

## HALMA p.l.c.

### PRELIMINARY RESULTS FOR THE YEAR TO 28 MARCH 2009

16 JUNE 2009

#### Halma raises dividend for thirtieth consecutive year

Halma, the leading safety, health and sensor technology group, today announces its preliminary results for the year to 28 March 2009.

Highlights include:

- Revenue from continuing operations up 15% to £455.9m (2008: £395.1m) reflecting double-digit growth in all three sectors and strong underlying organic revenue growth<sup>(1)</sup> of 11%.
- Profit before tax from continuing operations<sup>(2)</sup> up 9% to £79.1m (2008: £72.8m), with organic profit growth<sup>(1)</sup> of 5%.
- These record revenue and profit performances both benefited from an 8% positive contribution from currency translation.
- Revenues outside Europe and the USA grew by 31% and now represent 22% of Group revenue (2008: 19%), in line with our key strategic objective of international expansion.
- Adjusted earnings per share<sup>(3)</sup> from continuing operations up 10% to 15.30p (2008: 13.86p). Statutory earnings per share increased to 14.07p (2008: 12.97p).
- Strong margins and returns maintained with Return on sales<sup>(2)</sup> of 17% (2008: 18%) and ROTIC<sup>(1)</sup> of 13.1% (2008: 14.1%).
- Tougher trading conditions during the second half of 2008/09 have led to profit improvement initiatives which are expected to deliver annualised cost savings in excess of £15m p.a. during 2009/10.
- Strong financial position with modest net debt. Substantial headroom on bank facilities to support continued investment in our existing businesses and in acquisitions.
- Acquisitions of Fiberguide Industries and Oerlikon Golden bring new technology strengths to our Photonics business.
- A record dividend, increased by 5%, marking the thirtieth consecutive year of dividend increases of 5% or more p.a., a record in our sector.

(1) Organic growth rates and Return on total invested capital (ROIC) are non-GAAP performance measures used by management in measuring the returns achieved from the Group's asset base. See note 7 for details.

(2) Adjusted to remove the amortisation of acquired intangible assets of £6.3m (2008: £4.8m).

(3) Adjusted to remove the amortisation of acquired intangible assets. See note 4 for details.

Andrew Williams, Chief Executive of Halma, commented:

"We aim to deliver value to shareholders by growing market share, continuing to deliver high returns, maintaining a strong balance sheet and generating cash. This supports our progressive dividend policy and enables ongoing investment in our existing businesses. We will also continue to invest in selected acquisitions as and when suitable, value-adding opportunities present themselves. Although short-term market demand remains difficult to predict, our balanced approach of maintaining returns by responding quickly to market changes and protecting medium-term growth through disciplined investment will continue through the coming year. Despite the current market conditions, this underpins our confidence in continuing to deliver a resilient performance."

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A copy of this announcement, together with other information about Halma, may be viewed on its website: [www.halma.com](http://www.halma.com).

#### NOTE TO EDITORS

1. Halma develops and markets products used worldwide to protect life and improve the quality of life. The Group comprises three business sectors:

- Infrastructure Sensors We make products which detect hazards to protect assets and people in public and commercial buildings.
- Health and Analysis We make components and products used to improve personal and public health. We also develop technologies and products which are used for analysis in safety, environmental and leisure related markets including water.
- Industrial Safety We make products which protect assets and people at work.

The key characteristics of Halma's businesses are that they are based on advanced technology and offer strong growth potential. Many Group businesses are clear market leaders in their specialist field and, in a number of cases, are the dominant world supplier.

2. High resolution photos of Halma senior management, including Chief Executive Andrew Williams, and images illustrating Halma business activities can be downloaded from its website: [www.halma.com](http://www.halma.com). Click on the 'News' link, then 'Image Library'. Photo queries: David Waller +44 (0)20 8205 0038, e-mail: [dwall@halmapr.com](mailto:dwall@halmapr.com).
3. You can view or download copies of this announcement and our latest Half year and Annual reports from our website at [www.halma.com](http://www.halma.com) or request free printed copies by contacting [halma@halma.com](mailto:halma@halma.com).

A copy of the Annual report and accounts will be made available to shareholders on 29 June 2009 either by post or on-line and will be available to the general public on-line or on written request to the Company's registered office at Misbourne Court, Rectory Way, Amersham, Bucks HP7 0DE, UK.

# HALMA p.l.c.

## Group results for the 52 weeks to 28 March 2009

### Financial highlights

	Change	52 weeks 28 March 2009	52 weeks 29 March 2008
<b>Continuing operations:</b>			
Revenue	+ 15%	£455.9m	£395.1m
Adjusted profit before taxation <sup>(1)</sup>	+ 9%	£79.1m	£72.8m
Statutory profit before taxation	+ 7%	£72.8m	£68.0m
<b>Adjusted earnings per share <sup>(2)</sup></b>			
Adjusted earnings per share	+ 10%	15.30p	13.86p
Statutory earnings per share	+ 8%	14.07p	12.97p
Total dividends (paid and proposed) per share	+ 5%	7.93p	7.55p
<b>Return on sales <sup>(3)</sup></b>			
Return on sales		17.3%	18.4%
<b>Return on total invested capital <sup>(4)</sup></b>			
Return on total invested capital		13.1%	14.1%
<b>Return on capital employed <sup>(4)</sup></b>			
Return on capital employed		47.7%	55.8%

Pro-forma information:

- (1) Adjusted to remove the amortisation of acquired intangible assets of £6.3m (2008: £4.8m).
- (2) Adjusted to remove the amortisation of acquired intangible assets. See note 4 for details.
- (3) Return on sales is defined as adjusted<sup>(1)</sup> profit before taxation from continuing operations expressed as a percentage of revenue from continuing operations.
- (4) Organic growth rates, Return on total invested capital and Return on capital employed and are non-GAAP performance measures used by management in measuring the returns achieved from the Group's asset base. See note 7 for details.

## Chairman's statement

### *Thirty years of dividend growth of 5% or more per annum*

#### Introduction

This financial year marks an historic milestone for Halma. Subject to shareholders approving the final recommended dividend of 4.78p per share, an increase of 5% for the year, this will be the thirtieth consecutive year of dividend increases of 5% p.a. or more, which we believe is a record for our sector.

I thought it might be useful to reflect on some of the important principles which have contributed to that performance over the three decades.

- Firstly, we invest in companies with robust market drivers, making products which target non-discretionary spend where it is difficult for competitors to get into the market and where value far exceeds costs thereby helping to drive strong margins.
- Secondly, our management philosophy is to devolve responsibility for all aspects of performance to the individual companies themselves. This keeps them close to their markets, understanding customer needs and driving strong innovation where it counts – in the market.
- Thirdly, we standardise reporting and risk assessment across all companies.
- Fourthly, as a result, we produce good returns on total invested capital (this year 13.1%) and generate cash which we use to finance dividends, and the balance we reinvest in the businesses themselves or invest in acquiring more companies which meet these business criteria.

Reading this, you might think that all sounds rather obvious – why don't more companies do it? Some do. The difference perhaps is that we stick to it, because we believe it works. Take one example: surely we do not need so many managing directors, finance directors and so on; why not consolidate dramatically and save swathes of cost? The answer is that we could do and occasionally we will consolidate two or more companies. However, in the process of consolidation, typically what happens is that everyone becomes internally focused, attention on the market reduces, innovation falters and ground is lost (often permanently) all for a transient one-off cost saving.

Having said that, we are not frozen in time, we continually question the basics and change where needed. Some examples of this over the last few years are:

### **Geographic markets**

We have seen recently the strong emergence of the developing economies. However, if like many of our companies you had little or no experience of operating there, where would you start? Our response was to set up hubs in China and more recently India, to help our individual companies enter the market. In effect, making the water slightly warmer for them. As a result, for example, we started with three and now have nineteen companies operating in China and last year our sales there increased by 25%.

### **Innovation**

The pace of change gets faster by the day and advances in technology are there to be seized. Within the Group we have strong pockets of deep expertise in many domains and recognise that certain technologies and techniques have applications across the Group in more than just the originating company. So this year we hosted an innovation event to encourage the cross-fertilisation of ideas, which in turn we believe will increase the speed and effectiveness of innovation across the Group.

### **People development**

Our results are a function of the dedication, capability and quality of our people. Over the last few years we have significantly increased our investment in training, running tailor-made programmes for our key people. Increasingly, we have been looking to promote from within, which in turn improves the career prospects for all.

In summary, the Group has very strong, sound foundations which we continuously seek to improve without eroding them. It is these values which have driven our performance consistently over three decades.

### **Halma: what we do and our strategy**

Our business is to make products which protect lives and improve the quality of life for people worldwide. We do this through continuous innovation in market-leading products which meet the increasing demands for improvements to health, safety and the environment. We build strong positions in niche markets where the demand is global. Our businesses are autonomous and highly entrepreneurial.

Strategically we aim to grow profit and revenue in excess of 5% p.a. organically, to have Return on sales in the region of 18% or above and generate post-tax Return on total invested capital of more than 12%. As a result we are highly cash generative and reinvest in our businesses through people, product and market development, continue to acquire more companies with like characteristics, and strive to give annual dividend growth of 5% or more to our shareholders.

### **Results**

Unsurprisingly, the second half saw a weakening in our order intake (the detail is provided in Andrew Williams' report) and action was taken, where necessary, across the Group to bring costs in line with new levels of demand. Nevertheless, full year revenue from continuing operations increased 15.4% to £455.9m (2008: £395.1m) underlying organic revenue growth<sup>1</sup> was 10.7% with currency having a net impact of 8.2%, i.e. 2.5% organic growth at constant currency. Profit before tax and amortisation of acquired intangibles on continuing operations was £79.1m (2008: £72.8m), an increase of 8.7% and organic profit growth<sup>1</sup> was 5.1%, at constant currency a decline of 3.3%. Statutory profit before tax increased 7.0% to £72.8m. The Board is recommending a final dividend of 4.78p per share, an increase of 5%. Our dividend cover<sup>2</sup> has increased to 1.93 times (2008: 1.83 times). Return on total invested capital was 13.1% (2008: 14.1%).

### **Acquisitions and disposals**

During the year we acquired Fiberguide Industries, which manufactures optical fibre cables and assemblies, for an initial cash payment of \$14m. We also purchased the business and assets of Oerlikon Optics USA Inc.'s operation located in Golden, Colorado, USA for \$6m in cash, a business which designs and manufactures optical coatings and optomechanical assemblies and which will operate as part of the newly created Ocean Thin Films, Inc. These two new businesses form part of our Photonics sub-sector within the Health and Analysis sector. There were two very small disposals in the year. Details are included in the Chief Executive's review and Financial review.

### **Governance**

Other than Adam Meyers' appointment to the Board at the beginning of the year and Keith Roy's retirement at the 2008 AGM, there have been no changes at Board level during the year.

### **People**

The second half in particular has been testing for all of us for the economic reasons which saturate our news channels daily. In these uncertain times, people across the Group have reacted to adjust to the circumstances they find in the markets. Often this has been difficult and trying. I give my sincere appreciation and thanks to them all.

## Outlook

Visibility in most of our markets is still limited. Different countries, sectors and products are at differing places in the economic cycle. Therefore, we are encouraging all our management teams to react to their markets as they see fit, keeping costs in line with order intake, but not cutting back on vital product investment. When we see improving demand, our operational gearing should show through strongly. In the meantime, we will concentrate on delivering the high level of returns and cash generation that have been the cornerstone of our resilience over 30 years.

