

# HALMA

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## Halma p.l.c. Preliminary results 2007 / 2008

Summary of analysts' presentation by:  
Andrew Williams, Chief Executive  
Kevin Thompson, Finance Director

17 June 2008

## “well positioned to make further progress this year”

**Andrew Williams started the presentation by highlighting the major elements of a good performance.**

Today we are announcing record revenue and profit for the fifth consecutive year. We have achieved good organic growth across the business driven by strong revenue growth. Acquisitions remain an important part of our strategy and we completed 3 during the year including Riester, our second largest acquisition ever. We also disposed of one company, Post Glover Lifelink. We are making pleasing progress in Asia. We are increasing our dividend by 5% which will be the 29<sup>th</sup> consecutive year of dividend growth. We carry good momentum into 2008/09.

**Kevin Thompson, Finance Director, reviewed Halma's financial performance for the 2007/08 year.**

We made a record profit before tax<sup>1</sup> of £72.8 million from continuing operations on revenue of £395.1 million. Profit<sup>1</sup> was up 11% on revenue 13% higher than the previous year.

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**Organic growth**

- KPI > 5% organic growth
- 2007/08 organic growth
  - 8% Revenue
  - 7% Profit\*

\* before amortisation of acquired intangibles

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Three years ago we set a target of exceeding 5% organic<sup>2</sup> revenue and profit growth each year. We have once again achieved this target. In 2007/08

we delivered 8% organic<sup>2</sup> revenue growth and 7% organic<sup>2</sup> profit growth as well as producing organic growth in all three of our operating sectors.

Halma is a high margin business. We seek to manage the business to sustain high margins (with Return on sales<sup>3</sup> in the 17-20% range) whilst growing revenue and profit long-term.

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**Margins and returns**

- Return on Sales 18.4% (H2: 18.9%)
- ROTIC\* 14.1% (WACC: 8.4%)

\* Return on Total Invested Capital

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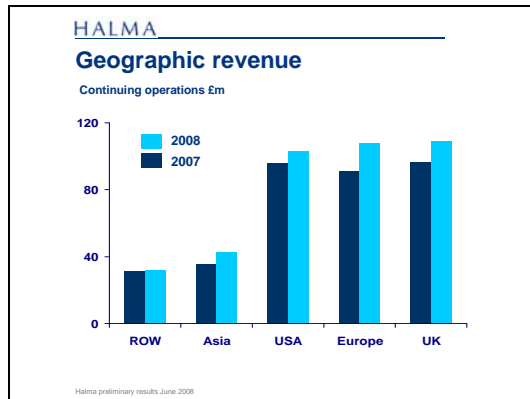
Return on sales for 2007/08 was 18.4%, a little below the prior year figure due to the cost of reorganisation in our Security Sensors business incurred in the first half of the year. Return on sales in the second half of 2007/08 was 18.9% in line with the second half of 2006/07.

ROTI<sup>4</sup> (the post tax return on all Group net assets including all historic goodwill) was at the high level of 14.1%, well in excess of our weighted average cost of capital of 8.4%. Halma continues to create significant value to shareholders.

The impact of currency translation was not as severe as expected. The main foreign currencies for Halma are US\$ and Euro. The impact of translating Group results into Sterling for 2007/08 was a 1% reduction in profit when comparing against the prior year currency rates. If currency rates stay at

current levels we expect a positive impact on the 2008/09 results.

Revenue to all territories grew.



The Group makes most of its sales in the UK, Mainland Europe and the USA but we are also seeing good growth elsewhere.

UK revenue increased by 13%, driven by the Infrastructure Sensors businesses and the addition of Tritech, our subsea asset monitoring business, acquired in 2006/07. Revenue to Mainland Europe was up 18% with good performances across the board particularly by our businesses selling into the oil and gas sector.

US revenue was up 7% with our Photonics businesses continuing to do well. The increase would have been even greater if not for a US\$ 6% weaker than last year, reducing Sterling reported figures.

Revenue in Asia Pacific and Australasia was up 21%, a strong performance reflecting the extra investment made there. Revenue in the "Rest of the World" should increase following our acquisition of Riester (see below) which is strong in particular in South America.

Cash flows are as expected with operating cash 104% of profit.

