

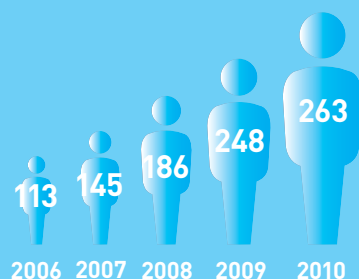
Strategy in Action**Organic Growth** Asian Business Expansion

Halma hubs accelerate Asian expansion

Past To stimulate international sales growth, particularly in Asia, we set up two Halma hubs in Shanghai and Beijing in 2006. These full-service business centres have provided a quick start platform for rapid market entry for our companies.

Future Our target is to increase revenue from outside Europe and the USA to 30% of the Group total by 2015. During 2010/11 we will invest in setting up a further three serviced business centres in China, expanding our geographic representation and providing a more responsive service for our Chinese customer base.

7%
of all Halma
employees
work in China



Revenue

+299%

Revenue from China has grown by 299% over the past 5 years

Key to map

-  Serviced business centre (hub)
-  Shared/hub manufacturing facility
-  Manufacturing facility
-  Planned new sales hub

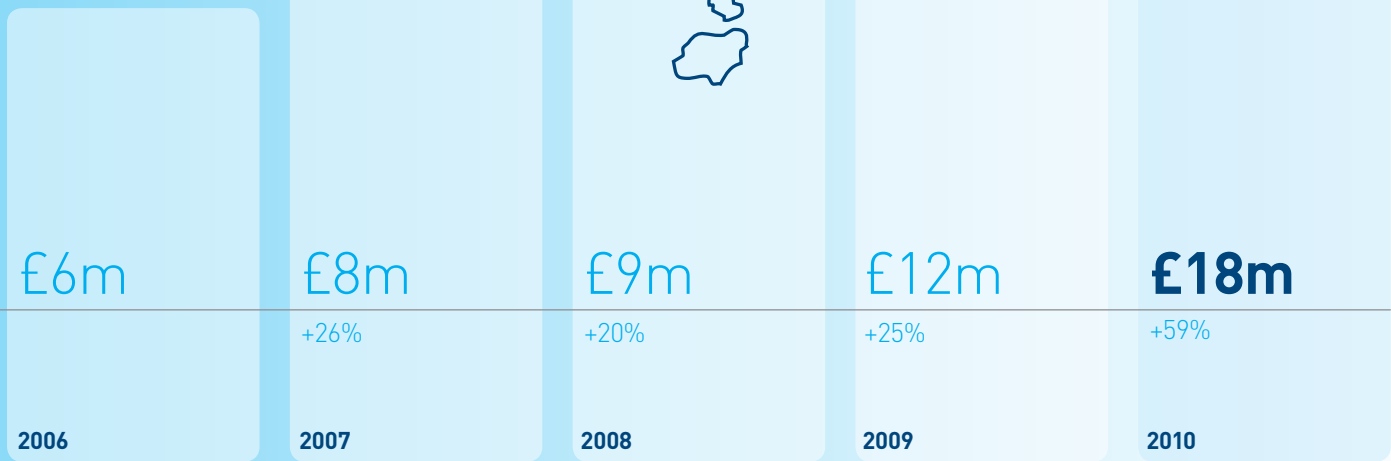
4
Number of Halma companies present in 2006

20
Number of Halma companies present in 2010

The hub offices in Beijing and Shanghai host seven to eight companies each in addition to stand-alone and manufacturing operations in China.











The Shanghai manufacturing hub opened in 2008 and is home to Halma companies in Fluid Technology, Safety Interlocks and Photonics.



Sector Reviews

Infrastructure Sensors

We make products which detect hazards to protect assets and people in public and commercial buildings. Infrastructure Sensors contributed 40% of total revenue (£183m) and 39% (£36m) of profit*.

Strategic summary	Achievements		Directions		
	<ul style="list-style-type: none"> – Organic profit growth of 9% – Organic revenue growth of 1% – 33% revenue growth in China – R&D expenditure 5% of revenue with new product launches in all sub-sectors – Key succession planning completed in Elevator Safety and Automatic Door Sensors – Consolidated security sensor businesses 		<ul style="list-style-type: none"> – Sustain organic growth – Increase resources and revenue in Asia, particularly Fire and Security – Increase revenue from the USA for Fire and Security – Maintain R&D investment at 5% of revenue – Continue diversification of Automatic Door Safety into industrial, security and transport markets – Bolt-on acquisitions 		
Market growth drivers	<ul style="list-style-type: none"> – Increasing urbanisation and ageing of population – Increasing health and safety regulation 				
Sub-sectors	Fire Detection	Security Sensors	Automatic Door Sensors	Elevator Safety	
Key products					
	Fire and smoke detectors and audible/visual warning devices. World's second largest manufacturer of point smoke detectors used in public and commercial property.	Security sensors and signals used in public and commercial property. Market leaders in the UK.	World leader in sensors used on automatic doors in public and commercial buildings.	World leader in elevator/lift door safety sensors. We also make emergency communication devices, displays and control panels for elevators.	
					
Where we operate	<ul style="list-style-type: none"> – Australia – Belgium – Canada – China 	<ul style="list-style-type: none"> – Czech Republic – France – Germany – Hong Kong 	<ul style="list-style-type: none"> – India – Ireland – Italy – Japan 	<ul style="list-style-type: none"> – New Zealand – Singapore – Spain 	<ul style="list-style-type: none"> – UAE – UK – USA

* See note 1 to the Accounts.

Sector KPI measurements

	Sector performance	Group target	✓/✗
Revenue growth ¹	(2%)	>5%	✗
Profit growth ¹	8%	>5%	✓
Return on Sales ²	19.4%	>18%	✓
ROCE ³	75%	>45%	✓
R&D/Revenue ⁴	4.9%	>4%	✓

¹ Sector revenue and adjusted⁵ sector profit before finance expense are compared to the equivalent prior year figure.

² Return on Sales is defined as adjusted⁵ profit before finance expense and taxation expressed as a percentage of sector revenue.

³ Adjusted⁵ sector profit before finance expense expressed as a percentage of sector operating net assets.

⁴ Sector research and development expenditure expressed as a percentage of sector revenue.

⁵ Adjusted to remove the amortisation of acquired intangible assets.

Market trends and growth drivers

The global **Fire Detection** and suppression market declined by around 3% during 2009, but it is expected to recover during 2010 due to stricter regulation and adoption of new technology¹. Changes to fire regulations worldwide continue to drive demand for our non-discretionary fire products. Sales of voice-enhanced alarms are set to grow following changes to the US National Fire Alarm Signalling Code covering emergency mass-notification systems². China's fire laws have been amended with harsher penalties for owners of buildings lacking adequate fire protection.

