

Halma p.l.c. Business Briefing

11th September 2003

Halma held its third annual Business Briefing in London on 11 September 2003. This year's event focused on the Process Safety and the Elevator Electronics business sectors.

The presenters were Stephen O'Shea, Group Chief Executive, Nigel Young, Divisional Chief Executive, and Bill Seymour, Divisional Chief Executive. The principal audience consisted of shareholders and sell side analysts. No updates on current trading or any forecasts were made.

Stephen O'Shea explained that the purpose of the briefing is to assist in building a clear and in-depth understanding of Halma, its processes, its philosophy and its businesses.

Stephen O'Shea went on to say:

Today we will be examining Process Safety with Nigel Young and Elevator Electronics with Bill Seymour. They will explain our work in their sectors, their profit drivers and their opportunities. These sectors deliver 30% of sales and profits.



This is our third annual briefing. On earlier occasions we have examined Fire and Gas, Resistors, Water and the significance of innovation to the Group.



With today's two sectors, we will have briefed you on 79% of sales and 83% of profits as disclosed in last year's annual report. In future we hope to provide you with updated information and also cover our Optics and Specialist division and how we operate our successful acquisition process.

Both sectors examined today have been grown both by acquisition and organically. The Divisional Chief Executives, who will tell you about these, are the world's foremost experts in their niche markets.

Each sector produces outstanding results. They are fully representative of each of the Halma business sectors.



A great deal was achieved last year. Both Elevators and Process Safety produced a record sectoral profit.

But I will let the experts tell you how.

Firstly, Nigel Young. He has over twenty years experience in this field with several roles, recently as Chairman of all our Interlock companies.

Nigel Young explained that:

Industry is driven by large, fast and powerful machines and complex processes. There is a lethal combination of speed, force, pressure, pollutants and electrical energy. These make the workplace a dangerous place to be in.



According to the US Department of Labor, around six million US workers suffer a workplace injury every year and in 2001, there were almost six thousand fatalities. The World Health Authority predicts that within two decades more people will die from industrial accidents than heart disease. Industrial accidents may soon be the world's leading health problem.

Accidents cost the US economy alone \$120 billion every year. Accidents are not generally the result of poor design, inadequate construction or weak supervision. No matter how well people have been



trained, no matter how careful, no matter how attentive they are to detail, people get tired, complacent or distracted. This is how accidents occur. But accidents cause more than injury and loss of life. Explosions, malfunctions and fires all lead to a loss of business lifeblood – capital, plant and assets. Oil revenues are affected, production is lost, sometimes for months on end. All have an incalculable cost.



Accidents also harm the environment. Escapes of gas damage the ozone layer, oil spills pollute seas and beaches and destroy animal, bird and marine life. Halma Process Safety products are used to protect people, they protect business assets and help safeguard the environment for future generations.



Interlocks sequence the operation of valves and actuators to prevent potentially catastrophic explosion hazards and the release of harmful vapours into the atmosphere. Following the Piper Alpha accident in 1988 when 167 workers were killed, safety standards across the entire oil and gas industry were tightened. Most major oil, gas and chemical companies use our products including British Gas, Marathon Oil, Shell, Exxon, Phillips Petroleum, Woodside and many others. Halma products operate reliably in the harshest environments and are fitted on installations in every continent of the world.

Companies fit our products for a number of reasons. Some are responsible employers, some care about the environment. All are compelled to some degree by legislation to provide a safe place to work. But it is also profitable to have safe factories. Legislative and financial pressures to improve workplace safety are increasing all the time and that is what guarantees good profits for Halma now and increasing profits in the future.



Halma bursting discs prevent explosions caused by pressure build up in chemical and oil and gas plants. 90% of these products are never called upon to operate. When they are, our customers can be certain they will.



Last month's power cuts in the Eastern US focused attention on the shortcomings of the electrical transmission grid in North America. Halma companies have worked for years with switchgear and power companies all across the world. Engineers can work safely on these installations because of our products. We are acknowledged as world leaders in interlocking technology and have shared in the £2 billion spent on developing the UK grid since privatisation. We may sell traditional technology but we do it well and customers trust us. We expect to win a share of the \$56 billion that the North American Reliability Council estimate is needed to update the power grid system in the US and Canada.



