

HALMA

Halma p.l.c. Preliminary results 2008 / 09

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

16 June 2009

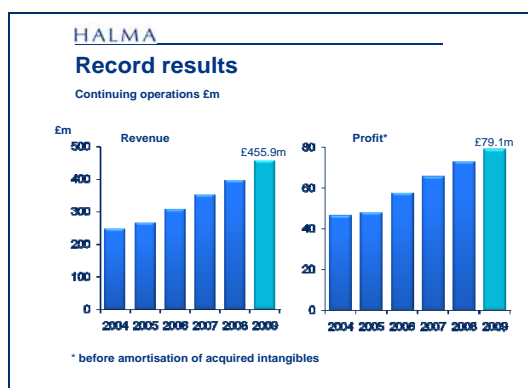
“Halma raises dividend for thirtieth consecutive year”

Andrew Williams, Halma's Chief Executive, outlined the key messages for the 2008/09 preliminary results.

- Halma achieved record revenue and profit. Revenue increased by 15% to £456m whilst profit¹ increased by 9% to £79.1m.
- Halma continued to grow strongly in international markets, particularly outside Europe and the USA.
- Good cash generation was achieved during the year which ensured the Group maintained a healthy balance sheet with resources to grow.
- The Group is recommending an increase in dividend of 5%. This is the thirtieth consecutive year in which we have increased our dividend by 5% or more and reflects our confidence in the resilience of the Group for the future.

Kevin Thompson, Finance Director, reviewed the key elements of the 2008/09 financial performance.

This is the sixth consecutive year of record results.



Profit before tax¹ from continuing operations of £79.1m (2008: £72.8m) was earned from revenue of £455.9m (2008: £395.1m)

In terms of growth it was a year with two halves of different character.

In 2008/09, revenue grew by 15% over the prior year with revenue in the second half of the year higher than in the first half. Excluding the contribution from acquisitions, we achieved 11% organic² revenue growth and stripping out the effects of currency translation there was organic² revenue growth at constant currency of 3%.

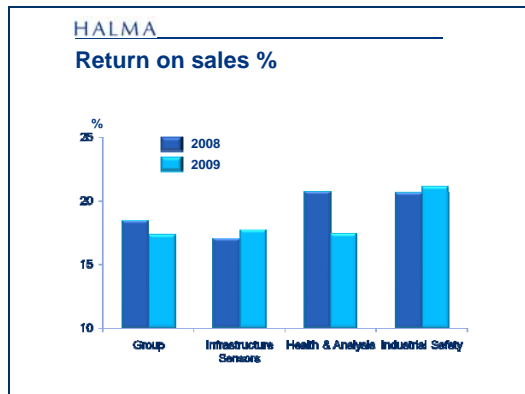
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Revenue growth				
	£m	Total	Organic	Organic: Constant Currency
H1	221.7	19%	14%	10%
H2	234.2	12%	8%	(4%)
Total	455.9	15%	11%	3%

Following a strong first half performance, business slowed in the second half as highlighted in our Interim Management Statement (IMS) in February 2009. There was organic revenue growth of 8% in the second half of the year but that included a currency translation benefit of 12%. At constant currency, organic revenue declined by 4%.

Profit¹ followed a similar pattern. Profit¹ grew at a lower rate than revenue through the year with 9% profit growth in total, organic² profit growth of 5% and an organic decline of 3% at constant currency for the year as a whole.

It was certainly harder to achieve revenue and profit growth in the second half of the year given the economic downturn and the figures highlight a reduced rate of profitability in that period.

Return on sales³ remains high at 17.3% (2008: 18.4%). Our target is to be in the range of 16-20%. Return on sales for Halma has been above 16% for the past 24 years, through a variety of economic conditions.

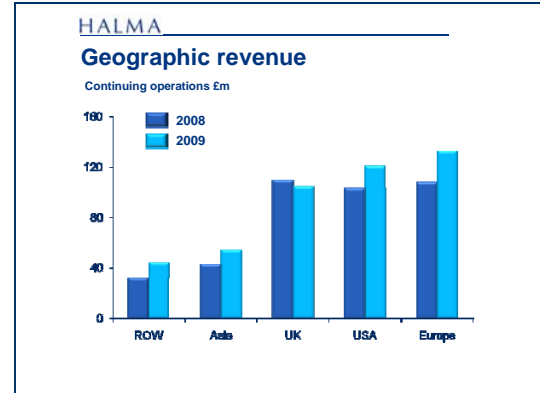


Infrastructure Sensors and Industrial Safety both increased their Return on sales this year. The rate of profitability in Health and Analysis fell to 17.4% (2008: 20.7%) with overheads growing too fast. Action has been taken in this area as discussed below.

