Halma plc
Annual Report
and Accounts 2021

Growing a
safer cleaner healthier
future for everyone, every day

Halma

Contents

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.

Our purpose is t safer, clean future for everyo

It's in our DNA...

We have a unique set of organisational and cultural genes which power our continued growth. We call this Halma's DNA. Our DNA runs through our business at all levels. It provides competitive advantage and stability, and allows us to continuously adapt to new market needs. Our DNA embodies the core elements of our organisation and culture that are inextricably linked to our past and which enable our future success.

Read more

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...it drives everything we do

We continuously evaluate our portfolio, and decide on new product development and target acquisitions based on their alignment to achieving our purpose. We allocate capital and talent to maximise our positive impact, in line with our purpose. We pursue enhanced digital technologies and international expansion strategies to ensure we reach "everyone, every day".

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...delivering sustainable value

We create long-term sustainable value for all stakeholders by continuously delivering a simple formula: strong growth + sustainable returns + positive impact = long-term sustainable value creation.

Read more

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to grow a

er, healthier

one, every day.

...and a positive impact

Our technologies solve some of the world's most pressing issues, from air quality to road safety to preventable blindness.

Halma companies, by growing, make the world a safer, cleaner and healthier place, and contribute towards multiple United Nations Sustainable Development Goals.

Read more

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...for all our stakeholders

- Our people.
- Our companies.
- Customers and suppliers.
- Acquisition prospects and business partners.
- Society and community.
- Investors and debt holders.

Read more

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...and measured along the way.

We track our progress in fulfilling our purpose through a range of financial and non-financial indicators covering key aspects of performance that matter to our stakeholders.

Read more

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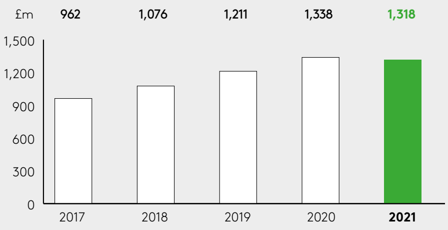
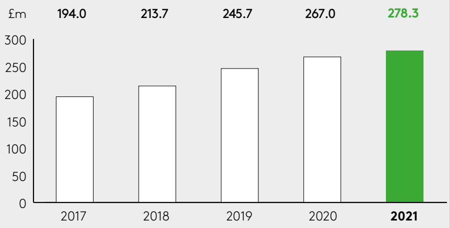
Growth and returns

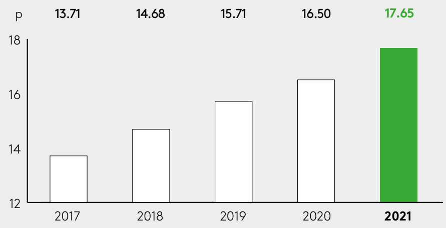
Revenue
£1,318m
(2)%



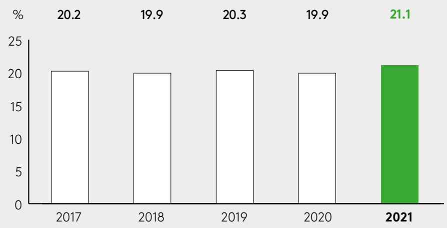
Adjusted[1] profit before taxation
£278.3m
+4%



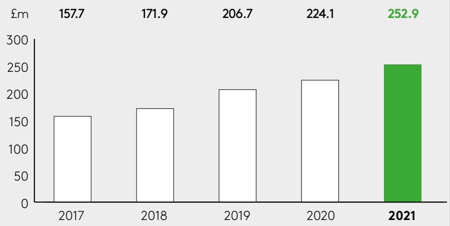
Dividend per share paid and proposed
17.65p
+7%



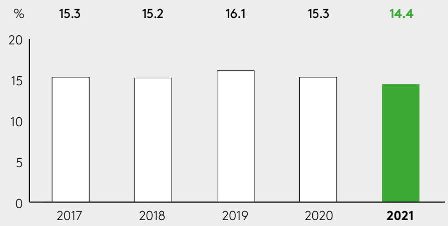
Return on sales[4]
21.1%



Statutory profit before taxation
£252.9m
+13%



Return on total invested capital[5]
14.4%



Continuing operations

	2021	2020	Change
Revenue	**£1,318.2m**	£1,338.4m	(2)%
Adjusted[1] profit before taxation	**£278.3m**	£267.0m	+4%
Adjusted[2] earnings per share	**58.67p**	57.39p	+2%
Statutory profit before taxation	**£252.9m**	£224.1m	+13%
Statutory earnings per share	**53.61p**	48.66p	+10%
Total dividend per share[3]	**17.65p**	16.50p	+7%
Return on sales[4]	**21.1%**	19.9%	
Return on total invested capital[5]	**14.4%**	15.3%	
Net debt	**£256.2m**	£375.3m	

Pro-forma information

1 Adjusted to remove the amortisation and impairment of acquired intangible assets, acquisition items, restructuring costs, profit or loss on disposal of operations and the effect of equalisation of benefits for men and women in the defined benefit pension plans (2019 only), in 2021 totalling £25.4m (2020: £42.9m). See note 1 to the Accounts.

2 Adjusted to remove the amortisation of acquired intangible assets, acquisition items, restructuring costs, profit or loss on disposal of operations and the effect of equalisation of benefits for men and women in the defined benefit pension plans (2019 only), the associated taxation thereon and, in 2018, the effect of US tax reform measures. See note 2 to the Accounts.

3 Total dividend paid and proposed per share.

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

5 Return on Total Invested Capital (ROTIC) is defined as post-tax Adjusted[1] Profit as a percentage of average Total Invested Capital.

6 Adjusted[1] Profit before Taxation, Adjusted[2] Earnings per Share, organic growth rates, Return on Sales and ROTIC are alternative performance measures used by management. See notes 1, 2 and 3 to the Accounts.

7 Adjusted[1] operating profit before central administration costs after share of associate.

Examples of our positive impact

Improving health

Supporting **more than**

7 million

surgeries per annum.

Conserving water

110,000km

Monitoring **more than 110,000km of water pipelines**.

Building an inclusive business

54%

of our Halma senior leaders are women*

78%

Employee engagement up 3pts from prior year

*Halma plc Board, Executive Board and Divisional Chief Executives at 31 March 2021

Making water safer

Enabling more than

200 million

water tests annually.

Reducing our emissions

Committed to achieving net zero Scope 1 and 2 emissions by

2040

Making buildings safer

Protecting **more than**

5,000km²

of buildings from fire hazards.

Making roads safer

Deploying our radar technology on **more than**

3,000km

of highways.

Protecting lives

Protecting the safety of **more than**

250,000

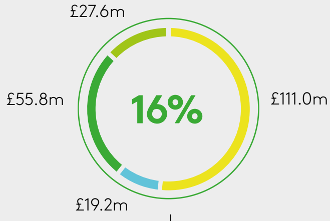
people with our gas sensor products every day.

For full information about these metrics please refer to the Our people and culture section on pages 60-63 and the Sustainability section on pages 64-77.

Our companies have customers in over 100 countries, and serve millions of people every day.

Revenue

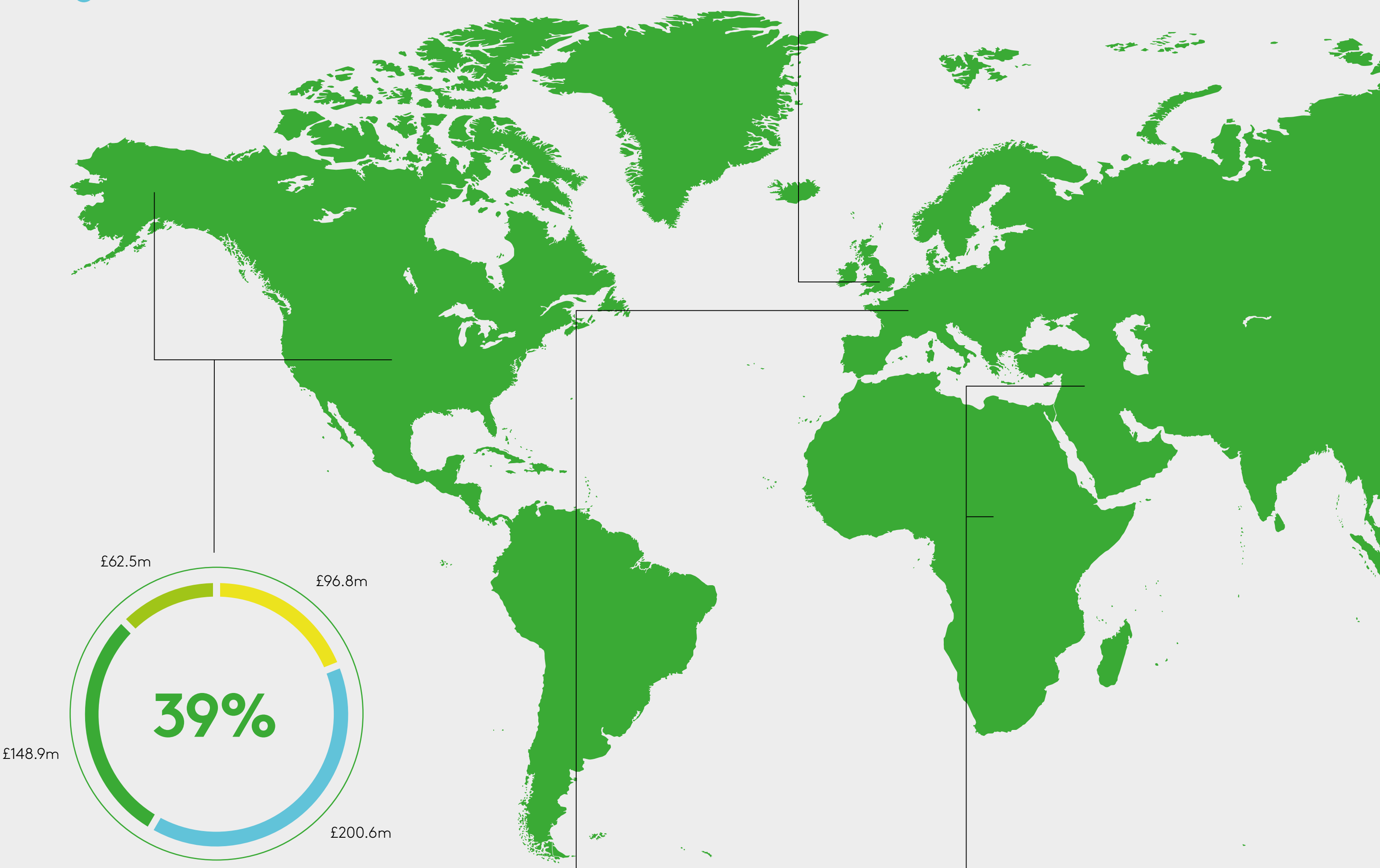
- By destination and % of revenue
- Process Safety
- Infrastructure Safety
- Environmental & Analysis
- Medical



UK

Revenue

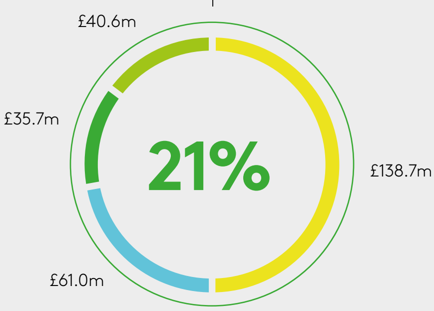
£214m



USA

Revenue

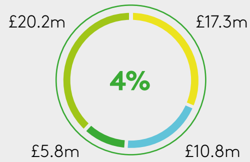
£509m



Mainland Europe

Revenue

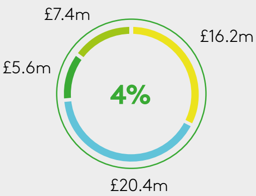
£276m



Africa, Near and Middle East

Revenue

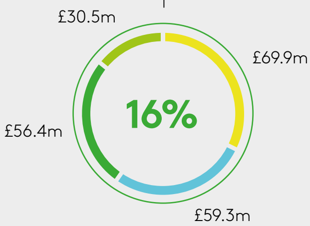
£54m



Other

Revenue

£49m



Asia Pacific

Revenue

£216m

Our sectors

Process Safety

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

Read more
p36

Revenue

£189m
14% of Group revenue

Adjusted[1] operating profit[7]

£37m
12% of Adjusted[1] operating profit[7]

Infrastructure Safety

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

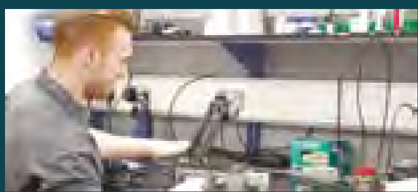
Read more
p42

Revenue

£450m
34% of Group revenue

Adjusted[1] operating profit[7]

£111m
35% of Adjusted[1] operating profit[7]



Environmental & Analysis

Environmental & Analysis provides technologies that monitor and protect the environment and ensure the quality and availability of life-critical resources.

Read more
p46

Revenue

£309m
24% of Group revenue

Adjusted[1] operating profit[7]

£77m
25% of Adjusted[1] operating profit[7]

Medical

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

Read more
p52

Revenue

£371m
28% of Group revenue

Adjusted[1] operating profit[7]

£87m
28% of Adjusted[1] operating profit[7]

Chair's statement

"Sustainability has been at the heart of what we do for decades, working together to have a positive impact on the world."

Paul Walker, Chair

Key developments over the last five years have laid a strong foundation for Halma's future.

- Articulated our purpose to "grow a safer, cleaner, healthier future for everyone, every day" which sets our ambition and serves as the goal for our growth strategy.
- Expanded our growth strategy to explore digital solutions and business models across our Core technologies and markets, Convergence as well as Edge opportunities.
- Articulated our DNA to serve as a guide on those things we won't change while constantly evolving to achieve our purpose.
- Launched a new Halma brand and website which reflects our purpose, growth strategy and DNA.
- Strengthened our leadership teams and delivered initiatives to enable diversity, equity and inclusion at all levels.
- Created our suite of growth enablers – a unique set of skills and expertise to support our companies and leaders to grow their business.
- Enhanced our approach to sustainability, identifying four UN SDGs to be the focus of our positive impact and creating a Sustainability Framework and three Key Sustainability Objectives to further amplify our positive impact.
- Brought our purpose, sustainability focus and the impact of our technologies to life through two global campaigns supporting developing world communities.
- Reshaped our organisational structure into three sectors, to align to our end markets and position the Group for scale.
- Strengthened our governance, control and reporting framework, enabling accurate and timely management information to drive good decision-making.
- Managed smooth succession for the Chief Financial Officer, three Sector Chief Executives, the Chair and three non-executive Directors.
- Continued to enhance our employees' experience through the introduction of a parental leave policy, enhanced pension contributions in the UK and a commitment to pay a Real Living Wage.
- Completed 25 acquisitions and two disposals aligned with our purpose.

As I will be stepping down from the Board at the 2021 AGM, I would like to take this opportunity, in my final statement as Chair, to reflect not only on the past year, but also on Halma's substantial progress over the last decade.

Resilient growth by design
The pandemic has truly tested our purpose, people, DNA and business model, and I am really proud of the way that, together, they have enabled us to deliver another record profit in challenging circumstances. These robust financial results were achieved without seeking government or shareholder financial support and in an environment where our primary focus was on the safety and wellbeing of our colleagues. I would like to thank the management teams across the Group for leading the business with agility and integrity, and for successfully balancing the interests of multiple stakeholders in their decision-making.

I extend my thanks to everyone at Halma for their dedication during the year. Despite the personal and professional challenges that many have faced, they have ensured the continued supply of life-critical products to our customers and truly brought our purpose to life.

Leading our talent, culture and diversity

Our ability to attract and retain exceptional talent is more important than ever before and we continue to seek ways to develop our people and provide opportunities for promotion within the Group. Our succession planning at Board level saw the appointment earlier this year of Dame Louise Makin as non-executive Director & Chair Designate and Dharmash Mistry as non-executive Director, well ahead of me and Daniela Barone Soares stepping down from the Board at the AGM in July 2021.

Halma has a strong culture – articulated in our DNA – which enables all our colleagues to share common values while respecting individual diversity. This drives a high level of engagement and commitment in our workforce, and it is great to see this reflected in our annual employee engagement survey, which had a very high response rate of 87% and which showed a further improvement in our engagement score to 78%.

We have continued to benefit from our diversity, equity and inclusion initiatives across all levels of the organisation. Our drive to improve gender balance at Board, Executive Board and one level below the Executive Board has really come to fruition in the last year, with women representing 46%, 63% and 36% respectively across those groups as at 31 March 2021. Our focus on improving ethnic diversity is also delivering improvements. At Board level, we will continue to meet the Parker Review target this year.

Embedding sustainability

Since the 1970s, Halma has had a focus on protecting people and assets and improving quality of life. This means that sustainability has been at the heart of what we do for decades, working together to have a positive impact on the world. As we have seen growing calls for action for companies to secure a sustainable planet for future generations and to accelerate their efforts in reducing energy, water and waste footprints, the Board has increased its oversight of this area and made new commitments to support this agenda. In addition to more fully articulating the continued positive impact from our technologies, products and services, we have introduced a new Sustainability Framework and set a target, in line with guidance from the Science-based Targets Initiative, to reduce our greenhouse gas emissions by 42% from 2019/20 levels by 2029/30. We are also targeting net zero scope 1 and 2 greenhouse gas emissions by 2040. One foundation of our growth is our continued investment in research and new product development. With R&D spend remaining above 5% of revenue in the year, we are well-positioned to benefit from the new opportunities that are likely to arise from a 'green recovery' and from the broad market and societal changes brought about by the pandemic.

Following the success of the Gift of Sight campaign last year, in October 2020 we announced the launch of our Water for Life community campaign. We are working together with WaterAid to use our knowledge and products to transform lives in eastern India, by bringing clean water to 8,000 people in a remote region who do not have access to safe drinking water.

It is really pleasing to note that despite the challenges of the past year, we have improved on our health & safety performance, recording our lowest Accident Frequency Rate (AFR). As all accidents are preventable, the Board continues to drive a culture of health & safety across the Group to prevent any accidents occurring.

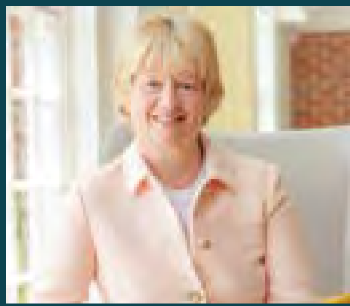
Looking back over a decade of sustainable growth

As I look back, I am very proud of Halma's achievements over the past decade. When I joined Halma in 2013, it was a FTSE 250 company with a share price of £5 and market value of under £2bn. Today, Halma is around the 50th largest company in the FTSE 100 index by market capitalisation. Its share price has increased by more than five times and we have continued to grow dividends by 5% or more each year. I believe this exceptional performance is attributable to our continued discipline and focus on our purpose and maintenance of a decentralised operating model, which enables agility and local decision-making, and promotes a strong and open culture. These factors remain highly relevant today and position Halma well for the future.

I am immensely proud to have been part of Halma's journey and to have led such a strong Board over the past eight years. I leave the business in the knowledge that it is even stronger and better placed to deliver on its purpose, for the benefit of all, in the years ahead. I would like to thank our loyal investor base for their support, many of whom I have had the pleasure of meeting over the years, and I wish all of our stakeholders a happy and healthy future.

Paul Walker
Chair

Q&A



with
Dame Louise Makin

Dame Louise Makin will replace Paul Walker as Chair, when he retires at the AGM on 22 July 2021.

What attracted you to Halma?
As a purpose-driven company, Halma is naturally very attractive. Its positive impact on the world is supported by its decentralised operating structure, which ensures that its businesses benefit from being close to their customers and end markets and are responsive to their needs. It has a great culture, exceptional talent and its strong growth and returns story speaks for itself! I would like to thank Paul for the excellent job that he has done as Chair and I am really looking forward to continuing his work in leading the Board to further Halma's growth.

What will you bring to the role?
I am passionate about people and purpose. I want Halma to continue its long track record of strong performance and growth while maintaining its positive culture and ambition, to deliver even greater positive impact and become a more environmentally sustainable business that considers wider stakeholder interests in all our decision-making.

Do you believe that Halma's operating model needs to change?
Absolutely not! Halma's autonomous, decentralised structure enables our entrepreneurial culture to thrive and our companies to maintain competitive advantage through their agility. Their performance through the pandemic is testimony to its success. I see Halma's operating model and organisational design as the core foundation from which the Group can invest to grow organically and through acquisition.

What tone will you set from the top?
I want Halma to be a great place to work – where individuals are respected and feel included. Halma has a long-standing culture of openness, integrity and collaboration and I want to preserve this and demonstrate through my leadership that the Board supports this approach.

Andrew Williams, Group Chief Executive

"I have never been prouder or more impressed with Halma's financial performance while also satisfying the broader needs of all stakeholders."

A true test of Sustainability and Purpose

I am pleased to report Halma's 18th consecutive year of profit growth in the most challenging of circumstances, demonstrating both the value of our Sustainable Growth Model and the authenticity of our purpose. Our robust performance in the past year also reflected the fundamental strength of Halma's DNA, including our focus on market niches with long-term growth drivers, and our ability to adapt rapidly to changes in our markets when they arise.

Adjusted[1] profit before taxation rose by 4% to £278.3m, on revenue which was broadly similar to last year at £1,318.2m. Statutory profit before taxation, which benefited from the profit realised on the disposal of Fiberguide Industries, increased by 13% to £252.9m. Returns remained at a high level, with Return on Sales[1] increasing from 19.9% to 21.1% and a Return on Total Invested Capital of 14.4%, remaining well above our Weighted Average Cost of Capital of 6.7%. Cash generation was impressive, with cash conversion of 104%, and our balance sheet position remained strong, with net debt reducing by £119m to £256m, representing gearing (net debt to EBITDA) of 0.76 times.

Britain's Most Admired Company 2020

In January 2021, Halma was recognised as Britain's Most Admired Company 2020 by a peer group of FTSE 100 executives, analysts and commentators. This award is the longest-running peer-reviewed survey of corporate reputation in the UK and winning it in such a challenging year is testament to our clear purpose and the dedication and commitment of our people. This combination has underpinned Halma's sustained success over many decades, and will continue to do so in the future.

BRITAIN'S MOST ADMIRED COMPANIES 2020
Management Today
WINNER

It is worth reminding ourselves that this time last year, although faced with major uncertainties, we had a clear short-term operational, financial, and organisational strategy to guide us through the coming year in the interests of all stakeholders. Our expectation was that profit would be 5-10% below the prior year, and therefore ultimately delivering 4% profit growth is a terrific achievement. While the Group has reported higher levels of growth in previous years, I have never been prouder or more impressed with Halma's ability to deliver a robust financial performance while also satisfying the broader needs of all stakeholders. I was also pleased that this was recognised externally with Halma being awarded Britain's Most Admired Company 2020, as voted for by our peers.

Our companies continued to meet their customers' needs by providing lifesaving and life-sustaining solutions, while establishing new ways of working to maintain the safety of their people, suppliers, and customers throughout the pandemic. Many Halma companies also directly provided support to their local and national healthcare providers either through their core products, or by repurposing their manufacturing capabilities to supply urgently needed personal protective equipment. Meanwhile, as a Group, we provided assistance to those colleagues and businesses in difficulty through a variety of support programmes, without seeking Government financial assistance, while continuing to create value for shareholders.

I would like to pay tribute to everyone in all our businesses for what they have achieved throughout the year and to thank them personally for their continued support, unwavering commitment, and operational excellence.

Given our performance in the year and the opportunities we see for future growth, the Board is recommending an 8% increase in the final dividend to 10.78p per share. Together with the 6.87p per share interim dividend, this would result in a total dividend for the year of 17.65p, up 7%, making this the 42nd consecutive year of dividend per share growth of 5% or more.

Adjusted profit before taxation[1]

£278.3m

+4%

Cash generation

104%

Halma's Sustainable Growth Model

Our Sustainable Growth Model is designed to be resilient and to deliver strong growth and returns over the long term. At its core is our purpose, which is to grow a safer, cleaner, healthier future for everyone, every day. This creates a motivating and stretching ambition for everyone at Halma to play their part in growing our positive impact on the world, while ensuring that we consider the needs of all our stakeholders. Our positive impact is articulated and amplified by Halma's Sustainability Framework, which is discussed later in this review.

Our purpose has never been more relevant than it is today, as our customers look to Halma to help them address significant, long-term challenges, which have global impacts. Many of these are well aligned with the increasing Environmental, Social and Governance (ESG) demands being placed on individual citizens, corporations and countries: from the pressure on natural resources that comes from climate change and growing populations; to increasing safety, environmental and health regulation; and the impact of demographic and societal shifts, such as urbanisation, ageing populations and changing lifestyles. The demand from our customers for products and services which help them address these ESG issues will sustain our growth over the long term.

Acquisition of Static Systems Group

In December 2020, Halma acquired Static Systems Group. The company, based in Wolverhampton, UK, is highly aligned to our purpose of growing a safer, cleaner, healthier future for everyone, every day. It is a designer, manufacturer and installer of critical communication systems, which are central to UK healthcare trusts' patient care infrastructure. Its technology enables hospital patients to alert healthcare specialists in an emergency, protecting lives and improving the response time of care provided.

The positive interdependency of our financial model, organisational structure and growth strategy is critical to our sustainability. The diversity of our portfolio and focus on valuable market niches provides us with broad growth opportunities and strong returns over the long term, but also enables us to be resilient, rapidly adapting to changes in markets and economic conditions. Our decentralised organisational model protects and grows the valuable intellectual property in our companies to maintain their strong market positions and financial returns, as well as providing agility for portfolio management if long-term market trends change.

Improving performance as the year progressed

Our Sustainable Growth Model enabled us to adapt our products and operations quickly to the changes in our markets during the year, including those brought about by the COVID-19 pandemic. As a result, our trading performance strengthened as the year progressed.

In the early part of the year, we saw significant changes in demand in certain end markets and geographies, and our companies faced a broad spectrum of challenges in manufacturing, sales, and distribution as a result of the pandemic. These included the overriding need to ensure safe working conditions and the limitations on gaining physical access to customer sites.

Our agility and collaborative culture allowed us to respond rapidly to these changes. To ensure that we maintained our financial strength, we reduced our quarterly overhead cost run-rate by more than £20m in the first quarter, with each company determining what savings were appropriate for their situation. To preserve liquidity, we decided not to complete any acquisitions in the first half, and limited capital investment to research and development (R&D) and essential projects only, until the impact of the pandemic on our trading and balance sheet became clearer. We also focused on effective management of working capital, while ensuring that we maintained productive relationships with our customers and suppliers.

At the same time as our companies were rapidly addressing new challenges from disruptions to supply chains and their distribution networks, they were also responding to new opportunities arising from changes in their markets. These factors, combined with demand normalising in some market segments during the course of the year, meant that our trading momentum progressively strengthened, allowing us to gradually ease some of the financial constraints we had put in place in the early part of the year. These included a rebounding in M&A activity in the second half of the financial year and it is pleasing to see that this has continued into the new financial year.

"Our purpose has never been more relevant than it is today."