As well as a wide range of applications in process and manufacturing industries, Halma process safety products touch people's everyday lives. In the food industry, bursting discs are used on grain silos, while trapped key interlocks are used in meat processing plants. Our products are used on the fermentation vessels, mechanical handling and bottling lines in breweries. Tankers carrying LPG are protected by bursting discs. Fire extinguishers and patio gas cylinders have bursting discs that protect against the risk of explosion.



The Fortress mGard is the most advanced machine safety product in the world. We used world-class techniques for product development and production. Outsourcing has reduced procurement lead times and tooling

costs and we reduced the component count in the product from twenty-six to twelve parts. We also cut the assembly time from four minutes to just eighty seconds.

Using the concept of building blocks configured to order, we can solve most safety problems. Lead times are now down to less than one week, which means our customers get better service and we cut inventory and working capital.

Although this product has been designed to hold guards closed, it is opening up new doors for us. We are making better margins on existing business and we can use tactical pricing to open up emerging markets. These are keys to future growth.

But we are not content with this. We are already working with companies like Siemens to integrate digital signalling into our products. These products work with leading process control and automation systems and are approved by Ford, Land Rover, Hanson Brick and General Electric.



The Elfab Optigard is not just a bursting disc. We call it 'pressure intelligence'. We frequently supply simple bursting discs and the market opportunities for these are growing, but we can add value that customers will pay extra for. This revolutionary product includes a sensor to detect when the disc

ruptures - no more need to dismantle pipelines just to check the disc. It signals when it has operated - the complete solution.

By tightening up tolerances and using a universal mounting system, one product covers a range of applications. We have introduced a 'Sure Ship' guaranteed same day delivery service for emergency requirements. We cut customers' inventory requirements so they buy from us, not the competition. And they pay more for our products than they do for our competitors'.



Process safety is one of Halma's core business areas; indeed Castell was one of the first companies bought by Halma in the 1970's. Process safety businesses deliver an impressive set of results. Return on Sales and Return on Investment are well up to Group averages and for twenty-five years they have made a tremendous contribution to Group results.

The spread of markets and applications insulates us from the worst of the economic cycle. The expected upturn in world economies, with its need for investment in power and production facilities, yields good growth opportunities for the future. In the short term, we expect that it will be our own efforts which will be the principal driver of growth.



Market opportunities for our businesses are considerable. We have secured high market shares in safety interlocking, but the wider machine safety market is over £180 million. We are addressing this with new products and the adoption of new technologies. Exploiting more demanding safety standards and taking our message into new markets provides growth opportunities.

Our market share in the very conservative bursting disc market is much smaller, but we are growing sales despite what is currently a flat market. This is being achieved with the new products and services mentioned above.



The total market for bursting discs is estimated at £125 million. We have about 10% of this, with strong performances in the

US, where we are the number four supplier and in the UK where we are the number three supplier. As you can see, over 50% of the world market is in the USA.

Chemical industries account for 30% of the total bursting disc market. This market has a large installed base and there are considerable opportunities for us. We are particularly successful in the engineering and pharmaceutical sectors, where customers value performance, innovation and service.

Our competitors in bursting discs are mainly US based, privately held companies. They, like us, are profitable. They prosper because of the inertia of their large installed customer base. This brings them significant replacement business, but they are not seeing the growth in new business that we command through product and service innovation. Our market share is growing and will continue to do so.



The largest machine safety market is in Europe. Safety legislation is well established and countries in the EU which have not previously had good safety records are under pressure to catch up. This pressure is not just from Brussels, it is also from employees who demand a safe place to work.

The US market is significant, but regulations are still not enforced in the way they are in



Europe. The onus on safety still rests largely with machine operators. There is a change in the air, however, and we are playing a part in that. We sit on safety committees and we help draft codes of practice. We are helping to educate safety organisations and trade unions in best practice. All this, plus a dedicated presence in the US market, is increasing potential and our market share.

Our traditional safety business is in safety interlocks where we are market leaders in our niche. We also produce other machine safety products but not the high volume, low margin products sold by others. Our products are sold on quality and performance, not price. This helps us command very high gross margins on many of our lines and contributes to the high overall return on sales.



