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Halma p.l.c. Half year results 2009/10

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

3 December 2009

“Half year results reflect Halma’s resilience”

Andrew Williams, Halma’s Chief Executive, presented the key messages for the first half year.

We have achieved a robust financial performance during the first half year. We demonstrated our ability to maintain strong returns in challenging markets. I am pleased particularly with the operational management across the group which was reflected in our financial performance, and also with our ability to continue to balance this with investment for the future. R&D expenditure has been maintained at last year’s level despite significant cost reduction elsewhere.

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Key messages

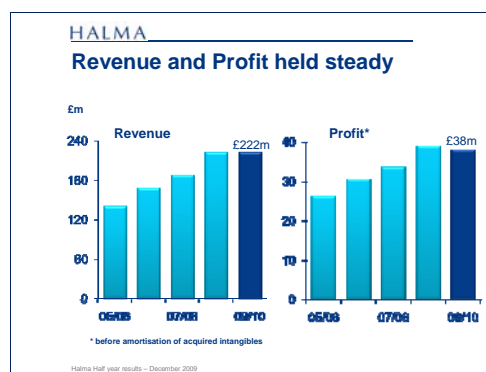
- Robust financial performance
- Excellent operational management
- Strong cash generation
- Investment maintained
- Dividend increased

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A highlight of the half year, was our strong cash generation. Cash generated from operations was 140% of profit. Our confidence for the future is reflected in our recommendation to increase the interim dividend by 5%.

Kevin Thompson, Finance Director, outlined the main elements of Halma’s financial performance in the half year.

A solid first half performance showed many of the strengths of Halma, with revenue and profit in line with last year.



Revenue at £222.1 million was just ahead of the prior year (2008/09: £221.7 million) and profit¹ at £38.1 million was 2% below last year first half (2008/09: £39.0 million).

There was modest impact from acquisitions and disposals in the half year. Currency translation benefited revenue by 8% and profit by 9%, the profit benefit being 1% more due to a higher rate of profitability in our US and European companies compared with those in the UK.

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Half Year 09/10 Movement

	Total	Organic	Organic at Constant currency
Revenue	-	(1%)	(9%)
Profit*	(2%)	(3%)	(12%)

* before amortisation of acquired intangibles

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Organic² revenue at constant currency was 9% below the first half of last year and organic² profit at constant currency was 12% below last year.

The main currencies for our business other than Sterling are US\$ and Euros, with 30% of Group revenue earned by companies

transacting in US\$ and 20% by those in Euros.

If exchange rates continue for the second half of the year at the levels at the end of the first half, and if we were to generate the same amount of revenue in the second half as the first, then we expect currency translation to benefit revenue in the full year by 4%, compared with the 8% noted above for the first half.

Underpinning a good operational performance was positive action to make sure that our cost base is in line with the demand in our markets.

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Reorganisation			
→ Overhead Saving			
£15m annualised versus H2 08/09			
→ Cost			
		£	£
08/09			1.2m
09/10	H1	1.7	
	H2 expected	0.8	
			<u>2.5m</u>
			3.7m

We targeted, and are achieving, a £15 million annualised overhead reduction compared with the run rate in the second half of 2008/09. We are also on track to deliver £5 million of annualised product cost savings.

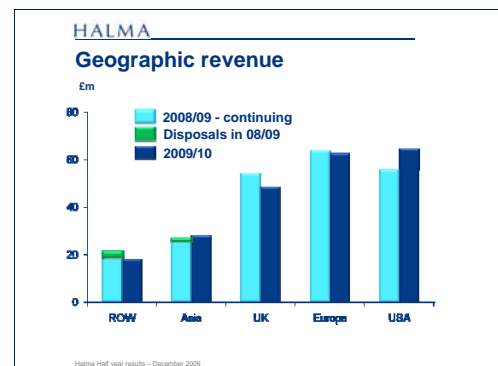
Reorganisation costs were £1.7 million in the half year, which together with the £1.2 million spent in 2008/09 and £0.8 million expected in the second half of this year, total £3.7 million. Reorganisation costs are charged against profits. Over half of this cost falls in the UK and the largest part relates to our Industrial Safety business. Our businesses are typically not vertically integrated which means there is a lot of flexibility as volumes of production change.

As we said at the start of the year, maintaining high margins and increasing profitability is an important objective.