The sector reviews later in this document contain further details of their individual performances, although there were several common themes. These included accelerating the digitalisation of products and introducing more online training and remote installation support in response to restriction in physical access; flexing manufacturing footprints and distribution capabilities to respond to changes in product demand and product mix; responding to new regulatory requirements; and rapidly adapting existing technology to meet new market needs. The agility of this response supported our delivery of a robust financial performance in the year, and will be a key element in sustaining our growth in the future.

Market trends accelerated by the pandemic

Our strategy is to acquire and grow companies providing valuable solutions for selected market niches with global reach, in our chosen areas of safety, the environment and health. These niche markets offer opportunities for sustainable, superior growth with high returns, which are supported by long-term demographic, climate, and regulatory trends.

The effects of the pandemic have accelerated some of the existing long-term trends in our markets and have led to the emergence of new growth opportunities and areas of investment:

- We expect our Medical sector to benefit from an increased focus on ensuring the resilience of healthcare systems, not just in acute care products and services, but also in helping to improve patient outcomes, efficiency, and the safety of patients and staff.
- The increased focus on hygiene has increased demand for automated and touchless access systems in our People and Vehicle Flow and Elevator businesses. We also expect it to drive the adoption of technologies in our Medical sector such as our real-time location systems for healthcare facilities, which control access and ensure compliance with hand hygiene standards.
- The acceleration in the use of digital technology is driving the increasing use of telemedicine in our Medical sector, and the greater use of remote monitoring and control technologies in a broad range of applications, from fire systems and elevator monitoring, to water and waste water leak and spill detection, in our Safety and Environmental & Analysis sectors.
- The pandemic has further heightened awareness of the need to conserve increasingly scarce natural resources, given that climate change and the degradation of the environment have the potential to increase our susceptibility to disease in the future. We expect this to increase demand for our technologies supporting the transition to cleaner energy, water analysis and treatment, environmental monitoring and improving industrial efficiency and energy usage.

Increased investment despite the short-term challenges

Given our market opportunities, strong cash generation and robust liquidity position, we increased investment for growth and even accelerated our efforts in key areas.

Our companies continued to invest in new product development, with R&D expenditure staying at the same level as the previous year. They invested £70m, representing 5.3% of revenue, reflecting their confidence in their long-term growth prospects.

We have accelerated our planned technology investments, given that the pandemic has amplified the importance of digital technologies, both in terms of how we operate, and the way our customers want to access our services and solutions.

In addition to the investments made by individual Halma operating companies, we expect to invest at the Group level around £10m of incremental expenditure over the next three years, as well as adding around £2m per annum to our operating costs. These will bring significant benefits in support of our companies' growth in the medium term and modernise ways of working across Halma. These include:

- Enhancing security, including for remote working, across the whole Group.
- Improving our data and analytics capabilities, and enhancing controls, in central functions such as finance and treasury, talent and human resources, sustainability, and legal.
- Supporting our companies in upgrading their operating technology in areas such as sales and customer management, procurement, e-commerce, and operations, finance, and human resource management.
- Enabling our companies to create new digital business models in line with our Halma 4.0 growth strategy, by building a common core of technology to support their digital and Internet of Things (IoT) solutions.

Investment in our innovation and digital growth programmes has been focused on supporting our companies in bringing their digital products to market and in enhancing the impact of our R&D spend by supporting agile decision-making to increase the speed and reduce the cost of new product development.

We currently have over 20 digital and agile new product development projects underway within these programmes. These are being supported by our Innovation and Digital team and our Digital Champions network which enables the sharing of expertise between companies. The interest these initiatives has generated was reflected in our recent Digital Execution Accelerator Summit event, which saw 130 attendees from across Halma explore new ways of providing value to customers through digital products. To help our companies assess their current digital development and potential, we have further refined our definitions of digital offerings. We now measure digital revenue based on connected devices, IoT (Internet of Things) solutions, and software and services revenues, while non-digital products include mechanical and non-connected intelligent devices. Approximately 40% of our revenue currently comes from digital products and solutions. These new definitions are more consistent with external benchmarks and will allow us to better assess our ability to capture, support and monetise digital opportunities.

We have continued to develop our external partnerships, including making minority investments through our Halma Ventures programme, that offers Halma access to new technology and capabilities. In January 2021, we announced that we had agreed a minority investment and strategic partnership with Oxbotica, a global leader in autonomous vehicle software. This strengthens the existing relationship between Oxbotica and our Halma company Navtech, which specialises in radar technology for transport applications.

Shortly before the year end, we also completed the spin-out of our food technology start-up, OneThird, from our company Ocean Insight. This new digital business was created following our first Halma Digital Edge programme in 2019 and uses spectroscopy data, a software platform and artificial intelligence to predict the shelf life of fresh produce to avoid food wastage. The spin-out will provide OneThird with access to new external partners to further accelerate its growth, with Halma retaining a minority shareholding in the company.

We are continuing to invest in the expansion and modernisation of our operating facilities to support recent and future growth expectations. After a year of reduced activity and spend during the pandemic of £26m, capital investment in the coming year is expected be higher at around £30m, including the start of construction of a new manufacturing facility for one of our largest companies, BEA, in Belgium.

Organisational and leadership changes to drive our growth strategy

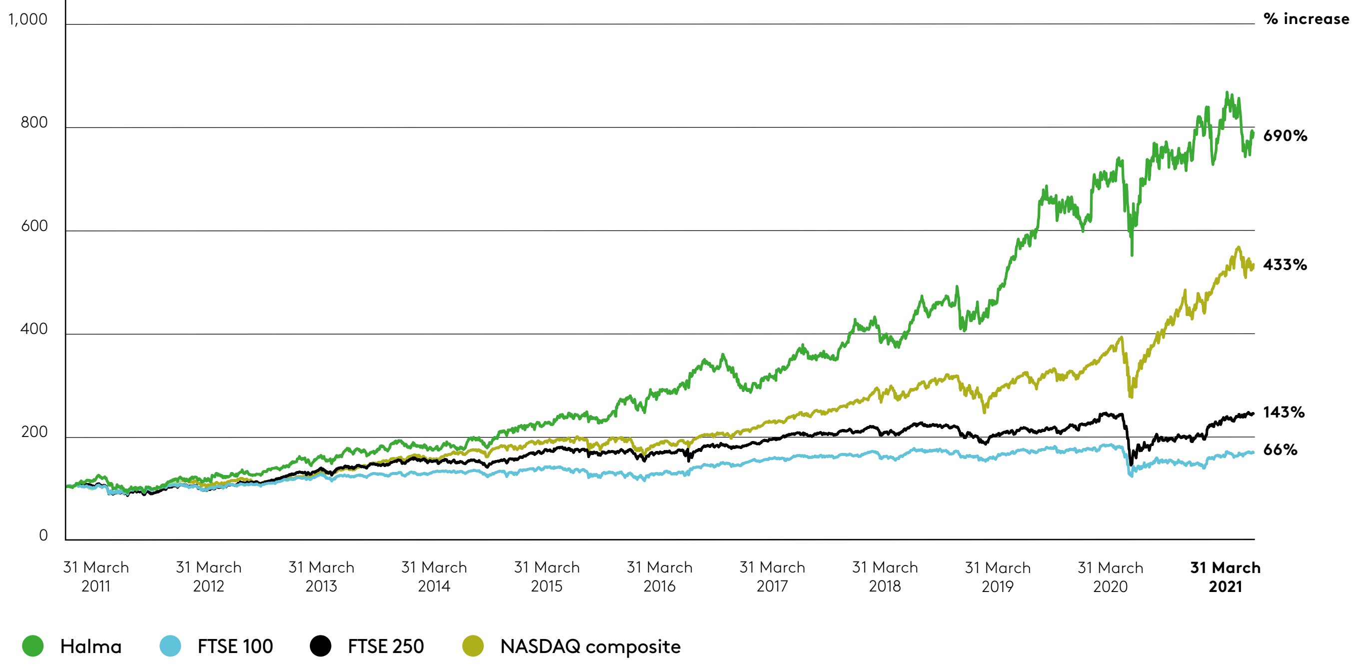
During the year we announced several organisational, leadership and reporting changes. These demonstrate our commitment to developing our people to ensure we have a strong and sustainable leadership succession for the future, as well as our ability to recruit the very best talent.

In September 2020, we welcomed Funmi Adegoke as Group General Counsel. Funmi's international legal and commercial background has enabled her to have an immediate positive impact with our operating companies, sectors, and Executive Board.

We announced at our half year results in November that, from 1 April 2021, we would operate and report as three sectors to better align with our purpose and focus on safety, environmental and health markets, while still providing an easily scalable organisational model as we grow. Each of the three sectors is led by a Sector CEO and small sector support team, following the same model we have successfully deployed since 2014.

Two of our Divisional CEOs, Wendy McMillan and Constance Baroudel have been promoted to Sector Chief Executive for the Safety and Environmental & Analysis sectors respectively, while Laura Stoltenberg will continue to lead the Medical Sector. This change to three sectors will result in increased and dedicated M&A support for our Environmental & Analysis and Medical growth opportunities, and maintain the existing level of support for the combined Safety sector.

Total Shareholder Return
Graph as rebased to 100



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Following the resignation of Paul Simmons at the start of the pandemic in March 2020, Adam Meyers remained on our Executive Board as interim Chief Executive of our Safety sector. After completion of the Sector leadership succession process outlined above, Adam will retire from the Executive Board and Halma Board after our forthcoming Annual General Meeting in July 2021. I would like to thank Adam for his exceptional contribution since he joined the Group in 1996. In his time as a member of the Executive Board (since 2003) and the Halma Board (since 2008), Adam has completed over 20 acquisitions and had Divisional or Sector responsibility for almost every company in the Group. He has been a tremendous supporter of emerging talent and over the years has done a fantastic job helping new Divisional CEOs and Sector CEOs transition into their new roles. On behalf of everyone at Halma, I wish him all the best for a long and happy retirement.

Accelerating our growth through M&A

Our M&A strategy is focused on acquiring businesses with valuable intellectual property, which operate in market niches aligned with our purpose of growing a safer, cleaner, healthier future for everyone, every day.

Our organisational model is easily scalable and gives us the ability to continue acquiring small-to-medium sized businesses which increase our market opportunities and achieve our strategic growth objectives. We are also able to sell and merge businesses relatively easily should market dynamics change, enabling us to maintain a growth-oriented portfolio without it becoming significantly more complex to manage. The benefit of this active portfolio management is reflected in the number of companies within Halma remaining relatively stable, whilst we have grown and maximised value for our shareholders. For example, in 2011, Halma had revenue of £518m from 38 operating companies, and today we have only 42 operating companies delivering revenue of over £1.3bn.

After our decision to postpone M&A transactions in the first half of the year, activity rapidly picked-up in the second half and this has continued into the new financial year.

In December 2020, we acquired Static Systems Group, a UK-based manufacturer of critical healthcare communication systems, for £37.6m. In the same month, we divested Fiberguide Industries, Inc., a US-based manufacturer of fibre optic technology, for US$38m (£27.6m).

Following the year-end, in April 2021, we acquired PeriGen, a US company whose advanced technology protects mothers and their unborn babies by alerting doctors, midwives and nurses to potential problems during childbirth, for US$58m (equivalent to approximately £42m at the time of announcement).

We have also continued to strengthen our companies' capabilities across our three sectors through bolt-on acquisitions:

— In the Safety sector, our wireless fire safety company, Argus, purchased its Italian distributor for €0.5m and our industrial access control company, Fortress, bought the assets and IP associated with monitored safety valves from FluidSentry Pty Ltd in Australia for A$0.6m.
— In the Environmental & Analysis sector, the UV Group acquired Orca GmbH, a German manufacturer of ultraviolet disinfection systems, primarily for the food and beverage sector, for an initial consideration of €6.2m (£5.3m); Crowcon purchased its UK flue gas analyser distribution partner, Anton Industrial Services Limited, for £1.9m.
— In the Medical sector, Riester acquired the trade and assets of RNK, a US-based digital stethoscope company, for an initial consideration of US$2.7m (£1.9m).

A Sustainability Framework introduced to amplify our positive impact

Our new Sustainability Framework, which we have developed this year, aims to demonstrate our positive impact through continued and more focused efforts to minimise our environmental footprint, maximise our social impact, and be a responsible business. It is designed to assist us in understanding the areas of sustainability which are most important both for Halma and our stakeholders, and to help our companies prioritise the actions that are going to deliver the greatest return for the time and resources invested.

Many of our technologies enable others to achieve their own sustainability commitments including through the protection of natural resources or reduction of carbon emissions. We have recognised this by explicitly including climate change as a new key long-term growth driver for our products and services, and when assessing opportunities for future organic and inorganic growth. The beneficial effects of our products and services, which help solve many critical safety, environmental and health issues, also contribute to the achievement of our chosen United Nations Sustainable Development Goals (SDGs).

Our Sustainability Framework prioritises specific Key Sustainability Objectives (KSOs), which we believe are both highly aligned to our purpose, and key issues for Halma and our stakeholders. While these may be refined over time, the initial focus of our KSOs will be on addressing climate change, transitioning our business towards a circular economy, and continuing to build inclusion, diversity and equity in delivering our purpose-aligned growth.

In the coming financial year, we will set challenging objectives and KSO targets, and in future consider aligning management incentives with them where appropriate. We will also continue to develop policies and metrics relating to a wider scope of responsible business issues in support of these KSOs.

The delivery of our Sustainability Framework is supported by our new Head of Sustainability, who joined in September 2020, and two new leadership groups created this year: our Group-wide Sustainability Network, which includes representatives from almost every Halma company, and a Sustainability Management Committee, which is responsible for oversight of our sustainability initiatives and KSOs, and includes senior Halma group executives.

In addition to these structural changes, we have made substantial progress on our specific sustainability initiatives. For climate change, we have set a 1.5 degree-aligned 2030 target for our Scope 1 and 2 emissions, in line with guidance from the Science-Based Target Initiative, and a target to achieve net zero Scope 1 and 2 emissions by 2040. Alongside these commitments, we recognise the need for us to work towards net zero across our entire value chain. Over the year, we will be carrying out a full assessment of our supply chain and other Scope 3 emissions to determine the targets and commitments that will be most appropriate for Halma.

These objectives are supported by our ongoing work to further increase the percentage of the energy we consume from renewable sources. We have also commenced work towards implementing the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), including initial identification of opportunities and risks for Halma. Our target is to report fully under the TCFD framework from next year.

We have also made progress in assessing the importance to Halma of other key sustainability-related issues. We have commenced an analysis of the sustainability-related impact and risk across our supply chains, and an initial analysis of our operating presence in water-stressed areas while improving our environmental reporting on water and waste. These will enable us to establish more robust baselines for reporting our future progress.

Building greater inclusion, equity, and diversity to drive our performance

A critical component of Halma's continued success is our culture, which in turn is dependent on the quality and diversity of our leaders and teams. We seek to ensure that Halma is an organisation that is inclusive and treats all people equitably. In doing this, we maximise the pool of talent available to us, recruit and retain the best people for every role, and build committed, diverse and resilient teams. These qualities and benefits were critical in our ability to deliver a robust performance in the year.

Our continued efforts to embed the principles of diversity, equity and inclusion (DEI) within Halma were supported by several new initiatives this year. These included the global implementation of an equal parental leave policy for all our employees and the launch of Accelerate Inclusion, our programme to build deeper awareness and provide practical tools to enable our teams around the world to create inclusive cultures. These principles were reinforced by the new public commitments we made in the year, including paying a Real Living Wage across our UK operations from 1 June 2022, signing up to the Change the Race Ratio campaign, and disclosing for the first time the gender pay gap in our UK and US operations.

We are confident that our efforts will deliver results, as we have already seen from the significant progress we have made in recent years. For example, with new appointments to the Board and Executive Board, our gender balance is now 42% and 70% women respectively as at 10 June 2021. You can find more detail on our progress on diversity, equity and inclusion in Our People and Culture section on pages 60 to 63.

Halma Board changes

Earlier in 2021, we welcomed Dame Louise Makin and Dharmash Mistry to our Board as non-executive Directors. Both will bring significant additional expertise to our Board and I am looking forward to working more closely with Louise when she steps up to become our new Chair after our AGM in July.

With these changes, and in addition to the retirement of Adam Meyers referred to above, Daniela Barone Soares and Paul Walker will be retiring as non-executive Director and Chair respectively, at the AGM. Both have made significant contributions to Halma's development and growth and we give them our thanks and best wishes for their new challenges ahead.

On a personal level, I would particularly like to thank Paul for his support and guidance as Halma's Chair. During his tenure, Halma has transitioned into a FTSE 100 company with its market capitalisation growing from around £2bn in 2013 to over £9bn at the end of this financial year. I have really appreciated Paul's commitment to ensuring that we have strengthened our culture and talent pool as we grow, the benefits of which are clearly to be seen in the recent leadership succession processes for our Executive and Sector Boards. He leaves a strong legacy and a foundation upon which I am confident that Halma will continue to deliver success in the future.

Summary and Outlook

Halma's purpose is to grow a safer, cleaner, healthier future, for everyone, every day. It underpins our growth strategy, financial model, culture and organisational design. The combination and interaction of these elements has created increasing value for all stakeholders on a sustainable basis for almost 50 years.

Together, they have enabled us to make further progress during the ongoing pandemic, giving us an agility which has been crucial in allowing us to address short-term challenges while simultaneously investing for a fast-changing future. Our progress has also been supported by our teams' relentless execution across all parts of our business, and our resilience which stems from the diversity of our market niches, their fundamental growth drivers, and the value of the solutions we provide.

For the year ahead, we expect our markets to continue to recover, albeit at varying rates, while acknowledging that there are potential headwinds including currency, inflation, and supply chain constraints. Organic constant currency revenue for the period from the beginning of January to the end of May is up 10% year-on-year. We have made a good start to the year, order intake is currently ahead of revenue and the same period last year, and we also have a good pipeline of potential acquisition opportunities. We currently expect to deliver full year low double-digit percentage organic constant currency profit growth (prior to any IAS 38 impact) and a more normal level of return on sales. We look forward to making further progress, in this year and the longer term.

Andrew Williams
Group Chief Executive

1 See Highlights.

Our water technologies show our purpose in action

Without clean water, people are denied access to opportunities that should be open to everyone, everywhere. Whole communities are held back, simply because they don't have access to clean water.

In late 2020, Halma launched a partnership to help tackle the global challenge of bringing clean water to some of the 2.2 billion people in the world without access to safe supplies. Working with WaterAid, our group of global technology companies committed to supplying our specialist water testing equipment and raising money to support and train villagers in India to overcome dangerous local environmental contaminants.

Through our Water for Life campaign, we are helping to build a safe and clean water supply and use our specialised testing kits from Palintest to provide 8,000 people in Bhagalpur and Buxar with access to a reliable source of clean and safe water. We will also train community volunteers from across ten villages to maintain the water quality and also provide 3,000 people with the resources to safely harvest water.

This campaign also helps engage our employees, customers, shareholders, future talent and partners on a critical issue identified through the UN's Sustainable Development Goals. In particular, SDG 6, Clean water and sanitation.

Our Sustainable Growth Model delivers superior and sustainable growth, consistently high returns and positive impact. We actively manage each of the elements of this model and together they create a self-reinforcing system that gives us the strength and flexibility to address new opportunities and challenges. It is the combination and interdependency of all of them that enables us to deliver value over the long term for all our stakeholders.

Our sustai growth

1

Our purpose

Our purpose has driven our business for over 50 years. It powers every decision we make, from choosing our markets to finding the right talent. It attracts people who want to solve the same problems as we do, and keeps us focused on the things that matter to our business.

Read more p18

2

Halma's DNA

The combination of our organisational model and culture is a fundamental part of what makes Halma a successful, sustainable business. We call this Halma's DNA, and it runs through our business at all levels.

Read more p19

3

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.

Read more p20

inable

model

4

Our markets

We choose our markets because they have resilient, long-term growth drivers. Their growth is driven by increasing demand for healthcare and life-critical resources, increasing regulation, and by growing global efforts to address climate change, waste and pollution.

Read more

p20

5

Investment proposition

We seek to deliver superior and sustainable value for our investors, while delivering a positive impact for all our stakeholders. We set ourselves challenging targets, and aspire to double our earnings every five years.

Read more

p21

6

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 long term, while delivering strong performance in the shorter term.

Read more

p22

1

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 enhancing 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.

By growing in line with our purpose, we deliver positive impact in the markets we serve and beyond.

Learn more about our positive impact

p66 →

2

Halma's 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 allow 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.

3

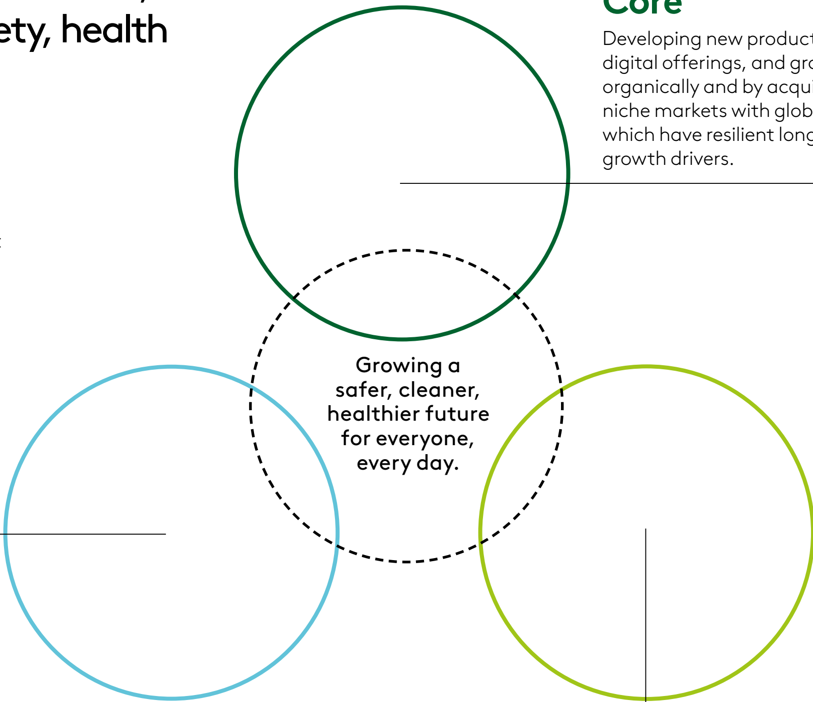
Our strategy

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

Our Core strategy is an evolution of what we have always done and focuses on growing through enhanced digital offerings, new product development, international expansion and acquisitions aligned to our purpose.

Our Convergence strategy recognises that we can go faster by partnering with others who want to solve the same problems as we do. Our Edge strategy explores disruptive new business models and solutions.



Core

Developing new products and digital offerings, and growing organically and by acquisitions in niche markets with global reach which have resilient long-term growth drivers.

Edge

Developing and investing in digital business models that have the potential to completely disrupt existing models, and which can scale exponentially.

Convergence

Developing new products, services and business models by combining existing Halma technologies and capabilities in new ways, and potentially by adding capabilities and partnerships.

4

Our markets

We choose our markets because they have resilient, long-term growth drivers.

- Global efforts to address climate change, waste and pollution
- Increasing health, safety and environmental regulation
- Increasing demand for healthcare
- Increasing demands on life-critical resources

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, the environment, process industries, and energy and resources.

20+ countries

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

5

Investment proposition

We seek to create sustainable value for our stakeholders, by delivering consistently strong growth and returns and a positive impact. We set ourselves challenging targets, and aspire to double our earnings every five years, while maintaining a conservative capital structure and delivering high returns.

High growth and returns

We deliver high growth and returns. Over the past five years, organic revenue growth has averaged 6.8% and growth in adjusted earnings per share has averaged 11.3%. Return on Sales has averaged 20.3% and Return on Total Invested Capital has averaged 15.2% over the same time period.

A clear purpose and a positive impact

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. We seek to amplify this positive impact through our Sustainability Framework, which focuses us on the areas of sustainability which are both highly aligned to our purpose and most material for Halma and our stakeholders.

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 92% 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 0.85 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, aligned with our purpose. 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 profit for 18 consecutive years, Return on Sales of 16% or more for 36 consecutive years, and have a 42-year track record of growing dividend per share by 5% or more every year.

6

Our business model

Our business model is simple. It is underpinned by our purpose, 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 Growth Enablers . 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 coordinated 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 Communications and Brand
We enable our companies to reach all stakeholders by helping them build their brand, understand their market needs and develop leading positions.

We amplify our positive impact through our Sustainability Framework

Halma companies, by growing, make the world a safer, cleaner and healthier place. We aim to amplify this positive impact by working towards achieving our Key Sustainability Objectives, as part of our Sustainability Framework.

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.

"We delivered a robust financial performance, with record profits and strong cash flow, while increasing investment and further strengthening our balance sheet."

Marc Ronchetti, Chief Financial Officer

Record profit
Halma delivered a robust financial performance in the period, despite the effects of the COVID-19 pandemic. We responded rapidly to the challenges and new opportunities which arose in the year to deliver a record profit for the 18th consecutive year, while increasing our investment in future growth opportunities and further strengthening our balance sheet. This financial performance reflects the value of our Sustainable Growth Model and the authenticity of our purpose.

Revenue for the year to 31 March 2021 was £1,318.2m (2020: £1,338.4m), down 1.5%. This reflected a resilient organic performance, supported by the agility of our companies in responding to fast-changing market conditions, and a benefit from recent acquisitions. Adjusted[1] profit before taxation grew 4.2% to £278.3m (2020: £267.0m), and benefited from discretionary variable cost reductions, good ongoing control of overheads and a reduction in financing costs. Statutory profit before taxation increased by 12.9% to £252.9m (2020: £224.1m), and included a £21.6m gain on disposal of Fiberguide Industries, Inc. in the second half of the year.

The decrease in revenue included a 5.6% decline in organic constant currency revenue. The contribution from acquisitions was a positive 5.4% (5.1% net of disposals), and there was a negative effect from currency translation of 1.0%. The 4.2% increase in Adjusted[1] profit comprised a 0.7% increase in organic constant currency profit, a 4.7% contribution from acquisitions (4.5% net of disposals), and a negative effect from currency of 1.0%.

Statutory profit before taxation of £252.9m is calculated after charging the amortisation of acquired intangible assets of £42.3m (2020: £38.3m), a £22.1m gain on disposals (2020: £2.9m), and other items of a net £5.2m (2020: £7.5m). Further detail on these items is given in note 1 to these Accounts.

Cash conversion was very strong at 104%, primarily driven by good underlying working capital control, in addition to specific actions taken in response to the pandemic. As a result, net debt (on an IFRS 16 basis which includes lease commitments) reduced substantially to £256.2m (31 March 2020: £375.3m).

Robust revenue and profit performance
Revenue fell by 5.4% in the first half and increased by 2.2% in the second half. Having declined in the first quarter, revenue increased sequentially in each subsequent quarter. Constant currency organic revenue declined by 5.6%, comprising an 11.0% reduction in the first half, reflecting the effects of the COVID-19 pandemic, and a decline of only 0.3% in the second half. There was a small negative effect of 0.4% from currency translation in the first half which increased in the second half, giving a negative effect of 1.0% for the year as a whole.

Adjusted[1] profit declined by 5.3% in the first half, but grew by 13.1% in the second half. As a result, the first half/second half split of adjusted profit was 44%/56%, compared to our typical 45%/55% pattern.