Geoff Unwin, Chairman

<sup>1</sup> See Financial highlights

<sup>2</sup> Subject to the approval of this year's recommended dividend increase at our AGM on 30 July 2009

## Chief Executive's review

### ***Our balanced approach of maintaining short-term returns and protecting medium-term growth will continue through the coming year***

#### **Revenue and profit growth**

Revenue for the full year increased by 15% to a record £455.9m (2008: £395.1m) with underlying organic revenue growth of 11% (after excluding acquisitions). Profit<sup>1</sup> for the full year grew by 9% to a record £79.1m (2008: £72.8m) with underlying organic profit growth<sup>1</sup> of 5% (after excluding acquisitions). Our revenue and profit performance both benefited from an 8% positive contribution from currency movements.

In the second half, organic revenue growth was 8%, benefiting from a 12% positive impact from currency. Order intake during the same period was 3% lower than revenue.

We operate in diverse markets and macro-economic factors affected each of our markets differently in terms of the scale and timing of their impact. Whilst some of our businesses continued to grow revenues, others were affected by lower demand - for example, due to customers reducing inventory or delaying investment decisions. However, the overall impact of lower revenues in the second half was reduced profitability which required action to reduce costs in those businesses affected. The cost of these actions was £1.2m in 2008/09.

In anticipation of current trading trends continuing, we are taking further steps to reduce costs in early 2009/10. We expect the costs of these further actions to be approximately £2.5m. In combination with the action already taken in 2008/09, we anticipate that we will achieve annualised fixed-cost savings in excess of £15m relative to our overhead base during the second half of 2008/09. These savings are in addition to our continuing activities aimed at product cost reductions through value engineering.

#### **Sector review**

Our three reporting sectors all achieved double digit revenue growth.

Infrastructure Sensors increased revenue by 11% and profit by 16% with underlying organic growth in both revenue and profit at constant currency. There was organic profit growth in all four sub-sectors - Fire Detection, Security Sensors, Automatic Door Sensors and Elevator Safety - although there were differences in the revenue growth levels achieved across geographic regions. For example, our Fire Detection business grew revenue strongly in the UK whilst our Security Sensor business continued to experience soft market conditions there. The majority of our Infrastructure Sensors products are fitted to existing commercial and public buildings to comply with safety regulations. During the year, the impact of the slowdown in new commercial/public building construction was mitigated somewhat by increasing sales into existing buildings - particularly where major customers also refocused their efforts on selling more into existing installations.

Revenue in Health and Analysis grew by 23% whilst profits increased by 3%. Fluid Technology and Health Optics achieved revenue and profit growth. Our Photonics business was adversely affected by high overhead costs and delayed new products (now launched) whilst our Water business suffered a major reduction in UK demand. As expected, UK water utilities reduced capital expenditure in year four of their five-year investment cycle but a number also delayed investment due to concerns over constraints within their business. As highlighted in our February Interim Management Statement, significant action was taken in both Photonics and Water to improve profitability. These actions included senior management changes, organisational restructuring and headcount reduction. We anticipate seeing the benefits of these actions come through most strongly in the second half of 2009/10.

Our Industrial Safety businesses delivered a good performance with revenue up 12% and profit up 14%. There was underlying organic growth in both revenue and profit at constant currency. There were particularly strong returns from Gas Detection and Safety Interlocks. Our Bursting Disk businesses grew market share and implemented common manufacturing and sales processes which improved their competitiveness. Following good growth in recent years, Asset Monitoring experienced weaker demand for subsea survey products in the North Sea due to some customers delaying major survey projects.

### **Growing revenue in export markets**

Double digit revenue growth was achieved in all major geographic regions except the UK where revenue fell by 4% mainly due to weakness in our Water, Security Sensor and Asset Monitoring businesses. It was encouraging that we were able to mitigate the impact of this reduction in UK revenue with continued growth in international markets. Revenue outside our traditional operating bases of the USA, UK and Mainland Europe increased by 31% and now represents 22% of Group revenue (2008: 19%). International expansion remains one of our key strategic objectives.

It was pleasing to see revenue from China grow by a further 25% this year to £12m, building on the success of the Halma hubs established there in 2006 (at which time our annualised revenue was £6m). Our new manufacturing hub in Shanghai is operational and an additional three companies are starting to build their products in the region for the first time.

In September 2008, we launched a new Halma hub in Mumbai, India where we are recruiting commercial and technical staff for Group companies in all three sectors. We remain committed to increasing our revenues from developing markets. In the coming year, we will continue to make modest investments towards achieving this goal.

### **Acquisitions and disposals**

We made two acquisitions and two small disposals during the year.

Our two acquisitions added new technology and products to our Photonics business. In September 2008 we acquired Fiberguide Industries, a manufacturer of specialist fibre optic components, for \$14m. In November 2008 we acquired the Colorado operating assets of Oerlikon Optics USA for \$6m, adding new optical coating capabilities and capacity to our existing Ocean Thin Films business. Fiberguide is based in New Jersey, USA and Oerlikon in Colorado, USA. Since acquisition, both businesses have required some reorganisation which is now substantially complete and both are expected to be earnings enhancing in 2009/10.

In January 2009, we sold the assets of the South African based portion of our Security business, Texecom, to local management at book value. This significantly simplified our continuing security business whilst maintaining strong distribution channels in an important territory.

In February 2009, we sold our remaining high-power resistor business, Fortress Systems Pty based in Melbourne, Australia, to Telema SpA based in Milan, Italy for Aus\$2.6m. Prior to this disposal, Fortress Systems also distributed our Safety Interlock products and we have merged this retained activity under the management of Fortress Interlocks, UK.

### **A strong balance sheet**

We ended the year with a strong balance sheet and net debt of £51m (2008: £44m). Our bank facilities are in place until 2013. This gives us plenty of headroom within our core borrowing facilities of £165m to invest in existing businesses and in acquisitions. Our cash generation throughout the year was satisfactory, although the effect of currency exchange rate changes increased the value of our loans by £17m. Almost all of our borrowings are in Euro and US Dollars and financed the recent acquisitions in Europe and the USA.

Capital expenditure in existing operations increased by 7% to £16.8m (2008: £15.7m) as our companies continued to invest in their business to maintain high returns. The average return on capital employed in our operating companies was 56%.

### **Innovation maintains high returns**

Halma's resilience over the years is reflected in our ability to maintain high returns. Key to this is our investment in value engineering existing products and developing new products. It is pleasing to report that, despite tougher market conditions this year, our product margins were robust. In Halma, product pricing is determined within each operating company and is typically based on the 'value' to customers. Looking ahead, we are not complacent and our efforts to maintain healthy returns continue apace. This year our expenditure on R&D increased by 23% to £22.9m, equivalent to 5% of revenue (2008: 4.7%).

### **Encouraging more collaboration inside Halma**

Following the period end, in May 2009 we held our first Innovation and Technology Exposition. For the first time, the senior managers from all Halma companies were brought together in one location to identify new collaboration opportunities by sharing their expertise in technology, manufacturing, finance, sales and marketing. In recent years, we have been encouraging more interaction between Halma companies and this event showed that we have benefited from this already but still have a lot of new opportunities. In future I hope to highlight a number of successful new products or significant process improvements which were first initiated at this inaugural event.

### **Corporate responsibility and sustainability**

Halma's commitment to the environment, safety and improving the quality of life for individuals continues to be reflected in both the way we do business and the products we create for our customers.

Our 'operational' commitment is shown by setting clear objectives in areas ranging from carbon policy to the safety of our employees. We set objectives because they make good business sense. These are regularly reviewed and, where necessary, acted upon by the Board.

The positive impact that our products have on society and the environment is significant and is a source of satisfaction for employees.

## Benefiting from investment in people development

We have continued to benefit from our efforts to develop the quality and depth of management talent throughout the Group. We are committed to maintaining this investment since it not only equips people to lead our businesses through the current market uncertainty but also ensures we have effective succession planning and renewed momentum when markets improve.

The Halma Executive Development Programme (HEDP) is our flagship training programme and has had a major influence on the careers of many of our senior managers since it was launched three years ago. I would like to take this opportunity to record our thanks to Nigel Young, the Executive Board member who successfully led the creation of HEDP, who retired in March 2009. Nigel worked in Halma for many years as a Managing Director and Divisional Chief Executive, and we wish him a long and happy retirement.

Delivering consistently high returns requires not just talented people but leaders who set demanding goals and build strong teams with the commitment and innovation to achieve them. The efforts of all Halma employees to achieve such high standards so consistently is appreciated and I thank all of them for their contributions during the past year.

## Outlook

We aim to deliver value to shareholders by growing market share, continuing to deliver high returns, maintaining a strong balance sheet and generating cash. This supports our progressive dividend policy and enables ongoing investment in our existing businesses. We will also continue to invest in selected acquisitions as and when suitable, value-adding opportunities present themselves.

One of Halma's strengths is that we operate in diverse niche markets, which have robust long-term demand drivers and where we build strong global market positions. In the past year, there have been some unexpected and sometimes conflicting market trends. However, this variation in market characteristics also contributes to our resilience since whilst some might be in decline, others continue to trade well or are in the process of recovery.

Currently, we are managing the business on the basis that many of our end markets are unlikely to support organic revenue growth in the coming year. We believe we can grow market share and have a flexible manufacturing base which can cope if revenue grows faster than anticipated. In order to maintain returns and absolute earnings, individual businesses have taken action to reduce direct and indirect costs and the benefits are expected to show through in the second half of the year.

We will continue to invest in innovation, people development and growth in developing markets. Although short-term market demand remains difficult to predict, our balanced approach of maintaining short-term returns by responding quickly to market changes and protecting medium-term growth through disciplined investment will continue through the coming year. Despite the current market conditions, this underpins our confidence in continuing to deliver a resilient performance.

Andrew Williams, Chief Executive

<sup>1</sup> See Financial highlights

## Financial review

### *A strong financial position*

#### **Another year of good progress**

For the sixth consecutive year we are reporting record results. Results from continuing operations were as follows:

	2009 £m	2008 £m	Percentage change		
			Total	Organic growth <sup>1</sup>	Organic growth <sup>1</sup> at constant currency
Revenue	455.9	395.1	15.4%	10.7%	2.5%
Adjusted profit	79.1	72.8	8.7%	5.1%	(3.3%)

Organic growth<sup>1</sup> is calculated before the inclusion of acquisitions and our target is 5% year on year improvement. We benefited from favourable currency movements in the translation of our results to Sterling.

### Revenue from continuing operations

These results include the cost of reorganisation activities undertaken in the second half of the year to reduce the base level of overhead cost. This charge against profits amounted to £1.2m and we expect that approximately a further £2.5m will be expensed in 2009/10 for the cost of further actions. It is anticipated that these combined actions will reduce overheads by at least £15m compared with the run rate in the second half of the year, being approximately 7% of 2008/09 total overheads.

Whilst in this year one profit-related measure fell slightly below the demanding targets we set for ourselves, the KPIs collectively show the high returns and good performance delivered by Halma, even in a tougher environment. Our balance sheet remains strong.

In the second half of the year revenues increased by 12% but profits increased by only 2%. There was an approximately 12% benefit to revenue and profit from currency translation in the second half compared with approximately 5% in the first half. The profit performance in the second half of the year was heavily influenced by the increased overhead costs in the Health and Analysis sector discussed in the Chief Executive's and Sector reviews.

### Strong sector revenue growth

All three sectors increased revenues once again. Infrastructure Sensors, our largest sector at 41% of total revenue, grew by 11%, all organic growth. Health and Analysis increased revenue by 23% and Industrial Safety by 12% and both of these sectors also delivered double digit organic revenue growth, at a similar level to Infrastructure Sensors.

