

Halma p.l.c. Preliminary Results 2004 / 2005

Summary of Analysts' Presentation, 21 June 2005

Andrew Williams, Group Chief Executive
Kevin Thompson, Group Finance Director

Andrew Williams, Halma's new Chief Executive explained that today's presentation would include a review of the results for 2004/05 together with a brief look at some elements of Halma's strategy for the future.

Kevin Thompson, Group Finance Director, summarised key elements of the Group results for 2004/5.

With a profit before tax¹ of £50.4 million (2004: £50.3 million) we exceeded last year's record result but only just, although it was achieved in 52 weeks rather than 53 weeks. We aim for greater improvement than this.

Record profit maintained

currency headwind
stainless steel and other costs
acquisitions going well

more to do

Some things went against us in the year. There was a definite currency headwind with the US dollars we earned worth 9% less in sterling than they were in 2003/04. Currency translation effects reduced turnover by £10 million

(4%) and profit¹ by £1.6 million (3%). Stainless steel prices increased markedly, costing a further £0.9 million – this is a raw material used across the Group but in particular in our Resistors sector. The relatively weak US dollar and high stainless steel costs continue.

Management changes and the rationalisation of products in our Water sector had a noticeable effect on our costs and hence on our profits, and the changes being made in our Resistors businesses are also likely to have a cost implication in 2005/06.

We made two good acquisitions early in the year – Ocean Optics and Diba Industries. Both are performing well and are a valuable part of the development of the Optics and Specialist sector. Ocean Optics achieved the first of its earn-out targets.

There was little profit¹ growth but there was some underlying sales growth.

Sales growth

£m growth	Sales	% change
Organic growth	13	5%
Acquired	17	6%
Currency	(10)	(4%)
Ongoing	20	7%
Disposals	(13)	(5%)
As published	7	2%

increasing the momentum

Excluding the disposals we made last year, ongoing sales were 7% up. At constant currency and taking out the turnover we acquired with the new businesses (i.e. the run rate at the time of acquisition) we see an underlying sales growth of 5% for the year. Over half that growth comes from businesses we have owned throughout the year. We can take some real encouragement from this but with the high costs noted above it did not produce profit growth in 2004/05.

We maintained good margins and returns.

Healthy margins and high returns

Return on sales	16.8%
RoCE	62.4%
RoTIC	13.1%

strong base

Return on Sales² was down a little at 16.8% - the performance of the Water and Resistors sectors were the main factors. The Group's Return on Capital Employed³ was a record 62.4% - we spent cash on acquisitions and accrued for the deferred consideration on Ocean Optics. At an operating company level the Return on Operating Assets remained high at 60%. These are valuable internal measures used by our managers.

This year we have also published a figure for ROTIC⁴ (Return on Total Invested Capital). This is a post-tax ratio and the 'invested capital' includes goodwill. Our ROTIC⁴ of 13.1% this year compares very favourably with the weighted

average cost of capital of 8% which has been calculated as applicable to us. Our ROTIC⁴ has been well in excess of our weighted average cost of capital over very many years, indicating the significant shareholder value created by Halma over the long term.

We continued our record of good cash flow.

Good cash flow

cash conversion 101%
net cash £12 million
dividend up 5%

currently ungeared

101% of operating profit before goodwill amortisation turned into cash, having paid for all capital expenditure. We squeezed a bit more out of working capital and ended the year with net cash of £12 million.

A final dividend is proposed 5% above last year, giving a full year dividend also 5% up. We aim to maintain a progressive dividend policy and get our dividend cover up over a period. We see it clearly as our job to get the earnings moving ahead to achieve this. We are currently ungeared so there is no financial restriction on our capacity to grow.

Recapping on International Financial Reporting Standards (IFRS) which apply for the first time in 2005/06, our preparations are going well.

Progress on IFRS

pension deficit on Balance Sheet
 low but rising option cost
 capitalising some R&D
 no issues on financial instruments

cash & fundamentals unchanged

We expect no material impact on trading results. The biggest Balance Sheet impact is in relation to pensions where the deficit on our pension schemes (currently £29 million net of tax) will be included in the Balance Sheet.

There will be a new charge against profit relating to share-based payments (currently in the form of share options) and this cost is likely to rise over time. We continue to spend 4% of sales on research and development and under IFRS expect to capitalise some of the cost, which will give rise to an asset on the Balance Sheet – but not a large one, although most R&D cost will continue to be expensed. New rules on financial instruments will have little impact on us.