In many countries the **Security Sensors** sub-sector is highly regulated, and local or international technical product approvals are essential. After considerable costs and investment of R&D resources, we can now sell our UK-manufactured security control products in the USA and Canada backed by the required Underwriters' Laboratories approvals. The intruder detection market is primarily driven by residential systems installations, with demand dependent on new housing construction. A new line of wireless security sensors is targeted at commercial premises. This new technology will provide a platform for growth even if the residential market remains flat.

Legislation on the safety of people and processes continues to drive the market in both new and renovated facilities. We continue to forecast medium-term **Automatic Door Sensors** market growth at 3% to 4%. We have compensated for the fall in demand in the commercial construction sector due to the recession by winning business from new customers and diversification into industrial, security and transport markets. Our growth in Europe and China was ahead of market growth rates. The transport sector offers considerable growth prospects for door safety products.

The **Elevator Safety** market splits into modernisation of installed elevators and installations in new buildings. Western countries account for the majority of installed elevators while Asian economies, particularly China, dominate the new installations market³. During 2009/10 we saw large variations in regional demand. Last year we reported falling demand due to a decline in new building construction, particularly in China. During 2009/10 this trend reversed and China was our strongest market. Now the largest elevator market in the world, Chinese elevator output rose by about 5% on the previous year⁴ and sales in India rose too. In the USA, we saw a small benefit from US Government public housing spending, but we expect the US market to remain weak in the short term. Demand in Europe was patchy, but strong in the UK and Spain.

Sector strategy

Our primary strategy in the Infrastructure Sensors sector is world leadership in safety-critical sensor products for infrastructure monitoring in commercial buildings. We develop market-leading products that eliminate hazards and protect buildings and their occupants. These products satisfy the demand driven by increasingly strict public safety and building regulations in the highly regulated construction and building maintenance markets. Our fire, elevator and door controls are primarily targeted at commercial premises and security products are largely installed in apartments and houses. We aim to grow our presence in the commercial premises market for our security products.

¹ IMS Research; World Market for Fire Detection & Suppression Products 2010 Edition. Author Justin Siller; published Feb 2010, Table 5.3 page 220.

² NFPA-72-2010: National Fire Alarm and Signalling Code, US National Fire Protection Association.

³ Global Escalators & Elevators Market Report: 2009 Edition. http://www.researchandmarkets.com/reports/693893/global_escalators_and_elevators_market_report

⁴ China Elevator Industry Report, 2009, TD The Market Publishers Ltd.

Sector Reviews

Infrastructure Sensors

continued

To avoid competing with global customers that install complete building monitoring systems, we position our businesses as specialist suppliers of safety-critical components, not as complete system suppliers and installers.

Continued investment in international **Fire Detection** product approvals will give our fire businesses access to new geographic markets. We will continue to invest in innovative technology to maintain competitive advantage and premium margins. In addition to organic growth we will continue to seek acquisitions.

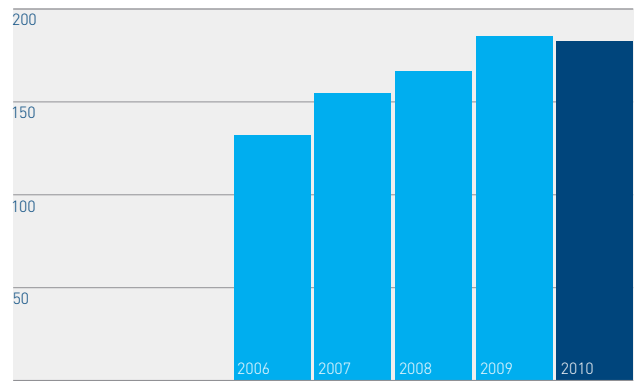
In **Security Sensors** our strategic focus is geographic expansion to reduce exposure to the UK market and an increase in the proportion of non-residential sales. We believe we can grow market share through market-leading technology and customer service. New advanced technology products were launched in the first quarter of 2010. These address the need for security detection in outdoor areas and wireless intruder detection systems, particularly in commercial premises. During the year we integrated our hazard signalling and security sensors businesses. This is expected to contribute to sales growth, reduce production costs and raise margins in the coming year.

While maintaining our leadership of **Automatic Door Sensors** for pedestrian doors, we will continue to increase sales penetration in the industrial door, security and transportation markets. We will continue to implement lean manufacturing and improved logistic systems to enhance customer service. Following the successful launch of a unique laser-based door sensor into the industrial market, we will extend this technology platform into other markets.

Elevator Safety strategy differs from other Halma sub-sectors in the extent of co-ordination between our companies and active elimination of duplicated sales and marketing activity. Each of our three elevator businesses sells the products of its sister businesses within regional markets. We will continue this overall strategy.

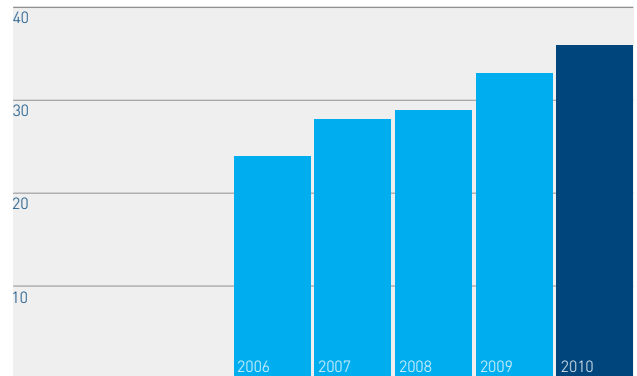
Revenue £m

£183m
(2%)



Profit* £m

£36m
+8%



* See note 1 to the Accounts.

Sector performance

2009/10 was a good year overall for our **Fire Detection** sub-sector with profit growth due to careful cost management. Despite challenging market conditions due to weakness in the home, retail and commercial construction markets globally, we grew market share strongly in the UK and made significant gains in Europe. We continue to innovate and launch exciting new products that will underwrite our success going forward.

As expected our **Security Sensors** business saw reduced revenue and profits due to the sale of its South African business in 2008/09. Despite continued market weakness, careful cost control ensured we delivered an improved Return on Sales.

We achieved a strong performance in **Automatic Door Sensors** with double-digit revenue and profit growth. During 2009 we won major orders in China for sensors fitted to the doors of high speed trains.

2009/10 was a mixed year for **Elevator Safety**; revenues were flat and profit slightly up. We started the year with our cost base reduced in line with expectations of tough market conditions. Demand was a little better than anticipated. We increased unit volume sales of elevator safety edges in China considerably. Innovative technology can drive sales even in a recession and a new elevator emergency telephone which complies with the latest European regulations generated encouraging sales in the first year.