Revenue and profit change

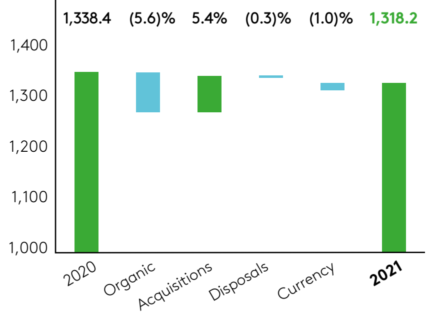
				Percentage growth		
	2021 £m	2020 £m	Change £m	Total %	Organic growth[2] %	Organic growth[2] at constant currency %
Revenue	**1,318.2**	1,338.4	**(20.2)**	**(1.5)**	**(6.6)**	**(5.6)**
Adjusted[1] profit before taxation	**278.3**	267.0	**11.3**	**4.2**	**(0.3)**	**0.7**
Statutory profit before taxation	**252.9**	224.1	**28.8**	**12.9**	**–**	**–**

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 and profit or loss on disposal of operations. 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.

Revenue bridge (£m)

£1,318.2m

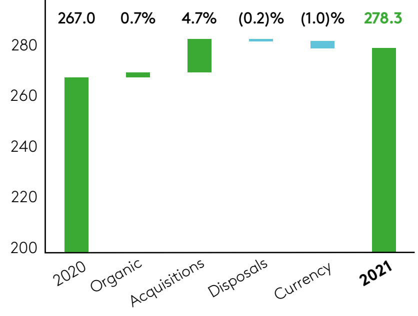
(1.5)%



Adjusted[1] profit bridge (£m)

£278.3m

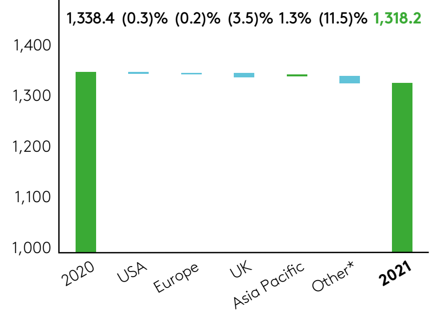
+4.2%



Geographic revenue bridge (£m)

£1,318.2m

(1.5)%



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

Sector revenue change

	2021		2020				
	£m	% of total	£m	% of total	Change £m	% growth	% organic growth[2] at constant currency
Process Safety	**188.8**	**14**	200.0	15	**(11.2)**	**(5.6)**	**(11.9)**
Infrastructure Safety	**450.5**	**34**	466.5	35	**(16.0)**	**(3.4)**	**(4.7)**
Environmental & Analysis	**308.8**	**24**	325.0	24	**(16.2)**	**(5.0)**	**(2.7)**
Medical	**371.3**	**28**	347.2	26	**24.1**	**7.0**	**(5.4)**
Inter-segment sales	**(1.2)**		(0.3)		**(0.9)**		
	1,318.2	**100**	1,338.4	100	**(20.2)**	**(1.5)**	**(5.6)**

Sector profit change

	2021		2020				
	£m	% of total	£m	% of total	Change £m	% growth	% organic growth[2] at constant currency
Process Safety	**36.6**	**12**	43.9	14	**(7.3)**	**(16.7)**	**(21.5)**
Infrastructure Safety	**110.6**	**35**	107.7	35	**2.9**	**2.7**	**1.2**
Environmental & Analysis	**77.4**	**25**	69.4	23	**8.0**	**11.4**	**14.7**
Medical	**86.6**	**28**	84.4	28	**2.2**	**2.6**	**(10.5)**
Sector profit[3]	**311.2**	**100**	305.4	100	**5.8**		
Central administration costs	**(22.9)**		(26.3)		**3.4**		
Net finance expense	**(10.0)**		(12.1)		**2.1**		
Adjusted[4] profit before tax	**278.3**		267.0		**11.3**	**4.2**	**0.7**

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; and profit or loss on disposal of operations. 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.

As with revenue, profit grew sequentially from the first quarter onwards, and there was a small negative effect from currency translation in the first half, which increased in the second half. Organic profit at constant currency declined by 11.1% in the first half, but increased by 11.8% in the second half, resulting in modest growth of 0.7% for the year.

Profitability in the year benefited from the discretionary variable cost reductions delivered in the first quarter, good ongoing control of overheads including reduced travel and trade show costs and reduced absolute research and development spend in line with revenue. These savings were, in part, offset by increased distribution costs and one-off enhanced employee COVID-19 related payments. These overall savings included the impact of our decision during the second half to repay all employees below the Executive Board the temporary salary reductions implemented from 1 April 2020 for a three-month period (ensuring all employees were paid at least 100% for hours worked). The Board and Executive Board incurred a reduction in salaries of 20% for the first quarter and did not feel it appropriate for this to be repaid.

Stronger second half performance

Our companies saw significant and varying changes in demand in the year as a result of the COVID-19 pandemic, and this was reflected in the different sector performances. Having seen a substantial decline in the first quarter (compared to the final quarter of the prior year), overall performance improved as the year progressed. All sectors delivered a stronger absolute revenue and profit performance in the second half, compared to the first half of the year. For the full year as a whole, while revenue increased in only one sector, three of the four sectors grew profit on a reported basis, and two on an organic constant currency basis.

Process Safety revenue declined 5.6%, which included a benefit from the acquisition of Sensit Technologies in the prior year. Revenue on an organic constant currency basis fell 11.9%, which reflected the adverse effects of the COVID-19 pandemic, including the difficulty of gaining access to customer sites and the deferral of project-based business, in addition to a challenging oil and gas market and a strong comparative in Industrial Access Control (which included a large logistics contract). Profit decreased by 16.7% (21.5% on an organic constant currency basis), mainly because of the decline in higher margin US onshore oil and gas business, as well as one-off restructuring costs of £1.9m. As a result, Return on Sales was lower, at 19.4% (2020: 21.9%). The second half saw a sequential improvement in revenue, albeit still marginally down on the same period last year, with revenue declining 1.0% on a reported basis and 6.5% on an organic constant currency basis. Our companies have continued to broaden and diversify their revenue streams and acted to more closely align overheads with revenue, to deliver an improved profit performance as the year progressed. Looking ahead we anticipate some recovery in the Process Safety end markets which, in addition to new product introductions, should return the sector to growth for the year ahead.

Infrastructure Safety delivered a resilient performance for the year, despite a 13.5% fall in revenue in the first half (a decline of 16.2% on an organic constant currency basis) which included an adverse impact from the COVID-19 pandemic. As market conditions started to recover, revenue grew by 6.6% in the second half of the year (6.7% on an organic constant currency basis) compared to the same period in the prior year, resulting in revenue for the full year being down 3.4% (4.7% on an organic constant currency basis). Return on Sales was higher at 24.5% (2020: 23.1%), reflecting an improvement in gross margin from favourable business mix and good underlying overhead control. As a result, reported profit grew by 2.7% in the full year and by 1.2% on an organic constant currency basis. Looking ahead we expect a continuation of the recovery we saw in the second half, albeit against the potential headwinds relating to ongoing supply chain challenges and the ongoing risk of further COVID-19 related disruption.

The Environmental & Analysis sector delivered a robust performance for the year. While reported revenue declined by 5.0%, this was partly due to the disposal of Fiberguide Industries, Inc. in the third quarter of the year, and revenue on an organic constant currency basis fell by only 2.7%. This was a resilient performance given the very strong comparative in the second half of the previous year. Profit grew strongly, by 11.4% on a reported basis and by 14.7% on an organic constant currency basis, reflecting the benefit to gross margin from a favourable mix of business, and very strong control of overheads. As a result, Return on Sales increased to 25.1% (2020: 21.4%) and, given that this was driven by mix of business, discretionary variable cost reductions and the phasing of a long-term photonics project, we do not expect this high level of Return on Sales to be maintained in the coming year. Looking ahead we expect the sector to make continued progress albeit against a strong comparative with the continued contribution of some large photonics projects, in addition to the timing of the UK water infrastructure investment cycle and the continued recovery of the water testing markets.

The Medical sector delivered good revenue growth of 7.0% for the year. This included a significant contribution from prior year acquisitions, with revenue declining by 5.4% on an organic constant currency basis. Sector companies experienced substantially different changes in demand as a result of the pandemic, with some having to meet significantly increased

Geographic revenue

	2021		2020				
	£m	% of total	£m	% of total	Change £m	% change	% change organic at constant currency
United States of America	**508.8**	**39**	510.3	38	**(1.5)**	**(0.3)**	**(6.0)**
Mainland Europe	**276.0**	**21**	276.4	21	**(0.4)**	**(0.2)**	**(3.0)**
United Kingdom	**213.6**	**16**	221.2	16	**(7.6)**	**(3.5)**	**(7.0)**
Asia Pacific	**216.1**	**16**	213.3	16	**2.8**	**1.3**	**(3.6)**
Africa, Near and Middle East	**54.1**	**4**	63.2	5	**(9.1)**	**(14.4)**	**(15.1)**
Other countries	**49.6**	**4**	54.0	4	**(4.4)**	**(8.1)**	**(5.3)**
	1,318.2	**100**	1,338.4	100	**(20.2)**	**(1.5)**	**(5.6)**

demand for products and services related to the diagnosis or treatment of COVID-19, and others seeing substantial falls in revenue as a result of a slowdown in elective procedures and difficulties in gaining access to hospitals. This change in business mix had an adverse effect on gross margin which, alongside an increased R&D spend in the year, meant that Return on Sales decreased by 1 percentage point to 23.3%. Our companies responded with agility to these changes, both in terms of addressing new revenue opportunities and adjusting overheads where required. This, together with some modest recovery in elective procedures as the year progressed and a further contribution from acquisitions, resulted in the sector returning to revenue and profit growth in the second half. Looking ahead, we expect to continue to see the recovery in elective procedures and for there to be a decline in demand for COVID-19 related products. These factors, alongside the continued contribution from recent acquisitions means that the sector is expected to deliver more normal levels of growth for the year ahead.

We continue to hold an additional £5.0m central provision for bad debt, reflecting the continuing increased risk of customer bad debt in all sectors due to the ongoing effects of the COVID-19 pandemic.

Central administration costs, which include our Growth Enabler functions, decreased to £22.9m (2020: £26.3m). This principally reflected the discretionary cost reduction measures implemented in the first quarter of the year, in addition to ongoing overhead control for the balance of the year. These actions delivered savings across all functions driven by reduced travel, the use of virtual conferences, deferred spend on projects, reduced development programmes and a reduction in bonus payments as a result of financial performance. These savings were in part offset by the one-off enhanced employee COVID-19 related payments of £2m and the acceleration of planned IT investment spend. As we plan to increase and selectively accelerate investment in our Growth Enablers in the year ahead, we expect central costs to increase to approximately £32m in 2022 (excluding up to £5m of IT Software as a Service (SaaS) configuration and customisation costs). This will include both a return to more normalised levels of central investment, in addition to an acceleration in our investments in IT and Technology, strategic communications and governance and compliance (including ESG), and a return to more normal levels of annual bonus payments. This level of investment is expected to normalise (relative to revenue) during the financial year ending 2023.

As previously announced, from 1 April 2021, we will align our organisational structure and financial reporting with our purpose and core market focus. We will report our performance in three sectors, namely Safety, Environmental & Analysis, and Medical.

Resilient revenue performance in all major regions

The Group's four major regions delivered a resilient revenue performance and individually reflected the mix of businesses and the extent of contributions from recent acquisitions in each region. Asia Pacific delivered a small amount of growth, the USA and Mainland Europe were flat, and the UK saw a small decline. The contribution from acquisitions was largest in the USA, with a modest benefit in the other three major regions. Revenue in other regions fell more sharply, with the effects of the pandemic more severe and sustained in a number of developing markets.

Revenue in the USA declined by 0.3%, and remains our largest revenue destination, accounting for 39% of Group revenue, an increase of one percentage point compared to the prior year. Organic constant currency revenue declined by 6.0%. There was a wide range of performances by each sector. On a reported basis, Medical delivered strong growth, which included a substantial benefit from recent acquisitions, and the other three sectors saw modest declines. Revenue in Process Safety benefited from the acquisition of Sensit, but on an organic constant currency basis saw a significant decline given a strong comparator (due to a large logistics contract in the prior year), in addition to weak demand for safety products in the US onshore oil and gas related businesses and site access issues.

Environmental & Analysis delivered the most resilient performance on an organic constant currency basis, but total revenue was impacted by the disposal of Fiberguide Industries, Inc. in the third quarter.

Mainland Europe revenue was 0.2% lower. There was a modest contribution from recent acquisitions, and revenue on an organic constant currency basis declined by 3.0%. The region's largest sector, Infrastructure Safety, saw a small decline in revenue, despite a strong performance in the People and Vehicle Flow sub sector. The other three sectors grew on a reported basis, with Process Safety benefiting from the fulfilment of some significant projects, Environmental & Analysis seeing a good performance in Water Analysis and Treatment, and Medical's performance including the benefit of recent acquisitions.

UK revenue was 3.5% lower, or 7.0% on an organic constant currency basis. Infrastructure Safety grew slightly, supported by a strong recovery in the Fire and Security businesses in the second half of the year. Environmental & Analysis, however, saw a substantial decline against a very strong prior year comparator, particularly in our Water businesses. In the other, much smaller, sectors, Process Safety delivered a resilient performance, with a modest decline in revenue, while the Medical sector revenue grew strongly on a reported basis, with the benefit of the Static Systems acquisition offsetting a sharp decline on an organic constant currency basis.

Asia Pacific grew 1.3%, which included double-digit growth in China, as it recovered from the effects of the pandemic. There was good growth in South Korea, but significant declines in other markets, largely as a result of the pandemic. There was good growth in the Environmental & Analysis sector, supported by the recovery in China, and a solid performance in Medical which benefited from recent acquisitions. Revenue in the Safety sectors declined with a slowing of large project approvals in Process Safety. Infrastructure Safety's performance benefited from the acquisition of Ampac in Australia in the prior year. On an organic constant currency basis, Asia Pacific revenue declined by 3.6%.

Currency effects

	Weighted average rates used in the Income Statement			Exchange rates used to translate the Balance Sheet	
	First half	2021 Full year	2020 Full year	2021 Year end	2020 Year end
US$	**1.267**	**1.308**	1.271	**1.378**	1.25
Euro	**1.116**	**1.121**	1.144	**1.174**	1.133

In other regions, revenue was 11.5% lower and 10.6% down on an organic constant currency basis. This performance reflected the significant and continuing impact of the pandemic on developing regions, with all sectors seeing a decline in revenue. Of the larger countries, only Canada delivered growth. As a result, and despite the modest improvement in Asia Pacific, revenue from territories outside the UK/Mainland Europe/the USA fell by 3.2%, which was below our 10% KPI growth target.

Continued high returns

Halma's Return on Sales[2] has exceeded 16% for 36 consecutive years. Our KPI target is to deliver Return on Sales in the range of 18–22% and this year Return on Sales increased to 21.1% (2020: 19.9%). This reflected discretionary cost reductions of over £20m realised in the first quarter of the year (compared to the previous quarter's run rate), strong ongoing overhead control, and a modest reduction in research and development spend, in line with revenue. The previously reported £5m increase in customer bad debt provision included in 2020 due to the additional risk from COVID-19 has remained in place.

We successfully achieved our objective of continuing to invest in our businesses while delivering growth and we maintained a high level of Return on Total Invested Capital (ROTIC)[2], the post-tax return on the Group's total assets including all historical goodwill. This year, ROTIC was 14.4% (2020: 15.3%), with the change principally reflecting a lower level of constant currency earnings growth than in the prior year, as well as lower dividend growth in the year as a result of the COVID-19 pandemic. Our ROTIC 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 6.7% (2020: 7.7%).

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 with translational exposures not hedged. For transactional exposures, after matching currency of revenue with currency of 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.

Sterling strengthened on average in the year, principally in the second half. This gave rise to a negative currency translation impact of 1.0% on revenue and on profit for the full year.

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 2022 were US Dollar 1.378/ Euro 1.174 relative to Sterling, and assuming a constant mix of currency results, we would expect approximately a £39m negative revenue and a £9m negative profit impact compared to financial year 2021, with the majority of the impact in the first half of the year.

Financing cost decreased

The net financing cost in the Income Statement of £10.0m was lower than the prior year (2020: £12.1m). This reflected the lower average net borrowings in the year given strong cash generation, a lower level of expenditure on acquisitions, and lower interest rates (see the "Average debt and interest rates'" table on page 30 for more information).

Interest cover (EBITDA as a multiple of net interest expense as defined by our Revolving Credit Facility) was 47 times (2020: 40 times) which was substantially in excess of the four times minimum required in our banking covenants.

The net pension financing impact under IAS 19 is included within the net financing cost. This year the Group recognised a gain of £0.1m (2020: charge of £0.8m), reflecting the lower net deficit at 31 March 2020.

Group tax rate increased

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.

The Group's effective tax rate on adjusted profit was higher than in the prior year at 20.1% (2020: 18.5%). This was mainly due to the reversal of one-off credits in the prior year and a change in the expected mix of profits arising from increased profits in higher tax jurisdictions. Based on the forecast mix of adjusted profits for the year to 31 March 2022 we currently anticipate the Group effective tax rate to increase to approximately 21.5% of adjusted profits. The forecast increase is a result of changes in tax laws reducing the benefits arising from intra-group financing arrangements.

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 many other UK companies, Halma has benefited from the FCPE. The total benefit to Halma in the periods affected by the European Commission's decision has been approximately £15.4m in respect of tax. Halma has appealed

Operating cash flow summary

	2021 £m	2020 £m
Operating profit	**240.8**	233.4
Net acquisition costs and contingent consideration fair value adjustments	**5.2**	7.5
Amortisation and impairment of acquisition-related acquired intangible assets	**42.3**	38.3
Adjusted operating profit	**288.3**	279.2
Depreciation and other amortisation	**50.8**	51.5
Working capital movements	**2.8**	(9.3)
Capital expenditure net of disposal proceeds	**(25.9)**	(32.2)
Additional payments to pension plans	**(13.0)**	(12.5)
Other adjustments	**(2.7)**	(4.5)
Adjusted operating cash flow	**300.3**	272.2

against the European Commission's decision, as have the UK Government and several other UK companies. Following receipt of a charging notice from HM Revenue & Customs (HMRC) in January, we made payment of £13.9m to HMRC in respect of tax, and since the year end have received a further charging notice in respect of interest of approximately £0.8m. We expect these payments to be refundable in the event of a successful appeal and have recognised a corporation tax asset of £13.9m in the balance sheet.

Strong cash generation

Cash generation is an important component of the Halma model, underpinning further investment in organic growth, supporting value-enhancing acquisitions and funding an increasing dividend. Our cash conversion in 2021 was strong.

Cash generated from operations was £331.4m (2020: £307.9m) and adjusted operating cash flow, which excludes operating cash adjusting items, and includes net cash capital expenditure, was £300.3m (2020: £272.2m) which represented 104% (2020: 97%) of adjusted operating profit. This was significantly ahead of our cash conversion KPI target of 90%, reflecting a strong underlying performance primarily driven by good working capital control and the cash conservation measures in place during the year. Adjusted operating cash flow is defined in note 3 to the Accounts.

A summary of the year's cash flow is shown in the tables below. The largest outflows in the year were in relation to acquisitions, dividends and taxation paid.

There was a working capital inflow of £2.8m, comprising changes in inventory, receivables and creditors (2020: outflow of £9.3m), reflecting an increase in creditors, including from the acquisition of Static Systems Group, a reduction in debtors, given the Group's success in collecting aged receivables, and the deferral of employer social security tax liabilities in the USA.

The deferral of payment of tax liabilities related to the employers' share of quarterly social security tax deposits in the USA, as permitted during the COVID-19 pandemic, resulted in a deferral of a cash tax liability of approximately US$6m (£5m) relating to the period 27 March 2020 to 31 December 2020. Half of this amount was due by 31 December 2021 and the remainder by 31 December 2022. Given the Group's strong financial position, we paid substantially all of the amount due in May 2021, with the remainder to be paid in June, ahead of these due dates.

Dividends totalling £63.7m (2020: £61.2m) were paid to shareholders in the year.

Taxation paid increased to £53.8m (2020: £52.4m), and included the £13.9m paid to HMRC following the receipt of the charging notice for the UK FCPE State Aid issue. Excluding the £13.9m payment, the taxation paid decreased compared to last year mainly due to changes in the timing of tax payments in the prior year.

Capital allocation and funding priorities

Halma aims to deliver high returns, measured by ROTIC[2], 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 remain 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.

Continued investment for organic growth

All sectors continue to innovate and invest in new products, with R&D spend determined by each individual Halma company. R&D expenditure as a percentage of revenue remained well above our KPI target of 4% or more at 5.3% (2020: 5.4%). In absolute terms, this meant that R&D expenditure declined by 2.1%, in line with revenue, reflecting the caution and agility of our companies in the earlier stages of the COVID-19 pandemic. 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 2021 financial year we capitalised £15.4m (2020: £15.6m), impaired £1.9m (2020: £5.2m) and amortised £7.9m (2020: £7.9m).

The closing intangible asset carried on the Consolidated Balance Sheet, after a £2.0m loss (2020: £0.5m gain) relating to foreign exchange was £38.9m (2020: £36.1m). All R&D projects, and particularly those requiring capitalisation, are subject to rigorous review and approval processes.

Capital expenditure on property, plant, equipment and vehicles, computer software and other intangible assets was £26.4m (2020: £34.1m). The expenditure on fixed assets was lower than in the prior year, reflecting our actions to limit capital investment to essential projects and R&D due to the COVID-19 pandemic. We anticipate capital expenditure to increase to approximately £30m in the coming year, reflecting a level of catch up in deferred expenditure as a result of the actions taken this year and further investment across our sectors to support our future growth. This includes the start of construction of a new manufacturing facility for one of our largest companies, BEA, in Belgium, and other facility expansions.

We are also investing in automation and technology upgrades including the Group-level investment in enhanced security, improved data and analytics capability and investments to support our companies in upgrading their operating technology and creating new digital models in line with our Halma 4.0 growth strategy. We expect this investment to total approximately £12m in the financial year ending 31 March 2022, which we expect to be mostly operating expense although this will depend on the specifics of each project.

Lease right-of-use asset additions were £24.3m (2020: £21.9m). This included additions of £0.6m as a result of acquisitions made in the year, and the commencement of new leases and extensions or renewals of existing leases.

Value-enhancing acquisitions and investments

Acquisitions and disposals are a key component of our sustainable 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 made one acquisition at a cost of £38.4m (net of cash acquired of £7.9m and including acquisition costs). In addition, we paid £10.4m in contingent consideration and other payments for acquisitions made in prior years, giving a total spend of £48.8m. We also divested Fiberguide Industries, Inc., for £26.1m, net of disposal costs.

Non-operating cash flow and reconciliation to net debt

	2021 £m	2020 £m
Adjusted operating cash flow	**300.3**	272.2
Tax paid	**(53.8)**	(52.4)
Acquisition of businesses including cash/debt acquired and fees	**(48.8)**	(238.0)
Purchase of equity investments	**(3.4)**	(4.8)
Disposal of businesses	**26.1**	7.6
Net movement in loan notes	**–**	0.1
Net finance costs and arrangement fees (excluding lease interest)	**(7.0)**	(8.5)
Lease liabilities additions	**(23.7)**	(26.3)
Dividends paid	**(63.7)**	(61.2)
Own shares purchased	**(16.2)**	(16.7)
Adjustment for cash outflow on share awards not settled by own shares	**(7.8)**	(6.0)
Effects of foreign exchange	**17.1**	(9.3)
Movement in net debt	**119.1**	(143.3)
Opening net debt	**(375.3)**	(181.7)
Closing net debt	**(256.2)**	(375.3)

Net debt to EBITDA

	2021 £m	2020 £m
Adjusted operating profit	**288.3**	279.2
Depreciation and amortisation (excluding acquired intangible assets)	**50.8**	51.5
EBITDA	**339.1**	330.7
Net debt to EBITDA	**0.76**	1.13

Average debt and interest rates

	2021	2020
Average gross debt (£m)	**445.5**	388.4
Weighted average interest rate on gross debt	**2.32%**	2.86%
Average cash balances (£m)	**148.8**	88.3
Weighted average interest rate on cash	**0.51%**	0.63%
Average net debt (£m)	**296.7**	300.1
Weighted average interest rate on net debt	**3.22%**	3.52%

Details of the acquisitions and investments made in the year are given in the sector reviews on pages 36 to 57 of the Report and in notes 25 and 14 to these Accounts. Details of acquisitions made since the year end are contained in the Group Chief Executive's review.

The acquisitions completed in the current and prior year contributed to revenue in 2021 in line with expectations overall, albeit that individual company performances were affected by end market variations caused by the pandemic, and we expect a good performance from these acquisitions in the future.

Regular and increasing returns for shareholders

Adjusted earnings per share increased by 2.2% to 58.67p (2020: 57.39p) and statutory earnings per share, which included a gain on disposal of Fiberguide Industries, Inc., increased by 10.2% to 53.61p (2020: 48.66p).

The Board is recommending an 8.2% increase in the final dividend to 10.78p per share (2020: 9.96p per share), which together with the 6.87p per share interim dividend gives a total dividend per share of 17.65p (2020: 16.50p), up 7.0% in total. Dividend cover (the ratio of adjusted profit after tax to dividends paid and proposed) is 3.33 times (2020: 3.48 times).

The final dividend for 2021 is subject to approval by shareholders at the AGM on 22 July 2021 and, if approved, will be paid on 12 August 2021 to shareholders on the register at 9 July 2021.

We aim to increase dividends per share each year, while maintaining a prudent level of dividend cover, and declare approximately 35-40% of the anticipated total dividend as an interim dividend. The Board's determination of the proposed final dividend increase this year took into account the Group's financial performance, the effects of the COVID-19 pandemic, the continued strong balance sheet and medium-term organic constant currency growth.

Substantial funding capacity and liquidity

Halma's operations have continually been 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 strong balance sheet, strong cash generation, and substantial available liquidity. At the year end, our committed facilities totalled approximately £670m, based on exchange rates at that time, with the earliest maturity being in 2023.

The financial covenants on these facilities remain 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. The Group continues to operate well within its banking covenants with significant headroom under each financial ratio.

At 31 March 2021, net debt was £256.2m, a combination of £325.3m of debt, £65.0m of IFRS 16 lease liabilities and £134.1m of cash held around the world to finance local operations. Net debt at 31 March 2020 was £375.3m.

The gearing ratio at the year end (net debt to EBITDA) was 0.76 times (2020: 1.13 times) on a post-IFRS 16 basis and 0.59 times (2020: 1.00 times) on a pre-IFRS 16 basis. Net debt (on a post-IFRS 16 basis) represented 3% (2020: 5%) of the Group's year-end market capitalisation.

Pensions update

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 2021 based on the market value of assets at that date and the valuation of liabilities using year end AA corporate bond yields.

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.

