








Our Business

Diverse Markets

Halma is a global business operating in 22 countries and selling to over 150 countries. Our customer base is also diverse with our largest customer representing less than 2% of total Group revenue. We have three major Business Sectors each with four sub-sector market niches which offer long-term growth and sustainable high returns. Our diversity gives us many opportunities for growth.

	Infrastructure Sensors		Health and Analysis		Industrial Safety	
	Detecting hazards and protecting assets and people in buildings.		Improving public and personal health; protecting the environment.		Protecting assets and people at work.	
Revenue	£183m	40% of Group	£176m	38% of Group	£100m	22% of Group
Profit¹	£36m	39% of Group	£35m	39% of Group	£20m	22% of Group
Sub-sectors	Fire Detection 	Fire and smoke detectors and audible/visual warning devices.	Water 	Products to detect leaks in water pipes. UV technology for disinfecting water and water quality test kits.	Gas Detection 	Portable instruments and fixed systems which detect flammable and hazardous gases.
	Security Sensors 	Security sensors and signals used in public and commercial property.	Photonics 	Opto-electronic technology for scientific, medical, environmental and other applications.	Bursting Disks 	'One time use' pressure relief devices to protect large vessels and pipework in process industries.
	Automatic Door Sensors 	Sensors used on automatic doors in public and commercial buildings.	Health Optics 	Devices used to assess eye health, diagnose disease, assist with eye surgery and general medical applications.	Safety Interlocks 	Specialised mechanical, electrical and electromechanical locks which ensure that critical processes operate safely.
	Elevator Safety 	Elevator/lift door safety sensors, emergency communication devices, displays and control panels for elevators.	Fluid Technology 	Critical components such as pumps, probes, valves, connectors and tubing used by scientific, environmental and medical diagnostic OEMs.	Asset Monitoring 	Products for monitoring physical assets above ground and under water using sensors and communications technologies.
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Common Characteristics

Global Niche Markets

We choose to operate in specialist markets where technology and application know-how provide the opportunity to generate sustainable high returns and strong competitive advantage.

More information

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Long-term Market Growth Drivers

Demand in each of our markets is driven by one or more of the following:

- Increasing demand for energy and water
- Increasing urbanisation and ageing of population
- Increasing demand for healthcare
- Increasing health and safety regulation

More information

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¹ See note 1 to the Accounts.

Global Capability

Our global capability is developing as we seek to keep our resources close to our customers. In recent years, we have established new commercial and manufacturing platforms in Asia to meet the growing need in the emerging markets for Health, Safety and Environmental products.

	United States of America	United Kingdom	Mainland Europe
Revenue by destination	£127m +5%	£98m -6%	£136m +2%
Employees	983	1,643	660

	Africa, Near and Middle East	Asia Pacific and Australasia	Other countries*
Revenue by destination	£24m -14%	£59m +9%	£15m -9%
Employees	36	365	2

* Canada and South America.

Our Strategy

Strategic Summary

Objective

To create sustained shareholder value and high returns on invested capital.

Strategic Directions

To operate in global specialised markets offering long-term growth with technology able to sustain high returns.