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##### Cash flow and dividend

- Cash flow
  - operating cash 104% of profit\*
  - £5m into working capital
  - more capex on property
  - £6m extra cash into pensions
  - lower tax payments
- Dividend up 5% - cover increased

\* before amortisation of acquired intangibles

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Working capital increased in line with revenue growth. Capital expenditure was high in particular due to extra investment in property for our operating companies. We do expect to continue a relatively high rate of capital expenditure supporting the growth of our business which on average earned a Return on capital employed of 56%.

We put £6 million of cash in addition to our normal contributions into funding the pension scheme deficit (£36 million at March 2008) and expect to continue to do this over the coming years to eliminate that deficit. Tax payments were below the prior year due to the tax deductibility of higher payments into Halma's pension schemes, and due to the timing of payments within the year which should equalise in 2008/09. The effective tax rate is expected to reduce in 2008/09 due to the reduction in the UK Corporation tax rate.

Once again, we increased the dividend by 5% in line with our progressive dividend policy. This is the 29<sup>th</sup> consecutive year of 5% or more dividend increases. We also increased our dividend cover to 1.83 times, moving towards our medium term target of 2 times dividend cover.

We have maintained a strong financial position.

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**Financing**

- Net debt £44.3m (March 07: £7.7m)
- 5 year credit facility = £165m

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We finished the year with net debt of £44.3 million, using our financial capacity to accelerate growth through acquisitions. In February 2008 a new £165 million 5-year credit facility was put in place on favourable terms to give us headroom for future growth.

We continue to be active on acquisitions.

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**Acquisitions & disposals**

Acquisitions	Date	Consideration	Operating Profit
SRD	Oct 07	£2.6m	£0.4m
Riester	Dec 07	£40m	£4.6m
<b>Disposal</b>			
Post Glover Lifelink	Jan 08	£3m	£0.6m

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In December 2007 we made our second largest ever acquisition, Riester, for £40 million. The integration of the Riester business into Halma has gone well.

We are continuing to invest for the medium and long-term as well as getting good results now.

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**Investing for the future**

- R&D expenditure up 22% to £18.6m
- Capex increased
- Investing in Asia

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Research and Development (R&D) expenditure was 22% higher at £18.6 million, 4.7% of Group revenue. R&D is an important part of our business, helping us maintain market leading positions and underpinning long-term growth at high margins.

We are investing more in Asia, in selling, technical and manufacturing resources. The model of Halma's "hubs" in China is being repeated in India where we see exciting opportunities.

**Andrew Williams continued, giving an overview of Halma's strategy and a more detailed review of sector performances.**

We take a long term view of the markets we want to be in. In particular, we have consistently looked for 'non-cyclical' market drivers, which may be even more important depending on how future economic conditions pan out.

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- Demand for energy and water resources
- Growth in population, ageing and urbanisation
- Increased demand for healthcare
- Rising expectations of health and safety

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**Demand for energy and water resources** –drives growth in our Health & Analysis and Industrial Safety sectors. For example, currently there are 470

million people living with severe water shortages and this number is forecast to increase to 3 billion by 2025. We sell products for water quality testing, water network monitoring and water treatment. All of these are used by the world's major water utilities to address this global need.

**Growth in population, ageing and urbanisation** – drives demand in our Infrastructure Sensors and Health and Analysis sectors. For example, by 2030, 60% (4.9 billion) of the world's population will live in urban areas. We sell safety sensors which must be fitted to commercial and public buildings including fire detectors and elevator sensors. Demand for these products is driven by safety regulation.

**Increasing demand for healthcare** – drives demand in our Health and Analysis sector. For example, by 2020, the number of blind people in the world is forecast to increase from 45 million to 76 million, yet 75% of all blindness is treatable. We sell instruments used to diagnose eye disease early and enable corrective procedures where feasible.

**Rising expectations of health and safety** – drives demand in Infrastructure Sensors, Health and Analysis and Industrial Safety. For example, it is estimated that there are 270 million work accidents each year and 2.2 million work-related fatalities, costing \$1,250 billion in lost production each year. Our products include safety interlocks which protect people from hazardous machinery and ensure dangerous processes are managed safely.