Return on Total Invested Capital⁴ was 13.1% (2008: 14.1%) comparing favourably with our long term weighted average cost of capital of 9%.

Currency played a significant part in these results. The main currencies for the Group are Sterling, US Dollars and Euros. Approximately 30% of Group revenue is earned in US Dollars and 20% in Euros with each contributing around 25% of profit.

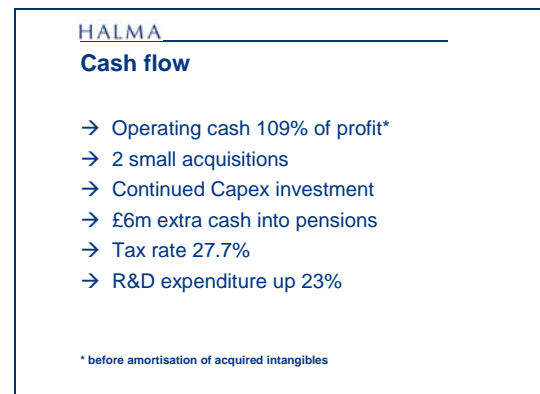
There has been good progress in recent years in geographic expansion.



In 2008/09 we saw very strong revenue growth outside the UK. For the first time Mainland Europe is our biggest sales destination, up 23% compared with last year. The UK is in third place this year with revenue down 4%.

Revenue outside the UK, Mainland Europe and the USA was up 31%, now representing 22% (2008: 19%) of Group revenue. This has been a focus for us and it is pleasing also to see growth of 25% in China and 20% in India, the locations of our Halma hubs.

Cash flow was strong with operating cash at 109% of profit¹. There was good working capital control.



We made two small acquisitions in the second half, Fiberguide Industries Inc and the Colorado operations of Oerlikon Optics USA Inc. Capital expenditure was again at a high rate as we continue to invest in our businesses.

There were £6m of additional contributions to the pension scheme in the year as we pay off the pension fund deficit in line with the actuary's recommendations. The deficit increased to £43m (2008: £36m) due in part to falling asset values.

The effective tax rate on profit¹ was 27.7% (2008: 29%) following the reduction in UK Corporation tax rates. R&D expenditure was up 23% to £23m and is now 5% of revenue, an important part of our investment for the long term.

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Dividend growth

- Dividend up 5%
- 30th consecutive year
- Dividend cover 1.93 times

This good cash flow financed a dividend increase of 5%. This year is the 30th consecutive year of dividend increases of 5% or more.

We have a strong financial position.

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Strong financial position

- Net debt £51.2m (2008: £44.3m)
- £165m credit facility to 2013
- Loans in Euro / US \$

At the year end net debt was £51.2m (2008: £44.3m). We hold a 5 year syndicated revolving credit facility of £165m put in place in 2008. There is substantial headroom available to us to

finance investment in our businesses and acquisitions.

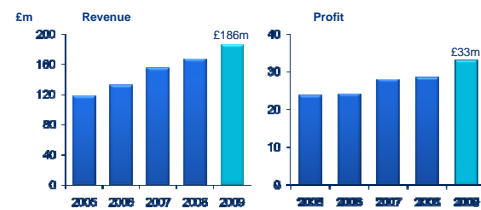
In the current economic environment we continue to focus on risk areas such as the management of foreign exchange against the background of increased volatility, as well as paying particular attention to cash and debtor management. Maintaining a strong balance sheet and good financial position is a key task.

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

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Infrastructure Sensors: Trading performance

Continuing operations

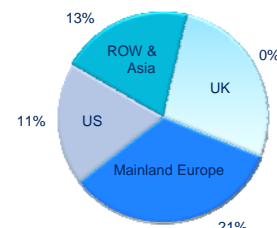


Infrastructure Sensor revenues increased by 11% to £186 million whilst profits increased by 16% to £33 million. Return on sales increased marginally to 17.7%. All this growth is organic since there were no acquisitions during the year and one small disposal in January 2009. Product margins improved slightly on the prior year.

