Halma p.l.c. Interim Results 2002 / 2003

Analysts Presentation, 03 December 2002

Stephen O'Shea, Group Chief Executive
Kevin Thompson, Group Finance Director

On 03 December 2002 Stephen O'Shea, Group Chief Executive, and Kevin Thompson, Group Finance Director, presented Halma's interim results to financial analysts.

Introducing the results, Stephen O'Shea said that while many of the Groups' operations were doing well the results were less good than Halma aims for. Although profits at £21.2 million (before taxation and goodwill amortisation) were slightly down on the same period last year, the Group's operating ratios maintained Halma's traditionally high performance levels. This led to results close to expectations and in line with the Trading Update issued on 16 October 2002. This was based on four of Halma's six business sectors operating well, with sales marginally down but with profits at very similar levels to last year.

Our Resistors sector is largely based in the USA and supplies heavier industries such as mining, transport and power generation. In a difficult market both sales and profits were reduced, although there was still strong cash generation. The Group typically has lower market shares in the Optics and Specialist sector. Some of these businesses operate in local rather than global markets and have less control over pricing.

Sales in the Optics and Specialist sector were down by £3 million and profits down commensurately. In total, Group sales were down £7 million at £123.8 million and profits fell by £1.4 million.

The rate of cash generation in the Group is high. If companies grow slowly there is little need to increase their working capital and we have built up free cash reserves to a record £37 million in this period.

In the current economic conditions cash is valuable and the Group uses this resource to help grow existing companies, pay shareholders with ever increasing dividends and finally to make complementary acquisitions.

The illustration shows year-by-year interim dividend increases over 10 years. The pattern of final dividend increases is identical. The Halma 2002 interim dividend will be increased by 10%.

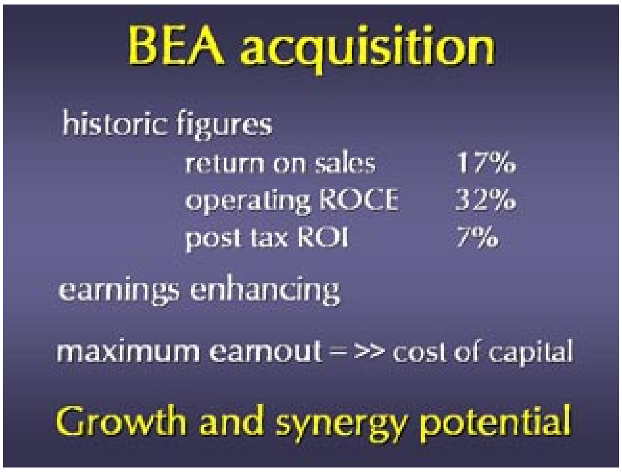
We believe this to be a rapid rate of dividend increase in the current conditions of low inflation.

Immediately after the end of the period the accumulated cash was used in the purchase of the BEA Group. BEA makes sensors that control automatic doors in shops, offices and other commercial buildings. They are world market leaders in their specialised field. Halma is already the world market leader in the control of elevator doors.

BEA brings some shared and some new technology to the Group as well as significantly extending our product range and customer base. They are an excellent fit within Halma. This is not only because of their products but also due to the similarity of their commercial characteristics. They fit into the Halma business portfolio perfectly.

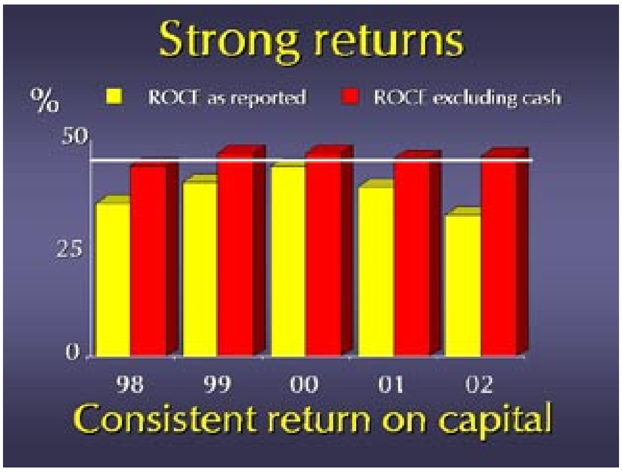
The BEA purchase is part of our long-term, well proven strategy of using cash to buy the right companies, of the right size, that provide the Group with the right growth opportunities.

Kevin Thompson then presented the financial results.



There has been some confused comment about the predicted returns on the BEA acquisition. In some cases, historic figures have been compared with the maximum possible payments. Historic figures show a good return on sales and return on capital employed. The acquisition was certainly earnings enhancing. However, it is the future that counts and we believe BEA will show good long-term growth and high returns.

Across the Group there are a number of good things to report. Gross margins are up by 1% and we are holding our selling prices especially in the many areas where we have high market shares. Overheads continue to be well controlled and headcount is down 3% following a 9% reduction last year. However, some costs such as insurances were higher. We are well placed so that any increase in sales will have a very positive impact on profit.



At the half-year end we had a record £37 million of net cash, which was spent on BEA in October. If this cash is excluded from the half year end calculation of Return on Capital Employed we see a figure of around 50% ROCE. This high ROCE is in line with the figure for the last 5 years.

Cash flow has been excellent. Working capital has shown a very good reduction; with stock in particular 22% below last year's figure. We expect capital expenditure to increase in the second half. The dividend was increased by a further 10%.

Stephen O'Shea then continued with the presentation.

The strength of cash flow, return on sales and return on capital employed are all impressive and remain so in the context of current economic conditions. These conditions are reflected in Group sales to each major territory over the last five years.

It is well known that manufacturing in the UK is has been having a difficult time. In the USA strong growth has paused this year particularly in the heavier industries. Sales to the "Rest of the World" have been more volatile but are trending upwards. The strongest and most consistent growth pattern has been in Europe despite fears that

Germany and France may be entering a period of poorer growth.

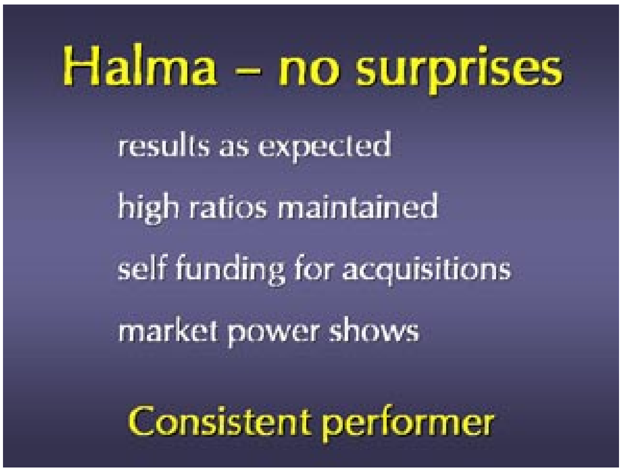
The UK-based companies exported more to the USA partly offsetting the reduction in US home market sales.

Profits earned in the USA and UK, our main operating centres and our largest markets, both reduced by a similar amount. This was offset by an increase in interest earned as we built up the cash to purchase BEA.

Because our results are partly dependent on market demand each of our business sectors experienced at least some reduction in sales. Health and safety legislation does, however, underpin sales. This Halma characteristic is well understood by analysts and shareholders.

The routine October trading statement confirmed that half-year profits would be a little lower than last year. However, our high financial performance ratios remained constant.

Because of our high gross margins and strong return on sales, any improvements in economic conditions will show through quickly into the Group's results.



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