Strategic Priorities

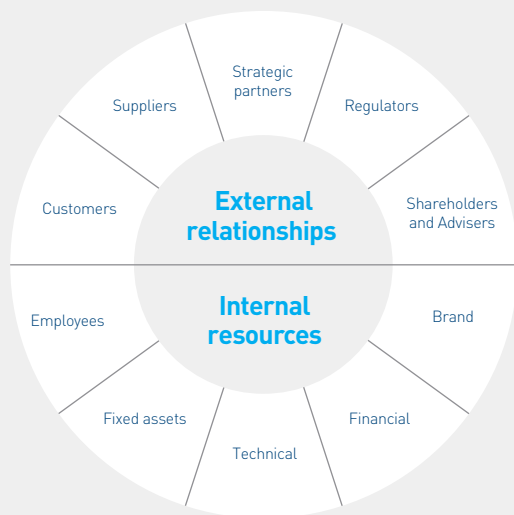
Strategic Priorities and Rationale	Performance and Achievements 2009/10	Priorities and Targets 2010/11
<p>Organic Growth</p> <p>This is our lifeblood and is dependent on the quality of our people, products and markets.</p>	<p>This is one of our KPIs (see page 6) and in 2009/10, we achieved 1% organic revenue growth and 9% organic profit growth.</p>	<p>Each year we aim to exceed our minimum organic growth target of 5% representing the blended long-term average growth rate of our markets.</p>
<p>International Expansion with Focus on Asia</p> <p>The Health, Safety and Environmental markets in Asia are developing fast and offer us higher rates of growth in the future. We continue to invest in establishing local selling, technical and manufacturing resources to meet this current and future need.</p>	<p>Revenue outside the USA and Europe was 21% of the Group total with revenue from Asia Pacific and Australasia up by 9%. Revenue from China grew by 59% to £18m which is now three times the level in 2006, when we established our first Halma hubs.</p>	<p>Our aim is for revenue outside the USA and Europe to be 30% of the Group total by 2015. During 2010 we are opening three new regional commercial offices in China and adding local staff to our hub in Mumbai, India.</p>
<p>High Rate of Innovation</p> <p>We create competitive advantage and build market leadership through innovation in the way we design, make and sell our products. We aim to maintain a high level of investment in Research and Development (R&D) for new products which underpins growth and high margins.</p>	<p>R&D expenditure was 5% of revenue and above our 4% minimum target level. In May 2009, we held a Group-wide innovation and technology event to encourage collaboration between companies.</p>	<p>We aim to maintain R&D expenditure above our 4% minimum target level which is also one of our KPIs (see page 7).</p>
<p>Management Development</p> <p>We have a decentralised structure which places responsibility, resources and key commercial decisions on our operating company boards. Therefore we need to build and develop strong local management teams.</p>	<p>We have exceeded our target of 50% of subsidiary directors and senior managers completing one of our internal training programmes. We have created a new training programme for technical staff, launched in June 2010.</p>	<p>We aim to ensure at least 50% of directors and senior managers have completed one or more of our internal training programmes. We will complete the first Halma Certificate in Applied Technology (HCAT) programme.</p>
<p>Acquisitions</p> <p>We acquire companies with business and market characteristics like Halma. They have to be a good fit with our operating culture and value-enhancing financially. We have considerable financial resources to invest in further acquisitions to accelerate growth and penetration in our chosen markets.</p>	<p>We acquired SphereOptics (New Hampshire, USA) for an initial consideration of £1.7m in January 2010 to add to our Photonics businesses in Health and Analysis.</p>	<p>We have stepped up our acquisition search activity and we are looking for opportunities in all three of our sectors. Currently, we are seeing most opportunities in Health and Analysis and, geographically, in the USA and Europe. We could comfortably spend £100m on acquisitions.</p>

Our Resources

Resources

We have access to the resources necessary to support investment for organic growth and acquisitions. Operationally, we have a decentralised structure which places our R&D, manufacturing, sales and marketing resources within each Halma company under the management of the local board.

Relationships and resources breakdown



External relationships

We aim to work in partnership with our **customers** not only to ensure their short-term needs are met but also to ensure that we design new products which meet their medium- and long-term needs. Since we have such a diverse customer base, our decentralised structure enables our companies to develop more intimate relationships with their customers than would be possible if we were more centralised.

Whilst we assemble products locally, we source our components globally. Halma companies often collaborate to locate high quality **suppliers** of common technologies or component types and are required to ensure suppliers meet our ethical standards.

If we do not have the commercial or technical resources within the Group, we will develop relationships with **strategic partners** such as universities, specialist design businesses and value-adding distributors. These relationships often add new technology and expertise to product development or identify new market opportunities.

We have to develop good relationships with industry **regulators** who regulate the quality of suppliers (like us) or our customers. Many Halma companies will be represented on industry regulatory bodies as technical experts to ensure regulatory codes are implemented in light of the latest technology and best practice.

Halma recognises the need to listen closely to the views given by **shareholders and corporate advisers** such as our bankers, brokers and investor relations partners. They provide valuable insight gained through their involvement with a broad array of other businesses and commercial situations.