Sector outlook

We anticipate a continuation of current demand trends for **Fire Detection** in the short to medium term. Many economies are gradually recovering from recession but new construction activity is expected to lag behind other economic sectors. Our businesses are positioned to gain market share due to technology leadership, our portfolio of worldwide product approvals and penetration of new regional markets.

We anticipate **Security Sensors** revenue growth based on extended sales channels and new technology even though end markets are expected to remain flat. Recently agreed partnership deals in Asia and Europe will add new opportunities for growth in regions where sales have previously been low. Our new wireless security sensors product line is expected to establish a market-leading position and contribute to growth in the coming year.

Increasing regulation continues to drive growth for **Automatic Door Sensors**. Our strategy of continuously updating our offering with innovative new technology, extending geographical sales resources and new market entry, should create a platform for continued growth despite the constraints of some markets which show few signs of recovery.

Global **Elevator Safety** product demand is forecast to rise by over 4% annually at least until 2013. China will account for nearly half of all new demand, while Western Europe remains the largest market for modernisation⁵. The expectation is for markets to remain flat outside of Asia. In spite of unfavourable overall market conditions, continued growth of Asian economies, particularly China, will provide opportunities for our businesses. Further advances should come from winning market share and sales of range-extending products like emergency telephone equipment.

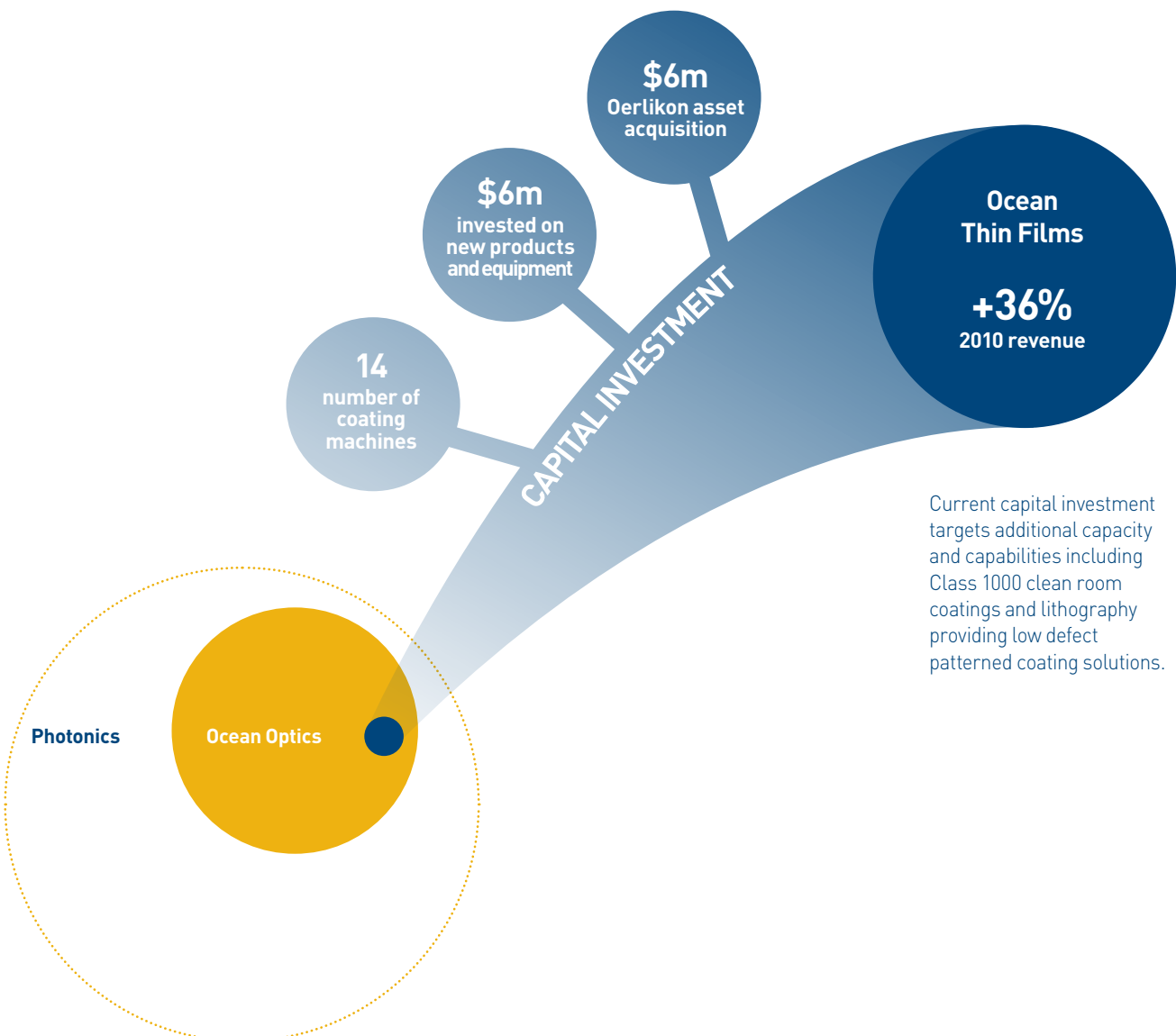
⁵ World Elevators to 2013 – Demand and Sales Forecasts, Market Share, Market Size, Market Leaders, Freedonia Group, 2009.

Strategy in Action

Organic Growth Capital Investment

Past Capital investment allowed Ocean Thin Films to be spun out of Ocean Optics Inc as a new trading unit in its own right.

Capital investment unlocks new growth potential



Future Investing in chip-on-board (COB) electronics (created in Belgium) in China to be used on infrared door sensors fitted to high speed trains.

Transferring technological expertise from our manufacturing centre in Liege, Belgium, to our factory in Beijing, China.

CAPITAL INVESTMENT



BEA Belgium
We developed in-house expertise and invested in state-of-the-art chip-on-board assembly systems because sub-contractors could not assemble our electronic circuit boards with sufficient accuracy.

BEA China
Benefits from this investment are local supply to the Chinese market, reduced costs, higher product reliability and better protection against reverse engineering.

BEIJING

Supplying door sensors to China's high speed rail network which will expand to **25,000km** of track by 2020.

Sector Reviews

Health and Analysis

We make products used to improve personal and public health. We develop technologies for analysis in safety, life sciences and environmental markets, including water. Health and Analysis contributed 38% (£176m) of total revenue and 39% (£35m) of profit*.

