

Halma p.l.c. Business Briefing

22nd September 2004

Optics & Specialist Principles and practice of acquisitions

At the Business Briefing held on 22 September 2004 Stephen O'Shea, the Group Chief Executive, introduced the subjects and speakers. A summary follows.

Stephen O'Shea introduced the Group. Halma's task is to create wealth for shareholders by finding and fixing risks to people outside the home and to do this across the world. Group products either detect hazards and provide a warning or act to protect from harm; people, plant, profits, prospects and the environment. Our customers recognise that they benefit from the safety of employees, the protection of assets and the flow of profits from them, the continuity of service to their customers and the minimisation of financial and reputational risks particularly from an environmental disaster. They understand that it is profitable to run a safe business. The Group does a valuable job – because it is important both to save lives and protect the well being of people at work, travelling or at leisure. It is well worth paying appropriately for products that do this well.

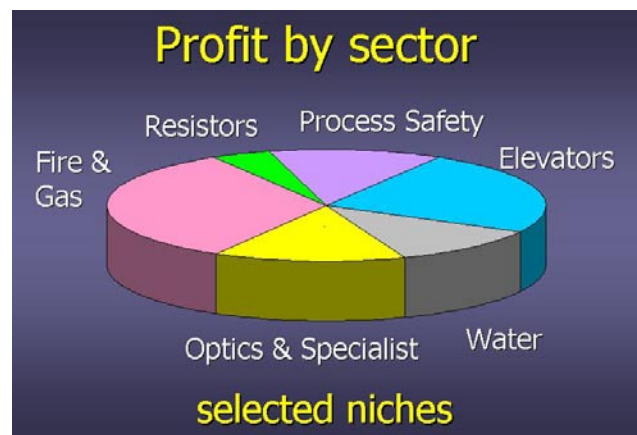
By the end of the Briefing, the fourth in the series, attendees at each event will; have been given details of all the six sectors in which the Group works; gained an insight into how we manage two key processes, innovation and acquisitions and obtained a good working understanding of Halma's philosophy of operation.

Between a quarter and a third of Halma's growth comes from acquisitions, the majority of growth is obtained organically within each of our operating sectors. The sector covered today is Optics and Specialist. A summary of the sales and profits of these businesses is shown in the illustration.

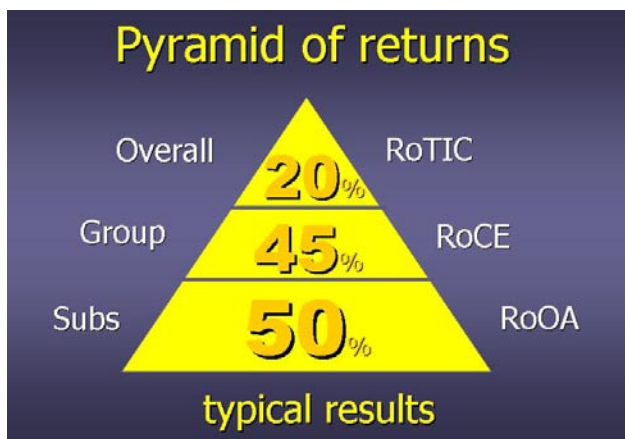
	Sales £m	PBIT £m
Sector	43	7
Less: Head Office companies	<u>–</u>	<u>(1)</u>
	43	6
Add: Other related businesses	<u>12</u>	<u>4</u>
	55	10
Split: Specialist/Fluidics	30	5
Optics	<u>25</u>	<u>5</u>
	55	10

our focus today

The Optics and Specialist businesses discussed deliver about 20% of the Group profits from about 20% of the Group's sales. Each one of our sectors is profitable.



The management of every sector is frugal with the resources it uses. This has been evident in each of the last 20 years, where the Group's return on capital employed (RoCE) has been above 40% on every occasion.



