

SECTOR REVIEW

HEALTH AND ANALYSIS

We make products used to improve personal and public health. We develop technologies for analysis in safety, life sciences and environmental markets.

Performance

KPIs	Sector performance	Group target	Target met
Revenue growth ¹	16.2%	>5%	✓
Profit growth ¹	25.5%	>5%	✓
Return on Sales ²	22.8%	>18%	✓
ROCE ³	89.1%	>45%	✓
R&D % of Revenue ⁴	5.1%	>4%	✓

Contribution to Group

£m	2012	2011	2010	2009	2008
Revenue	254	218	178	167	137
Profit	58	46	35	29	28

¹ Sector revenue and adjusted⁵ sector profit before finance expense are compared to the equivalent prior year figure.

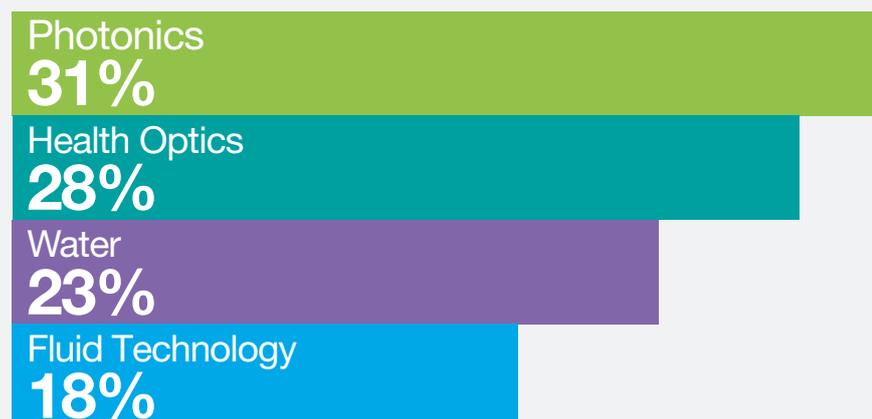
² Return on Sales is defined as adjusted⁵ profit before finance expense and taxation expressed as a percentage of sector revenue.

³ Adjusted⁵ sector profit before finance expense expressed as a percentage of sector operating net assets.

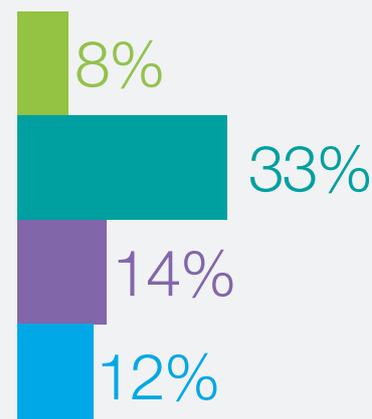
⁴ Sector research and development expenditure expressed as a percentage of sector revenue.