Strategic summary	Achievements		Directions		
	<ul style="list-style-type: none"> – Organic profit growth 21% – Organic revenue growth 3% – 71% revenue growth in China with local manufacturing established in Photonics and Fluid Technology – R&D expenditure 4.7% of revenue with new products launched in all sub-sectors – New dedicated Photonics Thin Film Coating business established – SphereOptics acquired in Photonics 		<ul style="list-style-type: none"> – Sustain high organic growth – Increase resources and revenue in Asia – Reduce Water business reliance on UK market – Maintain R&D investment at 5% of revenue – Improve collaboration – Complete SphereOptics integration – Acquisitions 		
Market growth drivers	<ul style="list-style-type: none"> – Increasing health and safety regulation – Increasing demand for healthcare – Increasing demand for energy and water – Increasing urbanisation and ageing of population 				
Sub-sectors	Water	Photonics	Health Optics	Fluid Technology	
Key products					
	World leader in products to detect leaks in water pipes; among the world leaders in UV technology for disinfecting water; and water quality test kits.	Market leading opto-electronic technology for scientific, medical, environmental and other applications.	Devices used to assess eye health, diagnose disease, assist with eye surgery and for general medical applications.	Critical components such as pumps, probes, valves, connectors and gas conditioning products used by scientific, environmental and medical diagnostic OEMs for demanding applications.	
					
Where we operate	<ul style="list-style-type: none"> – Australia – China – France 	<ul style="list-style-type: none"> – Germany – India 	<ul style="list-style-type: none"> – Japan – Malaysia 	<ul style="list-style-type: none"> – Netherlands – Spain 	<ul style="list-style-type: none"> – UK – USA

* See note 1 to the Accounts.

Sector KPI measurements

	Sector performance	Group target	✓/✗
Revenue growth ¹	7%	>5%	✓
Profit growth ¹	23%	>5%	✓
Return on Sales ²	20.0%	>18%	✓
ROCE ³	64%	>45%	✓
R&D/Revenue ⁴	4.7%	>4%	✓

¹ Sector revenue and adjusted⁵ sector profit before finance expense are compared to the equivalent prior year figure.

² Return on sales is defined as adjusted⁵ profit before finance expense and taxation expressed as a percentage of sector revenue.

³ Adjusted⁵ sector profit before finance expense expressed as a percentage of sector operating net assets.

⁴ Sector research and development expenditure expressed as a percentage of sector revenue.

⁵ Adjusted to remove the amortisation of acquired intangible assets.

Market trends and growth drivers

As we reported last year, demand trends have varied considerably, both regionally and by end user application. Overall, demand trends within this sector are positive and improving with the prospect of continued revenue and profit growth.

A new five-year regulated investment cycle began in April 2010 and is expected to stimulate UK **Water** spending for the next three years. Market reforms allowing foreign companies to invest in China, and new legislative drivers, should create favourable conditions for water products sales growth.

Whilst we encountered difficult conditions for UV water treatment capital equipment sales in both municipal and industrial sectors, our consistent investment in independent test house validations has delivered significant competitive advantage in many markets where third party validations are increasingly demanded. To comply with 'Made in America' requirements for federally-funded stimulus projects we began UV system manufacture in the USA.

Short-term demand patterns in **Photonics** markets such as life sciences, medical, research, space, defence and homeland security were uneven. About two-thirds of photonics sales are in the USA where demand was more resilient than expected, boosted by government stimulus spending. Some niche sectors, such as defence and entertainment, softened but should return to growth next year. We saw continued growth in Asia. This is driven by rising R&D activity, western businesses setting up manufacturing plants, and expansion of the solid-state lighting industry.

The value of tenders for **Health Optics** in general medical markets fell in 2009/10. We anticipate reduced demand for medical equipment in developed economies to continue next year.

Demand in South East Asia should remain strong; China has one of the fastest annual growth rates for medical devices in the world of around 13%¹. Certification of medical products is becoming increasingly difficult and costly in all sales territories. This multiplies marketing and development costs; it also creates a strong barrier to market entry by new and smaller competitors.

Fluid Technology sales divide into two markets with different drivers, leading to different demand patterns. The medical diagnostic market continued its growth trajectory after some de-stocking early in the year. Against this positive background, price competition has increased. Despite this we remained competitive and achieved strong growth with no margin erosion. Scientific analysis instruments, our second fluid technology market, was more affected by the downturn but we maintained strong returns.

Sector strategy

Our Health and Analysis sector includes many businesses with leading-edge technology, in some cases world-leading. The strategic focus in this sector is to maintain technological leadership and expand our geographical sales channels. Maintaining prowess in advanced technologies requires continuous high R&D investment. Despite the higher development risks, rapid payback from technological innovation is common in this sector and novel products with unique user benefits targeted at fast-growing market niches command high premiums.

A key strategic direction for our Health and Analysis businesses is to develop sales beyond their strong positions of market leadership in the UK and the USA. Growth in developing regions, particularly in China and elsewhere in Asia, is a primary goal.

¹ "The Medical Device Market: China," Espicom Business Intelligence, July 2009.

Sector Reviews

Health and Analysis

continued

Our **Water** businesses make products for UV water treatment, leakage control and quality testing. We are global market leaders in leakage control instrumentation and are expanding into waste water instrumentation. We will stimulate growth in the legislation-driven Chinese market by investing in increasingly regionally based sales resources.

Continued investment in independent certification of our UV water treatment systems will differentiate our offering from non-validated competitors. In the industrial UV market we will target high volume, high value OEM applications.

Sustained spending on R&D will maintain technology leadership in our **Photonics** niches. We will build on our recently established manufacturing bases in China to extend our position there. During 2010/11 we aim to increase profit through sales growth. Resources will be focused on the more resilient niches and direct sales staff in export markets will be strengthened. Our search will continue for value-enhancing acquisitions that support or add to the existing technology base.

The key focus of our **Health Optics** growth strategy continues to be geographic expansion concentrating on Asia and South America. We will continue to expand our product offering by increased R&D investment. We have begun a collaborative R&D programme between two of our world-leading health optics businesses to develop a new family of products to be marketed jointly via existing sales channels.

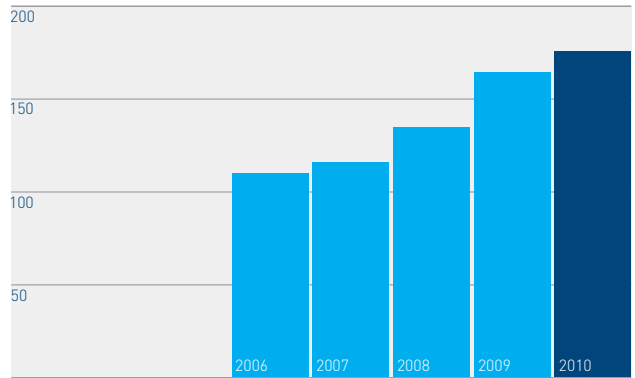
Start-up manufacturing of our **Fluid Technology** products in China led to entry into the Asian scientific instrumentation market. We will use this manufacturing platform to assist more of our businesses to penetrate markets in this region.