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Return on Sales	
→ H1 09/10:	17.1% (08/09: 17.6%)
→ Excluding re-org costs H1 09/10:	17.9%
→ Target range	16 – 20 %

Return on sales³ in the half year was 17.1% (2008/09: 17.6%) and if we exclude the reorganisation costs noted above the figure would be 17.9% - reversing the decline we have seen in the past several years. All of these figures are well within the 16-20% range we target for Return on sales³.

Geographic revenue showed quite a lot of variation year on year. In our "Rest of World" (ROW) region revenue was 15% lower than last year although adjusting for the small disposal we made last year, like for like revenue was flat.



Revenue in Asia Pacific and Australasia was up 7% with our Health and Analysis business gaining some momentum and helping drive growth in China –up 52% on the prior year.

UK revenue was hardest hit, down 11%, with the largest reduction coming in the Industrial Safety sector. The UK is becoming a smaller part of our revenues now at 22% of our total revenue compared with as high as 28% in recent years. Europe was down 2% - largely as a result of our Industrial Safety business.

The USA was our largest revenue destination, up 16%, overtaking Europe. Our Health and Analysis business performed well there.

Cash generation was even better than we expected. Net cash inflow from operations was £52 million compared with £30 million in the first half of last year.

Working capital inflow was £8 million compared with a £7 million outflow last year. This came from good management of inventory and very well controlled debtors – a tribute to the diligence of our subsidiaries' finance teams and the quality of our customer base. Tax payments were lower than the prior year but capital expenditure was broadly in line.

We invested a further £11 million (4.9% of revenue) in Research and Development – equal to last year, as well as investments in developing our people and our Asian offices to stimulate further growth.

The Interim dividend was increased by a further 5% indicating the Halma Board's confidence in the Group's long term prospects.

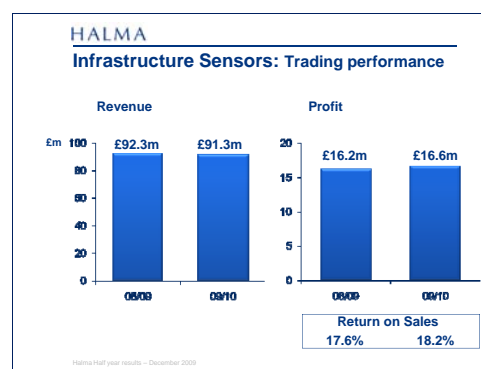
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Financial headroom	
→	Net debt £21.4m (March 2009: £51.2m)
→	£165m syndicated loan facility to Feb 2013
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As a result of this good performance on cash, we reduced net debt to £21.4 million from £51.2 million at March 2009. We hold a £165 million syndicated loan facility that runs for 5 years to 2013 so have plenty of headroom for growth and to make carefully targeted acquisitions.

We feel positive about the shape we are in to make progress in the second half of the year.

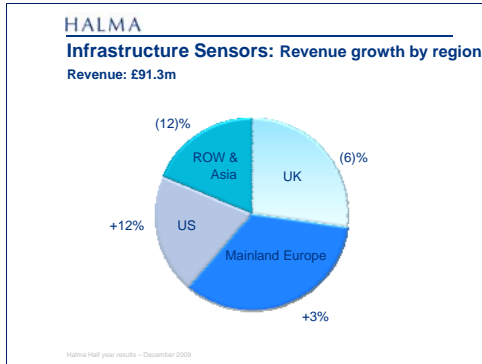
Andrew Williams continued by giving analysts an overview of the individual sector performances.

There has been more variation in the performances of sub-sectors and across regions than in recent years. The fact that our overall result was so robust demonstrates once again the benefits of the diversity of Halma's end-markets and geographic footprint.



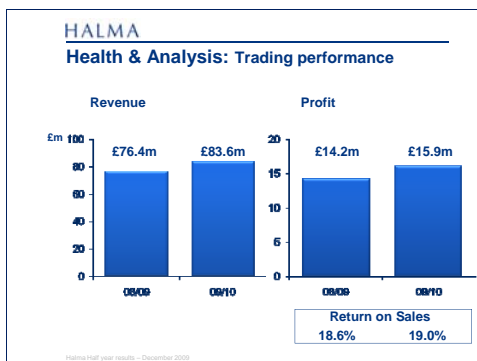
Our **Infrastructure Sensors** sector achieved a very resilient result. Profits were up by 2% to £16.6 million whilst revenues were down 1% to £91.3 million (5% organic² revenue decline at constant currency). Return on sales increased from 17.6% to 18.2%. Order intake was marginally ahead of revenues.

