HALMA

Halma p.l.c. Preliminary results 2009/10

Summary of analysts' presentation by:

Andrew Williams, Chief Executive

Kevin Thompson, Finance Director

22 June 2010

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"Record results and increased rate of dividend growth"

Andrew Williams, Halma's Chief Executive, began by presenting the highlights for the past year.

We have achieved record revenue and profit. Revenues grew by 1% to £459m whilst profits[1] grew by an impressive 9% to £86.2m.

All margins and returns were higher this year. Notably, our Return on sales[2] increased to 18.8%, compared with 17.3% last year.

We achieved significant growth in China, one of our major strategic objectives. Revenues grew by 59% and now represent 4% of the total group.

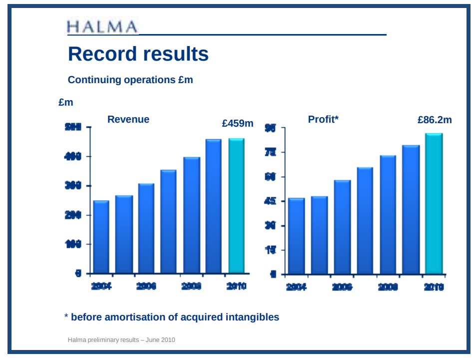
It was an exceptional year for cash generation. We ended the year with £9m of net cash having started it with £51m of net debt.

Finally, we are increasing our dividend for the 31st consecutive year. We are proposing a 7% increase in the full year dividend - our biggest increase for six years.

Overall, I am very pleased with the performance of the group over the past year and, importantly, the momentum we have for the coming year.

Kevin Thompson, Finance Director, reviewed the key elements of the 2009/10 financial performance.

Halma achieved a strong set of results – our seventh consecutive year of record revenue and profit.



Profit before tax[1] from continuing operations was up 9% to £86.2m (2009: £79.1m) on revenue up 1% to £459.1m (2009: £455.9m). Performance in the second half of the year was much stronger than the first half due to decisive management action.

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Revenue growth

	£m	Total	Organic: Constant Currency
H1	222	-	(9%)
H2	237	1%	3%
Total	459	1%	(3%)

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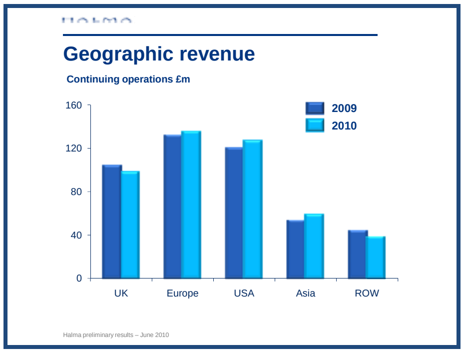
In the first half of the year revenue was level with the previous year, with 1% revenue increase for the year overall. There was minimal M&A activity in the year. Organic revenue growth[3] at constant currency which was 9% down at half year, was 3% up in the second half, giving 3% organic decline for the year as a whole, against a tough economic background.

We have a balanced regional footprint between the UK, Mainland Europe, USA and Asia/Rest of World.

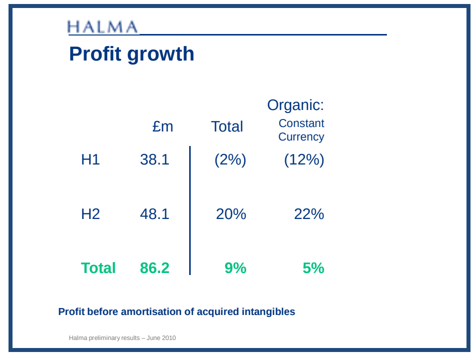


UK revenue was down 6% and represents 21% of Group revenue. In 2005 it was 27% of Group revenue and since that time UK revenue has increased by 22% when Group revenue has grown by 53%. We have deliberately increased our focus and investment across the world, particularly in Asia and our acquisition opportunities continue to be more often found in the USA and Europe, typically with some Asian presence.

