

Halma p.l.c. Interim Results 2004 / 2005

Summary of Analysts' Presentation, 7 December 2004

Stephen O'Shea, Group Chief Executive
Kevin Thompson, Group Finance Director

In the period from April to September 2004 the Group increased volumes sold, built up new and existing companies, paid a dividend nearly £1 million over the previous record and continued to achieve outstanding financial ratios, however it had not shown the level of organic growth the management would have liked. Part of the reason for this was two unhelpful effects in the USA, the sharp weakening of the US Dollar and delays in the placing of municipal contracts. Stephen O'Shea, Group Chief Executive, said that he had once been described as "... often pleased and never satisfied ..." and that was how he felt about these results.

Kevin Thompson, Group Finance Director, summarised the Group's overall results.

Strong Halma ratios

highest ever H1 profit at £24.6m
return on sales up at 17.1%
volumes up
record ROCE at 65%

moving ahead

product mix increased the Return on Sales¹ to 17.1% and control of working capital lead to a record Return on Capital Employed² of 65%. Adding back all the goodwill ever paid on acquisitions the Return on Total Invested Capital³ continued at 19%.

Organic sales growth

£m growth	Sales	% change
Organic growth	4	3%
Acquired	7	5%
Currency	(7)	(5%)
Ongoing	4	3%
Disposals	(7)	(5%)
As published	(3)	(2%)

similar profit pattern

An analysis of sales shows that, at the rate of sales on acquisition, the contribution to sales from the Group's two new companies was equivalent to the adverse effect of currency movements and that ongoing sales increased by 3%. The underperforming companies sold at the end of the prior year had contributed £7 million of sales last half year but little profit. This resulted in some profit growth despite slightly lower total sales, increasing the quality of earnings.

The Group's profits before tax and goodwill amortisation were just ahead of the first half of last year despite over £1 million of adverse effect from currency translation compared to last year. The management of costs and

Acquisitions going well

£m	Owned (months)	Paid	Acquired annual profit
Diba	5	8	1
Ocean Optics	4	14 22	2.6 3.6

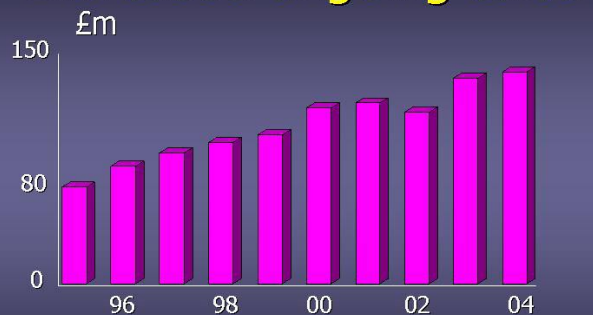
growing businesses

The two new acquisitions are going well and growing under our care. The reporting of acquisitions will be affected by the adoption of the planned International Accounting Standards, as will accounting for share options, research and development and pension costs. However these will have no effect on our powerful cash generation. The Group is little affected by the new reporting of financial instruments because of the consistently straightforward treasury policies adopted over many years. Kevin Thompson promised that a technical briefing paper would be published during 2005.

Cash flow during the period was good and supported our progressive dividend policy (with dividends up 6%) and our high investment in research and development (all of which we currently write off in the period incurred) and resulted in net cash by the end of the half year.

Examining the work done in the Group in more detail Stephen O'Shea showed the ten year growth record in the Group.

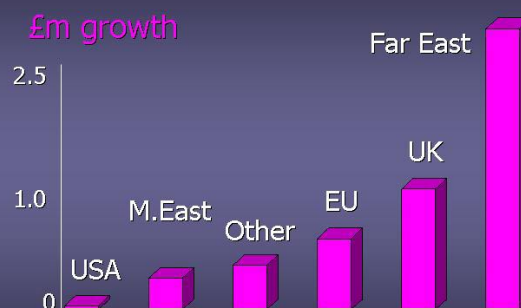
Increased ongoing sales



variable by destination & sector

Group companies had taken advantage of market conditions and so achievements varied across differing customer territories and across the business sectors. These sales were made in 26 weeks compared to 27 weeks last year.

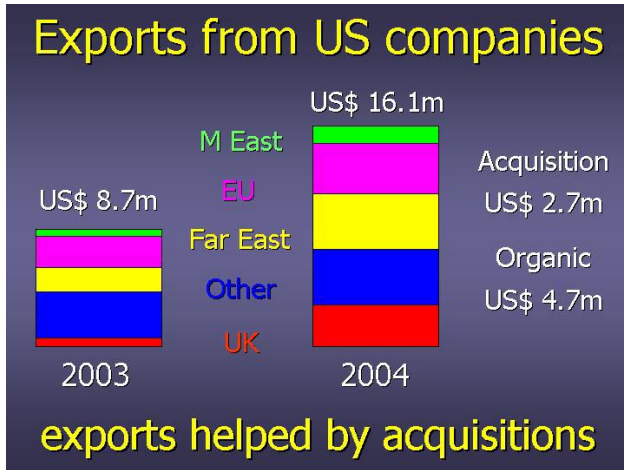
Sterling sales growth



grew sales to all destinations

Ongoing sales growth was highest in the Far East and in the UK. As more manufacturing moves to countries in the Far East so will more of the safety products they need. As their economies grow so will our opportunities. Indeed every territory grew but only by a tiny margin in the USA when measured in Sterling.