These issues drive our growth and have underpinned our record of sustained value creation over nearly four decades.

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**Strategy overview**

- Resilient market niches
  - 'non-cyclical' growth drivers
  - products have competitive advantage
  - diverse customer base
- Decentralised, entrepreneurial organisation
- 'Light' manufacturing operations
- High returns, high cash generation

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So what else makes our high performance so resilient over such a long period?

Our products have competitive advantage. Typically, they are critical components in larger systems where the 'value' to our customers is significantly greater than their relative cost within the larger system. Technology or regulatory requirements often provide additional barriers to entry. The benefit of this competitive advantage is that we consistently achieve high margins across our businesses.

We have a very diverse customer base. Our largest customer represents less than 3% of Group revenues and our top 20 customers represent less than 20% of Group revenues. We are not over-reliant on any single customer or single market.

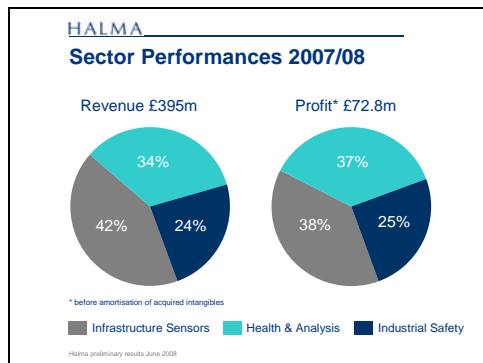
We have a decentralised structure and an entrepreneurial culture. Subsidiary CEOs report to our Divisional Chief Executives who report to me. Despite our diversity and this 'flat' operating structure we have a 'scaleable' business. In 2004, we had 43 subsidiary companies delivering £50 million profit. In 2008, we have 39 companies delivering £73 million profit. The average profit per company in the Group has increased by 60% from £1.2 million to £1.9 million, proving that we can grow significantly whilst maintaining our operating structure and culture.

We are 'light' manufacturers. Typically, we assemble and test our products rather than have vertically integrated manufacturing. Labour content as a percentage of revenues is low and we

have no major reliance on any single raw material. Importantly, we are able to locate our manufacturing operations close to our major customers but still source globally.

These market and business characteristics enable us to consistently deliver high returns (on sales and on investment) and generate cash – which is typically over 100% of profit.

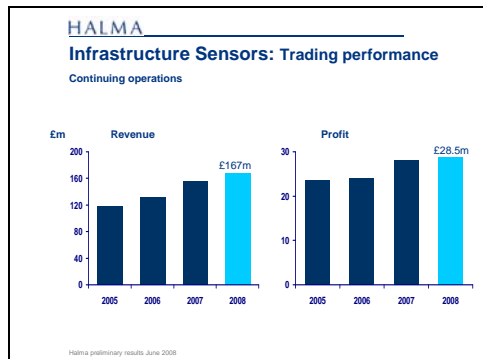
We have 3 business sectors, all possessing the market and business characteristics outlined previously. All three sectors are growing and consistently deliver high returns.



**Infrastructure Sensors** – protecting property and people in public and commercial buildings.

**Health and Analysis** – products and technology for healthcare and environmental applications.

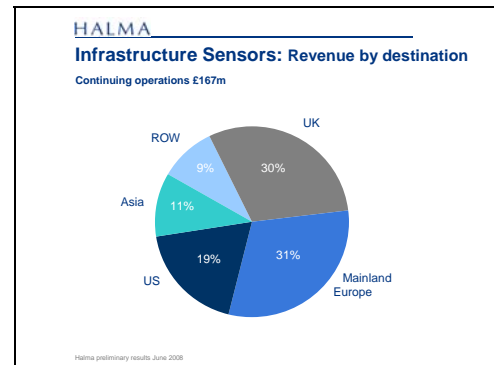
**Industrial Safety** – protecting people and property at work.