Revenue to Mainland Europe was up 2% - all of our three sectors grew in Europe. USA was up 5% with Health and Analysis particularly strong.

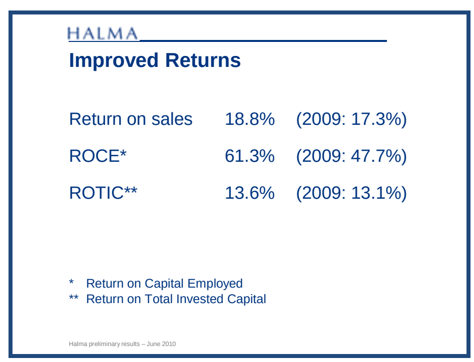
Asia revenue was up 9% with revenue to China increased by 59% to £18m. The 'Rest of World' (ROW) revenue was down 12% although Asia/ROW combined would have been 5% up without the impact of the two small disposals we made last year in those regions. Our sales to the 'BRIC' economies (Brazil, Russia, India and China) increased from 5% to 6% of Group revenues this year. Our target is to grow the 21% of revenue outside of UK/Europe /USA to 30% of the Group total by 2015.

It was tough to get revenue growth this year but we achieved 9% profit[1] growth, 5% organic growth[3] at constant currency, and the first half/second half profit change was much more dramatic than for revenue.



At half year we had 2% lower profit[1], 12% down at constant currency. Starting in the previous year we had been taking aggressive action on our cost base and product margins. Because of this we were able to deliver a 20% profit improvement in the second half of 2009/10, achieving a Return on sales[2] of 20.3% in that period.

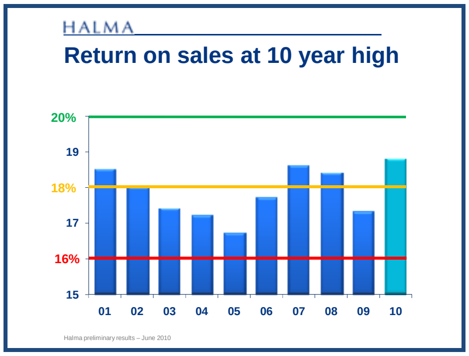
We achieved high levels of return. Return on sales[2] for the year was 18.8% (2009: 17.3%), Return on capital employed[4] (ROCE), our measure of returns at the operating level, increased to 61.3% (2009: 47.7%) and Return on total invested capital[5] (ROTIC) was up at 13.6% (2009: 13.1%) compared with a long term weighted average cost of capital of 8.5%.



We achieved what we intended coming into the year in getting our cost base right. Product margins increased by £5m and overheads were reduced by £15m relative to the run rate in the second half of 2008/09. This shows the flexibility we have in our operating model, with local teams taking actions appropriate to their own markets, making selective changes and protecting high value added areas such as R&D.

These changes were achieved at the low cost of £2.7m (2009: £1.2m).

We have delivered a Return on sales[2] above 16% every year for more than 25 years and our aim in the past has been to operate in the 16-20% range.



An important objective for us in 2009/10 was to move back to the top of this range (i.e. 18-20% Return on sales[2]) where we have operated in three of the last four years. This was achieved. Looking ahead we believe that a Return on sales[2] of more than 20% could be possible if we achieve good revenue growth.

Currency is an important element of Group results. The main currencies for the Group are Sterling, US Dollars and Euros. Approximately 30% of Group revenue and profit is earned in US Dollars with 20% of revenue and 25% of profit in Euros.

Halma's cash generation was excellent this year right across the Group – operating cash was 131% of profit[1].