Returns are calculated on profits before tax, amortisation and exceptional items compared with the assets in use. At the subsidiary level the calculation includes; debtors, creditors, inventory and capital equipment and results in a return on operating assets (RoOA) of 50% or more. At Group level we hold cash and own some of our factories and these are added to the assets resulting in a return on capital employed (RoCE) typically at 45%. Adding back all goodwill, including that written off, accumulated over 110 years to the calculation of assets results in a return on total invested capital (RoTIC) of approximately 20%. Including exceptional items over the periods that these have arisen only marginally alters this result.

Even these results were improved upon last year.



The consequence of such high and rising returns is the release of large amounts of cash. We like to use this firstly for re-investment in the Group and also to provide dividend growth.



This is funded by the earnings created by the Managing Directors and their teams in our operating companies. These talented people are guided, developed and motivated by their Divisional Chief Executives. Two of these, Andrew Williams and Adam Meyers, provided information about their businesses.

Halma's Specialist Sector

Diverse markets served
Sectoral evolution
Growth of fluid technology
Acquisition strategy

positive change continues

Current specialist markets

Emergency signalling
Threat detection
Oxygen sensing
Cash management
Critical fluids handling

detection and protection

Adam Meyers explained that the Specialist companies, along with the other fluid technology companies make up about 10% of Group turnover and also about 10% of Group profits. While the return on capital is lower than the Halma subsidiary average, at 47% it is high and is expected to increase.

Last year we sold three businesses that did not meet our targets for growth or return on capital employed.

Halma's Specialist businesses provide precision components for threat detection instrumentation and ensure proper and safe fuel and oxygen mixtures in industrial furnaces. Our fluid controls provide for safe and accurate handling of liquids and gases in critical laboratory applications. We also provide instruments in the emergency signalling and cash management markets.

These markets have very similar characteristics to the other Halma sectors. A strong focus on health and safety. These are clearly focused niches which benefit from continued internal investment and where it is possible to build market leadership. You will

recognize these as standard Halma themes. These are excellent technologies which have not yet been grown into sector level status.

The Specialist sector provides breadth of markets for the investment in and development of seed corn businesses. We spend about the Group average - 3.8% of sales, more than twice the engineering sector's average - on R&D within these companies. We recently disposed of three companies which no longer fit our core growth objectives and purchased Diba Industries to develop our focus on higher technology areas.

Fluid technology is an enormous market so it is essential that we get the niche right. We focus on caustic or high purity fluids and almost always on tiny flows - sometimes on the order of a single millilitre per minute. These critical applications keep us focused on a very high end niche.

Products for people



Patient monitoring Bio-defense

threats to life

Generally the fluid technology businesses sell to original equipment manufacturers (OEMs) and primarily in the analytical, life science and diagnostic instrument markets. In clinical diagnostics, a £6 billion market, the top instrumentation manufacturers are Roche, Abbott Laboratories, Johnson & Johnson, Bayer, Beckman-Coulter and Dade Behring. We can claim four of these six as important customers to our businesses. Within the broader segment of analytical and life science instruments, a £15 billion market, the major manufacturers are Applied BioSystems, Agilent, Thermo, Perkin Elmer and Waters Corporation, all are significant customers.

These are demanding markets but they are growing steadily. In fact, industry projections show nominal growth through 2007 of between 6% and 9% per annum. Both of these market areas have niches within them that will experience double digit growth rates.

. . . and growing markets

Clinical diagnostic instruments - £6bn
 Analytical, life science instruments - £14bn
 Halma's accessible market > £250m

Nominal growth of 6 – 9% projected

plenty of opportunity

Based on the components we offer, Halma's accessible market is greater than £250 million.

Products for business



Laboratory analysis Smoke stack sampling Air sampling

threats to environments

Market growth drivers

Demand for analytical, life science and diagnostic instruments continues to grow

6% to 9% annual growth

- Population growth
- Access to healthcare
- Biotech research
- Pharma research
- Push to conquer disease
- Protection of life

long term growth

These instruments are designed and built all over the world. Halma has an excellent presence within the largest market – the USA – but can certainly improve its results by broadening its

reach globally.

