

Halma p.l.c. Results 2001 / 2002

Analysts Presentation

18th June 2002

This year has seen a pause in our tradition of delivering record profit each year. The scale of the short-term slowdown in the USA has exceeded the rate of growth achieved in Europe and elsewhere. The Group's results are therefore slightly below last year, as indicated in our April trading statement. We made profit before tax and goodwill amortisation of £48.3 million (2001:£49.7 million) on sales at the same level as last year.

Highlights include:-

- Sales held at last year's record level with profit only marginally down.
- US weaker but particularly strong sales in Europe.
- 41% return on capital employed – 55% excluding cash.
- Free cash flow, after funding capital expenditure, working capital and tax, of £33 million.
- Net margin on sales exceeds 17% for the tenth consecutive year.
- Total dividend for the year of 5.283p, a 15% increase.
- Record levels of R&D driving continuous innovation.

US business resulted in profits marginally down. In 2000/01 a strong performance in the USA produced peak profits. This peak was not equalled in 2001/02 although all previous records were exceeded. This was common to each of our sectors except water, indicating that our strategic direction remains satisfactory. It was a regional issue not a sectoral one. Our Elevator Electronics and Resistor sectors are based in the USA and suffered reduced profits. Other companies based in the USA and exports to the US from other countries also suffered. Profits outside the US grew.



The Group in total made profits before tax and goodwill amortisation of £48.3 million. Last year the equivalent profits were £49.7 million. Return on capital employed and return on sales remain at high levels. Cash flow continues to be strong. This is a well controlled group with businesses in good shape.



Despite a 20% growth in profits from our European companies and success in Europe from most sectors the reduction in



Savings in direct materials were achieved across the group, and this was reflected in a steady gross margin despite some selling price pressure. Productivity increased. Action to reduce overheads was taken progressively through the year and accelerated in the second half. Selective headcount reductions were made throughout the Group leaving headcount 9% lower at March 2002 than March 2001.

Reorganisation costs associated with these and other overhead charges were £1.5 million (all charged against operating profit). We are now running with a lower cost base, however wage inflation/insurance cost increases etc. offset this.

Our objective is sales growth. R&D expenditure was at record levels in the year, showing our commitment to innovation and focus on future opportunities.



We have grown sales consistently over the long term. This is an important element of the Group's progress. Sales grew in Europe, were flat in the UK and reduced in the USA. We retained our high return on sales at 18%.

However the pattern of long-term profit growth was interrupted in this year with profits marginally down.

There were two new accounting standards of note applicable in the year.

FRS 17 – Retirement Benefits applies for the first time this year but required disclosure only. When FRS 17 is implemented in full



in 2004 the effect on profit is not expected to be material. Under the relatively prudent assumptions of FRS 17, a deficit of £9M is shown net of tax on the Group's defined benefit pension schemes. To protect the Group against future volatility in pension costs, the defined benefit schemes will shortly be closed to new members and a defined contribution scheme established.

FRS 19 – Deferred Tax required full rather than partial provision for deferred tax. A deferred tax provision of £4m is now included in the balance sheet. Going forward, the Group effective tax rate should be a little above this year's rate.

High quality Accountants are resident in each operating subsidiary. The balance sheet is strong. No complex derivative financial instruments or complex tax arrangements are used. There is no off-balance sheet financing. We operate simple structures.

Intensive asset use

Exceptional returns

- return on capital 41%

- excluding cash 55%

Strong track record

Resources for acquisitions

Intensive management ensures good use of assets and provides future opportunities.

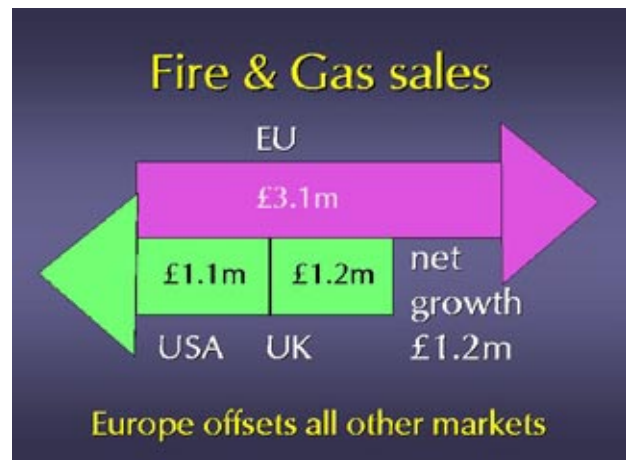
Return on capital employed (ROCE) is an excellent performance measure for the Group. It combines Profitability (return on sales) with Efficiency (asset turns). For the Group the figure is 41%, above 40% for the 19th consecutive year. The capital employed used in the calculation includes cash which earns a lower return. If the cash is stripped out the ROCE for this year is 55%, very close to last year's figure. We have ample resources for acquisitions.



Cash flow was once again strong. We finished the year with more than £30 million in net cash. Capital expenditure was high in the prior year due to some property refurbishment. There was a lot of activity but little expenditure on acquisitions in the year. The reduction in working capital included £5 million (13%) less stock due to actively reduced stock holding, reduced purchase prices and improved processes. Creditors followed this reduction – cheaper purchase prices and less purchased. Debtors are down on the same sales as the prior year. Overall risk was reduced.

Higher tax was paid as there are still accelerated payments under transitional rules in the UK. Also tax was paid in advance in the US on profits ultimately lower than expectations.

The strong cash flow finances a dividend 15% higher than last year, giving a total dividend of £19 million for the year.