Infrastructure Sensors and Industrial Safety profit growth was strong, at 16% and 14% respectively. As indicated above, Health and Analysis produced profit only marginally above last year including the benefit of acquisitions resulting in us undertaking reorganisation activity.

### Expanding business outside the UK

Outside the UK there was very strong revenue growth. Revenue from continuing operations by destination was as follows:

£ million	Revenue	% growth	% of total
Mainland Europe	132.5	22.9%	29.0%
United States of America	120.7	17.2%	26.5%
United Kingdom	104.4	(4.4%)	22.9%
Asia Pacific and Australasia	54.1	26.2%	11.9%
Other countries	44.2	37.9%	9.7%
	455.9	15.4%	100.0%

For the first time Mainland Europe was the biggest sales destination with the United Kingdom third largest behind the USA. Growth in Mainland Europe was widespread with our Door Sensors business performing very well and boosted by the full year contribution of Riester, a manufacturer of handheld medical and ophthalmic devices, acquired in the second half of 2007/08. Health and Analysis was a good contributor to revenue growth in the USA, typically a strong market for its products and a region which may show signs of economic recovery earliest. The decline in the UK was primarily due to lower sales by our water leak detection businesses to the UK water utilities, by our subsea asset monitoring business to its customer base in the North Sea and continued softness in the demand for our Security Sensor products.

Revenue to the rest of the world (outside Mainland Europe, USA and UK) increased by 31.2% from 19.0% of total revenue to 21.6%. We are targeting growth in these territories and it is pleasing to see this trend. The growth in Asia Pacific and Australasia included 25% growth in China and 20% growth in India. These are still small markets for us in absolute terms but we believe they offer good long-term potential and therefore they continue to receive a lot of investment. Rest of World revenues benefited from the addition of Riester, with a geographic footprint complementary to Halma's traditional areas of strength, and a number of other businesses grew well here including our Infrastructure Sensors businesses and those selling into the energy-related markets.

### Favourable currency impact

The international nature of our business makes currency movement an important factor in our performance, especially in times of volatile currency markets. This year there was a significant favourable currency impact on our results with an 8% increase in revenue and profit due to currency translation.

Other than Sterling, the main currencies for Halma are the US Dollar and Euro. Approximately 30% of Group revenue is denominated in US Dollars and 20% in Euros. We do not hedge foreign currency profits but do hedge actual (rather than forecast future) sales and purchase transactions into the functional currency of the relevant operating company. Currency loans are used to hedge a proportion of the net currency assets on our balance sheet. As noted below, because we have borrowings denominated in currency, movements in exchange rates impact on our headroom in our borrowing facilities.

Around half of our revenue originates in the UK and of that approximately 50% is exported, mostly to Europe and the Rest of World territories. There is some natural hedging and as discussed later in the review of risks, we are reviewing our currency hedging strategy in the context of the current environment to ensure individual businesses remain competitive in export markets without significant future exposure due to rapid movement in currency exchange rates.

	Weighted average rates used in income statement		Year end exchange rates used to translate balance sheet	
	2009	2008	2009	2008
US Dollar	1.72	2.01	1.43	1.99
Euro	1.20	1.42	1.08	1.26

As a guide to the sensitivity of translated results to currency movements, a 1% movement in the US Dollar relative to Sterling is expected to change revenue by £1.3m and profit by £0.2m in a full year. A 1% change in the Euro would change revenue and profit by £0.8m and £0.2m respectively.

### **Margins remain strong**

Return on sales<sup>1</sup> was at the high rate of 17.3% (2008: 18.4%). This metric reflects our rate of profitability and the high value our customers place on our products. This year the Return on sales is just below our KPI target of around 18%. The Group typically operates in the range of 16-20% Return on sales and the figure has been above 16% for the past 24 years. Maintaining the rate of profitability within our target range is an important focus for 2009/10.

One element of the year on year decrease in Return on sales is the reorganisation costs noted above. Infrastructure Sensors and Industrial Safety increased their Return on sales compared with the prior year. Health and Analysis Return on sales fell from 20.7% to 17.4% due to lower rates of profitability in the Water and Photonics sub-sectors. Gross margins, being revenue less the cost of materials and direct labour, have remained very steady indicating that the decline in Return on sales is mostly related to overheads.

### **Lower effective tax rate**

The effective tax rate on profit before amortisation of acquired intangible assets was 27.7% (2008: 29%). As indicated last year the reduction primarily arises from the reduction in the UK rate of corporation tax from April 2008.

There has been a broad trend in recent years towards a reduction in corporation tax rates around the world and this benefits us. The effective tax rate in any particular year will depend on the geographic mix of profit made by the Group. We expect the Group's effective tax rate to remain at close to its current level in the near future.

### **Finance costs increase**

The net finance expense in the Consolidated income statement increased to £3.4m (2008: £2.1m). This resulted from a net pension finance charge £0.5m higher than the prior year combined with the increased cost of financing a higher level of debt throughout the year, due in particular to the Riester acquisition made at the end of the third quarter of 2007/08, offset somewhat by our good cash generation and reduced interest rates.

In 2009/10, we anticipate that the net pension finance charge will increase by a further £1.2m due to the deterioration in pension plan asset values that occurred in 2008/09. Subject to any further acquisition expenditure, this should be offset partly by a lower cost of financing external debt assuming that interest rates remain at their current relatively low levels. Of course this also means we would earn lower amounts of interest on any cash deposits held.

### **Further growth in earnings per share and dividends**

Adjusted earnings per share<sup>1</sup> increased 10% to 15.30p (2008: 13.86p). This increase is above the rate of increase in profit before amortisation of acquired intangible assets due primarily to the lower effective tax rate this year. Statutory earnings per share were 8% higher at 14.07p (2008: 12.97p) a slightly lower rate of increase due to the extra amortisation of intangible assets on recent acquisitions.

In line with our policy of progressive and sustainable dividends, the Board has recommended a further increase of 5% in the final dividend, subject to shareholder approval. Together with the increase of 5% in the interim dividend this gives a total dividend of 7.93p per share (2008: 7.55p), the 30th consecutive year of 5% or more dividend increases. The cumulative dividend paid out over this 30-year period will be £293m.

Dividend cover (calculated on earnings before amortisation of acquired intangible assets) increased to 1.93 times, moving closer to our target of 2 times earnings cover.

### **ROTIC<sup>1</sup> of 13.1% and ROCE<sup>1</sup> of 47.7%**

Return on total invested capital (ROTIC), the post tax return on the Group's assets including all historic goodwill, was 13.1% (2008: 14.1%) comparing very favourably with the Weighted average cost of capital (WACC) calculated as currently being 9% (2008: 8.4%). This is a key measure for us of shareholder value creation.

Also typical of our high returns, Return on capital employed (ROCE) was once again strong at 47.7% (2008: 55.8%). Efficient use of operating assets within our business is an integral part of our business model and this shows through in our consistently high returns. Both ROTIC and ROCE have been reduced because of the higher Sterling value of currency denominated assets given the weakening of Sterling. See note 7 for the definitions of ROTIC and ROCE.

### **Capital structure remains strong**

Our strategy is to use our balance sheet to sustain and accelerate business development. We continue to have access to borrowings at competitive rates and view a modest level of debt as an effective way to fund the Group's progress. Our treasury policies aim to ensure there is significant liquidity and that funds are held in highly rated banks with risks spread. No speculative treasury transactions are undertaken.

We put in place a £165m five-year syndicated revolving credit facility on attractive terms with a core group of banks in February 2008. The Group continues to operate well within its banking covenants and with ample headroom on its facilities.

We ended the year with net debt of £51.2m (2008: £44.3m). As well as financing the growth of our business we funded two acquisitions in the year. We hold most of our debt in US Dollars and Euros having financed past acquisitions in those currencies which brought with them currency assets. The Sterling equivalent of bank loans increased by £17m in the year due to exchange rate movements, reducing headroom on our available borrowing facilities but not to a significant extent.

#### **Good cash flow generation and strong balance sheet**

Cash generated from operations, excluding taxation paid, was £86.4m (2008: £76.0m) representing 109% (2008: 104%) of adjusted profit<sup>1</sup>. A summary of the Group's cash flow is as follows:

<b>Change in net debt £ million</b>	<b>2009</b>	<b>2008</b>
Cash generated from operations	86.4	76.0
Acquisition of businesses	(12.4)	(46.5)
Disposal of businesses	2.9	2.4
Development costs capitalised	(3.8)	(3.8)
Net capital expenditure	(15.2)	(14.9)
Dividends paid	(28.8)	(27.3)
Taxation paid	(20.5)	(17.6)
Issue of shares/treasury shares purchased	(0.2)	0.2
Net interest paid	(2.7)	(1.8)
Exchange adjustments	(12.6)	(3.3)
	(6.9)	(36.6)
Net debt brought forward	(44.3)	(7.7)
Net debt carried forward	(51.2)	(44.3)

Because of the weakness in Sterling relative to the US Dollar and Euro when compared to the March 2008 year end, many balance sheet headings are reported at increased levels. A clearer picture of movements is given in the Consolidated cash flow statement where currency movements are adjusted out within the various headings.

Our balance sheet remains strong. Across the Group there is always considerable emphasis on the management of working capital including inventory. At a time when there is reduced availability of export insurance cover we have tightened further our processes to secure debtor balances. Our risk is reduced because no customer represents more than 3% of Group revenues and debts are spread across many customers. Responsibility for credit control and debt collection continues to be down at the operating company level, closest to the customer.

#### **Acquisition and disposal activity**

Acquisition expenditure in the year was £12.4m (2008: £46.5m). This comprised Fiberguide Industries acquired in September 2008 and the Colorado operation of Oerlikon Optics USA in November 2008.

Fiberguide, based in New Jersey, designs and manufactures complex optical fibre cables and assemblies and was acquired for \$14m. Its most recent annual accounts prior to acquisition show operating profit of \$1.8m on revenues of \$10.7m. Deferred purchase consideration of up to \$10m is potentially payable to the vendors based on achieving earnings growth objectives. Oerlikon is a much smaller business acquired for \$6m and specialising in optical coatings. This was substantially the acquisition of complementary assets enabling the expansion of our existing optical coating business within the Ocean Optics business. Both join our Photonics sub-sector within the Health and Analysis sector.

Two small disposals were made in the year. In January 2009, the assets of the South African operation of Texecom, our Security Sensor business, were sold to local management at asset value (approximately £1.5m). In February 2009, the high-power resistor business of Fortress Systems Pty was sold for £1.2m. These disposals are not treated as discontinued operations because of their size and since there is no substantial change in the Group's operations.

#### **Sustaining capital expenditure**

The expenditure on property, plant and computer software in the year was £16.8m (2008: £15.7m). This year's figure represents 151% of depreciation.

Proposed capital expenditure receives close scrutiny, although we expect to continue to invest at current levels in the foreseeable future, enabling our businesses to take opportunities as they arise. With the Group's very high Return on capital employed there is a good payback for the projects undertaken.

#### **Continued high pension contributions**

At year end the pension deficit for our defined benefit plans, on an IAS 19 basis, was £42.6m (2008: £36.0m) before the related deferred tax asset. There has been a fall in the value of plan assets to £89.8m (2008: £110.0m) with scheme liabilities valued at £132.4m (2008: £146.0m). Pension plan assets are 64% invested in equities whose value has fallen in 2008/09. As noted in the finance cost section of this review, the lower value of plan assets will increase Group finance

costs in 2009/10. The reduction in pension plan liabilities is mainly the result of the increase in the discount rate used to value those liabilities.