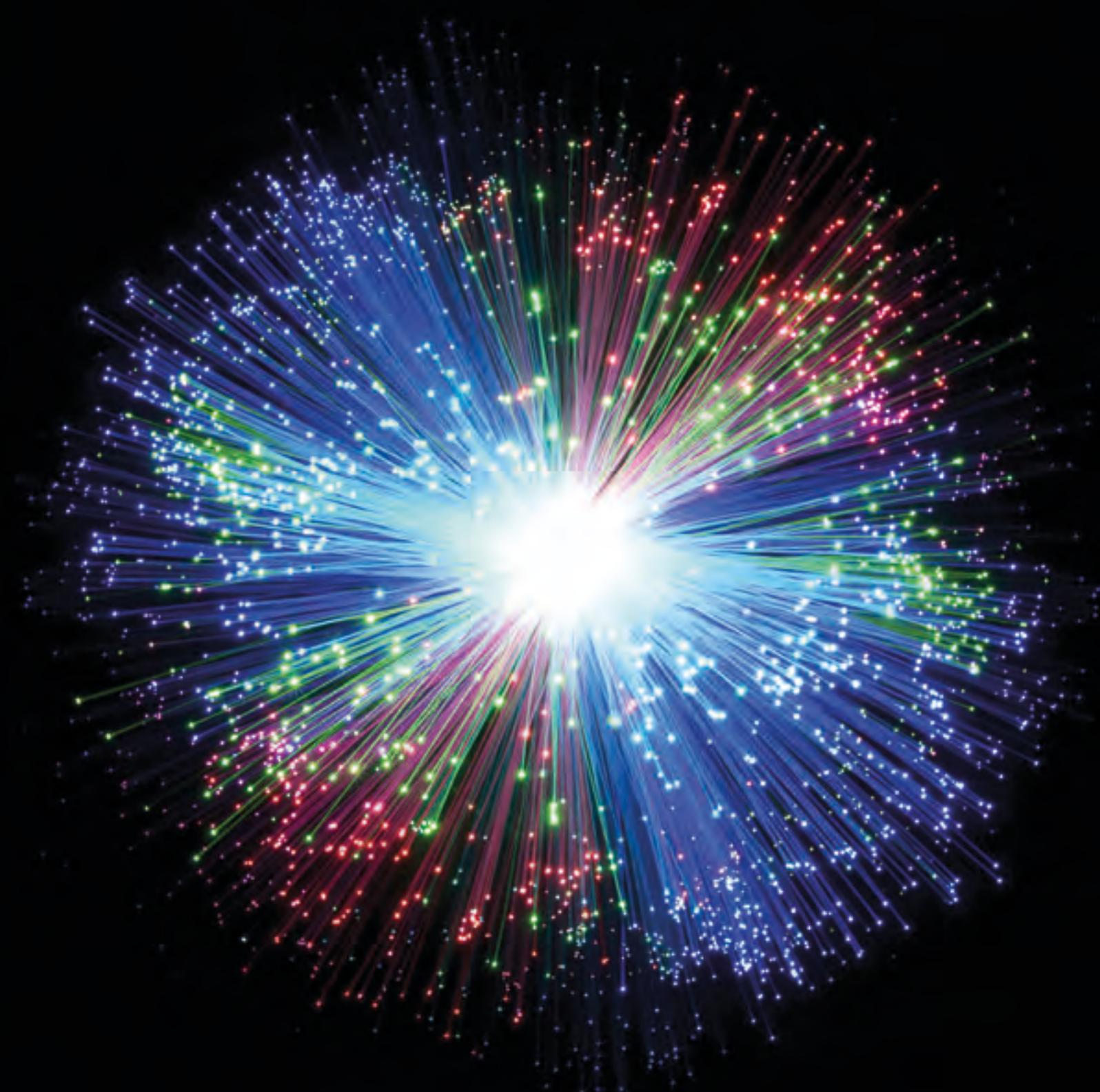
⁵ Adjusted to remove the amortisation of acquired intangible assets, acquisition transaction costs and movement on contingent consideration.

Sub-sector revenue split



Growth rate







Coated optical filter
Ocean Thin Films

Photonics

Market leading opto-electronic technology for scientific, medical and environmental applications.

Market trends and growth drivers

Worldwide demand varied in our Photonics niches during 2011/12 but long-term growth prospects continue to be good. Asia is the key geographic growth area, with medical, biotechnology and industrial applications being the brightest prospects though overcapacity among LED manufacturers slowed growth in the first half of the year, but a change in focus towards the applied LED market delivered improvement in the second half. Our Photonics end-markets are very broad, providing a broad application base and global reach that creates overall resilience despite temporary local market changes.

Strategy

Our primary Photonics strategy is to continue to strengthen technological leadership in our niche markets and expand geographical sales outside our traditional strongholds in the USA and Europe. Our emerging market emphasis remains on Asia but with increasing focus on Latin America. We will continue to expand sales, technical support, manufacturing and logistics to serve the Asian market. High R&D investment is required to maintain market leadership in advanced technologies. While development risks can be relatively high, we often achieve rapid payback from technological innovation. Our strategy has expanded towards building systems and solutions from easily configured base capabilities.

Performance

The benefits of a continued high level of investment in R&D and international expansion helped to deliver record revenue and profit in Photonics. Avo Photonics, acquired in July 2011, is already collaborating with our other Photonics businesses in developing novel products.

