

Halma plc
Annual Report
and Accounts 2020



Halma

Our purpose
is to grow a
**safer, cleaner,
healthier** future
for everyone,
every day.

Halma is a global group of life-saving technology companies. Our companies provide innovative solutions to many of the key problems facing the world today.

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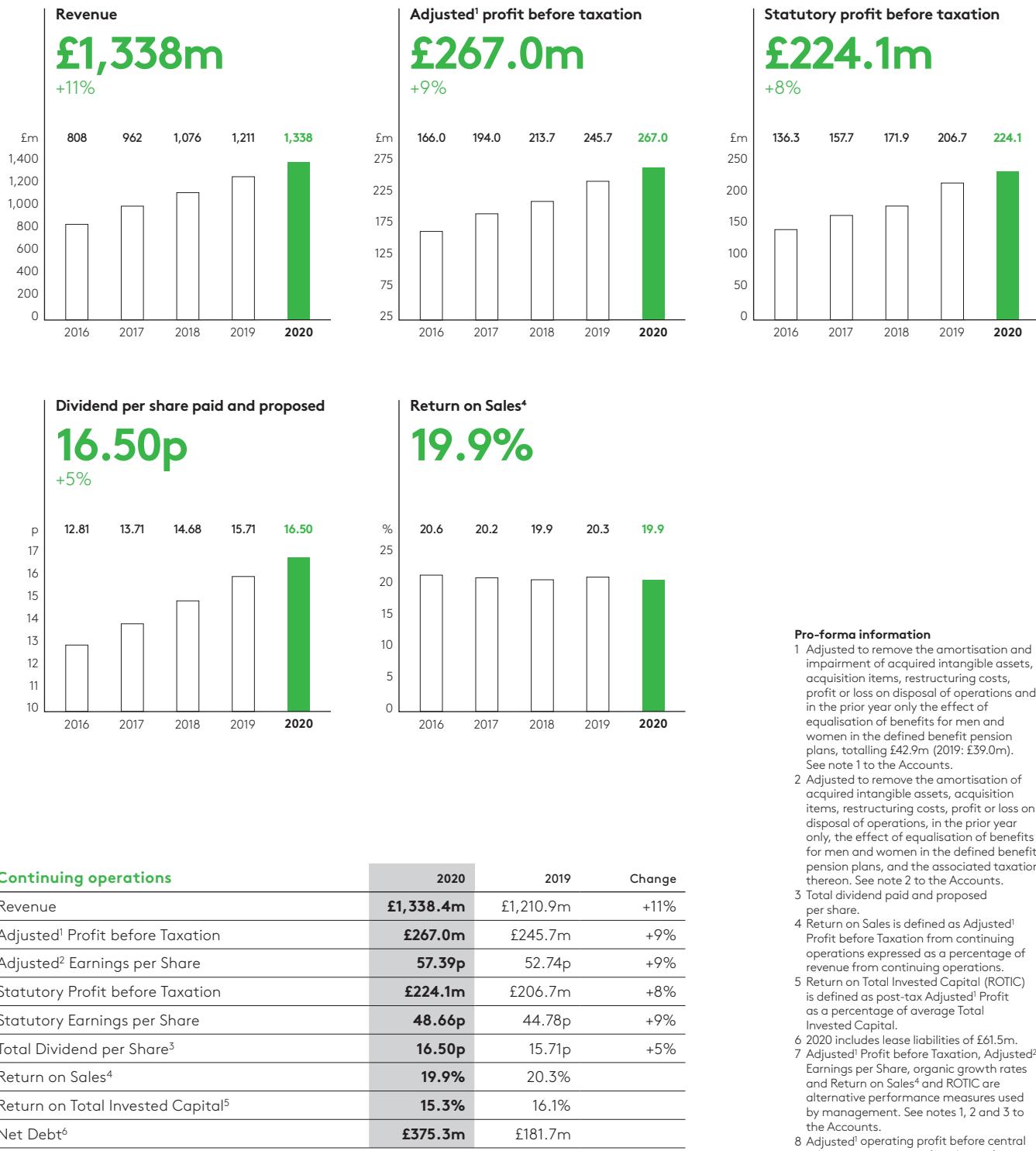
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Highlights



At a glance

Our sectors

Process Safety

Protecting people and assets at work across a range of critical industrial and logistics operations.

Process Safety's technologies prevent accidents and ensure critical processes operate safely by detecting hazardous gases, analysing air quality and managing the movement of people in high risk areas. It protects pressurised vessels and pipework through its explosion protection devices and systems and safeguards people and processes with its real-time corrosion monitoring and valve interlocking systems.

[Read more on page 30](#)

Revenue

£200m

15% of Group revenue

Adjusted¹ operating profit⁸

£44m

14% of Adjusted¹ operating profit⁸

Infrastructure Safety

Protecting people, property and assets and enabling safe movement in public spaces.

Infrastructure Safety's technologies protect people, property and assets with fire detection and suppression systems, ensure the security of commercial, residential and public buildings, and make elevators smarter, simpler and safer with safety and communications systems and components. Its sensors automate doors in public, commercial and industrial buildings, and its advanced radar technology makes highways and airports safer and more efficient.

[Read more on page 32](#)

Revenue

£467m

35% of Group revenue

Adjusted¹ operating profit⁸

£108m

35% of Adjusted¹ operating profit⁸

Environmental & Analysis

Monitoring and protecting the environment, ensuring the quality and availability of life-critical resources, and using optical and imaging technology in materials analysis.

Environmental & Analysis' technologies include environmental data recording, water quality testing, water network monitoring and ultraviolet treatment, helping to monitor and improve the quality of drinking, industrial and recreational water, and to monitor air and water pollution and analyse gases. Its optical, opto-electronic and spectral imaging systems use light to analyse materials across a broad range of applications and industries.

[Read more on page 34](#)

Revenue

£325m

24% of Group revenue

Adjusted¹ operating profit⁸

£69m

23% of Adjusted¹ operating profit⁸

Medical

Enhancing the quality of life for patients and improving the quality of care delivered by healthcare providers.

Medical's technologies enable health assessment across the continuum of care and treatment in clinical specialties. They assess eye health, monitor vital signs, and assist with surgery. Its components are used by medical diagnostic OEMs and laboratories in fluidic handling applications, enabling in-vitro diagnostics and life-science developments. Its sensor technologies are used in hospitals and healthcare facilities to improve care quality, safety, hygiene and operational efficiency.

[Read more on page 36](#)

Revenue

£347m

26% of Group revenue

Adjusted¹ operating profit⁸

£84m

28% of Adjusted¹ operating profit⁸

Revenue by destination

20+

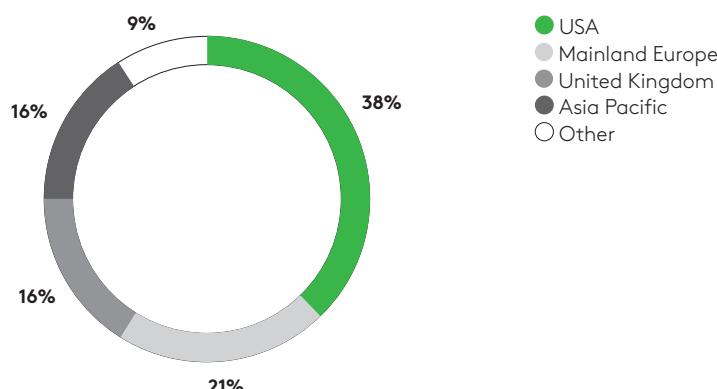
Countries with a Halma company presence

4

International hubs in the USA, the UK, India and China

100+

Companies with customers



Chairman's statement

"Our colleagues across the Group have shown immense dedication in these difficult circumstances to support the communities and customers that they serve."

Paul Walker
Chairman

As the world adjusts to life in a COVID-19 environment, I reflect on the past financial year with mixed feelings. This global health crisis has seen suffering and hardship for many people and has put considerable strain on governments, healthcare providers and many businesses. It seems likely that we will have to contend with its economic consequences for some time to come, while adapting to potentially significant changes in the ways we live and work and possible longer-term consequences on human health.

Despite this, the spirit of collective purpose in the fight against this pandemic has been remarkable within our communities and our healthcare systems, and not least within Halma's companies. Our colleagues across the Group have shown immense dedication and I would like to thank them all for their hard work, in these difficult circumstances, in supporting the communities and customers that we serve. I am really proud of what our companies have achieved, particularly in recent months, in keeping our operations running to provide the life-sustaining equipment needed by healthcare providers and the products and services required to keep essential infrastructure safe and operational.

At this time of global crisis, Halma has benefited from the clarity of our purpose, the resilience of our business model, and our financial strength. Living our purpose, culture and values has never been more important and it has been great to see how our colleagues have continued to work with integrity, compassion and drive to ensure that we grow a safer, cleaner, healthier future for everyone, every day. In doing so, they have been able to leverage our inherent agility and adaptability to continue to serve our customers' changing needs and to preserve our robust financial position. This solid foundation should enable us to emerge from this crisis in a position of strength and to benefit from the sustainable growth drivers in our markets over the longer term.

Revenue and Profit growth, Dividend increased

We delivered a good set of results, with revenue and profit increasing over the prior year, despite the impact of COVID-19 on the final quarter of the year. We had a record year for acquisitions – adding 10 new businesses across all four sectors bringing new capabilities and market opportunities to the Group. Organic constant currency revenue growth was in line with our KPI at 5%, and organic profit growth of 2%, while below our 5% KPI, included provisions of £5m for the increased potential of customer bad debts as a result of the COVID-19 pandemic.

Our financial position remains strong and we do not intend to utilise the UK Government's Covid Corporate Financing Facility or claim for our UK furloughed employees under the Coronavirus Job Retention Scheme. Despite a more uncertain outlook for the year ahead, the Group's robust financial position and trading since the year end has enabled the Board to recommend an increase in the final dividend by 3.8% to 9.96p per share, which is subject to shareholder approval at the Annual General Meeting. Together with the 6.54p per share interim dividend, this would result in a total dividend for the year of 16.50p, an increase of 5%.

Talent, culture and diversity

Our constant drive to recruit and develop exceptionally talented people across our business has helped us to navigate the issues that have arisen over the past year. This is enhanced by our collaborative, purpose-driven approach and the common set of cultural values which are encapsulated in Halma's DNA. One of Halma's great attributes is the ability to enable people to bring their true self to work – a culture that values diversity and inclusion throughout the Group. The Board continues to focus on increasing diversity in all its forms and is encouraged by the improving gender balance across senior management. This initiative has been highly successful at the highest level, with 45% of the Executive Board and 40% of the main Board being female as at the year end. We have also made significant progress on gender diversity within our sector boards, the level below the Executive Board, and are now working to improve both gender and ethnic diversity across all levels.

I am pleased that, once again, our Employee Engagement Survey has shown a high employee response level, and most importantly, a high level of employee engagement across the Group. The Board regularly monitors the Company culture and seeks opportunities to engage with the wider workforce throughout the year, details of which are set out in the Governance Report.

Sustainability

Halma has a clear purpose, and integral to delivering it is being a socially responsible company which demonstrates strong ethical behaviour within a framework of transparent and robust governance. These attributes are well-embedded within our organisation and are closely monitored by the Board. I am very pleased that our achievements have been recognised, for example by an improvement this year in our CDP Climate Change rating to B (Management) and our continued membership of the FTSE4Good Index.

In last year's Annual Report, we selected four of the UN Sustainable Development Goals to be the focus of our sustainability initiatives – being the areas where Halma could have the most impact. We made progress in the year in supporting each of these goals, as well as in other aspects of sustainability, such as reducing our environmental impact, risk-assessing modern slavery risks in our supply chain, and enhancing our sustainability disclosure and reporting. Our desire to set a long-term carbon reduction target based on climate science has been delayed, due to the focus of our businesses on COVID-19-related matters, but we intend to continue to work with our external consultants to implement a Science-Based Target in the coming year.

Last year, we completed Halma's first global charitable campaign – Gift of Sight. This group-wide initiative delivered equipment to medical teams in Ghana in order for them to perform sight-restoration surgery in the local community. The campaign not only raised over US\$200,000 for the Himalayan Cataract Project but also engaged and helped employees across the Group, with over 3,000 of them undergoing eye health screenings. Halma invited employees from the five companies that completed the most screenings to visit Ghana to see the remarkable work undertaken by the medical team, who restored the sight of over 700 people in just one week while they were there.

Corporate Governance

The UK Corporate Governance Code 2018 first applied to Halma for the year ended 31 March 2020 although the Board began aligning to many of the new provisions last year. Steps were taken to further the Board's engagement with the workforce, to monitor culture and consider all stakeholders in its decision-making process. Halma has complied with the provisions of the Code, other than certain aspects relating to remuneration, which will be addressed as part of the remuneration policy update that will be put to shareholders at the AGM in 2021. Further details of our plan in these areas are set out in the Remuneration Report.

You will also notice that the COVID-19 pandemic has impacted our Annual Report production this year. Due to remote working during the lockdown, reduced resources across our business and externally and in order to minimise costs, we took the decision early on to take a compliance-only approach this year. Therefore, while our narrative is comprehensive and complies with the latest reporting requirements this year's Report has minimal design and photo elements and no case studies.

Our Annual General Meeting (AGM) is also impacted and will be held as a closed meeting, with shareholders prohibited from attending, due to the current restrictions on public gatherings and the need to observe social distancing measures. We recognise the importance of the shareholder voice and have made arrangements for shareholders to submit questions in advance of the AGM by email and we will publish responses to questions received on our website.

The year ahead

Our focus in the year ahead will be to ensure Halma's long-term sustainability as we continue to adapt to the challenges and opportunities of the COVID-19 environment. Our priorities will be: the health and wellbeing of our employees; ensuring safe working practices; supporting our communities and the evolving needs of our customers and suppliers; and preserving our financial strength so that we are well-placed to benefit from new opportunities for products, services or market applications, as they arise.

Although we expect the year ahead to be challenging, we have an agile business model and disciplined focus on critical safety, health, and environmental market niches, combined with a robust financial position. These strategic attributes should enable us to deliver a resilient performance in the shorter term and to benefit from the opportunities that our markets offer over the medium and longer term.

Finally, may I wish all of our stakeholders and your families a safe and healthy future.

Paul Walker
Chairman

Group Chief Executive's review

"Halma's flexible and agile organisation means we are able to rapidly evolve and adapt to the changing needs of our customers."

Andrew Williams
Group Chief Executive

Halma's purpose is to grow a safer, cleaner, healthier future, for everyone, every day. We play a positive role in society by addressing some of the world's most fundamental needs and challenges, from safer work and public spaces, to a cleaner, more sustainable environment, and improved medical care.

We have a clear and sustainable growth strategy, with a disciplined approach to choosing the markets in which we invest. This is supported by a flexible and agile organisation which means we can rapidly evolve and adapt to the changing needs of our customers. We attract talented people, who are aligned with our purpose, share our values and fit well into our inclusive culture of collaboration, entrepreneurialism and integrity.

These elements have supported our further progress in the year, and particularly in our response to COVID-19 which emerged in the final quarter. Importantly, I also believe that they have become increasingly vital in positioning Halma to meet the new challenges and opportunities which are emerging, as we continue to create value for all our stakeholders.

Halma has a long track record of successfully adapting to societal shifts and evolving markets. Increased awareness of the profound and global nature of the challenges we all face, whether specifically from the COVID-19 pandemic or longer-term trends such as climate change and growing, ageing and urbanising populations, has further reinforced the importance of our purpose, as well as our business model which can adapt swiftly to changing market needs. In recent years, we have also been increasing our organic and inorganic investment in digital technologies, which is likely to be accelerated further in the future.

In recent months, our focus has been the safety and well-being of all our stakeholders, and I am proud of the way in which everyone at Halma has addressed the challenges they have faced, both personally and professionally. They have ensured the continued supply of life-critical products to our customers, contributed directly and indirectly to the global fight against COVID-19, while protecting the health and safety of their colleagues and communities. I would like to thank them all for their hard work, dedication and determination in such challenging circumstances.

In this review, I will first look back at Halma's performance during the last financial year and then take a deeper dive into our response to the COVID-19 pandemic, our performance since the year end and our prospects for the future.

Review of the 2019/2020 financial year

Record revenue and profit with strong returns

We delivered another record year for revenue and profit driven by solid organic growth and a record year for acquisitions.

Revenue increased by 11% to £1,338m (2019: £1,211m), including 5% organic constant currency revenue growth and a contribution from acquisitions of 5% (4% net of disposals). There was a benefit to revenue growth of 2% from currency translation, which principally arose in the first half of the year. We estimate that the adverse impact of COVID-19 during the final quarter was a reduction of approximately 1% on full year revenue.

Adjusted¹ profit rose by 9% to £267.0m (2019: £245.7m). This comprised 2% organic constant currency growth, or 4% excluding £5.0m of bad debt provisions in the second half of the year given the possible impacts of COVID-19. There was a 5% contribution from acquisitions (also 5% net of disposals) and a 2% benefit from currency translation.

Statutory profit before taxation increased by 8% to £224.1m (2019: £206.7m).

Returns remained at a high level. Return on Sales¹ was 19.9% (2019: 20.3%), within our target range of 18% – 22%. The post-tax Return on Total Invested Capital¹ was 15.3% (2019: 16.1%), well above our estimated Weighted Average Cost of Capital of 7.7%. This slight reduction reflected a lower level of constant currency earnings growth than in the prior year, the increase in provisions, and also the weakening of Sterling against foreign currencies, which has a greater proportional effect on capital employed than on returns.

We completed a record 10 acquisitions during the year spread across all four sectors. Annualised profit growth acquired equated to around 6% of Halma's earnings, ahead of our KPI of acquiring growth of 5% or more. This reflected our investment in increased M&A capability at the sector and company level in recent years.

Strong cash generation and robust balance sheet and liquidity

Cash generation was strong with cash conversion of 97% (2019: 88%). This excellent performance was primarily driven by good working capital control, and by the positive effects on cash conversion of the implementation of IFRS 16, the leasing accounting standard (a 5% benefit), and the increase in provisions (a 2% benefit).

The year ended with net debt of £375.3m, which included for the first time £61.5m of lease liabilities as a result of the implementation of IFRS 16. Excluding these lease liabilities, net debt increased to £313.8m (2019: £181.7m), after spending £242.6m on current year acquisitions (2019: £68.1m) and £32.3m on capital expenditure, as well as paying dividends to shareholders of £61.2m and tax of £52.4m.

Our balance sheet and liquidity position remain robust. Gearing (net debt to EBITDA) at the year-end was 1.13 times (2019: 0.63 times), at the lower end of our targeted range of 1-2 times, and we have committed facilities totalling approximately £750m (at year-end exchange rates). The earliest maturity in these facilities is for £74m (at year-end exchange rates) in January 2021, with the remaining maturities from 2023 onward. We therefore do not intend to access funding from the UK Government's Covid Corporate Financing Facility (CCFF).

Annual dividend to increase by 5%

The Board is recommending a 3.8% increase in the final dividend to 9.96p per share (2019: 9.60p per share). Together with the 6.54p per share interim dividend, this would result in a total dividend for the year of 16.50p (2019: 15.71p), up 5%, making this the 41st consecutive year of dividend per share growth of 5% or more.

The final dividend for 2020 is subject to approval by shareholders at the AGM on 4 September 2020 and is expected to be paid on 1 October 2020 to shareholders on the register as at 28 August 2020.

Revenue growth in all major regions

We delivered revenue growth in all major regions, on a reported and organic constant currency basis, reflecting the global nature of the growth opportunities in our chosen markets of safety, health and the environment.

The USA, the UK and Asia Pacific performed strongly. The USA, our largest region, and the UK each delivered their second consecutive year of double-digit revenue growth, with increases of 15% and 10% respectively. Both regions achieved organic constant currency revenue growth of 8%.

Asia Pacific delivered the strongest reported growth, of 16%, principally driven by a good contribution from the acquisition of Ampac, based in Australia, which we completed in July 2019. Organic growth in Asia Pacific was more modest at 4%, in part reflecting a decline of 4% in China mainly as a result of the impact of the COVID-19 pandemic for most of the final quarter of the year. There was good organic growth in most other major markets in the region.

Mainland Europe grew revenue by 4%, including 1% organic constant currency growth, against a strong performance last year which had benefited from some large contracts. In the Rest of the World, revenue was ahead overall, with a reduction in Africa, Near and Middle East more than offset by growth in Other countries, which included a strong performance in Canada.

Revenue growth in all sectors

All sectors delivered record revenue, and three out of four sectors delivered record Adjusted¹ profit. This widespread growth represented a good performance given strong prior year comparatives and the effects, later in the year, of the COVID-19 pandemic. The following is a brief summary of each sector's performance with further details to be found in the sector reviews on pages 30 to 37.

The Environmental & Analysis sector delivered a strong performance for the third consecutive year, supported by some large Optical Analysis projects together with continued new product development and increasing regulatory requirements in the UK water market, with profit growth consistent with that of revenue. Return on Sales was similar to last year.

Infrastructure Safety also performed strongly, with reported revenue growth benefiting from recent acquisitions, notably Ampac in Australia. Although organic revenue growth slowed in the second half, the benefit of recent investments in automation and improved mix management towards higher margin products resulted in stronger organic profit growth. There was also an improvement in Return on Sales, despite a £2.1m increase in provisions for the risk of COVID-19 related customer bad debts.

The Medical sector reported good revenue growth, with solid contributions from both organic growth and recent acquisitions. The reported profit increase was more modest, resulting in a decline in Return on Sales. There was higher R&D investment to generate future growth and a net charge of £2.5m reported in the first half of the year principally related to the rationalisation of product development strategies in two ophthalmic companies to improve their growth and profitability over the medium term. The sector's results also included a £1.1m increase in provisions for the risk of COVID-19 related customer bad debts, resulting in a decrease in organic profit growth.

Group Chief Executive's review continued

Process Safety reported a small increase in revenue, including the benefit of the Sensit acquisition and further good progress in the USA from a large logistics contract. However, unfavourable conditions in the US onshore oil and gas market, together with some customer project delays and a temporary site closure in California in the fourth quarter due to COVID-19, resulted in a decline in organic revenue, profit and Return on Sales.

Ten acquisitions completed across all four sectors

Halma's decentralised organisational model gives us the ability to continue acquiring small- to medium-sized businesses to achieve our strategic objectives. We are also able to sell and merge businesses relatively easily, should specific market dynamics change, enabling us to maintain a growth-oriented portfolio without becoming significantly more complex to manage. For example, in 2010 Halma had revenue of £459m from 36 operating companies, while today we have revenue of over £1.3bn from 44 operating companies.

Our core acquisition strategy is to find privately owned businesses operating in niches which are aligned with our purpose and which demonstrate long-term structural market growth. We focus most of our search efforts on our core, or closely adjacent, market niches although each sector board has the freedom to find new niches which might have the right product, market and financial characteristics. Every transaction is approved by the Group Chief Executive and Chief Financial Officer, with all deals over £10m requiring Board approval.

We have a healthy acquisition pipeline and, with increased capability added at the sector and company level in recent years, this translated into a record 10 acquisitions being completed in the year for a total initial cash consideration (including fees) of £231m. These were spread across all four sectors, with performance in line with expectations during the year and we expect good contributions from them in the future. Full details of the acquisitions made in the year are given in note 25 to the Financial Statements.

In 2019, we added new expertise to manage and support small, minority investments that can bring new technology and capabilities to Halma without us taking full ownership. During the year we made two small strategic investments, totalling £4.8m, in Valencell, which provides wearable biometric solutions and Owlalytics, focused on wearable-based analytics technology. In the period, we also sold our interest in Optomed Oy, a manufacturer of handheld fundus cameras, at the time of its IPO in December 2019, for £6.8m (net of disposal costs) with a small net gain on our investment of £2.9m.

For reasons of financial prudence during the COVID-19 pandemic, we do not plan to complete any acquisitions in the first half of financial year 2020/21. However, our M&A search efforts are continuing, and we have a good pipeline of potential acquisitions should conditions become more favourable in the second half.

We continue to build long-term relationships with business owners so that they see Halma as the right home for their business when they decide to sell, or as a strong strategic partner to help them grow their businesses.

Investment in central and Growth Enabler teams to support our growth strategy

With the rapid growth and evolution of the Group, we made further investments in the year in our central and Growth Enabler resources, which provide high level expertise and resources to our companies to support their growth. We made further good progress on our Halma 4.0 strategy, through which our companies are addressing the diverse challenges and opportunities presented by the digital age.

We increased strategic investment in our IT capabilities, to ensure that we have a future-ready technology infrastructure and digital architecture to support both our decentralised operational needs and the development of our digital growth initiatives. This will be an area of increased focus in the coming year, given the opportunities arising as a result of the COVID-19 pandemic, for example in enabling remote monitoring of safety and environmental systems, as well as in ensuring hygiene and facilitating remote diagnosis in healthcare.

We continued to strengthen our finance, internal audit, risk and legal teams to support continued strong governance, compliance and reporting as the Group grows. We also invested in our other Growth Enablers, for example in adding M&A capabilities in Asia-Pacific, and strengthening our Talent, Innovation and Digital Growth teams. These increased resources have already supported the purchase of several companies with digital business models, which this year included FireMate in Australia and Invenio in the UK.

Our companies increased their investment to support core growth, for example in new product development, with R&D spend up 14% to £72m (2019: £63m). Having achieved a major cultural mindset shift over the past three years, our innovation and digital accelerator programmes were re-focused from ideas generation onto the commercialisation of ideas and improving the speed and cost of innovation.

We launched a new Digital Execution Accelerator programme and an Agile NPD (New Product Development) Engine to help our companies shorten the time from investment to revenue, by addressing specific areas of challenge, such as the development of new routes to market and new technology. Approximately 7% of our revenues are currently derived from digital solutions and services or connected products (products which can transmit data wirelessly, for example through Wi-Fi or a cellular network, without the need for a further gateway device). In total, we currently have over 20 Digital and Agile NPD projects involving all four sectors.

To leverage the existing capabilities within Halma companies, we created a Digital Champions Network, to share expertise and to further embed innovation and digital programmes and tools across the Group. We also continued to build our external partnerships, with our collaboration with Hitachi's Centre of Excellence in Lisbon currently supporting the development of seven projects. Examples include: the remote monitoring of fire systems; remote diagnosis and telemedicine for vital signs monitoring and ophthalmology; and monitoring the shelf life of fresh produce to reduce food waste.

Our Convergence Accelerator, which combines our existing capabilities and technologies to create new solutions and business models has had another productive year. An example is a new integrated warehouse safety solution, called SCOPE, which combines technologies and capabilities from companies in three sectors. It combines expertise from people and vehicle flow (Infrastructure Safety), safety interlocks (Process Safety), and real-time location monitoring technology (Medical). We expect field trials of prototype SCOPE systems to begin in the next year.

Talent and Executive Board changes

The quality and diversity of our leaders and teams is a critical component of Halma's success. Their commitment and dedication have played a key role in our resilient response to the challenges presented by COVID-19.

We are committed to ensuring that Halma is an inclusive organisation, thereby maximising the pool of talent available to us and ensuring we recruit and retain the best people for each role. We are actively addressing the need for increasing diversity within our subsidiary companies' leadership teams by embedding strong diversity and inclusion principles.

One measure of inclusion is gender diversity, which on the Board has improved from 18% female six years ago to 40% today. We are also making encouraging progress in executive leadership with both our Executive Board roles and the Divisional Chief Executives on our Sector Boards on track to achieve gender parity in the next year. Neither of these groups had any female representation six years ago.

We fully recognise the value of having a variety of voices, backgrounds and experiences within our leadership teams and realise that we have more work to do to increase ethnic diversity. Our recruitment patterns will be actively influenced by recognising the growing talent pool of ethnically diverse

candidates and by leveraging the role models we already have within our business. We acknowledge that many of our stakeholders, including investors, customers and employees, regard leadership diversity as an important factor in facing up to the challenges of the modern world. We have begun to measure national and ethnic diversity across our workforce, to provide a benchmark on which we can demonstrate our progress in the future.

Several changes to the Executive Board in the past year have added important new capabilities and increased diversity, aligned with the needs of our growth strategy.

- In September 2019, Catherine Michel joined Halma's Executive Board as our first Chief Technology Officer, with global responsibility for IT and digital architecture, working closely with Inken Braunschmidt in her role of driving the execution of Halma's Digital and Innovation growth strategy.
- In October 2019, as planned, Laura Stoltzenberg succeeded Adam Meyers as Sector Chief Executive for the Medical & Environmental sectors, which was followed by an extensive handover period up to March.
- In July 2020, Adam Meyers succeeded Paul Simmons as Sector Chief Executive of our Safety sectors, following the announcement in April 2020 that Paul will leave Halma to join Hill & Smith plc as Chief Executive Designate. Adam has agreed to defer his retirement from Halma until 2021, to allow an orderly succession process to be completed.

Later in 2020, we look forward to welcoming Funmi Adegoke to Halma's Executive Board as our General Counsel, replacing Ruwan De Soysa who resigned from Halma early in the year. Mark Jenkins has been re-appointed as Company Secretary.

Total Shareholder Return (ten years)

Graph as rebased to 100



Group Chief Executive's review continued

Further progress in sustainability and living our purpose

Our purpose of growing a safer, cleaner, healthier future for everyone, every day is the foundation for our approach to sustainability. To meet the ambition which is embodied in our purpose, it is critical that our companies remain sustainable over the long term, since the issues that we help our customers address, in ensuring safety and protecting health and the environment, are likely to persist. Sustainable business is a core part of Halma's DNA, and we seek to demonstrate it in not just our financial performance but also in terms of the positive role we can play in society, and by behaving responsibly in the markets and communities we serve.

Our further progress in the year in advancing our ESG agenda was evident across a wide range of initiatives. These ranged from reducing our carbon footprint and improving our CDP rating from 'Awareness C' to 'Management B', to identifying Modern Slavery risks within our supply chain, and supporting and improving diversity and inclusion in the Group. I was also immensely pleased with the result of our first ever group-wide charitable campaign, Gift of Sight, and although the COVID-19 pandemic has delayed our next campaign, we intend to launch it later this year. Further detail on our progress in 2020 is given in the Sustainability review on page 42.

Our response to the COVID-19 pandemic

Following the initial outbreak of COVID-19 in China in January 2020, we acted quickly to support our companies, to ensure the safety of our people, and to mitigate the potential adverse impacts on our businesses. As this regional outbreak evolved rapidly into a global pandemic, with health and economic challenges beyond what any of us have experienced in our lifetimes, it has become clear that it has some unique characteristics compared with previous downturns which Halma is relatively well positioned to address.

Firstly, Halma's agility and diversity has proved to be a major asset. Over many years, we have built an organisation and culture which has been created for fast, decentralised decision making by those closest to our stakeholders, accompanied with clear lines of accountability.

Secondly, from an early stage it was clear that our ability to respond rapidly needed to be tempered with the understanding that major decisions had to be taken with a holistic view, balancing the positive and negative impacts across all of Halma's key stakeholders. These include our employees, suppliers, customers, debt holders, shareholders and a wide range of community stakeholders, including Government. I believe the actions we have taken so far have achieved that objective and, importantly, positioned Halma to create even greater value for all of them in the future.

To support our companies, we created both central and regional COVID-19 support groups, the first of which was established in January 2020. This enabled each of our 44 companies to implement an operating plan to suit its market and local circumstances across our 54 principal operating facilities in the UK, the USA, Mainland Europe and Asia Pacific. Over 30 of our companies deliver critical safety, healthcare and environmental protection solutions and received a mandate, or permission, from their regional or national authorities to continue to operate during shutdown restrictions. Only three facilities have had to implement extended shutdown periods since the end of March and, as at the date of this Report, all our facilities are operational.

Our priority throughout the pandemic has been to ensure a safe working environment for all Halma employees. In addition to working from home wherever possible, measures taken have included increased spacing between workstations, appropriate protective equipment, staggered shifts and breaks, enhanced cleaning processes and contingency planning, plus a ban on non-essential travel and visitors to facilities.

Given these challenges, it was impressive to see the efforts which many Halma employees across the world made to re-purpose their resources and capabilities in order to manufacture personal protective equipment for healthcare providers. Colleagues from at least 11 Halma companies worked around the clock, individually and collaboratively, to contribute to their national effort and demonstrated a key characteristic of Halma's culture, which enables our companies to do the right thing without having to seek permission first.

As in previous downturns, we acted quickly to reduce costs, optimise cash flow, protect liquidity and, where necessary, change how we operate. These actions resulted in a cost reduction (net of the cost of implementation) of over £20m in the first quarter of the new financial year, compared to the previous fourth quarter's run-rate. We implemented a significant reduction in all discretionary overheads. We also ensured that our companies continued to manage their working capital effectively, while maintaining productive relationships with customers and suppliers. We limited capital investment to essential projects and R&D only and did not complete any acquisitions during the first quarter of the current financial year.

We also implemented a freeze on hiring and promotions, while company, sector and Group employees agreed to temporary salary reductions from 1 April 2020 for a three-month period. This helped to absorb a significant proportion of the cost savings necessary to protect ongoing operations in the face of tremendous uncertainty, demonstrating their support for, and commitment to, their companies and their colleagues across Halma. The Board and Executive Board also agreed to a 20% reduction in salaries or fees for a 3 month period, from 1 April 2020.

Whilst a small percentage of our workforce have been furloughed by their companies, Halma has funded this in the UK at our own expense, without any support from the UK Government's Coronavirus Job Retention Scheme. Unfortunately, given the significant declines in current and forecast demand in certain businesses, it is likely that there will be a small number of redundancies during the year though Halma has committed to providing additional financial support to those companies and employees which are affected. The estimated cost of these furlough and support programmes is approximately £5m, to be taken in the first half of 2020/21.

Current trading and outlook

Trading in the first quarter of the current financial year, from 1 April 2020 to 30 June 2020, has reflected the resilience of our business model and the essential nature of many of our products and services. Our order book has remained strong, with order intake ahead of revenue and ahead of the same period last year. Cash generation remains good and we continue to have a strong balance sheet and liquidity position. This has enabled us to alleviate some of the more stringent cost saving measures implemented in the first quarter.

Group revenues in the first quarter were 4% lower than the prior year, and 13% lower on an organic constant currency basis. This resilient performance, achieved during a period of lockdown in most of our major regions, also highlighted the benefits of having a diverse portfolio and agile organisational model. There was a wide variation of performances in our companies, reflecting significant changes in demand in individual end markets, as well as additional production, sales and distribution challenges due to safe working requirements and limitations on physical access to customer sites.

These revenue trends were partially offset by the savings in variable costs referred to above. We expect our companies to continue to actively manage their cost bases for the remainder of the year according to their individual market conditions.

In the Safety sectors, Infrastructure Safety saw the largest decline in revenue, particularly in the UK, which accounts for around a quarter of its revenue. The challenges of gaining physical access to installation sites and the actions of customers in furloughing a large proportion of installers of our products during the period had a significant adverse impact. We expect this trend to improve as lockdown restrictions ease and installers return to work. Revenue in Process Safety also reduced, primarily driven by a fall in demand for safety products in its oil and gas related businesses as a result of the lower oil price.

In the Medical sector, a number of our companies, notably those supporting the monitoring of vital signs and the oxygenation of patients, saw strong increases in demand, while companies supporting elective surgery and discretionary ophthalmic diagnosis procedures experienced significant reductions, leading to an overall decline in revenue. We expect the high demand in vital signs and oxygenation products to moderate over the coming months, and the demand in markets supporting elective procedures and discretionary diagnosis to recover as healthcare systems attempt to normalise.

The Environmental & Analysis sector achieved continued revenue growth, with solid performances in Environmental Monitoring and Water Analysis & Treatment and strong growth in Optical Analysis.

Summary

Halma's performance reflects our clear purpose, focused strategy, agile organisational model and the resilient, long-term growth drivers in our chosen markets. Our continued and accelerated investment in great talent, innovation and digital technologies will enable us to create value for all our key stakeholders in the future.

We have previously announced that the COVID-19 pandemic was expected to have a net adverse impact on our markets and our full year financial results to 31 March 2021, and for those results to have a significant second half weighting. This remains our view, with the increased second half weighting in part due to the costs of our employee support programmes in the second quarter.

We have delivered a resilient financial performance in the first quarter of the new financial year, despite the initial effects of the COVID-19 pandemic. Although the timing and profile of recovery remains uncertain, based on recent trading and internal forecasts, we currently expect Adjusted¹ profit before tax for the year to 31 March 2021 to be 5%-10% below that achieved in the 2020 financial year. We will provide further updates as we progress through the current year.

Andrew Williams
Group Chief Executive

¹ See highlights.

Halma's Sustainable Growth Model

We believe that the combination of **our purpose, culture, strategy and business model** differentiates us from our peers, and we expect it to deliver superior and sustainable value for our shareholders. We set ourselves challenging targets, and aspire to double our earnings every five years, while maintaining high returns.

Our Purpose

Our purpose is to grow a safer, cleaner, healthier future for everyone, every day.

Our purpose drives every business decision we make. It ensures everyone who works with us is focused on doing those things that make it happen.

Our companies develop technologies which save lives and protect critical infrastructure and services. Our technologies solve some of the world's most pressing issues, from air quality and clean water, to road safety and preventable blindness.

Our purpose defines the three broad market areas where we choose to operate:

Safety

Protecting life as populations grow and urbanise, and protecting worker safety.

Environment

Improving food and water quality, and monitoring air pollution.

Health

Meeting rising healthcare demand as growing populations age and lifestyles change.

We believe these issues are global and long term in nature. We expect them to support Halma's success sustainably for the foreseeable future.

Our DNA

Halma's DNA runs through our business at all levels. It embodies the core elements of our organisation and culture that are inextricably linked to enable our success. Even though we have to continuously change, these core elements remain constant.



Halma Organisational Genes

These are the core elements of our business structure and have proved themselves to be fundamental drivers in delivering consistent, long-term growth. They describe what we will protect while we continuously transform ourselves.

Purpose drives us

Our purpose powers every business decision we make, from choosing our markets to finding the right talent.

Agility is everything

We are built to be responsive. Individual businesses make decisions close to our customers. We manage our portfolio to respond rapidly when market dynamics change.

We bet on talent

We insist on exceptional leaders who are empowered and accountable to set strategy and grow their own businesses. Diverse viewpoints on every team help to ensure we don't miss a thing.

We are global niche specialists

We are disciplined in targeting high-return, global niches in markets with long-term growth drivers. We innovate with cutting-edge technology in these niches using our deep application knowledge.

We invest for the future

Our diverse portfolio allows us to take a long-term view and means we can continue to innovate for the future regardless of individual short-term market conditions.

We are structured for growth

Individual businesses within the Group have access to our internal and external networks, enabling us to go faster by learning from the experiences of others. Central expertise and capital are available to accelerate organic growth, which in turn allows us to continue to acquire additional growth and capabilities.



Halma Cultural Genes

These are the unique cultural and behavioural principles that we require, protect and leverage to effectively optimise our organisational genes and deliver our purpose.

Live the purpose

Be passionate about making the world safer, cleaner and healthier. See real problems and create innovative solutions.

Embrace the adventure

Continually grow and change, as individuals and collectively. Challenge assumptions and see opportunities. Seek insight from all directions and leverage diverse points of view.

Be an entrepreneur

Be an owner, risk-taker, visionary. Transform bold ambitions into reality. Be agile and responsive in the face of constant change. Be successful through and with others.

Say yes, and...

Choose Yes, and... to seemingly conflicting priorities. Build for tomorrow and deliver today. Have stability and constantly evolve. Enjoy autonomy and eagerly collaborate to accomplish our goals.

Just be a good person

Play to win, but not at the expense of others. Operate with impeccable ethics, transparency and integrity in all that you do.

Halma's Sustainable Growth Model continued

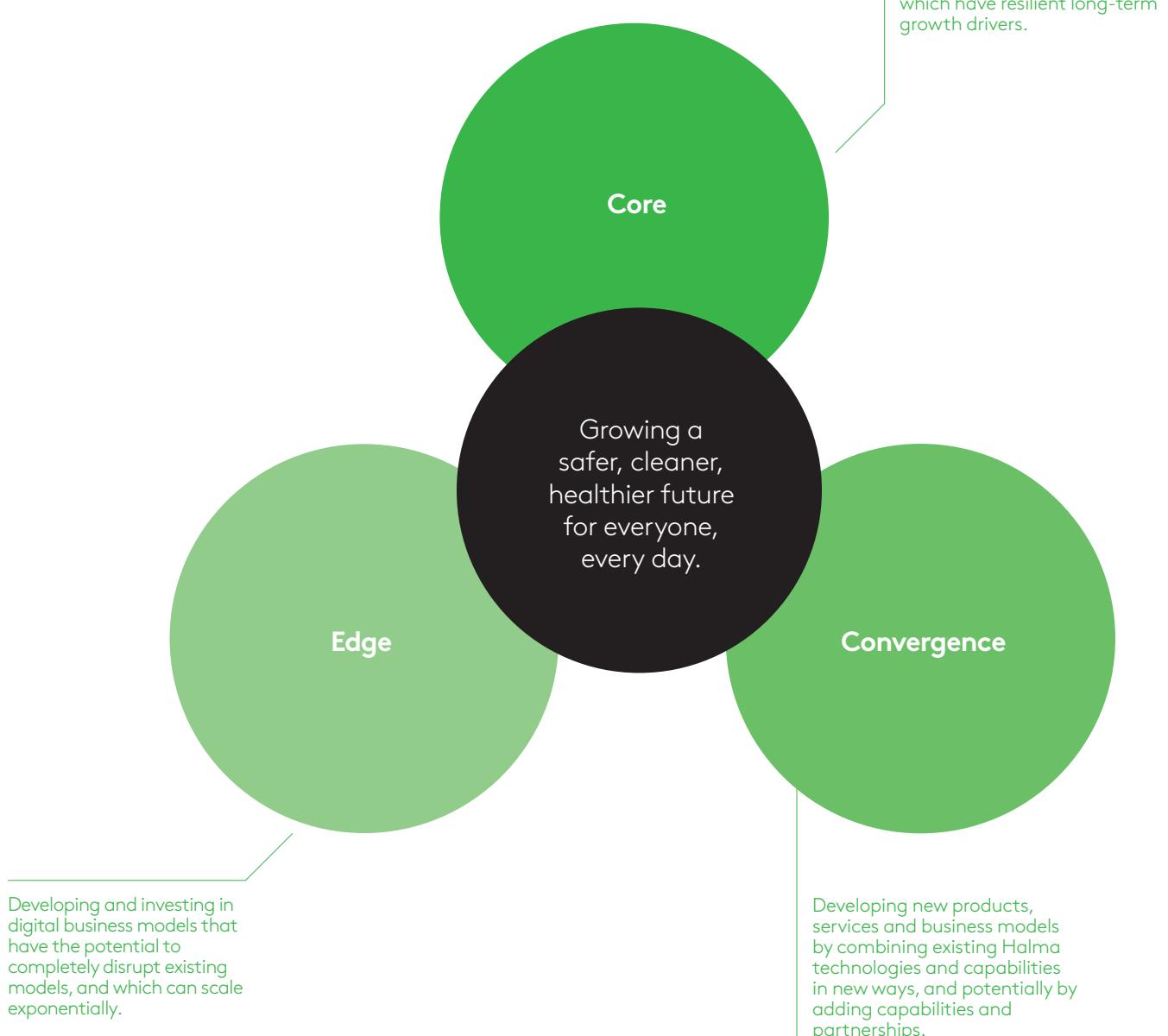
Our Strategy

Our strategy is powered by our purpose. It is focused on acquiring and growing businesses in global niche markets, in our chosen areas of safety, health and the environment.

Our Growth Engines

We divide our growth strategy into three areas. Our Core strategy is to grow our companies both organically and through M&A, and will continue to be our major focus.

Our Convergence and Edge strategies recognise that the increasing rate of technological change, including data and connectivity, is opening up new ways of growing our business and leveraging our collaborative culture.



Our markets

We choose our markets because they have resilient, long-term growth drivers. Their growth is driven by demographic changes, as populations grow and age, and as more people move to cities, and by ever increasing regulation, as standards for safety, cleanliness and care become ever higher.

We expect to drive consistently superior growth and returns over the long term from our disciplined focus on acquiring and growing businesses in these niche markets.

We continuously reinvest in our companies to ensure that we maintain strong positions in our chosen markets. This includes investment in developing our people, our products and services, our intellectual property and our knowledge of the markets we serve.

Our companies are small- to medium-sized businesses, which provide technology solutions in the safety, health and environmental markets.

We have a variety of routes to market, from direct sales to third party distribution, and a wide range of customers, from individuals to large OEMs.

Our customers operate in diverse sectors, including commercial and public buildings, utilities, healthcare, science and the environment, process industries, and energy and resources.

We operate in more than 20 countries, with major operations in the UK, Mainland Europe, the USA and Asia.

Investment proposition

We seek to deliver superior and sustainable value for our investors. We set ourselves challenging targets, and aspire to double our earnings every five years, while maintaining a conservative capital structure and delivering high returns.

Our purpose is to grow a safer, cleaner, healthier future for everyone, every day, and this gives us a strong motivation to make a positive difference to people's lives worldwide, and provides us with exciting opportunities for growth in a diverse range of markets.

High growth and returns

We deliver high growth and returns. Over the past five years, organic revenue growth has averaged 10.7% and growth in adjusted earnings per share has averaged 13%. Return on Sales has averaged 20.2% and Return on Total Invested Capital has averaged 15.5% over the same time period.

Strong cash generation and modest leverage

Our business is strongly cash generative. Cash generation (adjusted operating cash flow as a percentage of adjusted operating profit) has averaged 88% over the past five years. We maintain modest levels of leverage, to allow us flexibility for organic investment and to make acquisitions, with gearing (net debt to EBITDA) having averaged 0.95 times over the past five years.

Agile portfolio management

We manage the mix of businesses in our Group to ensure we can sustain strong growth and returns over the long term. We acquire businesses to accelerate penetration of more attractive market niches, we merge businesses when market characteristics change, and we exit markets which offer less attractive long-term growth and returns through carefully planned disposals.

A strong and consistent track record

We have delivered record levels of revenue and profit for 17 consecutive years, Return on Sales of 16% or more for 35 consecutive years, and have a 41 year track record of growing dividend per share by 5% or more every year.

Halma's Sustainable Growth Model continued

Our business model

Our business model is simple. It is driven by our strategy and supported by Halma's DNA. It is focused on sustaining our companies' growth and returns over the longer term, while delivering strong performance in the shorter term.

We are structured for growth

Our structure is simple and lean, with only three layers – companies, sectors and Group executive and teams – all three of which are focused and rewarded on driving growth. This allows for fast decision-making, and minimises bureaucracy.

Our companies

Each company is a separate legal entity with a board of directors. This drives accountability for performance and supports good governance. It also allows companies to drive innovation in their chosen niche markets, and be agile and responsive to changes in their customers' needs to drive sustainable growth.

Our sectors

Our sector teams are the vital connection between our companies and support functions. They promote internal networks and collaboration between companies, enabling companies to capitalise on broader sector trends, and support M&A through small sector teams.

Group executive and teams

Group executive and teams provide expertise in capital management and control frameworks. They support our companies through our Growth Enablers, manage our portfolio of companies and the allocation of capital, set our risk appetite, and ensure compliance and good governance.

We have a sustainable financial model

Our purpose and strategy define the markets we operate in, and our focus on growing and acquiring businesses in global niches in the safety, health and environmental markets.

Our choice of markets results in a highly sustainable financial model: strong organic growth and cash generation allow us to continuously reinvest in future growth and acquisitions.

Strong organic growth

The foundation of our financial model is strong and consistent organic revenue and profit growth. This is driven by our disciplined focus on markets which have resilient, long-term growth drivers, and market niches that offer consistently superior organic growth and high returns.

High returns and cash generation

We also choose markets that have relatively low capital intensity and high

returns on sales. In turn, this drives strong returns on capital and high levels of cash generation.

Continuous reinvestment

We use this cash generation to continuously reinvest in R&D and product innovation to maintain our strong market and product positions, and to drive growth and maintain a high return on sales.

Value-enhancing acquisitions

Strong cash generation also allows us to make value-enhancing acquisitions in core and adjacent markets to expand our growth opportunities and geographical reach.

Flexibility to invest and grow dividends

We maintain modest levels of financial leverage, to allow us flexibility to invest and sustain a progressive dividend policy for our shareholders.

We support our companies through our Growth Enablers

Our Growth Enablers support our companies in delivering our growth strategy. These seven Growth Enablers leverage a unique set of skills and expertise from across the Group, powered and co-ordinated by small central teams.



M&A

We acquire and grow businesses sustainably over the long term in line with our strategy, and sell or merge businesses which are no longer aligned.



International Expansion

We assist our companies in growing their business in key export markets, including through our hubs in the USA, UK, India and China.



Talent and Culture

We ensure Halma has world-class teams and high performance, inclusive cultures across our operating model.



Finance, Legal and Risk

We give our leaders the insight to make good decisions, through accurate, timely, and actionable financial data, legal advice and risk analysis.



Digital Growth Engines

We provide accelerator programmes to challenge our companies to discover new opportunities, and support them with the digital capabilities and technology to grow.



Innovation Network

We connect our companies with each other and experts globally to help them learn faster, see new market trends and establish strategic partnerships.



Strategic Marketing & Communications

We enable our companies to reach all stakeholders by helping them build their brand, understand their market needs and develop leading positions.

We measure our achievements and reward performance

We measure our achievements through financial and non-financial key performance indicators (KPIs), and through customer satisfaction and the delivery of shareholder value.

Setting challenging targets

We aspire to double our earnings every five years while maintaining high returns, and set targets for our growth, returns, cash generation and investment KPIs. We work hard to ensure that we have the right culture, talent and diversity and set challenging targets for employee engagement, health and safety and training.

Closely monitoring performance

We closely monitor our companies' performance, their strategic plans and forecasts. Each company certifies twice a year its compliance with minimum controls for finance, legal and IT; this is

complemented by independent peer reviews of financial performance, and internal and external audits.

We are developing new ways of measuring the delivery of our strategy, for example in the effect of Convergence and Edge strategies, and how we are achieving our purpose, by more effectively measuring our impact on the world.

Rewarding our people

Our people are rewarded on performance. We reward them for delivering superior and sustainable growth and returns and hold them accountable for delivering our strategy and complying with our control frameworks. Short-term incentives based on Economic Value Added (profit growth, adjusted for a charge for the use of any capital) are balanced by longer-term incentives in the form of Halma shares.

Financial review

"We delivered record revenue and profits, maintained our robust financial position and executed well against our key performance indicators, underpinned by the strength of our financial model."

Marc Ronchetti
Chief Financial Officer

Record results

Halma made good progress in the period, delivering record revenue and profit for the 17th consecutive year, despite the effects from the COVID-19 pandemic in the fourth quarter of the financial year. We continued to execute well against our growth strategy and our key performance indicators, benefiting from the clarity of our purpose, our strong culture, our agile and responsive business model, and our robust financial position.

Revenue for the year to 31 March 2020 increased by 10.5% to £1,338.4m (2019: £1,210.9m) which reflected a solid contribution from organic growth and the benefit of recent acquisitions. Adjusted¹ profit grew 8.7% to £267.0m (2019: £245.7m) and statutory profit before taxation increased by 8.4% to £224.1m (2019: £206.7m).

The Board is recommending a 3.8% increase in the final dividend (2019: 7%), which would result in a 5.0% (2019: 7%) increase in the total dividend for the year. This reflects our performance in the year, our resilience in the first quarter of the current financial year, our continued confidence in the future growth prospects of the Group, and an equitable approach in relation to the Group's stakeholders given the effects of the COVID-19 pandemic. The proposed final dividend, if approved, would result in Halma delivering the 41st consecutive year of dividend per share growth of 5% or more.

The revenue growth of 10.5% included a 4.8% increase in organic constant currency revenue, with acquisitions also contributing a 4.8% increase (4.1% net of disposals), and a positive currency impact of 1.6%. The Adjusted¹ profit increase of 8.7% included charges totalling £5.0m for provisions in the second half of the year, reflecting the increased risk of customer bad debt in all sectors given the effects of the COVID-19 pandemic. Organic constant currency profit growth was 2.2%, with acquisitions contributing 4.9% to adjusted profit growth (4.7% net of disposals), and currency 1.8%.

Statutory profit before taxation of £224.1m is calculated after charging the amortisation of acquired intangible assets of £38.3m (2019: £35.6m), and other items of a net £4.6m (2019: £3.4m). Further detail on these items is given in note 1 to these Accounts.

Cash conversion was excellent at 97%, reflecting a strong underlying cash performance, primarily driven by good working capital control, and also benefiting from the effects of the implementation of IFRS 16 'Leases' and the increase in provisions. Our financial position remained robust, with net debt excluding lease commitments at 31 March 2020 of £313.8m, or £375.3m on an IFRS 16 basis which includes lease commitments (31 March 2019: £181.7m) and committed facilities of £750m.

Revenue and profit growth

Revenue grew by 11.7% in the first half and 9.5% in the second half. There was a 3.2% effect from currency translation in the first half which, with no material effect in the second half, gave a benefit of 1.6% for the year as a whole. Organic revenue growth at constant currency in the first half was 5.4% slowing to 4.3% in the second half of the year, partly reflecting the effects of the COVID-19 pandemic, giving a solid 4.8% growth rate for the year as a whole.

Adjusted¹ profit growth was 14.1% in the first half. Growth in the second half was 4.1% (7.8% excluding the customer bad debt provision). As with revenue, there was a benefit from currency translation in the first half, and no material effect in the second half. As a result, the first half/second half split of adjusted profit was 48%/52%, compared to our typical 45%/55% pattern. Organic profit growth at constant currency was 6.5% in the first half, but declined 1.5% in the second half (growth of 2.3% excluding the customer bad debt provision), reflecting the mix of performances across the sectors as detailed below, and resulting in modest growth of 2.2% for the year as a whole.

Revenue growth in all sectors

All sectors delivered revenue growth and three out of four sectors reported adjusted profit growth against strong prior year comparatives in those sectors. On an organic constant currency basis, three out of four sectors grew revenue in both the first and the second half.

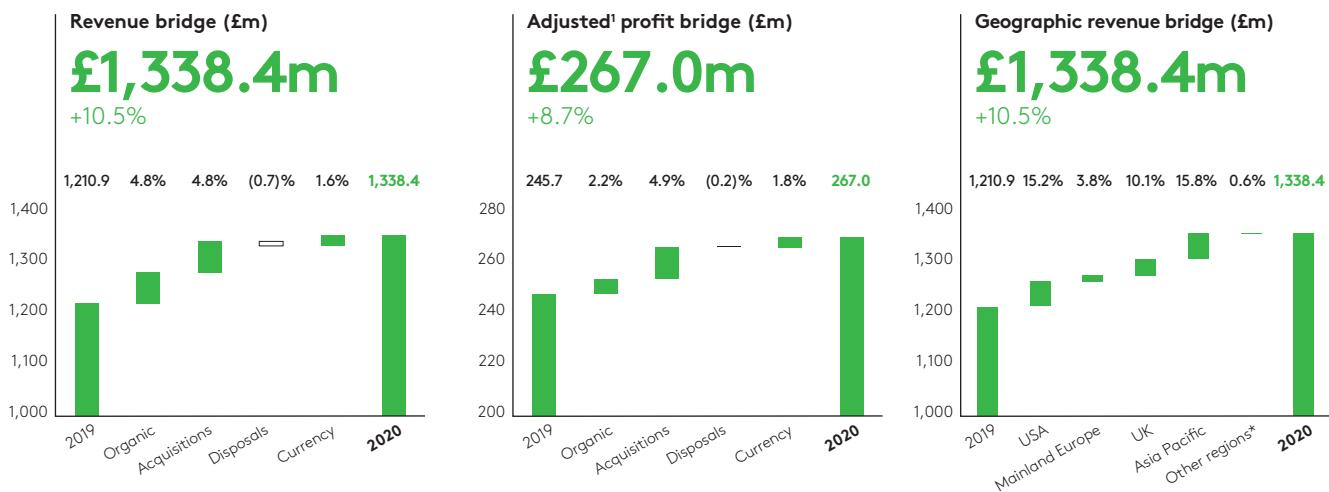
The Environmental & Analysis sector delivered a strong performance, with revenue growth of 16.1% and profit growth of 15.4%, driven by organic growth. All three subsectors delivered revenue and profit growth, with strong performances in the Environmental Monitoring subsector, supported by new product development and by regulatory requirements in the UK water market, and in Optical Analysis, which benefited from the delivery of some larger projects. Return on Sales was broadly stable at 21.4% (2019: 21.5%), with a lower gross margin driven by business mix and a £0.9m increase in additional provisions for the increased risk of customer bad debt given the effects of the COVID-19 pandemic being balanced by good control of overhead and research and development expenditure.

Revenue and profit growth

	2020 £m	2019 £m	Increase £m	Total	Percentage growth	
					Organic growth ² at constant currency	
Revenue	1,338.4	1,210.9	127.5	10.5%	6.4%	4.8%
Adjusted ¹ profit before taxation	267.0	245.7	21.3	8.7%	4.0%	2.2%
Statutory profit before taxation	224.1	206.7	17.4	8.4%	–	–

¹ In addition to those figures reported under IFRS Halma uses alternative performance measures as key performance indicators, as management believe these measures enable them to better assess the underlying trading performance of the business by removing non-trading items that are not closely related to the Group's trading or operating cash flows. Adjusted profit excludes the amortisation and impairment of acquired intangible assets; acquisition items; restructuring costs; profit or loss on disposal of operations; and, in the prior year only, the effect of equalisation of benefits for men and women in the defined benefit pension plans. All of these are included in the statutory figures. Notes 1 and 3 to the Accounts give further details with the calculation and reconciliation of adjusted figures.

² See highlights.



* Comprises Africa, Near and Middle East & other countries.

Sector revenue growth

	2020		2019		Change £m	% growth	% organic growth ² at constant currency
	£m	% of total	£m	% of total			
Process Safety	200.0	15%	197.5	16%	2.5	1.2%	(1.7)%
Infrastructure Safety	466.5	35%	408.6	34%	57.9	14.2%	3.1%
Environmental & Analysis	325.0	24%	280.0	23%	45.0	16.1%	13.6%
Medical	347.2	26%	325.2	27%	22.0	6.8%	3.3%
Inter-segment sales	(0.3)		(0.4)		0.1		
	1,338.4	100%	1,210.9	100%	127.5	10.5%	4.8%

Sector profit growth

	2020		2019		Change £m	% growth	% organic growth ² at constant currency	% organic growth ² at constant currency excluding bad debt provisions ⁵
	£m	% of total	£m	% of total				
Process Safety	43.9	14%	45.5	16%	(1.6)	(3.5)%	(6.1)%	(4.2)%
Infrastructure Safety	107.7	35%	88.9	32%	18.8	21.0%	6.6%	8.9%
Environmental & Analysis	69.4	23%	60.1	22%	9.3	15.4%	13.0%	14.5%
Medical	84.4	28%	83.2	30%	1.2	1.5%	(2.6)%	(1.3)%
Sector profit ³	305.4	100%	277.7	100%	27.7	9.9%	3.1%	5.0%
Central administration costs	(26.3)		(22.0)		(4.3)			
Net finance expense	(12.1)		(10.0)		(2.1)			
Adjusted ⁴ profit before tax	267.0		245.7		21.3	8.7%	2.2%	4.2%

3 Sector profit before allocation of adjustments. See Note 1 to the Financial Statements.

4 Adjusted profit excludes the amortisation and impairment of acquired intangible assets; acquisition items; restructuring costs; profit or loss on disposal of operations; and, in the prior year, the effect of equalisation of benefits for men and women in the defined benefit pension plans. All of these are included in the statutory figures. Note 3 to the Accounts gives further details with the calculation and reconciliation of adjusted figures.

5 Provisions totalling £5.0m for the increased risk of customer bad debt given the effects of the COVID-19 pandemic.

Financial review continued

Infrastructure Safety performed strongly, with recent acquisitions being the principal driver behind revenue growth of 14.2%. Organic constant currency revenue growth was modest, at 3.1%, largely reflecting planned reductions in lower margin business in the second half of the year. Return on Sales was higher at 23.1% (2019: 21.8%), despite additional provisions of £2.1m for the increased risk of customer bad debt given the effects of the COVID-19 pandemic. This reflected a higher gross margin as a result of the reduction in lower margin business, good underlying overhead control and benefits from recent investments in automation. Together with the increases in revenue, this resulted in reported profit growth of 21.0%, and 6.6% on an organic constant currency basis.

The Medical sector delivered good revenue growth of 6.8%, which included an organic contribution of 3.3% against a strong comparative of 10% organic constant currency growth in the 2019 financial year. There were mixed trends across its subsectors. Profit growth was more modest at 1.5%, principally reflecting increased investment in research and development and a charge of £2.5m in the first half of the year due to portfolio rationalisation, both of which we expect to support future growth, partly offset by good control of overheads. There were also additional provisions of £1.1m for the increased risk of customer bad debt given the effects of the COVID-19 pandemic. As a result, Return on Sales decreased by 1.3% to 24.3%.

Process Safety delivered a small increase in reported revenue of 1.2%. There was good progress in the Industrial Access Control and Gas Detection subsectors, and the sector also benefited from the recent acquisition of Sensit. However, Pressure Management revenue and profit declined, reflecting a challenging US onshore oil and gas market, and Safe Storage and Transfer suffered from customer project delays in the second half of the year and a temporary site closure in California in the fourth quarter of the year due to COVID-19. As a result, on an organic constant currency basis, revenue declined by 1.7% for the year as a whole. Profit decreased by 3.5% (6.1% on an organic constant currency basis), mainly as a result of a decline in the higher margin US onshore oil and gas business and additional provisions of £0.9m for the increased risk of customer bad debt given the effects of the COVID-19 pandemic, and Return on Sales was lower, at 21.9% (2019: 23.0%).

Central administration costs, which include Growth Enabler costs, increased to £26.3m (2019: £22.0m). This principally reflected increased investment, both in governance and compliance as the Group grows (including in our Finance, IT and Legal teams), and in support for our companies' growth over the medium-term, in the talent, strategic communications, digital transformation and innovation Growth Enablers. We expect

central costs to decrease in 2021 to approximately £20m, mainly reflecting the cost reduction measures implemented in the first quarter of the year.

Revenue growth in all major regions

All major regions delivered revenue growth, on a reported and an organic constant currency basis. Of our four major regions, three (the UK, USA and Asia Pacific) achieved double digit percentage increases. The UK and the USA also delivered good revenue growth on an organic constant currency basis, while organic constant currency revenue growth in Asia Pacific was modest. Mainland Europe's revenue growth was principally driven by recent acquisitions. In the smaller regions, Africa, Near and Middle East revenue growth slowed, and Other countries delivered a strong performance.

The USA delivered strong growth of 15.2%, and remains our largest revenue destination, accounting for 38% of Group revenue, an increase of one percentage point compared to the prior year. All sectors performed well, with Environmental & Analysis and Infrastructure Safety growing very strongly, the latter principally driven by recent acquisitions. Process Safety and Medical delivered good growth, which also included the benefit of recent acquisitions.

UK revenue increased by 10.1%, with all sectors except Process Safety, which accounts for less than 15% of UK revenue, delivering growth on a reported and organic constant currency basis. Environmental & Analysis grew very strongly, benefiting from new product development and increasing regulatory requirements in the UK water market. Process Safety revenue declined, reflecting a strong prior year comparative which had benefited from some larger contracts. Other sectors made good progress, which included the benefit of recent acquisitions.

Mainland Europe revenue increased by 3.8%, principally as a result of recent acquisitions. Organic constant currency revenue growth of 0.8% included a solid performance in Infrastructure Safety, which accounts for more than half of Mainland Europe revenue, but weaker trends in Process Safety, given the non-recurrence of some larger contracts which had benefited the prior year. The Medical and Environmental & Analysis sectors delivered a mixed performance, with small revenue declines on an organic constant currency basis.

Asia Pacific grew 15.8%, with very strong growth in Infrastructure Safety, driven by the recent Ampac acquisition, and good growth in the Process Safety and Medical sectors. On an organic constant currency basis, revenue growth was 3.6%, which included a 4% decrease in China, reflecting the impact of the COVID-19 pandemic in the final quarter of the year. In the region's other major markets, there was strong reported growth

Geographic revenue growth

	2020		2019		Change £m	% growth	% organic growth at constant currency
	£m	% of total	£m	% of total			
United States of America	510.3	38%	443.2	37%	67.1	15.2%	7.8%
Mainland Europe	276.4	21%	266.3	22%	10.1	3.8%	0.8%
United Kingdom	221.2	16%	200.9	16%	20.3	10.1%	8.3%
Asia Pacific	213.3	16%	184.0	15%	29.3	15.8%	3.6%
Africa, Near and Middle East	63.2	5%	70.8	6%	(7.6)	(10.7)%	(11.9)%
Other countries	54.0	4%	45.7	4%	8.3	18.3%	15.0%
	1,338.4	100%	1,210.9	100%	127.5	10.5%	4.8%

in Australasia, driven by the Ampac acquisition, but modest organic growth, and India, Japan and Singapore delivered good performances.

In the rest of the world, revenue grew in aggregate, with a decline in Africa, Near and Middle East revenue, principally reflecting a planned reduction in lower margin business in Infrastructure Safety, more than offset by strong growth in Other countries, which was broadly spread across all four sectors.

Revenue from territories outside the UK/Mainland Europe/the USA grew by 10.0%, in line with our 10% KPI growth target.

Continued high returns

Halma's Return on Sales² has exceeded 16% for 35 consecutive years. Our KPI target is to deliver Return on Sales in the range of 18–22%. This year Return on Sales remained strong at 19.9% (2019: 20.3%), with the change principally reflecting the increase in provisions for the increased risk of customer bad debt.

We successfully achieved our objective of continuing to invest in our businesses while delivering growth. This enables us to maintain a high level of Return on Total Invested Capital (ROTC), the post-tax return on the Group's total assets including all historical goodwill. ROTC was 15.3% (2019: 16.1%), with the change reflecting a lower level of constant currency earnings growth than in the prior year, and the weakening of Sterling against foreign currencies which has a negative effect on ROTC as it has a greater proportional effect on capital employed than on returns. Our ROTC remains well ahead of our KPI target of 12% and substantially in excess of Halma's Weighted Average Cost of Capital (WACC), estimated to be 7.7% (2019: 7.9%).

Currency effects well managed

Halma reports its results in Sterling. Our other key trading currencies are the US Dollar, Euro and to a lesser extent the Swiss Franc, the Chinese Renminbi and the Australian Dollar. Over 45% of Group revenue is denominated in US Dollars and approximately 12% in Euros.

The Group has both translational and transactional currency exposure. Translational exposures are not hedged, while, for transactional exposures, after matching currency of revenue with currency costs wherever practical, forward exchange contracts are used to hedge a proportion (up to 75%) of the remaining forecast net transaction flows where there is a reasonable certainty of an exposure.

We hedge up to 12 months forward. At 31 March 2020 approximately 68% of our next 12 months' currency trading transactions were hedged.

Sterling weakened on average in the year, principally in the first half. This gave rise to a positive currency translation impact of 1.6% on revenue and 1.8% on profit for the year as a whole.

Based on the current mix of currency denominated revenue and profit, a 1% movement in the US Dollar relative to Sterling changes revenue by £6.3m and profit by £1.3m. Similarly, a 1% movement in the Euro changes revenue by £1.6m and profit by £0.3m.

If currency rates for the financial year 2021 were US Dollar 1.25/Euro 1.13 relative to Sterling, and assuming a constant mix of currency results, we would expect approximately a £13m positive revenue and a £3m positive profit impact compared to financial year 2020, the majority of which would be in the second half of the year.

Increased financing cost

The net financing cost in the Income Statement of £12.1m was above the prior year (2019: £10.0m). This was as a result of higher average net borrowings in the year, given expenditure on acquisitions, and the inclusion of lease financing costs as a result of IFRS 16. These effects were partly offset by the average cost of financing which was lower given reductions in interest rates (see the 'Average debt and interest rates' table on page 24 for more information).

Interest cover (EBITDA as a multiple of net interest expense as defined by our Revolving Credit Facility) was 40 times (2019: 38 times) which was well in excess of the four times minimum required in our banking covenants.

The net pension financing charge under IAS 19 is included within the net financing cost. This year the cost decreased to £0.8m (2019: £1.2m), reflecting the reduction in the deficit on our defined benefit plans.

Group tax rate

The Group has major operating subsidiaries in 10 countries and the Group's effective tax rate is a blend of these national tax rates applied to locally generated profits. A significant proportion (approximately one fifth) of Group profit is generated and taxed in the UK.

The Group's effective tax rate on adjusted profit was similar to the prior year at 18.5% (2019: 18.6%). This was lower than expected, principally as a result of US Federal tax changes. For the year to 31 March 2021 we currently anticipate (based on the forecast mix of adjusted profits) the Group effective tax rate on adjusted profits to be broadly stable at approximately 19% of adjusted profits.

On 2 April 2019, the European Commission published its final decision that the UK controlled Finance Company Partial Exemption (FCPE) constituted State Aid. In common with a number of other UK companies, Halma has benefited from the FCPE, and the total benefit in 2020 and prior periods is approximately £15.4m in respect of tax and approximately £1.2m in respect of interest. Halma has appealed against the European Commission's decision, as has the UK Government and a number of other UK companies. In the meantime, the UK Government is

	Weighted average rates used in the Income Statement		Exchange rates used to translate the Balance Sheet	
	First half	2020 Full year	2019 Full year	2020 Year end
US\$		1.26	1.27	1.31
Euro		1.13	1.14	1.14

Financial review continued

required to commence collection proceedings and it is currently expected that the Group will have to make a payment in the second half of the year ending 31 March 2021 of up to £16.9m. Based on its current assessment, the Group believes that no provision is required in respect of this issue.

Strong cash generation

Cash generation is an important component of the Halma model, underpinning further investment in our businesses, supporting value-enhancing acquisitions and funding an increasing dividend. Our cash conversion in 2020 was strong.

Cash generated from operations was £307.9m (2019: £259.6m) and adjusted operating cash flow was £272.2m (2019: £225.2m) which represented 97% (2019: 88%) of adjusted operating profit. This was significantly ahead of our cash conversion KPI target of 85%, reflecting a strong underlying performance primarily driven by good working capital control, as well as benefits from the effects of the implementation of IFRS 16, which replaces a lease rental charge with charges for depreciation and financing costs (a 5% benefit), and from the additional provisions made in the year, which reduce operating profit but have no effect on cash generation (a 2% benefit).

A summary of the year's cash flow is shown in the table below and on page 24. The largest outflows in the year were in relation to acquisitions, dividends and taxation paid. Working capital outflow, comprising changes in inventory, receivables and creditors, reduced to £9.3m (2019: £16.3m), principally reflecting an improvement in debtor collection prior to the impact of the COVID-19 pandemic, and good control of stock and creditors.

Dividends totalling £61.2m (2019: £57.2m) were paid to shareholders in the year.

Taxation paid increased to £52.4m (2019: £40.6m), as a result of increased profitability and the acceleration of the payment timetable for UK Corporation Tax payments for larger companies which resulted in a one-off increase in cash taxation payable of approximately £5m.

In the financial year to 31 March 2021, we expect to defer the payment of tax liabilities, principally Value-Added Tax (VAT) in the UK and the employers' share of quarterly social security tax deposits in the USA, as permitted by governments as a result of the COVID-19 pandemic. The deferral of VAT payments will result in the payment of a cash tax liability of approximately £4m being deferred from the first half of the financial year to March 2021 to the second half. There will therefore be no cash tax benefit from VAT deferral in the year as a whole. The Employer Payroll Tax

deferral will result in a cash tax liability of approximately US\$6m (£5m) relating to the period 27 March 2020 to 31 December 2020 being deferred, with half of this amount due by 31 December 2021 and the remainder by 31 December 2022, resulting in a modest benefit to our cash flow in the 2021 financial year.

