

# HALMA

## Adding value



# Financial highlights

	CHANGE	2009	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
Adjusted earnings per share <sup>(2)</sup>	+10%	15.30p	13.86p
Statutory earnings per share	+8%	14.07p	12.97p
Total dividend per share <sup>(3)</sup>	+5%	7.93p	7.55p
Return on sales <sup>(4)</sup>		17.3%	18.4%
Return on total invested capital <sup>(5)</sup>		13.1%	14.1%
Return on capital employed <sup>(5)</sup>		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 2 to the accounts for details.

(3) Total dividend paid and proposed per share.

(4) 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.

(5) Organic growth rates, Return on total invested capital and Return on capital employed are non-GAAP performance measures used by management in measuring the returns achieved from the Group's asset base. See note 3 to the accounts for details.



FOR MORE INFORMATION PLEASE  
VISIT [WWW.HALMA.COM](http://WWW.HALMA.COM)

We add value through...

Entrepreneurial leadership p15

Providing expertise p25

Developing people p29

Leveraging our resources p33

Encouraging collaboration p39

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# Who we are

## Strategy

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

### OUR STRATEGY

Create sustained shareholder value by operating in markets offering consistent high-returns and long-term growth

### STRATEGIC DIRECTIONS

Organic growth      Acquisitions

### DELIVERING THE STRATEGY

- |                                                                                                                                                                                                                             |                                                                                                                                                                                                                                         |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> <li>• Niche market focus</li> <li>• Entrepreneurial culture</li> <li>• Decentralised decision making</li> <li>• High quality management</li> <li>• Intercompany collaboration</li> </ul> | <ul style="list-style-type: none"> <li>• Strong financial resources</li> <li>• Investment in innovation</li> <li>• International operations</li> <li>• Acquisition/disposal expertise</li> <li>• Progressive dividend policy</li> </ul> |
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#### Overall strategy

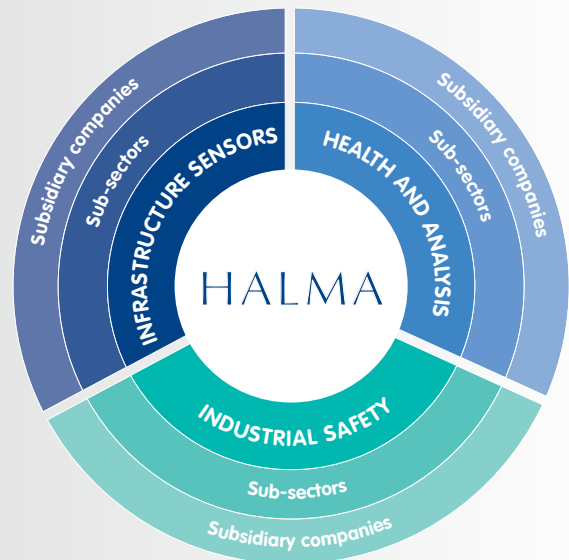
We achieve sustainable competitive advantage by operating in relatively non-cyclical, specialised global markets. Our chosen markets have significant barriers to entry for competitors, are underpinned by resilient growth drivers and must offer the potential for high returns and strong long-term growth.

#### Strategic priorities

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.

## Organisation

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



A small head office team focuses on setting the strategic framework and maintains a standard process of financial planning, reporting and control. Halma subsidiaries are grouped into operating Divisions, each of which is an autonomous unit, chaired by a Halma Divisional Chief Executive, responsible for its own growth.

Our decentralised structure delivers real competitive advantage. Tactical decision making takes place at operating company level by managers closest to markets with the ability to allocate resources. This ensures quick and agile responses to market changes.

Incentives are aligned with the performance of the part of the business for which subsidiary directors and Divisional Chief Executives have direct responsibility.

## Innovation

We are committed to investing in innovation in new products and processes.

### RESEARCH & DEVELOPMENT EXPENDITURE

£million

**£22.9m** **+23%**

2009 **22.9**

2008 18.6

2007 15.3

2006 13.4

2005 11.2

2004 10.5

2003 9.6

2002 8.2

2001 8.0

2000 6.8

We refresh our businesses by implementing creative ideas in new products and in the way we design, sell and manufacture.

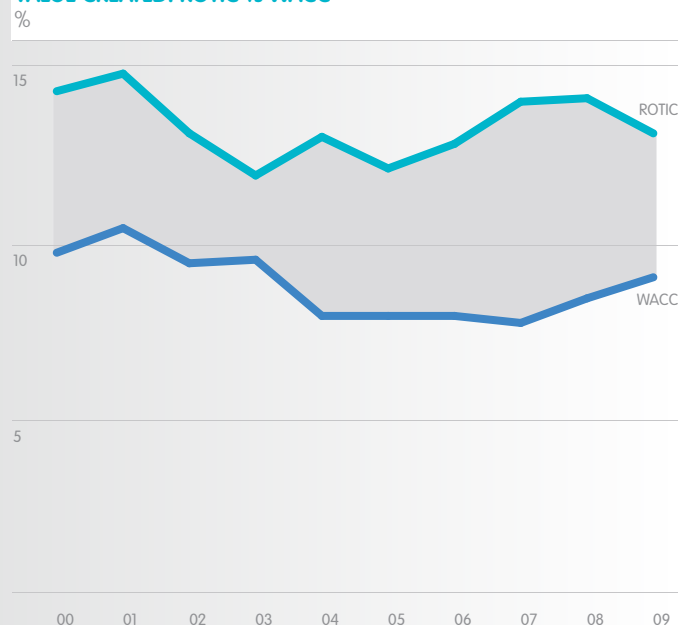
In 2008/09, our investment in R&D for new products increased to £22.9m representing 5% of our revenue. The benefit of this continued investment is reflected in building market leadership and maintaining strong margins.

We celebrate and reward our most successful innovation projects in the Halma Annual Innovation Awards. In 2009, the award was won by BEA SA for a new door safety sensor based on laser technology.

## Performance

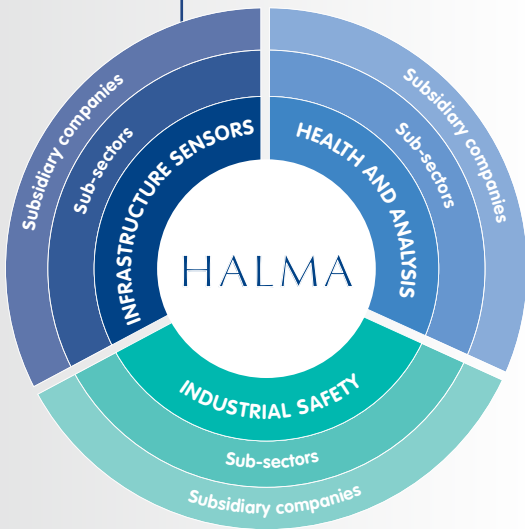
We have a strong track record of sustained value creation.

### VALUE CREATED: ROTIC vs WACC



We aim to deliver a Return on total invested capital (RO TIC) well in excess of our Weighted average cost of capital (WACC) every year. Our ROTIC is the post-tax return on the Group's assets including all historic goodwill. Achieving a high ROTIC therefore requires our subsidiaries to deliver a high return against their operating assets and drives us to pay sensible prices when acquiring good companies. ROTIC is one of the performance metrics we use in our long-term Performance Share Plans for senior managers including subsidiary Managing Directors.

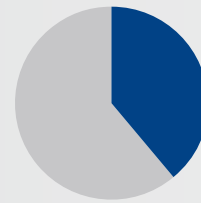
# What we do



## Infrastructure Sensors

Detecting hazards and protecting assets and people in buildings.

PROFIT\* CONTRIBUTION



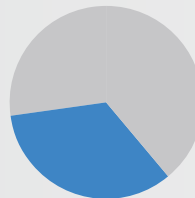
£33m  
39%

FOR MORE INFORMATION SEE P22

## Health and Analysis

Improving public and personal health; protecting the environment.

PROFIT\* CONTRIBUTION



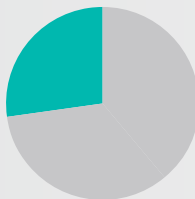
£29m  
34%

FOR MORE INFORMATION SEE P26

## Industrial Safety

Protecting assets and people at work.

PROFIT\* CONTRIBUTION



£22m  
27%

FOR MORE INFORMATION SEE P30

\* See note 1 to the accounts

SUB-SECTORS

 <p><b>FIRE DETECTION</b> Fire and smoke detectors and audible/visual warning devices. World's second largest manufacturer of point smoke detectors used in public and commercial property.</p>	 <p><b>SECURITY SENSORS</b> Security sensors used in public and commercial property. Market leaders in the UK and South Africa.</p>	 <p><b>AUTOMATIC DOOR SENSORS</b> World leader in sensors used on automatic doors in public and commercial buildings.</p>	 <p><b>ELEVATOR SAFETY</b> World leader in elevator/lift door safety sensors. We also make emergency communication devices, displays and control panels for elevators.</p>
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SUB-SECTORS

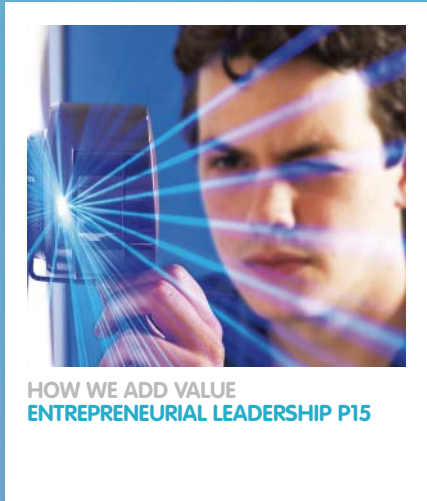
 <p><b>WATER</b> World leader in monitoring and finding leaks in underground water pipelines. Among the world leaders in UV technology for disinfecting and treating water.</p>	 <p><b>PHOTONICS</b> Market leading technologies and products which generate, measure and condition light and analyse the interaction of light with substances.</p>	 <p><b>HEALTH OPTICS</b> Handheld devices used to assess eye health, diagnose disease and assist with eye surgery as well as diagnostic devices for general medical applications.</p>	 <p><b>FLUID TECHNOLOGY</b> Critical components such as pumps, probes, valves, connectors and tubing used by scientific, environmental and medical diagnostic OEMs for demanding applications.</p>
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SUB-SECTORS

 <p><b>GAS DETECTION</b> Portable instruments and fixed systems which detect flammable and hazardous gases.</p>	 <p><b>BURSTING DISKS</b> "One time use" pressure relief devices to protect large vessels and pipework in process industries.</p>	 <p><b>SAFETY INTERLOCKS</b> Specialised mechanical, electrical and electromechanical locks which ensure that critical processes operate safely.</p>	 <p><b>ASSET MONITORING</b> Products for monitoring physical assets above ground and under water using innovative sensors and communications technologies.</p>
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# Where we operate

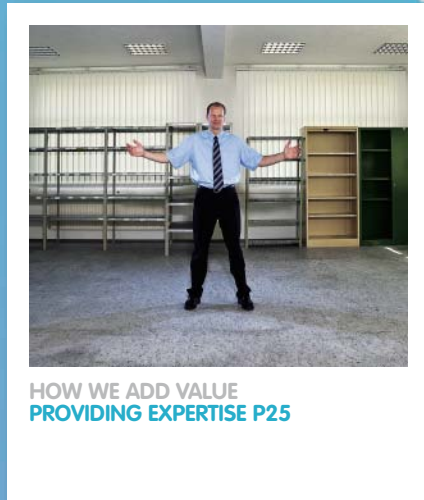
Halma has three sectors with employees in over 20 countries



HOW WE ADD VALUE  
ENTREPRENEURIAL LEADERSHIP P15



HOW WE ADD VALUE  
DEVELOPING PEOPLE P29



HOW WE ADD VALUE  
PROVIDING EXPERTISE P25

Sales offices

- Infrastructure Sensors
- Health and Analysis
- Industrial Safety

## Regional growth

Since 2005 we have accelerated our efforts to expand the Group's geographic reach. Investment has been made across the world and this has resulted in revenues to regions outside the UK, USA and Mainland Europe nearly doubling over that period and increasing from 19% to 22% of revenue from continuing operations.

**Mainland Europe**

For the first time Mainland Europe has become the largest destination for our sales. All three of our Sectors grew strongly this year, in particular our Door Sensors business performed well, with the recently acquired Riester also adding to our strength in the region.

23%

MAINLAND EUROPE % GROWTH





**HOW WE ADD VALUE  
ENCOURAGING COLLABORATION P39**



**HOW WE ADD VALUE  
LEVERAGING OUR RESOURCES P33**

**United States of America**

Once again revenues to the USA grew well across all sectors. Our Health and Analysis business delivered particularly strong growth with all of its subsectors making good progress. Health and Analysis represents over 50% of our revenue in the USA.

**17%**

UNITED STATES OF AMERICA % GROWTH

**United Kingdom**

We have UK market leadership in a number of our businesses. There was a slowdown in customer demand in several areas that impacted on us this year, notably sales to the UK water utilities, to our North Sea asset monitoring customers and in the Safety Sensors market. Our Fire Detection sub-sector performed well.

**(4)%**

UNITED KINGDOM % REDUCTION

**Rest of World**

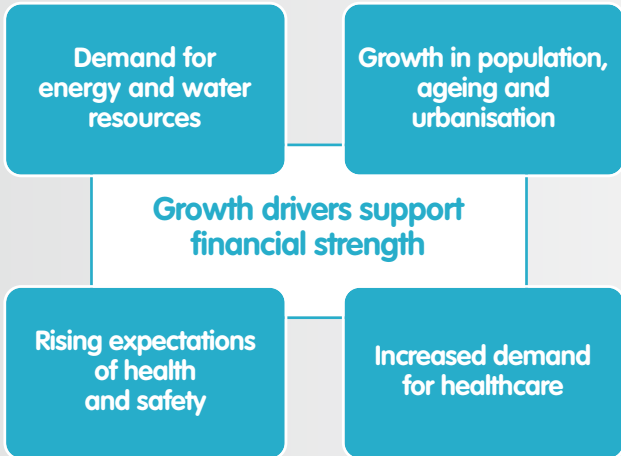
This "region" includes Asia Pacific and Australasia, Africa, Near and Middle East and other countries. We have continued to focus attention and investment on these areas, for instance with the establishment of the Halma hubs in China and now India. We are seeing our fastest rates of growth here.

**31%**

REST OF WORLD % GROWTH

# Why we are resilient

## Growth drivers



Our three operating sectors, Health and Analysis, Infrastructure Sensors and Industrial Safety, were chosen because they offer markets where sustained growth is underpinned by strong, resilient drivers.

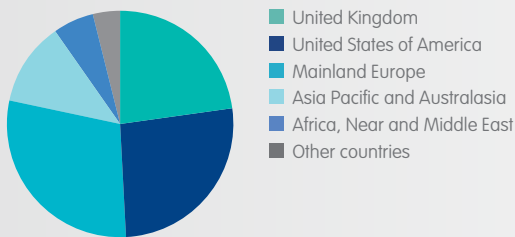
Many of our markets are highly regulated. Halma products frequently satisfy demand created by health, safety and environmental legislation. Regulation is a powerful driver which stimulates non-discretionary purchasing.

When we acquire, we only invest in companies exposed to relatively non-cyclical markets, with strong growth drivers, and where high barriers to entry deter new market entrants.

See page 16 for more information about our growth drivers.

## Geographical diversity

REVENUE BY DESTINATION 2009



Halma is a global business operating in 20 countries. We sell to approximately 160 countries. The geographical diversity of our customer base enhances the defensive qualities of our earnings stream. In line with our strategic objective, revenues are growing faster outside of the UK and USA, particularly in Asia and Mainland Europe.

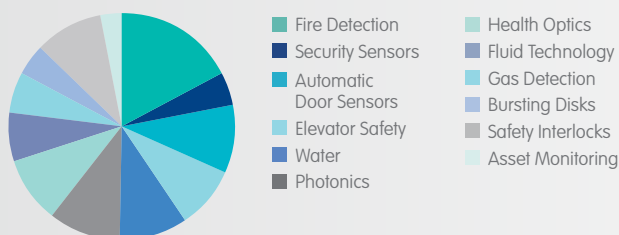
To satisfy customer needs, we have an extensive and growing worldwide network of sales channels. We also have increasingly geographically

diverse manufacturing facilities such as our factories in Tunisia and the Czech Republic and the new manufacturing hub in Shanghai, China. Although Halma has its origin in the UK, last year 77% of our revenue was from customers outside of the UK.

See page 71 for geographical revenue analysis.

## Product and market diversity

REVENUE BY SUB-SECTOR 2009



Our businesses sell into a varied range of specialised niche markets. The combination of a very broad customer base, the diversity of our technology and a wide product portfolio provides demand resilience. The quality of our market-leading products and their continual renewal ensures that our strong market positions are defensible. The largest single market we sell into, fire detection, represents approximately 17% of revenue.

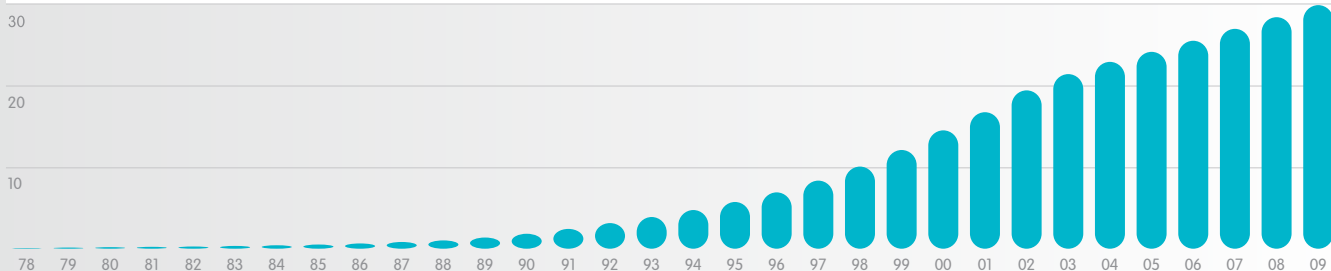
Our largest customer accounts for under 3% of revenue and our top 20 customers account for less than 20% of revenue.

See page 70 for sector revenue analysis.

# Financial strength

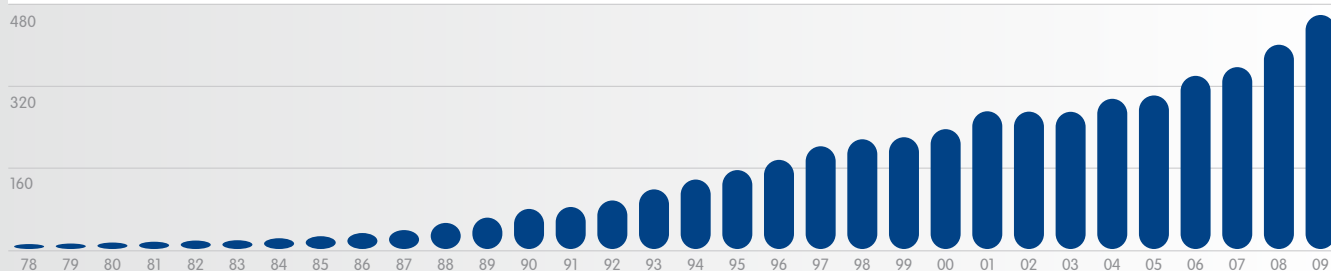
## DIVIDENDS PAID AND PROPOSED

£million



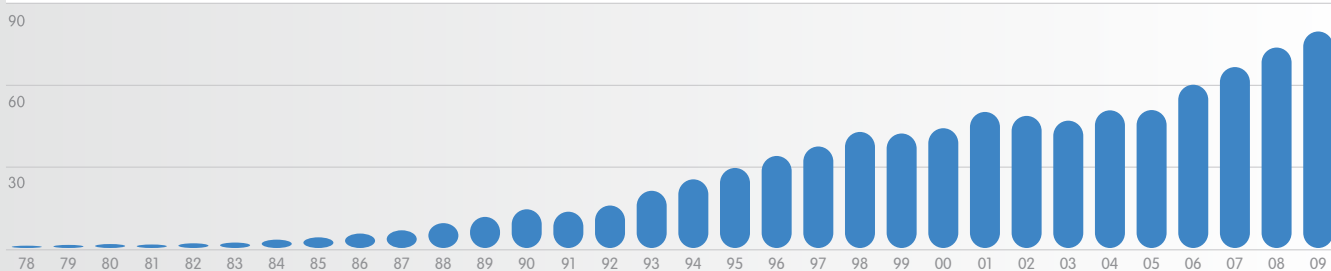
## TOTAL REVENUE

£million



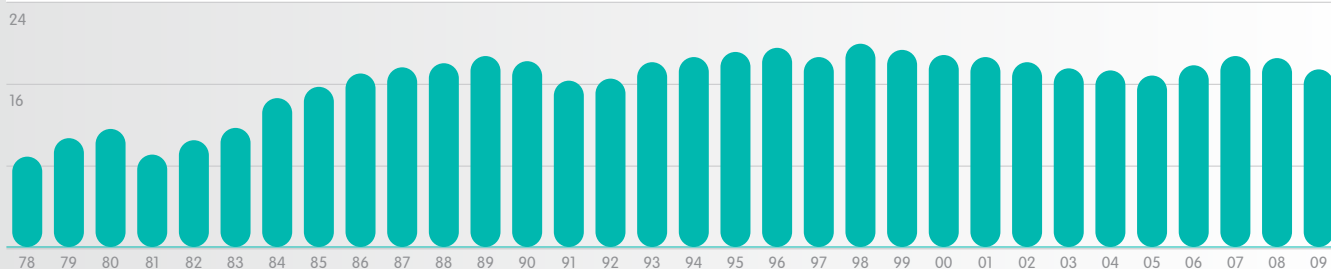
## ADJUSTED PROFIT BEFORE TAXATION<sup>1</sup>

£million



## RETURN ON SALES<sup>1</sup>

%



<sup>1</sup> See Financial highlights

# Chairman's statement

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



**Geoff Unwin**  
Chairman

### 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.

## 2009 CORPORATE RESPONSIBILITY ACHIEVEMENTS

### What we said

1. Measurement and reporting of our carbon footprint
2. Establishment of non-financial KPI in respect of the workplace
3. Continuing development of our people
4. Emphasis on business ethics
5. Maintenance of the composition and balance of the Board

### What we've achieved

Halma's carbon policy was approved by the Board in 2007 and calls for a 10% reduction in the carbon footprint by 2010. To date our consumption has reduced by 7%.

Halma conducts an annual survey of our employees to assess how well our espoused values are present in our organisation. This year's survey showed continuing good alignments.

The Halma Executive Development Programme and the Management Development Programme, aimed at middle-managers, continue whilst further training is taking place at lower levels within subsidiary companies.

Since 2007, the Group has formally adopted Group-wide policies on human rights and business practices to reinforce the strong ethical culture already prevalent throughout the Group.

The Board appointed an internal successor for a retiring executive Director bringing a new US perspective and additional expertise of our Health and Analysis sector.

**DIVIDENDS PER SHARE (PAID & PROPOSED)**

pence

**7.93P** **+5%**

2009	7.93
2008	7.55
2007	7.18
2006	6.83
2005	6.50

**ADJUSTED EARNINGS PER SHARE<sup>1</sup>**

pence

**15.30P** **+10%**

2009	15.30
2008	13.86
2007	12.42
2006	11.27
2005	9.45

**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<sup>2</sup> 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 the 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



**Andrew Williams**  
Chief Executive

## 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.

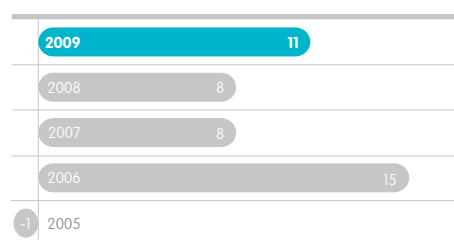
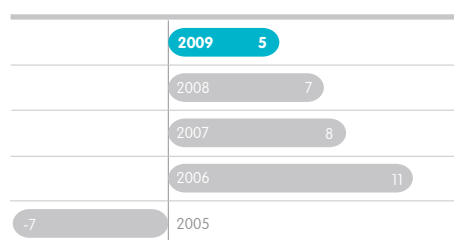
Revenue in Health and Analysis grew by 23% whilst profits increased by 3%. Fluid Technology and Health Optics achieved revenue and profit growth. Our Photonics business was adversely affected by high overhead costs and delayed new products (now launched) whilst our Water business suffered a major reduction 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.

**2009 ORGANIC REVENUE GROWTH<sup>1</sup>**  
%**11%****2009 ORGANIC PROFIT GROWTH<sup>1</sup>**  
%**5%**

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. Further details are included on pages 39 to 41 of this report and, 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 in greater detail in the Corporate responsibility review including the clear objectives we set ourselves 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.

## Chief Executive's review (continued)

### 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 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

## PERFORMING AGAINST OUR STRATEGY

### WHAT WE SAID

**Organic growth to exceed 5% p.a.**

**Targeted acquisitions**

**Expand business in Asia**

**Continued management development**

**Maintain high rate of innovation**

### WHAT WE HAVE ACHIEVED

11% organic revenue growth and 5% organic profit growth driving record results.

\$20m spent acquiring Fiberguide Industries and Oerlikon Optics USA Inc to add further technology and product strength to our Photonics business within Health and Analysis.

Additional subsidiaries using Halma Shanghai hub and four establishing manufacturing in China for the first time. New hub opened in Mumbai, India. Revenues to Asia Pacific and Australasia grew by 26%.

Two more Halma Executive Development Programmes and four Halma Management Development Programmes completed. New Head of Halma People Development appointed.

Investment in R&D increased by 23% to £22.9m. First ever Halma Innovation and Technology event held in May 2009 to accelerate collaboration between subsidiaries.



WE ADD VALUE THROUGH

# Entrepreneurial LEADERSHIP



At Halma's annual Innovation Awards, the Gold Award of £20,000 was presented by Geoff Unwin (Chairman, right) to BEA SA for the company's new Laser Scanner automatic door sensor.

BEA's strategy is to diversify and grow sales in new markets and make their business less reliant on the commercial construction sector. Designed to safeguard industrial automatic doors, the unique Laser Scanners' performance exceeds that of competitors' sensors giving them a clear competitive advantage.

"Autonomy in Halma means the freedom to act decisively and take risks. Halma backed our strategy to disrupt the industrial automatic door sensors market and quickly capture a significant share by funding R&D investment in a unique, class-leading laser door sensor."

**Philippe Van Genechten,**  
Managing Director, BEA SA

# Strategic review

Organic growth is central to our value creation strategy, and we continue to identify good quality prospects for further acquisitions

## 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 on pages 22 to 32.

## ADDING VALUE THROUGH OUR STRATEGY



## 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 are 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<sup>1</sup>, 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<sup>2</sup>. Urbanisation drives investment in non-residential buildings like shops, offices, schools and hospitals, the primary market for our infrastructure sensors. Population growth and urbanisation are strongest in Asia, while the ageing population in the West drives demand for health products.