On an IAS 19 basis the deficit on the Group's DB plans at the 2021 year end increased to £22.5m (2020: £5.2m) before the related deferred tax asset. The value of plan assets increased to £333.1m (2020: £298.8m). Plan liabilities increased to £355.6m (2020: £304.0m) due to movements in the discount rate and inflation rate. The discount rate decreased from 2.55% to 1.95%, as bond markets stabilised following the disruption at 31 March 2020 caused by the COVID-19 pandemic. The inflation rate increased from 2.5% to 3.2% 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 2021 these contributions amounted to £13.7m, 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 and interpretations

The Group adopted new accounting standards and interpretations with effect from 1 April 2020 with no material impact on the Group's financial statements. After the year-end, the IFRS Interpretations Committee published a paper covering the finalisation of their agenda decision regarding configuration and customisation costs in Cloud Computing Arrangements (Software as a Service, 'SaaS') under IAS 38. This agenda decision offers clarification of the treatment of implementation costs which is relevant to the Group's ongoing technology investments and Company operational technology upgrades which are predominantly SaaS arrangements with third party implementation partners.

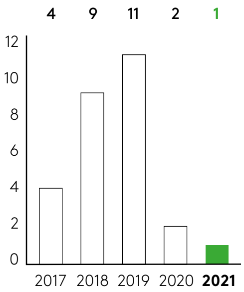
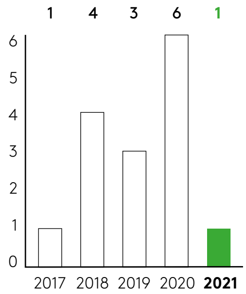
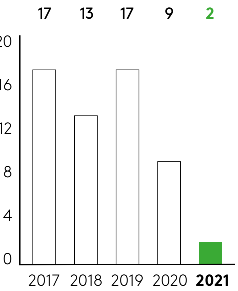
The Interpretations Committee paper clarifies that much of the implementation costs that previously may have been capitalised as intangible assets are now likely to be expensed against profit immediately for SaaS arrangements unless they meet the definition of separate intangible assets. Going forward this will result in an acceleration of costs recorded in the Income Statement in relation to these projects. There was no material financial impact in this or previous financial years, and we estimate an impact of up to £12m for the financial year ending 31 March 2022, with subsequent years' costs being lower where amortisation will not occur. The timing and quantum of cash outflows for these projects will be unchanged.

Conclusion

We delivered a robust financial performance, despite the challenges of the COVID-19 pandemic, delivering a record profit and strong cash flow, while increasing our investment in future growth opportunities and further strengthening our balance sheet. I am proud of the commitment shown by my colleagues in our finance and risk teams in helping our companies to respond to the opportunities and challenges in the year by ensuring that they had rapid access to actionable insights, and in maintaining high standards of control. I would like to thank all of them for their hard work in difficult circumstances.

Marc Ronchetti
Chief Financial Officer

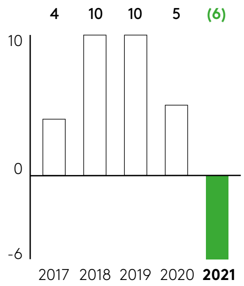
Key performance indicators

Key performance indicator	**Organic profit growth (%)** (constant currency)  **1%** performance **≥5%** target	**Acquisition profit growth (%)**  **1%** performance **≥5%** target	**EPS growth (%)** (adjusted earnings per share)  **2%** performance **≥10%** target
Strategic focus	**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.**	**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.**	**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.**
Comment	**Organic profit growth at constant currency was below our target. This principally reflected the impact of the COVID-19 pandemic, which resulted in a decline in organic profit of 11.1% in the first half of the year. Organic profit growth in the second half of the year was well above our target, at 11.8%. Organic growth over the last five years has averaged 5%, in line with our target.**	**Acquisition profit growth was below our target of 5%. This reflected our decision not to complete any acquisitions in the first half of the financial year, given the potential impacts of the COVID-19 pandemic. M&A activity recommenced in the second half of the year and has continued into the new financial year.**	**Growth in adjusted earnings per share was below our KPI. This principally reflected lower levels of organic and acquired growth as a result of the COVID-19 pandemic, as well as a higher tax rate, with these effects partly offset by lower finance costs. EPS growth over the past five years has averaged 11.5%.**
Definition	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.	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.	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; the associated taxation thereon; and the effect of the US tax reform measures (2018 only).
Target	**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.**	**Acquisitions must meet our demanding criteria and we continue to have a strong pipeline of opportunities to meet our minimum 5% growth target.**	**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.**
Remuneration linkage	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.	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.	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.

Link to Growth Enablers

- M&A
- Talent & Culture
- Digital Growth Engines
- Strategic Communications and Brand
- International Expansion
- Finance, Legal & Risk
- Innovation Network

Organic revenue growth (%)
(constant currency)



(6)%
performance

≥5%
target

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.

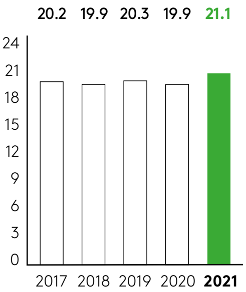
Organic revenue growth at constant currency was below our target, which reflected the adverse effects of the COVID-19 pandemic on all sectors. Overall performance improved as the year progressed, with the 11.0% reduction in organic constant currency revenue in the first half moderating to a decline of only 0.3% in the second half.

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.

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.

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 (%)



21.1%
performance

≥18%
target

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.

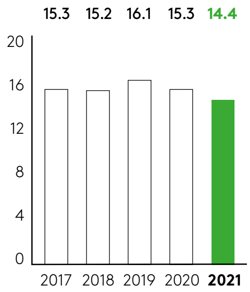
Return on Sales remained well above our minimum target, and within our longer-term target range of 18-22%. This reflected reductions in discretionary costs, strong ongoing overhead control, and a modest reduction in research and development spend. Return on Sales remained well above our minimum target in each of our four sectors.

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

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

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.

ROTIC (%)
(Return on Total Invested Capital)



14.4%
performance

≥12%
target

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.

ROTIC remained ahead of our target and substantially above our Weighted Average Cost of Capital, which is estimated to be 6.7% (2020: 7.7%). The change compared to the prior year was a result of a lower level of constant currency earnings growth and lower dividend growth on amounts paid in the year.

ROTIC 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.

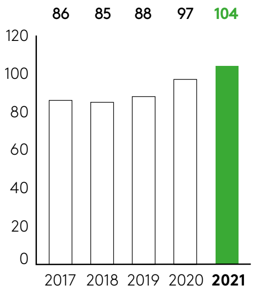
A range of 12% to 17% is considered representative of the Board's expectations over the long term to ensure a good balance between growth, investment, and returns.

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

Key performance indicators continued

Cash generation (%)

Key performance indicator



104% performance

≥90% target

Strategic focus

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.

Comment

Our cash conversion was strong and increased to 104%, well ahead of our target. We delivered a strong underlying cash performance, reflecting good control of working capital, including a focus on collection of aged receivables, and the cash conservation measures put in place during the year.

Definition

Cash generation is calculated using adjusted operating cash flow as a percentage of adjusted operating profit. We have increased the target for this KPI from 85% to 90%, to account for the beneficial effect of the implementation of IFRS 16, which increases cash conversion by approximately 5 percentage points. This change took effect in 2020 and applies to all subsequent years. We have not restated historical comparatives prior to 2020, which should be compared to the previous 85% target.

Target

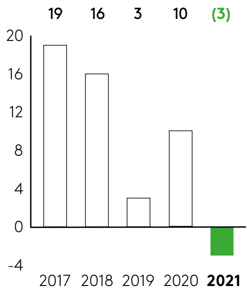
The goal of Group cash inflow exceeding 90% of profit has relevance at all levels of the organisation and aligns management action with Group needs. We ensure that strong internal cash flow and availability of external funding underpin our strategic goals of organic growth, acquisitions and progressive dividends.

Remuneration linkage

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.

International revenue growth (%)

Key performance indicator



(3)% performance

≥10% target

Strategic focus

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.

Comment

Revenue outside the UK, the USA and Mainland Europe decreased by 3%, reflecting the significant impact of the COVID-19 pandemic on developing regions. This was offset by a modest improvement in the Asia Pacific region which grew 1.3%, including double-digit growth in China as it recovered from the effects of the pandemic.

Definition

Total sales to markets outside the UK, the USA and Mainland Europe compared with the prior year.

Target

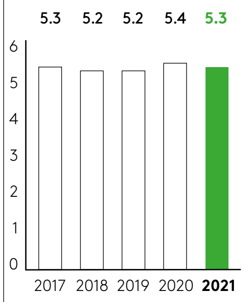
The emphasis on international revenue growth at twice the rate of overall organic growth reinforces the importance of emerging markets and our strategy of establishing operations close to our end markets.

Remuneration linkage

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.

Research and development (% of revenue)

Key performance indicator



5.3% performance

≥4% target

Strategic focus

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.

Comment

Total R&D spend remained well above our KPI target at 5.3% of revenue (2020: 5.4%). In absolute terms, R&D expenditure in the year decreased by 2.1% to £70.3m (2020: £71.8m), reflecting the caution and agility of our companies in the earlier stages of the COVID-19 pandemic.

Definition

Total research and development expenditure in the financial year (both that expensed and capitalised) as a percentage of revenue from continuing operations.

Target

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.

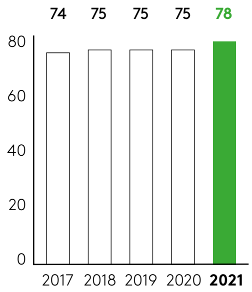
Remuneration linkage

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.

Link to Growth Enablers

M&A
Talent & Culture
Digital Growth Engines
Strategic Communications and Brand
International Expansion
Finance, Legal & Risk
Innovation Network

Employee Engagement (%)



78% performance

74% target

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.

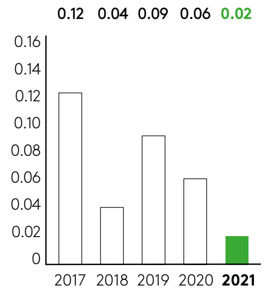
2017 was our inaugural engagement survey which established the baseline for our target. We were pleased to see the overall employee engagement score rise 3 percentage points to 78%. In addition, more than three-quarters (78%) of employees said they were proud of their company's response to the pandemic – a credit to the hard work and ingenuity of our people.

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.

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

Health & Safety

(accident frequency rate)



0.02 performance

<0.04 target

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 0.02 (2020: 0.06) representing an improvement against last year. We continue to review all reported incidents and there are no specific underlying patterns which cause concern.

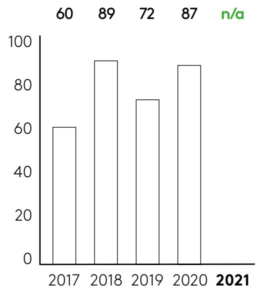
The year-to-date Accident Frequency Rate (AFR) is the total number of reportable* incidents in the period divided by the number of hours worked in that period by employees (including temporary staff and any overtime) multiplied by 100,000 hours (representing the estimated number of working hours in an 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

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

Development programmes (%)

(management development)



n/a performance

>50% target

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 rapidly refocused our resources on digital learning, moving to online development until face-to-face development opportunities can start again. We also piloted new online learning platforms which provided management with business and personal development opportunities. We delivered over 2,700 hours of training to 685 of our senior leaders.

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

As we were unable to conduct face-to-face management and leadership courses during the year, we have not reported on our performance this year.

We are reviewing our non-financial key performance indicators with a view to using a series of new measures. Details will be reported in the coming year.

A Safer Future for Global Logistics

The shift to digital business models has resulted in a rapid expansion of e-commerce and global logistics. Now, due to the impacts of COVID-19 on consumer behaviour, this shift has accelerated at breakneck speed.

Research is forecasting the global logistics market to be worth around US$12 trillion in 2023, almost triple its 2018 value. This rate of growth has put additional pressure on the transportation and warehousing industry to move goods quickly, safely and efficiently.

In terms of logistics, North America is the world's second largest market. The USA alone moves approximately 64% of its freight by truck and has over 500,000 loading bays. The most recent statistics reported 819 deaths and 270,000 injuries occurring in the USA in one year. Of these, more than 25% of accidents happened at loading docks, with accidental drive-aways accounting for around a quarter of these accidents. Each accident is estimated to cost US$189,000 and for every accident there are 600 near misses.

1. Truck arrives and reverses into loading bay.

2. The operator locks the Salvo technology, immobilising the trailer.

3. Operator checks real-time safety data and key operational insights.

fer

for everyone, every day.

Many of these accidents are caused by human error, mainly through misunderstanding or miscommunication. Technological advancements have enabled Halma company SPS to focus on designing an innovative solution that removes the need to verbally communicate loading updates, preventing accidental drive-aways by locking the delivery vehicle to the loading bay door for safe loading or unloading.

Initially developed in response to a customer request, the Salvo Loading Dock Safety System is now installed at tens of thousands of loading bays globally. Once implemented, customers report no accidental drive-offs, keeping workers and drivers safe and ensuring compliance with all Health & Safety regulations.

Working closely with their customers allowed SPS to gain deeper insights into other issues that warehouse facilities are facing. With increased efficiency at the top of the list, Salvo InSite digitises the Salvo Loading Dock Safety System. This technology provides real-time data on key activities, performance analytics and traceability reports that help reduce operational inefficiencies while keeping everyone safe.

Their passion for helping their customers has given SPS its market-leading expertise in protecting workers in high-risk environments and is helping to create a safer future for everyone, every day.

Process Safety

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.

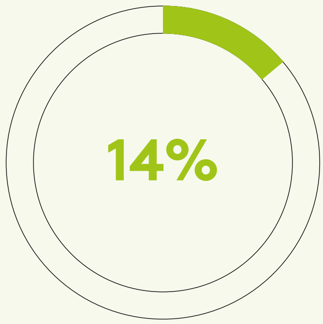
Highlights

- Challenging market conditions, but performance improving as the year progressed.
- Good contribution from last year's Sensit Technologies acquisition.
- Investment increased, supporting opportunities for future growth.

Revenue
£188.8m
(5.6)%

Adjusted operating profit[5]
£36.6m
(16.7)%

% of Group revenue



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

Sector overview and growth drivers
Process Safety has a key part to play in making critical industrial processes safer and cleaner. We provide innovative and increasingly digitally connected products to address our customers' needs around the world. The longer-term growth prospects for our Process Safety businesses are supported by increasing health and safety regulation and associated legal risks, higher environmental standards to address the challenges of climate change, the continuing move toward renewable energy sources and conserving scarce natural resources, and growing industrialisation and automation.

Our ability to find new applications in adjacent industrial markets is broadening the sector's growth opportunities, both organically and through acquisition. In Gas Detection, market growth over the longer term is being driven by ongoing industrialisation, increasing safety and environmental regulatory standards, greater demand for continuous monitoring of harmful substances to protect worker safety, and the accelerated use of wireless sensors and connected devices.

Increasing automation, higher electrical safety standards and the increasing need for remote safety monitoring are growth drivers for our Industrial Access Control, Pressure Management and Safe Storage and Transfer businesses which serve a diverse range of industrial end markets. The COVID-19 pandemic has also further accelerated the growth of e-commerce and therefore of the logistics sector which supports it; this offers opportunities to help our customers ensure safe working environments in these highly automated facilities.

Several of our businesses, notably in Pressure Management, operate in markets driven by the increasing need for energy and other critical resources. Global energy demand is estimated to have reduced by 4% in 2020 as a result of the COVID-19 pandemic, but is forecast to increase by 4.6% in 2021, and to continue to grow over the long term, with forecasts putting demand in 2050 at between 25% and 50% higher than current levels. Renewable energy is expected to account for an ever greater proportion of consumption, and in absolute terms to be at least three times greater in 2050 than currently. The drive towards net zero emissions offers our companies good opportunities for growth, both in helping our customers minimise their environmental impact, and as we repurpose our solutions to support more sustainable energy solutions.

Performance

It was a challenging year for Process Safety, with significant reductions in end-market demand resulting in declines in both revenue and profitability. There was a gradual improvement in trading as the year progressed but overall performance was affected by the lower oil price, which resulted in a fall in demand for higher margin safety products in the US onshore oil and gas-related businesses, by site access issues as a result of the pandemic, and a slowdown in new projects in Gas Detection. The sector's performance year-on-year also reflected a strong prior year comparative in Industrial Access Control (which included a large logistics contract), although this was partly offset by good demand in this segment from logistics and paper and packaging and electrical safety customers. The sector's companies continued to invest in new connected technologies and in diversification away from the oil market, which together with the development of products and services to help customers address increasing safety and environmental regulation, are expected to improve performance in the longer term.

Revenue was £188.8m (2020: £200.0m), 5.6% lower. This included a benefit from the acquisition in the prior year of Sensit Technologies, and revenue was 11.9% lower on an organic constant currency basis. Performance improved as the year progressed, resulting in a small decline in reported revenue in the second half and a moderate reduction on an organic constant currency basis.

Revenue trends on a regional basis reflected the trends in the underlying markets. Mainland Europe grew, benefiting from the fulfilment of significant Safe Storage and Transfer projects, some of which had been in the order book prior to the start of the financial year. However, revenue in the USA declined substantially on an organic constant currency basis, due to weakness in the onshore oil and gas market and the strong comparative in Industrial Access Control, although on a reported basis this was partly offset by a good contribution from the Sensit acquisition. The UK delivered a resilient performance, but a slowing of large project approvals affected Asia Pacific, particularly in the first half, and our businesses in the Middle East. Performance improved in each of the USA, the UK and Asia Pacific in the second half.

Profit was £36.6m (2020: £43.9m), representing a decline of 16.7%, or 21.5% on an organic constant currency basis. Gross margin was broadly stable, with favourable product mix in Gas Detection offsetting the effect of a decline in higher margin Pressure Management business. Return on Sales, however, decreased to 19.4% (2020: 21.9%), despite good overhead control, reflecting lower revenues from higher Return on Sales businesses in US onshore oil and gas and Industrial Access Control, one-off restructuring costs of £1.9m, and a £1.6m increase in R&D expenditure, to 4.8% of revenues (2020: 3.7%) as the sector continued to invest in opportunities for future growth such as connected safety monitoring solutions.

There were no acquisitions or disposals in the year, and the net impact of prior year acquisitions was a positive effect of 6.9% on revenue and 5.3% on profit. Currency exchange movements had a small negative effect, of 0.6% on revenue and 0.5% on profit. Since the year end one small bolt-on acquisition has been completed, with our industrial access control company, Fortress, buying the assets and IP associated with monitored safety valves from FluidSentry Pty Ltd in Australia for A$0.6m. This acquisition provides complementary products which ensure the safety of hydraulic and pneumatics systems whose usage is growing as automation increases.

Looking ahead we anticipate a recovery in the Process Safety end markets which, in addition to new product introductions, should return Process Safety to growth in the year ahead.

Crowcon

The combination of agility, quick decision-making and collaboration matter when circumstances change. Halma company Crowcon Detection Instruments has shown this in action.

Over the last year, the team were able to draw on their core culture of flexibility and agility and their commitment to saving lives through gas detection. They were able to adapt quickly to meet changing customer demands – like prioritising the manufacturing of 30 urgent portable oxygen detector devices for the UK National Health Service, which were delivered in record time.

"Our operational heroes – those front-line colleagues working in our facilities – were able to change their production focus to meet these requests and then team up with sales managers around the country to deliver right across the UK," explains Graham Jardine, Managing Director, Crowcon.

The team also looked at new ways to support channel partners and customers by addressing short and long-term needs. Crowcon introduced a new webinar series on their knowledge-sharing platform to upskill and educate audiences. This provided a consistent forum for exchanging ideas, understanding changing needs and listening to partners. The platform has never been busier, delivering live and on-demand information, and the insights gathered mean Crowcon is now better able to deliver the right technology solutions in the right way, at the right time, every day.

The company has not only adapted to changes but has also been continually sharing best practice with Halma peers, highlighting the effectiveness of our structure and culture. Their guidance video on creating COVID-19 secure facilities is a notable example, which has helped other Halma companies implement their own measures.

"We rose to meet new challenges last year and thanks to our business model and culture this was something the team did instinctively. The core skills we have allow us to continually support our customers in person or virtually and that is something I am proud to say has been tested in extraordinary times."

Graham Jardine
Managing Director, Crowcon.

Growth Enablers used by Crowcon:

- Mergers & Acquisitions
- International Expansion
- Talent & Culture
- Finance & Risk
- Digital Growth Engines
- Innovation Network
- Strategic Communications and Brand

Infrastructure Safety

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

Sector overview and growth drivers
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.

Growth in our Infrastructure Safety markets is supported by expanding and ageing populations, increasing urbanisation, and tighter safety regulation. We expect the agility of our companies in responding to the evolution of these trends to support our growth over the long term.

While we see the growth of cities as likely to continue, given their economic, community and cultural attractions, new ways of living and working are emerging as a result of the pandemic. These are likely to lead to the acceleration and amplification of a number of existing trends in our markets, and changes in the way urban environments evolve, which we expect to provide opportunities for our companies. They include upgrades of office space to allow for better collaboration, health, and flexibility; changes in the use of buildings; 'green' initiatives to improve energy use; increased remote monitoring and efficiency through digital innovation and connected products; and the use of touchless technologies to support safety and hygiene.

We expect these trends to support continued growth across our Infrastructure Safety markets. For example, the greater need to manage health and safety concerns as a result of the COVID-19 pandemic is already presenting new opportunities for our People and Vehicle Flow businesses to enhance safety through automated access solutions as people move around, and increasing population densities are driving demand for our solutions which address congestion and help to increase the capacity of existing infrastructure.

In global fire detection and suppression equipment, growth is expected to be sustained by more stringent regulation and increased adherence to that regulation, driven both by rising standards from national and supranational regulators and by international initiatives such as the International Fire Safety Standards (IFSS) coalition. In addition, infrastructure upgrades are expected to support greater demand for connected, intelligent building systems to drive greater efficiency and support remote monitoring and control.

The medium-term forecasts for the global elevator market also reflect the trends of rising urbanisation and increasing spending on maintenance and modernisation of existing equipment and increased accessibility requirements. Opportunities are also emerging to enhance efficiency through remote monitoring and preventative maintenance, and safety and hygiene through touchless operation.

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
Sensing solutions for automatic door systems and for access control, safety, and security, for use 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.

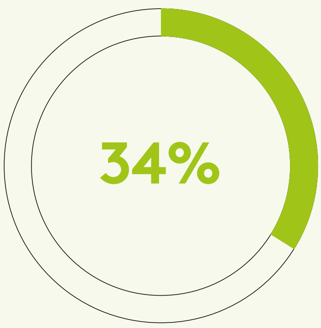
Highlights

- Profit growth of 2.7% (1.2% on an organic constant currency basis).
- Return on Sales increased by 1.4 percentage points to 24.5%.
- Organic constant currency revenue grew 6.7% in the second half.

Revenue
£450.5m
(3.4)%

Adjusted operating profit[5]
£110.6m
+2.7%

% of Group revenue



Business review
Infrastructure Safety

Performance
Infrastructure Safety delivered a solid performance, with profit growing both on a reported and organic constant currency basis, despite a modest decline in revenue. Having been affected in the early part of the year by difficulties of gaining physical access to sites and the impact of furlough (or local equivalent schemes) on the availability of installers, the sector's performance improved substantially as the year progressed. This was partly driven by the easing of lockdown restrictions and the furloughed employees returning to work. It also reflected the agility of our companies in responding to changes in demand and new customer requirements. For example, a number of companies accelerated online training and remote installation support in response to restrictions on physical access, while the People and Vehicle Flow subsector delivered a robust performance, driven by their agility in responding to increased demand from logistics customers for door automation technologies, and by refocusing their business to address a mix shift away from sliding door sensors, to sensors which can be retrofitted to swing doors and other touchless entry devices. Our companies also successfully positioned themselves to take advantage of new regulatory requirements in a number of geographies, notably in the Fire businesses in the UK and the Middle East, and for new opportunities emerging in highway safety, and in retrofitting buildings, for example in Area of Refuge (part of the Elevator Safety subsector).

Revenue of £450.5m (2020: £466.5m) was 3.4% lower, and 4.7% lower on an organic constant currency basis. This included a substantially improved performance in the second half of the year, with organic constant currency revenue increasing by 6.7%.

The stronger second half performance included a substantial recovery in Fire Detection, particularly in the UK market, and in Security Sensors, as well as a strong performance in People and Vehicle Flow. As a result, revenue in the UK market grew modestly for the year as a whole, both on a reported and organic constant currency basis, despite the substantial impact of the pandemic in the early part of the year. Revenue in Mainland Europe saw a modest decline; however, the region returned to growth in the second half, with an improvement in revenue trends across all subsectors and a strong performance in People and Vehicle Flow, driven by its swift response to changes in customer demand. Asia Pacific revenue also saw a modest decline; its performance included a contribution from the acquisition of Ampac in Australia last year. In the USA, revenue declined, but momentum improved in the second half, and there were strong performances in People and Vehicle Flow and Area of Refuge. Revenue fell in other regions largely due to the prolonged impact of the COVID-19 pandemic in these territories.

Profit grew by 2.7% to £110.6m (2020: £107.7m), or by 1.2% on an organic constant currency basis, and Return on Sales increased to 24.5% (2020: 23.1%). This growth reflected an increase in gross margin from a favourable mix of business, good overhead control and, following last year's substantial increase, a modest reduction in R&D expenditure as a percentage of revenue, to 5.7% (2020: 6.1%).

There were no acquisitions or disposals in the year, and the impact of prior year acquisitions was a positive effect of 1.6% on revenue and 1.8% on profit. Currency exchange movements had a small negative effect, of 0.3%, on both revenue and profit.

In January 2021, we announced that we had agreed a minority investment and strategic partnership with Oxbotica, a global leader in autonomous vehicle software. This strengthens the existing relationship between Oxbotica and the Halma company Navtech, which specialises in radar technology for transport applications.

Since the year end, one small bolt-on acquisition has been completed, with the Argus wireless fire safety company purchasing its Italian distributor for €0.5m.

Looking ahead we expect a continuation of the recovery we saw in the second half albeit against the potential headwinds relating to ongoing supply chain challenges and risk of further COVID-19 related disruption.

BEA

The past year has demanded that companies make swift decisions, and quickly recognise market changes and reinvent solutions. Halma company BEA – a leading manufacturer of sensing solutions for automatic doors systems – was able to meet these demands due to a close and collaborative relationship with its partners and a team that is flexible and focused.

"We are trusted advisers to our customers and that comes from daily interactions. By understanding the changes in our customers' needs and their pain-points, we were positioned to take specific actions and to adapt new solutions in time," explains Laurent Sarlette, Chief Marketing Officer, BEA.

Adapting and reinventing is part of BEA's culture and the redesign of the Magic Switch Chroma – a touchless switch that activates when you wave your hand in front of it – is one example. The need for solutions that avoid surface transmission of COVID-19 was becoming increasingly clear and so BEA accelerated its redesign, allowing their customers to suggest different solutions to meet their needs. Another example of meeting new market need is BEA's adaptation of their people-counting device that allows controlled entry and real-time information to help monitor the occupancy of a building.

The BEA purchase & operations team were instrumental in the delivery of these products. As demand accelerated, they were able to draw on the support of the broader team. Remote-working colleagues were invited to help the operations teams 'on-site' one or two days a week to assist in boxing, labelling or shipping products – a testament to BEA's teamwork and flexibility.

"Our culture of agility and adaptability enabled us to move at speed and provide innovative new solutions to our customers. We couldn't have done this without the passion and dedication of our people, and throughout this last year we have focused on their health, providing wellbeing and mental health support at every stage."