The Automatic Door Sensors and Elevator Safety businesses performed strongly. In Fire, there was a slight decline, with growth in export markets offset by weakness in the UK market. Security Sensors continued to experience challenging market conditions in the UK, its major market. New products launched at the end of the period will give Security Sensors the opportunity to generate market share growth as the second half progresses.



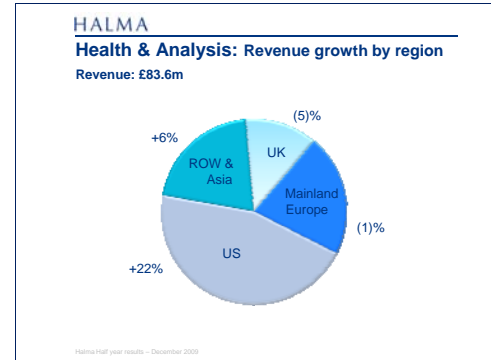
UK and Europe represent two-thirds of revenue in this sector. In the UK, revenues were down in all 4 sub-sectors and we are not assuming a recovery in the short-term. In Europe and the US, currency boosted revenue with Automatic Door Sensors doing well in both regions and gaining market share. Rest of the World/Asia performance was a little disappointing although the underlying trend was more positive than it first appears once last year's Security business disposal is excluded from the comparison. We expect Infrastructure Sensors to continue to deliver a resilient performance in the second half.

Health and Analysis made good progress after a relatively poor H2 in 2008/09. Profit grew by 12% to £15.9 million whilst revenue grew by 10% to £83.6 million (10% organic² decline at constant currency). Return on sales improved from 18.6% to 19%. Order intake matched revenue.



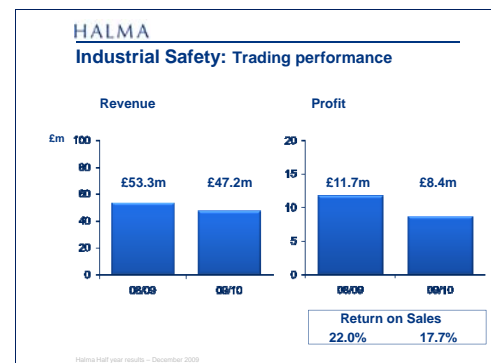
Photonics and Fluid Technology increased profit, benefitting from the cost savings made earlier in 2009. Health Optics had a flat performance whilst our

Water sub-sector was relatively weak, particularly in the UK. We do not expect the demand for our water products in the UK to pick up until 2010/11 when the UK water utilities begin their next 5-year investment cycle.



Our Health and Analysis sector has a greater proportion of revenue from the US than the rest of the group. In the US, Fluid Technology and Photonics performed strongly. The UK declined 5% mainly due to Water, whilst Health Optics experienced a decline in demand in Southern Europe. Photonics was the major driver of growth in Asia/Rest of the World.

As flagged earlier in 2009 our smallest sector, **Industrial Safety**, is having a challenging year after a series of years with strong organic growth.



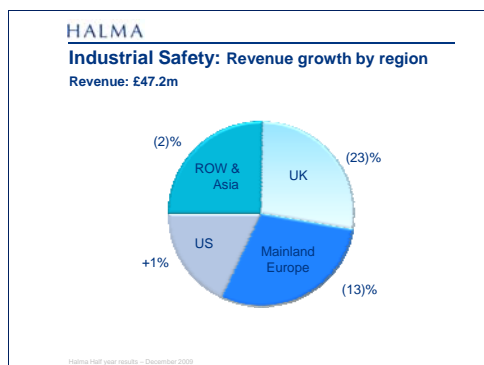
Profits declined by 29% to £8.4 million whilst revenues fell by 11% to £47.2 million (organic² revenue 13% down at constant currency). Return on sales reduced to 17.7%, although this is still well within our 16-20% target range.

The outlook for the second half is slightly more positive as order intake was ahead of revenue in the first half. Proportionally more action was taken in this sector to reduce costs in H1 and this, combined with improved order intake, provides the opportunity for an improved performance in H2.