Outlook

We anticipate growth for Photonics for the coming year driven by market growth (particularly from OEM customers) and new market-leading products. Modest growth is expected in North America, but demand in Asia should rise. We also expect to grow business in South America. We expect to benefit significantly from the global transition to LED solid state lighting. The acquisition of Avo Photonics has increased our micro electro-optic capability.



31%

% of sector revenue

Health Optics

Devices used to assess eye health, diagnose disease, assist with eye surgery and for general medical applications.

Market trends and growth drivers

New diagnostic and therapeutic technologies, ageing populations, increasing life expectancy and greater access to healthcare (in developing economies) drive growth in our Health Optics markets. The market for medical devices is heavily regulated. Compliance with product certifications continues to become more administratively complex and costly. The stringent regulatory environment creates a strong barrier for new market entrants and enhances the value of our well-established sales channels.

Strategy

Geographic expansion, particularly in Asia and Latin America, remains the focus of our Health Optics growth strategy. We will continue to strengthen our sales and support teams in emerging markets and aim to begin manufacture of ophthalmic products in China and Brazil for their local markets during the next year. We will also increase collaborative product development. During 2011/12 two subsidiaries, Riester and Keeler, launched a jointly-developed line of ophthalmic diagnostic products which will be taken to market through their separate sales channels to general medical and ophthalmology, respectively.

Recently acquired Accutome and SunTech extend our capabilities in both surgical/diagnostic ophthalmic products and blood pressure monitoring, adding new technologies which complement those of other Halma businesses.

Performance

In Health Optics we again achieved record revenue and profits. Mediceal, acquired in 2011, exceeded expectations as the market continued to convert to its single-use cataract surgery devices.

Outlook

We expect our Health Optics businesses to continue to outperform global market growth rates through faster growth in developing markets, enhanced distribution and the contribution from new products introduced in 2012/13. We will receive official registration in 2013 for our São Paulo, Brazil office which will reduce import duties and assist in product registration and distribution.



28%

% of sector revenue



Portable slit lamp for eye examinations
Keeler



Water leak locator
HWM-Water

Water

Products to monitor and find leaks in water networks; UV technology for disinfecting water; and water quality testing products.

Market trends and growth drivers

Global demand for water treatment products is forecast to rise at over 6% per year until 2015, with growth of 8% in Asia. China is the second largest water treatment market in the world and is expected to remain the fastest growing major market. In emerging countries, growth drivers will be industrialisation, sanitation improvements and compliance with international wastewater discharge standards. Growth in developed markets will be driven by increased water reuse, drinking water quality improvements and environmental protection. Strong, legislation-driven growth in industrial applications is anticipated but demand from municipal customers is expected to remain slow.

Strategy

Our market positions in Water will be strengthened by continued technological innovation, market leading customer service and by further development of geographic sales channels.

We aim to maintain world leadership in water leakage control instrumentation and increase market share in both drinking water and waste water network management systems. In water treatment, we plan to grow market share in water and environmental analysis products and in UV water disinfection systems for municipal, industrial and aquatic applications. Recently acquired photochemical sensor specialist Sensorex strengthens our presence in the US market significantly and adds new

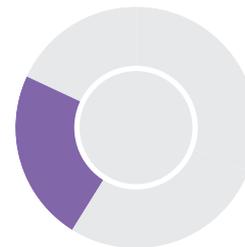
sensor technologies which complement those of other Group businesses.

Performance

Continued investment in R&D, people development and export sales resources led to substantial profit growth. Our Water businesses increased sales in China by 63%.

Outlook

New market-leading products are expected to boost sales growth in 2012/13. Water sector sales growth in Asia should accelerate, supported by investment in regional sales resources and the continuous stimulus of regulation.



23%
% of sector revenue

Fluid Technology

Critical components such as pumps, probes, valves, connectors and gas conditioning products used by scientific, environmental and medical diagnostic OEMs for demanding applications.

Market trends and growth drivers

Growth drivers for fluid technology markets remain strong, with rising demand for healthcare and improving standards of living around the world. We see good long-term growth prospects across all fluid technology markets, particularly in medical diagnostics and environmental monitoring.