Elmar Koch,
CEO, BEA

Growth Enablers used by BEA:

- Mergers & Acquisitions
- International Expansion
- Talent & Culture
- Finance & Risk
- Digital Growth Engines
- Innovation Network
- Strategic Communications and Brand

Protecting water through digital technologies

Water is the most important resource on our planet. Yet every day billions of litres of water are lost through leakage, and by 2030 it is estimated that global water shortages could displace around 700 million people.

The reduction of network leakage has been identified as a critical factor in achieving water sustainability. In the UK alone, there are over 345,000km of mains water pipes. Throughout this vast network, Water UK reports that 2,954 million litres of water, which is around 20-30% of UK water production, is lost each day because of leakage. The UK regulator, Ofwat, is leading the way globally by setting water companies a target to reduce leakage by 16% by 2025, and UK water companies have committed to going further, aiming to deliver a 50% reduction in leakage by 2050.

ner

for everyone, every day.

In order to meet these ambitious targets, large-scale network monitoring projects are needed which is a hugely complicated undertaking due to legacy water infrastructure. Approximately 90% of all leaks never show at ground level so leak detection still very much relies on manual listening tools and reactive measures; nothing much has changed for 50 years.

Now digital technology is changing that. New digital solutions are enabling water companies to create more intelligent networks, fit for a modern water infrastructure. Halma company HWM is leading this transition with PermaNET+, their award-winning leak detection system that combines an acoustic leak sensor with cellular connectivity which can be placed strategically across the water network.

Attached to the water pipe's valve with a strong magnet, the sensors listen (predominantly at night) for any anomalies. Their findings are sent back to base and overlaid with digital maps to identify the exact location of any leak, enabling an engineer to quickly investigate the issue.

More recently HWM launched SpillSens, a digital positioning sensor that acts as an early warning system for sewer blockages and sewer overflows, preventing flooding incidents and pollution. This has been so successful that Severn Trent Water has deployed 1,600 sensors in target problem areas in the Midlands to provide early warning of issues so cleaning crews can remove blockages before pollution events occur.

HWM was also named as one of the eight companies that will be collaborating with United Utilities in their Innovations Lab to develop the technology even further.

HWM's innovative technologies are supporting the sustainability goals of water companies globally while also ensuring that this life-critical resource is protected for everyone, every day.

Environmental & Analysis

Our markets

Optical Analysis
World-class optical, optoelectronic 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.

Highlights

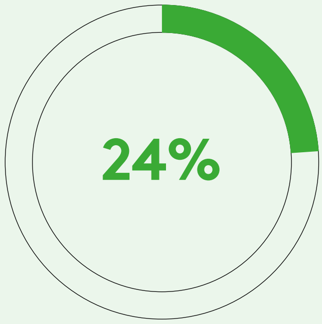
— Robust performance, with strong profit growth of 11.4% (14.7% on an organic constant currency basis).

— Strong growth in Asia Pacific across all three subsectors, reflecting recovery in China.

— Sector performance underpinned by agile response of sector companies to rapid market changes.

Revenue	Adjusted operating profit[5]
£308.8m	£77.4m
(5.0)%	+11.4%

% of Group revenue



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.

Sector overview and growth drivers
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, by protecting the environment and wellbeing, and by delivering high-technology solutions in a wide variety of end markets based on our digital, optical and optoelectronic expertise. Our valuable solutions are technically differentiated through strong application knowledge, supported by high quality and customer responsiveness.

The 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. It is underpinned by our ability to design, develop and manufacture innovative, high-technology detection and analysis solutions with applications in a wide range of sectors. These include water and waste water management and treatment (including water utilities); gas analysis and detection; food, beverage, agriculture and aquaculture; medical and bio-medical; communications; research and science; and a variety of industrial markets.

Population growth is driving increasing demand for life-critical natural resources, such as clean water and air, and these resources are under growing pressure as a result of factors including climate change, increasing urbanisation and industrialisation, and changing patterns of land use. For example, according to the United Nations, water use has been growing globally at more than twice the rate of population increase in the last century, and 2.3 billion people live in water-stressed countries, of which 721 million people live in high and critically water-stressed countries. In terms of waste water, according to the United Nations, less than 50% of domestic waste water is safely treated (based on 24 out of 75 reporting countries, most of which are high-income countries), and over 3 billion people are at risk because the health of their rivers, lakes and groundwater is unknown. This drives demand for our water testing and disinfection technologies, and for our water network monitoring solutions which help to ensure integrity of networks.

Similarly, air pollution is a growing health risk in both developing and developed countries. The World Health Organization (WHO) estimates that air pollution kills 7 million people worldwide every year. Their data shows that nine out of ten people breathe air that exceeds WHO guideline limits containing high levels of pollutants, with low- and middle-income countries suffering from the highest exposures. This underpins the growth opportunities for our spectroscopy solutions which assist in the precise detection of contaminates, and for our environmental solutions which support emissions and air quality monitoring and calibrate pollution monitoring equipment.

Performance

Environmental & Analysis delivered a robust performance. While there was a modest decline in revenue, this compared to a very strong performance in the prior year, and profit grew strongly, both on a reported and organic constant currency basis. The agility of our companies in responding to market changes contributed to the sector's performance in the year. Examples included our gas flowmeter business, Alicat, rapidly adapting its technology to make components to meet urgent new requirements from ventilator manufacturers in response to the COVID-19 pandemic, and Optical Analysis businesses addressing new opportunities which are emerging in end-to-end measurement and calibration solutions for use in a wide range of applications, including in laboratory instrumentation, consumer electronics, biopharmaceuticals and food and beverage.

Revenue of £308.8m (2020: £325.0m) was 5.0% lower, which partly reflected the loss of revenue from the disposal of Fiberguide Industries, Inc. in the third quarter of the year. On an organic constant currency basis, revenue declined by 2.7% against a very strong comparator, with the prior year having benefited both from delivery of some large photonics projects within the Optical Analysis subsector in the second half of the year, and increased spending by UK water companies ahead of the end of the previous five year Asset Management Plan (AMP) investment cycle.

There was strong revenue growth in Asia Pacific across all three subsectors, driven by recovery in China, and Mainland Europe grew, benefiting from a good performance in Water Analysis and Treatment. The USA, the sector's largest region, delivered a resilient performance, given a strong prior year comparative and the phasing of some large photonics projects; underlying growth trends in photonics remain strong, given increasing demand from customers to help them build their digital and data capabilities. The UK saw a substantial decline in revenue, given a very strong performance last year, and delayed demand in UK water due to the start of the new AMP cycle and COVID-19 related access restrictions; we continue to see good opportunities for growth in this market, driven by higher regulatory standards for clean water networks and an increasing focus on waste water management. Other regions, which represent less than 5% of sector revenue, also saw a decline, mainly due to the non-repeat of large water testing contract in Canada which had benefited the prior year.

Profit grew by 11.4% to £77.4m (2020: £69.4m), or by 14.7% on an organic constant currency basis, and Return on Sales increased substantially to 25.1% (2020: 21.4%). This reflected a benefit to gross margin from a favourable mix of business, including from some COVID-19 related and one-off orders, and very strong control of overheads. R&D expenditure remained above the Group average as a percentage of sales, at 5.4% (2020: 6.0%), reflecting continued high investment in future growth across all three subsectors.

There were no acquisitions in the year, and the net impact of prior year acquisitions and the disposal of Fiberguide Industries, Inc. was a negative effect of 0.7% on revenue and 1.2% on profit. Currency exchange movements also had a negative effect, of 1.6% on revenue and 2.1% on profit.

Since the year end, two sector companies have completed small bolt-on acquisitions. The UV Group acquired Orca GmbH, a German manufacturer of ultraviolet disinfection systems, primarily for the food and beverage sector, for an initial consideration of €6.2m (£5.3m), and Crowcon, which became part of the sector after the year end, purchased its UK flue gas analyser distribution partner, Anton Industrial Services Limited, for £1.9m.

Looking ahead we expect the sector to make continued progress albeit against a strong comparative with the continued contribution of some large photonics projects, in addition to the timing of the UK water infrastructure investment cycle and the continued recovery of the water testing markets. We expect Return on Sales to return to more normalised levels driven by the mix of business and growth going forward.

Alicat

In March 2020 the world witnessed a massive surge in demand for ventilators to help patients suffering from COVID-19 to breathe.

Robust testing is key to making sure that all the ventilators rolling off the production line are safe and reliable. But how do you measure a breath? That question is critical when considering how to build a ventilator testing system. The dozen circuit boards, miniature valves, and intricate pathways that go into a ventilator all work towards one purpose: to simulate and assist the very human, highly variable, deceptively intricate act of taking a breath.

Alicat Scientific, a pioneer in the precise measurement of gases and liquids, produces the technology that helps to measure a breath. Their solutions ensure each ventilator delivers just the right volume and pressure flow rate of oxygen to vulnerable patients to enable them to breathe more easily.

In response to the pandemic, Alicat went above and beyond in supporting multiple customers, working at breakneck speed to adapt their production line and ramp up manufacturing in a COVID-19 secure environment. This allowed them to deliver on increased orders while also protecting their employees.

Their ability to stay close to their customers and adapt quickly has allowed them to continue to respond to new demand for their products. Their solutions are now being used in the manufacture of vaccines, supplying gases to the bioreactors where the vaccine is cultivated.

"Alicat was proud to be a key player in the acceleration of ventilator manufacturing at the onset of the COVID-19 pandemic. Our people and technology were well suited to deliver solutions in days, not weeks or months, needed by the manufacturers to respond to an unprecedented and urgent global need."

David Lashbrook
President of Alicat

Growth Enablers used by Alicat:

- Mergers & Acquisitions
- Digital Growth Engines
- International Expansion
- Innovation Network
- Talent & Culture
- Strategic Communications and Brand
- Finance & Risk

The future of healthcare

The global pandemic has placed a spotlight on how our healthcare facilities work. It has exposed a pressing need to develop smarter hospitals that can improve staff and patient safety, while reducing the burden on clinical staff.

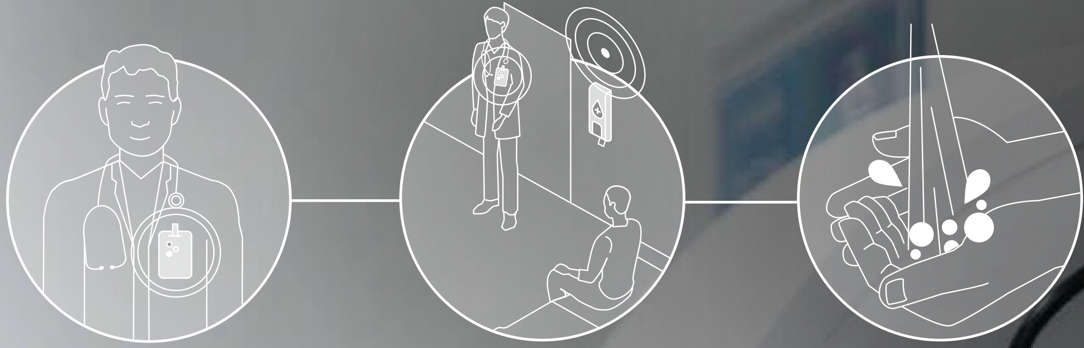
Research has shown that digital technologies, specifically the internet of things (IoT), could lower the costs of operational and clinical inefficiencies by US$100 billion per year. In addition, around two-thirds of physicians believe that digital technologies can help relieve the pressure on nurses and doctors, allowing them to spend more time on direct patient care.

Real-time locations system (RTLS) technology creates a connected operating system for hospitals. It tracks, manages and monitors data allowing healthcare facilities to optimise workflow, look after assets, assure staff safety and improve patient care.

1. All clinical staff carry a digital staff badge.

2. A real time location sensor in the badge detects when they enter a patient's room or ward.

3. The technology gently reminds them to wash their hands to help prevent the spread of infections.



thier for everyone, every day.

One Halma company is showing the way forward for the future of healthcare with their advanced RTLS technology. CenTrak provides location and environmental condition data across the entire healthcare facility, giving care professionals the insight they need to make well-informed decisions for their patients and their colleagues.

As an example, hospital acquired infections (HAIs) are a significant safety risk for patients and hospital staff. They cost the industry billions of dollars a year and can also undermine trust in healthcare facilities. CenTrak's automatic hand hygiene compliance monitoring system is a simple and effective infection prevention strategy.

It works by adding RTLS technology to a digital staff badge that provides a gentle reminder to staff if hygiene protocols are not followed prior to the interaction with a patient. It also accurately documents current hand hygiene processes. This type of actionable insight enables healthcare facilities to provide additional training where it is needed most.

Hospital wards can also use digital staff badges to provide more efficient care to patients, as it will notify the nearest available clinical staff that can attend a patient call. This decreases call response times and also generates automatic patient care reports, based on staff presence, thus reducing manual paperwork.

The same location technology can also be used in tracking important mobile medical equipment, allowing clinical staff to locate the nearest available life-saving device. Additionally, this helps prevent cross-contamination of equipment by ensuring that everything is cleaned according to recommended protocols.

By enabling healthcare facilities to connect their processes and patient care, CenTrak is helping to define the future of healthcare.

Business review

Medical

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

Sector overview and growth drivers
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, meaning our products and technologies are critical to the function or management of care, for example cataract surgery or cardiac monitoring, and where there is a connection between medical conditions and chronic illnesses, thereby driving potentially higher rates of demand on a sustainable basis.

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. There is little evidence that people today are in better health than previous generations. We see an increase in the prevalence of common health conditions associated with ageing, which include cataracts, back and neck pain and osteoarthritis, and diabetes, as well as cardiac and pulmonary disease, depression and dementia. In addition, COVID-19 has reduced average life expectancy and will likely present continued health complications. These factors are key growth drivers for our Therapeutic Solutions businesses, given their presence in the ophthalmic surgery device, respiratory therapy and bone replacement markets.

In Healthcare Assessment, we expect the rising prevalence of cardiac, circulatory, and respiratory illness, 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.

Our markets

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.

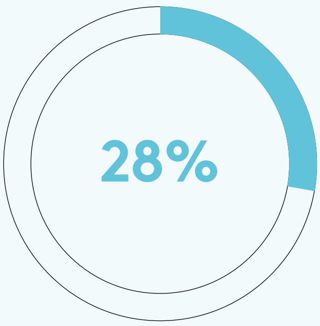
Highlights

- Revenue and profit growth despite significant variations in market demand.
- Research and development investment increased to support future growth.
- One acquisition completed in the year and a further two since the year end.

Revenue
£371.3m
+7.0%

Adjusted operating profit[5]
£86.6m
+2.6%

% of Group revenue



Performance

Medical sector companies experienced significant variations in demand in the year. Demand for products and services related to elective healthcare procedures reduced sharply. This moderated as the year progressed, reflecting an easing of the initial acute effects of the pandemic on healthcare systems including some modest improvement during the year in patient demand for elective surgeries and discretionary ophthalmic diagnosis procedures. Demand in general health diagnostics, including vital signs monitoring, and in products supporting patient oxygenation remained at a high level relative to previous years. Life Sciences businesses continued to be adversely impacted by the ongoing focus on COVID-19 testing and point-of-care diagnostics. In Health Assessment, while our location services business was affected by hospital access restrictions, it has built a strong order book, driven by the need for its healthcare customers to improve efficiency and ensure hygiene and access control.

Revenue grew by 7.0% to £371.3m (2020: £347.2m), which included a substantial contribution from current and prior year acquisitions. On an organic constant currency basis, revenue declined by 5.4%, reflecting the fall in demand for elective healthcare and diagnostic procedures which represents a majority of our Medical portfolio, partially offset by increases in patient monitoring and respiratory products.

Revenue grew in four out of five regions. The USA, which accounts for over half of sector revenues, grew strongly, benefiting from recent acquisitions, including Maxtec (part of Perma Pure), which saw a very substantial increase in demand for its oxygen analysis and delivery products. On an organic constant currency basis, the USA delivered a resilient performance given the agility of our companies in responding to the COVID-19 pandemic, with the modest decline in revenue also reflecting the mix of businesses in the region. Mainland Europe and Asia Pacific saw a similar pattern, with modest increases in reported revenue and declines on an organic constant currency basis. There was strong growth in China as the country recovered from the effects of the pandemic, driven by good commercial execution. The UK, which represents only 5% of sector revenue, delivered very strong growth, benefiting from the acquisition in the third quarter of Static Systems Group, a UK-based manufacturer of critical healthcare communication systems, for £43.9m, including cash acquired; revenue on an organic constant currency basis, however, saw a substantial decline. Other regions saw revenues decline, principally as a result of the effects of the COVID-19 pandemic.

Profit grew by 2.6% to £86.6m (2020: £84.4m) and declined by 10.5% on an organic constant currency basis. Return on Sales remained above the Group average at 23.3% (2020: 24.3%), with the decline reflecting the impact on gross margin of the substantial changes in business mix in the year, and a further 14% increase in research and development (R&D) investment to £18.8m; R&D expenditure in the year represented 5.1% of revenues (2020: 4.8%). These effects were partly offset by operational efficiencies and strong overhead control.

The impact of current and prior year acquisitions (net of prior year disposals) was a positive effect of 14.3% on revenue and 14.1% on profit. Currency exchange movements had a negative effect, of 1.9% on revenue and 1.0% on profit.

After the year end, we acquired PeriGen, Inc., whose advanced technology protects mothers and their unborn babies during childbirth, for US$58m (approximately £42m), expanding our presence in patient assessment and monitoring into the US perinatal care market, and further extending our analytics capabilities. The sector also completed one bolt-on acquisition, with Riester acquiring the trade and assets of RNK, a US-based digital stethoscope company, for an initial consideration of US$2.7m (£1.9m).

Looking ahead, we expect to continue to see a recovery in elective procedures and for there to be a decline in demand for COVID-19 related products. These factors, alongside the continued contribution from recent acquisitions, means that the sector is expected to deliver more normal levels of growth for the year ahead.

Perma Pure

Halma acquired Maxtec in February 2020 to help accelerate Perma Pure's growth in medical moisture management products. This acquisition could not have come at a more critical time. Within a couple weeks of closing the deal, COVID-19 expanded from a regional outbreak to a global pandemic. As Perma Pure and Maxtec technology is directly applicable to treating patients with respiratory issues, this resulted in a surge in demand for their products.

Perma Pure's solutions are used in a variety of patient monitoring technologies, as well as respiratory technology, and these were also in high demand as hospitals experienced a steep increase in new cases.

Both companies, under the leadership of CEO Sharon Bracken, drew on their culture and in-built agility to respond quickly, while keeping their employees safe and managing the post-merger integration of the two businesses.

The teams were creative in finding ways to protect their people and keep production lines running to meet the steep increase in demand. One key initiative was to introduce flexible working, including two four-hour shifts and staggered shift work, to accommodate the challenges working parents were having with balancing the needs of childcare and work.

"The agility of the Halma model allowed us to move quickly to acquire Maxtec and expand our capabilities. By ramping up and tripling our supply when customers needed us most, we could help people everywhere breathe easier and be healthier."

Sharon Bracken
President of Perma Pure

Growth Enablers used by Perma Pure:

Mergers & Acquisitions
Digital Growth Engines
International Expansion
Innovation Network
Talent & Culture
Strategic Communications and Brand
Finance & Risk

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.

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 96 and 97.

How we supported

- In light of COVID-19 restrictions, we did not undertake any face-to-face training or development but we were able to refocus our resources on digital learning.
- Committed to increasing racial and ethnic participation in our senior leadership roles by joining Change the Race Ratio campaign and selected diversity, equity and inclusion as one of our Key Sustainability Objectives.
- Launched a global parental leave policy for all Halma employees that offers equal paid leave regardless of gender or sexual orientation.
- Committed to paying a Real Living Wage across our UK operations from 1 June 2022.

Our 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.

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 we supported

- Supported the development of our companies' products via our Functional Networks.
- M&A activity has provided our companies with access to new markets.
- Accelerated planned technology investments that will modernise ways of working for our companies and support growth in the medium term.

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.

How the Board engages

- Our Executive Board and Divisional Chief Executives work closely with major customers to ensure that we offer and develop innovative solutions using our technology and deep application knowledge.

How we supported

- Investment in our innovation and digital growth programmes to explore new ways of providing value to customers through digital products.
- Our companies stepped up their efforts to meet customer needs by providing lifesaving and life-sustaining solutions throughout the pandemic.

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 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 supported

- We commenced an analysis of the sustainability-related impact and risk across our supply chains.
- We supported our suppliers by encouraging our companies to pay promptly.

How our Board takes decisions

The Board recognises that it has a duty to act in the best interests of the Company for the benefit of its shareholders, as well as considering other stakeholder interests. Factors the Board consider include:

- How the decision fits with our purpose.
- Likely long-term consequences of the decision.
- The value created for our shareholders.
- Impact on our people, processes and performance.
- Effect on communities and the environment.
- Importance of fostering business relationships with customers/suppliers.
- The need to maintain high standards of business conduct.

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.
- Mergers and acquisitions.
- 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 supported

- Continued to develop external partnerships, including making minority investments through our Halma Ventures programme.
- Sector organisation changes will result in increased and dedicated M&A support for our Environmental & Analysis and Medical growth opportunities.
- Completed the acquisition of Static Systems Group.
- Completed the spin-out of our food technology start-up, OneThird, from our Ocean Insight company.

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

- The Directors engage with non-governmental organisations and other interest groups to improve their understanding of current and emerging ESG related matters.
- The Head of Sustainability engages regularly with stakeholders on sustainability issues and reports frequently to the Board on these matters.
- The Board reviews the portfolio to consider how our businesses and their products align with our purpose.

How we supported

- Supported our companies with the provision of support to their local and national healthcare providers during the global pandemic.
- Launched our second group-wide charitable campaign, Water for Life, in partnership with the international non-profit organisation WaterAid.
- Developed our new Sustainability Framework during the year.
- We provided assistance to those colleagues and businesses in difficulty through a variety of support programmes, without seeking Government financial assistance.

Investors and debt holders

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 Chair invites the Company's largest equity shareholders to meet to discuss the annual results announcement and any other significant matters.
- 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 supported

- Progressive dividend policy maintained, while ensuring the Group continues to have a conservative capital structure, robust balance sheet and substantial available liquidity.
- Appointment of new Chair and non-executive Director, bringing additional expertise to the Board and demonstrating orderly succession.
- Head of Sustainability recruited during the year to implement our new Sustainability Framework.
- Consultation on new Remuneration Policy led by Chair of the Remuneration Committee.

Section 172 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 98.

"Halma's culture is one of our unique strategic assets. It reflects the collective capabilities of our people and is a fundamental part of what makes Halma a successful, sustainable business."

Jennifer Ward, Group Talent, Culture and Communications Director

Our people share a common purpose to grow a safer, cleaner, healthier future for everyone, every day. Over the past year they have demonstrated this purpose in action and brought to life Halma's DNA through their response to the most challenging health and economic crisis in a generation.

Customers, suppliers and communities relied on us to continue producing the technologies needed to protect lives and maintain critical infrastructure. Even as market conditions substantially changed, our people supported each other to keep our businesses running and ensured that this technology got to the people who needed it most.

Employee engagement

78%

+3 percentage points

We supplied ventilator technology to hospital patients; we kept critical infrastructure running for our communities and our countries; and even now our technology is helping with the global vaccine roll out.

Our leaders also embodied Halma's DNA as they faced an unprecedented test of leadership and resilience. Despite these challenges, they demonstrated responsive and empathetic leadership ensuring their employees' health, safety and welfare needs were protected, and that their customers' demands were met.

We believe it is our DNA that will continue to give us resilience and continued success in the long term as markets recover. We are proud of how, individually and collectively, our employees and leaders have lived our purpose and we are grateful for everything they have done and continue to do.

Engaging our people

Our employee engagement scores reflect our agile and collaborative culture, and the inclusive work environment we are striving to create. Each year we survey our employees on a range of subjects to understand how engaged they are in their work. This year, 87% of all employees took the opportunity to share their perspective with us, representing a one percentage point increase from last year, despite the logistical challenges posed by COVID-19.

We were pleased to see the overall employee engagement score rise 3 percentage points to 78%. In fact, all categories of the survey were improved from prior years with the areas related to our pandemic response most significantly improved: Ethics and Fair treatment (+4), Empowerment (+3), Leadership (+4) and Communications (+3). Two of the individual items that were key drivers of the overall engagement score were: "Where I work we are treated with respect" and "I am proud of my company's response to the pandemic". As in the previous year, we saw no significant engagement differences across gender, ethnicity or nationality.

We continued to prioritise our people's health and wellbeing to ensure they are fulfilled, engaged and can perform at their best. This year we created a resource centre on HalmaHub, our internal digital platform, to provide dedicated help and advice to support our employees' mental health. Some of our companies also provided training for mental health aiders, introduced their own mental health programmes and held virtual talks to allow people to come together to hear from experts and support each other.

We remain committed to bringing our purpose to life for all our employees, demonstrating how our technologies are addressing the world's biggest challenges in creating a safer, cleaner and healthier future. This year we launched Water for Life – our new purpose-driven campaign that leverages our technologies to help tackle the issue of access to clean water in some of the most vulnerable communities in India. Many of our companies have pledged their support and are engaging their workforce through awareness-raising and fundraising activities to help us deliver on our purpose.

Embedding diversity and enabling a culture of inclusion

Our purposeful and inclusive culture is a competitive advantage that helps attract the best talent and allows us to stay agile as the needs of our stakeholders change. Reflecting our commitment to build a diverse and inclusive culture throughout our group of 42 companies, we have selected Diversity, Equity and Inclusion as one of our Key Sustainability Objectives within our Sustainability Framework, as outlined further in the Sustainability Report on pages 64 to 77.

We have continued to make progress on gender diversity, and we are pleased to have achieved the Hampton-Alexander Review gender diversity targets for Executive management. Our gender diversity figures at 31 March 2021 are set out in the section below, and following our AGM in July 2021, Halma's Board and Executive Board will be 44% and 78% women respectively. The three Sector Chief Executives who lead our portfolio of companies are women, and the gender ratio of our next generation of leaders is now more balanced with 49% women in our latest Halma Future Leaders cohort. We have also made progress towards our ambition for all our company boards to be within a gender balance range of 40%-60%, with female representation increasing from 19% last year to 22% this year.

We recognise that gender diversity is only one element of a truly diverse organisation. We have made public commitments to increase racial and ethnic participation in our senior leadership roles by joining Change the Race Ratio, a campaign founded by the Confederation of British Industry to increase racial diversity on boards. In July 2020, we also committed to reporting on long term actions specifically on black inclusion. This includes tracking ethnicity data, conducting listening sessions to understand the experiences of black colleagues, and celebrating black leaders and talent in our organisation.