<sup>1</sup> International Energy Outlook 2009. Energy statistics published by the US Government

<sup>2</sup> United Nations, Department of Economic and Social Affairs, Population Division and Population Fund

## RETURN ON SALES

17.3%

## REVENUE GROWTH TO ASIA PACIFIC AND AUSTRALASIA

26%

**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)<sup>3</sup>. 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<sup>4</sup>. 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<sup>5</sup>, 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 DIRECTIONS****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.

<sup>3</sup> The National Coalition on Health Care, USA and Keehan, S. et al. "Health and Spending Projections Through 2017", Health Affairs Web Exclusive W146: 21 February 2008

<sup>4</sup> China Healthcare Sector Analysis

<sup>5</sup> International Labour Organisation

## Strategic review (continued)

We have a clear focus on achieving organic growth, maintaining high returns, investing in new products and generating cash

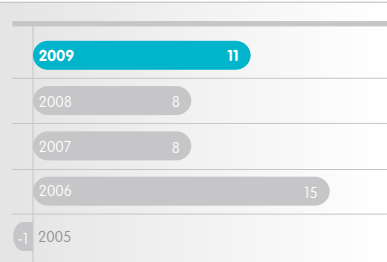
### KPIs

#### ORGANIC REVENUE GROWTH<sup>1</sup>

%

2009: **11%**

Target **>5%**



##### Definition

Organic revenue growth measures the change in revenue achieved in the current year compared with the prior year from continuing Group operations. The effect of acquisitions made during the current or prior financial period has been equalised.

##### Performance

Strong organic growth across all sectors for the fourth consecutive year.

##### Target

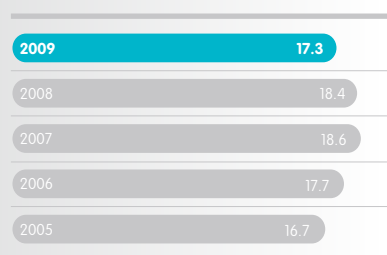
The Board established a minimum organic growth target of 5% representing the blended long-term growth rate of our markets.

#### RETURN ON SALES<sup>1</sup>

%

2009: **17.3%**

Target **~18%**



##### Definition

Return on sales is defined as adjusted profit before taxation<sup>1</sup> from continuing operations expressed as a percentage of revenue from continuing operations.

##### Performance

High returns achieved representing a marginal drop in performance against this target. This reflected a reduction in profitability within the Health and Analysis sector.

##### Target

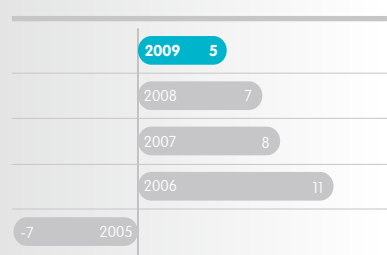
The Return on sales target reflects the expectation that high returns are sustained and will vary within a narrow range of 16 – 20% giving the average 18% target.

#### ORGANIC PROFIT GROWTH<sup>1</sup>

%

2009: **5%**

Target **>5%**



##### Definition

Organic profit growth measures the change in profit achieved in the current year compared with the prior year from continuing Group operations. The effect of acquisitions made during the current or prior financial period has been equalised.

##### Performance

Organic profit growth met the target assisted by positive currency impacts.

##### Target

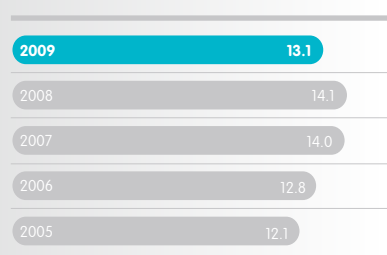
The Board established a minimum organic growth target of 5% representing the blended long-term growth rate of our markets.

#### ROTC (RETURN ON TOTAL INVESTED CAPITAL)<sup>1</sup>

%

2009: **13.1%**

Target **>12%**



##### Definition

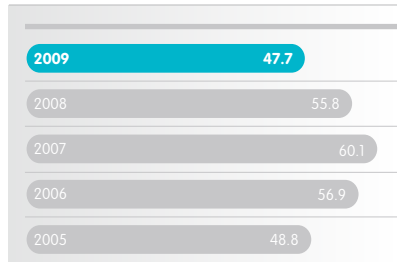
Return on total invested capital is defined as the post-tax return from continuing operations before amortisation of acquired intangibles as a percentage of adjusted shareholders' funds as detailed in note 3 to the accounts.

##### Performance

Strong returns maintained in excess of our current WACC of 9% (2008: 8.4%).

##### Target

The target of 12% was set in 2005 when the Group's ROTC was 12.1%; a range of 12 – 14% is considered representative of the Board's expectations over the long term.

**ROCE (RETURN ON CAPITAL EMPLOYED)<sup>1</sup>**  
%**2009: 47.7%** Target **>45%****Definition**

Return on capital employed is defined as the operating profit from continuing operations before amortisation of acquired intangibles as a percentage of capital employed as detailed in note 3 to the accounts.

**Performance**

Continued high returns above the target level achieved. The reduction against the prior year was due to slightly lower profitability and an increase in the capital base due to currency impacts.

**Target**

The target is set in order to ensure the efficient generation of cash at all levels to fund organic growth, closely targeted acquisitions and sustained dividend growth.

**R&D AS A PERCENTAGE OF REVENUE**  
%**2009: 5.0%** Target **>4%****Definition**

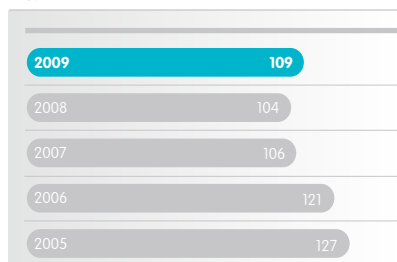
Total research and development expenditure in the financial year (regardless of whether or not it was capitalised) as a percentage of revenue from continuing operations.

**Performance**

Total spend in the year increased by over £4 million increasing the proportion spent to 5% of revenue.

**Target**

New products contribute strongly to achieving organic growth, maintaining high returns and building strong market positions. The 4% minimum investment target is appropriate to the mix of product life cycles and technologies within Halma.

**OPERATING CASH TO PROFIT**  
%**2009: 109%** Target **100%****Definition**

Cash generated from operations expressed as a percentage of adjusted profit before taxation from continuing operations<sup>1</sup>.

**Performance**

Cash conversion of 109% was above target. Cash generation continues to receive close attention at subsidiary company and Group levels.

**Target**

The goal of cash inflow exceeding 100% is a metric that has relevance at all levels of the organisation and aligns management action with the strategic goals of organic growth, acquisitions and progressive dividends.

See page 42 for non-financial KPIs

<sup>1</sup> See Financial highlights

## Strategic review (continued)

We recognise major risks and uncertainties facing us and take action to identify, manage and mitigate them

### Risk factors

DESCRIPTION	MITIGATION
<b>OPERATIONAL RISK</b>	
<p>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.</p>	<p>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.</p>
<b>ORGANIC GROWTH AND COMPETITION</b>	
<p>The Group faces competition in the form of pricing, service, product performance and substitution. These constitute an ongoing threat to our growth.</p>	<p>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.</p>
<b>RESEARCH AND DEVELOPMENT</b>	
<p>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.</p>	<p>R&amp;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.</p>
<b>INTANGIBLE RESOURCES</b>	
<p>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.</p>	<p>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.</p>
<b>LAWS AND REGULATIONS</b>	
<p>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.</p>	<p>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.</p>

DESCRIPTION	MITIGATION
<b>INFORMATION TECHNOLOGY/BUSINESS INTERRUPTION</b>	
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.	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.
<b>ACQUISITIONS</b>	
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.	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.
<b>FINANCIAL IRREGULARITIES AND INCREASING SPAN OF CONTROL</b>	
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.	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.
<b>CASH</b>	
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.	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.
<b>TREASURY RISKS</b>	
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. These financial risks are discussed more fully in note 26 to the accounts.	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.
<b>CURRENT ECONOMIC CONDITIONS</b>	
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.	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.
<b>PENSION DEFICIT</b>	
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.	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.

# Sector review

## Infrastructure Sensors

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\*. Our principal products are sensors for fire, security, automatic doors and elevator safety. There are four sub-sectors.

<b>STRATEGIC ACHIEVEMENTS</b>	<ul style="list-style-type: none"> <li>&gt; Organic revenue and profit growth</li> <li>&gt; Benefits from recent reorganisation in Security and Elevator Safety</li> <li>&gt; Major new product launches in Automatic Door Sensors and Elevator Safety</li> <li>&gt; Disposal of South African Security Sensor business assets</li> <li>&gt; Product margins maintained</li> </ul>				
<b>STRATEGIC DIRECTIONS</b>	<ul style="list-style-type: none"> <li>&gt; Organic profit and revenue growth</li> <li>&gt; Expansion in Asia</li> <li>&gt; New technology through internal/external collaboration</li> <li>&gt; Relentless manufacturing efficiency improvement</li> <li>&gt; Maintaining profitability through focussed cost control</li> </ul>				
<b>KPIs</b>	Revenue growth <sup>1</sup>	Profit growth <sup>1</sup>	Return on sales <sup>2</sup>	ROCE <sup>3</sup>	R&D <sup>4</sup>
Sector performance	11%	16%	17.7%	63%	5.5%
Group target	>5%	>5%	~18%	>45%	>4%
<b>GROWTH DRIVERS</b>	<ul style="list-style-type: none"> <li>&gt; Growth in population, ageing and urbanisation</li> <li>&gt; Increasing regulation and rising expectations of health and safety</li> <li>&gt; New technology</li> </ul>				

### WHERE WE OPERATE

- Belgium
- Brazil
- China
- Czech Republic
- France
- Germany
- India
- Italy
- Japan
- New Zealand
- Republic of Ireland
- Singapore
- Spain
- UK
- United Arab Emirates
- USA



<sup>1</sup> Sector revenue and adjusted<sup>5</sup> sector profit before finance expense are compared to the equivalent prior year figure.  
<sup>2</sup> Return on sales is defined as adjusted<sup>5</sup> profit before finance expense and taxation expressed as a percentage of sector revenue.  
<sup>3</sup> Adjusted<sup>5</sup> sector profit before finance expense expressed as a percentage of sector operating net assets.  
<sup>4</sup> Sector research and development expenditure expressed as a percentage of sector revenue.  
<sup>5</sup> Adjusted to remove the amortisation of acquired intangible assets.

\* See note 1 to the accounts



## SUB-SECTORS



FIRE DETECTION

SECURITY SENSORS

AUTOMATIC  
DOOR SENSORS

ELEVATOR SAFETY

## 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



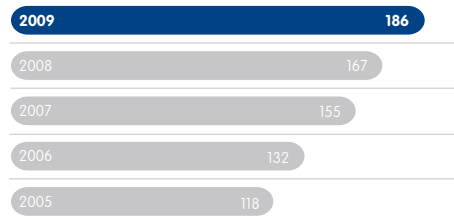
## QUEEN'S AWARD

Export sales success at Fire Fighting Enterprises was recognised by a Queen's Award for Enterprise 2009 in the International Trade category.

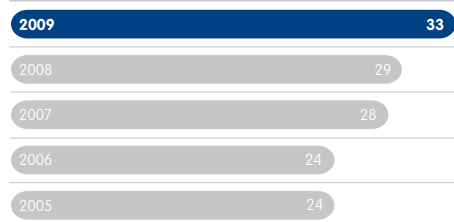
## Sector review (continued)

REVENUE  
£million

£186m +11%

PROFIT  
£million

£33m +16%



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.

WE ADD VALUE THROUGH

# Providing EXPERTISE



Within weeks of acquiring Riester, Halma specialists were working on the shopfloor to radically transform the production process. Involving all staff, the reorganisation has boosted productivity by up to 44%, lead times have been halved, inventory is down by 25% and the production area required for the same level of revenue has been reduced by 30%.

Production is now more flexible and the business reacts faster to customers' needs.

"With guidance from Halma, we have raised efficiency, cut waste, reduced costs, improved customer service and freed up resources and factory space for future expansion."

**Thomas Hölle**  
Operations Director Rudolf Riester

## Sector review (continued)

# Health and Analysis

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\*. There are four sub-sectors.

<b>STRATEGIC ACHIEVEMENTS</b>	<ul style="list-style-type: none"> <li>&gt; Organic revenue growth</li> <li>&gt; Extra sales resources and strong growth in developing markets</li> <li>&gt; Acquisition of Fiberguide, Inc and Oerlikon Optics USA Inc. (Colorado)</li> <li>&gt; Manufacture start-up in China</li> <li>&gt; US product validations and licensing deal for water UV</li> <li>&gt; Increased collaborative R&amp;D and marketing</li> </ul>				
<b>STRATEGIC DIRECTIONS</b>	<ul style="list-style-type: none"> <li>&gt; Organic revenue and profit growth</li> <li>&gt; Control overheads to increase profitability</li> <li>&gt; Extend intercompany R&amp;D and marketing collaboration</li> <li>&gt; Extend global sales channels</li> <li>&gt; Increase manufacturing in local markets</li> <li>&gt; High R&amp;D to maintain technology leadership</li> <li>&gt; Seek value-enhancing acquisitions</li> </ul>				
<b>KPIs</b>	Revenue growth <sup>1</sup>	Profit growth <sup>1</sup>	Return on sales <sup>2</sup>	ROCE <sup>3</sup>	R&D <sup>4</sup>
Sector performance	<b>23%</b>	<b>3%</b>	<b>17.4%</b>	<b>45%</b>	<b>5.3%</b>
Group target	>5%	>5%	~18%	>45%	>4%
<b>GROWTH DRIVERS</b>	<ul style="list-style-type: none"> <li>&gt; Demand for energy and water resources</li> <li>&gt; Growth in population, ageing and urbanisation</li> <li>&gt; Increasing demand for healthcare</li> <li>&gt; Increasing regulation and rising expectations of health and safety</li> <li>&gt; New technology</li> </ul>				

### WHERE WE OPERATE

Australia  
 China  
 France  
 Germany  
 Holland  
 Japan  
 Malaysia  
 South Korea  
 Switzerland  
 UK  
 USA



<sup>1</sup> Sector revenue and adjusted<sup>5</sup> sector profit before finance expense are compared to the equivalent prior year figure.  
<sup>2</sup> Return on sales is defined as adjusted<sup>5</sup> profit before finance expense and taxation expressed as a percentage of sector revenue.  
<sup>3</sup> Adjusted<sup>5</sup> sector profit before finance expense expressed as a percentage of sector operating net assets.  
<sup>4</sup> Sector research and development expenditure expressed as a percentage of sector revenue.  
<sup>5</sup> Adjusted to remove the amortisation of acquired intangible assets.

\* See note 1 to the accounts

## SUB-SECTORS



WATER

PHOTONICS

HEALTH OPTICS

FLUID TECHNOLOGY

**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<sup>1</sup>.

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.

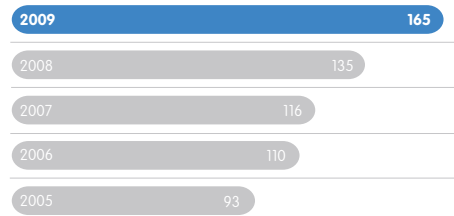
Our [Water](#) business makes products for water UV treatment, leakage control and quality testing. We are the world leader in leakage control instrumentation and aim to strengthen this position through continued new product development and building strong sales distribution in developing countries. 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

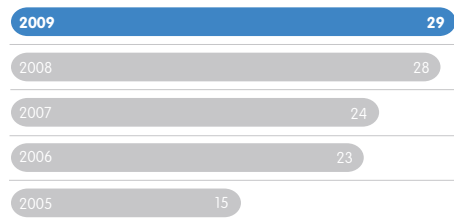
## Sector review (continued)

REVENUE  
£million

£165m +23%

PROFIT  
£million

£29m +3%



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<sup>1</sup> 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.

<sup>1</sup> US Stimulus Plan – in February 2009 US President Barack Obama signed into law an economic stimulus plan worth about £550bn aimed at boosting the US economy. <http://news.bbc.co.uk/1/hi/business/7874407.stm>

WE ADD VALUE THROUGH

# Developing PEOPLE



Apollo's significant investment in training is key to delivering improved customer service levels through manufacturing excellence. In the past 12 months 71 Apollo shop floor operators have completed the NVQ level 2 programme in Business Improvement Techniques.

Five Apollo directors have completed our internal Halma Executive Development Programme, and nine managers have completed the Halma Management Development Programme.

Apollo won the Halma Company award for people development in 2009.

"People development is a key strategic goal for all Halma businesses. During the past year 377 Apollo Fire Detectors employees have benefited from sponsored training and internal management skills programmes."

**Danny Burns, Managing Director**  
Apollo Fire Detectors

## Sector review (continued)

# Industrial Safety

We make products which protect assets and people at work. Industrial Safety contributed 23% of Group revenue (£105m) and 27% of Group profit\* (£22m). There are four sub-sectors.

<b>STRATEGIC ACHIEVEMENTS</b>	<ul style="list-style-type: none"> <li>&gt; Organic revenue and profit growth in all sub-sectors</li> <li>&gt; Coordinated strategy implemented for Bursting Disks businesses</li> <li>&gt; Fortress Australia power resistors business sold</li> <li>&gt; Cross-sector product development</li> <li>&gt; Improvement in customer service and manufacturing</li> </ul>				
<b>STRATEGIC DIRECTIONS</b>	<ul style="list-style-type: none"> <li>&gt; Organic growth and improved cost control</li> <li>&gt; Sales expansion into Asia and Eastern Europe</li> <li>&gt; Manufacturing of products in developing markets for local sale</li> <li>&gt; Improved manufacturing operations</li> <li>&gt; New products and new technology for safety markets</li> </ul>				
<b>KPIs</b>	Revenue growth <sup>1</sup>	Profit growth <sup>1</sup>	Return on sales <sup>2</sup>	ROCE <sup>3</sup>	R&D <sup>4</sup>
Sector performance	12%	14%	21.1%	67%	3.8%
Group target	>5%	>5%	~18%	>45%	>4%
<b>GROWTH DRIVERS</b>	<ul style="list-style-type: none"> <li>&gt; Demand for energy and water resources</li> <li>&gt; Growth in population, ageing and urbanisation</li> <li>&gt; Increasing regulation and rising expectations of health and safety</li> <li>&gt; New technology</li> </ul>				

### WHERE WE OPERATE

Australia  
Bahrain  
Chile  
China  
France  
Germany  
Holland  
India

Italy  
Poland  
Singapore  
Sweden  
Tunisia  
UK  
USA



<sup>1</sup> Sector revenue and adjusted<sup>5</sup> sector profit before finance expense are compared to the equivalent prior year figure.

<sup>2</sup> Return on sales is defined as adjusted<sup>5</sup> profit before finance expense and taxation expressed as a percentage of sector revenue.

<sup>3</sup> Adjusted<sup>5</sup> sector profit before finance expense expressed as a percentage of sector operating net assets.

<sup>4</sup> Sector research and development expenditure expressed as a percentage of sector revenue.

<sup>5</sup> Adjusted to remove the amortisation of acquired intangible assets.

\* See note 1 to the accounts



## SUB-SECTORS



GAS DETECTION

BURSTING DISKS

SAFETY INTERLOCKS

ASSET MONITORING

**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 the 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.

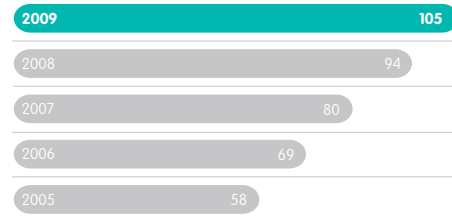
Reorganisation of our UK and US **Bursting Disk** businesses has resulted in a more collaborative and effective global sales operation. Recent capital investment in manufacturing has made establishing an operation in Asia for local demand a real opportunity. We are expanding our international direct 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.

## Sector review (continued)

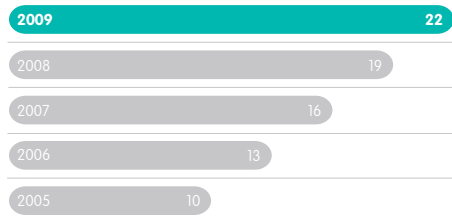
### REVENUE £million

£105m +12%



### PROFIT £million

£22m +14%



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.

WE ADD VALUE THROUGH

# Leveraging OUR RESOURCES



Halma companies benefit from having access to management and financial resources not usually available to smaller businesses.

Since being acquired by the Group in 2004 Ocean Thin Films has benefited from the investment of over \$3m in new coating facilities. In 2008 the Group acquired part of Oerlikon Optics to add new technology, assets and customers.

"Halma backed our plan to spin off Ocean Thin Films as a standalone business with substantial capital investment in state-of-the-art production equipment. It positions us as a key player in the expanding thin films sector of the photonics market."

**Phil Buchsbaum, President**  
Ocean Thin Films

# Financial review

## A strong financial position



**Kevin Thompson**  
Finance Director

### Another year of good progress

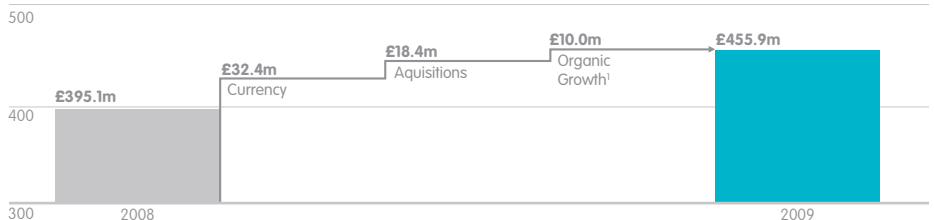
For the sixth consecutive year we are reporting record results. Results from continuing operations were as follows:

	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 <sup>1</sup>	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

£million



### 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.

The financial KPIs we use to monitor our progress are shown on pages 18 and 19. 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%

### ADJUSTED PROFIT BEFORE TAXATION<sup>1</sup>

£million

**£79m** **+9%**

2009	79
2008	73
2007	66
2006	60
2005	50

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 in the review of risks on pages 20 to 21, 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.

## Financial review (continued)

### ADJUSTED EARNINGS PER SHARE<sup>1</sup>

pence

15.30p +10%

Year	Adjusted Earnings per Share <sup>1</sup> (pence)
2009	15.30
2008	13.86
2007	12.42
2006	11.27
2005	9.45

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 as shown on page 9. 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 3 to the accounts 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:

Change in net debt £million	2009	2008
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.

## Financial review (continued)

### 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 above in the Strategic and Sector reviews. In addition risks facing the Group, and our response to these, are reviewed on pages 20 and 21.

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 as set out on page 50. 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.

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### Kevin Thompson

Finance Director

<sup>1</sup> See Financial highlights



WE ADD VALUE THROUGH

# Encouraging COLLABORATION



## In this section:

- > **Sharing best practice** – Cross sector communication helps to resolve business challenges
- > **Meeting the demand** – creating Halma hubs to benefit and service new clients

# Halma Innovation & Technology Exposition

The first ever Exposition was held in London in 2009 with the goal of building on Innovation and Collaboration between Halma companies.



02



01

- 01 Tan Eng Aun, Divisional Finance Director, Elevator Safety, and Dinesh Musalekar, General Manager, TL Jones India, met during HITE to discuss how the Indian business can be expanded and how the division can assist
- 02 Steve Cech, VP Technology, Volk and Frederic Duchesne, Technical Director, SERV, explored the potential use of optical components in safety interlocks
- 03 Patricia Seniw, VP Finance, Perma Pure, talked to Rob Randelman, President, Ocean Optics about their distributor network in South America
- 04 Adrian Beasley, Technical Director, Keeler, explained the technology used in their eye testing system
- 05 Chong Siew Tan, General Manager, E-Motive showed Martin Zhang, Director Halma China, a world-leading interactive LCD display technology which can be used either in an elevator or as interior building signage



## Encouraging global and cross sector collaboration

Halma's value creation strategy 'in action'

### Global collaboration

This exciting event gave Halma companies from across the world the opportunity to share knowledge of their markets and home regions. Relationships already established by programmes such as HEDP were reinforced and new ones created to support future growth opportunities.

### Cross sector problem solving

Seminars were held covering core technologies and applications common to many Group companies. For example they emphasised the potential to share photonics technologies more widely across the Group.



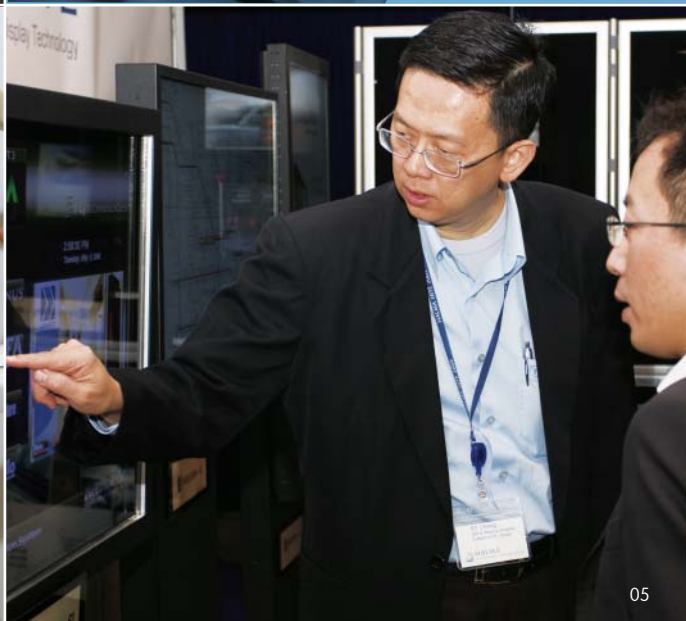
03



BEA's Laser Scanner's initial market is for industrial automatic doors, but its performance exceeds existing laser sensors at a fraction of the cost and it will potentially open up many other markets for the company.



04



05

**Showcasing award winners**

The Halma Innovation Awards recognise individuals and teams who convert their ideas into commercial success.

This year the first prize of £20,000 was won by a team from BEA for their new Laser Scanner automatic door sensor.

**Encouraging R&D**

New product innovation is a key element of Halma's growth strategy. A number of additional new product ideas came from the event building on recent successes arising from existing collaboration.

**Halma hubs**

The Halma China hubs in Shanghai and Beijing have been instrumental in growing revenues in the region. The new manufacturing hub in Shanghai will enable further Group companies to start manufacturing in the region for the first time. The presence of personnel from the new Halma India hub at the Exposition highlights the opportunity to repeat these successes in India.

# Corporate responsibility

## Achievements

We deliver sustainable value to our customers and shareholders.