Internal resources

During the past year, the economic conditions have resulted in us reducing our average headcount by 8%. Despite this we have increased our investment in training and development of **employees** since this is critical to our medium- and long-term success. In 2010, we are launching a new programme aimed at technical staff. Halma is also committed to maintaining a strong health and safety record within its business under the guidance of the local company management teams.

In general our manufacturing is relatively light and not capital intensive. We do have some **fixed assets** which are critical to our businesses (for example, thin film coaters in Photonics). The average direct labour content of our products is less than 5% of the selling price. This allows us to locate operations close to our customers rather than be driven to position them in the lowest cost region. Decisions to establish manufacturing facilities in low cost regions are made because we see local sales opportunities.

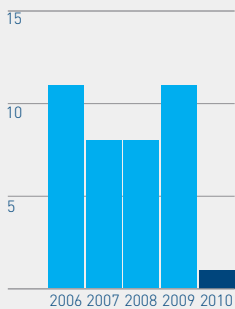
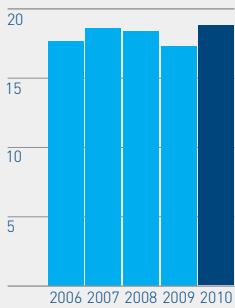
Our **technical** resources include our people, patents and specialist application know-how. Often our competitive advantage is built on knowing how to reliably apply a proven technology in very specific situations whilst meeting stringent regulatory requirements. We invest at least 4% of revenue in R&D and this, together with acquisitions, continues to refresh and strengthen our intellectual assets. We encourage our companies to collaborate on technical issues through our various training programmes and the HITE event held in May 2009.

We have sufficient **financial** resources to meet our organic and acquisition growth objectives. We operate with a strong system of financial control and audit the value and location of our cash on a weekly basis. Due to our high returns, we encourage our companies to make capital investments in accordance with a strict but speedy approvals process.

Halma companies are typically the leader (in the top five) in their specialised markets and therefore each has a strong product **brand**. These brands are synonymous with high quality products and service levels and in some cases are used as the generic industry term for a particular product type.

Our Key Performance Indicators

We continue to maintain a clear focus on achieving organic growth, maintaining high returns, investing in new products and generating cash.

		Definition	Performance	Target
Organic Revenue Growth¹ % 2010 0.5% Target >5%		Organic revenue growth measures the change in revenue achieved in the current year compared with the prior year from continuing Group operations. The effect of acquisitions and disposals made during the current or prior financial period has been equalised.	Modest organic growth against the background of tough economic conditions. Over the last five years our average rate of organic growth has been 8% p.a.	The Board established a minimum organic growth target of 5% representing the blended long-term average growth rate of our markets.
Return on Sales¹ % 2010 18.8% Target >18%		Return on Sales is defined as adjusted profit before taxation ¹ from continuing operations expressed as a percentage of revenue from continuing operations.	High returns achieved representing a significant improvement in performance against the previous year.	From 2010 we aim to achieve a Return on Sales of at least 18% with the potential to exceed 20% as rates of revenue growth increase.
Organic Profit Growth¹ % 2010 9.0% Target >5%		Organic profit growth measures the change in profit achieved in the current year compared with the prior year from continuing Group operations. The effect of acquisitions and disposals made during the current or prior financial period has been equalised.	Strong organic profit growth achieved exceeding the target. This resulted from the planned increase in product margins, good control of overheads and the benefit of favourable currency movement (+4%). Over the last five years our average rate of organic growth has been 8% p.a.	The Board established a minimum organic growth target of 5% representing the blended long-term average growth rate of our markets.
ROTIC (Return on Total Invested Capital)¹ % 2010 13.6% Target >12%		Return on Total Invested Capital is defined as the post-tax return from continuing operations before amortisation of acquired intangibles as a percentage of adjusted shareholders' funds as detailed in note 3 to the Accounts.	High returns maintained in excess of our current Weighted Average Cost of Capital (WACC) of 8.5% (2009: 9.0%).	The target of 12% was set in 2005 when the Group's ROTIC was 12.1%; a range of 12% to 14% is considered representative of the Board's expectations over the long term.