In **Infrastructure Sensors** we achieved organic growth with revenues increasing by 8% to £167 million and profits by 1.9% to £28.5 million. Revenue growth was

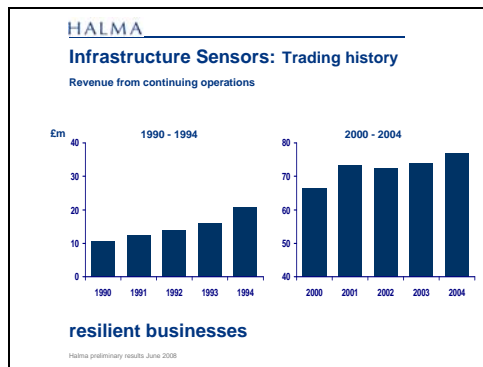
consistent throughout the year. Profit growth would have increased by 5% but for the planned £1 million restructuring charge in our Security Sensors business. Sector profits grew by less than 1% in H1 but grew by 3.5% in H2 reflecting the fact that we are starting to see the benefit from these changes.

Our Elevator Safety business had a steady performance, our Automatic Door Sensor business delivered good growth and our Fire Detection business had an outstanding year.

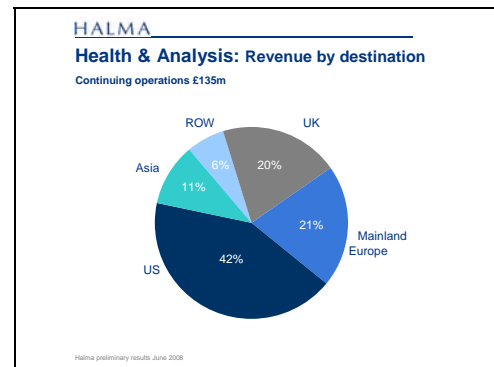


The geographic split of our Infrastructure Sensors revenues shows that our UK and mainland Europe revenues are three times greater than the US - which represents just 19% of sector revenues compared with 26% for the Group as a whole. We sell into commercial and public buildings not residential buildings. The split between revenues from new commercial construction and from refurbishment (driven by regulation) differs in each world region, and reveals that regulation drives demand for our products more than new construction. For example, in the US, 60% of revenue is driven by regulation for existing buildings and 40% by new construction. Therefore, the Group's exposure to new commercial construction in the US is well under 3% of Group revenues and not a major factor in our ability to sustain growth.

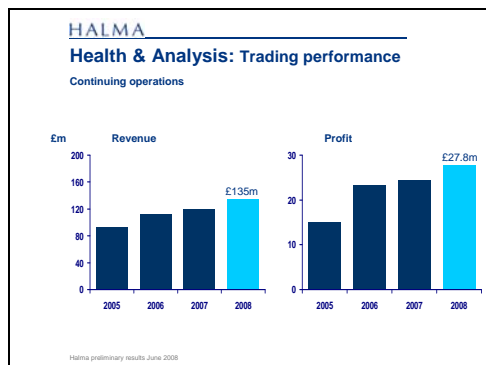
Our Infrastructure Sensor businesses have been resilient during tougher economic times.



The performance of these businesses throughout the first half of the 1990's and the first half of this decade shows that they continued to deliver organic revenue growth. There was a slight moderation of margins but return on sales was still within our 17% - 20% target. Our decentralised structure allows our companies to move fast into new niches, new geographic regions, develop new products and closely manage pricing and product mix. This enables them to find opportunities to take market share even if the overall market growth rate is reduced.

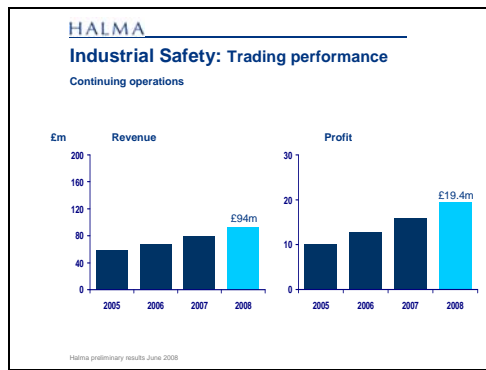


The geographic revenue split for Health and Analysis shows a greater emphasis on the US, which represents 42% of sector sales compared with 26% for the Group. This sector absorbed the majority of the adverse impact of US\$ currency movement in the past year. However, there was growth in all major geographic regions. The recent Riester acquisition will help to increase our footprint outside of the US and UK and I expect to see Europe and the Rest of World revenues grow as the further contribution from Riester comes through in the coming year.