The Group's defined benefit pension plans were closed to new members in 2003. We are currently making extra contributions at the rate of £6m per annum into the plans as we work toward our objective of eliminating the deficit, as measured on an IAS 19 basis, over a 10-year period. The valuation of the main pension plan is currently under review based on figures as at 1 December 2008. We expect the funding position as at that date will have deteriorated and is likely to result in additional cash contributions starting later in 2009. Such extra contributions are a notable use of our cash but are not expected to impact significantly on our ability to make progress across the Group.

The Board reviews pension strategy at the time of each pension fund valuation and significant changes are monitored in between. When reviewing the latest actuarial valuation all assumptions will be reviewed, including those related to mortality, to ensure an appropriate level of pension plan funding to meet our obligations.

### **Growing investment in R&D**

Investment in Research and Development (R&D) is a critical part of the development of the Group and is integral to our core value of Innovation. Expenditure on R&D grew this year by 23% to £22.9m (2008: £18.6m) and now represents 5% of Group revenues (2008: 4.7%). R&D expenditure as a percentage of revenue is one of the KPIs we report on. Industrial Safety maintained the same rate of expenditure this year as last but Infrastructure Sensors and Health and Analysis both increased their rates, well clear of our benchmark level of 4% of revenue.

We are required under International Financing Reporting Standards (IFRS) to capitalise certain development expenditure and amortise the resultant asset over an appropriate period. We have chosen an amortisation period of three years. In 2009 we capitalised £3.8m (2008: £3.8m) and amortised £2.9m (2008: £2.0m) noting that the carried forward figures include a substantial uplift due to currency movements. This results in an asset carried on the Consolidated balance sheet of £10.2m (2008: £8.2m). R&D is by its nature an activity carrying with it some risk, therefore projects, and in particular those giving rise to capitalisation, are subject to close scrutiny and a rigorous approval and review process.

### **Risk diversification in the current environment**

The key operating risks are discussed in the Strategic and Sector reviews. Risks facing the Group, and our response to these, are reviewed in subsequent pages.

We spread risk across our business via a number of independent operating units, each with its own high quality local team, including a senior finance executive. There is a significant level of review both locally and at divisional level, and through the independent review of our Internal Audit function. We have strengthened the resources of Internal Audit this year, resulting in an even greater level of focused scrutiny.

We recognise the additional financial risks facing the Group in the current economic environment, for example from fraud or bad debts, and also understand the risk to our business of not having a structure and cost base appropriate to the circumstances. Each of these areas receives close and continued scrutiny so that we can actively manage risk whilst allowing opportunities to be taken. The Board has taken these factors into account in its Going concern review. Our model of autonomy and accountability is an integral part of Halma and key to us continuing to deliver value for our shareholders in the long term.

Kevin Thompson, Finance Director

<sup>1</sup> See Financial highlights

## **Strategic review**

### **Group overview**

We aim to achieve high returns on invested capital and create sustained shareholder value.

We achieve sustainable competitive advantage by operating in relatively non-cyclical, specialised global markets. Our chosen markets have significant barriers to entry for competitors, are underpinned by resilient growth drivers and must offer the potential for high returns and strong long-term growth.

Our main strategic priority is organic growth. We aim to achieve this by adding value to our businesses and building market leadership that provides high returns. In addition, we aim to acquire companies and intellectual assets that enhance our existing activities.

We are a highly decentralised organisation with an entrepreneurial and achievement-oriented culture.

## Business overview

Halma has three sectors with employees in over 20 countries. You will find a description of sector strategies, trends in our markets and sector performance in the sector reviews below. These sectors are:

- Infrastructure Sensors                    detecting hazards and protecting assets and people in buildings
- Health and Analysis                    improving public and personal health; protecting the environment
- Industrial Safety                        protecting assets and people at work

## Macro-economic, regulatory and competitive environment

Our expectation for 2009/10 is that the macro-economic environment will continue to be challenging but that there will be opportunities to offset this with market share growth in developed regions, rising demand in developing regions and value-enhancing acquisitions.

Increasing environmental and safety legislation in our markets creates demand for our products. Global, national and regional product approvals or technical validations are an increasing cost and technical challenge, but also provide a hurdle to new market entrants.

While the slowdown in our markets has reduced our rate of organic growth, we have a resilient business mix. Many Halma businesses have products which are driven by 'non-discretionary' customer spend, are sold into diverse geographic regions and end-markets and benefit from strong market positions providing upgrading and replacement sales opportunities. We aim to not be over-reliant on any single region, market or customer. For example, our largest customer constitutes less than 3% of Halma revenue.

Our wide spread of activity means that competition issues are managed at Group company or sub-sector level. Details are given in the Sector reviews.

## Group strategy and forward vision

We have a clear vision of how the world is changing. Increased regulation and legislation, long-term demographic trends and generally higher safety, health and environmental expectations are relevant examples. As the world changes, our customers and their needs change too.

Within our operating businesses growth strategies tend to have a three to five-year horizon. However, at Group level, our strategy for acquiring businesses, developing positions in markets and investing in manufacturing resources has a horizon of 10 years or more.

We position our businesses in markets which we identify as relatively non-cyclical. We select markets with good prospects of long-term, sustained growth whatever the prevailing macro-economic conditions. Our criteria for choosing markets is that they are underpinned by resilient growth drivers.

Strategic actions to mitigate the impact of adverse market conditions, and in the short-term to exploit the new economic landscape to our advantage, vary across our businesses. In some markets we have anticipated falling demands by cutting costs so that overheads are aligned with revenue. Our strong balance sheet and committed debt facilities will enable us to take advantage of opportunities requiring capital expenditure in existing businesses or investment in acquisitions.

Throughout our businesses we will continue to invest in customer-facing resources and maintain R&D spend to extend technology leadership. Our aim is to emerge from the current downturn with larger market shares, improved competitive positions, and strong margins.

## Our primary growth drivers

### *Demand for energy and water resources*

Demand for energy and water continues to rise fuelled by population growth and increasing affluence. According to the US Government's energy statistics office, total world consumption of marketed energy is projected to increase by 44% between 2006 and 2030 despite sustained high oil prices projected over the long term. Some of our Health and Analysis businesses are positioned to benefit from the rising demand for energy and water, notably our companies making water treatment, water testing and water distribution management products. Continued investment in oil and gas exploration and extraction drives demand for our Industrial Safety products.

### *Growth in population, ageing and urbanisation*

About half of the world's population, 3.3 billion people, now live in urban areas, expected to rise to almost 5 billion by 2030. Unprecedented urban growth is predicted in the developing world where the urban population is expected to double between 2000 and 2030. Urbanisation drives investment in non-residential buildings like shops, offices, schools and hospitals, the primary market for our infrastructure sensors. Population growth and urbanisation is strongest in Asia, while the ageing population in the West drives demand for health products.

### *Increasing demand for healthcare*

Worldwide demand for healthcare and health-related products continues to grow. During 2008 US healthcare spending rose to \$2.4 trillion (17% of GDP), and is projected to reach \$4.3 trillion by 2016 (20% of GDP). Growing populations drive demand in the developing world and healthcare spending in China is predicted to grow at 11% per year between 2007 and 2012. Population ageing creates rising healthcare demands and health services are becoming available to an increasing

number of people in the developing world as incomes rise. Continuous advances in medical technology create new medical procedures, stimulating demand for new instruments and equipment.

#### *Increasing regulation and rising expectations of health and safety*

Every year over 2 million people die from occupational accidents or work-related diseases. According to the ILO, workers suffer 270 million occupational accidents and 160 million cases of occupational disease annually. Governments worldwide continue to introduce safety and environmental legislation to protect workers from injury, sickness or death at work. Failure to address these risks carries a huge potential cost to our customers.

Globalisation accelerates the spread of health and safety regulation. Multinational businesses based in developed economies effectively export their home market safety standards to the developing countries they operate in. These practices gradually become integrated into the regulatory frameworks of the 'host' countries increasing the market for our safety products.

#### *New technology*

During 2008/09 our businesses invested 5% of revenue (£22.9m) on R&D. In some businesses we develop novel products using state-of-the-art technology, but most of the R&D spend is used to adapt proven technology to new applications and extend our customer base. R&D resources are located in each subsidiary to ensure market needs are understood and met efficiently. This agility results in products with superior value for customers delivering strong product margins and sustained revenue growth.

### **Our strategic priorities**

#### *Organic growth*

Our strategic priorities for 2009/10 are to continue to deliver organic growth where markets support it and maintain a balance between investment and profitability. Whilst we must continue to achieve high returns, it is important for us to ensure we continue to invest to protect our success in the medium term too.

#### *Acquisitions*

We have the financial headroom to support further acquisitions within our existing sectors. The characteristics of target businesses and their markets are most important. They have to be a good fit with our operating culture and strategy in addition to being value-enhancing financially.

#### *Asian business expansion*

Continued revenue growth in Asia remains a priority. Asian markets offer significant and consistent growth potential for our businesses. Asian revenue grew by 26% during 2008/09 and now comprises around 12% of total revenue. The Halma China hubs, established three years ago, now support 19 Halma companies with local sales and manufacturing. Our new manufacturing hub in Shanghai is operational. A new Halma hub was set up in Mumbai, India in mid-2008.

#### *Management development*

We will continue to strengthen our management. Increased investment in training has improved the quality and flexibility of our senior management and the opportunity for movement of managers between Group companies. Active management of our people resources is a key factor in our ability to sustain long-term growth. For example, Executive Board responsibilities are adjusted regularly to match our strategic priorities.

#### *High rate of innovation*

Innovation is continually improving from an already high standard. Our emphasis is on both product and process innovation since the latter often results in significant competitive advantage for niche businesses. The quality of entries in our annual innovation awards, together with the high number of new products launched each year, underline this success.

## **Infrastructure Sensors sector review**

We make products which detect hazards to protect assets and people in public and commercial buildings. Infrastructure Sensors contributed 41% of Group revenue (£186m) and 39% (£33m) of Group profit<sup>1</sup>. Our principal products are sensors for fire, security, automatic doors and elevator safety.

<sup>1</sup> see note 1 to the Preliminary announcement

### **Market trends and growth drivers**

Our Infrastructure Sensor products are primarily used in non-residential buildings such as schools, hospitals, retail stores, offices, airports and hotels. These markets are driven by strong underlying population growth and urbanisation combined with increased health and safety regulation. Purchasing in these sectors tends to be non-discretionary, often dictated by public safety legislation. Our defensive position is strengthened by a high proportion of revenue from products fitted to existing buildings rather than new construction.

While these market characteristics provide some buffering against the current economic downturn, we expect the worldwide slowdown in commercial construction projects to continue. In some territories government spending on

infrastructure projects within economic stimulus programmes may boost demand.

Legislation driven, worldwide demand for our Fire detectors has been relatively resilient, though we saw sales growth softening towards the end of 2008/09. Tightening of Chinese fire product standards is forcing out some local competitors and we anticipate continued growth in China during 2009/10. The trend towards increasingly rigorous fire safety regulations is unabated and customers continue to migrate toward more sophisticated fire detection technology. Our fire products have very low exposure to the residential sector.

Our Security Sensors sell into a global market we estimate to be worth in excess of £2 billion annually. We provide open-platform intruder detection sensors for alarm systems capable of scaling from family homes up to commercial and industrial properties. Our latest sensors meet the growing need for detection outside buildings, in a standalone role or integrated with CCTV. Market forecasts suggest growth of 5% in the medium to long term, although the current economic situation has introduced volatility in the short term varying from country to country. We are well positioned to take market share from competitors on the basis of value and service.

We continue to forecast medium-term Automatic Door Sensor market growth of 3% to 4% annually, although growth may be lower in the short term. During 2008/09 we won several major new customers and European sales rose faster than the global market rate. In the USA we have diversified into security and industrial markets to counter weaker demand to the pedestrian door sector.