1. Halma's carbon policy was approved by the Board in 2007 and calls for a 10% reduction in the carbon footprint by 2010.
2. Halma conducts an annual survey of its employees to assess how well the Group's values are aligned with its employees and how well the Group communicates its values to employees.
3. The Halma Executive Development Programme (HEDP) and the Halma Management Development Programme (HMDP) provide executives and middle managers with the necessary skills they need in their current and future roles.

## KPIs

Non-financial Key Performance Indicators (KPIs) are used by the Board to monitor progress on Group initiatives; financial KPIs are considered on pages 18 and 19.

### CO<sub>2</sub> EMISSIONS: TONNES/£M OF REVENUE

<b>39</b>	40	42	10%	Good progress towards reduced carbon emissions (relative to revenue) made in the policy's second year.
	2008	2007	reduction Group target	

### VALUES ALIGNMENT

<b>6</b>	7	5	5	Survey of senior managers showed a healthy six desired values present in the Group.
	2008	2007	Group target	

### SUBSIDIARY DIRECTORS/MANAGERS WHO HAD COMPLETED HEDP/HMDP BY MARCH 2009

<b>55%</b>	50%	26%	>50%	Continued commitment to training our people.
	2008	2007	Group target	

### GOVERNANCE AND COMMITMENT TO CORPORATE RESPONSIBILITY

As Halma companies are involved in the manufacture of a wide range of products for the protection and improvement to quality of life for people worldwide, safety is critical to the Group and is a major priority for management. Likewise, the reduction of the Group's carbon footprint has received elevated attention since 2007 in order to meet the Board's stated objective of a 10% reduction in relative carbon usage in the three years to March 2010.

Our core values are Achievement, Innovation, Empowerment and Customer Satisfaction. These core values have been selected following extensive surveying of employees across the Group. Our culture is one of openness, integrity and accountability. We encourage our employees to act fairly in their dealings with fellow employees, customers, suppliers and business partners. We recognise that our employees determine our success and therefore have invested in and encouraged their development more this year than ever before, not only with our intranet training facilities and Halma Executive Development Programme, but also through clearer leadership and decisive action. By ensuring that our team has the approach and skills required to succeed we are better placed to meet the challenges of the future.

We recognise the necessity of safeguarding the health and safety of our own employees whilst at work and operate so as to provide a safe and comfortable working environment for employees, visitors and the public. Our policy is to manage our activities to avoid causing any unnecessary or unacceptable risks to health and safety and the environment. We have an excellent long-term record for addressing environmental issues that affect our businesses and for developing

products that protect the environment and improve safety at work and in public places.

Many of our innovative products play a very positive role in monitoring and improving the environment. Our brands lead the world in a number of technologies which help to minimise environmental damage.

We support the concept of sustainability and recognise that, in common with all businesses, our activities have an environmental impact. Our strategy is not to have capital-intensive manufacturing processes, so the environmental impact of our operations is relatively low compared to manufacturers in other sectors. We also recognise that we can improve our own environmental performance and so resources are now being deployed to actively reduce our own carbon footprint.

Halma has been a member of the FTSE4Good UK index since its establishment in July 2001.

A summary of our progress and performance for all areas of corporate responsibility follows. Halma has developed meaningful key performance indicators (KPIs) that reflect the importance the Group places on corporate responsibility and enable the Board to monitor the Group's progress in meeting its objectives and responsibilities in these areas.

The biggest area of emphasis in recent years has been the transformation of the Group's environmental policy into a carbon policy stating actual targeted reductions for the Group to achieve over a set timescale. Halma has an excellent health and safety record and a culture of safety is deeply embedded within the Group. We want to recognise the effort behind this exemplary record and will continue to actively promote our safety culture over the coming year.

## HALMA AND THE ENVIRONMENT

We have an excellent long-term record and a clear strategy for addressing environmental issues that affect our businesses and for developing products that protect the environment and improve safety at work and in public places.

### Our products

Many of our innovative products play a very positive role in monitoring and improving the environment. Halma brands lead the world in a number of technologies which help to minimise environmental damage.

Our principal environmental technologies are water leakage detection, gas emissions monitoring, water and effluent analysis, UV water treatment and optical sensing. We tirelessly promote the use of UV water sterilisation which eliminates the need to use dangerous chemicals, as well as products that minimise the waste of clean water.

Our commitment to the development of equipment for measuring environmental changes and controlling the damaging impact of industrial activities is long-term.

We make safety equipment for use at work, in public places and in transportation systems that contribute to increased personal safety by ensuring safe practice at work, protecting people from fire and making elevators and automatic doors safe and effective. We are the major world supplier in several of these areas.

### Carbon policy

The Group's policy on carbon is published on our website and has been distributed and explained to all Halma business units.

A senior executive in each of our higher-impact business units is responsible for implementing the carbon policy at local level. Our Finance Director, Kevin Thompson, has principal responsibility for coordinating and monitoring the policy.

### Environmental management system

We are committed to developing and implementing an environmental management system (EMS) throughout the Group to measure, control and, where practical, reduce our environmental impacts. We have developed performance indicators that assist local management in implementing the policy and ultimately developing an EMS. The requirement for an EMS and the related reporting has been rolled out to all UK business units, which represent over 50% of Group production facilities in terms of external turnover. All Group companies are encouraged to undertake ISO 14001, the international environmental accreditation, where warranted, and since we last reported both Volumatic and Ocean Thin Films' Golden operation have joined the list of ISO 14001 approved entities. The requirement to implement an EMS will be extended to the rest of the Group in the medium term. In terms of revenue, currently 21% of the Group has ISO 14001 approval.

## LOW ENVIRONMENTAL IMPACT



FTSE4Good

### Our impact

The environmental effect of our operations is relatively low compared to manufacturers in other sectors. FTSE4Good has assessed Halma as having a low impact on the environment.

Nevertheless, Group companies are encouraged to improve energy efficiency, reduce waste and emissions and reduce the use of materials in order to reduce their environmental impact. The Group established baseline data in 2004/05 on emissions to air and water, water and energy consumption, and waste production, the results of which are updated on the Halma website each year. The data collected for the past four years has enabled the Group to set comprehensive and quantifiable objectives for reducing its environmental impacts in those areas and to set and monitor targets for reduction in key areas.

The collected data confirms that the main areas of impact on the environment are energy consumption and solid waste disposal. The Group does not operate a fleet of distribution vehicles although we do own a number of company cars. From May 2007, we implemented a cap on permissible CO<sub>2</sub> emissions of all UK company vehicles and will extend this requirement to the rest of the world in due course. This limit was reduced in 2008 (and again in 2009) and will continue to be reduced annually so as to consistently reduce our vehicles' environmental impact. We have also set a fuel consumption standard for company vehicles in the USA.

Having identified the main areas of impact, we are now committed to their reduction and minimisation. Using the baseline data the total Group carbon emissions for 2006/07 were calculated as being approximately 15,000 tonnes, an average of approximately 42 tonnes per £million of revenues. We plan to reduce the Group's total carbon emissions relative to revenues by 10% by 2010, and have made reasonable progress, first in 2007/08 and again in 2008/09 with total Group carbon emissions now averaging 39 tonnes per £million of revenues.

Over the course of the past two years, we have worked with an international environment and energy consultancy to facilitate this reduction by providing each subsidiary with the means to identify tailored initiatives for energy efficiency. This is complemented by internal programmes, including the use of our own wireless communications technology to monitor energy usage and use of the Group intranet to allow for inter-company communication, reporting of data and feedback. This initiative has, and will continue to, lead to cost savings for the Group as well as preparing us for compliance with climate change legislation.

## Corporate responsibility (continued)

Our carbon policy can be found on the Halma website. The Group's environmental performance will continue to be reported both in the Annual report and on our website.

The Group is committed to examining the establishment of 'green' procurement policies and increasing our use of recycled materials.

### HALMA AND ITS PEOPLE

The Group has a policy of equal opportunities and preventing harassment, which applies in relation to recruitment of all new employees and to the management of existing personnel. This gives us access to the widest labour market and enables us to secure the best employees for our needs. We offer all of our staff training relevant to their roles and we believe that this contributes to an increase in employee motivation and job satisfaction. The culture alignment survey results mentioned below support this trend.

Periodically we complete a survey of employees to determine whether our core values are authentic in our organisation.

The survey establishes the values individual employees wish to see in our operating culture and to what extent they exist in our existing culture.

In 2006, our survey of senior managers showed that five of the values they wanted to see in our business were actually present. In 2009, our survey of senior managers showed that six desired values were present in our business. This indicates that there is a healthy level of alignment between the culture we aspire to have and the culture we have today.

No survey is capable of capturing all the appropriate sentiments, but our executives, who regularly visit all Group companies, agree that definite healthy improvements in the Group culture have occurred over recent years.

The Group will continue to monitor the survey results to enable us to better support our people bringing these values and strengths to work so that they and we may derive further benefit from them.

### Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

### Employee consultation

The Group places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Group. This is achieved through formal and informal meetings, the Group intranet and the annual financial statements. Employee representatives are consulted routinely on a wide range of matters affecting their current and future interests. An employee share plan has been running successfully since 1980. It is open to all UK employees and aligns the interests of all UK employees to those of shareholders.

### Health and safety

The Group manages its activities to avoid causing any unnecessary or unacceptable risks to health and safety. The policy is understood by all Group companies, and given the autonomous structure of the Group, operational responsibility for compliance with relevant local health and safety regulations is delegated to the board of directors of each Group company. We believe health and safety training is important and it is carried out within companies as appropriate. Adequate internal reporting exists in order that the Group's Finance Director may monitor each company's compliance with this policy.

Major injuries recorded	<b>2009</b>	2008
Days lost due to work-related injuries	<b>496</b>	691
Total recorded injuries to all employees	<b>706</b>	388

The Group has collected details of its worldwide reported health and safety incidents which are available on our website at [www.halma.com](http://www.halma.com). We are pleased to report that there were no fatalities during 2008/09 or 2007/08.

### People development

The Halma Executive Development Programme (HEDP), which is based on our recognition of the fundamental part our people play in the success of the Group, continued to thrive in 2008/09. HEDP is an integrated development plan for our senior people – including the next generation of Managing Directors and Divisional Chief Executives. Our objective is to provide these individuals with the tools and training to achieve more in their existing role and potentially to advance through the organisation if their achievements merit it.

Training	2009	2008
Cumulative number of candidates that have completed HEDP	113	90
Cumulative number of candidates that have completed HMDP	206	104

HEDP is aimed squarely at employees already serving on subsidiary boards but we also encourage applications from senior functional managers who can demonstrate they already have equivalent responsibilities and will benefit from the programme. There are approximately 200 such eligible employees in total.

The programme has been developed from a proven course structure and is specifically and continuously tailored to suit Halma's needs, aligning the content to the Group's four core values of Achievement, Innovation, Empowerment and Customer Satisfaction. It focuses strongly on strategic and leadership capabilities and developing personal attributes – commitment, determination and resilience. There is an emphasis on performance management and team development. It includes skill-based elements such as sales and marketing management, project leadership, corporate governance, finance and innovation, but all are presented in a strategic context.

Eight programmes have now been completed and the success of the programme can be measured by the enthusiasm of the participants upon their return to their businesses, the achievements of a number of participants and their eagerness to coordinate further sessions to explore topics of particular interest to their programme Group.

With the HEDP a well-established part of Halma's people development activity, in 2008 we established a new programme for subsidiary managers and supervisors – the Halma Management Development Programme (HMDP). During the year, six programmes were completed for a cumulative total of 206 employees. Programmes were held in the USA, Europe and Asia.

### RESPONSIBLE INVESTMENT

Investing in Halma shares meets the criteria of many professional and private investors who base their decisions on environmental, ethical and social considerations. The Group is a world leader in several key environmental technologies and has a reputation for honesty and integrity in its relationships with employees, customers, business partners and shareholders.

Social conditions can be improved for all through the creation of wealth. Halma creates wealth responsibly allowing our employees, customers, business partners and shareholders to determine where this wealth is best distributed.

Halma's policies reflect the core requirements of the Universal Declaration of Human Rights and the ILO Declaration on Fundamental Principles and Rights at Work. We do not tolerate practices which contravene these international standards.

Regulatory demands upon us vary considerably around the world, so Halma establishes the core structure to ensure that Group companies fully comply with regulatory requirements while permitting them to tailor the solutions to their particular needs.

### Ethics

The Group culture is one of openness, integrity and accountability. Halma encourages its employees to act fairly in their dealings with fellow employees, customers, suppliers and business partners. We aim to have suppliers of high quality and operate to acceptable international standards. Halma operates a confidential whistleblowing policy, which enables all Group employees to raise any concerns they may have.

Halma has a zero-tolerance policy on bribery and corruption which extends to all business dealings and transactions in which we are directly involved. This includes a prohibition on making political donations, offering or receiving inappropriate gifts or making undue payments to influence the outcome of business dealings.

### CAUTIONARY NOTE

The Business review has been prepared solely to assist shareholders to assess the Board's strategies and their potential to succeed. It should not be relied on by any other party, for other purposes. Forward-looking statements have been made by the Directors in good faith using information available up until the date that they approved the Report. Forward-looking statements should be regarded with caution because of the inherent uncertainties in economic trends and business risks. In preparing this Business review, the Directors have aimed to comply with the Accounting Standards Board's 2006 Reporting Statement guidance on Operating and Financial Reviews.

# Board of Directors and executive team



**Name:** Geoff Unwin ■

**Title:** Chairman

**Appointment:** July 2003 Chairman  
September 2002 Deputy Chairman

**Age:** 66

**Committees:** Nomination (Chairman) and Remuneration

**Skills and experience:** Geoff is Chairman of Liberata plc, Taptu Limited and Alliance Medical Group Limited. He is a non-voting board director of Capgemini Group, a member of the advisory board of Palamon Capital Partners and also chairs one of their investments, OmniBus Systems Limited. Previously he was Chief Executive of Cap Gemini Ernst & Young until 2002 and Chairman of United Business Media plc from 2002 to 2007.



**Name:** Andrew Williams ■ ■

**Title:** Chief Executive

**Appointment:** July 2004 (Board)  
April 2002 (Executive Board)

**Age:** 42

**Committees:** Nomination

**Skills and experience:** Andrew was appointed Chief Executive of Halma p.l.c. in February 2005. He became a member of the Executive Board in 2002 as Divisional Chief Executive of the Optics and Water Instrumentation Division and was promoted to a Director of Halma's p.l.c. Board in 2004. He joined Halma in 1994 as Manufacturing Director of Palmer Environmental and became Managing Director of that company in 1997. Andrew is a Chartered Engineer and a production engineering graduate of Birmingham University.



**Name:** Kevin Thompson ■ ■

**Title:** Finance Director

**Appointment:** April 1998 (Board)  
January 1995 (Executive Board)

**Age:** 49

**Skills and experience:** Kevin is Finance Director of Halma. In 1995 he joined the Halma Executive Board as Finance Director, in 1997 became Group Finance Director and in 1998 was appointed to the Halma p.l.c. Board. He joined the Group in 1987 as Group Financial Controller and qualified as a Chartered Accountant with Price Waterhouse. Kevin is an economics and accounting graduate of Bristol University.



**Name:** Richard Stone ■

**Title:** Non-executive Director and Senior Independent Director

**Appointment:** January 2001

**Age:** 66

**Committees:** Nomination, Remuneration (Chairman) and Audit

**Skills and experience:** Richard is the Senior Independent Director. He is Chairman of Drambuie Limited, a non-executive Director of Gartmore Global Trust p.l.c., Trust Union Finance (1991) plc, Engandscot Limited, TR Property Investment Trust plc and Candover Investments plc. Previously Richard was a member of the Global Board of PricewaterhouseCoopers and Chairman of Coopers & Lybrand.



**Name:** Stephen Pettit ■

**Title:** Non-executive Director

**Appointment:** September 2003

**Age:** 58

**Committees:** Nomination, Remuneration and Audit

**Skills and experience:** Stephen was appointed a non-executive Director of Halma in September 2003. He is chairman of ROK plc and a non-executive director of National Grid plc and BT Group plc – Equality of Access Board. Stephen is an Economics and Politics graduate of Cardiff University, has an MSc from London School of Economics and an MBA from INSEAD. Previously Stephen was an executive director with Cable & Wireless PLC and a divisional chief executive with BP PLC.



**Name:** Jane Aikman ■

**Title:** Non-executive Director

**Appointment:** August 2007

**Age:** 43

**Committees:** Nomination, Remuneration and Audit (Chairman)

**Skills and experience:** Jane was appointed a non-executive Director of Halma in August 2007. She is Finance Director of Infinis Limited. Jane qualified as a Chartered Accountant with Ernst & Young and has a degree in civil engineering from Birmingham University. Previously Jane was finance director of both Wilson Bowden Plc and Pressac plc. She spent three years as an internal audit manager with GEC Alsthom and five years in East Asia with Asia Pulp and Paper Co Limited.

Key

■ Board of Directors

■ Executive Board





**Neil Quinn**

**Chief Executive-Safety Sensors Division**

April 1998 (Board)  
April 1995 (Executive Board)  
59

Neil was appointed Chief Executive of the newly formed Safety Sensors Division in 2007 having previously been Chief Executive of both the Fire and the Fire & Security Divisions commencing in 1994. He was appointed to the Halma Executive Board in 1995 and to the Halma p.l.c. Board in 1998. He joined the Group as Sales Director of Apollo Fire Detectors in 1987, becoming Managing Director in 1992. Neil has a Material Sciences degree from Sheffield University.



**Adam Meyers**

**Chief Executive-Health Optics and Photonics Division**

April 2008 (Board)  
April 2003 (Executive Board)  
47

Adam is Chief Executive of the Health Optics and Photonics Division and was promoted to a Director of Halma's p.l.c. Board in April 2008. He became a member of the Halma Executive Board in 2003 as Divisional Chief Executive of the Fluid Technology Division. He joined Halma in 1996 as President of Bio-Chem Valve and was appointed Assistant Divisional Chief Executive in 2001. Adam is a systems engineering graduate of the University of Pennsylvania and gained his MBA from Harvard Business School.



**John Campbell**

**Chief Executive - Elevator Safety Division**

April 1998 (Executive Board)  
50

John was appointed Chief Executive of the Elevator Safety Division in 2006 after leading the successful disposal of the Group's resistor businesses. He joined the Halma Executive Board in 1998 and has also operated Halma businesses in the Safety Interlock, Bursting Disk and Automatic Door Sensor areas. He joined the Group in 1995 as President of IPC Resistors and is an electrical engineering graduate of the University of Toronto.



**Nigel Trodd**

**Chief Executive - Fire and Security Division**

July 2003 (Executive Board)  
51

Nigel is Chief Executive of the Fire and Security Division. He joined Halma in July 2003 as Chief Executive of Process Safety Division and a member of the Executive Board. Nigel is a business studies graduate of Thames Valley University and is a member of the Chartered Institute of Marketing.



**Carol Chesney**

**Company Secretary**

April 1998  
46

Carol was appointed Company Secretary of Halma p.l.c. in 1998. She spent three years with English China Clays p.l.c. before joining Halma in 1995 as Group Finance Manager. She is a maths graduate of Randolph-Macon Woman's College, Virginia and qualified as a Chartered Accountant with Arthur Andersen.



**Mark Lavelle**

**Chief Executive - Process Safety Division**

April 2007 (Executive Board)  
50

Mark was appointed Chief Executive of the Process Safety Division in 2007. He joined Keeler Instruments in November 2001 as Managing Director and was promoted to Divisional Managing Director in 2006. Mark has a chemistry degree from Cambridge University and an MBA from INSEAD.



**Allan Stampler**

**Chief Executive - Water and Asset Monitoring Division**

October 2007 (Executive Board)  
54

Allan was appointed Divisional Chief Executive and a member of the Executive Board in October 2007. He joined the Group in 2002 as Managing Director of Crowcon Detection Instruments. Allan is an engineering graduate of both Loughborough University (BSc) and Imperial College (MSc) and has an MBA from Cranfield.



**Charles Dubois**

**Chief Executive - Fluid Technology Division**

April 2008 (Executive Board)  
43

Charles was appointed Chief Executive of the Fluid Technology Division in April 2008. In 2007 he became Divisional Managing Director of that Division. He was appointed President of Diba Industries following the company's acquisition in 2004. Charles joined the Group in 1999 as Vice President Sales and Marketing of Perma Pure LLC. He holds a Bachelor's degree in physics from the College of the Holy Cross and earned his MBA from the F.W. Olin School of Business at Babson College.

# Corporate governance



**Geoff Unwin**  
Chairman

Corporate governance is about behaviour and this section of the report deals with how the Board and its committees discharge their duties and how we apply the principles of good governance in the Combined Code on Corporate Governance which is appended to the Listing Rules of the Financial Services Authority and for which the Board is accountable to shareholders. Governance is complex, so the Board is committed to the shared endeavour of maintaining high standards of corporate governance. The policy of the Board is to manage the affairs of the Company in accordance with the principles of corporate governance contained in the Combined Code not by merely following regimented rules, but by the promotion of wide discussion on topics to which Board members properly contribute, demonstrating mutual engagement amongst the participants. In the spirit of 'comply or explain', the Board has again this year re-affirmed its decision to retain a Board composition that differs from the Combined Code principles.

I continue to be pleased with the progress Halma has made to ensure best practice is maintained and we continually seek to improve our practices for the benefit of our shareholders.

## Succession planning

I have always maintained that a key part of my role involves ensuring that the right people are doing the right jobs within the Group and that there is a sufficient cadre of individuals being nurtured throughout the Group to enable effective succession planning. Reviews of management capabilities and potential are performed on a routine basis and I am satisfied that sufficient resource within the Group exists and continues to be developed through programmes such as the Halma Executive Development Programme which itself evolves to meet the changing needs of the Group. Where a need for improvement to management resources is identified, the necessary attention is provided to ensure full strength is attained as soon as practicable.

## Board appointments

In April 2008 we appointed Adam Meyers to the Board in contemplation of Keith Roy's retirement at the end of July 2008. Adam provides another international dimension to the Board since he is based in the USA and we are benefiting from having him at the Board table.

Our Board composition is discussed further on page 49 since it is a deviation from the Combined Code in that half of the Board, excluding myself, is not made up of independent non-executive Directors. However, I wanted to add my own confirmation here that I am entirely satisfied that our preferred composition of the Board is appropriate to Halma and is one which all of the non-executive Directors support. No shareholder has ever raised this matter with me and, indeed, when I sought shareholders' support, first at the 2005 AGM and again at the 2008 AGM, it was unanimous.

## Board committees

Our committees are a valuable part of the Company's corporate governance structure. The workload of the committees is far more than the table of scheduled meetings on page 49 would indicate as ad hoc meetings and communications between meetings frequently require considerable amounts of time. As with the Board's composition, I am equally comfortable that the composition of all of our committees remains appropriate.

## Board performance

The Board evaluates its performance and that of the Remuneration, Audit and Nomination Committees at least annually. Each year, we consult the Board to determine whether an external facilitator would enhance our process. To date, we have concluded that the current, open climate that the Board enjoys ensures a full and frank discussion of all matters, so an external facilitator is unnecessary. For 2008/09 the evaluation commenced with an updated self-assessment questionnaire, the results of which were compiled by the Company Secretary and discussed by the Board at the February 2009 Board meeting. The Board also met in February 2009, separate from any scheduled meeting, for a general discussion on Board effectiveness followed by a meeting of the executive Directors with the Chairman, a meeting of the Chairman and non-executive Directors, and then a meeting of the non-executive Directors without the Chairman present. The outcomes of these meetings were then fed back to individuals by the Chairman, Senior Independent Director or Chief Executive, as appropriate. Overall, our process confirms that the blend of behaviours and skills around the Halma Board table are well suited to the task and consistent with Group values. With a Board that is free to openly express concerns comes more considered outcomes emphasising collective responsibility, transparency, clarity and sustainable conduct.

## Shareholder communication

I would like to encourage all shareholders to find the time to attend our AGM on 30 July 2009. It is an excellent opportunity to meet the Board, the Executive Board and a selection of the CEOs from our operating companies.

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**Geoff Unwin**  
Chairman

### Compliance with the Code of best practice

Throughout the financial year, the Company complied with the Code provisions set out in Section 1 of the July 2003 FRC Combined Code on Corporate Governance, as amended in June 2006, except in respect of provisions A.3.2 which involves the composition of the Board and the number of members who are independent non-executive Directors.

The Board reaffirmed its decision to maintain the composition of the Board as a Chairman, three independent non-executive Directors and four executive Directors and recognises that this composition was not achieved from 3 April 2008 to 31 July 2008 whilst Keith Roy's and Adam Meyers' directorships overlapped for reasons of succession planning. Prior to permitting this imbalance to occur, the Chairman and non-executive Directors sought assurance from the Chief Executive that he was unaware of any significant matters to be brought to the Board's attention prior to Keith Roy's retirement on 31 July 2008. After Keith Roy's retirement, the Board was restored to its preferred composition. The Board adjudged this composition as the most appropriate structure for the Company providing valuable direct knowledge of operations and a robust debate surrounding the issues facing the Group in the present and future as well as ensuring a good mix of skills and experience.

### Application of the principles of good governance

The Group is controlled and directed by a Board consisting of a Chairman, four executive Directors (five from 3 April 2008 to 31 July 2008) and three other non-executive Directors. Their biographies appear on pages 46 and 47. The Board considers the Chairman and each of the non-executive Directors to be independent. In assessing independence, the Board considers that the Chairman and non-executive Directors are independent of management and free from business and other relationships which could interfere with the exercise of independent judgment now and in the future. The Board believes that any shareholdings of the Chairman and non-executive Directors serve to align their interests with those of all shareholders. Richard Stone is acknowledged as the Senior Independent Director. Upon appointment and at regular intervals, all Directors are offered appropriate training. Each Director is subject to re-election at least every three years. The Chairman confirms that Richard Stone, who is standing for re-election, continues to be effective and demonstrates commitment to his role. Richard Stone's triennial re-election occurs one year prior to the ninth anniversary of his election to the Board. Richard Stone has indicated his willingness to continue as a Director whilst succession planning is considered and the Board has accepted that his independence is not compromised by this extension of his term of office.

The Directors retain responsibility for the formulation of corporate strategy, investment decisions, and treasury and risk management policies. There is a formal schedule of matters reserved for the Board's decision and the Board meets at least six times each year with further ad hoc meetings as required. Directors are issued an agenda and comprehensive board papers in the week preceding each Board meeting. All Directors have access to the advice and services of the Company Secretary as well as there being an agreed procedure for obtaining independent professional advice.

### Board and Committee meeting attendance

During the year attendance by Directors at Board and Committee meetings was as follows:

	Board	Remuneration Committee	Audit Committee	Nomination Committee
Total scheduled meetings	6	4	3	1
Geoff Unwin	6	4	N/A	1
Andrew Williams	6	N/A	N/A	1
Kevin Thompson	6	N/A	N/A	N/A
Neil Quinn	6	N/A	N/A	N/A
Richard Stone	6	4	3	1
Stephen Pettit	6	4	3	1
Jane Aikman	6	4	3	1
Adam Meyers	6	N/A	N/A	N/A
Keith Roy	3*	N/A	N/A	N/A

\* Keith Roy attended all meetings up to the date of his retirement from the Board.