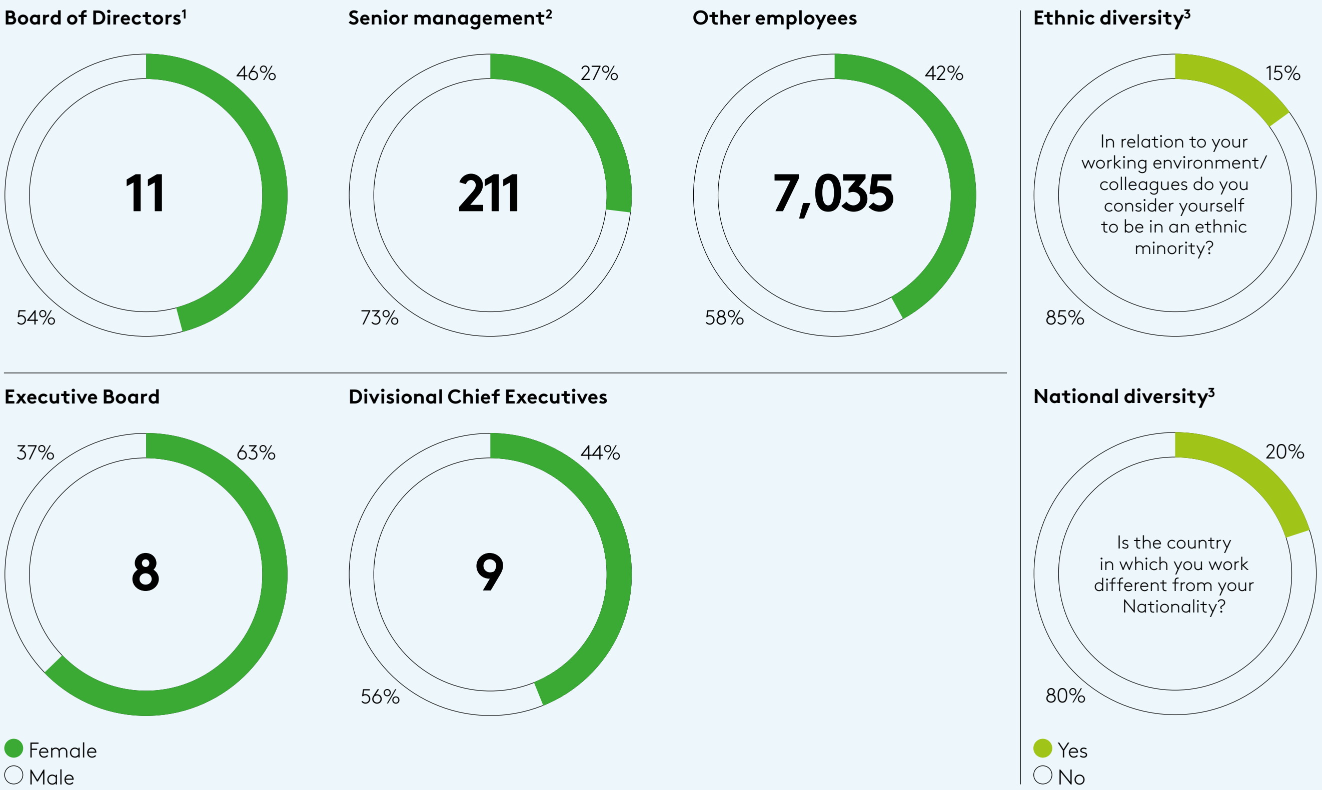
We have already made progress against the campaign's goals with two recent appointments – a new plc Board Director and an Executive Board member – who are from ethnically diverse backgrounds. We are also tracking ethnicity data to improve transparency and provide a benchmark which we can build on for the future.

We appreciate that diversity is a broad subject and not just confined to gender, ethnicity and nationality. Therefore, this year we introduced a new question in our employee engagement survey to assess whether employees consider themselves to be diverse in another way; 15% of employees responded to say they do.

A focus of our diversity strategy is working with recruiters to ensure they run a diverse application process and expanding our campus recruitment strategy for university and college graduates. While we base our recruitment decisions on skills and competencies, we hold recruiters

Our Diversity

Figures as at 31 March 2021



1 Includes non-executive Directors.
2 Defined as Executive Board members who are not appointed to the Halma plc Board, Divisional Chief Executives and Directors of our companies.
3 Response to questions posed in the 2021 Engagement Survey.

accountable for presenting diverse shortlists which include varied educational and work backgrounds. We are confident that our focus on diverse hiring practices will start to deliver results and increase diversity at all levels of our organisation. As an example, this year 49% of the recruits into our Future Leaders Programme are from an ethnically diverse background.

We know that diversity, equity and inclusion require active leadership and commitment from all levels of the organisation. To facilitate this, we are giving our people the tools to practice inclusive behaviour and use it in their day-to-day work. We are doing this through Accelerate Inclusion, a peer learning programme translated into 10 languages and which is available to all our businesses. More than 5,000 employees (around 70% of total employees) have joined the programme across all the countries we operate in since its launch.

As part of our ongoing commitment to building fairer and more inclusive businesses, in October 2020 we launched a global parental leave policy for all Halma employees. This offers equal paid leave regardless of gender or sexual orientation. We are also committing to paying a Real Living Wage across our UK operations from 1 June 2022. A number of our UK companies are already paying wages in line with the levels set by the Real Living Wage Foundation.

Halma is not obliged under the Gender Pay Gap Regulations to report our gender pay gap as we do not directly employ more than 250 employees. However, we support the intent of the effort and therefore this year we are voluntarily disclosing the gender pay gap for all employees of Halma in the USA and the UK as at 31 March 2021. The approximate overall mean pay gap was 26%.

The pay gap is due to more women in operations and assembly roles in the lowest quartile (54%) compared to more men in the top quartile (76%). This supports our existing focus to address the gender balance at our company leadership team levels, which will help to close the overall pay gap with more female representation at this level. Our goal is to achieve a 40-60% gender balance at this level, which is 22% female at 31 March 2021.

The pay gap data provides us with a robust baseline to measure our progress against, and in the coming year we will be implementing a global HR solution that will provide us with further insights that we can act on. We believe that we pay men and women equally for similar level roles. We are also committed to addressing the gender pay imbalance through inclusive and diverse recruitment and better work-life arrangements, such as our global parental leave policy and our Future of Work philosophy.

Developing our people

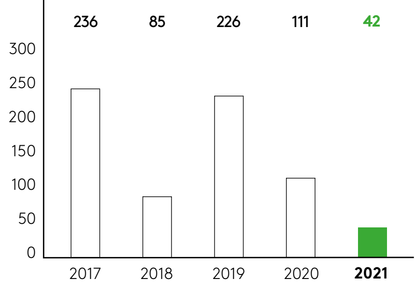
Equipping our leaders with the skills to manage, lead and deliver on our growth strategy is a key focus. We aim to empower all our people to continually grow and change to help us cultivate our open and inclusive culture.

During the year we rapidly refocused our resources on digital learning, moving to online development until face-to-face development opportunities can start again. We also piloted new online learning platforms to help managers with business and individual development. We delivered approximately 2,800 hours of training to 685 senior leaders and other Group employees.

We are actively working with Halma company boards to ensure that people development is high on the agenda. We are helping build out local initiatives, which are critical in ensuring that we have strong succession pipelines, and for attracting and retaining key talent.

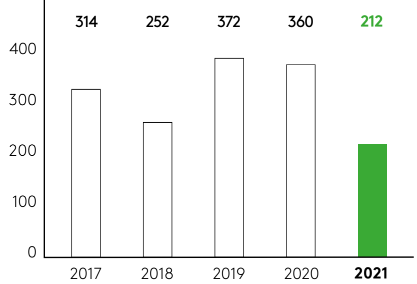
Days lost to preventable work injuries*

42



Total recorded injuries to all employees

212



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

We continue to leverage our Functional Networks and HalmaHub, to continuously share best practice and stimulate knowledge-sharing, enabling us to go faster by learning from the experiences of others. This year there were more than 850,000 learning interactions on HalmaHub.

Health and safety

Looking after the wellbeing of our people is critical to our business and a key priority for all our leaders. The Group's health and safety performance was particularly strong in the current year with an Accident Frequency Rate of 0.02. There were no work-related fatalities in FY20/21 or in prior years and you can find details of recorded injuries during the year and the prior four years in the graphs opposite.

Our Future of Work philosophy

The pandemic has redefined our people's expectations around how they would prefer to work in the future. In response to this, we have developed an approach for enabling more flexible working for Halma's employees at the Group level. We are also guiding our companies to create their own core principles about future working practices. Our companies led the way by finding innovative practices to provide flexibility to production employees, with many companies empowering the teams themselves to design working patterns that deliver the business needs and also accommodate the flexible needs of the team members.

We are confident that these efforts will build on our progress in making our work environments more flexible and inclusive for everyone.

> "Looking after the wellbeing of our people is critical to our business."

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

Halma's positive impact through purpose-aligned growth
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 technologies solve some of the world's most pressing issues, from air quality to road safety and preventable blindness. Our purpose defines the three broad market areas where we choose to operate, within the safety, environmental, and health markets. We believe the issues we address are global and long-term in nature and expect them to support delivery of sustainable growth with positive impact.

This purpose-aligned growth is a key component of our Sustainable Growth Model, in which the value we create comes from the combination of our growth and returns, and our positive impact. Halma companies make the world a safer, cleaner and healthier place, as illustrated by our contribution towards multiple United Nations Sustainable Development Goals, as we set out on pages 66-67.

Our Sustainability Framework
Halma companies also recognise that their operations have negative environmental and social impacts. These are relatively small within our own operations, given that we have low capital-intensity manufacturing processes and our operations are geographically close to our end markets. However, as we begin to measure and understand our wider value chain impacts, and as various environmental and social issues, including the climate crisis, are becoming more acute, we are ambitious to go further and faster in reducing our negative effects at the same time as increasing our positive impacts. We also want to ensure we are focused on opportunities to multiply our positive impact, for example in how we design our products and services, in the way we do business, and in how we interact with our employees, our suppliers, our communities and wider society.

Given the structure of our Group, which is made up of more than 40 small to medium-sized companies, we recognise the need to prioritise our time and resources in those areas that will deliver the largest reduction in negative impact or the greatest amplification of positive impact.

As the Board member responsible for sustainability, part of my focus in the year has been on more explicitly incorporating sustainability issues into our Sustainable Growth Model (our overall corporate business model and strategy), and prioritising them to support our long-term growth aspirations.

We are introducing a Sustainability Framework, which we will further develop and roll out across our companies over the next 12 months.

Under this framework, we will prioritise a small number of areas that are highly purpose-aligned, important to Halma and our stakeholders, and relevant to most of our companies – our Key Sustainability Objectives (KSOs). By setting ambitious objectives and stretching supporting targets for these KSOs, we believe we can significantly amplify our existing purpose-driven positive impact. In turn, these KSOs will be supported by the policies and metrics that we consider essential to responsible business conduct.

2021 Sustainability highlights:

- Launching our Sustainability Framework.
- Introducing our Water for Life partnership with WaterAid.
- Setting a 1.5 degree aligned Scope 1 & 2 2030 GHG emissions reduction target and commitment to net zero Scope 1 & 2 emissions by 2040.
- Increasing renewable energy from 8% to 15% of electricity consumed.
- Further assessments of environmental and supply chain impacts.
- Improvements in sustainability data and disclosures.
- Committing to paying the Real Living Wage in UK operations from 1 June 2022.
- Global implementation of an equal parental leave policy.
- Continued progress on gender diversity within our workforce.
- Extremely strong Health and Safety performance, alongside mental health and employee wellbeing initiatives.

Read more in this report p66

Read more in the Our people and culture section p60

Our Key Sustainability Objectives
Our initial KSOs will be focused on Climate Change, the Circular Economy, and Diversity, Equity and Inclusion. Our specific actions in these areas will evolve, but we expect to address climate change in terms of both the opportunities and risks it presents and by minimising our own greenhouse gas emissions (GHGs). We expect to work towards designing out waste and pollution and incorporating reuse and recycled materials within our products where feasible, and we will prioritise diversity, equity and inclusion to support our purpose-aligned growth.

Progress updates on our work in these three areas and related metrics can be found throughout this Annual Report as indicated in the diagram below.

We will seek to disclose more specific objective statements and additional supporting, medium and long-term targets for our KSOs as they are developed, and in future consider aligning management incentives with them where appropriate. This year, we have already committed to new GHG emission reduction targets to support our Climate Change KSO, which include a 1.5 degree aligned Scope 1 & 2 target for 2030 and a commitment to net zero emissions by 2040 for Scope 1 & 2.

Supporting these KSOs, the sustainability issues, policies and metrics that we include within the Responsible Business section of our Sustainability Framework are those which relate to other areas of corporate social responsibility, compliance, or risk reduction. In many cases we expect these areas to be of lower materiality, or be material but already well managed by our companies compared to our KSOs. As a result, while we will continue to develop and maintain compliance against appropriate policies, procedures and standards, and to report our progress on them, we do not expect to develop ambitious targets in these areas.

As part of the continued development of the Sustainability Framework, we will be reviewing our current non-financial KPIs against the Framework and any newly introduced targets and metrics over the next 12 months to determine the most appropriate non-financial KPIs for the Group going forward.

I believe our Sustainability Framework, combined with our continued focus on purpose-aligned growth, will energise our colleagues, inspire future talent, attract partners who will help us solve some of the world's most pressing problems, and make Halma even more sustainable.

Marc Ronchetti
Board Member responsible for Sustainability

Amplifying our positive impact

Our positive impact

Read more
p66

Our Key Sustainability Objectives (KSOs)

Climate Change
Read more
p70

Circular Economy
Read more
p69

Diversity, Equity and Inclusion
Read more
p60

Responsible Business

Read more
p73

Cataract treatments delivering positive impact

Medicel, a Halma company based in Altenrhein, Switzerland, makes the world a healthier place by supplying instruments for cataract surgery that improve patients' quality of life. Their intraocular lens injectors allow surgeons to minimise incisions during surgery. Over 5 million lenses are implanted every year with Medicel injection systems.

Translating these positive impacts into their value to society, we have assessed the economic benefits from Medicel's intraocular lens injector systems for patients by the avoided years living with cataract disability; by the avoided infections from alternative forceps-based surgery methods; and by the avoided lost income from full employment; and for governments by the avoided medical costs associated with supporting cataract disabilities.

Using third party data, we broadly estimate the annual economic benefit of cataract surgery attributable to Medicel's technology to be more than £600m per annum – many times the cost to patients and governments.

More than £600m p.a.

Annual value to society from Medicel's injector technology

Positive impact through purpose-aligned growth

Our purpose primarily drives our positive impacts over the longer term, and these impacts are applicable across multiple sustainability themes. In particular, our positive impacts enable Halma to contribute towards the UN Sustainable Development Goals (SDGs), including four SDGs that are highly aligned to our purpose and our products and services – SDG 3 *Good health & well-being*, SDG 6 *Clean water & sanitation*, SDG 9 *Industry, innovation & infrastructure* and SDG 11 *Sustainable cities & communities*. Our website sets out the UN's targets and indicators that sit beneath these four SDGs that are most relevant to Halma.

In the year ended 31 March 2021, over two-thirds of our revenue continued to contribute towards the broad aims of these four SDGs, helping to illustrate how our positive impact contributes to key global challenges for the period to 2030[1].

In addition, as we incorporate climate change as a long-term growth driver, we expect our products and services to contribute more towards SDGs 7, 9 and 13 relating to climate change mitigation and the transition to a low-carbon economy.

These pages show some examples of the positive impact we deliver through our products and services, particularly where we contribute towards one of our four chosen SDGs or our key sustainability objective-related themes of climate change and circular economy.

Example impact metrics

Our impact[2]		Applicable SDGs
Providing diagnostics and monitoring	We supply more than 1 million diagnostic products per year, for blood pressure monitoring, ophthalmology, and other vital signs monitoring.	TARGET 3.4
Helping improve health outcomes	Our products support more than 7 million surgeries per annum, including those to treat preventable blindness.	TARGET 3.4
Making roads safer	We make roads safer, with our road safety technology being used on more than 3,000km of highways.	TARGET 3.6
Conserving water	Our products are used to monitor more than 110,000km of water pipelines. With UK water pipeline leakage estimated at around 8,500 litres per kilometre per day[3], our products help conserve billions of litres of water per year.	TARGET 6.4 GOAL 13
Making water safer	We enable over 200 million water tests and supply more than 5 million water quality tests to partners working in international relief and development annually.	TARGET 6.1 TARGET 3.9 TARGET 11.5
Ensuring urban environments and public spaces are safer	Our fire detection products protect buildings with an aggregate area of more than 5,000 square kilometres.	GOAL 11 TARGET 8.8
Protecting lives	Our gas sensor products protect the safety of more than 250,000 people every day.	GOAL 11 TARGET 8.8
Keeping workers safe	Our interlock products protect workers' safety in more than 40,000 manufacturing and other facilities.	TARGET 8.8
Supporting the energy transition	We protect more than 10,000 wind turbines by supplying over 23,000 fire suppression systems.	TARGET 7.2

1 We describe and calculate our impact and revenue alignment with the broad principles of the four SDGs as follows:
– SDG 3 – Halma's technology helps to diagnose and treat disease earlier and more accurately; to improve road safety; and to reduce water and air pollution. Revenue is included from medical companies (excluding CenTrak and Static Systems which focus on hospital communications, logistics and efficiency) and our vehicle flow company.
– SDG 6 – 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. Revenue is included from our water analysis and treatment companies.
– SDG 9 – 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. We do not currently measure applicable revenues.
– SDG 11 – 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. Revenue is included from our fire, elevator safety, people flow and gas detection companies.

2 These metrics are approximate estimates, based on best available data and a number of management assumptions about usage of our products. They are updated for significant changes which are not expected to occur on an annual basis. The key assumptions are set out on our website at www.halma.com.

3 Source: Water UK; England and Wales, April 2019 to March 2020.

Example impact case studies

"We make the world a safer, cleaner, healthier place for everyone, every day, while contributing towards the UN's Sustainable Development Goals."

Delivering clean water where it's most needed

Our partnership with WaterAid will utilise our Palintest water testing technologies to deliver long-lasting infrastructure and education to 8,000 people in a remote region of India who suffer from poor water provision. Community volunteers from across 10 villages will also be trained to maintain water quality.

TARGET 3.9 TARGET 6.1

Reducing GHG emissions

One of Crowcon's products helps detect refrigerant and SF_6 leaks, both significant contributors to climate change.

Oseco-Elfab's rupture disc products are being specially designed for industrial customers who are transitioning away from SF_6, a potent greenhouse gas, to alternative gases within gas insulated switchgear used for electricity transmission.

TARGET 9.4 GOAL 13

Supporting climate change monitoring

Labsphere's remote sensing calibration systems calibrate imaging systems within Earth Orbiting Satellites that monitor climate change and alert authorities to global environmental events. They also calibrate image systems used to provide quick decisions for efficient crop management.

GOAL 13

Supporting the energy transition

Fortress supplies safety and interlock solutions to numerous clean energy projects, keeping people safe and protecting equipment for years to come in some of the harshest environments. Recent UK projects include offshore wind farms and hydroelectric power and battery storage projects.

TARGET 7.2

Making industry safer for people and the planet

Sofis prevents accidental releases of harmful chemicals by providing solutions that make chemical processes safer and more controlled.

Improved safety systems also enable more frequent maintenance and flushing out of waste products, increasing the energy efficiency of the process.

TARGET 8.8 TARGET 9.4 TARGET 12.4

Supporting innovation within the hydrogen economy

Alicat has almost doubled the number of testing and calibration products sold into R&D facilities that are working on innovation in hydrogen fuel cell applications.

TARGET 7.2 TARGET 9.4 GOAL 13

Reducing recycling costs

Ocean Insight's recycling solution detects types of aluminium enabling it to be sorted into different grades within milliseconds. This application increases speed and reduces recycling costs, supporting the transition to a more circular economy.

TARGET 12.5

Reducing food loss and waste

OneThird uses infrared sensors, AI algorithms and machine learning to predict and extend the shelf-life of fresh produce. This non-invasive solution is helping to reduce food loss and waste, from farm to fork.

OneThird was spun-out from Halma's digital growth programme in 2021 and Halma retains a minority investment.

TARGET 12.3

Protecting cultural heritage

Advanced's fire panels protect cultural heritage as varied as Durham Cathedral, the Hagia Sophia in Istanbul, and His Majesty's Theatre in Perth, Australia.

TARGET 11.4

Applying corrosion management to water delivery

Cosasco's products, traditionally used within the Oil & Gas industries, are being applied in municipal facilities to monitor pipe wall thickness degradation and the effectiveness of chemical treatments, to reduce lead contamination, chemical waste and leakage.

TARGET 6.3 AND 6.4

Sustainability governance and strategy

Sustainability governance

Our Chief Financial Officer, Marc Ronchetti, has principal responsibility for our sustainability activities and policy, including Environment and Health & Safety.

Sustainability is an integral part of our Sustainable Growth Model, and a key focus for the Board, which engaged with multiple sustainability-related topics and received updates on sustainability at the majority of scheduled Board meetings during the year. Sustainability was one of three key topics discussed at the Board Strategy Meeting in September 2020, and in March 2021 the Board discussed the draft Sustainability Framework and the Key Sustainability Objectives (KSOs). Please see the Climate Change section on pages 70 to 73 for further information on the Board's role in Climate-related governance.

We also appointed our first Head of Sustainability in September 2020, and we have created two new groups within our organisation to help deliver on our Sustainability Framework over the longer term. Firstly, we launched the Sustainability Network in mid-2020. Chaired by one of our Divisional Chief Executives (DCEs), it brings together sustainability representatives from our companies to share ideas and best practice.

Secondly, we have recently created a Sustainability management committee, made up of Executive Board members, functional representatives and DCEs, to assist Marc Ronchetti and our Head of Sustainability with direction and oversight of our sustainability initiatives and implementation of our Sustainability Framework.

Sustainability Framework and informal materiality assessments

During the year, we have taken initial steps to assess the materiality of various sustainability-related issues arising in our wider value chain, to help develop our Sustainability Framework and KSOs. This is work in progress, with steps taken so far focused on developing strategy, rather than reporting. We will continue to develop our more formal impact and stakeholder analysis throughout the next 12 months.

This work has included engaging with a number of our companies, representing over half of our revenue, to understand their key sustainability-related priorities, activities and challenges. Their input has helped identify our KSOs and will influence the policies, procedures and processes that we will look to include in 'toolkits' to support our companies with achieving the KSOs.

In addition, we have undertaken discussions on sustainability-related issues with a number of our largest ESG-focused shareholders, as well as informally reviewing wider industry, peer and customer sustainability priorities. We also carried out an initial desktop supply chain impact assessment and a water scarcity assessment (see more detail on these assessments within the Responsible Business section). The results of these exercises fed into our selection of our KSOs.

This year end, we have also collected more granular data from our companies on water withdrawals and discharge, hazardous waste, electronic waste and solid waste and waste disposal methods. These figures can be found in the Sustainability data section on page 76.

While we are not able to show comparatives for these metrics this year, this change enables us to better assess the materiality of these impacts, improve our external and internal reporting, and create a baseline for improvement. While many companies already measure and proactively manage these impacts, aggregated Group-level data will help us determine which policies, metrics and targets we may require at a Group level to manage these impacts in the future.

UN Sustainable Development Goals (SDGs)
As set out on pages 66 to 67, our positive impacts through purpose-aligned growth contribute towards multiple SDGs. In addition, our Sustainability Framework and Sustainable Growth Model enable us to contribute towards those and many other SDGs, through the way we do business and create value, how we treat our employees, and how we interact with our communities.

In particular, our KSOs are broadly aligned with:

— Circular Economy – SDG 8 *Decent work and economic growth* and SDG 12 *Responsible consumption and production.*
— Climate Change – SDG 7 *Affordable and clean energy*, SDG 9 *Industry, innovation and infrastructure*, SDG 13 *Climate action*.
— Diversity, equity and inclusion – SDG 5 *Gender equality*, SDG 8 *Decent work and economic growth* and SDG 10 *Reduced inequalities*.

Circular Economy

We are at the initial stages of understanding the most relevant focus areas and potential longer-term goals for our Circular Economy KSO. However, a number of our companies are already making progress in implementing more circular principles into their businesses.

For example:

Crowcon is significantly reducing the amount of copper required within its solutions and working towards removing lead, a hazardous material, from its oxygen sensors throughout its product range. Alongside this, their fixed detector products can be fully disassembled for recycling.

Cosasco utilises waste components from its manufacturing and servicing processes to build and refurbish products.

Apollo began a small pilot project to assess Lifecycle Analysis techniques that could be used to analyse environmental impacts associated with some of its products. This work was put on hold during the COVID-19 pandemic.

Multiple companies are transitioning to more sustainable packaging solutions, including reuse of incoming packing material, replacing physical manuals with online versions, and replacing plastic foam with recycled paper product protection.

e-waste
We expect our existing aim to reuse or recycle more than 99% of electronic waste (e-waste) to be formalised as a supporting target for our Circular Economy KSO. Based on available data, almost half of currently reported e-waste is already recycled, and we have appointed a global e-waste recycling supplier that our companies can utilise to increase their recycling rates and offer a recycling service to customers where feasible.

Climate Change

Introduction

The climate crisis is one of the biggest issues facing our society and our environment, and it impacts Halma's efforts to grow a safer, cleaner, healthier future for everyone, every day.

At the same time, we believe that addressing the climate crisis, through creating low-carbon economies, transitioning to responsible consumption and production methods, and addressing social inequities and health issues, creates multiple opportunities for Halma within niche markets with long-term growth drivers.

Recognising this, we have identified the transition to a low-carbon economy as a key long-term growth driver that we will use internally to assess organic and inorganic growth opportunities. In addition, we have increased the priority of the climate crisis across our business by highlighting the issue as a Key Sustainability Objective (KSO) within our new Sustainability Framework. This KSO is supported by significantly increased ambitions to reduce our own operational carbon footprint, as evidenced by our new targets set out below.

We have also taken initial steps during the year towards applying the principles of the Task Force on Climate-related Financial Disclosures (TCFD), in line with our commitment to fully report against TCFD in our Annual Report for the year ended 31 March 2022. The information in the rest of this section reflects the broad format of the TCFD recommendations.

Our GHG emissions targets

42%

absolute reduction in Scope 1 & 2[1] GHG emissions by 2030 from 2020 baseline

Achieve net zero Scope 1 & 2[1] GHG emissions by

2040

1 Market-based Scope 2 methodology

Reducing emissions from transportation

With products and materials needing to be transported around the world to meet customer demands, delivering on time while also reducing CO_2 emissions is top of mind for Halma company BEA, a leading manufacturer of sensing solutions for automatic doors systems.

The Belgian-based company has taken steps to increase the proportion of deliveries that are shipped rather than air-freighted between Angleur (its headquarters) and Pittsburgh (its US premises), and to utilise barge transportation instead of lorries between Angleur and the port of Antwerp to reduce both congestion and CO_2 emissions. BEA is also increasing the proportion of train transportation between its China premises and Angleur, which is more reliable and faster than shipping but with significantly lower emissions compared to air freight. While Halma doesn't currently include logistics emissions within its Scope 3 footprint, these actions exemplify BEA's commitment to growing a safer, cleaner, healthier future.

"BEA's solution is a mix between sea, train and air... and we are working towards our goal of 70 – 75% of our shipments transported by sea or train."

Camilo Zuluaga, Quality, Health, Safety and Environment Management Supervisor, BEA

Governance

Marc Ronchetti is the Board member responsible for assessing and managing climate-related risks and opportunities, as part of his broader role in relation to sustainability. Prior to year end the Board reviewed and discussed the initial climate-related risks and opportunities identified on the facing page. They also reviewed and approved our new GHG reduction targets and will be regularly appraised of the Group's progress towards achieving these.

During the coming year, formal training will be provided to the Board to ensure all members are fully equipped to provide oversight of climate-related risks and opportunities as these are identified by the management team. In addition, a process for routine flagging of Board agenda items that have climate relevance, such as M&A, will be developed. This will supplement an annual standalone agenda item to review how climate-related risks and opportunities are being managed, as part of the annual strategic planning process.