Capital allocation and funding

Halma aims to deliver high returns, measured by ROTIC², well in excess of our cost of capital. We invest to deliver the future earnings growth and strong cash returns which underpin this aim, and our capital allocation priorities are as follows:

- Investment for organic growth: Organic growth is our first priority and is driven by investment in our existing businesses, including through capital expenditure, innovation for digital growth and in new products, international expansion and the development of our people.
- Value-enhancing acquisitions: We supplement organic growth with acquisitions in current and adjacent market niches. This brings new technology, intellectual property and talent into the Group and expands our market reach, keeping Halma well-positioned in growing markets over the long-term.
- Regular and increasing returns to shareholders: We have maintained a progressive dividend policy for over 40 years and this is our preferred route for delivering regular cash returns to shareholders.

Increased investment for organic growth

All sectors continue to innovate and invest in new products, with R&D spend determined by each individual Halma company. This year R&D expenditure grew by 14.5%, ahead of revenue growth, reflecting our companies' investment in their future growth. R&D expenditure as a percentage of revenue was 5.4% (2019: 5.2%), well in excess of our KPI target of 4% or more. In the medium term we expect R&D expenditure to continue to increase broadly in line with revenue growth.

Under IFRS accounting rules we are required to capitalise certain development projects and amortise the cost over an appropriate period, which we determine as three years. In the 2020 financial year we capitalised and acquired £15.6m (2019: £11.6m), impaired £5.2m (2019: £0.7m) and amortised £7.9m (2019: £8.5m). This results in an asset carried on the Consolidated Balance Sheet, after a £0.5m gain (2019: £0.5m gain) relating to foreign exchange, of £36.1m (2019: £33.1m). All R&D projects, and particularly those requiring capitalisation, are subject to rigorous review and approval processes.

Operating cash flow summary

	2020 £m	2019 £m
Operating profit	233.4	217.8
Net acquisition costs and contingent consideration fair value adjustments	7.5	0.3
Defined benefit pension charge	—	2.1
Amortisation and impairment of acquisition-related acquired intangible assets	38.3	35.6
Adjusted operating profit	279.2	255.8
Depreciation and other amortisation	51.5	31.3
Working capital movements	(9.3)	(16.3)
Capital expenditure net of disposal proceeds	(32.2)	(29.7)
Additional payments to pension plans	(12.5)	(11.4)
Other adjustments	(4.5)	(4.5)
Adjusted operating cash flow	272.2	225.2
Cash conversion %	97%	88%

Capital expenditure on property, plant, equipment and vehicles, computer software and other intangible assets was £34.1m (2019: £31.3m). The expenditure on fixed assets was spread across all four sectors and the Group functions, supporting our operating capability, capacity and growth including investment in IT and systems upgrades. We anticipate capital expenditure of approximately £30m in the coming year, reflecting further investment across our sectors to support our future growth, including in facility expansions and automation, balanced by good control of discretionary expenditure given the effects of the COVID-19 pandemic.

Lease right-of-use asset additions, a new asset category as a result the adoption of IFRS 16, were £21.9m. These included additions of £5.8m as a result of acquisitions made in the year, and extensions or renewals of existing leases.

Value-enhancing acquisitions and investments

Acquisitions and disposals are an important part of our growth strategy, as they keep our portfolio of companies focused on markets which have strong growth opportunities over the medium and long-term.

In the year we spent £227.5m on ten acquisitions (net of cash acquired of £8.0m including acquisition costs). In addition, we paid £10.5m in contingent consideration for acquisitions made in prior years, giving a total spend of £238.0m. We also made two small strategic minority investments in the healthcare sector, totalling £4.8m, and sold our interest in Optomed Oy at the time of its IPO in December 2019, for £6.8m, net of disposal costs.

Details of the acquisitions and investments made in the year are given in the sector reviews on pages 30 to 37 of the Report and in note 25 to these accounts.

The acquisitions completed in the current and prior year contributed to revenue in 2020 in line with expectations and we expect a good performance from these acquisitions in the future.

Regular and increasing returns for shareholders

Adjusted earnings per share increased by 8.8% to 57.39p (2019: 52.74p) and statutory earnings per share increased by 8.7% to 48.66p (2019: 44.78p).

The Board is recommending a 3.8% increase in the final dividend to 9.96p per share (2019: 9.60p per share), which together with the 6.54p per share interim dividend gives a total dividend per share of 16.50p (2019: 15.71p), up 5.0% in total. Dividend cover (the ratio of adjusted profit after tax to dividends paid and proposed) is 3.48 times (2019: 3.36 times).

The final dividend for 2020 is subject to approval by shareholders at the AGM on 4 September 2020 and will be paid on 1 October to shareholders on the register at 28 August.

We aim to increase the per share dividend amount each year, while maintaining a prudent level of dividend cover, with approximately 35-40% of the anticipated total dividend being declared as an interim dividend. The Board's determination of the proposed final dividend increase has taken into account the effects of the COVID-19 pandemic on our stakeholders, while considering the Group's medium-term rate of organic constant currency growth and the financial resources required in executing our strategy, including organic investment needs and acquisition opportunities, with the aim of maintaining moderate debt levels.

Funding capacity and liquidity

Halma operations are cash generative and the Group has access to competitively priced committed debt finance providing good liquidity for the Group. Group treasury policy remains conservative and no speculative transactions are undertaken.

We have a robust financial position, strong cash generation, and substantial available liquidity. In the final quarter of the financial year, we consulted with our lending groups following the outbreak of the COVID-19 pandemic to assess the availability of further funding should this be required and as part of our scenario planning. Our lending groups were supportive, and under the potential scenarios considered as part of our going concern review, we remain within our debt facilities and the attached financial covenants for the foreseeable future. We therefore do not currently intend to utilise the UK government's Covid Corporate Financing Facility.

Financial review continued

Non-operating cash flow and reconciliation to net debt

	2020 £m	2019 £m
Adjusted operating cash flow	272.2	225.2
Tax paid	(52.4)	(40.6)
Acquisition of businesses including cash/debt acquired and fees	(238.0)	(68.1)
Purchase of equity investments	(4.8)	–
Disposal of businesses	7.6	3.1
Net movement in loan notes	0.1	0.1
Net finance costs and arrangement fees (excluding lease interest)	(8.5)	(8.3)
Lease liabilities additions	(26.3)	–
Dividends paid	(61.2)	(57.2)
Own shares purchased	(16.7)	(3.8)
Adjustment for cash outflow on share awards not settled by own shares	(6.0)	(4.9)
Effects of foreign exchange	(9.3)	(6.9)
Movement in net debt	(143.3)	38.6
Lease liabilities on adoption of IFRS 16 'Leases'	(50.3)	–
Opening net debt	(181.7)	(220.3)
Closing net debt	(375.3)	(181.7)

Net debt to EBITDA

	2020 £m	2019 £m
Adjusted operating profit	279.2	225.8
Depreciation and amortisation (excluding acquired intangible assets)	51.5	31.4
EBITDA	330.7	287.2
Net debt to EBITDA	1.13	0.63
Lease liabilities	(61.5)	
Net debt pre IFRS 16	(313.8)	
Lease payments (as an approximation of operating lease rentals)	(15.8)	
Estimated EBITDA pre IFRS 16	314.9	
Estimated Adjusted net debt to EBITDA pre IFRS 16	1.00	

Average debt and interest rates

	2020	2019
Excluding IFRS 16 lease liabilities		
Average gross debt (£m)	332.7	282.6
Weighted average interest rate on gross debt	2.72%	2.97%
Average cash balances (£m)	88.3	80.4
Weighted average interest rate on cash	0.63%	0.50%
Average net debt (£m)	244.4	202.2
Weighted average interest rate on net debt	3.48%	3.95%
Including IFRS 16 lease liabilities		
Average gross debt (£m)	388.4	
Weighted average interest rate on gross debt	2.86%	
Average cash balances (£m)	88.3	
Weighted average interest rate on cash	0.63%	
Average net debt (£m)	300.1	
Weighted average interest rate on net debt	3.52%	

At the year end, our committed facilities totalled approximately £750m, based on exchange rates at that time. The earliest maturity in these facilities is for £74m (at year end exchange rates) in January 2021, with the remaining maturities from 2023 onwards. The financial covenants on these facilities are for leverage (net debt/adjusted EBITDA on a pre-IFRS 16 basis) to not be more than three times and for adjusted interest cover to be not less than four times.

At the year end, net debt was £375.3m, a combination of £420.1m of debt, £61.5m of IFRS 16 lease liabilities and £106.3m of cash held around the world to finance local operations. Net debt at 31 March 2019, which excluded IFRS 16 lease liabilities of £50.3m, was £181.7m.

The gearing ratio at the year end (net debt to EBITDA) was 1.13 times (2019: 0.63 times, or 0.85 times had IFRS 16 been applied). Excluding the impact of IFRS 16, the gearing ratio at the year end would have been 1.00 times. Net debt represented 5% (2019: 3%) of the Group's year-end market capitalisation. The Group continues to operate well within its banking covenants with significant headroom under each financial ratio.

Pensions update

We closed the two UK defined benefit (DB) plans to new members in 2002. In December 2014 we ceased future accrual within these plans with future pension benefits earned within the Group's Defined Contribution (DC) pension arrangements.

The Group accounts for post-retirement benefits in accordance with IAS 19 Employee Benefits. The Consolidated Balance Sheet reflects the net deficit on our pension plans at 31 March 2020 based on the market value of assets at that date and the valuation of liabilities using year end AA corporate bond yields.

On an IAS 19 basis the deficit on the Group's DB plans at the 2020 year end had decreased to £5.2m (2019: £39.2m) before the related deferred tax asset. The value of plan assets increased to £298.8m (2019: £292.2m). Plan liabilities decreased to £304.0m (2019: £331.4m) due to movements in the discount rate and inflation rate. The discount rate increased from 2.4% to 2.55%, largely as result of the impact of the COVID-19 pandemic on bond yields at the year end. The inflation rate reduced from 3.2% to 2.5% reflecting economic conditions at the balance sheet date.

The plans' actuarial valuation reviews, rather than the accounting basis, determine any cash deficit payments by Halma. In 2020 these contributions amounted to £12.8m, consistent with our expectations, following a triennial actuarial valuation of the two UK pension plans in 2017/18, after which cash contributions increasing at 7% per annum aimed at eliminating the deficit were agreed with the trustees. In the unlikely event that these payments result in a surplus on winding up, the Group has an unconditional right to a refund under the Plan rules.

New accounting standards

The Group adopted required new accounting standards and interpretations with effect from 1 April 2019. There has been no material impact on the Group's financial statements, with the exception of IFRS 16 'Leases', which brings leases, principally for land and buildings, on to the balance sheet. IFRS 16 resulted in a small reduction in net assets at the start of the year of £4.0m, comprising an increase in assets of £45.4m, recognising a right-of-use asset, and an increase in liabilities (principally from the lease liability) of £49.4m. The net effect on the Group's profit and loss account has been immaterial, with operating lease costs of approximately £15.6m being replaced by a depreciation charge of £13.2m and a financing expense of £2.1m, resulting in a benefit to operating profit of £2.4m and to Profit before tax of £0.3m. There has been no impact on the Group's cash flows. Further details of all new accounting standards adopted, and their application to the Group's accounts, can be found in the Accounting Policies section of the Financial Statements.

Finance and Risk: supporting our companies' performance

Our finance and risk teams play a crucial role in supporting our companies and enabling agile commercial decisions by providing actionable and insightful data, maintaining strong financial controls and assessing and managing risk appropriately. I would like to thank all of my colleagues in these teams for their hard work in the year, and particularly for the commitment they have shown in helping our companies to adapt to the challenges and opportunities arising from the COVID-19 pandemic, in ensuring continued high standards of insight and control, and in preparing these year end accounts in difficult circumstances.

Conclusion

We delivered a good financial performance, despite the effects of the COVID-19 pandemic in the fourth quarter of the year. Our focus in the year ahead will be to ensure Halma's long-term sustainability as we continue to adapt to challenges and opportunities, including those arising from the COVID-19 pandemic and potential changes to international trade as a result of Brexit and revisions to cross-border tariffs. The clarity of our purpose and strategy, our agile business model and disciplined focus on critical safety, health and environmental niches, combined with a robust financial and liquidity position and continued strong cash generation, should enable us to deliver a resilient financial performance in the shorter-term and to benefit from the opportunities that our markets offer over the medium and longer term.

Marc Ronchetti
Chief Financial Officer

Key performance indicators

Key performance indicator	Organic profit growth (%) (constant currency)	Acquisition profit growth (%)	EPS growth (%) (adjusted earnings per share)
Strategic focus	<p>Through careful selection of our market niches and strategic investment in people development, international expansion and innovation we aim to achieve organic growth in excess of our blended market growth rate, broadly matching revenue and profit growth in the medium term.</p> 	<p>We buy companies with business and market characteristics similar to those of existing Halma operations. Acquired businesses have to be a good fit with our operating culture and strategy in addition to being value enhancing financially.</p> 	<p>The measure of how successful we are in growing our business organically and by acquisition coupled with strong financial disciplines, including those related to tax and capital allocation, is captured in the Group's adjusted earnings per share.</p> 
Comment	<p>Organic profit growth at constant currency was below our target. This principally reflected the increase in bad debt provisions reflecting the increased risk of customer default in all sectors given current economic conditions. Excluding these provisions, organic profit growth would have been 4%. Organic growth over the last 5 years has averaged 6%, above our target.</p>	<p>Acquisition profit growth exceeded our target of 5% following spend of £228m on ten acquisitions, which were spread across all four sectors. 2020 was a good year for acquisitions, reflecting a healthy pipeline of opportunities and benefiting from the recent investments made in our M&A capabilities.</p>	<p>Growth in adjusted earnings per share was slightly below our KPI, against a strong prior year comparative. This reflected a good acquisition profit growth, but a lower level of organic profit growth, and a higher financing charge given expenditure on leases and acquisitions.</p>
Definition	<p>Organic profit growth is calculated at constant currency and measures the change in adjusted profit achieved in the current year compared with the prior year from continuing Group operations. The effect of acquisitions and disposals made during the current or prior financial year has been eliminated.</p>	<p>Acquisition profit growth measures the annualised profit (net of financing costs) from acquisitions made in the year, measured at the date of acquisition, expressed as a percentage of prior year profit.</p>	<p>Adjusted earnings are calculated as earnings from continuing operations excluding the amortisation and impairment of acquired intangible assets; acquisition items; restructuring costs; profit or loss on disposal of operations; in the 2019 financial year, the effect of equalisation of benefits for men and women in the defined benefit pension plans; and associated taxation thereon.</p>
Target	<p>The Board has established a long-term organic growth target of at least 5% pa, slightly above the blended long-term average growth rate of our markets.</p>	<p>Acquisitions must meet our demanding criteria and we continue to have a strong pipeline of opportunities to meet our minimum 5% growth target.</p>	<p>We aim for the combination of organic and acquisition growth to exceed an average of 10% pa over the long-term. The Directors consider that adjusted earnings represent a more consistent measure of underlying performance.</p>
Remuneration linkage	<p>Growth in organic profit is a key element of the Economic Value Added (EVA) performance which forms the basis of the annual bonus plan for Group, sector and company boards, requiring consistent annual and longer-term growth, with disciplined financial management.</p>	<p>Growth in acquired profit is the second key element of the EVA performance which forms the basis of the annual bonus plan for Group, sector and company boards, requiring consistent annual and longer-term growth, with disciplined financial management.</p>	<p>EPS provides a clear link to the aims of the business growth strategy. It is a key financial driver for our business and provides a clear line of sight for our executives. EPS growth is 50% of the performance condition attaching to the Executive Share Plan.</p>

Link to Growth Enablers



M&A



International Expansion



Talent & Culture



Digital Growth Engines



&



Strategic Marketing & Communications



Finance, Legal & Risk

Organic revenue growth (%)
(constant currency)

Through careful selection of our market niches and targeted strategic investment, we aim to achieve organic growth in excess of our blended market growth rate, broadly matching revenue and profit growth in the medium term.



Organic growth at constant currency was in line with our target, with growth in three sectors, including a double-digit increase in the Environmental & Analysis sector, and in all major geographic regions.

Return on Sales (%)

We choose to operate in market niches which are capable of delivering growth and high returns. The ability to sustain these returns is a result of maintaining strong market and product positions sustained by continuing product and process innovation.



Return on Sales remained well above our minimum target, and within our longer-term target range of 18-22%. Return on Sales also remained well above our target in each of our four sectors.

ROTC (%)

(Return on Total Invested Capital)



We choose to invest in high return on capital businesses operating in markets which are capable of delivering growth and high returns. The ability to sustain growth and high returns is a result of maintaining strong market and product positions sustained by continuing product and process innovation.



ROTC remained well ahead of our target and substantially above our Weighted Average Cost of Capital, which is estimated to be 7.7% (2019: 7.9%). This KPI was affected by a lower level of constant currency earnings growth (which included an increase in provisions), and the weakening of Sterling which has a greater proportional effect on capital employed than on returns.

Organic revenue growth is calculated at constant currency and measures the change in revenue achieved in the current year compared with the prior year from continuing Group operations. The effect of acquisitions and disposals made during the current or prior financial year has been eliminated.

Return on Sales is defined as adjusted profit before taxation from continuing operations expressed as a percentage of revenue from continuing operations.

ROTC is defined as the post-tax return from continuing operations before amortisation and impairment of acquired intangible assets; acquisition items; profit or loss on disposal of operations; the effect of equalisation of benefits from men and women in the defined benefit pension plans (2019 only); the associated taxation thereon and the effect of the US tax reform measures (2018 only), as a percentage of Total Invested Capital.

The Board has established a long-term minimum organic revenue growth target of 5% pa, slightly above the blended long-term average growth rate of our markets.

We aim to achieve a Return on Sales within the 18% to 22% range while continuing to invest to sustain growth.

A range of 12% to 17% is considered representative of the Board's expectations over the long term to ensure a good balance between growth, investment, and returns.

Organic revenue drives earnings growth which contributes to the EVA performance. This forms the basis of the annual bonus plan for Group, sector and company boards, requiring consistent annual and longer-term growth with disciplined financial management.

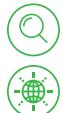
Return on Sales is a measure of the value our customers place on our solutions and of our operational efficiency. High profitability supports the generation of high economic value and cash generation. We choose a range in order to maintain a balance between short-term performance and investment for longer-term growth.

ROTC performance, averaged over three financial years, is 50% of the performance condition attaching to the Executive Share Plan.

Key performance indicators continued

Key performance indicator	Cash generation (%)	International revenue growth (%)	Research and development (% of revenue)
Strategic focus	<p>Strong cash generation provides the Group with freedom to pursue its strategic goals of investment in organic growth, acquisitions and progressive dividends without becoming highly leveraged. Our decentralised structure ensures that cash management is controlled at the individual company level and then transferred to the central treasury function.</p> 	<p>The safety, health and environmental markets in developing regions are evolving quickly. We continue to invest in establishing local selling, technical and manufacturing resources to meet this current and future need.</p> 	<p>We have maintained high levels of R&D investment and spending on innovation. The successful introduction of new products is a key contributor to the Group's ability to build competitive advantage and grow organically and internationally.</p> 
Comment	<p>Our cash conversion was strong and increased to 97%, well ahead of our target. We delivered a strong underlying cash performance, reflecting our continuing focus on cash management including good control of working capital, with the KPI also benefiting from the effects of the implementation of IFRS 16 (a 5% benefit) and the increase in provisions in the year (a 2% benefit).</p>	<p>Revenue outside the UK, the USA and Mainland Europe increased by 10%, in line with our target. This reflected strong growth in Asia Pacific, driven by recent acquisitions, and in Other countries, partly offset by a decline as a result of a planned reduction in lower margin business in Africa, Near and Middle East.</p>	<p>Total R&D spend in the year increased by 14% to £71.8m (2019: £62.7m), and R&D spend as a percentage of revenue increased to 5.4% (2019: 5.2%). All sectors increased R&D expenditure, with three out of four sectors spending above 4% of revenue.</p>
Definition	<p>Cash generation is calculated using adjusted operating cash flow as a percentage of adjusted operating profit.</p>	<p>Total sales to markets outside the UK, the USA and Mainland Europe compared with the prior year.</p>	<p>Total research and development expenditure in the financial year (both that expensed and capitalised) as a percentage of revenue from continuing operations.</p>
Target	<p>The goal of Group cash inflow exceeding 85% of profit has relevance at all levels of the organisation and aligns management action with Group needs. We ensure that strong internal cash flow and availability of external funding underpin our strategic goals of organic growth, acquisitions and progressive dividends. We plan to review the level at which this target is set in the coming year having adopted IFRS 16 which represents a permanent change to cash conversion.</p>	<p>The emphasis on international revenue growth at twice the rate of overall organic growth reinforces the importance of emerging markets and our strategy of establishing operations close to our end markets.</p>	<p>New products contribute strongly to 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.</p>
Remuneration linkage	<p>Strong cash generation is closely correlated with high return on capital which is a key component of our EVA bonus plan and our ROTIC Executive Share Plan vesting measure.</p>	<p>International markets are an important component of organic growth which, in turn, drives the year-on-year improvement in EVA demanded by our Annual Bonus plan.</p>	<p>Successful research and development investment is a key component of sustaining strong growth and returns which, in turn, help to drive EVA, EPS and ROTIC – all key elements of our annual bonus and LTIP plans.</p>

Link to Growth Enablers



M&A



Talent & Culture



Digital Growth Engines



Strategic Marketing & Communications

Employee Engagement (%)



Halma conducts an annual survey of its employees to assess engagement across the Group. This provides visibility of engagement at the Group, sector and company levels.



2017 was our inaugural engagement survey which established the baseline for our target. Overall, employee engagement remained strong this year and was in line with the external normative data.

Health & Safety (accident frequency rate)



Safety is critical and a major priority for the Group. Halma collects details of its worldwide reported health and safety incidents and encourages all Group companies to seek continuous improvement in their health and safety records and culture.



The Health & Safety AFR performance this year was 0.06 (2019: 0.09) representing an improvement against last year. We continue to review all reported incidents and there are no specific underlying patterns which cause concern.

Development programmes (%) (management development)



Our range of leadership development programmes are targeted towards developing our talent and equipping them with the right skills to manage, lead and deliver on our growth strategy.



During the year, we put 219 of our senior leaders through a range of management and leadership courses. We also introduced our Innovating the Organisation 2 (ITO 2) programme that helps leadership teams to develop and scale growth strategies. The programme includes a strong emphasis on personal leadership, self-awareness, mindset and behaviours to lead growth.

The engagement of employees as measured through an externally facilitated survey over nine dimensions: engagement, empowerment, accountability, collaboration and teamwork, communication, development, ethics and fair treatment, innovation and leadership.

The year-to-date Accident Frequency Rate (AFR) is the total number of reportable* incidents in the period divided by the number of hours worked in that period by employees (including temporary staff and any overtime) multiplied by 100,000 hours (representing the estimated number of working hours in an employee's work lifetime). The AFR figure represents an indication of how many incidents employees will have in their working lives.

* Specified major injury incidents are reportable incidents which result in more than three working days lost

Our target remains to match or beat the baseline achieved in 2017 of 74% engagement.

The target is set at the lowest rate we have achieved as a Group.

The percentage of senior leaders who have attended a development programme compared with the estimated pool of qualifying participants.

We exceeded our target, with 87% of our qualifying participants having attended a development programme during the year. Our range of new programmes, and the refreshment of existing programmes, indicate our continued commitment to meeting our target.

Process Safety

Process Safety's technologies protect people and assets at work, across a range of critical industrial and logistics operations.

Our markets



Gas Detection

Instruments and systems that detect hazardous gases and analyse air quality.



Industrial Access Control

Systems to manage the movement of people in high risk areas, preventing accidents and ensuring that critical processes operate safely.



Pressure Management

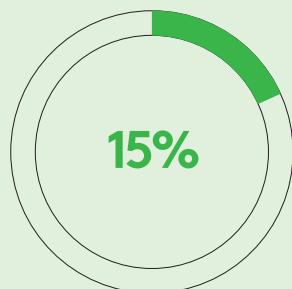
Explosion protection devices and systems to protect pressurised vessels and pipework in critical industrial processes.



Safe Storage and Transfer

Real-time corrosion monitoring and valve interlocking systems that safeguard people and processes.

Group Revenue (%)



Highlights

- Sensit Technologies acquired, enhancing our Gas Detection capabilities in the US
- Continued success in US logistics market
- Good progress in developing solutions using our digital growth enabler programme

Revenue

£200m

+1%

Adjusted operating profit⁵

£44m

(3%)

Performance

KPIs	2020	Group target
Revenue growth ¹	1%	-
Organic revenue growth ¹ (constant currency)	(2)%	≥5%
Profit growth ¹	(3)%	-
Organic profit growth ¹ (constant currency)	(6)%	≥5%
Return on Sales ²	21.9%	≥18%
R&D % of Revenue ³	3.7%	≥4%

Contribution to Group

£m	2020	2019	2018	2017	2016
Revenue	200	198	185	167	155
Profit ⁵	44	46	43	40	40

1 Revenue and adjusted⁴ operating profit⁵ are compared to the equivalent prior year figures.

2 Return on Sales is defined as adjusted⁴ operating profit⁵ expressed as a percentage of revenue.

3 R&D expenditure expressed as a percentage of revenue.

4 Adjusted to remove the amortisation and impairment of acquired intangible assets, acquisition items and restructuring costs (see note 1 to the Financial Statements).

5 Adjusted⁴ operating profit before central administration costs after share of associate.

6 Adjusted⁴ operating profit⁵ and organic growth rates are alternative performance measures used by management. See notes 1 and 3 to the Financial Statements.

Overview

The sector delivered a small increase in revenue, and a slight reduction in profitability. The lower profit was principally driven by product mix, and particularly a decline in the high-margin USA onshore oil and gas market, although there was also increased investment in R&D and strengthening leadership talent.

Industrial Access Control and Gas Detection both performed well. However, lower global oil prices and the deterioration in the USA onshore oil and gas market resulted in lower profits in Pressure Management and in Safe Storage and Transfer, with the latter also impacted by customer project delays and a site closure in the USA during the fourth quarter due to COVID-19.

There was one acquisition in the year, of Sensit Technologies, a US-based gas leak detection company. Its products protect workers in the natural gas distribution industry, ensure compliance with regulatory standards, and reduce climate change impacts by monitoring emissions of methane. Further details are given in note 25 to the Financial Statements.

Strategy

Process Safety has a key part to play in making critical industrial processes safer and cleaner.

Our strategy of investing both organically and by acquisition is ensuring that our businesses are providing innovative and increasingly digitally connected products to address our customers' needs around the world. For example, we have made good progress in developing new odour monitoring solutions which are gaining traction in China, and in creating new products and services that combine several Halma companies' capabilities. These include developing solutions to increase safety and efficiency in warehouses, which utilises technologies from companies in three Halma sectors. Both of these examples of early stage businesses have been developed through our digital growth enabler programmes.

We also continuously look for opportunities for acquisitions in new subsectors and of new applications. Our criteria are that they should have a strong fit to our purpose, be underpinned by strong long-term growth drivers, provide high value to our customers, and have high barriers to entry. These activities are led by our Divisional Chief Executives, supported by a small sector M&A team and also by our operating company leaders for bolt-ons to existing businesses. The increased organic and inorganic investment in this sector in recent years has resulted in greater end market diversity and less dependency on the energy markets which now represent approximately one third of sector revenue, down from around 50% five years ago.

Market trends and growth drivers

The longer-term growth prospects for our Process Safety businesses are supported by increasing health and safety regulation and associated legal risks, and growing industrialisation and automation. With an estimated 340 million injuries and 2.3 million workplace-related fatalities each year, it is likely that workplace health and safety regulations will continue to tighten. Our ability to find new applications in adjacent industrial markets is broadening our growth opportunities, both organically and through acquisition.

In Gas Detection, market growth over the longer-term is being driven by ongoing industrialisation, increased regulation, greater demand for continuous monitoring of harmful substances to protect worker safety, and the accelerated use of wireless sensors and connected devices.

Increasing automation and need for remote safety monitoring is becoming a stronger growth driver for our Industrial Access Control, Pressure Management and Safe Storage and Transfer businesses which serve a diverse range of industrial end markets.

Several of our businesses, notably in Pressure Management, operate in markets driven by the increasing need for energy and other critical resources. While the COVID-19 pandemic has resulted in a recent reduction in energy consumption, longer-term forecasts are that global energy demand is expected to grow by nearly 50% between 2018 and 2050, with most of this growth coming from non-OECD countries, particularly in Asia. The diversification of energy resources means we are repurposing our solutions to segments of the energy market where we expect good growth, for example in renewables.

Performance

Revenue grew by 1% to £200.0m (2019: £197.5m), while profit declined by 3% to £43.9m (2019: £45.5m). On an organic constant currency basis, revenue and profit declined by 2% and 6% respectively. Return on Sales was 21.9% (2019: 23.0%), reflecting a small reduction in gross margin, an increase of £0.9m in the second half of the year in COVID-19 related bad debt provisions, and a 7% increase in R&D investment to £7.5m (2019: £7.0m).

Industrial Access Control performed well, with further progress in a large US logistics contract, while Gas Detection benefited from the Sensit acquisition, which is performing in line with expectations. The unfavourable conditions in the USA market resulted in lower Pressure Management revenue, with a decline in profitability partially mitigated by proactive control of costs. As mentioned above, Safe Storage and Transfer profits were also lower because of customer project delays and a site closure in California during the fourth quarter due to COVID-19.

There was strong growth in Asia Pacific driven by Gas Detection's investment in stronger sales resources. Despite the challenges in energy markets, there was good growth in the USA, which benefited from the Sensit acquisition and good progress in a large US logistics contract. The UK and Mainland Europe were weaker mainly due to the non-repeat of large customer contracts in the prior year. Africa, Near & Middle East declined, with weaker Pressure Management revenue partially offset by a good performance in Gas Detection, while other countries delivered a strong performance which was broadly based across all subsectors.

Infrastructure Safety

Infrastructure Safety's technologies save lives, protect infrastructure and enable safe movement.

Our markets



Fire Detection

Networked fire detection systems, cloud-based fire compliance and software support services, wired and wireless fire detection components.



Fire Suppression

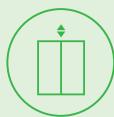
Systems to automatically extinguish fires, protecting people, property and assets.



People and Vehicle Flow

Sensors for automatic doors and in public, commercial and industrial buildings and transportation.

Advanced radar systems that make roads safer and more efficient and protect critical infrastructure.



Elevator Safety

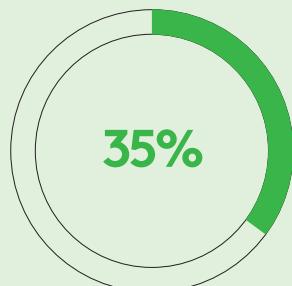
Safety and communications components and systems that make elevators smarter, simpler and safer. Emergency communications systems that protect people in buildings in critical circumstances.



Security Sensors

Security sensors, control panels and apps to protect commercial, residential and public buildings.

Group Revenue (%)



Highlights

- Acquired Ampac and FireMate, enhancing geographical reach and digital capability in Fire
- Product innovation driving continued strong organic growth in People and Vehicle Flow
- Continued to enhance the sector's portfolio through innovation and acquisition, underpinning future growth

Revenue

£467m

+14%

Adjusted operating profit⁵

£108m

+21%

Performance

KPIs	2020	Group target
Revenue growth ¹	14%	—
Organic revenue growth ¹ (constant currency)	3%	≥5%
Profit growth ¹	21%	—
Organic profit growth ¹ (constant currency)	7%	≥5%
Return on Sales ²	23.1%	≥18%
R&D % of Revenue ³	6.1%	≥4%

Contribution to Group

£m	2020	2019	2018	2017	2016
Revenue	467	409	349	315	265
Profit ⁵	108	89	73	65	56

1 Revenue and adjusted⁴ operating profit⁵ are compared to the equivalent prior year figures.

2 Return on Sales is defined as adjusted⁴ operating profit⁵ expressed as a percentage of revenue.

3 R&D expenditure expressed as a percentage of revenue.

4 Adjusted to remove the amortisation and impairment of acquired intangible assets, acquisition items and restructuring costs (see note 1 to the Financial Statements).

5 Adjusted⁴ operating profit before central administration costs after share of associate.

6 Adjusted⁴ operating profit⁵ and organic growth rates are alternative performance measures used by management. See notes 1 and 3 to the Financial Statements.

Overview

The sector delivered a strong performance, with revenue and profit growth including a significant contribution from recent acquisitions, and an increase in gross margins partly reflecting investments in automation.

The three largest subsectors, Fire Detection, People and Vehicle Flow and Elevator Safety, delivered the highest rates of growth. There was lower organic growth from the sector in the second half, reflecting a planned elimination of lower margin business in the Elevator Safety and Fire Suppression subsectors. There was increased investment in both R&D and leadership talent, including adding more sector management resources in Asia Pacific.

There were two acquisitions in the year, both in the Fire Detection subsector, extending geographical reach and adding new highly complementary technologies. We acquired the Ampac Group, a leading fire and evacuation systems supplier in the Australasian market, and 70% of Australia-based FireMate, which provides cloud-based maintenance and approval software to fire contractors. Further detail on these acquisitions is given in note 25 to the Financial Statements.

Strategy

The Infrastructure Safety sector makes the world a safer place by protecting commercial, industrial and public buildings and spaces and enabling safe movement. Our products and services address increasing life safety concerns, more stringent regulatory requirements and accelerating demand for connected infrastructure systems globally.

Our strategy is to focus on less cyclical, niche markets, with high barriers to entry. We acquire companies with technological expertise, strength in new geographies and presences in adjacent markets. We grow them through leveraging Halma's growth enablers, with a particular focus in recent years on leadership talent and increasing product and digital innovation. We seek to expand our geographic footprint both organically, leveraging Halma's international hubs, and through acquisitions, such as the recent Ampac and FireMate acquisitions.

Market trends and growth drivers

Growth in our Infrastructure Safety markets is supported by expanding and ageing populations, increasing urbanisation, tighter safety regulation, and an increasing demand for remote monitoring and efficiency through digital innovation and connected products. A recent UN report projects that 68% of the world's population will live in urban areas by 2050, increasing from 55% in 2018, adding around 2.5 billion people to urban populations. We expect this to drive demand for better, safer and more connected infrastructure and for transportation safety and security products and systems, as more people live in more densely populated areas.

Although the COVID-19 pandemic has resulted in a reduction of demand in some markets in the short-term, we expect these long-term trends to continue to drive growth across our Infrastructure Safety markets. For example, in global fire detection and suppression equipment, growth is expected to be sustained by even more stringent regulation and greater demand for connected, intelligent building systems.

The medium-term forecasts for the global elevator market also reflect the trends of rising urbanisation, increasing spending on maintenance and modernisation of existing equipment, with emerging opportunities to enhance efficiency through remote monitoring and preventative maintenance. Similarly, we expect a greater need to manage health and safety concerns as a result of the COVID-19 pandemic to present new opportunities for our People and Vehicle Flow businesses in addressing congestion, increasing the capacity of existing infrastructure and enhancing safety through automated access solutions as people move around.

Performance

Revenue increased by 14% to £466.5m (2019: £408.6m), including 3% organic constant currency growth and a 10% contribution from acquisitions. Profit grew by 21% to £107.7m (2019: £88.9m), which included 7% organic constant currency growth and a 14% contribution from acquisitions, and additional provisions for COVID-19 related bad debt of £2.1m. Return on Sales increased to 23.1% (2019: 21.8%), even after 14% growth in R&D investment to £28.3m (2019: £24.9m), principally reflecting the benefit to gross margins from automation and the planned elimination of selected lower margin business.

The three largest subsectors, Fire Detection, People and Vehicle Flow and Elevator Safety, delivered double digit revenue and profit growth, principally driven by acquisitions. However, there was also strong organic growth in People and Vehicle Flow, driven by new product innovation and good progress in Fire Detection. In the smaller subsectors, Security Sensors' profit grew strongly from a stable revenue base, reflecting efficiency gains from automation, while Fire Suppression revenue declined as a result of the above-mentioned reduction in lower margin business.

The sector's four largest geographic regions performed well. There was strong revenue growth in the USA and Asia Pacific, principally as a result of the benefit from recent acquisitions. There were good rates of growth in the UK and Mainland Europe, with the Fire Detection and People and Vehicle Flow businesses being key contributors to this improvement. The Africa, Near and Middle East region, which accounts for only 5% of sector revenue, declined, while the small Other countries segment grew strongly, driven by a strong performance in the Fire businesses.

Environmental & Analysis

Environmental & Analysis' technologies are used to preserve, monitor and protect the environment, ensure the availability, quality and sustainability of natural resources, and to analyse materials in a wide range of applications.

Our markets



Optical Analysis

World-class optical, opto-electronic and spectral imaging systems that use light to analyse materials in applications including life sciences, bioprocessing, food safety, research, and industrial process control.



Water Analysis and Treatment

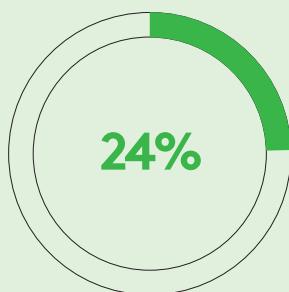
Systems that assist communities around the world by sustainably improving water quality and availability.



Environmental Monitoring

Technologies used to analyse water, air and gases to monitor the quality of our environment and ensure that our resource infrastructure operates efficiently.

Group Revenue (%)



Highlights

- Completed two technology-focused acquisitions for our water companies
- Strong organic growth in Optical Analysis and Environmental Monitoring
- Further progress in developing new market-led technological and digital solutions

Revenue

£325m

+16%

Adjusted operating profit⁵

£69m

+15%

Performance

KPIs	2020	Group target
Revenue growth ¹	16%	—
Organic revenue growth ¹ (constant currency)	14%	≥5%
Profit growth ¹	15%	—
Organic profit growth ¹ (constant currency)	13%	≥5%
Return on Sales ²	21.4%	≥18%
R&D % of Revenue ³	6.0%	≥4%

Contribution to Group

£m	2020	2019	2018	2017	2016
Revenue	325	280	259	219	189
Profit ⁵	69	60	55	42	34

1 Revenue and adjusted⁴ operating profit⁵ are compared to the equivalent prior year figures. Historic revenue and profit have been restated for the transfer of Perma Pure to the Medical sector in the second half of 2020.

2 Return on Sales is defined as adjusted⁴ operating profit⁵ expressed as a percentage of revenue.

3 R&D expenditure expressed as a percentage of revenue.

4 Adjusted to remove the amortisation and impairment of acquired intangible assets, acquisition items and restructuring costs (see note 1 to the Financial Statements).

5 Adjusted⁴ operating profit before central administration costs after share of associate.

6 Adjusted⁴ operating profit⁵ and organic growth rates are alternative performance measures used by management. See notes 1 and 3 to the Financial Statements.

Overview

The sector delivered an excellent performance. All three subsectors grew revenue and profit, including exceptionally strong growth in Optical Analysis, which included the delivery of some larger projects in the second-half of the year. Good growth in Environmental Monitoring was driven by new product development and by the continuing regulatory requirements in the UK water market.

Two smaller bolt-on acquisitions were completed in the year. HWM in the UK acquired Invenio, a market leader in customer-side water leak detection, and Hydreka, a water resource management business in France, acquired Enoveo, which added expertise in biotechnologies and real-time pollution monitoring.

Perma Pure, one of the Group's gas conditioning businesses, was transferred from the Environmental & Analysis sector into the Medical sector, given that the majority of its revenues now come from medical uses following Halma's acquisition of Maxtec; historic comparatives have been restated to reflect this change.

Further detail on the acquisitions made in the year is given in note 25 to the Financial Statements.

There was increased investment in R&D as well as in leadership at both the sector and company board levels. The planned Sector Chief Executive succession process was completed successfully.

Strategy

The Environmental & Analysis sector is focused on growing a safer, cleaner and healthier future by improving the quality and availability of life-critical natural resources such as air, water and food, and by protecting the environment and wellbeing. Our valuable solutions are technically differentiated through strong application knowledge, supported by high quality and customer responsiveness.

We grow by developing new market-led solutions (current examples under development include deploying novel sensing techniques to help reduce food waste by accurately predicting the shelf life of perishable fruits, and pairing core knowledge with new techniques and a digital service model to enhance the capability of earth-imaging satellites and airborne platforms), and by increasing our geographical reach and expansion into new niches both organically and through acquisitions or partnerships.

Our increasing R&D investment includes developing new sensors that capture accurate and effective environmental and scientific information. We are enhancing this technology by investing in digital systems that provide real-time and remote management information since increasingly our offerings are, or are components of, digital solutions.

We continually seek to attract, develop and promote high quality, talented people. We ensure that our teams represent our diverse end markets and are constantly enhanced to match existing and emerging strategic capability needs.

Market trends and growth drivers

The Environmental & Analysis sector's long-term growth is sustained by rising demand for life-critical resources, increasing environmental regulations and worldwide population growth with rising standards of living.

Population growth continues to outpace the availability of key resources. According to the United Nations, nearly half the global population are already living in potential areas of water scarcity for at least one month per year and this could increase to some 4.8–5.7 billion people in 2050. This drives demand for our water testing and disinfection technologies, and our water network monitoring solutions which help to ensure integrity of networks.

Air pollution is a growing health risk in both developing and developed countries and is a top cause of premature deaths in the EU, contributing to an estimated 400,000 deaths in 2016. Our spectroscopy systems assist in the precise detection of contaminates, while our environmental companies support emissions and air quality monitoring and calibrate pollution monitoring equipment.

According to the World Health Organization, one in ten people fall ill each year from eating contaminated food and 420,000 people die each year as a result. Some of our more recent development activities are focused on ensuring the quality of the food supply chain.

Performance

Revenue increased by 16% to £325.0m (2019: £280.0m) and profit grew by 15% to £69.4m (2019: £60.1m), with revenue growth of 14% and profit growth of 13% on an organic constant currency basis. Acquisitions had a marginal positive effect on both revenue growth and profit growth. Currency exchange movements had a positive effect of 2.1% on revenue and 2.3% on profit. Profit included £0.9m in additional provisions for the increased risk of customer bad debt given the effects of the COVID-19 pandemic.

Return on Sales was stable at 21.4% (2019: 21.5%). There was a slightly lower gross margin, mainly due to the changing mix of business in Optical Analysis, balanced by good control of costs. R&D expenditure remained above the Group average as a percentage of sales at 6.0% (2019: 6.3%), increasing by 9% to £19.3m (2019: £17.8m), driven by rises in both Environmental Monitoring and Water Analysis and Treatment.

There was strong growth in the USA and the UK, led by, respectively, Optical Analysis and Environmental Monitoring. Revenue in the Mainland Europe, which only accounts for approximately 10% of sector revenue, was stable. Asia Pacific revenue saw a small decline, principally as a result of slower than expected Environmental Monitoring market penetration in China. There was strong growth in the Africa, Near & Middle East and Other countries, led by the Water Analysis and Treatment subsector.

Medical

Medical's technologies enhance the quality of life for patients and improve the quality of care delivered by healthcare providers.

Our markets

During the year, as a result of recent acquisitions, we reorganised our companies into three groups, each with similar marketing and operating characteristics.



Life Sciences

Focusing on technologies and solutions to enable in-vitro diagnostic systems and life-science discoveries and development.



Healthcare Assessment

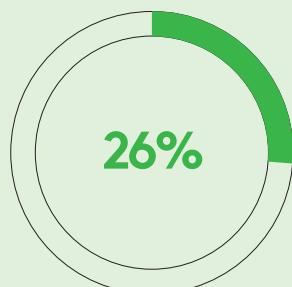
Providing components, devices and systems that provide valuable information to understand patient health and enable providers to make decisions across the continuum of care.



Therapeutic Solutions

Supplying technologies, materials and therapies that enable treatment across key clinical specialties.

Group Revenue (%)



Highlights

- Strong year for M&A: five acquisitions completed for total initial consideration of £103m
- Good performances in Life Sciences subsector and in real-time location services
- Attractive market niches added and capabilities enhanced through M&A

Revenue

£347m

+7%

Adjusted operating profit⁵

£84m

+1%

Performance

KPIs	2020	Group target
Revenue growth ¹	7%	—
Organic revenue growth ¹ (constant currency)	3%	≥5%
Profit growth ¹	1%	—
Organic profit growth ¹ (constant currency)	(3)%	≥5%
Return on Sales ²	24.3%	≥18%
R&D % of Revenue ³	4.8%	≥4%

Contribution to Group

£m	2020	2019	2018	2017	2016
Revenue	347	325	284	261	199
Profit ⁵	84	83	67	67	52

1 Revenue and adjusted⁴ operating profit⁵ are compared to the equivalent prior year figures. Historic revenue and profit have been restated for the transfer of Perma Pure from the Environmental & Analysis sector in the second half of 2020.

2 Return on Sales is defined as adjusted⁴ operating profit⁵ expressed as a percentage of revenue.

3 R&D expenditure expressed as a percentage of revenue.

4 Adjusted to remove the amortisation and impairment of acquired intangible assets, acquisition items and restructuring costs (see note 1 to the Financial Statements).

5 Adjusted⁴ operating profit before central administration costs after share of associate.

6 Adjusted⁴ operating profit⁵ and organic growth rates are alternative performance measures used by management. See notes 1 and 3 to the Financial Statements.

Overview

The sector delivered a solid performance, which included the benefit of recent acquisitions, against a strong organic 2019 comparative. Profit growth was modest, principally reflecting increased strategic investment for growth, and a portfolio rationalisation charge of £2.5m reported in the first half of the year. There was increased investment in R&D as well as in leadership at both the sector and company board levels. The planned Sector Chief Executive succession process was completed successfully.

The sector completed five acquisitions in the year. The acquisitions of NeoMedix, a bolt-on to MST, and NovaBone enhanced our Therapeutic Solutions offering, adding new market niches in minimally-invasive glaucoma surgery and synthetic bone graft products respectively. In Health Assessment, CenTrak acquired two small businesses, InfoWave and Spreo, to further expand its addressable market and enhance its technological and data capabilities. Two small strategic minority investments were made: in Valencell, which provides wearable biometric solutions; and in Owlalytics, focused on wearable-based analytics technology. The Group's interest in Optomed Oy was also sold at the time of its IPO in December 2019.

Perma Pure, was transferred into the Medical sector from the Environmental & Analysis sector, given that the majority of its combined revenues now come from medical uses following the acquisition of Maxtec, a leader in oxygen analysis and delivery products. The integration of these acquisitions, on which further detail is given in note 25 to the Financial Statements, is progressing well, and we expect them to contribute to sector growth in the years ahead.

While a number of sector companies within the Health Assessment sub-sector saw higher demand for their products in the last weeks of the year as a result of the COVID-19 pandemic, we estimate that the overall effect on the sector was marginally negative due to order delays and deferrals of our products serving surgical procedures.

Strategy

The Medical sector is focused on growing a healthier future by enhancing the quality of life for patients and improving the quality of care delivered by providers.

We serve niche applications in global markets providing critical components, devices, systems and therapies which are embedded in the standard of care. We look for niches where there is a 'non-discretionary' element to long-term demand, for example cataract surgery or cardiac monitoring, or where there is a connection between medical conditions and chronic illnesses, thereby driving potentially higher rates of demand on a sustainable basis.

We are known for our brands, differentiated technologies and customer centricity. We build upon these positions of strength to enter new geographies, expand our product portfolios and leverage our technology in new and innovative ways. We are well diversified across the continuum of care in diagnostics, monitoring and therapies. This enables us to withstand individual market fluctuations and take advantage of emerging needs such as digital care models, as an example.

Market trends and growth drivers

The sector's long-term growth is supported by increasing demand due to worldwide population growth and ageing, and the greater prevalence of chronic illnesses such as diabetes, respiratory diseases, obesity, and hypertension.

According to a recent United Nations report, the world's population is expected to increase by two billion in the next 30 years, and by 2050 one in six people in the world is projected to be over age 65, up from one in 11 in 2019, increasing the prevalence of significant health risk factors. A growing elderly population is a key growth driver for our Therapeutic Solutions businesses, given their presence in the cataract and glaucoma surgery devices markets and the market for bone replacement products.

In Healthcare Assessment, we expect the rising prevalence of cardiac, circulatory, respiratory and ophthalmic disorders, increased health awareness and availability of healthcare to drive growth over the longer term. In addition, healthcare facilities are seeking to improve outcomes, reduce costs and ensure the safety of patients and staff, which is driving the global market for our real-time location services business.

In Life Sciences, the market for our critical fluidic components is being driven by more directed and personalised diagnostic methods combined with increased testing efficiency. North America and Europe continue to be our largest markets, with Asia Pacific exhibiting the fastest growth rate.

Performance

Revenue increased by 7% to £347.2m (2019: £325.2m), including 3% organic constant currency growth and an 1% contribution from acquisitions. Profit grew by 1% to £84.4m (2019: £83.2m), with organic constant currency profit declining 3%. Overhead spend out-paced revenue growth due to research and development investment growing by 28% to £16.5m (2019: £12.9m), and a net charge of £2.5m in the first half of the year principally related to the portfolio rationalisation of two ophthalmic companies. Profit also included additional provisions of £1.1m for the increased risk of customer bad debt given the effects of the COVID-19 pandemic. Gross margin was stable and Return on Sales decreased to 24.3% (2019: 25.6%).

The Life Sciences subsector performed well, driven by a strong performance in fluidics sold to our major OEM customers. Health Assessment's performance was mixed, with growth in location services for healthcare facilities and weaker trends in ophthalmic diagnostics and segments of diagnostic patient devices. Therapeutic Solutions benefited from the acquisitions of NovaBone and Maxtec.

The USA, the sector's largest region, delivered good revenue growth, which also benefited from recent acquisitions. There was modest revenue growth in Mainland Europe, with good progress in diagnostics, gases and sensor technology offset by weaker trends in ophthalmology within Health Assessment. Other regions grew in aggregate, led by CenTrak, our real-time location services business within Health Assessment.

Our people

Our people share a common purpose to grow a safer, cleaner, healthier future for everyone, every day. In these extraordinary times, we are proud of how they are bringing our purpose to life and showing how our DNA is such a fundamental part of what makes Halma a sustainable, successful business.

Halma's DNA gives us resilience

Halma's DNA – the combination of our organisational structure and culture – has proved to be more valuable than ever in our response to COVID-19. It has underlined the strength of talent we have at every level of the business and has allowed our people to adapt quickly to changing market conditions and changing work environments. Our DNA has given us the agility to overcome the short-term challenges of the global pandemic and will continue to give us the resilience we need to thrive in the long term.

Equal opportunities

We are committed to promoting equality of opportunity for all employees and job applicants. We aim to create a working environment in which all individuals are able to make best use of their skills, free from discrimination or harassment, and in which all decisions are based on merit.

It is a Group policy to not discriminate against staff or candidates on the basis of age, disability, gender, gender reassignment, marital or civil partner status, pregnancy or maternity, race, colour, nationality, ethnic or national origin, religion or belief, or sexual orientation.

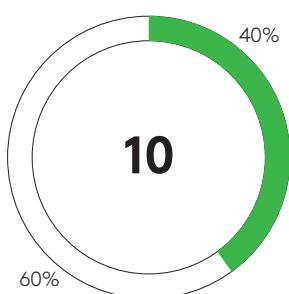
Diversity and Inclusion

At Halma we are committed to building a diverse and inclusive culture throughout our group of 44 businesses. We believe this will ensure our employees can be themselves at work and that their innate differences are leveraged to help us win.

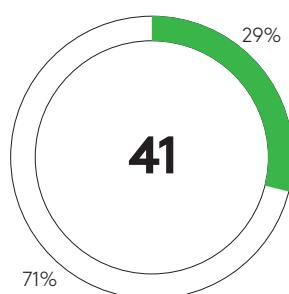
Our Diversity

Figures as at 31 March 2020

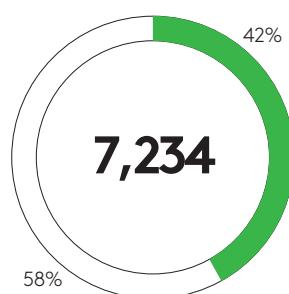
Board of Directors¹



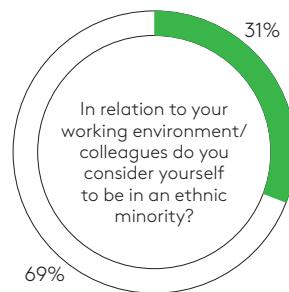
Senior management²



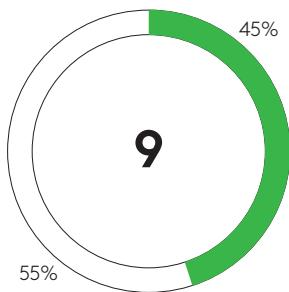
Other employees



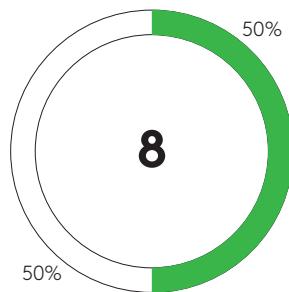
Ethnic diversity⁴



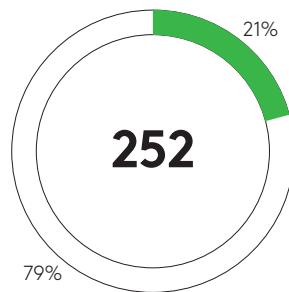
Executive Board



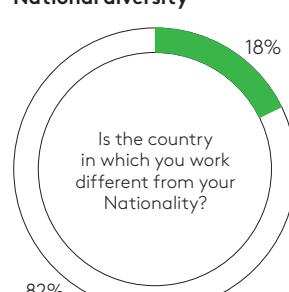
Divisional Chief Executives



Senior leaders³



National diversity⁴



● Yes
○ No

● Female
○ Male

1. Includes non-executive Directors.

2. Defined as Executive Board members who are not on the Board and direct reports into all Executive Board members.

3. Defined as the senior group of employees who are eligible to participate in the Executive Share Plan (includes Executive Board and Divisional Chief Executives).

4. Response to questions posed in the 2020 Engagement Survey.

We have made good progress this year on increasing the gender diversity of our organisation, from the Group level to the company level, and have set ourselves a new ambition for all senior management teams across our 44 companies to be within a gender balance range of 40% – 60%.

Halma has achieved 40% gender balance on its plc Board, and 45% gender balance on the Executive Board. From August 2020 the Executive Board will have 57% women. We have also successfully increased gender balance among our Divisional Chief Executives to 44% at April 2020 from 37.5% in 2019.

We have made good progress in the 6 years since 2014 when the plc Board had 18% women, and the Executive Board and Divisional Chief Executives had no women at all.

Our Group Chief Executive, Andrew Williams, has been an active member of the 30% Club since 2017, a membership organisation which campaigns for at least 30% of board seats to be held by women.

We believe that gender diversity is only one key element of a diverse team. For the first time we have measured national and ethnic diversity across our people, to provide a benchmark which we can reference in the future. 18% of employees said that they were of a different nationality to the country in which they worked, and 31% of employees said that they consider themselves to be in an ethnic minority compared to their work environment and colleagues.

We have truly benefited from greater diversity and inclusiveness this year as our people have risen to the challenges posed by COVID-19. The ability to see diverse points of view and work together to meet the needs of all our stakeholders has enabled our companies to thrive in this challenging environment.

Recent events in the US have highlighted long-standing inequalities in our society. This moment has served to reaffirm our commitment to building inclusive businesses where everyone can feel safe and secure at work. We will not tolerate racism, inequality or discrimination of any kind. This is a core part of our DNA and is fundamental to the success of our business. Our Diversity and Inclusion policy describes this belief:

"Everyone should have the right to feel welcome at work and supported to bring their full and authentic self with no fear or consequences. Inclusion at Halma is an enabler to connect the diverse perspectives and unleash the full power of our people, our partners and our businesses."

We are aware that this is a journey and we continue to prioritise increasing our gender and ethnic diversity on all leadership teams across the Group.

Engaging our people

Deeply engaged and motivated teams are vital to our success. Each February we conduct an annual survey to all employees to learn valuable insights from our people about what the key drivers of engagement are across the Group. This year, 86% of our global employee population completed the survey, indicating strongly that our employees are confident we will take action from their feedback.

The overall engagement score remained constant year on year at 75%. The survey showed that the main drivers of engagement were clear leadership, and an innovative and respectful work environment. This year we saw two new drivers that reflect our continued focus around purpose and inclusion. These were being part of an ethical business and one where people can be their authentic self when at work. We saw no significant differences in engagement across gender, ethnicity or nationality.

In 2019 we completed our first ever group-wide charitable campaign – Gift of Sight – which saw over 33 companies and more than 2,500 employees get involved over the year.

The campaign was designed to raise awareness of the issue of preventable blindness while also improving the eye health of employees.

We engaged our employees through a campaign of videos and blogs on our internal communications platform – HalmaHub. At the close of the campaign we had successfully screened the eyesight of over 2,500 employees and raised over US\$200,000 to fund 8,000 sight-saving operations in Ghana. In October 2019, we rewarded the companies who had screened the most employees with the chance to visit Ghana to help assist with these operations first-hand.

This small team visited Ghana to assist with eye surgeries being performed by our NGO partner, Himalayan Cataract Project. Our employees transported patients from their rural homes to community hospitals, looked after them in recovery, and were able to witness the joy of the moment when sight was restored.

Developing our people

Betting on talent is core to our operating model. We are able to delegate key operational and strategic decisions by continuing to ensure we have the right talent and skills to do so. We use real and essential work to develop leaders at all levels and complement this with targeted learning and development programmes.

During the year, we have increased our development programs by introducing new solutions such as our Innovating the Organisation 2 (ITO 2) programme that helps leadership teams to develop and scale growth strategies in line with their purpose and improve their ability to operate as a high-performing team. The programme also included a strong emphasis on personal leadership, self-awareness, mindset and behaviours to lead growth. During the year, we put 219 of our senior leaders through a range of management and leadership courses.

We have responded to COVID-19 by providing enhanced online services for development and training, and putting in place extra support for our people's wellbeing. We launched employee assistance programmes in the US and UK and set up a dedicated portal for employee wellbeing with resources and guidance for coping with stress, anxiety and uncertainty.

Our stakeholders

Maintaining strong stakeholder relationships is essential to Halma's long-term sustainable success.

Our people

Developing and attracting high-quality talent is a key driver of our success. We strive to build leadership teams which are diverse, effective and engaged.

Key areas of interest

- Development and progression.
- Remuneration.
- Diversity and inclusion.
- Workplace policies.
- Collaboration.

Operating companies

Our decentralised model places our companies close to their end markets and under the management of their own board of directors, empowering entrepreneurial action. Our companies are key stakeholders which collectively deliver our organic growth and are vital to the success of our growth strategies.

Key areas of interest

- Operational and financial performance.
- R&D investment.
- Talent development.
- Collaboration.
- International expansion.

Customers

Our customers play an essential role in ensuring the sustainability of the Group. By delivering our products and services to the end market where they serve to protect and improve the quality of life, they play a pivotal role in the fulfilment of our purpose.

Key areas of interest

- Innovative solutions.
- Long-term relationships.
- Value.
- Service.
- Research and development investment.

Suppliers

Developing strong relationships with our suppliers is key to the operational success of our businesses and ensures that we have agility to develop new and market competitive solutions to meet our customers' needs.

Key areas of interest

- Social and ethical impact.
- Payment practices.
- Long-term partnerships.

How the Board engages

- Our communications platform, HalmaHub, enables our employees to keep up to date with the latest news across the Group, collaborate with colleagues and share experiences and knowledge.
- The group-wide employee engagement survey is conducted annually and provides valuable insight to the Board on issues that matter to our workforce.
- The Board seeks to engage with the workforce throughout the year and further details are set out on pages 64 and 65.

How the Board engages

- The Board is in regular communication with our companies through site visits, presentations and the annual Leadership conference. This ensures alignment relating to the development and performance of the companies and of Halma's strategic priorities and culture.

How the Board engages

- Our executive Board works closely with major customers to ensure that we offer and develop innovative solutions using our technology and deep application knowledge.

How the Board engages

- Our executive Board and the Divisional Chief Executives work closely with key suppliers to ensure that we continue to deliver the best products and services for our customers and have the infrastructure in place to respond to market developments. The Divisional Chief Executives report back to the Board periodically on significant supplier contracts and arrangements.
- Our principal suppliers are subject to regular engagement, including audits, and are encouraged to operate with the high ethical standards that are set out in our Code of Conduct.

How we responded

- Conducted and reviewed the results of the annual employee engagement survey.
- Significant progress made on gender diversity at Executive Board and senior management level.
- Ensuring a safe working environment for all Halma company employees in response to the COVID-19 pandemic.

How we responded

- Supported product development via the Innovation Network growth enabler.
- M&A activity has provided our companies with access to new markets.
- Creation of COVID-19 support groups to provide shared resources and central support for our companies.
- Increased the number of senior leaders attending development programmes during the year.

How we responded

- Maintained high level of R&D investment.
- Supported our operating companies to ensure that customer needs are met in the fight against COVID-19.

How we responded

- We undertook a risk assessment of our supply chain to identify potential modern slavery risks covering 3,500 suppliers.
- We supported our suppliers by ensuring prompt payment before, and during, the COVID-19 pandemic.

Section 172(1) Stakeholder Compliance statement

The Companies (Miscellaneous Reporting) Regulations 2018 require that Directors explain how they have had regard to the matters set out in section 172(1)(a) to (f) (S.172(1)) of the Companies Act 2006 when performing their duty to promote the success of the Company. Throughout the year, while discharging their S.172(1) duty, the Directors have acted in a way that they considered, in good faith, would be most likely to promote the success of the Company for the benefit of shareholders, and in doing so had regard, amongst other matters, to:

- The likely consequences of any decision in the long term.
- The interests of the Company's employees.
- The need to foster the Company's business relationships with suppliers, customers and others.
- The impact of the Company's operations on the community and the environment.
- The desirability of the Company maintaining a reputation for high standards of business conduct.
- The need to act fairly as between members of the Company.

The Board also considered the interests of a wider set of stakeholders including its operating companies, acquisition prospects and business partners. The table opposite identifies Halma's stakeholders, the key issues the Directors considered relevant, and the Board's engagement methods and response during the year.

Examples of how the Directors discharged their S.172(1) duty when taking principal decisions during the year are set out on page 63.

Acquisition prospects and business partners

Our companies and sector M&A teams continue to build relationships with businesses that could become acquisition prospects or strategic business partners.

Key areas of interest

- Financial performance.
- R&D investment.
- Collaboration.
- Delivery of initiatives.
- International expansion.

How the Board engages

- The executive Directors are in dialogue with our business partners and will meet or engage with management at potential acquisition targets as part of the due diligence process.

How we responded

- Record year for acquisitions.
- Formed Halma Ventures as a vehicle to hold corporate venture investments and establish strategic business partnerships.
- Established a new partnership with EUVIC, an IT service provider, which has been utilised by our operating companies during the year.
- Strengthened existing partnerships with Hitachi and OurCrowd.

Society and Community

We have a duty to conduct business in a responsible and sustainable way that aligns with our purpose and values, and supports the communities in which we operate.

Key areas of interest

- Environmental and social impact.
- Improving quality of life.
- Protecting people.

How the Board engages

- Halma's Gift of Sight campaign was supported by the Board. Directors undertook sight tests to raise funds for the Himalayan Cataract Project and Adam Meyers travelled to Ghana to see sight-saving surgeries take place.
- The Board reviewed ESG related matters and supported the work to develop a science based carbon reduction target and risk map the supply chain risk for Modern Slavery.
- The Board reviews the portfolio to consider how our businesses and their products align with our purpose.

How we responded

- Supported our operating companies with the production and supply of personal protective equipment to health workers in the fight against COVID-19.
- Completed the Gift of Sight campaign raising over US\$200,000.
- Met our CO₂ intensity target.
- We have not accessed support from the Government's Coronavirus Job Retention Scheme or Covid Corporate Financing Facility to fund the small percentage of our workforce furloughed in the UK.

Investors

Shareholders and lenders provide the financial liquidity we require to operate, and are key beneficiaries in the value that we create. As investors in our business, we are committed to transparent and open engagement with them.

Key areas of interest

- Strategy and implementation.
- Operational and financial performance.
- Capital structure, liquidity, capital allocation and dividend policy.
- Risk management.
- M&A.
- Talent and succession planning.
- Environmental, Social and Governance matters.

How the Board engages

- The Directors meet investors on a regular basis – principally through investor roadshows, investor events and the AGM.
- The Chairman invites the Company's largest equity shareholders to meet to discuss the annual results announcement and any other significant matters.
- The non-executive Directors are available to meet with shareholders at the AGM and will engage with investors on topic-specific matters, as required.
- The Chief Financial Officer meets lenders on a regular basis.
- Investor Relations and Treasury maintain an ongoing dialogue with shareholders, financial analysts and our lenders regarding financial, operational, risk and environmental, social and governance issues and provide regular reports to the Board on these interactions.

How we responded

- Progressive dividend policy maintained, while ensuring the Group continues to have a conservative capital structure, a robust balance sheet and substantial available liquidity.
- Continued strategic investment, both organically and through acquisition, bringing new capabilities, new geographies and new market opportunities to the Group.
- Further strengthened our finance, internal audit, risk and legal teams.
- ESG initiatives recognised in the year by an improvement in our CDP Climate Change rating to B (Management) and our continued membership of the FTSE4Good index.

Sustainability

Our purpose of growing a safer, cleaner, healthier future for everyone, every day is the foundation for our approach to sustainability.

Our markets provide Halma's companies with long-term growth opportunities and being a sustainable business is therefore a core part of Halma's DNA. Our sustainability initiatives are focused on ensuring that we can continue to serve our markets in a sustainable way over the long term. Marc Ronchetti is the appointed Board member responsible for leading our approach to sustainability and health and safety, and he regularly updates the Board on our progress in these areas.

Our focus on markets in the safety, health and the environment sectors means that we are well placed to play a positive role in society, by addressing issues which are fundamental to human wellbeing, are long term in nature, and of global reach: ensuring safety in industrial processes and in public spaces; improving healthcare diagnosis and treatment; and addressing key environmental challenges through innovative monitoring, analysis and treatment solutions.

We evaluate our positive impact using the framework of the UN Sustainable Development Goals (SDGs) and have chosen four to be the focus of our sustainability initiatives. Further details on the chosen SDGs and examples of our contribution are set out on the next page.

We pride ourselves on behaving responsibly in our business dealings with stakeholders in the markets we serve and in the communities where we operate. Our focus areas in 2020 have included: the environment, in terms of both the opportunities we see to enhance our positive impact and to increase our efficiency; maintaining our strong health and safety track record; working to ensure that we have a diverse and inclusive organisation; and setting a methodology to enhance our analysis of potential social and environmental risks in our supply chain.

Examples of our positive impact

Halma plays a positive role in society, by addressing global, long-term issues which are fundamental to human wellbeing, in the broad market areas of safety, health and the environment. Halma companies are world leaders in a number of technologies which help to minimise environmental damage, and we are committed to the development of equipment for measuring and monitoring environmental changes and controlling the impact of industrial activities over the long term.

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

Over two-thirds of our revenue supports the aims set out in our four chosen UN Sustainable Development Goals and the acquisitions we made in the year are even more highly aligned to these goals, with over 90% of revenue acquired in the year contributing directly to our four chosen SDGs. We set out on the facing page some examples of our businesses' positive impact in supporting these goals.

We also support a number of other Sustainable Development Goals, for example: SDG 5 Gender Equality; SDG 8 Decent Work and Economic Growth and SDG 10: Reduced Inequalities, through our work on equal opportunity and diversity and inclusion within Halma, and on identifying modern slavery risks within our supply chain; SDG 12: Responsible Consumption and Production, through our sustainability initiatives and reporting; and SDG 13: Climate Action, through our carbon intensity reduction target, and through the use of our technologies by our customers to reduce their carbon footprints.

Progress in 2020

We made further progress in the year in a number of key areas of our sustainability agenda:

- Improved our CDP rating to 'Management B' from 'Awareness C'.
- Maintained our long standing status as a constituent of the FTSE4Good Index.
- Met our CO₂e intensity target and committed to setting a Science-Based Target in the next financial year.
- Entered into renewable electricity and gas contracts to reduce our annualised carbon emissions by over 2,000 tonnes (equivalent to more than 10% of our current Scope 1 and 2 emissions) by the end of 2022.
- Set an ambition to move all our UK sites to REGO certified electricity and 'Green' gas over the next two years.

- Commenced a group-wide review of electronic waste, with the aim of reusing or recycling more than 99% of electronic waste.
- Commenced preparations to disclose in line with the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) by 2022.
- Continued the drive for diversity and inclusion across all levels of our workforce.
- Completed an analysis of modern slavery risks across our global supply chain, thereby creating a methodology for the analysis of other potential supply chain risks.
- Completed our first-ever global community campaign, Gift of Sight.

UN Sustainable Development Goals (SDGs)

We have chosen four SDGs to be the focus of our sustainability initiatives. Each of these is closely aligned to our purpose and represents an area where we can have the most impact, given what we do and where we operate.

Good health and wellbeing	Clean water and sanitation	Industry, innovation and infrastructure	Sustainable cities and communities
 The global challenge Ensure healthy lives and promote wellbeing for all ages.	 The global challenge Ensure availability and sustainable management of water and sanitation for all.	 The global challenge Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation.	 The global challenge Make cities and human settlements inclusive, safe, resilient and sustainable.
Indicators relevant to Halma <ul style="list-style-type: none"> Reduce premature mortality from non-communicable diseases through prevention and treatment. Reduce the death and injury rate from road traffic accidents. Reduce the number of deaths and illnesses from hazardous chemicals and air, water and soil pollution and contamination. 	Indicators relevant to Halma <ul style="list-style-type: none"> Increase the proportion of the population using safely managed drinking water services. Improve water quality by reducing pollution and minimising the release of hazardous chemicals and materials. Increase the proportion of wastewater safely treated Substantially increase water-use efficiency. 	Indicators relevant to Halma <ul style="list-style-type: none"> Promote inclusive and sustainable industrialisation and raise industry's share of employment. Upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes. Upgrade the technological capabilities of industrial sectors in all countries, encouraging innovation and substantially increasing R&D spending. 	Indicators relevant to Halma <ul style="list-style-type: none"> Reduce the adverse per capita environmental impact of cities, including by paying special attention to air quality, and municipal and other waste management. Provide universal access to safe, inclusive and accessible green and public spaces.
Our impact Halma's technology helps to diagnose and treat disease earlier and more accurately; to improve road safety; and to reduce water and air pollution.	Our impact Halma's products and services help to ensure access to clean drinking water; to ensure efficient and effective wastewater treatment; and to maintain robust water and wastewater networks, minimising leakage and maintaining pressure.	Our impact Halma is continuously developing innovative technologies to increase industrial efficiency and safety and safety in public places. In addition, Halma's growth strategy provides a major opportunity to help our customers with the challenges of automation and digitisation.	Our impact Halma's technology makes cities safer, through fire and security protection, elevator safety products, and products and services addressing safety in public spaces, including enhancing road safety. Halma's environmental and analysis technology helps to promote cleaner cities, ensure clean drinking water, and monitors gaseous emissions and the treatment of wastewater.
We support disease diagnosis by supplying over 1 million diagnostic products a year, and we enable treatment, with our products supporting over 7 million surgeries per annum. We make roads safer, with our road safety technology being used on over 2,800 kilometres of highways.	We make water safer, by enabling over 200 million water tests annually. We help to conserve water, with our products being used to monitor over 110,000 kilometres of water pipelines. With UK water pipeline leakage estimated at over 9,000 litres per kilometre per day, our products help conserve billions of litres of water per year.	We invest in innovation, with our research and development expenditure having been over 5% of our revenue for the last five years. We make our businesses sustainable, through maintaining a strong health and safety track record and reducing our carbon emission intensity, as detailed on pages 44 and 47.	Our fire detectors make urban environments and public spaces safer. We estimate that our fire detection products currently protect buildings with an aggregate area of more than 5,000 square kilometres. We protect lives, with our gas sensor products protecting the safety of over 250,000 people every day.