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Cash flow

- → Operating cash 131% of profit*
- → Working capital reduced by £13m
- → Capex expected higher 10/11
- → R&D expenditure 4.7% of revenue
- → Tax rate* 26.5% (2009: 27.7%)
- → £6m into pensions
- → Dividend up 7% - 31st consecutive year

*** before amortisation of acquired intangibles**

Halma preliminary results – June 2010

£13m of cash was released from working capital with good debtor and inventory management by our local teams. We were cautious in our capital expenditure this year and plan to increase spend further in 2010/11.

We invested a further £21m (4.7% of revenue) in Research and Development, an investment critical to our future and an area where some competitors will have cut back considerably.

Our effective tax rate and tax payments were lower than the prior year and we continued to make additional contributions to our pension schemes of around £6m/year in line with the actuaries recommendations. The year end pension deficit was £43m (2009: £43m).

This is our 31st consecutive year of dividend increases of 5% or more. In the past five years we have increased our dividend by 5% each year. We are now achieving our objective of a dividend covered around two times by earnings. The Board is therefore recommending an 8.6% increase in the final dividend, giving a 7.2% dividend increase for the year – indicating our confidence for the future.

We have a strong financial position.

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Strong financial position

- → Net cash £9.1m (2009: £51.2m net debt)
- → £165m credit facility to 2013
- → Acquisition search re-energised

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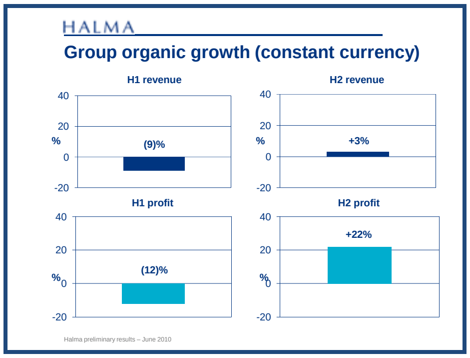
This year's high cash generation means that we finished the year with £9m of net cash having started it with £51m net debt. We have a £165m syndicated revolving credit facility running to 2013. This gives us plenty of resource to invest in our business and we have re-energised our acquisition search.

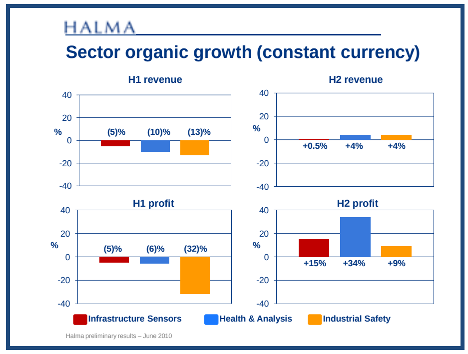
This year we have shown the resilience and flexibility of the Halma operating model and that we have significant resources to both invest and acquire.

Andrew Williams reported the individual sector performances.

When looking at the sector performances, first it is important to consider the significant differences between the performances in the first half and second half.

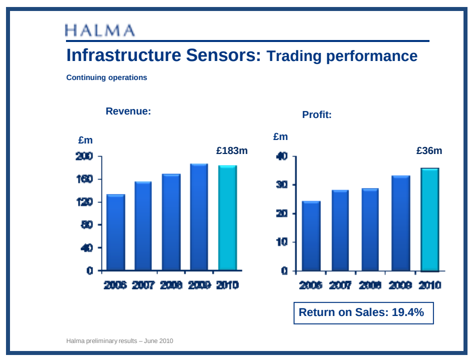


In the first half (H1), organic revenue decline was 9% whilst organic profit decline was 12% (both at constant currency). In the second half (H2), organic revenue growth at constant currency was 3% and organic profit growth an impressive 22%. Our Return on sales was 17.1% in H1 and rose to 20.3% in H2. This was partly because our markets improved and this was reflected in improved order intake. However, our profitability increased significantly due to the decisive action we took to control costs earlier in the year. I also believe we are benefiting from the strategic investment made in R&D, international expansion and management development over the past five years. This gave our businesses momentum to carry through the tough market conditions experienced in 2009/10.