### Committees of the Board

Halma has six committees of the Board: the Remuneration Committee, the Audit Committee, the Nomination Committee, the Share Plans Committee, the Bank Guarantees and Facilities Committee and the Acquisitions and Disposals Committee.

Each of these committees has terms of reference approved by the Board, copies of which are available on the website or on request from the Company Secretary.

### Internal control

The Board has overall responsibility to the shareholders for the Group's system of internal control, and responsibility for reviewing its effectiveness has been delegated to the Audit Committee. Whilst not providing absolute assurance against material misstatements or loss, this system is designed to identify and manage those risks that could adversely impact the achievement of the Group's objectives. The principal risks are detailed on pages 20 and 21.

Following publication by the Turnbull Committee of the guidance for directors on internal control ('Internal Control: Guidance for Directors on the Combined Code'), the Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group, that this has been in place for the year under review and up to the date of approval of the Annual report and accounts. This process has been reviewed by the Board and the Group accords with the Turnbull guidance.

The Group's external auditors, Deloitte LLP, have audited the financial statements and have reviewed the internal financial control systems to the extent they consider necessary to support their audit report.

The Board meets regularly throughout the year and has adopted a schedule of matters which are required to be brought to it for decision. This procedure is intended to ensure that the Directors maintain full and effective control over all significant strategic, financial and organisational issues.

Group risk is mitigated by means of an operating structure which spreads the Group's activities across a number of autonomous subsidiary companies. Each of these companies operates with a high quality board of directors including a finance executive.

Group companies operate under a system of controls which includes but is not limited to:

- a defined organisational structure with an appropriate delegation of authority to operational management which ensures appropriate segregation of key duties;
- the identification and appraisal of risks both formally, through the annual process of preparing business plans and budgets, through an annual detailed risk assessment carried out at local level and informally through close monitoring of operations;
- a comprehensive financial reporting system within which actual and forecast results are compared with approved budgets and the previous year's figures on a monthly basis and reviewed at both local and Group level;
- an investment evaluation procedure to ensure an appropriate level of approval for all capital expenditure;
- self-certification by operating company management of compliance and control issues; and
- a prescribed robust structure under which it is appropriate to adopt means of electronic communication and to conduct e-commerce.

The processes which the Board has applied in reviewing the effectiveness of the Group's system of internal control are summarised below.

- Operating companies carry out a detailed, relevant risk assessment each year and identify mitigating actions in place or proposed for each significant risk. This year there was an additional scrutiny of the risks related to the current economic environment and actions were determined as appropriate. A risk register is compiled from this information, against which action is monitored through to resolution. Group management also compile a summary of significant Group risks, documenting existing or planned actions to mitigate, manage or avoid the risk.

## Corporate governance (continued)

- Each month the board of each operating company meets, discusses and reports on its operating performance, its opportunities, the risks facing it and the resultant actions. The relevant Divisional Chief Executive chairs this meeting. Divisional Chief Executives meet regularly with the Chief Executive and Finance Director and report progress to the Executive Board.
- A set of 'warning signs' is reported to Group and divisional management. This report is designed to provide an early warning of potential risks and to direct appropriate action where necessary.
- The Chief Executive submits a report to each Halma p.l.c. Board meeting which includes financial information, the main features of Group operations and an analysis of the significant risks facing the Group at that time.
- Cyclical internal control visits are carried out by internal audit personnel or senior finance staff resulting in actions fed back to each company and followed up by Divisional Finance Directors and Divisional Chief Executives. Visit reports are coded in terms of risk and a summary of all such visits reported to the Audit Committee regularly with any significant control failings being reported directly to the Audit Committee; senior finance staff also conduct financial reviews at each operating company prior to publication of half year and year end figures.
- The Chief Executive and Finance Director report to the Audit Committee on all aspects of internal control for its review. The Board receives the papers and minutes of the Audit Committee meetings and uses these as a basis for its annual review of internal control.

During the year, actions to strengthen the control environment continue to be taken centrally by Group management. The duties and responsibilities of subsidiary management have been clarified and documented in a manual circulated to all subsidiary managing directors; further resources were dedicated to identify and investigate potential acquisitions and to ensure a rapid and successful integration following acquisition; and the scope of the Group's IT policies was extended, including a programme of compliance audits which commenced in early 2008.

As noted above, a programme of internal control visits is conducted. Following its review of internal control activities in 2004, the Audit Committee established an internal audit function for independent reporting of the outcome of these visits to the Audit Committee.

During the year we implemented further improvements to our Internal Audit activities as the result of several benchmarking activities previously conducted. As a result further improvements have been targeted for the coming year to enhance our processes particularly following the appointment of a dedicated Internal Audit manager in September 2008.

### Going concern

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, liquidity position and borrowing facilities, are set out in the Business Review. In addition, note 26 to the financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposures to currency and liquidity risks. 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.

### Investor relations

In regular meetings with shareholders and analysts the Chief Executive and Finance Director communicate the Group's strategy and results, disclosing such information as is permitted within the guidelines of the Listing Rules. Such meetings ensure that institutional shareholders representing over 50% of the Company's issued share capital meet or hold discussions with the Company on a regular basis. Major shareholders are also offered the opportunity to meet with the Chairman and/or Senior Independent Director.

All shareholders are encouraged to attend the annual general meeting, and major shareholders are also invited to briefings following the half-year and annual results. The content of presentations to shareholders and analysts at results announcements and all announcements are available on the Group website, [www.halma.com](http://www.halma.com).

The Group website also contains electronic versions of the latest Annual report and accounts, Half-year reports, biographical information on key Directors and Officers, share price information, and full subsidiary company contact details as well as hotlinks to their own websites. The website also features the facility to request e-mail alerts relating to announcements made by the Group and contains information in Chinese, French, German and Spanish as well as English.

The Financial calendar is set out on page 100.

### Auditor independence

The Audit Committee has responsibility for reviewing auditor independence and objectivity annually. During 2003/04, the Committee set down the 'Policy on Auditor Independence and Services provided by the External Auditor'. This policy states that the Group will only use the appointed external auditor for non-audit services in cases where these services do not conflict with the auditor's independence. The policy also sets a fee level per project of £100,000 above which non-audit services are subject to a tendering process. The above fee levels for non-audit services regarding the external auditors are also subject to an annual cap equal to the audit fee.

# Nomination committee report



**Geoff Unwin**  
Chairman of the Nomination Committee

## MEMBERS

- Geoff Unwin (Chairman)
- Andrew Williams (Chief Executive)
- Richard Stone
- Stephen Pettit
- Jane Aikman

The Nomination Committee is appointed by the Board from the non-executive Directors of the Group and the Chief Executive. The Nomination Committee's terms of reference include all matters indicated by the Combined Code. The terms of reference are considered annually by the Nomination Committee and are then referred to the Board for approval.

## Responsibilities

- regularly reviewing the structure, size and composition (including the skills, knowledge and experience) required of the Board compared to its current position and making recommendations to the Board with regard to any changes;
- giving full consideration to succession planning for directors and other senior executives in the course of its work, taking into account the challenges and opportunities facing the Company, and what skills and expertise are therefore needed on the Board in the future; and
- being responsible for identifying and nominating, for the approval of the Board, candidates to fill Board vacancies as and when they arise.

The full terms of reference can be found on the Company's website or be obtained from the Company Secretary.

## Governance

The Nomination Committee was in place throughout the financial year. It is chaired by the Chairman of the Company who was deemed to be independent upon appointment to the Board. Three of the five members of the Committee are independent non-executive Directors in accordance with provision A.3.1 of the Combined Code.

## Activities

The Committee is responsible for nominating appropriate executive and non-executive candidates for appointment to the Board. During the past year, one such appointment has been made: Adam Meyers as an executive Director.

When the necessity to appoint a Director is identified, a candidate profile is developed indicating the ideal skills, knowledge and experience required taking into account the Board's existing composition. External search consultancies are retained when recruiting non-executive Directors and are used to evaluate internal and external candidates for succession planning. The Committee meets at least annually and more frequently during times that a search is being conducted.

As noted on page 48, the process of appointments to the Board is paramount in ensuring the Company's performance is maintained and continually improved upon. The Committee is committed to identifying the right candidates to take Halma forward.

On behalf of the Nomination Committee

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**Geoff Unwin**  
Chairman

# Audit committee report



**Jane Aikman**

Chairman of the Audit Committee

## MEMBERS

- Jane Aikman (Chairman)
- Stephen Pettit
- Richard Stone

The Audit Committee is appointed by the Board from the non-executive Directors of the Group. The Audit Committee's terms of reference include all matters indicated by the Combined Code. The terms of reference are considered annually by the Audit Committee and are then referred to the Board for approval.

## Responsibilities

- monitoring the integrity of the financial statements of the Group and any formal announcements relating to the Group's financial performance and reviewing significant financial reporting judgments contained therein;
- reviewing the Group's internal financial controls and the Group's internal control and risk management systems including whistleblowing procedures;
- monitoring and reviewing the effectiveness of the Group's internal audit function;
- making recommendations to the Board, for a resolution to be put to the shareholders for their approval in general meeting, on the appointment of the external auditors and the approval of the remuneration and terms of engagement of the external auditors;
- reviewing and monitoring the external auditors' independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements; and
- developing and implementing a policy on the engagement of the external auditors to supply non-audit services, taking into account relevant guidance regarding the provision of non-audit services by the external audit firm.

The full terms of reference can be found on the Company's website or be obtained from the Company Secretary.

## Governance

The Audit Committee was in place throughout the financial year with Jane Aikman assuming the chair from fellow member, Stephen Pettit, mid-year. All three members are independent non-executive Directors in accordance with provision A.3.1 of the Combined Code.

The Chairman, Chief Executive, Finance Director and representatives from the Auditors attend Committee meetings by invitation in order to provide appropriate advice. The Committee routinely meets with the Auditors without the involvement of the executive Directors; the Committee meets at least three times per year.

The Board has designated Jane Aikman as the member of the Audit Committee with recent and relevant financial experience. Her background is as a chartered accountant and finance director with listed company experience.

## Activities

The Committee not only reviews the financial reporting of the Company, but spends a significant amount of its time reviewing the effectiveness of the Group's internal control process. Combined with the Committee's review of the internal and external audit functions, it is able to obtain sufficient information to discharge its responsibilities. More specifically, the Committee:

- reviewed the March 2009 report and financial statements, the September 2008 half-yearly report and the Interim Management Statements issued in July and February. As part of this review the Committee received a report from the external auditors on their audit of the Annual report and financial statements;
- considered the output from the Group-wide process used to identify, evaluate and mitigate risks;
- reviewed the effectiveness of the Group's internal controls and disclosures made in the annual report and financial statements on this matter;
- reviewed and agreed the scope of the audit work to be undertaken by the auditors;
- agreed the terms of engagement and fees to be paid to the external auditors for their audit of the March 2009 financial statements;
- reviewed its own effectiveness;
- undertook an evaluation of the performance of the Internal Audit function including the appointment of a dedicated Internal Audit manager;
- agreed a programme of work for the company's Internal Audit function; and
- received reports from the Internal Audit Coordinator on the work undertaken by Internal Audit and management responses to proposals made in the audit reports issued by the function during the year.

The Group's policy on external audit sets out the categories of non-audit services which the external auditors will and will not be allowed to provide to the Group, subject to de minimis levels.

As a consequence of its satisfaction with the results of the external auditor-related activities outlined above, the Audit Committee has recommended to the Board that the external auditors are re-appointed.

The Group's whistleblowing policy contains arrangements for the Group Internal Audit Coordinator to receive, in confidence, complaints on accounting, risk issues, internal controls, auditing issues and related matters for reporting to the Audit Committee as appropriate.

On behalf of the Audit Committee

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**Jane Aikman**  
Chairman

# Remuneration report



**Richard Stone**

Chairman of the Remuneration Committee

## MEMBERS

- Richard Stone (Chairman)
- Geoff Unwin
- Stephen Pettit
- Jane Aikman

## REMUNERATION COMMITTEE REPORT

The Committee makes recommendations to the Board on the framework for executive Directors' and senior executives' remuneration based on proposals formulated by the Chief Executive.

### Responsibilities

- determining and agreeing with the Board the policy and framework for the remuneration of the Chief Executive, the executive Directors, the Company Secretary and such other members of the executive management as it is designated to consider;
- approving the design of, and determining targets for, any performance related pay plans operated by the Company and agreeing the total annual payments made under such plans;
- reviewing the design of all share incentive plans for approval by the Board and shareholders, and determining, each year, whether awards will be made, and if so, the overall amount of such awards, the individual awards to executive Directors and other senior executives and the performance targets to be set; and
- determining the policy for, and scope of, pension arrangements for each executive Director and other senior executives.

The Committee also monitors and considers, with the Chief Executive, the framework of remuneration for subsidiary chief executives and directors and ensures a consistent approach is applied.

The full terms of reference can be found on the Company's website or be obtained from the Company Secretary.

### Governance

The Remuneration Committee, which meets at least twice per year, was in place throughout the financial year. All three non-executive Director members are independent in accordance with provision A.3.1 of the Combined Code.

None of the Committee has any personal financial interest (other than as shareholders), conflicts of interests arising from cross-directorships or day-to-day involvement in running the business. The Committee makes recommendations to the Board. No Director plays a part in any discussion about his or her own remuneration.

In determining the Directors' remuneration for the year, the Committee consulted Andrew Williams (Chief Executive) about his proposals. The Committee consulted Watson Wyatt Limited regarding the structuring of executive remuneration packages. Independent pension advice is provided to the Company by Lane, Clark & Peacock LLP.

### Activities

During 2008/09, the Committee continued to review the Company's remuneration strategy such that executives remain appropriately incentivised to meet the Group's objectives in the prevailing economic conditions. That strategy relies upon three key components:

- setting median salaries;
- a performance related bonus scheme, as described below, tying bonuses to a weighted average increase in economic value added; and
- a share based incentive with entry and exit performance hurdles.

Accordingly the Committee has agreed:

- executive remuneration for 2009/10 will be held at 2008/09 levels pending a review of the Group's performance for the first six months of 2009/10;
- the annual targets on the granting of performance shares; and
- the award of bonuses in respect of 2008/09 which in the current economic conditions are greatly reduced.

The Committee has reviewed the Remuneration report for 2008/09 and the Company's remuneration strategy, policy and details of executive remuneration follow.

On behalf of the Remuneration Committee

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**Richard Stone**  
Chairman

## Remuneration report (continued)

### REPORT ON REMUNERATION STRATEGY AND POLICY

#### Introduction

This report has been prepared in accordance with Schedule 7A to the Companies Act 1985. The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the Board has applied the principles relating to directors' remuneration in the Combined Code. As required by the Act, a resolution to approve the report will be proposed at the Annual general meeting of the company at which the financial statements will be approved.

The Act requires the auditors to report to the Company's members on certain parts of the Directors' Remuneration report and to state whether in their opinion those parts of the report have been properly prepared in accordance with the Companies Act 1985. The report has therefore been divided into separate sections for audited and unaudited information.

### UNAUDITED INFORMATION

#### Remuneration policy

Executive remuneration packages are designed to attract, retain and motivate executives of the high calibre needed to manage the Group successfully and align their interests with those of the shareholders by rewarding them for enhancing value to shareholders. The performance measurement of the executive Directors and key members of senior management and the determination of their annual remuneration package are undertaken by the Committee.

There are five main elements of the remuneration package for executive Directors and senior management:

- basic annual salary based upon median industry levels;
- benefits-in-kind;
- annual bonus payments based upon economic value added which cannot exceed 100% of basic salary;
- share plan incentives; and
- pension arrangements.

The Company's policy is that a substantial proportion of the remuneration of the executive Directors should be performance-related. As described below, executive Directors may earn annual incentive payments of up to 100% of their basic salary together with the benefits of participation in share plans.

#### Basic salary

An executive Director's basic salary is reviewed by the Committee prior to the beginning of each year and when an individual changes position or responsibility. The Chief Executive is responsible for assessing the performance of each senior executive taking account of the complexity of the operations under their control, their opportunities for advancement with the Group, their remuneration relative to other executives in the Group and their bonus earning potential. He then formulates a remuneration proposal for the Committee's consideration. In deciding appropriate remuneration levels, the Committee also considers the Group as a whole and relies on objective research conducted by Watson Wyatt which gives up-to-date information on a comparator group of companies. Basic salaries are reviewed in January/February of each year with increases taking effect from 1 April. Executive Directors' contracts of service which include details of remuneration will be available for inspection at the Annual general meeting.

#### Benefits-in-kind

The executive Directors receive certain benefits-in-kind, principally a car and private medical insurance.

#### Annual bonus payments

During the year the Committee carefully assessed existing bonus arrangements and determined that incentive levels are appropriately set. The Committee establishes the economic value added (EVA) objectives that must be met for each financial year if a cash bonus is to be paid. In setting appropriate bonus parameters the Committee has determined that bonuses of approximately 60% of salary are payable on the achievement of targeted levels of growth. The maximum performance related bonus that can be paid is 100% of basic annual salary. Executive Director bonus payments for 2009 were £nil versus prior year payment levels averaging 71% of salary, reflecting prevailing economic conditions and the impact of having adjusted for currency fluctuations.

This performance related bonus plan, which applies to executive Directors and Divisional Chief Executives, is reviewed annually by the Committee and approved by the Board.

In the case of a Divisional Chief Executive a bonus is earned if the profit of the Division for which he is responsible exceeds a target calculated from the profits of the three preceding financial years. The profits calculated for this purpose regard each Division as a stand-alone group of companies charging it with the cost of capital it utilises including the cost of acquisitions.

For the Chief Executive and Finance Director, bonuses are calculated as above but based on the aggregated profit of the Divisions exceeding a target calculated from the profits of the Divisions for the three preceding financial years.

For 2008/09, a supplemental cash bonus could be earned, subject to the 100% of salary cap, dependent upon attainment of a Return on capital employed of 45% and organic profit growth of at least 4% in their Division (or aggregate thereof). At a level of 45% ROCE, 5% of salary is payable on achieving 4% organic growth, rising to a maximum of 15% of salary at 6% organic growth.

Transitional provisions exist for divisional restructuring to ensure Divisional Chief Executives remain appropriately incentivised.

Subsidiary directors participate in bonus arrangements similar to those established for senior executives.

#### Performance share plan

The Directors have long believed that share plans are an effective means of aligning the interests of senior management with those of shareholders and that share plans provide excellent motivation. The Committee, recognising the need to continually assess and evaluate such incentives, adopted a performance share plan following shareholder approval at the 2005 Annual general meeting; this Plan replaced the 1990, 1996 and 1999 share option plans in respect of future share awards. The Committee has responsibility for supervising the Plan and the grants under its terms. The Committee believes that any incentive compensation awarded should be tied to the interests of the Company's shareholders and that the principal measure of those interests is total shareholder return.

Performance criteria determine the amount to be granted and, after three years, the amount to vest. In determining the amount to be granted, primary emphasis is placed upon the attainment of personal strategic objectives set by their superior coupled with financial and operational success of the different parts of the business for which the executive Directors are responsible.

	Maximum award permitted*	Actual award 2008/09*
Chief Executive	140%	138%
Finance Director	140%	135%
Executive Directors	140%	134%
Divisional Chief Executives	100%	76%
Managing Directors & Divisional Finance Directors	40%	29%

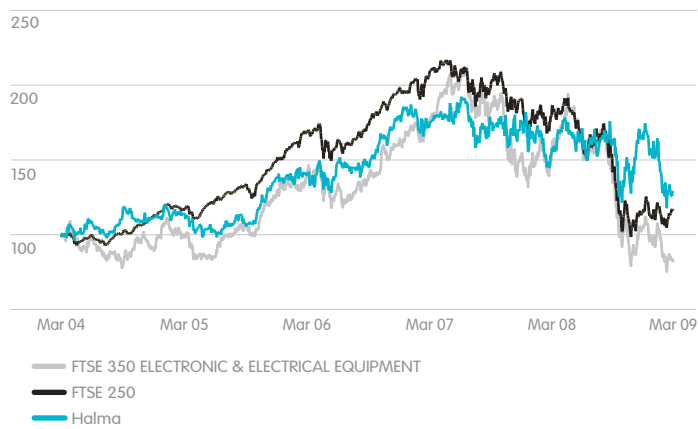
\* expressed as a % of salary

Awards vest after three years on a sliding scale, as set out below, subject to the Company's relative TSR performance against the FTSE 250, excluding financial companies, combined with a measure based upon an absolute Return on total invested capital (ROTIC). Awards which do not vest on the third anniversary of their award lapse. Current vesting expectations for awards made range from 70% to 90%.

Percentage of award which vests	TSR (percentile)				
	<50%	50%	75%	100%	
9.5%	0.0	16.7	50.0	50.0	
ROTIC	11.0%	16.7	33.3	66.7	66.7
(post-tax)	12.5%	33.3	50.0	83.3	83.3
	14.0%	50.0	66.7	100.0	100.0



## TOTAL SHAREHOLDER RETURN (TOTAL RETURN INDICES)



The graph above shows the Company's total shareholder return performance over the five years to 28 March 2009 as compared to the FTSE 250 and the FTSE 350 Electronic & Electrical Equipment sector indices, the latter of which the Company has been a constituent since it was reclassified in June 2006. Over the period indicated, the Company's total shareholder return was 128% compared to 116% for the FTSE 250 and 84% for the FTSE 350 Electronic & Electrical Equipment sector.

At the commencement of the five-year period depicted in the graph, the Halma p.l.c. ordinary share price was 149p and the total of dividends paid in the year ended 3 April 2004 was 5.967p per share. The Halma p.l.c. ordinary share price at 28 March 2009 was 155.5p and the total of dividends paid in the year then ended was 7.70p per share.

## ROTC (RETURN ON TOTAL INVESTED CAPITAL) %

2009	13.1
2008	14.1
2007	14.0
2006	12.8
2005	12.1

The Plan contains provisions permitting share option grants, restricted share awards and performance share awards. To date, the Committee have used the Plan only to award both approved and unapproved performance shares.

### Share option plans

The 1990, 1996 and 1999 share option plans all provided for the grant of two categories of option both of which are subject to performance criteria. The exercise criteria for these three plans are noted in note 23 to the accounts. No further grants may be made from the first two of these plans nor does the Company intend to make any further grants from the 1999 Plan given that the performance share plan was approved by shareholders at the 2005 annual general meeting. The granting of options was spread over the life of the Plan.

### Dilution

The total dilution effect under these various discretionary share plans is less than 5%.

The Company does not operate any long-term incentive plans other than the share plans described above. No significant amendments are proposed to be made to the terms and conditions of any entitlement of a Director to share options or performance share awards.

### Pension arrangements

Except as noted below, the UK-based executive Directors participate in the appropriate section of the Halma Group Pension Plan. This section is a funded final salary occupational pension plan registered with HM

Revenue & Customs, which provides a maximum pension of two-thirds of final pensionable salary after 25 or more years' service at normal pension age (60). Up to 5 April 2006, final pensionable salary was the greatest salary of the last three complete tax years immediately before retirement or leaving service. From 6 April 2006, final pensionable salary is capped at 7.5% of the Lifetime Allowance equating to £123,750 for the year ended 28 March 2009.

Bonuses and other fluctuating emoluments and benefits in kind are not pensionable nor subject to the pension supplement. The Plan also provides for life cover of three times salary, pensions in the event of early retirement through ill health and dependants' pensions of one-half of the member's prospective pension. Early retirement pensions, currently possible from age 50 with the consent of the Company and the Trustees of the Plan, are subject to actuarial reduction. Pensions in payment increase by 3% per annum for service up to 5 April 1997, by price inflation (subject to a maximum of 5%) through to 31 March 2007 and 3% thereafter.

Executive Directors receive pension supplements to compensate them for the fact that their pension entitlement under the Halma Group Pension Plan defined benefit arrangements is limited by a pensionable salary cap introduced from 6 April 2006. The Company introduced a pensionable salary cap in order to address changes affecting the Plan made in the Pension Act 2006. Without the introduction of such a cap, there would, effectively, have been no benefit limits. This could have resulted in benefits in excess of prescribed levels with some individuals suffering penal rates of tax and potentially causing a limitation on the tax deductibility of employer contributions. The Company obtained external advice regarding the changes to the Plan and executive pension arrangements and required each affected executive to obtain independent advice prior to implementing the changes. These changes reduce the Plan's future liabilities and their associated funding risk.

To the extent that an executive's current salary exceeds the Plan salary cap, the Company compensates him at an annual rate of 26% of the excess. In April 2006, Kevin Thompson chose to cease entirely future service accrual in the Halma Group Pension Plan in return for the pension supplement on his full salary.

### Directors' contracts

It is the Company's policy that executive Directors should have contracts with an indefinite term providing for a maximum of one year's notice. The details of the Directors' contracts are summarised in the table below:

	Date of contract	Notice period
Andrew Williams	April 2003	one year
Kevin Thompson	April 2003	one year
Neil Quinn	April 2003	one year
Adam Meyers	July 2008	one year

In the event of early termination, no predetermined compensation is provided for in the Directors' contracts.

### Non-executive Directors

Unless otherwise indicated, all non-executive Directors have a specific three-year term of engagement which may be renewed for further three-year terms if both the Director and the Board agree. Richard Stone, who is proposed for re-election in accordance with the Company's Articles, had his terms of engagement extended for a further third three-year term in 2006 in contemplation of attaining six years of service in January 2007. Richard has expressed his willingness to continue as a Director past his ninth anniversary on the Board whilst overall non-executive Director succession planning is considered and finalised.

The remuneration of the Chairman and the non-executive Directors is determined by the Board based on independent surveys of fees paid to the Chairman and the non-executive Directors of similar companies. The Chairman and the non-executive Directors receive a basic fee supplemented by additional fees for membership and/or chairmanship of the Audit and Remuneration Committees.

The contract in respect of Geoff Unwin's services provides for termination, by either party, by giving not less than six months' notice. The fee for Geoff Unwin's services is set at £140,000 per annum. In addition there was a contribution of £7,300 towards office costs which ceased in

## Remuneration report (continued)

September 2008. Richard Stone, Stephen Pettit and Jane Aikman have contracts in respect of their non-executive Director services which can be terminated, by either party, by giving not less than three months' notice.

The Chairman's and the non-executive Directors' fees were last reviewed by the Board in April 2009 at which time, in accordance with executive Directors' salaries, the fee levels were held pending a further review later in the financial year. The current fees are:

Geoff Unwin (appointed September 2002), Chairman and Remuneration Committee member	£140,000
Richard Stone (appointed January 2001), Senior Independent Director, Remuneration Committee Chairman and Audit Committee member	£43,000
Stephen Pettit (appointed September 2003), Audit Committee member (Chairman to December 2008) and Remuneration Committee member	£36,000
Jane Aikman (appointed August 2007), Audit Committee Chairman (from December 2008) and Remuneration Committee member	£40,000

No fees are payable for membership of the Nomination Committee of which each of the above Directors is a member.