Sustainability continued

Environment

Halma recognises that all of our activities have an environmental impact. Our approach is to limit this impact by having relatively low capital-intensity manufacturing processes and by operating geographically close to our end markets. We also encourage our companies and their suppliers to improve energy efficiency, reduce water consumption and waste and emissions and, in terms of materials, to reduce use, or make more efficient use, of them.

Operating in this way helps ensure that our environmental impact is relatively low when compared to other manufacturers.

Key environmental impacts have been identified as emissions to air and water, water and energy consumption, and waste production. We publish annual data in this Report and on our website on energy and water consumption, waste and transportation. All Group companies are encouraged to undertake ISO 14001 accreditation, where warranted, and for the year to 31 March 2020, approximately 23% of the Group's revenue was derived from companies with an ISO 14001 accreditation.

Our carbon footprint

Halma's Environmental Policy has been set by the Board and our Chief Financial Officer, Marc Ronchetti, has principal responsibility for coordinating and monitoring the Policy.

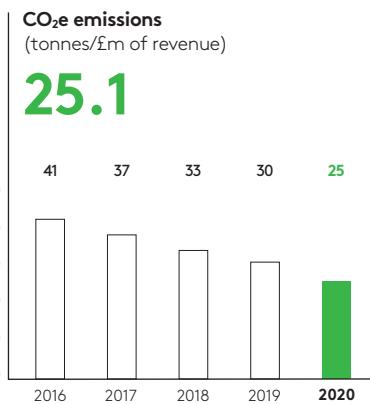
We are committed to reducing our carbon footprint. The Board recognises the challenges of reducing energy consumption and absolute CO₂ emissions while growing an international business through acquisition and portfolio expansion. We have, since 2010, set a target of reducing our total carbon emissions relative to revenues by 10% over consecutive three-year periods. This intensity target has always been achieved, including for the three consecutive periods ending in 2019.

In 2020, we extended this carbon intensity reduction target for a further year, ahead of adopting a new approach to a long-term carbon reduction target, in-line with climate science and to support the transition to a low-carbon economy to protect people, the economy and, not least, our planet from the effects of global warming. We remain committed to adopting a Science Based Target but, given the impact and disruption to our businesses from the COVID-19 pandemic, have taken the decision to defer its implementation until our 2021 financial year.

In the meantime, even though we substantially outperformed our carbon intensity target in the 2020 financial year, we will target a further reduction in carbon intensity for the year to March 2021.

We are also providing for the first time the percentage of our electricity and gas consumption that is derived from renewable sources, whether from external sources or self-generated, expressed as a percentage of kilowatt hours. Renewable electricity and gas accounted for 7% of our total consumption in this financial year, providing a baseline for improvement in future years.

Our Scope 3 emissions, which include business travel and employee commuting, is the group's largest source of greenhouse gas emissions. We have developed a Travel Policy which encourages colleagues to utilise video conferencing facilities in preference to physical meetings to reduce travel costs and our Scope 3 emissions. Our Company Car Policy, which is subject to regular review, also supports the group's commitment to sustainability by setting a general cap on permissible CO₂ emissions for all company-owned vehicles and vehicles used by employees who have taken a cash allowance in lieu of a company car.



GHG emissions and energy use data for the period 1 April 2019 to 31 March 2020

	1 April 2019 to 31 March 2020			1 April 2018 to 31 March 2019		
	UK and offshore	Global (excluding UK and offshore)	TOTAL	UK and offshore	Global (excluding UK and offshore)	TOTAL
Scope 1: Combustion of fuel and operation of facilities	1,708	3,110	4,818	1,535	2,889	4,424
Scope 2: Electricity, heat, steam and cooling purchased for own use	2,034	10,282	12,316	2,778	10,679	13,457
Total gross Scope 1 & Scope 2 emissions / tCO ₂ e	3,742	13,392	17,134	4,313	13,568	17,881
Energy consumption in MWh used to calculate above emissions	16,200	38,905	55,106	17,178	37,474	54,652
Scope 3: Business air travel, WTT (Well to Tank)	3,716	12,807	16,523	4,768	13,819	18,587
Total gross emissions	7,459	26,199	33,657	9,081	27,387	36,468
Intensity measure of tonnes of CO ₂ e gross emissions per £m of revenue	28.2	24.4	25.1	37.4	28.3	30.1

Carbon reporting

Our transparent approach to environmental performance reporting is evidenced by our voluntary participation in the CDP Climate Change questionnaire; in the latest survey, we improved our rating to 'Management B' from 'Awareness C'.

As a quoted company incorporated in the UK, we comply with all mandatory energy and carbon reporting regulations. We have reported on all the emission sources required under the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018. We have employed the Operational Control definition to outline our carbon footprint boundary; included within that boundary are Scope 1 and 2 emissions from manufacturing sites and offices which we own and operate. Excluded from our footprint boundary are emissions from manufacturing sites and offices which we do not own and control and emissions considered non-material by the business.

We have reported on emissions from Scope 1 and 2 emissions sources and selected Scope 3 emissions sources (business air travel and Well to Tank emissions).

We have used the GHG Protocol Corporate Accounting and Reporting Standard (revised edition) and the Environmental Reporting Guidelines (March 2019) including streamlined energy and carbon reporting guidance published by the UK's Department for Business, Energy & Industrial Strategy (BEIS). Emission factors were sourced from the UK Government's GHG Conversion Factors for Company Reporting 2019 and the International Energy Agency's Emissions Factors (2019 edition).

Energy efficiency

In the period covered by the Report, Halma has complied with Phase 2 of the UK's mandatory Energy Savings Opportunity Scheme (ESOS) and is currently reviewing the recommendations from this process to identify further ways in which to improve energy efficiency across the group. The audits undertaken as part of this process have already resulted in the replacement of lightbulbs with LEDs, the adjustment of air conditioning timers to better match working hours, and site-level programmes of appliance switch-offs to save energy.

At our Crowcon business we have also installed lighting controls to enable lighting adjustments and timer settings and we have increased the temperature of our on-site comms room to align with best practice in data systems cooling management.

In the period covered by this Report, Halma has purchased 138,307kWh of renewable energy in the form of Guarantee of Origin backed renewable supply from Total Gas and Power, and is set to increase this volume in future reporting periods.

Water use and waste production

We encourage our companies to reduce their water use and their solid and liquid waste production where possible and have seen a substantial reduction in our water usage and waste production relative to our sales over the last five years.

Water use and waste production (m³)

	2016	2017	2018	2019	2020
Water usage	83,704	89,525	83,856	75,987	76,831
Water usage per £1000 sales	0.104	0.093	0.078	0.063	0.057
Solid waste	15,931	18,300	18,938	19,870	22,590
Solid waste per £1000 sales	0.020	0.019	0.018	0.016	0.017
Liquid waste	20,419	27,670	29,547	22,164	23,013
Liquid waste per £1000 sales	0.025	0.029	0.027	0.018	0.017

Society

Our role in society

Halma plays a positive role in society. This is underpinned by our products, which protect and improve the quality of life for people worldwide, and also by the opportunities we provide for our people worldwide, based on merit and free from discrimination, in an appropriate working environment and in safe working conditions. Information on equal opportunities, on our progress on diversity and inclusion, and on communication and consultation with our employees, is given in the 'Our People' section of this Report, on page 38.

Our positive role is underpinned by our ethos, and by specific policies, including our Code of Conduct and our Human Rights and Labour Conditions Policy, our work on building responsible, resilient and sustainable supply chains, and initiatives focusing on Health and Safety, whistleblowing and anti-bribery and anti-corruption.

Our ethos and Code of Conduct

Our culture is one of honesty, openness, integrity and accountability. Halma requires its employees to act fairly in their dealings with fellow employees, customers, suppliers and business partners. Halma has a Code of Conduct which applies to operations owned or controlled by Halma and their officers and employees, and each officer or employee who joins the group is required to acknowledge that they have read the Code and understood its importance.

We also expect our external business partners and suppliers to be aware of the Code and apply similar ethical standards in their operations. Each of our companies is responsible for monitoring the standards of their business partners and suppliers. The Code of Conduct aims to ensure that Halma maintains consistently high ethical standards globally, while recognising that our businesses operate in markets and countries with cultural differences and practices. It was updated in 2018, has been translated into nine languages, and is issued to all Halma employees and published on our website.

Health and safety

Health and safety is critical to the group and a top priority for company management. Marc Ronchetti, Chief Financial Officer, is the Director responsible for Halma's health and safety compliance. The group has a strong health and safety record, driven by a deeply embedded culture of safety. Our Health & Safety Policy requires businesses to manage their activities in a way which avoids causing unnecessary or unacceptable risks to health and safety. The Policy was updated in 2019, to reinforce the Board's 'tone from the top' and to provide clear guidelines for our businesses on managing health and safety risks to ensure a safe work environment, and has been reinforced with support and guidance given to our businesses to reflect the particular health and safety issues arising from the current COVID-19 pandemic.

Halma collects details of its worldwide reported health and safety incidents through its central financial consolidation system and the Board monitors health and safety performance. The group's Accident Frequency Rate (AFR) is one of our non-financial KPIs (see page 29).

In line with Halma's autonomous structure, operational responsibility for compliance with local health and safety regulations, including that of suppliers, resides with the board of each operating company. However, we routinely monitor health and safety performance across the group and companies are encouraged to seek continuous improvement and to promote a strong health and safety culture. Approximately 15% of the group's revenue is derived from companies who have been

Sustainability continued

accredited with BS OHSAS 18001, a minimum standard for occupational health and safety management best practice. With ISO 45001 replacing BS OHSAS 18001, we will encourage our companies to certify to this standard in the future.

Our Policy requires businesses to carry out an independent health and safety review every three years to assess compliance and to ensure that there is a consistent and adequate level of reporting and investigation of health and safety incidents across the group.

The group's health and safety performance remained strong with an Accident Frequency Rate of 0.06. We thoroughly review the root cause of any accidents to ensure that we take preventative measures, including further training and education of our employees. Since its introduction, more than 2,900 employees have been enrolled in our online training programmes.

There were no work-related fatalities in 2019 or in prior years and details of recorded injuries during the year and the prior four years are set out on the next page.

Human rights

Halma's Human Rights and Labour Conditions Policy reflects the core requirements of the Universal Declaration of Human Rights and the group observes the ILO Declaration on Fundamental Principles and Rights at Work, including the conventions relating to forced labour, child labour, non-discrimination, freedom of association and right to collective bargaining.

Our Group Chief Executive, Andrew Williams, has overall responsibility for ensuring that human rights considerations are integral to the way in which existing operations and new opportunities are developed and managed. Compliance with, and respect for, these fundamental principles are integrated throughout our organisation.

Managers and supervisors must provide leadership that promotes human rights as an equal priority to other business issues. All employees are responsible for ensuring that their own actions do not impair the human rights of others, and are encouraged to bring forward, in confidence, any concerns they may have about human rights.

Modern Slavery Act

Halma is committed to conducting its business ethically and in line with all relevant legislation including human rights laws. Halma has published three Modern Slavery Act Statements since September 2016, which detail the progressive steps taken annually to tackle modern slavery and human trafficking. Since the introduction of the Act, we have worked to raise awareness of this important agenda.

A detailed guidance note has been provided to all businesses to raise awareness of the Act and the issue of modern slavery in business and supply chains. Each business has been required to consider the potential issue of modern slavery and human trafficking within their business and supply chain. In addition, online compliance training on the Modern Slavery Act has been rolled out to senior management, all subsidiary board members and other relevant employees across the group. Over 2,800 employees have been enrolled on this training and this is an important tool to assist our business management in raising awareness of the issues and understanding their responsibilities in their operations.

In 2020, we undertook a risk assessment of our businesses and supply chain, assisted by STOP THE TRAFFIK – a UK charity which specialises in human trafficking prevention through awareness campaigns and intelligence-led reporting, to further strengthen our efforts in this area. This comprehensive exercise mapped potential modern slavery risks in our business and supply chain, and covered over £500m of annual procurement expenditure (representing over 96% of expenditure excluding intercompany payments, employee expenses, tax and sales commissions) across over 3,500 suppliers. The analysis found that 14% of this procurement expenditure was potentially higher risk, and that 12 Halma companies accounted for around two-thirds of this higher risk expenditure. We will commence work in 2021 to further analyse the higher risk suppliers and mitigate the risk by conducting targeted risk assessments of those suppliers, and take appropriate action which could include additional contractual terms, supplier audits and consolidating our supplier base to help reduce risks and ongoing monitoring.

Whistleblowing

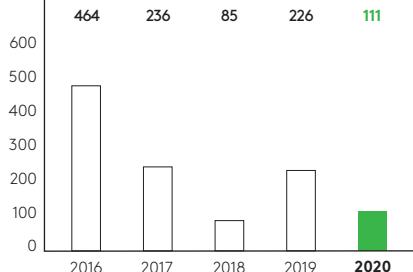
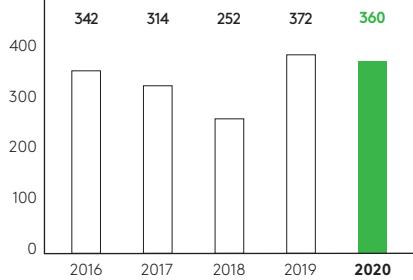
Halma has a group-wide whistleblowing policy which applies to all employees and Halma operations as well as joint venture partners, suppliers, customers and distributors relating to our businesses.

While we encourage an open culture where any issues can be raised and handled locally at business level, we recognise that there will be times when it is not appropriate, or a person will not be comfortable raising a concern through line management. An independent third-party provider, NavexGlobal, has been appointed to operate a confidential reporting service to enable employees to raise any concerns they may have in confidence, via telephone or web-reporting. Where permitted by law, employees may report anonymously if they wish. Halma is committed to ensuring that anyone raising a concern in good faith is not subject to any victimisation or detrimental treatment.

All reports are treated confidentially and are provided to the Company Secretary. Where appropriate, the review and investigation is undertaken or led by the Director of Risk & Internal Audit or the Talent & Culture Executive for the relevant sector. All reports are appropriately investigated and concluded. The Audit Committee receive details of any reports relating to financial misconduct and the Board receive an overview of reports relating to people and culture.

Anti-bribery and anti-corruption

Halma has a zero-tolerance policy on bribery and corruption which extends to all business dealings and transactions in which the group is 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. Every business records and reports on any gifts, hospitality or charitable donations which exceed the group policy limits. Our Policy and guidance in this area is well understood, routinely reviewed and compliance is checked as part of the half year and year-end control process. We also require customers and suppliers who contract on our standard business terms to comply with anti-corruption and anti-bribery laws. Online anti-bribery and anti-corruption compliance training covers senior management, all subsidiary board directors and other relevant employees. Over 3,600 employees from across the group have been enrolled.

Days lost to preventable work injuries***111****Total recorded injuries to all employees****360**

* Specified major injury incidents are reportable incidents which result in more than three working days lost.

Suppliers

We encourage our companies to build responsible, resilient and sustainable supply chains, by identifying potential risks both with direct and indirect suppliers of goods and services.

Our aim is to develop an overarching sustainable procurement policy in collaboration with current and new suppliers and to share best practice and knowhow across our companies, supported as appropriate by minimum standards such as ISO 14001 and ISO 15001. This will enable sustainable supply chain practices which embrace responsible business, human rights, equal opportunities, community benefits and positive social and environmental values. Our work in this area will be supported by the methodology for risk identification established as part of the modern slavery risk mapping exercise we undertook this year (see above). Given the challenges in our supply chain as a result of the COVID-19 pandemic, some of this work has been put on hold, but we remain committed to making further progress when possible.

Our manufacturing model is decentralised and allows us to operate close to our suppliers, which helps to mitigate risks within our supply chain. We encourage our suppliers to operate with the high ethical standards that are set out in our Code of Conduct, and set standards for our suppliers, which include requiring all suppliers who contract on our standard business terms to comply with anti-corruption and anti-bribery laws.

One particular area of concern for our customers and other stakeholders is whether certain metals that may originate in conflict zones are included in our products. US Securities and Exchange Commission (SEC) rules require US publicly traded companies to certify whether such conflict minerals are contained within their products. In order to assist our customers who are subject to this SEC rule, we have a Conflict Minerals policy which gives guidance to all companies on how to determine whether any of the four minerals or their derivatives classified by the US government as 'conflict minerals' are contained in any product.

We recognise that we can go further in working with our supply chain in reducing our environmental impacts and to this end we will continue to work with our key suppliers in mitigating these impacts. At the operating company level, supplier due diligence is undertaken and there are many examples where additional requirements are imposed by our business for its key suppliers, such as ISO14001 accreditation to ensure the supplier operates responsibly in regard to the environment.

We also intend to set a Science Based Target for carbon emissions in the next year, and, as we develop this in the future, our intention is to include Scope 3 emissions linked to our supply chain. This will involve surveying our key suppliers and working with them to help reduce their resource consumption and improve efficiencies, and our intention is also to engage with these suppliers and request them to submit supplier questionnaires alongside our annual voluntary CDP response.

Risk management and internal controls

Strategic risk management – for resilience and growth

Our approach

We believe success is achieved by involving our employees at all levels in the organisation and empowering them to manage risks and take advantage of opportunities. Our risk awareness culture allows management to make better commercial decisions and helps to maximise the benefits of our decentralised business model. The agility that this business model gives us has been demonstrated during the COVID-19 pandemic by the speed of response and adaption of our companies to the local market situations they are facing. Good risk management is also critical to providing a solid foundation from which our business can grow.

Our risk governance framework

The Board is responsible for determining the nature and extent of the principal risks it is willing to take to achieve its strategic objectives.

Each company or function within Halma identifies risks and opportunities as part of their strategic reviews, assesses how these are currently controlled and whether any further actions are required. A similar exercise is performed at sector and Group level to develop an overall ‘bottom up’ picture of risk for the Group. The principal and emerging risks identified by the Board and Executive Board are compared with the bottom up risk picture to ensure appropriate alignment of risk and execution of risk appetite.

During the year, updates from management to the Board covered all of our principal and emerging risks. The Audit Committee, on behalf of the Board, obtained assurance that the risk management and internal control system was operating effectively throughout the organisation and that risks were being managed in line with the risk appetite set by the Board.

In addition to reports from management, the Board and Audit Committee received updates from Group Risk & Internal Audit about how the risk management process was operating across the organisation.

On behalf of the Board, the Nomination Committee ensured there was an optimum balance of skills, knowledge and experience within the executive management team to deliver the strategy and effectively manage risk, while the Remuneration Committee ensured that the right reward system existed to drive an appropriate culture of high performance with commensurate controls.

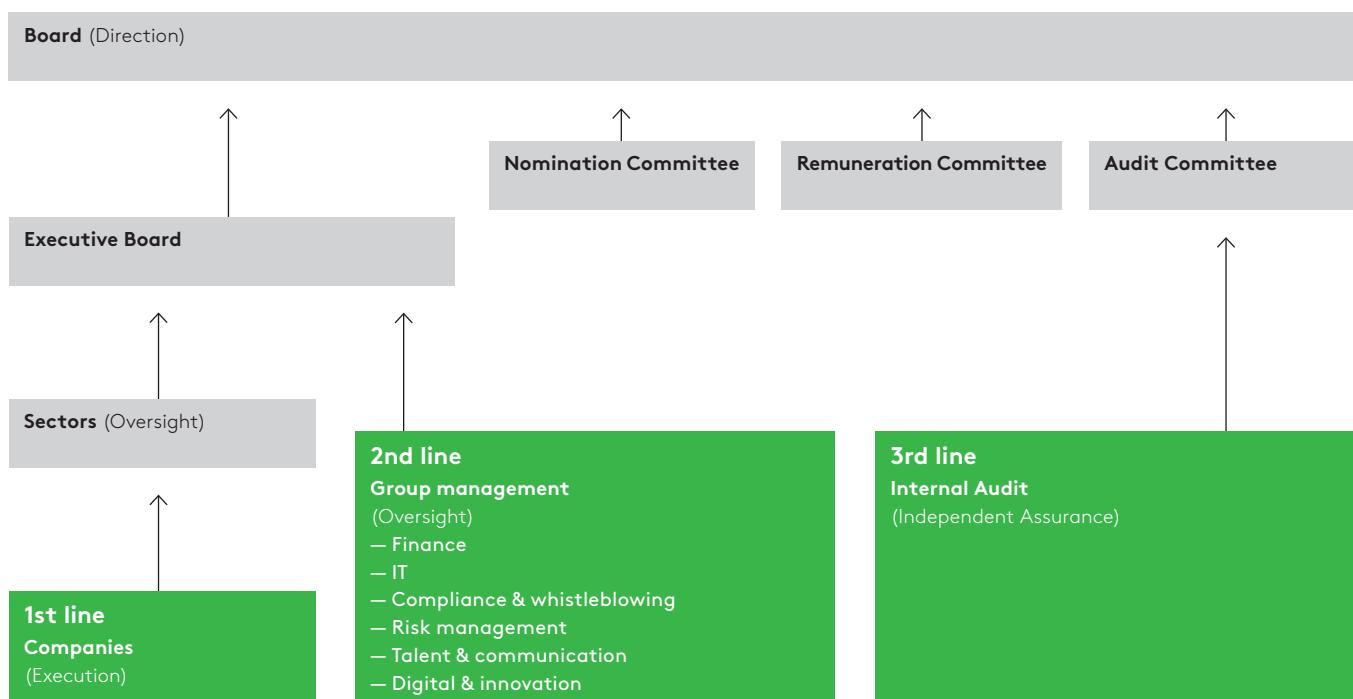
Our control framework

Halma’s decentralised business model provides significant autonomy to companies, within the structure of a clear control framework.

This framework ensures there is sufficient oversight and clear identification of matters reserved for the Board. The key elements of this framework include:

- Clear accountabilities and delegation of authority throughout the organisation.
- Documented policies and procedures.
- Monthly reporting by companies on performance, including risks, with regular oversight by sector and Group management.

Risk governance framework



- Six monthly self-certifications by companies on the most critical controls for finance, legal and IT.
- Independent six-monthly peer reviews of companies' reported financial results by other company CFOs.
- Independent validation of controls and certifications by Internal Audit during audits.
- Existence of a whistleblowing hotline which is available for all employees.

Our areas of focus during the year

There were no changes to the composition of our principal risks during the year, but work has continued to ensure we are managing them effectively by anticipating and responding to change. Key developments during the year included:

- Appointment of Catherine Michel as Halma's first Chief Technology Officer, having global responsibility for Halma's data and IT strategy.
- Implementation of an approach for making strategic partnership investments at an early stage in high growth potential companies.
- Review and refresh of our data protection policy following lessons learned from implementation of the GDPR and to ensure controls in place are sustainable.
- Streamlining of our finance, legal and IT controls to ensure they continue to be the most critical controls to safeguard our assets, data and reporting. These controls are self-certified by businesses every 6 months and Internal Audit provides independent assurance over these.
- Introduction of Halma's new branding and sharing of our DNA, aligned to our purpose.
- Our response to the COVID-19 pandemic (see case study) and specific inclusion of a pandemic as part of our natural disasters principal risk.
- Continued work on Brexit preparedness and monitoring of this risk, especially whilst there is insufficient clarity on the UK's long-term trading relationship with the EU.

Emerging Risks

In addition to existing principal risks, the Executive Board and the Board also considered emerging risks formally during the year. Climate change continues to be an emerging risk that we are considering as part of our existing risk management process and are continuing to develop our approach. This work is also to achieve alignment with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations around governance, strategy, risk management and metrics and targets. Many of our products already are used to help monitor the impact of climate change and this is expected to continue.

COVID-19 Response

At the time of the outbreak of COVID-19 in January in China, the value of our decentralised business model became apparent once again. Halma's companies in China immediately started to adapt, making decisions locally as the crisis was evolving. Information and learnings were also shared rapidly around the Group and central and regional COVID-19 support groups were created to provide support and guidance to Halma companies worldwide.

Our priority throughout the pandemic has been to ensure a safe working environment for all of our employees. The fact that over 30 of our companies were classified by authorities as delivering critical safety, healthcare and environmental protection solutions, together with effective business continuity planning, has been key to all but three of our companies being able to avoid extended shutdown periods. At the date of this Report, all of our manufacturing facilities are operational.

Our agility has enabled us to act rapidly to reduce costs to protect operations during this time. The Finance teams have also been performing additional cash forecasting and stress testing to ensure Halma has sufficient liquidity, not just to survive the current COVID-19 crisis but also to ensure Halma can invest for growth going forward, whether organically or through acquisition.

Talent is a principal risk and rightly so, because it is only with our talented employees that we have been able to navigate our way through these unprecedented times. Halma's culture has also shone through, demonstrated by the many ways that our employees have been able to help society more widely with the COVID-19 response. These have included the manufacture of personal protective equipment for health workers, components for ventilators and also parts for medical diagnostic equipment, just to name a few.

During a crisis like this, it is key to ensure everyone in the Group knows that they are empowered to make rapid decisions based on the information they are able to obtain at the time. As a result, there are always learnings from such an experience and we have been keen to implement them. That said, our agile business model, our focus on critical safety, health, and environmental market niches, and our relationships with all of our stakeholders has helped us to remain resilient, and contribute to the global effort to deal with COVID-19.

Principal risks and uncertainties

1. Cyber

		Risk Owner: Catherine Michel
<p>Gross risk level</p>  <p>Low Medium High</p> <p>Change Increased</p> <p>Risk appetite Averse</p> <p>Growth Enablers</p> 	<p>Risk and impact</p> <p>Loss of digital intellectual property/data or ability to operate systems or connected devices due to internal failure or external attack. There is resulting loss of information or ability to continue operations, and therefore financial and reputational damage. The increase in this risk reflects the growing threat generally from cyber-crime around the world and also a specific increase as a result of cyber-criminals seeking to take advantage of the COVID-19 pandemic.</p> <p>How do we manage the risk?</p> <ul style="list-style-type: none"> Clear ownership of cyber risk, with Board level expertise. IT function reports into Chief Technology Officer. Development of digital framework, including digital growth, cyber and data. Minimum required IT controls defined. All companies certify compliance every six months. Any gaps are tracked until addressed. Monthly cyber KRI/KPI reporting in place across the Group. 	<ul style="list-style-type: none"> Regular online IT awareness training for all employees using computers. IT disaster recovery and back-up plans in place, required to be tested regularly. Additional support provided by Group IT to companies to help them implement any changes due to COVID-19. Regular reviews by Group IT and Internal Audit.

2. Organic Growth

		Risk Owner: Andrew Williams
<p>Gross risk level</p>  <p>Low Medium High</p> <p>Change Increased</p> <p>Risk appetite Open</p> <p>Growth Enablers</p> 	<p>Risk and impact</p> <p>Failing to deliver desired organic growth, resulting in missed expected strategic growth targets and erosion of shareholder value. The increase in this risk is a result of the higher levels of economic uncertainty due to COVID-19 and includes the impact of local government restrictions around the world.</p> <p>How do we manage the risk?</p> <ul style="list-style-type: none"> Clear Group strategy to achieve organic growth targets, supported by detailed company strategies and seven Halma Growth Enablers with Executive Board owners. Sector management ensure that the Group strategy is fulfilled through ongoing review and chairing of companies. Continued investment in R&D and innovation with KPIs monitored at Board level. Regional hubs, for example in China and India, support local growth strategic initiatives for all companies. 	<ul style="list-style-type: none"> Agile business model and culture of innovation to take advantage of new growth opportunities as they arise. Regular monitoring of financial performance at all levels, including by the Board. Remuneration of company executives and above is based on profit growth. Specific focus to protect operations during COVID-19 and manage costs to ensure Halma is able to invest for growth going forward.

3. Making and Integrating Acquisitions

		Risk Owner: Andrew Williams
<p>Gross risk level</p>  <p>Low Medium High</p> <p>Change Increased</p> <p>Risk appetite Open</p> <p>Growth Enablers</p> 	<p>Risk and impact</p> <p>Missing our strategic growth target for acquisitions due to insufficient acquisitions being identified or poor due diligence or poor integration, resulting in erosion of shareholder value. COVID-19 has increased this risk in terms of our ability make acquisitions and also to ensure they are fairly valued. On the flip-side, there may be an increase in the number of acquisition opportunities in the short to medium term.</p> <p>How do we manage the risk?</p> <ul style="list-style-type: none"> Acquisition of companies in existing or adjacent markets that are well known. Dedicated M&A Directors with Group Chief Executive, Chief Financial Officer and plc Board scrutiny and approval of all acquisitions. Regular reporting of the acquisition pipeline to the Executive and plc Board. Careful due diligence by experienced staff who bring in specialist expertise as required. 	<ul style="list-style-type: none"> Valuation model used for all acquisitions to ensure the price paid is appropriate. Strategic transformation plans in place for new acquisitions to seek to ensure they achieve their growth potential. Integration checklist covering control and compliance areas used to ensure consistent high quality and efficient integration into Halma. Clarity of strategy and agile business model to take advantage of new growth opportunities as they arise.

Link to Growth Enablers

**4. Talent and Diversity****Risk Owner:** Jennifer Ward

Gross risk level	
Change	Increased
Risk appetite	Open
Growth Enablers	

Risk and impact

Not being able to recruit, develop and retain the calibre and diversity of talent at all levels of the organisation to deliver our strategy, resulting in reduced financial performance. The increased risk reflects retention risks emerging due to our rapid escalation through the FTSE100, increased profile and track record of success.

How do we manage the risk?

- Comprehensive recruitment processes to recruit the best and brightest talent.
- Development of talent and diversity across companies, including through development programmes, to create competitive advantage and motivated leaders to deliver the strategy.
- Succession planning process to identify and develop future leaders.

- Future leaders programme to develop graduates.
- Ongoing focus to increase employee diversity at all levels worldwide. Diversity metrics are monitored by the Board.
- We need to ensure that our reward packages are competitive, reflect our high long term growth and are benchmarked to market.

5. Innovation**Risk Owner:** Inken Braunschmidt

Gross risk level	
Change	No change
Risk appetite	Seeking
Growth Enablers	

Risk and impact

Failing to innovate to create new high-quality products to meet customer needs or failure to adequately protect intellectual property, resulting in a loss of market share and poor financial performance.

How do we manage the risk?

- Product development is devolved to the companies who are closest to the customer, with support and guidance provided by sector management.
- Chief Innovation & Digital Officer promotes and accelerates innovation by companies, with support from sector management.
- Digital strategy is in place relating to innovation, with focus on four areas: 1. Digital execution, 2. Champions Network, 3. Agile new product development engines, 4. External Partnerships.

- Active collaboration of ideas and best practices between companies.
- Head Office approval of all large R&D projects to ensure alignment with strategy.
- Halma Innovation Awards encourage and reward innovation.
- Companies are encouraged to develop and protect intellectual property.

6. Competition**Risk Owner:** Andrew Williams

Gross risk level	
Change	No change
Risk appetite	Open
Growth Enablers	

Risk and impact

Failing to adapt to market and technological changes, either through organic or M&A activity, resulting in reduced financial performance.

How do we manage the risk?

- Focus on niche markets with high barriers to entry and seek to achieve strong market positions.
- Halma's decentralised business model enables operational resources to be closer to customers, and companies are empowered to monitor, anticipate and respond to changing market needs.
- Regular company and sector board meetings which review markets, competition and product innovation.

- Ongoing discussions with customers and monitoring of market and technological changes to identify new opportunities.
- Halma Chief Innovation & Digital Officer provides leadership and oversight for digital innovation and arranges Innovation "Go & See" visits for Halma leaders to see disruption examples in action.

7. Economic and Geopolitical Uncertainty**Risk Owner:** Andrew Williams

Gross risk level	
Change	Increased
Risk appetite	Cautious
Growth Enablers	

Risk and impact

Risk of decline in financial performance due to recession or geopolitical changes and its potential impact on the carrying value of goodwill.

The increase in risk reflects increased economic and political uncertainty around COVID-19 and also other areas such as Brexit and USA/China trade relations.

How do we manage the risk?

- Diverse portfolio of companies across the four sectors, in multiple countries and in relatively non-cyclical global niche markets helps to minimise the impact of any single event operating in one market.
- Regular monitoring and assessment of potential risks and opportunities relating to economic or geopolitical uncertainties.

- Identification of any wider trends by the Halma Executive Board that require action.
- Local companies have the autonomy to rapidly adjust to changing circumstances.
- Periodic assessment of the carrying value of goodwill.

Principal risks and uncertainties continued

8. Natural Disasters

<p>Gross risk level</p>  <p>Low Medium High</p> <p>Change Increased</p> <p>Risk appetite Cautious</p> <p>Growth Enablers</p> 	<p>Risk and impact</p> <p>Being unable to respond to large-scale events or natural catastrophes such as hurricanes, floods, fire, or pandemics resulting in inability of one or more parts of our business to operate, therefore causing financial loss and reputational damage. This risk has been updated to specifically include pandemics and the risk has increased due to COVID-19.</p>	<p>How do we manage the risk?</p> <ul style="list-style-type: none"> – All parts of the Group are required to have business continuity plans in place which are tailored to manage the specific risks they are most likely to face and these are required to be tested periodically. – Partnering with our central and regional COVID-19 support groups, our companies have implemented operational plans to suit their local markets and circumstances. 	<p>Risk Owner: Andrew Williams</p> <ul style="list-style-type: none"> – The geographic diversity of companies limits the impact of most single events and Halma has manufacturing capability in multiple locations which provides flexibility. – Business interruption insurance is in place to limit any financial loss that may occur.
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9. Communications

<p>Gross risk level</p>  <p>Low Medium High</p> <p>Change No change</p> <p>Risk appetite Open</p> <p>Growth Enablers</p> 	<p>Risk and impact</p> <p>Missed opportunities for growth and attainment of our strategy should we not clearly articulate our value propositions to potential partners, customers, employees or acquisition targets. The risk remains high, reflecting the need to ensure effective communication to all stakeholders during the COVID-19 pandemic.</p>	<p>How do we manage the risk?</p> <ul style="list-style-type: none"> – Halma plc Board members with responsibility for Communications and Investor Relations. – Clear brand and communications strategy to enable clear understanding and alignment with Group strategy. – Proactive brand and communications approach to reach existing and potential audiences to attract and engage them to drive new growth opportunities. – Development of pitch books, purpose and strategy impact stories, product-solution case studies, and investment collateral that are delivered to the appropriate targets via direct, indirect, social media and investor channels. 	<p>Risk Owner: Jennifer Ward</p> <ul style="list-style-type: none"> – Monitoring of external, social and investor media to gauge sentiment, brand health and protect reputation. – Periodic employee engagement survey to gain feedback on the effectiveness of internal communication. – Communication platform to facilitate rapid collaboration and information sharing across the Group. – Company MD network enabling rapid collaboration during COVID-19, supported by group and sector teams where escalation is required.
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10. Non-compliance with Laws and Regulations

<p>Gross risk level</p>  <p>Low Medium High</p> <p>Change No change</p> <p>Risk appetite Averse</p> <p>Growth Enablers</p> 	<p>Risk and impact</p> <p>Failing to comply with laws and regulations resulting in damage to reputation and/or fines/penalties.</p>	<p>How do we manage the risk?</p> <ul style="list-style-type: none"> – High-quality management resources who implement controls to monitor and comply with legal requirements in all countries we operate. – Companies ensure high product quality and compliance with legal standards. – High ethical standards which are captured in Halma's Code of Conduct. All employees are required to read and sign up to it. 	<p>Risk Owner: Marc Ronchetti</p> <ul style="list-style-type: none"> – Employees across the Group perform regular online compliance training. – All parts of the Group complete six-monthly control self-certifications which include legal compliance. – A whistleblowing hotline is in place and available for use by all employees.
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Link to Growth Enablers



11. Financial Controls

Gross risk level		
Low	Medium	High
Change		
No change		
Risk appetite		
Averse		
Growth Enablers		

Risk and impact

Failure in financial controls either on its own or via a fraud which takes advantage of a weakness, resulting in financial loss and/or misstated reported financial results.

How do we manage the risk?

- Local directors have legal, as well as operational, responsibility as they are statutory directors of their companies. This fits with Halma's decentralised model to ensure an effective financial control environment is in place.
- To mirror the decentralised model, Halma Group Finance prescribes the minimum expected financial controls to be in place and requires companies to certify every six months that these controls are operating effectively. These include segregation of duties, delegation of authorities and financial accounts preparation checks.

Risk Owner: Marc Ronchetti

12. Treasury Management

Gross risk level		
Low	Medium	High
Change		
Increased		
Risk appetite		
Averse		
Growth Enablers		

Risk and impact

There is a risk that the Group's cash resources are inadequate to support its activities or there is a breach of funding terms/ covenants. There is a risk of volatility on the Group's Sterling reported result due to unhedged exposure to foreign currency movements. Geopolitical uncertainty, including the impact of COVID-19, has increased the risk of foreign exchange fluctuations and pressure on financial resources.

How do we manage the risk?

- A long-term Revolving Credit Facility is in place.
- Sources of funding, headroom and liquidity forecasts are regularly assessed and monitored.
- Funding terms are built into company policies and requirements, including restrictions on trading with sanctioned countries.
- A Group Treasury Policy includes hedging and there is regular monitoring of foreign currency exposure at local company and Group level.

Risk Owner: Marc Ronchetti

13. Product Failure

Gross risk level		
Low	Medium	High
Change		
No change		
Risk appetite		
Averse		
Growth Enablers		

Risk and impact

A failure in one of our products results in serious injury, death or damage to property, including due to non-compliance with product regulations, resulting in financial loss and reputational damage.

How do we manage the risk?

- Companies have strict product development and testing procedures in place to ensure quality of products and compliance with appropriate regulations.
- Rigorous testing of products during development and also during the manufacturing process.

Risk Owner: Andrew Williams

Viability statement

During the year, the Board carried out a robust assessment of the emerging and principal risks affecting the Group, including those that would threaten its business model, future performance, solvency or liquidity. The principal risks and uncertainties, including an analysis of the potential impact and mitigating actions are set out on pages 50 to 53 of the Strategic Report.

The Board has assessed the viability of the Group over a three-year period, taking into account the Group's current position and the potential impact of the principal risks and uncertainties. While the Board has no reason to believe that the Group will not be viable over a longer period, it has determined that three years is an appropriate period. In drawing its conclusion, the Board has aligned the period of viability assessment with the Group's strategic planning process (a three-year period). The Board believes that this approach provides greater certainty over

forecasting and, therefore, increases reliability in the modelling and stress testing of the Group's viability. In addition, a three-year horizon is typically the period over which we review our external bank facilities and is also the performance based period over which awards granted under Halma's share-based incentive plan are measured.

In reviewing the Company's viability, the Board has identified the following factors which they believe support their assessment:

1

The Group operates in diverse and relatively non-cyclical markets.

2

There is considerable financial capacity under current facilities and the ability to raise further funds if required.

3

The decentralised nature of our Group ensures that risk is spread across our businesses and sectors, with limited exposure to any particular industry, market, geography, customer or supplier.

4

There is a strong culture of local responsibility and accountability within a robust governance and control framework.

5

An ethical approach to business is set from the top and flows throughout our business.

In making their assessment, the Board carried out a comprehensive exercise of financial modelling and stress-tested the model with various scenarios based on the principal risks identified in the Group's annual risk assessment process. The scenarios modelled used the same assumptions as for the going concern statement, as set out on page 71, for the years ending 31 March 2021 and 31 March 2022 with further assumptions applied for the year ending 31 March 2023. These scenarios included a delay in the recovery of the impacted businesses from the effects of COVID-19, a second wave of COVID-19 infection and

corresponding government restrictions in the second half of year ended 31 March 2021 and a combination of these scenarios with the addition of impacts from other of the Group's principal risks such as litigation or product failure. In each scenario, the effect on the Group's KPIs and borrowing covenants was considered, along with any mitigating factors. Based on this assessment, the Board confirms that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year period to 31 March 2023.

Non-financial information statement

We aim to comply with the Non-Financial Reporting requirements contained in sections 414CA and 414CB of the Companies Act 2006. The table set out below, and the information it refers to, is intended to help stakeholders understand our position on key non-financial matters. This builds on existing reporting that we already undertake by participating in the following frameworks: CDP, the Financial Reporting Council's Guidance on the Strategic Report and UN Sustainable Development Goals.

Reporting requirement	Policies and standards which govern our approach	Additional information
Environmental matters	Environmental policy	Sustainability review, page 44
Employees	Code of Conduct Whistleblowing policy Health and Safety policy Diversity and Inclusion policy	Sustainability review, page 45 Sustainability review, page 46 Sustainability review, page 45 Our People, page 38 and Sustainability review, page 42
Human rights	Modern Slavery Act statement Human Rights and Labour Conditions policy	Sustainability review, page 46 Sustainability review, page 46
Social matters	Equal Opportunities statement Our role in society statement Gift of Sight campaign Suppliers statement	Sustainability review, page 38 Sustainability review, page 45 Sustainability review, page 39 Sustainability review, page 47
Anti-corruption and anti-bribery	Anti-Bribery and Anti-Corruption policy	Sustainability review, page 46
Description of principal risks and impact of business activity	-	Pages 50-53
Description of strategy and the business model	-	Pages 14-17
Non-financial performance indicators	-	Page 29
Stakeholder engagement	-	Pages 40-41 and 62-63
Outcome of non-financial policies and standards	Carbon emissions reporting Employee engagement survey results Gender diversity reporting Health and safety reporting	Pages 44 and 45 Page 39 Pages 38 and 39 Pages 45 and 47
Due diligence processes implemented in pursuance of promoting non-financial policies and standards	Carbon emissions reporting and monitoring Monitoring employee engagement surveys All employees required to read and sign up to the Code of Conduct Whistleblowing reports reviewed by the Board Health and safety reporting and monitoring Modern slavery training and risk assessments Anti-corruption and anti-bribery training and monitoring	

The Strategic Report was approved by the Board of Directors on 14 July 2020 and signed on its behalf by:

Andrew Williams
Group Chief Executive

Marc Ronchetti
Chief Financial Officer

Cautionary note: this Strategic Report 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.

Introduction to governance

"Our governance structure remains effective, appropriate for Halma and continues to underpin our culture of openness, transparency and collaboration."



This Report outlines the governance framework within which Halma operates and provides stakeholders with an understanding of the composition and diversity of the Board and Executive Board, how its performance – and that of its Committees – is evaluated, the Board's mechanisms for engagement with the wider workforce and insight into the factors considered in the Board's decision-making during the year.

Progress in 2020

Last year's Report outlined five key Board priorities for 2020:

- Leveraging Halma's brand and launching a new global website.
- Furthering the Group's capabilities and pipeline of acquisition and partnering opportunities.
- Promoting gender diversity across all organisational levels and driving improvement in ethnic and international diversity.
- Monitoring the regulatory and commercial implications of the UK's exit from the European Union and overseeing the planning and preparation of activities.
- Advancing the Group's international expansion initiatives.

Over the year, the Board delivered against all of these priorities, further details of which are set out in this section and in the Strategic Report. Our governance structure remains effective, appropriate for Halma and continues to underpin our culture of openness, transparency and collaboration throughout the organisation.

Board changes

As announced in April 2020, Adam Meyers will replace Paul Simmons as Sector Chief Executive, Safety, on an interim basis until his successor is appointed. I am very grateful that Adam is able to fill this role as his in-depth knowledge and experience of Halma will be invaluable in leading our safety sectors through these more uncertain times. Accordingly, Adam's retirement from the Board, which had been anticipated to occur in July 2020, has now been deferred.

Daniela Barone Soares is approaching her ninth year of service and will retire from the Board at the AGM in 2021. I strongly value Daniela's contribution to the Board, particularly as we have been evolving our approach to ESG over recent years, and I have no doubt that she will remain committed, and that her contribution will continue to be appreciated during the remainder of her tenure. Details of how the Nomination Committee will search and appoint a new non-executive Director are outlined in the Nomination Committee Report on pages 69 and 70.

Board priorities for 2021

Looking forward to the year ahead, the Board will primarily focus on the operational and economic impact of the COVID-19 pandemic and supporting our businesses and wider stakeholders through uncertain times. Given our resilient financial position, we will continue to monitor and build our pipeline of M&A targets and, when appropriate, continue to invest for growth as opportunities arise.

Statement of Code Compliance

The Board recognises the importance of good governance and throughout the year ended 31 March 2020, the Company complied with the Principles and Provisions set out in the Code with the exceptions noted in the table below.

Code Provision	Explanation of non-compliance
36	The Remuneration Committee has not developed a formal policy for post-employment shareholding requirements, encompassing both unvested and vested shares.
37	Remuneration schemes and policies do not enable the use of discretion to override formulaic outcomes.
38	The pension contribution rates for executive Directors, or payments in lieu, are not aligned with those available to the workforce.
39	The Executive Share Plan awards do not allow for a reduction in compensation to reflect departing directors' obligations to mitigate loss.
41	The Annual Report does not include a description of what engagement with the workforce has taken place to explain how executive remuneration aligns with wider pay policy.

The Board is committed to addressing each of these areas in the coming year and we will put a new Remuneration Policy to shareholders at the AGM in 2021. Further details of our plans can be found in the Remuneration Committee Report.

Paul Walker
Chairman

14 July 2020

UK Corporate Governance Code

In July 2018, the Financial Reporting Council (FRC) published the revised UK Corporate Governance Code (the Code) which is available on the FRC's website, www.frc.org.uk. The Company's application of Code Principles is described in this Governance Report and Strategic Report. The table below locates the relevant sections of the Annual Report which explain the Company's application of Code Principles.

Board leadership and Company purpose	Pages 60 to 65
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Our purpose, values and culture	Page 62
Corporate governance framework	Page 60
Shareholder and stakeholder engagement	Pages 40, 62 and 63
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Composition, succession and evaluation	Page 68
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Appointments to the Board and succession planning	Pages 69 and 70
Board effectiveness and evaluation	Page 68
Audit, risk and internal control	Page 71
External and internal audit functions	Pages 73 and 75
Integrity of financial and narrative statements	Pages 72 and 75
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Principal risks	Pages 50 to 53
Remuneration	Pages 77 to 99
Remuneration Report	Pages 82 to 95
Policies and practices	Pages 96 to 99

Board of Directors

Committee Membership

- A Audit Committee
- N Nomination Committee
- R Remuneration Committee
- Chair of Committee
- Member of Committee



Paul Walker
Chairman

Appointed: April 2013
(July 2013 as Chairman)

Career and experience: Paul gained extensive management, operational, financial and technology sector experience in his executive career as Chief Executive Officer of The Sage Group plc from 1994 to 2010, having previously been its Finance Director and Chief Financial Controller. Paul has held several board positions including as non-executive Director at Diageo plc, Mytravel Group plc, Sophos Group plc and Experian plc. He provides strong leadership to the Board and is committed to robust corporate governance and stakeholder engagement. Paul qualified as a Chartered Accountant with Ernst & Young.

Current appointments:
Ashtead Group plc, non-executive Chairman



Tony Rice
Senior Independent Director

Appointed: August 2014
(July 2015 as Senior Independent Director)

Career and experience: Tony has held senior management positions at a number of UK listed companies, spanning a range of sectors, and has extensive board level experience in companies operating internationally and in regulated industries. He was Chief Executive Officer at Cable & Wireless Communications plc and Tunstall plc and held a number of senior roles at BAE Systems plc. Tony has served as a non-executive Director of Spirit Pub Company plc, where he was Senior Independent Director and Remuneration Committee Chairman. Tony brings a wealth of UK listed company experience to his role as Senior Independent Director.

Current appointments:
Dechra Pharmaceuticals plc, Chair
Ultra Electronics Holdings plc, Chair
Whittington Hospital Trust, non-executive Director



Andrew Williams
Group Chief Executive

Appointed: July 2004
(February 2005 as Group Chief Executive)

Career and experience: Andrew joined Halma in 1994 as Manufacturing Director of an operating company, becoming its Managing Director in 1997. He joined Halma's Executive Board in 2002 and was appointed as Group Chief Executive in 2005. Andrew has proven his ability to grow and acquire companies globally while evolving the Group portfolio for sustainable growth and high returns. He brings clear strategic leadership to the Board and has a deep understanding of the operating companies and the Group's stakeholders. He is a Chartered Engineer.

Current appointments:
Capita plc, non-executive Director
Cardiff Blues Limited, non-executive Director



Carole Cran
Independent non-executive Director

Appointed: January 2016

Career and experience: Carole was Chief Financial Officer of Aggreko plc until December 2017, prior to which she held a number of senior finance roles within that group. Previously, she worked at BAE Systems plc in a range of senior financial positions, which included four years in Australia. Carole commenced her career in the audit division of KPMG where she qualified as a Chartered Accountant. Carole has extensive financial experience and has a strong focus on governance and risk.

Current appointments:
Forth Ports Limited, Chief Financial Officer





Marc Ronchetti
Chief Financial Officer

Appointed: July 2018

Career and experience: Marc joined Halma in 2016 as Group Financial Controller. He was previously Finance Director of the UK operations of Wolseley plc (now Ferguson plc) and prior to that held various group and divisional roles at Inchcape plc. Marc has gained commercial and financial experience across a range of senior finance roles focused on driving operational performance through financial insights. Marc qualified as a Chartered Accountant with PricewaterhouseCoopers.



Jennifer Ward
Group Talent, Culture and Communications Director

Appointed: September 2016

Career and experience: Jennifer joined the Halma Executive Board in March 2014 and has global responsibility for talent and culture as well as internal and external communications and brand across Halma. Prior to joining Halma as Group Talent Director, Jennifer spent over 15 years leading Human Resources, Talent and Organisational Development for divisions of PayPal, Bank of America and Honeywell. Jennifer brings a wealth of experience to the Board to ensure we secure and develop talent ahead of our growth needs and build a sustainable culture of high performance.



Adam Meyers
Sector Chief Executive, Safety

Appointed: April 2008

Career and experience: Adam became a member of the Halma Executive Board in 2003, as a Divisional Chief Executive and served as, Sector Chief Executive – Medical and Environmental until September 2019, having joined Halma in 1996 as President of Bio-Chem Valve. He was appointed Sector Chief Executive, Safety on an interim basis on 1 July 2020 pending the appointment of a permanent successor. Adam has considerable experience and deep knowledge of Halma and the regulated markets in which it operates. He has led the acquisition of several companies in the Medical and Environmental & Analysis sectors. Adam is a Systems Engineering graduate of the University of Pennsylvania.



Jo Harlow
Independent non-executive Director

Appointed: October 2016

Career and experience: Jo has significant international experience, gained most recently as Corporate Vice President of the Phones Business Unit at Microsoft. She previously worked at Nokia as Executive Vice President of Smart Devices. Before her move into consumer electronics, Jo worked in strategic marketing at Reebok and Procter & Gamble. Jo brings a wealth of expertise to the Board in digital, technology, sales and marketing. She is Chair of Remuneration Committee at InterContinental Hotels Group plc and is a member of the Remuneration Committee at J Sainsbury plc.

Current appointments:
InterContinental Hotels Group plc,
non-executive Director
J Sainsbury plc, non-executive Director
Ceconomy AG, Member of the Supervisory Board



Roy Twite
Independent non-executive Director

Appointed: July 2014

Career and experience: Roy is Chief Executive of IMI plc, having been appointed to the IMI Board in February 2007. During his career with IMI, Roy has held several senior management roles including Managing Director of IMI Norgren UK (2001), President of IMI Hydronic Engineering (2004), President of Retail Dispense (2007) and President of IMI Precision Engineering (2009) and Divisional Managing Director of IMI Critical Engineering (2011). Roy brings wide-ranging knowledge of the engineering sector along with extensive management and operational experience.

Current appointments:
IMI plc, Chief Executive



Daniela Barone Soares
Independent non-executive Director

Appointed: November 2011

Career and experience: Daniela began her career in the private equity and investment banking sectors working at BancBoston Capital, Goldman Sachs and Citibank. Daniela was CEO of venture philanthropy organisation Impetus – The Private Equity Foundation and held senior roles at Save the Children UK. Daniela has considerable global knowledge of capital markets and sustainability, and has successfully led ventures with government institutions.

Current appointments:
Snowball Investment Management, CEO
Gove Digital, Chair
Evora S.A, non-executive Director
Trustee, The Haddad Foundation



Board leadership and Company purpose

Role of the Board and Principal Committees

The role of the Board is to provide entrepreneurial leadership, within a framework of prudent and effective controls, that promotes the interests of Halma over the long term for the benefit of stakeholders. The Board sets the Group's strategic goals and has ultimate responsibility for its management, direction and performance. The Company's Articles of Association set out the Board's powers. The Board has adopted a formal schedule of matters reserved solely for its decision (a summary of which is set out on page 67) and certain decision-making and monitoring activities have been delegated to Board Committees or management, through a clearly defined delegated authority matrix.

The Board has established three principal Committees – Audit Committee, Nomination Committee, Remuneration Committee – which review and monitor key areas on behalf of the Board and make recommendations for its approval. Each Board Committee operates under written terms of reference which are approved by the Board and made available at www.halma.com. The Chair of each Committee reports to the Board on their activities after each meeting and minutes are circulated to all Board members once they have been approved by the Committee. Further information on the activities and composition of each Committee is detailed in each of the Committee reports.

Corporate Governance Framework

As a decentralised organisation, it is critical that Halma's governance and control structure is robust, clearly communicated and operates effectively. A summary of the structure and responsibilities of each Board Committee and the Executive Board is set out on the page opposite.

In addition to the principal Board Committees, the Board has established three topic-specific Committees to which it has delegated certain powers to negotiate, review and administer matters: Share Plans Committee; Bank Guarantees and Facilities Committee; and Acquisitions and Disposals Committee.

The Executive Board is a management committee, chaired by the Group Chief Executive, which primarily develops strategy, monitors progress against the Group's strategic objectives and reviews operational and business performance.

Our businesses benefit from an autonomous operational structure. In order to maintain oversight and control from a Group perspective, and to obtain assurance over the compliance and control environment, businesses must comply with Halma's suite of financial and non-financial policies and control procedures.

A delegated authority matrix sets out the matters and financial limits which have been delegated from the Group Chief Executive and Sector Chief Executives (SCEs) to the Divisional Chief Executives (DCEs) and business managing directors. This approach ensures that businesses have a clear framework within which they can operate, balances autonomy with the need for oversight and controls, and provides clarity as to whether financial commitments are approved at sector, Group or Board level.

The link between the operating companies and the Board governance structure is described below and, for risk management, is illustrated in the risk governance framework on page 48. Each operating company in the Group has its own board of directors which meets regularly to fulfil its legal duties and to maintain operational and financial oversight of the company's affairs. The DCE chairs each of their operating company boards and will meet with the Executive Board at least three times per year, in addition to providing written summaries to the Executive Board and Halma's Chairman on a regular basis.

Each SCE holds regular sector board meetings, attended by DCEs, relevant managing directors and sector employees, to review financial and business performance and areas such as talent and M&A. The sector board also provides a valuable forum for businesses to share and collaborate. Each DCE prepares a report for the Executive Board, covering business performance, talent and culture and other matters discussed at, or arising from, their company and sector board meetings.

The Group's policies and procedures set out our requirements in the areas of financial reporting, health & safety, ethics, human resources, IT, data privacy & legal compliance and administration. These procedures are made available to all employees via the Group's communications platform, HalmaHub.

Board meetings

The Board has six scheduled meetings per year but will meet separately, as required, to discuss urgent matters or to approve event-driven items such as M&A transactions, trading updates and in 2020, COVID-19 review meetings. All Directors are issued with an agenda and meeting papers in the week prior to the Board meeting; papers are delivered via an electronic board portal for security and efficiency. The Board and each Director has access to the advice and services of the Company Secretary and each can obtain independent professional advice at the Company's expense.

Board meeting attendance

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

Board attendance	Eligible	Attended
Paul Walker	6	6
Andrew Williams	6	6
Marc Ronchetti	6	6
Adam Meyers	6	6
Jennifer Ward	6	6
Daniela Barone Soares	6	6
Jo Harlow	6	6
Roy Twite	6	6
Tony Rice	6	6
Carole Cran	6	6

Board Governance Structure

Board

Provides strategic leadership to the Group within a framework of robust corporate governance and internal control, monitoring the culture, values and standards that are embedded throughout our business to deliver long-term sustainable growth for the benefit of our shareholders and other stakeholders.

Nomination Committee

- Reviews the composition of the Board.
- Oversees the Board's succession planning.
- Keeps the succession planning and leadership needs of the Company under review.

[Read more page 69](#)

Audit Committee

- Monitors the integrity of financial statements.
- Oversees risk management and control.
- Monitors the effectiveness of the Internal Audit function.
- Reviews external Auditor independence and performance.
- Leads the audit tender process.

[Read more page 72](#)

Remuneration Committee

- Keeps under review the framework and policy on executive Director and senior management remuneration (including pension arrangements).
- Approves the design, targets and framework for share plan awards.

[Read more page 77](#)

Share Plans Committee

Responsible for the administration arrangements relating to employee share-based incentives (following approval of the award by the Remuneration Committee or the Board).

Bank Guarantees and Facilities Committee

Agrees and approves arrangements for issuing guarantees, indemnities or other support for bank loans and other financing facilities.

Acquisitions and Disposals Committee

Reviews and approves the terms and structure of acquisitions or disposals which have been agreed in principle by the Board.

Executive Board

- A management committee, comprised of senior leaders with operational or functional responsibility, which develops strategy, reviews operational matters and business performance.
- Chaired by the Group Chief Executive, the committee brings a wealth of knowledge and experience across financial,

- talent and culture, diversity & inclusion, operational, digital, IT and legal disciplines. Biographical information for each member is available on our website at www.halma.com
- Reinforces the operational and governance structures in place across the Group.
- Acts as a forum for management decisions.

Board leadership and Company purpose continued

How the Board supported strategy

Halma's clear and focused strategy has led to a strong financial performance and dividend growth. The Board has supported the evolution of Halma's growth strategy and the development of the growth enablers helps to align the Board's allocation of human and capital resources to the strategic priorities and enable our companies to invest and deliver sustainable growth.

Strategic Growth Enablers

Mergers & Acquisitions

The Board's governance role

The Board has set a clear strategy which includes a significant growth element being delivered through M&A. Key resources, both in terms of people and finances, are made available to ensure that we can deliver this strategic objective. The M&A pipeline is regularly reviewed and discussed by the Board and all material acquisitions are subject to its approval. Post-acquisition value creation strategies are under regular review.

International Expansion

The Board's governance role

The Board has formally adopted matters reserved for its decision and a schedule of matters that it delegates to executive management. This governance structure ensures that major changes, financial commitments or new business developments are reviewed by the Board, while permitting local and sector autonomy to operate and adapt their businesses for international growth.

Talent & Culture

The Board's governance role

The Board recognises the importance of talent and culture in driving not only Halma's growth, but also the behaviour that we expect from our people across the Group. In September 2016, the Board recognised the importance of leading talent from the top and appointed Jennifer Ward to the Board. Talent discussions are a key feature at each Nomination Committee meeting and monitoring culture, diversity and inclusion is a role for the Board.

Finance, Legal & Risk

The Board's governance role

The Board has established a clear and robust framework to control financial investment, oversee financial performance and to manage risks and opportunities.

Digital Growth Engines

The Board's governance role

The Board are aware of the changing technological landscape and the risks and opportunities that continue to arise as the digital revolution, and data-related responsibilities, continue to proliferate.

Innovation Network

The Board's governance role

The Board members bring a wealth of experience and contacts across different sectors and technologies to the Group. The Directors share their knowledge and experience with senior management and company personnel throughout the year and leverage the power of their network for the benefit of our companies. The Board takes a close interest in the Convergence and Edge initiatives that are developed with the help of internal and external experts and partners and keep abreast of the risks and opportunities that continue to arise as the digital revolution continues to proliferate.

Strategic Marketing & Communications

The Board's governance role

The Board recognises the need for our companies to be more strategic in their communications with stakeholders. A key focus has been on adequately resourcing our central and sector teams to support our businesses in developing market-leading positions by connecting with customers through their brand, marketing, product positioning and the effective use of all media channels.

Our purpose, values and culture

The Board assesses and monitors the Group's culture and ensures its alignment with our purpose, values and strategy. Our strategy is powered by our purpose of 'growing a safer, cleaner, healthier future for everyone, every day.' The Group's culture is an essential component of our strategy, demonstrated by the Talent & Culture Growth Enabler and the organisational and culture genes within Halma's DNA. Our culture promotes autonomous and agile decision-making, a collaborative approach which allows constructive challenge, innovative diversity of thought, and a sense of shared purpose and open collaboration. Halma's values are the behavioural principles that we require, protect and leverage to effectively optimise our cultural genes as set out on page 13. It is essential that the Board and executive management act in a constructive and respectful manner, exhibiting the tone that we expect across our companies. We consider that this culture promotes good governance across the Group and empowers our people to make good decisions. The Board reviews at each meeting, the level of workforce concerns raised via the whistleblowing line or directly to the Company Secretary. The annual engagement survey results are shared with the Board and actions for areas of improvement discussed. At the annual Board strategy meeting, the Talent, Culture & Communications Director provides detailed insight and feedback on Halma's talent pool, development opportunities and the corporate culture across the Group.

Shareholder and stakeholder engagement

The Board oversees the Company's dialogue with shareholders. The Group Chief Executive and Chief Financial Officer have regular contact with investors and analysts. Reports prepared for the Board by the Head of Investor Relations outline the Company's dialogue with investors and analysts on financial, operational, environmental, social and governance matters. The Chairman is available to meet with shareholders throughout the year and the Senior Independent Director provides an alternative channel for shareholders to raise concerns, independent of the executive management and the Chairman. The Board attends the AGM which gives individual shareholders the opportunity to engage directly with the Directors and raise questions about the Company both formally and informally. While for 2020 we will be holding a closed AGM, we have made arrangements for shareholders to ask questions ahead of the meeting.

The Company hosts investor engagement events annually, this year's event, held in March 2020, focused on the Infrastructure Safety sector. Investors were invited to attend presentations by senior management describing the sector's strong competitive positions in its markets, and how the sector is delivering sustainable growth, supported by long-term growth drivers and Halma's Growth Enablers.

The Board's engagement with other stakeholders is described on pages 40 and 41 of the Strategic Report. The table opposite identifies the principal decisions taken by the Directors during the year and how the Board considered stakeholder interests when discharging their duties under section 172 of the Companies Act.

Principal Decision and stakeholders considered	Board's decision-making process	Long-term considerations
Dividend Shareholders, potential investors and lenders, employees, customers and suppliers.	The financial resources required to execute our strategy, including organic investment needs and acquisition opportunities; the Group's medium-term rate of organic constant currency growth; maintaining a prudent level of dividend cover and moderate indebtedness; equitable treatment of our stakeholders given the effects of the COVID-19 pandemic.	Dividends consistent with the Company's financial performance without detriment to the strength of the balance sheet and future sustainability.
Capital allocation Shareholders, potential investors and lenders, employees, customers, operating companies.	The Group's budget, approved by the Board, sets the allocation of capital to deliver our growth strategy through investment in R&D, capital expenditure, talent and acquisitions. The weighting of each is determined by our strategic priorities over the short to medium term.	Balancing investment for future growth with the requirement to reduce discretionary spend in the shorter-term given the effects of the COVID-19 pandemic; uncertainty around the effects of COVID-19.
Acquisitions Shareholders, potential investors and lenders, operating companies, vendors of companies, future employees and partners, and professional advisers.	The Board received detailed acquisition proposals from the Group Chief Executive on the long-term implications of acquisitions and their effect on Halma's stakeholders. The Board balance the financial commitment required against the risks and anticipated return, while considering the strategic fit with our purpose, the opportunities for geographic or market growth (either organic or through further M&A) and the talent and knowhow which will be acquired.	Halma's discipline in making acquisitions which are aligned to our purpose and which are in market niches with long-term growth drivers ensures that we can continue to grow sustainably for the benefit of all our stakeholders.
COVID-19 response Shareholders, potential investors and lenders, employees, operating companies, customers, suppliers, government, society.	In February 2020, the Executive Board formed COVID-19 support groups to assist our operating companies in safety, operational, talent and legal matters arising from the COVID-19 situation. Our people and operations in China were the initial focus but once the pandemic was declared, this became a global operation. The Board were quick to meet to understand the implications of the health and economic crisis, with the health and wellbeing of our employees being central to the review. Weekly updates were provided to the Board on the welfare of our employees, site closures and financial and operational performance of our businesses. In addition, the great work that our people were delivering in difficult times to support the fight against COVID-19 was recognised. The Board considered a wide range of operational and financial scenarios and the interests of multiple stakeholder groups to determine the overhead and salary reductions necessary to protect the financial position of the company.	The Board's approval of cost reduction measures was considered essential for Halma's long-term success. It balanced the need for short-term overhead reduction and cash preservation against the longer term expectations of shareholders. While Halma was eligible for UK government support, it was agreed that it would not utilise the schemes on offer, including UK government funded furlough, unless it became absolutely necessary – thus ensuring the schemes could benefit small and medium sized companies that needed them.
Carbon Targets Shareholders, lenders, employees, operating companies, customers, suppliers, government, society.	The Board endorsed a proposal to work with our external consultants to develop a longer-term carbon reduction target based on climate science. It recognises the role that Halma has to play in society – not only to live its purpose but also to be a good corporate citizen in reducing the impact of its operations on the world. Halma has relatively low carbon emissions and intensity when compared to other industrial companies but it also recognises that the drive towards net zero emissions requires everyone to play their part. The Board are mindful that new talent, in particular the millennial generation, is passionate about climate change and committing to the right values and actions in this area, which puts Halma at an advantage in recruiting the talent of the future.	The Board acknowledges the effects of climate change and believes that acting now is in the interests of all humankind and will ensure that Halma is a sustainable and responsible business which operates for the benefit of all stakeholders. Ensuring our shorter-term financial performance is not expected to compromise the ambition to improve our environmental performance. Halma is acutely aware that strong ESG performance is no longer optional but is essential in order to remain investable by a broad range of investors. The Board will continue to support work in this area and report transparently to all stakeholders.

Board leadership and Company purpose continued

How the Board engages with our workforce

In accordance with the Code, the Board has reviewed the mechanisms that it uses to engage with its workforce. Last year, the Board considered the three mechanisms set out in the Code and determined that none of them would be most effective for engagement with Halma's workforce due to the decentralised operating model and the geographic spread of our companies. Halma chose alternative arrangements for engagement which are considered to be more fitting with our operating model and culture, as described below.

Each operating company has its own legally constituted board which meets on a regular basis. Around one third of these are UK companies which are also subject to the duty to promote the success of the company under section 172 of the Companies Act and requires them to have regard to employee interests and the impact of board decision making on their other stakeholders. The chair of each of our 40+ companies meets with the Executive Board at least three times per year and with Halma Board at least annually, facilitating regular dialogue on workforce-related matters.

We consider that engagement by the local company board with their own workforce, as well as the engagement by the Halma Board with the Group's global workforce, provides an effective platform for compliance with the Code, provided that there are clear and open communication channels. To support this, we have put in place reporting mechanisms such that concerns and feedback raised at the operating company level is fed back into the Halma Board via each company chair.

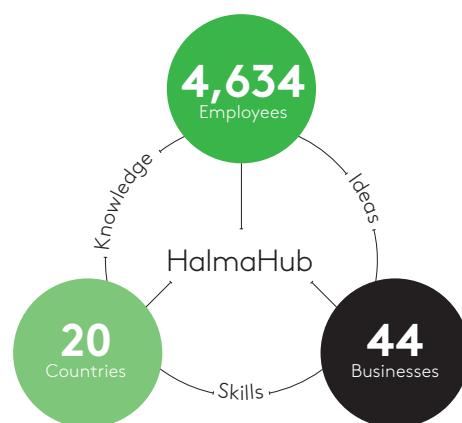
HalmaHub

HalmaHub is a mobile-first, social and collaborative platform, which has helped accelerate the pace of innovation across the Group and enhanced our culture of collaboration.

Recognising the opportunity to amplify the ambition and impact of Halma's diverse and geographically dispersed businesses, HalmaHub connects more than 4,500 employees across 20 countries to share knowledge, skills and ideas every day. This has accelerated the pace of change across the Group and led to the creation of entirely new business models and product collaborations.

There are two Executive Board members with operational responsibility for all of our operating companies. They regularly interact with the Halma Executive and the Board, which ensures that there continues to be close clear channels of communication with our businesses. There are also frequent opportunities for the employee voice to be relayed and reported to the Board via company management, operating company chair reports and presentations and through regular reporting of workforce concerns received via the whistleblowing service.

The Board-level position of Group Talent, Culture & Communications Director demonstrates the importance that we place on developing and communicating with, our people and improving engagement and the culture across the Group. The results of the annual employee engagement survey are included on page 39.



The Board strongly believes that our mechanisms for engaging with our workforce are appropriate for our organisational structure and, most importantly, are an effective means of bilateral engagement. The graphic below gives a summary of the mechanisms now in place to facilitate effective engagement with the various groups across our workforce.

Board engagement mechanisms	Workforce groups included				
	Wider Workforce	Central Functions	Operating Company Boards	Sector Board	Executive Board
HalmaHub	●	●	●	●	●
Workforce engagement survey	●	●	●	●	●
Company & other site visits	●		●		
Senior Independent Director available	●	●	●	●	●
Accelerate CEO & Accelerate Halma		●	●	●	●
MD and Functional networks	●		●	●	●
COVID-19 regional forums	●		●	●	
Operating Company Chair reports	●		●	●	
Halma plc Board, Committee and strategy meetings		●	●	●	●
Sector Board meetings			●	●	
Executive Board meetings & reports				●	●
Development, Digital Accelerator and Graduate programmes	●	●	●	●	●

Workforce policies

Halma's workforce-related policies and practices are summarised in our Code of Conduct which stipulates expected behaviours and ethical commitment from each employee, in accordance with our values. The Code of Conduct is reviewed annually by the Board. The Code contains information on how employees can raise concerns with senior management or via a third party confidential reporting service.

The Audit Committee has been delegated responsibility for reviewing the adequacy and security of the Group's arrangements for employees and contractors to raise concerns about possible improprieties in financial reporting or other matters but the Board review regular reports on any workforce concerns that have been raised. Halma has appointed NavexGlobal to operate a confidential, multilingual, telephone and web reporting service. All reports are reviewed by the Company Secretary and appropriately investigated.

Division of responsibilities

The division of responsibilities between the Board members is set out below. A summary of the Board's activities throughout the year is shown on page 67.