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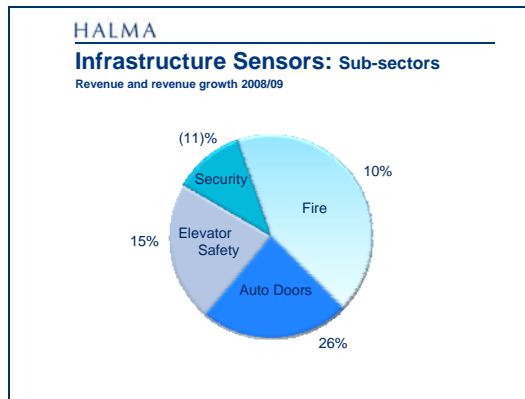
Infrastructure Sensors: Revenue growth by region

Continuing operations £186m [2007/08: £167m]



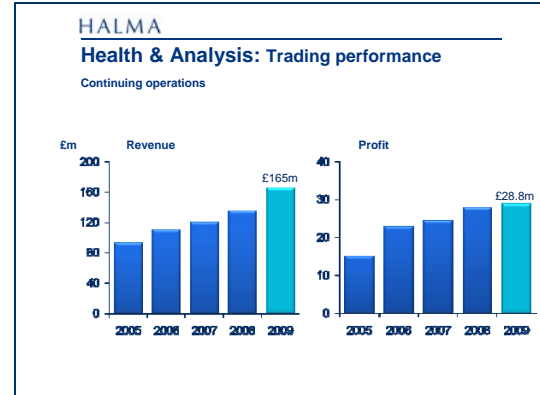
Strong growth was achieved in markets outside of the UK. Europe was particularly

strong with growth of 21%, whilst the Rest of the World and Asia made good progress growing by 13% in total.



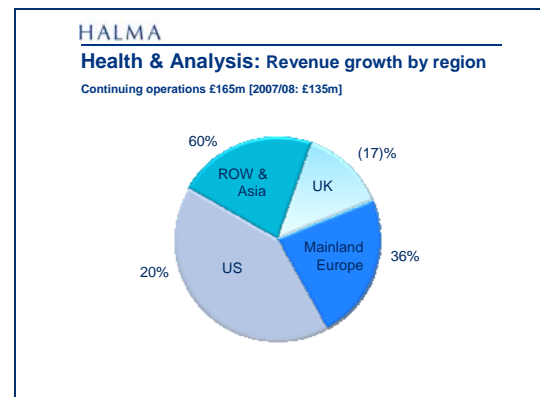
In our Infrastructure Sensor sector, Fire Detection (the largest sub-sector in the Halma group) had a good year, increasing revenues by 10% with strong growth in the UK and Europe. Our Automatic Door Sensor business increased revenues and benefited from a strong contribution from currency. It was pleasing to see progress in our Elevator Safety business following the restructuring started in 2006. Our Security Sensor revenues were lower than the prior year due to the disposal of our South African security distribution business (January 2009) and continuing weakness in the UK market. However, profits increased on the prior year benefiting from restructuring in 2007/08.

We are expecting a tougher year for our Infrastructure Sensor businesses in 2009/10. A majority of our sales go into existing buildings rather than being reliant on new construction. However, the downturn in new commercial construction is having some adverse impact on our businesses (particularly in Asia) although we mitigated this in part by gaining market share across the world from weaker competitors. We have reduced operating costs in order to maintain returns in the current year.

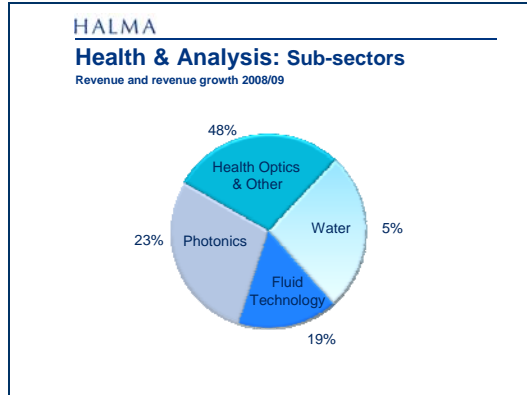


In Health and Analysis, our revenues grew by 23% to £165 million benefiting from recent acquisitions and currency. Our profits grew by just 3% to £28.8 million. Having achieved 10% organic revenue growth, this profit growth is disappointing particularly as gross margins edged up slightly.

As highlighted in our IMS in February 2009, overhead growth in this sector was ahead of revenue growth especially in Photonics. Delayed new product introductions and higher overheads arising from increasing operational complexity resulted in us reducing headcount and making management changes. The total savings from these actions is approximately £3 million benefit p.a.