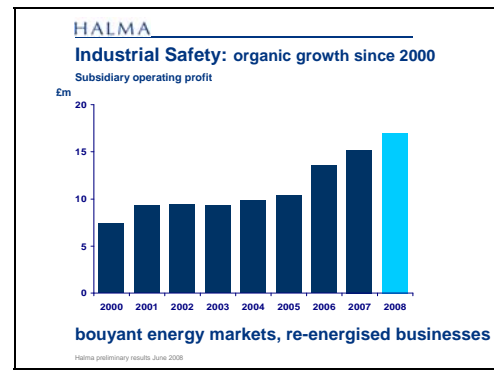


Our **Health and Analysis** businesses delivered a strong performance. Revenues grew by 16% to £135 million and profit by 16% to £27.8 million. There was widespread organic growth plus a contribution from our acquisition of Riester. We made one disposal, Post Glover Lifelink, since it no longer had the market and business characteristics we require. We achieved good growth in all four sub sectors; Photonics, Health Optics, Fluid Technology and Water.

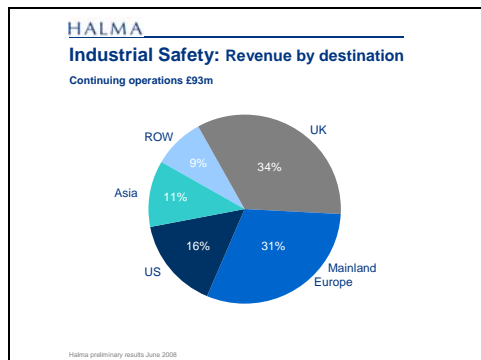
Riester manufacture 'premium' handheld instruments for general medical practitioners. These include blood pressure monitors, ear nose and throat instruments, ophthalmoscopes and stethoscopes. Good collaboration is already underway between Riester and our existing Health Optics businesses. They can sell Riester's instruments to their ophthalmology market and also supply ophthalmoscopes for Riester to sell into their general medical market. Geographically, Riester's strength in South America and other Spanish speaking territories (plus one or two markets in Asia) complements our existing strength in the UK and USA. Riester gives us new distribution into the general medical market which may benefit other businesses in our Health and Analysis sector in the longer term.



Our **Industrial Safety** sector had another excellent year with revenues up 17% to £94 million and profit up 21% to £19.4 million. There was strong organic growth and we completed two small acquisitions (SRD, the subsea asset monitoring business, and BKKI, a small gas detection business in China). All four sub-sectors (Gas Detection, Bursting Discs, Safety Interlocks and Asset Monitoring) made good progress during the year. The latter two, in particular, were boosted by the buoyant energy markets.



In Industrial Safety, the profit from continuing operations since 2000 demonstrates significant organic growth particularly in the last 4 years. Increasing growth rates in the oil, gas and petrochemical market is an important factor since it represents around 30% of our Industrial Safety sector revenues. However, we have also helped ourselves through increasing investment in R&D and increasing investment in manufacturing. This sector has demonstrated excellent operational leverage over the period (profits growing faster than revenues) and order books are growing.



Our Industrial Safety sector geographic split shows that we are strong in the UK and Europe which represents 65% of revenues. The US represents 16% of sector revenues compared to 26% for the Group as a whole. We achieved growth in all major geographic regions.



Organic growth is still my top priority. I continue to ensure there is a good balance between delivering short term results and making longer term investments. The three main areas we are currently focussing on to drive organic growth are people development, new product development and Asia.

Although we have a decentralised operating structure, we actively train and develop our senior management talent. The Halma Executive Development Programme is thriving and during the year we introduced a new Management Development Programme for the next

level of managers in our subsidiary companies. We are moving more managers around the business according to our strategic needs and there has been an increase in internal promotions. During the past year I appointed three new Divisional Chief Executives (DCEs) to the Executive Board. All were internal promotions.

During the year our businesses launched over 90 new products in total and our R&D spend increased by 22% to £18.6 million. The rate of contribution from new products varies enormously across the Group. In Health and Analysis, businesses may get 60% - 70% of their annual revenues from products launched in the prior three years. In Industrial Safety there are highly successful businesses where the rate is just 20% of revenues. This validates our strategy of decentralising our R&D activities and ensuring they are appropriate to the specific market need.

