

Another strong performance with growth in all three sectors and all territories



Kevin Thompson
Finance Director

Another strong performance

Profit from continuing operations before amortisation of acquired intangible assets increased by 11% to £72.8m on revenue from continuing operations up 13% to £395.1m. This is the fifth consecutive year we are announcing record results.

Organic profit growth* of 6.7% was achieved on organic revenue growth* of 8.0%, exceeding our target of 5% year on year improvement. Organic growth* is calculated before adding in the benefit of acquisitions. Currency translation had a more modest impact than previously expected. At constant currency, revenue and profit growth would have been approximately 1% higher.

There was one small disposal in the year so the prior year figures have been adjusted to give comparability. The trading result of that business, Post Glover Lifelink, and the gain on disposal are disclosed under discontinued operations.

Overall another strong performance continuing the pattern of delivering growth across all sectors and territories.

All three sectors grew

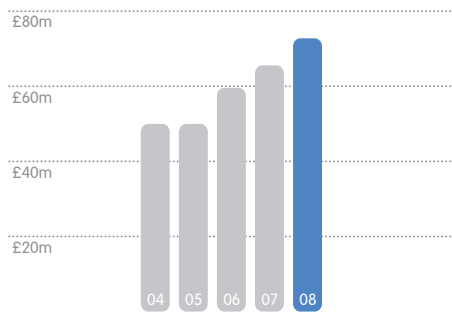
Infrastructure Sensors, still our largest sector, grew revenue by 8% and profit by 2%. Our Health and Analysis sector had another very good year with revenue growth of 16% and profit growth of 16% becoming a higher proportion of Group revenue and profit and closing the gap on Infrastructure Sensors. Industrial Safety had another outstanding year of growth with revenue 17% higher producing profits 21% ahead. All three sectors achieved both organic revenue and organic profit growth.

Revenue growth in all territories

There was once again widespread growth in revenue. The revenue from continuing operations by destination was as follows:

£ million	Revenue	% growth
United Kingdom	109.3	13.1%
Mainland Europe	107.9	18.1%
United States of America	103.0	7.1%
Asia Pacific and Australasia	42.9	20.8%
Other countries	32.0	1.6%
	395.1	12.5%

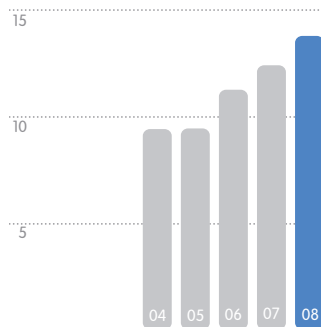
ADJUSTED* PROFIT BEFORE TAX



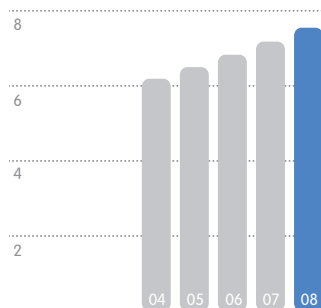
Strong UK growth came from our Infrastructure Sensors businesses and from Trittech (in the Industrial Safety sector) acquired part way through the prior financial year. Good performances in most sub-sectors drove the increase in Mainland Europe especially by our businesses selling into the oil and gas industries. There was a useful addition coming from the Riester acquisition in Europe with considerable future benefit likely to come from its presence in Spanish speaking territories across the world.

Our Photonics businesses performed very well in the USA. Our good revenue growth in the USA would have been even greater if not for a US Dollar that was on average 6% weaker than the prior year relative to Sterling. Sales to Asia Pacific and Australasia grew well supported by a 19% growth in sales to China and 36% growth in sales to India. The China and India growth is from a small base with more infrastructure being put in place by Halma to accelerate future growth by our subsidiary companies.

ADJUSTED EARNINGS PER SHARE* (pence)



DIVIDEND PER SHARE (pence) (paid and proposed)



Continued high margins

Return on sales* for continuing operations was again at a high level of 18.4% (2007: 18.7%). This metric reflects the considerable value we consistently deliver to our customers through our products. We continue to invest in our businesses to give them the capacity they need to take future opportunities. Our KPI target in this area is a Return on sales of around 18% or higher and we aim always to couple that with growth as we have done again this year.

The cost of reorganisation in our Security Sensors business slightly reduced the Infrastructure Sensors margin this year as anticipated from 18.1% to 17.0%. Looking back at the performance of the Infrastructure Sensors sector in the years 2000 to 2004 and even in the early to mid-1990s we see its resilience. Taking the results of the companies we owned both now and then we see that during those periods sector revenue and profit grew and the Return on sales remained above 18%. This is a sector which has demonstrated that it is able to make progress in tougher economic conditions.

One business sold in the year

In January 2008 we sold Post Glover Lifelink, a US business which was no longer core to the Health and Analysis sector, for US\$6m (£3m). It had annualised revenue of £3.4m and profit of £0.6m. The gain on sale of £1.7m together with the post-tax trading result is shown on the Consolidated income statement as a discontinued operation.

