

# Financial Review

Our financial position remains strong and we have continued to invest actively in our business



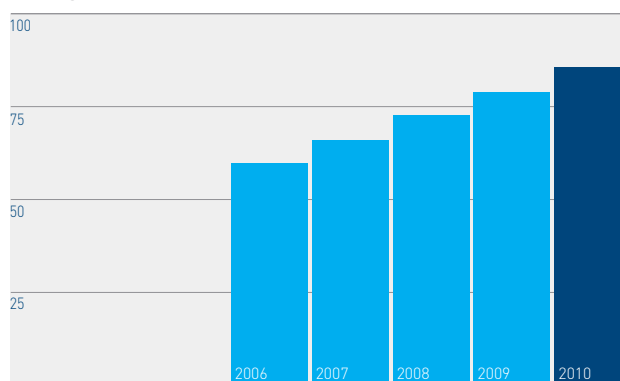
**Kevin Thompson** Finance Director

## Adjusted profit\* before tax

£m

**£86m**

+9%



## Record results

Halma achieved record revenue and profit with strong organic profit growth and excellent cash generation against the background of tough market conditions. Our financial position remains strong and we have continued to invest actively in our business. This is the seventh consecutive year of record results.

	2010 £m	2009 £m	Increase £m	Percentage change		
				Total	Organic growth**	Organic growth** at constant currency
Revenue	<b>459.1</b>	455.9	3.2	0.7%	0.5%	(3.0%)
Adjusted profit*	<b>86.2</b>	79.1	7.1	9.0%	9.0%	4.7%

\*\* Organic growth\* is calculated excluding the results of acquisitions and disposals.

Adjusted profit\* for the 53 weeks to 3 April 2010 increased by 9% to £86.2m (2009: £79.1m) exceeding our profit growth KPI. As shown on pages 6 and 7 the vast majority of our financial KPIs were above both last year and their targets. Exceptions to this were organic revenue growth and R&D as a percentage of revenue, which was slightly below last year but at the typically high levels of recent years.

We acted early to ensure that our cost base was appropriate to the market circumstances we were seeing. The results we achieved are after charging costs of reorganisation amounting to £2.7m in the year. This together with the £1.2m charged to profit in the previous year had the anticipated effect of reducing the run rate of overheads by more than £15m, and improving product margins by £5m, compared with the run rate in the second half of 2008/09. This high impact at low cost was possible because of the great flexibility within our businesses and the autonomy of operations, allowing quick action appropriate to local needs.

The second half profitability was much stronger than that of the first half which had been slightly below the prior year. 56% (2009: 51%) of the full year's adjusted profit\* was earned in the second half. Adjusted profit\* at £48.1m (2009: £40.1m) for the second half increased by 20%, due to good management of the cost base and higher product margins. All three sectors delivered an improved profit performance in the second half.

\* See Financial Highlights.

## Half-yearly growth by sector

	Revenue growth			Adjusted profit* growth		
	First half	Second half	Total	First half	Second half	Total
Infrastructure Sensors	(1%)	(2%)	<b>(2%)</b>	2%	13%	<b>8%</b>
Health and Analysis	9%	4%	<b>7%</b>	12%	33%	<b>23%</b>
Industrial Safety	(11%)	3%	<b>(4%)</b>	(29%)	10%	<b>(11%)</b>
Group	–	1%	<b>1%</b>	(2%)	20%	<b>9%</b>

Health and Analysis increased its share of full year revenue to 38% (2009: 36%) although Infrastructure Sensors remains the largest sector at 40% (2009: 41%) of the total.

## Growth in Mainland Europe, USA and China

	Revenue		Change £m	% growth
	2010 £m	2009 £m		
Mainland Europe	<b>135.7</b>	132.5	3.2	2%
United States of America	<b>127.2</b>	120.7	6.5	5%
United Kingdom	<b>98.3</b>	104.4	(6.1)	(6%)
Asia Pacific and Australasia	<b>59.1</b>	54.1	5.0	9%
Other Countries	<b>38.8</b>	44.2	(5.4)	(12%)
	<b>459.1</b>	455.9	3.2	1%

We have a balanced regional footprint. We achieved revenue growth in Mainland Europe, the largest sales destination at 30% of the total, with the USA close behind at 28% of the total. All three sectors grew in Mainland Europe. In the USA, Health and Analysis grew by 11% whilst there was a small decline there in the other two sectors.