The high level of free cash generation is the result of the action of Executives in our six operating sectors as they accommodate to and exploit changes in their markets.

An example of this is our Fire and Gas sectors. Sales to Europe were grown strongly and our market shares increased. Success in Europe outweighed the decline in the USA. Profits at £14.8 million equalled last year's record. This is just one of our highly profitable and cash generative sectors. The return on sales in this sector is 21% usefully above the average 18% return on sales achieved within the Group.



Within the Elevator Electronics sector we have been adding to our product range. Because of our strength in this sector we have outstanding access to the biggest and best customers in the world. However even our large market share was not enough to protect us from a small decline in profits.

Plainly the US is an advanced market for our elevator safety products and our largest territory. New York represents 20% of the national market. We did not see the favourable movement in commercial rental rates that we had expected and our customers experienced some difficulties. There was additional price pressure as some of our biggest customers acquired some of our smaller more profitable ones. It was an achievement to match the previous year's sales although profits reduced.

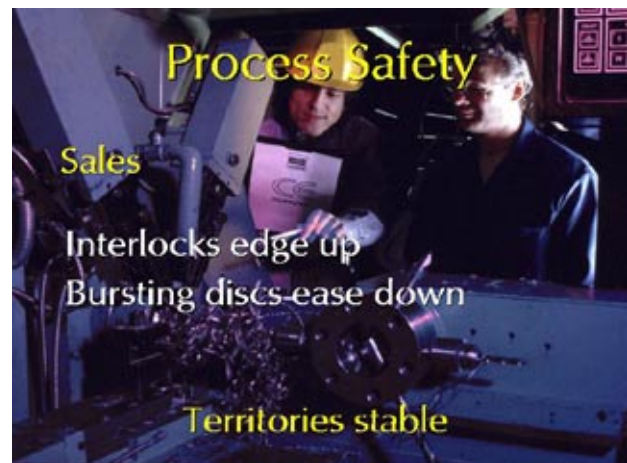
Resistors

US sales down
 US profits down £1.1m
 No high margin internet work
 Headcount now reduced

Tough conditions in all markets

The most difficult conditions in the USA were however experienced in our Resistors sector. The customer base is very wide spread and in 2000/01 we made significant sales within the telecoms and internet industries. This very profitable business was not repeated this year. This moved the return on sales down. At the same time railways, mining and other engineering customers reduced their purchases. Growth outside the USA was modest and too little to offset these effects. Operational managers responded to these circumstances and reduced costs, including cutting staff levels. The costs of carrying this out are included in the results but much of the benefits will accrue in 2002/03.

Our Process Safety sector also serves a very wide customer base. This is one of our sectors most strongly influenced by growing legislation for safety at work around the world. Sales by product and by territory were very consistent with last year. Although there were some changes in product mix towards slightly less profitable products,



sales were increased and profits remained at much the same levels as last year.

Optics

US Sales down £1.9m
 Other sales grow £0.4m
 Favourable mix
 Profits edge up to £9.6m

Good product & territory management

Successful cost and product management in our Optics and Specialist sector allowed profits to edge up on reduced sales. Business moved from the USA into other territories.

Our Water sector is the exception to the widespread reduction in US business. The US market for water sterilisation by ultra violet light is growing particularly in the municipal sector. Our niche within this market is in high performance closed systems. Sales grew by £3 million in the USA. However at the same time the semi-conductor market was at low levels. We make systems that provide ultra pure water that is used in the manufacture of silicon chips and sales of this product group were down substantially.

Water

US Sales up £3m

Market growing US municipal

UK semi conductor sales down
£1.7m

Profits marginally down

Growth opportunities

A number of the products made by the Group are used relatively late in the project cycle and this provides some advantages in difficult market periods. The markets we serve are however very diverse in both industry and territory. This provides significant flexibility. The US situation affected every sector, five adversely one favourably. Demand for safety products is more resilient than the industries that purchase them, particularly because of the legislative requirements.

This is one of the reasons for our strategic positioning into such markets. We are also able to make high returns. We continuously make a return on capital employed including all goodwill of at least twice our cost capital. We generate wealth all the time. We produce cash consistently and choose to distribute a part of this annually by means of growing dividends.

Management action

Overseas sales driven up

Costs controlled

Productivity increased

Ready for US upturn

- We made the same sales as last year but reduced headcount during the year by 9%. This is a useful productivity gain and helps control costs.
- By improved design and disciplined purchasing we have also made savings in our costs of materials. There was no reduction in our gross margins in the year despite some pricing pressure.
- Management responded to worsening US markets by increasing sales to other territories outside the UK. These now amount to a record 69% of sales.
- We are in a strong position to benefit as any recovery in the USA takes effect.
- We have net cash of over £30 million to fund acquisitions.
- These five factors will assist future operating results, particularly in the second half of 2002/03.

Outlook

On target to resume growth this year

Strong cash flow

Powerful niche market positions

Acquisition opportunities

In good shape

Our market shares are high and we have carefully chosen robust niche positions in the safety related markets we serve. We aim to return to our traditional pattern of increasing returns for shareholders. The Group is in good shape to benefit from any economic improvements.

CAUTIONARY NOTE. *The information contained in this summary is correct at 18th June 2002. This document may include forward-looking statements that are not factual. Such statements involve both known and unknown risks. The actual results of Halma p.l.c. may differ from results that are anticipated or implied by any forward-looking statements. The content of presentations, including any forward-looking statements, is not revised after publication.*