Revenue

£m

£176m

+7%

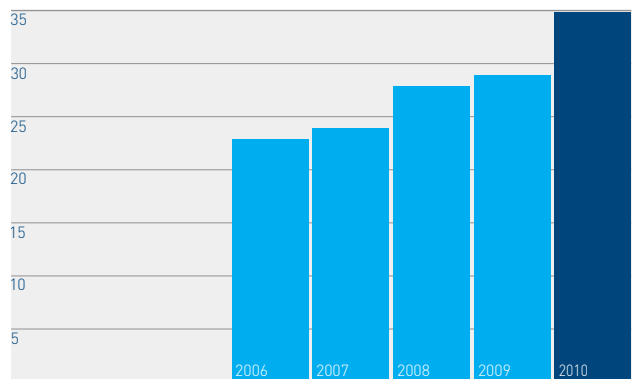


Profit*

£m

£35m

+23%



* See note 1 to the Accounts.

Sector performance

Our **Water** businesses increased profits. This increase was achieved, against an unfavourable economic background of weak UK demand, due to overhead cuts in early 2009 and margin improvements.

After successfully dealing with costly new product delays in the prior year end, our **Photonics** businesses improved their Return on Sales in 2009/10 and delivered record revenue and profit.

In **Health Optics** we again achieved record profit. Overhead reductions together with manufacturing efficiencies, strengthened margins and improved return on sales.

We achieved record revenue and profit in our **Fluid Technology** sub-sector. Overhead control protected and improved margins.

Sector outlook

We anticipate steady expansion of the global market for our **Water** products. Growth in this sector is driven by increasingly stringent regulation to upgrade water supply security, raise drinking water quality and tighten environmental discharge regulations. Rising UK demand for instrumentation is expected as UK water companies begin a new five year capital investment cycle. In the USA we expect to benefit from strengthening demand supported by federal economic stimulus spending and pressure from government regulation. Continued investment in R&D and people development should underpin a return to revenue growth in 2010/11.

We foresee strengthening of demand from some **Photonics** niches next year, with softening in others. We expect strong growth from the solid-state low energy lighting (LED) manufacture and test market. This is expected to grow by more than 24% annually until at least 2013². Rapidly growing Asian economies will remain primary growth targets and we will gain increasing benefit from our Chinese photonics manufacturing operations.

We expect continued growth of **Health Optics** revenue ahead of market rates. While demand in Europe and the USA is expected to be flat in the short term, we expect continuous growth both from market expansion in developing regions and new products. Continued strengthening of the US Dollar will make US exports more difficult but a weaker Euro against the US Dollar will make our German products more competitive. Revenue growth could be dampened by reduced government stimulus spending and healthcare spending cuts aimed at reducing sovereign debt.

During early 2009 demand across **Fluid Technology** markets was depressed by analytical instrumentation customers destocking component inventory. We anticipate both revenue growth and margin improvements in 2010/11 due to significant new product launches, strengthened sales resources, and manufacturing and market penetration in Asia.

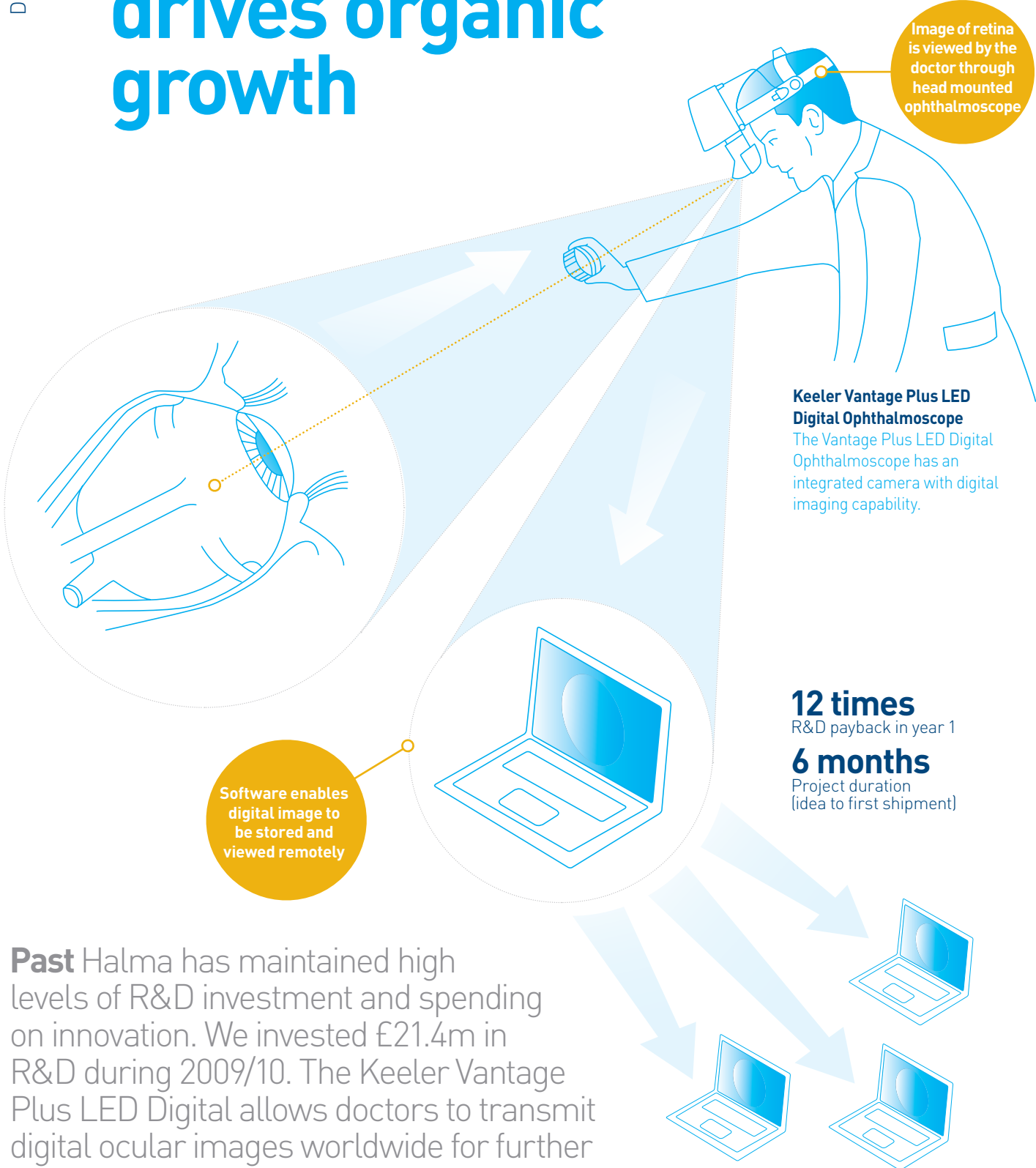
² 'LED market stumbles in 2009, but long-term outlook remains bullish,' www.ledsmagazine.com, Oct 2009.