We are the most successful company in the Safety Interlock market, with around 64% market share. Halma companies are the innovators and whilst others copy, we always have another new product close to launch. None of the competitors in our sector offer the product range, the service or the benefits that we do. We sell more products, we sell them at higher prices and our business is growing. We continue to make a valuable contribution to industrial safety and an excellent return for our shareholders.



Growth drivers

- Human & financial cost
- New construction & refurbishment
- Legislation, regulation, insurance
- New routes to market

long term outlook

Legislation underpins our safety businesses. More legislation, or greater enforcement, means more business for Halma, however we do not rely on legislation alone.

Customers also buy our products because they save money. They are prepared to pay more for our products because reliable operation leads to less down time, fewer maintenance callouts and an overall lower whole life cost.

The US motor industry is increasingly using our products. Despite the problems of oversupply and price pressures, manufacturers have to introduce new models every two years and they spend money every year on better performing engines to satisfy environmental and economic pressures. In addition, there are many older plants that must be brought up to current safety

standards. We expect to continue to grow sales in this market.

These represent huge worldwide sales opportunities for us. We still find new applications, new challenges and new ways to grow profitable sales.



Routes to market

- Direct to the end user
- OEMs
- Distributors

performance not price

Larger customers come direct to us and buy for projects or maintenance. On other occasions they will specify our products to OEMs, who of course then buy for their other customers.

We also have a wide network of distributors. We have strong, dynamic, direct sales forces but we need distributors for smaller or remote markets. We think of them as partners; we treat them well, we support them and we expect high standards from them.



Barriers to entry

- Market size
- Customer loyalty to proven products
- Specialist application knowledge
- Buyers' risk

profitable business

These are not large markets that we serve. Indeed we do not usually target whole sectors but we concentrate and specialise. The small markets are an excellent deterrent to competitors but we can grow steadily and profitably and move into adjacent markets with minimum risk.

Our customers are loyal. They respect the fact that we are good at what we do, our products do what we say they will do and we offer tremendous service. They are also very conscious of buyers' risk. They do not want to take the risk that the product will fail with catastrophic consequences – failing to protect a man going into a high voltage area in a power station to do maintenance, or not preventing the sudden build up of pressure in a pipeline that leads to an explosion. Those are very real risks to specifiers, designers, buyers and operators. That is why they continue to buy from us.

We exploit this risk amongst our loyal customer base and we support them with the very best service and make sure they know who to call when they want help. They do not just buy our products; they buy our experience and expertise.



Growth strategy

- New products and innovation
- Market share and development
- Export markets
- Acquisition of new technologies

long term confidence

Innovation in products and processes is a key element of our strategy. Our talented managers are charged with finding new and better ways of working and a steady stream

of new products. Process businesses by their very nature have a long life cycle but our companies are expected to substantially renew their product offering every five years. Every Halma company reports on innovation every month.

It is true that UK manufacturing is still declining and we have largely lost traditional markets such as mining and steel, but we are benefiting from growth in Eastern Europe and the Far East. Multi-nationals are adopting their US and European safety standards in their remote production locations.

Product innovation plays a large part in our plans. Automated processes and the use of modern technology have replaced traditional manufacturing methods. The aim is simple – to reduce costs and provide customers with added benefits – at a price, of course.



Summary

- Compelling growth and market drivers
- Product innovation
- Barriers to entry
- Broad spectrum of applications
- Organic and acquisitive growth

a real Halma business.....

Our process safety products have excellent growth opportunities. Safety standards and enforcement are increasing in the Western world. Manufacturers are exporting these standards to their satellite operations in the Far East, Mexico, South America and Africa.

New products offer whole life cost advantages to customers, so we become more competitive without reducing prices. We use innovation to reduce our costs and the use of working capital in our businesses.

Legislation, buyers' risk, a tight focus on our core markets and a tremendous knowledge of our markets minimises the damage from competitors and protects our high margins and profits. Despite being a traditional product with its origins in the 19th century, we have lots of growth prospects.

We are growing export business, we are finding new applications, we are developing new products and we can certainly acquire new technologies where we need to.

Our people are the very best, from committed managers to skilled assemblers. They share our values and they want to succeed. We will continue to succeed at what we do well.

Stephen O'Shea then introduced Bill Seymour, the Divisional Chief Executive for the Elevator Electronics Division. Bill is based in the USA and is the man who acquired BEA for Halma.