During the first half of 2008/09 the Elevator market maintained an annual growth rate of about 5%. The Asian economies accounted for most new elevator construction with the European and US markets (which represent over 70% of our Elevator Safety revenues) driven more by service and upgrading. Towards the end of the financial year demand for new elevators declined significantly, particularly in China. In Europe and North America demand from service and modernisation projects remained strong. Adoption of EN81 elevator safety regulations in more territories is driving demand especially for door sensors and emergency communications products where we are the market leader.

### **Sector strategy**

Our primary strategic goal in this sector is to be the world's leading supplier of safety-critical sensor products and supporting technology for infrastructure monitoring in non-residential buildings. We focus on safety-critical niches, like fire detectors and safety products for elevators and automatic doors, because these are non-discretionary purchases mandated by public safety and building regulations. The large majority of our sales are to the non-residential building sector, although our security products currently have some exposure to the residential market.

We are positioned as independent, expert suppliers of safety-critical components, not as complete system suppliers or installers. This stance avoids competition with our customers - the global businesses that install and maintain complete building monitoring systems.

International Fire Detection product approvals continue to be an important requirement for success, and manufacturing improvements have enhanced competitive advantage. During 2008/09 we spent almost £2m on approvals for products sold into the fire market. Our technology and development pipeline will carry the business forward well into the next decade. Our planned £2.5m investment in a Chinese joint venture to develop our fire detection business did not proceed after it was agreed that our mutual objectives could be achieved without a formal JV arrangement.

In the Security Sensors sector, our strategy is to reposition the business in line with our other three Infrastructure Sensor activities. We will develop a more diverse geographical customer base in North America, Eastern Europe and Asia Pacific; increase the proportion of non-residential sales; and grow OEM business. As expected, product approvals are slowly becoming a barrier to entry in the security industry adding protection against new market entrants. We sold our multi-branch South African wholesale security product distribution business (part of the 2005 acquisition of Texecom) to management in January 2009. Our new strategy in South Africa is to sell just our own products through this newly formed management-owned distributor.

We remain the dominant world supplier of Automatic Door Sensors for pedestrian doors and have increased our penetration of the industrial door market. The launch of a new laser-based activation sensor for automatic doors is a world first and confirms our market leadership. This new technology platform will be a key feature of future innovative product development. In addition, streamlined logistics channels will improve customer service and efficiency.

In 2006/07 we reorganised our five Elevator companies into three regionally focused businesses so that they could work collaboratively on a global scale. The basis of the strategy is to build a worldwide sales presence for the full range of our elevator products. Increased R&D investment has resulted in the launch of important new products in emergency communications, information displays and touch-sensitive elevator controls.

### **Sector performance**

2008/09 was a good year overall, with double digit growth in revenue and profits.

We set new records for Fire Detection sector revenue and profit during 2008/09. We achieved double-digit sales growth in point fire detectors both in the UK and overseas and continued to gain market share, notably in Europe.

In Security Sensors, the benefits of last year's reorganisation delivered improved profit despite a market headwind. Strong export growth did not compensate for falling demand in the UK, our largest market. Competitive pricing and investment in

lean process engineering held margins.

In the Automatic Door Sensors market we continued to grow sales and profits boosted by double-digit growth in industrial applications.

The new global Elevator sales strategy and expansion of sales offices during the past two years led to good revenue growth. Our Elevator business achieved operating cost savings during the year which not only boosted 2008/09 profits but also positioned it for a challenging market in 2009/10.

### **Sector outlook**

Overall, we anticipate slower growth in our Infrastructure Sensors markets during 2009/10, but we are managing our businesses to at least maintain profits at current levels. Developing nations are becoming increasingly aware of life safety issues and are adopting US and European safety regulations and product approvals.

The recession in the developed world economies, together with slower growth in the developing world, has reduced investment in new commercial construction projects. However, in some economies, government fiscal stimulus spending may offset the impact of this contraction.

Continuing consolidation among Fire Detection manufacturers and a shift towards Asian manufacture will continue to challenge operating margins. We will continue to innovate in our manufacturing processes and in product development. The significant cost and scale of continuous investment in worldwide product approvals also defends our margins against potential market entrants.

Whilst the demand for Security Sensors products in the UK may respond to a predicted increase in crime, we anticipate tough market conditions mitigated somewhat by us growing market share in both the UK and new export markets.

Increasing regulation continues to drive growth for our Automatic Door Sensors. Our ongoing commitment to achieving worldwide product approvals, a continuous stream of new products and establishment of local resources in our global markets are key to us sustaining returns in the coming year.

Current demand from Elevator service and modernisation customers remains stable; this niche has proved resilient during previous economic downturns. In the short term, we expect to see reduced demand for products built into new elevators, particularly in China and Dubai. On the plus side, significant new products will extend our offering and increased cross-selling between our businesses offers opportunities for sales growth, particularly in the USA and Europe which represent 70% of our Elevator product revenues.

## **Health and Analysis sector review**

We make products used to improve personal and public health. We develop technologies and products which are used for analysis in safety, life sciences and environmental markets, including water. Health and Analysis contributed 36% (£165m) of total revenue and 34% (£29m) of total profit<sup>1</sup>.

<sup>1</sup> see note 1 to the Preliminary announcement

### **Market trends and growth drivers**

During the past year demand trends in our Health and Analysis markets were variable. Sales have declined in some niches, particularly where customers reduced inventory levels, while in others demand was resilient.

There was a delay in Water customers' capital investment spending in the second half of 2008/09 as utilities waited for governments to announce economic stimulus funding. This added to the anticipated reduced investment in the UK, where utilities are towards the end of their 5-year spending cycle. In both the municipal and industrial water UV treatment sectors the underlying trend remains positive. Equipment validations from independent test labs and government agencies are becoming more important and US validations are increasingly required globally. This will favour those businesses who, like us, can afford to make the upfront investment in product approvals.

Our Photonics products sell into diversified markets including life sciences, medical, research, space, defence and homeland security. About two-thirds of our Photonics sales are in the USA, with many niches dependent on government-sector budgets. Short-term demand patterns in these niches are expected to be uneven, although the diversity of our markets should ensure growth remains available to us.

Increasing environmental monitoring, product performance testing (particularly the growth of solid-state low energy lighting) and food safety regulation are examples of markets offering promising growth prospects for our Photonics products which measure and analyse light. The photonics industry is expected to benefit from the US Government's injection of billions of dollars into science research under the Stimulus Plan.

The long-term trends of increasing life expectancy in the developed world, combined with rising incomes and increased healthcare access in developing countries, provides stable demand for our Health Optics products. In the coming year,

sales of our products to individual ophthalmic specialists are expected to be more resilient than sales of general medical instruments to hospitals.

Continuing consolidation among Fluid Technology customers disrupted demand patterns during 2008 particularly where it resulted in inventory reduction. However, we expect continued strong underlying demand for medical and environmental monitoring instrumentation and anticipate a return to better revenue growth as we move through 2009/10.

### **Sector strategy**

Our Health and Analysis sector has grown strongly in previous years both organically and through acquisitions. Its current focus is on critical technology for the health, scientific and environmental markets where we see excellent opportunities for sustainable long-term growth. It contains some of our most advanced technology and has a relatively high R&D spend. Unlike our other two sectors, payback on R&D projects can be swift although the development risk is higher too. Our Health and Analysis businesses have traditionally been strong in Europe and the USA but weaker elsewhere. In recent years we have successfully targeted significant growth in developing regions.

Our Water business makes products for water UV treatment, leakage control and quality testing. We are the world leader in leakage control instrumentation and aim to strengthen this position through continued new product development and building strong sales distribution in developing countries. Our Water UV treatment businesses develop products for both the drinking water and wastewater markets. A new licensing agreement will allow us to access the drinking water market segment whilst recent North American product approvals will allow us to compete in the growing wastewater recycling sector. We manufacture our own UV lamps and continue to pay close attention to emerging UV light source technologies.

Through strong organic growth and closely targeted acquisitions, we have built a strong presence in the global Photonics components market. This strategy will continue as we seek to deepen our product range and broaden our international presence. R&D and new technology are significant growth drivers and need to be targeted at those markets offering the best returns rather than the most interesting technical challenge. Photonics technology is used widely across the Halma group and there are many opportunities for internal collaboration. In April 2009, we created a new business by merging the newly acquired Colorado assets of Oerlikon Optics USA Inc. with Ocean Thin Films (part of the Ocean Optics business). This new entity will be focused on providing high value optical thin film coatings.

Our Health Optics business has three strong global brands making high quality instruments for health applications - Keeler, Volk and Riester. In recent years, incremental product development has resulted in healthy organic growth and this pragmatic approach to R&D will continue. The acquisition of Riester in 2007 added greater diversity to our geographic footprint and our Health Optics businesses continue to collaborate to grow revenues in regions where they have historically been weaker. In 2008/09, sales outside the USA and Europe represented 36% of revenues compared with 26% the prior year.

In Fluid Technology we make critical components for scientific, medical and environmental instrument manufacturers. Our growth strategy is to extend our product range and increase penetration of new and developing markets via organic growth and acquisitions. We have developed unique technology to solve individual customer needs and are working hard to offer these solutions to a wider customer base, particularly in Europe and Asia.

### **Sector performance**

Our Health and Analysis sector had a relatively disappointing year with profits up by 3% despite achieving revenue growth of 23%. Good progress in Health Optics and Fluid Technology was more than offset by profit declines in Water and Photonics.

Despite growing revenues, profits in Water declined with our water leak businesses experiencing very weak demand from UK water utilities. International growth was satisfactory for all water products and useful progress continues to be made in Asia, in particular. Operating costs were reduced in early 2009 to improve profitability in anticipation of continued short-term weakness in the market.

Photonics profits declined on higher sales. Operating costs increased at a higher rate than revenue due partly to delayed new product introductions. Action has been taken to reduce costs and improve profitability in 2009/10. Following their acquisition in 2008, new management teams are in place at Fiberguide and Oerlikon Optics (now merged with Ocean Thin Films) and both will be earnings enhancing in 2009/10.

Our Health Optics businesses achieved record revenues and profits benefiting from strong growth in international markets and from recently launched new products.

Record revenues and profits were once again achieved by our Fluid Technology businesses supported by continued investment in distribution channels and R&D. Some reduction in demand from existing customers during the year was offset by the addition of new customers.

### **Sector outlook**

We anticipate that demand in our Health and Analysis niche markets during 2009/10 will be relatively resilient, but not immune from the unfavourable economic environment.

We expect continuing weak demand in 2009 in the UK municipal Water sector, offset by increasing demand in export markets. Worldwide, government spending via economic stimulus packages may help us, with the USA alone planning to

spend \$7.5 billion on water programmes. The industrial water customers will offer growth opportunities underpinned by rising health and safety regulation. Increasing regulation in China governing drinking water, wastewater discharge and the environment will also stimulate growth in the medium term.

We foresee continued strong demand in several key Photonics markets offset by softening in others. The US Stimulus Plan will inject \$13 billion into science and R&D investment via government agencies and drive demand for our products in the medium term. In the short term our major focus is on improving profitability through much improved control of operating costs.

We expect a flattening of demand for our Health Optics products in the developed world during 2009. Growth will therefore be achieved through revenue increases in developing regions, like Eastern Europe and Asia, plus market share growth through improved products, quality and customer service levels.

Our Fluid Technology business has opportunities to grow through international market development, new product introduction and market-leading customer service levels. A significant element of our revenue goes to OEM scientific instrument manufacturers and demand amongst those customers has been volatile during 2008. However, there were signs of improved stability during early 2009/10 and we are well placed to exploit this if it continues.