Our businesses are relentlessly pursuing revenue growth across the world. By contrast it has been tougher to get growth in the UK in recent years and this year all three sectors made lower sales to the UK than in the prior year. UK revenue was 6% down after a 4% decrease last year and the UK now represents 21% of total revenue compared with 27% of revenue in 2005. Over this period UK sales have grown by 22% compared with 53% growth in total Group revenue. Despite the reduced significance of the UK for the Group overall we continue to generate significant UK revenue in Fire Detection, Gas Detection, Security Sensors and Safety Interlocks.

Revenue to the rest of world (outside Mainland Europe, USA and UK) totalled £98m and was level with last year. There was a 5% underlying growth in the rest of world after adjusting for two small disposals made last year. We are actively targeting growth in these territories and aim to grow the 21% of Group revenue to 30% over the next five years. Revenue to China grew by an impressive 59% to £18m as a result of our increased investment over the past four years. We have momentum in China across many of our businesses, in particular those in Health and Analysis.

## Currency less volatile

Halma reports its results in Sterling. The most important other trading currencies are the US Dollar and Euro. These currencies have shown less volatility this year compared with last year. Approximately 30% of Group revenue is denominated in US Dollars and 20% in Euros. Currency translation of results resulted in a 3.5% increase to reported revenues and a 4.3% increase in adjusted profit\*. Translational currency exposures are not hedged.

	Weighted average rates used in Income Statement		Year end exchange rates used to translate Balance Sheet	
	2010	2009	2010	2009
US Dollar	<b>1.60</b>	1.72	<b>1.53</b>	1.43
Euro	<b>1.13</b>	1.20	<b>1.13</b>	1.08

Based on the current mix of currency denominated revenue and profit a 1% movement in the US Dollar relative to Sterling changes revenue by £1.5m and profit by £0.3m. Similarly, a 1% movement in the Euro changes revenue by £0.8m and profit by £0.2m. If current spot rates were maintained throughout the next year there may be a small positive impact from currency translation in 2010/11.

We both purchase and sell significant amounts of product priced in US Dollars so the net impact of this currency on our trading is relatively limited – there is a good degree of natural hedging. We purchase fewer products in Euros than we sell in Euros and so have a net exposure of approximately Euro 40m in a typical year. This year we introduced a new hedging strategy, fixing currency rates up to 12 months forward for approximately 50% of our trading transactions. This gives our businesses greater certainty in their overseas trading.

# Financial Review

## continued

### High and increased margins

Return on Sales increased to the high level of 18.8% (2009: 17.3%) after two years of decline. In the past we have targeted a Return on Sales in the 16% to 20% range and have operated above 16% for each of the past 25 years. In the future we intend to operate at 18% to 20% or above, recognising the need to balance very high returns with investment for the future. Return on Sales is an important metric for the Group reflecting our high rate of profitability and the significant value our customers place on our products.

Return on Sales is calculated after charging the reorganisation costs noted above. The increase over last year is due to a more than 1% improvement in product margins as well as the reduction in operating company overheads. Our three sectors currently have a similar Return on Sales (19% to 20%), which is a little above the Group figure due to the impact of central costs and interest on the Group calculation. Infrastructure Sensors and Health and Analysis both increased their Return on Sales strongly this year.

### Tax rates stable

The effective tax rate on profit before amortisation of acquired intangible assets was 26.5% (2009: 27.7%). This year on year reduction arose primarily due to the change in the mix of profits earned in different jurisdictions as well as some specific items such as the lower tax rate we currently enjoy in China due to our 'high technology' tax status. We expect the Group's effective rate to be a little lower in the year ahead.

The Group's approach to taxation is to minimise the tax burden where possible in a responsible manner, managing good relationships with tax authorities based on legal compliance, transparency and co-operation.

### Low net finance cost

The net finance cost in the Income Statement was less than last year at £2.9m (2009: £3.4m). Net bank interest expense was £1.8m lower at £0.8m due to lower rates of interest and reduced borrowing. As expected the net pension finance charge was £1.2m above the prior year due to the lower pension plan asset values at the start of 2009/10 compared with the prior year.