Role	Name
Chairman's responsibilities	<p>Governance</p> <ul style="list-style-type: none"> — Promoting high standards of corporate governance. — Leading, chairing and managing the Board. — Ensuring all Board committees are properly structured and operate with appropriate terms of reference. — Regularly considering the composition and succession planning of the Board and its committees. — Ensuring that Board and committee performance is evaluated on a regular basis. — Ensuring adequate time is available for all agenda items and that the Board receives accurate, clear and timely information. — Ensuring that there is effective communication with shareholders. <p>Strategy</p> <ul style="list-style-type: none"> — Leading the Board in reviewing the strategy of the business and setting its objectives. — Promoting open and constructive debate in Board meetings. — Ensuring effective implementation of Board decisions with the support of the Group Chief Executive. — Ensuring that the Board manages risk effectively. — Consulting, where appropriate, with the Senior Independent Director on Board matters. <p>People</p> <ul style="list-style-type: none"> — Chairing the Nomination Committee. — Identifying and meeting the induction and development needs of the Board and its committees. — Developing a strong working relationship with the Group Chief Executive. — Ensuring a strong working relationship between executive and non-executive Directors. — Setting clear expectations concerning the Company's culture, values and behaviours. — Ensuring effective relationships are maintained with all major stakeholders in the business.
Group Chief Executive	<ul style="list-style-type: none"> — Providing coherent leadership and management of the Company with the Chairman. — Developing objectives, strategy and performance standards to be agreed by the Board. — Providing input to the Board's agenda. — Providing effective leadership of the Executive Board to achieve the agreed strategies and objectives. — Securing an Executive Board of the right calibre, with specific responsibility for its composition, and ensuring that its succession plan is reviewed annually with the Chairman and the non-executive Directors. — Monitoring, reviewing and managing key risks and strategies with the Board. — Ensuring that the assets of the Group are adequately safeguarded and maintained. — Building and maintaining the Company's communications and standing with shareholders, financial institutions and the public and effectively communicating the Halma investment proposition to all stakeholders. — Ensuring the Board is aware of the view of employees on issues of relevance to Halma.
Executive Directors	<ul style="list-style-type: none"> — Implementing and delivering the strategy and operational decisions agreed by the Board. — Making operational and financial decisions required in the day-to-day management of the Company. — Providing executive leadership to senior management across the business. — Championing the Group's culture and values, reinforcing the governance and control procedures. — Promoting talent management, encouraging diversity and inclusion. — Ensuring the Board is aware of the view of employees on issues of relevance to Halma.
Senior Independent Director	<ul style="list-style-type: none"> — Acting as a sounding board for the Chairman. — Serving as a trusted intermediary for the other Directors. — Providing an alternative channel for shareholders and employees to raise concerns, independent of executive management and the Chairman.
Independent non-executive Directors	<ul style="list-style-type: none"> — Contributing independent thinking and judgement, and providing external experience and knowledge, to the Board agenda. — Scrutinising the performance of management in delivering the Company's strategy and objectives. — Providing constructive challenge to the executive Directors. — Monitoring the reporting of performance and ensuring that the Company is operating within the governance and risk framework approved by the Board.
Company Secretary	<ul style="list-style-type: none"> — Acting as a sounding board for the Chairman and other Directors. — Ensuring clear and timely information flow to the Board and its committees. — Providing advice and support to the Board and its committees on matters of corporate governance.

The Board's year

Activities

Strategy, Investor Relations & Communications	<ul style="list-style-type: none"> — Two-day strategy meeting. — Environmental, Social & Governance. — Safety sector Investor Day. — Talent and communications. — Presentations from operating companies. — Halma brand. — Portfolio review.
Financial & Operational	<ul style="list-style-type: none"> — Budget for 2021. — Half Year results, Full Year results and Trading updates. — Final and interim dividend. — Sector updates and DCE presentation. — Financial scenario planning in light of COVID-19 — Financial and operational response to COVID-19 pandemic — EU State Aid appeal — Employee Benefit Trust share purchases. — Share Incentive Plan allocation. — Renewal of Global insurance programme.
Governance, Compliance & Ethics	<ul style="list-style-type: none"> — Internal Board and Committee evaluations. — Chairman and non-executive Director fee reductions. — AGM business and voting analysis. — 2020 Annual Report. — Compliance updates. — Cyber security updates and IT framework review. — Pensions update. — Modern Slavery Act Statement and risk mapping by STOP THE TRAFFIK. — Annual review of Code of Conduct and key policies. — 2018 UK Corporate Governance Code compliance. — Meeting schedule review — Response to BEIS on the CMA's recommendations on the UK audit market
Talent & Culture	<ul style="list-style-type: none"> — Succession planning and talent development. — Engagement survey results. — Hampton-Alexander submission — Parker Review submission
Mergers & Acquisitions	<ul style="list-style-type: none"> — Acquisition approvals. — M&A pipeline review. — Digital growth opportunities. — Market review for Medical prospects
Standing Board agenda items	<p>In addition to the Board matters considered above over the past year, at each meeting there are standing items, which include:</p> <ul style="list-style-type: none"> — Review and approval of the previous minutes and conflicts of interest. — Status update on any matters outstanding from previous meetings. — Updates from each Board Committee on the activities since the last Board meeting. — Report from the Group Chief Executive. — Report from the Chief Financial Officer. — Investor Relations report. — M&A update. — Health & Safety review. — Workforce concerns and culture — Risk review. — Legal and governance update.
Matters reserved for decision by the Board	<ul style="list-style-type: none"> — Setting the Group's long-term objectives and commercial strategy. — Approving annual operating and capital expenditure budgets. — Ceasing all or a material part of the Group's business. — Significantly extending the Group's activities into new business or geographic areas. — Changing the share capital or corporate structure of the Company. — Changing the Group's management and control structure. — Approving half year and full year results and reports. — Approving dividend policy and the declaration of dividends. — Approving significant changes to accounting policies. — Approving key policies. — Approving risk management procedures and policies, including anti-bribery and corruption. — Approving major investments, disposals, capital projects or contracts (including bank borrowings and debt facilities). — Approving guarantees and material indemnities (not otherwise delegated to the Bank Guarantees and Facilities Committee). — Approving resolutions to be put to the AGM and documents or circulars to be sent to shareholders. — Approving changes to the Board structure, size or its composition (following the recommendation of the Nomination Committee). — Assessing and monitoring the Group's culture and alignment with its purpose, values and strategy.

Composition, succession and evaluation

Composition of the Board

The Board is composed of ten directors, who bring a wide variety of skills and experience to the boardroom. With four executive Directors and six non-executive Directors (including the Chairman), there is a strong independent element to Halma's Board which encourages constructive challenge and ensures that the balance of power rests with the non-executive members of the Board.

The Chairman, with the endorsement of the Nomination Committee, considers that the current Board structure is appropriate for Halma – both in terms of size and the balance of skills around the table. This was echoed by the Directors in the recent internal Board evaluation questionnaire. Biographies of each Director, including an overview of their skills and experience, are set out on pages 58 and 59.

Independence

The Board has reviewed the independence of each non-executive Director and, following an assessment of any relationships or circumstances which are likely to affect a Director's judgement, consider each to be independent of management. The Board believes that any shares in the Company held by the Chairman and non-executive Directors serve to align their interests with those of shareholders.

Tony Rice was appointed Senior Independent Director in July 2015 and is available as an alternative channel of communication for shareholders, independent from executive management and the Chairman.

Time commitment

The Board benefits from the variety of skills, experience and knowledge of each Director. Director availability and commitment of sufficient time to the Company is essential. Accordingly, the number of external directorships that a non-executive Director holds is an important consideration when recruiting and when annually evaluating the contribution and effectiveness of each non-executive Director. Additional external appointments are not undertaken by Directors without the prior approval of the Board. An assessment of the time commitment required for the new role is a key factor in the approval process. Our policy is that executive Directors are permitted to accept one external appointment, provided that the appointment is beneficial to the development of the individual or the Company and does not present a conflict of interest with the Group's activities or require a significant time commitment which would interfere with the performance of their executive duties.

In addition to the scheduled Board meetings, non-executive Directors are expected to attend the Annual General Meeting, the annual strategy meeting and other key events, including operating company visits throughout the year. A time commitment of around 20 days per annum is the anticipated requirement for each non-executive Director. Prior to their appointment, confirmation is obtained from each non-executive Director that they can allocate sufficient time to the role.

Details of Board attendance during the year is set out on page 60 and attendance for each Committee is in the relevant Committee reports on pages 69, 72 and 77.

Induction and development

Newly appointed non-executive Directors follow a tailored induction programme, which includes dedicated time with Group executives and visits to companies within each of the sectors.

Thereafter, non-executive Directors arrange site visits throughout the year, often around their other business travel commitments. The Chairman reviews the training and development needs of the Board, and each individual Director, at least annually.

While most Directors undertake their own programme of continuing professional development, briefings and presentations from subject experts are available to all Directors throughout the year. New or specialist topics may also be covered within the Board meeting agenda or as part of the annual leadership conference.

Board evaluation and effectiveness

The Chairman leads the annual evaluation of the Board's effectiveness and the individual performance review of each Director. The formal evaluation includes an assessment of the appropriateness of the Board's composition and diversity. The principal Committees of the Board undertake a separate annual evaluation of their effectiveness, in accordance with their terms of reference.

For 2020, the Board undertook an internal evaluation led by the Chairman. This process involved a questionnaire being completed by each Director in advance of individual meetings with the Chairman. The key themes arising from the evaluation were reviewed by the Board and are used by the Chairman to shape arrangements for the coming year. The outcome of the evaluation confirmed that the Board and its Committees continue to function effectively. The composition of the Board was considered to be appropriate, although ethnic and international diversity was recognised as an area for improvement and has influenced the brief for the new non-executive Director search. It was also observed that there was more that can be done to leverage the experience and network of our non-executive Directors for the benefit of Halma's operating companies. The Sector Chief Executives are now reviewing how our management can best utilise this valuable resource most effectively.

The Chairman and non-executive Directors regularly meet without the executive Directors present, to ensure that there is an opportunity to discuss potentially sensitive matters. At least annually, the Senior Independent Director meets with the non-executive Directors, excluding the Chairman, to evaluate the Chairman's performance.

The executive Directors are also given the opportunity to meet with the Chairman and/or the Senior Independent Director separately. The outcome of these meetings is fed back to individuals by the Chairman, Senior Independent Director or Group Chief Executive, as appropriate.

Director re-election

All of the current Directors will stand for re-election at the forthcoming AGM. Following the annual evaluation of the Board and its Committees, and the individual performance reviews undertaken, all Directors that are standing for re-election are considered to be effective in their role, hold recent and relevant experience which is of value to Halma and they continue to demonstrate commitment.

Biographical details of each Director standing for re-election are set out on pages 58 and 59 and in the Notice of Meeting, along with the rationale for recommending their re-election.

Liability insurance and indemnities

Each Director is covered by appropriate directors' and officers' liability insurance, at the Company's expense. In addition, there are Deeds of Indemnity in place, which provide an indemnity from the Company to each individual Director in respect of any proceedings brought against them personally by a third party, in their capacity as Director of the Company. The indemnity does not extend to certain areas, including: any liability to pay a fine imposed in criminal proceedings; defending criminal proceedings where the Director is convicted and such conviction is final; defending any civil proceedings brought by the Company or an associated company; or in any proceedings for disqualification of the Director.

Nomination Committee Report

During the year, the Committee met formally on three occasions, primarily to focus on Board succession planning, reviewing progress on diversity and assessing the talent pool below the Executive Board.



Board Composition and Diversity

The Board recognises the benefits of a diverse leadership team. The charts below illustrate the composition and diversity of the Board.

Composition

Executive		4
Non-executive		6

Gender

Female		4
Male		6

Age

40-49		3
50-59		5
60-69		2

Nationality

British		6
American		3
Brazilian		1

Tenure

0-3 years		1
3-6 years		5
6-9 years		2
9+ years		2

Committee composition and attendance

	Eligible	Attended
Paul Walker (Chair)	3	3
Carole Cran	3	3
Daniela Barone Soares	3	3
Jo Harlow	3	3
Tony Rice	3	3
Roy Twite	3	3
Andrew Williams	3	3

Committee composition

The Committee comprises, and has comprised of throughout the year, the Chairman, the Group Chief Executive and the five independent non-executive Directors. It is chaired by Paul Walker but he would not chair a meeting which was dealing with the appointment of his successor.

Only Committee members are entitled to attend meetings although the Group Talent, Culture and Communications Director is a regular attendee and external search consultants may be invited for specific items.

Principal role and responsibilities

The Committee is appointed by the Board and operates under written terms of reference (available at www.halma.com) which are reviewed at least annually.

The primary duties of the Committee are:

- Reviewing the size, balance and composition (evaluating the skills, knowledge and experience) of the Board and its Committees, ensuring that they remain appropriate and link to the Company's strategic objectives.
- Making recommendations to the Board on any changes to the structure or composition of the Board and its Committees.
- Leading the process for new Board appointments.
- Leading succession planning discussions for Board and senior executive positions, including the identification and assessment of potential candidates and making recommendations to the Board for its approval.
- Keeping under review the leadership needs of the Group, for both executive Directors and other senior executives, including any recommendations made by the Group Chief Executive.

Activities during the year

The Committee's main activities have been:

- Agreeing a role specification for a new non-executive director to replace Daniela Barone Soares, who will retire from the Board at the AGM in 2021.
- Appointing Lygon Group, who are not connected to the Company, to undertake the non-executive director search with the brief to find a diverse candidate with operational experience, in a relevant sector in Asia (particularly China and South East Asian markets).
- Following a robust assessment of her contribution to the Board and its Committees, recommending the re-appointment of Jo Harlow as non-executive Director for a further three year term.
- Recommending to the Board the appointment of Jo Harlow as Chair of the Remuneration Committee from 14 February 2020, succeeding Tony Rice who remains a non-executive Director and Senior Independent Director.

Nomination Committee Report continued

- Reviewing the skills and experience of the Executive Board and talent one level below, as part of the ongoing monitoring for succession planning for senior leadership and Executive positions.
- With input from Lygon Group, discussed the future capabilities and requirements for the Group Chief Executive and Chairman roles, which will inform development plans for any internal candidates.
- Reviewing the gender and ethnic diversity of the Board and Executive Board and noting the improvements in gender balance across the senior management tier.
- Reviewing the results from the Board and Committee evaluations and recommending the re-appointment of all Directors at the 2020 Annual General Meeting.

Board appointment process

The Board has an established approach for seeking and evaluating candidates for Board positions, which was utilised for the appointment of the Chief Financial Officer in 2018 and is being applied for the non-executive Director search outlined above.

Prior to the Committee making a recommendation to the Board for an appointment, it undertakes the following process:

- Identifying the skills, experience and knowledge required for, and complementary to, the role.
- Agreeing the role specification and capabilities required.
- Selecting a global executive search firm.
- Reviewing candidate profiles and preparing a shortlist of diverse candidates for interview.
- Making an in-depth assessment of each candidate's suitability for the role, based on interviews, psychometric testing and references.
- Recommending the preferred candidate to the Board.

Board and Committee evaluations

The Committee reviews the process and output from the annual Board and Committee evaluations. The formal evaluation process involves a review of the performance of each Director through individual meetings held with the Chairman and for the Chairman, the Senior Independent Director. The Board and each Committee undertakes an evaluation of its own effectiveness and reports the findings to the Board. In 2020, this evaluation took the form of a tailored questionnaire for each audience and the feedback was discussed with the respective Board or Committee Chair.

The outcome from the Committee's own evaluation determined that the size and structure is appropriate, the frequency and duration of the meetings are suitable, the quality of the papers and oversight of the senior management talent pipeline is good, the meeting environment is conducive to open and effective debate and results in well-considered decision making.

Diversity

Halma has a group-wide diversity and inclusion policy which sets out our commitment that all candidates are considered fairly, regardless of their gender, race, age, sexual orientation, professional or academic background and it is our practice to ensure that there is a diverse selection of candidates before we commence the assessment process. While appointments are ultimately based on merit – taking account of an individual's relevant skills and experience for the role – we recognise the benefits that a diverse workforce brings. Accordingly, we require recruiters to provide a diverse range of candidates before we consider the merits of each application, which ensures that we factor diversity and inclusion into our process at the outset.

The work that Halma is doing to improve diversity across the Group, along with our open and inclusive culture ensures that all candidates are fairly considered for each role. See the Our People section on pages 38 and 39 of the Strategic Report for more information on the gender diversity across the Group and our efforts to further embrace diversity and inclusion. While specific targets may be set in the future relating to other elements of diversity, we are mindful that maintaining a flexible approach is favourable, as it enables steps to be taken to achieve a genuinely diverse and talented workforce across all levels and avoids a sole focus on the Board and senior management tier.

Board Diversity Policy

The Committee recognises the benefits of a diverse board and embraces diversity and inclusion in the widest sense. The Board has adopted a Board Diversity Policy, to complement the group-wide diversity and inclusion policy. This Policy confirms our commitment to ensure that candidates are fairly treated regardless of their gender, race, age, sexual orientation, professional or academic background. We have achieved good progress on gender diversity at Board and Executive Board level, and our Group Chief Executive's membership of the 30% Club demonstrates our long-term commitment to this agenda. We will continue to focus our efforts on driving gender and ethnic diversity at the senior levels throughout our business, where women and ethnic minorities are less well represented.

The Board supports the recommendation of the Hampton-Alexander Review on gender diversity to have at least one third of the Board comprised of women. At the year end and at the date of this Report, the Board comprised 10 Directors, including four women (40% of the Board). The spread of nationalities is six British, three American and one Brazilian. On the Executive Board, there are currently four women (50%) and four men (50%), with a spread of nationalities comprising three British, four American and one German. In August 2020, the Executive Board shall be composed of 57% women.

Paul Walker

Chair

For and on behalf of the Committee
14 July 2020

Audit, risk and internal control

Risk management and internal controls

The Board has overall responsibility to the shareholders for the Group's system of internal control and risk management and the review of the system's effectiveness is carried out with the assistance of the Audit Committee. While 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 Group's risk management structure and process is detailed on pages 48 and 49. The Group's principal risks and uncertainties are detailed on pages 50 to 53.

The Board confirms that there is an ongoing process for identifying, evaluating and managing the emerging and principal risks faced by the Group and for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. The Board, advised by the Audit Committee, regularly reviews this process, which has been in place for the year under review and up to the date of approval of the Annual Report and Accounts. This risk framework is in accordance with the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting. The Board has continued to improve and embed controls throughout the Group and will continue to keep the systems under review to ensure that the internal control and risk management framework remains fit for purpose.

The Board's regular review of the effectiveness of the Group's risk management and internal control systems (including financial, operational and compliance controls) is principally based on reports from management. These reports consider whether significant risks have been identified, evaluated, managed and controlled. The Group's external Auditor, PricewaterhouseCoopers, has audited the financial statements and has reviewed the financial control framework to the extent considered necessary to support the audit report.

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 as at 31 March 2020, its cash flows, liquidity position and borrowing facilities are set out in the Strategic Report. In addition, note 27 contains further information concerning the security, currency, interest rates and maturity of the Group's borrowings.

The financial statements have been prepared on a going concern basis. In adopting the going concern basis the Directors have considered all of the above factors, including potential scenarios arising from the COVID-19 pandemic and from its other principal risks set out on pages 50 to 53. Under the potential scenarios considered, which are severe but plausible, the Group remains within its debt facilities and the attached financial covenants for the foreseeable future and the Directors therefore believe, at the time of approving the financial statements, that the Company is well placed to manage its business risks successfully and remains a going concern. The key facts and assumptions in reaching this determination are summarised below.

Our financial position remains robust with committed facilities totalling approximately £750m which includes a £550m Revolving Credit Facility, maturing in November 2023, of which £313.6m remains undrawn at the date of this report. The earliest maturity in these facilities is for £74m in January 2021, with the remaining maturities from January 2023 onwards. The financial covenants on these facilities are for leverage (net debt/adjusted EBITDA*) of not more than three times and for adjusted interest cover of not less than four times.

* net debt and adjusted EBITDA are on a pre-IFRS 16 basis for covenant purposes

Our base scenario has been prepared using forecasts from each of our Operating Companies, with each considering both the challenges and opportunities they are facing as a consequence of COVID-19. Whilst these are varied, we have made assumptions in the following key areas:

- The impact of government lockdown restrictions: physical lockdown of either our own or our suppliers, distributors or customers operations have a direct impact on our revenue. This has impacted the Safety Sectors in particular with the challenges of physical access and our customers' ability to install products at end customer sites. We have assumed a gradual recovery of these sectors from Q2 with trading returning to more normal trading levels by the end of FY21.
- The impact of the pandemic on elective surgery and discretionary ophthalmic diagnosis procedures: as health services have focussed on addressing the additional demand from the pandemic, certain businesses in the Medical sector have experienced reduced demand for their products in these end markets. We have assumed a gradual recovery from Q2 as healthcare systems normalise, returning to more normal trading levels by Q3.
- The effect on essential businesses: a number of our businesses are considered essential in nature either as they make products that are critical to life or protect critical infrastructure. A small number of these businesses have experienced an increase in demand as a result of global efforts to fight COVID-19. We have assumed that the current high demand in these businesses is short term and moderates over the coming months, returning to more normal levels by Q4.

Mitigating actions assumed in the base case:

- Cost reductions which have already been implemented in Q1 of the 2021 financial year including temporary salary reductions, hiring freezes and a significant reduction in discretionary overhead spending. We have assumed appropriate and achievable further reductions in overheads where this is required for individual companies to 'right size' their cost base for the medium term.
- Reduction of capital expenditure: we have assumed a reduction of non-essential capital expenditure for the rest of the financial year.
- Suspension of M&A activity: we have assumed that we will not make any acquisitions for the balance of FY21, resuming a normal level of activity during FY22.

Further severe but plausible downside sensitivities modelled include:

- A delay in the recovery of the impacted businesses from the effects of COVID-19.
- A second wave of COVID-19 infection and corresponding government restrictions in the second half of FY21.
- A reverse stress test scenario has been modelled which is considered remote in likelihood of occurring, which includes a combination of these scenarios with the addition of impacts from the Group's other principal risks.

None of these scenarios result in a breach of the Group's available debt facilities or the attached covenants and accordingly the Directors believe there is no material uncertainty in the use of the going concern assumption.

Longer term viability

In accordance with the Code, the Board has considered the Company's longer term viability and sets out its Viability Statement on page 54 of the Strategic Report.

Audit Committee Report



Committee composition and attendance

	Eligible	Attended
Carole Cran (Chair)	3	3
Daniela Barone Soares	3	3
Jo Harlow	3	3
Tony Rice	3	3
Roy Twite	3	3

During the year, the Committee met formally on three occasions, with two of the three meetings focusing on the Half Year and Full Year Reports and Results Announcements and the third meeting primarily considering the external and internal audit plans for the coming year. As the potential impact of the COVID-19 pandemic on the Group's reporting timetable became apparent, there were regular internal reviews with management, the Auditor and the Audit Chair to understand the challenges faced in delivering audited financial results – particularly in respect of stock counts and obtaining sufficient global coverage in the lockdown to enable an audit opinion to be issued without being modified or qualified. As a result of these discussions, with the support of the Committee, the Board delayed the annual results announcement from mid-June to mid-July 2020.

Going forward there will be four meetings held each year to cover additional topics as outlined below.

Committee composition and induction

The Committee comprises, and has comprised of throughout the year, the five independent non-executive Directors. Carole Cran is Chair of the Committee and continues to have recent and relevant financial experience, and competence in accounting. Carole qualified as a Chartered Accountant with KPMG has held senior financial positions at FTSE listed companies and is currently Chief Financial Officer at Forth Ports Limited and was a business representative on the review panel led by Sir Donald Brydon to look at the quality standards delivered by UK auditors.

Only Committee members are entitled to attend meetings, although the Chair invites the Chairman, executive Directors, Group Financial Controller, Director of Risk & Internal Audit and representatives from the external Auditor to regularly attend meetings. Subject matter experts, such as the Chief Technology Officer, the Head of Tax, Head of Treasury and sector CFOs are invited to attend on a cyclical basis to update the Committee.

Appointments to the Committee are made by the Board and the remuneration of the Chair reflects the additional responsibilities and time commitment required in the role, compared to the other Committee members. As part of the induction process for new members of the Committee, they will meet separately with key individuals – including the Chair, the Chief Financial Officer, the Director of Risk & Internal Audit and the external Auditor. While each non-executive Director will largely manage their own continuing development, the Committee receives relevant updates throughout the year and may request additional information as required.

Principal role and responsibilities

The Committee is appointed by the Board and operates under written terms of reference (available at www.halma.com) which are reviewed at least annually.

The primary duties of the Committee are:

Financial reporting

- Reviewing significant financial reporting judgements and estimates, and the application of accounting policies, including compliance with accounting standards; ensuring the integrity of the financial statements and standards compliance with UK company law and regulation.
- Ensuring the Annual Report and Accounts are fair, balanced and understandable; monitoring the integrity of announcements containing financial information.

Internal control

- Monitoring the adequacy and effectiveness of the internal controls and processes.

Risk management

- Reviewing and providing oversight of the processes by which risks are managed; reviewing the process undertaken, and the stress-testing performed, to support the Group's Viability Statement and Going Concern Statement.

Compliance, fraud and whistleblowing

- Monitoring compliance with the UK Corporate Governance Code.
- Reviewing the adequacy and effectiveness of the Group's compliance functions; monitoring the processes in place to prevent and detect fraud and receiving reports on fraud attempts or incidents; reviewing the adequacy of arrangements in place to enable employees to raise concerns in confidence.

Internal audit

- Reviewing and approving the audit work plan and charter.
- Reviewing reports from audits and monitoring the status of remedial actions; monitoring the structure, composition and resourcing of the function.
- Reviewing the role and effectiveness of the function.
- Considering whether an independent third-party review of internal audit effectiveness and processes is appropriate.

External audit

- Managing the relationship with the Auditor.
- Monitoring and reviewing the independence and performance of the Auditor and formally evaluating their effectiveness.
- Reviewing the policy on non-audit services carried out by the Auditor; negotiating and approving the Auditor's fee, the scope of the audit and the terms of their engagement.
- Leading the audit tender process at least every 10 years.
- Making recommendations to the Board for the appointment or reappointment of the Auditor.

Governance

The Committee has three scheduled meetings per year, to coincide with the key events in the corporate reporting calendar and audit cycle. From 2020, an additional meeting has been added in September, to provide an update between the meeting in June and November and to set aside more time for topic-specific and technical updates.

The Committee, and independently the Chair, regularly meets with the Director of Risk & Internal Audit and separately with the external Auditor, without any executive Directors present. The Chair maintains regular contact with management, particularly the Chief Financial Officer, Group Financial Controller and the Company Secretary.

All members of the Committee further their internal network and knowledge of the businesses through company visits, corporate events and Halma's annual leadership conference.

The Committee receives updates from the external Auditor and other professional advisers, where appropriate, on matters relevant to financial reporting, internal control, audit and risk. The Committee as a whole has competence relevant to the Company's sector, with each member bringing valuable experience, diversity of thought and independent judgement. Biographies for each member of the Committee are set out on pages 58 and 59.

The Chair sets the forward agenda for the year but allows for flexibility in the timing and the schedule to ensure that new or unforeseen areas can be appropriately reviewed. The agenda and meeting papers are circulated in a timely manner, in accordance with the terms of reference.

The Chair reports to the Board on the key matters discussed and Committee minutes are subsequently circulated to all Board members and the external Auditor. Internal Audit reports that identify any significant control weakness, a compliance weakness or other risk that requires immediate management attention, are circulated to the Committee via the Company Secretary as soon as a report is issued.

The Committee undertakes an evaluation of its own effectiveness each year and reports the findings to the Board. In 2020, this evaluation took the form of a tailored questionnaire and the feedback was provided to the Committee Chair and the output shared with Committee members. The Committee agreed that the size and structure is appropriate, the frequency and duration of the meetings are suitable (in light of an additional meeting being included each year in September), the quality of the papers was good, the meeting environment is conducive to open and effective debate and one in which management can be openly challenged.

Activities during the year

The Committee's main activities have been:

- Reviewing on behalf of the Board the Half Year Report and Annual Report and Accounts and considering the key accounting judgements and estimates that affect the application of the policies and reported values, particularly in light of COVID-19.
- Reviewing the Half-Year and Year-End risk and assurance process.
- Reviewing data insights obtained from PricewaterhouseCoopers' (PwC) external audit cycle.
- Reviewing the FRC's Audit Quality Review Report on PwC.
- Reviewing the Group's whistleblowing and compliance procedures and reports.
- Receiving an update on IT and cyber risk controls.
- Approving the Tax Strategy and recommending its approval to the Board.

- Approving the Treasury Policy.
- Agreeing PwC's audit fee.
- Approving the Internal Audit Charter and work plan.
- Reviewing the Group's Principal Risks.
- Committee evaluation.

Whistleblowing

The Committee had responsibility for reviewing the adequacy and security of the Group's arrangements for employees and contractors to raise concerns about possible improprieties in financial reporting or other matters. Halma has appointed an external third-party provider, NavexGlobal, to operate a confidential, multilingual, telephone and web reporting service, 24/7, through which concerns can be raised. Further details are set out in the Sustainability section on page 46.

All reports are provided to the Company Secretary for review and to ensure that they are appropriately investigated, with the support of Internal Audit and external resources, if required. In line with many listed companies, most matters reported through the NavexGlobal service relate to personnel/HR matters and, while these are not areas for review by the Committee, such matters are duly investigated in the same manner and reported to the Board in its role of monitoring culture and reviewing workforce concerns.

Following a review during the year, the Committee was satisfied with the adequacy and security of the arrangements in place for people to raise concerns on possible improprieties in financial reporting or financial misconduct.

External auditor

The external auditor is engaged to express an opinion on the Group and Company financial statements. The audit includes the review and testing of the data contained in the financial statements to the extent, and materiality level, necessary for expressing an audit opinion as to whether they present a true and fair view of the state of the Group and parent company affairs as at 31 March 2020. Following a tender process, PwC were appointed Auditor to the Company at the Annual General Meeting in 2017. Owen Mackney has been the Senior Statutory Auditor since 2017.

Audit tendering

The Committee has primary responsibility for recommending to the Board the appointment or re-appointment of the external auditor before it is put to shareholders at the AGM. The Committee will, at the appropriate time, lead the audit tender process. This process will be carried out at least every 10 years and, unless it is undertaken earlier, it is the Committee's policy to consider whether a tender is appropriate every five years, to coincide with the change in Senior Statutory Auditor. Accordingly, it is anticipated that the Committee will review the position ahead of the financial year ending in 2022 and should a tender not be considered appropriate at that time, the rationale will be stated within the Committee's Report.

Statement of compliance

The Company confirms that it complied throughout the year with the provisions of the Competition and Markets Authority's Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

Auditor objectivity and independence (including non-audit fees)

The Group has adopted a policy on 'Auditor Independence and Services provided by the External Auditor' which sets out the limited services that the external Auditor can provide to Group companies, which do not conflict with the Auditor's independence. This new Policy has been updated this year to align to the FRC's revised Ethical Standard which applies from March 2020. A summary of the new Policy is set out below.

Audit Committee Report continued

During the year, four pieces of permitted non-audit work (in addition to the Half Year Report review) were undertaken by PwC, with total fees being circa £30,000. This work was pre-approved by the Committee or, for items under £15,000, the Chair of the Committee.

In addition to Halma's Policy, the Auditor runs its own independence and compliance checks, prior to accepting any engagement, to ensure that all non-audit work is compliant with the Ethical Standard in force and that there is no conflict of interest.

The audit fees payable to PwC for the year ended 31 March 2020 were £1.7m (2019: £1.3m) and non-audit service fees, were £0.1m (2019: £0.1m).

Financial statements and significant accounting matters

During the year and prior to the publication of the Group's results for the half year ended 30 September 2019 and the full year ended 31 March 2020, the Committee considered the significant risks and material issues, judgements and estimates made in relation to the Group's financial statements, comprising:

- The impact of adopting IFRS 16 'Leases' for the first time and the adequacy of the disclosures.
- The value of goodwill, due to the significance of the amounts recorded on the Consolidated Balance Sheet, and the judgements and estimates involved in assessing goodwill for impairment.
- The risk that acquisitions are not accounted for correctly in line with IFRS 3 'Business combinations' including the recording of fair value adjustments and the identification and valuation of acquired intangible assets.
- The valuation of any contingent consideration arising on acquisitions in current and prior periods.
- The judgements and estimates involved in valuing defined benefit pension plans including the discount rate, the mortality assumption and the inflation rate.
- Compliance risks with existing and evolving tax legislation.
- The carrying value of Capitalised Development Costs (CDCs).
- The carrying value of trade receivables in light of the COVID-19 pandemic.
- The going concern status of the Group and any impact on future viability due to the COVID-19 pandemic.

These issues were discussed with management at various stages during the year and during the preparation and finalisation of the financial statements. After reviewing the presentations and reports from management, the Committee is satisfied that the financial statements appropriately address the critical judgements and key estimates, both in respect of the amounts reported and the disclosures made. The Committee is also satisfied that the significant assumptions used for determining the value of assets and liabilities have been appropriately scrutinised, challenged and are sufficiently robust. The Committee has discussed these issues with the Auditor during the audit planning process and at the finalisation of the year-end audit and is satisfied that its conclusions are in line with those drawn by the Auditor in relation to these issues.

The Committee's process for challenging the assumptions of management and addressing the risks identified includes the following activities:

- Reviewing the conclusion of the transition process for the adoption of IFRS 16, to confirm that the outcome on the Group's results and KPIs was in line with that expected.
- Assessing treatments of contingent consideration payment arrangements against the requirements of IFRS 3 and IFRS 13.

- Focusing on, monitoring regularly and constructively challenging, the reasonableness of the assumptions used in impairment calculations by management, particularly in light of the impact of COVID-19.
- Challenging the appropriateness of judgements and forecasts used including discount rates, growth rates, the level of aggregation of individual cash generating units and methodology applied, and any other associated disclosures in note 11 to the Accounts.
- Assessing capitalisation and the carrying value of development costs in line with the accounting policy and standards.
- Assessing the assumptions in determining the pension obligations, particularly given market volatility and determining whether the key assumptions were reasonable.
- Assessing the recoverability of trade receivables in light of the impact of the COVID-19 pandemic.
- Considering the appropriateness and reasonableness of stated judgements and conclusions and that reporting was accurate.
- Assessing the position taken with regards to tax judgements.

As part of the above process the Committee specifically considered the following:

- The treatment and valuation of the contingent consideration payable, particularly in relation to Mini-Cam, Vismetrics, Navtech Radar, NeoMedix and NovaBone.
- The fair value of acquired intangible assets and carrying values arising on the 10 acquisitions in the period, particularly in relation to the acquisitions of NovaBone, Ampac and Sensit.
- The appropriateness of, and process followed for changes made to the aggregation of individual cash generating units used in the Group's impairment review during the year, as well as the associated disclosures of the changes.
- The assumptions around discount rate and inflation rate that resulted in the significant decrease in the net liability on the pension obligations.
- The make up of the Group's receivables and experiences of cash collection since the year end and the adequacy of the bad debt provision and prudence applied in relation to the risks in each sector.
- The evidence supporting the going concern basis of accounts preparation, the Viability Statement and the risk management (particularly in light of COVID-19) and internal control disclosure requirements.
- The judgements around the carrying value of tax provisions and uncertainties, in particular, the potential impact on the Group of the European Commission's decision against the UK Government relating to the UK Controlled Foreign Company partial exemption being illegal State Aid.

Risk management and internal controls

The Committee maintains oversight of the risk management and internal control framework and monitors its effectiveness. During 2020, the risk management and internal control process was further improved. Completion of strategic risk assessments across the Group were, for the first time, input by businesses/risk owners directly into the RiskHub software. The Executive Board members are fully engaged in the risk management process and review all of the Group's Principal Risks in detail prior to their discussion and approval at the Board. In addition, further rationalisation of the internal control framework for finance, legal and IT has been completed which provides a clearer framework and baseline level of compliance for all the operating companies, whilst allowing for the Halma decentralised operating structure, where different systems and processes are used.

The Committee reviewed, with the assistance of the Director of Risk & Internal Audit, both risk management and internal controls to ensure that they remain robust and effective while complementing Halma's decentralised, autonomous, organisational structure which is integral to Halma's growth strategy. No significant failings or weaknesses were identified in the review process. Full details of the internal control framework and approach to risk management are set out on pages 48 and 49.

Fair, balanced and understandable

To ensure that the report and accounts are fair, balanced and understandable, the Committee considers the output from a series of focused exercises that take place during the Annual Report and Accounts production process. These focused exercises can be summarised as follows:

- A qualitative review, performed by the Group's finance and secretarial functions of disclosures and a review of internal consistency throughout the Annual Report and Accounts. This review assesses the Annual Report and Accounts against objective criteria drawn up for each component of the requirement (individual criteria that indicate 'fairness', 'balance' and 'understandability' as well as criteria that overlap two or more components). A risk comparison review which assesses the consistency of the presentation of risks and significant judgements throughout the main areas of risk disclosure in the Annual Report and Accounts.
- A formal review of all Board and Committee meeting minutes by the Company Secretary to ensure that all significant issues

are appropriately reflected and given due prominence in narrative reporting.

- Preparation and issue to the Audit Committee of the key working papers and results for each of the significant issues and judgements considered by the Audit Committee in the period.

The Directors' statement on a fair, balanced and understandable Annual Report and Accounts is set out on page 103.

Internal Audit

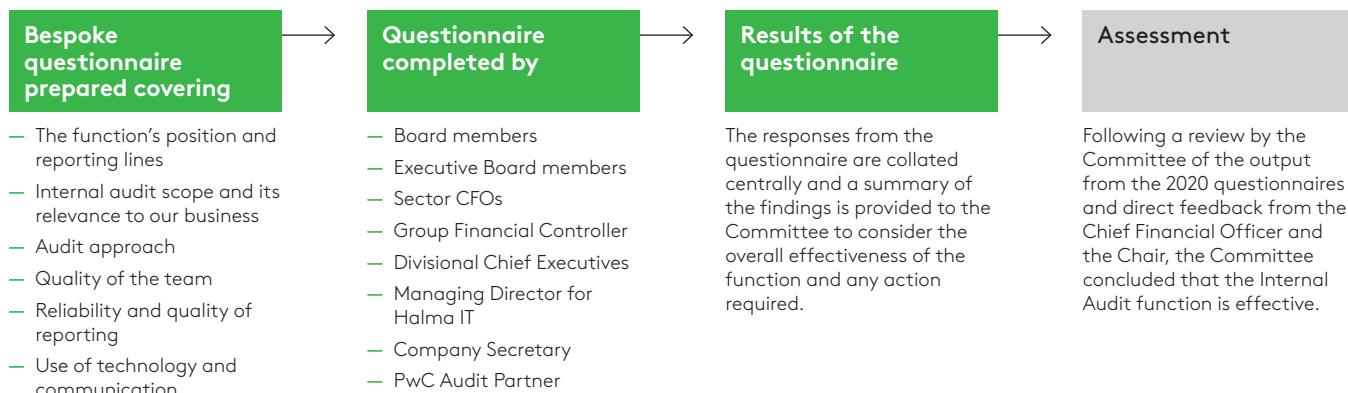
The Internal Audit function comprises the Director of Risk & Internal Audit and four audit managers – two based in the UK, one in the USA and one in China. The structure of the function ensures coverage across the Group's global operations. A risk-based audit work plan is agreed by the Committee annually and takes account of the rotational visits undertaken by the external Auditor under their audit programme. Progress against the work plan is reviewed at each Committee meeting, in order that any changes in priorities or resourcing can be discussed and agreed. The Committee has oversight of the internal audit budget and resources available and it has satisfied itself that the Internal Audit function has the appropriate level of resources and funds available to undertake its role.

All Internal Audit reports are issued to management and the external Auditor. Any reports which contain high priority findings which require immediate management action, are circulated to the Committee with commentary from the Chief Financial Officer on the underlying issues and remedial or mitigating actions being taken.

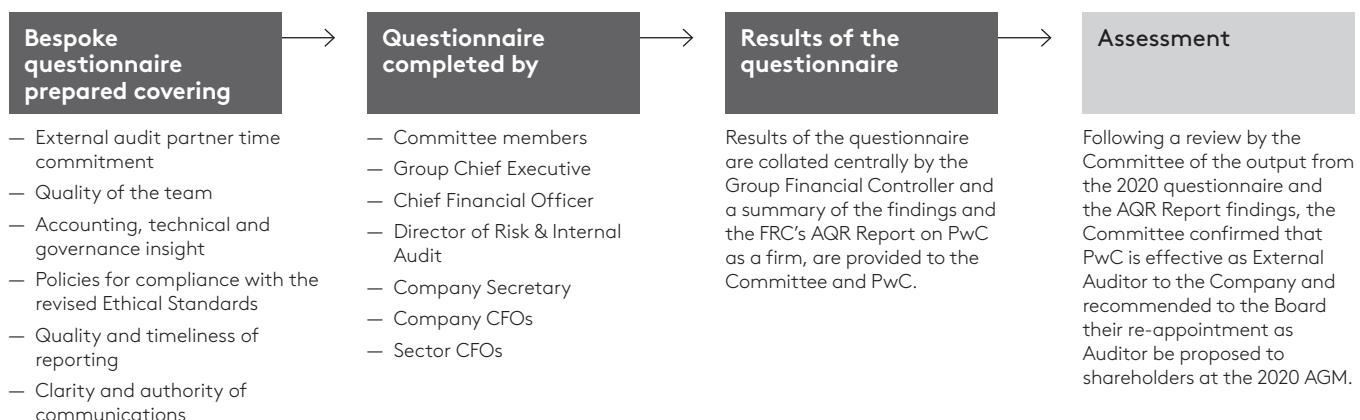
Auditor effectiveness

The Committee reviews annually the effectiveness of both the Internal Audit function and the External Auditor. The process for each review is conducted primarily by way of a tailored questionnaire.

Internal audit process



External audit process



Audit Committee Report continued

Policy on auditor independence and services

Permitted audit-related services

Audit-related services are non-audit services, as specified in the revised Ethical Standard, that are largely provided by the external auditor and where the work is closely related to the work performed in the audit and where threats to auditor independence are clearly insignificant and safeguards need not be applied.

These audit-related services include:

- Reporting required by law or regulation to be provided by the auditor.
- Reviews of interim financial information.
- Reporting on regulatory returns.
- Reporting to a regulator on client assets.
- Reporting on government grants.
- Reporting on internal financial controls when required by law or regulation.
- Extended audit work that is performed on financial information and/or financial controls where this work is integrated with the audit work and is carried out on the same principal terms and conditions.

Non-audit services (other than audit-related services)

The general policy is that the external auditor must not carry out any non-audit services (other than audit-related services) for the Company.

In exceptional circumstances, the Committee (or the Chair of the Committee for amounts up to £15,000) may approve the engagement but only where:

- The services are not prohibited (for engagements up until March 2020) or are permitted (for engagements from March 2020).
- The auditor is considered to be the most suitable supplier of the services.
- The external auditor's independence would not be compromised.

Prohibited non-audit services prior to March 2020

Under this policy, the external auditor must not provide non-audit services to Halma, or any of its global subsidiaries, which fall within the general categories of services listed under the policy (including taxation, bookkeeping, payroll, design or implementation of risk management procedures, valuation services, legal services, internal audit services, services relating to financing/capital structure/investment/promotion or dealing in shares, HR services, organisational design or cost control) or any of the specific services as set out in the revised Ethical Standard and Staff Guidance Note 05/2016.

Permitted non-audit services from March 2020

Under this policy, the external auditor must not provide non-audit services to Halma, or any of its global subsidiaries, unless they fall within the specific categories of services listed at Section 5B of the new Ethical Standard.

Fee cap for audit-related services

The external auditor can be engaged to perform audit-related services without the requirement for a separate tender process unless the anticipated fees exceed £150,000. If the anticipated fees are above £150,000, the Committee must approve the decision to engage the external auditor in advance, and always subject to the overall fee cap. The total fees for audit-related and non-audit services paid to the external auditor in any year cannot exceed 70% of the average fees for audit services charged over a three-year period.

The Committee will be notified of all projects with the external auditor with estimated fees between £75,000 and £150,000 and, at each meeting, the Committee will receive a summary of all fees, audit and non-audit, payable to the external auditor.

Carole Cran

Chair

For and on behalf of the Committee

14 July 2020

Remuneration Committee Report



Committee composition and attendance

	Eligible	Attended
Jo Harlow (Chair)	5	5
Tony Rice	5	5
Paul Walker	5	5
Daniela Barone Soares	5	5
Roy Twite	5	5
Carole Cran	5	5

On behalf of the Board, I am delighted to present my first report as Chair of the Remuneration Committee for the year ended 31 March 2020, having taken over from Tony Rice in February 2020. I would like to take this opportunity to thank Tony for the strategic work and direction he has provided to the Committee over the years.

This Report is split into the following sections:

1. The Annual Statement with an 'at a glance' summary of the remuneration decisions made and key performance achievements during the year.
2. The Annual Remuneration Report on the implementation of the Remuneration Policy (the Policy) in the year ended 31 March 2020 and proposed implementation of the Policy for the next financial year.
3. A summary of the current Policy which was approved by shareholders at the 2018 AGM to provide context to the decisions made by the Committee during the year.

Strategic alignment of pay

Halma's strategy is to build a strong competitive advantage in specialised safety, health and environmental markets with resilient growth drivers, delivering on the aspiration to double earnings every five years, while maintaining high returns.

This strategy has long been underpinned by a strong pay-for-performance culture, focusing on long-term results and alignment with shareholder experience. Halma's remuneration framework balances growth with returns, utilising Economic Value Added (EVA) in the three preceding financial years as the measure for the short-term incentive and Return on Total Invested Capital (ROTC) and Earnings per Share (EPS) as the measures for the long-term incentive plan.

The strength of the alignment of executive remuneration with shareholder experience has meant that the pay arrangements currently in place have supported the delivery of long-term sustainable growth, despite the impact of COVID-19. The Committee will continue to review the pay structures and incentive arrangements to ensure strong alignment between the delivery of business strategy, business performance and the associated remuneration arrangements, in particular as it reviews the Policy later this year.

Context of business performance

Halma has delivered another record year as the business has achieved growth in organic revenue of 6% and organic profit growth of 4% despite the impact of COVID-19 in the last quarter of the year to 31 March 2020. Halma also achieved a record year in acquisitions and exceeded its KPI for acquisition profit growth. Return in sales and ROTC remain consistently high, delivering value for shareholders. Our total shareholder return has continued to materially outperform the FTSE 100 index, with an investment of £100 in Halma shares on 31 March 2017 worth £194 as at 31 March 2020, compared to £88 for a similar investment in the FTSE 100 index. This level of outperformance illustrates the strength of Halma's business model and is evident in Halma's progression through the FTSE 100.

Corporate governance developments

The Committee undertook a significant review of the Remuneration Policy two years ago, which was put to shareholders at the 2018 AGM, resulting in strong shareholder support with a vote of over 97% in favour. The changes that were implemented to further manage risk and long-term sustainability as part of that policy review have seen our performance awards granted since then subject to a two-year holding period post vesting.

Remuneration Committee Report continued

We did consider the possibility of bringing forward the triennial review of the Policy for a vote at the 2020 AGM in order to update the Policy in response to the revised Corporate Governance Code and to reflect Halma's positioning in the FTSE 100. Given the increased focus on pensions and considering Halma's decentralised structure, the Committee re-considered this decision and chose to operate the existing Policy through 2020/21, with a new policy being brought forward at the usual time to the AGM in 2021. In addition to a full review of the existing policy relative to the 2018 UK Corporate Governance Code (the Code) and market best practice, we will develop and bring forward proposals on the alignment of incumbent executive Director pensions with the wider workforce and consider potential Environmental, Social and Governance (ESG) targets. We will engage with our shareholders and syndicate any revised proposed remuneration framework so it can effectively support our senior leaders and align with our growth strategy as it continues to evolve. We will also ensure that there is engagement with the wider workforce to explain how executive remuneration aligns with the wider company pay policy.

We are very conscious that pensions is an area where market sentiment has shifted significantly since our last Policy was approved. Therefore, until the pensions review is complete, we have made a decision that any new UK executive Director appointee – whether internal or external – will receive a company pension contribution (or cash equivalent) which is aligned with the rate offered to the majority of employees in the UK.

We recognise that the combination of the 20% pension contribution for Andrew Williams and his 6% compensatory payment – for ceasing future accrual of contractual benefits under the defined benefit arrangement, in line with the rates offered to other senior members when the defined benefit section of the Plan closed – exceeds the maximum level identified by investor bodies as being appropriate for existing executive directors. We will review this, along with the pension contribution rates of the other executive Directors, as part of the pensions harmonisation exercise during the forthcoming year and confirm our plan next year.

During FY21, we will also review the malus and clawback provisions that apply to both the annual incentive and the Executive Share Plan (ESP) to ensure best practice, broadening the existing recovery provisions as part of our 2021 Policy review.

Other areas that will form part of the Committee's review include the introduction of post-employment shareholding guidelines, as well as a more general review of overall quantum of pay in light of Halma's rapid growth and positioning within the FTSE 100. We will look to ensure that the performance measures used in both the short- and long-term incentives continue to support Halma's strategy. We are also looking to shadow a basket of ESG metrics to understand further how this could work for Halma, in terms of mechanics, data quality, management accountability and alignment with our strategy.

The Committee has considered and believes that the current Policy and practices are consistent with the six factors – clarity, simplicity, risk, predictability, proportionality, alignment to our culture – set out in Provision 40 of the Code. For instance, our current Policy is well understood by our senior leaders and has been clearly articulated to shareholders. In addition, it is straightforward to communicate and operate. The Committee will review and ensure that our new policy continues to adhere to these principles.

Halma has reported its first CEO pay ratio relative to its UK employee base. In future years, the trend in the ratio will be apparent as the comparator table will be built up over a 10-year period. Further details are set out on page 88.

Remuneration outcomes for 2020 including COVID-19 considerations

In the context of a final quarter impacted by COVID-19, Halma has delivered a strong set of results and the Board has proposed a final dividend, which along with the interim dividend, would result in an increase in the total dividend for the year of 5%, in line with the historic dividend growth of 5% or more.

As the extent of the COVID-19 pandemic became apparent, as required by accounting standards, the business added additional bad debt provision reflecting the additional risk of impairment of its receivables. As it is not yet known when, or whether, the bad debt will ultimately occur, the Committee considered it was equitable to reward management for the strong performance in 2019/20, excluding this item. The Committee also decided that any benefit from the release of the provision arising in future years would be excluded from the payout calculation of the relevant bonus plan and ESP cycles. For the avoidance of doubt, the realisation of any and all bad debt would negatively impact the formulaic calculation of the bonus and ESP out-turn.

The Group's EVA performance metric generated total annual bonus payments for the executive directors of 81% of maximum potential outcome, with one third deferred into shares which will vest after two years. The Committee believes that this payout reflects the strong performance of the business through the year.

The three-year performance for average ROTIC (15.6%) and Adjusted EPS growth over the three-year period (13.3%) have been robust and this is reflected in the 91.25% vesting percentage for the ESP awards. The Committee is satisfied that there is a strong and direct link between Company performance – on all metrics – and the rewards to senior management.

In line with the Code, the Committee reviewed the outcomes of the individual incentive plans as well as the overall levels of remuneration to ensure that they remained consistent with the underlying performance of the business. The Committee is satisfied that the total remuneration received by executive Directors in respect of the year ended 31 March 2020 is a fair reflection of performance over the period as well as taking into account the current circumstances.

Remuneration for 2021 including COVID-19 considerations

As we navigate these unprecedented times caused by the COVID-19 crisis, we continue to operate our executive remuneration framework in a culture of strong governance and in line with our clear purpose.

The COVID-19 pandemic is expected to have a net adverse impact on our markets and a small percentage of the workforce in the UK have been furloughed. It is Halma's intention to fund any UK furloughs without support from the Government's Coronavirus Job Retention Scheme. In addition, as part of the cost mitigating actions announced on 21 April 2020, Company, sector and Group leaders agreed to temporary salary reductions from 1 April 2020 for a three-month period. This included the Halma plc Board and the Executive Board, both of which agreed to a 20% reduction in salaries or fees for the same period.

With effect from 1 July, salaries and fees have been reinstated to previous levels for all employees, including the Executive Board, and the Halma plc Board.

In line with this approach, we have also agreed to defer any increase in the Chairman's fee until next year even though we had signaled in last year's Remuneration Report an above-average increase in the Chairman's fee for FY2021.

We will continue to use EVA as the performance metric for annual bonus but we have adjusted the targets in light of the uncertainty around COVID-19. We plan to proceed as normal with regards to the granting of share awards under the ESP, using EPS and ROTIC as our performance measures. We have amended the performance conditions (see page 87) to reflect current business forecasts allowing for COVID-19. We believe that these changes are still aligned to shareholder expectations and represent stretching targets in the current economic climate. We will continue to monitor performance through the vesting period and will engage with shareholders on the potential use of any discretion at vesting, to ensure that outcomes reflect the underlying performance of the Company and the experience of our stakeholders over the performance period.

Director updates

In July 2019, it was announced that Adam Meyers, Sector Chief Executive, Medical & Environmental, had indicated his intention to step down from the Board in July 2020. Adam's retirement from the Halma Executive and plc Boards has now been deferred, due to Paul Simmons' decision to leave Halma. Adam has replaced Paul on an interim basis as Safety Sector Chief Executive from 1 July 2020 which will ensure an orderly handover to Paul's ultimate successor. Adam's remuneration package will remain unchanged during this period.

Shareholder engagement and feedback

On taking up the role as Chair of the Committee, I engaged with some of our major shareholders to introduce myself and to have some initial discussions on any possible changes to our executive pay arrangements. The feedback received will be included in our policy review discussions to ensure that we develop a remuneration framework that will support the business and is aligned with investor expectations. The Committee believes that our Remuneration Policy continues to provide appropriate flexibility, ensuring that any payments made in the implementation of the Policy are in the best interests of both the Company and our shareholders. The overall framework will be reviewed this year to ensure its continuing appropriateness in light of our progression through the FTSE 100, market and governance changes and to ensure that the Policy continues to attract, develop and retain the talent we need.

Shareholder voting at the 2020 AGM

My colleagues on the Committee hope that all shareholders will find this Report useful in understanding the reward structure that we have in place to motivate, retain and recognise our talent and ensure that they can continue to deliver strong and sustainable results for our shareholders. We hope that we will have your support when voting on the Remuneration Report resolution at the AGM. If you require clarification or wish to discuss any of the issues contained in the Report, I will be happy to discuss them with you.

Jo Harlow
Chair

For and on behalf of the Committee
14 July 2020

Remuneration at a glance

Aligning awards to performance

How did we perform in the year?

Financial performance

Organic revenue growth¹

6%

Adjusted organic profit growth¹

4%

Dividends to shareholders

£63m

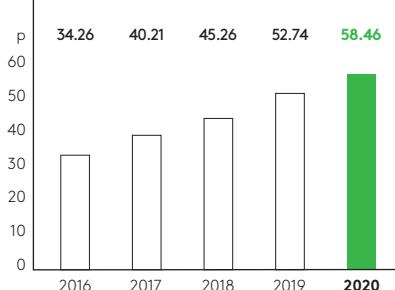
1 See note 3 to the Accounts.

Long-term incentive plan – outcome against targets: 91.25%

Adjusted earnings per share (p)

58.46p²

+10.8%



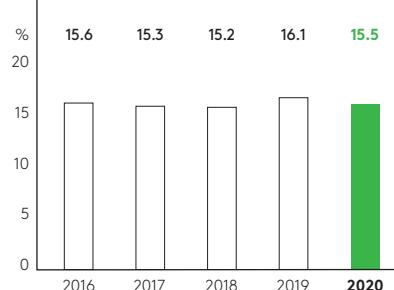
2 Excludes £5m of bad debt provision.

Up to 50% of PSP awards vest based on adjusted EPS growth over a three-year period, with a target range of 5% to 12% (actual: 13.3% average growth = 50% vesting)

Return on total invested capital (%)

15.5%²

(4%)



2 Excludes £5m of bad debt provision.

Up to 50% of PSP awards vest based on three-year average ROTIC, with a target range of 11% to 17% (actual: 15.6% average = 41.25% vesting)

Total Shareholder Return (five years)

Graph as rebased to 100



● Halma ● FTSE 100

How was performance reflected in remuneration?

£000s	Andrew Williams	Marc Ronchetti	Adam Meyers	Jennifer Ward
Salary	669	425	423	340
Benefits	33	17	20	24
Pension	174	79	67	64
Annual bonus	808	515	368	411
Share-based incentives				
Share incentive plan	3	3	-	3
Value on award (2017)	1,137	362	513	416
Share price increase to 31 March 2020	961	245	434	351
Total	3,786	1,646	1,825	1,609

Outcomes against metrics for the year:

Annual bonus plan Economic Value Added

See page 84 for details of this calculation

Group threshold:

£226m

Group actual:

£260m
+15%

Ensuring shareholder alignment

Proportion of short-term incentive award received in shares:

33.3%

annual bonus incentives

Proportion of long-term incentive award received in shares:

100%

(excluding dividend equivalents)

Proportion of long-term incentive awards subject to mandatory two-year holding period:

100%

of vesting shares (net of tax and social security) arising from performance share awards granted since the 2018 AGM

Shareholding guideline:

200%

of salary for all executive Directors

Arrangements for the coming year

Policy element	2021 approach
Salaries absent a material change in responsibilities, executive directors receive inflationary adjustments in line with all employees.	No salary increases have been awarded for FY2021. Considering the COVID-19 pandemic, a short-term reduction of 20% to base pay was accepted by all executive Directors for a three-month period to 30 June 2020. Salaries have been reinstated to previous levels with effect from 1 July 2020.
Pension supplements up to 26% of base salary for former active members of the defined benefit pension plan and up to 20% of base salary for other executive Directors.	All new executive Directors will receive pension contributions in line with the wider workforce in the relevant geography. Review of pension provision across the Company to be undertaken.
Annual bonus maximum 150% of salary satisfied 66.7% cash and 33.3% deferred into Company shares for two years.	No change
Performance share awards granted at a maximum of 200% of salary; 2-year post-vesting holding period for awards granted since July 2018.	No change
Clawback/malus applied to variable incentive awards.	No change

Annual Remuneration Report

Committee summary

All members of the Committee are considered independent within the definition set out in the Code. The membership comprises Jo Harlow, Chair, and all other non-executive Directors in office at the date of this Remuneration Report. Jo took over from Tony Rice in February 2020. No member of the Committee has any personal financial interest in Halma (other than as shareholders), conflicts of interests arising from cross directorships or day-to-day involvement in running the business.

During the year, the Committee met formally five times. Attendance by individual members of the Committee is disclosed on page 77.

Only members of the Committee have the right to attend Committee meetings. The Group Chief Executive, the Group Talent, Culture and Communications Director and Head of Total Rewards attend Committee meetings by invitation but are not present when their own remuneration is discussed. The Committee also takes independent professional advice as required.

Principal Role and Responsibilities

The primary responsibilities of the Remuneration Committee are to:

- Make recommendations to the Board on the framework for executive Director and senior executive remuneration based on proposals formulated by the Group Chief Executive.
- Determine and agree with the Board the policy and framework for the remuneration of the Chairman, Group Chief Executive, other executive Directors, the Company Secretary and members of the Executive Board.
- Have oversight of the remuneration arrangements of the management tier below Executive Board level.
- Approve the design of, and determine targets for, any performance-related pay plans operated by the Company and agree the total annual payments made under such plans.
- Review the design of all share incentive plans for approval by the Board and shareholders, and determine, 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.
- Determine the policy for, and scope of, pension arrangements for each executive Director and other senior executives.

The Committee is appointed by the Board and operates under written terms of reference, which are available at www.halma.com.

External advisers

Mercer Kepler (Mercer) continued to act as the independent remuneration adviser to the Committee, having done so since November 2017. At the invitation of the Committee Chair, Mercer attended meetings to provide advice on remuneration for executives, analysis on elements of the remuneration policy and to provide regular market and best practice updates. The Committee is satisfied that the advice received is objective and independent.

Following the year end, after a thorough and competitive tender process, Willis Towers Watson was appointed as the new independent remuneration adviser to the Committee. Their appointment was approved at the June 2020 Remuneration Committee meeting and Mercer ceased to be the remuneration adviser to the Committee as at that date.

Willis Towers Watson and Mercer are both members of the Remuneration Consultants Group, and as such operate under the code of conduct in relation to executive remuneration consulting in the UK. Through the year, Mercer advised the Committee on remuneration related matters in respect of the executive and non-executive Directors and Mercer's fees for the year were £37,200, based on an agreed fee for business as usual support (2019: £33,410). Mercer also provided services to the Company globally which comprised remuneration benchmarking and other consultancy advice.

Shareholder vote at 2018 and 2019 Annual General Meeting

The following table shows the results of the advisory vote on the Annual Remuneration Report at the 2019 AGM and the binding vote on the current Remuneration Policy at the 2018 AGM.

	For	Against	Total	Withheld
Remuneration Policy (2018)				
Number of votes cast	274,561,279	6,136,623	280,697,902	2,510,606
% of votes cast	97.81%	2.19%	100%	73.94%
Directors' Remuneration Report (2019)				
Total number of votes	273,472,672	9,917,602	283,390,274	487,255
% of votes cast	96.5%	3.5%	100%	74.65%

Compliance statement

This Report has been prepared in accordance with the requirements of the Companies Act 2006 and the Large and Medium-Sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (the 2013 Regulations).

The Report also meets the relevant requirements of the Listing Rules of the Financial Conduct Authority and describes how the Board has applied the principles relating to directors' remuneration in the UK Corporate Governance Code. No changes to the Remuneration Policy, which was approved by shareholders at the 2018 AGM, are proposed, but the Annual Report on Remuneration will be subject to an advisory vote by shareholders at the 2020 AGM.

In line with the Regulations, the following parts of the Annual Report on Remuneration are audited: the single figure for total remuneration for each Director, including annual bonus and performance share plan outcomes for the financial year ending 31 March 2020; plan interests awarded during the year; pension entitlements; payments to past Directors and payments for loss of office; and Directors' shareholdings and share interests. All other parts of the Annual Report on Remuneration are unaudited.

The following section of this Report provides details of how Halma's Remuneration Policy was implemented during the financial year ended 31 March 2020, and how it will be implemented over the year to 31 March 2021.

Single figure of total remuneration for Directors

The tables below set out the single figure of total remuneration received by Directors for the year to 31 March 2020 and the prior year.

	2020						
	Salary £000	Benefits ¹ £000	Annual bonus ² £000	ESP ³ £000	Pension ⁴ £000	SIP ⁵ £000	Total remuneration £000
Executive Directors							
Andrew Williams	669	33	808	2,099	174	3	3,786
Marc Ronchetti	425	17	515	607	79	3	1,646
Adam Meyers ⁶	423	20	368	947	67	–	1,825
Jennifer Ward	340	24	411	767	64	3	1,609
Non-executive Directors⁷							
Paul Walker	280	–	–	–	–	–	280
Daniela Barone Soares	59	–	–	–	–	–	59
Roy Twite	59	–	–	–	–	–	59
Tony Rice	77	–	–	–	–	–	77
Carole Cran	74	–	–	–	–	–	74
Jo Harlow	59	–	–	–	–	–	59
Total							9,474

1 Benefits: mainly comprises company car and private medical insurance.

2 Annual bonus: payment for performance during the year; two thirds is payable in cash and one third is deferred into shares which vest two years from award without any performance conditions. Table shows total bonus including amounts to be deferred.

3 ESP: Figures relate to awards vesting based on performance to the year ended 31 March 2020. As the share price on the date of vesting is currently unknown, the value shown is estimated using the average share price over the three-months to 31 March 2020 of 2063p.

4 Pension: value based on the Company's pension contribution, or cash supplement in lieu of pension, during the year.

5 SIP is based on the face value of shares at grant.

6 Remunerated in US dollars and translated at the average exchange rate for the year (2020: US\$1.271).

7 The fees for the non-executive Directors have been rounded to the nearest £1,000.

Annual Remuneration Report continued

	2019						
	Salary £000	Benefits ¹ £000	Annual bonus ² £000	ESP ³ £000	Pension ⁴ £000	SIP ⁵ £000	Total remuneration £000
Executive Directors							
Andrew Williams	653	33	980	2,115	170	3	3,954
Marc Ronchetti ⁶	277	11	530	228	52	3	1,101
Adam Meyers ⁷	401	19	600	826	43	—	1,889
Jennifer Ward	320	22	480	462	60	3	1,347
Non-executive Directors							
Paul Walker	250	—	—	—	—	—	250
Daniela Barone Soares	57	—	—	—	—	—	57
Roy Twite	57	—	—	—	—	—	57
Tony Rice	77	—	—	—	—	—	77
Carole Cran	72	—	—	—	—	—	72
Jo Harlow	57	—	—	—	—	—	57
Total							8,861

1 Benefits: mainly comprises company car and private medical insurance.

2 Annual bonus: payment for performance during the year; two thirds is payable in cash and one third is deferred into shares which vest two years from award without any performance conditions. Table shows total bonus including amounts to be deferred.

3 ESP: Figures relate to awards vesting based on performance to the year ended 31 March 2019. These amounts have been revised from last year's Report to reflect the actual share price on the dates of vesting (1981.5p on 26 July 2019 for awards made to Andrew Williams, Adam Meyers and Jennifer Ward, and 2055p on 23 November 2019 for awards made to Jennifer Ward and Marc Ronchetti).

4 Pension: value based on the Company's pension contribution, or cash supplement in lieu of pension, during the year.

5 SIP is based on the face value of shares at grant.

6 Marc Ronchetti was appointed as a Director on 1 July 2018. The amounts in the table for Marc show the pay and benefits received since 1 July 2018, including bonus and ESP for the full year to 31 March 2019.

7 Remunerated in US dollars and translated at the average exchange rate for the year (2019: US\$1.313).

Exit payment and payments to past directors

No exit payments were made in the year.

On his retirement from the Board in July 2018, Kevin Thompson retained the following interests under the ESP, which vested during the year:

- 19,261 time pro-rated 2017 PSP shares vesting at 91.25% based on performance to 31 March 2020 will vest on 15 July 2020.
- 12,691 DSA shares granted in 2018 will vest on 15 July 2020.

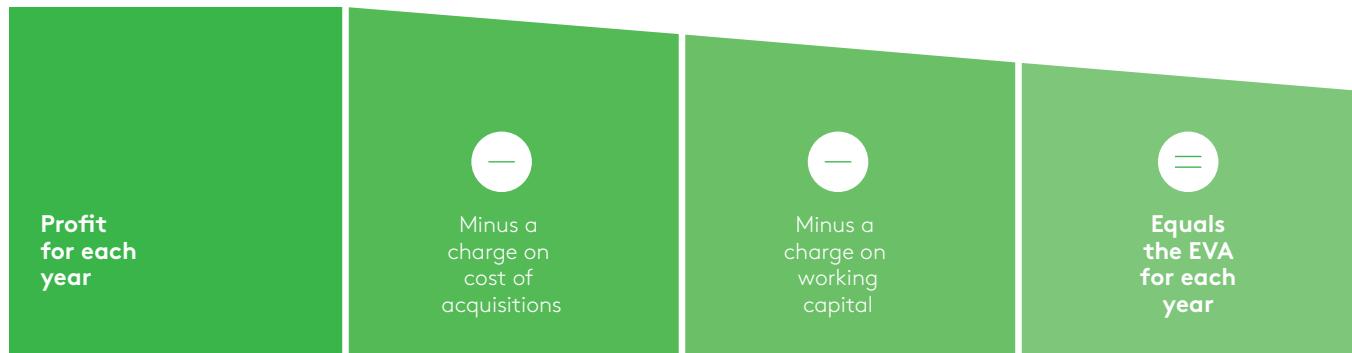
Incentive outcomes for 2020

Annual bonus in respect of 2020

In 2020, the maximum bonus opportunity for executive Directors was 150% of salary, solely linked to performance as measured by an Economic Value Added (EVA) calculation.

Bonuses for the executive Directors (excluding Adam Meyers) are calculated based on Group profit exceeding a target calculated from the profits for the three preceding financial years after charging cost of capital, including the cost of acquisitions. As the EVA for each year is utilised for a further three years in the comparator calculations, Executives must consider the medium-term interests of the Group otherwise there is the potential for an adverse impact on their capacity to earn a bonus.

EVA calculation:



In the case of Adam Meyers, as a Sector Chief Executive, a bonus is earned if the profit for his sectors exceeds a target calculated from the profits of the three preceding financial years. The profits calculated for this purpose regard each sector as a stand-alone group of companies charging it with the cost of capital it utilises including the cost of acquisitions.

Operating company directors and other sector and central senior management participate in bonus arrangements similar to those established for senior executives.

Further details of the bonuses payable (cash and deferred share awards) and performance against targets are provided in the tables below.

Executive Director	EVA threshold 000	EVA maximum 000	EVA actual 000	Overall bonus outcome (% of salary)
Andrew Williams	£225,900	£268,400	£260,100	121%
Marc Ronchetti	£225,900	£268,400	£260,100	121%
Adam Meyers	US\$180,615	US\$219,649	US\$207,628	89%
Jennifer Ward	£225,900	£268,400	£260,100	121%

The Committee applied judgment in determining the annual bonus outcome for 2020 with the exclusion of the bad debt provision from the calculation.

The deferred bonus awards are derived as one third of the bonus earned for FY2020. The number of shares over which awards will be made will be determined by the share price for the five trading days prior to the date of award. The value of each individual's award, relative to their bonus has been fixed as follows:

Executive Director	Overall bonus outcome (% of salary)	Bonus for 2020	Cash-settled	Value of 2020 deferred bonus award
Andrew Williams	121%	£808,377	£538,918	£269,459
Marc Ronchetti	121%	£514,749	£343,166	£171,583
Adam Meyers	89%	\$467,865	\$311,910	\$155,955
Jennifer Ward	121%	£410,635	£273,757	£136,878

Deferred bonus awards will be granted under the ESP in July 2020. These awards will not be subject to any further performance conditions and will vest in full on the second anniversary of the date of grant. Full details will be provided in next year's Annual Remuneration Report.

Executive Share Plan (ESP): 2017 Awards (vesting at the end of the year to 31 March 2020)

In July 2017, the executive Directors received awards of performance shares under the ESP. The performance targets for ESP awards granted are set out below. The vesting criteria are 50% EPS-related and 50% ROTIC-related.

Performance conditions for these awards are as follows:

Performance levels	EPS ¹	ROTC ² (post-tax)		Total
	% of award vesting ³	Performance levels	% of award vesting ³	
< 5%	0.0%	< 11.0%	0.0%	0.0%
5%	12.5%	11.0%	12.5%	25%
12% or more	50%	17.0% or more	50%	100%

1. Adjusted earnings per share growth over the three-year performance period.

2. Average ROTIC over the performance period.

3. There is straight line vesting in between threshold and maximum vesting.

The three-year period over which these two independent performance metrics are measured ended on 31 March 2020. Average ROTIC was 15.6% (the average ROTIC for financial years 2018, 2019 and 2020) and adjusted EPS growth was 13.3% per annum for the period from 1 April 2017 to 31 March 2020, resulting in vesting of 91.25%* of the awards. The estimated vesting value included in the 2020 single figure of Total Remuneration for Directors is detailed in the table below:

Executive Director	Interest held	Face value at grant	Vesting %	Interest vesting	Three-month average price at year end	Estimated vesting value	...of which value attributable to share price growth	and value attributable to corporate performance
Andrew Williams	111,484	1,246		101,729		2,099	961	1,137
Marc Ronchetti	32,231	397	91.25%	29,410	2063p	607	245	362
Adam Meyers	50,300	562		45,899		947	434	513
Jennifer Ward	40,733	455		37,169		767	351	416

Vested awards are net settled, with the appropriate reduction in shares made to cover the employee tax and social security liability at vesting. Awards normally lapse if they do not vest on the third anniversary of their award but due to the delay in Halma's results announcement, the ESP awards will vest on 15 July 2020. For Marc Ronchetti, 10,503 shares will vest on 15 July 2020 and 18,907 shares will vest on their third anniversary on 23 November 2020.

* Excludes £5m of bad debt provision.

Annual Remuneration Report continued

In line with regulations, the values disclosed above and in the single total figure of remuneration table on page 83 capture the number of interests vesting for performance to 31 March 2020. As the market price on the date of vesting is unknown at the time of reporting, the values are estimated using the average market value over the 3-month period to 31 March 2020 of 2063p. The actual values at vesting will be trued-up in the next Annual Remuneration Report.

Incentive Awards granted during 2020

Long-term incentive – Executive Share Plan: Performance Share Awards (granted during the year to 31 March 2020)

On 1 July 2019, the executive Directors were granted performance share awards under the ESP.

The three-year performance period over which ROTIC and EPS performance will be measured is 1 April 2019 to 31 March 2022.