It's not easy finding companies like these with excellent markets and strong potential. Halma has no mergers and acquisitions department. Each individual Divisional Chief Executive (DCE) is responsible for identifying, evaluating, purchasing and integrating their acquisitions. In fact, we looked at 150 companies in the past year, brought three to the Executive Committee and two through to the Halma Board – both of which were purchased. The DCE is with the transaction from start to finish and our incentive plan reflects this, with profit generation charged for any goodwill purchased in addition to the tangible assets used.

How do we find and buy these companies?

- No M&A department
- DCE manages and is accountable
- An attractive purchaser
- We prefer management to remain
- Blend cultures

strategy & integration = success

Halma tries to complete the transaction as quickly as possible and make it as easy for the vendor as we can. This helps make us an attractive purchaser. Our decentralised structure allows the entrepreneur to stay with the organization and focus on those activities that got them involved with the business to start with.


Despite our success, we retain a conservative approach to acquisitions. We aim to remain ungeared in the medium term and maintain our focus on generating organic growth. We have been able to spend £150 million on acquisitions, and £130 million in dividends over the past decade while remaining virtually unborrowed.

What do we look for in a potential acquisition?

Staying in the same specialised markets we already participate in helps make commercial due diligence easier and reduces our risk. Leadership positions allow for continued pricing power and more secure gross margins. We do not do turnarounds or startups and we focus on global markets that are growing and are in the order of £100 million.

Sticking to this methodology, we were able to purchase Diba Industries in May 2004. Diba's expertise is in delivering fluids from point to point in a reliable, precise and leak free manner. Their products include fittings, probes and tubing assemblies and have recently broadened to include valves, pumps, bottle caps and liquid level sensors. These are complementary products sold to the same customer base as other Halma fluid technology businesses.

Diba Industries



Fittings, probes and tubing assemblies

North America's second largest supplier

Broadening portfolio

First class reputation

a robust business

Diba has demonstrated excellent financial results with strong sales and profit growth over the past five years, while maintaining over 50% return on capital and a return on sales of about 15%. Clearly a company adding to the Group's evolving focus on fluid technology.



We use the Specialist sector as a breeding ground for seed corn businesses that we hope to develop into the next Halma sectors. Fluid technology and Optics are building critical mass and growing towards this objective. We use disposals to move away from areas that are no longer core to our growth plans and acquisitions to support existing

areas of focus. As we continue to do this successfully, we will continue to evolve new Halma sectors.

Andrew Williams focused on the Group's Optics businesses. We work in the Ophthalmics and Photonics market sectors. Last year, these contributed 8% of Group sales, 10% of Group profits and delivered an outstanding return on capital employed (RoCE) of 70%. Excellent management of working capital resulted in very strong cash generation, in excess of profits and this contributed to funding the recent acquisitions of Diba Industries and Ocean Optics.

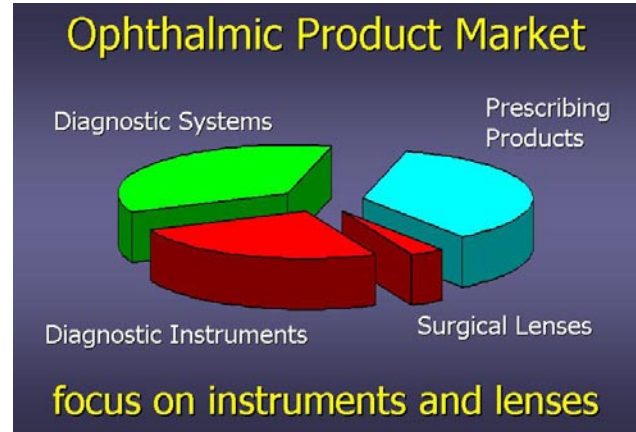
The story so far.....

Year 2003/4

Sales	£25m
Profit	£5m
Return on Capital	70%

strong Halma ratios

Despite a significant adverse impact from the weak US\$ and little help from our markets, the Optics businesses have grown profits by 60% in the past five years and delivered 25% profit growth last year.