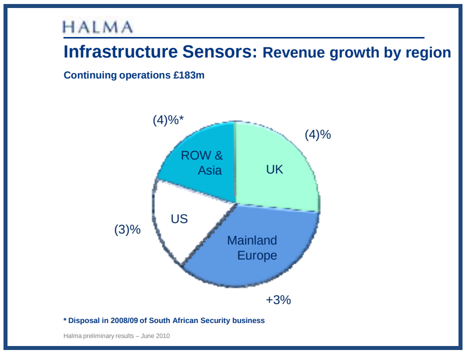


If we look at the H1/H2 trends for the three major sectors at constant currency, in H1 all three had organic revenue and profit decline. Infrastructure Sensors was the most resilient. Whilst Health and Analysis and Industrial Safety had similar revenue trends, the profitability in Health and Analysis was much better.

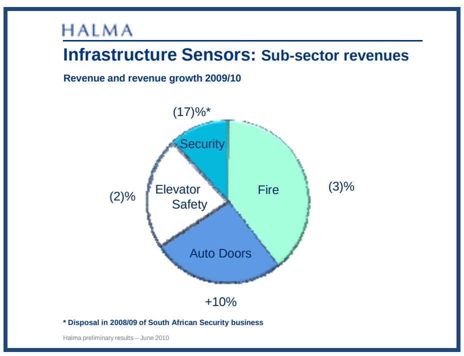
In H2, all sectors achieved organic revenue and profit growth, with profit growing faster than revenue. Profitability swings were most positive in Health and Analysis and Industrial Safety, because of the management action we took earlier in the year to reduce costs.



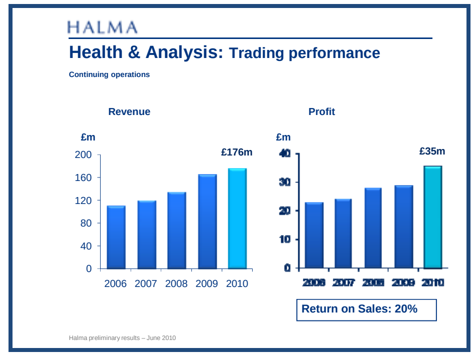
In **Infrastructure Sensors**, revenue declined by 2% to £183m including organic growth of 1%. Profits improved by 8% to £36m, organic growth of 9%. Return on sales improved to 19.4% (2008/09: 17.7%). A very robust year.



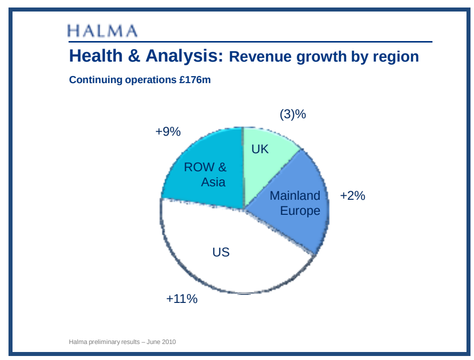
The regional trend showed that UK, Europe and US revenues were resilient. The Rest of World and Asia revenues were down due to the disposal of our South African Security business in 2008/09. Excluding this, revenue from the Rest of World and Asia increased by 7%.



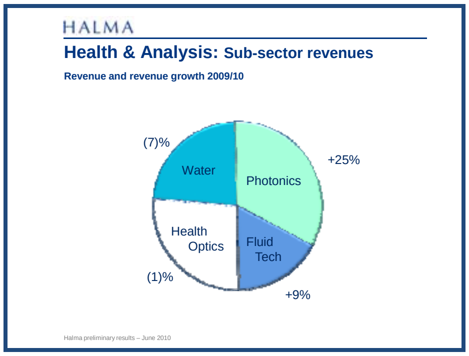
Our Automatic Door business had a strong year gaining market share and benefitting from its recent strategy of diversification. It recently won a large order for door sensors for China's high speed trains. By 2020, China plans to have over 16,000 miles of high speed train track. Excluding the impact of the South African disposal in 2008/09, our Security business experienced similar market conditions to our Fire and Elevator safety businesses. All four sub-sectors, except Security, grew profit.