Bill Seymour then continued the briefing:



The population of the world is growing. A recent UN study on global demographic trends put this growth in the order of 77 million people per year. This is not simply due to the birth of more children but we are also living longer. As the population grows, more and more people are moving from rural areas to cities.

By 2030, over 60% of people will live in an urban environment, compared with 47% today!



This trend of urbanisation is driving the need to provide housing and places of work for greater numbers of people in limited spaces. The world is building up and moving faster, providing a fundamental long-term growth driver for demand for new elevators, automatic doors and building refurbishment. With this increased speed and volume of pedestrian traffic comes a higher risk of personal injury. The fact that the population is also ageing compounds this risk. Over the next fifty years, the number of people over the age of sixty is expected to triple.

The disabled are also taking a greater role in



active life. Legislation is changing the design of new and existing buildings to allow equal access for all.

At Halma, we are protecting people in motion while removing barriers that restrict the quality of life.

Our operations in this sector post impressive returns. With a Return on Sales of 17.5%, a Return on Capital Employed of 49.5% and fundamental, long-term growth underpinning our markets, this is clearly a highly profitable business worthy of investment.

Elevator Electronics Business	
Year to 29 March 2003	
Sales	£46.3 m
Pre-tax profit	£ 8.1 m
Profit Margin	17.5 %
ROI	49.5 %

Our goal of protecting people in motion and removing barriers while providing excellent returns was enhanced last year with the acquisition of BEA.

Since joining Halma, BEA has contributed strongly to the Group in more ways than just profit.

New managerial techniques for controlled creativity have been introduced to other Group companies, while technology sharing has already resulted in sales, with further potential new products underway.

Our global sales resource has been significantly strengthened and we have been actively leveraging these strengths.



In the more developed countries, safety legislation is getting tougher.

For example, this summer, the EU released two new standards for elevators.

One now requires detectors on all new elevator doors, while the other defines the requirements for emergency telephones in elevators.



In the USA, the 'Americans with Disabilities Act' is the key driver behind a huge effort to make public and semi-public buildings more accessible.

Such legislation migrates across the world.



Even when not required by law, we often lead the way by providing higher levels of safety.

Apart from the fact that customers often must buy our products, they can also harvest a real economic benefit by doing so. Our intelligent automatic door sensors can save money!

By knowing the direction of traffic flow and allowing doors to open and close faster, energy loss can be reduced.



On the high street, smart control of pedestrian traffic enables retailers to direct people more effectively, allowing more space to be freed for selling merchandise.

In the elevator industry, it is widely accepted

that most maintenance problems occur in the vicinity of the doors. By replacing mechanical bumpers with non-contact sensors, the whole elevator becomes more reliable, allowing for a more profitable maintenance contract.



BEA's industrial door sensors allow for a faster, safer flow of goods and equipment, improving manufacturing efficiency and reducing factory down time.

There is no part of the world untouched by the key fundamental market drivers and this has created a global market place.

The world markets for elevators and automatic doors show a largely similar structure.



These markets are dominated by a small number of large global manufacturers. In fact, eight companies control over 70% of the world market for new elevator installations. The automatic door business is somewhat similar however, although these are global companies, they have the need for local solutions and we are strongly positioned to meet those needs.

In spite of the relatively small number of global customers we have over four thousand active accounts which provides a strong element of stability. We sell to over ninety-two countries either directly or through a network of distributors and with direct sales offices in thirteen countries, we are at the heart of the action.

In China for example, we service this rapidly growing market through seven sales offices, two manufacturing centres and a network of independent distributors, giving us a market share of over 50% for elevator and automatic door sensors.

In our major market segments we enjoy leading positions.



With elevator door sensors we have an estimated market share of over 50% in all major world regions. Our competitors are generally privately held companies with small resources, compared to the global resources of Halma companies.

With automatic door sensors we also enjoy market leading positions in all major segments with the exception of Japan, the home base for our two largest competitors. However, even here we are enjoying rapid growth as customers start to appreciate the benefits of our unique technology.



Our business is not strictly tied to the rate of new construction. In slow times, people may not build new buildings but owners of existing buildings must still maintain their elevators. In fact, many building owners renovate their elevators during down times to stay competitive with newer properties.