The ROTIC element will be based on the average ROTIC for 2020, 2021 and 2022. The EPS element will be based on EPS growth from 1 April 2019 to 31 March 2022. These two elements are equally weighted at 50% each. The performance targets applying to these awards are the same as those set out for the 2017 award on page 85.

The award is eligible to vest in full on the third anniversary of the date of grant (1 July 2022), subject to ROTIC and EPS performance.

Executive Director	% of salary	Awards made during the year	Five-day average market price at award date	Face value at award date £000
Andrew Williams	200%	65,264		1,335
Marc Ronchetti	175%	36,182		740
Adam Meyers	150%	30,046		615
Jennifer Ward	150%	24,755		506

UK executive Directors had part of their full award entitlement delivered through the Share Incentive Plan.

Long-term incentive – Executive Share Plan: Deferred Share Awards (granted during the year to 31 March 2020)

On 1 July 2019, the executive Directors were granted deferred share awards under the ESP in respect of one third of the bonus earned for the financial year ended 31 March 2019. Awards are not subject to performance conditions as they are deferred awards relating to bonus earned for the year ended 31 March 2019. Awards vest in full on the second anniversary of the date of grant (1 July 2021).

Executive Director	Awards made during the year	Five-day average market price at award date	Face value at award date £000	Bonus to 31 March 2019 £000	Amount awarded in shares
Andrew Williams	15,961		326	980	33.3%
Marc Ronchetti	8,642		177	530	33.3%
Adam Meyers	9,773		200	600	33.3%
Jennifer Ward	7,821		160	480	33.3%

Implementation of remuneration policy for the year to 31 March 2021

Salary

As part of the cost mitigating plans as a consequence of the COVID-19 pandemic, no salary increases have been awarded with effect from 1 April 2020. This is in line with the approach that has been taken for all the UK businesses and sector personnel.

Executive Directors also had their salaries reduced by 20% for a 3 month period from 1 April 2020 to 30 June 2020. With effect from 1 July, salaries have been reinstated to previous levels.

Executive Director	Salary from 1 April 2020	Salary from 1 April 2019	% change
Andrew Williams	£669,325	£669,325	–
Marc Ronchetti	£425,000	£425,000	–
Adam Meyers	US\$538,000	US\$538,000	–
Jennifer Ward	£340,000	£340,000	–

Pension and benefits

Pension arrangements for any new executive Directors will be in line with those for the wider workforce in the relevant geography.

A full review is underway on pensions across our UK companies and we are committed to reviewing the current executive Directors' pension and benefits arrangements once the review is complete so that alignment is achieved for 2021.

Annual bonus

The maximum annual bonus opportunity for 2021 will remain at 150% of salary for the executive Directors with one third of the bonus earned being deferred into a share award which vests in full after two years.

Bonuses for 2021 will continue to be based on EVA performance against a weighted average target of EVA for the past three years as described above, but we have adjusted the targets to take COVID-19 into account. In light of the current outlook, the Committee considers the targets to be both demanding and appropriate for the circumstances. The Committee will use its discretion to ensure that the bonus outcome is appropriate. Bonus payments will be subject to recovery and withholding provisions during a period of three years from the date of payment. As targets are commercially sensitive, they are not disclosed at this time but will be in next year's Annual Report on Remuneration.

Long term incentive – Executive Share Plan: Performance Share Awards (to be granted)

Under the ESP, performance share awards and deferred bonus awards will be made in July 2020. The number of shares over which awards will be made is determined by the average share price for the five trading days prior to date of award.

The value of each performance share award, relative to salary has been fixed as follows:

Executive Director	Salary for 2021	Performance share award	Value of award
Andrew Williams	£669,325	200%	£1,338,650
Marc Ronchetti	£425,000	175%	£743,750
Adam Meyers	US\$538,000	150%	US\$807,000
Jennifer Ward	£340,000	150%	£510,000

The performance share awards to be granted in July 2020 will be subject to an adjusted EPS performance target for 50% of the award and a ROTIC target for 50% of the award measured over the three financial years 2020, 2021 and 2022. The targets have been amended for this cycle and the details of this are set out below. This change has been made to align the targets with the changes to the business forecasts due to COVID-19.

EPS ¹		ROTC ² (post-tax)		
Performance levels	% of award vesting ³	Performance levels	% of award vesting ³	Total
< 2%	0.0%	< 9.5%	0.0%	0.0%
2%	12.5%	9.5%	12.5%	25%
10% or more	50%	15.5% or more	50%	100%

1 Adjusted earnings per share growth over the three-year performance period.

2 Average ROTIC over the performance period.

3 There is straight line vesting in between threshold and maximum vesting.

Chairman and non-executive Director fees

Fees are subject to an annual review each April. As a result of the COVID-19 crisis, a short term 20% reduction in fees was taken by the Chairman and non-executive directors from 1 April 2020 to 30 June 2020. With effect from 1 July 2020, the fees have been reinstated to previous levels.

A planned increase in the Chairman's fee has been deferred until next year even though we had signalled last year an above average increase in the Chairman's fee for FY2021.

Fees	Fees from 1 April 2020	Fees from 1 April 2019
Chairman	£280,000	£280,000
Base fee	£58,500	£58,500
Senior Independent Director	£10,000	£10,000
Audit Committee Chairman	£15,000	£15,000
Remuneration Committee Chairman	£10,000	£10,000
Committee Member	£nil	£nil

Annual Remuneration Report continued

CEO Pay ratio

This is Halma's first year reporting under the new regulations.

Methodology

Option A was chosen as it is the most statistically accurate method, considered best practice by the Government and investors, and is directly comparable to the CEO's remuneration. This method requires calculation of pay and benefits for all UK employees using the same methodology that is used to calculate the CEO's single figure. For part-time employees and for leavers and joiners during the year, the full-time equivalent salary and benefits is used. All figures are calculated using pay and benefits data for the year to 31 March 2020.

Results

The results of the pay ratio calculations are as follows:

Year	Method	25th percentile	Median	75th percentile
2020	Option A	183:1	139:1	86:1

The salary component of total pay and total pay and benefits are as follows:

	Base salary	Ratio of base pay to CEO base pay	Total pay and benefits
CEO	£669,325	n/a	£3,786,384
25th percentile	£19,225	35:1	£20,738
Median	£25,250	27:1	£27,265
75th percentile	£40,039	17:1	£43,903

Commentary

We are satisfied that the median pay ratio reported this year is consistent with our wider pay, reward and progression policies for employees. The CEO is remunerated predominantly on performance-related elements – bonus and share awards – which have delivered strong returns as a result of the consistent out-performance by the Company and share price appreciation over the period assessed under these variable elements. All of our shareholders and many of our employees have benefited from this growth. Our UK employees, in common with our global workforce, receive fair pay and benefits relative to their market and based on their role and experience. UK employees have their pay reviewed at least annually, are eligible for development, training and promotion opportunities within the Group and also benefit from Halma's success through their participation in our annual all-employee share plan, which will allocate over £1.4m of free shares in 2020 to employees with six-months' service at the award date.

Percentage change in CEO remuneration

The table below shows the percentage change in the CEO's remuneration from the prior year compared to the average percentage change in remuneration for other employees. To provide a meaningful comparison, the analysis includes only salaried management employees and is based on a consistent set of employees.

	2020 CEO £000	2019 CEO £000	CEO % change	Other employees % change
Salary	669	653	2.5%	4.7%
Taxable benefits	33	33	0.0%	-
Annual bonus	808	980	(18.0%)	(9.0%)

Relative importance of spend on pay

The table below shows the percentage change in total employee pay expenditure and shareholder distributions (i.e. dividends and share buybacks) from the financial year ended 31 March 2019 to the financial year ended 31 March 2020.

	2020 £m	2019 £m	% change
Distribution to shareholders	62.5	60	4.2%
Employee remuneration (gross)	376	347	9.0%
Employee remuneration (pro-rated)	328	305	7.5%

The Directors are proposing a final dividend for the year ended 31 March 2020 of 9.96p per share (2019: 9.60p).

Pro-rated employee remuneration represents a restatement of the prior year gross employee remuneration for the current year number of employees.

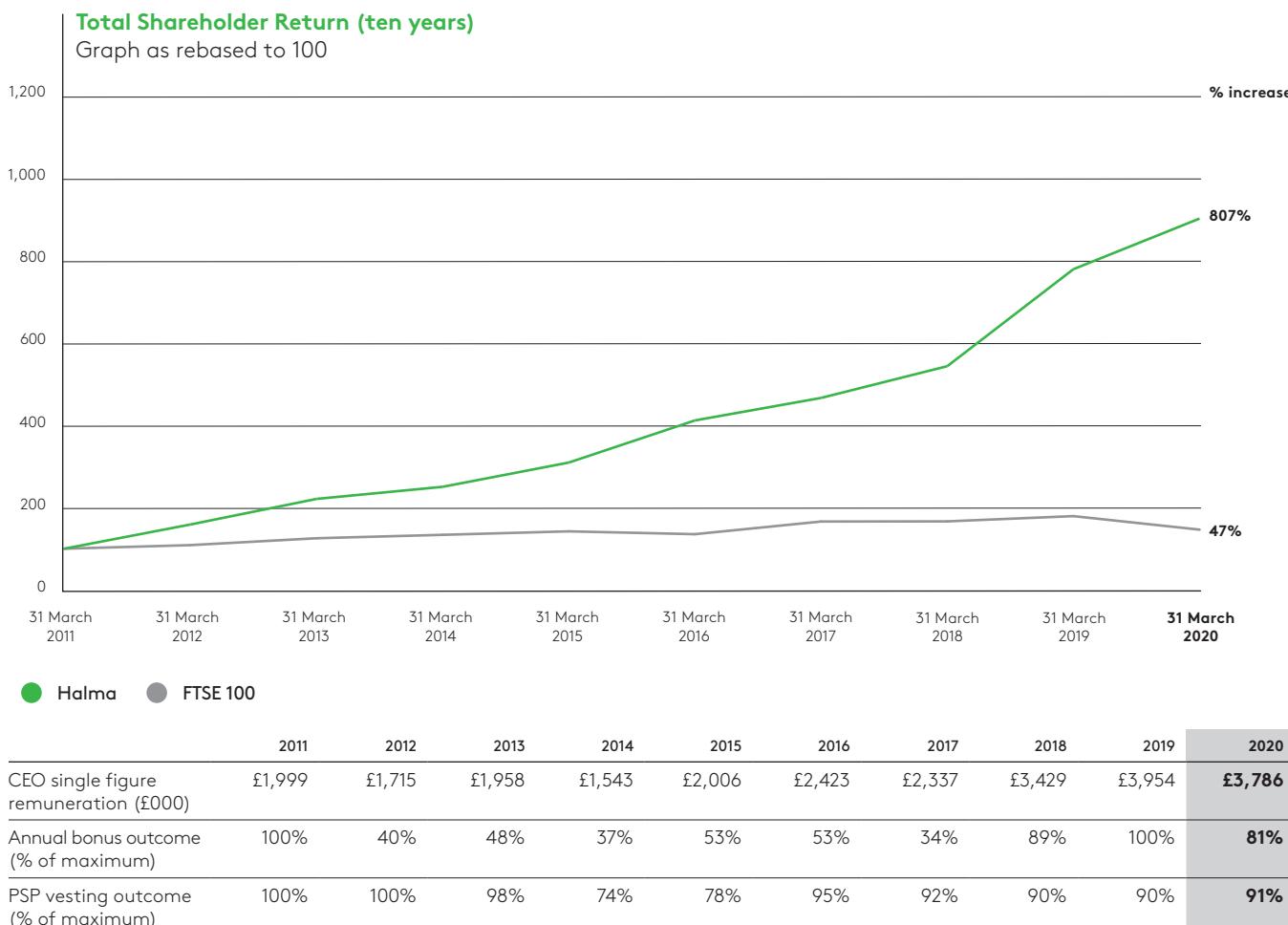
Annual Remuneration Report continued

Pay-for-performance

The ten-year graph below shows the Company's TSR performance over the ten years to 31 March 2020 as compared to the FTSE 100 index. Over the period indicated, the Company's TSR was 807% compared to 47% for the FTSE 100. The table below the graph details the CEO's single figure remuneration and actual variable pay outcomes over the same period.

The FTSE 100 has been selected as broad market comparators, because the Company believes that the constituent companies of this index are the most appropriate for this comparison as they are affected by similar commercial and economic factors to Halma.

Halma was a constituent of the FTSE 250 until December 2017 when it became a constituent of the FTSE 100.



Directors' interests in Halma shares

The interests of the Directors in office at 31 March 2020 (and their connected family members) in the ordinary shares of the Company at the following dates were as follows:

	31 March 2020	31 March 2019
Paul Walker	30,000	30,000
Andrew Williams	650,922	608,885
Marc Ronchetti	8,019	553
Adam Meyers	348,480	343,480
Jennifer Ward	42,882	23,988
Daniela Barone Soares	2,473	2,473
Roy Twite	4,000	4,000
Tony Rice	16,939	16,939
Carole Cran	2,000	2,000
Jo Harlow	2,000	2,000

The executive Directors, excluding Marc Ronchetti, each meet the guideline of holding Company shares to the value of at least two times salary. Until such time as this threshold is achieved, Marc is required to retain no less than 50% of the net of tax value of any vested conditional share or deferred share awards. There are no other non-beneficial interests of Directors. There were no changes in Directors' interests from 1 April 2020 to 14 July 2020.

Details of Directors' interests in shares and options under Halma's long-term incentives are set out in the sections below.

Directors' interests in Halma share plans

Details of Directors' outstanding deferred share awards (DSA), conditional share awards (ESP) and free shares under the SIP are outlined in the tables below:

Executive Share Plans		Date of grant	As at 1 April 2019	Granted/ (vested) in the year	Five-day average share price on grant (p)	As at 31 March 2020
Andrew Williams	ESP	26-Jul-16	117,527	(106,749)	1038.4	-
	ESP	03-Jul-17	111,484		1118.0	111,484
	DSA	03-Jul-17	9,159	(9,159)	1118.0	-
	ESP	02-Jul-18	95,121		1369.2	95,121
	DSA	02-Jul-18	20,339		1369.2	20,339
	ESP	01-Jul-19		65,264	2045.6	65,264
	DSA	01-Jul-19		15,961	2045.6	15,961
Marc Ronchetti	ESP	23-Nov-16	12,668	(11,506)	994.6	-
	ESP	03-Jul-17	11,511		1118.0	11,511
	DSA	03-Jul-17	2,236	(2,236)	1118.0	2,236
	ESP	23-Nov-17	20,720		1293.4	20,720
	ESP	02-Jul-18	52,786		1369.2	52,786
	DSA	02-Jul-18	4,796		1369.2	4,796
	ESP	01-Jul-19		36,182	2045.6	36,182
	DSA	01-Jul-19		8,642	2045.6	8,642
Adam Meyers	ESP	26-Jul-16	45,918	(41,707)	1038.4	-
	ESP	03-Jul-17	50,300		1118.0	50,300
	DSA	03-Jul-17	7,135	(7,135)	1118.0	-
	ESP	02-Jul-18	43,342		1369.2	43,342
	DSA	02-Jul-18	3,997		1369.2	3,997
	ESP	01-Jul-19		30,046	2045.6	30,046
	DSA	01-Jul-19		9,773	2045.6	9,773
Jennifer Ward	ESP	26-Jul-16	25,665	(23,311)	1038.4	-
	ESP	23-Nov-16	18,097	(16,437)	994.6	-
	ESP	03-Jul-17	40,733		1118.0	40,733
	DSA	03-Jul-17	3,280	(3,280)	1118.0	-
	ESP	02-Jul-18	34,797		1369.2	34,797
	DSA	02-Jul-18	8,295		1369.2	8,295
	ESP	01-Jul-19		24,755	2045.6	24,755
	DSA	01-Jul-19		7,821	2045.6	7,821

The balance of ESP awards that did not vest during the year have lapsed. The performance conditions attached to these awards are described earlier in this Report.

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	Date of grant	As at 1 April 2019	Granted, >3 years or (withdrawn) in the year	Share price on award (p)	As at 31 March 2020
Share Incentive Plan					
Andrew Williams	>3 years	4,098	343	-	4,441
	01-Oct-17	322		1115.81	322
	01-Oct-18	239		1504.00	239
	01-Oct-19		183	1961.00	183
Marc Ronchetti	>3 years				-
	01-Oct-17	314		1115.81	314
	01-Oct-18	239		1504.00	239
	01-Oct-19		183	1961.00	183
Jennifer Ward	>3 years	1,041	317	-	1,358
	01-Oct-17	318		1115.81	318
	01-Oct-18	239		1504.00	239
	01-Oct-19		183	1961.00	183

The SIP shares are held in trust and become the employee's, subject to the rules of the plan, after three years. There are tax benefits for retaining the shares in the trust for at least five years from award date. Adam Meyers does not participate in the SIP as he is not UK-based.

There have been no variations to the terms and conditions for share awards during the financial year.

Directors' pensions

A review is being undertaken of pension arrangements across the UK companies and current executive Directors' pension arrangements will be reviewed once the wider review is complete. Meanwhile, pension arrangements for all new executive Directors will be in line with those for the wider workforce in the relevant geography.

Andrew Williams is the only UK executive Director who is an in-service deferred member of the defined benefit section of the Halma Group Pension Plan (Plan). This benefit is a funded final salary occupational pension plan registered with HMRC, providing 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 2011, final pensionable salary was capped at £139,185 and is increased annually thereafter by CPI (£165,678 for 2020).

Bonuses and other fluctuating emoluments and benefits-in-kind are not pensionable nor subject to any pension supplement. The Plan also provides a pension in the event of early retirement through ill-health and a dependant's pension of one-half of the member's prospective pension. Where an executive has a form of pension protection, life cover is provided under a separate policy.

Early retirement pensions, currently possible from age 55 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.

The Company closed the Defined Benefit section to future accrual with effect from 1 December 2014 and, following a period of consultation, members were offered compensating benefits above those available to Defined Contribution members who had not been in the Defined Benefit section. In April 2014, Andrew Williams chose to cease future service accrual in the Plan in return for a pension supplement on his base salary. This supplement is equivalent to a 20% employer contribution plus an additional 6% compensatory payment, in line with the enhanced contribution rate offered to other members who were in the Defined Benefit section when future accrual was ceased. Marc Ronchetti and Jennifer Ward were not members of the Defined Benefit section but are entitled to join the Defined Contribution section of the plan. Due to annual allowance and lifetime allowance restrictions, both Jennifer and Marc have opted to receive a pension supplement of 18.7% of salary, in lieu of the 20% employer contribution that the Company would otherwise pay into their pension.

One Director accrued benefits under the Company's defined benefit pension plan during the year as follows.

Executive Director	Age at 31 March 2020	Years of pensionable service at 31 March 2020	Increase in accrued benefits £000	Increase in accrued benefits net of inflation £000	Accrued benefits at 31 March 2020 £000
Andrew Williams	52	20	1	-	67

Executive Director service contracts and exit payment policies

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. Contracts will be available for inspection at the AGM and throughout the year at the Company's registered office.

Executive Director	Date of service contract	Notice period
Andrew Williams	April 2003	One year
Marc Ronchetti	July 2018	One year
Adam Meyers	July 2008	One year
Jennifer Ward	January 2014	One year

The Company's policy is to limit payments on cessation to pre-established contractual arrangements. In the event that the employment of an executive Director is terminated, any amount payable will be determined in accordance with the terms of the service contract between the Company and the employee, as well as the rules of any incentive plans. No predetermined amount is provided for in the Directors' contracts. The UK executive Director contracts enable the Company to pay up to one year's salary in lieu of notice, with no contractual entitlement to any other benefits, and, under the rules, the Remuneration Committee may determine the individual's leaving status for share plan vesting purposes.

If the financial year end has passed, any bonus earned is payable to the individual. Adam Meyers' service contract permits him to remain an employee for the entire period of notice enjoying any benefits related to employment. The share plan and bonus provisions are identical to the UK. Both contracts contain appropriate non-compete restrictions for a suitable period post-employment.

When considering termination payments under incentive schemes, the Committee reviews all potential incentive outcomes to ensure they are fair to both shareholders and participants. The table below summarises how the awards under the annual bonus and share plans are treated in specific circumstances under the rules of the relevant plan and the extent to which the Committee has discretion:

	Reason for leaving	Timing of payment/vesting	Calculation of payment/vesting
Annual bonus	Death, injury or disability, redundancy, retirement, or any other reasons the Committee may determine	After the end of the financial year, although the Committee has discretion to accelerate (e.g. in relation to death)	Performance against targets will be assessed at the end of the year in the normal way and any resulting bonus normally will be pro-rated for time served during the year
	All other reasons	No bonus is payable	-
Deferred bonus	Death, injury or disability, redundancy, retirement, or any other reasons the Committee may determine	On the second anniversary of the Award	Awards vest in full
	All other reasons	On the second anniversary of the award (unless the Remuneration Committee determines otherwise)	Awards vest in full
Share Plans	Injury or disability, redundancy, or any other reason the Committee may, at its discretion, determine	On the third anniversary of the award	Awards will normally be pro-rated for time to the date of cessation of employment and performance metrics assessed as at the third anniversary
	Death	Immediately (unless otherwise determined by the Committee at its discretion)	Any outstanding awards normally will be pro-rated for time and performance up to the point of death
	All other reasons	Awards lapse	-

Annual Remuneration Report continued

Pay-for-performance

The following charts provide an estimate of the potential future rewards for executive Directors, and the potential split between different elements of pay, under three different performance scenarios: 'Fixed', 'On-target' and 'Maximum'.

Potential reward opportunities are based on Halma's remuneration policy, applied to salaries as at 1 April 2020, excluding the temporary 20% reduction. The projected values exclude the impact of any share price movements and dividend equivalents.

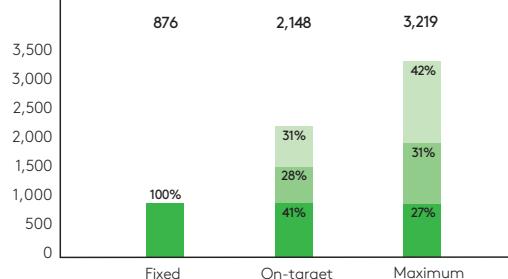
The 'Fixed' scenario shows base salary, pension and benefits only.

The 'On-target' scenario shows fixed remuneration as above, plus a target level of 60% of the maximum under the annual bonus and vesting of 50% of a single year's award under the ESP.

The 'Maximum' scenario reflects fixed remuneration, plus maximum level of annual bonus and ESP awards.

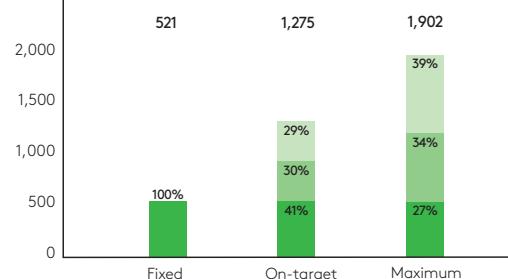
**Andrew Williams,
Group Chief Executive**

Percentages/amounts £000



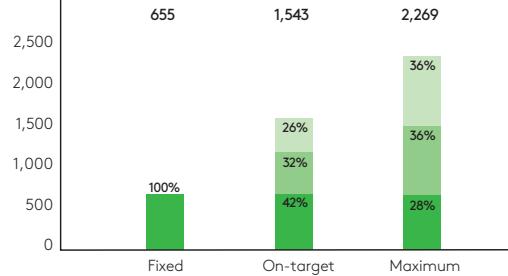
**Marc Ronchetti,
Chief Financial Officer**

Percentages/amounts £000



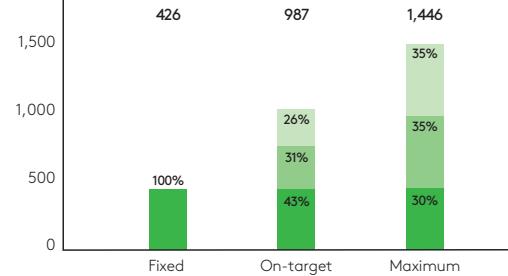
**Adam Meyers,
Sector Chief Executive –
Medical & Environmental**

Percentages/amounts US\$000



**Jennifer Ward,
Group Talent, Culture and
Communications Director**

Percentages/amounts £000



● Salary, pension and benefits ● Bonus ● Long term incentive

Impact of share price

Long term incentive awards in the ESP are granted in shares and as such the value can vary significantly depending on share price movement over the vesting and holding period. The table below shows how the maximum values above would change as a result of a 50% increase in the share price over the vesting and holding period:

Executive Director	50% increase in share price
Andrew Williams	3,888
Marc Ronchetti	2,275
Adam Meyers	2,667
Jennifer Ward	1,703

Non-executive Directors

Unless otherwise indicated, all non-executive Directors have a specific three-year term of engagement, subject to annual re-election at the AGM, which may be renewed for up to two further three-year terms if both the Director and the Board agree. The remuneration of the Chairman and the non-executive Directors is determined by the Committee and the Board respectively, in accordance with the remuneration policy approved by shareholders.

The contract in respect of the Chairman's services provides for termination, by either party, by giving not less than six months' notice.

The non-executive Directors have contracts in respect of their services, which can be terminated without compensation, by either party, by giving not less than three months' notice. Contracts are available for inspection at the AGM and throughout the year at the Company's registered office. Summary details of terms and notice periods for non-executive Directors are included below.

Non-executive Director	Date of appointment	End of next term	Notice period
Paul Walker	April 2013	No fixed term	6 months
Daniela Barone Soares	November 2011	November 2020	3 months
Roy Twite	July 2014	July 2020	3 months
Tony Rice	August 2014	August 2020	3 months
Carole Cran	January 2016	January 2022	3 months
Jo Harlow	October 2016	October 2022	3 months

Non-executive Directors do not receive benefits from the Company and they are not eligible to join the Company's pension plan or participate in any incentive schemes. Any reasonable expenses that they incur in performing their duties are reimbursed by the Company.

Paul Walker's personal assistant is an employee of the Company.

Details of the policy on non-executive Director fees are set out in the table on pages 98 and 99.

NED recruitment

In recruiting a new Chairman or NED, the Committee will use the policy as set out in the table on pages 98 and 99.

Consideration of conditions elsewhere in the Group

The Committee considers the remuneration and employment conditions elsewhere in the Group when determining remuneration for executive Directors. When the Committee reviews the Executive Remuneration Policy later this year, it will ensure that this alignment is retained. However, the Committee does not currently consult specifically with employees on the executive remuneration policy.

Consideration of shareholder views

When determining remuneration, the Committee takes into account the views of our shareholders and 'best practice' guidelines set by shareholder representative bodies. As part of their consideration of the revised remuneration policy in 2018, the Committee consulted widely with the Company's major institutional shareholders and their representative bodies. The Committee always welcomes feedback from any shareholders on the Company's remuneration policy and will be consulting widely during the upcoming policy review. Detail on the votes received on the Remuneration Policy and Remuneration Reports at the 2018 and 2019 annual general meetings provided on page 82.

External directorships

The Committee acknowledges that executive Directors may be invited to become independent non-executive Directors of other listed companies which have no business relationship with the Company and that these roles can broaden their experience and knowledge to Halma's benefit.

Executive Directors are permitted to accept one such appointment with the prior approval of the Chairman. Approval will only be given where the appointment does not present a conflict of interest with the Group's activities and the wider exposure gained will be beneficial to the development of the individual. Where fees are payable in respect of such appointments, these are retained by the executive Director.

Remuneration Policy

This section of the Report provides an overview of the Remuneration Policy for Executive and non-executive Directors which shareholders approved at the 2018 Annual General Meeting. The Policy came into effect on 19 July 2018 and is unchanged. A full copy of the Policy is available in the 2018 Annual Report and Accounts, available on our website, www.halma.com.

The Policy is designed to promote the long-term interests of the Company by securing the high calibre executives needed to manage the Group successfully, and to align their interests with those of our shareholders by rewarding them for enhancing shareholder value. The Policy also seeks to reward achievement of stretching performance targets without driving unacceptable behaviours or encouraging excessive risk-taking.

There are six elements of the Policy for executive Directors, which are summarised in the table below.

Element and objective	Operation and process
Executive Directors	
Salary A fair, fixed remuneration reflecting the size and scope of the executive's responsibilities which attracts and retains high calibre talent necessary for the delivery of the Group's strategy.	Reviewed annually or following a material change in responsibilities. Salary is benchmarked to market median levels periodically against appropriate comparators of a similar size and operating in a similar sector and is linked to individual performance and contribution. Salary is the only element of remuneration that is pensionable.
Benefits To provide benefits that are competitive within the relevant market.	Benefits are appropriate to the location of the executive and typically comprise (but are not limited to) a company car, life insurance, permanent disability insurance, private medical insurance, relocation and tax advice for international assignments.
Pension To provide competitive post-retirement benefits, or the cash allowance equivalent, to provide the opportunity for executives to save for their retirement.	Executive Directors participate in either a Group Defined Contribution pension plan or the US 401k money purchase arrangement. Cash supplements in lieu of Company pension contributions may be made to some individuals at a level dependent upon seniority and length of service. Cash supplements may be reduced to reflect the additional employer social costs thereon. To the extent the pension contributions exceed the local tax allowance, the contributions may be paid to the executive, subject to taxes and social charges. Some executives are deferred members of the Group defined benefit pension plan which closed to future accrual in December 2014.
Annual Incentive To incentivise and focus management on the achievement of an objective annual target which is set to support the short-to medium-term strategy of the Group.	The structure of the Annual Incentive is reviewed at the start of the year to ensure that the performance measures and their weightings remain appropriately aligned with the Group's strategy and are sufficiently challenging. Performance targets are calibrated and set at the start of the year, with reference to a range of relevant reference points including the annual budget agreed by the Board. At the end of the year, the Committee determines the extent to which these targets have been achieved. Payment of one third of any bonus is in the form of an award of shares that is deferred for two years, with vesting normally subject to continued service. Dividend equivalents accrue over the vesting period. Dividend equivalents are paid in cash or shares at the end of the vesting period. Deferral into shares provides a link to the long-term strategy of the Group and enhances the retentiveness of the policy. A recovery and withholding provision enables the Company to recoup overpayments in the event of misstatement, error or misconduct, either through withholding future remuneration or requiring the executive to repay the requisite amount.

Opportunity	Performance measures
<p>Base salary increases will be applied in line with the outcome of annual reviews (normally with effect from 1 April). Salaries for the financial year under review (and the following year) are disclosed in the Annual Report on Remuneration.</p>	Not applicable
<p>Salary increases for executive Directors will not normally exceed the average of the wider employee population other than in exceptional circumstances. Where increases are awarded in excess of the wider employee population, for example where there is a material change in the responsibility, size or complexity of the role, the Committee will provide the rationale in the relevant year's Annual Report on Remuneration.</p>	
<p>Benefits may vary by role, and the level is determined to be appropriate for the role and circumstances of each individual executive Director. The maximum value will equate to the reasonable market cost of such benefits.</p>	Not applicable
<p>It is not anticipated that the current cost of benefits (as set out in the Annual Report on Remuneration) would increase materially over the period for which this policy applies.</p>	
<p>The Committee retains the discretion to approve a higher cost in exceptional circumstances (e.g. relocation expenses or an expatriation allowance on recruitment, etc.) or in circumstances where factors outside the Company's control have changed materially (e.g. market increases in insurance costs).</p>	
<p>The rationale behind the exercise of such discretion will be provided in the relevant year's Annual Report on Remuneration.</p>	
<p>Defined Contribution: maximum contribution of 20% of pensionable salary.</p>	Not applicable
<p>While no formal changes are being proposed to the policy this year, the Committee commits that any future appointments to the Board will receive a pension contribution in line with the majority of the workforce. This commitment will be formalised as part of the next Policy review in 2021.</p>	
<p>Cash supplement: Halma contributes up to 26% of full salary if the executive Director is a former active member of the defined benefit pension plan. Defined Contribution/Money Purchase members whose contributions exceed the local tax allowance are paid the excess contributions, on pensionable salary, as a cash supplement, net of employer social costs.</p>	
<p>Defined benefit: now closed to future accrual but provides a maximum pension equivalent to two thirds of final pensionable salary, up to a CPI-indexed cap; £161,795 for 2019 and £165,678 for 2020.</p>	
<p>Maximum opportunity: 150% of base salary for all executive Directors.</p>	<p>The bonus is based on the achievement of financial performance targets, principally EVA. Other financial measures may supplement EVA at the discretion of the Committee.</p>
<p>Bonus payable at threshold: 0% of salary.</p>	<p>Such financial measures must comprise at least 80% of the overall bonus opportunity.</p>
<p>In exceptional circumstances, the Committee can exercise discretion to override the formulaic bonus outcome within the limits of the scheme where it believes the outcome is not truly reflective of performance and to ensure fairness to both shareholders and participants.</p>	<p>The balance of 20% may be utilised, at the Committee's discretion, to support non-financial, but measurable, strategic growth priorities.</p>

Remuneration Policy continued

Element and objective	Operation and process
Executive Directors	
Long-term Incentive: Executive Share Plan (ESP) To incentivise executives to achieve superior returns to shareholders over a three-year period rewarding them for sustained performance against challenging long-term targets; to retain key individuals and align interests with shareholders, reflecting the sustainability of the business model over the long term and the creation of shareholder value.	Executive Directors are granted annual awards over Halma plc shares or a cash equivalent where required by regulations as determined by the Committee; awards vest after a period of at least three years based on Group performance. Dividend equivalents accrue over the vesting period. Dividend equivalents are paid in cash or shares at the end of the vesting period, and only on those shares which vest. A recovery and withholding provision enables the Company to recoup overpayments in the event of misstatement, error or misconduct, either through withholding future remuneration or requiring the executive to repay the requisite amount. A mandatory two-year holding period for vested awards relating to awards granted after the 2018 AGM also aids recovery of overpayments as referenced above.
Share Incentive Plan (SIP) To encourage share ownership across all UK-based employees using HMRC-approved schemes.	The SIP is an HMRC-approved arrangement. It entitles all eligible UK-based employees to receive Halma shares in a potentially tax-advantageous manner.
Chairman and non-executive Director fees To attract individuals with the requisite skills, experience and knowledge to contribute to the Board.	Non-executive Director (NED) fees are determined by the Board and may comprise a base fee, committee chairmanship fee and Senior Independent Director fee. The Chairman's fee is determined by the Committee.

Notes to the Policy Table

Payments from Existing Awards

The Committee will honour any commitment entered into, and executive Directors will be eligible to receive payment from any award made, prior to the approval and implementation of the Remuneration Policy on 19 July 2018. Details of these awards are disclosed in the Annual Report on Remuneration.

Selection of Performance Measures

The performance measures used in Halma's executive incentives have been selected to ensure incentives are challenging and reinforce the Group's strategy and align executive interests closely with those of our shareholders.

In the annual bonus, the use of EVA, in summary, profit less a charge for capital employed (definition is provided on page 84) reinforces the Group's business objective to double every five years through a mix of acquisitions and organic growth. Profit is a function of the extent to which the Company has achieved both its organic growth target and its success in identifying appropriate acquisition targets in current and past years. Ensuring that the cost of funding acquisitions is reflected in the bonus model means that executives share the benefit of an acquisition that outperforms expectations, but equally bear the cost of overpaying for an acquisition. Good or poor management of working capital is also reflected in the calculation of EVA.

In the ESP, EPS provides a disciplined focus on increasing profitability and thereby provides close shareholder alignment through incentivising shareholder value creation, and ROTIC reinforces the focus on capital efficiency and delivery of strong returns, thereby further strengthening the alignment of remuneration with the Group strategy. Performance targets are set to be stretching yet achievable, considering the Company's strategic priorities and the economic environment in which it operates. Targets are calibrated considering a range of reference points but are based primarily on the Group's strategic plan.

Opportunity	Performance measures
Maximum opportunity: Up to 200% of salary. In exceptional circumstances, such as to facilitate the recruitment of an external candidate, the Committee may, in its absolute discretion, exceed this maximum annual opportunity, subject to a limit of 250% of salary. Any use of this limit would be appropriately explained.	Vesting of performance share awards is subject to continued employment and the Company's performance over a three-year performance period. To the extent performance conditions are not met, awards will lapse.
Threshold performance will result in the vesting of 25% of the maximum award.	
Participation limits are in line with those set by HMRC from time to time.	Not applicable
Fees are normally reviewed annually in April, but typically only reset triennially. Increases are effective from 1 April.	Not applicable
The fee paid to the Chairman is determined by the Committee, and fees to NEDs are determined by the Board. The fees are calculated by reference to market levels and take account of the time commitment and the responsibilities of the NEDs.	

External appointments

In the case of appointing a new executive Director, the Committee may make use of any of the existing elements of remuneration, as follows:

Component	Approach
Salary	The base salaries of new appointees will be determined by reference to relevant market data, experience and skills of the individual, internal relativities and the current salary of any incumbent in the same role. Where a new appointee has an initial base salary set below market, the Committee may make phased increases over a period of several years to achieve the desired position, subject to the individual's development and performance in the role.
Benefits	New appointees will be eligible to receive benefits in line with the current Policy, as well as expatriation allowances and any necessary expenses relating to an executive's relocation on appointment.
Pension	New appointees will be eligible to participate in the Company's defined contribution/money purchase arrangements, receive a cash supplement or local equivalent ¹ .
Annual bonus	The scheme as described in the Policy Table will apply to new appointees with the relevant maximum being pro-rated to reflect the proportion of the year employed.
ESP	New appointees will be granted performance awards under the ESP on the same terms as other executives, as described in the Policy Table.
SIP	New appointees in the UK will be eligible to participate on identical terms to other employees.

¹ While no formal changes are being proposed to the policy this year, the Committee has agreed that any future appointments to the Board will receive a pension contribution in line with the majority of the workforce in the relevant geography. This will be formalised as part of the next Policy review in 2021.

In addition to the elements of remuneration set out in the Policy Table, in exceptional circumstances the Committee may consider it appropriate to grant an incentive award under a different structure in order to facilitate the recruitment of an individual or to replace incentive arrangements forfeited on leaving a previous employer. In making such awards, the Committee will look to replicate the arrangements being forfeited as closely as possible and in doing so consider relevant factors including any performance conditions attached to these awards, the payment mechanism, expected value and the remaining vesting period of these awards.

Internal Appointments

Remuneration for new executive Directors appointed by way of internal promotion will similarly be determined in line with the policy for external appointees, as detailed above. Where an individual has contractual commitments made prior to their promotion to the Board, the Company will continue to honour those commitments. Incentive opportunities for employees below Board level are generally no higher than for executive Directors, and incentive measures vary to ensure they are appropriate.

Share Ownership Guidelines

To ensure alignment between the interests of executive Directors and those of shareholders, the Company requires executive Directors to progressively build up and maintain a beneficial holding of Halma plc shares equivalent to a minimum of 200% of salary. Until such time as this threshold is achieved, executive Directors are required to retain no less than 50% of the net of tax value of any vested performance share award or deferred bonus share award.

Directors' Report

The Directors present their report on the affairs of the Company, together with the audited financial statements and Independent Auditors' Report, for the year ended 31 March 2020.

Activities

The Company's principal activity is to act as a holding company. The Company is incorporated and domiciled in England and Wales. A list of its subsidiary companies is set out on pages 185 to 190. Subsidiaries of the Company have established branches in a number of different countries in which they operate. The information set out below, which forms part of this Directors' Report and is incorporated by reference, can be located in the Strategic Report on pages 2 to 55:

- Future developments in the Group's business.
- Activities of the Group in the field of research and development.
- Environmental matters, including greenhouse gas emissions (included in the Sustainability review on pages 42 to 47).

Dividends

The Directors recommend a final dividend of 9.96p per share and, if approved, this dividend will be paid on 1 October 2020 to ordinary shareholders on the register at the close of business on 28 August 2020. Together with the interim dividend of 6.54p per share already paid, this will make a total dividend of 16.50p (2019: 15.71p) per share for the financial year.

Political donations

The Group did not make any political donations or incur any political expenditure during the year.

Directors and directors' interests

The directors of the Company as at the date of this Report, together with their biographical details, are shown on pages 58 and 59.

The Remuneration Report on pages 77 to 99 provides details of the interests of each director in the shares of the Company.

Indemnities

The Company has agreed to indemnify, to the extent permitted by law, each of the Company's Directors against any liability incurred in respect of acts or omissions arising in the course of their office.

Financial risk management objectives and policies

Disclosures relating to financial risk management objectives and policies are set out in note 27 to the financial statements and along with exposures relating to price risk, credit risk, liquidity risk and cash flow risk.

Share capital and capital structure

Details of the share capital, together with details of the movements in the share capital during the year, are shown in note 23 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 Company's 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.

Rights and obligations of ordinary shares

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, one or more corporate representatives. 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 themselves being a member, shall have one

vote, as shall proxies (unless they are appointed by more than one holder, in which case they may vote both for and against the resolution in accordance with the holders' instructions). On a poll, every holder of ordinary shares present in person or by proxy shall have one vote for every share of which they are 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 Company has established an Employee Benefit Trust and the trustee has waived its right to vote and its right to all dividends.

Restrictions on transfer of shares

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.

Employees

An overview of the Board's engagement with employees along with the mechanisms for sharing information are included on pages 64 and 65. Aligning the interests of employees in the Company's performance is achieved through a variety of share and bonus schemes.

The Company gives full and fair consideration to applications of employment from disabled people. Training, career development and promotion opportunities are equally applied for all our employees, regardless of disability. In the event of an existing employee becoming disabled, every effort will be made to ensure that their employment with the Group continues and that appropriate support is provided.

Stakeholder engagement

A description of how the Directors have had regard to the need to foster the Company's business relationships with suppliers, customers and others, and the effect of Director engagement with our stakeholders, is set out on pages 40 and 41. Examples of how the Directors had regard to stakeholder interests when making principal decisions during the year are set out on page 63.

Appointment and removal of directors

With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association, the UK Corporate Governance Code, the Companies Act 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 a Director will hold office until the next Annual General Meeting (AGM) and shall then be eligible for election at that meeting. In accordance with the UK Corporate Governance Code each of the Directors, being eligible, will offer themselves for election or re-election at this year's AGM. 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.

Powers of Directors

The powers of Directors are set out in the Articles of Association and a description of the matters reserved for decision by the Board is summarised in the Corporate Governance Report on page 67.

Contracts of significance and change of control

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

There are two significant agreements, in terms of the likely impact on the business of the Group as a whole, containing such provisions:

- The £550m syndicated Revolving Credit Facility which, if within 10 days of a change of control notice to the loan agent, can result in 30 days' notice being given to the Company by any Lender, for all amounts outstanding to that Lender, to be immediately due and payable, at which time the commitment of that Lender will be cancelled. If all of the Lenders give this notice the whole facility would be cancelled.
- The US\$250m US Private Placement Note Purchase Agreement under which, in the event of a change of control, the Company is required to make an offer to the holders of the US Private Placement notes to prepay the principal amount of the notes together with interest accrued.

The Group has contractual arrangements with a wide range of suppliers. The Group is not unduly dependent upon contractual arrangements with any particular customer. Whilst the loss or disruption to certain of these arrangements could temporarily affect the Group's business, none is considered to be essential.

The Company's share plans contain provisions as a result of which 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, its Directors or employees that provide for compensation for loss of office or employment that occurs because of a takeover bid.

Allotment authority

Under the Companies Act 2006 the Directors may only allot shares if authorised by shareholders to do so. At the AGM an ordinary resolution will be proposed which, if passed, will authorise the Directors to allot and issue shares up to an aggregate nominal value of £9,400,000 (up to 94,000,000 ordinary shares of 10p each), being just less than one quarter of the issued share capital of the Company (excluding treasury shares) as at 14 July 2020 (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 authority will expire at the earlier of the conclusion of the AGM of the Company in 2021 and 31 August 2021. 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 14 July 2020, the Company had 379,645,332 ordinary shares of 10p each in issue.

The Companies Act 2006 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 AGM 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 10% of the aggregate nominal value of the issued share capital of the Company as at 14 July 2020 of £3,780,000. The resolution will also modify statutory pre-emption rights to deal with legal, regulatory or practical problems that may arise on a rights issue 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, other than the release of treasury shares under share plans previously approved at general meeting.

Purchase of the Company's own shares

The Company was authorised at the 2019 AGM to purchase up to 37,900,000 of its own 10p ordinary shares in the market. This authority expires on 31 August 2020. The Company did not purchase any of its own shares under this authority during the year. In accordance with the Directors' stated intention to seek annual renewal a special resolution will be proposed at the AGM to renew this authority until the earlier of the end of the Company's 2021 AGM and 31 August 2021, in respect of up to 37,900,000 ordinary shares, which is approximately 10% of the Company's issued share capital (excluding treasury shares) as at 14 July 2020.

Annual General Meeting

The Company's AGM will be held on 4 September 2020 as a closed meeting, with shareholders prohibited from attending, due to the current restrictions on public gatherings and the need to observe social distancing measures. The Notice of Meeting, together with an explanation of the proposed resolutions, is enclosed with this Annual Report and Accounts and is also available on the Company's website at www.halma.com.

Directors' Report continued

Substantial shareholdings

As at 31 March 2020, the Company had been notified, in accordance with DTR 5 of the Disclosure Guidance and Transparency Rules, of the following interests in voting rights in its shares.

	31 March 2020		
	No. of ordinary shares	Percentage of voting rights and issued share capital	Nature of holdings
The Capital Group Companies, Inc.	37,851,729	9.97	Indirect
BlackRock, Inc.	23,932,882	6.30	Indirect
Massachusetts Financial Services Company	18,959,209	4.99	Indirect

During the period between 31 March 2020 and 14 July 2020 (the latest practicable date prior to the publication of the Notice of Meeting) no changes to major shareholdings were disclosed to the Company.

Independent auditors

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

- So far as the Director is aware, there is no relevant audit information of which the Company's Auditor is unaware.
- 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 Auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

PricewaterhouseCoopers LLP (PwC) has expressed its willingness to continue in office as Independent Auditor and a resolution to appoint PwC will be proposed at the forthcoming AGM.

Disclosure required under the Listing Rules and the Disclosure Guidance and Transparency Rules

For the purposes of compliance with DTR 4.1.5 R(2), the required content of the management report can be found in this Directors' Report and the Strategic Report, including the sections of the Annual Report and Accounts incorporated by reference.

Disclosures required by LR 9.8.4 R can be located as follows:

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Corporate Governance Statement

The Company's statement on corporate governance can be found in the Corporate Governance Report on page 56. The Corporate Governance Report forms part of this Directors' Report and is incorporated into it by cross-reference.

Mark Jenkins

Company Secretary

By order of the Board
14 July 2020

Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework' and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period. In preparing the financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently.
- State whether applicable IFRSs as adopted by the European Union have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 101 have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements.
- Make judgements and accounting estimates that are reasonable and prudent.
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The Directors are responsible for the maintenance and integrity of 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' confirmations

The Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group and Company's position and performance, business model and strategy.

Each of the Directors, whose names and functions are listed on pages 58 and 59 confirm that, to the best of their knowledge:

- The Company financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework' and applicable law), give a true and fair view of the assets, liabilities, financial position and profit of the Company.
- The Group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group.
- The Directors' Report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces.

In the case of each Director in office at the date the Directors' Report is approved:

- So far as the Director is aware, there is no relevant audit information of which the Group and Company's auditors are unaware.
- They have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group and Company's auditors are aware of that information.
- The financial statements on pages 112 to 195 were approved by the Board of Directors on 7 July 2020 and signed on its behalf by Andrew Williams and Marc Ronchetti.

On behalf of the Board

Andrew Williams
Group Chief Executive

Marc Ronchetti
Chief Financial Officer
14 July 2020

Independent Auditors' Report to the members of Halma plc

Report on the audit of the financial statements

Opinion

In our opinion:

- Halma plc's group financial statements and company financial statements (the 'financial statements') give a true and fair view of the state of the group's and of the company's affairs as at 31 March 2020 and of the group's profit and cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework', and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report and Accounts (the 'Annual Report'), which comprise: the consolidated and company balance sheets as at 31 March 2020; the consolidated income statement and consolidated statement of comprehensive income and expenditure, the consolidated cash flow statement, and the consolidated and company statements of changes in equity for the year then ended; the accounting policies; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the company.

Other than those disclosed in note 6 to the financial statements, we have provided no non-audit services to the group or the company in the period from 1 April 2019 to 31 March 2020.

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to The Listing Rules, UK and US tax legislation, Pensions legislation, Employment regulation, Health and safety regulation and equivalent local laws and regulations applicable to reporting component teams, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to posting inappropriate journal entries to increase revenue or reduce expenditure, and management bias in determining accounting estimates. The group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the group engagement team and/or component auditors included:

- Discussions with management, internal audit and the Group's legal advisors, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Review of reporting component auditors' work;
- Challenging assumptions and judgements made by management in their significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. In particular, in relation to impairment of intangible fixed assets, the valuation of defined benefit pension scheme liabilities and the valuation of acquisition intangibles and contingent consideration (see related key audit matters below);
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations and crediting the Income Statement or those posted by unexpected users; and
- Testing all material consolidation adjustments to ensure these were appropriate in nature and magnitude.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Our audit approach

Overview



- Overall Group materiality: £13.3 million (2019: £12.3 million), based on 5% of profit before tax before adjustments.
- Overall Company materiality: £11.2 million (2019: £9.3 million), based on 1% of total assets.
- There were no significant components within the Group.
- We performed audit procedures over 50 reporting components in the Group.
- This provided coverage of 71% revenue, 68% profit before tax, and 87% net assets.
- Impairment of goodwill and other intangibles (Group).
- Acquisition accounting – valuation of acquired intangibles (Group).
- Valuation of contingent consideration (Group).
- Valuation of uncertain tax position provisions (Group).
- Impact of the COVID-19 pandemic (Group).
- Impairment of investments (Company).

Key audit matter

Impairment of goodwill and other intangibles (Group)

The Group holds significant goodwill and other intangible assets balances of £838.4m (2019: £694.0m) and £328.4m (2019: £245.2m) respectively as at 31 March 2020. The valuation of these assets is judgemental and there is a risk they may be impaired. The increase in value during the year is primarily a result of ten new acquisitions.

Under IAS 36 'Impairment of Assets', goodwill must be tested for impairment at least annually.

Management have performed an annual impairment review for each of the 11 CGU groups, which is the lowest level at which goodwill is monitored by the Group. The CGU groups have been restructured during the year to better reflect the way CGU groups are expected to benefit from business combinations' synergies.

The impairment reviews performed by management contain a number of significant judgements and estimates including the allocation of new acquisitions to CGU groups, revenue growth rates and discount rates. A change in these assumptions could result in a material change in the valuation of the assets, and as a result there is a risk that goodwill and other intangible assets balances are no longer deemed to be recoverable and hence should be impaired.

The assumptions used are more sensitive for the operations which make up the previously recognised Sensor Technologies CGU group which following review has this year been mapped to the Healthcare Assessments CGU group.

Management also assessed whether there are any indications that other intangible assets may be impaired. When such indications have been identified, management estimated the recoverable amount of these assets and compared it to the carrying amounts. No material impairment losses have been recognised as a result of this assessment and we have not identified any significant judgements or sensitive assumptions in management's workings.

Refer to Accounting Policies note and note 11 for management's disclosures of the relevant judgements and estimates involved in assessing these assets for impairment.

How our audit addressed the key audit matter

- We have assessed the methodology and approach applied by management in performing their impairment reviews, including the identification of CGU groups. We have understood management's rationale for the restructuring of the CGU groups and ensured their approach is in line with the requirements of IAS 36 'Impairment of Assets' and that the operating companies have been allocated to a CGU group which is expected to benefit the most from the relevant synergies. We have ensured management also performed an impairment assessment prior to the reallocation of goodwill to identify any pre-existing impairments, including the Sensor Technologies CGU group which in the previous years had the most sensitive assumptions.
- We have obtained management's annual impairment assessment for all 11 CGU groups, which has been performed under both new and old CGU groupings, and ensured the calculations were mathematically accurate and the methodology used was in line with the requirements of IAS 36 'Impairment of Assets'.
- We have evaluated the forecast year 1 and year 2 cash flows by comparing these to the latest available results for April and May 2020 and by performing a sensitivity analysis to model a slower recovery from the COVID-19 pandemic than that assumed in management's model. We have assessed the short-term growth rate applied to the year 2 forecast, as well as long-term growth rates used to calculate the terminal value. In doing this, we compared prior year budget to actual data, in order to assess the quality of the forecasting process. We have also tested the growth rate assumptions by comparing them to management's strategic plans and to previous sector growth rates.
- We have tested the discount rates applied by management by reviewing management's methodology and by performing sensitivity analysis. For the operations making up the previously configured Sensor Technologies CGU group, which is more sensitive to the discount rates used, we have also independently recalculated the WACC rate.
- We have recalculated management's own sensitivity analysis of key assumptions and also applied our own independent sensitivities. In the case of the Sensor Technologies CGU group, our sensitivity analysis focused mainly on revenue growth rates which are deemed to be the key estimates in the assessment. We have noted that a significant headroom exists in all CGU Groups and therefore no reasonable change in the key assumptions could lead to an impairment loss.
- We have reviewed the adequacy of disclosures made in the financial statements and assessed compliance with IAS 36.

Based on our work summarised above, we have concluded that goodwill and other intangible assets balances are not impaired at 31 March 2020 and that appropriate disclosures have been made in the financial statements.

Independent Auditors' Report to the members of Halma plc continued

Key audit matter	How our audit addressed the key audit matter
<p>Acquisition accounting – valuation of acquired intangibles (Group)</p> <p>During the year ended 31 March 2020, the Group completed ten business acquisitions with a combined total consideration of £256.5m net of cash acquired (including contingent consideration of £25.8m). Acquired intangibles recognised in these transactions totalled £114.3m, with goodwill totalling £122.9m also being recognised. There is a risk of material misstatement to the financial statements from the application of IFRS 3 'Business combinations', and the related valuation of the assets acquired, the liabilities assumed, and the consideration paid, including contingent consideration which is considered further in a separate key audit matter below.</p> <p>The risk of material misstatement is inherently higher for the acquired intangible assets as a result of the methodology and assumptions used in the valuation.</p> <p>Management engaged third party valuation experts to assist them in the valuation of acquired intangible assets for seven of the ten acquisitions during the year. The total consideration paid for the remaining three acquisitions was immaterial in aggregate and therefore does not present a material valuation risk. The key estimates and assumptions assessed were:</p> <ul style="list-style-type: none">— The completeness of the identified intangible assets which have been recognised in the business combination;— The methodology and assumptions used in the valuation; and— Management's estimate of the future forecast cash flows at the respective acquisition date. <p>Refer to Accounting Policies note and note 25 for management's disclosures of the relevant judgements and estimates.</p>	<ul style="list-style-type: none">— We have focused our audit procedures on the seven largest acquisitions which in aggregate lead to the recognition of acquired intangible assets totalling £110.6m.— We have obtained and read key documentation and agreements relating to these acquisitions. We have also obtained the acquisition models, internal management due diligence reports and the final purchase price allocations performed by management's experts. We agree with the identification of the trade names, customer relationships and technology as separately identified intangible assets recognised in each of these acquisitions.— We have performed detailed testing of the opening balance sheets and the related fair value adjustments for each acquisition based on individually assigned materiality levels, which ranged from £0.5m to £3.0m.— We have used our internal valuation experts to evaluate the methodology used by management's experts and confirmed that appropriate income approach techniques had been utilised in valuing the identified intangible assets.— Our internal valuations experts also evaluated the assumptions used by management's experts, including assessing discount rates, royalty rates and attrition rates. We challenged the key assumptions used in these areas and performed sensitivity or follow up analysis where rates differed from those we might typically use.— We also assessed the useful lives which have been assigned to the acquired intangible assets and consider these to be reasonable based on the nature of the assets and the period over which benefits are expected to flow to the Group.— We have reviewed the detailed acquisition cash flow forecasts. We have confirmed that the overall cash flow forecasts reflect the nature of the businesses acquired and management's planned actions as at the acquisition date, and that these actions align with those which could foreseeably be achieved by another market participant. We have confirmed that all acquisitions took place before COVID-19 was declared a pandemic and therefore the initial acquisition cash flows were not specifically adjusted for this event.— We have reviewed the disclosures in the Annual Report, including in note 25, and agree that these are consistent with our audit work performed and the disclosure requirements of IFRS 3. <p>Based on the work done, as summarised above, we have concluded the Group's acquisition accounting is materially appropriate and the recognised intangible assets have been appropriately valued.</p>

Key audit matter	How our audit addressed the key audit matter
<p>Valuation of contingent consideration (Group) During the year ended 31 March 2020, the Group completed seven business acquisitions for which part of the consideration payable (£25.8m) was contingent on future performance targets and remains unsettled at the year end. There are an additional four acquisitions which were completed in previous years where the final contingent consideration remains unsettled at 31 March 2020. The total provision held in respect of all contingent consideration estimated at 31 March 2020 is £40.1m. The performance periods relevant for the calculation of the contingent considerations typically range between 1 and 3 years. Given the uncertainty regarding future levels of performance of these acquired businesses and the significant range of potential outcomes (maximum possible exposure of £105.4m) there is a risk of material misstatement in the calculation of the fair value of contingent consideration. Judgement has been applied by management in establishing their best estimate of the liability in respect of each of these new and historical acquisitions based on risk weighted assessments of the forecast performance of each business. Of the 11 acquisitions with outstanding contingent consideration at 31 March 2020, seven have individually immaterial maximum consideration values and when considered in aggregate, we concluded these do not represent a risk of a material misstatement.</p> <p>Refer to Accounting Policies note and notes 20, 25 and 27 for management's disclosures of the relevant judgements and estimates</p>	<ul style="list-style-type: none"> — Our audit focused on the risk of an inaccurate estimate of contingent consideration for the acquisitions of Visiometrics, Navtech, NeoMedix and NovaBone, which have a larger range of potential outcomes both individually and in aggregate. — We have obtained the key contract terms used in the deferred contingent consideration calculation and agreed these to the signed sale and purchase agreements. — We have assessed the methodology used by management to determine the estimate of future contingent consideration and considered the underlying data used in each of these calculations, assessing this against post-acquisition results. These estimates can be materially impacted by the profit or revenue out-turn for the entities and the sensitivity of these estimates increases where significant profit or revenue multiples are agreed as part of the contingent consideration agreement. Management uses a methodology with weightings applied to different scenarios to estimate the potential consideration payable. Consequently, we performed sensitivity analysis to run additional scenarios to conclude whether the contingent consideration recorded by management for each acquisition is materially appropriate, evaluating what we consider to be the most likely scenarios. — We have reviewed management's forecasts and the weightings applied to each scenario. We have reviewed actual trading in the post-acquisition period and considered other relevant facts such as disputes with vendors. We have also considered the impact on these estimates of COVID-19 which, has in some cases resulted in a release of provisions previously established. For those acquisitions occurring in the last 12 months, on the basis that COVID-19 arose subsequent to the acquisitions, all adjustments to contingent consideration have been appropriately recognised in the income statement. — We have reviewed the disclosures in the Annual Report, including in note 25, and agree that these are consistent with our audit work performed and the disclosure requirements of IFRS 3.
<p>Valuation of uncertain tax position provisions (Group) A contingent liability of up to £15.4m (plus £1.2m in respect of interest) is disclosed in the Annual Report in relation to the European Commission ('EC') decision that the United Kingdom controlled foreign company ('CFC') group financing partial exemption ('FCPE') constitutes State Aid. On 2 April 2019, the European Commission's final decision concluded that the FCPE rules, as they applied up to 31 December 2018, did constitute State Aid. Whilst the UK government applied to annul the EC decision, there is a risk that these amounts represent a non-contingent liability for the Group. We note that other uncertain tax positions of the Group are immaterial and this is consistent with our assessment.</p> <p>Refer to note 31 for management's disclosures in relation to the State Aid contingent liability</p>	<ul style="list-style-type: none"> — Our audit focused on the State Aid exposure as other uncertain tax positions have been assessed as not material. — We have used our tax experts to assess management's view that the UK Government's arguments are stronger than those of the EC, albeit the arguments are finely balanced. The UK Government is obliged to recover the alleged aid pending any appeals process and so it is likely the Group will have to make tax payments within the next few months. However, given the current assessment of the likely outcome is that it's only possible rather than probable that the liability will crystallise, any payment on account would result in a tax receivable asset recognised on the basis of more likely than not recovery. We have concluded that management's analysis of this exposure is supportable and no provision is required at 31 March 2020. — We have reviewed disclosures included in note 31 of the Annual Report setting out the contingent liability and agree these disclosures are consistent with our audit work performed and the disclosure requirements of IAS 37. <p>Based on the work done, as summarised above, we have concluded that the Group's treatment of the State Aid exposure as a contingent liability, and the associated disclosures, are appropriate.</p>

Independent Auditors' Report to the members of Halma plc continued

Key audit matter	How our audit addressed the key audit matter
Impairment of Investments (Company) At 31 March 2020, the Company holds investments totalling £300.0m. This consists of the direct ownership of all UK subsidiaries in addition to investments in intermediary holding companies which hold the direct investments in the Group's foreign subsidiaries. There is a risk, particularly considering the impact of COVID-19, that the recoverable amount of investments recognised at 31 March 2020 falls below their current carrying value. No impairment charge has been recognised in respect of investments in the current year. Refer to Accounting Policies note and note C5 for management's disclosures of the relevant judgements and estimates	<ul style="list-style-type: none">— We have obtained management's schedule of investment balances recognised at 31 March 2020 and reconciled this to the prior year financial statements.— We have tested all current year acquisitions and disposals back to supporting documentation and reconciled the closing position from management's detailed schedules to the financial statements at 31 March 2020.— We have obtained management's impairment assessment calculation at 31 March 2020 and ensured that it is mathematically accurate. Management initially compared the carrying value of each investment held to the net asset position of the related operations. The net asset values used have been agreed to the underlying Group consolidation schedule.— Where the net asset value described above was insufficient to support the carrying value of the investment, or where other impairment triggers have been identified the net present value of future cash flows has been considered. We have agreed the cash flows used by management are in line with the current approved forecasts and consistent with the forecasts assessed elsewhere within our work. We have also assessed that a suitable discount rate was used by reviewing management's methodology and by performing sensitivity analysis.— We have further considered the intercompany receivables balances, so that the total investment recoverability is assessed. <p>Based on the work done, as summarised above, we have concluded that investment balances held by the Company are not impaired at 31 March 2020 and that appropriate disclosures have been made in the financial statements.</p>
The impact of COVID-19 (Group) Since the outbreak of COVID-19 the Group has continued to operate and trade, albeit at reduced levels in the last quarter of the year ended 31 March 2020 and first quarter of the year ended 31 March 2021. Management has considered the impact of COVID-19 on the Group and Company financial statements. Primarily these considerations related to the impairment of accounts receivable balances, inventory, goodwill and other intangible assets, and management's going concern assessment. There is a risk that the financial impact arising from COVID-19 which has been recorded by management is inappropriate or that we were not able to obtain sufficient audit evidence in order to support our conclusions in respect of this assessment. Our audit focused on those areas where management had identified potential financial impacts as well as those which based on our independent assessment could have given rise to a risk of material misstatement. Refer to Accounting Policies note and note 16 as well as the Directors' Report and Strategic Report for management's disclosures of the relevant judgements, estimates and impacts.	<ul style="list-style-type: none">— In advance of the year end and throughout the course of the audit we have continued to assess the risks arising from the COVID-19 pandemic. These considerations have included areas where significant additional audit effort may have been needed as well as those which could have resulted in a material financial impact on the performance and position of the Group or Company for the year ended 31 March 2020. Other than as described in the key audit matters above we have noted no significant impact on the audit, or material impact on the financial statements, arising from COVID-19. Specifically, this includes:— Where relevant, suitable downside scenarios have been modelled by management in the cash flow models used in assessing assets for impairment. We have evaluated management's assumptions in light of both historical and post year end performance and concluded these to be reasonable and consistent with other evidence obtained during the course of our audit work;— We have reviewed management's models supporting their going concern assessment, ensured appropriate stress test scenarios were considered and challenged the key cash flow assumptions by performing our own sensitivity analysis. We have concluded it is appropriate to adopt the going concern basis in preparing the financial statements for the year ended 31 March 2020;— We have not identified any other matters, which had not already been identified by management, which present a risk of material misstatement to the financial statements;— Whilst more of our work has had to be performed remotely, we have not encountered any significant difficulties in performing our work or in obtaining the required evidence to support our audit conclusions; and— We have also reviewed the disclosures in the financial statements in respect of the impact of COVID-19 and concluded that these are appropriate. <p>Based on the work performed, as summarised above, we have concluded that the Group's conclusions in respect of the impact of COVID-19 are appropriate.</p>

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

The Group is split into four sectors being Process Safety, Infrastructure Safety, Environmental & Analysis and Medical. Each sector consists of a number of businesses spread globally across more than 20 countries. The businesses are further disaggregated into 230 reporting components within the consolidation.

We did not identify any individually significant components within the Group, with no single component providing more than 10% of the Group's external revenue or profit before taxation before adjustments. We determined the most effective approach to scoping was to perform full scope procedures over 33 reporting components where statutory audits are already required in UK, France, Germany, Belgium, Australia, Switzerland, Singapore and Italy. Full scope procedures were also performed in relation to the component holding all consolidation adjustments. In addition, specified audit procedures were performed over all material balances for a further 12 components in the United States. Additional audit procedures were performed on specific financial statement line items for a further 4 components in the United States, UAE and The Netherlands. This approach ensured that appropriate audit coverage has been obtained over all financial statement line items.

Where work was performed by component auditors, we determined the appropriate level of involvement we needed to have in that audit work to ensure we could conclude that sufficient appropriate audit evidence had been obtained for the Group financial statements as a whole. We issued written instructions to all component auditors and had regular communications with them throughout the audit cycle. We have held remote meetings with each component team and reviewed all significant matters reported. Working paper reviews have also been performed for all components which are individually material to the Group; that is exceeding 5% of the Group's profit before taxation or 2% of the Group's revenue.

Based on the detailed audit work performed across the Group, we have gained coverage of 71% of total revenue, 68% of profit before tax, and 87% of net assets.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Company financial statements
Overall materiality	£13.3 million (2019: £12.3 million).	£11.2 million (2019: £9.3 million).
How we determined it	5% of profit before tax before adjustments.	1% of total assets.
Rationale for benchmark applied	Based on the benchmarks used in the Annual Report, profit before tax before adjustments is the primary measure used by the shareholders in assessing the underlying performance of the Group. This benchmark will exclude the impact of adjustments in respect of amortisation and impairment of acquired intangible assets, acquisition items, significant restructuring costs and profit or loss on disposal of operations.	We believe that a total asset benchmark is appropriate given that the Company does not generate revenues of its own.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £0.1 million and £11.2 million. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £665,000 (Group audit) (2019: £610,000) and £665,000 (Company audit) (2019: £610,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Independent Auditors' Report to the members of Halma plc continued

Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the Group's and the Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Company's ability to continue as a going concern.
We are required to report if the directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 March 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report. (CA06)

The directors' assessment of the prospects of the group and of the principal risks that would threaten the solvency or liquidity of the group

We have nothing material to add or draw attention to regarding:

- The directors' confirmation on page 54 of the Annual Report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The directors' explanation on page 54 of the Annual Report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report having performed a review of the directors' statement that they have carried out a robust assessment of the principal risks facing the Group and statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the 'Code'); and considering whether the statements are consistent with the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit. (Listing Rules)

Other Code Provisions

— We have nothing to report in respect of our responsibility to report when:

- The statement given by the directors, on page 103, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Company obtained in the course of performing our audit.
- The section of the Annual Report on page 74 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- The directors' statement relating to the company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006. (CA06)

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' responsibilities statement set out on page 103, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the audit committee, we were appointed by the members on 20 July 2017 to audit the financial statements for the year ended 31 March 2018 and subsequent financial periods. The period of total uninterrupted engagement is 3 years, covering the years ended 31 March 2018 to 31 March 2020.

Owen Mackney (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

14 July 2020

Consolidated Income Statement

Notes	Year ended 31 March 2020			Year ended 31 March 2019		
	Before adjustments* £m	Adjustments* (note 1) £m	Total £m	Before adjustments* £m	Adjustments* (note 1) £m	Total £m
Continuing operations						
Revenue	1	1,338.4	–	1,338.4	1,210.9	–
Operating profit		279.2	(45.8)	233.4	255.8	(38.0)
Share of loss of associate	14	(0.1)	–	(0.1)	(0.1)	–
Profit/(loss) on disposal of operations	30	–	2.9	2.9	–	(1.0)
Finance income	4	0.6	–	0.6	0.5	–
Finance expense	5	(12.7)	–	(12.7)	(10.5)	–
Profit before taxation	6	267.0	(42.9)	224.1	245.7	(39.0)
Taxation	9	(49.4)	9.7	(39.7)	(45.7)	8.8
Profit for the year attributable to equity shareholders	1	217.6	(33.2)	184.4	200.0	(30.2)
Earnings per share	2					
From continuing operations						
Basic and diluted		57.39p		48.66p	52.74p	44.78p
Dividends in respect of the year	10					
Paid and proposed (£m)				62.5		59.6
Paid and proposed per share				16.50p		15.71p

* Adjustments include the amortisation of acquired intangible assets; acquisition items; significant restructuring costs, profit or loss on disposal of operations and in the prior year only the effect of equalisation of pension benefits for men and women in the defined benefit plans; and the associated taxation thereon. Note 3 provides more information on alternative performance measures.

Consolidated Statement of Comprehensive Income and Expenditure

	Notes	Year ended 31 March 2020 £m	Year ended 31 March 2019 £m
Profit for the year		184.4	169.8
Items that will not be reclassified subsequently to the Consolidated Income Statement:			
Actuarial gains on defined benefit pension plans	29	22.5	6.5
Tax relating to components of other comprehensive income that will not be reclassified	9	(4.0)	(1.6)
Items that may be reclassified subsequently to the Consolidated Income Statement:			
Effective portion of changes in fair value of cash flow hedges	27	(0.5)	-
Deferred tax in respect of cash flow hedges accounted for in the hedging reserve	9	0.1	-
Exchange gains on translation of foreign operations and net investment hedge		29.1	32.5
Exchange loss/(gain) on translation of foreign operations recycled to income statement on disposal		0.1	(0.3)
Other comprehensive income for the year		47.3	37.1
Total comprehensive income for the year attributable to equity shareholders*		231.7	206.9

The exchange gain of £29.1m (2019: gain of £32.5m) includes losses of £11.9m (2019: losses of £7.9m) which relate to net investment hedges as described in note 27.

* The amount of income relating to non-controlling interests for non-wholly owned subsidiaries during the year was £nil (2019: £nil).

Consolidated Balance Sheet

	Notes	31 March 2020 £m	31 March 2019 Restated* £m
Non-current assets			
Goodwill	11	838.4	694.0
Other intangible assets	12	328.4	245.2
Property, plant and equipment	13	184.3	112.4
Interest in associates and other investments	14	4.8	3.9
Retirement benefit asset	29	5.4	–
Deferred tax asset*	22	1.3	1.4
		1,362.6	1,056.9
Current assets			
Inventories	15	170.6	144.3
Trade and other receivables	16	286.6	259.6
Tax receivable		10.7	0.2
Cash and bank balances		106.3	81.2
Derivative financial instruments	27	1.0	0.9
		575.2	486.2
Total assets		1,937.8	1,543.1
Current liabilities			
Trade and other payables	17	186.7	164.8
Borrowings	19	75.1	9.2
Lease liabilities		13.0	–
Provisions	20	28.0	25.4
Tax liabilities		9.4	13.4
Derivative financial instruments	27	1.0	0.3
		313.2	213.1
Net current assets		262.0	273.1
Non-current liabilities			
Borrowings	19	345.0	253.7
Lease liabilities		48.5	–
Retirement benefit obligations	29	10.6	39.2
Trade and other payables	21	13.3	11.6
Provisions	20	21.6	10.9
Deferred tax liabilities*	22	48.7	33.2
		487.7	348.6
Total liabilities		800.9	561.7
Net assets		1,136.9	981.4
Equity			
Share capital	23	38.0	38.0
Share premium account		23.6	23.6
Own shares		(14.3)	(4.7)
Capital redemption reserve		0.2	0.2
Hedging reserve		(0.1)	0.3
Translation reserve		148.7	119.5
Other reserves		(7.7)	(5.6)
Retained earnings		949.2	810.1
Equity attributable to owners of the Company		1,137.6	981.4
Non-controlling interests		(0.7)	–
Total equity		1,136.9	981.4

* As part of a review of deferred tax balances some balances were identified that were previously presented gross but should have been netted off as they are in the same jurisdiction and there is a legally enforceable right to set off current tax assets against current tax liabilities. See note 22 for further details.