Strategy in Action

Organic Growth through Innovation

Innovation drives organic growth

Image of retina is viewed by the doctor through head mounted ophthalmoscope



Keeler Vantage Plus LED Digital Ophthalmoscope

The Vantage Plus LED Digital Ophthalmoscope has an integrated camera with digital imaging capability.

12 times
R&D payback in year 1

6 months
Project duration
(idea to first shipment)

Past Halma has maintained high levels of R&D investment and spending on innovation. We invested £21.4m in R&D during 2009/10. The Keeler Vantage Plus LED Digital allows doctors to transmit digital ocular images worldwide for further expert analysis.

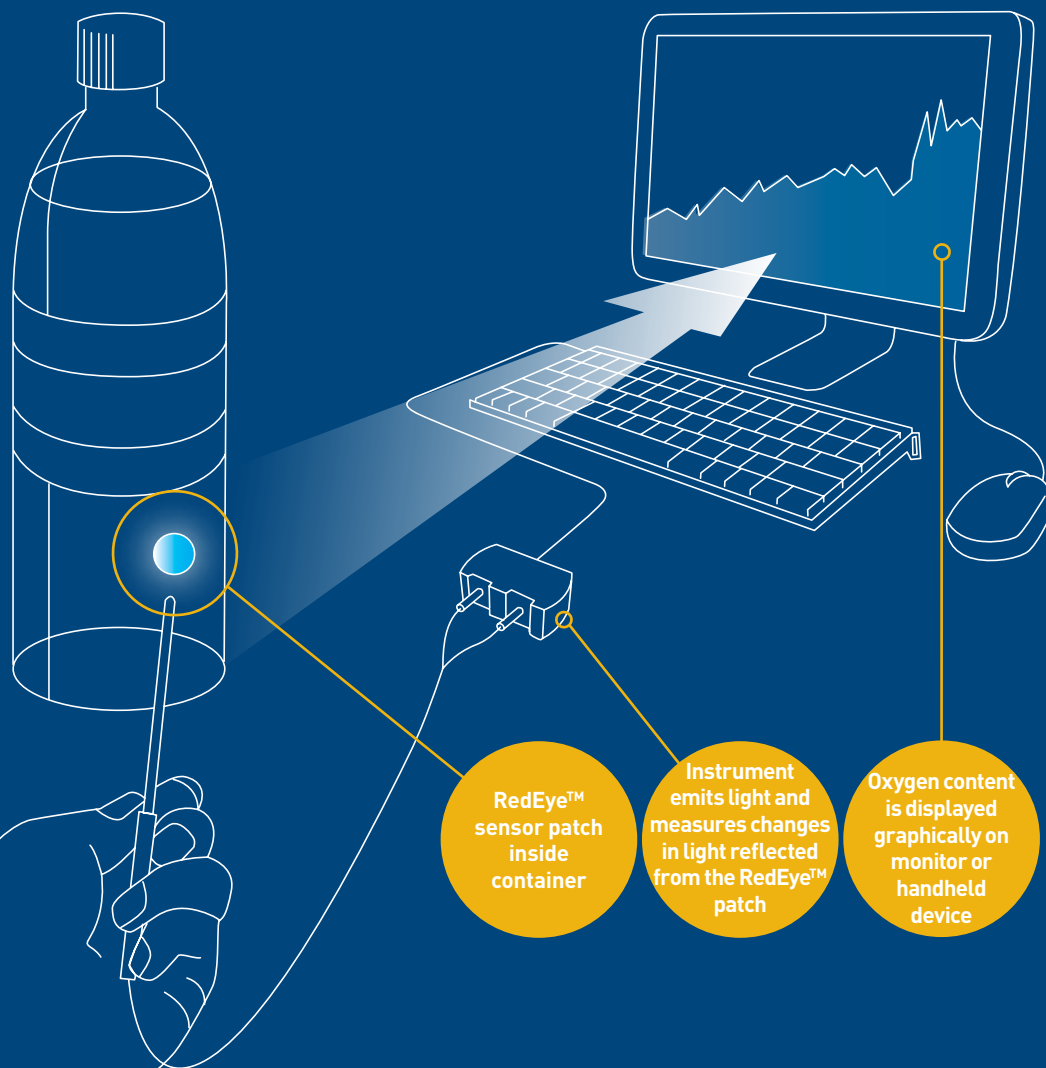
Future Ocean Optics' RedEye™ is a revolutionary patented, quality control product that lets manufacturers test whether their products remain sterile inside packaging. From outside of packaging or a closed container RedEye™ measures the amount of oxygen inside without breaking the seal.

World-leading technology

Accurate measurement of oxygen inside packages can be vitally important. In packaged medical and pharmaceutical products it can assure patient safety by confirming a sterile seal on surgical instruments and drugs.

Potential applications









- Surgical equipment
- Blood bag analysis
- Food and drink packaging
- Biological process control
- Drug packaging



Sector Reviews

Industrial Safety

We make products which protect assets and people at work. Industrial Safety contributed 22% of revenue (£100m) and 22% of profit* (£20m).

Strategic summary	Achievements		Directions		
	<ul style="list-style-type: none"> – Organic revenue and profit growth in second half of year – 152% revenue growth in China with local manufacture established for Safety Interlocks – R&D expenditure exceeded 4% of revenue for the first time with new products launched in all subsectors – Major reorganisation in Asset Monitoring including disposal of survey business – Consolidation of Safety Interlock businesses in France 		<ul style="list-style-type: none"> – Achieve organic revenue and profit growth – Grow revenue in Asia – Add selling resource in China – Maintain R&D investment above 4% of revenue and increase rate of new product introductions – Collaborate with other Halma companies to add new technology 		
Market growth drivers	<ul style="list-style-type: none"> – Increasing health and safety regulation – Increasing demand for energy and water 				
Sub-sectors	Gas Detection	Bursting Disks	Safety Interlocks	Asset Monitoring	
Key products					
	Portable instruments and fixed systems which detect flammable and hazardous gases.	'One time use' pressure relief devices to protect large vessels and pipework in process industries.	Specialised mechanical, electrical and electromechanical locks which ensure that critical processes operate safely.	Products for monitoring physical assets above ground and under water using sensors and communications technologies.	
					
