

HALMA p.l.c.

Adoption of International Financial Reporting Standards

Summary of Analysts' Conference Call, 2 September 2005

Kevin Thompson, Group Finance Director

Halma announced details of its adoption of International Financial Reporting Standards (IFRS) on 2 September 2005. The unaudited summary of the restatement to IFRS of its 2004/5 Interim and Full Year Consolidated Income Statement and Balance Sheet can be found on the Halma website at www.halma.com, together with other information about the Halma Group.

This document is a summary of the areas discussed by Kevin Thompson, Halma's Finance Director, with analysts in a conference call on 2 September 2005. For completeness it should be read in conjunction with the announcement referred to above.

Halma previously reported its results under UK Generally Accepted Accounting Principles (UK GAAP). Along with other UK public companies and businesses in many other countries it will in future be reporting its results under IFRS.

IFRS overview

Modest impact on results
Business economics unchanged
Strong cash flow and balance sheet

little overall impact

There is little overall impact on Halma's reported financial results from the adoption of IFRS. The fundamentals of Halma's business remains unchanged, underpinned by a strong balance sheet and good cash generation.

However, there are a number of important changes including accounting policy and presentational changes. These are discussed in summary below, together with a quantification of the impact of IFRS on Halma.

Highlights of the restated figures are given in the following table:

Restated figures - highlights							
£ millions	<u>52 weeks to 2 April 2005</u>			<u>26 weeks to 2 October 2004</u>			
	UK GAAP	IFRS	Change	UK GAAP	IFRS	Change	
Profit before tax*	50.4	49.9	-1%	24.6	24.5	-1%	
Statutory profit before tax	44.9	49.6	+10%	22.0	24.3	+11%	
Shareholders' equity	175.6	173.3	-1%	174.0	166.6	-4%	

* For UK GAAP: before goodwill amortisation of £5,491,000 (half year: £2,667,000) and for IFRS before amortisation of acquired intangible assets of £361,000 (half year: £175,000)

As can be seen, the profit before tax and amortisation of goodwill/acquired intangibles is £0.5m (1%) lower under IFRS than under UK GAAP for the year to 2 April 2005. Similarly the shareholders' equity is little changed overall (£2.3m lower under IFRS at 2 April 2005).

The discussions below focus on the full year figures for 2004/05 and the Consolidated Balance Sheet at 2 April 2005. However the comments would apply in a similar manner to the 2004/05 Interim results and more details on those can be found in the full announcement referred to above.

IFRS has an impact on Halma in certain areas. The deficit on Halma's pension funds is included in the Consolidated Balance Sheet. An expense is included in the Consolidated Income Statement (the new name for the Consolidated Profit and Loss Account) for the Group's share-based payment arrangements (primarily share

Key IFRS impacts

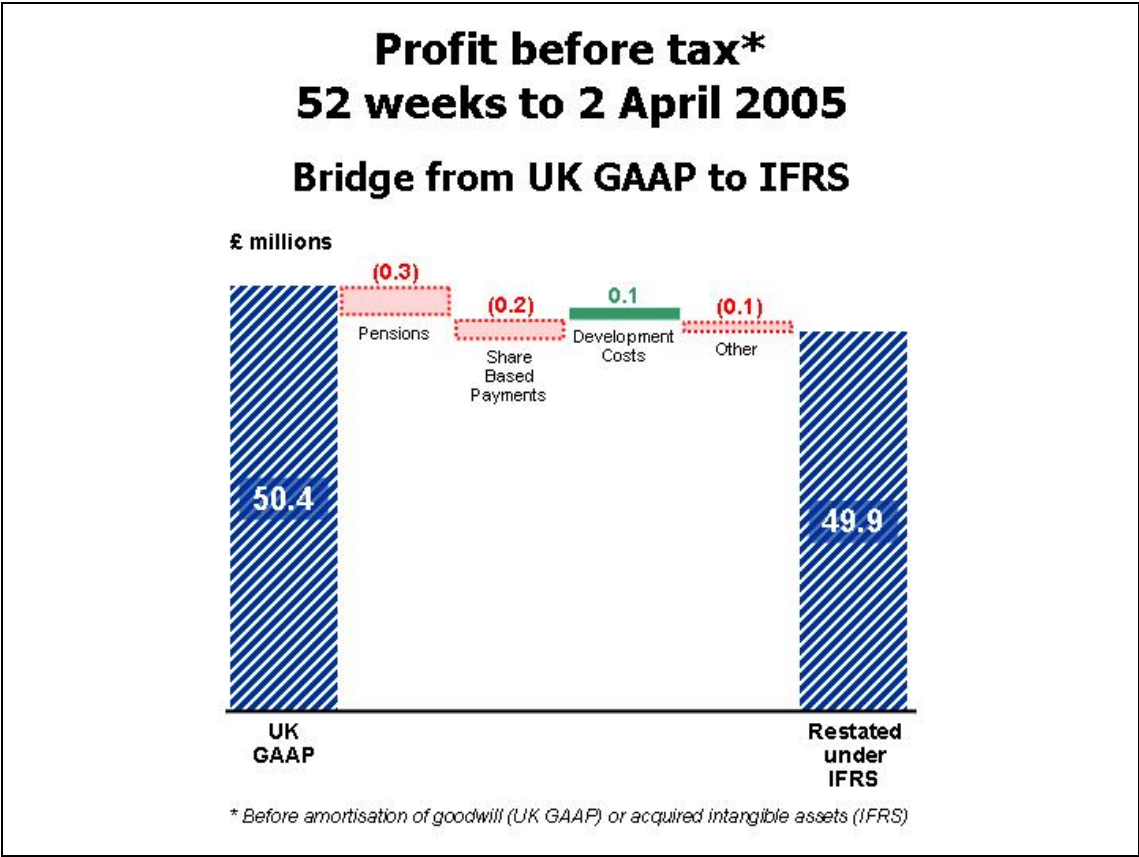
- Pensions
- Share-based payments
- Dividends
- Development costs
- Acquisitions