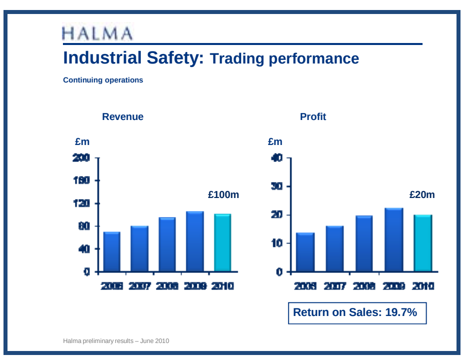
In **Health and Analysis** our revenues grew by 7% to £176m, organic growth of 3%. Profit grew by 23% to £35m, organic growth of 21%. Our Return on sales improved to 20% (2008/09: 17.4%). This terrific result was partly due to controlling costs but we also benefited from new product introductions which were launched late in 2008/09.



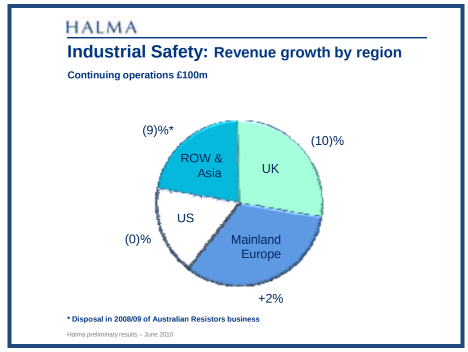
The largest proportion of our revenue in Health and Analysis comes from the US, which increased by 11%. The total Rest of World and Asia revenue grew by 9%. We saw tough market conditions in South America although in the Far East and Asia revenues grew by an impressive 28%. These businesses continued to benefit significantly from the Halma China hubs.



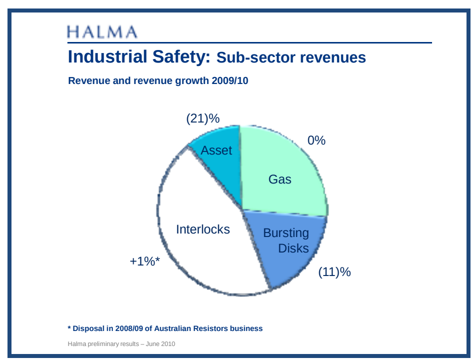
Photonics increased revenue by 25% and is now the second largest sub-sector in the whole group. This business grew strongly in the Far East and Asia where we are building a strong market for systems that measure the light output from LED lighting. These systems are used in the development of new light sources, but also as part of manufacturing quality control. Elsewhere, our Water businesses saw revenues down by 7%, with the UK particularly weak. We expect this to improve in 2010/11 as the UK Water companies enter their next five year AMP investment cycle. Overall, a strong year, all sub-sectors increased profit and in 2010/11 Health and Analysis is set to become our largest sector in profit terms.



Industrial Safety had a tougher year but delivered a much stronger H2 as we saw in the previous charts. Full year revenue was down by 4% to £100m, representing organic decline of 3%. Profits reduced by 11% to £20m, organic decline of 10%. Return on sales was still very strong at 19.7% but below last year's exceptional 21.1%. Given the difficulties in the first half of the year, I am pleased with the second half recovery.



In the UK, we saw 10% revenue decline. Our Asset Monitoring businesses supplying the North Sea Oil and Gas survey companies experienced tough market conditions. Rest of World and Asia revenues were down mainly due to the disposal of our Australian Resistors business last year. The underlying trends were better. For example, our revenue from China grew by approximately 150%.