Even though the presentation of the accounts will be a bit different, the new rules do not affect our cash flows, nor the underlying economics of our business. A full reconciliation of the IFRS impacts and our related accounting policies will be published at the end of August, ahead of the half year.

Andrew Williams, Halma's Chief Executive continued:

We can look at our performance in 2004/05 in two ways. Firstly we achieved

a number of record performances for example in sales, profits¹ and Return on Capital Employed³. We also made two excellent acquisitions and the majority of our sectors made steady progress during the year. However, as noted, the impact of raw material price rises, adverse currency movements and internal change costs meant we did less well than we had hoped.

Halma continues to increase its global strength by increasing sales of ongoing operations in all territories. Sales to the Far East increased by 13% to a new record. Sales to mainland Europe increased by 6% and to the US by 8%. The US is now the biggest market for Halma products.



During the year Halma maintained high returns in four of its six sectors. Indeed these four sectors delivered sales and profit growth in constant exchange rate terms including very solid performances from Fire & Gas, Process Safety and Elevator & Door Safety.



Our Fire business consolidated its position as a leading global manufacturer of smoke detectors. There was significant external M&A activity in this market due to the activities of large multi-nationals. However with this uncertainty comes opportunity. We continue to find and exploit these new opportunities.

In our Process Safety sector the roll out of some key new products was slower than anticipated, but this business delivered a very solid performance and generated excellent cash flow.

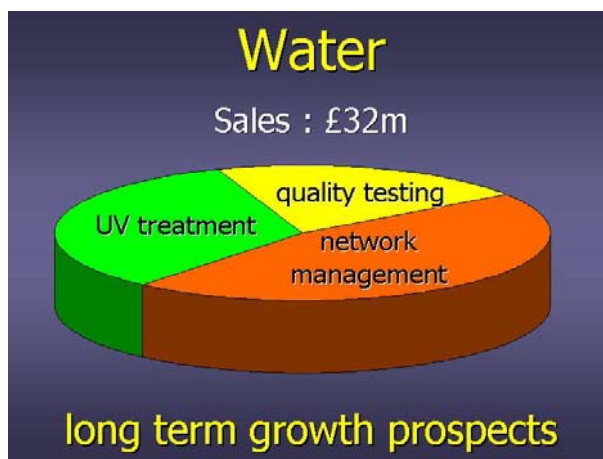
BEA, our automatic door sensor business, performed slightly better in the second half than anticipated at the half year. This underpinned the Elevator and Door Safety sector performance.

The big success story of the year was our Optics and Specialist business which achieved significant profit growth. Our Ophthalmic device and Fluid Technology businesses both performed strongly and grew sales and profits.

Our two acquisitions Ocean Optics and Diba Industries performed very well and exceeded our expectations this year. They are well positioned to continue making progress during 2005/06.

Water and Resistors experienced major profit decline during the year. In the short-term improving these businesses provides an opportunity to increase profits. This is one of the reasons why I'm looking ahead to the current year with cautious optimism.

Our Water business achieved sales of £32 million this year compared with £34 million last year but suffered a profit decline from £5.8 million last year to £2.6 million this year. The business consists of three sub sectors: water quality measurement, UV treatment and instruments for water network management.



We made good progress in our water quality measurement business. Our UV treatment businesses achieved some important US approvals in the early part of the year, since when they have been rebuilding their prospect bank.

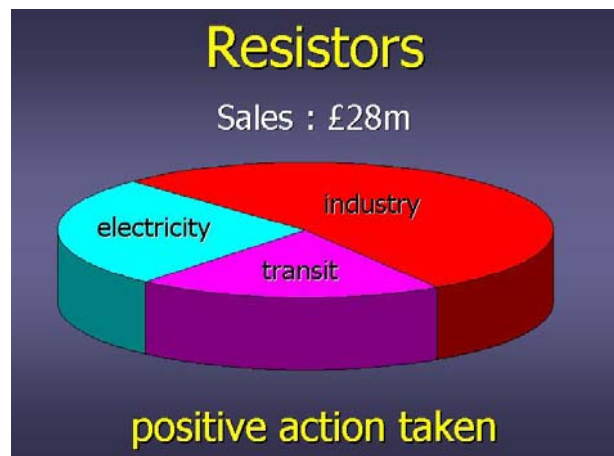
Our network management business includes instruments for leak detection and for monitoring flow, pressure and other parameters in the water network. This year there were a number of internal and external factors which reduced sales and, more significantly, profitability.