a number of presentational changes

options and in future the new Performance Share Plan). Dividends are now only accrued when the dividend is declared. Certain development costs are capitalised and amortised, although the majority of Halma's R&D expenditure (4% of turnover in 2004/05) continues to be expensed as incurred. Goodwill on acquisitions is no longer amortised, although acquired intangible assets are amortised, and goodwill written off to reserves prior to 1998 will no longer be included in the calculation of profit or loss on closure or sale of the related business. There are no significant impacts for Halma arising from the new rules on accounting for financial instruments.

There are various reconciling items between UK GAAP and IFRS, both for profit and shareholders' equity. Those relevant to Halma are discussed below.

Looking at the Profit before tax (and before goodwill amortisation under UK GAAP, before amortisation of acquired intangible assets under IFRS), the reconciliation is as follows for the 52 weeks to 2 April 2005:



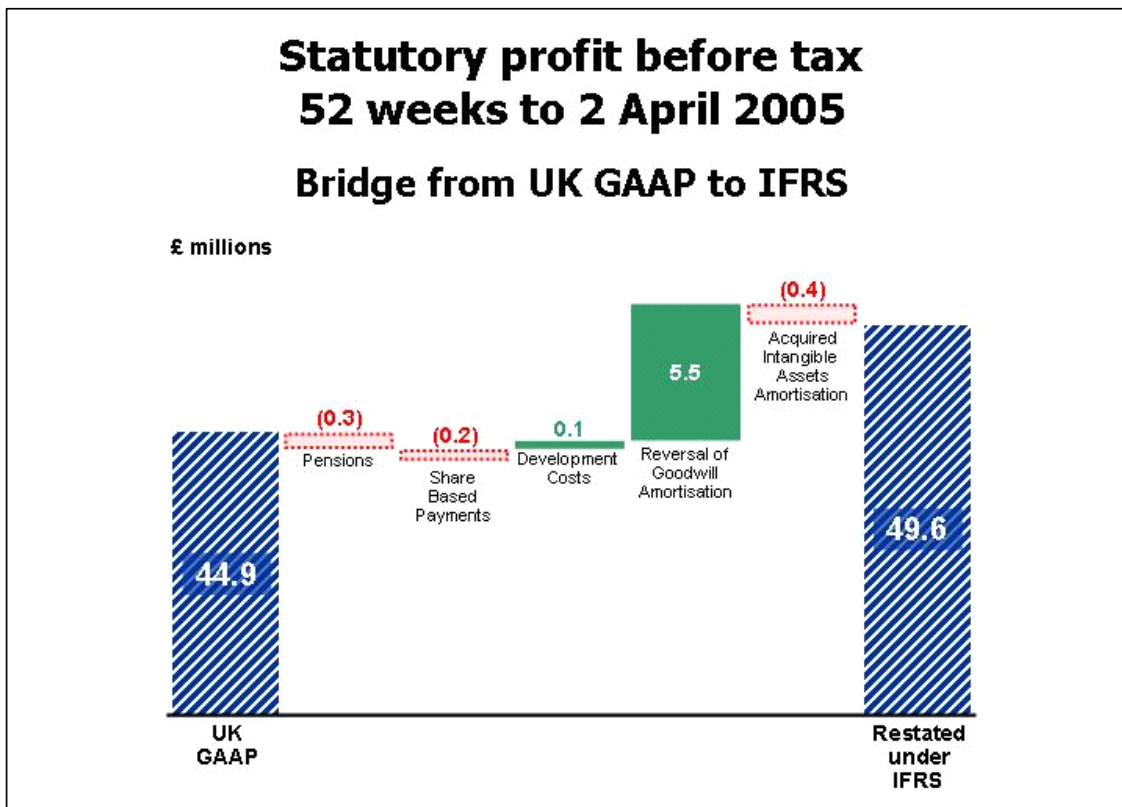
As noted above, the reconciling items are relatively small in total, reducing profit before tax and before goodwill/intangibles amortisation by 1% to £49.9 million under IFRS.

