the year, we invested a total of £88.8 million in acquisitions to strengthen our existing businesses. In addition to the distributors described above, we acquired Viscotek Corporation, a leading provider of chromatography solutions, during the first quarter. During the third quarter, we acquired nCode, a leading supplier of durability test and analysis software and data acquisition instruments, and the Siemens Machine Vision Business, an industry leader in automatic identification and data capture. In December, the acquisition of LDS Test and Measurement was completed. LDS is a leading provider of data acquisition and instrumentation products and vibration test systems and is an excellent fit with the existing businesses in the Test and Measurement segment. Since the year end, we have completed a further acquisition for the Test and Measurement segment to strengthen our position in the global noise management market. The companies acquired and their strategic fit to our businesses are described in more detail in the Operating Review which follows.

Focusing on operational excellence

The emphasis on operational excellence continued. Our focus on improving purchasing efficiency resulted in growth of 22% in the volume of components purchased in Asia and Eastern Europe. Our gas analysis business completed the relocation of its system build activities to Shanghai, China, in order to be closer to its key customers in Asia and develop a more competitive cost base in this region. Many of our operating companies are investing in lean manufacturing initiatives aimed at increasing quality, reducing inventories and improving supply chain efficiencies.

Conclusion

In summary, we are pleased with the strategic and operational progress we made in 2008. We have grown sales and profits and have made good progress on delivering against our strategy, as evidenced by the increased investment in both acquisitions and research and development to accelerate our new product development programmes, which lay the foundations for future growth. The current market conditions continue to be challenging and offer very limited visibility. We consider that the actions we are taking to reduce operating costs are appropriate in the near term whilst retaining in our businesses the resources to support growth as market demand recovers.



John O'Higgins
Chief Executive



LDS Test and Measurement

In December, we completed the acquisition of the LDS Test and Measurement business. LDS is a market leader in vibration testing equipment for applications in the aerospace, defence, automotive, machinery, electrical and electronics markets. The business is an excellent fit with our Test and Measurement segment, adding capability in complete excitation systems and enabling customers to purchase the complete test system for both structural analysis and vibration testing from a single source to enhance productivity in their research and development cycles.

£57m

Expenditure on R&D

35%

Of group sales are to Asia and other expanding regions

24%

Of group sales are from service and consumables