### AUDITED INFORMATION

#### Aggregate Directors' remuneration

The total amounts for Directors' remuneration were as follows:

	<b>2009</b> <b>£000</b>	2008 £000
Emoluments	1,459	2,036
Gains on exercise of share options	129	244
Pension supplements (including 401k company contributions)	166	167
	<b>1,754</b>	<b>2,447</b>

#### Directors' remuneration

	Salaries and fees £000	Bonus £000	Benefits £000	Pension supple- ment £000	<b>2009</b> <b>Total</b> <b>£000</b>	2008 Total £000
Geoff Unwin	140	–	7	–	147	156
Andrew Williams	400	–	21	72	493	768
Kevin Thompson	258	–	13	67	338	505
Neil Quinn	207	–	14	21	242	276
Richard Stone	43	–	–	–	43	43
Stephen Pettit	39	–	–	–	39	40
Jane Aikman	37	–	–	–	37	24*
Adam Meyers	203	–	9	–	212*	–
Keith Roy	63	–	5	6	74*	391
	<b>1,390</b>	<b>–</b>	<b>69</b>	<b>166</b>	<b>1,625</b>	<b>2,203</b>

\* from/to date of appointment/retirement

The fees paid in relation to Geoff Unwin were paid to Gunwin Limited up to September 2008 and thereafter to him.

### Directors' interests

The Directors who held office at 28 March 2009 had the following interests in the ordinary shares of the Company:

	Shares 28.03.09	Shares 29.03.08
Geoff Unwin	68,250	68,250
Andrew Williams	172,893	106,523
Kevin Thompson	160,282	114,301
Neil Quinn	92,384	74,118
Richard Stone	20,000	20,000
Stephen Pettit	2,000	2,000
Jane Aikman	2,000	–
Adam Meyers	68,601	41,689*

There are no non-beneficial interests of Directors. There were no changes in Directors' interests from 28 March 2009 to 16 June 2009.

### Performance share plan

The movements in performance share awards during the financial year were as follows:

	Date of grant	As at 29.03.08	Granted/ (vested) in the year	Five-day average share price on grant	As at 28.03.09
Andrew Williams	Aug 2005	241,482	(110,840)	148.42p	–
	July 2006	246,231		199.00p	246,231
	July 2007	218,144		204.67p	218,144
	Aug 2008		274,297	201.30p	274,297
Kevin Thompson	Aug 2005	169,792	(77,934)	148.42p	–
	July 2006	165,327		199.00p	165,327
	July 2007	141,632		204.67p	141,632
	Aug 2008		173,154	201.30p	173,154
Neil Quinn	Aug 2005	141,305	(64,858)	148.42p	–
	July 2006	132,446		199.00p	132,446
	July 2007	109,695		204.67p	109,695
	Aug 2008		143,964	201.30p	143,964
Adam Meyers*	Aug 2005	82,538	(37,884)	148.42p	–
	July 2006	81,805		199.00p	81,805
	July 2007	62,025		204.67p	62,025
	Aug 2008		110,507	201.30p	110,507
Keith Roy*	Aug 2005	122,250		148.42p	122,250
	July 2006	114,852		199.00p	114,852
	July 2007	98,726		204.67p	98,726

Performance conditions for the awards made in the financial year are set out above. The 2005 grants vested in August 2008 with 46% of the original number of shares granted being transferred to participants net of any tax and social charges; the balance of the 2005 award lapsed. The current vesting expectation for grants made in 2006 is 90%; for grants made in 2007, 85% and for grants made in 2008, 70%.

### Directors' share options

The movements in share options during the financial year were as follows:

	As at 29.3.08	Lapsed	Exercised	Share price on exercise	As at 28.03.09	2009 Gains on exercise (£)	2008 Gains on exercise (£)
Andrew Williams	407,921	(12,100)	(975)	187.25p	394,846	439	17,060
Kevin Thompson	730,602	(25,000)	(30,900)	209.63p	674,702	26,614	34,557
Neil Quinn	599,675	(25,000)	(119,403)	199.50p	455,272	78,209	178,973
Adam Meyers	503,881*	(12,100)	–	–	491,781	–	–
Keith Roy	478,692	–	(22,600)	208.37p	456,092*	23,927	13,488

\* movement from/to date of appointment/retirement

The gains are calculated by deducting the exercise price from the closing middle market price at the date of exercise or the actual gross sales proceeds if appropriate.

## Remuneration report (continued)

The closing middle market price of the Company's ordinary shares on Friday, 27 March 2009, the last trading day preceding the financial year end, was 155.5p per share and the range during the year was 143.25p to 221.50p.

Details of Directors' options outstanding at 28 March 2009 are set out in the table below. The status of the options can be summarised as follows:

- 1 Exercisable at that date at a price less than 155.5p.
- 2 Exercisable at that date at a price greater than 155.5p.
- 3 Not yet exercisable, will only be exercisable when the performance criteria, set out in note 23 to the accounts, have been met and have an exercise price per share of less than 155.5p.
- 4 Not yet exercisable, will only be exercisable when the performance criteria, set out in note 23 to the accounts, have been met and have an exercise price per share of greater than 155.5p.

	Status of options (see above)	Year of grant	Number of shares	Weighted average exercise price (p) per share
Andrew Williams	1	2004-05	261,109	143.64
	3	1999-2000; 2002-2004	121,737	133.96
	4	2001	12,000	163.50
Kevin Thompson	1	2000; 2003-2005	405,616	132.97
	2	2001	15,300	163.50
	3	1999-2000; 2002-2004	220,686	131.51
Neil Quinn	4	2001	33,100	163.50
	1	2004-05	137,016	143.19
	2	2001	63,800	163.50
Adam Meyers	3	1999-2000; 2002-2004	221,356	130.61
	4	2001	33,100	163.50
	1	2000; 2003-05	307,783	131.68
	3	1999-2000; 2002-2004	160,698	132.33
	4	2001	23,300	163.50

All options lapse if not exercised within ten years from the date of grant. The Company's Register of Directors' Interests, which is open to inspection at the Registered Office, contains full details of Directors' shareholdings and share options. There have been no variations to the terms and conditions or performance criteria for share options during the financial year.

### Directors' pension entitlements

Three Directors are members of the Company's defined benefit pension plan. The following Directors had accrued entitlements under the plans as follows:

	Age at 28.03.09	Years of pensionable service at 28.03.09	Accrued pension 2008 £000	Increase in the year £000	Accrued pension 2009 £000
Andrew Williams	41	14	36	–	37
Kevin Thompson	49	18	91	–	95
Neil Quinn	59	21	98	–	102
Keith Roy	58*	15*	59*	1*	61*

\* at date of retirement

The accrued pension shown is that which would be paid annually on retirement based on service to the end of the year.

The increase in accrued pension during the year is the amount in excess of the increase due to inflation.

	Transfer value 29.03.08 £000	Directors' contributions £000	Increase in value net of contributions £000	Transfer value 28.03.09 £000
Andrew Williams	326	12	66	404
Kevin Thompson	1,155	–	255	1,410
Neil Quinn	1,811	12	325	2,148
Keith Roy	1,129	4*	143*	1,276*

\* at date of retirement

The transfer values disclosed above do not represent a sum paid or payable to the individual Director. Instead they represent a potential liability of the pension plan. These values have been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11.

Adam Meyers is a member of the US 401k money purchase scheme. Company contributions paid in the year since his appointment to the Board were \$11,500 (£6,686).

# Other statutory information

## Activities

Halma p.l.c. is a holding company. A list of its principal subsidiary companies and their activities is set out on pages 98 and 99.

## Ordinary dividends

The Directors are recommending a final dividend of 4.78p per share and, if approved, this dividend will be paid on 19 August 2009 to ordinary shareholders on the register at the close of business on 17 July 2009. Together with the interim dividend of 3.15p per share already paid, this will make a total of 7.93p (2008: 7.55p) per share for the financial year.

## Share capital and capital structure

Details of share capital issued in the financial year are set out in note 21 to the accounts.

Details of the authorised and issued share capital, together with details of the movements in the Company's issued share capital during the year, are shown in note 21 to the accounts. The Company has one class of ordinary shares which carry no right to fixed income. Each share carries the right to one vote at general meetings of the Company.

There are no other classes of share capital. There are no specific restrictions on the size of a holding nor on the transfer of shares, with both governed by the general provisions of the Articles of Association and prevailing legislation. No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

Holders of ordinary shares are entitled to attend and speak at general meetings of the Company and to appoint one or more proxies or, if the holder of shares is a corporation, a corporate representative. On a show of hands, each holder of ordinary shares who (being an individual) is present in person or (being a corporation) is present by a duly appointed corporate representative, not being himself a member, shall have one vote and on a poll every holder of ordinary shares present in person or by proxy shall have one vote for every share of which he is the holder. Electronic and paper proxy appointments and voting instructions must be received not later than 48 hours before the meeting. A holder of ordinary shares can lose the entitlement to vote at general meetings where that holder has been served with a disclosure notice and has failed to provide the Company with information concerning interests held in those shares. Except as set out above and as permitted under applicable statutes, there are no limitations on voting rights of holders of a given percentage, number of votes or deadlines for exercising voting rights.

The Directors may refuse to register a transfer of a certificated share that is not fully paid, provided that the refusal does not prevent dealings in shares in the Company from taking place on an open and proper basis or where the Company has a lien over that share. The Directors may also refuse to register a transfer of a certificated share unless the instrument of transfer is: (i) lodged, duly stamped (if necessary), at the registered office of the Company or any other place as the Board may decide accompanied by the certificate for the share(s) to be transferred and/or such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer; (ii) in respect of only one class of shares; (iii) in favour of a person who is not a minor, infant, bankrupt or a person of unsound mind; or (iv) in favour of not more than four persons jointly.

Transfers of uncertificated shares must be carried out using CREST and the Directors can refuse to register a transfer of an uncertificated share in accordance with the regulations governing the operation of CREST.

There are no other restrictions on the transfer of ordinary shares in the Company except certain restrictions which may from time to time be imposed by laws and regulations (for example insider trading laws); or where a shareholder with at least a 0.25% interest in the Company's certificated shares has been served with a disclosure notice and has failed to provide the Company with information concerning interests in those shares. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights.

Shares held in treasury are non-voting and are not eligible for dividends. Details of employee share plans are set out in note 23 to the accounts.

With regard to the appointment and replacement of directors, the Company is governed by its Articles of Association, the Combined Code, the Companies Acts and related legislation. Directors can be appointed by the Company by ordinary resolution at a general meeting or by the Board. If a director is appointed by the Board, such director will hold office until the next annual general meeting and shall then be eligible for re-election at that meeting. The Company can remove a director from office, including by passing a special resolution or by notice being given by all the other Directors. The Articles themselves may be amended by special resolution of the shareholders. The powers of Directors are described in the Matters Reserved for the Board, copies of which are available on request, and the Corporate governance statement on page 48.

There are a number of agreements that take effect, alter or terminate upon a change of control of the Company, principally bank loan agreements and employee share plans.

The only significant agreement, in terms of its likely impact on the business of the Group as a whole, containing such provisions is that governing the £165m revolving credit facility which on change of control, if the majority lenders require, can result in 30 days' notice being given to the Company for all amounts outstanding to be immediately due and payable, at which time the facility would be cancelled.

The Company's share plans contain provisions as a result of which options and awards may vest and become exercisable on a change of control of the Company in accordance with the rules of the plans.

The Directors are not aware of any agreements between the Company and its directors or employees that provide for compensation for loss of office or employment that occurs because of a takeover bid.

## Annual general meeting

The Company's Annual general meeting will be held on 30 July 2009. The Notice of meeting is enclosed with this Annual report and details the resolutions to be proposed at the meeting.

## Allotment authority

Under the Companies Act 1985 the Directors may only allot shares if authorised by shareholders to do so. At the Annual general meeting an ordinary resolution will be proposed which, if passed, will authorise the Directors to allot and issue new shares up to an aggregate nominal value of £6,115,160 (up to 61,151,600 new ordinary shares of 10p each), which is equal to approximately 16% of the issued share capital of the Company (excluding treasury shares) as at 16 June 2009 (the latest practicable date prior to the publication of the Notice of meeting).

In accordance with the Directors' stated intention to seek annual renewal, the authorities will expire at the conclusion of the annual general meeting of the Company in 2010. Passing this resolution will give the Directors flexibility to act in the best interests of shareholders, when opportunities arise, by issuing new shares.

As at 16 June 2009 (the latest practicable date prior to the publication of the Notice of meeting), the Company had 375,413,293 ordinary shares of 10p each in issue of which 1,438,837 were held as treasury shares, which is equal to approximately 0.4% of the issued share capital of the Company (excluding treasury shares) as at that date.

The Companies Act 1985 also requires that, if the Company issues new shares for cash or sells any treasury shares, it must first offer them to existing shareholders in proportion to their current holdings. At the Annual general meeting a special resolution will be proposed which, if passed, will authorise the Directors to issue a limited number of shares for cash and/or sell treasury shares without offering them to shareholders first. The authority is for an aggregate nominal amount of up to 5% of the aggregate nominal value of the issued share capital of the Company as at 16 June 2009 (the latest practicable date prior to the

## Other statutory information (continued)

publication of the Notice of meeting). The resolution will also modify statutory pre-emption rights to deal with legal, regulatory or practical problems that may arise on a rights or other pre-emptive offer or issue. The authority will expire at the same time as the resolution conferring authority on the Directors to allot shares. The Directors consider this authority necessary in order to give them flexibility to deal with opportunities as they arise, subject to the restrictions contained in the resolution. There are no present plans to issue shares, except under share plans previously approved in general meeting.

### Directors

Brief biographies of the Directors of the Company are set out on pages 46 and 47. Richard Stone retires by rotation at the Annual general meeting and, being eligible, offers himself for re-election. With regard to his re-election, the Board confirms that, following formal performance evaluations, Richard Stone's performance continues to be effective and he continues to demonstrate commitment to his role.

### Notice period for general meetings (other than AGMs)

The EU Shareholder Rights Directive (the 'Directive') will be implemented in August 2009. A special resolution will be proposed at the Annual general meeting to permit the Company in accordance with the Directive to retain the ability to call general meetings (other than annual general meetings) at 14 days' notice rather than at 21 days' notice.

### Purchase of own shares

The Company was authorised at the 2008 Annual general meeting to purchase up to 37,000,000 of its own 10p ordinary shares in the market. This authority expires at the end of the 2009 Annual general meeting. In accordance with the Directors' stated intention to seek annual renewal, a special resolution will be proposed at the Annual general meeting to renew this authority, until the end of next year's annual general meeting, in respect of up to 37,000,000 ordinary shares, which is approximately 10% of the Company's issued share capital (excluding treasury shares) as at 16 June 2009 (the latest practicable date prior to the publication of the Notice of meeting). The Directors consider it desirable that the possibility of making such purchases, under appropriate circumstances, is available. Their present intention is that the shares purchased under the authority will (to the extent statutory requirements are met) be held in treasury for future cancellation, sale for cash or transfer for the purposes of, or pursuant to, an employee share plan, although in the light of circumstances at the time it may be decided to cancel them immediately on repurchase. The effect of any cancellation would be to reduce the number of shares in issue. For most purposes, while held in treasury, shares are treated as if they have been cancelled (for example, they carry no voting rights and do not rank for dividends).

Following approval of the performance share plan (PSP) at the 2005 Annual general meeting, the Directors made, and intend to continue to make, routine purchases of Halma shares in the market for holding in treasury until required for vesting under the PSP. In the year to 28 March 2009, 524,200 shares were purchased in the market for treasury. Otherwise, the Directors have no present intention of using this authority. In reaching a decision to purchase shares, the Directors will take into account the Company's cash resources, capital requirements and the effect of any purchase on the Company's earnings per share. It is anticipated that renewal of the authority will be requested at subsequent annual general meetings.

As at 16 June 2009, which is the latest practicable date prior to the publication of the Notice of meeting, options were outstanding to subscribe for a total number of 6,754,079 ordinary shares, or 1.8% of the Company's issued share capital. If the proposed authority were to be used in full and all of the repurchased shares were cancelled (but the Company's issued share capital otherwise remained unaltered), the total number of options to subscribe for ordinary shares at that date would represent approximately 2.0% of the Company's issued share capital (excluding treasury shares).

### Deeds of indemnity

Following amendment of the Company's Articles of Association at the annual general meeting in 2006, the Company has entered into deeds of indemnity, which are qualifying third party indemnity provisions for the purposes of the Companies Act 2006, with each of the current Directors.

### Supplier payment policy

The Company does not follow any particular supplier payment code of practice. The Company has due regard to the payment terms of suppliers and generally settles all undisputed accounts within 30 days of the due date for payment. At 28 March 2009 the Company's trade creditors represented 18 days (2008: 31 days) of its annual purchases.

### Donations

Group companies made charitable donations amounting to £15,334 (2008: £11,000) during the financial year. There were no political donations (2008: £nil).

### Substantial shareholdings

On 16 June 2009, the Company had been notified, in accordance with chapter 5 of the Disclosure and Transparency Rules, of the following voting rights as a shareholder of the Company.

	No. of ordinary shares	Percentage of voting rights and issued share capital
Sprucegrove Investment Management Ltd	22,317,670	5.97
Capital Research and Management Co	19,089,943	5.10
Barclays Bank PLC	15,724,354	4.20
Legal & General Group Plc	14,874,651	3.98
Sanderson Asset Management Ltd	14,891,762	3.98
Silchester International Investors Ltd	11,438,811	3.06
Norges Bank	11,262,404	3.01

### Auditors

Each of the persons who is a Director at the date of approval of this Annual report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the Director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

Deloitte LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual general meeting.

By order of the Board

### Carol Chesney

Company Secretary  
16 June 2009

# Directors' responsibilities

The Directors are responsible for preparing the Annual report, Directors' Remuneration report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. The Directors are required by the IAS Regulation to prepare the Group financial statements under International Financial Reporting Standards (IFRSs) as adopted by the European Union. The Group financial statements are also required by law to be properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

International Accounting Standard 1 requires that IFRS financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRS. However, Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The Directors have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The parent company financial statements are required by law to give a true and fair view of the state of affairs of the Company. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent; and
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the parent company financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Directors' responsibility statement

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.

By order of the Board

**Andrew Williams**  
Chief Executive  
16 June 2009

**Kevin Thompson**  
Finance Director  
16 June 2009

# Independent Auditors' report to the members of Halma p.l.c.

We have audited the Group financial statements of Halma p.l.c. for the 52 weeks to 28 March 2009 which comprise the Consolidated income statement, the Consolidated balance sheet, the Consolidated statement of recognised income and expense, the Reconciliation of movements in shareholders' funds, and the Consolidated cash flow statement together with the statement of Accounting policies and the related notes 1 to 28. These Group financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration report that is described as having been audited. We have reported separately on the parent company financial statements of Halma p.l.c. for the 52 weeks to 28 March 2009.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual report, the Directors' Remuneration report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union are set out in the Statement of Directors' responsibilities. Our responsibility is to audit the Group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Group financial statements give a true and fair view, whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation and whether the part of the Directors' Remuneration report described as having been audited has been properly prepared in accordance with the Companies Act 1985. We also report to you whether, in our opinion, the information given in the Directors' Report is consistent with the Group financial statements.

In addition we report to you if in our opinion we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We review whether the Corporate governance statement reflects the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the Directors' Report and the other information contained in the Annual report for the above period as described in the Contents section and consider whether it is consistent with the audited Group financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any further information outside the Annual report.

## Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements and the part of the Directors' Remuneration report to be audited. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the Group financial statements and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Group financial statements and the part of the Directors' Remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the Group financial statements and the part of the Directors' Remuneration report to be audited.

## Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with International Financial Reporting Standards as adopted by the European Union, of the state of the Group's affairs as at 28 March 2009 and of its profit for the 52 week period then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the part of the Directors' Remuneration report described as having been audited has been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the Group financial statements.

## Deloitte LLP

Chartered Accountants and Registered Auditors  
Reading, UK

16 June 2009

Neither an audit nor a review provides assurance on the maintenance and integrity of the web site, including controls used to achieve this, and in particular whether any changes may have occurred to the financial information first published. These matters are the responsibility of the directors but no control procedures can provide absolute assurance in this area. Legislation in the United Kingdom governing the preparation and dissemination of financial information differs from legislation in other jurisdictions.



# Consolidated income statement

		52 weeks to 28 March 2009			52 weeks to 29 March 2008		
	Notes	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	–	395,061
<b>Operating profit</b>		<b>82,508</b>	<b>(6,301)</b>	<b>76,207</b>	74,923	(4,757)	70,166
Finance income	4	<b>8,405</b>	<b>–</b>	<b>8,405</b>	8,159	–	8,159
Finance expense	5	<b>(11,826)</b>	<b>–</b>	<b>(11,826)</b>	(10,303)	–	(10,303)
<b>Profit before taxation</b>	7	<b>79,087</b>	<b>(6,301)</b>	<b>72,786</b>	72,779	(4,757)	68,022
Taxation	10	<b>(21,888)</b>	<b>1,683</b>	<b>(20,205)</b>	(21,101)	1,413	(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	(3,344)	48,334
<b>Discontinued operations</b>							
Net profit for the year from discontinued operations	6	–	–	–	1,950	–	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	(3,344)	50,284
<b>Earnings per share</b>							
<b>From continuing operations</b>							
Basic		<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)	11			<b>29,664</b>			28,187
Paid and proposed per share				<b>7.93p</b>			7.55p

# Consolidated balance sheet

	Notes	28 March 2009 £000	29 March 2008 £000
<b>Non-current assets</b>			
Goodwill	12	198,084	161,230
Other intangible assets	13	40,894	33,252
Property, plant and equipment	14	71,408	57,452
Deferred tax assets	20	10,003	10,069
		<b>320,389</b>	262,003
<b>Current assets</b>			
Inventories	15	51,381	44,267
Trade and other receivables	16	103,544	99,741
Tax receivable		3,275	–
Cash and cash equivalents		34,987	28,118
		<b>193,187</b>	172,126
<b>Total assets</b>		<b>513,576</b>	434,129
<b>Current liabilities</b>			
Borrowings	17	6,559	7,035
Trade and other payables	18	63,379	69,420
Tax liabilities		3,756	8,273
		<b>73,694</b>	84,728
<b>Net current assets</b>		<b>119,493</b>	87,398
<b>Non-current liabilities</b>			
Borrowings	17	79,614	65,358
Retirement benefit obligations	28	42,568	35,957
Trade and other payables	19	3,732	2,874
Deferred tax liabilities	20	14,353	6,108
		<b>140,267</b>	110,297
<b>Total liabilities</b>		<b>213,961</b>	195,025
<b>Net assets</b>		<b>299,615</b>	239,104
<b>Equity</b>			
Share capital	21	37,539	37,446
Share premium account	22	18,146	16,949
Treasury shares	22	(2,759)	(3,292)
Capital redemption reserve	22	185	185
Translation reserve	22	47,673	7,144
Other reserves	22	4,246	5,106
Retained earnings	22	194,585	175,566
<b>Shareholders' funds</b>		<b>299,615</b>	239,104

Approved by the Board of Directors on 16 June 2009.

**A J Williams**  
Directors

**K J Thompson**

# 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>	25	<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	25	(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	25	(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>	25	<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

# Accounting policies

## Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted for use in the European Union (EU) and therefore comply with Article 4 of the EU IAS legislation and with those parts of the Companies Act 1985 that are applicable to companies reporting under IFRS. The financial statements have also been prepared in accordance with IFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations issued and effective at the time of preparing these accounts.

The principal Group accounting policies are explained below and have been applied consistently throughout the years ended 29 March 2008 and 28 March 2009.

At the date of authorisation of these financial statements, the following Standards and Interpretations in issue have not been applied as they are not yet in effect: IFRS 8 'Operating Segments'; revised 'IAS 1 – Presentation of Financial Statements 2007'; 'IFRIC 11 IFRS 2 – Group and Treasury Share Transactions'; revised 'IFRS 3 – Business Combinations'; revised 'IFRS 2 – Share-Based Payment'; and revised 'IAS 23 – Borrowing Costs'. The Directors anticipate that the adoption of these Standards, other than IFRS 3, and Interpretations in future periods will not have a material effect on the Group's financial statements, except for additional segment disclosures when IFRS 8 comes into effect for periods commencing on or after 1 January 2009. IFRS 3 introduces changes to acquisition accounting, notably in respect of the treatment of acquisition costs, step and partial acquisitions, minority interests and contingent consideration. Revised IFRS 3, which becomes mandatory for the Group's 2010 consolidated financial statements, will be applied prospectively and therefore there will be no impact on prior years in the Group's 2010 consolidated financial statements.

The Group accounts have been prepared under the historical cost convention, except as described below under the heading 'Financial Instruments'.

After making enquiries and taking into consideration the uncertainties arising due to current recessionary conditions, 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 Group accounts (see page 50 for more details). The preparation of Group accounts in conformity with IFRS requires the Directors to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experiences and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. The key areas where estimates have been used and assumptions applied are in the valuation of acquired intangible assets and product development costs, impairment testing of goodwill and in assessing the defined benefit pension plan liabilities.

## Basis of consolidation

The Group accounts include the accounts of Halma p.l.c. and its subsidiary companies made up to 28 March 2009, adjusted to eliminate intra-Group transactions, balances, income and expenses. The results of subsidiary companies acquired or discontinued are included from the month of their acquisition or to the month of their discontinuation.

## Goodwill

Goodwill in respect of acquisitions after 4 April 2004 (the date from which the financial statements were reported under IFRS) represents the difference between the cost of an acquisition and the fair value of the net identifiable assets of the business acquired, and is recognised as an intangible asset in the Consolidated balance sheet. Goodwill therefore includes non-identified intangible assets including business processes, buyer-specific synergies, know-how and workforce-related industry-specific knowledge and technical skills. Negative goodwill arising on acquisitions would be recognised directly in the Consolidated income statement. On closure or disposal of an acquired business, goodwill would be taken into account in determining the profit or loss on closure or disposal.

As permitted by IFRS 1, the Group elected not to apply IFRS 3 'Business Combinations' to acquisitions prior to 4 April 2004 in its consolidated accounts. As a result, the net book value of goodwill recognised as an intangible asset under UK GAAP at 3 April 2004 was brought forward unadjusted as the cost of goodwill recognised under IFRS at 4 April 2004 subject to impairment testing on that date; and goodwill that was written off to reserves prior to 28 March 1998 under UK GAAP will not be taken into account in determining the profit or loss on disposal or closure of previously acquired businesses from 4 April 2004 onwards.

## Other intangible assets

### (a) Product development costs

Research expenditure is written off in the financial year in which it is incurred.