Looking ahead we expect the net pension finance cost to be lower in 2010/11 with plan asset values having recovered somewhat, offset by a higher interest cost on scheme liabilities. Bank interest expense will depend on our success in putting cash to work in making good quality acquisitions and of course the absolute level of borrowing rates.

### Growth in earnings per share, dividend and record market capitalisation

Adjusted earnings per share\* increased by 10% to 16.9p (2009: 15.3p) driven primarily by the increase in the adjusted profit\* and the reduction in the tax rate, offset by a higher number of shares in issue. Statutory earnings per share was up 14% to 16.1p (2009: 14.07p) due to the amortisation of acquired intangibles being lower this year than last.

Halma has a progressive dividend policy. The recommended final dividend of 5.19p gives a total dividend up 7.2% to 8.50p (2009: 7.93p). At the year end share price this rate of full year dividend represents a dividend yield of 3.3%. With this 8.6% increase in the final dividend we will have increased our full year dividend by 5% or more for every one of the last 31 years paying out over £320m in dividends over that period.

Dividend cover (the ratio of profit after taxation to dividends paid and proposed) calculated on adjusted\* profit is now 1.98 times (2009: 1.92 times) which meets our objective of around 2 times cover.

Shortly after the 2009/10 year end Halma's market capitalisation exceeded £1bn for the first time. This is over 50 times its market capitalisation 30 years ago and, together with our dividend growth record, reflects the value created for shareholders over the long term.

### Higher and increased returns

Return on Total Invested Capital (ROTIC), the post-tax return on all the Group's assets including all historic goodwill, increased to 13.6% (2009: 13.1%). It takes a good performance to increase the ROTIC measure as to do so requires delivering a return not only on the previous year's total assets, but also on additions to those assets made during the current year. Halma's ROTIC compares favourably to a long-term Weighted Average Cost of Capital (WACC) calculated as currently being 8.5% (2009: 9.0%). The excess above WACC is an indicator of shareholder value creation.

Efficient use of operating assets is a key part of our business model. We aim to operate with just enough net assets to satisfy our customer needs. Return on Capital Employed (ROCE) measures this operating effectiveness and this year increased significantly to 61.3% (2009: 47.7%). The increases came from the growth in profits but more significantly from the excellent management of working capital across the Group.

The detailed calculation of these ratios is given in note 3 to the Accounts.

\* See Financial Highlights.

## Excellent cash generation

Cash generation was extremely strong this year which is a great credit to the work of our operating company teams. Cash generated from operations, excluding taxation paid was £112.7m (2009: £86.4m) and this represents 131% (2009: 109%) of adjusted profit\*. A summary of the year's cash flow is as follows:

Cash flow	2010 £m	2009 £m
Operating cash flow before movement in working capital	99.6	91.8
Decrease/(increase) in working capital	13.1	(5.4)
Cash generated from operations	112.7	86.4
Acquisition of businesses	(1.7)	(12.4)
Disposal of businesses	0.5	2.9
Development costs capitalised	(3.1)	(3.8)
Net capital expenditure	(10.2)	(15.2)
Dividends paid	(30.4)	(28.8)
Taxation paid	(12.3)	(20.5)
Issue of shares/treasury shares purchased	0.8	(0.2)
Net interest paid	(0.9)	(2.7)
Exchange adjustments	4.9	(12.6)
	60.3	(6.9)
Net debt brought forward	(51.2)	(44.3)
Net cash/(debt) carried forward	9.1	(51.2)

Our businesses managed their operating requirements very tightly and were able to generate £13.1m of cash out of working capital. The risk in outstanding trade debts continues to be closely managed at operating company level, closest to our customers which is especially beneficial in times of economic uncertainty. Consequently our record is very good in this area and we also benefit from the risk being spread across many customers.

Taxation paid was relatively low. More tax was paid in advance in 2008/09 than was required given a lower level of profit in the final quarter of that year than expected and a UK tax deduction was obtained for currency movements on our currency denominated borrowings which is not expected to reverse. We expect the tax payments in 2010/11 to follow a more typical pattern with an amount closer to the taxation charge in the Income Statement.