The financial statements of Halma plc, company number 00040932, were approved by the Board of Directors on 14 July 2020.

Andrew Williams
Director

Marc Ronchetti
Director

Consolidated Statement of Changes in Equity

	Share capital £m	Share premium account £m	Own shares £m	Capital redemption reserve £m	Hedging reserve £m	Translation reserve £m	Other reserves £m	Retained earnings £m	Non-controlling interest £m	Total £m
At 1 April 2019	38.0	23.6	(4.7)	0.2	0.3	119.5	(5.6)	810.1	–	981.4
Impact of changes in Accounting policies: IFRS 16 'Leases'	–	–	–	–	–	–	–	(4.0)	–	(4.0)
Restated balance at 1 April 2019	38.0	23.6	(4.7)	0.2	0.3	119.5	(5.6)	806.1	–	977.4
Profit for the year	–	–	–	–	–	–	–	184.4	–	184.4
Other comprehensive income and expense:										
Exchange gain on translation of foreign operations and net investment hedge	–	–	–	–	–	29.1	–	–	–	29.1
Exchange loss on translation of foreign operations recycled to income statement on disposal	–	–	–	–	–	0.1	–	–	–	0.1
Actuarial gains on defined benefit pension plans	–	–	–	–	–	–	–	22.5	–	22.5
Effective portion of changes in fair value of cash flow hedges	–	–	–	–	(0.5)	–	–	–	–	(0.5)
Tax relating to components of other comprehensive income and expense	–	–	–	–	0.1	–	–	(4.0)	–	(3.9)
Total other comprehensive income and expense	–	–	–	–	(0.4)	29.2	–	18.5	–	47.3
Dividends paid	–	–	–	–	–	–	–	(61.2)	–	(61.2)
Share-based payment charge	–	–	–	–	–	–	10.5	–	–	10.5
Deferred tax on share-based payment transactions	–	–	–	–	–	–	0.5	–	–	0.5
Excess tax deductions related to share-based payments on exercised awards	–	–	–	–	–	–	–	1.4	–	1.4
Purchase of Own shares	–	–	(16.7)	–	–	–	–	–	–	(16.7)
Performance share plan awards vested	–	–	7.1	–	–	–	(13.1)	–	–	(6.0)
Non-controlling interest arising on acquisition	–	–	–	–	–	–	–	–	(0.7)	(0.7)
At 31 March 2020	38.0	23.6	(14.3)	0.2	(0.1)	148.7	(7.7)	949.2	(0.7)	1,136.9

Own shares are ordinary shares in Halma plc purchased by the Company and held to fulfil the Company's obligations under the Group's share plans. At 31 March 2020 the number of shares held by the Employee Benefit Trust was 760,894 (2019: 370,354). The market value of Own shares was £14.6m (2019: £6.2m).

The Translation reserve is used to record the difference arising from the retranslation of the financial statements of foreign operations. The Hedging reserve is used to record the portion of the cumulative net change in fair value of cash flow hedging instruments that are deemed to be an effective hedge.

The Capital redemption reserve was created on repurchase and cancellation of the Company's own shares. The Other reserves represent the provision for the value of the Group's equity-settled share plans.

Consolidated Statement of Changes in Equity continued

	Share capital £m	Share premium account £m	Own shares £m	Capital redemption reserve £m	Hedging reserve £m	Translation reserve £m	Other reserves £m	Retained earnings £m	Total £m
At 1 April 2018	38.0	23.6	(6.3)	0.2	0.3	87.3	(5.9)	691.2	828.4
Impact of changes in Accounting policies:									
IFRS 9	-	-	-	-	-	-	-	0.1	0.1
IFRS 15	-	-	-	-	-	-	-	(0.2)	(0.2)
Restated balance at 1 April 2018	38.0	23.6	(6.3)	0.2	0.3	87.3	(5.9)	691.1	828.3
Profit for the year	-	-	-	-	-	-	-	169.8	169.8
Other comprehensive income and expense:									
Exchange differences on translation of foreign operations	-	-	-	-	-	32.5	-	-	32.5
Exchange gains on translation of foreign operations recycled on disposal	-	-	-	-	-	(0.3)	-	-	(0.3)
Actuarial gains on defined benefit pension plans	-	-	-	-	-	-	-	6.5	6.5
Effective portion of changes in fair value of cash flow hedges	-	-	-	-	-	-	-	-	-
Tax relating to components of other comprehensive income	-	-	-	-	-	-	-	(1.6)	(1.6)
Total other comprehensive income and expense	-	-	-	-	-	32.2	-	4.9	37.1
Dividends paid	-	-	-	-	-	-	-	(57.2)	(57.2)
Share-based payment charge	-	-	-	-	-	-	9.7	-	9.7
Deferred tax on share-based payment transactions	-	-	-	-	-	-	0.9	-	0.9
Excess tax deductions related to share-based payments on exercised awards	-	-	-	-	-	-	-	1.5	1.5
Purchase of Own shares	-	-	(3.8)	-	-	-	-	-	(3.8)
Performance share plan awards vested	-	-	5.4	-	-	-	(10.3)	-	(4.9)
At 31 March 2019	38.0	23.6	(4.7)	0.2	0.3	119.5	(5.6)	810.1	981.4

Consolidated Cash Flow Statement

	Notes	Year ended 31 March 2020 £m	Year ended 31 March 2019 £m
Net cash inflow from operating activities	26	255.5	219.0
Cash flows from investing activities			
Purchase of property, plant and equipment – owned assets	13	(31.2)	(26.4)
Purchase of computer software	12	(2.6)	(2.4)
Purchase of other intangibles	12	(0.3)	(2.5)
Proceeds from sale of property, plant and equipment and capitalised development costs		1.9	1.6
Development costs capitalised	12	(14.7)	(10.8)
Interest received		0.5	0.4
Acquisition of businesses, net of cash acquired	25	(232.8)	(67.0)
Disposal of business	30	7.6	3.1
Purchase of equity investments	14	(4.8)	–
Net cash used in investing activities		(276.4)	(104.0)
Cash flows from financing activities			
Dividends paid		(61.2)	(57.2)
Purchase of Own shares		(16.7)	(3.8)
Interest paid		(11.1)	(8.2)
Loan arrangement fee paid		–	(0.5)
Proceeds from bank borrowings	26	308.1	66.4
Repayment of bank borrowings	26	(151.7)	(110.3)
Repayment of lease liabilities		(13.7)	–
Net cash generated from/(used in) financing activities		53.7	(113.6)
Increase in cash and cash equivalents	26	32.8	1.4
Cash and cash equivalents brought forward		72.1	69.7
Exchange adjustments		0.5	1.0
Cash and cash equivalents carried forward	26	105.4	72.1
	Notes	Year ended 31 March 2020 £m	Year ended 31 March 2019 £m
Reconciliation of net cash flow to movement in net debt			
Increase in cash and cash equivalents		32.8	1.4
Net cash (inflow)/outflow from (drawdown)/repayment of bank borrowings	26	(156.4)	43.9
Loan notes repaid in respect of acquisitions	26	0.1	0.1
Lease liabilities - additions		(18.1)	–
Lease liabilities – arising on acquisition		(8.2)	–
Repayment of lease liabilities including interest		15.8	–
Exchange adjustments		(9.3)	(6.8)
(Increase)/decrease in net debt		(143.3)	38.6
Net debt brought forward		(181.7)	(220.3)
Impact of changes in accounting policies – IFRS 16 ‘Leases’		(50.3)	–
Restated net debt brought forward		(232.0)	(220.3)
Net debt carried forward		(375.3)	(181.7)

Accounting Policies

Basis of accounting

As the UK is still in the transition stage of its departure from the European Union, the financial statements continue to be prepared in accordance with International Financial Reporting Standards (IFRS) adopted for use in the European Union (EU). They therefore comply with Article 4 of the EU IAS legislation and with those parts of the Companies Act 2006 that are applicable to companies reporting under IFRS. The financial statements have also been prepared in accordance with IFRS and IFRS Interpretations Committee (IFRS IC) interpretations issued and effective at the time of preparing these financial statements.

The principal Group accounting policies are explained below and have been applied consistently throughout the years ended 31 March 2020 and 31 March 2019, other than those noted below.

The Group accounts have been prepared under the historical cost convention, except as described below under the heading 'Derivative financial instruments and hedge accounting' and under the heading 'Business combinations and goodwill'.

New Standards and Interpretations applied for the first time in the year ended 31 March 2020

IFRS 16 'Leases'

With effect from 1 April 2019 the Group has adopted IFRS 16 'Leases' and applied the modified retrospective approach. IFRS 16 provides a single on-balance sheet accounting model for lessees which recognises a right-of-use asset, representing its right to use the underlying asset, and a lease liability, representing its obligations to make payment in respect of the use of the underlying asset. The distinction between finance and operating leases for lessees is removed. Comparatives for the prior year have not been restated and the reclassifications and adjustments arising from the new leasing standard are therefore recognised in the opening balance sheet on 1 April 2019 as follows:

	1 April 2019 £m
Non-current assets	
Property, plant and equipment (right of use assets)	45.4
Total assets	45.4
Current liabilities	
Trade and other payables	0.3
Lease liabilities	(10.7)
Non-current liabilities	
Lease liabilities	(39.6)
Provisions	(0.3)
Deferred tax liability	0.9
Total liabilities	(49.4)
Total movement in retained earnings as at 1 April 2019	(4.0)

On adoption of IFRS 16, the Group recognised liabilities for leases which had been classified as operating leases under previous accounting standards. The lease liability has been measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate as at 1 April 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 April 2019 was 3.7%.

	1 April 2019 £m
Operating lease commitments as disclosed at 31 March 2019	52.5
Reconciling items	
- Effect of discounting (at incremental borrowing rate as at 1 April 2019)	(4.8)
- Short-term leases recognised on a straight-line basis as expense	(0.4)
- Low-value leases recognised on a straight-line basis as expense	(0.3)
- Recognition differences on new leases and extension assumptions	3.3
Lease liability recognised as at 1 April 2019	50.3

Practical expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- Relied on previous assessments of whether leases are onerous.
- Excluded initial direct costs for the measurement of right-of-use assets at the date of the initial application.
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.
- Where practicable arrangements containing both lease components and non-lease components are accounted for as though they comprise a single lease component.

Additionally, on transition the Group elected not to reassess whether a contract is, or contains, a lease, instead relying on the assessment already made applying IAS 17 'Leases' and IFRIC 4 'Determining whether an Arrangement contains a Lease'.

New Standards and Interpretations applied for the first time in the year ended 31 March 2020 continued

Impact on the income statement

The impact on the income statement for the year ended 31 March 2020 is to increase operating profit by approximately £2.4m where the operating lease payments are replaced by a depreciation charge and increase finance costs by £2.1m, resulting in an increase in profit before tax of £0.3m.

Impact on the cash flow statement

There has been a change to the classification of cash flows in the cash flow statement, with operating lease payments previously categorised as net cash used in operations now being split between the principal element, included as repayment of lease liabilities within financing activities and the interest element, included as interest paid within financing activities. In the year ended 31 March 2020 there are £15.8m of lease payments within financing activities, comprising £13.7m of repayment of lease liabilities and £2.1m of interest paid.

Other new accounting standards and interpretations applied for the first time

The following Standards with an effective date of 1 January 2019 have been adopted without any significant impact on the amounts reported in these financial statements:

- Amendments to IAS 19: Plan amendment, Curtailment of Settlement.
- Annual improvements 2015-2017 cycle.
- IFRIC Interpretation 23: Uncertainty over Income Tax Treatments.
- Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures.

New Standards and Interpretations not yet applied

At the date of authorisation of these financial statements, the following Standards and Interpretations that are potentially relevant to the Group, and which have not been applied in these financial statements, were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

- Amendments to IFRS 3: Definition of a Business.
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture.
- Amendments to IAS 1 and IAS 8: Definition of Material.
- Conceptual Framework: Amendments to References to the Conceptual Framework in IFRS Standards.

The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group.

Use of Alternative performance measures (APMs)

In the reporting of the financial information, the Group uses certain measures that are not required under IFRS, the Generally Accepted Accounting Principles (GAAP) under which the Group reports. The Directors believe that Return on Total Invested Capital (ROTC), Return on Capital Employed (ROCE), Organic growth at constant currency, adjusted profit and earnings per share measures and adjusted operating cash flow provide additional and more consistent measures of underlying performance to shareholders by removing non-trading items that are not closely related to the Group's trading or operating cash flows. These and other alternative performance measures are used by the Directors for internal performance analysis and incentive compensation arrangements for employees. The terms ROTIC, ROCE, organic growth at constant currency and 'adjusted' are not defined terms under IFRS and may therefore not be comparable with similarly titled measures reported by other companies. They are not intended to be a substitute for, or superior to, GAAP measures.

The principal items which are included in adjusting items are set out below in the Group's accounting policy and in note 1. The term 'adjusted' refers to the relevant measure being reported for continuing operations excluding adjusting items.

Definitions of the Group's material alternative performance measures along with reconciliation to their IFRS equivalent measure are included in note 3.

Accounting Policies continued

Key accounting policies

Below we set out our key accounting policies, with a list of all other accounting policies thereafter.

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 as at 31 March 2020, its cash flows, liquidity position and borrowing facilities are set out in the Strategic Report. In addition, note 27 contains further information concerning the security, currency, interest rates and maturity of the Group's borrowings.

The financial statements have been prepared on a going concern basis. In adopting the going concern basis the Directors have considered all of the above factors, including potential scenarios arising from the COVID-19 pandemic and from its other principal risks set out on pages 50 to 53. Under the potential scenarios considered, which are severe but plausible, the Group remains within its debt facilities and the attached financial covenants for the foreseeable future and the Directors therefore believe, at the time of approving the financial statements, that the Company is well placed to manage its business risks successfully and remains a going concern. The key facts and assumptions in reaching this determination are summarised below.

Our financial position remains robust with committed facilities totalling approximately £750m which includes a £550m Revolving Credit Facility maturing in November 2023 of which £313.6m remains undrawn at the date of this report. The earliest maturity in these facilities is for £74m in January 2021, with the remaining maturities from January 2023 onwards. The financial covenants on these facilities are for leverage (net debt/adjusted EBITDA*) of not more than three times and for adjusted interest cover of not less than four times.

* net debt and adjusted EBITDA are on a pre-IFRS 16 basis for covenant purposes.

Our base scenario has been prepared using forecasts from each of our Operating Companies, with each considering both the challenges and opportunities they are facing as a consequence of COVID-19. Whilst these are varied, we have made assumptions in the following key areas:

- The impact of government lockdown restrictions: physical lockdown of either our own or our suppliers, distributors or customers operations have a direct impact on our revenue. This has impacted the Safety Sectors in particular with the challenges of physical access and our customers' ability to install products at end customer sites. We have assumed a gradual recovery of these sectors from Q2 with trading returning to more normal trading levels by the end of FY21.
- The impact of the pandemic on elective surgery and discretionary ophthalmic diagnosis procedures: as health services have focussed on addressing the additional demand from the pandemic, certain businesses in the Medical sector have experienced reduced demand for their products in these end markets. We have assumed a gradual recovery from Q2 as healthcare systems normalise, returning to more normal trading levels by Q3.
- The effect on essential businesses: a number of our businesses are considered essential in nature either as they make products that are critical to life or protect critical infrastructure. A small number of these businesses have experienced an increase in demand as a result of global efforts to fight COVID-19. We have assumed that the current high demand in these businesses is short term and moderates over the coming months, returning to more normal levels by Q4.
- Mitigating actions assumed in the base case:
 - Cost reductions which have already been implemented in Q1 of the 2021 financial year including temporary salary reductions, hiring freezes and a significant reduction in discretionary overhead spending. We have assumed appropriate and achievable further reductions in overheads where this is required for individual companies to 'right size' their cost base for the medium term.
 - Reduction of capital expenditure: we have assumed a reduction of non-essential capital expenditure for the rest of the financial year.
 - Suspension of M&A activity: we have assumed that we will not make any acquisitions for the balance of FY21, resuming a normal level of activity during FY22.

Further severe but plausible downside sensitivities modelled include:

- A delay in the recovery of the impacted businesses from the effects of COVID-19.
- A second wave of COVID-19 infection and corresponding government restrictions in the second half of FY21.

A reverse stress test scenario has been modelled which is considered remote in likelihood of occurring, which includes a combination of these scenarios, with the addition of impacts from the Group's other principal risks.

None of these scenarios result in a breach of the Group's available debt facilities or the attached covenants and accordingly the Directors believe there is no material uncertainty in the use of the going concern assumption.

Key accounting policies continued

Pensions

The Group makes contributions to various pension plans.

For defined benefit plans, the asset or liability recorded in the Consolidated Balance Sheet is the difference between the fair value of the plan's 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 other comprehensive income.

Current and past service costs, along with the impact of any settlements or curtailments, are charged to the Consolidated Income Statement. The net interest expense on pension plans' liabilities and the expected return on the plans' assets is recognised within finance expense in the Consolidated Income Statement.

Contributions to defined contribution plans are charged to the Consolidated Income Statement when they fall due.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. The Group measures goodwill at the acquisition date as:

- The fair value of the consideration transferred.
- The recognised amount of any non-controlling interests in the acquiree measured at the proportionate share of the value of net identifiable assets acquired.
- The fair value of the existing equity interest in the acquiree.
- The net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, are expensed as incurred. Any contingent consideration payable may be accounted for as either:

- a) Consideration transferred, which is recognised at fair value at the acquisition date. If the contingent purchase consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent purchase consideration are recognised in the Consolidated Income Statement; or
- b) Remuneration, which is expensed in the Consolidated Income Statement over the associated period of service. An indicator of such treatment includes when payments to employees of the acquired company are contingent on a post-acquisition event, but may be automatically forfeited on termination of employment.

For acquisitions between 4 April 2004 (the date from which the financial statements were reported under IFRS) and 2 April 2010, goodwill represents the difference between the cost of the acquisition, including acquisition costs and the fair value of the net identifiable assets acquired. Goodwill has an indefinite expected useful life and is not amortised, but is tested annually for impairment.

Goodwill 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.

Intangible assets

(a) 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, comprising trademarks, technology and know-how and customer relationships, are amortised through the Consolidated Income Statement on a straight-line basis over their estimated economic lives of between four and twenty years.

(b) 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.

Accounting Policies continued

Key accounting policies continued

Impairment of trade and other receivables

The Group assesses on a forward-looking basis the expected credit losses associated with its trade and other receivables carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

The Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. In order to estimate the expected lifetime losses, the Group categorises its customers into groups with similar risk profiles and determines the historic rates of impairment for each of those categories of customer. The Group then adjusts the risk profile for each group of customers by using forward looking information, such as the government risk of default for the country in which those customers are located, and determines an overall probability of impairment for the total trade and other receivables at the balance sheet date.

Critical accounting judgements and key sources of estimation uncertainty

The preparation of Group accounts in conformity with IFRS requires the Directors to make judgements, 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 judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The following areas of critical accounting judgement and key estimation uncertainty have been identified as having significant risk of causing a material adjustment to the carrying amounts of assets and liabilities:

Critical accounting judgements

Goodwill impairment CGU groups

Determining whether goodwill is impaired requires management's judgement in assessing cash generating unit (CGU) groups to which goodwill should be allocated. Management allocates a new acquisition to a CGU group based on which one is expected to benefit most from that business combination. The allocation of goodwill to existing CGUs is generally straightforward and factual, however over time as new businesses are acquired and management reporting structures change management reviews the CGU groups to ensure they are still appropriate. During the current year, management has reviewed its CGU groups and made changes to the groups within the Medical and Environmental & Analysis sectors. Further details are provided in note 11.

Changes to contingent consideration within 12 months of acquiring a business

Where the Group's expectations of future profit levels on which contingent consideration provisions are based change within 12 months of acquiring a business, judgement is required to assess whether those changes reflect post-acquisition events or measurement period events. Changes in contingent consideration that are determined to be as a result of post-acquisition events in the first 12 months following the acquisition are recognised in the Consolidated Income Statement whereas changes related to events that were known at the acquisition date are measurement period events and should be adjusted against goodwill. For all acquisitions in the year made prior to 11 March 2020, the date on which COVID-19 was declared a pandemic, the Group has determined changes in expectations arising from COVID-19 to be post-acquisition events. Further details are provided in notes 20 and 25.

Provisions for taxation

In the current year, determining the provision for taxation requires management's judgement in assessing the provision required in relation to group financing partial exemption applicable to UK controlled foreign companies as a result of the decision by the European Commission that this constitutes state aid. Management's assessment is that this represents a contingent liability and no provision is required at this time. Further details are provided in note 31.

Key sources of estimation uncertainty

Estimation of future cash flows

The Group uses estimates of future cash flows in a number of areas described below as required by IFRS. Estimates are made based on the latest available information by management closest to the related assets and end markets. The COVID-19 pandemic has increased the level of estimation uncertainty as the impact on countries and markets continues to be uncertain, however, the Group has modelled a range of scenarios to consider the impact on the carrying value of its assets as described in the going concern statement above and within each relevant note indicated below.

Contingent consideration changes in estimates

Determining the value of contingent consideration recognised as part of the acquisition of a business requires management to estimate the expected performance of the acquired business and the amount of contingent consideration that will therefore become payable. Initial estimates of expected performance are made by the management responsible for completing the acquisition and form a key component of the financial due diligence that takes place prior to completion. Subsequent measurement of contingent consideration is based on the Directors' appraisal of the acquired business's performance in the post-acquisition period and the agreement of final payments. See notes 20 and 27 for details of the changes in estimates made in the year and the sensitivity of contingent consideration payables to further changes.

Critical accounting judgements and key sources of estimation uncertainty continued

Intangible assets

IFRS 3 (revised) 'Business Combinations' requires that goodwill arising on the acquisition of subsidiaries is capitalised and included in intangible assets. IFRS 3 (revised) also requires the identification and valuation of other separable intangible assets at acquisition. The assumptions involved in valuing these intangible assets require the use of management estimates.

IAS 38 'Intangible Assets' requires that development costs, arising from the application of research findings or other technical knowledge to a plan or design of a new or substantially improved product, are capitalised, subject to certain criteria being met. Determining the technical feasibility and estimating the future cash flows generated by the products in development requires the use of management estimates.

The estimates made in relation to both acquired intangible assets and capitalised development costs include identification of relevant assets, future growth rates, expected inflation rates and the discount rate used. Management also make estimates of the useful economic lives of the intangible assets.

Goodwill impairment future cash flows

The value in use calculation used to test for impairment of goodwill involves an estimation of the present value of future cash flows of CGUs. The future cash flows are based on annual budgets and forecasts, as approved by the Board, to which management's expectation of market-share and long-term growth rates are applied. The present value is then calculated based on management's estimate of future discount and growth rates. The Board reviews these key assumptions (market-share, long-term growth rates, and discount rates) and the sensitivity analysis around these assumptions. Further details are provided in note 11.

Defined benefit pension plan liabilities

Determining the value of the future defined benefit obligation requires estimation in respect of the assumptions used to calculate present values. These include future mortality, discount rate and inflation. Management determines these assumptions in consultation with an independent actuary. Details of the estimates made in calculating the defined benefit obligation are disclosed in note 29.

Trade and other receivables impairment

Determining the provision for impairment of trade and other receivables requires estimation of the expected lifetime losses. Management makes these estimates using forward looking information to determine the overall probability of impairment. Details of the estimates made in calculating the provision for impairment of trade and other receivables are disclosed in note 16.

Other accounting policies

Basis of consolidation

The Group accounts include the accounts of Halma plc and all of its subsidiary companies made up to 31 March 2020, 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.

Investments in associates

An associate is an entity over which the Group is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the investee. Significant influence is the power to participate in the financial and operating policy decisions of the investee but without control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Investments in associates are carried in the Consolidated Balance Sheet at cost as adjusted by post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the fair values of the identifiable net assets of the associate at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any deficiency of the cost of acquisition below the Group's share of the fair values of the identifiable net assets of the associate at the date of acquisition (i.e. discount on acquisition) is credited in profit or loss in the year of acquisition.

Where a Group company transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate. Losses may provide evidence of an impairment of the asset transferred in which case appropriate provision is made for impairment.

Where the group disposes of its entire interest in an associate a gain or loss is recognised in the income statement on the difference between the amount received on the sale of the associate less the carrying value and costs of disposal.

Accounting Policies continued

Other accounting policies continued

Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income (FVOCI) comprise equity securities which are not held for trading, and which the Group has irrevocably elected at initial recognition to recognise as FVOCI. The Group considers this classification relevant as these are strategic investments.

Financial assets at FVOCI are adjusted to the fair value of the asset at the balance sheet date with any gain or loss being recognised in other comprehensive income and held as part of other reserves. On disposal any gain or loss is recognised in other comprehensive income and the cumulative gains or losses are transferred from other reserves to retained earnings.

Other intangible assets

(a) 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.

(b) 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 five years.

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 fair value less costs to dispose 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 pre-tax 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.

Segmental reporting

An operating segment is a distinguishable component of the Group that is engaged in business activities from which it may earn revenues and incur expenses, and whose operating results are reviewed regularly by the Chief Operating Decision Maker (the Group Chief Executive) to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Reportable segments are operating segments that either meet the thresholds and conditions set out in IFRS 8 or are considered by the Board to be appropriately designated as reportable segments. Segment result represents operating profits and includes an allocation of Head Office expenses. Segment result excludes tax and financing items. Segment assets comprise goodwill, other intangible assets, property, plant and equipment & Right of Use assets (excluding land and buildings), inventories, trade and other receivables. Segment liabilities comprise trade and other payables, provisions and other payables. Unallocated items represent land and buildings (including Right of Use assets), corporate and deferred taxation balances, defined benefit plan liabilities, contingent purchase consideration, all components of net cash/borrowings, lease liabilities and derivative financial instruments.

Inventories

Inventories and work in progress 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.

Other accounting policies continued

Revenue

The Group's revenue streams are the sale of goods and services in the specialist safety, environmental technologies and health markets. The revenue streams are disaggregated into four sectors, that serve like markets. Those sectors are Process Safety, Infrastructure Safety, Environmental & Analysis and Medical.

Revenue is recognised to depict the transfer of control over promised goods or services to customers in an amount that reflects the amount of consideration specified in a contract with a customer, to which the Group expects to be entitled in exchange for those goods or services.

It is the Group's judgement that in the majority of sales there is no contract until such time as the Company performs, at which point the contract becomes the supplier's purchase order governed by the Company's terms and conditions. Where there are Master Supply Arrangements, these are typically framework agreements and do not contain clauses that would result in a contract forming under IFRS 15 until a Purchase Order is issued by the customer.

Revenue represents sales, net of estimates for variable consideration, including rights to returns, and discounts, and excluding value added tax and other sales related taxes. The amount of variable consideration is not considered to be material to the Group as a whole.

Performance obligations are unbundled in each contractual arrangement if they are distinct from one another. There is judgement in identifying distinct performance obligations where the product could be determined to be a system, or where a combination of products and services are provided together. For the majority of the Group's activities the performance obligation is judged to be the component product or service rather than the system or combined products and services. The contract price is allocated to the distinct performance obligations based on the relative standalone selling prices of the goods or services.

The way in which the Group satisfies its performance obligations varies by business and may be on shipment, delivery, as services are rendered or on completion of services depending on the nature of product and service and terms of the contract which govern how control passes to the customer. Revenue is recognised at a point in time or over time as appropriate.

Where the Group offers warranties that are of a service nature, revenue is recognised in relation to these performance obligations over time as the services are rendered. In our judgement we believe the associated performance obligations accrue evenly across the contractual term and therefore revenue is recognised on a pro-rated basis over the length of the service period.

In a small number of instances across the Group, products have been determined to be bespoke in nature, with no alternative use. Where there is also an enforceable right to payment for work completed, the criteria for recognising revenue over time have been deemed to have been met. Revenue is recognised on an input basis. This is not a material part of the Group's business as for the most part, where goods are bespoke in nature, it is the Group's judgement that the product can be broken down to standard component parts with little additional cost and therefore has an alternate use, or there is no enforceable right to payment for work performed. In these cases, the judgement is made that the requirements for recognising revenue over time are not met and revenue is recognised when control of the finished product passes to the customer.

Contract assets and liabilities

A contract asset is recognised when the Group's right to consideration is conditional on something other than the passage of time, for example the completion of future performance obligations under the terms of the contract with the customer.

In some instances, the Group receives payments from customers based on a billing schedule, as established in the contract, which may not match with the pattern of performance under the contract. Where payment is received ahead of performance a contract liability will be created and where performance obligations are satisfied ahead of billing then a contract asset will be recognised.

Contract assets are recognised within Trade and other receivables and are assessed for impairment on a forward-looking basis using the expected lifetime losses approach, as required by IFRS 9 ('Financial Instruments').

Accounting Policies continued

Other accounting policies continued

Adjusting items

When items of income or expense are material and they are relevant to an understanding of the entity's financial performance, they are disclosed separately within the financial statements. Such adjusting items include material costs or reversals arising from acquisitions or disposals of businesses, including acquisition costs, creation or reversals of provisions related to changes in estimates for contingent consideration on acquisition, amortisation of acquired intangible assets, and other significant one-off items that may arise.

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 Total equity, in which case it too is recognised in Total equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, along with any adjustment to tax payable in respect of previous years. Taxable profit differs from net profit 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 profit; and 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 year when the liability is settled, or the asset is realised. Deferred tax assets are only recognised to the extent that recovery is probable.

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 Total equity.

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 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.

Interest bearing loans and borrowings

Interest bearing loans and borrowings are initially recognised in the balance sheet at fair value less directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest rate method.

Trade payables

Trade payables are non interest-bearing and are stated at amortised cost.

Other accounting policies continued

Derivative financial instruments and hedge accounting

The Group enters into derivative financial instruments to manage its exposure to foreign exchange rate risk using forward exchange contracts. Further details of derivative financial instruments are disclosed in note 27. The group continues to apply the requirements of IAS 39 for hedge accounting.

Derivative financial instruments are classified as fair value through profit and loss (held for trading) unless they are in a designated hedge relationship.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in the Consolidated Income Statement, unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the Consolidated Income Statement depends on the nature of the hedge relationship. The Group designates certain derivatives as hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges), or hedges of net investments in foreign operations.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Cash flow hedge accounting

The Group designates certain hedging instruments as cash flow hedges.

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument has been or is expected to be highly effective in offsetting changes in fair values or cash flows of the hedged item.

Note 27 sets out details of the fair values of the derivative instruments used for hedging purposes and the movements in the Hedging reserve in equity.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion as a result of being over hedged is recognised immediately in the Consolidated Income Statement.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to the Consolidated Income Statement in the periods when the hedged item is recognised in the Consolidated Income Statement. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income at that time is accumulated in equity and is recognised, when the forecast transaction is ultimately recognised, in the Consolidated Income Statement. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in the Consolidated Income Statement.

Net investment hedge accounting

The Group uses foreign currency denominated borrowings as a hedge against the translation exposure on the Group's net investment in overseas companies. Where the hedge is fully effective at hedging, the variability in the net assets of such companies caused by changes in exchange rates and the changes in value of the borrowings are recognised in the Consolidated Statement of Comprehensive Income and accumulated in the Translation reserve. The ineffective part of any change in value caused by changes in exchange rates is recognised in the Consolidated Income Statement.

Accounting Policies continued

Other accounting policies continued

Employee share plans

Share-based incentives are provided to employees under the Group's share incentive plan, the performance share plan and the executive 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 period of the awards.

(b) Executive share plan

During the year ended 2 April 2016, Halma plc introduced the Executive Share Plan, in which executive Directors and certain senior employees participate. Grants under this Plan are in the form of Performance Awards or Deferred Share Awards.

Performance Awards are subject to non-market-based vesting criteria, and Deferred Share Awards are subject only to continuing service of the employee. Share awards are equity-settled. The fair value of the awards at the date of grant, which is estimated to be equal to the market 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. The corresponding credit is to other reserves within Total equity.

(c) Cash settled

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

Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of the cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received, and the amount of the receivable can be measured reliably.

Contingent liabilities are disclosed where a possible obligation dependent on uncertain future events exists as at the end of the reporting period or a present obligation for which payment either cannot be measured or is not considered to be probable is noted. Contingent liabilities are not accrued for and no contingent liability is disclosed where the possibility of payment is considered to be remote.

Deferred government grant income

Government grant income that is linked to capital expenditure is deferred to the Consolidated Balance Sheet and credited to the Consolidated Income Statement over the life of the related asset. In addition, the Group claims research and development expenditure credits arising on qualifying expenditure in its UK-based subsidiaries and shows these 'above the line' in Operating profit. Where the credits arise on expenditure that is capitalised as part of internally generated capitalised development costs, the income is deferred to the Consolidated Balance Sheet and credited to the Consolidated Income Statement over the life of the related asset in line with the policy stated above.

Operating profit

Operating profit is presented net of direct production costs, production overheads, selling costs, distribution costs and administrative expenditure (see note 6). Operating profit is stated after charging restructuring costs but before the share of results of associates, profit or loss on disposal of operations, finance income and finance costs.

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.

Other accounting policies continued

Property, plant and equipment

Property, plant and equipment is stated at historical 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 and improvements:	
Long leases (more than 50 years unexpired)	2%
Short leases (less than 50 years unexpired)	Period of lease
Plant, equipment and vehicles	8% to 33.3%

Leases

The Group recognises a right-of-use asset and a lease liability at the lease commencement date.

The right-of-use asset is initially measured at cost, comprising the initial amount of the lease liability plus any initial direct costs incurred and an estimate of costs to restore the underlying asset, less any lease incentives received. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the asset or the end of the lease term.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the incremental borrowing rate. The lease liability is measured at amortised cost using the effective interest method by increasing the carrying amount to reflect interest on the lease liability and by reducing the carrying amount to reflect the lease payments made. The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or a rate or a change in the Group's assessment of whether it will exercise an extension or termination option. When the lease liability is remeasured, a corresponding adjustment is made to the right-of-use asset.

Payments associated with short-term leases or low-value assets are recognised on a straight-line basis as an expense in the Consolidated Income Statement. Short-term leases are leases with a lease term of 12 months or less. Low-value assets mostly comprise of IT equipment and small items of office furniture.

The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be under IAS 17 'leases'. The accounting policy under IAS 17 is as disclosed in the Annual Report and Accounts 2019. A description of the changes impacting the Group has been disclosed above under New standards and interpretations applied for the first time.

Finance income and expenses

The Group recognises Interest income or expense using the effective interest rate method. Finance income and finance costs include:

- Interest payable on loans and borrowings.
- Net interest charge on pension plan liabilities.
- Amortisation of finance costs.
- Interest receivable in respect of cash and cash equivalents.
- Unwinding of the discount on provisions.
- Fair value movements on derivative financial instruments.

Notes to the Accounts

1 Segmental analysis and revenue from contracts with customers

Sector analysis and disaggregation of revenue

The Group has four reportable segments (Process Safety, Infrastructure Safety, Environmental & Analysis and Medical) which are defined by markets rather than product type. Each segment includes businesses with similar operating and marketing characteristics. These segments are consistent with the internal reporting reviewed each month by the Group Chief Executive.

During the current year, following an acquisition that has materially changed its customer focus, one of the operating companies has been moved from the Environmental & Analysis sector to the Medical sector. The prior year segmental disclosures have been restated to reflect this change which moved £19.1m of revenue, £6.3m of profit, £6.5m of assets and £1.2m of liabilities from Environmental & Analysis to Medical. There was no change in the total group revenue, profit or net assets from this change.

Nature of goods and services

The following is a description of the principal activities – separated by reportable segments, which are defined by markets rather than product type – from which the Group generates its revenue.

Further disaggregation of sector revenue by geography and by the pattern of revenue recognition depicts how economic factors affect the timing and uncertainty of the Group's revenues.

Process Safety sector generates revenue from providing products that protect assets and people at work across a range of critical industrial and logistics operations. Products include: specialised interlocks that control critical processes safely; instruments that detect flammable and hazardous gases; and explosion protection and corrosion monitoring systems. Products are generally sold separately, with contracts less than one year. Warranties are typically of an assurance nature. Revenue is typically recognised as control passes on delivery or despatch.

Payment is typically due within 60 days of invoice, except where a retention is held for documentation.

Infrastructure Safety sector generates revenue from providing products that protect people, property and assets and enable safe movement in public spaces. Products include: fire detection systems, specialist fire suppression systems, elevator safety systems and people and vehicle flow technologies. Products are generally sold separately, with contracts less than one year. Warranties are typically of an assurance nature. Revenue is recognised as control passes on delivery or despatch.

Payment is typically due within 60 days of invoice.

Environmental & Analysis generates revenue providing products and technologies that monitor and protect the environment, ensuring the quality and availability of life-critical resources, and use optical and imaging technologies in materials analysis.. Products include: market-leading opto-electronic technology and sensors, flow gap measurement instruments and gas conditioning products, and solutions for environmental data recording, water quality testing, water distribution network monitoring, and UV water treatment. Products and services are generally sold separately. Warranties are typically of an assurance nature, but some companies offer extended warranties. Depending on the nature of the performance obligation, revenue may be recognised as control passes on delivery, despatch or as the service is delivered. Contracts are typically less than one year in length, but some companies have contracts where certain service related performance obligations are delivered over a number of years, this can result in contract liabilities where those performance obligations are invoiced ahead of performance.

Payment is typically due within 60 days of invoice.

Medical sector generates revenue from providing products and services that enhance the quality of life for patients and improve quality of care delivered by healthcare providers. Products include: critical fluidic components used by medical diagnostics and Original Equipment Manufacturers ('OEMs'), laboratory devices and systems that provide valuable information to understand patient health and enable providers to make decisions across the continuum of care, and technologies that enable positive outcomes across clinical specialties. Products are generally sold separately, and warranties are typically of an assurance nature. Depending on the nature of the performance obligation, revenue is recognised as control passes on delivery or despatch or as the service is delivered. Contracts are typically less than one year in length, but a limited number of companies have contracts where certain service related performance obligations are delivered over a number of years, this can result in contract liabilities where those performance obligations are invoiced ahead of performance.

Payment is typically due within 60 days of invoice.

1 Segmental analysis and revenue from contracts with customers continued
Segment revenue disaggregation (by location of external customer)

	Revenue by sector and destination (all continuing operations)							Year ended 31 March 2020
	United States of America £m	Mainland Europe £m	United Kingdom £m	Asia Pacific £m	Africa, Near and Middle East £m	Other countries £m	Total £m	
Process Safety	67.0	39.7	28.7	33.2	21.8	9.6	200.0	
Infrastructure Safety	105.5	142.9	109.9	70.9	22.6	14.7	466.5	
Environmental & Analysis	157.3	34.3	67.2	51.9	7.1	7.2	325.0	
Medical	180.7	59.6	15.4	57.3	11.7	22.5	347.2	
Inter-segmental sales	(0.2)	(0.1)	—	—	—	—	(0.3)	
Revenue for the year	510.3	276.4	221.2	213.3	63.2	54.0	1,338.4	

	Revenue by sector and destination (all continuing operations)							Year ended 31 March 2019 Restated
	United States of America £m	Mainland Europe £m	United Kingdom £m	Asia Pacific £m	Africa, Near and Middle East £m	Other countries £m	Total £m	
Process Safety	61.3	42.1	32.6	29.6	23.2	8.7	197.5	
Infrastructure Safety	87.8	131.2	101.4	48.6	28.4	11.2	408.6	
Environmental & Analysis	117.6	38.0	53.6	58.2	6.0	6.6	280.0	
Medical	176.8	55.0	13.4	47.6	13.2	19.2	325.2	
Inter-segmental sales	(0.3)	—	(0.1)	—	—	—	(0.4)	
Revenue for the year	443.2	266.3	200.9	184.0	70.8	45.7	1,210.9	

Inter-segmental sales are charged at prevailing market prices and have not been disclosed separately by segment as they are not considered material. Revenue derived from the rendering of services was £53.1m (2019: £39.2m). All revenue was otherwise derived from the sale of products.

	Revenue recognised over time			Revenue recognised at a point in time		Total Revenue £m	Year ended 31 March 2020
	Revenue recognised over time £m	Revenue recognised at a point in time £m	Total Revenue £m	Revenue recognised over time £m	Revenue recognised at a point in time £m		
Process Safety	0.7	199.3	200.0	—	—	—	
Infrastructure Safety	1.6	464.9	466.5	—	—	—	
Environmental & Analysis	67.3	257.7	325.0	—	—	—	
Medical	13.0	334.2	347.2	—	(0.3)	(0.3)	
Inter-segmental sales	—	—	—	—	—	—	
Revenue for the year	82.6	1,255.8	1,338.4				

	Revenue recognised over time			Revenue recognised at a point in time		Total Revenue £m	Year ended 31 March 2019 Restated
	Revenue recognised over time £m	Revenue recognised at a point in time £m	Total Revenue £m	Revenue recognised over time £m	Revenue recognised at a point in time £m		
Process Safety	—	197.5	197.5	—	—	—	
Infrastructure Safety	0.9	407.7	408.6	—	—	—	
Environmental & Analysis	38.5	241.5	280.0	—	—	—	
Medical	6.3	318.9	325.2	—	—	—	
Inter-segmental sales	—	(0.4)	(0.4)	—	—	—	
Revenue for the year	45.7	1,165.2	1,210.9				

Notes to the Accounts continued

1 Segmental analysis and revenue from contracts with customers continued Segment revenue disaggregation continued

	Year ended 31 March 2020			
	Revenue from performance obligations entered into and satisfied in the year £m	Revenue previously included as contract liabilities £m	Revenue from performance obligations satisfied in previous periods £m	Total Revenue £m
Process Safety	199.3	0.7	—	200.0
Infrastructure Safety	465.3	1.2	—	466.5
Environmental & Analysis	320.8	4.1	0.1	325.0
Medical	336.2	11.0	—	347.2
Inter-segmental sales	(0.3)	—	—	(0.3)
Revenue for the year	1,321.3	17.0	0.1	1,338.4

	Year ended 31 March 2019 Restated			
	Revenue from performance obligations entered into and satisfied in the year £m	Revenue previously included as contract liabilities £m	Revenue from performance obligations satisfied in previous periods £m	Total Revenue £m
Process Safety	196.7	0.8	—	197.5
Infrastructure Safety	406.2	2.4	—	408.6
Environmental & Analysis	273.0	6.8	0.2	280.0
Medical	315.1	9.8	0.3	325.2
Inter-segmental sales	(0.4)	—	—	(0.4)
Revenue for the year	1,190.6	19.8	0.5	1,210.9

The Group has unsatisfied (or partially satisfied) performance obligations at the balance sheet date with an aggregate amount of transaction price as follows. The time bands represented present the expected timing of when the remaining transaction price will be recognised as revenue.

	Aggregate transaction price allocated to unsatisfied performance obligations			
	31 March 2020 £m	2021 £m	2022 £m	2023 and beyond £m
Process Safety	1.9	1.8	0.1	—
Infrastructure Safety	4.0	3.8	0.2	—
Environmental & Analysis	15.2	6.1	2.4	6.7
Medical	5.8	4.9	0.7	0.2
Inter-segmental sales	—	—	—	—
Total	26.9	16.6	3.4	6.9

	Aggregate transaction price allocated to unsatisfied performance obligations			
	31 March 2019 £m	2020 £m	2021 £m	2022 and beyond £m
Process Safety	0.1	0.1	—	—
Infrastructure Safety	4.7	4.3	0.3	0.1
Environmental & Analysis	16.9	10.1	1.6	5.2
Medical	5.5	3.5	0.9	1.1
Inter-segmental sales	—	—	—	—
Total	27.2	18.0	2.8	6.4

1 Segmental analysis and revenue from contracts with customers continued

Segment results

	Profit (all continuing operations)	
	Year ended 31 March 2020	Year ended 31 March 2019 Restated £m
Segment profit before allocation of adjustments*		
Process Safety	43.9	45.5
Infrastructure Safety	107.7	88.9
Environmental & Analysis	69.4	60.1
Medical	84.4	83.2
	305.4	277.7
Segment profit after allocation of adjustments*		
Process Safety	38.6	41.5
Infrastructure Safety	83.4	79.1
Environmental & Analysis	62.6	53.8
Medical	77.9	66.4
Segment profit	262.5	240.8
Central administration costs	(26.3)	(24.1)
Net finance expense	(12.1)	(10.0)
Group profit before taxation	224.1	206.7
Taxation	(39.7)	(36.9)
Profit for the year	184.4	169.8

* Adjustments include in the current and prior year the amortisation of acquired intangible assets; acquisition items; significant restructuring costs and profit or loss on disposal of operations and in the prior year the effect of equalisation of pension benefits for men and women in the defined benefit plans, see overleaf for more details. Note 3 provides more information on alternative performance measures.

Notes to the Accounts continued

1 Segmental analysis and revenue from contracts with customers continued

The accounting policies of the reportable segments are the same as the Group's accounting policies. Acquisition transaction costs, adjustments to contingent consideration and release of fair value adjustments to inventory (collectively 'acquisition items') are recognised in the Consolidated Income Statement. Segment profit, before these acquisition items and the other adjustments, is disclosed separately on the previous page as this is the measure reported to the Group Chief Executive for the purpose of allocation of resources and assessment of segment performance. These adjustments are analysed as follows:

	Acquisition items						Year ended 31 March 2020
	Amortisation of acquired intangible assets £m	Transaction costs £m	Adjustments to contingent consideration £m	Release of fair value adjustments to inventory £m	Total amortisation charge and acquisition items £m	Disposal of operations and restructuring (note 30) £m	Total £m
Process Safety	(4.2)	(0.7)	–	(0.4)	(5.3)	–	(5.3)
Infrastructure Safety	(11.0)	(2.3)	(8.2)	(2.8)	(24.3)	–	(24.3)
Environmental & Analysis	(9.2)	(0.2)	2.6	–	(6.8)	–	(6.8)
Medical	(13.9)	(2.7)	8.1	(0.9)	(9.4)	2.9	(6.5)
Total Group	(38.3)	(5.9)	2.5	(4.1)	(45.8)	2.9	(42.9)

The transaction costs arose mainly on the acquisitions during the year. In Process Safety they related to the acquisition of Sensit (£0.7m). In Infrastructure Safety, they related to the acquisition of Ampac (£2.1m) and FireMate (£0.2m). In Environmental & Analysis, they related to the acquisition of Invenio (£0.1m) and Enoveo (£0.1m). In Medical, they mainly related to the acquisition of Infowave (£0.1m), NeoMedix (£0.1m), NovaBone (£1.7m), Spreo (£0.1m) and Maxtec (£0.3m).

The £2.5m adjustment to contingent consideration comprised: a debit in Infrastructure Safety of £8.2m arising from an increase in the estimate of the payable for Navtech; a credit of £2.6m in Environmental & Analysis arising from decreases in estimates of the payables for Mini-Cam (£2.6m) and Invenio (£0.1m), offset by an increase in estimates of the payable for Enoveo (£0.1m); and a credit of £8.1m in Medical arising from a decrease in estimates of the payables for NovaBone (£8.0m) and Infowave (£1.1m) offset by an increase in the estimate of the payable for NeoMedix (£1.0m).

The £4.1m release of fair value adjustments to inventory relates to Sensit (£0.4m) in Process Safety, Navtech (£0.4m) and Ampac (£2.4m) in Infrastructure Safety; and NeoMedix (£0.3m), NovaBone (£0.5m), and Maxtec (£0.1m) in Medical. All amounts have now been released in relation to Navtech, Ampac and NeoMedix.

	Acquisition items						Year ended 31 March 2019	
	Amortisation of acquired intangible assets £m	Transaction costs £m	Adjustments to contingent consideration £m	Release of fair value adjustments to inventory £m	Total amortisation charge and acquisition items £m	Defined benefit pension charge £m	Disposal of operations and restructuring (note 30) £m	Total £m
Process Safety	(4.0)	–	–	–	(4.0)	–	–	(4.0)
Infrastructure Safety	(6.8)	(0.4)	–	(2.6)	(9.8)	–	–	(9.8)
Environmental & Analysis	(9.1)	(0.1)	3.0	(0.1)	(6.3)	–	–	(6.3)
Medical	(15.7)	(0.6)	0.5	–	(15.8)	–	(1.0)	(16.8)
Total Segment	(35.6)	(1.1)	3.5	(2.7)	(35.9)	–	(1.0)	(36.9)
Unallocated	–	–	–	–	–	(2.1)	–	(2.1)
Total Group	(35.6)	(1.1)	3.5	(2.7)	(35.9)	(2.1)	(1.0)	(39.0)

In the prior year, the transaction costs arose mainly on the acquisitions during that year. In Infrastructure Safety, they mainly related to LAN Control Systems Limited (£0.1m), Limotec (£0.1m), Navtech (£0.4m) and Business Marketers Group (trading as Rath Communications) (£0.1m) and a credit from a previous acquisition. In Environmental & Analysis, they related to the acquisition of FluxData in a previous year (£0.1m). In Medical, they mainly related to the acquisition of Visiometrics in a previous year (£0.5m).

The £3.5m adjustment to contingent consideration comprised: a credit of £3.0m in Environmental & Analysis arising from decreases in estimates of the payable for FluxData (£2.7m) and Mini-Cam (£0.3m); and a credit of £0.5m in Medical arising from an increase in estimate of the payable for CasMed NIBP (£0.1m) offset by a credit of £0.6m arising from exchange differences on the payable for Visiometrics which is denominated in Euros.

The £2.7m release of fair value adjustments to inventory related to Firetrace (£1.4m), Limotec (£0.3m), Navtech (£0.6m) and Rath (£0.3m) in Infrastructure and Safety; and Mini-Cam (£0.1m) within Environmental & Analysis. All amounts have been released in relation to Firetrace, Limotec, Rath and Mini-Cam.

The £2.1m defined benefit pension charge related to the estimate of Guaranteed Minimum Pension equalisation for men and women.

1 Segmental analysis and revenue from contracts with customers continued

Segment assets and liabilities

	Assets		Liabilities	
	31 March 2020 £m	31 March 2019 Restated £m	31 March 2020 £m	31 March 2019 Restated £m
Before goodwill, interest in associates and other investments and acquired intangible assets are allocated to specific segment assets/liabilities				
Process Safety	96.4	79.4	27.3	21.0
Infrastructure Safety	189.0	172.2	67.8	65.0
Environmental & Analysis	138.6	115.6	54.5	35.5
Medical	161.1	130.7	46.2	40.2
Total segment assets/liabilities excluding goodwill, interest in associate and acquired intangible assets	585.1	497.9	195.8	161.7
Goodwill	838.4	694.0	—	—
Interest in associate and other investments	4.8	3.9	—	—
Acquired intangible assets	283.3	203.5	—	—
Total segment assets/liabilities including goodwill, interest in associate and acquired intangible assets	1,711.6	1,399.3	195.8	161.7

	Assets		Liabilities	
	31 March 2020 £m	31 March 2019 Restated £m	31 March 2020 £m	31 March 2019 Restated £m
After goodwill, interest in associates and other investments and acquired intangible assets are allocated to specific segment assets/liabilities				
Process Safety	216.4	165.0	27.3	21.0
Infrastructure Safety	515.0	429.4	67.8	65.0
Environmental & Analysis	339.3	314.2	54.5	35.5
Medical	640.9	490.7	46.2	40.2
Total segment assets/liabilities including goodwill, interest in associate and acquired intangible assets	1,711.6	1,399.3	195.8	161.7
Cash and bank balances/borrowings	106.3	81.2	420.1	262.9
Derivative financial instruments	1.0	0.9	1.0	0.3
Other unallocated assets/liabilities	118.9	61.7	184.0	136.8
Total Group	1,937.8	1,543.1	800.9	561.7

Segment assets and liabilities, excluding the allocation of goodwill, interest in associate and other investments and acquired intangible assets, have been disclosed separately above as this is the measure reported to the Group Chief Executive for the purpose of monitoring segment performance and allocating resources between segments. Other unallocated assets include land and buildings, right-of-use assets, retirement benefit assets, deferred tax assets and other central administration assets. Unallocated liabilities include contingent purchase consideration, retirement benefit obligations, deferred tax liabilities, lease liabilities and other central administration liabilities.

Other segment information

	Additions to non-current assets		Depreciation, amortisation and impairment	
	Year ended 31 March 2020 £m	Year ended 31 March 2019 Restated £m	Year ended 31 March 2020 £m	Year ended 31 March 2019 Restated £m
Process Safety	41.7	6.0	9.7	9.3
Infrastructure Safety	100.7	83.9	22.5	17.4
Environmental & Analysis	14.2	8.4	17.4	15.8
Medical	126.3	11.3	22.8	23.7
Total segment additions/depreciation, amortisation and impairment	282.9	109.6	72.4	66.2
Unallocated	31.6	3.1	17.5	0.7
Total Group	314.5	112.7	89.9	66.9

Non-current asset additions comprise acquired and purchased goodwill, other intangible assets, right-of-use assets and property, plant and equipment.

During the year an impairment loss on intangible assets of £5.2m was recognised of which £2.0m was recognised in Infrastructure Safety, £1.6m was recognised in Environmental & Analysis and £1.6m was recognised in Medical. (2019: £0.7m in Infrastructure Safety).

Notes to the Accounts continued

1 Segmental analysis and revenue from contracts with customers continued

Geographic information

The Group's non-current assets by geographic location are detailed below:

	Non-current assets	
	31 March 2020 £m	31 March 2019 £m
United States of America	755.0	610.5
Mainland Europe	254.0	253.5
United Kingdom	224.4	147.8
Asia Pacific	114.5	32.4
Other countries	8.0	11.3
	1,355.9	1,055.5

Non-current assets comprise goodwill, intangible assets, interest in associate and other investments, right-of-use assets and property, plant and equipment.

Information about major customers

No single customer accounts for more than 5% (2019: 3%) of the Group's revenue.

2 Earnings per ordinary share

Basic and diluted earnings per ordinary share are calculated using the weighted average of 379,086,833 shares in issue during the year (net of shares purchased by the Company and held as Own shares) (2019: 379,159,755). There are no dilutive or potentially dilutive ordinary shares.

Adjusted earnings are calculated as earnings from continuing operations excluding the amortisation of acquired intangible assets; acquisition items; restructuring costs; profit or loss on disposal of operations; in the prior year, the effect of equalisation of defined pension benefits for men and women; and the associated taxation thereon. The Directors consider that adjusted earnings, which constitute an alternative performance measure, represent a more consistent measure of underlying performance as it excludes amounts not directly linked with trading. A reconciliation of earnings and the effect on basic and diluted earnings per share figures is as follows:

	Year ended 31 March 2020 £m	Year ended 31 March 2019 £m	Per ordinary share	
			Year ended 31 March 2020 pence	Year ended 31 March 2019 pence
Earnings from continuing operations	184.4	169.8	48.66	44.78
Amortisation of acquired intangible assets (after tax)	30.3	27.5	7.98	7.25
Acquisition transaction costs (after tax)	5.3	1.0	1.41	0.27
Adjustments to contingent consideration (after tax)	(2.5)	(2.9)	(0.66)	(0.75)
Release of fair value adjustments to inventory (after tax)	3.0	2.1	0.78	0.55
Defined benefit pension charge (after tax)	—	1.7	—	0.44
Disposal of operations and restructuring (after tax)	(2.9)	0.8	(0.78)	0.20
Adjusted earnings	217.6	200.0	57.39	52.74

3 Alternative performance measures

The Board uses certain alternative performance measures to help it effectively monitor the performance of the Group. The Directors consider that these represent a more consistent measure of underlying performance by removing non-trading items that are not closely related to the Group's trading or operating cash flows. These measures include Return on Total Invested Capital (ROTC), Return on Capital Employed (ROCE), organic growth at constant currency, Adjusted operating profit and Adjusted operating cash flow.

Note 1 provides further analysis of the adjusting items in reaching adjusted profit measures.

Return on Total Invested Capital

	31 March 2020 £m	31 March 2019 £m
Profit after tax	184.4	169.8
Adjustments ¹	33.2	30.2
Adjusted profit after tax ¹	217.6	200.0
Total equity	1,136.9	981.4
Add back net retirement benefit obligations	5.2	39.2
Less associated deferred tax assets	(0.5)	(7.0)
Cumulative amortisation of acquired intangible assets	283.5	235.2
Historical adjustments to goodwill ²	89.5	89.5
Total Invested Capital	1,514.6	1,338.3
Average Total Invested Capital³	1,426.5	1,245.7
Return on Total Invested Capital (ROTC)^{4, 5}	15.3%	16.1%

Return on Capital Employed

	31 March 2020 £m	31 March 2019 £m
Profit before tax	224.1	206.7
Adjustments ¹	42.9	39.0
Net finance costs	12.1	10.0
Lease interest	(2.1)	–
Adjusted operating profit¹ after share of results of associates and lease interest	277.0	255.7
Computer software costs within intangible assets	5.9	5.5
Capitalised development costs within intangible assets	36.1	33.1
Other intangibles within intangible assets	3.1	3.1
Property, plant and equipment	184.3	112.4
Inventories	170.6	144.3
Trade and other receivables	286.6	259.6
Trade and other payables	(186.7)	(164.8)
Lease liabilities	(13.0)	–
Provisions	(28.0)	(25.4)
Net current tax receivable/(liabilities)	1.3	(13.2)
Non-current trade and other payables	(13.3)	(11.6)
Non-current provisions	(21.6)	(10.9)
Non-current lease liabilities	(48.5)	–
Add back contingent purchase consideration	40.1	26.8
Capital Employed	416.9	358.9
Average Capital Employed³	387.9	340.4
Return on Capital Employed (ROCE)^{4, 5}	71.4%	75.1%

1 Adjustments include in the current and prior year the amortisation of acquired intangible assets; acquisition items; significant restructuring costs and profit or loss on disposal of operations and, in the prior year only, the effect of equalisation of pension benefits for men and women in the defined benefit plans. Where after-tax measures, these also include the associated taxation on adjusting items. Note 1 provides more information on these items.

2 Includes goodwill amortised prior to 3 April 2004 and goodwill taken to reserves.

3 The ROTIC and ROCE measures are expressed as a percentage of the average of the current and prior year's Total Invested Capital and Capital Employed respectively. Using an average as the denominator is considered to be more representative. The 1 April 2018 Total Invested Capital and Capital Employed balances were £1,153.0m and £321.9m respectively.

4 The ROTIC and ROCE measures are calculated as Adjusted profit after tax divided by Average Total Invested Capital and Adjusted operating profit after share of results of associates divided by Average Capital Employed respectively.

5 The ROTIC and ROCE measures as at 31 March 2020 are after the adoption of IFRS 16 whereas the measures at 31 March 2019 are on a pre-IFRS 16 basis. The impact on the Group balance sheet on adoption of IFRS 16 is insignificant (reduction in net assets of £4.0m), and as such there has been no significant impact in the measurement of ROTIC or ROCE.

Notes to the Accounts continued

3 Alternative performance measures continued

Organic growth at constant currency

Organic growth measures the change in revenue and profit from continuing Group operations. This measure equalises the effect of acquisitions by:

- a. removing from the year of acquisition their entire revenue and profit before taxation;
- b. in the following year, removing the revenue and profit for the number of months equivalent to the pre-acquisition period in the prior year; and
- c. removing from the year prior to acquisition any revenue generated by sales to the acquired company which would have been eliminated on consolidation had the acquired company been owned for that period.

The results of disposals are removed from the prior period reported revenue and profit before taxation.

Constant currency measures the change in revenue and profit excluding the effects of currency movements. The measure restates the current year's revenue and profit at last year's exchange rates.

Organic growth at constant currency has been calculated for the Group as follows:

Group

	Revenue				Adjusted* profit before taxation
	Year ended 31 March 2020 £m	Year ended 31 March 2019 £m	Year ended 31 March 2020 £m	Year ended 31 March 2019 £m	% growth
Continuing operations	1,338.4	1,210.9	267.0	245.7	8.7%
Acquired and disposed revenue/profit	(58.0)	(7.3)	(12.1)	(0.6)	
Organic growth	1,280.4	1,203.6	254.9	245.1	4.0%
Constant currency adjustment	(18.8)	–	(4.4)	–	
Organic growth at constant currency	1,261.6	1,203.6	250.5	245.1	2.2%

Sector Organic growth at constant currency

Organic growth at constant currency is calculated for each segment using the same method as described above.

Process Safety

	Revenue				Adjusted* segment profit
	Year ended 31 March 2020 £m	Year ended 31 March 2019 £m	Year ended 31 March 2020 £m	Year ended 31 March 2019 £m	% growth
Continuing operations	200.0	197.5	43.9	45.5	(3.5)%
Acquisition and currency adjustments	(5.8)	–	(1.2)	–	
Organic growth at constant currency	194.2	197.5	42.7	45.5	(6.1)%

Infrastructure Safety

	Revenue				Adjusted* segment profit
	Year ended 31 March 2020 £m	Year ended 31 March 2019 £m	Year ended 31 March 2020 £m	Year ended 31 March 2019 £m	% growth
Continuing operations	466.5	408.6	107.7	88.9	21.0%
Acquisition and currency adjustments	(49.1)	(3.7)	(12.8)	–	
Organic growth at constant currency	417.4	404.9	94.9	88.9	6.6%

3 Alternative performance measures continued

Sector Organic growth at constant currency continued

Environmental & Analysis

			Revenue	Adjusted* segment profit	
	Year ended 31 March 2020 £m	Year ended 31 March 2019** £m	Year ended 31 March 2020 £m	Year ended 31 March 2019** £m	% growth
Continuing operations	325.0	280.0	16.1%	69.4	60.1
Acquisition and currency adjustments	(7.0)	–		(1.5)	–
Organic growth at constant currency	318.0	280.0	13.6%	67.9	60.1

Medical

			Revenue	Adjusted* segment profit	
	Year ended 31 March 2020 £m	Year ended 31 March 2019** £m	Year ended 31 March 2020 £m	Year ended 31 March 2019** £m	% growth
Continuing operations	347.2	325.2	6.8%	84.4	83.2
Acquisition and disposal and currency adjustments	(14.9)	(3.6)		(3.9)	(0.6)
Organic growth at constant currency	332.3	321.6	3.3%	80.5	82.6
					(2.6)%

* Adjustments include in the current and prior year the amortisation of acquired intangible assets; acquisition items; significant restructuring costs and profit or loss on disposal of operations and in the prior year the effect of equalisation of pension benefits for men and women in the defined benefit plans.

** Sector growth rates are calculated using revenue and profit figures restated for the effect of moving an operating company from Environmental & Analysis to Medical. See note 1.

Adjusted operating profit

	Year ended 31 March 2020 £m	Year ended 31 March 2019 £m
Operating profit	233.4	217.8
Add back:		
Acquisition items (note 1)	7.5	0.3
Defined benefit pension charge	–	2.1
Amortisation of acquired intangible assets	38.3	35.6
Adjusted operating profit	279.2	255.8

Adjusted operating cash flow

	Year ended 31 March 2020 £m	Year ended 31 March 2019 £m
Net cash from operating activities (note 26)	255.5	219.0
Add back:		
Net acquisition costs paid	5.2	1.2
Taxes paid	52.4	40.6
Proceeds from sale of property, plant and equipment	1.9	1.6
Share awards vested not settled by Own shares*	6.0	4.9
Less:		
Purchase of property, plant and equipment	(31.2)	(26.4)
Purchase of computer software and other intangibles	(2.9)	(4.9)
Development costs capitalised	(14.7)	(10.8)
Adjusted operating cash flow	272.2	225.2
Cash conversion % (adjusted operating cash flow/adjusted operating profit)	97%	88%

* See Consolidated Statement of Changes in Equity.

Notes to the Accounts continued

4 Finance income

	Year ended 31 March 2020 £m	Year ended 31 March 2019 £m
Interest receivable	0.6	0.4
Fair value movement on derivative financial instruments	–	0.1
	0.6	0.5

5 Finance expense

	Year ended 31 March 2020 £m	Year ended 31 March 2019 £m
Interest payable on borrowings	8.7	7.6
Interest payable on lease obligations	2.1	–
Amortisation of finance costs	0.7	0.9
Net interest charge on pension plan liabilities	0.8	1.2
Other interest payable	0.2	0.5
	12.5	10.2
Fair value movement on derivative financial instruments	0.2	0.2
Unwinding of discount on provisions	–	0.1
	12.7	10.5

6 Profit before taxation

Profit before taxation comprises:

	Year ended 31 March 2020 £m	Year ended 31 March 2019 £m
Revenue	1,338.4	1,210.9
Direct materials/direct labour	(559.6)	(504.8)
Production overhead	(113.3)	(107.1)
Selling costs	(136.6)	(124.2)
Distribution costs	(25.4)	(25.5)
Administrative expenses	(270.1)	(231.5)
Operating profit	233.4	217.8
Share of loss of associate	(0.1)	(0.1)
Profit/(loss) on disposal of operations	2.9	(1.0)
Net finance expense	(12.1)	(10.0)
Profit before taxation	224.1	206.7

Included within administrative expenses are the amortisation of acquired intangible assets, transaction costs, adjustments to contingent consideration and, in the prior year, the charge for equalisation of the pension benefits for men and women in the Group's defined benefit pension schemes. Included within direct materials/direct labour is the release of fair value adjustments to inventory.

6 Profit before taxation continued

	Year ended 31 March 2020 £m	Year ended 31 March 2019 £m
Profit before taxation is stated after charging/(crediting):		
Depreciation	35.8	20.0
Amortisation	48.9	46.2
Impairment of intangible assets	5.2	0.7
Impairment loss on trade receivables (note 16)	8.3	1.4
Restructuring costs	–	1.5
Research and development*	57.3	51.9
Foreign exchange gain	(0.4)	(1.4)
(Profit)/loss on disposal of operations (note 30)	(2.9)	1.0
Profit on sale of property, plant and equipment and computer software	(0.1)	(0.6)
Cost of inventories recognised as an expense	672.9	611.9
Staff costs (note 7)	376.4	347.0
Auditors' remuneration		
Audit services to the Company	0.5	0.3
Audit of the Company's subsidiaries	1.1	1.0
Total audit fees	1.6	1.3
Interim review	0.1	0.1
Other services	–	–
Total non-audit fees	0.1	0.1
Total fees	1.7	1.4
Expenses for short-term leases and leases of low-value assets**:		
Property	–	13.9
Other	0.3	0.8

* A further £14.7m (2019: £10.8m) of development costs has been capitalised in the year. See note 12.

** In the prior year, prior to the adoption of IFRS 16 this charge represented rentals for leases classified as operating leases under IAS 17.

Notes to the Accounts continued

7 Employee information

The average number of persons employed by the Group (including Directors) by entity location was:

	Year ended 31 March 2020 Number	Year ended 31 March 2019 Number
United States of America	2,282	2,088
Mainland Europe	1,126	1,043
United Kingdom	2,303	2,210
Asia Pacific	1,187	1,074
<u>Other countries</u>	94	93
	6,992	6,508

The monthly average number of persons employed by the Group (including Directors) by employee location was:

	Year ended 31 March 2020 Number	Year ended 31 March 2019 Number
United States of America	2,302	2,115
Mainland Europe	1,098	1,035
United Kingdom	2,229	2,111
Asia Pacific	1,225	1,082
<u>Other countries</u>	138	165
	6,992	6,508

Group employee costs comprise:

	Year ended 31 March 2020 £m	Year ended 31 March 2019 £m
Wages and salaries	309.6	283.4
Social security costs	42.9	39.5
Pension costs (note 29)	11.6	13.3
Share-based payment charge (note 24)	12.3	10.8
	376.4	347.0

8 Directors' remuneration

The remuneration of the Directors is set out on pages 82 to 95 within the Annual Remuneration Report described as being audited and forms part of these financial statements.

Directors' remuneration comprises:

	Year ended 31 March 2020 £m	Year ended 31 March 2019 £m
Wages, salaries and fees	4.9	5.2
Pension costs	0.1	0.1
Share-based payment charge	2.9	2.8
	7.9	8.1

9 Taxation

	Year ended 31 March 2020 £m	Year ended 31 March 2019 £m
Current tax		
UK corporation tax at 19% (2019: 19%)	12.3	10.9
Overseas taxation	30.5	33.6
Adjustments in respect of prior years	(2.9)	0.2
Total current tax charge	39.9	44.7
Deferred tax		
Origination and reversal of timing differences	(0.4)	(7.4)
Adjustments in respect of prior years	0.2	(0.4)
Total deferred tax credit	(0.2)	(7.8)
Total tax charge recognised in the Consolidated Income Statement	39.7	36.9
Reconciliation of the effective tax rate:		
Profit before tax	224.1	206.7
Tax at the UK corporation tax rate of 19% (2019: 19%)	42.6	39.3
Overseas tax rate differences	6.1	9.4
Effect of intra-group financing	(6.2)	(8.7)
Tax incentives, exemptions and credits (including patent box, R&D and High-Tech status)	(3.8)	(3.9)
Permanent differences	3.7	1.0
Adjustments in respect of prior years	(2.7)	(0.2)
Effective tax rate	39.7	36.9
	17.7%	17.9%

	Year ended 31 March 2020 £m	Year ended 31 March 2019 £m
Adjusted* profit before tax	267.0	245.7
Total tax charge on adjusted* profit	49.4	45.7
Effective tax rate	18.5%	18.6%

* Adjustments include, in the current and prior year, the amortisation of acquired intangible assets; acquisition items; significant restructuring costs and profit or loss on disposal of operations and, in the prior year only, the effect of equalisation of pension benefits for men and women in the defined benefit plans. Note 3 provides more information on alternative performance measures.

The Group's future Effective Tax Rate (ETR) will mainly depend on the geographic mix of profits and whether there are any changes to tax legislation in the Group's most significant countries of operations.

In addition to the amount charged to the Consolidated Income Statement, the following amounts relating to tax have been recognised directly in the Consolidated Statement of Comprehensive Income and Expenditure:

	Year ended 31 March 2020 £m	Year ended 31 March 2019 £m
Deferred tax (note 22)	4.0	1.6
Retirement benefit obligations	(0.1)	-
Effective portion of changes in fair value of cash flow hedges	3.9	1.6

In addition to the amounts charged to the Consolidated Income Statement and the Consolidated Statement of Comprehensive Income and Expenditure, the following amounts relating to tax have been recognised directly in equity:

	Year ended 31 March 2020 £m	Year ended 31 March 2019 £m
Current tax		
Excess tax deductions related to share-based payments on exercised awards	(1.4)	(1.5)
Deferred tax (note 22)		
Change in estimated excess tax deductions related to share-based payments	(0.5)	(0.9)
Impact of changes in accounting policies: IFRS 16 'Leases'	(0.9)	-
	(2.8)	(2.4)

Notes to the Accounts continued

10 Dividends

	Per ordinary share			
	Year ended 31 March 2020 pence	Year ended 31 March 2019 pence	Year ended 31 March 2020 £m	Year ended 31 March 2019 £m
Amounts recognised as distributions to shareholders in the year				
Final dividend for the year ended 31 March 2019 (31 March 2018)	9.60	8.97	36.4	34.0
Interim dividend for the year ended 31 March 2020 (31 March 2019)	6.54	6.11	24.8	23.2
	16.14	15.08	61.2	57.2
Dividends declared in respect of the year				
Interim dividend for the year ended 31 March 2020 (31 March 2019)	6.54	6.11	24.8	23.2
Proposed final dividend for the year ended 31 March 2020 (31 March 2019)	9.96	9.60	37.7	36.4
	16.50	15.71	62.5	59.6

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting on 4 September 2020 and has not been included as a liability in these financial statements.