Development expenditure is written off in the financial year in which it is incurred, unless it relates to the development of a new or substantially improved product, is incurred after the technical feasibility and economic viability of the product has been proven and the decision to complete the development has been taken, and can be measured reliably. Such expenditure is capitalised as an intangible asset in the Consolidated balance sheet at cost and is amortised through the Consolidated income statement on a straight-line basis over its estimated economic life of three years after which time it is retired and written out of the accounts.

### (b) Acquired intangible assets

An intangible resource acquired with a subsidiary undertaking is recognised as an intangible asset if it is separable from the acquired business or arises from contractual or legal rights, is expected to generate future economic benefits and its fair value can be measured reliably. Acquired intangible assets are amortised through the Consolidated income statement on a straight-line basis over their estimated economic lives of between three and ten years.

### (c) Computer software

Computer software that is not integral to an item of property, plant or equipment is recognised separately as an intangible asset, and is amortised through the Consolidated income statement on a straight-line basis over its estimated economic life of between three and five years.

### (d) Other intangibles

Other intangibles are amortised through the Consolidated income statement on a straight-line basis over their estimated economic lives of between three and ten years.

## Accounting policies (continued)

### Impairment of non-current assets

All non-current assets are tested for impairment whenever events or circumstances indicate that their carrying value may be impaired. Additionally, goodwill and capitalised development expenditure relating to a product that is not yet in full production are subject to an annual impairment test.

An impairment loss is recognised in the Consolidated income statement to the extent that an asset's carrying value exceeds its recoverable amount, which represents the higher of the asset's net realisable value and its value in use. An asset's value in use represents the present value of the future cash flows expected to be derived from the asset or from the cash generating unit to which it relates. The present value is calculated using a discount rate that reflects the current market assessment of the time value of money and the risks specific to the asset concerned.

Impairment losses recognised in previous periods for an asset other than goodwill are reversed if there has been a change in the estimates used to determine the asset's recoverable amount, but only to the extent that the carrying amount of the asset does not exceed its carrying amount had no impairment loss been recognised in previous periods. Impairment losses in respect of goodwill are not reversed.

### Foreign currencies

The Group presents its accounts in Sterling. Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates prevailing at that date. Any gain or loss arising from subsequent exchange rate movements is included as an exchange gain or loss in the Consolidated income statement.

Net assets of overseas subsidiary companies are expressed in Sterling at the rates of exchange ruling at the end of the financial year, and trading results and cash flows at the average rates of exchange for the financial year. Goodwill arising on the acquisition of a foreign business is treated as an asset of the foreign entity and is translated at the rate of exchange ruling at the end of the financial year. Exchange gains or losses arising on these translations are taken to the Translation reserve within Shareholders' funds.

In the event that an overseas subsidiary is disposed of or closed, the profit or loss on disposal or closure will be determined after taking into account the cumulative translation difference held within the Translation reserve attributable to that subsidiary. As permitted by IFRS 1, the Group has elected to deem the Translation reserve to be £nil at 4 April 2004. Accordingly, the profit or loss on disposal or closure of foreign subsidiaries will not include any currency translation differences which arose before 4 April 2004.

### Financial instruments

The Group does not hold or issue derivatives for speculative or trading purposes, but uses forward foreign currency contracts to reduce its exposure to exchange rate movements. Forward currency contracts are initially recognised at fair value and subsequently remeasured to their fair value at each balance sheet date. The resultant gain or loss is recognised in the Consolidated income statement immediately.

The Group uses foreign currency borrowings to hedge its investment in foreign subsidiaries. The effective part of any gain or loss on these currency borrowings is recognised directly in the Translation reserve within Shareholders' funds. The ineffective portion is recognised immediately in the Consolidated income statement.

### Revenue

Revenue represents sales, less returns, by subsidiary companies to external customers excluding value added tax and other sales related taxes. Transactions are recorded as revenue when the delivery of products or performance of services takes place in accordance with the contracted terms of sale.

### Property, plant and equipment

Property, plant and equipment is stated at historic cost less provisions for impairment and depreciation which, with the exception of freehold land which is not depreciated, is provided on a straight-line basis over each asset's estimated economic life. The principal annual rates used for this purpose are:

Freehold property	2%
Leasehold properties:	
Long leases (more than 50 years unexpired)	2%
Short leases (less than 50 years unexpired)	Period of lease
Plant, equipment and vehicles	8% to 20%
Short-life tooling	33 <sup>1</sup> / <sub>3</sub> %

### Leases

Leases that confer rights and obligations similar to those that attach to owned assets are classified as finance leases, of which the Group has none. All other leases are classified as operating leases.

Operating lease rentals, and any incentives receivable, are charged to the Consolidated income statement on a straight-line basis over the lease term.

### Pensions

The Group makes contributions to various pension plans, covering the majority of its employees.

For defined benefit plans, the asset or liability recorded in the balance sheet is the difference between the fair value of the plans' assets and the present value of the defined obligation at that date. The defined benefit obligation is calculated separately for each plan on an annual basis by independent actuaries using the projected unit credit method.

Actuarial gains and losses are recognised in full in the period in which they occur, and are taken to Shareholders' funds.

Current and past service costs, along with the impact of any settlements or curtailments, are charged to the Consolidated income statement. Interest on pension plans' liabilities are recognised within finance expense and the expected return on the schemes' assets are recognised within finance income in the Consolidated income statement.

Contributions to defined contribution schemes are charged to the Consolidated income statement when they fall due.

## Employee share schemes

Share-based incentives are provided to employees under the Group's share incentive plan, the share option plans and the performance share plan.

### (a) Share incentive plan

Awards of shares under the share incentive plan are made to qualifying employees depending on salary and service criteria. The shares awarded under this plan are purchased in the market by the plan's trustees at the time of the award, and are then held in trust for a minimum of three years. The costs of this plan are recognised in the Consolidated income statement over the three-year vesting periods of the awards.

### (b) Share option plans

All grants of options under the 1990 and 1996 share option plans and the 1999 company share option plan (together, the 'share option plans') are equity settled, and so, as permitted by IFRS 1, the provisions of IFRS 2 'Share-Based Payment' have been applied only to options awarded on or after 7 November 2002 which had not vested at 3 April 2005.

The fair value of awards under these plans has been measured at the date of grant using the Black-Scholes model and will not be subsequently remeasured. The fair value is charged to the Consolidated income statement on a straight-line basis over the expected vesting period, based on the Group's estimate of shares that will ultimately vest and adjusted for the effect of non market-based vesting conditions. The corresponding credit is to Shareholders' funds.

No further awards will be made under the share option plans.

### (c) Performance share plan

On 3 August 2005 the share option plans were replaced by the performance share plan.

Awards under this plan are partly equity-settled and partly cash-settled, and are subject to both market based and non-market based vesting criteria.

The fair value of the equity-settled portion at the date of grant is established by using an appropriate simulation method to reflect the likelihood of market-based performance conditions being met. The fair value is charged to the Consolidated income statement on a straight-line basis over the vesting period, with appropriate adjustments being made during this period to reflect expected and actual forfeitures arising from the non-market based performance conditions only. The corresponding credit is to Shareholders' funds.

For the cash-settled portion, a liability equal to the portion of the services received is recognised at the current fair value determined at each balance sheet date.

## Inventories

Inventories and work in progress of subsidiary companies are included at the lower of cost and net realisable value. Cost is calculated either on a 'first in, first out' or an average cost basis and includes direct materials and the appropriate proportion of production and other overheads considered by the Directors to be attributable to bringing the inventories to their location and condition at the year end. Net realisable value represents the estimated selling price less all estimated costs to complete and costs to be incurred in marketing, selling and distribution.

## Taxation

Taxation comprises current and deferred tax. Tax is recognised in the Consolidated income statement except to the extent that it relates to items recognised directly in Shareholders' funds, in which case it too is recognised in Shareholders' funds. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or subsequently enacted at the balance sheet date, along with any adjustment to tax payable in respect of previous years. Taxable profit differs from net profits as reported in the Consolidated income statement because it excludes items that are never taxable or deductible.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes and is accounted for using the balance sheet liability method, apart from the following differences which are not provided for goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting nor taxable profits; differences relating to investments in subsidiaries to the extent they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amounts of assets and liabilities, using tax rates and laws, which are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax assets are only recognised to the extent that recovery is probable.

## Cash and cash equivalents

Cash and cash equivalents comprise cash balances, deposits with an initial maturity of less than three months, and bank overdrafts that are repayable on demand.

## Dividends

Dividends payable to the Company's shareholders are recognised as a liability in the period in which the distribution is approved by the Company's shareholders.

# Notes to the accounts

## 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 6)	–	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 6)	–	–	–	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>

Inter-segmental sales are charged at prevailing market prices.

	Assets		Liabilities	
	2009 £000	2008 £000	2009 £000	2008 £000
Infrastructure Sensors	76,397	70,802	23,621	24,046
Health and Analysis	81,983	63,853	19,385	23,166
Industrial Safety	45,669	43,719	13,131	18,423
Central companies	49,032	43,306	71,651	56,997
<b>Continuing operations</b>	<b>253,081</b>	<b>221,680</b>	<b>127,788</b>	<b>122,632</b>
Cash and cash equivalents/borrowings	34,987	28,118	86,173	72,393
Goodwill	198,084	161,230	–	–
Acquired intangible assets	27,424	23,101	–	–
<b>Total Group</b>	<b>513,576</b>	<b>434,129</b>	<b>213,961</b>	<b>195,025</b>

Central companies include all of the Group's land and buildings, deferred tax assets and liabilities, deferred purchase consideration and retirement benefit provisions.

	Capital additions		Depreciation and amortisation	
	2009 £000	2008 £000	2009 £000	2008 £000
Infrastructure Sensors	5,907	5,567	4,976	3,777
Health and Analysis	7,956	7,005	5,162	3,695
Industrial Safety	6,245	3,681	3,572	3,165
Central companies	798	3,264	6,630	5,188
<b>Continuing operations</b>	<b>20,906</b>	<b>19,517</b>	<b>20,340</b>	<b>15,825</b>
Discontinued operations	–	18	–	55
<b>Total Group</b>	<b>20,906</b>	<b>19,535</b>	<b>20,340</b>	<b>15,880</b>

Capital additions comprise purchases of computer software, property, plant and equipment and capitalised development costs. Central companies include all of the continuing Group's charge for amortisation of acquired intangible assets.



## 1 Segmental analysis continued

### 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 6)	–	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 6)	–	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 6)	–	1,669
Taxation	(20,205)	(19,843)
<b>Profit for the year</b>	<b>52,581</b>	<b>50,284</b>

	Gross assets		Net assets		Capital additions	
	2009 £000	2008 £000	2009 £000	2008 £000	2009 £000	2008 £000
United Kingdom	129,551	131,521	32,301	32,545	10,121	11,046
United States of America	72,098	45,857	59,155	33,206	7,146	5,493
Mainland Europe	41,675	36,393	27,262	27,838	2,732	2,296
Asia Pacific and Australasia	9,757	7,909	6,575	5,459	907	682
<b>Continuing operations</b>	<b>253,081</b>	<b>221,680</b>	<b>125,293</b>	<b>99,048</b>	<b>20,906</b>	<b>19,517</b>
Discontinued operations	–	–	–	–	–	18
Cash and cash equivalent/(net debt)	34,987	28,118	(51,186)	(44,275)	–	–
Goodwill	198,084	161,230	198,084	161,230	–	–
Acquired intangible assets	27,424	23,101	27,424	23,101	–	–
<b>Total Group</b>	<b>513,576</b>	<b>434,129</b>	<b>299,615</b>	<b>239,104</b>	<b>20,906</b>	<b>19,535</b>

United Kingdom net assets include all of the Group's retirement benefit provisions and their related deferred tax assets.

## Notes to the accounts (continued)

### 2 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:

	2009 £000	2008 £000	Per ordinary share	
			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

### 3 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%

### 3 Non-GAAP measures continued

#### 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:

	2009 £000	2008 £000	Revenue % growth	2009 £000	Profit* before taxation 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.

### 4 Finance income

	2009 £000	2008 £000
Interest receivable	<b>643</b>	721
Expected return on pension scheme assets	<b>7,762</b>	7,438
	<b>8,405</b>	8,159

### 5 Finance expense

	2009 £000	2008 £000
Interest payable on bank loans and overdrafts	<b>3,231</b>	2,474
Interest charge on pension scheme liabilities	<b>8,521</b>	7,664
Other interest payable	<b>74</b>	165
	<b>11,826</b>	10,303

### 6 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 on page 66 include proceeds received relating to a prior year disposal.

## Notes to the accounts (continued)

### 7 Profit before taxation

Profit before taxation comprises:

	2009			2008		
	Continuing operations £000	Discontinued operations £000	Total Group £000	Continuing operations £000	Discontinued operations £000	Total Group £000
Revenue	<b>455,928</b>	–	<b>455,928</b>	395,061	2,894	397,955
Cost of sales	<b>(313,842)</b>	–	<b>(313,842)</b>	(266,577)	(2,082)	(268,659)
Gross profit	<b>142,086</b>	–	<b>142,086</b>	128,484	812	129,296
Distribution costs	<b>(10,725)</b>	–	<b>(10,725)</b>	(9,124)	(102)	(9,226)
Administrative expenses	<b>(55,737)</b>	–	<b>(55,737)</b>	(50,118)	(274)	(50,392)
Other operating income	<b>583</b>	–	<b>583</b>	924	–	924
Net finance expense	<b>(3,421)</b>	–	<b>(3,421)</b>	(2,144)	–	(2,144)
Profit before taxation	<b>72,786</b>	–	<b>72,786</b>	68,022	436	68,458

Included within administrative expenses is the amortisation of acquired intangible assets.

	Continuing operations		Total Group	
	2009 £000	2008 £000	2009 £000	2008 £000
Profit before taxation is stated after charging/(crediting):				
Depreciation	<b>10,260</b>	8,462	<b>10,260</b>	8,511
Amortisation	<b>10,080</b>	7,363	<b>10,080</b>	7,369
Research and development <sup>1</sup>	<b>19,062</b>	14,839	<b>19,062</b>	14,886
Foreign exchange gain	<b>(61)</b>	(80)	<b>(61)</b>	(80)
Profit on disposal of operations <sup>2</sup>	<b>(357)</b>	–	<b>(357)</b>	–
Auditors' remuneration <sup>3</sup>				
Audit services to the Company	<b>88</b>	88	<b>88</b>	88
Audit services to the Group	<b>566</b>	527	<b>566</b>	531
Total audit services pursuant to legislation	<b>654</b>	615	<b>654</b>	619
Other services pursuant to legislation <sup>4</sup>	<b>12</b>	12	<b>12</b>	12
Tax services	<b>275</b>	254	<b>275</b>	254
Other services	<b>60</b>	16	<b>60</b>	16
Operating lease rents:				
Property	<b>4,993</b>	3,916	<b>4,993</b>	3,916
Other	<b>567</b>	473	<b>567</b>	473

<sup>1</sup> A further £3,846,000 (2008: £3,796,000) of development expenditure has been capitalised in the period. See note 13.

<sup>2</sup> During the year, the Group disposed of two operations: (a) the assets of the South Africa-based portion of Texcom Limited at book value, but with a foreign exchange loss of £270,000; and (b) the high-power resistors business of Fortress Systems Pty Limited, Australia, for a profit of £627,000.

<sup>3</sup> A further £nil (2008: £20,000) of non-audit fees paid to the auditors in respect of acquisition advice have been included in cost of investments.

<sup>4</sup> Audit of the Halma Group Pension Plan.

### 8 Employee information

	Continuing operations		Total Group	
	2009 Number	2008 Number	2009 Number	2008 Number
The average number of persons employed by the Group (including Directors) was:				
United Kingdom	<b>2,062</b>	2,002	<b>2,062</b>	2,002
Overseas	<b>1,956</b>	1,661	<b>1,956</b>	1,681
	<b>4,018</b>	3,663	<b>4,018</b>	3,683

	Continuing operations		Total Group	
	2009 £000	2008 £000	2009 £000	2008 £000
Group employee costs comprise:				
Wages and salaries	<b>105,980</b>	89,698	<b>105,980</b>	90,199
Social security costs	<b>15,928</b>	13,199	<b>15,928</b>	13,317
Other pension costs (note 28)	<b>5,119</b>	5,538	<b>5,119</b>	6,197
	<b>127,027</b>	108,435	<b>127,027</b>	109,713

## 9 Directors' remuneration

The remuneration of the Directors, who are the key management personnel of the Group, is set out on pages 53 to 58 within the Remuneration report described as being audited and forms part of these financial statements.

## 10 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%

## 11 Dividends

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

## Notes to the accounts (continued)

### 12 Goodwill

	2009 £000	2008 £000
<b>Cost</b>		
At beginning of year	161,230	129,521
Additions (note 24)	5,509	22,695
Exchange adjustments	31,345	9,014
At end of year	198,084	161,230
<b>Provision for impairment</b>		
At beginning and end of year	–	–
<b>Carrying amounts</b>	<b>198,084</b>	<b>161,230</b>

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (CGUs) that are expected to benefit from that business combination. Before recognition of impairment losses, the carrying amount of goodwill has been allocated as follows:

	2009 £000	2008 £000
<b>Infrastructure Sensors</b>		
Fire Detection	11,363	9,632
Security Sensors	15,795	15,795
Automatic Door Sensors	47,537	40,747
Elevator Safety	9,706	8,129
	<b>84,401</b>	<b>74,303</b>
<b>Health and Analysis</b>		
Water	7,972	7,552
Photonics	43,889	29,059
Health Optics	30,142	22,492
Fluid Technology	7,142	5,186
	<b>89,145</b>	<b>64,289</b>
<b>Industrial Safety</b>		
Bursting Disks	8,100	5,820
Safety Interlocks	5,806	5,172
Asset Monitoring	10,632	11,646
	<b>24,538</b>	<b>22,638</b>
	<b>198,084</b>	<b>161,230</b>

Goodwill values have been tested for impairment by comparing them against the value in use in perpetuity of the relevant CGUs. The value in use calculations were based on projected cash flows, derived from the latest budget approved by the Board, discounted at the Group's pre-tax estimated short term discount rate to calculate their net present value.

## 12 Goodwill continued

Key assumptions used in "value in use" calculations

The calculation of "value in use" is most sensitive to the following assumptions, which are the same for all CGUs:

- Discount rates;
- Market share during the budget period for the financial year to March 2010; and
- Growth rate used to extrapolate risk adjusted cash flows beyond the budget period.

Discount rates are based on the Group's borrowing and equity profile. The Directors do not currently expect any significant change in the present discount rate of 10.25%. The discount rate of 10.25%, which is pre-tax and is based on short-term variables, may differ from the Weighted average cost of capital (WACC) used in long-term return measures such as ROTIC.

Market share assumptions are important because, as well as the growth rates (as noted below), management assess how each unit's relative position to its competitors might change over the budget period. Management expects each unit's position to be stable over the projected period.

Growth rate estimates of 3.25% for first year not covered by the budget and 2% thereafter, are based on conservative estimates keeping in view past growth performance.

### *Sensitivity to changes in assumptions*

Management believes that no reasonable potential change in any of the above key assumptions would cause the carrying value of any unit to exceed its recoverable amount.

## 13 Other intangible assets

	Acquired intangibles £000	Development costs £000	Computer software £000	Other intangibles £000	Total £000
<b>Cost</b>					
At 31 March 2007	12,883	10,476	4,275	–	27,634
Assets of businesses acquired	18,472	–	130	–	18,602
Assets of business sold	–	–	(60)	–	(60)
Additions at cost	–	3,796	952	–	4,748
Disposals	–	–	(23)	–	(23)
Retirements	–	(903)	–	–	(903)
Exchange adjustments	1,858	411	115	–	2,384
At 29 March 2008	33,213	13,780	5,389	–	52,382
Assets of businesses acquired (note 24)	<b>6,496</b>	–	–	–	<b>6,496</b>
Assets of business sold	–	–	(27)	–	(27)
Additions at cost	–	<b>3,846</b>	<b>1,631</b>	<b>220</b>	<b>5,697</b>
Disposals	–	–	(89)	–	(89)
Retirements	–	(971)	–	–	(971)
Exchange adjustments	<b>5,075</b>	<b>1,631</b>	<b>869</b>	<b>44</b>	<b>7,619</b>
At 28 March 2009	<b>44,784</b>	<b>18,286</b>	<b>7,773</b>	<b>264</b>	<b>71,107</b>
<b>Accumulated amortisation</b>					
At 31 March 2007	5,237	4,361	2,698	–	12,296
Assets of businesses acquired	–	–	121	–	121
Assets of business sold	–	–	(44)	–	(44)
Charge for the year	4,757	1,981	631	–	7,369
Disposals	–	–	(11)	–	(11)
Retirements	–	(903)	–	–	(903)
Exchange adjustments	118	101	83	–	302
At 29 March 2008	10,112	5,540	3,478	–	19,130
Assets of business sold	–	–	(11)	–	(11)
Charge for the year	<b>6,301</b>	<b>2,868</b>	<b>903</b>	<b>8</b>	<b>10,080</b>
Disposals	–	–	(87)	–	(87)
Retirements	–	(738)	–	–	(738)
Exchange adjustments	<b>947</b>	<b>422</b>	<b>468</b>	<b>2</b>	<b>1,839</b>
At 28 March 2009	<b>17,360</b>	<b>8,092</b>	<b>4,751</b>	<b>10</b>	<b>30,213</b>
<b>Carrying amounts</b>					
At 28 March 2009	<b>27,424</b>	<b>10,194</b>	<b>3,022</b>	<b>254</b>	<b>40,894</b>
At 29 March 2008	23,101	8,240	1,911	–	33,252

Other intangibles comprise a license amortised over its useful economic life of five years.

## Notes to the accounts (continued)

### 14 Property, plant and equipment

	Land and buildings			Plant, equipment and vehicles £000	Total £000
	Freehold properties £000	Long leases £000	Short leases £000		
<b>Cost</b>					
At 31 March 2007	25,942	1,558	3,583	71,586	102,669
Assets of businesses acquired	1,315	17	–	3,280	4,612
Assets of businesses sold	(624)	–	–	(348)	(972)
Additions at cost	3,724	34	886	10,143	14,787
Disposals	(390)	–	–	(3,200)	(3,590)
Exchange adjustments	779	4	72	1,739	2,594
At 29 March 2008	30,746	1,613	4,541	83,200	120,100
Assets of businesses acquired/fair value adjustments (note 24)	(125)	–	24	2,171	2,070
Assets of businesses sold	–	–	(44)	(538)	(582)
Additions at cost	855	100	859	13,395	15,209
Disposals	–	(92)	(235)	(3,857)	(4,184)
Exchange adjustments	3,767	44	537	11,688	16,036
At 28 March 2009	<b>35,243</b>	<b>1,665</b>	<b>5,682</b>	<b>106,059</b>	<b>148,649</b>
<b>Accumulated depreciation</b>					
At 31 March 2007	4,939	471	2,087	45,592	53,089
Assets of businesses acquired	130	8	–	2,686	2,824
Assets of businesses sold	(190)	–	–	(203)	(393)
Charge for the year	490	53	374	7,594	8,511
Disposals	(134)	–	–	(2,523)	(2,657)
Exchange adjustments	99	3	31	1,141	1,274
At 29 March 2008	5,334	535	2,492	54,287	62,648
Assets of businesses sold	–	–	(32)	(305)	(337)
Charge for the year	674	53	499	9,034	10,260
Disposals	–	(91)	(236)	(3,289)	(3,616)
Exchange adjustments	943	19	367	6,957	8,286
At 28 March 2009	<b>6,951</b>	<b>516</b>	<b>3,090</b>	<b>66,684</b>	<b>77,241</b>
<b>Carrying amounts</b>					
At 28 March 2009	<b>28,292</b>	<b>1,149</b>	<b>2,592</b>	<b>39,375</b>	<b>71,408</b>
At 29 March 2008	25,412	1,078	2,049	28,913	57,452

### 15 Inventories

	2009 £000	2008 £000
Raw materials and consumables	25,766	22,412
Work in progress	7,301	8,075
Finished goods and goods for resale	18,314	13,780
	<b>51,381</b>	44,267

There is no material difference between the balance sheet value of inventories and their cost of replacement.



## 16 Trade and other receivables

	2009 £000	2008 £000
Falling due within one year:		
Trade receivables	<b>92,887</b>	89,105
Other receivables	<b>3,547</b>	3,282
Prepayments and accrued income	<b>7,110</b>	7,354
	<b>103,544</b>	99,741

Trade receivables are stated net of provisions for estimated irrecoverable amounts of £1,638,000 (2008: £1,204,000). This provision has been determined by reference to previous default experience. The ageing of trade receivables was as follows:

	2009 £000	2008 £000
Not yet due	<b>70,372</b>	68,597
Up to 1 month overdue	<b>14,402</b>	14,162
Up to 2 months overdue	<b>4,006</b>	3,568
Up to 3 months overdue	<b>1,349</b>	1,239
Over 3 months overdue	<b>2,758</b>	1,539
	<b>92,887</b>	89,105

## 17 Borrowings

	2009 £000	2008 £000
Unsecured bank loans:		
Falling due within one year	<b>6,559</b>	7,035
Falling due after more than one year	<b>79,614</b>	65,358
Total borrowings	<b>86,173</b>	72,393

Information concerning the security, currency, interest rates and maturity of the Group's borrowings is given in note 26 to the accounts.

## 18 Trade and other payables: falling due within one year

	2009 £000	2008 £000
Trade payables	<b>37,093</b>	40,081
Other taxation and social security	<b>4,880</b>	4,838
Provision for deferred purchase consideration	<b>12</b>	1,082
Other payables	<b>4,741</b>	3,816
Accruals and deferred income	<b>16,653</b>	19,603
	<b>63,379</b>	69,420

## 19 Trade and other payables: falling due after one year

	2009 £000	2008 £000
Provision for deferred purchase consideration	<b>56</b>	107
Other payables	<b>3,676</b>	2,767
	<b>3,732</b>	2,874

## Notes to the accounts (continued)

### 20 Deferred tax

	Retirement benefit obligations £000	Acquired intangible assets £000	Accelerated tax depreciation £000	Short-term timing differences £000	Share-based payment £000	Goodwill timing differences £000	Total £000
At 29 March 2008	10,069	(7,726)	(3,143)	828	1,837	2,096	3,961
(Charge)/credit to Consolidated income statement	<b>(1,213)</b>	<b>1,687</b>	<b>(3,837)</b>	<b>314</b>	<b>40</b>	<b>(998)</b>	<b>(4,007)</b>
(Charge)/credit to Shareholders' funds	<b>3,064</b>	–	–	–	<b>(659)</b>	–	<b>2,405</b>
Acquired (note 24)	–	<b>(1,539)</b>	–	<b>1,437</b>	–	<b>(3,887)</b>	<b>(3,989)</b>
Exchange adjustments	–	<b>(1,229)</b>	<b>(1,267)</b>	<b>442</b>	–	<b>(666)</b>	<b>(2,720)</b>
At 28 March 2009	<b>11,920</b>	<b>(8,807)</b>	<b>(8,247)</b>	<b>3,021</b>	<b>1,218</b>	<b>(3,455)</b>	<b>(4,350)</b>

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2009 £000	2008 £000
Deferred tax liabilities	<b>(14,353)</b>	(6,108)
Deferred tax assets	<b>10,003</b>	10,069
Net deferred tax (liability)/asset	<b>(4,350)</b>	3,961

Movement in deferred tax (liability)/asset:

	2009 £000	2008 £000
At beginning of year	<b>3,961</b>	7,994
Credit/(charge) to Consolidated income statement:		
UK	<b>(1,788)</b>	85
Overseas	<b>(2,219)</b>	(831)
Charge to Shareholders' funds	<b>2,405</b>	(226)
Acquired (note 24)	<b>(3,989)</b>	(2,785)
Exchange adjustments	<b>(2,720)</b>	(276)
At end of year	<b>(4,350)</b>	3,961

No provision is made for tax which might become payable if profits retained by overseas subsidiary companies are distributed as dividends unless there is an intention to distribute such profits. The gross undistributed earnings of these subsidiaries at 28 March 2009 was £22,421,000 (2008: £15,312,000).