A lower effective tax rate

The effective tax rate on profit from continuing operations before amortisation of acquired intangible assets was 29.0% (2007: 29.7%). This reflects the mix of geographic locations in which tax is paid. We expect the effective tax rate to reduce a little in the foreseeable future with the benefit of the reduction in the UK rate of corporation tax. Tax paid in the year was below the figure in the prior year due to the tax deductibility of higher payments into the Group's pension plans, and also due to the timing of tax payments in advance which are expected to even out in the coming year.

Increased finance cost

The net finance expense in the Consolidated income statement increased from £1.8m to £2.1m. This resulted from a lower net pension finance charge with a higher cost of financing debt. We increased our level of debt at the end of the third quarter of the year with the acquisition of Riester and expect that the debt financing cost will therefore be higher in 2008/09.

Earnings per share and dividends grow

Adjusted earnings per share* were up 12% to 13.86p. Statutory earnings per share were 10% higher at 12.97p, a lower rate of increase due to the additional amortisation of intangible assets associated with the Riester acquisition.

The Board has recommended a further 5.1% increase in the final dividend which together with a similar increase in the interim dividend gives a total dividend of 7.55p per share, subject to shareholder approval. This is in line with our progressive dividend policy and is the 29th consecutive year of dividend increases of 5% or more. Given the strong earnings growth the dividend cover (calculated on earnings from continuing operations before amortisation of acquired intangible assets) increased to 1.83 times, moving further towards our target of 2 times cover.

ROCE* of 55.8% and ROTIC* of 14.1%

Strong growth was accompanied by our typical high returns. High returns are an important part of the Halma model with the objective of consistently creating value whilst growing our business. ROCE was 55.8% (2007: 60.1%) and is our measure of the effective use of operating assets. ROTIC is a post-tax return on the total asset base including all historic goodwill relating to ongoing and disposed businesses. This year ROTIC was 14.1% (2007: 14.0%) and this compares very favourably with a Weighted average cost of capital (WACC) for us calculated as currently being 8.4% (2007: 7.7%). See note 3 to the accounts for the definition of Return on capital employed (ROCE) and Return on total invested capital (RODIC).

Capital structure

We finished the year with net debt of £44.3m (2007: £7.7m) in line with our strategy to use our balance sheet to accelerate business development. The major increase came in the second half following the Riester acquisition. The Group continues to be able to borrow at competitive rates and therefore sees a modest level of borrowing as an effective way of funding the development of the Group. During the year we expanded our five-year syndicated revolving credit facility from £60m to £165m with a core group of banks and on similar attractive terms.

The Group's good cash generation is used to invest in expanding the business organically and through high quality acquisitions using third party borrowings where needed. There are no material funds outside the UK where repatriation is restricted. Our treasury policies seek to ensure sufficient liquidity whilst minimising risk. No speculative transactions are undertaken.

Our strong balance sheet and the new credit facilities give us valuable headroom to take opportunities as they are created and to finance the continued growth of the Group.

* See Financial highlights

Financial review (continued)

Continued good cash flow generation

Cash generated from operations (excluding taxation paid) was £76.0m (2007: £70.3m). The main elements of the Group's cash flow are set out below:

Change in net (debt)/cash £million	2008	2007
Cash generated from operations	76.0	70.3
Acquisition of businesses	(46.5)	(27.5)
Disposal of businesses	2.4	–
Development costs capitalised	(3.8)	(3.9)
Net capital expenditure	(14.9)	(7.3)
Dividends paid	(27.3)	(25.9)
Taxation paid	(17.6)	(19.5)
Issue of shares net of treasury shares purchased	0.2	3.6
Net interest paid	(1.8)	(0.8)
Exchange adjustments	(3.3)	(0.2)
	(36.6)	(11.2)
Net (debt)/cash brought forward	(7.7)	3.5
Net debt carried forward	(44.3)	(7.7)

Cash generated from operations was 104% (2007: 106%) of adjusted profit*. The investment in working capital increased in the year in line with the growth of revenue. There is no significant change in the risk profile of the Group. Working capital receives regular attention at local and Group level and this remains an important focus as there are increasing demands placed on our generated cash to fund the investment needed for organic growth, acquisitions, our dividend and pension obligations.

Further valuable acquisitions

Expenditure on acquisitions in the year was £46.5m (2007: £27.5m). The largest acquisition this year was that of Riestler and its associated group companies in December 2007. We paid a consideration of €55m (including a small adjustment relating to the actual net asset value at acquisition). There is no earn out. Riestler, which manufactures handheld medical and ophthalmic devices, fits into our Health and Analysis sector. At the time of acquisition Riestler was generating profit of £4.6m on revenue of £17m. We undertook a very active integration process immediately on acquisition to bring the business in line with Group reporting standards and also to quickly deliver the benefits of collaboration with our related Group companies. The acquisition is immediately earnings enhancing.

At the start of the year we signed an agreement to pay £0.3m for the business of BKKI, a gas detector manufacturer in China. This forms the platform for expansion of our Gas Detection business in Asia.

In October 2007 we acquired Sonar Research & Development Limited (SRD) for £2.6m. This has been merged into our subsea asset monitoring business Trittech, part of the Industrial Safety sector.