## Strong capital structure

We are highly cash generative, currently holding net cash and with substantial bank facilities available. Our strong balance sheet and retained earnings are used to sustain and develop our businesses. We have access to borrowings at short notice and at competitive rates and are comfortable with a modest level of debt to accelerate the Group's progress. Group treasury policy is conservative and no speculative transactions are allowed. This policy utilises highly rated banks, spreads risks and aims to ensure good liquidity for the Group.

Our five-year £165m syndicated revolving credit facility runs to February 2013 on attractive terms and with a well established core group of banks. The Group continues to operate well within its banking covenants with ample headroom on its facilities.

We ended the year with £9.1m of net cash having come into the year with £51.2m net debt. The net cash figure is a combination of £22m debt and £31m cash. As a decentralised international Group we fund our businesses according to local needs and therefore some cash is held around the world to meet local requirements. We have an active programme of cash repatriation to maintain efficiency in our cash and debt management. The outstanding debt is primarily held in US Dollars and Euros; being the currencies in which we have funded recent acquisitions. We control the amount of currency debt we hold since although it provides a hedge against currency assets it also makes the debt subject to currency fluctuations, which can impact on the headroom available on our borrowing facilities.

# Financial Review

## continued

### Acquisition and disposals

In the year we spent £1.7m on acquisitions including costs. We purchased SphereOptics, a US manufacturer of light measurement equipment in January 2010 and have integrated it with Labsphere, one of our existing Photonics businesses. There is potential deferred consideration of up to £2.3m (\$3.5m) payable to the vendors on achieving earnings growth objectives. At acquisition SphereOptics had revenue of £2.5m.

As required under IFRS we review the fair value of assets and liabilities on all acquisitions and determine the value of goodwill and intangible assets acquired. Intangible assets are amortised through the Income Statement. This year's charge to the Income Statement of £4.8m (2009: £6.3m) is lower than last year as certain intangible assets are now fully amortised.

We made two small disposals in the prior year for a total of £2.7m resulting in a small gain. Both businesses were in the 'Rest of World' region and so impact on the comparison of revenues year on year as noted above.

We are working hard to build our pipeline of good quality acquisitions and have significant resources available to be deployed.

### Investing in assets

Expenditure on property, plant and computer software in the year was £11.0m (2009: £16.8m), 2008/09 having been a particularly high year of expenditure. This year's figure represents 88% of depreciation, relatively low for Halma, and going forward we would expect something more like 100% to 120%.

Although we operate an 'asset light' model we encourage all our businesses to make the capital expenditure necessary to meet customer needs and drive future organic growth. With the Group's high ROCE we can earn a good return on well targeted capital investment.

### Meeting our pension obligation

On an IAS 19 basis the year end deficit on our defined benefit pension plans was £43.1m (2009: £42.6m) before the related deferred tax asset. Plan assets increased to £127.8m (2009: £89.8m) with a general recovery in equity values; 65% of plan assets are invested in equities. Plan liabilities increased to £170.9m (2009: £132.4m) due to lower discount rates pushing up the present value of liabilities and also due to slightly more prudent valuation assumptions, both in line with current market views.

The Group's defined benefit pension plans were closed to new members in 2003. The Board monitors pension strategy regularly and reviews it in detail at each pension fund valuation. The most recent triennial plan valuation has just been finalised and we are making extra contributions at the rate of approximately £6m per annum into the plans with the objective of eliminating the deficit, as measured on an IAS 19 basis, over a 10-year period.

### Investing in R&D and emerging markets

Expenditure on R&D this year at £21.4m (2009: £22.9m) represents 4.7% (2009: 5%) of revenue. Investing in new products and innovation is an important part of the Halma story and we have been careful to minimise cuts in R&D against the background of more significant overhead reductions elsewhere in the business. We have been increasing our rate of investment in R&D steadily in recent years, continually enhancing our technology base. We aim to maintain this rate at around 5% of revenue, ahead of our benchmark figure of 4% of revenue.

We are required under International Financial Reporting Standards (IFRS) to capitalise certain development expenditure and amortise it over an appropriate period, for us three years. R&D by its nature carries some risk and all R&D projects, particularly those requiring capitalisation, are subject to close scrutiny and a rigorous approval and review process. In 2010 we capitalised £3.1m (2009: £3.8m) and amortised £3.8m (2009: £2.9m). This results in an asset carried on the Consolidated Balance Sheet of £9.2m (2009: £10.2m).