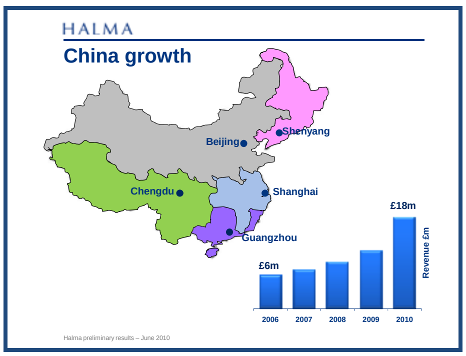


All sub-sectors, except Safety Interlocks, had lower revenue this year. Interlock revenues were robust with particular success selling valve interlocks to oil and gas companies. We won major contracts for interlocks to go on pipelines in Venezuela and China. Our Bursting Disk revenues were down by 11%. In the first half, they saw destocking by many customers, with the situation improving during the second half of the year.

Andrew Williams then reviewed the group strategy including progress made

over the past five years and future growth.

In 2005, I set clear priorities for the group. The top priority was to regenerate organic growth. To that end, we increased investment in three key areas; international expansion (particularly Asia), innovation (products and processes) and management development. Since then, our organic growth has averaged 8% per annum, our margins have improved further and we are well placed to accelerate growth through the next five years.



In **China**, I recognised that Halma was lagging the market opportunity. In 2006, we had four Halma companies present in China and derived £6m of revenues from the country. By 2010, 20 Halma companies are now present in China, our revenues have tripled to £18m representing 4% of overall Group revenues compared with 2% five years ago. Halma China employees now constitute 7% of the group compared to 3% in 2005. Seven out of twelve of our sub-sectors have now established local manufacturing in the country. However, there is still a need to accelerate progress further.

This year, we are investing £1m to establish regional offices in Chengdu, Guangzhou and Shenyang. We are also subsidising our group companies to add sales people in all sub-sectors. Our long-term vision is that over the next five years China will represent at least 10% of group revenues, contributing to revenues outside of Europe and the US constituting 30% of the group. I also expect over the next five years we will be increasing our Technical resources in China carrying out local R&D and eventually exporting this new technology to our businesses in the Rest of World.

Innovation has always been a core value for Halma. We are seeing lots of energy, creativity and fun and an example of this came in the Halma Innovation Awards, this year won by Ocean Optics. Ocean Optics made many entries to this years awards and one of them focussed on their initiative to use social networking to grow their business. This particular entry also highlighted how Halma is changing. We now have many more informal networks across the group, encouraging collaboration. As a result there has been a real cultural change across the group in the way that we view innovation not just as something specific to each individual subsidiary but something that is truly group wide.

A major contributor to our cultural change has been our investment in **management development** which in itself has created new collaboration networks. In 2005, we established new leadership programmes for Halma subsidiary boards and first line managers. Since then over 430 managers have benefited from these programmes. The group has benefitted through improved networking between our companies and between countries. We now have better people, better able to make local decisions and act accordingly. It also enables me to get visibility of the talent across the group and develop opportunities for career progression.

In 2010 we have launched a new programme aimed at our Technical Engineers. It is a major strategic challenge for a group like Halma to attract and retain top quality engineers. The new programme incorporates leadership training, project management skills, finance for engineers and visits to other Halma companies. The group will benefit through attracting and retaining engineers, the networking leading to greater collaboration and also a better return on investment for our R&D spend.

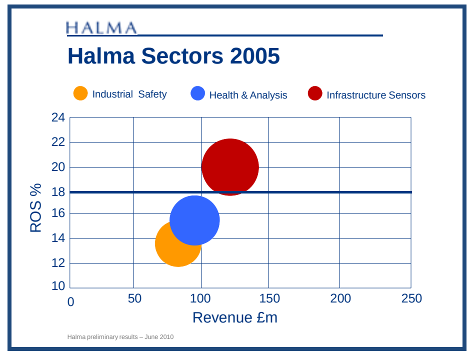
The second priority I set in 2005 was **M&A**, including disposals and acquisitions, to focus more of our resources on markets offering better growth and returns.