There was no repeat of the large leak detection order in Las Vegas this year. In the UK, the water companies' five year "AMP period" ended in March 2005 resulting in lower capital expenditure during the year. We experienced a shift in customer expenditure away from leak detection towards monitoring networks.

Whilst we had anticipated this shift, by making the acquisitions of Radcom and Wessex Electronics in recent years, the change has speeded up over the past year. Consequently we accelerated the rationalisation of our product range and product cost reduction programmes. Whilst we achieved a significant increase in market share, this was at lower margins than has been historically achieved when the focus was on leak detection. This combination of higher direct and indirect costs reduced profits.

Looking ahead I believe our Water business has a more positive future. In the UK, the new AMP period has started and we expect increased investment by UK water companies over the next couple of years. We will continue with our investment in the US market. I believe Water still offers us good long-term growth opportunities.

The Resistor business decline presents a slightly different story. Sales actually increased from £27 million to £28 million this year with profits declining from £2.2 million to £1.4 million. Whilst the business is profitable, increased raw material costs resulted in margins and return on capital employed reducing well below Group average levels.



There are three sub sectors to our Resistor businesses. We make products which are sold to the Electricity industry, for example to provide a conditioned supply to sensitive users such as data management centres. We sell products which enable manufacturing facilities to continue running whilst individual machine failures occur and are fixed. Finally, we sell into the Transit market, resistors which are used to dissipate high energy levels generated by, for example, engine braking. It is Transit where we have our major challenges.

Since the year end, actions are under way to renegotiate or exit certain long term transit contracts. There has been significant management change and, in April 2005, we consolidated two of our manufacturing businesses based near Cincinnati, Ohio. Our Resistor sector is being actively reviewed as part of my overall review of Group strategy.

I would like to outline the issues I believe are important for the future strategy of the Group as a whole. Our challenge is to increase the rate of growth in profit and shareholder return, whilst maintaining our quality of earnings.

I believe there are sufficient opportunities available to the Group either within our

existing sectors or closely adjacent to them. However, we need to tighten our focus on sectors which offer higher growth, for example by directing our M&A activity more specifically. We need to become more active in reviewing our portfolio and identify and make disposals at the right time.

Basic strategy sound

tighten sector focus
more M&A action
target resource allocation
improve capital structure
progressive dividend policy

more active implementation

Resource allocation remains a key challenge for the Group. It is clear that we can do more to build our businesses rather than focus too narrowly on perfecting what we already have. Operationally we must continue to find new ways to allocate resource towards profit creating activities such as R&D and sales. Our Divisional Chief Executives will allocate more time looking at the growth opportunities in areas closely adjacent to their current divisions. These will be exploited organically or via acquisition.

Together with Kevin Thompson I am reviewing our policy on capital and finance and I have an open mind as to options available to improve balance sheet efficiency. I wish to continue a progressive dividend policy. However this, together with generating sustained wealth creation requires us to deliver organic growth.

The Group's fundamental strategy is sound, we have some great businesses in good markets but need to prioritise our sector investment. We will meet the challenges of delivering growth, either organically or via acquisition with more energy and vigour. We have already made some progress towards these goals, and plan to make further headway in the coming year.

- 1 *Before goodwill amortisation of £5.5 million (2004: £4.2 million) and exceptional items on disposal of non-core businesses of £nil (2004: £9.1 million).*
- 2 *Return on Sales is defined as profit before taxation¹ expressed as a percentage of turnover.*
- 3 *Return on Capital Employed is defined as profit before taxation¹ expressed as a percentage of net tangible assets (being equity shareholders' funds less intangible assets).*
- 4 *Return on Total Invested Capital is defined as profit before goodwill amortisation and exceptional items and after taxation of £34.7 million (2004: £34.6 million), expressed as a percentage of net assets plus goodwill in reserves of £70.9 million (2004: £70.9 million) and cumulative goodwill amortisation of £18.7 million (2004: £13.2 million).*

CAUTIONARY NOTE. *The information contained in this summary is correct at 21 June 2005. 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.*