We have invested in emerging markets and in China particularly over the past five years. We will continue with this investment and are in the process of expanding our regional coverage in China at a cost of £0.6m in 2010/11 and an ongoing annual cost of £1.1m. We expect a good payback on this investment through increased revenue in the region.

## **Risk management and going concern**

The main risks facing the Group and how we deal with them are reviewed on pages 40 and 41. Key operating risks are covered in the Strategic and Sector reviews.

Risks are spread across the Group via a number of independent operating units each with a high quality local team including a finance executive. There is extensive review of risks and operations at local and divisional level, close to the action, supplemented by the independent review of our Internal Audit function which incorporates Information Technology (IT) reviews. These IT reviews have been stepped up during the year. Higher on our agenda at the moment are Intellectual Property risks and the risk of bribery and corruption to ensure continued best practice as we do more in emerging markets.

Each week we collect and analyse revenue, orders and cash information for each operating company. We are making an increased investment in Group-wide systems to provide faster and more complete data to drive even better management action.

The tougher economic environment we have faced over the past 18 months has highlighted a number of risks which have had to be managed including supplier risks, potential bad debts and fraud, and the maintenance of an appropriate cost base. Each of these areas has received close scrutiny so that risks do not escalate and to ensure that opportunities are not missed. The Board considers all of these factors in carrying out its Going Concern review as described on page 53. Autonomy and accountability across the Group continues to be key to Halma's success, making risk management an integral part of our sustainable delivery of value to shareholders over the long term.

### **Kevin Thompson**

Finance Director

# Our Risk Factors

We recognise major risks and uncertainties facing us and take action to identify, manage and mitigate them

Description	Mitigation
<p><b>Operational Risk</b> We seek to continuously grow our profits, generating a high return for shareholders over the long term within a clear strategic framework. We view risk within the context of this objective as well as in absolute terms. In any business the inherent risks that are an integral component of business activities must be identified, managed and mitigated. We perceive our primary operational risks to emanate from remoteness of operation and the actions and quality of our employees.</p>	<p>Our key means of risk control is the choice of the markets in which we operate and the people and methods we use to exploit those market opportunities. Our choice is to operate in the safety products and health-related technology markets which we consider to be robust over the long term. We invest heavily in identifying, recruiting and training talented people who are able to manage the risks we face while delivering the excellent results we require. The depth of market knowledge we have built up within the Group, allows us to adequately evaluate and assess the risks we encounter throughout our operations. We do not place undue reliance on any one Group company nor does any one Group company rely heavily on one customer, supplier or transaction. We always seek to spread our risks. We have processes in place to ensure any major transactions are reviewed at the appropriate level, including at Board level if necessary. Another factor limiting risk is that our products are predominantly critical components or instruments which are warranted as fit for the purpose rather than systems or intangible products where satisfactory performance is contingent upon third parties.</p>
<p><b>Organic Growth, Supplier Risk and Competition</b> The Group faces competition in the form of pricing, service, reliability and substitution. We rely on high quality supply from our partners. These constitute an ongoing threat to our growth.</p>	<p>Our focus on investing in management development, innovation and international growth is a direct result of assessing these risks. We aim to manage the risk of timing and quality of component supply by dual sourcing and long standing working relationships. By empowering and resourcing local operations to respond to changing market needs, the potential adverse impact of downward price pressure and competition can be mitigated and growth maintained. We recognise the competitive threat coming from emerging economies and by operating within these economies, typically using local staff, we are better placed to make fast progress ourselves.</p>
<p><b>Research and Development</b> New products are critical to our organic growth and underpin our ability to earn high margins and high returns over the long term.</p>	<p>R&amp;D is of necessity a risky activity but by devolving control of product development into the autonomous operating businesses, we spread the risk and ensure that the resource is as close to the customer as possible. New product development 'best practice' is shared between Group companies and return on investment of past and future innovation projects is tracked monthly. Large R&amp;D projects, especially those which are capitalised, require Head Office approval.</p>
<p><b>Intangible Resources</b> Our businesses build competitive advantage and strengthen barriers to entry in many ways including patents, product approvals, technical innovation, product quality, customer service levels and branding. We look for these qualities in the businesses we seek to acquire. Protection of our intellectual property is important to our continued success.</p>	<p>The main intangible resources which deliver competitive advantage and which support our strategic objectives are: the patents and trademarks which protect our products; our employees, whose understanding of our technology, customers' needs and the dynamics of the markets we operate in, enable us to maintain leadership in many markets; and the enviable reputation enjoyed by our brands for superior product quality and market leading customer support. Whilst no single product or process is critical to the Group as a whole, all appropriate actions are taken to protect our intellectual property rights. With our development activity increasing in emerging economies we will often segregate the elements of a project to protect the know how.</p>
<p><b>Laws and Regulations</b> Group operations are subject to wide-ranging laws and regulations including business conduct, employment, environmental and health and safety legislation. There is also exposure to product litigation and contractual risk.</p>	<p>All Group companies have an employee handbook detailing employment practices, including the need to report any major legal or contractual risks. The Group's emphasis on excellent financial control, the deployment of high quality management resource and strong focus on quality control over products and processes in each operating business helps to protect us from product failure, litigation and contractual issues. Each operating company has a health and safety manager responsible for compliance and our performance in this area is excellent. Health and safety processes have been reviewed at each operating company this year. We carry comprehensive insurance against all standard categories of insurable risk. Contract review and approval processes mitigate exposure to contractual liability. Our well established policies on bribery and corruption are constantly being reviewed to ensure continued compliance with best practice.</p>