11 Goodwill

	31 March 2020 £m	31 March 2019 £m
Cost		
At beginning of year	694.0	632.1
Additions (note 25)	122.5	37.7
Adjustments to prior years (note 25)	0.4	(0.4)
Disposals (note 30)	–	(0.8)
Exchange adjustments	21.5	25.4
At end of year	838.4	694.0
Provision for impairment		
At beginning and end of year	–	–
Carrying amounts		
	838.4	694.0

The Group identifies cash generating units (CGUs) at the operating company level as this represents the lowest level at which cash inflows are largely independent of other cash inflows. Goodwill acquired in a business combination is allocated, at acquisition, to the groups of CGUs that are expected to benefit from that business combination.

Before recognition of any impairment losses, the carrying amount of goodwill has been allocated to CGU groups as follows:

	31 March 2020 £m	31 March 2019 £m
Process Safety		
Gas Detection	15.9	–
Bursting Discs	9.3	8.9
Safety Interlocks and Corrosion Monitoring	61.4	58.8
	86.6	67.7
Infrastructure Safety		
Fire	112.4	69.3
Doors, Security and Elevators	116.0	113.8
	228.4	183.1
Environmental & Analysis		
Water	75.7	72.1
Optical Analysis (formerly Photonics)	74.9	71.6
Environmental Monitoring	9.3	14.3
	159.9	158.0
Medical		
Life Sciences (formerly Fluid Technologies)	40.3	39.1
Healthcare Assessment	176.8	–
Therapeutic Solutions	146.4	–
Health Optics	–	175.2
Sensor Technologies	–	70.9
	363.5	285.2
Total Group		
	838.4	694.0

11 Goodwill continued

During the year, the Group has carried out a review of the CGU groups following changes in sector management and recent acquisitions. This has resulted in changes in the Medical and Environmental & Analysis sectors to more accurately reflect the way CGU groups are expected to benefit from business combinations in the year and in future under our acquisition strategy. In addition, these now better align with how the CGUs will be managed and reported internally. Two new CGU groups have been established in the Medical sector; Healthcare Assessment and Therapeutic Solutions. These groups replace Health Optics, and Sensor Technologies. In addition, as described in Note 1, one operating company has moved from the Environmental Monitoring CGU Group to the Therapeutics Solutions CGU Group. Goodwill has been reallocated to the new CGU groups based on the relative value of the value in use for each CGU within the existing CGU group at the time of the change.

The reallocation of goodwill during the current year is due to a change in circumstances and does not represent a change in accounting policy under IAS 8. As a result, the impairment test in the prior year does not need to be reperformed retrospectively and the Group has not restated the CGU groups in the prior year. The Group performed an impairment review prior to the reallocation of goodwill as required by IAS 36 to identify any pre-existing impairments. There was no impairment of goodwill identified.

Impairment testing

Goodwill values have been tested for impairment by comparing them against the 'value in use' in perpetuity of the relevant CGU group. The value in use calculations were based on projected cash flows, derived from the latest forecasts prepared by management and budgets approved by the Board, discounted at CGU specific, risk adjusted, discount rates to calculate their net present value.

Key assumptions used in 'value in use' calculations

The calculation of 'value in use' is most sensitive to the following assumptions:

- CGU specific operating assumptions, including for the impact of COVID-19 pandemic, that are reflected in the forecasts for the financial years to March 2021 and March 2022.
- Discount rates.
- Growth rates used to extrapolate risk adjusted cash flows beyond the forecast period.

CGU specific operating assumptions are applicable to the forecasted cash flows for the years to March 2021 and March 2022 and relate to revenue forecasts, expected project outcomes and forecast operating margins in each of the operating companies. These assumptions include the expected impact and recovery from COVID-19. The value ascribed to each assumption will vary between CGUs as the forecasts are built up from the underlying operating companies within each CGU group. A short-term growth rate is applied to the March 2022 forecast to derive the cash flows arising in the year to March 2023. A long-term rate is applied to these values for the year to March 2024 and onwards.

Short-term growth rates for the year to March 2023 for all CGU groups, are based on sector strategic plans revised for any changes in outlook for each sector considering the current uncertain economic environment. Long-term growth rates are capped at the weighted average GDP growth rates of the markets into which that CGU group sells.

Discount rates are based on estimations of the assumptions that market participants operating in similar sectors to Halma would make, using the Group's economic profile as a starting point and adjusting appropriately. The Directors do not currently expect any significant change in the present base discount rate of 9.36% (2019: 9.43%). The base discount rate, which is pre-tax and is based on short-term variables, may differ from the Weighted Average Cost of Capital (WACC). Discount rates are adjusted for economic risks that are not already captured in the specific operating assumptions for each CGU group. This results in the impairment testing using discount rates ranging from 8.39% to 13.19% (2019: 8.33% to 13.38%) across the CGU groups.

Significant CGU groups

CGU groups to which 10% or more of the total goodwill balance is allocated are deemed to be significant. The assumptions used to determine 'value in use' for these CGU groups are:

	Risk adjusted discount rate		Short-term growth rates*		Long-term growth rates	
	31 March 2020	31 March 2019	31 March 2020	31 March 2019	31 March 2020	31 March 2019
Fire	12.23%	12.02%	12.90%	11.60%	1.99%	1.93%
Doors, Security and Elevators	11.83%	11.10%	12.90%	11.60%	1.99%	1.93%
Healthcare Assessment	13.19%	n/a	11.22%	n/a	2.04%	n/a
Therapeutic Solutions	11.45%	n/a	11.22%	n/a	2.04%	n/a
Health Optics	n/a	13.38%	n/a	10.20%	n/a	2.05%
Sensor Technologies	n/a	12.61%	n/a	20.00%	n/a	2.05%

* Applied to calculate year three cashflows in the current year and year two and three cashflows in the prior year.

Sensitivity to changes in assumptions

When reviewing for sensitivity to changes in assumptions management considered reductions in the cashflows used in the impairment model for the three financial years to March 2023, including a second wave of COVID-19 in the second half of the financial year to March 2021, as well as increases in the discount rate for each CGU group. Based on this review management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of any unit to exceed its recoverable amount.

Notes to the Accounts continued

12 Other intangible assets

	Acquired intangible assets							
	Customer and supplier relationship ¹ £m	Technical know-how ² £m	Trademarks, brands and patents ³ £m	Total £m	Internally generated capitalised development costs ⁴ £m	Computer software £m	Other intangibles ⁵ £m	Total £m
Cost								
At 1 April 2018	257.3	74.8	57.9	390.0	78.5	18.7	2.0	489.2
Transfers between category	–	–	–	–	0.1	0.1	–	0.2
Assets of businesses acquired	14.6	10.1	5.7	30.4	0.8	–	–	31.2
Additions at cost	–	–	–	–	10.8	2.4	2.5	15.7
Disposals and retirements	–	–	–	–	(0.5)	(1.0)	–	(1.5)
Exchange adjustments	12.3	3.7	2.3	18.3	1.4	0.5	0.1	20.3
At 31 March 2019	284.2	88.6	65.9	438.7	91.1	20.7	4.6	555.1
Assets of businesses acquired (note 25)	41.5	56.7	15.2	113.4	0.9	–	–	114.3
Additions at cost	–	–	–	–	14.7	2.6	0.3	17.6
Disposals and retirements	–	–	–	–	(0.6)	(0.8)	(0.1)	(1.5)
Exchange adjustments	9.7	3.3	1.7	14.7	1.6	0.4	0.2	16.9
At 31 March 2020	335.4	148.6	82.8	566.8	107.7	22.9	5.0	702.4
Accumulated amortisation & impairment								
At 1 April 2018	132.1	25.5	33.4	191.0	48.5	14.0	1.1	254.6
Charge for the year	23.5	7.6	4.5	35.6	8.5	1.8	0.3	46.2
Impairment	–	–	–	–	0.7	–	–	0.7
Disposals and retirements	–	–	–	–	(0.5)	(1.0)	–	(1.5)
Exchange adjustments	5.9	1.5	1.2	8.6	0.8	0.4	0.1	9.9
At 31 March 2019	161.5	34.6	39.1	235.2	58.0	15.2	1.5	309.9
Charge for the year	24.6	9.2	4.5	38.3	7.9	2.2	0.5	48.9
Impairment	–	–	–	–	5.2	–	–	5.2
Disposals and retirements	–	–	–	–	(0.6)	(0.8)	–	(1.4)
Exchange adjustments	7.2	1.3	1.5	10.0	1.1	0.4	(0.1)	11.4
At 31 March 2020	193.3	45.1	45.1	283.5	71.6	17.0	1.9	374.0
Carrying amounts								
At 31 March 2020	142.1	103.5	37.7	283.3	36.1	5.9	3.1	328.4
At 31 March 2019	122.7	54.0	26.8	203.5	33.1	5.5	3.1	245.2

1 Customer and supplier relationship assets are amortised over their useful economic lives estimated to be between three and twenty years. Within this balance individually material balances relate to:

- Firetrace: £10.9m (2019: £11.6m) and £9.3m (2019: £10.9m).
- CenTrak: £16.4m (2019: £17.1m).
- Mini-Cam: £12.7m (2019: £14.3m).
- Ampac: £15.9m (2019: £nil).

The remaining amortisation periods for these assets are nine years, five years, eleven years, eight years, and thirteen years respectively.

2 Technical know-how assets are amortised over their useful economic lives, estimated to be between three and fifteen years. Within this balance individually material balances relate to:

- CenTrak £11.8m (2019: £13.2m).
- NeoMedix £10.1m (2019: £nil).
- NovaBone £24.7m (2019: £nil).

3 Trademarks, brands and patents (which include protected intellectual property) are amortised over their useful economic lives estimated to be between eight and twenty years. There are no individually material items within this balance.

4 Internally generated capitalised development costs are amortised over their useful economic lives estimated to be three years from the date of product launch. There are no individually material items within this balance, which comprises capitalised costs arising from the development phase of the R&D projects undertaken by the Group.

5 Other intangibles comprise licence and product registration costs, and customer lists, amortised over their useful economic lives, estimated to be between three and five years.

13 Property, plant and equipment

	Right of Use assets £m	Freehold land and buildings £m	Leasehold buildings and improvements £m	Owned assets Plant, equipment and vehicles £m	Total £m
Cost					
At 1 April 2018	–	49.2	19.4	174.3	242.9
Transfer between category	–	–	–	(0.4)	(0.4)
Assets of businesses acquired	–	1.2	–	0.5	1.7
Assets of business disposed	–	–	–	(4.6)	(4.6)
Additions at cost	–	2.6	2.1	21.7	26.4
Disposals and retirements	–	–	(0.3)	(8.1)	(8.4)
Exchange adjustments	–	0.9	0.8	5.3	7.0
At 31 March 2019	–	53.9	22.0	188.7	264.6
Impact of changes in accounting policies – IFRS 16	95.0	–	–	–	95.0
Transfer between category	–	–	0.1	(0.5)	(0.4)
Assets of businesses acquired (note 25)	5.8	1.4	1.6	3.6	12.4
Additions at cost	16.1	2.0	3.0	26.2	47.3
Disposals and retirements	(9.8)	–	(1.4)	(7.9)	(19.1)
Exchange adjustments	2.2	1.9	0.3	4.2	8.6
At 31 March 2020	109.3	59.2	25.6	214.3	408.4
Accumulated depreciation					
At 1 April 2018	–	13.0	11.3	114.9	139.2
Transfer between category	–	–	–	(0.2)	(0.2)
Charge for the year	–	1.0	1.9	17.1	20.0
Assets of business disposed	–	–	–	(3.4)	(3.4)
Disposals and retirements	–	–	(0.3)	(7.3)	(7.6)
Exchange adjustments	–	0.3	0.4	3.5	4.2
At 31 March 2019	–	14.5	13.3	124.6	152.2
Impact of changes in accounting policies – IFRS 16	49.6	–	–	–	49.6
Transfer between category	–	–	–	(0.4)	(0.4)
Charge for the year	13.2	1.1	2.3	19.2	35.8
Disposals and retirements	(9.8)	–	(1.1)	(6.4)	(17.3)
Exchange adjustments	0.9	0.4	0.3	2.6	4.2
At 31 March 2020	53.9	15.8	14.8	139.6	224.1
Carrying amounts					
At 31 March 2020	55.4	43.4	10.8	74.7	184.3
At 31 March 2019	–	39.6	8.7	64.1	112.4

Right of Use assets

	Carrying amounts		Depreciation charge	
	31 March 2020 £m	1 April 2019 £m	Year ended 31 March 2020 £m	Year ended 31 March 2019 £m
Land and buildings	53.9	44.2	12.6	–
Plant, equipment and vehicles	1.5	1.2	0.6	–
	55.4	45.4	13.2	–

Notes to the Accounts continued

14 Interest in associate and other investments

	31 March 2020 £m	31 March 2019 £m
Interest in associate	–	3.9
Financial assets at fair value through other comprehensive income		
– Equity instruments	4.8	–
	4.8	3.9
Interest in associate		
At beginning of the year	3.9	4.0
Group's share of loss of associate after Group eliminations	(0.1)	(0.1)
Disposal (note 30)	(3.8)	–
At end of year	–	3.9
Aggregated amounts relating to associate		
Non-current assets	–	11.4
Current assets	–	5.6
Total assets	–	17.0
Non-current liabilities	–	(8.3)
Current liabilities	–	(2.9)
Total liabilities	–	(11.2)
Net assets	–	5.8
Group's share of net assets of associate	–	1.3
Total revenue	10.3	11.2
Loss	(0.5)	(0.6)
Loss after Group eliminations*	(0.5)	(0.5)
Group's share of loss of associate	(0.1)	(0.2)
Group's share of loss of associate after Group eliminations*	(0.1)	(0.1)

* Group eliminations relate to profit on inventory held by the Group sold by Optomed.

Financial assets at fair value through other comprehensive income (FVOCI)

Equity investments at FVOCI comprise the following individual investments:

	31 March 2020 £m	31 March 2019 £m
Unlisted securities		
Owlytics Healthcare Limited	1.7	–
Valencell Inc.	3.1	–
	4.8	–

During the year no gains or losses were recognised in other comprehensive income relating to these equity investments (2019: £nil).

Further information on methods and assumptions used in determining fair value is provided in note 27.

15 Inventories

	31 March 2020 £m	31 March 2019 £m
Raw materials and consumables	90.1	82.3
Work in progress	16.9	14.2
Finished goods and goods for resale	63.6	47.8
	170.6	144.3

The above is stated net of provision for slow-moving and obsolete stock, movements of which are shown below:

	31 March 2020 £m	31 March 2019 £m
At beginning of the year	21.5	19.8
Write downs of inventories recognised as an expense	3.9	1.4
Recognition of provisions for businesses acquired	1.8	0.6
De-recognition of provisions for businesses disposed	–	(0.1)
Amounts reversed against inventories previously impaired and utilisation	(0.8)	(0.9)
Exchange adjustments	0.7	0.7
At end of the year	27.1	21.5

Previous write-downs against inventory have been reversed as a result of increased sales in certain markets or where previously written down inventories have been disposed.

There is no material difference between the balance sheet value of inventories and their cost of replacement. None of the inventory has been pledged as security.

16 Trade and other receivables

	31 March 2020 £m	31 March 2019 £m
Trade receivables	249.8	226.7
Allowance for doubtful debts	(12.7)	(5.0)
	237.1	221.7
Other receivables	11.0	10.2
Prepayments	18.3	18.6
Contract assets (note 18)	20.2	9.1
	286.6	259.6

Other receivables comprise various financial assets across the Group, including sales tax receivables and other non-trade balances. In the prior year it also included acquisition consideration receivables and disposal consideration still to be received (note 30).

Receivables greater than 1 year comprise of £0.3m (2019: £0.4m) in trade receivables and £2.2m in other receivables (2019: £nil).

Notes to the Accounts continued

16 Trade and other receivables continued

The movement in the allowance for doubtful debts in respect of trade receivables during the year was as follows:

	31 March 2020 £m	31 March 2019 £m
At beginning of the year	5.0	4.6
Restatement for adoption of IFRS 9	–	(0.1)
Transfer to trade and other payables following adoption of IFRS 15	–	(0.1)
Net impairment loss recognised	8.3	1.4
Amounts recovered against trade receivables previously written down/amounts utilised	(0.9)	(0.9)
Recognition of provisions for businesses acquired	0.2	–
Exchange adjustments	0.1	0.1
At end of the year	12.7	5.0

The Group assesses on a forward-looking basis the expected credit losses associated with its trade and other receivables carried at amortised cost. As a result of the COVID-19 pandemic, the Group has assessed that there has been an increase in credit risk and this is the main reason for the increase in the allowance for doubtful debts in respect of trade receivables as at 31 March 2020.

The Group assessed that no provisions or impairments were required in relation to contract assets (2019: £nil).

The fair value of trade and other receivables approximates to book value due to the short-term maturities associated with these items. There is no impairment risk identified with regards to prepayments or other receivables where no amounts are past due.

The ageing of trade receivables was as follows:

	Gross trade receivables		Trade receivables net of doubtful debts	
	31 March 2020 £m	31 March 2019 £m	31 March 2020 £m	31 March 2019 £m
Not yet due	181.4	172.2	181.1	171.7
Up to one month overdue	34.6	28.5	34.3	28.5
Between one and two months overdue	10.5	8.8	10.5	8.8
Between two and three months overdue	5.0	5.0	4.5	5.0
Over three months overdue	18.3	12.2	6.7	7.7
	249.8	226.7	237.1	221.7

17 Trade and other payables: falling due within one year

	31 March 2020 £m	31 March 2019 £m
Trade payables	89.5	82.1
Other taxation and social security	8.7	7.0
Other payables	7.0	5.8
Accruals	64.0	58.5
Contract liabilities (note 18)	16.2	10.4
Deferred government grant income	1.3	1.0
	186.7	164.8

Other payables comprise various balances across the Group including share-based payments related amounts of £2.4m (2019: £1.6m), deferred R&D expenditure tax credits and other non-trade payables. These comprise £6.2m of financial liabilities and £0.8m of non-financial liabilities.

18 Contract balances

	31 March 2020 £m	31 March 2019 £m
Contract assets (note 16)	20.2	9.1
Contract liabilities current (note 17)	16.2	10.4
Contract liabilities non-current (note 21)	10.0	8.2
Total contract liabilities	26.2	18.6

	Contract assets		Contract liabilities	
	31 March 2020 £m	31 March 2019 £m	31 March 2020 £m	31 March 2019 £m
Amounts included in contract balances at the beginning of the year	9.1	–	(18.6)	–
Impact of adoption of IFRS 15	–	2.6	–	(0.2)
Reclassification of balances on adoption of IFRS 15	–	0.5	–	(17.2)
Transfers to receivables during the year	(9.5)	(2.6)		
Performance obligations arising in the current reporting year				
Increases as a result of billing ahead of performance			(29.5)	(19.3)
Decreases as a result of revenue recognised in the year			23.5	19.8
Increases as a result of performance in advance of billing	20.2	7.8		
Amounts arising through business combinations	–	0.7	(1.0)	(1.1)
Foreign exchange movements	0.4	0.1	(0.6)	(0.6)
Amounts included in contract balances at the end of the year	20.2	9.1	(26.2)	(18.6)

In some cases, the Group receives payments from customers based on a billing schedule, as established in our contracts. The contract assets relate to revenue recognised for performance in advance of scheduled billing and has increased as the Group has provided more services ahead of the agreed payment schedules for certain contracts. The contract liability relates to payments received in advance of performance under contract and varies based on performance under these contracts.

19 Borrowings

	31 March 2020 £m	31 March 2019 £m
Loan notes falling due within one year	74.2	0.1
Overdrafts	0.9	9.1
Total borrowings falling due within one year	75.1	9.2
Unsecured loan notes falling due after more than one year	108.6	179.3
Unsecured bank loans falling due after more than one year	236.4	74.4
Total borrowings falling due after more than one year	345.0	253.7
	420.1	262.9

In the current year, the loan notes falling due within one year relate to the first repayment due under the United States Private Placement completed in November 2015.

The loan notes falling due within one year at 31 March 2019, related to the final amounts due for the previous acquisition of Advanced Electronics Limited, which were converted at par to cash in May 2019.

In the current and prior year the loan notes falling due after more than one year relate to the remainder of the United States Private Placement.

Information concerning the security, currency, interest rates and maturity of the Group's borrowings is given in note 27.

Notes to the Accounts continued

20 Provisions

Provisions are presented as:

	31 March 2020 £m	31 March 2019 £m
Current	28.0	25.4
Non-current	21.6	10.9
	49.6	36.3

	Contingent purchase consideration £m	Dilapidations £m	Product warranty £m	Legal, contractual and other £m	Total £m
At 1 April 2019	26.8	2.2	5.5	1.8	36.3
Impact of changes in accounting policies – IFRS 16	–	0.3	–	–	0.3
Additional provision in the year	9.3	–	2.7	0.4	12.4
Arising on acquisition (note 25)	25.8	0.1	0.3	–	26.2
Utilised during the year	(10.4)	(0.2)	(0.7)	(0.1)	(11.4)
Released during the year	(11.7)	(0.1)	(1.7)	(1.0)	(14.5)
Exchange adjustments	0.3	–	0.1	(0.1)	0.3
At 31 March 2020	40.1	2.3	6.2	1.0	49.6

Contingent purchase consideration

The provision at the beginning of the year comprised £18.8m payable within one year relating to the previous acquisitions of CasMed NIBP, FluxData, Mini-Cam and Visiometrics and £8.0m payable after one year, relating to the acquisitions of Mini-Cam and Navtech.

The £9.3m additional provision in the year related to revisions to the estimates for Navtech (£8.2m due to success in winning new contracts), Infowave (£1.0m increase) and Enoveo (£0.1m increase).

The £25.8m addition arising on acquisition relates to the acquisitions during the year of Invenio, Enoveo, Infowave, NeoMedix, FireMate, NovaBone and Spreo. See note 25.

The £10.4m utilised during the year related to the final earnout period for FluxData (£0.5m), the final earnout period for CasMed NIBP (£1.6m), the first earnout period for Mini-Cam (£5.3m) and the first earnout period for Navtech (£3.0m).

The £11.7m released during the year related to revisions to the estimate of Mini-Cam (£2.6m remaining provision released as the minimum target for payment was not met), NovaBone (£8.0m reduction due to the short term impact of COVID-19 on the business), NeoMedix (£1.0m reduction due to the short term impact of COVID-19 on the business) and Invenio (£0.1m reduction).

The closing total provision is £40.1m, of which £19.1m is payable within one year and includes amounts based on actual results for the second earnout period for Navtech for the year ended 31 March 2020. The balance also includes estimates for the final earnout period for Visiometrics, for the year ended 31 December 2018, which is subject to final agreement, and the earnouts for LAN, Enoveo, NeoMedix, NovaBone and Spreo.

The balance due after more than one year of £21.0m comprises the estimate for the final earnout period for Navtech and earnouts for Invenio, Enoveo, Infowave, NeoMedix, FireMate, NovaBone and Spreo.

The range of total possible contingent purchase consideration payable in future for the existing acquisitions is between £7.2m and a maximum of £105.4m.

The basis for the calculation of each contingent consideration arrangement is set out on page 171 in note 27, including sensitivity of the estimation of the liabilities to changes in the assumptions.

Dilapidations

Dilapidations provisions exist where the Group has lease contracts under which the unavoidable costs of meeting its obligations under the contracts exceed the economic benefits expected to be received under them. The provisions comprise the Directors' best estimates of future payments to restore the fabric of buildings to their original condition where it is a condition of the leases prior to return of the properties.

These commitments cover the period from 2020 to 2029 though they predominantly fall due within five years.

Product warranty

Product warranty provisions reflect commitments made to customers on the sale of goods in the ordinary course of business and included within the Group companies' standard terms and conditions. The warranties represent assurance type warranties within the definition of IFRS 15. Warranty commitments cover a period of between one and five years and typically apply for a 12-month period. The provision represents the Directors' best estimate of the Group's liability based on past experience.

20 Provisions continued

Legal, contractual and other

Legal, contractual and other provisions comprise mainly amounts reserved against open legal and contractual disputes. The Company has on occasion been required to take legal or other actions to defend itself against proceedings brought by other parties. Provisions are made for the expected costs associated with such matters, based on past experience of similar items and other known factors, taking into account professional advice received, and represent Directors' best estimate of the likely outcome. The timing of utilisation of these provisions is frequently uncertain reflecting the complexity of issues and the outcome of various court proceedings and negotiations. Contractual and other provisions represent the Directors' best estimate of the cost of settling future obligations. Unless specific evidence exists to the contrary, these reserves are shown as current.

However, no provision is made for proceedings which have been or might be brought by other parties against Group companies unless the Directors, taking into account professional advice received, assess that it is more likely than not that such proceedings may be successful.

21 Trade and other payables: falling due after one year

	31 March 2020 £m	31 March 2019 £m
Other payables	2.5	2.0
Accruals	0.1	0.8
Contract liabilities (note 18)	10.0	8.2
Deferred government grant income	0.7	0.6
	13.3	11.6

22 Deferred tax

	Retirement benefit obligations £m	Acquired intangible assets £m	Accelerated tax depreciation £m	Short-term timing differences £m	Share-based payment £m	Goodwill timing differences £m	Total £m
At 1 April 2019	7.0	(46.6)	(5.4)	4.6	4.3	4.3	(31.8)
Impact of changes in accounting policies: IFRS 16 'Leases'	–	–	–	0.9	–	–	0.9
(Charge)/credit to Consolidated Income Statement	(2.5)	8.0	(0.6)	(1.7)	0.8	(3.8)	0.2
(Charge)/credit to Consolidated Statement of Comprehensive Income	(4.0)	–	–	0.1	–	–	(3.9)
Credit to equity	–	–	–	–	0.5	–	0.5
Arising on acquisition (note 25)	–	(30.0)	(0.1)	(0.2)	–	16.9	(13.4)
Exchange adjustments	–	(0.8)	(0.2)	0.4	–	0.7	0.1
At 31 March 2020	0.5	(69.4)	(6.3)	4.1	5.6	18.1	(47.4)

	Retirement benefit obligations £m	Acquired intangible assets £m	Accelerated tax depreciation £m	Short-term timing differences £m	Share-based payment £m	Goodwill timing differences £m	Total £m
At 1 April 2018	9.8	(45.7)	(4.3)	0.1	3.1	7.0	(30.0)
(Charge)/credit to Consolidated Income Statement	(1.5)	8.1	(0.8)	4.7	0.3	(3.0)	7.8
Charge to Consolidated Statement of Comprehensive Income	(1.3)	–	–	(0.3)	–	–	(1.6)
Credit to equity	–	–	–	–	0.9	–	0.9
Arising on acquisition	–	(6.7)	–	(0.2)	–	3.7	(3.2)
Exchange adjustments	–	(2.3)	(0.3)	0.3	–	(3.4)	(5.7)
At 31 March 2019	7.0	(46.6)	(5.4)	4.6	4.3	4.3	(31.8)

Notes to the Accounts continued

22 Deferred tax continued

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:

	1 March 2020 £m	31 March 2019 Restated £m
Deferred tax liability	(48.7)	(33.2)
Deferred tax asset	1.3	1.4
Net deferred tax liability	(47.4)	(31.8)

As part of a review of deferred tax balances as at 30 September 2019, some balances were identified (mainly relating to intangible assets on US acquisitions) that were previously presented gross but should have been netted off as they are in the same jurisdiction and there is a legally enforceable right to set off current tax assets against current tax liabilities. These balances have now been netted off. Restatements have been made to the prior year as at 31 March 2019, resulting in a netting down of assets and liabilities of £40.7m. There is no impact on net assets, cash or other KPIs. There was no impact on opening net assets as at 1 April 2018.

Deferred tax balances expected to unwind in less than one year are insignificant.

Movement in net deferred tax liability:

	31 March 2020 £m	31 March 2019 £m
At beginning of year	(31.8)	(30.0)
Impact of changes in accounting policies: IFRS 16 'Leases'	0.9	–
(Charge)/credit to Consolidated Income Statement:		
UK	(2.1)	(1.6)
Overseas	2.3	9.4
Charge to Consolidated Statement of Comprehensive Income	(3.9)	(1.6)
Credit to equity	0.5	0.9
Arising on acquisition (note 25)	(13.4)	(3.2)
Exchange adjustments	0.1	(5.7)
At end of year	(47.4)	(31.8)

It is likely that the unremitted earnings of overseas subsidiaries would qualify for the UK dividend exemption such that no UK tax would be due upon remitting those earnings to the UK. However, £75.1m (2019: £39.6m) of those earnings may still result in a tax liability, principally as a result of the dividend withholding taxes levied by the overseas jurisdictions in which those subsidiaries operate. These tax liabilities are not expected to exceed £5.7m (2019: £3.9m) of which only £0.7m has been provided as the Group is able to control the timing of the dividends. It is not expected that further amounts will crystallise in the foreseeable future.

At 31 March 2020 the Group had unused capital tax losses of £0.3m (2019: £0.3m) for which no deferred tax asset has been recognised.

23 Share capital

	Issued and fully paid	
	31 March 2020 £m	31 March 2019 £m
Ordinary shares of 10p each	38.0	38.0

The number of ordinary shares in issue at 31 March 2020 was 379,645,332 (2019: 379,645,332), including shares held by the Employee Benefit Trust of 760,894 (2019: 370,354).

24 Share-based payments

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

	Year ended 31 March 2020			Year ended 31 March 2019		
	Equity-settled £m	Cash-settled £m	Total £m	Equity-settled £m	Cash-settled £m	Total £m
Share incentive plan	0.9	–	0.9	0.6	–	0.6
Executive share plan	10.5	0.9	11.4	9.7	0.5	10.2
	11.4	0.9	12.3	10.3	0.5	10.8

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; vesting 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.

Executive share plan (ESP)

During the year ended 2 April 2016 the Group introduced the ESP, in which executive Directors and certain senior employees participate.

Deferred share awards are made under this Plan as either performance awards or deferred awards. Performance awards vest after three years based on Earnings Per Share and Return on Total Invested Capital (ROTC) targets, and after two or three years for deferred share awards based on continuing service of the employee only. Awards which do not vest, lapse on the second or third anniversary of their grant.

	2020 Number of shares awarded	2019 Number of shares awarded
Outstanding at beginning of year	2,289,919	2,597,268
Granted during the year	757,280	872,838
Vested during the year (pro-rated for 'good leavers')	(761,652)	(931,820)
Lapsed during the year	(109,683)	(248,367)
Outstanding at end of year	2,175,864	2,289,919
Exercisable at end of year	–	–

The performance shares outstanding at 31 March 2020 had a weighted average remaining contractual life of 12 months (2019: 14 months).

The fair value of the awards was calculated using an appropriate simulation method.

	2020	2019	2018
Expected life (years)	2/3	3	3
Share price on date of grant (p)	2,046.0	1,370.0	1,114.0
Option price (p)	Nil	Nil	Nil
Fair value per option (%)	100%	100%	100%
Fair value per option (p)	2,046.0	1,369.2	1,130.0

Cash settled

Awards under the above plans are normally settled in shares but may be settled in cash at the Board's discretion or where required by local regulations. Cash settled awards follow the same vesting conditions as the plans under which they are awarded.

Notes to the Accounts continued

25 Acquisitions

In accounting for acquisitions, adjustments are made to the book values of the net assets of the companies acquired to reflect their fair values to the Group. Acquired inventories are valued at fair value adopting Group bases and any liabilities for warranties relating to past trading are recognised. Other previously unrecognised assets and liabilities at acquisition are included and accounting policies are aligned with those of the Group where appropriate.

During the year ended 31 March 2020, the Group made ten acquisitions namely:

- Invenio Systems Limited.
- Enoveo SARL.
- Ampac Group.
- Infowave Solutions Inc.
- Certain trade and assets of NeoMedix Corporation.
- FireMate Software Pty. Ltd.
- NovaBone Products, LLC.
- Sensit Technologies, LLC.
- Certain trade and assets of Spreo LLC.
- Maxtec, LLC.

Below are summaries of the assets acquired and liabilities assumed and the purchase consideration of:

- a) the total of acquisitions;
- b) Invenio Systems Limited and Enoveo SARL;
- c) Ampac Group;
- d) Infowave Solutions Inc. and certain trade and assets of Spreo LLC;
- e) Certain trade and assets of NeoMedix Corporation;
- f) FireMate Software Pty. Ltd;
- g) NovaBone Products, LLC;
- h) Sensit Technologies, LLC;
- i) Maxtec, LLC; and
- j) The aggregate adjustments arising on prior year acquisitions.

Due to their contractual dates, the fair value of receivables acquired (shown below) approximate to the gross contractual amounts receivable. The amount of gross contractual receivables not expected to be recovered is immaterial.

There are no material contingent liabilities recognised in accordance with paragraph 23 of IFRS 3 (revised).

The combined fair value adjustments made for the acquisitions above under IFRS 3, excluding acquired intangible assets recognised and deferred taxation thereon, increased the goodwill recognised by £2.7m (2019: £2.0m increase).

The acquisitions contributed £36.8m of revenue and £6.9m of profit after tax for the year ended 31 March 2020.

If these acquisitions had been held since the start of the financial year, it is estimated that the Group's reported revenue and profit after tax would have been £53.7m higher and £6.9m higher respectively.

As at the date of approval of the financial statements, the acquisition accounting for all prior year acquisitions is complete. The accounting for all current year acquisitions is provisional; relating to finalisation of the initial consideration, which is subject to agreement of certain contractual adjustments, and certain other provisional balances.

25 Acquisitions continued

a) Total of acquisitions

	Total £m
Non-current assets	
Intangible assets	114.3
Property, plant and equipment	12.4
Investments	0.4
Deferred tax	0.4
Current assets	
Inventories	18.1
Trade and other receivables	13.2
Cash and cash equivalents	8.0
Total assets	166.8
Current liabilities	
Trade and other payables	(11.4)
Lease liabilities	(1.3)
Provisions	(0.3)
Corporation tax	(0.1)
Non-current liabilities	
Lease liabilities	(6.9)
Provisions	(0.1)
Deferred tax	(13.8)
Total liabilities	(33.9)
Net assets of businesses acquired	132.9
Non-controlling interest	(0.7)
Initial cash consideration paid	226.2
Additional amounts paid in respect of cash acquired	3.1
Amounts owed to vendors*	1.4
Contingent purchase consideration estimated to be paid in respect of current year acquisitions	25.8
Total consideration	256.5
Goodwill arising on acquisitions (current year)	122.5
Goodwill arising on acquisitions (prior year)	0.4
Total goodwill	122.9

* In respect of net tangible asset adjustments and various contractual adjustments relating to current year acquisitions of which £1.0m was paid in the current year.

Analysis of cash outflow in the Consolidated Cash Flow Statement

	Year ended 31 March 2020 £m	Year ended 31 March 2019 £m
Initial cash consideration paid	226.2	63.0
Cash acquired on acquisitions	(8.0)	(5.3)
Initial cash consideration adjustment and other amounts paid to vendors on current year acquisitions	4.1	5.7
Initial cash consideration adjustment on prior year acquisitions	–	(0.1)
Contingent consideration paid and loan notes repaid in cash in relation to prior year acquisitions*	10.5	3.7
Net cash outflow relating to acquisitions (per Consolidated Cash Flow Statement)	232.8	67.0

* The £10.5m comprises £0.1m loan notes and £10.4m contingent consideration paid in respect of prior period acquisitions all of which had been provided in the prior period's financial statements.

Notes to the Accounts continued

25 Acquisitions continued

b) Invenio Systems Limited ('Invenio') and Enoveo SARL ('Enoveo')

	Total £m
Non-current assets	
Intangible assets	2.1
Property, plant and equipment	0.3
Current assets	
Trade and other receivables	1.1
Cash and cash equivalents	0.2
Total assets	3.7
Current liabilities	
Trade and other payables	(0.6)
Non-current liabilities	
Deferred tax	(0.4)
Total liabilities	(1.0)
Net assets of businesses acquired	2.7
Initial cash consideration paid	2.9
Additional amounts paid in respect of cash acquired	0.1
Additional amounts owed to vendors*	0.5
Contingent purchase consideration estimated to be paid	2.1
Total consideration	5.6
Goodwill arising on acquisitions	2.9

* Relates mainly to other receivables from third parties acquired which are due to the vendors under the terms of the sale and purchase agreement when these balances are received.

Invenio

The Group acquired the entire share capital of Invenio Systems Limited ('Invenio') on 2 July 2019 for an initial cash consideration of £2.8m adjustable for cash acquired. The adjustment was determined to be £0.1m. The maximum contingent payable is £3.0m.

The contingent purchase consideration recognised represents the estimated amount payable, based on profit-based targets, for each of the three annual earnout periods, commencing 1 April 2019. Further detail of the earnout is given on page 171 in note 27.

Invenio, located in Durham, UK, is a market leader in customer-side leak detection, offering innovative, non-intrusive detection solutions for household leaks. Invenio has joined the Group as part of HWM, creating a global leader in leakage reduction within the Group's Environmental & Analysis sector.

The excess of the fair value of the consideration paid over the fair value of the assets acquired is represented by technology related intangibles of £1.3m and customer relationship intangibles of £0.4m; with residual goodwill arising of £2.5m. The goodwill represents:

- a) the technical expertise of the acquired workforce;
- b) the opportunity to leverage this expertise across some of Halma's businesses through future technologies; and
- c) the ability to exploit the Group's existing customer base.

Invenio contributed £1.0m of revenue for the year ended 31 March 2020.

Acquisition costs totalling £0.1m were recorded in the Consolidated Income Statement.

The goodwill arising on the acquisition is not expected to be deductible for tax purposes.

Enoveo

The Group also acquired the entire share capital of Enoveo on 1 July 2019 for an initial cash consideration of €0.2m (£0.1m). The maximum contingent consideration payable is €1.0m (£0.9m).

Enoveo, based in Lyon, France, provides services and monitoring tools for natural, urban or industrial aquatic environments. Enoveo has joined the Group as a bolt-on to Hydreka within the Environmental & Analysis sector.

The excess of the fair value of the consideration paid over the fair value of the assets acquired is represented by acquired intangibles of £0.4m, with residual goodwill arising of £0.4m.

There is no material impact on the Group's income statement for the year ended 31 March 2020 arising from the acquisition.

Acquisition costs totalling £0.1m were recorded in the Consolidated Income Statement.

The goodwill arising on the acquisition is not expected to be deductible for tax purposes.

25 Acquisitions continued

c) Ampac Group

	Total £m
Non-current assets	
Intangible assets	33.7
Property, plant and equipment	5.8
Deferred tax	0.4
Current assets	
Inventories	7.4
Trade and other receivables	5.3
Cash and cash equivalents	6.6
Total assets	59.2
Current liabilities	
Trade and other payables	(4.6)
Lease liabilities	(0.8)
Provisions	(0.1)
Corporation tax payable	(0.1)
Non-current liabilities	
Lease liabilities	(5.2)
Provisions	(0.1)
Deferred tax	(10.4)
Total liabilities	(21.3)
Net assets of business acquired	37.9
Initial cash consideration paid	75.2
Additional amounts paid in respect of cash acquired	3.0
Total consideration	78.2
Goodwill arising on acquisition	40.3

On 15 July 2019, the Group acquired the Ampac group ('Ampac') for an initial cash consideration of A\$135.0m (£75.2m), adjustable for cash acquired. The adjustment was determined to be A\$5.4m (£3.0m). The acquisition comprised of the trade and assets of Ampac Technologies Pty Ltd, Ampac Distributors Pty Ltd and Ampac Pacific Ltd and the entire share capital of Ampac Europe Ltd and Cranford Controls Ltd.

Ampac, headquartered in Perth, Australia with offices in Australia, New Zealand and the UK is a leading fire and evacuation systems supplier in the Australian and New Zealand markets. The company continues to run under its own management team and has become part of the Group's Infrastructure Safety sector.

The excess of the fair value of the consideration paid over the fair value of the assets acquired is represented by customer related intangibles of £19.0m; trade name of £6.9m and technology related intangibles of £7.3m; with residual goodwill arising of £40.3m. The goodwill represents:

- a) the technical expertise of the acquired workforce;
- b) the opportunity to leverage this expertise across some of Halma's businesses through future technologies; and
- c) the ability to exploit the Group's existing customer base.

Ampac contributed £24.3m of revenue and £4.6m of profit after tax for the year ended 31 March 2020.

If this acquisition had been held since the start of the financial year, it is estimated that the Group's reported revenue and profit after tax would have been £8.8m higher and £1.2m higher respectively.

Acquisition costs totalling £2.1m were recorded in the Consolidated Income Statement.

The goodwill arising on the Ampac acquisition is not expected to be deductible for tax purposes.

Notes to the Accounts continued

25 Acquisitions continued

d) Infowave Solutions Inc. and certain trade and assets of Spreo LLC

	Total £m
Non-current assets	
Intangible assets	3.4
Current assets	
Trade and other receivables	0.5
Cash and cash equivalents	0.1
Total assets	4.0
Current liabilities	
Trade and other payables	(1.1)
Non-current liabilities	
Deferred tax	(0.4)
Total liabilities	(1.5)
Net assets of businesses acquired	2.5
Initial cash consideration paid	7.2
Contingent purchase consideration estimated to be paid	1.3
Total consideration	8.5
Goodwill arising on acquisitions	6.0

On 2 October 2019, the Group acquired the entire share capital of Infowave Solutions Inc. ('Infowave') for an initial cash consideration of US\$8.3m (£6.8m). Maximum contingent purchase payable is US\$4.0m (£3.3m).

On 12 February 2020, the Group acquired certain trade and assets of Spreo LLC ('Spreo') for an initial cash consideration of US\$0.5m (£0.4m). Maximum contingent consideration payable is US\$5.0m (£3.8m). Further detail of the earnouts is given on page 171 in note 27.

Infowave, located in Indiana, USA, and certain trade and assets of Spreo have joined the Group as part of CenTrak within the Medical sector, complementing CenTrak's hardware capabilities with software, data and navigation capabilities.

The current contingent consideration payable represents, for Infowave the fair value of the estimated amounts payable for each of two annual consecutive earnout periods, commencing 1 April 2020, and for Spreo the fair value of the estimated amounts payable for each of three annual consecutive earnout periods, commencing 1 April 2020. The earnout in each period is calculated by reference to the relevant earnings for the period compared to the target for the period. Further detail of the earnout is given on page 171 in note 27.

The excess of the fair value of the consideration paid over the fair value of the assets acquired is represented by customer related intangibles of £1.2m; trade name of £0.4m and technology related intangibles of £1.8m; with residual goodwill arising of £6.0m. The goodwill represents:

- a) the technical expertise of the acquired workforce;
- b) the opportunity to leverage this expertise across some of Halma's businesses through future technologies; and
- c) the ability to exploit the Group's existing customer base.

Infowave and Spreo contributed £1.4m of revenue and £0.6m of profit after tax for the year ended 31 March 2020.

If these acquisitions had been held since the start of the financial year, it is estimated that the Group's reported revenue and profit after tax would have been £2.2m higher and £0.5m higher respectively.

Acquisition costs totalling £0.2m were recorded in the Consolidated Income Statement.

The goodwill arising on these acquisitions is expected to be deductible for tax purposes.

25 Acquisitions continued

e) Certain trade and assets of NeoMedix Corporation

	Total £m
Non-current assets	
Intangible assets	10.6
Current assets	
Inventories	0.8
Total assets	11.4
Non-current liabilities	
Deferred tax	(0.2)
Total liabilities	(0.2)
Net assets of business acquired	11.2
Initial cash consideration paid	6.5
Amounts owed to vendor*	0.5
Contingent purchase consideration estimated to be paid	9.4
Total consideration	16.4
Goodwill arising on acquisition	5.2

* Relates to additional payments to the vendor under the contractual arrangements in the sale and purchase agreement.

On 4 October 2019, the Group acquired certain trade and assets of NeoMedix Corporation ('NeoMedix') for an initial cash consideration of US\$8.0m (£6.5m). Maximum contingent consideration payable is US\$17.0m (£14.0m).

The current contingent consideration payable represents the fair value of the estimated amounts payable for each of three annual consecutive earnout periods, commencing on the acquisition date. The earnout in each period is calculated by reference to the relevant revenue for the period compared to the target for the period, with the third earnout period only effective if the earnout for periods one and two exceed US\$12.0m. Further detail of the earnout is given on page 171 in note 27.

The glaucoma-related business and assets of NeoMedix were acquired by MicroSurgical Technology within the Medical sector to enhance the Group's offering in this area of expertise.

The excess of the fair value of the consideration paid over the fair value of the assets acquired is represented by technology related intangibles of £10.6m; with residual goodwill arising of £5.2m. The goodwill represents the ability to exploit the Group's existing customer base.

NeoMedix contributed £1.2m of revenue for the year ended 31 March 2020.

If this acquisition had been held since the start of the financial year, it is estimated that the Group's reported revenue would have been £1.4m higher.

Acquisition costs totalling £0.1m were recorded in the Consolidated Income Statement.

The goodwill arising on this acquisition is expected to be deductible for tax purposes.

Notes to the Accounts continued

25 Acquisitions continued

f) FireMate Software Pty. Ltd.

	Total £m
Non-current assets	
Intangible assets	2.8
Property, plant and equipment	0.1
Current assets	
Cash and cash equivalents	0.6
Total assets	3.5
Current liabilities	
Trade and other payables	(0.4)
Non-current liabilities	
Deferred tax	(0.8)
Total liabilities	(1.2)
Net assets of business acquired	2.3
Non-controlling interest	0.7
Initial cash consideration paid	6.3
Contingent purchase consideration estimated to be paid	2.6
Total consideration	8.9
Goodwill arising on acquisition	5.9

On 13 January 2020, the Group acquired 70% of the share capital of FireMate Software Pty. Ltd. ('FireMate') for an initial cash consideration of A\$11.8m (£6.3m). Maximum contingent consideration payable is A\$6.4m (£3.3m). There is also an option for the Group to purchase the remaining 30% of FireMate, exercisable in the six months from 31 March 2025 based on a multiple of EBIT for the financial year ending 31 March 2025.

The current contingent consideration payable represents the fair value of the estimated amounts payable based on performance to 30 June 2022. The earnout is calculated by reference to the relevant monthly subscription revenue for the period compared to the target. Further detail of the earnout is given on page 171 in note 27.

FireMate, located in Brisbane, Australia, provides cloud-based fire protection management software to fire contractors and will further strengthen the Group's capabilities in connected and integrated fire systems internationally. The company will continue to run under its own management team and will become part of the Group's Infrastructure Safety sector.

The excess of the fair value of the consideration paid over the fair value of the assets acquired is represented by customer related intangibles of £1.7m; trade name of £0.4m and technology related intangibles of £0.7m; with residual goodwill arising of £5.9m.

The goodwill represents:

- a) the technical expertise of the acquired workforce;
- b) the opportunity to leverage this expertise across some of Halma's businesses through future technologies; and
- c) the ability to exploit the Group's existing customer base.

There is no material impact on the Group's income statement for the year ended 31 March 2020 arising from this acquisition.

If this acquisition had been held since the start of the financial year, it is estimated that the Group's reported revenue would have been £1.3m higher.

Acquisition costs totalling £0.2m were recorded in the Consolidated Income Statement.

The goodwill arising on this acquisition is not expected to be deductible for tax purposes.

25 Acquisitions continued

g) NovaBone Products, LLC

	Total £m
Non-current assets	
Intangible assets	35.6
Investments	0.4
Property, plant and equipment	1.9
Current assets	
Inventories	3.2
Trade and other receivables	2.4
Cash and cash equivalents	0.1
Total assets	43.6
Current liabilities	
Trade and other payables	(1.2)
Lease liabilities	(0.1)
Non-current liabilities	
Lease liabilities	(0.1)
Deferred tax	(0.6)
Total liabilities	(2.0)
Net assets of business acquired	41.6
Initial cash consideration paid	73.6
Amounts owed to vendor*	0.4
Contingent purchase consideration estimated to be paid	10.4
Total consideration	84.4
Goodwill arising on acquisition	42.8

* In respect of an investment held on acquisition of £0.4m, sold in March 2020 and repaid to vendors in April 2020.

On 24 January 2020, the Group acquired the entire members' interests of NovaBone Products, LLC ('NovaBone') for an initial cash consideration of US\$96.5m (£73.6m). The initial cash consideration comprised the purchase price of US\$97.0m (£74.0m) plus the purchase of freehold property of US\$1.7m (£1.3m) less working capital adjustments of US\$0.5m (£0.4m) and US\$1.7m (£1.3m) held as holdback amounts in place of escrow balances. Maximum contingent consideration payable is US\$40.0m (£30.5m) plus the holdback amounts.

The current contingent consideration payable (excluding holdback amounts) represents the fair value of the estimated amounts payable for each of two annual consecutive earnout periods, commencing 1 April 2020. The earnout in each period is calculated by reference to the relevant earnings for the period compared to the target for the period. Further detail of the earnout is given on page 171 in note 27.

NovaBone, located in Florida, USA, produces products that are used to accelerate bone regeneration, primarily for orthopaedic and dental surgical procedures in the USA. It has strong technology and knowhow within the fast-growing biologics segment, developing biomaterials that harness the body's natural healing process to accelerate bone growth. The company continues to run under its own management team and has become part of the Group's Medical sector.

The excess of the fair value of the consideration paid over the fair value of the assets acquired is represented by customer related intangibles of £8.9m; trade name of £3.0m and technology related intangibles of £23.7m; with residual goodwill arising of £42.8m.

The goodwill represents:

- a) the technical expertise of the acquired workforce;
- b) the opportunity to leverage this expertise across some of Halma's businesses through future technologies; and
- c) the ability to exploit the Group's existing customer base.

NovaBone contributed £2.3m of revenue and £0.5m of profit after tax for the year ended 31 March 2020.

If this acquisition had been held since the start of the financial year, it is estimated that the Group's reported revenue and profit after tax would have been £12.3m higher and £3.1m higher respectively.

Acquisition costs totalling £1.7m were recorded in the Consolidated Income Statement.

The goodwill arising on this acquisition is expected to be deductible for tax purposes.

Notes to the Accounts continued

25 Acquisitions continued

h) Sensit Technologies, LLC

	Total £m
Non-current assets	
Intangible assets	18.3
Property, plant and equipment	2.2
Current assets	
Inventories	4.4
Trade and other receivables	2.0
Cash and cash equivalents	0.4
Total assets	27.3
Current liabilities	
Trade and other payables	(1.6)
Lease liabilities	(0.2)
Provisions	(0.1)
Non-current liabilities	
Lease liabilities	(0.8)
Deferred tax	(0.5)
Total liabilities	(3.2)
Net assets of business acquired	24.1
Initial cash consideration paid	39.2
Total consideration	39.2
Goodwill arising on acquisition	15.1

On 4 February 2020, the Group acquired the entire members' interests of Sensit Technologies, LLC ('Sensit') for an initial cash consideration of US\$51.5m (£39.2m). There is no contingent consideration.

Sensit, located in Indiana, USA, manufactures products that enable natural gas utilities to detect leaks in their pipes, reducing climate change effects by minimising emissions of methane, protecting workers in the natural gas distribution industry, and ensuring compliance with regulatory standards. Its technologies are also used in emergency response situations by firefighters entering burning buildings to ensure that they do not face explosion risk due to leaking natural gas. The company continues to run under its own management team and has become part of the Group's Process Safety sector.

The excess of the fair value of the consideration paid over the fair value of the assets acquired is represented by customer related intangibles of £6.6m; trade name of £2.9m and technology related intangibles of £8.5m; with residual goodwill arising of £15.1m.

The goodwill represents:

- a) the technical expertise of the acquired workforce;
- b) the opportunity to leverage this expertise across some of Halma's businesses through future technologies; and
- c) the ability to exploit the Group's existing customer base.

Sensit contributed £3.9m of revenue and £0.5m of profit after tax for the year ended 31 March 2020.

If this acquisition had been held since the start of the financial year, it is estimated that the Group's reported revenue and profit after tax would have been £14.5m higher and £1.6m higher respectively.

Acquisition costs totalling £0.7m were recorded in the Consolidated Income Statement.

The goodwill arising on this acquisition is expected to be deductible for tax purposes.

25 Acquisitions continued

i) Maxtec, LLC

	Total £m
Non-current assets	
Intangible assets	7.8
Property, plant and equipment	2.1
Current assets	
Inventories	2.3
Trade and other receivables	1.9
Total assets	14.1
Current liabilities	
Trade and other payables	(1.9)
Lease liabilities	(0.2)
Provisions	(0.1)
Non-current liabilities	
Lease liabilities	(0.8)
Deferred tax	(0.1)
Total liabilities	(3.1)
Net assets of business acquired	11.0
Initial cash consideration paid	15.3
Total consideration	15.3
Goodwill arising on acquisition	4.3

On 20 February 2020, the Group acquired the entire members' interests of Maxtec, LLC ('Maxtec') for an initial cash consideration of US\$20.0m (£15.3m). There is no contingent consideration payable.

Maxtec, located in Utah, USA, is a leader in the design, manufacture and distribution of oxygen analysis and delivery products for use in medical and non-medical applications. Maxtec specialises in innovative products for respiratory care, including oxygen sensors and analysers for use in hospital acute care units. Maxtec has joined Perma Pure within the Medical sector, whose medical dehydration products are also used in acute care units. Key members of Maxtec's leadership team remain with the business and it continues to operate in its current facility.

The excess of the fair value of the consideration paid over the fair value of the assets acquired is represented by customer related intangibles of £3.7m; trade name of £1.5m and technology related intangibles of £2.5m; with residual goodwill arising of £4.3m.

The goodwill represents:

- a) the technical expertise of the acquired workforce;
- b) the opportunity to leverage this expertise across some of Halma's businesses through future technologies; and
- c) the ability to exploit the Group's existing customer base.

Maxtec contributed £2.1m of revenue and £0.3m of profit after tax for the year ended 31 March 2020.

If this acquisition had been held since the start of the financial year, it is estimated that the Group's reported revenue and profit after tax would have been £12.7m higher and £0.7m higher respectively.

Acquisition costs totalling £0.3m were recorded in the Consolidated Income Statement.

The goodwill arising on this acquisition is expected to be deductible for tax purposes.

j) Adjustments in respect of prior year acquisitions

	Total £m
Non-current liabilities	
Deferred tax	(0.4)
Total liabilities	(0.4)
Net adjustments to assets of businesses acquired in prior years	(0.4)
Adjustment to goodwill	0.4

In finalising the acquisition accounting for the prior year acquisition of Navtech, adjustments of £0.4m were made to increase the deferred tax liability resulting in a corresponding increase in goodwill of £0.4m.

The adjustment was not material and as such the comparative balance sheet was not restated; instead the adjustments have been made through the current year.

Notes to the Accounts continued

26 Notes to the Consolidated Cash Flow Statement

	Year ended 31 March 2020 £m	Year ended 31 March 2019 £m
Reconciliation of profit from operations to net cash inflow from operating activities:		
Profit on continuing operations before finance income and expense, share of results of associate and loss on disposal of operations	233.4	217.8
Financial instruments at fair value through profit or loss	0.1	(0.1)
Depreciation of property, plant and equipment	35.8	20.0
Amortisation of computer software	2.2	1.8
Amortisation of capitalised development costs and other intangibles	8.4	8.8
Impairment of capitalised development costs	5.2	0.7
Amortisation of acquired intangible assets	38.3	35.6
Share-based payment expense in excess of amounts paid	4.8	4.7
Payments to defined benefit pension plans net of charge	(12.5)	(9.3)
Profit on sale of property, plant and equipment and computer software	(0.1)	(0.6)
Operating cash flows before movement in working capital	315.6	279.4
Increase in inventories	(5.1)	(9.2)
Increase in receivables	(9.0)	(15.3)
Increase in payables and provisions	8.9	8.2
Revision to estimate of, and exchange differences arising on, contingent consideration payable	(2.5)	(3.5)
Cash generated from operations	307.9	259.6
Taxation paid	(52.4)	(40.6)
Net cash inflow from operating activities	255.5	219.0
Analysis of cash and cash equivalents		
Cash and bank balances	106.3	81.2
Overdrafts (included in current borrowings)	(0.9)	(9.1)
Cash and cash equivalents	105.4	72.1

26 Notes to the Consolidated Cash Flow Statement continued

	1 April 2019 £m	Restatement for changes in accounting standards IFRS 16 £m	Restated as at 1 April 2019 £m	Cash flow £m	Net cash/ (debt) acquired £m	Loan notes repaid £m	Reclassification and additions £m	Exchange adjustments £m	31 March 2020 £m
Analysis of net debt									
Cash and bank balances	81.2	–	81.2	16.6	8.0	–	–	0.5	106.3
Overdrafts	(9.1)	–	(9.1)	8.2	–	–	–	–	(0.9)
Cash and cash equivalents	72.1	–	72.1	24.8	8.0	–	–	0.5	105.4
Loan notes falling due within one year	(0.1)	–	(0.1)	–	–	0.1	(74.2)	–	(74.2)
Loan notes falling due after more than one year	(179.3)	–	(179.3)	–	–	–	74.2	(3.5)	(108.6)
Bank loans falling due after more than one year	(74.4)	–	(74.4)	(156.4)	–	–	–	(5.6)	(236.4)
Lease liabilities	–	(50.3)	(50.3)	15.8	(8.2)	–	(18.1)	(0.7)	(61.5)
Total net debt	(181.7)	(50.3)	(232.0)	(115.8)	(0.2)	0.1	(18.1)	(9.3)	(375.3)

The net increase in cash and cash equivalents of £32.8m comprised cash inflow of £24.8m and cash acquired of £8.0m.

The net cash inflow from bank loans of £156.4m comprised drawdowns of £308.1m offset by repayments of £151.7m.

The net cash outflow from loan notes relates to £0.1m repayment of existing loan notes issued in relation to the previous acquisition of Advanced Electronics Limited.

Reconciliation of movements of the Group's liabilities from financing activities

Liabilities from financing activities are those for which cash flows were, or will be, classified as cash flows from financing activities in the Consolidated Cash Flow Statement.

	1 April 2019 £m	Restatement for changes in accounting standards IFRS 16 £m	Changes from financing cash flows £m	Acquisition of subsidiaries £m	Other changes*	Effects of foreign exchange £m	31 March 2020 £m
Loan notes falling due within one year	0.1	–	(0.1)	–	74.2	–	74.2
Overdraft	9.1	–	–	–	(8.2)	–	0.9
Lease liabilities	–	10.7	(15.8)	1.3	16.8	–	13.0
Borrowings and lease liabilities (current)	9.2	10.7	(15.9)	1.3	82.8	–	88.1
Loan notes falling due after more than one year	179.3	–	–	–	(74.2)	3.5	108.6
Bank loans falling due after more than one year	74.4	–	156.4	–	–	5.6	236.4
Lease liabilities	–	39.6	–	6.9	1.3	0.7	48.5
Borrowings and lease liabilities (non-current)	253.7	39.6	156.4	6.9	(72.9)	9.8	393.5
Total liabilities from financing activities	262.9	50.3	140.5	8.2	9.9	9.8	481.6
Trade and other payables: falling due within one year	164.8	–	(9.0)	11.4	19.0	0.5	186.7

* Other changes include movements in overdraft which is treated as cash, interest accruals, reclassifications from non-current to current liabilities and other movements in working capital balances.

Notes to the Accounts continued

27 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 geographic 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. The Group's policies have remained unchanged since the beginning of the financial year.

Details of the significant accounting policies and methods adopted (including the criteria for recognition, the basis of measurement and the bases of recognition of income and expenses) for each class of financial asset, financial liability and equity instrument are disclosed in the Accounting Policies note.

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 19 to the Financial statements, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in the Consolidated Statement of Changes in Equity.

The Group is not subject to externally imposed capital requirements.

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') currencies. 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 a proportion of the net exposure is hedged by means of forward foreign currency contracts.

The Group has significant investments in overseas operations in the USA and EU, with further investments in Australia, New Zealand, Singapore, Switzerland, Brazil, 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. Longer-term funding is provided by the Group's bank loan facilities which are at floating rates, or by the Group's fixed rate United States Private Placement completed in November 2015.

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

Credit risk

Credit risk is defined as the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties, as a means of mitigating the risk of financial loss from defaults. Credit ratings are supplied by independent agencies where available, and if not available, the Group uses other publicly available financial information and its own trading records to rate its major customers. Credit exposure is controlled by counterparty limits that are reviewed regularly.

Trade receivables consist of a large number of customers, spread across diverse industries and geographic areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable and, where appropriate, credit guarantee insurance cover is purchased.

The carrying amount of trade, tax and other receivables, contract assets, derivative financial instruments and cash of £386.3m (2019: £323.3m) represents the Group's maximum exposure to credit risk as no collateral or other credit enhancements are held.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

27 Financial instruments continued

Liquidity risk

The Group has a syndicated multi-currency revolving credit facility of £550m. The facility, in Sterling, US Dollar, Euro, Australian Dollar and Swiss Franc, currently runs to November 2023.

In addition, in November 2015 the Group completed a United States Private Placement and issued US\$250m of loan notes in January 2016, repayable at five, seven and ten-year intervals. These facilities are the main sources of long-term funding for the Group.

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, some operating companies utilise local bank overdrafts. These practices allow a balance to be maintained between continuity of funding, security and flexibility.

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 £1.3m (2019: £1.1m) impact on the Group's reported profit before tax; and a one per cent change in the value of the Euro relative to Sterling would have had a £0.3m (2019: £0.3m) impact on the Group's profit before tax for the year ended 31 March 2020.

Transactional exposures

The Group 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 US Dollar and Euro. Group policy is for a significant portion of 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 £1.6m at 31 March 2020 (2019: £4.7m). These comprised Sterling denominated bank deposits of £0.1m (2019: £0.3m), and Euro, US Dollar and Renminbi bank deposits of £1.5m (2019: £4.4m) which earn interest at local market rates. Cash balances of £104.7m (2019: £76.5m) earn interest at local market rates.

The financial liabilities which are subject to interest rate fluctuations comprise bank loans and overdrafts which totalled £237.3m at 31 March 2020 (2019: £83.5m). All bank loans bear interest at floating rates where the fixed period can be up to six months.

Interest rates are based on the LIBOR of the currency in which the liabilities arise plus a small margin. Bank overdrafts bear interest at local market rates.

The loan notes related to the United States Private Placement attract interest at a weighted average fixed rate of 2.53%.

The Group's weighted average interest cost on net debt for the year was 3.48% (2019: 3.95%). Including IFRS16 lease liabilities, the weighted average interest cost on net debt for the year was 3.52%.

	31 March 2020 £m	31 March 2019 £m
Analysis of interest-bearing financial liabilities		
Sterling denominated bank loans	50.0	–
US Dollar denominated bank loans	146.7	59.4
Euro denominated bank loans	–	6.4
Australian Dollar denominated bank loans	30.5	–
Swiss Franc denominated bank loans	9.2	8.6
Total bank loans	236.4	74.4
Overdrafts (principally Sterling and US Dollar denominated)	0.9	9.1
Sterling denominated loan notes	82.0	82.2
US Dollar denominated loan notes	51.4	49.0
Euro denominated loan notes	49.4	48.2
Total interest-bearing financial liabilities	420.1	262.9

For the year ended 31 March 2020 it is estimated that a general increase of one percentage point in interest rates would have reduced the Group's profit before tax by £1.8m (2019: £1.0m).

Notes to the Accounts continued

27 Financial instruments continued

Maturity of financial liabilities

The gross contractual maturities of the Group's non-derivative financial liabilities that are neither current nor on demand are as follows.

	One to two years £m	Between two and five years £m	After more than five years £m	Gross maturities £m	Effect of discounting/ financing rates £m	Total £m
At 31 March 2020						
Accruals	0.1	–	–	0.1	–	0.1
Other payables	1.2	0.3	1.0	2.5	–	2.5
Contingent purchase consideration	14.4	4.4	–	18.8	–	18.8
Other provisions	1.0	1.2	0.6	2.8	–	2.8
Bank loans	–	236.4	–	236.4	–	236.4
Loan notes	2.0	75.7	35.0	112.7	(4.1)	108.6
Lease liabilities	15.1	35.1	15.0	65.2	(16.7)	48.5
	33.8	353.1	51.6	438.5	(20.8)	417.7

	One to two years £m	Between two and five years £m	After more than five years £m	Gross maturities £m	Effect of discounting/ financing rates £m	Total £m
At 31 March 2019						
Accruals	0.1	0.2	0.5	0.8	–	0.8
Other payables	0.9	0.3	0.8	2.0	–	2.0
Contingent purchase consideration	5.9	2.1	–	8.0	–	8.0
Other provisions	1.1	1.2	0.6	2.9	–	2.9
Bank loans	–	74.4	–	74.4	–	74.4
Loan notes	76.8	83.1	37.1	197.0	(17.7)	179.3
	84.8	161.3	39.0	285.1	(17.7)	267.4

The Group's bank loans are revolving credit facilities and the amount and timing of future payments and drawdowns is unknown. It is therefore not possible to calculate the interest arising on these loans and we have therefore not disclosed the maturity of the gross cash flows (including interest) in relation to these liabilities.

Borrowing facilities

The Group's principal sources of long-term funding are its unsecured five-year £550m Revolving Credit Facility and its US\$250m United States Private Placement. The Revolving Credit Facility was refinanced in November 2016 and initially ran to November 2021. Effective November 2017, the Group extended this facility for a further year to November 2022, and effective November 2018 for a further year to November 2023.

The United States Private Placement of US\$250m was completed in November 2015. The unsecured loan notes were drawn on 6 January 2016 as £82m, €56m and US\$64m at a weighted average fixed interest rate of 2.53%. The loan notes mature at five, seven and ten-year intervals, with first maturity date in January 2021. Interest is payable half yearly.

The Group's undrawn committed facilities available at 31 March 2020 were £313.6m (2019: £475.6m) of which £nil (2019: £nil) matures within one year and £313.6m (2019: £475.6m) between two and five years.

The Group has an additional short-term unsecured and committed US bank facility, £12m maturing in November 2023. The facility was undrawn at 31 March 2020.

Other 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.

UK companies have cross-guaranteed £15.3m (2019: £15.3m) of overdraft facilities of which £0.9m (2019: £9.1m) was drawn.

27 Financial instruments continued

Fair values of financial assets and financial liabilities

With the exception of the Group's fixed rate loan notes, there were no significant differences between the book value and fair value (as determined by market value) of the Group's financial assets and liabilities.

The fair value of floating borrowings approximates to the carrying value because interest rates are reset to market rates at intervals of less than one year.

The fair value of the Group's fixed rate loan notes arising from the United States Private Placement completed in January 2016 is estimated to be £187.4m (2019: £180.7m). The fair value is estimated by discounting the future contracted cash flow using readily available market data and represents a level 2 measurement in the fair value hierarchy under IFRS 7.

The fair value of derivative financial instruments is estimated by discounting the future contracted cash flow, using readily available market data, and represents a level 2 measurement in the fair value hierarchy under IFRS 7.

The fair value of equity investments held at fair value through other comprehensive income are based on the latest observable price where available. Where there are no recent observable prices, adjustments are made based on qualitative indicators, such as the financial performance of the entity, performance against operational milestones and future outlook. This represents a level 3 measurement in the fair value hierarchy under IFRS 7. In the current year, due to the proximity of their purchase to the year-end date, and in the absence of any other indicator, the acquisition value is considered to equal fair value.

The fair value of deferred contingent consideration arising on acquisitions is calculated by estimating the possible future cash flows for the acquired company identified as best, base and worst-case scenarios, using probability weightings of 25%, 50% and 25% respectively. These scenarios are based on management's knowledge of the business and how the current economic environment is likely to impact it. The relevant future cash flows are dependent on the specific terms of the sale and purchase agreement. Those terms are as follows:

- Navtech – Based on 7.5 times multiple of EBIT excluding R&D capitalisation and amortisation above a target threshold of £3.6m for the year ended 31 March 2021, subject to a maximum earn out of £9.4m.
- Invenio – For the years ended 31 March 2021 and 31 March 2022, where EBIT exceeds the prior year EBIT, the earn out is 60% of the prior year EBIT plus 95% of the growth in EBIT over the prior year. Where EBIT is equal to or lower than prior year EBIT, the earn-out is 60% of EBIT. Subject to a maximum earn out of £1m in each year.
- Enoveo – Based on 2 times multiple of EBIT above a target threshold of €0.6m (£0.5m) and €0.9m (£0.8m) for the years ended 31 March 2021 and 31 March 2022 respectively, subject to a maximum earn out of €0.4m (£0.3m) in each year.
- Infowave – Based on 6 times multiple of EBIT above the greater of the prior year EBIT or target thresholds US\$1.2m (£1.0m) and US\$1.4m (£1.1m) for the years ended 31 March 2021 and 31 March 2022 respectively, subject to a maximum of US\$2.0m (£1.6m) in each year.
- NeoMedix – Based on the two years following the acquisition date respectively; 4 times multiple of revenue exceeding US\$3.0m (£2.4m), subject to a maximum earn out of US\$7.0m (£5.6m), 4 times multiple of revenue exceeding the greater of US\$3.0m (£2.4m) and the revenue in the first earn out period for second year, subject to a maximum earn out of US\$7.0m (£5.6m) or a total earn out of US\$12.0m (£9.6m) for the two earn out periods. Where revenue for the first two earn out periods exceeds US\$12.0m (£9.6m), a third earn out period will apply based on 2 times multiple of revenue exceeding the greater of the revenue in the first earn out period and the revenue in the second earn out period, subject to a maximum earn out of US\$5.0m (£4.0m).
- FireMate – A one-off earn out payment of A\$6.4m (£3.2m) payable on FireMate achieving domestic subscription revenue of A\$0.3m (£0.1m) in any one month up to 30 June 2022.
- NovaBone – Based on 5 times multiple of prorated EBIT above a target of US\$7.3m (£5.9m) up to US\$7.5m (£6.0m) and 10 times multiple of prorated EBIT above US\$7.5m (£6.0m) for the period from acquisition to 31 March 2021, subject to a maximum of US\$25.0m (£20.1m). Based on 5 times multiple of EBIT of the greater of 108% of the prior year annual EBIT or a target of the US\$8.1m (£6.5m) up to the greater of 110% of actual prior year EBIT or US\$8.2m (£6.6m) and 10 times multiple of EBIT above the greater of 110% of actual prior year EBIT or US\$8.2m (£6.6m) for the year to 31 March 2022, subject to a maximum earn out of US\$25.0m (£20.1m). Subject to an overall maximum earn out of US\$40.0m (£32.1m).
- Spreo – Based on 30% of qualifying healthcare revenue for the period from acquisition to 31 March 2021, up to a maximum earn out of US\$1.0m (£0.8m) and for the years ended 31 March 2022 and 31 March 2023 up to a maximum earn out of US\$2.0m (£1.6m) in each year.

This calculation represents a level 3 measurement in the fair value hierarchy under IFRS 7. The fair value is sensitive to the weighting assigned to the expected future cash flows. For those earnouts where the payable is based on expectations of future cash flows, a change in weighting of 10 percentage points towards the best-case scenario would result in an increase in the estimate of future cash flows as follows:

	Current expected future cash flow £m	10 pp shift in weighting towards upside expectation £m
Navtech	7.8	0.6
Invenio	1.4	0.1
Enoveo	0.5	–
Infowave	1.9	0.3
NeoMedix	8.3	0.9
FireMate	2.4	0.3
NovaBone	1.4	0.5
Spreo	0.4	–

Notes to the Accounts continued

27 Financial instruments continued

Classification of financial assets and liabilities

All financial assets and liabilities, with the exception of financial assets at fair value through other comprehensive income, derivatives and contingent purchase consideration, are classified as amortised cost for accounting purposes.