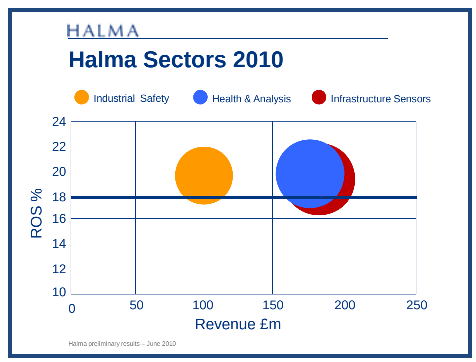
Since 2005 we have bought 14 businesses and sold 12 businesses. We sold businesses where we no longer saw long-term market growth, where competition was increasing and where our technology no longer could sustain high returns. We bought businesses in, or close to, our existing markets, where the long-term market growth prospects were strong. We acquired higher technology businesses where we believe we can sustain higher returns.

We have also completed seven internal mergers. Although the revenue of the group has increased by over 50% in the last five years, the number of principal operating companies within the group has reduced from 44 to 35. This process allows us to maintain our decentralised operating structure as we grow.

Finally, we have also completed our first acquisitions in China. We are learning lessons on small deals to prepare ourselves for more activity here in the future.

As a result of our organic growth and M&A activity since 2005, Halma has been reshaped towards higher growth and higher technology sectors.





- Profit has increased from £50m to £86m - an average 11% growth per annum
- All three sectors now have a Return on sales above 18%
- The group has moved towards higher technology, higher growth market segments
- Health and Analysis has become a more significant proportion of the group

Andrew Williams finished by summarising the **outlook** for Halma.

We are positive about our prospects for the future.

We have strong **order intake momentum** coming into the next financial year. In 2009/10 our order intake in H1 was 2% ahead of H1, 2008/09. In H2, 2009/10 order intake was 7% ahead of the prior year. Most importantly, order intake in H2 was 9% ahead of H1. We typically have an order book equivalent to 6-8 weeks of sales.

As we have seen we are also delivering **higher returns**, with Return on sales in H2, 2009/10 over 20%. In future, if revenues grow at a higher rate than 5% then it is possible for Halma to deliver 18% - 22% Return on sales over the next five years rather than 16% - 20% over the previous five years.

We will **continue to invest** in R&D, expansion in China and management development. In addition, **cash generation** remains a key priority, building on the strong performance this year.

Finally, we continue to look for **acquisitions**. We can comfortably spend £100m on businesses in all three Halma sectors, although our current prospect list has more opportunities in Health and Analysis. Many vendors are still hesitant about selling their businesses now, since many expect stronger growth in the coming year or two.

We have made strong progress over the last year, our current trading is good and we have significant resources to invest for the future. Therefore, we are looking forward to the year ahead with confidence.

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[1] Before amortisation of acquired intangible assets of £4.8 million (2009: £6.3 million).

[2] Return on sales is defined as profit[1] before taxation from continuing operations expressed as a percentage of revenue from continuing operations.

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

*[4] Return on capital employed is defined as operating profit from continuing operations before amortisation of acquired intangible assets as a percentage of capital employed. *

[5] Return on total invested capital is defined as profit for the year from continuing operations before amortisation of acquired intangible assets, but after taxation; expressed as a percentage of total shareholders' funds, adding back net retirement benefit obligations, cumulative amortisation of acquired intangible assets and historic goodwill.

** see 22 June 2010 Preliminary Announcement for more details.*

***CAUTIONARY NOTE.** The information contained in this summary is believed to be correct at 22 June 2010. This document may include forward-looking statements that are not factual. Such statements involve both known and unknown risks. The actual results of Halma p.l.c. may differ from results that are anticipated or implied by any forward-looking statements. The content of presentations, including any forward-looking statements, is not revised after publication.*