## Industrial Safety sector review

We make products which protect assets and people at work. Industrial Safety contributed 23% of Group revenue (£105m) and 27% of Group profit<sup>1</sup> (£22m).

<sup>1</sup> see note 1 to the Preliminary announcement

### Market trends and growth drivers

Demand for our Industrial Safety products is driven predominantly by health and safety requirements and best practice in industry.

Our assessment is that global Gas Detection markets we target are worth £420m annually with a growth rate in the medium term of 4%. Demand for gas detection products is governed by regulatory requirements which continue to expand across worldwide markets. The developing world is fast adopting Western gas safety standards.

Internal research suggests that the market for Bursting Disks will grow in the medium term by 4% annually with the developing economies increasing at a higher rate. Despite being largely driven by safety regulation, our markets have not been immune to the current economic downturn and demand has been slowing, particularly in the oil and gas and chemical processing sectors. However, we have continued to grow market share and our addressable market through capital investment and improved customer service levels. The growing technical sophistication of our bursting disks now offers the market a cost-effective alternative to pressure relief valves, a more expensive and complex technology.

In recent years, there has been growing demand for Safety Interlocks in most sectors and regions with strong growth focused on the oil and gas market. The industrial sectors feeding growth in China and India, such as metals mining/refining, raw materials production and utilities projects have also been favourable. We benefit from the steady evolution towards stricter health and safety regimes in the still-expanding Asian economies, whilst in the West the legal enforcement of increasing safety legislation provides relative resilience during tougher economic conditions.

Rising global demand for capturing data relating to energy and water usage, and relating to the condition or location of high value infrastructure assets, drives growth for our Asset Monitoring businesses. Some of our products are used in subsea applications for the oil and gas industry. Whilst some of these projects have been delayed for the short term, our long-term prospects remain positive as manned oil and gas exploration or maintenance work is replaced with remotely operated technology, particularly in the most hazardous environments.

### Sector strategy

Global competition in Gas Detection has been met by continuous investment in new products coupled with major improvements in manufacturing processes and procurement. Our new Chinese manufacturing hub and Indian technology resource centre complement UK manufacturing and development activity.

Reorganisation of our UK and US Bursting Disk businesses has resulted in a more collaborative and effective global sales operation. Recent capital investment in manufacturing has made establishing an operation in Asia for local demand a real opportunity. We are expanding our international direct sales presence, including a Far East office. OEM solutions for multinational businesses in the safety and utility markets is a growth area, again opened to us through our improved manufacturing capabilities.

Our primary Safety Interlocks strategy is to protect our strong market share by focusing on customers' needs for high quality sales and applications engineering support coupled with market-leading product quality and delivery. We are extending our sales and production presence in developing markets including our newly established manufacturing hub in Shanghai, China. While we continue to invest in new product development, this is an inherently conservative market with

long product life-cycles.

We have positioned our Asset Monitoring business to satisfy the growing worldwide demand for remote monitoring of valuable or safety-critical assets, particularly in hazardous or remote locations. Our companies develop novel technology to capture data or images and to transmit the information to the customer wherever they are in the world. We specialise in technology for data capture in two hostile environments: beneath the sea and underground. Our wireless communication technology is used already by other Halma companies and there are opportunities for further collaboration in the future.

### **Sector performance**

Industrial Safety achieved organic revenue and profit growth during 2008/09. Weakness in the UK was more than compensated by strong growth elsewhere, particularly in Asia Pacific and Australasia.

In Gas Detection we achieved strong revenue growth significantly above market rates and set a new organic profit record.

Our Bursting Disks business achieved record revenue and profit. Growth exceeded the market rate due to market share growth driven by improved technology and customer service levels.

Our Safety Interlocks business also achieved record sales and profit with our oil and gas products continuing to sell strongly.

Although revenue rose in 2008/09, our Asset Monitoring businesses had a challenging year. A strong first half performance was followed by a decline in demand in the second half which affected our subsea business in particular.

### **Sector outlook**

While the demand drivers in industrial safety markets are relatively resilient, demand patterns for safety products will not be immune to the extent and duration of the current economic downturn. This was demonstrated in 2008/09 where a very strong first half was followed by a weaker second half. Action has been taken to reduce costs and protect profitability in anticipation of a tougher year in 2009/10.

Although there is slowing demand in the oil and gas sector, the outlook for Gas Detection is reasonably resilient. We anticipate continued growth based on our track record of out-performing the market and the constantly evolving legislative drivers which underpin industrial safety markets.

While current positive demand trends for Bursting Disks should continue in the oil and gas sector, demand in the chemical processing industries is likely to be lower. Medium to long-term growth is underpinned by continuous strengthening of industrial safety legislation and rising expectations of safe working practices worldwide.

We anticipate continued strong demand for our Safety Interlock products in the oil and gas market, with a slow but steady increase in contribution from China and India. Underlying demand for interlocks in the worldwide manufacturing sector is expected to be flat.

We anticipate that the UK market will continue to be challenging for our Asset Monitoring products in 2009, particularly in the North Sea oil and gas industry. Whilst there are opportunities for growth in new market segments in the medium term we have taken a pragmatic view of short-term prospects and reduced operating costs to protect profitability for 2009/10.

## **Risk factors**

### **Operational risk**

#### *Description*

We seek to continuously grow our profits, generating a high return for shareholders over the long term within a clear strategic framework. We view risk within the context of this objective as well as in absolute terms.

In any business the inherent risks that are an integral component of business activities must be identified, managed and mitigated. We perceive our primary operational risks to emanate from remoteness of operation and the actions and quality of our employees.

#### *Mitigation*

Our key means of risk control is the choice of the markets in which we operate and the people and methods we use to exploit those market opportunities. Our choice is to operate in the safety products and health-related technology markets which we consider to be robust over the long term. We invest heavily in identifying, recruiting and training talented people who are able to manage the risks we face while delivering the excellent results we require. The depth of market knowledge we have built up within the Group, allows us to adequately evaluate and assess the risks we encounter throughout our operations. We do not place undue reliance on any one Group company, customer, supplier or transaction. We have processes in place to ensure any major transactions are reviewed at the appropriate level, including at Board level if necessary. Our products are predominantly critical components or instruments which are warranted as fit for the purpose rather than systems or intangible products where satisfactory performance is contingent upon third parties.

## **Organic growth and competition**

### *Description*

The Group faces competition in the form of pricing, service, product performance and substitution. These constitute an ongoing threat to our growth.

### *Mitigation*

Our focus on increasing our investment in, and rate of, innovation is a direct result of responding to these risks. Maintaining the high quality of our products is critical. In addition, all businesses maintain management information systems that provide local management with valuable product and market data. By empowering and resourcing local operations to respond to changing market needs, the potential adverse impact of downward price pressure and competition can be mitigated and growth maintained.

## **Research & development**

### *Description*

New products are critical to our organic growth and underpin our ability to earn high margins and high returns over the long term. Protection of our intellectual property is important to our continued success.

### *Mitigation*

R&D is of necessity a risky activity but by devolving control of product development into the autonomous operating businesses, we spread the risk and ensure that the resource is as close to the customer as possible. New product development 'best practice' is shared between Group companies and return on investment of past and future innovation projects is tracked monthly.

## **Intangible resources**

### *Description*

Our businesses build competitive advantage and strengthen barriers to entry in many ways including patents, product approvals, technical innovation, product quality, customer service levels and branding. We look for these qualities in the businesses we seek to acquire.

### *Mitigation*

The main intangible resources which deliver competitive advantage and which support our strategic objectives are: the patents and trade marks which protect our products; our employees, whose understanding of our technology, customers' needs and the dynamics of the markets we operate in, enable us to maintain leadership in many markets; and the enviable reputation enjoyed by our brands for superior product quality and market-leading customer support. Whilst no single product or process is critical to the Group as a whole, all appropriate actions are taken to protect our intellectual property rights.

## **Laws and regulations**

### *Description*

Group operations are subject to wide-ranging laws and regulations including employment, environmental and health and safety legislation. There is also exposure to product litigation and contractual risk.

### *Mitigation*

All Group companies have an employee handbook detailing employment practices, including the need to report any major legal or contractual risks. The Group's emphasis on excellent financial control, the deployment of high quality management resource and strong focus on quality control over products and processes in each operating business helps to protect us from product failure, litigation and contractual issues. Each operating company has a health and safety manager responsible for compliance. We carry comprehensive insurance against all standard categories of insurable risk. Contract review and approval processes mitigate exposure to contractual liability.

## **Information technology/Business interruption**

### *Description*

Group and operational management depend on timely and reliable information from our software systems. We seek to ensure continuous availability and operation of those systems but disruption could delay or impact on decision making and service to our customers.

### *Mitigation*

There is substantial redundancy and back up built into any Group-wide systems. The spread of our businesses offers good protection from individual events and disaster recovery plans are widespread. We have a small central resource available, Halma IT Services, to assist Group companies with any major IT needs, and to ensure adequate IT security policies are set across the Group.

## **Acquisitions**

### *Description*

The identification and purchase of businesses which meet our demanding financial and growth criteria is an important part of

our strategy for developing the Group, as is ensuring the new businesses are rapidly integrated into the Group.

#### *Mitigation*

We aim to pay sensible multiples for businesses whose technology and markets we know well. Divisional Chief Executives are responsible for finding and completing acquisitions in their business sectors subject to Board approval. We support them with central resources to search for opportunities and assist with implementation of a post-acquisition plan. Incentives are aligned to encourage acquisitions which are value-enhancing from day one.

### **Financial irregularities and increasing span of control**

#### *Description*

We recognise that the size and remoteness of some operations may not permit full segregation of duties and that internal and external audit procedures may not always identify a financial irregularity. This risk increases as we pursue our strategy of geographic expansion often into regions with different accounting bases and cultures.

#### *Mitigation*

The Group ensures that there is adequate local management and financial resource in each operational location and regularly reiterates to the Group company officers their fiduciary responsibilities, ensuring they are adequately trained in financial matters whilst maintaining a culture of openness to promote disclosure. Group companies operate a common set of reporting procedures and accounting policies, disseminated via the Group intranet. This year we have further strengthened our Internal Audit function, increasing its independence and enabling greater depth and scope of audit.

### **Cash**

#### *Description*

For any business a key risk is that it will run out of cash or have inadequate access to cash. In addition, cash deposits need to be held in a secure form or location.

#### *Mitigation*

The strong cash flow generated by the Group provides financial flexibility. Cash needs are monitored regularly. In addition to short-term overdraft facilities, the Group holds a 5-year revolving credit facility, renewable in February 2013, which provides sufficient headroom for its needs. Cash deposits are monitored centrally and spread amongst a number of highly rated banks.

### **Treasury risks**

#### *Description*

Foreign currency risk is the most significant treasury related risk for the Group. In times of increased volatility this can have a significant impact on performance. The Sterling value of overseas profit earned during the year is sensitive to the strength of Sterling, particularly against the US Dollar and the Euro. The Group is exposed to a lesser extent to other treasury risks such as interest rate risk and liquidity risk.

#### *Mitigation*

The Group does not use complex derivative financial instruments and no speculative treasury transactions are undertaken. Significant currency denominated net assets and transactions are hedged but future currency profits are not hedged. Currency hedging must fit with the commercial needs of the business and we are currently reviewing hedging strategy and developing tools to further monitor and manage foreign currency exposures. Longer-term trends can only be covered through a wide geographic spread of operations. We closely monitor performance against the financial covenants on our revolving credit facility and are operating well within these covenants.

### **Current economic conditions**

#### *Description*

In current economic conditions businesses face additional or elevated levels of risk. These include market and customer risk, customer default, fraud, supply chain risk and liquidity risk.