Derivatives in a hedging relationship are classified as cash flow hedging instruments. Derivatives not in a hedging relationship are classified as fair value through profit or loss.

Contingent purchase consideration is classified as fair value through profit or loss.

Hedging

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 fair value, which is typically £nil, and subsequent changes in fair value are taken to the Consolidated Income Statement, unless hedge accounted.

The following table details the foreign currency contracts outstanding as at the year end, which mostly mature within one year and therefore the cash flows and resulting effect on profit and loss are expected to occur within the next 12 months:

	Average exchange rate/£		Foreign currency		Contract value		Fair value
	31 March 2020	31 March 2019	31 March 2020 m	31 March 2019 m	31 March 2020 £m	31 March 2019 £m	31 March 2020 £m
Forward contracts not in a designated cash flow hedge							
US Dollars	1.27	1.32	1.4	0.9	1.1	0.7	–
Euros	–	1.16	–	2.8	–	2.4	–
Other currencies					1.4	18.5	(0.1)
					2.5	21.6	(0.1)
Forward contracts in a designated cash flow hedge							
US Dollars	1.28	1.26	5.4	2.4	4.2	1.9	(0.1)
Euros	1.13	1.13	24.0	25.8	21.2	23.0	–
Other currencies	–				10.3	8.8	0.2
					35.7	33.7	0.1
Total forward contracts							
US Dollars	1.28	1.28	6.7	3.3	5.3	2.6	(0.1)
Euros	1.13	1.13	24.0	28.6	21.2	25.4	–
Other currencies					11.7	27.3	0.1
					38.2	55.3	–
Amounts recognised in the Consolidated Income Statement							(0.1)
Amounts recognised in the Consolidated Statement of Comprehensive Income and Expenditure							0.1
							–
							0.6

The fair values of the forward contracts are disclosed as a £1.0m (2019: £0.9m) asset and £1.0m (2019: £0.3m) liability in the Consolidated Balance Sheet. Of the £1.4m (2019: £18.5m) of open contracts for other currencies not in a designated cash flow hedge £nil (2019: £16.9m) relates to a Swiss Franc contract for expected cash flows between two subsidiaries within the Group.

Any movements in the fair values of the contracts in a designated cash flow hedge are recognised in equity until the hedged transaction occurs, when gains/losses are recycled to finance income or finance expense.

	31 March 2020 £m	31 March 2019 £m
Analysis of movement in the Hedging reserve		
Amounts removed from Consolidated Statement of Changes in Equity and included in Consolidated Income Statement during the year	(0.4)	(0.4)
Amounts recognised in the Consolidated Statement of Comprehensive Income and Expenditure	(0.1)	0.4
Net movement in the Hedging reserve in the year in relation to the effective portion of changes in fair value of cash flow hedges	(0.5)	–

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedging instrument.

There was no ineffectiveness arising with regards to forward contracts in a designated cash flow hedge.

The foreign currency forwards are denominated in the same currency as the highly probable future transactions.

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

27 Financial instruments continued

Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates. The Group enters into derivative financial instruments to manage its exposure to foreign currency risk, including:

- Forward foreign exchange contracts to hedge the exchange rate risk arising on the export of goods to and from the USA, Mainland Europe and the UK.
- Foreign exchange loans to hedge the exchange rate risk arising on translation of the Group's investment in foreign operations which have the Euro, US Dollar, Australian Dollar and Swiss Franc as their functional currencies.

Bank loans and loan notes with a carrying value set out in the table on page 169 are used as net investment hedges for foreign currency net assets with carrying value of €56.0m (2019: €63.5m), US\$246.5m (US\$141.4m), A\$61.8m (2019 A\$nil) and CHF11.1m (2019: CHF11.1m). The hedging ratio was 1:1. The change in the carrying value of the borrowings that was recognised in other comprehensive income was a loss of £11.9m (2019: loss of £7.9m).

Market risk exposures are measured using sensitivity analysis as described below.

There has been no change to the Group's exposure to market risks or in the manner in which these risks are managed and measured.

Foreign currency sensitivity analysis

The Group is mainly exposed to the currency of the USA (US Dollar) and the currency of Mainland Europe (Euro).

The carrying amount of the Group's US Dollar and Euro denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Assets	Liabilities		
	31 March 2020 £m	31 March 2019 £m	31 March 2020 £m	31 March 2019 £m
US Dollar	1,007.6	764.8	327.9	190.0
Euro	254.5	242.2	97.4	81.6

If Sterling increased by 10% against the US Dollar and the Euro, profits before taxation and other equity would decrease as follows:

	US Dollar	Euro		
	31 March 2020 £m	31 March 2019 £m	31 March 2020 £m	31 March 2019 £m
Profit	12.3	10.5	3.0	2.9
Other equity	61.8	61.8	14.3	19.3

The profit 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 profit sensitivity has increased against the US Dollar because more of the Group's profits is earned in this currency.

28 Commitments

Capital commitments

Capital expenditure relating to the purchase of equipment authorised and contracted at 31 March 2020 but not recognised in these accounts amounts to £1.6m (2019: £2.5m).

Commitments under leases

The Group has entered into commercial leases on properties and other equipment. From 1 April 2019, the Group has recognised Right of Use assets for these leases with the exception of short-term and low value leases; the value of which are disclosed in Note 6.

As at 31 March 2020, potential future cash outflows of £12.5m (undiscounted) have not been included in the lease liability because it is not reasonably certain that the leases will be extended. During the current year the financial effect of revising lease terms to reflect the exercising of extension and termination options was an increase in recognised lease liabilities and right of use assets of £0.1m.

Notes to the Accounts continued

29 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 (both UK) have defined benefit sections with assets held in separate trustee administered funds. Both of these sections had already closed to new entrants in 2002/03 and closed to future benefit accruals for 2014/15. From that date, the former defined benefit members joined the existing defined contribution section within the Halma Group Pension Plan.

Overseas subsidiaries have adopted mainly defined contribution plans, with the exception of small defined benefit plans in the Swiss entities of Medicel AG and Robutec AG.

Total pension costs of £11.6m (2019: £13.3m) recognised in employee costs (note 7), comprise £10.8m (2019: £10.4m) related to defined contribution plans and £0.8m (2019: £2.9m) related to defined benefit plans, including administration expenses of £0.5m (2019: £0.5m) and in the prior year the past service charge for the effect of equalisation of pension benefits for men and women in the defined benefit plans ('Guaranteed Minimum Pension equalisation').

Defined contribution plans

The amount charged to the Consolidated Income Statement in respect of defined contribution plans was £10.8m (2019: £10.4m) and represents contributions payable to these plans by the Group at rates specified in the rules of the plans. The assets of the plans are held separately from those of the Group in funds under the control of trustees. Where there are employees who leave the plans prior to vesting fully in the contributions, the ancillary contributions payable by the Group may be reduced by the amount of forfeited contributions.

Defined benefit plans

The Group's significant defined benefit plans are for qualifying employees of its UK subsidiaries. Under the plans, the employees are entitled to retirement benefits of up to two thirds of final pensionable salary on attainment of a retirement age of 60, for members of the Executive Board, and 65, for all other qualifying employees. No other post-retirement benefits are provided. The plans are funded plans.

The most recent actuarial valuation of the Halma Group Pension Plan was carried out for the Trustees of the Plan as at 30 November 2017 by Mr A Gibbons, Fellow of the Institute and Faculty of Actuaries, of Mercer Limited. The present value of the liabilities was measured using the Projected Unit method. This method is an accrued benefits valuation method in which the plan liabilities include an allowance for projected earnings.

The most recent actuarial valuation of the Apollo Pension and Life Assurance Plan was carried out for the Trustees of the Plan as at 1 April 2018 by Mr M Whitcombe, Fellow of the Institute and Faculty of Actuaries, also of Mercer Limited. The same Projected Unit method was used.

An alternative to the projected unit credit method is a valuation on a solvency basis, which is an estimate of the cost of buying out benefits with a suitable insurance company. This amount represents the amount that would be required to settle the plan liabilities rather than the Group continuing to fund the ongoing liabilities of the Plans. The most recent estimate of the solvency liability was £375.4m as at 30 November 2017 for the Halma Group Pension Plan and £104.2m as at 1 April 2018 for the Apollo Pension and Life Assurance Plan.

	31 March 2020	31 March 2019	1 April 2018
Key assumptions used (UK plans):			
Discount rate	2.55%	2.40%	2.50%
Expected return on plan assets	2.55%	2.40%	2.50%
Expected rate of salary increases (while still applicable)	n/a	n/a	3.10%
Pension increases LPI 2.5%	1.85%	2.10%	2.10%
Pension increases LPI 3.0%	2.05%	2.40%	2.30%
Inflation – RPI	2.50%	3.20%	3.10%
Inflation – CPI	1.70%	2.20%	2.10%

During the year, the Group reduced the margin between RPI and CPI inflation from 1.0% to 0.8% to reflect the changes announced in September 2019 by the UK Government to adjust the RPI index formula so that it is equal to CPI inflation no later than 2030.

In line with market practices, commencing in the prior year, the Group adopted a 'single agency' approach to bond ratings and has excluded non-corporate bonds. The changes increased the discount rate as at 31 March 2019 by 0.2%, offset by a 0.3% reduction from changes in market conditions.

29 Retirement benefits continued

Mortality assumptions

CMI tables have been used, consistent with those used in the recently completed triennial valuations. The assumed life expectations on retirement at age 65 are:

	31 March 2020 Years	31 March 2019 Years	31 March 2018 Years
Retiring today:			
Males	22.1	22.1	22.1
Females	24.0	24.0	24.0
Retiring in 20 years:			
Males	23.5	23.5	23.5
Females	25.5	25.5	25.5

The sensitivities regarding the principal assumptions used to measure the UK plan liabilities are set out below:

Assumption	Change in assumption	Impact on plan liabilities
Discount rate	Increase/decrease by 0.5%	Decrease by 8.2%/increase by 9.2%
Rate of inflation	Increase/decrease by 0.5%	Increase by 5.5%/decrease by 5.1%
Rate of mortality	Decrease by one year	Decrease by 3.6%

Amounts recognised in the Consolidated Income Statement in respect of the UK and Swiss defined benefit plans are as follows:

	31 March 2020			31 March 2019		
	UK defined benefit plans £m	Other defined benefit plans £m	Total £m	UK defined benefit plans £m	Other defined benefit plans £m	Total £m
Current service cost	–	0.3	0.3	–	0.3	0.3
Guaranteed Minimum Pension equalisation	–	–	–	2.1	–	2.1
Net interest charge on pension plan liabilities	0.8	–	0.8	1.2	–	1.2
	0.8	0.3	1.1	3.3	0.3	3.6

The Guaranteed Minimum Pension equalisation amount of £2.1m, recognised in the prior year, is an estimate calculated by the Group's actuary, Mercer, to value the effect of equalising benefits between men and women in the UK schemes, following the judgement on 26 October 2018 in relation to the Lloyds Banking Group's case. The exercise to finalise the adjustment is ongoing with any further changes treated as a change in actuarial assumption through other comprehensive income.

Actuarial gains and losses have been reported in the Consolidated Statement of Comprehensive Income and Expenditure.

The actual return on plan assets was a gain of £4.5m (2019: gain of £17.4m).

The cumulative amount of actuarial losses recognised in the Consolidated Statement of Comprehensive Income and Expenditure since the date of transition to IFRS is £59.2m (2019: £81.7m).

The amount included in the Consolidated Balance Sheet arising from the Group's obligations in respect of its defined benefit retirement plans is as follows:

	31 March 2020			31 March 2019		
	UK defined benefit plans £m	Other defined benefit plans £m	Total £m	UK defined benefit plans £m	Other defined benefit plans £m	Total £m
Present value of defined benefit obligations	(296.1)	(7.9)	(304.0)	(325.4)	(6.0)	(331.4)
Fair value of plan assets	293.3	5.5	298.8	287.6	4.6	292.2
Net Retirement benefit obligation	(2.8)	(2.4)	(5.2)	(37.8)	(1.4)	(39.2)
Plans with net retirement benefit assets	5.4	–	5.4	–	–	–
Plans with net retirement benefit obligations	(8.2)	(2.4)	(10.6)	(37.8)	(1.4)	(39.2)

Under the current arrangements, cash contributions in the region of £13-14m per year will be made for the immediate future with the objective of eliminating the pension deficit.

Notes to the Accounts continued

29 Retirement benefits continued

Movements in the present value of the UK and Swiss defined benefit obligations were as follows:

	Year ended 31 March 2020 £m	Year ended 31 March 2019 £m
At beginning of year	(331.4)	(325.6)
Service cost	(0.3)	(0.3)
Past service charge	–	(2.1)
Interest cost	(7.8)	(8.0)
Remeasurement gains/(losses):		
Actuarial losses and gains arising from changes in demographic assumptions	–	(0.2)
Actuarial losses and gains arising from changes in financial assumptions	25.1	(9.4)
Actuarial gains and losses arising from experience adjustments	(0.1)	5.5
Contributions from plan members	(0.5)	(0.5)
Benefits paid	11.5	9.2
Foreign exchange	(0.5)	–
At end of year	(304.0)	(331.4)

Movements in the fair value of the UK and Swiss plan assets were as follows:

	Year ended 31 March 2020 £m	Year ended 31 March 2019 £m
At beginning of year	292.2	271.7
Interest income	7.0	6.8
Actuarial (losses)/gains excluding interest income	(2.5)	10.6
Contributions from the sponsoring companies	12.8	11.7
Contributions from plan members	0.5	0.5
Benefits paid	(11.5)	(9.2)
Foreign exchange	0.3	0.1
At end of year	298.8	292.2

The net movement on actuarial gains and losses of the UK and Swiss plans was as follows:

	Year ended 31 March 2020 £m	Year ended 31 March 2019 £m
Defined benefit obligations	25.0	(4.1)
Fair value of plan assets	(2.5)	10.6
Net actuarial gains	22.5	6.5

The analysis of the UK plan assets and the expected rate of return at the balance sheet date were as follows:

Fair value of assets	31 March 2020		31 March 2019	
	Total £m	Total £m	Total £m	Total £m
Equity instruments	77.1	95.4		
Debt instruments	194.4	172.3		
Property/infrastructure/cash	21.8	19.9		
	293.3	287.6		

All the UK plan assets are market quoted.

	Expected rate of return	
	31 March 2020 %	31 March 2019 %
Equity instruments	2.55	2.40
Debt instruments	2.55	2.40
Property/infrastructure/cash	2.55	2.40
	2.55	2.40

Assets in the non-UK plans are primarily insurance assets.

29 Retirement benefits continued

In conjunction with the trustees, the Group conducts asset-liability reviews for its defined benefit pension plan. The results of these reviews are used to assist the trustees and the Group to determine the optimal long-term asset allocation with regard to the structure of the liabilities of the plan. They are also used to assist the trustees in managing the volatility in the underlying investment performance and risk of a significant increase in the defined benefit deficit by providing information used to determine the plan's investment strategy.

As a consequence, the Group is progressively giving more emphasis to a closer return matching of plan assets and liabilities, both to ensure the long-term security of its defined benefit commitment and to reduce earnings and balance sheet volatility.

Based on the most recent actuarial valuation, the estimated amount of contributions expected to be paid to the UK and Swiss plans during the year ended 31 March 2021 is £13.7m.

The levels of contributions are based on the current service cost and the expected future cash flows of the defined benefit pension plans. The Group estimates the plan liabilities on average to fall due over 20 and 25 years, respectively, for the Halma and Apollo plans.

The Group has considered the requirements of IFRIC 14 with respect to the UK plans and has determined that it has an unconditional right to a refund under the plans and therefore IFRIC 14 does not have any practical impact on the plans and so no allowance for it (and, in particular, no allowance for the asset ceiling) has been made in the calculated figures.

The expected maturity analysis of the undiscounted pension obligation for the next ten years is as follows:

	Less than one year £m	Between one and two years £m	Between two and five years £m	Between five and ten years £m	Total £m
At 31 March 2020					
Halma	10.1	10.4	33.0	61.2	114.7
Apollo	1.2	1.3	4.0	7.4	13.9

30 Disposal of operations

In January 2020, following its IPO, the Group disposed of its entire interest in Optomed Oy to third parties for proceeds of €8.6m (£7.2m). This transaction resulted in the recognition of a gain in the Consolidated Income Statement as follows:

	£m
Proceeds of disposal	7.2
Less: carrying amount of investment on disposal	(3.8)
Less: costs of disposal	(0.4)
Less: foreign exchange loss recycled to income statement on disposal	(0.1)
Profit on disposal	2.9

Cash received on disposal of operations in the year of £7.6m comprised of proceeds from the sale of Optomed Oy of £7.2m, less £0.4m of disposal costs, plus £0.8m received from escrow relating to the sale of Accudynamics in the prior year.

In the prior year, on 30 June 2018, the Group sold the trade and assets of Accudynamics Inc, part of the Fluid Technology CGU group, for sale proceeds of £4.2m less disposal costs of £0.3m, of which £3.1m was received during the prior year, and £0.8m in the current year. The net assets on disposal were £4.4m comprising plant and equipment, inventory and trade receivables and payables, which together with the disposal of related goodwill of £0.8m and disposal costs of £0.3m, offset by the recycling of foreign exchange gains of £0.3m, resulted in a net loss on disposal (before taxation) of £1.0m.

Notes to the Accounts continued

31 Contingent liabilities

Group financing exemptions applicable to UK controlled foreign companies

As previously reported, on 24 November 2017 the European Commission published an opening decision that the United Kingdom controlled foreign company ('CFC') group financing partial exemption ('FCPE') constitutes State Aid. On 2 April 2019, the European Commission's final decision concluded that the FCPE rules, as they applied up to 31 December 2018, constitute State Aid. On 12 June 2019, the UK government applied to annul the EC decision. The Group's application to annul the EC decision on the CFC FCPE was registered in the General Court on 9 September 2019 and has been stayed pending the outcome of the UK government's appeal. The Group has benefitted from the FCPE and the total benefit to date at 31 March 2020 was approximately £15.4m (2019: £15.4m) in respect of tax and approximately £1.2m (31 March 2019: £0.6m) in respect of interest. Based on its current assessment, the Group believes no provision is required at this time.

Other contingent liabilities

The Group has widespread global operations and is consequently a defendant in many legal, tax and customs proceedings incidental to those operations. In addition, there are contingent liabilities arising in the normal course of business in respect of indemnities, warranties and guarantees. These contingent liabilities are not considered to be unusual in the context of the normal operating activities of the Group. Provisions have been recognised in accordance with the Group accounting policies where required. None of these claims are expected to result in a material gain or loss to the Group.

32 Events subsequent to end of reporting period

There were no known material non-adjusting events which occurred between the end of the reporting period and prior to the authorisation of these financial statements on 14 July 2020.

33 Related party transactions

Trading transactions

	Year ended 31 March 2020 £m	Year ended 31 March 2019 £m
Associated companies		
Transactions with associated companies		
Purchases from associated companies	1.0	1.3
Balances with associated companies		
Amounts due to associated companies	–	0.2
Other related parties		
Balances with other related parties		
Amounts due to other related parties	–	–

All the transactions above are on an arm's length basis and on standard business terms.

Remuneration of key management personnel

The remuneration of the Directors and Executive Board members, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 'Related Party Disclosures'. Further information about the remuneration of individual Directors is provided in the audited part of the Annual Remuneration Report on pages 82 to 95.

	Year ended 31 March 2020 £m	Year ended 31 March 2019 £m
Wages and salaries	7.8	6.8
Pension costs	0.2	0.2
Share-based payment charge	4.3	3.3
	12.3	10.3

Company Balance Sheet

	Notes	31 March 2020 £m	31 March 2019 £m
Fixed assets			
Intangible assets	C3	0.7	0.4
Tangible assets	C4	6.4	5.3
Investments	C5	300.0	284.3
Retirement benefit asset	C13	5.4	-
Deferred tax asset	C10	0.7	5.3
		313.2	295.3
Current assets			
Debtors	C6	806.9	628.5
Short-term deposits		0.1	0.1
Current tax		0.6	4.5
Cash at bank and in hand		1.6	1.8
		809.2	634.9
Creditors: amounts falling due within one year			
Borrowings	C7	99.0	29.6
Creditors	C8	80.5	74.4
		179.5	104.0
Net current assets		629.7	530.9
Total assets less current liabilities		942.9	826.2
Creditors: amounts falling due after more than one year			
Borrowings	C7	345.0	253.7
Retirement benefit obligations	C13	-	22.3
Creditors	C9	21.2	20.5
Net assets		576.7	529.7
Capital and reserves			
Share capital	C11	38.0	38.0
Share premium account		23.6	23.6
Own shares		(14.3)	(4.7)
Capital redemption reserve		0.2	0.2
Other reserves		(29.5)	(22.2)
Profit and loss account		558.7	494.8
Total equity		576.7	529.7

The Company reported a profit for the financial year ended 31 March 2020 of £108.5m (2019: £75.0m).

The financial statements of Halma plc, company number 00040932, were approved by the Board of Directors on 14 July 2020.

Andrew Williams
Director

Marc Ronchetti
Director

Company Statement of Changes in Equity

	Share capital £m	Share premium account £m	Own shares £m	Capital redemption reserve £m	Other reserves £m	Profit and loss account £m	Total £m
At 1 April 2019	38.0	23.6	(4.7)	0.2	(22.2)	494.8	529.7
Profit for the year	-	-	-	-	-	108.5	108.5
Other comprehensive income and expense:							
Actuarial gains on defined benefit pension plan	-	-	-	-	-	19.5	19.5
Tax relating to components of other comprehensive income and expense	-	-	-	-	-	(3.5)	(3.5)
Total other comprehensive income for the year	-	-	-	-	-	16.0	16.0
Dividends paid	-	-	-	-	-	(61.2)	(61.2)
Share-based payment charge	-	-	-	-	5.7	-	5.7
Deferred tax on share-based payment transactions	-	-	-	-	0.1	-	0.1
Excess tax deductions related to exercised share awards	-	-	-	-	-	0.6	0.6
Purchase of Own shares	-	-	(16.7)	-	-	-	(16.7)
Performance share plan awards vested	-	-	7.1	-	(13.1)	-	(6.0)
At 31 March 2020	38.0	23.6	(14.3)	0.2	(29.5)	558.7	576.7
At 1 April 2018	38.0	23.6	(6.3)	0.2	(17.5)	469.5	507.5
Profit for the year	-	-	-	-	-	75.0	75.0
Other comprehensive income and expense:							
Actuarial gains on defined benefit pension plan	-	-	-	-	-	8.3	8.3
Tax relating to components of other comprehensive income and expense	-	-	-	-	-	(1.6)	(1.6)
Total other comprehensive income for the year	-	-	-	-	-	6.7	6.7
Dividends paid	-	-	-	-	-	(57.2)	(57.2)
Share-based payment charge	-	-	-	-	5.3	-	5.3
Deferred tax on share-based payment transactions	-	-	-	-	0.3	-	0.3
Excess tax deductions related to exercised share awards	-	-	-	-	-	0.8	0.8
Purchase of Own shares	-	-	(3.8)	-	-	-	(3.8)
Performance share plan awards vested	-	-	5.4	-	(10.3)	-	(4.9)
At 31 March 2019	38.0	23.6	(4.7)	0.2	(22.2)	494.8	529.7

Notes to the Company Accounts

C1 Accounting policies

Basis of preparation

The separate Company financial statements are presented as required by the Companies Act 2006 and have been prepared on the historical cost and going concern basis, and in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' except for the revaluation of certain financial instruments and contingent purchase consideration at fair value as permitted by the Companies Act 2006.

The principal accounting policies have been applied consistently in both the current and prior year.

Financial reporting standard 101 – reduced disclosure exemptions

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- The requirements of paragraphs 45(b) and 46–52 of IFRS 2 Share-based payment.
- The requirements of IFRS 7 Financial Instruments: Disclosures.
- Paragraph 79(a)(iv) of IAS 1.
- Paragraph 73(e) of IAS 16 Property, Plant and Equipment.
- Paragraph 118(e) of IAS 38 Intangible Assets.
- The requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134–136 of IAS 1 Presentation of Financial Statements.
- The requirements of IAS 7 Statement of Cash Flows.
- The requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.
- The requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.
- Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation).

New Standards and Interpretations applied for the first time in the year ended 31 March 2020

The following Standards and Interpretations applied for the first time, with effect from 1 April 2019, and have been adopted in the preparation of these Company Accounts.

- IFRS 16 'Leases'.
- Amendments to IAS 19: Plan amendment, Curtailment of Settlement.
- Annual improvements 2015–2017 cycle.
- IFRIC Interpretation 23: Uncertainty over Income Tax Treatments.
- Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures.

None of the above mentioned new Standards and Interpretations have affected the Company's results.

Significant accounting judgements and estimates

In preparing the financial statements, management has made judgements, estimates and assumptions that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and assumptions are reviewed on an ongoing basis and are based on historical experience and various other factors that are believed to be reasonable under the circumstances.

Significant accounting estimates are used in determining the value of the future defined benefit obligation which requires estimation in respect of the assumptions used to calculate present values. These include future mortality, discount rate and inflation. Management determines these assumptions in consultation with an independent actuary. Details of the estimates made in calculating the defined benefit obligation are disclosed in note 29 to the Group accounts.

In addition, significant estimates are required in determining whether there is impairment of the Company's investments which requires estimation of the investments' value in use. The value in use calculation requires the Company to estimate the future cash flows expected to arise from the investments and apply suitable discount rates in order to calculate present values.

There are no significant judgements used by management in preparing the Company's financial statements.

Summary of significant accounting policies

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.

Financial Instruments

The Company recognises financial instruments when it becomes a party to the contractual arrangements of the instrument. Financial instruments are de-recognised when they are discharged or when the contractual terms expire. The Company's accounting policies in respect of financial instruments transactions are explained below:

Financial assets

The Company recognises its financial assets into one of the categories discussed below, depending on the purpose for which the asset was acquired.

Notes to the Company Accounts continued

C1 Accounting policies continued

Financial assets continued

Other than the financial assets in a qualifying hedging relationship, the Company's accounting policy for each category is as follows:

Fair value through profit or loss – These are carried in the balance sheet at fair value with changes in fair value recognised in the Profit and Loss Account.

Amortised costs – Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (other group companies), but also incorporate other types of contractual monetary asset. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

The Company's receivables relate entirely to balances due from other group companies. Where the intercompany receivable is payable on demand the Company determines whether any impairment provision is required by assessing the company's ability to repay the loan. Where it is considered that the Company does not have the capacity to repay the loan or the loan is not repayable on demand, an expected credit loss model is used to calculate the impairment provision required.

Financial liabilities

The Company classifies its financial liabilities into one of the categories discussed below, depending on the purpose for which the liability was acquired.

Fair value through profit or loss – These comprise only out-of-the-money derivatives. They are carried in the balance sheet at fair value with changes in fair value recognised in the Profit and Loss Account.

At amortised cost – Financial liabilities at amortised cost including bank borrowings are initially recognised at fair value. Such interest-bearing liabilities are subsequently measured at amortised cost using the effective interest rate method.

Interest bearing loans and borrowings

Interest bearing loans and borrowings are initially recognised in the balance sheet at fair value less directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest rate method.

Share-based payments

The Company has adopted IFRS 2 and the accounting policies followed are in all material respects the same as the Group's policy. This policy is shown on page 128.

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%
Plant, equipment and vehicles	8% to 33.3%

Pensions

The Company makes contributions to defined contribution pension plans, which are charged against profits when they become payable. The Company also operates a UK defined benefit pension plan. For defined benefit plans, the asset or liability recorded in the Company Balance Sheet is the difference between the fair value of the plan's assets and the present value of the defined obligation at that date. The defined benefit obligation is calculated separately for the plan on an annual basis by an independent actuary using the projected unit credit method.

Actuarial gains and losses are recognised in full in the year in which they occur, and are taken to other comprehensive income.

Current and past service costs, along with the impact of settlements or curtailments, are charged to profit and loss. The unwinding of the discounting on the net liability is recognised within finance income or expense as appropriate.

Taxation

Tax on the profit or loss for the year comprises both current and deferred tax. Tax is recognised in the Profit and Loss Account except to the extent that it relates to items recognised either in other comprehensive income or directly in equity.

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

Deferred taxation is provided on taxable temporary differences between the carrying amounts of assets and liabilities in the financial statements and their corresponding tax bases. Deferred tax is measured at the tax rates that are expected to apply in the periods in which the temporary differences are expected to reverse, based on tax rates and laws that have been enacted or substantively 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.

The recognition of deferred tax assets is dependent on assessments of future taxable income.

C2 Result for the year

As permitted by Section 408(3) of the Companies Act 2006, the Profit and Loss Account of Halma plc is not presented as part of these accounts. The Company has reported a profit after taxation for the financial year of £108.5m (2019: £75.0m).

Auditors' remuneration for audit services to the Company was £0.5m (2019: £0.3m).

Total employee costs (including Directors) were:

	Year ended 31 March 2020 £m	Year ended 31 March 2019 £m
Wages and salaries	20.3	16.3
Social security costs	2.6	2.0
Pension costs	1.1	0.9
	24.0	19.2

Included within wages and salaries are share-based payment charges under IFRS 2 of £5.5m (2019: £4.3m).

	Year ended 31 March 2020 Number	Year ended 31 March 2019 Number
Monthly average number of employees (all in the UK)	79	67

Details of Directors' remuneration are set out on pages 82 to 95 within the Annual Remuneration Report and form part of these financial statements.

C3 Fixed assets – intangible assets

	Computer Software £m
Cost	
At 1 April 2019	1.3
Additions at cost	0.5
At 31 March 2020	1.8
Accumulated amortisation	
At 1 April 2019	0.9
Charge for the year	0.2
At 31 March 2020	1.1
Carrying amounts at 31 March 2020	0.7
At 31 March 2019	0.4

Notes to the Company Accounts continued

C4 Fixed assets – tangible assets

	Freehold properties £m	Plant equipment and vehicles £m	Total £m
Cost			
At 1 April 2019	5.3	1.5	6.8
Additions at cost	1.0	0.5	1.5
Disposals	–	(0.3)	(0.3)
At 31 March 2020	6.3	1.7	8.0
Accumulated depreciation			
At 1 April 2019	0.8	0.7	1.5
Charge for the year	0.1	0.3	0.4
Disposals	–	(0.3)	(0.3)
At 31 March 2020	0.9	0.7	1.6
Carrying amounts at 31 March 2020	5.4	1.0	6.4
At 31 March 2019	4.5	0.8	5.3

C5 Investments

Shares in Group companies

	31 March 2020 £m	31 March 2019 £m
At cost less amounts written off at beginning of year	284.3	249.5
Increase in investments	20.5	34.8
Decrease in investments	(4.8)	–
At cost less amounts written off at end of year	300.0	284.3

The increase of £20.5m in the year comprises additions from acquisitions in the period: £4.9m for the acquisition of Invenio Systems Limited including estimated deferred contingent consideration of £1.5m and £5.4m for the acquisition of Ampac Europe Limited. There was also an additional investment of £0.6m in the year in an existing subsidiary, Halma Euro Trading Limited and an investment of £9.6m in a new subsidiary incorporated in the year, Halma Ventures Limited. The decrease in investment of £4.8m relates to the return of capital from Halma Ventures Limited on the sale of its investment in Optomed Oy. See note 30 to the Consolidated Financial Statements for further details of the disposal of Optomed Oy.

In the prior year the increase of £34.8m in the year comprises additions from acquisitions in the period: £1.1m for the 100% acquisition of LAN Control Systems Limited including estimated deferred contingent consideration of £0.1m, and £33.1m for the acquisition of Navtech Radar Limited including estimated deferred contingent consideration of £8.2m. There was also an additional investment of £0.6m in the year in an existing subsidiary, Halma Euro Trading Limited.

Subsidiaries

Details of the Company's subsidiaries at 31 March 2020 are below.

Name	Registered Address	Country	Class	Group %
A & G Security Electronics Limited	(1)	United Kingdom	Ordinary Shares	100*
Accutome, Inc.	3222 Phoenixville Pike, Malvern PA 19355	United States	Ordinary Shares	100
ADI Holdings LLC	240 Kenneth Welch Drive, Lakeville, 02347 MA	United States	Ordinary Shares	100
Adler Diamant BV	Simon Homburgstraat 21, 5431 NN Cuijk	Netherlands	Ordinary Shares	100
Advanced Electronics Limited	34 Moorland Way, Nelson Park, Cramlington, Northumberland NE23 1WE	United Kingdom	Ordinary Shares	100*
Advanced Fire Systems Inc.	100 South Street, Hopkinton MA 01748	United States	Common Stock	100
Alicat Scientific, Inc.	7641 N Business Park Drive, Tucson AZ 85743	United States	Common Stock	100
Alicat BV	Geograaf 24, 6921 EW Duiven	Netherlands	Ordinary Shares	100
Ampac Europe Limited	Unit 2, Waterbrook Estate, Waterbrook Road, Alton, Hampshire, GU34 2UD	United Kingdom	Ordinary Shares	100*
Ampac NZ Limited	125 The Terrace, Wellington Central, Wellington, 6011	New Zealand	Ordinary Shares	100
Ampac Pty Limited	7 Ledgar Road, Balcatta, Western Australia, 6021	Australia	Ordinary Shares	100
Analytical Development Company Limited	(1)	United Kingdom	Ordinary Shares	100*
Apollo (Beijing) Fire Products Co. Ltd	Block A5, Jinghai Industrial Park, No. 156 Jinghai Fourth Road, BDA Beijing	China	Ordinary Shares	100
Apollo America, Inc.	25 Corporate Drive, Auburn Hills MI 48326	United States	Common Stock	100
Apollo Fire Detectors Limited	36 Brookside Road, Havant, Hampshire PO9 1JR	United Kingdom	Ordinary & Deferred Shares	100*
Apollo GmbH	Am Anger 31, D-33332 Gütersloh	Germany	Ordinary Shares	100
Aquionics, Inc.	1455 Jamike Avenue, Suite 100, Erlanger Kentucky 41018	United States	Ordinary Shares	100
Argus Security S.R.L.	Via Maurizio Gonzaga no. 7, Milan, 20123	Italy	Quotas	100
ASL Holdings Limited	Ty Coch House, Llantarnam Park Way, Cwmbran, Gwent NP44 3AW	United Kingdom	Ordinary Shares	100*
Avire Elevator Technology India Pte. Ltd	Plot A/147, Road No. 24, Wagle Industrial Estate, Thane West, 400604	India	Ordinary & Preference Shares	100
Avire Elevator Technology Shanghai Ltd	4 Floor, Buling 75, No.1066, Qinzhou Road, Shanghai, 200233	China	Ordinary Shares	100
Avire Global Pte. Ltd	80 Raffles Place, #32-01 UOB Plaza, 048624	Singapore	Ordinary Shares	100
Avire Inc.	415 Oser Avenue, Suite Q, Hauppauge NY 11788	United States	Ordinary Shares	100
Avire Limited	Unit 1 The Switchback Gardner Road, Maidenhead, Berkshire SL6 7RJ	United Kingdom	Ordinary Shares	100
Avire Trading Limited	Unit 1 The Switchback Gardner Road, Maidenhead, Berkshire SL6 7RJ	United Kingdom	Ordinary Shares	100*
Avire s.r.o.	Okružní 2615, České Budějovice, 370 01	Czech Republic	Ordinary Shares	100
Avo Photonics (Canada) Inc.	20 Mural Street, Unit 7, Richmond Hill, Ontario L4B 1K3	Canada	A & B Shares	100
Avo Photonics, Inc.	700 Business Center Drive, Suite 125, Horsham PA 19044	United States	A & B Preferred Stock & Common Stock	100
B.E.A. Holdings, Inc.	100 Enterprise Drive, RIDC West, Pittsburgh PA 15275	United States	Ordinary Shares	100
B.E.A. Inc.	100 Enterprise Drive, RIDC West, Pittsburgh PA 15275	United States	Ordinary Shares	100
B.E.A. Investments, Inc.	100 Enterprise Drive, RIDC West, Pittsburgh PA 15275	United States	Ordinary Shares	100
Baoding Longer Precision Pump Co., Ltd	Building A, Chuangye Center, Baoding National High-Tech Development Zone, Baoding, Hebei, 071051	China	Ordinary Shares	100
BEA Electronics (Beijing) Co Ltd	Room 5959, Shenchang Building, No.51, Zhichun Road, Haidian District, Beijing	China	Ordinary Shares	100
BEA Electronics Singapore Pte. Ltd	16 Raffles Quay, #38-03 Hong Leong Building, Singapore 048581	Singapore	Ordinary Shares	100

Notes to the Company Accounts continued

Name	Registered Address	Country	Class	Group %
BEA Japan KK	154-0012 Komazawa, Setagaya-ku 3-28-11, Tokyo	Japan	Ordinary Shares	100
Beijing Ker'Kang Instrument Limited Company	Unit 316, Area 1 Tower B, Chuangxin Building, 12 Hongda North Rd, Beijing, 100176	China	Ordinary Shares	100
Berson Milieutechniek BV	PO Box 90, 5670 AB Nuenen	Netherlands	Ordinary Shares	100
Bio-Chem Fluidics, Inc.	85 Fulton Street, Boonton New Jersey 07005	United States	Ordinary Shares	100
Bureau d'Electronique appliquée S.A.	Allée des Noisetiers 5, Liège Science Park B-4031 LIEGE-Angleur	Belgium	Ordinary Shares	100
Business Marketers Group, Inc (trading as Rath Communications)	24720 N Corporate Cir, Sussex WI 53089.	United States	Ordinary shares	100
Cardios Sistemas Comercial e Industrial Ltda	Avenida Paulista, 509, 1º e 2º andares, conjuntos 201, 212, 213 e 214, Bela Vista, São Paulo, Estado de São Paulo, CEP 01311-910	Brazil	Quotas	100
Cardio Dinâmica Ltda	Avenida Paulista nº 509, 16º andar, conjuntos 1601 e 1602, São Paulo, Estado de São Paulo, CEP 01311-910-0	Brazil	Quotas	100
Castell Interlocks, Inc.	Suite 865, 150 N Michigan Avenue, Chicago Illinois 60601	United States	Ordinary Shares	100
Castell Locks Limited	(1)	United Kingdom	Ordinary Shares	100*
Castell Safety International Limited	The Castell Building, 217 Kingsbury Road, London NW9 9PQ	United Kingdom	Ordinary Shares	100*
Castell Safety Technology Limited	(1)	United Kingdom	Ordinary Shares	100*
CEF Safety Systems BV	Delftweg 69, 2289 BA Rijswijk	Netherlands	Ordinary Shares	100
CenTrak, Inc.	125 Pheasant Run, Newton PA 18940	United States	Common Stock	100
Clinical Patents, LLC	125 Pheasant Run, Newton PA 18940	United States	Common Stock	100
Cosasco Middle East (FZE)	P.O Box 442042, Dubai	UAE	Common Stock	100
Cosasco Middle East (FZE)	PO Box 8186, SAIF Zone, Sharjah	UAE	Common Stock	100
Cranford Controls Limited	Unit 2, Waterbrook Estate, Waterbrrok Road, Alton, Hampshire, GU34 2UD	United Kingdom	Ordinary Shares	100
Crowcon Detection Instruments Limited	172 Brook Drive, Milton Park, Milton, Abingdon, Oxfordshire OX14 4SD	United Kingdom	A & Ordinary Shares	100*
Diba Industries Limited	2 College Park, Coldhams Lane, Cambridge CB1 3HD	United Kingdom	Ordinary Shares	100*
Diba Industries, Inc.	4 Precision Road, Danbury CT 06810	United States	Common Stock	100
Diba Japan K.K.	Urban Komazawa, 3-28-11 Komazawa, Setagaya-ku, Tokyo	Japan	Ordinary Shares	100
Eco Rupture Disc Limited	(1)	United Kingdom	Ordinary Shares	100*
Eiffel APAC PTE. Ltd	4 Shenton Way, #15-01, SGX Centre II	Singapore	Ordinary Shares	100
Eiffel Holdings Limited	(1)	United Kingdom	Ordinary Shares	100
Eiffel Investments UK Limited	(1)	United Kingdom	Ordinary Shares	100
Eiffel Investments Ltd	Friel Stafford, 44 Fitzwilliam Place, Dublin 2	Ireland	Ordinary Shares	100
Eiffel Investment Services Limited	2 nd Floor, Block 5, Irish Life Centre, Abbey Street Lower, Dublin 1	Ireland	Ordinary Shares	100
Eiffel Management Services Ltd	Ormond Building, 31-36 Ormond Quay Upper, Dublin 7	Ireland	Ordinary Shares	100
Elfab Hughes Limited	(1)	United Kingdom	Ordinary Shares	100*
Elfab Limited	Alder Road, West Chirton Industrial Estate, North Shields, Tyne & Wear NE29 8SD	United Kingdom	Ordinary Shares	100*
F.I.R.E. Panel, LLC	8435 N. 90th St., Suite 2, Scottsdale AZ 85258	United States	Common Stock	100
Fabrication de Produits de Sécurité SaRL	21 Rue du Cuir, ZI Sidi Rezig, Mégrine, 2033	Tunisia	Ordinary Shares	100
FFE Holdings Limited	(1)	United Kingdom	Deferred, A & Ordinary Shares	100*
FFE Limited	9 Hunting Gate, Hitchin, Hertfordshire SG4 0TJ	United Kingdom	Ordinary Shares	100*
Fiberguide Industries, Inc.	1 Bay Street, Stirling NJ 07980	United States	Ordinary Shares	100
Fire Fighting Enterprises Limited	(1)	United Kingdom	Ordinary Shares	100*
FireMate Software Pty Limited	Unit 1, 83 Alfred Street, Fortitude Valley, QLD, 4006	Australia	Ordinary Shares	70
Firetrace Aerospace, LLC	8435 N. 90th St., Suite 7 Scottsdale, AZ 85258	United States	Ordinary Shares	100
Firetrace International Asia Pte. Ltd	16 Collyer Quay, #11-01, Hitachi Tower, Singapore, 049318	Singapore	Ordinary Shares	100

Name	Registered Address	Country	Class	Group %
Firetrace USA, LLC	8435 N. 90th St., Suite 2 Scottsdale, AZ, 85258	United States	Ordinary Shares	100
Fluid Conservation Systems, Inc.	502 Technecenter Drive, Suite B, Milford OH 45150	United States	Ordinary Shares	100
FluxData Inc.	176 Anderson Ave, STE F304, Rochester, NY 14607	United States	Ordinary Shares	100
Fortress Interlocks Limited	2 Inverclyde Drive, Wolverhampton, West Midlands WV4 6FB	United Kingdom	Ordinary & Preferred Shares	100*
Fortress Interlocks Pty Ltd	Ross Wadeson Accountants, Unit 13, 20-30 Malcolm Road, Braeside VIC 3195	Australia	Ordinary Shares	100
Halma Australasia Pty Ltd	7 Ledgar Road, Balcatta, Western Australia, 6021	Australia	Ordinary Shares	100
Halma (China) Group	Block 1, 3rd Floor, No. 123, Lane 1165, Jindu Road, Minghang District, Shanghai, 201108	China	Ordinary Shares	100
Halma Do Brasil – Equipamentos De Segurança Ltda	Av. Tancredo Neves 620, Salas 1003/1004, Caminho das Árvores, Salvador, Bahia, 41.820-020	Brazil	Ordinary Shares	100
Halma Euro Trading Limited	(1)	United Kingdom	Ordinary Shares	100*
Halma Europe DS BV	J. Keplerweg 14, 2408 AC Alphen aan den Rijn	Netherlands	Ordinary Shares	100
Halma Financing Limited	(1)	United Kingdom	Ordinary Shares	100
Halma Holding GmbH	PO Box 35, Bruckstrasse 31, D-72417 Jungingen	Germany	Ordinary Shares	100
Halma Holdings, Inc.	8060 Bryan Dairy Road, Largo, FL, 33777	United States	Ordinary Shares	100
Halma India Private Ltd	'Prestige Shantiniketan', Gate 2, Tower C, 7th Floor, Whitefield Main Road, Mahadevapura, Bengaluru, Bangalore, Karnataka, 560048	India	Ordinary Shares	100
Halma International BV	De Huufkes 23, 5674TL Nuenen	Netherlands	Ordinary Shares	100
Halma International Limited	(1)	United Kingdom	A & Ordinary Shares	100*
Halma Investment Holdings Limited	(1)	United Kingdom	Ordinary Shares	100
Halma IT Services Limited	(1)	United Kingdom	Ordinary Shares	100*
Halma Overseas Funding Limited	(1)	United Kingdom	Ordinary Shares	100
Halma PR Services Limited	(1)	United Kingdom	Ordinary Shares	100*
Halma Resistors Unlimited	(1)	United Kingdom	Ordinary Shares	100
Halma Safety Limited	(1)	United Kingdom	Ordinary Shares	100*
Halma Saúde e Otica do Brasil – Importação, Exportação e Distribuição Ltda	Avenida Marcos Penteado de Ulhoa Rodrigues, n. 1119, 11th Floor, Suite 1102, Tambore, Barueri/São Paulo, 06.460-040	Brazil	Ordinary Shares	100
Halma Services Limited	(1)	United Kingdom	Ordinary Shares	100*
Halma Ventures Limited	(1)	United Kingdom	Ordinary Shares	100*
Hanovia Limited	780/781 Buckingham Avenue, Slough, Berkshire SL1 4LA	United Kingdom	Ordinary Shares	100*
HFT Shanghai Co., Ltd	Floor 2, No. 1 Factory Building, No. 123, Lane 1165, Jindu Road, Minghang District, Shanghai, 201108	China	Ordinary Shares	100
HWM-Water Limited	Ty Coch House, Llantarnam Park Way, Cwmbran, Gwent NP44 3AW	United Kingdom	Ordinary Shares	100*
Hydreka Enoveo SAS	51 Rosa Parks Avenue, Lyon, 69009	France	Ordinary Shares	100
Hydreka SAS	1 Chemin des Vergers, Batiment 2A, 69760, Limonest	France	Ordinary Shares	100
Infowave Solutions Inc.	11495 N. Pennsylvania Street, Suite 240, Carmel, IN, 46032	United States	Common Stock	100
Invenio Systems Limited	Ty Coch House, Llantarnam Park Way, Cwmbran, Gwent NP44 3AW	United Kingdom	Ordinary Shares	100*
InPipe GmbH	Walserstraße 92a, 6991 Riezlern im Kleinwalsertal	Austria	Ordinary Shares	90
Iso-Lok Limited	(1)	United Kingdom	Ordinary Shares	100*
Keeler Instruments, Inc.	456 Parkway, Lawrence Park Ind. Estate, Broomall PA 19008	United States	Ordinary Shares	100
Keeler Limited	Clever Hill Road, Windsor, Berkshire SL4 4AA	United Kingdom	Ordinary Shares	100*
Kerry Ultrasonics Sdn Bhd	10th Floor, Wisma Havela Thakardas, No. 1, Jalan Tiong Nam, Off Jalan Raja Laut, 50350 Kuala Lumpur, Wilayah Persekutuan	Malaysia	Ordinary Shares	100

Notes to the Company Accounts continued

Name	Registered Address	Country	Class	Group %
Kirk Key Interlock Company, LLC	9048 Meridian Circle NW, North Canton OH 44720	United States	Ordinary Shares	100
Claxon Signals Limited	(1)	United Kingdom	Ordinary Shares	100*
Labsphere, Inc.	231 Shaker Street, North Sutton NH 03260	United States	Ordinary Shares	100
LAN Control Systems Limited	H1 Ash Tree Court, Mellors Way, Nottingham Business Park, Nottingham. NG8 6PY	United Kingdom	Ordinary Shares	100*
Langer Instruments Corporation	7641 N Business Park Drive, Tucson AZ 85743	United States	Ordinary Shares	100
Limotec bvba	Bosstraat 21, 8570 Anzegem (Vichte)	Belgium	Ordinary Shares	100
Maxtec LLC	2305 South, 1070 West, Salt Lake City, UT, 84119	United States	Common Stock	100
Meadowbridge Holdings Limited	(1)	United Kingdom	Ordinary Shares	100*
Medicel AG	Dornierstrasse 11, CH – 9423 Altenrhein	Switzerland	A & B Preference & C Ordinary Shares	100
MicroSurgical Technology, Inc.	8415 154th Avenue NE, Redmond WA 98052	United States	Common Stock	100
Mini-Cam Limited	Unit 4 Yew Tree Way, Golborne, Warrington, WA3 3FN	United Kingdom	Ordinary Shares	100*
Mini-Cam Enterprises Limited	Unit 4 Yew Tree Way, Golborne, Warrington WA3 3FN	United Kingdom	Ordinary Shares	100*
Mini-Cam Holdings Limited	Unit 4 Yew Tree Way, Golborne, Warrington, WA3 3FN	United Kingdom	Ordinary Shares	100*
Mistura Systems Limited	(1)	United Kingdom	Ordinary Shares	100*
Morley Electronics Limited	Unit 34 Moorland Way, Nelson Park, Cramlington, Northumberland NE23 1WE	United Kingdom	Ordinary Shares	100
Navtech Radar Limited	Home Farm, Ardington, Wantage, Oxfordshire. OX12 8PD	United Kingdom	Ordinary Shares	100*
NovaBone Products Export Sales Co., Inc	1551 Atlantic Blvd, Suite 105, Jacksonville, FL, 32207	United States	Common Stock	100
NovaBone Products, LLC	13510 NW US Highway, 441 Alachua, FL, 32207	United States	Common Stock	100
NB Products, Inc	1551 Atlantic Blvd, Suite 105, Jacksonville, FL, 32207	United States	Common Stock	100
Ocean Optics (Shanghai) Co., Ltd	Block B, 3rd Floor, No. 123, Lane 1165, Jindu Road, Minghang District, Shanghai	China	Ordinary Shares	100
Ocean Optics Asia LLC	Suite 601, Kirin Tower, 666 Gubei Road, Shanghai, 200336	United States	Common Stock	100
Ocean Optics BV	Geograaf 24, 6921EW Duiven	Netherlands	Ordinary Shares	100
Ocean Optics, Inc.	8060 Bryan Dairy Road, Largo, FL, 33777	United States	Ordinary Shares	100
Oklahoma Safety Equipment Co, Inc.	PO Box 1327, 1701 West Tacoma, Broken Arrow OK 74013	United States	Ordinary Shares	100
Palintest Limited	Palintest House, Kingsway, Team Valley Trading Estate, Gateshead Tyne & Wear NE11 0NS	United Kingdom	Ordinary & Deferred Shares	100*
Palmer Environmental Limited	(1)	United Kingdom	Ordinary Shares	100*
Palmer Environmental Services Limited	(1)	United Kingdom	A & Ordinary Shares	100*
Perma Pure India Pte Ltd	Plot No. A/147, Road No. 24, Wagle Industrial Estate, Thane West, Maharashtra, THANE 400064	India	Ordinary Shares	100
Perma Pure, LLC	1001 New Hampshire Ave., Lakewood NJ 08701	United States	Ordinary Shares	100
Pixeltek, Inc.	8060A Bryan Dairy Road, Largo Florida 33777	United States	Ordinary Shares	100
Power Equipment Limited	(1)	United Kingdom	Preference & Ordinary Shares	100*
Radcom (Technologies) Limited	Ty Coch House, Llantarnam Park Way, Cwmbran, Gwent NP44 3AW	United Kingdom	Ordinary Shares	100*
Radio-Tech Limited	(1)	United Kingdom	Ordinary Shares	100*
RCS Corrosion Services Sdn. Bhd	Level 21, Suite 21.01, The Garden South Tower, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur, Wilayah Persekutuan	Malaysia	Ordinary Shares	100
RCS International Limited	(1)	United Kingdom	Ordinary Shares	100

Name	Registered Address	Country	Class	Group %
Research Engineers Limited	(1)	United Kingdom	Ordinary Shares	100*
Reten Acoustics Limited	(1)	United Kingdom	Ordinary Shares	100*
Riester USA, LLC	507 Airport Blvd Ste 113, Morrisville NC 27560-8200	United States	Ordinary Shares	100
Robutec AG	Dornierstrasse 11, CH – 9423 Altenrhein	Switzerland	Ordinary Shares	100
Rohrback Cosasco International Limited	OIL (Offshore Inc Limited) PO Box 957, Offshore Incorporations Centre, Road Town, Tortola	British Virgin Islands	Ordinary Shares	100
Rohrback Cosasco System China Corporation	No. A, Apartment 15F, Building 1, Tianchen Plaza, Yi-12 Chaoyangmen North Street, Chaoyang District, Beijing, 100020	China	Common Stock	100
Rohrback Cosasco Systems LLC	Gulf Consulting House Al-Shablan Tower – 5th Floor King Fahd Rd, Al Hizam Al Thahabi P.O.Box 3140 AL Khobar, 31952	Saudi Arabia	Common Stock	100
Rohrback Cosasco Systems Pte Ltd	Ardent Business Advisory, 146, Robinson Road, #12-01, Singapore, 068909	Singapore	Ordinary Shares	100
Rohrback Cosasco Systems Pty Ltd	Unit 5, 17 Caloundra Road, Clarkson, WA	Australia	Ordinary Shares	100
Rohrback Cosasco Systems UK Limited	(1)	United Kingdom	Ordinary Shares	100*
Rohrback Cosasco Systems, Inc	11841 Smith Ave, Santa Fe Springs CA 90670	United States	Common Stock	100
Rudolf Riester GmbH	Bruckstrasse 31, D-72417 Jungingen	Germany	Ordinary Shares	100
S.E.R.V. Trayvou Interverrouillage SA	1 Ter, Rue du Marais Bat B, 93106 Montreuil, Cedex	France	Ordinary Shares	100
Sensit Technologies LLC	851 Trasnpot Drive, Valparaiso, IN. 46383	United States	Common Stock	100
Sensit Technologies EMEA S.r.l	Via Tortona, n.33 Milan, 20144	Italy	Ordinary Shares	100
Sensorex s.r.o	Okružní 2615, České Budějovice, 370 01	Czech Republic	Ordinary Shares	100
Sensorex Corporation	11751 Markon Drive, Garden Grove CA 92841	United States	Common Stock	100
Setco S.A.	c/Miquel Romeu 56, L'Hospitalet de Llobregat, Barcelona, 08907	Spain	Ordinary Shares	100
Shanghai Labsphere Optical Equipments Co., Ltd	Block 1, No. 123, Lane 1165, Jindu Road, Minhang District, Shanghai, 201108	China	Ordinary Shares	100
Smart Process Safety China Ltd (previously Castell China Ltd)	Section A, Floor 2, Block 23, No. 1 Factory Building, No. 123, Lane 1165, Jindu Road, Minhang District, Shanghai, 201108	China	Ordinary Shares	100
Smith Flow Control Limited (previously Swift 943 Ltd)	(1)	United Kingdom	Ordinary Shares	100*
Smith Flow Control, Inc.	1390 Donaldson Rd, Suite B, Erlanger Kentucky 41018	United States	Ordinary Shares	100
Sofis BV (previously Netherlocks Safety Systems BV)	J Keplerweg 14, 2408 AC Alphen aan den Rijn	Netherlands	Ordinary Shares	100
Sofis GmbH	Hahnenkammstrasse 12, 63811 Stockstadt	Germany	Ordinary Shares	100
Sofis Limited (previously Smith Flow Control Ltd)	6 Waterside Business Park, Eastways Industrial Estate, Witham, Essex CM8 3YQ	United Kingdom	Ordinary Shares	100*
Sonar Research & Development Limited	(1)	United Kingdom	Ordinary Shares	100*
Sterling Safety Systems Limited	B12a Holly Farm Business Park, Honiley, Kenilworth, Warwickshire, CV8 1NP	United Kingdom	Ordinary Shares	100*
SunTech Group EB Trustee Limited	(1)	United Kingdom	Ordinary Shares	100
SunTech Medical (USA), LLC	507 Airport Boulevard, Suite 117, Morrisville NC 27560-8200	United States	Common Stock	100
SunTech Medical Devices (Shenzhen) Co. Ltd	2-3/F, Block A, Jinxiogda Technology Park, Guanlan, Bao'an District, Shenzhen, Guangdong, 518110	China	Ordinary Shares	100
SunTech Medical Group Limited	Oakfield Industrial Estate, Eynsham, Witney, Oxfordshire OX29 4TS	United Kingdom	Ordinary Shares	100
SunTech Medical Limited	Oakfield Industrial Estate, Eynsham, Witney, Oxfordshire OX29 4TS	United Kingdom	Ordinary Shares	100
SunTech Medical Ltd (Hong Kong)	8th Floor, Gloucester Tower, The Landmark, 15 Queen's Road Central	Hong Kong	Ordinary Shares	100
SunTech Medical, Inc.	507 Airport Boulevard, Suite 117, Morrisville NC 27560-8200	United States	Common Stock	100

Notes to the Company Accounts continued

Name	Registered Address	Country	Class	Group %
T.L. Jones Ltd	50 Hazeldean Road, Addington, Christchurch, 8024	New Zealand	Ordinary Shares	100
Talentum Developments Limited	9 Hunting Gate, Hitchin, Hertfordshire SG4 0TJ	United Kingdom	Ordinary Shares	100*
Telegan Gas Monitoring Limited	(1)	United Kingdom	Ordinary Shares	100*
Texecom Limited	Bradwood Court, St. Crispin Way, Haslingden, Rossendale, Lancashire BB4 4PW	United Kingdom	Ordinary Shares	100*
Thinketron Precision Equipment Company Ltd	Room 813 8/F Tai Yau Building, 181 Johnston Road, Wan Chai	Hong Kong	Ordinary Shares	100
Value Added Solutions LLC	26 Duane Lane, Burlington CT 06013	United States	Common Stock	100
Visiometrics S.L.	Argenters, 8. Edifici 3, Parc Tecnològic del Vallès, 08290 Cerdanyola	Spain	Ordinary Shares	100
Visual Performance Diagnostics, Inc.	26895 Aliso Creek Rd, Suite B223, Aliso Viejo CA 92656	United States	Common Stock	100
Volk Optical Inc.	7893 Enterprise Drive, Mentor Ohio 44060	United States	Common Stock	100
Wilkinson & Simpson Limited	(1)	United Kingdom	Deferred & Ordinary Shares	100*

* Directly held by the Company.

(1) Misbourne Court, Rectory Way, Amersham, Buckinghamshire HP7 0DE.

C6 Debtors

	31 March 2020 £m	31 March 2019 £m
Amounts falling due within one year:		
Amounts due from Group companies	795.8	616.8
Other debtors	0.3	0.1
Prepayments	10.8	11.6
	806.9	628.5

C7 Borrowings

	31 March 2020 £m	31 March 2019 £m
Falling due within one year:		
Overdrafts	24.8	29.5
Unsecured loan notes	74.2	0.1
	99.0	29.6
Falling due after more than one year:		
Unsecured loan notes	108.6	179.3
Unsecured bank loans	236.4	74.4
	345.0	253.7
Total borrowings	444.0	283.3

The Company has two sources of long-term funding, which comprise:

- An unsecured five-year £550m Revolving Credit Facility, which expires in November 2023 and is therefore classified as expiring within two to five years (2019: within two to five years). At 31 March 2020 £313.6m (2019: £475.6m) remained committed and undrawn.
- Unsecured loan notes agreed on 2 November 2015 in a mix of Sterling, US Dollars and Euro with borrowing periods of five, seven and ten years. At 31 March 2020 the outstanding loan notes totalled £182.8m (2019: £179.3m). The first tranche of loan notes, totaling £74.2m, is due for repayment in January 2021 and is therefore classified as falling due within one year. The remaining loan are classified as falling due after more than one year.

Further details are included in note 27 to the Group accounts.

The bank overdrafts, which are unsecured, at 31 March 2020 and 1 April 2019 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 £15.3m (2019: £15.3m) are cross-guaranteed. Of these facilities £0.9m (2019: £9.1m) was drawn.

C8 Creditors: amounts falling due within one year

	31 March 2020 £m	31 March 2019 £m
Trade creditors	2.4	2.6
Amounts owing to Group companies	60.1	52.3
Other taxation and social security	1.3	1.2
Other creditors	0.9	0.6
Provision for contingent consideration	5.7	8.2
Accruals	10.1	9.5
	80.5	74.4

Other creditors comprise of financial liabilities only.

Notes to the Company Accounts continued

C9 Creditors: amounts falling due after more than one year

	31 March 2020 £m	31 March 2019 £m
Amounts owing to Group companies	11.7	12.1
Other creditors	0.3	0.4
Provision for contingent consideration	9.2	8.0
	21.2	20.5
These liabilities fall due as follows:		
Within one to two years	9.0	6.3
Within two to five years	0.5	2.1
After more than five years	11.7	12.1

The contingent consideration payable relates to the prior year acquisitions of LAN Control Systems Limited and Navtech and the acquisition during the year of Invenio Systems Limited (see note 20 to the Group accounts). All amounts relating to a previous acquisition, Mini-Cam, have been released following the end of the final earnout period.

C10 Deferred tax

	Retirement benefit obligations £m	Short-term timing differences £m	Total £m
At 1 April 2019	4.1	1.2	5.3
(Charge)/credit to Profit and Loss account	(1.6)	0.4	(1.2)
Charge to comprehensive income	(3.5)	–	(3.5)
Credit to equity	–	0.1	0.1
At 31 March 2020	(1.0)	1.7	0.7
At 1 April 2018	6.7	0.8	7.5
Charge to Profit and Loss account	(1.0)	0.1	(0.9)
Charge to comprehensive income	(1.6)	–	(1.6)
Credit to equity	–	0.3	0.3
At 31 March 2019	4.1	1.2	5.3

C11 Share capital

	Issued and fully paid	
	31 March 2020 £m	31 March 2019 £m
Ordinary shares of 10p each	38.0	38.0

The number of ordinary shares in issue at 31 March 2020 was 379,645,332 (2019: 379,645,332), including 760,894 shares held by the Employee Benefit Trust (2019: 370,354).

C12 Reserves

The Capital redemption reserve was created on the 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 awards made by the Company. Own shares are ordinary shares in Halma plc purchased by the Company and held to fulfil its obligations under the Group's share plans.

C13 Retirement benefits

The Company participates in, and is the sponsoring employer of, the Halma Group Pension Plan. The plan closed to new entrants in 2002/03 and to future benefit accrual in 2014/15. From that date, the former defined benefit members joined the Company's existing defined contribution plan.

There is no contractual agreement or stated policy for charging the net defined benefit cost within the Group. In accordance with IAS 19 (Revised 2011), the Company contribution made to the defined benefit plan during the year ended 31 March 2020 was £3.5m (2019: £3.3m).

The results for the Company include a past service cost of £nil (2019: £1.8m) in respect of a Guaranteed Minimum Pension equalisation charge, estimated by the Group's actuary, Mercer, to value the effect of equalising benefits between men and women in the pension scheme following the High Court's judgement on 26 October 2018 in relation to the Lloyd's Banking Group's case.

Net interest charges on pension plan liabilities of £0.4m (2019: £0.8m) were recognised in the Profit and Loss Account in respect of the Company defined benefit plan.

C13 Retirement benefits continued

The net movement on actuarial gains and losses of the plan reported in the Company Statement of Comprehensive Income and Expenditure was as follows:

	Year ended 31 March 2020 £m	Year ended 31 March 2019 £m
Defined benefit obligations	19.8	(1.3)
Fair value of plan assets	(0.3)	9.6
Net actuarial gains	19.5	8.3

The actual return on plan assets was a gain of £5.3m (2019: gain of £15.1m).

The amount included in the Company Balance Sheet arising from the Company's obligations in respect of its defined benefit retirement plans is as follows:

	31 March 2020 £m	31 March 2019 £m	31 March 2018 £m
Present value of defined benefit obligations	(231.5)	(255.2)	(253.8)
Fair value of plan assets	236.9	232.9	217.6
Asset/(liability) recognised in the Company Balance Sheet	5.4	(22.3)	(36.2)

Under the current arrangements, cash contributions in the region of £9m per year will be made for the immediate future with the objective of eliminating the pension deficit that arises on a technical provisions basis which is the basis on which the deficit reduction payments are determined.

Movements in the present value of the defined benefit obligation were as follows:

	Year ended 31 March 2020 £m	Year ended 31 March 2019 £m
At beginning of year	(255.2)	(253.8)
Past service cost	–	(1.8)
Interest cost	(6.0)	(6.3)
Remeasurement gains/(losses):		
Actuarial gains and losses arising from changes in financial assumptions	19.8	(7.1)
Actuarial gains and losses arising from experience adjustments	–	5.8
Benefits paid	9.9	8.0
At end of year	(231.5)	(255.2)

Movements in the fair value of the plan assets were as follows:

	Year ended 31 March 2020 £m	Year ended 31 March 2019 £m
At beginning of year	232.9	217.6
Interest income	5.6	5.5
Actuarial gains, excluding interest income	(0.3)	9.6
Contributions from the sponsoring companies	8.6	8.2
Benefits paid	(9.9)	(8.0)
At end of year	236.9	232.9

Further details of Halma Group Pension Plan, including all disclosures required under FRS 101, are contained in note 29 to the Group accounts.

Summary 2010/11 to 2019/20

	2010/11 £m	2011/12 £m	2012/13 £m	(Restated) (note 5) 2012/13 £m
Revenue (note 1)	518.4	579.9	619.2	619.2
Overseas sales (note 1)	412.3	454.3	503.6	503.6
Profit before taxation, and adjustments (note 2)	104.6	120.5	130.7	128.5
Net tangible assets/capital employed	147.0	163.3	188.7	188.7
Borrowings (excluding overdrafts)	79.7	64.0	160.0	160.0
Cash and cash equivalents (net of overdrafts)	42.6	45.3	49.7	49.7
Number of employees (note 1)	3,875	4,347	4,716	4,716
Earnings per ordinary share (note 1)	19.23p	23.01p	25.22p	24.79p
Adjusted earnings per ordinary share (note 2)	20.49p	24.46p	26.22p	25.79p
Year-on-year increase in adjusted earnings per ordinary share	21.3%	19.4%	7.2%	5.4%
Return on Sales (notes 1 and 3)	20.2%	20.8%	21.1%	20.8%
Return on Capital Employed (restated – note 4)	72.2%	78.6%	76.4%	75.8%
Return on Total Invested Capital (restated – note 4)	16.0%	17.6%	16.9%	16.6%
Year-on-year increase in dividends per ordinary share (paid and proposed)	7%	7%	7%	7%
Ordinary share price at financial year end	355p	381p	518p	518p
Market capitalisation at financial year end	1,342.7	1,440.8	1,962.6	1,962.6

All years are presented under IFRS.

Notes:

- 1 Continuing and discontinued operations.
- 2 Adjusted to remove the amortisation and impairment of acquired intangible assets and acquisition transaction costs, release of fair value adjustments to inventory, adjustments to contingent consideration (collectively 'acquisition items') and restructuring costs. IFRS figures include results of operations up to the date of their sales or closure but exclude material discontinued and continuing profits on sales or closures of operations. In 2013/14 only, the effects of closure to future benefit accrual of the defined benefit pension plans have also been removed. In 2018/19, the adjustments also include the effect of equalising pension benefits for men and women in the Group's defined benefit pension plans.
- 3 Return on Sales is defined as profit before taxation, the amortisation and impairment of acquired intangible assets; acquisition items; restructuring costs, profit or loss on disposal of operations; the effect of equalising pension benefits for men and women in the defined benefit pension plans (2018/19 only); and the effects of closure to future benefit accrual of the defined benefit pension plans net of associated costs (2013/14 only) expressed as a percentage of revenue.
- 4 See note 3 to the Report and Accounts for the definitions of ROCE and ROTIC. The ROCE and ROTIC measures were restated in 2014/15 and for all prior years to use an average Capital Employed and Total Invested Capital respectively. This measure is considered to be more representative. For the current year, the measures include the impact of adopting IFRS 16 'Leases'. There is no material impact on either measure from its inclusion.
- 5 IAS 19 (as revised in June 2011) 'Employee Benefits' was adopted by the Group in 2013/14. To aid comparison, and as required by IAS 19 (revised), the Consolidated Financial Statements and affected notes for 2012/13 were restated as if IAS 19 (revised) had always applied during that year. Results prior to 2012/13 were not restated.
- 6 The 2015/16 figures were restated in 2016/17, as required by IFRS 3 (revised) 'Business Combinations', for material changes arising on the provisional accounting for acquisitions in 2014/15.

2013/14 £m	2014/15 £m	(Restated) (note 6) 2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
676.5	726.1	807.8	961.7	1,076.2	1,210.9	1,338.4
548.6	587.8	663.0	806.7	902.9	1,010.0	1,117.2
140.2	153.6	166.0	194.0	213.7	245.7	267.0
189.7	219.1	258.6	302.2	322.0	358.9	416.9
107.6	140.4	296.2	262.1	290.0	253.8	419.2
33.1	39.5	49.5	65.6	69.7	72.1	105.4
4,999	5,328	5,604	5,771	6,113	6,508	6,992
28.14p	27.49p	28.76p	34.25p	40.69p	44.78p	48.66p
28.47p	31.17p	34.26p	40.21p	45.26p	52.74p	57.39p
10.4%	9.5%	9.9%	17.4%	12.6%	16.5%	8.8%
20.7%	21.2%	20.6%	20.2%	19.9%	20.3%	19.9%
76.6%	77.6%	72.4%	72.5%	71.6%	75.1%	71.4%
16.7%	16.3%	15.6%	15.3%	15.2%	16.1%	15.3%
7%	7%	7%	7%	7%	7%	5%
579p	701p	912p	1024p	1179p	1672p	1921p
2,192.6	2,661.3	3,462.4	3,887.6	4,476.0	6,347.7	7,293.0

Shareholder Information

Financial calendar

Annual General Meeting	4 September 2020
2019/20 Final dividend payable	1 October 2020
2020/21 Half year end	30 September 2020
2020/21 Half year results	November 2020
2020/21 Interim dividend payable	February 2021
2020/21 Year end	31 March 2021
2020/21 Final results	June 2021

Dividend history

	2020	2019	2018	2017	2016
Interim	6.54p	6.11p	5.71p	5.33p	4.98p
Final	9.96p*	9.60p	8.97p	8.38p	7.83p
Total	16.50p	15.71	14.68p	13.71p	12.81p

* Proposed.

Investor information

Visit our website, 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. You can also subscribe to an email news alert service to automatically receive an email when significant announcements are made.

Shareholding information

Please contact our Registrar, Computershare, directly for all enquiries about your shareholding. Visit their Investor Centre website www.investorcentre.co.uk for online information about your shareholding (you will need your shareholder reference number which can be found on your share certificate or dividend confirmation), or telephone the Registrar direct using the dedicated telephone number for Halma shareholders: +44 (0)370 707 1046.

Dividend mandate

Shareholders can arrange to have their dividends paid directly into their bank or building society account by completing a bank mandate form. The advantages to using this service are: the payment is more secure than sending a cheque through the post; it avoids the inconvenience of paying in a cheque and reduces the risk of lost, stolen or out-of-date cheques. A mandate form

can be obtained from Computershare or you will find one on the reverse of your last dividend confirmation.

Dividend reinvestment plan

The Company operates a dividend reinvestment plan (DRIP) which offers shareholders the option to elect to have their cash dividends reinvested in Halma ordinary shares purchased in the market. 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.

Shareholders who wish to elect for the DRIP for the forthcoming final dividend, but have not already done so, should return a DRIP application form to Computershare no later than 10 September 2020.

Electronic communications

All shareholder communications, including the Company's Annual Report and Accounts, are made available to shareholders on the Halma website and you may opt to receive email notification that documents and information are available to view and download rather than to receive paper copies through the post. Using electronic communications helps us to limit the amount of paper we use and assists us in reducing our costs.

If you would like to sign up for this service, visit Computershare's Investor Centre website. You may change the way you receive communications at any time by contacting Computershare.

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