At 28 March 2009 the Group had unused capital tax losses of £889,000 (2008: £695,000) for which no deferred tax asset has been recognised. None of these losses has an expiry date.

The £5,656,000 tax on items taken directly to reserves in note 22 (£6,315,000 in retained earnings offset by £659,000 in other reserves) comprises £3,251,000 of corporation tax and £2,405,000 of deferred tax.

### 21 Share capital

	Authorised		Issued and fully paid	
	2009 £000	2008 £000	2009 £000	2008 £000
Ordinary shares of 10p each	<b>43,656</b>	43,656	<b>37,539</b>	37,446

The number of ordinary shares in issue at 28 March 2009 was 375,390,677 (2008: 374,458,498), including treasury shares of 1,274,108.

Changes during the year in the issued ordinary share capital were as follows:

	Issued and fully paid £000
At 29 March 2008	37,446
Share options exercised	<b>93</b>
At 28 March 2009	<b>37,539</b>

The total consideration received in cash in respect of share options exercised amounted to £1,290,000.

At 28 March 2009 options in respect of 6,776,695 (2008: 8,388,631) ordinary shares remained outstanding. Further details of these are given in note 23 to the accounts.

At the date of these accounts, the number of ordinary shares in issue was 375,413,293, including treasury shares of 1,438,837.

## 22 Reserves

	Share premium account £000	Treasury shares £000	Capital redemption reserve £000	Translation reserve £000	Other reserves £000	Retained earnings £000
At 31 March 2007	15,239	(1,664)	185	(4,272)	3,654	156,154
Profit for the year	-	-	-	-	-	50,284
Share options exercised	1,710	-	-	-	-	-
Foreign exchange translation differences	-	-	-	11,352	-	-
Exchange differences transferred to profit on disposal of foreign operations	-	-	-	64	-	-
Dividends paid	-	-	-	-	-	(27,329)
Actuarial gains on defined benefit pension schemes	-	-	-	-	-	(3,886)
Share-based payments	-	-	-	-	1,452	-
Treasury shares purchased	-	(1,628)	-	-	-	-
Tax on items taken directly to equity	-	-	-	-	-	343
At 29 March 2008	16,949	(3,292)	185	7,144	5,106	175,566
Profit for the year	-	-	-	-	-	52,581
Share options exercised	1,197	-	-	-	-	-
Foreign exchange translation differences	-	-	-	40,336	-	-
Exchange differences transferred to profit on disposal of foreign operations	-	-	-	193	-	-
Dividends paid	-	-	-	-	-	(28,785)
Actuarial losses on defined benefit pension schemes	-	-	-	-	-	(11,092)
Share-based payments	-	-	-	-	(201)	-
Net disposal of treasury shares	-	533	-	-	-	-
Tax on items taken directly to equity	-	-	-	-	(659)	6,315
At 28 March 2009	18,146	(2,759)	185	47,673	4,246	194,585

Treasury shares are ordinary shares in Halma p.l.c. purchased by the Company and held to fulfil the Company's obligations under the performance share plan. At 28 March 2009 the number of treasury shares held was 1,274,108 (2008: 1,563,813) and their market value was £1,981,238 (2008: £2,994,702).

The capital redemption reserve was created on repurchase and cancellation of the Company's own shares. The translation reserve is used to record differences arising from the retranslation of the financial statements of foreign operations.

The other reserve represents the provision being established in respect of the value of the equity-settled share option plans and performance share plan.

## Notes to the accounts (continued)

### 23 Share-based payments

The total cost recognised in the Consolidated income statement in respect of share-based payment schemes (the 'employee share plans') was as follows:

			2009			2008
	Equity-settled £000	Cash-settled £000	Total £000	Equity-settled £000	Cash-settled £000	Total £000
Share incentive plan	306	–	306	251	–	251
Share option plans	39	–	39	204	–	204
Performance share plan	1,711	251	1,962	1,486	172	1,658
	<b>2,056</b>	<b>251</b>	<b>2,307</b>	1,941	172	2,113

#### Share incentive plan

Shares awarded under this plan are purchased in the market by the Plan's trustees at the time of the award and are held in trust until their transfer to qualifying employees, which is conditional upon completion of three years' service. The costs of providing this plan are recognised in the Consolidated income statement over the three-year vesting period.

#### Share option plans

The Group has issued options to acquire ordinary shares in the Company under three share option plans, approved by shareholders in 1990, 1996 and 1999. These share option plans provide for the grant of two categories of option, both of which are subject to performance criteria.

Section A options are exercisable after three years if the Group's earnings per share growth exceeds, for the 1990 Plan, the growth in the Retail Price Index, for the 1996 Plan, the growth in the Retail Price Index plus 2% per annum and, for the 1999 Plan, the growth in the Retail Price Index plus 3% per annum. Section B options are exercisable after five years if the Company's earnings per share growth exceeds the earnings per share of, for the 1990 and 1996 Plans, all but the top quarter of companies which were within the FTSE 100 at the date of grant of any option and for the 1999 Plan, all but the top quarter of companies which were within a peer group at the date of grant of any option.

All options lapse if not exercised within ten years from the date of grant.

No further awards have been made under the Company share option plans since 3 August 2005.

Options in respect of 616,000 ordinary shares remained outstanding at 28 March 2009 under the 1996 Plan. Subject to the performance restrictions on the exercise of options granted under this Plan, options are exercisable for the periods and at the prices set out below:

Number of shares	Option price	Five years from	Seven years from
142,900	120.0p		2002
473,100	120.0p – 131.0p	2004	

Options in respect of 6,160,695 ordinary shares remained outstanding at 28 March 2009 under the 1999 Plan. Subject to the performance restrictions on the exercise of options granted under this Plan, options are exercisable for the periods and at the prices set out below:

Number of shares	Option price	Five years from	Seven years from
320,900	111.0p		2003
426,900	163.5p		2004
434,953	144.33p		2005
568,211	134.0p		2006
987,729	142.25p		2007
405,393	145.67p		2008
558,300	111.0p	2005	
441,700	163.5p	2006	
613,430	144.33p	2007	
668,118	134.0p	2008	
735,061	142.25p	2009	

## 23 Share-based payments continued

A summary of the movements in options issued under the share option plans is as follows:

	2009		2008	
	Number of share options	Weighted average option price	Number of share options	Weighted average option price
Outstanding at beginning of year	<b>8,388,631</b>	<b>136.87p</b>	10,451,523	136.50p
Exercised during the year	<b>(932,179)</b>	<b>138.47p</b>	(1,342,006)	139.80p
Lapsed during the year	<b>(679,757)</b>	<b>123.63p</b>	(720,886)	130.21p
Outstanding at end of year	<b>6,776,695</b>	<b>137.98p</b>	8,388,631	136.87p
Exercisable at end of year	<b>3,286,986</b>	<b>140.26p</b>	3,779,803	138.96p

The weighted average share price at the date of exercise for share options exercised during the year was 203.94p.

The options outstanding at 28 March 2009 had exercise prices from 111.0p to 163.5p and a weighted average remaining contractual life of three years.

Under the transitional provisions of IFRS 1 only the options awarded in 2004, 2005 and 2006 under the 1999 Plan have been recognised under IFRS 2. The fair value of these options was calculated using the Black-Scholes model using the following assumptions:

	2006		2005		2004	
	A	A	B	A	B	B
Option section	A	A	B	A	B	B
Dividend yield	4%	4%	4%	4%	4%	4%
Expected volatility	25%	25%	25%	25%	25%	25%
Expected life (years)	4	4	6	4	6	6
Risk free rate (%)	4.1%	4.3–4.9%	4.9%	3.8%	4.0%	4.0%
Option price (p)	145.67	142.25–157.92	142.25	134.00	134.00	134.00
Fair value per option (p)	24.70	25.71–27.22	29.25	22.18	25.35	25.35

The expected volatility was determined by calculating the historic volatility of the Group's share price over the previous six years.

### Performance share plan

The performance share plan was approved by shareholders on 3 August 2005 and replaced the previous share option plans from which no further grants will be made.

Awards made under this Plan vest after three years on a sliding scale subject to the Group's relative Total Shareholder Return against the FTSE 250 excluding financial companies, combined with an absolute Return on total invested capital measure. Awards which do not vest on the third anniversary of their award lapse.

A summary of the movements in share awards granted under the performance share plan is as follows:

	2009	2008
	Number of shares awarded	Number of shares awarded
Outstanding at beginning of year	<b>4,493,694</b>	3,361,308
Granted during the year	<b>1,572,194</b>	1,379,707
Vested during the year (pro-rated for 'good leavers')	<b>(933,950)</b>	(17,662)
Lapsed during the year	<b>(1,191,978)</b>	(229,659)
Outstanding at end of year	<b>3,939,960</b>	4,493,694
Exercisable at end of year	–	–

The fair value of these awards was calculated using an appropriate simulation method to reflect the likelihood of the market-based performance conditions, which attach to half of the award, being met, using the following assumptions:

	2009	2008	2007
Expected volatility (%)	<b>25%</b>	19%	20%
Expected life (years)	<b>3</b>	3	3
Share price on date of grant (p)	<b>192.75</b>	240.67	199.00
Option price (p)	<b>nil</b>	nil	nil
Fair value per option (%)	<b>56%</b>	55%	66%
Fair value per option (p)	<b>107.94</b>	132.37	131.34

The expected volatility was determined by calculating the historic volatility of the Group's share price over the previous three years.

## Notes to the accounts (continued)

### 24 Acquisitions

	Book value £000	Fair value adjustments £000	Total £000
<b>Non-current assets</b>			
Intangible assets	–	6,496	6,496
Property, plant and equipment	1,798	272	2,070
<b>Current assets</b>			
Inventories	1,384	(474)	910
Trade and other receivables	1,486	143	1,629
<b>Total assets</b>	<b>4,668</b>	<b>6,437</b>	<b>11,105</b>
<b>Current liabilities</b>			
Trade and other payables	(948)	(103)	(1,051)
Corporation tax	–	72	72
Deferred tax	–	(3,989)	(3,989)
<b>Non-current liabilities</b>			
Other payables	–	(332)	(332)
<b>Total liabilities</b>	<b>(948)</b>	<b>(4,352)</b>	<b>(5,300)</b>
<b>Net assets of businesses acquired</b>	<b>3,720</b>	<b>2,085</b>	<b>5,805</b>
Cash consideration, including costs			12,388
Deferred purchase consideration			–
<b>Total consideration</b>			<b>12,388</b>
Goodwill arising on current year acquisitions			6,583
Goodwill arising on prior year acquisitions			(1,074)
<b>Goodwill arising on acquisition</b>			<b>5,509</b>

The goodwill in the current year arose on the acquisitions of the assets and liabilities of Fiberguide Industries, Inc and the Golden, Colorado business of Oerlikon Optics USA, Inc in September 2008 and November 2008 respectively.

Company from which assets acquired	Date of acquisition	Country of incorporation	Principal activity	Consideration (excluding costs)
Fiberguide Industries, Inc	September 2008	USA	Health and Analysis	\$14m
Oerlikon Optics USA, Inc	November 2008	USA	Health and Analysis	\$6m

Together these acquisitions contributed £5,531,000 of revenue and £567,000 of profit before tax and amortisation of acquired intangible assets to the Group results for the year ended 28 March 2009. If these acquisitions had been held since the start of the financial year, it is estimated the Group's reported revenue would have been £4,030,000 higher and profit before tax and amortisation of acquired intangible assets £233,000 higher.

Adjustments were made to the book value of the net assets of the companies acquired to reflect their provisional fair value to the Group. Acquired inventories were valued at the lower of cost and net realisable value adopting Group bases and any liabilities for warranties relating to past trading were recognised. Other previously unrecognised assets and liabilities at acquisition were included and accounting policies were aligned with the Group where appropriate.

The adjustment to goodwill arising on prior period acquisitions relates mainly to additional fair value adjustments on the acquisition of PP Medizintechnik GmbH and its subsidiaries (including Rudolf Riester GmbH & Co. KG) and a revision to the estimated deferred purchase consideration on the acquisition of Trittech International/System Technologies.

## 25 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	76,207	70,166
Profit on disposal of operations before taxation	(357)	–
Profit from discontinued operations before taxation	–	436
Depreciation of property, plant and equipment	10,260	8,511
Amortisation of computer software	903	631
Amortisation of capitalised development costs and other intangibles	2,876	1,981
Retirement of capitalised development costs	233	–
Amortisation of acquired intangible assets	6,301	4,757
Share-based payment expense in excess of amounts paid	1,634	1,997
Additional payments to pension plans	(6,224)	(6,352)
Profit on sale of property, plant and equipment and computer software	(14)	(1,186)
Operating cash flows before movement in working capital	91,819	80,941
Decrease/(increase) in inventories	(1,055)	(2,278)
Decrease/(increase) in receivables	7,440	(9,605)
(Decrease)/increase in payables	(11,779)	6,970
<b>Cash generated from operations</b>	<b>86,425</b>	<b>76,028</b>
Taxation paid	(20,494)	(17,627)
<b>Net cash inflow from operating activities</b>	<b>65,931</b>	<b>58,401</b>

The cash outflow on page 66 of £12,388,000 (2008: £46,537,000) on the acquisition of businesses includes cash acquired of £nil (2008: £295,000) and the payment of £18,000 (2008: £3,650,000) of deferred purchase consideration which arose from acquisitions made in earlier years, and where provision was made in prior years' financial statements.

	2009 £000	2008 £000
<b>Reconciliation of net cash flow to movement in net debt</b>		
Increase in cash and cash equivalents	2,193	4,492
Cash outflow/(inflow) from borrowings	3,519	(37,796)
Exchange adjustments	(12,623)	(3,260)
	(6,911)	(36,564)
Net debt brought forward	(44,275)	(7,711)
Net debt carried forward	(51,186)	(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	34,987
Bank loans	(72,393)	3,519	(17,299)	(86,173)
	(44,275)	5,712	(12,623)	(51,186)

The cash outflow from bank loans in 2009 of £3,519,000 related solely to repayment of borrowings. The cash inflow from bank loans in 2008 of £37,796,000 included a cash outflow on repayment of borrowings of £54,205,000 and a cash inflow on drawdown of new borrowings of £92,001,000.

Included within cash and cash equivalents is an amount of £893,000 (2008: £604,000) which is restricted.

# Notes to the accounts (continued)

## 26 Financial instruments

### Policy

The Group's treasury policies seek to minimise financial risks and to ensure sufficient liquidity for the Group's operations and strategic plans. No complex derivative financial instruments are used, and no trading or speculative transactions in financial instruments are undertaken. Where the Group does use financial instruments these are mainly to manage the currency risks arising from normal operations and its financing. Operations are financed mainly through retained profits and, in certain geographical locations, bank borrowings. Foreign currency risk is the most significant aspect for the Group in the area of financial instruments. It is exposed to a lesser extent to other risks such as interest rate risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks and these policies are summarised below. Policies have remained unchanged since the beginning of the financial year.

### Foreign currency risk

The Group is exposed to foreign currency risk as a consequence of both trading with foreign companies and owning subsidiaries located in foreign countries.

The Group earns a significant proportion of its profit in currencies other than Sterling. This gives rise to translational currency risk, where the Sterling value of profits earned by the Group's foreign subsidiaries fluctuates with the strength of Sterling relative to their operating (or 'functional') currency. The Group does not hedge this risk, so its reported profit is sensitive to the strength of Sterling, particularly against the US Dollar and Euro. The Group also has transactional currency exposures. These arise on sales or purchases by operating companies in currencies other than the companies' operating (or 'functional') currency. Significant sales and purchases are matched where possible and the net exposure hedged by means of forward foreign currency contracts.

The Group has a significant investment in overseas operations in the USA and Europe, with further investments in Australia, New Zealand, Malaysia, Singapore, China and India. As a result, the Group's balance sheet can be affected by movements in these countries' exchange rates. Where significant and appropriate, currency denominated net assets are hedged by currency borrowings. These currency exposures are reviewed regularly.

### Interest rate risk

The Group is exposed to interest rate fluctuations on its borrowings and cash deposits. Where bank borrowings are used to finance operations they tend to be short-term with floating interest rates. Borrowings used to provide longer term funding are drawn on the Group's loan facilities and have fixed interest rates with maturities of not more than one year.

Surplus funds are placed on short-term fixed rate deposit or in floating rate deposit accounts.

### Liquidity risk

The main source of long-term funding for the Group is its unsecured revolving credit facility for £165 million, which is a five-year facility to February 2013, with a small syndicate of its principal bankers.

The Group has a strong cash flow and the funds generated by operating companies are managed regionally based on geographic location. Funds are placed on deposit with secure, highly-rated banks. For short-term working capital purposes, most operating companies utilise local bank overdrafts. These practices allow a balance to be maintained between continuity of funding, security and flexibility. Because of the nature of their use, the facilities are typically 'on demand' and as such uncommitted. Overdraft facilities are typically renewed annually.

### Currency exposures

#### Translational exposures

It is estimated, by reference to the Group's US Dollar and Euro denominated profits, that a one per cent change in the value of the US Dollar relative to Sterling would have had a £185,000 impact on the Group's reported profit before tax; and a one per cent change in the value of the Euro relative to the Sterling would have had a £210,000 impact on the Group's profit before tax for the year ended 28 March 2009.

#### Transactional exposures

The Group's has net foreign currency monetary assets and liabilities that are assets and liabilities not denominated in the functional currency of the underlying company. These comprise cash and overdrafts as well as certain trade receivable and payable balances. These foreign currency monetary assets and liabilities give rise to the net currency gains and losses recognised in the consolidated income statement as a result of movement in exchange rates. The exposures are predominantly Euro and US Dollar and are minimal as Group policy is for all foreign currency exposures, including sales and purchases, to be hedged by forward foreign exchange contracts in the company in which the transaction is recorded.

### Interest rate risk profile

The Group's financial assets which are subject to interest rate fluctuations comprise interest bearing cash equivalents which totalled £8,100,000 at 28 March 2009 (2008: £3,166,000). These comprised Sterling denominated deposits of £6,980,000 (2008: £2,946,000), and Euro and other currency deposits of £1,120,000 (2008: £220,000) which are placed on local money markets and earn interest at market rates. Cash balances of £26,887,000 (2008: £24,952,000) earn interest at local market rates.

The financial liabilities which are subject to interest rate fluctuations are bank loans, bank overdrafts and certain unsecured loans, which totalled £86,173,000 at 29 March 2008 (2008: £72,394,000). All bear interest at floating rates or fixed rates where the period of the fix is typically no more than three months. Interest rates are based on LIBOR plus a small margin. These comprise Sterling bank loans of £nil (2008: £9,000,000), US Dollar denominated bank loans of £39,182,000 (2008: £23,116,000) which bear interest with reference to the US Dollar LIBOR rates, and Euro denominated bank loans of £46,991,000 (2008: £40,278,000) which bear interest with reference to the Euro LIBOR rates.

### Maturity of financial liabilities

With the exception of the deferred purchase consideration, other payables and borrowings due after one year, all of the Group's financial liabilities mature in one year or less or on demand. The total of deferred purchase consideration due after one year includes £13,000 (2008: £67,000) due between one and two years, with the balance of £43,000 (2008: £40,000) due between two and five years. Other creditors due after more than one year include £1,721,000 (2008: £1,000,000) due between one and two years, £817,000 (2008: £1,299,000) due between two and five years, with the balance of £1,138,000 (2008: £468,000) due after more than five years.

### Borrowing facilities

The Group's principal source of long-term funding is its unsecured five-year £165 million revolving credit facility, which expires in February 2013.

Short-term operational funding is provided by cash generated from operations and by local bank overdrafts. These overdraft facilities are uncommitted and are generally renewed on an annual or ongoing basis and hence the facilities expire within one year or less.



## 26 Financial instruments continued

The Group's undrawn committed facilities available at 28 March 2009 were £97,009,000 (2008: £105,872,000) of which £11,622,000 (2008: £6,230,000) mature within one year and £85,387,000 (2008: £99,642,000) between two and five years.

UK companies have cross-guaranteed £21,023,000 (2008: £19,658,000) of overdraft facilities of which £242,000 (2008: £73,000) was drawn.

### Fair values of financial assets and financial liabilities

As at 28 March 2009 there was no significant difference between the book value and fair value (as determined by market value) of the Group's financial assets and liabilities.

### Hedging

As explained above, the Group's policy is to hedge significant sales and purchases denominated in foreign currency using forward currency contracts. These instruments are initially recognised at cost, which is typically £nil, and subsequently measured at fair value. Changes in fair value are taken to the Consolidated income statement.

The following table details the forward foreign currency contracts outstanding as at the year end, which all mature within one year:

	Average Exchange Rate/£		Foreign Currency		Contract Value		Fair Value	
	2009	2008	2009 '000	2008 '000	2009 £000	2008 £000	2009 £000	2008 £000
US Dollars	<b>1.43</b>	1.98	<b>5,131</b>	5,051	<b>3,578</b>	2,550	<b>(11)</b>	11
Euros	<b>1.10</b>	1.31	<b>9,422</b>	10,069	<b>8,535</b>	7,680	<b>(189)</b>	(311)
Other currencies	–	–	–	–	<b>1,957</b>	1,928	<b>(69)</b>	62
					<b>14,070</b>	12,158	<b>(269)</b>	(238)

With the exception of currency exposures, the disclosures in this note exclude short-term receivables and payables.

### Foreign currency sensitivity analysis

The Group is mainly exposed to the currency of the USA (US Dollar currency) and the currency of Mainland Europe (Euro currency). If Sterling increased by 10% against the US Dollar, profits would decrease by £1,696,000 (2008: £1,425,000) and by 10% against the Euro by £1,930,000 (2008: £1,408,000). The sensitivity arises mainly from the translation of overseas profits earned during the year. 10% is the sensitivity rate which management assesses to be a reasonably possible change in foreign exchange rates. The Group's sensitivity has increased to both the US Dollar and Euro because more of the Group's profits are earned in these currencies.

## 27 Commitments

### Capital commitments

Capital expenditure authorised and contracted at 28 March 2009 but not provided in these accounts amounts to £1,841,000 (2008: £1,469,000).

### Commitments under operating leases

The Group has entered into commercial leases on properties and other equipment. The former expire between 2 May 2009 and 22 May 2019 and the latter between 3 April 2009 and 31 December 2015. Only certain property agreements contain an option for renewal at rental prices based on market prices at the time of exercise.

Annual payments under non-cancellable operating leases will be made as follows:

	Land and buildings		Other	
	2009 £000	2008 £000	2009 £000	2008 £000
Within one year	<b>5,160</b>	3,831	<b>520</b>	456
Within two to five years	<b>12,367</b>	9,133	<b>766</b>	624
After five years	<b>4,354</b>	3,469	–	–
	<b>21,881</b>	16,433	<b>1,286</b>	1,080

## Notes to the accounts (continued)

### 28 Retirement benefits

Group companies operate both defined benefit and defined contribution pension plans. The Halma Group Pension Plan and the Apollo Pension and Life Assurance Plan have defined benefit sections with assets held in separate trustee administered funds. Both of these sections were closed to new entrants during 2002/03 and a defined contribution section was established within the Halma Group Pension Plan. Defined contribution schemes are mainly adopted in overseas subsidiaries.

Full actuarial valuations of the defined benefit plans are carried out every three years. The Halma Group Pension Plan was last assessed as at 1 December 2005, and the Apollo Pension and Life Assurance Plan as at 1 April 2006, using the projected unit method. At those dates the market value of the plan assets were £71.5 million for the Halma Group Pension Plan and £13.8 million for the Apollo Pension and Life Assurance Plan. The actuarial value of these assets represented 60% and 59% respectively of the benefits that had accrued to members after allowing for expected future increases in earnings. These shortfalls are being addressed by increased company contributions.

#### Defined contribution schemes

The amount charged to the Consolidated income statement in respect of defined contribution schemes was £2,388,000 (2008: £2,016,000).

#### Defined benefit schemes

The assumptions used to calculate scheme liabilities are:

	2009	2008	2007
Rate of increase in salaries	<b>4.45%</b>	4.75%	4.25%
Rate of increase of pensions in payment (pre-April 1997)	<b>3.20%</b>	3.50%	3.00%
Rate of increase of pensions in payment (post-April 1997)	<b>3.20%</b>	3.50%	3.00%
Discount rate	<b>6.40%</b>	5.85%	5.25%
Inflation assumption	<b>3.20%</b>	3.50%	3.00%
Mortality assumption – Halma pensioners	<b>PA 92 medium cohort</b>	PA 92 medium cohort	PA 92 medium cohort
Mortality assumption – Halma non-pensioners	<b>PA 92 medium cohort</b>	PA 92 medium cohort	PA 92 medium cohort
Mortality assumption – Apollo pensioners	<b>PA 92 medium cohort plus one year</b>	PA 92 medium cohort plus one year	PA 92 medium cohort plus one year
Mortality assumption – Apollo non-pensioners	<b>PA 92 medium cohort plus one year</b>	PA 92 medium cohort plus one year	PA 92 medium cohort plus one year

If assumed life expectancies had been one year greater in the defined benefit plans, the gross deficit would have increased by approximately £3 million; a 0.1% change in the discount rate used to value liabilities would have an approximate effect of £3 million.