¹ See Financial Highlights.

		Definition	Performance	Target												
<p>ROCE (Return on Capital Employed)¹ %</p> <p>2010 61.3%</p> <p>Target >45%</p>	<table border="1"> <caption>ROCE Data (2006-2010)</caption> <thead> <tr> <th>Year</th> <th>ROCE (%)</th> </tr> </thead> <tbody> <tr> <td>2006</td> <td>60</td> </tr> <tr> <td>2007</td> <td>62</td> </tr> <tr> <td>2008</td> <td>58</td> </tr> <tr> <td>2009</td> <td>50</td> </tr> <tr> <td>2010</td> <td>61.3</td> </tr> </tbody> </table>	Year	ROCE (%)	2006	60	2007	62	2008	58	2009	50	2010	61.3	<p>Return on Capital Employed is defined as the operating profit from continuing operations before amortisation of acquired intangibles as a percentage of capital employed as detailed in note 3 to the Accounts.</p>	<p>Very high returns above the target level achieved. The significant increase against the prior year was due to concerted efforts to improve profitability and reduce the operating capital base.</p>	<p>The target is set in order to ensure the efficient generation of cash at all levels to fund organic growth, closely targeted acquisitions and sustained dividend growth.</p>
Year	ROCE (%)															
2006	60															
2007	62															
2008	58															
2009	50															
2010	61.3															
<p>R&D as Percentage of Revenue %</p> <p>2010 4.7%</p> <p>Target >4%</p>	<table border="1"> <caption>R&D as Percentage of Revenue Data (2006-2010)</caption> <thead> <tr> <th>Year</th> <th>R&D %</th> </tr> </thead> <tbody> <tr> <td>2006</td> <td>4.1</td> </tr> <tr> <td>2007</td> <td>4.4</td> </tr> <tr> <td>2008</td> <td>4.8</td> </tr> <tr> <td>2009</td> <td>5.1</td> </tr> <tr> <td>2010</td> <td>4.7</td> </tr> </tbody> </table>	Year	R&D %	2006	4.1	2007	4.4	2008	4.8	2009	5.1	2010	4.7	<p>Total research and development expenditure in the financial year (regardless of whether or not it was capitalised) as a percentage of revenue from continuing operations.</p>	<p>Total spend in the year was £21m (2009: £23m) exceeding the 4% of revenue target. All three sectors exceeded the 4% target this year.</p>	<p>New products contribute strongly to achieving organic growth, maintaining high returns and building strong market positions. The 4% minimum investment target is appropriate to the mix of product life cycles and technologies within Halma.</p>
Year	R&D %															
2006	4.1															
2007	4.4															
2008	4.8															
2009	5.1															
2010	4.7															
<p>Operating Cash to Profit %</p> <p>2010 131%</p> <p>Target >100%</p>	<table border="1"> <caption>Operating Cash to Profit Data (2006-2010)</caption> <thead> <tr> <th>Year</th> <th>Operating Cash to Profit (%)</th> </tr> </thead> <tbody> <tr> <td>2006</td> <td>125</td> </tr> <tr> <td>2007</td> <td>110</td> </tr> <tr> <td>2008</td> <td>105</td> </tr> <tr> <td>2009</td> <td>110</td> </tr> <tr> <td>2010</td> <td>131</td> </tr> </tbody> </table>	Year	Operating Cash to Profit (%)	2006	125	2007	110	2008	105	2009	110	2010	131	<p>Cash generated from operations expressed as a percentage of adjusted profit from continuing operations¹.</p>	<p>Cash conversion of 131% was well above the target, an excellent performance across the Group. Cash generation continues to receive close attention at subsidiary company and Group level.</p>	<p>The goal of cash inflow exceeding 100% is a metric that has relevance at all levels of the organisation and aligns management action with the strategic goals of organic growth, acquisitions and progressive dividends.</p>
Year	Operating Cash to Profit (%)															
2006	125															
2007	110															
2008	105															
2009	110															
2010	131															

See page 44 for non-financial KPIs