Our Ophthalmic businesses were acquired in the mid 1990s. They design, manufacture and sell devices which are used by people ranging from the local high street optician to the world's leading eye surgeons.

The market for ophthalmic devices can be split into two major segments.

- Products for prescribing spectacles, and
- Diagnostic Systems and Instruments for determining the condition of the exterior and interior of the eye to diagnose diseases or confirm good health.

Halma also manufactures a range of lenses which are used to aid eye surgery.

We sell into all sectors of this market but our primary focus is on Diagnostic Instruments. Based on independent market research and our own estimates, we believe the Diagnostic market segment represents global sales in excess of £175 million annually.

If you've ever been to the optician the

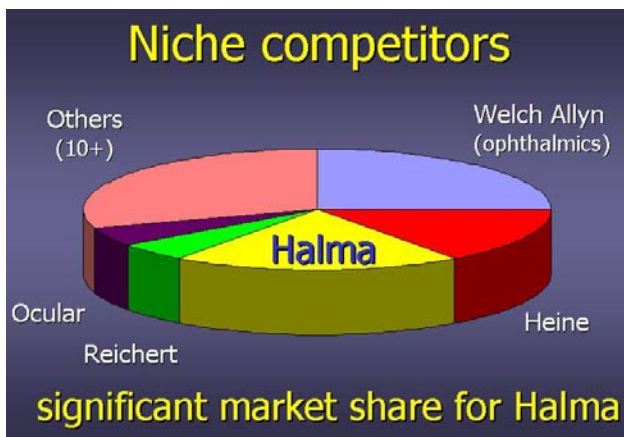
chances are he or she will have looked into your eye with a device incorporating a very bright light. This instrument is an Ophthalmoscope and can be a handheld device or, more usually in the USA, head-mounted. An Ophthalmoscope can be used to view the back of the eye through the pupil. This is a highly skilled procedure and we are always looking for ways to make this task easier. Recently, we launched two new products including a handheld Ophthalmoscope that significantly increases the field-of-view so more of the eye structure can be seen and a cordless, head-mounted product which replaced the need for an external power socket with a portable and lightweight battery pack.

Our surgical lenses are non-invasive devices which come in all shapes and sizes. They not only provide magnification for operations but also can be used as a transmission medium for laser-based surgery. We have recently launched a range of lenses manufactured from special polymers that can be sterilised in normal hospital equipment. This is an important technical breakthrough. This was in response to increasing regulation to prevent transfer

of diseases such as CJD through the repeated use of surgical devices.

Our surgical lens manufacturing involves unique techniques which enable us to make and sell over 40,000 lenses each year. This capability is a major barrier to entry for potential competitors.

The market for ophthalmic diagnostic instruments is fragmented with most of our competitors based in the USA or Germany. Halma is the market leader in the surgical lens sector and number two or three for ophthalmoscopes. We have a reputation for high quality and high performance. Consequently we do have some pricing power in this highly competitive market.



Our most successful markets are in the UK and USA, where we are based. We have a healthy level of export sales through a network of distributors. We estimate that the Rest of the World plus European markets represent 50% of global sales. Since only 35% of our sales are in these two regions, there is an opportunity for continued sales growth in overseas markets.



A number of factors influence long term growth in demand for ophthalmic devices.

- Population growth and ageing populations.
- Economic development and the establishment of stronger healthcare systems in developing countries.
- New and more numerous surgical procedures.
- In the USA, Optometrists are paid a fee for certain procedures. New devices which increase the speed and efficiency of these procedures will attract an increasing demand.

However, this is a highly regulated and conservative market. We anticipate that there will be steady growth in the next five years.