Where we operate	<ul style="list-style-type: none"> – Australia – China – France 	<ul style="list-style-type: none"> – Germany – India 	<ul style="list-style-type: none"> – Netherlands – Saudi Arabia 	<ul style="list-style-type: none"> – Singapore – Tunisia 	<ul style="list-style-type: none"> – UK – USA

* See note 1 to the Accounts.

Sector KPI measurements

	Sector performance	Group target	✓/✗
Revenue growth ¹	(4%)	>5%	✗
Profit growth ¹	(11%)	>5%	✗
Return on Sales ²	19.7%	>18%	✓
ROCE ³	72%	>45%	✓
R&D/Revenue ⁴	4.1%	>4%	✓

¹ Sector revenue and adjusted⁵ sector profit before finance expense are compared to the equivalent prior year figure.

² Return on Sales is defined as adjusted⁵ profit before finance expense and taxation expressed as a percentage of sector revenue.

³ Adjusted⁵ sector profit before finance expense expressed as a percentage of sector operating net assets.

⁴ Sector research and development expenditure expressed as a percentage of sector revenue.

⁵ Adjusted to remove the amortisation of acquired intangible assets.

Market trends and growth drivers

The worldwide market for toxic and combustible **Gas Detection** is expected to grow by about 4% over the next five years. The Middle East and Asia are forecast to offer the fastest growth rates, due to high investment in the chemical, petrochemical, oil and gas, power and steel making sectors.¹ The market is forecast to switch emphasis from capital projects to upgrading existing equipment. Demand for gas detection products is continually reinforced by worldwide strengthening of health and safety legislation. Emerging economies are adopting Western gas safety standards and expanding the market size.

Bursting Disks are sold into industrial manufacturing markets driven by increasing regulation and rising expectations of health and safety. These markets were hard hit by the economic downturn in the first half of 2009/10 with factory shutdowns and reduced maintenance spending. The second half saw significant improvement in demand with the oil and gas and chemical processing sectors leading the recovery. Disk sales to Europe and the USA declined but Asia continued to grow, albeit slowly. Our product technology improvements have resulted in improving sales into OEM markets.

Although the long-term trend has been growth in demand for our **Safety Interlocks** products, many markets declined over the past year, particularly the manufacturing sector in Europe and the USA. We benefited from growth in less traditional markets, in particular from energy and raw material related industries, mostly driven by latent Chinese demand or higher oil prices. We will continue to benefit from the introduction of stricter health and safety regulations in the emerging Asian economies, while in the West the legal enforcement of safety laws provides resilience.

Growth in our **Asset Monitoring** businesses is driven by demand for capturing data relating to energy and water usage, and to the condition or location of high value infrastructure assets. Forecasts suggest that 2010 oil and gas spending will rise by 12%² followed by a substantial increase in the following three years³. Elsewhere, the introduction of increasing carbon reduction regulations, such as the CRC Energy Efficiency Scheme in the UK, will increase demand for remote monitoring of energy consumption.

¹ 'Toxic and Combustible Gas Detectors Worldwide Outlook.' ARC Advisory Group study, 2009. <http://www.automation.com/content/toxic-and-combustible-gas-detector-market-to-reach-823-million>.

² Spend With Caution: The Post-Recession Oil and Gas Industry, www.offshore-technology.com/features/feature81877/

³ The World Offshore Oil & Gas Production & Spend Forecast 2009-2013, Douglas Westwood Ltd.

Sector Reviews

Industrial Safety

continued

Sector strategy

Underpinning our strategy to grow **Gas Detection** is a programme to upgrade and extend our product range for wider applications and an extended geographic base, particularly in North America. We are extending our manufacturing and sales base in China to increase our share of this fast growing market.

Our **Bursting Disks** businesses are focusing on markets outside the traditional process industries, such as energy exploration and medical instrumentation. A new range of safety vents designed to mitigate the effect of explosions in industrial premises has been launched to satisfy growing demand driven by US legislation to prevent dust-induced explosions in bulk powder storage facilities.

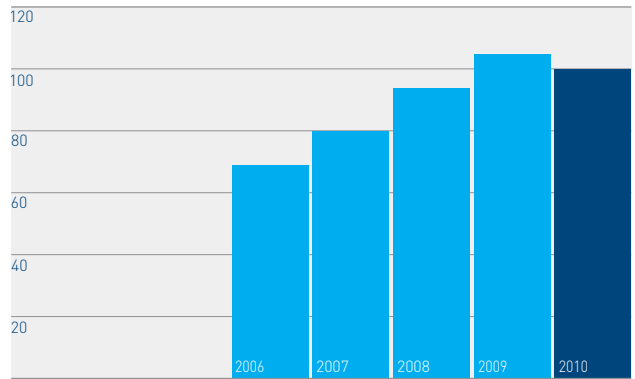
We have protected our strong global position in **Safety Interlocks** and begun to introduce products that expand our target markets. We continue to protect profitability by ensuring alignment of costs with sales potential.

Our **Asset Monitoring** companies are positioned to supply innovative technology that captures data from valuable or safety-critical assets and transmits this to the customer wherever they are in the world. This monitoring may be above ground, below ground or underwater. Applications include intelligent street lighting, energy management, automatic meter reading, underwater monitoring of oil and gas pipelines and platforms, vessel and harbour security and using remotely operated vehicles (ROV). We will continue to invest in new communications and data capture technology.

Revenue

£m

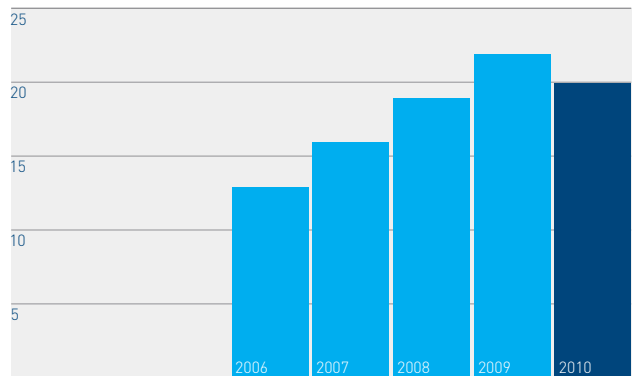
£100m
(4%)



Profit*

£m

£20m
(11%)



* See note 1 to the Accounts.

Sector performance

The global downturn had a significant effect on our **Gas Detection** business in the first half of 2009/10. Continued action on cost control, new product introductions and improved manufacturing performance aided a strong recovery in the second half. Full year profit was in line with the record level of the prior year.