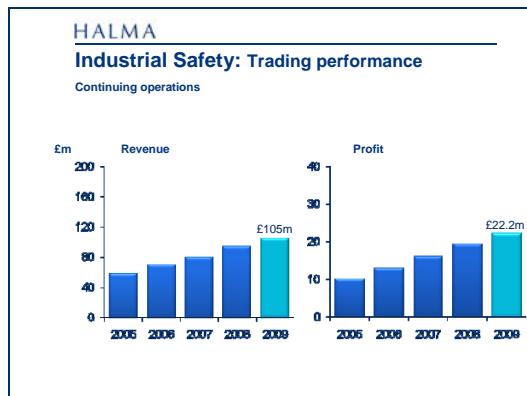


Our UK revenues were down by 17% mainly due to reduced demand from UK utilities in our Water businesses. It was pleasing to see all sub-sectors grow revenues outside of the UK to more than make up for this decline.

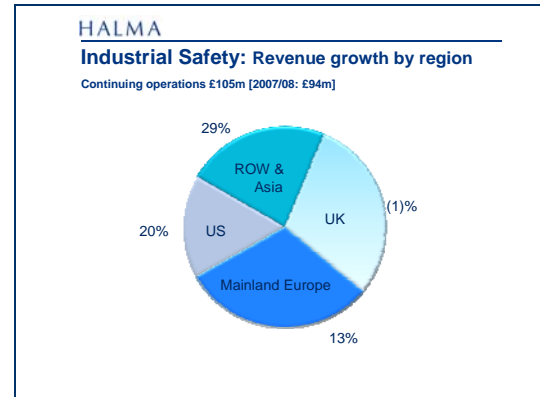


Our Water business revenues grew by 5% even with weaknesses in the UK. All four sub-sectors, many of which were the first to take advantage of the Halma hubs, grew revenue in Asia Pacific and Australasia. Despite problems controlling costs, our Photonics businesses grew revenues by 23%, so there are opportunities for improving profitability during the current year.

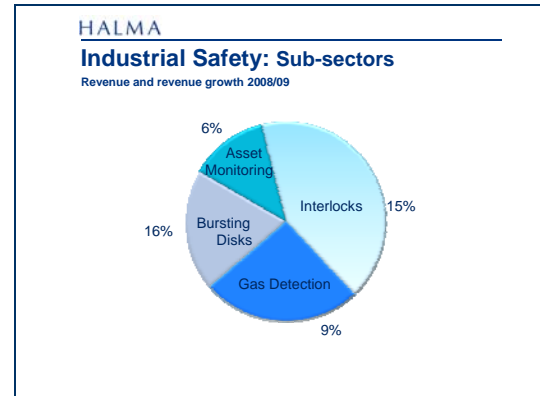
In 2009/10 we expect the UK Water market to be tough, with UK Water utilities in the final year of their five year investment cycle. However, there are signs of greater stability in demand in other businesses giving us an opportunity to grow profits, through improved cost control, even if revenue growth is not achieved. Health and Analysis will absorb the biggest cost of restructuring during the first half but stands to show most benefit from these changes during the second half due to the rate of overhead growth in the second half of last year.



In Industrial Safety, revenues grew by 12% to £105 million and profits by 14% to £22.2 million. This resulted in an increase on return on sales. This was all organic growth with one small disposal in February 2009. This sector is least affected by foreign currency movement. Our revenues and profits have doubled since 2005.



It was pleasing to see strong growth in the US and the Rest of the World/Asia, compensating for a "lack-lustre" performance in the UK.



Our largest Industrial Safety sub-sector is Safety Interlocks where strong growth in Asia Pacific fuelled revenue growth of 15%. I was pleased with growth in Gas Detection, where 9% revenue growth represented an increase in market share. Our Bursting Disk businesses benefited from closer collaboration between our UK and US businesses.

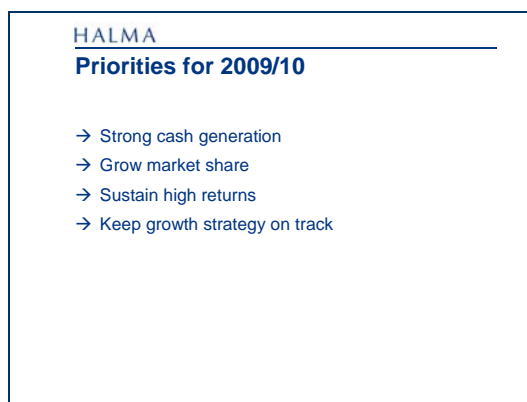
Some of our Industrial Safety businesses were amongst the last to see softness in demand last year. Within this sector, our

Interlock and Gas Detection businesses are relatively resilient since they benefit more from regulatory drivers than Bursting Disks and Asset Monitoring. We will continue to push hard to grow sales and develop territories and, this year, will start manufacturing Interlocks in China.