Summary: Ophthalmics

Organic profit growth
 Excellent cash generation
 High ROC
 Strong products
 Export markets
 Long term growth drivers

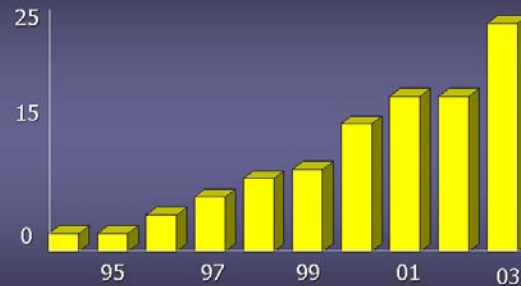
steady growth prospects

Optical sensors are used extensively in our Fire, Gas, Elevator Safety, Door Safety and Water businesses. It is one of our key competencies.

An example of our existing optical sensing technology is Palintest, who manufacture photometers to test water quality. They make chemical reagents and instruments which create and detect changes in the colour of water samples to determine the presence of particular substances. These instruments are capable of analysing colour change within discrete wavelength bands depending on the specific application.

Ocean Optics, our recent acquisition, uses technology based on an instrument called a spectrometer. This analyses light across a wide spectrum rather than selected, discrete wavelength bands. They bring to the group a much deeper and broader expertise in optical sensing and photonics and an enormous applications expertise.

Ocean Optics

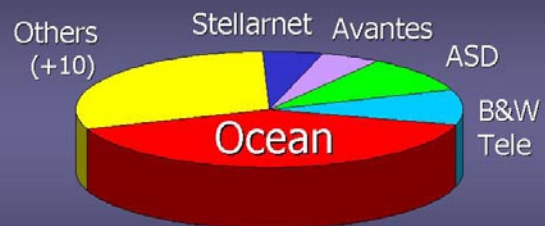


long term sales momentum

Since 1992 Ocean have sold almost 50,000 spectrometers. They are up to 1,000 times smaller and 100 times lower in cost than most spectrometers.

A feature of this 'miniature' spectrometer is that it uses an optic fibre to take the measurement. Previously, a sample would have to be taken to a spectrometer in a laboratory for a measurement. Our spectrometers are portable, lower cost and capable of being used in remote, or difficult to access areas.

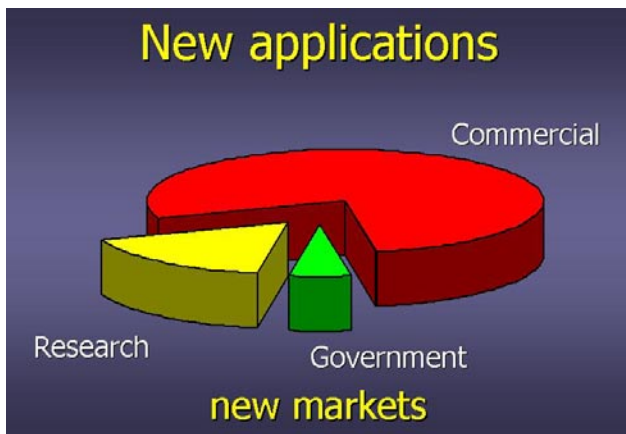
'Miniature' Competitors



strong market leadership

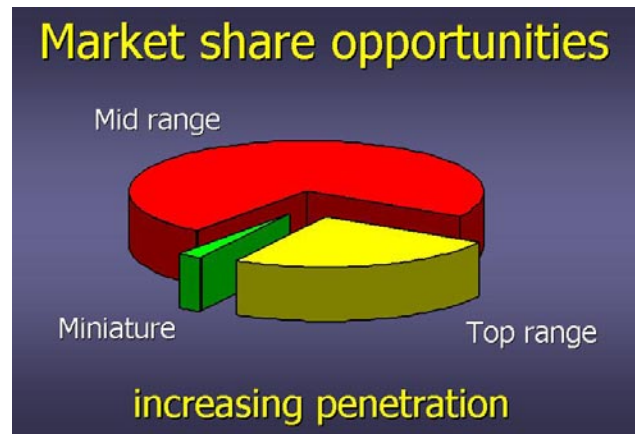
They are used in many different industries including Chemicals, Medical, Semiconductor, Forensics, Process Control, Food and Beverage, Utilities, Pharmaceutical, Biotechnology and Homeland Security. We also sell into research organisations thereby increasing the chances of spectrometers being included in new products and emerging applications.