Description	Mitigation
<p><b>Information Technology/Business Interruption</b> Group and operational management depend on timely and reliable information from our software systems. We seek to ensure continuous availability and operation of those systems as disruption could delay or impact on decision making and service to our customers.</p>	<p>There is substantial redundancy and back up built into any Group wide systems. The spread of business offers good protection from individual events and disaster recovery plans are widespread. We have a small central resource available, Halma IT Services, to assist Group companies with any major IT needs and to ensure adequate IT security policies are set across the Group. We carry out regular IT audits across the Group. This year we have introduced processes to standardise our software systems and improve systems implementation by focusing on the pre-implementation phase.</p>
<p><b>Acquisitions</b> The identification and purchase of businesses which meet our demanding financial and growth criteria is an important part of our strategy for developing the Group, as is ensuring the new businesses are rapidly integrated into the Group.</p>	<p>We aim to pay sensible multiples for businesses whose technology and markets we know well. Divisional Chief Executives are responsible for finding and completing acquisitions in their business sectors subject to Board approval. We support them with central resources to search for opportunities and assist with implementation of a post-acquisition plan. Incentives are aligned to encourage acquisitions which are value-enhancing from day one.</p>
<p><b>Financial Irregularities and Increasing Span of Control</b> We recognise that the size and remoteness of some operations may not permit full segregation of duties and that Internal and External Audit procedures may not always identify a financial irregularity. This risk increases as we pursue our strategy of geographic expansion often into regions with different accounting bases and cultures.</p>	<p>The Group ensures that there is adequate local management and financial resource in each operational location and regularly reiterates to the subsidiary company officers their fiduciary responsibilities, ensuring they are adequately trained in financial matters whilst maintaining a culture of openness to promote disclosure. Group companies operate a common set of reporting procedures and accounting policies, disseminated via the Group intranet. This year our Internal Audit function increased the depth and scope of its audits.</p>
<p><b>Cash</b> For any business a key risk is that it will run out of cash or have inadequate access to cash. In addition, cash deposits need to be held in a secure form or location.</p>	<p>The strong cash flow generated by the Group provides financial flexibility. Cash needs are monitored regularly. In addition to short-term overdraft facilities the Group holds a five-year revolving credit facility, renewable in February 2013, which provides sufficient headroom for its needs. Cash deposits are monitored centrally and spread amongst a number of highly rated banks.</p>
<p><b>Treasury Risks</b> Foreign currency risk is the most significant treasury related risk for the Group. In times of increased volatility this can have a significant impact on performance. The Sterling value of overseas profit earned during the year is sensitive to the strength of Sterling, particularly against the US Dollar and the Euro. The Group is exposed to a lesser extent to other treasury risks such as interest rate risk and liquidity risk. These financial risks are discussed more fully in note 25 to the accounts.</p>	<p>The Group does not use complex derivative financial instruments and no speculative treasury transactions are undertaken. Currency profits are not hedged. Currency hedging must fit with the commercial needs of the business and this year we have introduced a new hedging strategy to manage Group exposures. This requires the hedging of a substantial proportion of expected future transactions up to 12 months ahead. Longer term currency trends can only be covered through a wide geographic spread of operations. We closely monitor performance against the financial covenants on our revolving credit facility and are operating well within these covenants.</p>
<p><b>Current Economic Conditions</b> In times of uncertain economic conditions businesses face additional or elevated levels of risk. These include market and customer risk, customer default, fraud, supply chain risk and liquidity risk.</p>	<p>We manage such risks primarily at local company level where they are best understood and where we are closest to the markets and our customers. The financial strength, availability of finance and diversity of the Group provides mitigation to much of this risk. We operate robust credit management at each operating company. Each business regularly undertakes a close examination of its cost structure to determine that it is appropriate to the current economic circumstances it faces and contingency plans are in place for potential future changes. High quality subsidiary boards provide close monitoring of operations whilst the Halma Executive Board identifies any wider trends which require action on a broader basis across the Group.</p>
<p><b>Pension Deficit</b> Monitoring the funding needs of the Group's pension plans is essential to funding our pension obligations effectively. Our UK defined benefit pension plans are closed to new members.</p>	<p>There is regular dialogue with pension fund trustees and pension strategy is a regular Halma Board agenda item. The Group's strong cash flows and access to adequate borrowing facilities mean that the pensions risk can be adequately managed. The Group has increased pension contributions with the overall objective of paying off the deficit in line with the Actuary's recommendations. We monitor and consider alternative means of reducing our pension risk in light of the best long-term interest for shareholders.</p>