We have continued to search actively for acquisitions. We completed two small acquisitions with a total spend of £12 million. Both Fiberguide and Oerlikon Optics USA have required some management change since acquisition and we expect both to be earnings enhancing in the current year. We also made two small disposals providing £3 million of proceeds. Both disposals have simplified their respective businesses, in Interlocks and Security Sensors.

Andrew Williams then continued with a review of strategy and priorities for the coming year.



We will continue to focus on cash generation since we have the opportunity to squeeze working capital in times of reduced growth. Part of our senior management awards for the current year will be based on improving and maintaining strong cash flow. If market conditions continue as we currently see them, there are no major changes in currency exchange rates and we make no significant acquisitions, our net debt by the end of March 2010 should be in the range of £25 million - £30 million.

We will continue to work hard to grow market share.

- For example, our Automatic Doors Sensor business, recently launched a new laser scanner sensor for use in the Industrial market, thereby increasing their market share through new product innovation.
- Our Elevator Safety companies have developed a new improved emergency telephone product which replaces a product they previously factored from another manufacturer.
- Our Bursting Disk businesses have increased investment in manufacturing capacity in order to satisfy increasing demand for large explosion vent panels in the US, where regulation is becoming stronger.
- In Health Optics we have recently introduced a new head-mounted ophthalmoscope with an integrated digital camera providing significant competitive advantage over other manufacturers.

As stated in our IMS in February, we had weaker trading during the second half of the year. Revenues were 4% lower than the prior year at constant currency and order intake was 3% below revenue. At the Interim results announcement in November, we stated we had contingency plans in place to react if demand slowed and these have now been acted upon. In the February IMS we also identified that overheads were growing too fast in our Health and Analysis businesses requiring action to reduce costs.

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Sustain returns: action to reduce costs	
	Target Savings
→ Overheads	
→ Headcount reduction	
→ Selective consolidations	£10m p.a.*
→ Tighter discretionary spending	£ 5m p.a.*
→ Products	
→ Procurement groups	
→ Product redesign	£ 5m p.a.*
→ New products	
<small>*compared with H2, 2008/09</small>	

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Keeping growth strategy on track	
→ Organic	
→ People development/management	
→ Asia	
→ Process/product innovation	
→ Acquisitions	
→ Patient approach	

We have taken action targeted at reducing our “fixed” overhead cost base by £10 million per annum relative to the run-rate during the second half of 2008/09. In May 2009, our headcount was 9% lower than at the end of September 2008. Many of our businesses have also introduced pay freezes and we have completed some small company consolidations to reduce management costs. In addition to this “fixed” overhead cost reduction, we are targeting a reduction in “discretionary” overhead spend by £5 million per annum.

We also continue to work hard to reduce the cost of manufacturing of our products. We are targeting to achieve a further £5 million of annualised savings this year through better procurement, existing product redesign and new product introductions.

The cost of these actions to reduce overheads was £1.2 million in 2008/09 and is forecast to be around £2.5 million in the current year. Most of this year’s cost will occur in the first half with the major benefit coming through in the second half.

It is important that we do not just focus on short-term returns and keep our longer term growth strategy on track.

We continue to invest in developing our managers. Our hubs in China and India go from strength to strength and will continue to contribute strongly to our growth in Asia. Since launching the hubs in 2006, our sales to China have more than doubled.

We will invest in innovation. Strong R&D investment will continue, there is increasing collaboration across the group and manufacturing is improving through process innovation. This all helps us to grow market share, increase product margins and drive organic growth in the longer term.

We are seeking acquisitions but being very patient. We are paying particular attention to recent trading trends to ensure we do not acquire businesses that require significant short-term management action. However, there are some good opportunities available.

We remain realistic about our ability to assimilate new acquisitions. We will continue to buy businesses where we know the technology and markets well, taking into account whether we have the management and financial resources available to exploit the opportunities fully.

In summary, our priorities for 2009/10 will be to maintain strong cash generation, grow market share, sustain high returns, and keep our growth strategy on track.

For the current year, our balanced approach at maintaining short-term returns by responding quickly to market changes and protecting medium term growth through disciplined investment will continue. Despite the current market conditions this underpins our confidence to deliver a resilient performance.

¹ Before amortisation of acquired intangible assets of £6.3 million (2008: £4.8 million).

² 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.

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

⁴ 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.*

* see 16 June 2009 Preliminary Announcement for more details.

CAUTIONARY NOTE. The information contained in this summary is believed to be correct at 16 June 2009. 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.