Over the past ten years, Ocean have developed over 3,000 new applications using miniature spectrometers – an average of one new product every week. There are competitors who can match aspects of their technology but none can match Ocean’s application know-how.



The global market for spectrometers is growing. Independent market research estimated that over 200,000 spectrometers of all types were sold in 2002. The world market is worth over \$1.3 billion per year with the top and mid-range segments dominated by large players such as Agilent, Perkin Elmer and Thermo. The fastest growing segment is for miniature spectrometers. Increasingly, miniature spectrometers are being used where previously mid-range

products were used. Because of the size and cost many people are now using miniature spectrometers where before they used other less accurate techniques. Therefore we can benefit from both overall market growth and market share growth.



Sales were made to over 70 countries in 2003. Common prices are adopted worldwide and, in some countries, there is more than one distributor selling. Three years ago, a European office was established in the Netherlands. Sales are growing rapidly into the UK and Europe. We expect to continue to grow in export markets.



So how do Halma and Ocean Optics work together to increase shareholder value?

We want Ocean Optics to continue doing all the great things that has got the business to where it is today. Entrepreneurship will be encouraged further through Ocean becoming part of the Halma Group.

Also Halma brings a fresh approach to focus the business on generating profit growth and cash. Our simple monthly accounts enable our businesses to see where and how they make the highest profits. This improves the board's ability to make quick and informed decisions about resource allocation in all areas.

Halma has the financial resources to enable fast growing companies like Ocean Optics to make investments in new products and processes. Often such investments are not pursued as quickly by smaller organisations and the rate of growth can suffer.

Importantly the two-way sharing of knowledge is already underway. Ocean Optics have already helped Palintest with the optics design of a new product. Conversely, one of our subsidiary Operations Directors visited Ocean in July to help them with manufacturing bottlenecks which were jeopardising their ability to keep up with growing demand. Within one week, he helped them reduce the cycle time on their core product down from six weeks to one week.

Looking further ahead, Halma is seeking new ways to extract value from the technology and application know-how across the organisation. We have a fast



expanding Group Intranet capability. Our first 'technology transfer' meeting to be attended by all of the Technical Directors across the Group is scheduled for December.

To summarise, Halma's Optics business is growing profits organically and generates cash at an excellent rate. The exciting acquisition of Ocean Optics will increase the rate of organic growth and present new opportunities for optical sensing in other parts of the Group. The business provides an excellent 'snapshot' of Halma as a whole and illustrates why we continue to be well placed for long term growth and provide excellent value for our shareholders.



Summing up, Stephen O'Shea described the Optics and Specialist sector as a place to cultivate companies, occasionally weed some out but usually grow them and sometimes add to them by acquisition. The sector is actively managed and is typical of Halma's operations. Acquisitions help to add products that are unique, valuable and complementary to the existing range. They build our applications knowledge. Acquisitions also play a full part in the community of companies both contributing to and benefiting from the sum of knowledge and techniques in the Group.

Halma characteristics

£m	High financial ratios	£m
50	Critical applications	96
profits	Growth markets	assets
	Global positions	

management with proven record

The best test of what we have communicated today is the results achieved. Optics and Specialist businesses pass this test and make a full contribution to Halma's characteristics and results.

Within this paper we have used the following definitions.

1. *Return on Capital Employed (RoCE) is defined as profits before tax, goodwill amortisation and exceptional items divided by all tangible assets.*
2. *Return on Operating Assets (RoOA) is calculated at subsidiary level and excludes cash, goodwill and real estate from the assets.*
3. *Return on Total Invested Capital (RoTIC) adds to the tangible assets all goodwill including that previously written off.*

CAUTIONARY NOTE. *The information contained in this summary is correct at 22 September 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.*