The changes in pensions accounting have the biggest impact on Halma's reported figures – not so much in relation to profit, although the £0.3 million profit reduction under IFRS for 2004/05 does not necessarily indicate the profit impact going forward. This impact may be sizeable and variable in direction depending in particular on the value of scheme assets and liabilities, asset return assumptions and corporate bond rates. The main pensions impact at the point of transition to IFRS comes in the Consolidated Balance Sheet which as at 2 April 2005 includes the deficit on Halma pension schemes of £28.8 million, net of related deferred tax and adjusting for minor pension related items already in the UK GAAP figures. This figure will vary in future due to the factors noted above as well as for changes in mortality assumptions.

Another impact of IFRS on Halma's profit will come from the accounting for share-based payments. These are employee share related rewards including share options and the recently approved Performance Share Plan. The fair value of these arrangements is included as a charge against profit under IFRS and in 2004/05 that charge increases by £0.2 million. Over the next few years it is expected that this charge will increase, in particular as the charge for the Performance Share Plan (which accumulates over a three year period) builds towards an expected ongoing annual run rate of approximately £2 million, depending on performance. The share-based payments charge may vary from that currently expected depending on whether certain performance criteria are achieved. This is likely to affect the year-on-year comparison of profit.

Halma invests significant amounts in Research and Development and will continue to expense the majority of that cost as incurred, however under IFRS, development costs which meet certain criteria must be capitalised and amortised. An amortisation period of three years has been chosen. Adopting this new policy adds £0.1 million to the 2004/05 IFRS profit and gives rise to a £1.9 million asset on the Consolidated Balance Sheet.

A reconciliation between UK GAAP and IFRS Profit before tax on a statutory basis is shown below.



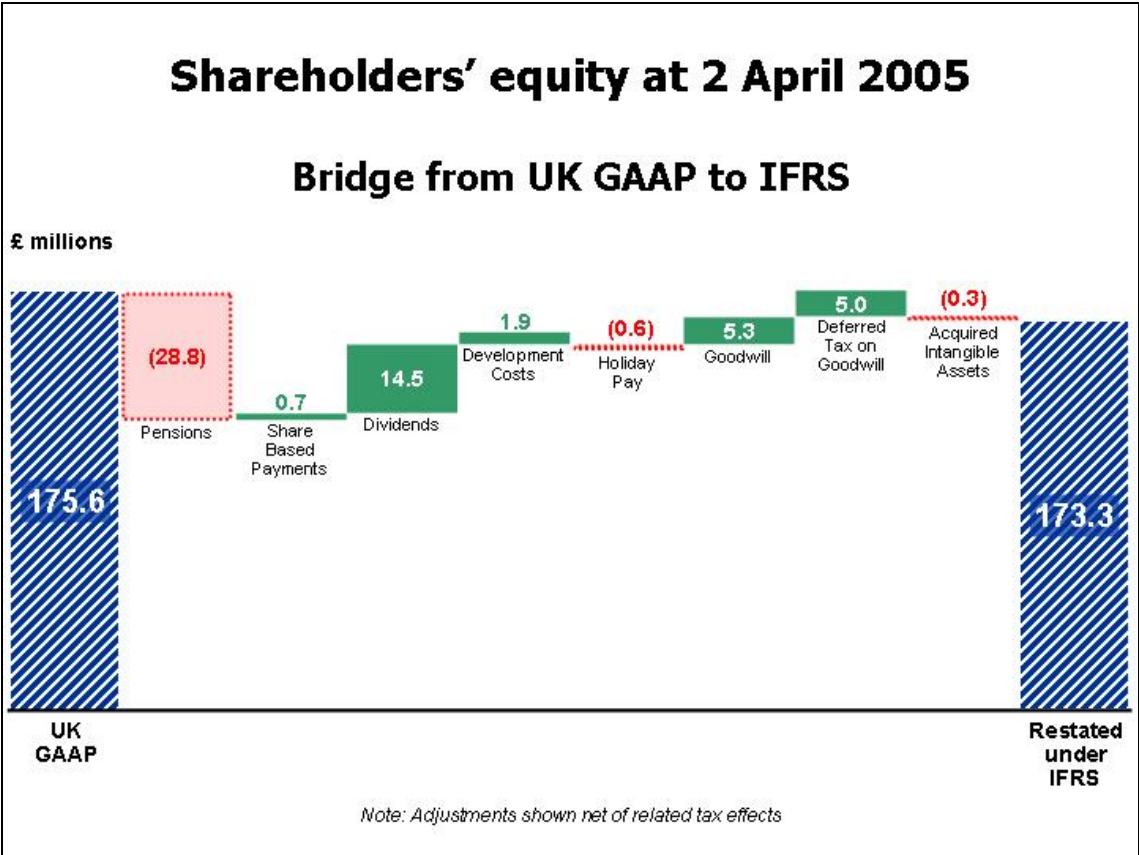
The points to note in addition to those mentioned above in relation to pensions, share-based payments and development costs are to do with acquisitions.

