

Chairman's statement

Another good year with continuing investment in people, innovation, market development and acquisitions.

The last financial year has again seen good progress for Halma. Revenue from continuing operations increased 14% to £354.6 million (£310.8 million in 2006) with underlying organic growth* of 8.1% despite adverse currency effects of 2.3% i.e. 10.4% at constant currency. Profit before tax and amortisation of acquired intangibles on continuing operations was £66.1 million (2006: £58.1 million) an increase of 14%, organic growth* at constant currency was 10.1%. This organic profit growth* compares with an equivalent figure of 14% in 2006 where we benefited from the rebound in the Water business, so in the year under review we faced slightly tougher comparables. Statutory profit before tax increased by 11% to £62.6 million. The Board is recommending a final dividend of 4.33p per share, an increase of 5% for the year and our 28th consecutive year of dividend increases of 5% or more. Our dividend cover has increased to 1.74 times (2006: 1.61 times). Return on total invested capital* was 14.0% (2006: 12.8%).

We have also made a number of acquisitions during the year: Mikropack, Baldwin Environmental and Labsphere in the Health and Analysis sector and Tritech and System Technologies in the Industrial Safety sector. In total we invested £27 million in acquisitions with a maximum potential of a further £5 million in deferred consideration. After the positive action taken in the previous year, no disposals were made during the period under review. At the end of the year our net debt was £7.7 million.

During the year we have seen a continuous flow of new products, some of which are detailed in this report. We are also beginning to see results from our investments in China. During the year seven additional companies within the Group established a local presence there and during the coming year we expect several more to commence.

Our investment in people continues apace with enthusiastic attendance at our management training programmes and it is pleasing to see the energy with which attendees return to their companies, refreshed, invigorated, having learnt much, but more importantly, with a network of colleagues who actively support each other on all aspects of our business such as selling, innovation, technology and quality.

All of these investments, together with our investments in strengthening our selling and distribution resources, feed and support our strategy for healthy organic growth, so it is encouraging to see that this focus continues to bear fruit. This also gives us even more confidence that we can deliver significant value for shareholders from acquisitions that fit our strategic framework and meet our strict acquisition criteria. Furthermore we have significant financial resource at our disposal to do more.

In March, Andrew Walker stepped down from the Board and I should like to record our thanks for all his contribution during his four-year tenure as a non-executive Director of the Group and wish him well for the future.

On behalf of the Board, I should also like to thank all our employees for producing such a good performance.

In summary, another good year with continuing investment in people, innovation, market development and acquisitions. This, together with strong and effective leadership from our management team, gives us confidence for the future.

Geoff Unwin Chairman



Chief Executive's strategic review

Record revenues and profits once again demonstrating our ability to deliver organic growth.



Record results with 8% organic profit growth*

We have achieved record revenues and profits once again, demonstrating our ability to deliver organic growth which is the primary measure of our success. For continuing operations, total revenues increased by 14%, including 8% organic growth*, with total profits before amortisation of acquired intangibles also increasing by 14%, including 8% organic*. Impressively, these significant increases were achieved despite a 2% to 3% adverse currency impact during the year.

Strong returns and cash flow supports record dividend and investment

Return on sales* (2007: 18.6%; 2006: 18.7%), Return on capital employed* (2007: 60.1%; 2006: 56.9%) and Return on total invested capital* (2007: 14.0%; 2006: 12.8%) all remained strong or increased in accordance with our objective of generating growth without diluting the quality of our returns.

Cash flow was good and we ended the year with £7.7 million net debt having funded five acquisitions, significant organic growth and a further dividend increase of 5%.

Acquisitions completed in targeted markets

The Group completed five acquisitions during the year. Two of these acquisitions, Mikropack (April 2006) and Baldwin Environmental (September 2006) added new products to two of our leading Health and Analysis businesses and were merged with these existing businesses immediately on completion. Of greater significance were Tritech/System Technologies (November 2006) and Labsphere (February 2007) who are world leaders in subsea asset monitoring (Industrial Safety) and light measurement (Health and Analysis) respectively. All five businesses have performed well since joining the Group. We have allocated more resources to our acquisition search activity as acquisitions continue to be an important element of our long-term growth plans.