During the year we increased our resources and capacity for acquisition search, due diligence and integration and together with our expanded credit facilities we hope to make further progress on acquisitions in the coming years.

Increased capital expenditure

Expenditure on property, plant and computer software was £15.7m in the year, above the figure of £10.9m last year. Much of the increase was due to investment in property for two Group companies as noted last year – both building projects have been completed successfully. Capital expenditure represents 172% of depreciation, historically a high figure. We expect capital expenditure excluding property to continue at a relatively high level for the coming year at least as we make further investments, in particular in our Photonics businesses, to increase capacity in line with growing demand.

Pension contributions increased

At year end the pension deficit on an IAS 19 basis for our defined benefit plans was £36.0m before the related deferred tax asset, a little lower than the previous year end figure of £37.3m. The movement is due to a combination of factors, the main ones being the increased pension contributions, the use of conservative assumptions in line with common practice, a reduction in the value of equity investments and an increase in the discount rate resulting in a reduction in the value of liabilities.

As indicated last year we increased further the extra contributions into the defined benefit plans, which were closed to new entrants in 2003, up to £6m per year. We anticipate making extra contributions of this level at least for the foreseeable future as we work toward our objective of eliminating the deficit as measured on an IAS 19 basis, over a 10-year period. These extra contributions are not an insignificant use of our cash but are not expected to impair our opportunities for further growth.

The Board reviews pension strategy in full at each pension fund valuation date and monitors for significant changes in between. The next valuation of the main pension plan will be based on figures as at 1 December 2008 and as part of that process mortality assumptions will be reviewed as will the level of contributions needed to meet our obligations.

Currency headwind reduced

Currency translation turned out to have less of an adverse impact on Group results than anticipated mid-way through the year. Approximately 30% of Group revenue is denominated in US Dollars with the Euro accounting for around 15% on an annualised basis. Foreign currency profits are not hedged but sales and purchase transactions are hedged into the functional currency of each operating company. Balance sheet net currency assets are substantially hedged using currency loans.

We translate revenue and profit at the average exchange rates for the year and translate the year end balance sheet at the year end exchange rates. For our main currencies these rates relative to Sterling were as follows:

Exchange rates	US Dollar		Euro	
	2008	2007	2008	2007
Average rate	2.01	1.89	1.42	1.48
Year end rate	1.99	1.96	1.26	1.47

As a guide, 1% movement in the Euro relative to Sterling is expected to change profit by £0.2m and revenue by £0.7m in a full year. In the first half of the year there was a 3% adverse currency impact due mainly to the weak US Dollar relative to Sterling. The trend reversed somewhat in the second half so that for the year as a whole revenue and profit were both reduced by approximately 1% due to currency translation. If current exchange rates continue we would expect a benefit to the coming year's results in terms of translation.

R&D investment grows

Innovation is one of our core values and one aspect of this is the commitment we make to Research and Development (R&D) for new products. Group expenditure this year increased to £18.6m, 4.7% (2007: 4.3%) of revenue and was 22% higher than last year's record amount. Expenditure on R&D as a percentage of revenue is one of the KPIs we monitor and report on and, as can be seen in the Sector reviews on pages 16 to 27, both Infrastructure Sensors and Health and Analysis are well clear of our benchmark level of 4% of revenue, with Industrial Safety increasing this year to 3.6% having historically been below 3%.

International Financial Reporting Standards (IFRS) require us to capitalise certain development expenditure and amortise this asset over an appropriate period. In 2008 we capitalised £3.8m (2007: £3.9m) of such development expenditure and amortised £2.0m (2007: £1.5m) giving rise to an asset carried on the March 2008 Consolidated balance sheet of £8.2m (2007: £6.1m). R&D is by its nature an activity with some risk, so we monitor closely all costs carried forward. The increased investment in R&D expenditure and the resultant new products are a key part of the growth and resilience of Halma.

Spreading risks, developing our people

The main risks facing Halma are discussed above in the Strategic and Sector reviews. Risk is spread across our closely managed businesses, each one having its own high quality team including a senior finance executive. There is a significant level of review of the operations at each business; locally, via our Divisional Chief Executives who chair the local boards, by Divisional Finance Directors, and by our Internal Auditors. During the year we have added to our divisional finance resources, strengthened finance staff at a number of operating companies and added resource dedicated to acquisition integration. In 2008/09 we will be adding further to our Internal Audit team. For the first time we are reporting our progress on the Halma Executive Development Programme (HEDP) as a KPI and note that of the HEDP graduates some 17 have been amongst our senior finance executives. This careful addition and development of specific resource, focusing on risk and opportunity, gives us the capacity to grow our business actively whilst retaining the autonomy and accountability central to our business model.

Investing in the environment

During the year we have invested additional resources across the Group in reducing our impact on the environment. As discussed on pages 32 to 35 we set ourselves an initial target of reducing by 10% the tonnes of CO₂ we produce per £m of revenue over the three years to 2010 and progress so far is good. We see the reduction of our impact on the environment as part of relentless business improvement, consistent with our objective of delivering sustainable value to our customers and shareholders.

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Finance Director

* See Financial highlights