The Executive Board is fully engaged on climate issues, and, to ensure effective and efficient decision making, have delegated responsibility for overall identification and management of climate-related risks, as well as ensuring strategic opportunities are assessed and developed where appropriate for the Group as a whole, to the Sustainability management committee. In addition, each of the three Sector Chief Executives (from 1 April 2021) are responsible for assessing climate-related opportunities at the sector level.

Strategy and Risks and Opportunities

Overall, we believe that Halma's agile, decentralised business model equips us well to mitigate both physical and transition climate risks. In addition, our companies operate close to their end markets and we have an active M&A strategy. We expect both of these to enable us to identify and take advantage of climate-related opportunities where these arise, particular in relation to the transition to a low-carbon economy. Some of our products and services already address this issue, either directly or indirectly, as outlined further in the Positive impact through purpose-aligned growth section on pages 66 to 67.

Initial climate-related risks and opportunities identified

Potential risk or opportunity	Additional detail and existing management processes
Physical	
Business and supply chain interruption or costs Potential risk	Most of our companies operate as final assemblers of components, and therefore have supply chains that may be at risk of interruption or additional costs as physical climate impacts increase. The agility within our model, where our companies manage their own supply chains and operate close to their suppliers and end markets, means that we can respond quickly to changes in our supply chains.
Transition	
M&A strategy Potential opportunity	We believe an opportunity exists for Halma to access new markets and technologies that will be required for the low-carbon transition, given our current market focus in highly aligned areas of safety, environment and health. In particular, our proven experience in acquiring small to medium-sized businesses in niche markets should enable us to capitalise on this opportunity through our M&A strategy.
Regulatory landscape Potential opportunity Potential risk	Ever increasing regulation, as standards for safety, cleanliness and care become ever higher, is a key existing long-term growth driver for Halma. Our experience and expertise operating in regulated markets, and helping our customers meet their regulatory requirements, positions us well to benefit from increasing levels of regulation as governments and regulators look to accelerate climate mitigation and adaptation efforts. On the other hand, a reactive, inconsistent and geographically fragmented policy and regulatory response, as well as additional reporting and governance requirements, could present a significant challenge for our small to medium-sized companies' operations and procedures or could limit access to some markets.
New products and markets Potential opportunity	We believe there will be multiple opportunities for Halma to drive organic growth through current and new products and technologies, as well as potential greater demand for existing product lines (including sensors and analytics) as a result of the low-carbon transition. The agility and autonomy of our companies, operating close to their end markets, as well as their collaborative approach, means that we are already responding to these opportunities.
Skills and information Potential risk	While multiple opportunities have been identified, there is the risk that Halma may lack the appropriate knowledge and skills required in order to identify, evaluate, pursue and deliver on low carbon opportunities relative to competitors. This is closely related to Halma's principal risk around Talent and Diversity, and our current focus on growing and attracting talent through our Talent and Culture Growth Enabler positions us well to identify and rectify gaps in our strategic knowledge. We also have experience of utilising partnerships and investments to explore new and adjacent technology and markets, which may be relevant to managing this risk going forward.

Our overall approach to risk management and a summary of our Principal Risks can be found on pages 78 to 83. In the prior year, we identified the broad topic of Climate Change as an emerging risk within our risk management framework. This year, based on our developing understanding of physical and transition risks, and assisted by the workshop outlined below, we have incorporated the broad concept of climate change risk into our Climate Change and Natural Hazards principal risk.

During the year, we conducted a high-level workshop with our Executive Board, our Divisional Chief Executives, and our M&A leads to review two generic climate-related scenarios and identify initial risks and opportunities that may arise for Halma within each scenario. This workshop took a top-down view of the Group and our sectors, with a particular focus on the medium and longer-term. The workshop was supported by two generic narrative scenarios – being an orderly 1.5 degree 'Steady Path to Sustainability' scenario (SSP 1 – RCP 2.6 combination) and an orderly 4 degree 'Fossil-Fuelled Growth' scenario (SSP 5 – RCP 8.5 combination).

A selection of the initial risks and opportunities identified for further analysis are set out in the table on page 71. These risks and opportunities have not been evaluated to understand their materiality, relevant timescales or potential impact, but they provide a starting point for further work over the coming year.

2021 Scope 1 & 2 GHG emissions[1,2]

15,000
tonnes CO_2e

2020 baseline Scope 1 & 2 GHG emissions[1]

18,600
tonnes CO_2e

In particular, we will be developing our scenario analysis to 'deep-dive' into one or more of these risks. This will help us understand potential qualitative impacts and the resilience of our business model, as well as identify and prioritise mitigation strategies and related targets and metrics where relevant.

Other risks and opportunities identified during the workshop may rise in prominence as we continue our work in this area, and some of those set out on page 71 may be assessed to be immaterial at a Group level. In addition, we do not yet have enough information to assess the potential risk of carbon pricing or similar mechanisms within our supply chain. We will determine the scale of this risk as we expand our measurement of Scope 3 emissions over the coming year.

During the year ended 31 March 2022, we will look to integrate climate scenarios, at a high-level, into our overall risk management process, to help our companies identify those climate-related risks and opportunities most relevant to their individual growth strategies.

Alongside this, our Sector Chief Executives will lead work to further investigate and refine key opportunities for each sector as part of our strategic planning process.

Targets and Metrics and GHG emission reductions

While our own operational carbon footprint is relatively small and we have not specifically identified it as a potential risk within the TCFD framework, we are committed to reducing this footprint.

From 2010 to 2021, we set a target to reduce 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 years ending in March 2021[2].

As of 1 April 2021, we have adopted an absolute, 1.5 degree-aligned emissions reduction target, calculated using the guidance from the Science-based Target Initiative. We are targeting reducing our global Scope 1 & 2[1] GHG emissions (tonnes of CO_2e) by 42% by the year ended 31 March 2030, compared to our 2020 base year.

In addition, we have committed to achieving net zero for our global Scope 1 & 2[1] GHG emissions by 2040. We intend to define net zero utilising applicable guidance for Scope 1 & 2 from the Science-based Targets Initiative. While this guidance is currently under development, we expect that we will abate our emissions as much as feasibly possible before neutralising residual emissions by permanently removing an equivalent volume of atmospheric CO_2.

Approximately three-quarters of our operational footprint relates to purchased electricity (Scope 2), with Scope 1 emissions broadly split between natural gas (largely for space heating) and vehicle emissions, alongside other small emission sources. We expect to achieve our targets through a combination of energy efficiency measures, self-generated renewables, purchased renewables, transitioning our vehicle fleet towards electric vehicles and low-carbon heating sources. We expect the largest challenges to our low-carbon transition to arise from the short leases which we hold on the majority of our buildings, as well as the decentralised nature of our operations where contracts are contracted and managed at the individual company level.

During the year, we have continued to work towards reducing our operational carbon footprint. Two sites in the UK and the USA installed new solar panels, bringing approximately 400 kW of additional on-site solar capacity into our operations. In the prior period, we set an ambition to move all our UK sites to REGO-certified renewable electricity and gas by the end of calendar year 2022. During the year, approximately 35% of our UK electricity and gas consumption was from REGO-certified renewable tariffs or on-site generation. Together with renewable usage in other territories, including Europe, the USA and Australia, these measures have increased the percentage of our electricity and gas consumption that is derived from renewable sources, whether purchased externally or self-generated, to 15% (2020: 8%) of total electricity consumption and 14% (2020: 7%) of total electricity and gas consumption.

1 Market-based Scope 2 methodology.
2 Our emissions in 2021 have been impacted by the COVID-19 pandemic and do not reflect emissions for a more normalised year. Please see additional commentary in the Sustainability Data section on page 75.

We have also completed initial assessments of renewable generation and purchase options for our largest US-based electricity consumers, which contribute approximately 30% of our total Scope 2 emissions. In addition, a number of our companies have implemented energy efficiency measures during the period, including moving into more energy efficient premises, installing energy efficient lighting, programmable thermostats, rapid roller shutter doors and shipping bay curtains, and replacing gas space heating with more efficient electric solutions.

For example, during the period Sofis, one of our Safe Storage and Transfer companies, replaced existing lighting within its factory and warehouse with LED lighting. This action is expected to reduce its electricity consumption by over 25%, while increasing lighting levels to improve the working environment.

Alongside our Scope 1 & 2 commitments, we recognise the need for us to work towards net zero across our entire value chain. We currently measure certain categories of Scope 3 emissions, including business travel (by air and employee-owned and hire cars), Well to Tank emissions and emissions related to water withdrawals and waste and wastewater generated.

During this financial year, all our GHG emissions were impacted by the COVID-19 pandemic, but in particular our Scope 3 emissions benefited from a significant reduction in air travel.

Going forward, our new Future of Work philosophy encourages our colleagues to assess when business travel is necessary and beneficial against the impacts on climate change and employee wellbeing. In addition, we are currently reviewing our company and employee car policy with a view to reducing our Scope 1 emissions and Scope 3 business travel emissions over time.

Over the next 12 months, we will be carrying out a full assessment of our supply chain and other Scope 3 emissions sources to determine the targets and commitments that will be most appropriate for Halma. Initial assessments undertaken during the year have indicated that our largest Scope 3 emissions are likely to arise within our supply chain. We expect to disclose further information on this in our next Annual Report and Accounts.

2021:

15%

renewable electricity
(2020: 8%)

Responsible Business

Environment

We recognise that all of our activities have an environmental impact. Our key impacts have been identified as emissions to air and water, water and energy consumption, and waste production, and since 2005 we have reported annual data at a Group level on greenhouse gas emissions, total water consumption, and total solid and liquid waste production.

Our environmental impact within our operations is relatively low compared to other manufacturers, due to our fairly low capital-intensity manufacturing processes and operations that are geographically close to our end markets. However, our environmental impacts within our wider value chain are likely to be significantly larger than our operational impacts.

We encourage our companies and their suppliers to improve energy efficiency, reduce water consumption, waste and emissions and, in terms of materials, to reduce or make more efficient use of them. Focusing on our Key Sustainability Objectives (KSOs) will particularly help us limit our key environmental impacts including energy consumption, GHG emissions and hazardous and other waste production.

Environmental accreditations

All Group companies are encouraged to undertake ISO 14001 accreditation, where warranted. For the year to 31 March 2021, based on available data reported by our companies, approximately 20% of the Group's revenue was derived from companies with an ISO 14001 accreditation.

Water scarcity assessment

During the year, we conducted a high-level analysis of our operations in water-scarce areas. We reviewed whether we have manufacturing, testing or R&D sites, or Hubs and Group Head Offices employing more than 50 people, operating in areas of 'high (40-80%)' or 'extremely high (>80%)' baseline water stress, according to the World Resources Institute's Water Aqueduct water risk atlas tool.

These sites were required to report their water withdrawals (including water withdrawn by any office, warehouse or other facilities sharing the same site) separately for the first time this year.

We have identified that 17 of these types of sites are located in areas of 'extremely high' baseline water stress and 25 in areas of 'high' baseline water stress. Together, these sites withdrew approximately 37,000 m^3 of water in 2021 from municipal systems, around 45% of Halma's total water withdrawal.

While our total water withdrawal is low compared to peers, water conservation is a key issue for some of our stakeholders and a higher profile issue for Halma due to our water analysis and treatment companies. Therefore, as part of our two-year partnership with WaterAid (see page 15 for more information), we are engaging with these sites to work towards reducing withdrawals in these water-scarce regions.

These initiatives will build on the current water-conservation procedures and activities underway at a number of our companies, including measures such as installing water efficient taps and low-flow toilets, monitoring water usage and setting usage targets.

Society

Our positive role in society is underpinned by our DNA, and by specific policies and initiatives, including our Code of Conduct, Modern Slavery Act Statement, Human Rights and Labour Conditions policy, Health and Safety policy, Whistleblowing procedures, Anti-Bribery and Corruption policy, Competition Law and Competition Compliance Manual, Data Protection and Privacy policy, and Conflict Minerals policy. It is also supported by our work towards building responsible, resilient and sustainable supply chains, as outlined further below.

Information on all of our policies and procedures can be found in the Our policies and procedures section on pages 85 to 86.

Product quality

Our operating companies have a strong focus on product quality and safety. For the year to 31 March 2021, based on available data reported by our companies, we estimate that at least half of the Group's revenue was derived from companies with an ISO 9001 accreditation.

We are reviewing the applicability of additional disclosures in relation to product safety as part of our ongoing work towards applying the standards from the Sustainability Accounting Standards Board (SASB).

Modern slavery

In the prior year, we undertook a comprehensive risk assessment exercise that mapped potential modern slavery risks in our business and supply chain, and covered over £500m of annual procurement expenditure from the year ended 31 March 2019 (representing over 96% of expenditure excluding intercompany payments, employee expenses, tax and sales commissions) across over 3,500 suppliers.

Each of our companies is responsible for managing modern slavery risk within their own supply chains and may take varying approaches, such as supplier due diligence, questionnaires and the use of terms and conditions, according to their specific circumstances. For example, BEA, one of our largest companies, visits and audits key suppliers, with whom they have ongoing business, between every four months and two years depending on total spend, to review working and labour conditions, the working environment and worker safety.

However, due to the COVID-19 pandemic, during 2021 our companies have faced some challenges around carrying out on-site audits and rolling out further risk assessment and additional actions around modern slavery risk.

As an example, one of our largest companies, Apollo, recognised that the restrictions around on-site audits during the COVID-19 pandemic was a potential additional modern slavery risk. Therefore, they developed a 'tabletop' approach for remote auditing, using video and documentation evidence as part of a 'live' session.

Alongside their existing risk management actions, we will be working with our companies to support them in targeted risk assessments of key suppliers, and to determine what additional actions we can take to continue to reduce risks and encourage ongoing monitoring.

Additional information on our Modern Slavery Act Statement can be found in the Our policies and procedures section on pages 85 to 86 and on www.halma.com.

Conflict minerals

The responsible sourcing of materials will be a focus area for Halma during our transition to more circular manufacturing and business practices. We recognise that conflict minerals are a key issue of concern for our stakeholders.

Our companies are responsible for managing their own supply chains, which includes complying with conflict mineral due diligence requests from their customers where applicable, supported by Group guidance within the Conflict Minerals policy. A number of our companies already certify that their supply chains are conflict mineral-free, including a number of our largest companies. Historically, we have not collated data on these policies or procedures centrally. As part of our ongoing programme of data improvements, we are reviewing options for more complete disclosures in future periods. We also expect to further develop policies, procedures and targets where appropriate to tackle conflict minerals throughout our remaining supply chains as part of our Circular Economy KSO.

Additional information on our Conflict Minerals policy can be found in the Our policies and procedures section on pages 85 to 86.

Suppliers

Supplier expectations

We encourage our companies to build responsible, resilient and sustainable supply chains, including by:

- Procuring materials in line with our ethos, our Code of Conduct, and our Conflict Minerals policy.
- Identifying potential risks with direct and indirect suppliers.
- Further assessing material environmental impacts within our supply chain, including climate change impacts.
- Sharing best practice and knowhow across our companies.

Halma expects suppliers to endeavour to reduce environmental impacts where relevant, including reducing energy use, GHG emissions, pollutants to water and air, and water usage, and to consider reuse and recycling of resources consumed by their businesses. This expectation is included in our Environmental Commitment Statement that is available on our website at www.halma.com.

Our manufacturing model is decentralised and allows us to operate close to our suppliers, which helps to mitigate various 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, anti-bribery and anti-slavery laws (including the Modern Slavery Act).

Supply chain impact assessment

During the year, we built on the supply chain mapping undertaken for the Modern Slavery Risk Assessment in 2020. Using data collated on our first-tier suppliers for the year ended 31 March 2019, an input-output model was utilised to complete an initial desktop assessment of our extended supply chain. This analysis identified potential positive and negative impacts across financial, human, intellectual, social and natural capital, and provided an initial view of industries and geographies that may be considered higher risk in relation to environmental and social issues.

Next steps

We remain committed to developing an overarching sustainable procurement policy for Halma in collaboration with current and new suppliers, supported as appropriate by minimum standards. This would supplement existing procurement policies within our companies, and further 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 is being supported by the results of the supply chain impact assessment, and we expect to show further progress on this during the next 12 months.

We recognise that we can go further in working with our supply chain to reduce our environmental impacts, and to this end we will continue to work with our key suppliers in mitigating these impacts. Our companies carry out supplier due diligence and there are many examples where additional requirements are imposed by our companies for their key suppliers, such as ISO 14001 accreditation to ensure the supplier operates responsibly in regard to the environment.

As we continue our work around assessing Scope 3 emissions linked to our supply chain, we will look to survey our key suppliers and may work with them where appropriate to help reduce their emissions. We may also engage with these suppliers and request them to submit supplier questionnaires alongside our annual voluntary CDP response.

Sustainability data

GHG emissions and energy use data for the period 1 April 2020 to 31 March 2021

Tonnes of CO_2e	1 April 2020 to 31 March 2021			1 April 2019 to 31 March 2020[1,2]		
Emissions from:	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[3]	**1,562**	**2,643**	**4,205**	2,158	2,982	5,140
Scope 2 (Location-based): Electricity, heat, steam and cooling purchased for own use	**2,434**	**8,301**	**10,735**	2,696	10,418	13,114
Scope 2 (Market-based): Electricity (net of market instruments), heat, steam and cooling purchased for own use[3]	**2,285**	**8,552**	**10,837**	2,899	10,562	13,461
Total gross Scope 1 & Scope 2 emissions (Location-based)	**3,996**	**10,944**	**14,940**	4,854	13,400	18,254
Total gross Scope 1 & Scope 2 emissions (Market-based)	**3,847**	**11,195**	**15,042**	5,057	13,544	18,601
Energy consumption in MWh used to calculate above emissions	**19,402**	**32,937**	**52,339**	21,684	40,599	62,283
Scope 3: Business air travel, WTT (Well to Tank), grey fleet (private cars used for business), waste and wastewater generation, water withdrawal	**1,100**	**5,489**	**6,589**	4,191	13,525	17,716
Total gross emissions (Location-based)	**5,096**	**16,433**	**21,529**	9,045	26,925	35,970
Total gross emissions (Market-based)	**4,947**	**16,684**	**21,631**	9,248	27,069	36,317
Intensity measure of tonnes of CO_2e gross emissions per £m of revenue (Location-based)	**13.3**	**17.4**	**16.2**	21.8	27.1	25.6
Intensity measure of tonnes of CO_2e gross emissions per £m of revenue (Market-based)	**12.9**	**17.7**	**16.3**	22.3	27.3	25.8

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/or operate. Excluded from our footprint boundary are emissions from manufacturing sites and offices which we do not own and/or operate 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 travel by air, in employee-owned cars and hire cars, Well to Tank emissions, and emissions from waste and wastewater generation and water withdrawals). 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). A narrative description of measures taken to improve our energy efficiency during the year is included on pages 72 to 73. Our emissions across all Scopes have been impacted by the COVID-19 pandemic. However, Scope 1 and Scope 3 have been particularly impacted by a substantial reduction in business travel (via air and car).

Emission factors were sourced from the UK Government's GHG Conversion Factors for Company Reporting 2020 and the International Energy Agency's Emissions Factors (2020 edition). For our Scope 2 market-based calculations, we used residual emission factors where available from the Reliable Disclosure Organization (RE-DISS 2019 edition). Combined with our current relatively low renewables penetration, the use of these factors, which are generally higher than grid average factors used for location-based calculations, leads to our market-based Scope 2 emissions exceeding our location-based Scope 2 emissions in the current and prior year. Further information about our basis of preparation for all sustainability data can be found on our website at www.halma.com.

1 We have shown our Scope 2 emissions using a market-based methodology for the first time in this Annual Report, and included a market-based calculation comparative period. Our Scope 1 & 2 (market-based) GHG emissions for the year ended 31 March 2020 form the baseline for our Science-based target to reduce our Scope 1 & 2 emissions by 42% by 2030. Therefore, given the acquisitive nature of Halma, we expect to regularly recalculate our base year for the structural change trigger of acquisitions and disposals, and have chosen to apply an 'all-year' approach. This means that we have recalculated our current year and 2020 baseline figures to include full year emissions for acquisitions made during 2021 and 2020, and to remove all emissions relating to Fiberguide, which was sold during 2021. Prior to setting our Science-based target, we did not adjust our current or baseline figures for acquisitions and disposals. This base year recalculation for structural change trigger increased our 2020 total Scope 1 & 2 emissions by approximately 4%.

2 Regular review of data is carried out to ensure accuracy and consistency. This review has led to changes to our comparative figures for Scope 1 & 2 emissions, including corrections to our previous calculation methodology for location-based Scope 2 emissions, geographical intensity measures and minor corrections for new or revised data. The net impact of these changes was to increase our 2020 baseline total Scope 1 & 2 emissions by approximately 2%.

3 Included in this Scope are GHG emissions from direct fuel combustion at our sites and from fuel use in our company-owned or leased vehicle fleet.

Water and waste data for the period 1 April 2020 to 31 March 2021

	Total
	m³
Total water withdrawals[1]	**83,436**
Water withdrawals in water scarce areas[2]	**37,474**
Total water withdrawals per £1,000 revenue	**0.063**
Total water discharge	**75,071**

1 Water is withdrawn from and discharged to municipal/third party sources, with the exception of one facility which utilises a ground water source (not located in a water-scarce area). The amount withdrawn from ground water is estimated to be approximately 1% of total water withdrawal.
2 Defined as manufacturing, testing or R&D sites, or Hubs and Group Head Offices employing more than 50 people, operating in areas of 'high (40-80%)' or 'extremely high (>80%)' baseline water stress, according to the World Resources Institute's Water Aqueduct water risk atlas tool.

	Recycled	Non-recycled	Total
	Metric tonnes	Metric tonnes	Metric tonnes
Solid waste (non-hazardous)	1,485[1]	3,050	**4,535**
Solid waste (hazardous)	35[1]	9	**44**
Electronic waste	8	8	**16**
% total solid waste diverted from landfill			**33%**
Total solid waste production per £1,000 revenue (kg)			**3.5**

1 Approximately 233 metric tonnes of non-hazardous solid waste and 9 metric tonnes of hazardous solid waste included within the Recycled total was incinerated with energy recovery.

	m³
Total liquid waste (hazardous)	**181**
Total liquid waste (non-hazardous)	**440**

We have significantly changed our methodology for collecting and reporting our water and waste data in 2021. As such, meaningful comparatives are not available. Total figures are based on available source data and estimated if appropriate where source data is not available. In particular, both actual and estimated data at the company-level is limited for all types of solid and liquid waste, and therefore the figures shown are likely to be under-estimated. We expect to improve these disclosures going forward. Prior year data compiled under the previous methodology, as well as further information on our basis of preparation for this data, can be found at www.halma.com.

Response to the Sustainability Accounting Standards Board (SASB) for the period 1 April 2020 to 31 March 2021
The US-based SASB sets out sustainability reporting standards for various sectors. The following table summarises our responses to those disclosures against which we are currently able to report under the sector-specific standard for Electrical & Electronic Equipment. We aim to improve our reporting against SASB over the next years. Disclosures which are either not relevant to our business, or against which we do not currently report, are not shown below.

Topic	Metric	SASB Code	Our response
Energy Management	(1) Total energy consumed (2) percentage grid electricity, (3) percentage renewable	RT-EE-130a.1	(1) 46,000 MWh[1] (2) 68%[1] (3) 13%[1]
Hazardous Waste Management	Amount of hazardous waste generated, percentage recycled	RT-EE-150a.1	Please see waste disclosures in the table above. Approximately 60% of solid hazardous waste disclosed was recycled[2]
Business Ethics	Description of policies and practices for prevention of: (1) corruption and bribery and (2) anti-competitive behaviour	RT-EE-510a.1	Please see the Our policies and procedures section on pages 85 to 86 of this report
	Total amount of monetary losses as a result of legal proceedings associated with bribery or corruption	RT-EE-510a.2	£nil or not material
	Total amount of monetary losses as a result of legal proceedings associated with anticompetitive behaviour regulations	RT-EE-510a.3	£nil or not material
Activity metrics	Number of employees	RT-EE-000.B	An average of 7,120 employees globally during the year ended 31 March 2021[3]

1 Measured in MWh not GJ. (1) includes gas, electricity and fuel consumed for heating and other machinery. It excludes fuel for business travel. (2) & (3) are calculated as a percentage of (1).
2 Hazardous waste is defined in accordance with the legal or regulatory framework applicable within the country/jurisdiction where the waste is generated, or if this is not available, in accordance with the EU Waste Framework Directive. Percentage recycled excludes incineration with energy recovery.
3 Please see page 180 for full disclosures on employee numbers.

Where to find additional sustainability-related policies, information and data

The following table indicates where additional sustainability-related information and data can be found within this Annual Report, where information is not contained within the Sustainability section above.

Topic	Annual Report Section	Pages
Workforce		
— Diversity and inclusion — Gender pay gap — Real living wages — Health and Safety, mental health and wellbeing — Employee engagement — Flexible working — Training and development	Our people and culture	60 to 63
— Health and Safety policy — Diversity and Inclusion policy — Equal opportunities policy — Code of Conduct	Our policies and procedures	85 to 86
Social responsibility		
— Water for Life global charitable campaign	Group Chief Executive's review	15
— Whistleblowing policy — Modern Slavery Act statement — Human Rights and Labour Conditions policy — Data Protection and Privacy policy — Competition Law and Competition Compliance Manual — Conflict Minerals policy — Anti-Bribery and Corruption policy	Our policies and procedures	85 to 86
Environment		
— Environmental policy — Environmental commitment statement	Our policies and procedures	85 to 86
Governance	Governance sections	88 to 143
Taxation	Note 9 to the financial statements	181

Managing risk and enabling growth

Our risk appetite and approach to risk management

Effective risk management is integral to achieving Halma's strategic goals and provides a solid foundation from which our business can grow. The Group's risk appetite is set and approved at Board level and underpins Halma's attitude to risk.

Whilst there are formal processes as outlined in our framework below, our decentralised business model empowers every employee at Halma to be a risk manager in some capacity; to identify and manage risks and take advantage of opportunities.

Our risk awareness culture allows management to make better commercial decisions and maximise the benefits of our decentralised business model.

Our risk governance framework

The Board has overall responsibility for risk management, including setting the risk appetite and 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 plc 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 internal control framework

The Board has overall responsibility for internal control. Halma's decentralised business model provides significant autonomy to companies, within the structure of a clear control framework.