Our focus on increasing our investment in R&D and encouraging more collaboration between our businesses is paying dividends. Recent new product launches include:-

**A new sensor for Automatic Doors in industry.** This is a laser-based sensor which has the ability to determine the size, shape and motion of objects with a very fast response time – essential qualities in a busy and unpredictable factory environment.

**A new photonics product to measure the Sun Protection Factor (SPF) of sunscreens.** This is a result of a collaboration between two of our photonics businesses in Health and Analysis. Until now, it has not been possible to easily confirm the performance of high SPF sunscreens. Existing manufacturers of sunscreens want to ensure their products comply with the SPF scale and also want to regulate lower cost producers from overseas.

**A new way to monitor pressure relief devices in a large manufacturing**

**facility.** Radio-Tel is the result of a collaboration between two of our Industrial Safety companies in Bursting Discs and Asset Monitoring. In a large chemical plant there can be many bursting discs. For the first time, Radio-Tel provides real time remote monitoring of bursting discs providing essential safety data to maintenance and health and safety teams.

Last year we targetted increasing the proportion of our revenues in Asia from 10% to 15% - 20% within 5 years. We have made good progress this year.

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<b>Asia update</b>	
<b>China:</b>	
→ Revenues to China up +19% (£9.2m)	
→ 16 Halma companies now present	
→ Small JV and acquisition completed	
→ Manufacturing hub operational Q3, 2008	
<b>India:</b>	
→ Revenues to India up +36% (£3.9m)	
→ Mumbai hub operational Q4, 2008	
<small>Halma preliminary results June 2008</small>	

We established our first Halma hubs in China in late 2006. Over the past year, revenues there have increased by 19% to £9.2 million. The number of Halma companies with a direct presence in China has increased from 3 in 2006 to 16 today. We have completed our first Chinese acquisition to establish local design and manufacturing of gas detection products and concluded a joint venture agreement with a major player in the local fire detector market. Our new manufacturing hub in Shanghai will be operational in Q3, 2008 and we have 4 Halma companies ready to start manufacturing in Asia for the first time.

We are creating a hub in India (Mumbai), similar to the ones in China. Revenues to India in 2007/08 were up 36% to £3.9 million. We expect the Mumbai hub to be operational in Q4, 2008/09 and at least 6 Group companies to take up occupancy within the first 12 months, including a number of R&D engineers.

Acquisitions remain an important element of our growth plans. We completed three

acquisitions during the year (Riester, SRD, BKKI China). We have added resources to support our search and selection and post acquisition integration activities but the prime responsibility for acquisitions remains with our DCEs. We have improved our post acquisition integration processes and our pipeline of opportunities is improving, with the debt finance in place to pay for those we choose to make. Our overall objective remains to pay sensible multiples for high performance businesses in, or adjacent to, our existing markets.

In conclusion, I was pleased with our good performance in 2007/08 and I can see organic growth and acquisition opportunities in our markets for the current year. Order intake momentum is good as is our acquisition pipeline. We are well placed to make further progress this year.

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<sup>1</sup> Before amortisation of acquired intangible assets of £4.8 million (2007: £3.5 million).

<sup>2</sup> Organic growth measures the change in the revenue and profit from continuing operations. The effect of acquisitions made during the current or prior financial year has been equalised by subtracting from the current year results a pro-rated contribution based on their revenue and profit at the date of acquisition.

<sup>3</sup> Return on sales is defined as profit<sup>1</sup> before taxation from continuing operations expressed as a percentage of revenue from continuing operations.

<sup>4</sup> Return on total invested capital is defined as profit for the year from continuing operations before amortisation of acquired intangible assets, after taxation; expressed as a percentage of total shareholders' funds, adding back net retirement benefit obligations, cumulative amortisation of acquired intangible assets and historic goodwill.\*

<sup>5</sup> Return on capital employed is defined as operating profit<sup>1</sup> from continuing operations expressed as a percentage of operating assets.\*

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\* see 17 June 2008 Preliminary Announcement for more details.

**CAUTIONARY NOTE.** The information contained in this summary is believed to be correct at 17 June 2008. 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.