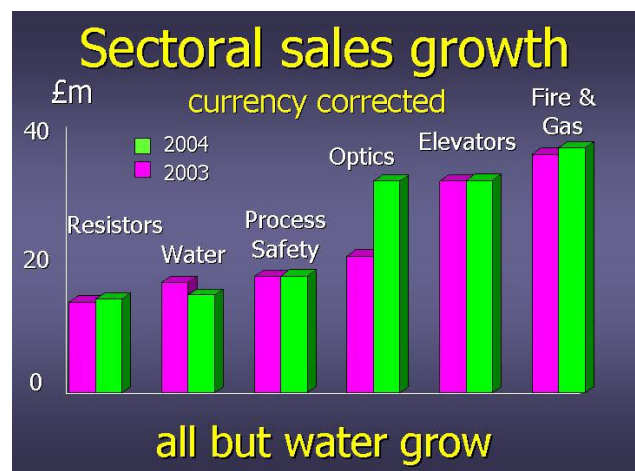
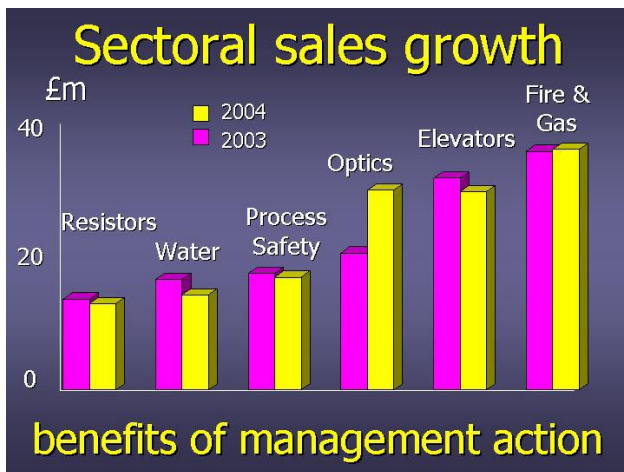
However we can extract some advantages from a weak US Dollar. We pay less in Sterling for our acquisitions, our American shareholders see large increases in the value of our growing dividends and it increases opportunities for our US companies to export.



One of the Halma skills is helping companies to address wider markets, teaching people how to export being one example. Our American companies increased their exports to every part of the world. Two thirds of the growth was organic and one third came from acquisitions. In particular Ocean Optics, which joined the Group in June 2004, sells right across the world.

Optics and Specialist, the highest growth sector, benefited both from Ocean Optics and Diba and also made organic growth. Our Resistors sector is working hard and I remain confident in the sector although in this period they have been hit by sharply increased prices for stainless steel – their key raw material. The impact on the Group is about £300,000 of increased costs, much of it in Resistors. The Resistor sector did somewhat less well in terms of profit than it did in sales. The Water Sector suffered from delays in placing municipal contracts, both for water sterilisation and in leak detection where a major US contract last year was not matched with a similar project this year. Process Safety made similar sales to last year. Our Elevator and Door Safety sector is a world business and has a major part of its business in the USA. They too expect to benefit from municipal contracts, in particular supplying the New York City Transit Authority with new emergency communication systems, but now expect value from this mainly in the final quarter of fiscal 2004/5. The Fire and Gas sector edged ahead and developed a number of new products including new fixed and new portable gas detection equipment.

Calculation of sales at the currency rates used at the end of September 2003 shows that at constant currency every sector, except Water, grew sales.



The overall health of our sectors is demonstrated in the increased Return on Sales¹ and the Return on Capital Employed² of 65%. We would be willing however to trade some of the exceptionally high Return on Capital Employed² for increased organic growth. Capital investment projects are in hand that will contribute to this. We are moving resource from other areas into sales. We are working on developing our people and are having a number of successes. This is not only getting the best from them but helping them achieve even more than they thought they could give. We believe people make profits. We have and are beginning to use even more fully, the great strength and depth in the Group's management talent. This is one of the foundations of our confidence in the future.

Plans are in place to manage the impact of cost increases such as the increase in the price of stainless steel, to bring municipal contracts into the Group quickly and to improve the rate of organic growth. We recognise that the US Dollar looks likely to continue to weaken. We are investing in the recent acquisitions. We will have the benefit of these for the whole of the second half year. Crucially our people are committed to consistent growth in sales and profits.

Notes:

1. Return on Sales is defined as pre-tax profit before goodwill amortisation divided by sales.
2. Return on Capital Employed (ROCE) is defined as the annualised profit before tax and goodwill amortisation, divided by all tangible assets.
3. Return on Total Invested Capital (RoTIC) is the Return on Capital Employed² after adding into the assets all goodwill, including that written off.

CAUTIONARY NOTE. *The information contained in this summary is correct at 7 December 2004. This document may include forward-looking statements that are not factual. Such statements involve both known and unknown risks. The actual results of Halma p.l.c. may differ from results that are anticipated or implied by any forward-looking statements. The content of presentations, including any forward-looking statements, is not revised after publication.*