Growth in all business sectors and all global regions

Each of Halma's three business sectors achieved record revenues and profits.

- Infrastructure Sensors grew strongly with profits up 16% from 17% revenue growth following the increased investment in sales and product development made last year.
- Health and Analysis performed well generating a 7% increase in profits from revenue up 9%. This sector makes just under half of all the Group's sales into markets where the currency is US\$ (or US\$-related) and bore the brunt of adverse currency movements during the year.

Strategic achievements

- 8% organic revenue and profit growth drives record results
- Five acquisitions add technology and a new sub-sector business
- Seven Group companies newly represented in Halma hubs in Shanghai and Beijing
- 60 senior managers completed Halma Executive Development Programme
- More than 70 new products launched during 2006/07

→ Industrial Safety proved once again to be a strong and consistent performer with revenue growth of 15% driving profits up by 19%.

Geographically, revenues and profits increased in each major territory. The UK and mainland Europe proved to be particularly strong and our Industrial Safety businesses benefited from continuing high investment in the oil, gas and petrochemical industries – especially in the Middle East.

Many of our products are used to protect or improve the environment which offers us exciting opportunities for growth. In addition, we recognise that we can do more to minimise the impact that our business activities have on the environment and believe we can do this by increasing efficiencies thereby creating further value for shareholders. Examples of the actions we are taking are included in the Business and financial review.

Greater activity in Asia

Revenues to Asia Pacific and Australasia grew by 7% and continue to represent around 10% of Group sales. Over the medium term, this region offers growth rates in excess of the Group average and, as announced previously, we created Halma “hubs” in Shanghai and Beijing in August 2006 to accelerate business development by our subsidiaries in the region.

This is a good example of how the Group can help our businesses to develop more quickly without compromising their autonomy and freedom. We regularly review the opportunities for similar Group initiatives in other regions, markets or functional areas.

Product and process innovation driving organic growth

We maintained a healthy level of investment in Research & Development (R&D) (4.3% of revenues) and capital expenditure. These investments are critical factors in our ability to sustain growth through increasing innovation in products and processes. Over 70 new products were launched by Halma companies during the year, providing encouragement for our future growth prospects. Some of these products resulted from collaboration amongst Group companies.

Increasing investment in talented people

Developing and growing businesses already performing at a high level is a challenging task and I would like to thank each employee in every Halma company for their contribution to another successful year for the Group.

Strategic directions

- Organic growth to exceed 5% p.a.
- Targeted acquisitions
- Build on Chinese hubs and grow revenues in Asia
- Continued management development
- Maintain strong new product introduction

We have worked hard in recent years to change our culture from being too inwardly focussed on managing returns. This has included major people changes with over 65% of our subsidiary managers having joined the Group in the past four years.

Increased investment in training and development, including the flagship Halma Executive Development Programme (HEDP) launched 18 months ago, is translating into improved financial performance and greater strategic clarity throughout the Group. By the end of 2007, over 80 of our senior managers will have benefited from the HEDP.

This commitment to improving our people resources means that internal promotions are now a more realistic and frequent option. Accordingly, it was pleasing for me to promote Mark Lavelle to the Executive Board in April 2007 following five successful years as Managing Director of Keeler, one of our Health and Analysis businesses. This coincided with a change of divisional responsibilities in the Executive Board to ensure we continue to provide fresh insights and new approaches for our businesses.

Halma's long-term growth record continues

Since 1970, Halma has increased revenue every year bar two. Today we have very modest net debt of £7.7 million having self-funded organic growth, acquisitions and paid dividends to shareholders over the years totalling £235 million, excluding the final dividend proposed for this year.

So what has changed over the past two years to give us a new confidence that we can attain even higher levels of success? Simply that our proven ability to choose sustainable growth markets is being boosted with greater ambition, customer focus, more innovation, new technologies and stronger management resources all driven with a clear strategy for each part of our business. These results demonstrate that we are making good progress and we remain positive about our prospects for the year and the longer term.

Andrew Williams Chief Executive