Gas and Safety Interlock businesses achieved relatively resilient performances whilst Bursting Disks and Asset Monitoring struggled.

In Bursting Disks, there was a decline in demand from our chemical and process industry customers, whilst our new global sales strategy required further refinement. Action has been taken to address this and we are expecting an improved performance in the second half.

The major market for Asset Monitoring is the North Sea oil and gas survey sector, which has softened significantly in 2009. We are completing a reorganisation of these businesses and, in October 2009, we exited the SRD survey business to concentrate our activities on the design and manufacture of products. We have recently launched new products, which provide the opportunity to grow market share in H2.



Industrial Safety achieves 60% of its revenue from UK and mainland Europe. Here, revenue declined (mainly due to Bursting Disks and Asset Monitoring), but our performance was better elsewhere. The underlying trend in ROW/Asia is more positive than

indicated on this chart since last year's Asia revenue included the Australian Resistors business, FSP, sold earlier in 2009.



Our priorities for this year are strong cash generation, sustaining high returns, growing market share and keeping our growth strategy on track. You have seen above that we have achieved the first two objectives in H1.

In the last three months, I have visited over half the group companies and our hubs in China. The mood amongst our businesses is more positive than six months ago, and despite a lack of support for growth from the markets themselves, many are now focused on achieving improved market share. In this context, continued investment in our business remains a high priority.



We want to deploy capital for suitable **acquisition** opportunities and have a strong balance sheet to support us. We are starting to see more activity in M&A markets than we were seeing earlier in the year. We are looking in all three of our sectors although it still appears that most opportunity is in Health and Analysis. We are more comfortable assessing and valuing

new opportunities than we were a year ago, since now we have a better understanding of how good businesses will have performed during the downturn.

We continue to invest for **organic growth** over the medium-term. This investment in People, Asia and Innovation will also help drive market share growth if tough market conditions persist.

In **People Development**, during 2009 we have maintained our extensive schedule of management development programmes and in 2010 plan to launch a new programme targeted at our Technical and Engineering staff.

In **Asia**, we now have over 220 employees based in China (6% of our total work force). By the end of the financial year, 7 out of 12 of our sub-sectors will be manufacturing there. At our hub in Mumbai, India four companies have added staff in addition to the two companies who were there already. Recruitment continues for other businesses, too.

The Halma Innovation and Technology Exposition held in May 2009 acted as a catalyst to increase **collaboration and innovation** between Halma companies. Over the past year, we have made significant progress in manufacturing, which is reflected in excellent management of working capital, cash generation and maintaining strong product margins. Our commitment to innovation is also shown by the fact that we have maintained our high investment in R&D (4.9% of revenue), despite cuts being made elsewhere.

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Assumptions for H2

- Markets and currency stable
- H2,08/9: Revenue £234m; Profit £40m
- H2,09/10 factors
 - extra week in H1,09/10
 - cost base lower than H2,08/9

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In the second half, we are assuming that market demand will remain stable - as has been the case since the end of the first half. If currency rates remain as they were at the end of September 2009, the translation impact will be broadly neutral for the H2:H2 comparison with 2008/09.

If the order intake rate achieved in H1 this year continues throughout H2, our lower cost base gives us the opportunity to achieve an improved performance in the second half.

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Outlook

'after a solid first half and with our reduced cost base, if current demand levels remain stable, we have the opportunity to achieve an improved performance in the second half.'

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¹ Before amortisation of acquired intangible assets of £2.7 million (2008/09: £3.4 million).

² Organic growth measures the change in the revenue and profit from continuing operations. The effect of acquisitions and disposals during the current or prior financial period has been equalised by adjusting for their contribution based on their revenue and profit at the date of acquisition or disposal.

³ Return on sales is defined as profit¹ before taxation from continuing operations expressed as a percentage of revenue from continuing operations.

* see the Half year report published on 3 December 2009 for more details.

CAUTIONARY NOTE. *The information contained in this summary is believed to be correct at 3 December 2009. This document contains certain forward-looking statements. Forward-looking statements should be regarded with caution as by their nature such statements involve risk and uncertainties relating to events and circumstances that may occur in the future. Actual results may differ from those expressed in such statements, depending on the outcome of these uncertain future events. The content of presentations, including any forward-looking statements, is not revised after publication.*