Consolidation among instrument makers, relocation of OEM customers' manufacturing to low cost regions and continued price pressure are the key challenges facing our companies.

Strategy

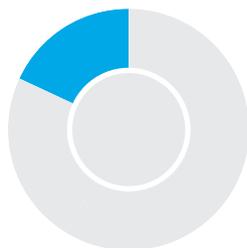
Customer diversification, both geographically and by markets served, is our primary strategy to stimulate growth and resilience. Our focus is on emerging niches, such as molecular diagnostics and genomics, where we will develop higher value-added products for customers. We will reflect our customers' manufacturing strategy by increasing non-US production and expanding manufacturing in China.

Performance

Our Fluid Technology businesses achieved revenue growth but profit was slightly lower than last year. Major customer consolidation adversely affected results in many companies, including Accudynamics acquired in 2010.

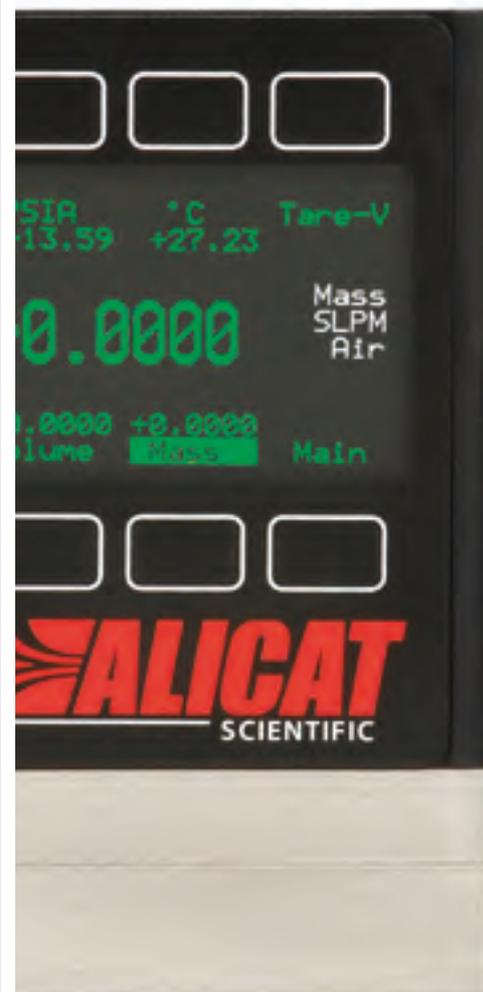
Outlook

Extra investment in R&D will deliver significant new products in 2012/13. Our own international expansion and the growing global medical diagnostic market should underpin a continuing shift away from the predominance of the US market. We anticipate a return to profit growth in 2012/13.



18%

% of sector revenue



Mass flow meter
Alicat Scientific

“DataGate is a breakthrough data management system. It leapfrogged the competition and set new standards in every key performance area. Customers liked the benefits and we have won a series of big contracts with the new technology. The R&D investment has paid off, exposing us to new markets such as commercial water, gas and electricity meter data-logging.”

HWM-Water



Innovation in action

DataGate is a web-based data handling system that lets utilities, such as water companies, collect, analyse and view enormous quantities of data generated by monitoring devices that control the safety and efficiency of their systems. Data is collected using standard text and cell phone technology and customers can keep track of their system's status using any web-enabled device.

Sector revenue

£254m +16%

Sector profit

£58m +25%

Global operations

**Sector growth drivers**

- Increasing health and safety regulation
- Increasing demand for healthcare
- Increasing demand for energy and water

Strategic summary**Achievements**

- Record revenue and profit
- 29% revenue growth in China
- Acquisition of Avo Photonics; disposal of Volumatic (non-core business)
- Integration of Radio-Tech with HWM-Water
- New Health Optics company established in Brazil
- New UV product launched for China
- Minority investment in new ophthalmic imaging technology company, Optomed

Directions

- Sustain high organic growth
- Expansion in Asia and South America
- Acquisitions that broaden our technology and geographic scope
- Local manufacture in emerging markets
- Disruptive new technology
- Maintain R&D investment at least 5% of revenue