Demand fell in all markets served by our **Bursting Disk** businesses during 2009/10. Investment in new production processes and products together with preparatory work to extend our global reach continued during the year and ensures that we are well placed to take advantage of the anticipated upturn in business activity forecast in our core markets.

Our **Safety Interlocks** businesses delivered only modest revenue growth and slightly lower profit but at good margins.

We saw a decline in **Asset Monitoring** revenue and profit. The decrease in crude oil price continued to adversely affect our subsea business through 2009 particularly in the North Sea. Most of the oil majors focused on cost reduction plans through 2009 rather than investment. During the year we completed a significant restructuring of our major Asset Monitoring business including the disposal of the assets of our subsea survey business.

Sector outlook

The outlook for **Gas Detection** is reasonably resilient. Supported by the strong underlying legislative growth drivers in the markets for industrial safety equipment, we anticipate continued growth based on our track record of out-performing the market through technological innovation and geographic sales expansion.

Demand trends for **Bursting Disks** are dependent on an upturn in industrial capital spending. Continuous strengthening of industrial safety legislation and rising expectations of safe working practices worldwide underpins medium- to long-term growth in this market.

We anticipate that the oil and gas sector will continue to offer strong growth prospects for our **Safety Interlock** companies. Demand for industrial safety products in the worldwide manufacturing sector is expected to be flat in the short term, but we expect increasing opportunities in China.

The markets in which our **Asset Monitoring** businesses operate have good long-term growth potential supported by a strategy of market diversification, such as offshore renewable energy projects. Continued investment in new product development is forecast to deliver market share gains in subsea and energy monitoring markets. Last year's cost reductions will enable a profit recovery during 2010/11 without a demand increase. We expect demand to pick up in the coming year driven by environmental legislation and a return to offshore oil and gas investment.

Strategy in Action

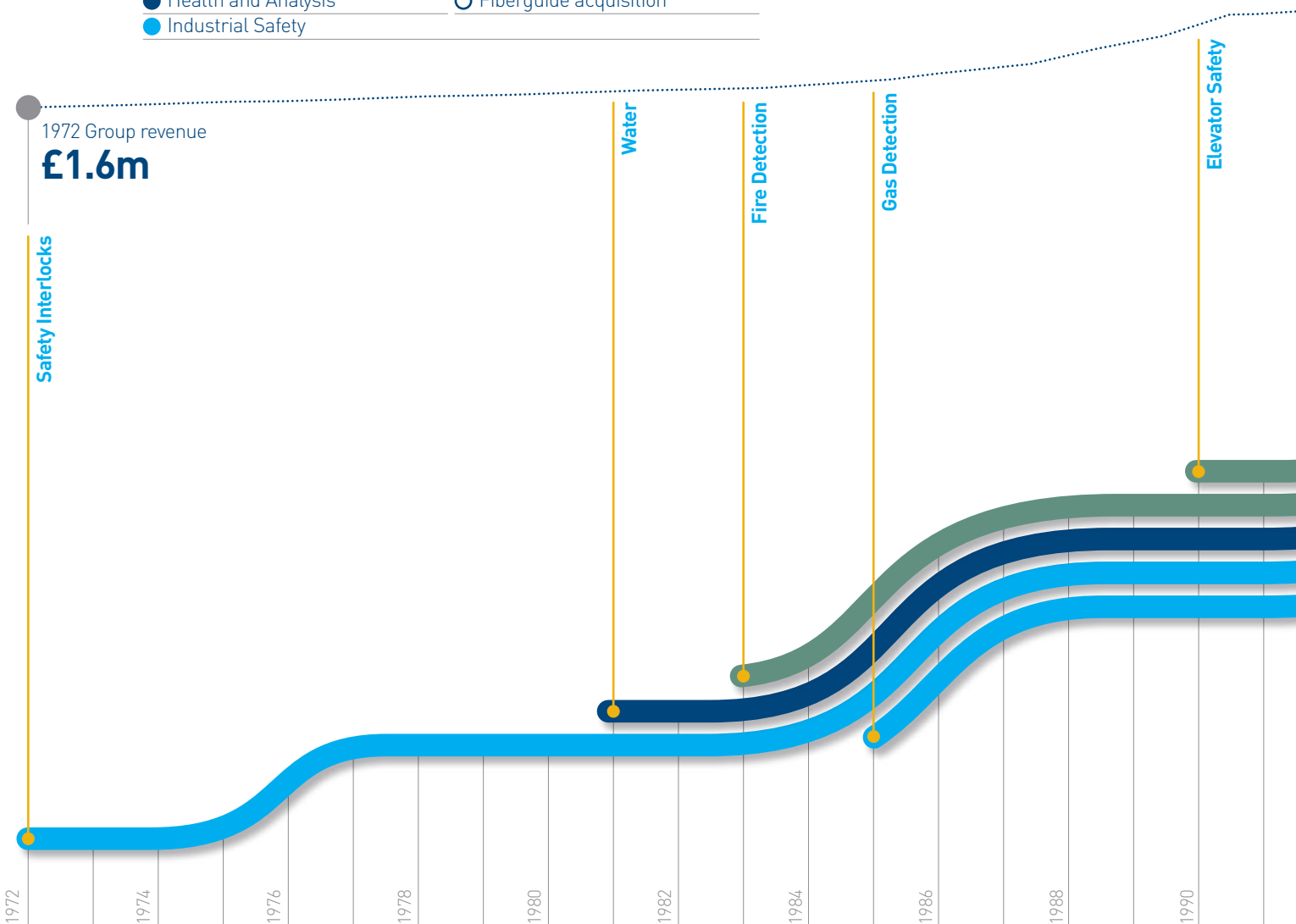
Growth Delivered through Acquisitions

Acquisitions sustain long-term growth

Complementing our organic growth, we have a strong track record of buying businesses that add real value and increase competitive advantage. Our proven resilience is primarily due to our geographic and technological diversity and derives from the long series of acquisitions that began in 1972 and continues today.

Key to acquisitions timeline

Sectors	Acquisitions
● Infrastructure Sensors	● First sub-sector acquisition
● Health and Analysis	○ Fiberguide acquisition
● Industrial Safety	



Adding value

Fiberguide Industries, Inc, a US fibre optic cables specialist, was acquired in 2008. We injected capital for new production equipment.

£8.2m
(initial consideration)
acquisition of
Fiberguide

Key benefits for Halma

- Value enhancing at acquisition
- Profit growth
- Strengthened presence in Photonics market
- Technology sharing

Key benefits for Fiberguide

- Strengthened management
- Manufacturing process improvement
- Production investment
- International sales

2010 Group revenue
£459m