The expected rates of return and the net deficit in the plans were:

	2009		2008	
	Expected rate of return %	Fair value £000	Expected rate of return %	Fair value £000
Equities	<b>7.50</b>	<b>57,407</b>	7.50	76,753
Bonds	<b>6.00</b>	<b>28,880</b>	5.85	29,742
Property	<b>7.50</b>	<b>3,524</b>	6.00	3,540
Total fair value of assets	<b>6.80</b>	<b>89,811</b>	7.01	110,035
Present value of plan liabilities		<b>(132,379)</b>		(145,992)
Net deficit		<b>(42,568)</b>		(35,957)

The fair value of plan assets includes £nil of Halma p.l.c. 10p ordinary shares (2008: £101,525) and a receivable of £1,103,000 (2008: £2,087,000) in respect of pension plan liabilities that Halma p.l.c. has assumed on discontinued UK operations. The equivalent liability is included in the Consolidated and Company balance sheets within trade and other payables/other creditors.

The amount charged/(credited) to the Consolidated income statement in respect of the schemes was as follows:

	2009 £000	2008 £000
Current service cost (included within administrative expenses)	<b>2,731</b>	2,844
Expected return on pension plan assets	<b>(7,762)</b>	(7,438)
Interest on plan liabilities	<b>8,521</b>	7,664
Net finance cost	<b>759</b>	226
Total charge	<b>3,490</b>	3,070

The amount charged to the Consolidated statement of recognised income and expense in respect of the actuarial loss of the plans was £11,092,000 (2008: £3,886,000 loss).

## 28 Retirement benefits continued

The movements in plan assets, liabilities and the net deficit are as follows:

	2009			2008		
	Fair value of plan assets £000	Present value of plan liabilities £000	Net deficit £000	Fair value of plan assets £000	Present value of plan liabilities £000	Net deficit £000
At beginning of year	110,035	(145,992)	(35,957)	108,341	(145,601)	(37,260)
Current service cost	–	(2,731)	(2,731)	–	(2,844)	(2,844)
Contributions paid	8,955	–	8,955	9,243	–	9,243
Net finance cost	7,762	(8,521)	(759)	7,438	(7,664)	(226)
Actuarial (loss)/gain	(35,957)	24,865	(11,092)	(14,003)	10,117	(3,886)
Movement on receivable from principal employer	(984)	–	(984)	(984)	–	(984)
At end of year	89,811	(132,379)	(42,568)	110,035	(145,992)	(35,957)

History of experience adjustments:

	2009 £000	2008 £000	2007 £000	2006 £000	2005 £000
Present value of defined benefit obligations	(132,379)	(145,992)	(145,601)	(141,580)	(112,914)
Fair value of plan assets	89,811	110,035	108,341	95,561	72,069
Deficit in the plan	(42,568)	(35,957)	(37,260)	(46,019)	(40,845)
Experience adjustments on plan liabilities:					
Amount	–	–	273	536	52
Percentage of plan liabilities	–	–	–	–	–
Experience adjustments on plan assets:					
Amount	(33,696)	12,327	1,321	11,271	2,821
Percentage of plan assets	(38)%	11%	1%	12%	4%

The estimated amount of contributions expected to be paid to the scheme during the current financial year is £9 million.

# Independent Auditors' report to the members of Halma p.l.c.

We have audited the parent company financial statements of Halma p.l.c. for the 52 weeks to 28 March 2009 which comprise the Balance sheet together with the related notes numbered C1 to C13. These parent company financial statements have been prepared under the accounting policies set out therein. We have reported separately on the Group financial statements of Halma p.l.c. for the 52 weeks to 28 March 2009 and on the information in the Directors' Remuneration report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual report and the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' responsibilities. Our responsibility is to audit the parent company financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the Directors' Report is consistent with the parent company financial statements. In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read the other information contained in the Annual report as described in the Contents section and consider whether it is consistent with the audited parent company financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any further information outside the Annual report.

## Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the parent company financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the parent company financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the parent company financial statements.

## Opinion

In our opinion:

- the parent company financial statements give a true and fair view in accordance with United Kingdom Generally Accepted Accounting Practice of the state of affairs of the Company as at 28 March 2009;
- the parent company financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the parent company financial statements.

## Deloitte LLP

Chartered Accountants and Registered Auditors  
Reading, UK

16 June 2009

Neither an audit nor a review provides assurance on the maintenance and integrity of the web site, including controls used to achieve this, and in particular whether any changes may have occurred to the financial information since first published. These matters are the responsibility of the directors but no control procedures can provide absolute assurance in this area. Legislation in the United Kingdom governing the preparation and dissemination of financial information differs from legislation in other jurisdictions.

# Company balance sheet

	Notes	28 March 2009 £000	29 March 2008 £000
<b>Fixed assets</b>			
Tangible assets	C3	2,086	2,226
Investments	C4	120,317	121,332
		<b>122,403</b>	123,558
<b>Current assets</b>			
Debtors (amounts falling due within one year)	C5	31,109	177,191
Debtors (amounts falling due after more than one year)	C5	106,630	–
Short-term deposits		7,924	2,946
Cash at bank and in hand		208	–
		<b>145,871</b>	180,137
<b>Creditors: amounts falling due within one year</b>			
Borrowings	C6	6,019	7,277
Creditors	C7	13,190	69,762
Current tax payable		1,736	67
		<b>20,945</b>	77,106
<b>Net current assets</b>			
		<b>124,926</b>	103,031
<b>Total assets less current liabilities</b>			
		<b>247,329</b>	226,589
<b>Creditors: amounts falling due after more than one year</b>			
Borrowings	C6	79,613	65,358
Creditors	C8	33,479	2,849
Provisions for liabilities and charges	C9	–	370
<b>Net assets</b>			
		<b>134,237</b>	158,012
<b>Capital and reserves</b>			
Share capital	C11	37,539	37,446
Share premium account	C12	18,146	16,949
Treasury shares	C12	(2,759)	(3,292)
Capital redemption reserve	C12	185	185
Other reserves	C12	2,000	2,583
Profit and loss account	C12	79,126	104,141
<b>Shareholders' funds</b>			
	C13	<b>134,237</b>	158,012

Approved by the Board of Directors on 16 June 2009.

**A J Williams**  
Directors

**K J Thompson**

# Notes to the Company accounts

## C1 Accounting policies

### Basis of accounting

The separate Company financial statements are presented as required by the Companies Act 1985 and have been prepared on the historical cost basis and comply with applicable United Kingdom Accounting Standards and law. The principal Company accounting policies have been applied consistently throughout the current and preceding years and are described below.

### Foreign currencies

Transactions in foreign currency are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates prevailing at that date. Any gain or loss arising from subsequent exchange rate movements is included as an exchange gain or loss in the profit and loss account.

### Share-based payments

The Company has adopted FRS 20 and the accounting policies followed are in all material respects the same as the Group's policy under IFRS 2. This policy is shown on page 69.

### Investments

Investments are stated at cost less provision for impairment.

### Fixed assets and depreciation

Fixed assets are stated at cost less provisions for impairment and depreciation which, with the exception of freehold land which is not depreciated, is provided on all fixed assets on the straight-line method, each item being written off over its estimated life. The principal annual rates used for this purpose are:

Freehold property	2%
Leasehold properties:	
Short leases (less than 50 years unexpired)	Period of lease
Plant, equipment and vehicles	8% to 20%

### Leases

The costs of operating leases of property and other assets are charged as incurred.

### Pensions

The Company makes contributions to defined contribution pension plans, which are charged against profits when they become payable. The Company also participates in a Group-wide defined benefit pension plan. This plan is operated on a basis that does not enable individual companies to identify their share of the underlying assets and liabilities, and in accordance with Financial Reporting Standard 17 the Company accounts for its contributions to the plan as if it was a defined contribution plan.

### Taxation

Taxation comprises current and deferred tax.

Current tax is the expected tax payable, on the taxable income for the year, using tax rates enacted, or substantially enacted, at the balance sheet date, and any adjustments to tax payable in respect of previous years.

The Company provides for tax deferred because of timing differences between profits as computed for taxation purposes and profits as stated in the accounts, on an undiscounted basis. Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax assets are only recognised if recovery is considered more likely than not on the basis of all available evidence.

### Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including direct issue costs, are accounted for on an accruals basis in profit or loss and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

## C2 Result for the year

As permitted by Section 230 of the Companies Act 1985, the Profit and Loss Account of Halma p.l.c. is not presented as part of these accounts. The Company has reported a loss after taxation of £1,733,000 (2008: profit of £49,119,000).

Auditors' remuneration for audit services to the Company was £88,000 (2008: £88,000).

Total employee costs (including Directors) were:

	2009 £000	2008 £000
Wages and salaries	3,097	3,095
Social security costs	531	511
Other pension costs	386	567
	<b>4,014</b>	<b>4,173</b>

	2009 Number	2008 Number
Number of employees	42	39

Details of Directors' remuneration are set out on pages 53 to 58 within the Remuneration Report and form part of these financial statements.

### C3 Fixed assets – tangible assets

	Land and buildings		Plant equipment and vehicles £000	Total £000
	Freehold properties £000	Short leases £000		
<b>Cost</b>				
At 29 March 2008	1,689	167	1,901	3,757
Reclassification	<b>91</b>	<b>(91)</b>	–	–
Additions at cost	–	–	<b>225</b>	<b>225</b>
Disposals	–	–	<b>(260)</b>	<b>(260)</b>
At 28 March 2009	<b>1,780</b>	<b>76</b>	<b>1,866</b>	<b>3,722</b>
<b>Accumulated depreciation</b>				
At 29 March 2008	335	76	1,120	1,531
Charge for the year	<b>21</b>	–	<b>264</b>	<b>285</b>
Disposals	–	–	<b>(180)</b>	<b>(180)</b>
At 28 March 2009	<b>356</b>	<b>76</b>	<b>1,204</b>	<b>1,636</b>
<b>Carrying amounts</b>				
At 28 March 2009	<b>1,424</b>	–	<b>662</b>	<b>2,086</b>
At 29 March 2008	1,354	91	781	2,226

### C4 Investments

Shares in Group companies

	2009 £000	2008 £000
At cost less amounts written off at beginning of year	<b>121,332</b>	115,023
(Reduction)/addition	<b>(1,015)</b>	6,309
At cost less amounts written off at end of year	<b>120,317</b>	121,332

The reduction in the current year related to downward revisions in the estimates of deferred purchase consideration payable in respect of acquisitions made in prior years. Additions in 2008 relate to the acquisition of Sonar Research & Development Limited, together with revisions to the estimate of deferred purchase consideration payable in respect of acquisitions made in prior years.

Details of principal subsidiary companies are set out on pages 98 and 99. All these subsidiaries are wholly owned subsidiaries of Halma p.l.c. and are incorporated in Great Britain, other than those listed below, where they principally operate. All of the companies' interests below are held by subsidiary companies.

Name of company	Country of incorporation
Fortress Interlocks Pty Limited	Australia
HF Sécurité S.A.S.	France
Hydreka S.A.S.	France
SERV Trayvou Interverrouillage S.A.S.	France
Apollo Gesellschaft für Meldetechnologie mbH	Germany
Rudolf Riester GmbH	Germany
Berson Milieutechniek B.V.	The Netherlands
Netherlocks Safety Systems B.V.	The Netherlands
Bureau D'Electronique Appliquée S.A.	Belgium
TL Jones Limited	New Zealand
E-Motive Display Pte Limited	Singapore
Halma Holdings Inc.	USA
Air Products and Controls Inc.	USA
Aquionics Inc.	USA
B.E.A. Inc.	USA
Bio-Chem Fluidics Inc.	USA
Diba Industries, Inc.	USA
Fiberguide Industries Inc.	USA
Janus Elevator Products Inc.	USA
Labsphere, Inc.	USA
Ocean Optics, Inc.	USA
Oklahoma Safety Equipment Co. Inc.	USA
Perma Pure LLC	USA
Volk Optical Inc.	USA

## Notes to the Company accounts (continued)

### C5 Debtors

	2009 £000	2008 £000
Amounts falling due within one year:		
Amounts due from Group companies	28,819	173,159
Other debtors	18	1,313
Prepayments and accrued income	1,795	2,719
Deferred tax asset (note C10)	477	–
	<b>31,109</b>	177,191

Amounts falling due after more than one year:

Amounts due from Group companies	106,630	–
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### C6 Borrowings

	2009 £000	2008 £000
Falling due within one year:		
Overdrafts	6,019	7,277
Falling due after more than one year:		
Unsecured bank loans	79,613	65,358
Total borrowings	<b>85,632</b>	72,635

The facility under which the bank loans are drawn expires within two to five years (2008: within two to five years) and at 28 March 2009 £85,387,000 (2008: £99,642,000) remained committed and undrawn.

The bank overdrafts, which are unsecured, at 28 March 2009 and 29 March 2008 were drawn on uncommitted facilities which all expire within one year, and were held pursuant to a Group pooling arrangement which offsets them against credit balances in subsidiary undertakings.

The Company is part of an arrangement between UK subsidiaries whereby overdraft facilities of £21,023,000 (2008: £19,658,000) are cross-guaranteed. Of these facilities £242,000 (2008: £73,000) was drawn.

### C7 Creditors: amounts falling due within one year

	2009 £000	2008 £000
Trade creditors	784	484
Amounts owing to Group companies	8,498	63,265
Other taxation and social security	977	1,314
Deferred purchase consideration	–	1,059
Other creditors	1,550	1,566
Accruals and deferred income	1,381	2,074
	<b>13,190</b>	69,762

### C8 Creditors: amounts falling due after more than one year

	2009 £000	2008 £000
Amounts owing to Group companies	33,094	–
Other creditors	385	2,849
	<b>33,479</b>	2,849

These liabilities fall due as follows:

Within one to two years	385	–
Within two to five years	–	2,849
After more than five years	33,094	–

### C9 Provisions for liabilities and charges

	2009 £000	2008 £000
Deferred tax (note C10)	–	370



## C10 Deferred tax

	2009 £000	2008 £000
Movement in deferred tax asset/(liability):		
At beginning of year	(370)	(72)
Credit/(charge) to profit and loss account	651	(161)
Credit/(charge) to reserves	196	(137)
At end of year (notes C5 and C9)	477	(370)

Deferred tax comprises short-term timing differences.

## C11 Share capital

	2009 £000	Authorised 2008 £000	Issued and fully paid 2009 £000	2008 £000
Ordinary shares of 10p each	43,656	43,656	37,539	37,446

The number of ordinary shares in issue at 28 March 2009 was 375,390,677 (2008: 374,458,498), including treasury shares of 1,274,108. Changes during the year in the issued ordinary share capital were as follows:

	Issued and fully paid £000
At 29 March 2008	37,446
Share options exercised	93
At 28 March 2009	37,539

The total consideration received in cash in respect of share options exercised amounted to £1,290,000. At the date of these accounts, the number of ordinary shares in issue was 375,413,293, including treasury shares of 1,438,837. Details of share options in issue on the Company's share capital and share-based payments are included in note 23 to the Group accounts.

## C12 Reserves

	Share premium account £000	Treasury shares £000	Capital redemption reserve £000	Non-distributable Other reserves £000	Distributable Total profit and loss account £000
At 29 March 2008	16,949	(3,292)	185	2,583	104,141
Loss transferred to reserves	-	-	-	-	(1,733)
Dividends paid	-	-	-	-	(28,785)
Issue of shares	1,197	-	-	-	-
Movement in other reserves	-	-	-	(583)	-
Treasury shares purchased	-	533	-	-	-
Deferred tax to equity	-	-	-	-	196
Prior years' exchange adjustment	-	-	-	-	5,307
At 28 March 2009	18,146	(2,759)	185	2,000	79,126

The prior years' exchange adjustment and loss transferred to the profit and loss account reserve include a £5,307,000 prior years' reclassification of foreign exchange losses that arose on inter-company loans. These exchange losses should have been recognised in the profit and loss account but were taken directly to the profit and loss account reserve. The adjustment has no effect on the brought forward and carried forward profit and loss account reserve. The current year's result, including the exchange adjustments relating to 2009, but excluding the £5,307,000 prior year reclassification, is a profit of £3,574,000.

The capital redemption reserve was created on repurchase and cancellation of the Company's own shares. The other reserves represent the provision being established in respect of the value of equity-settled share option plans and performance share plan awards made by the Company. Treasury shares are the Company's own shares purchased and held to fulfil its obligations under the performance share plan.

## C13 Reconciliation of movement in shareholders' funds

	2009 £000	2008 £000
At beginning of year	158,012	141,225
(Loss)/profit after taxation	(1,733)	49,119
Dividends paid	(28,785)	(27,329)
Exchange adjustments	5,307	(6,191)
Issue of shares	1,290	1,844
Treasury shares sold/(purchased)	533	(1,628)
Movement in other reserves	(583)	972
Deferred tax to equity	196	-
At end of year	134,237	158,012

# Summary 2000 to 2009

	UK GAAP 1999/00 £000	UK GAAP 2000/01 £000
Revenue (note 2)	233,485	268,322
Overseas sales (note 2)	150,727	181,831
Profit before taxation, acquired intangibles amortisation and goodwill written off (note 3)	43,751	49,698
Net tangible assets/capital employed	89,755	99,991
Borrowings	14,700	7,758
Cash and cash equivalents	21,900	21,484
Employees (note 2)	2,975	3,059
Earnings per ordinary share (note 2)	6.08p	8.91p
Adjusted earnings per ordinary share (note 3)	8.41p	9.34p
Year on year increase/(decrease) in adjusted earnings per ordinary share	5.3%	11.1%
Return on sales (notes 2 and 4)	18.7%	18.5%
Return on capital employed (note 5)	44.7%	48.4%
Year on year increase in dividends per ordinary share	20%	15%
Ordinary share price at financial year end	95p	129p
Market capitalisation at financial year end	£340.1m	£465.7m

## Notes:

1. The amounts disclosed for periods up to and including 2003/04 are stated on the basis of UK GAAP, as it is not practicable to restate amounts prior to the date of transition to IFRS.
2. Continuing and discontinued operations.
3. Adjusted to remove amortisation of goodwill and acquired intangible assets. IFRS figures include results of discontinued operations up to the date of their sales or closure but exclude profit on sale or closure.
4. Return on sales is defined as profit before taxation, goodwill/acquired intangible asset amortisation and exceptional items expressed as a percentage of revenue.
5. Return on capital employed is defined in note 3 to the accounts.
6. UK GAAP figures prior to 2000/01 have not been restated for the adoption of FRS 19 (Deferred Taxation).

UK GAAP 2001/02 £000	UK GAAP 2002/03 £000	UK GAAP 2003/04 £000	UK GAAP 2004/05 £000	IFRS 2004/05 £000	IFRS 2005/06 £000	IFRS 2006/07 £000	IFRS 2007/08 £000	IFRS 2008/09 £000
267,597	267,293	292,640	299,119	299,119	337,348	354,606	397,955	<b>455,928</b>
183,259	188,161	206,102	218,745	218,745	249,055	258,050	288,701	<b>351,522</b>
48,255	46,508	50,284	50,389	49,912	59,641	66,091	73,215	<b>79,087</b>
117,515	86,854	95,935	80,750	104,417	105,396	113,048	134,320	<b>173,128</b>
15,047	27,667	26,934	33,344	33,344	32,308	29,762	72,393	<b>86,173</b>
45,657	27,574	48,482	45,348	45,348	35,826	22,051	28,118	<b>34,987</b>
2,859	2,793	2,925	3,002	3,002	3,187	3,326	3,683	<b>4,018</b>
8.58p	7.76p	6.09p	7.97p	9.38p	11.08p	11.86p	13.49p	<b>14.07p</b>
9.10p	8.55p	9.44p	9.42p	9.45p	11.27p	12.42p	13.86p	<b>15.30p</b>
(2.6%)	(6.0%)	10.4%	(0.2%)	N/A	19.3%	10.9%	11.5%	<b>10.4%</b>
18.0%	17.4%	17.2%	16.8%	16.7%	17.7%	18.6%	18.4%	<b>17.3%</b>
45.7%	41.7%	50.5%	52.1%	48.8%	56.9%	60.1%	55.8%	<b>47.7%</b>
15%	10%	7%	5%	5%	5%	5%	5%	<b>5%</b>
164p	114p	149p	161p	161p	188p	220p	192p	<b>156p</b>
£598.2m	£416.7m	£546.5m	£593.8m	£593.8m	£693.4m	£821.8m	£717.7m	<b>£583.7m</b>

# Halma group directory

	Main products
Air Products and Controls Inc.	Duct detectors and control relays for smoke control systems
Apollo Fire Detectors Limited	Smoke and heat detectors, sounders, beacons and interfaces
Apollo Gesellschaft für Meldetechnologie mbH	Smoke and heat detectors, sounders, beacons and interfaces
Aquionics Inc.	Ultraviolet light equipment for water treatment
Berson Milieutechniek B.V.	Ultraviolet light equipment for treating drinking water, waste water and water reuse applications
Bio-Chem Fluidics Inc.	Miniature valves, micro pumps and fluid components for medical, life science and scientific instruments
Bureau D'Electronique Appliquée S.A.	Sensors for automatic doors
Castell Safety International Limited	Safety systems for controlling hazardous industrial processes
Crowcon Detection Instruments Limited	Gas detection instruments for personnel and plant safety
Diba Industries, Inc.	Specialised components and complete fluid transfer subassemblies for medical, life science and scientific instruments
Elfab Limited	Pressure sensitive relief devices to protect process plant
Fiberguide Industries, Inc.	Optical fibre cables and assemblies
Fire Fighting Enterprises Limited	Beam smoke detectors and specialist fire extinguishing systems
Fortress Interlocks Limited	Safety systems for controlling access to dangerous machines
Halma Holdings Inc.	Halma Group North American Head Office
Halma International Limited Shanghai Representative Office	Halma China hub
Halma Trading and Services India Pvt Ltd	Halma India hub
Hanovia Limited	Ultraviolet light equipment for treating water used in the manufacture of food, drinks, pharmaceuticals and electronic components
Hydreka S.A.S.	Equipment and software for flow analysis of water and sewerage systems and leak detection systems
Janus Elevator Products Inc.	Elevator safety components including fixtures, displays, door systems and emergency communications
Keeler Limited	Ophthalmic instruments for diagnostic assessment of eye conditions
Klaxon Signals Limited	Audio/visual warning systems for fire and industrial security
Labsphere, Inc.	Light testing and measurement products and specialised optical coatings
Memco Limited	Infrared safety systems for elevator doors and elevator emergency communications
Netherlocks Safety Systems B.V.	Process safety systems for petrochemical and industrial applications
Ocean Optics, Inc.	Miniature fibre optic spectrometers for consumer electronics, process control, environmental monitoring, life sciences and medical diagnostics
Ocean Thin Films, Inc.	Dichroic optical filters and precision optics for scientific, defence, metrology and entertainment applications
Oklahoma Safety Equipment Co. Inc.	Pressure sensitive relief devices to protect process plant
Palintest Limited	Instruments for analysing water and measuring environmental pollution
Palmer Environmental Limited	Instrumentation for recording data, and quantifying, detecting and controlling leakage in underground water pipelines
Perma Pure LLC	Gas dryers and humidifiers for fuel cell, medical, scientific and industrial use
Radio-Tech Limited	Wireless radio technology for smart meters, intelligent street lighting, legionella monitoring and rail temperature monitoring
Rudolf Riester GmbH	Diagnostic medical devices for ophthalmology, blood pressure measurement and ear, nose and throat diagnostics
SERV Trayvou Interferrouillage S.A.S.	Safety systems for controlling access to dangerous machines
Smith Flow Control Limited	Process safety systems for petrochemical and industrial applications
Texecom Limited	Security alarm products
TL Jones Asia Pacific Limited	Elevator infrared safety systems, emergency communications and electronic information displays for passengers
Tritech International Limited	Underwater equipment for pipeline leak detection, infrastructure maintenance, construction and security
Volk Optical Inc.	Ophthalmic equipment and lenses as aids to diagnosis and surgery
Volumatic Limited	Cash handling and security from point of sale to cash centre

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# Shareholder information and advisers

## Financial calendar

2008/09 Interim results	27 November 2008
2008/09 Interim dividend paid	4 February 2009
Interim management statement	12 February 2009
2008/09 Preliminary results	16 June 2009
2008/09 Report and accounts issued	29 June 2009
Annual general meeting and Interim management statement	30 July 2009
2008/09 Final dividend payable	19 August 2009
2009/10 Interim results	3 December 2009
2009/10 Interim dividend payable	February 2010
Interim management statement	February 2010
2009/10 Preliminary results	22 June 2010

## Analysis of shareholders at 21 May 2009

Number of shares held	Shareholders Number	%	Shares Number	%
1 – 7,500	5,352	81.4	10,362,007	2.8
7,501 – 25,000	654	9.9	8,605,603	2.3
25,001 – 100,000	316	4.8	16,154,683	4.3
100,001 – 750,000	177	2.7	48,827,225	13.0
750,001 and over	81	1.2	291,463,775	77.6
	6,580	100.0	375,413,293	100.0

## Share price

London Stock Exchange, pence per 10p share

	2009	2008	2007	2006	2005
Highest	222	246	240	194	170
Lowest	143	182	172	139	142
Year end	156	192	220	188	161

## Dividends

Pence per 10p share

	2009	2008	2007	2006	2005
Interim	3.15	3.00	2.85	2.71	2.58
Final	4.78*	4.55	4.33	4.12	3.92
Total	7.93	7.55	7.18	6.83	6.50

\* proposed

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#### Investor information

Visit our website, [www.halma.com](http://www.halma.com), for investor information and company news. In addition to accessing financial data, you can view and download Annual and Half year reports, analyst presentations, find contact details for Halma senior executives and subsidiary companies and access links to Halma subsidiary websites.

#### E-mail news alert

You can subscribe to an e-mail alert service on our website, [www.halma.com](http://www.halma.com), to automatically receive an e-mail when significant announcements are made.

#### Shareholding information

Please contact our registrars directly for all enquiries about your shareholding. Visit their Investor Centre website for online information about your shareholding (you will need your shareholder reference number which can be found on your share certificate or dividend tax voucher), or telephone the Registrars direct using the dedicated telephone number for Halma shareholders (+44 (0)870 707 1046).

#### Dividend reinvestment plan

The Company operates a dividend reinvestment plan ('DRIP') which offers shareholders the opportunity to use their cash dividends to buy new shares in Halma. You can register for the DRIP online by visiting Computershare's Investor Centre website as above or by requesting an application form direct from Computershare.

#### Electronic communications

All shareholder communications, including the Company's Annual report and accounts, are made available on the Halma website. You may opt to receive e-mail notification that documents and information are available to view and download. If you would like to sign up for this service, visit Computershare's Investor Centre website, selecting 'Electronic Shareholder Communications' and follow the registration process.

#### Share dealing facilities

A low cost telephone dealing service has been arranged with Stocktrade which provides a simple way for buying or selling Halma shares. Basic commission is 0.5% up to £10,000, reducing to 0.2% thereafter (subject to a minimum commission of £15). For further information please call 0845 601 0995 and quote reference Low Co0198.

#### Annual general meeting

The 115th Annual general meeting of Halma p.l.c. will be held in the Ballroom, at the Millennium Hotel London Mayfair, 44 Grosvenor Square, London W1K 2HP on Thursday, 30 July 2009 at 12 noon.

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