Under IFRS, goodwill on acquisition is no longer amortised and therefore the 2004/05 charge of £5.5 million of amortisation is added back to statutory profit for the 52 weeks to 2 April 2005. Unamortised goodwill as at March 2004 becomes the new IFRS opening goodwill balance and all goodwill is subject to an annual impairment test. Goodwill on acquisitions prior to March 1998 will no longer be charged against profit if the business it relates to is closed or sold.

Another change under IFRS in relation to acquisitions is that from March 2004, acquired intangible assets must be valued, split out from goodwill and then amortised. An amortisation period ranging from three to ten years has been chosen, although in most cases a period at the lower end of this range is likely to be used. £1.4 million of acquired intangible assets in respect of acquisitions since March 2004 have been reclassified from goodwill as a result of this change and an amount of £0.4 million is charged against the 2004/05 statutory profit as amortisation.

Looking at the changes to Halma's Consolidated Balance Sheet under IFRS, we see the issues mentioned above reflected there. The following illustration shows the bridge between

UK GAAP and IFRS for shareholders' equity (net assets) as at 2 April 2005. Overall the impact is modest, causing a reduction of £2.3 million (-1%) to £173.3 million in shareholders' equity under IFRS.



The main changes to shareholders' equity mentioned already are the inclusion of the pension deficit and adding back the goodwill previously amortised in 2004/05 (the addition to shareholders' equity is the £5.5 million noted above, less a small foreign exchange adjustment relating to goodwill, giving a figure of £5.3 million). In addition there is a deferred tax write-back of £5.0 million relating to a deferred tax liability on goodwill, arising from the change in policy on acquisitions made before March 1998, which is now no longer required.

Finally, IFRS requires that dividends are now considered to be a liability when they are declared, rather than accrued in the period to which they relate. Therefore at 2 April 2005 the final 2004/05 dividend of £14.5 million is no longer accrued under IFRS. Although the new IFRS rules on financial instruments are not yet finalised, this is not an area we expect to have any significant implications for Halma. We have always adopted a

straightforward approach to our treasury operations and have not used complex financial instruments.

In addition to all of the above changes there will of course be a number of presentational changes in the first sets of IFRS accounts which will be published in the Interim report for the 26 weeks to 1 October 2005 (to be published on 6 December 2005) and the Full Year accounts for 52 weeks to 1 April 2006, which will be published in June 2006.

Cautionary notes:

To explain the effect of this transition on the Group's reported performance and financial position, information for the 26 weeks to 2 October 2004 and 52 weeks to 2 April 2005, which was previously published under UK GAAP, has been restated in summary form in this document. This information is unaudited but our auditors have agreed the principles and methodologies that have been adopted by the Group.

Standards currently in issue and adopted by the EU are subject to interpretation issued from the International Reporting Interpretations Committee ('IFRIC'). Further standards may be issued by the International Accounting Standards Board that will be adopted for financial years beginning on or after 1 January 2005. IFRS is currently being applied in the United Kingdom and in a large number of other countries simultaneously for the first time. Due to the number of new and revised standards included within the body of standards that comprise IFRS, there is not yet significant established practice on which to draw in forming decisions regarding their interpretation and application. Accordingly, practice is continuing to evolve. At this preliminary stage therefore the full financial effect of reporting under IFRS as it will be applied and reported on in the Group's first IFRS financial statements for the year ended 1 April 2006 may be subject to change.

The information contained in this summary is believed to be correct at 2 September 2005. 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.