#### *Mitigation*

We manage such risks primarily at local company level where they are best understood and where we are closest to the markets and our customers. The financial strength, availability of finance and diversity of the Group provides mitigation to much of this risk. We utilise export credit insurance where this is available and operate robust credit management at each operating company. Each business has undertaken a close examination of its cost structure to determine that it is appropriate to the current economic circumstances it faces and contingency plans are in place for potential future changes. High quality subsidiary boards provide close monitoring of operations whilst the Halma Executive Board identifies any wider trends which require action on a broader basis across the Group.

### **Pension deficit**

#### *Description*

Monitoring the funding needs of the Group's pension plans is essential to funding our pension obligations effectively. Our UK defined benefit pension plans are closed to new members.

### *Mitigation*

There is regular dialogue with pension fund trustees and pension strategy is a regular Halma Board agenda item. The Group's strong cash flows and access to adequate borrowing facilities mean that the pensions risk can be adequately managed. The Group is increasing contributions with the overall objective of paying off the deficit in line with the Actuary's recommendations.

## **Going concern statement**

The Group's business activities, together with the main trends and factors likely to affect its future development, performance and position, and the financial position of the Group, its cash flows and liquidity position, are set out in this Preliminary announcement. The Group has considerable financial resources (including a £165m five-year revolving credit facility) together with contracts with a diverse range of customers and suppliers across different geographic areas and industries. No one customer accounts for more than 3% of Group turnover. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

After making enquiries and after conducting a formal review of the Group's financial resources, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual report and accounts.

## **Responsibility statement of the Directors on the Annual report and accounts**

The responsibility statement below has been prepared in connection with the Company's full Annual report and accounts for the 52 weeks to 28 March 2009. Certain parts thereof are not included within this announcement.

We confirm that to the best of our knowledge:

1. the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
2. the management report, which is incorporated into the Directors' report, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

This responsibility statement was approved by the Board of Directors on 16 June 2009 and is signed on its behalf by:

A J Williams  
Chief Executive

K J Thompson  
Finance Director

# Preliminary results for the 52 weeks to 28 March 2009

## Consolidated income statement

	Notes	52 weeks to 28 March 2009			52 weeks to 29 March 2008		
		Before acquired intangibles amortisation £000	Amortisation of acquired intangibles £000	Total £000	Before acquired intangibles amortisation £000	Amortisation of acquired intangibles £000	Total £000
<b>Continuing operations</b>							
<b>Revenue</b>	1	<b>455,928</b>	<b>–</b>	<b>455,928</b>	395,061	<b>–</b>	395,061
<b>Operating profit</b>		<b>82,508</b>	<b>(6,301)</b>	<b>76,207</b>	74,923	<b>(4,757)</b>	70,166
Finance income		<b>8,405</b>	<b>–</b>	<b>8,405</b>	8,159	<b>–</b>	8,159
Finance expense		<b>(11,826)</b>	<b>–</b>	<b>(11,826)</b>	(10,303)	<b>–</b>	(10,303)
<b>Profit before taxation</b>		<b>79,087</b>	<b>(6,301)</b>	<b>72,786</b>	72,779	<b>(4,757)</b>	68,022
Taxation	3	<b>(21,888)</b>	<b>1,683</b>	<b>(20,205)</b>	(21,101)	<b>1,413</b>	(19,688)
<b>Profit for the year from continuing operations</b>		<b>57,199</b>	<b>(4,618)</b>	<b>52,581</b>	51,678	<b>(3,344)</b>	48,334
<b>Discontinued operations</b>							
Net profit for the year from discontinued operations	8	<b>–</b>	<b>–</b>	<b>–</b>	1,950	<b>–</b>	1,950
<b>Profit for the year attributable to equity shareholders</b>	1	<b>57,199</b>	<b>(4,618)</b>	<b>52,581</b>	53,628	<b>(3,344)</b>	50,284
<b>Earnings per share</b>							
<b>From continuing operations</b>							
Basic	4	<b>15.30p</b>		<b>14.07p</b>	13.86p		12.97p
Diluted				<b>14.03p</b>			12.90p
<b>From continuing and discontinued operations</b>							
Basic				<b>14.07p</b>			13.49p
Diluted				<b>14.03p</b>			13.42p
<b>Dividends in respect of the year</b>							
Paid and proposed (£000)	5			<b>29,664</b>			28,187
Paid and proposed per share				<b>7.93p</b>			7.55p

## Consolidated balance sheet

	28 March 2009 £000	29 March 2008 £000
<b>Non-current assets</b>		
Goodwill	198,084	161,230
Other intangible assets	40,894	33,252
Property, plant and equipment	71,408	57,452
Deferred tax assets	10,003	10,069
	<b>320,389</b>	<b>262,003</b>
<b>Current assets</b>		
Inventories	51,381	44,267
Trade and other receivables	103,544	99,741
Tax receivable	3,275	-
Cash and cash equivalents	34,987	28,118
	<b>193,187</b>	<b>172,126</b>
<b>Total assets</b>	<b>513,576</b>	<b>434,129</b>
<b>Current liabilities</b>		
Borrowings	6,559	7,035
Trade and other payables	63,379	69,420
Tax liabilities	3,756	8,273
	<b>73,694</b>	<b>84,728</b>
<b>Net current assets</b>	<b>119,493</b>	<b>87,398</b>
<b>Non-current liabilities</b>		
Borrowings	79,614	65,358
Retirement benefit obligations	42,568	35,957
Trade and other payables	3,732	2,874
Deferred tax liabilities	14,353	6,108
	<b>140,267</b>	<b>110,297</b>
<b>Total liabilities</b>	<b>213,961</b>	<b>195,025</b>
<b>Net assets</b>	<b>299,615</b>	<b>239,104</b>
<b>Equity</b>		
Share capital	37,539	37,446
Share premium account	18,146	16,949
Treasury shares	(2,759)	(3,292)
Capital redemption reserve	185	185
Translation reserve	47,673	7,144
Other reserves	4,246	5,106
Retained earnings	194,585	175,566
<b>Shareholders' funds</b>	<b>299,615</b>	<b>239,104</b>

## Consolidated statement of recognised income and expense

	52 weeks to 28 March 2009 £000	52 weeks to 29 March 2008 £000
Exchange differences on translation of foreign operations	40,336	11,352
Exchange differences transferred to profit on disposal of foreign operations	193	64
Actuarial losses on defined benefit pension plans	(11,092)	(3,886)
Tax on items taken directly to reserves	6,315	343
Net profit recognised directly in reserves	35,752	7,873
Profit for the year	52,581	50,284
<b>Total recognised income and expense for the year</b>	<b>88,333</b>	<b>58,157</b>

## Reconciliation of movements in shareholders' funds

	52 weeks to 28 March 2009 £000	52 weeks to 29 March 2008 £000
Shareholders' funds brought forward	239,104	206,608
Profit for the year	52,581	50,284
Dividends paid	(28,785)	(27,329)
Exchange differences on translation of foreign operations	40,336	11,352
Exchange differences transferred to profit on disposal of foreign operations	193	64
Actuarial losses on defined benefit pension plans	(11,092)	(3,886)
Tax on items taken directly to reserves	6,315	343
Issue of shares	1,290	1,844
Treasury shares movement	533	(1,628)
Movement in other reserves	(860)	1,452
<b>Total movement in shareholders' funds</b>	<b>60,511</b>	<b>32,496</b>
<b>Shareholders' funds carried forward</b>	<b>299,615</b>	<b>239,104</b>

## Consolidated cash flow statement

	Notes	52 weeks to 28 March 2009 £000	52 weeks to 29 March 2008 £000
<b>Net cash inflow from operating activities</b>	6	<b>65,931</b>	58,401
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(15,209)	(14,787)
Purchase of computer software		(1,631)	(952)
Purchase of intangibles		(220)	–
Proceeds from sale of property, plant and equipment		1,884	831
Development costs capitalised		(3,846)	(3,796)
Interest received		566	721
Acquisition of businesses		(12,388)	(46,537)
Disposal of businesses		2,867	2,405
<b>Net cash used in investing activities</b>		<b>(27,977)</b>	(62,115)
<b>Financing activities</b>			
Dividends paid		(28,785)	(27,329)
Proceeds from issue of share capital		1,290	1,844
Purchase of treasury shares		(1,442)	(1,632)
Interest paid		(3,305)	(2,473)
(Repayment)/drawdown of borrowings	6	(3,519)	37,796
<b>Net cash (used in)/from financing activities</b>		<b>(35,761)</b>	8,206
<b>Increase in cash and cash equivalents</b>	6	<b>2,193</b>	4,492
Cash and cash equivalents brought forward		28,118	22,051
Exchange adjustments		4,676	1,575
<b>Cash and cash equivalents carried forward</b>		<b>34,987</b>	28,118

# Notes to the Preliminary Announcement

## 1 Segmental analysis

### Sector analysis (primary segment)

	Revenue		Profit	
	2009 £000	2008 £000	2009 £000	2008 £000
Infrastructure Sensors	186,042	167,262	32,950	28,504
Health and Analysis	165,123	134,630	28,738	27,842
Industrial Safety	105,026	93,731	22,159	19,355
Inter-segmental sales	(263)	(562)	–	–
Central companies	–	–	(1,339)	(778)
<b>Continuing operations</b>	<b>455,928</b>	<b>395,061</b>	<b>82,508</b>	<b>74,923</b>
Discontinued operations (note 8)	–	2,894	–	436
Net finance expense	–	–	(3,421)	(2,144)
<b>Group revenue/profit before amortisation of acquired intangibles</b>	<b>455,928</b>	<b>397,955</b>	<b>79,087</b>	<b>73,215</b>
Amortisation of acquired intangible assets	–	–	(6,301)	(4,757)
<b>Group revenue/profit after amortisation of acquired intangibles</b>	<b>455,928</b>	<b>397,955</b>	<b>72,786</b>	<b>68,458</b>
Profit on disposal of operations before tax (note 8)	–	–	–	1,669
Taxation	–	–	(20,205)	(19,843)
<b>Revenue/profit for the year</b>	<b>455,928</b>	<b>397,955</b>	<b>52,581</b>	<b>50,284</b>

### Geographical analysis (secondary segment)

	Revenue by destination		Revenue by origin	
	2009 £000	2008 £000	2009 £000	2008 £000
United Kingdom	104,406	109,253	238,357	228,090
United States of America	120,681	103,013	139,076	115,932
Mainland Europe	132,556	107,883	91,892	61,709
Asia Pacific and Australasia	54,071	42,859	24,934	19,422
Africa, Near and Middle East	27,556	22,136	–	–
Other countries	16,658	9,917	–	–
Inter-segmental sales	–	–	(38,331)	(30,092)
<b>Continuing operations</b>	<b>455,928</b>	<b>395,061</b>	<b>455,928</b>	<b>395,061</b>
Discontinued operations (note 8)	–	2,894	–	2,894
<b>Group revenue</b>	<b>455,928</b>	<b>397,955</b>	<b>455,928</b>	<b>397,955</b>

Inter-segmental sales are charged at prevailing market prices.