**Strategy in Action**

**Organic Growth** Investing in People

# People development builds our competitive advantage

**Past** Recognising the vital role that our people play in delivering organic growth, our flagship training course, the Halma Executive Development Programme (HEDP), is designed to enhance the skills of the next generation of Managing Directors and Divisional Chief Executives. It has had a major influence on the careers of many senior managers since its launch in 2005. To develop the skills of our middle managers, we introduced the Halma Management Development Programme (HMDP) in 2007. We run the courses in the USA, Europe and Asia.

**So far...**



**152**  
executives have completed HEDP courses

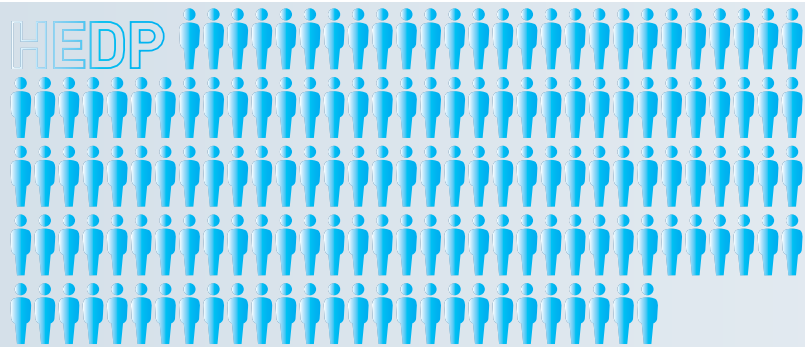
**HEDP**  
HEDP is a three-week residential course, which focuses on leadership skills and personal development.

**and...**



**277**  
managers have completed HMDDP courses

**HMDDP**  
HMDDP is a week-long residential course to help middle managers achieve more in their existing role and to advance through the organisation.



**Future** Our latest training initiative, the Halma Certificate in Applied Technology (HCAT), launched in 2010. HCAT is developing talent which drives our technical and process innovation and thereby fuels organic growth.

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Accelerates  
new ideas  
to market

Improves  
return on  
innovation  
investment

Creates  
collaboration  
networks  
across the  
Group

**HCAT**

HCAT targets engineers at first level management or below. The one-year part time programme develops communication skills and broadens knowledge in areas such as strategy, finance and product marketing. It includes a module on project management and a series of visits to Halma companies to leverage existing knowledge as well as spark creative new ideas.