Nearly half of our sales come from refurbishment of existing doors and elevators, adding both stability and opportunity.

We estimate that there are almost a quarter of a million new elevators installed each year. The vast majority of these are destined for newly constructed buildings.

However, we also believe that there are approximately seven million existing elevators in service. These need periodic refurbishment in order for buildings to remain competitive and to meet newer safety and access standards. This offers plenty of future opportunity.

There is also a large, relatively untapped refurbishment market. Driven by technology, newer sensors provide vastly improved safety and performance than their predecessors.



New products are a key to our success. Last year, over 10% of our employees were engaged in R & D activities. We invested over 6% of sales revenue to generate new products.

We employ a variety of skills and technologies to achieve our goal. Our expertise in Optics allows the creation of invisible light safety and sensing zones. Our in-depth knowledge of telecommunications allows us to offer products for operation in most countries. Innovative software and electronic hardware skills drive highly reliable, cost competitive products.



'Smart' technology approaches to microwave radar have led to intelligent motion sensors that open doors to the world.

We work hard and smart to generate valuable intellectual property and defend it vigorously when threatened.

Our businesses benefit from the presence of real barriers to entry in our markets.

The industry is governed by many third party approvals and regulations that establish safety and functional requirements. There is no universal standard however, even within common geographic regions. The detailed knowledge of national, international and local regulations, along with the associated costs of such approvals, helps to keep new competitors out.



There is also the need for strong interdisciplinary technical and scientific expertise.

As with all safety products there is a real buyers' risk to making the wrong choice. We work closely with our customers' engineering teams to ensure the right fit. This makes for a significant pre-sale investment.

We provide a real global service to real global customers. Such an ability is difficult and expensive to create.

All of these pose significant barriers to a new market entrant.

We aim to grow by building on our market strengths around the world. Our broad base of technological skills brings innovative new products to the fore.



Modern, high-tech manufacturing techniques and access to low cost centres of production such as China, the Czech Republic and Indonesia, make us competitive.

Our global sales strength drives speed to market.

Our aim is organic growth with focused acquisition of companies that enhance our position.

Our goal is to grow our sales through leverage of our technology, global capability and market leadership, whilst maintaining and improving our current financial performance.

We are a global business operating successfully in a global marketplace.

It is a market with real long-term growth characteristics and significant barriers to entry. We have high quality management teams driving innovative approaches to business.



The high returns that we generate allow us to continue to fund such innovation, whilst contributing substantial profit to the Group.

As the world is building up and moving faster, we are, and will continue to be, at the forefront, protecting people in motion.

Stephen O'Shea summarised the briefing:

Today we have examined our Process Safety and Elevator Electronics sectors. Last year they delivered 31% of sales and 32% of profits.

They made a 54% Return on Subsidiary Assets. They are representative of the Group.

You may remember that on earlier occasions I said much the same about Fire and Gas, about Resistors and about our Water sectors.

You have heard me talking about saving lives every day. Nigel showed you that in US industry alone, there are six million injuries and six thousand deaths every year.

He demonstrated our careful selection of niche markets and our power within them. Performance really is more important than price. Interlocks is one of the areas in which we are by far the most successful player in sales, in products and in prices.

Not only do we make the most profit but we make profit at the highest rate to sales. Not only the biggest but the best too.

Even so, within the sector, bursting discs is clearly an area where we have many opportunities. We are good but not big.

You have seen how we grow by invading adjacent markets.



Bill has shown the similarity of markets, the methods of selling, the global reach and technology that there is between elevator doors and static doors. Both are protecting the safe and rapid movement of people in buildings... all sorts of buildings.

Bill has, for the first time ever, disclosed the importance to us of the after market – building refurbishment. This is also important, although to a slightly lesser

degree, to our Fire Detection operation as well as in Resistors, Water Sterilisation and Process Safety.

In Elevators there are new European standards. These will take some years to be applied fully but are an example of how legislation or quasi-legislation continuously drives the demand for safety products.

These are examples of markets that have long-term growth, are largely stable even in down turns and are performance, not price, sensitive. Customers recognise that the danger is much greater than the cost of eliminating it.

You will have been able to assess the depth of our applications knowledge and some of the many other barriers to competitors.



These are the ways we create shareholder value.

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