	Profit	
	2009 £000	2008 £000
United Kingdom	41,724	37,608
United States of America	20,937	22,710
Mainland Europe	16,847	12,597
Asia Pacific and Australasia	3,000	2,008
<b>Operating profit from continuing operations before amortisation of acquired intangibles</b>	<b>82,508</b>	<b>74,923</b>
Discontinued operations (note 8)	–	436
Net finance expense	(3,421)	(2,144)
<b>Group profit before amortisation of acquired intangibles</b>	<b>79,087</b>	<b>73,215</b>
Amortisation of acquired intangible assets	(6,301)	(4,757)
Profit on disposal of operations before tax (note 8)	–	1,669
Taxation	(20,205)	(19,843)
<b>Profit for the year</b>	<b>52,581</b>	<b>50,284</b>

## 2 Basis of preparation

The financial information included within the preliminary results for the year to 28 March 2009 has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and applied in accordance with the Companies Act 1985. This announcement does not contain sufficient information to comply with IFRS. The preliminary announcement has been prepared on the basis of the accounting policies as stated in the financial statements for the year to 28 March 2009, which are unchanged from those adopted in the Group's 2008 Annual Report.

This Preliminary announcement does not constitute the Group's statutory accounts for the years ended 28 March 2009 or 29 March 2008, but is derived from those accounts. Statutory accounts for the year to 29 March 2008 have been delivered to the Registrar of Companies. Statutory accounts for the year to 28 March 2009 will be delivered on 29 June 2009. The auditors have reported on those accounts; their reports were unqualified, did not draw attention to any matters by way of emphasis without qualifying their report, and did not contain statements under s237 (2) or (3) of the Companies Act 1985.

This Preliminary announcement was approved by the Board of Directors on 16 June 2009.

## 3 Taxation

	2009 £000	2008 £000
Current tax		
UK corporation tax at 28% (2008: 30%)	7,710	8,970
Overseas taxation	8,782	10,046
Adjustments in respect of prior years	(294)	(74)
Total current tax charge	16,198	18,942
Deferred tax		
Origination and reversal of timing differences	3,808	462
Adjustments in respect of prior years	199	284
Total deferred tax charge	4,007	746
Tax on profit from continuing operations	20,205	19,688
Tax on profit from discontinued operations	–	155
Total tax charge recognised in the Consolidated income statement	20,205	19,843
Reconciliation of the effective tax rate:		
Profit before tax – continuing operations	72,786	68,022
Profit before tax – discontinued operations	–	2,105
	72,786	70,127
Tax at the UK corporation tax rate of 28% (2008: 30%)	20,380	21,038
Overseas tax rate differences	476	633
Items not subject to tax	(556)	(2,038)
Adjustments in respect of prior years	(95)	210
	20,205	19,843
Effective tax rate on continuing and discontinued operations	27.8%	28.3%

## 4 Earnings per ordinary share

Basic earnings per ordinary share are calculated using the weighted average of 373,831,805 shares in issue during the year (net of shares purchased by the Company and held as treasury shares) (2008: 372,769,853). Diluted earnings per ordinary share are calculated using the weighted average of 374,893,326 shares (2008: 374,604,505), which includes dilutive potential ordinary shares of 1,061,521 (2008: 1,834,652). Dilutive potential ordinary shares are calculated from those exercisable share options where the exercise price is less than the average price of the Company's ordinary shares during the year.

Earnings from continuing operations exclude the net profit from discontinued operations. Adjusted earnings is calculated as earnings from continuing operations excluding the amortisation of acquired intangible assets after tax. The Directors consider that adjusted earnings represents a more consistent measure of underlying performance. A reconciliation of earnings and the effect on basic earnings per share figures is as follows:

	Per ordinary share			
	2009 £000	2008 £000	2009 pence	2008 pence
<b>Earnings from continuing and discontinued operations</b>	<b>52,581</b>	50,284	<b>14.07</b>	13.49
Remove earnings from discontinued operations	–	(1,950)	–	(0.52)
<b>Earnings from continuing operations</b>	<b>52,581</b>	48,334	<b>14.07</b>	12.97
Add back amortisation of acquired intangibles (after tax)	<b>4,618</b>	3,344	<b>1.23</b>	0.89
<b>Adjusted earnings</b>	<b>57,199</b>	51,678	<b>15.30</b>	13.86

## 5 Dividends

	Per ordinary share			
	2009 pence	2008 pence	2009 £000	2008 £000
Amounts recognised as distributions to shareholders in the year				
Final dividend for the year to 29 March 2008 (31 March 2007)	<b>4.55</b>	4.33	<b>16,997</b>	16,139
Interim dividend for the year to 28 March 2009 (29 March 2008)	<b>3.15</b>	3.00	<b>11,788</b>	11,190
	<b>7.70</b>	7.33	<b>28,785</b>	27,329
Dividends declared in respect of the year				
Interim dividend for the year to 28 March 2009 (29 March 2008)	<b>3.15</b>	3.00	<b>11,788</b>	11,190
Proposed final dividend for the year to 28 March 2009 (29 March 2008)	<b>4.78</b>	4.55	<b>17,876</b>	16,997
	<b>7.93</b>	7.55	<b>29,664</b>	28,187

The proposed final dividend is subject to approval by shareholders at the Annual general meeting and has not been included as a liability in these financial statements.

## 6 Notes to the consolidated cash flow statement

	2009 £000	2008 £000
<b>Reconciliation of profit from operations to net cash inflow from operating activities</b>		
Profit from continuing operations before taxation	<b>76,207</b>	70,166
Profit on disposal of operations before taxation	<b>(357)</b>	–
Profit from discontinued operations before taxation	–	436
Depreciation of property, plant and equipment	<b>10,260</b>	8,511
Amortisation of computer software	<b>903</b>	631
Amortisation of capitalised development costs and other intangibles	<b>2,876</b>	1,981
Retirement of capitalised development costs	<b>233</b>	–
Amortisation of acquired intangible assets	<b>6,301</b>	4,757
Share-based payment expense in excess of amounts paid	<b>1,634</b>	1,997
Additional payments to pension plans	<b>(6,224)</b>	(6,352)
Profit on sale of property, plant and equipment and computer software	<b>(14)</b>	(1,186)
Operating cash flows before movement in working capital	<b>91,819</b>	80,941
Decrease/(increase) in inventories	<b>(1,055)</b>	(2,278)
Decrease/(increase) in receivables	<b>7,440</b>	(9,605)
(Decrease)/increase in payables	<b>(11,779)</b>	6,970
<b>Cash generated from operations</b>	<b>86,425</b>	76,028
Taxation paid	<b>(20,494)</b>	(17,627)
<b>Net cash inflow from operating activities</b>	<b>65,931</b>	58,401
	<b>2009 £000</b>	<b>2008 £000</b>
<b>Reconciliation of net cash flow to movement in net debt</b>		
Increase in cash and cash equivalents	<b>2,193</b>	4,492
Cash outflow/(inflow) from borrowings	<b>3,519</b>	(37,796)
Exchange adjustments	<b>(12,623)</b>	(3,260)
	<b>(6,911)</b>	(36,564)
Net debt brought forward	<b>(44,275)</b>	(7,711)
Net debt carried forward	<b>(51,186)</b>	(44,275)

	At 28 March 2008 £000	Cash flow £000	Exchange adjustments £000	At 28 March 2009 £000
<b>Analysis of net debt</b>				
Cash and cash equivalents	28,118	2,193	4,676	<b>34,987</b>
Bank loans	(72,393)	3,519	(17,299)	<b>(86,173)</b>
	(44,275)	5,712	(12,623)	<b>(51,186)</b>

## 7 Non-GAAP measures

The Board uses certain non-GAAP measures to help it effectively monitor the performance of the Group. These measures include Return on capital employed, Return on total invested capital and organic growth.

### Return on capital employed

	2009 £000	2008 £000
Operating profit from continuing operations before amortisation of acquired intangibles	<b>82,508</b>	74,923
<b>Operating return</b>	<b>82,508</b>	74,923
Computer software costs within intangible assets	<b>3,022</b>	1,911
Capitalised development costs within intangible assets	<b>10,194</b>	8,240
Property, plant and equipment	<b>71,408</b>	57,452
Inventories	<b>51,381</b>	44,267
Trade and other receivables	<b>103,544</b>	99,741
Trade and other payables	<b>(63,379)</b>	(69,420)
Net tax liabilities	<b>(481)</b>	(8,273)
Non-current trade and other payables	<b>(3,732)</b>	(2,874)
Add back retirement benefit accruals included within payables	<b>1,103</b>	2,087
Add back accrued deferred purchase consideration	<b>68</b>	1,189
<b>Capital employed</b>	<b>173,128</b>	134,320
<b>Return on capital employed</b>	<b>47.7%</b>	55.8%

### Return on total invested capital

	2009 £000	2008 £000
Post-tax profit from continuing operations before amortisation of acquired intangibles	<b>57,199</b>	51,678
<b>Return</b>	<b>57,199</b>	51,678
Total shareholders' funds	<b>299,615</b>	239,104
Add back retirement benefit accruals included within payables	<b>1,103</b>	2,087
Add back retirement benefit obligations	<b>42,568</b>	35,957
Less associated deferred tax assets	<b>(11,920)</b>	(10,069)
Cumulative amortisation of acquired intangibles	<b>17,360</b>	10,112
Goodwill on disposals	<b>5,441</b>	5,441
Goodwill amortised prior to 3 April 2004	<b>13,177</b>	13,177
Goodwill taken to reserves prior to 28 March 1998	<b>70,931</b>	70,931
<b>Total invested capital</b>	<b>438,275</b>	366,740
<b>Return on total invested capital</b>	<b>13.1%</b>	14.1%

### Organic growth

Organic growth measures the change in revenue and profit from continuing Group 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, and has been calculated as follows:

	Revenue			Profit* before taxation		
	2009 £000	2008 £000	% growth	2009 £000	2008 £000	% growth
Continuing operations	<b>455,928</b>	395,061		<b>79,087</b>	72,779	
Acquired revenue/profit	<b>(18,463)</b>	-		<b>(2,598)</b>	-	
	<b>437,465</b>	395,061	10.7%	<b>76,489</b>	72,779	5.1%

\* Before amortisation of acquired intangible assets.

## 8 Discontinued operations

The discontinued operations relate to Post Glover Lifelink, Inc. ('PGL') which was sold in January 2008. PGL is incorporated in the USA and formed part of the Health and Analysis sector. PGL's results, which have been included in the Consolidated income statement, were as follows:

	2008 £000
Revenue	2,894
Operating expenses	(2,458)
Operating profit	436
Taxation	(155)
Profit from operations after taxation	281
Profit on disposal of operations	1,733
Exchange differences transferred to profit on disposal of operations	(64)
Profit on disposal of operations before and after taxation	1,669
Net profit from discontinued operations	1,950

The profit on disposal of operations in 2008 included £1,005,000 of net assets and gross disposal proceeds received and receivable of £3,035,000. The net cash inflow in 2008 from the disposal of operations was £2,405,000.

During the year, the Group disposed of two operations: the assets of the South Africa-based portion of Texecom Limited and the high-power resistors business of Fortress Systems Pty Limited, Australia. Total consideration for the disposed businesses was £2,652,000 comprising assets with a value of £1,951,000. After costs and recycling of foreign exchange losses from reserves to the Income statement, the profit on disposal was £357,000. Due to the nature and size of these disposed operations, they have not been separately disclosed as discontinued operations as defined by IFRS 5. The total disposal of business proceeds set out in the Consolidated cash flow statement includes proceeds received relating to a prior year disposal.

## 9 Other matters

### *Seasonality*

The Group's financial results have not historically been subject to significant seasonal trends.

### *Equity and borrowings*

Issues and repurchases of Halma p.l.c.'s ordinary shares and drawdowns and repayments of borrowings are shown in the Consolidated cash flow statement.

### *Related party transactions*

There were no significant changes in the nature and size of related party transactions for the period to those reported in the Annual report and accounts for the 52 weeks to 29 March 2008.

## Cautionary note

This Preliminary announcement contains certain forward-looking statements which have been made by the Directors in good faith using information available up until the date they approved the announcement. 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.

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