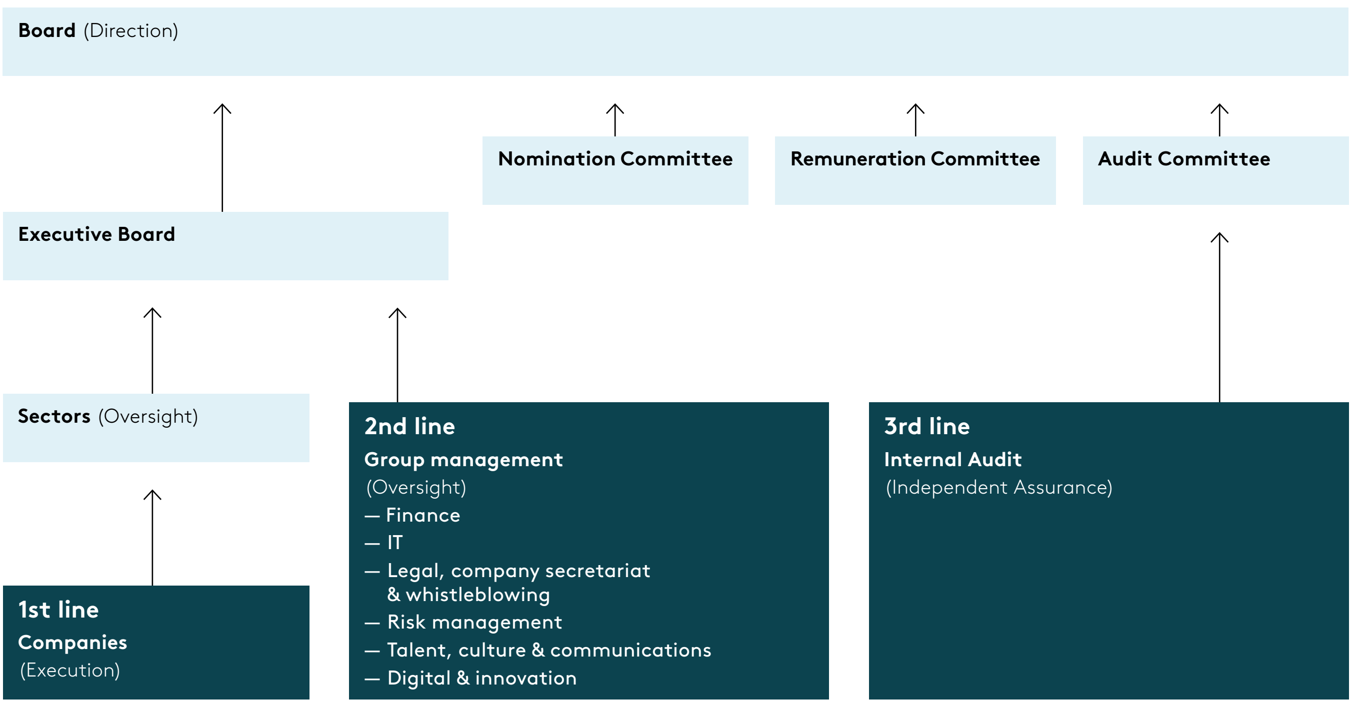
This framework ensures there is sufficient oversight and clear identification of matters reserved for the Board. The key elements of this framework include:

- 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.
- 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 and contractors.

Areas of focus and changes to our principal risks

The COVID-19 pandemic required significant focus during the year. Our companies were able to adapt quickly, making decisions locally and ensuring a safe working environment for our employees. We successfully shared information and learnings rapidly around the Group and this network remains in place to continue to support our companies as needed. Our agility and speed of adaptation means that we are well positioned to invest for growth going forward.

Risk governance framework



During the year, the Executive Board performed a detailed review of our principal risks to ensure that they continue to best capture Halma's principal risks for monitoring and communication both internally and externally. They were then discussed and agreed by the plc Board. The following principal risks have been updated.

- *Business Model and its communication*. Our previous Communications risk has been refined to focus on our business model and how we communicate it both internally and externally. Our previous Competition principal risk is now also covered within this risk and also the Organic Growth and Acquisitions principal risks.
- *Liquidity*. Our previous Treasury risk included both liquidity and foreign exchange. Whilst foreign exchange risk will continue to be managed as currently, we have decided that it is a well understood and expected area for financial reporting and no longer needs to be a principal risk.
- *Acquisitions and investments*. This risk has been updated during the year to also include strategic partnerships and minority equity investments, in addition to 100% equity or asset purchases.
- *Climate Change and Natural Hazards*. We have specifically identified climate change within this principal risk as it has the potential to impact our efforts to grow a safer, cleaner, healthier future for everyone, every day. At the same time, transitioning to a low carbon economy creates multiple opportunities for us within niche markets with long-term growth drivers. Therefore we are also considering climate change as part of our other risks around growth such as organic growth, acquisitions and innovation. For more information, including the work we are performing to achieve alignment with the Task Force on Climate-related Financial Disclosures (TCFD), please see the Climate Change section of the Sustainability Report on pages 64 to 77.

Emerging Risks

We consider emerging risks as part of our risk management review process. Whilst there are a number of risks that we identify and manage, currently, none of these are expected to become future principal risks. Climate change was an emerging risk we reported last year and this has now been captured as a principal risk.

Protecting wind turbines – how our technology is helping to mitigate fire risks in the renewable energy sector

Global electricity demand is expected to surpass pre-COVID levels by the end of 2021. At the same time consumers are becoming more environmentally conscious, driving huge demand for renewable energy. Compared to conventional energy sources, wind power significantly reduces carbon emissions.

Wind farms are often situated in remote locations, both offshore and onshore, with a wind turbine's generator over 300 feet in the air. As a result, a significant number of fires go unnoticed until it is too late and this adds increased complexity for firefighters in tackling these fires. Not only are these fires costing operators millions of pounds in damage and downtime, but undetected fires can have devastating consequences to the surrounding area. In July 2019, melted debris falling from a turbine fire set the surrounding grass and brush on fire to cause the Juniper Fire wildfire in the USA, which put 39 buildings in danger. It took almost 200 fire crew members to contain the 250-acre fire over three days.

A Halma company, Firetrace, manufactures automatic fire detection and suppression systems, stopping small fires where they start, limiting the damage caused by fire and reducing the subsequent downtime. By adding this technology to wind turbines, operators can build an extra layer of protection to help extinguish fires at source before they can cause serious harm.

Principal risks and uncertainties

1. Organic Growth

Risk Owner: Andrew Williams

Gross risk level
High

Change
No change ▶

Risk appetite
Open

Growth Enablers

Risk and impact

Failing to deliver desired organic growth, resulting in missed expected strategic growth targets and erosion of shareholder value.

How do we manage the risk?

- 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.
- Regional hubs, for example in China and India, support local strategic growth initiatives for all companies.
- Annual strategic plan and budgeting process with rolling 12 month forecasting.
- Remuneration of company executives and above is based on profit growth.
- Continued investment in R&D to drive innovation and growth with KPIs monitored at Board level.
- Innovation rewarded through Innovation Awards at leadership conferences.
- Agile business model and culture of innovation to take advantage of new growth opportunities as they arise.
- Potential new acquisitions, partnerships and investments assessed for future organic growth prospects to align to strategy.
- Focus on having the best talent on board to deliver strategy and therefore organic growth.

2. Acquisitions and Investments

Risk Owner: Andrew Williams

Gross risk level
High

Change
No change ▶

Risk appetite
Open

Growth Enablers

Risk and impact

Failing to achieve our strategic growth target for acquisitions and investments due to insufficient opportunities being identified, poor due diligence or poor integration, resulting in erosion of shareholder value. Whilst this risk remains high, our available financial resources and performance during the last year means we are well positioned to continue our acquisition strategy going forward.

This risk has been updated during the year to also include strategic partnerships and minority equity investments as well as 100% equity or asset purchases.

How do we manage the risk?

- Clarity of strategy and agile business model that allows us to take advantage of new growth opportunities as they arise.
- Acquisition of companies in our existing or adjacent markets.
- Dedicated M&A Directors with Group Chief Executive, Chief Financial Officer and plc Board oversight, scrutiny and approval of all acquisitions.
- Regular reporting of the acquisition pipeline to the Executive and plc Boards.
- Careful due diligence by experienced staff who bring in specialist expertise as required.
- Strategic transformation plans in place for new acquisitions to seek to ensure they achieve their growth potential.
- Clear process in place to ensure successful integration from a control and compliance perspective.
- Internal Audit visit within nine months of acquisition to review minimum expected controls.
- Post-acquisition reviews are performed for all acquisitions after 12 months to ensure strategic objectives are being met and to identify learnings for future acquisitions.
- Investment framework and model in place to capture process, approvals and oversight for minority equity investments.
- Regular review by the Investment Committee.

3. Business Model and its Communication

Risk Owner: Andrew Williams

Gross risk level
High

Change
No change ▶

Risk appetite
Open

Growth Enablers

Risk and impact

Failing to clearly articulate or adapt our business model as Halma grows through exploring and implementing additional or new business models, resulting in missed growth opportunities and erosion of shareholder value.

We have refined the communications risk reported last year to specifically cover our business model which is critical to our growth strategy, both organic and through acquisition.

How do we manage the risk?

- Clear communication of Halma's business model and any new developments disclosed in the Annual Report and Accounts and at investor events. Regular external and internal communications to reinforce business model understanding.
- Comprehensive expert reviews of existing and potential new markets to identify strategies with significant growth potential.
- Identification of companies with products or markets that would have a good strategic fit for Halma. This includes start-ups, service and software companies that could help accelerate the growth of existing companies.
- Monitoring of market trends, including customer preferences, emerging technologies and competitors.
- Developing collaboration capabilities of every company to take advantage of identified opportunities.
- Post-acquisition monitoring to ensure that the objective for acquiring each business has been achieved and learning opportunities identified.
- Strategic reviews of business model at plc Board level to consider the strengths and weaknesses of the existing business model and alternative business models.
- Sector and Executive Boards perform reviews to identify opportunities which may require a new organisational approach.

Link to Growth Enablers

- M&A
- Talent & Culture
- Digital Growth Engines
- Strategic Communications and Brand
- International Expansion
- Finance, Legal & Risk
- Innovation Network

4. Talent and Diversity

Risk Owner: Jennifer Ward

Gross risk level
High

Change
Increased ▲

Risk appetite
Open

Growth Enablers

Risk and impact
Not having the right talent and diversity 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 FTSE 100, increased profile and track record of success.

How do we manage the risk?
— Annual Performance and Development Review process for Sector and Executive Board members. Nomination Committee annual review of succession candidates and development plans.
— Periodic assessment of diversity (gender, ethnicity and nationality), used to drive action plans at each level.
— Annual employee engagement survey to provide insight into employee sentiment including alignment between strategy and objectives and clarity to employees about their contribution towards achieving objectives.
— Comprehensive recruitment processes to recruit the best and brightest talent.
— Development of talent and diversity across our companies, including development programmes, to give us competitive advantage and ensure we have motivated leaders to deliver our strategy.
— Annual strategic review of sector board and company leadership talent to identify and develop future leaders. Defined competency and potential model used.
— Future Leaders programme to develop graduates.
— Senior Management reward structure aligned with strategic priorities of companies, sectors and Group. Work is continuing in this area 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
High

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 our companies who are closest to the customer.
— Chief Innovation and Digital Officer promotes and accelerates innovation by our companies, supporting sector management.
— Digital innovation strategy focuses on incubation and acceleration of innovation. Supported by a champions network and partnerships.
— Education of our companies around customer centricity and voice of the customer to feed our innovation ideation.
— Promotion of active collaboration of ideas and best practices between companies.
— Conferences and development programmes help spread ideas and best practice across the Group. Innovation awards reward and encourage innovation.
— Review of R&D budgets and projects by sectors to ensure they are being spent most effectively in the markets where we want to participate.
— Halma senior management approval of all large R&D projects to ensure alignment with strategy.
— Companies are encouraged to develop and protect intellectual property.
— Focus on talent and retention to ensure there is sufficient expertise within the business.
— M&A activity is targeted to help address innovation and R&D gaps, in line with sector specific initiatives.
— Monitoring of key R&D and innovation metrics.
— Regular promotion, training and monitoring of agile or lean start-up ways of working in companies.

6. Non-compliance with Laws and Regulations

Risk Owner: Funmi Adegoke

Gross risk level
High

Change
No change ▶

Risk appetite
Averse

Growth Enablers

Risk and impact
We are not fully compliant with relevant laws and regulations, resulting in fines, reputational damage and possible criminal liability for Halma senior management.

How do we manage the risk?
— The board of each company is accountable for identifying and tracking what laws are relevant to their business, including any emerging or changing legislation.
— Group Legal identifies and tracks the most significant laws facing Halma companies.
— Halma policies, procedures and guidance notes created by Group Legal, setting out the Group's requirements from a compliance and regulatory perspective.
— All employees are required to sign to confirm that they have read and understood the Halma Code of Conduct.
— Ongoing training and advisory programme for companies.
— Requirement for companies to self-report if something goes wrong in terms of legal or regulatory compliance, or if they need help.
— A third party whistleblowing procedure and hotline exists for all employees and contractors.
— Six monthly Internal Control Certifications submitted by companies include the most critical legal and regulatory compliance controls.
— Thorough legal due diligence and acquisition support process in place. Integration process for acquisitions includes legal requirements.
— Appropriate levels of Group insurance cover are maintained.
— A crisis management plan exists to manage communications and the reputational risk for Halma and/or its companies.
— Periodic assurance reviews by Internal Audit.

7. Cyber

Risk Owner: Catherine Michel

Gross risk level
High

Change
Increased ▲

Risk appetite
Averse

Growth Enablers

Risk and impact

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 continued increase in this risk reflects the growing threat generally from cyber-crime around the world.

How do we manage the risk?

- Clear ownership of cyber risk, with Board level expertise. The IT function reports into the Chief Technology Officer.
- Digital control framework in place including digital growth, cyber, data protection and incident response.
- Halma approved services available to all companies to help them manage their cyber risks.
- Monthly cyber threat reporting for all parts of the Group.
- IT disaster recovery and back-up plans in place, required to be tested regularly.
- Regular online IT awareness training provided for all employees who use computers.
- Six monthly Internal Control Certifications submitted by companies include the most critical IT controls.
- All employees are required to read and sign up to the IT Acceptable Use policy.
- Periodic assurance reviews by Internal Audit.
- Crisis communications plan and access to cyber expertise should a cyber-attack occur.

8. Economic and Geopolitical Uncertainty

Risk Owner: Andrew Williams

Gross risk level
High

Change
No change ▶

Risk appetite
Cautious

Growth Enablers

Risk and impact

Failure to anticipate or adapt to geopolitical changes or a recession, resulting in a decline in financial performance and an impact on the carrying value of goodwill and other assets. This risk remains elevated in certain geographies due to COVID-19 and also USA/China trade relations. Any residual risks related to Brexit are now significantly reduced.

How do we manage the risk?

- Diverse portfolio of companies across the sectors, in multiple countries and in relatively non-cyclical global niche markets help 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.
- Risk managed at local company level and they have the autonomy to rapidly adjust to changing circumstances.
- Financial strength and availability of pooled resources in Group as well as robust credit management processes in place across the Group.
- Knowledge of regulatory requirements that are gradually being extended globally.
- Financial warning signs give earlier indications of problems.
- Active reduction of key customer or market concentration through new product and market diversification for both core and acquired businesses.
- Monitoring of any changes in corporate and government investment due to macroeconomic factors.
- Periodic assessment of the carrying value of goodwill and other assets.

9. Financial Controls

Risk Owner: Marc Ronchetti

Gross risk level
Medium

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.
- Formal policies and procedures are in place for expected financial controls.
- Companies certify every six months that the most critical of these controls are operating effectively. These include segregation of duties, delegation of authorities and financial accounts preparation checks.
- Sector and Group Finance teams perform regular reviews of financial reporting and indicators.
- Six-monthly peer reviews of reported results for each company are performed to provide independent challenge.
- Periodic assurance reviews by Internal Audit.
- A third party whistleblowing procedure and hotline exists for all employees and contractors.

Link to Growth Enablers

M&A · Talent & Culture · Digital Growth Engines · Strategic Communications and Brand · International Expansion · Finance, Legal & Risk · Innovation Network

10. Climate Change and Natural Hazards

Risk Owner: Marc Ronchetti

Gross risk level
Medium

Change
Increased ▲

Risk appetite
Averse

Growth Enablers

Risk and impact

Climate change has the potential to impact the long-term success and reputation of our business in a variety of ways, from the changing macroeconomic landscape and market regulation to changes in technology and potential increased costs. We have therefore decided to include climate change for the first time this year.

More widely, there is a risk we are unable to respond to large scale natural hazards such as hurricanes, floods, fires or pandemics, resulting in the inability of one or more of our businesses to operate, causing financial loss and reputational damage. COVID-19 required significant focus during the year. Our companies were able to adapt quickly, make decisions locally and ensure a safe working environment for our employees.

How do we manage the risk?

— Halma operates in end markets with strong long-term growth drivers and lower risks of shocks due to natural hazards.
— Sustainability is a regular agenda item for the Executive and plc Boards.
— Sustainability Network in place which raises the awareness of sustainability issues, including climate change, in our companies.
— TCFD compliance work is helping to evaluate the potential impacts of climate-related risks and opportunities and determine the appropriate strategic actions.
— 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.
— The geographical diversity of Halma's companies reduces the impact of any single event and Halma has manufacturing capability in multiple locations which provides flexibility.
— There is a culture of support to affected businesses from other Halma companies if the need arises.
— Group level oversight of IT communications infrastructure.
— A crisis management plan exists to manage communications and the reputational risk for Halma and/or its companies.
— Business interruption insurance is in place where possible and appropriate to limit any financial loss that may occur.

11. Product Failure

Risk Owner: Andrew Williams

Gross risk level
Medium

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?

— Analysis of market requirements, including safety, are made during a product design phase to ensure compliance with all regulatory requirements and customer needs.
— 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.
— Clear quality requirements imposed on suppliers to ensure safety and quality checks are performed on product received.
— Monitoring of defects and warranty returns to identify any potential safety defect which can then be rectified.
— Traceability of product so that batches can be identified where appropriate.
— Product compliance with regulations is checked as part of due diligence for any acquisition.
— Terms and conditions of sale limit liability as much as practically possible and liability insurance is in place.
— A crisis management plan exists to manage communications and the reputational risk for Halma and/or its companies.

12. Liquidity

Risk Owner: Marc Ronchetti

Gross risk level
Medium

Change
Decreased ▼

Risk appetite
Averse

Growth Enablers

Risk and impact

There is a risk that the Group's cash/funding resources are inadequate to support its activities or there is a breach of funding terms.

The risk was higher at this time last year as there was increased uncertainty around the impact of the COVID-19 pandemic and leverage was higher.

Our previous Treasury risk included both liquidity and foreign exchange. Whilst foreign exchange risk will continue to be managed as currently, we have decided that it is a well understood and expected area for financial reporting and no longer needs to be a principal risk.

How do we manage the risk?

— A clear financial model and conservative balance sheet strategy exists.
— The strong cash flow generated by the Group provides financial flexibility, together with a revolving credit facility.
— Cash needs are monitored regularly through review of the Group cash position and a 12-month rolling forecast.
— Liquidity forecasts are prepared covering the next three years and are updated and reviewed at least every six months.
— A Treasury policy provides comprehensive guidance to companies on banking and transactions.
— Monthly monitoring of current and forecast covenant compliance.
— All drawdowns and all new or renewed sources of funding are subject to approval by the Chief Financial Officer and Head of Treasury.
— The currency mix of debt is reviewed annually, and on acquiring or disposing of a business.

Viability statement

During the year, the Board carried out a robust assessment of the 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 80 to 83 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 Company'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 inventive 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 a downside scenario 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 review, as set out on page 142, for the years ending 31 March 2022 and 31 March 2023 with further assumptions applied for the year ending 31 March 2024. The downside scenario included a reduction in trading which could be caused by a significant downside event with the addition of impacts from the Group's other principal risks such as litigation or product failure.

In both scenarios, the effect on the Group's KPIs and borrowing covenants was considered, along with any mitigating factors. The Board also considered the renewal of the Revolving Credit Facility, which is due to expire in November 2023, and have assumed for the purposes of assessing the viability of the Group that this will be renewed with the same facility and covenant requirements. 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 2024.

Our policies and procedures

Our policies and guidance documents	Description and due diligence processes
Environmental Policy and Environmental Commitment Statement	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. This internal-facing policy includes our Carbon Policy, while our Environmental Commitment statement on our website at www.halma.com sets out our guiding principles and commitments for both internal and external audiences. Our commitments include to the continued development of equipment for measuring and monitoring environmental changes and controlling the impact of industrial activities over the long term, as well as our commitment to encouraging all Halma companies to reduce their negative environmental impact by continually improving the efficiency of their production methods and their supply chain. Both the Policy and the Commitment Statement will be reviewed in light of our new Sustainability Framework and Key Sustainability Objectives over the next 12 months.
Code of Conduct	Our culture is purpose-led and one of honesty, openness, integrity and accountability, and is embedded within our Cultural Genes as set out on page 19. We require our employees to act fairly in their dealings with fellow employees, customers, suppliers and business partners. Our Code of Conduct 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 has been translated into nine languages, and is issued to all Halma employees and published on our website.
Health and Safety Policy	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 and Safety Policy requires businesses to manage their activities in a way which avoids causing unnecessary or unacceptable risks to health and safety and provides clear guidelines for our businesses on managing health and safety risks to ensure a safe work environment. It has been reinforced with support and guidance given to our businesses to reflect the particular health and safety issues arising from the COVID-19 pandemic. We collect details of our worldwide reported health and safety incidents through our central financial consolidation system and the Board monitors health and safety performance at every meeting. We thoroughly review the root cause of any accidents to ensure that we take preventative measures, including further training and education of our employees. 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. 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. In addition, our lead global insurer reviews employee and third-party safety and controls at four to five properties per year as part of their rotational assessments. Based on available data reported by our companies, approximately 16% of the Group's revenue is derived from companies who have been accredited with ISO 45001 or BS OHSAS 18001, a minimum standard for occupational health and safety management best practice. We continue to encourage our companies to certify to the ISO 45001 standard. In addition, during the year ended 31 March 2021 approximately 700 employees completed our Group online health and safety training programmes. Further information on our Health and Safety performance during the year is available in the Our people and culture section on pages 60 to 63.
Human Rights and Labour Conditions Policy	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 Statement	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. Approximately 300 employees have completed this training during the year ended 31 March 2021. This is an important tool to assist our business management in raising awareness of the issues and understanding their responsibilities in their operations. Further information on steps taken during the year in relation to Modern Slavery can be found in our Modern Slavery Act Statement on our website at www.halma.com and in the Sustainability section on page 74.

Our policies and procedures continued

Our policies and guidance documents	Description and due diligence processes
Conflict Minerals Policy	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. Please also see page 74 of the Sustainability section for additional discussion of Conflict Minerals within our supply chain.
Whistleblowing Policy	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. NavexGlobal, an independent third-party, provides our confidential reporting service to enable any concerned parties, including employees and suppliers, 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. Details about the confidential reporting service are available in our Code of Conduct (which is available on our website), our internal HalmaHub and Sharepoint sites, and are prominently displayed on posters within all of our Group and operating company locations. All reports are treated confidentially and seen by 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 receives details of any reports relating to financial misconduct and the Board receives an overview of reports relating to people and culture.
Anti-Bribery and Corruption Policy	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. Suspected breaches of compliance with this Policy can be reported through the whistleblowing reporting service. Online Anti-bribery and corruption compliance trainings cover senior management, all subsidiary board directors and other relevant employees. Approximately 900 employees completed training during the year ended 31 March 2021.
Competition Law and Competition Compliance Manual	The Group has a policy on Competition Law which is communicated to all company directors and to relevant sales and procurement employees. Our companies must confirm that the relevant people in their business are familiar with the policy as part of the half year and year-end control process. Online anti-Competition compliance training covers senior management, all subsidiary board directors and other relevant employees. Approximately 350 employees completed training during the year ended 31 March 2021.
Data Protection Policy and guidance	Halma has a Group-wide Data Protection Policy and Guidance which requires our companies to comply with six key data protection principles, which are Lawfulness, Fairness and Transparency, Purpose Limitation, Data Minimisation, Accuracy, Storage Limitation and Integrity and Confidentiality. The Policy also requires our companies to only process personal data where it is necessary and consent has been obtained. The Policy requires all companies to have their own Privacy Policy in place which is tailored to their business and local law, relating to the categories of individuals whose personal data they process. Privacy Policies and security measures are required to be reviewed at least annually and tested where appropriate. Our companies are also required to ensure appropriate and robust clauses are included in any contracts with third parties where personal data will be disclosed. During the year ended 31 March 2021, approximately 5,300 relevant employees from across the Group have been enrolled on data privacy and security training.
Diversity and Inclusion Policy	Our Diversity and Inclusion Policy sets out our commitment to building inclusive and diverse businesses, and is available at www.halma.com. More information about our commitment and progress on diversity, inclusion and equity can be found in the Our People section on pages 60 to 63.
Equal opportunities Policy	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.

Non-financial information statement

In compliance 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, while the Our policies and procedures on pages 85 and 86 highlights the key processes and outcomes associated with the relevant non-financial policies. The description of our business model can be found on pages 16 to 23 and stakeholder engagement information can be found on pages 58 and 59.

Reporting requirement	Relevant policies, standards and approaches	Additional information about the impact of our activities, outcome of our policies, non-financial KPIs and principal risks relating to these matters	Pages
Environmental matters	— Environmental Policy[1] — Environmental commitment statement[2]	— Sustainability Section including: — Introduction — Sustainability governance and strategy — Climate Change — Responsible Business — Sustainability Data, including carbon emissions, water and waste metrics — Risk: Climate Change and Natural Hazards	64-77
Employees	— Code of Conduct[2] — Whistleblowing Policy[3] — Health and Safety Policy[1] — Diversity and Inclusion Policy[2] — Conflicts of interest[3] — Inside information[1, 3]	— Our People section including: — Health and safety (including metrics) — Employee wellbeing — Employee engagement (including metrics) — Diversity and inclusion (including metrics) — Gender pay gap reporting (including metrics) — Training and development (including metrics) — Our DNA — Risk: Talent and Diversity — Non-financial KPIs: — Accident Frequency Rate — Employee Engagement % — Development Programmes	60-63 19 81 35
Human rights	— Modern Slavery Act statement[2] — Human Rights and Labour Conditions Policy[3] — Whistleblowing Policy[1,3]	— Sustainability section, including: — Responsible Business — Risk: Non-compliance with Laws and Regulations	64-77 81
Social matters	— Code of Conduct[2] — Data Protection Policy[1] — Competition Policy[1] — Conflict Minerals Policy[1]	— Sustainability section, including: — Our Positive Impact — Responsible Business — Our People section — Business review — Water for Life global campaign	64-77 60-63 36-57 15
Anti-bribery & corruption	— Anti-Bribery and Anti-Corruption Policy[1, 3] — Gifts and hospitality[1, 3] — Political payments and donations[1, 3]	— Risk: Non-compliance with Laws and Regulations	81

1 Available to all employees of Halma and our subsidiary companies. Not published externally.
2 Available both on our website at www.halma.com and to employees of Halma and our subsidiary companies.
3 Included within our Code of Conduct

The Strategic Report was approved by the Board of Directors on 10 June 2021 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.

Paul Walker, Chair

"Halma's organisational structure, supported by its robust governance and control framework, provides a strong foundation from which the Group can continue to deliver sustainable growth, returns and positive impact for the benefit of all our stakeholders."

I am pleased to present the Corporate Governance Report for the year ended 31 March 2021. This Report outlines the governance framework within which the Company operates and provides an understanding of how the Principles, set out in the UK Corporate Governance Code 2018, have been applied.

Progress in 2021

Last year, I outlined that the Board's priorities for 2020/21 would be focused on navigating the operational and economic impact of the pandemic on our business, our people and our wider stakeholders; and building the pipeline of M&A targets so that we could continue to invest for growth when conditions allowed. I am pleased to report that, with the outstanding support from my colleagues across the Group, the Board has successfully delivered on these priorities by ensuring a safe working environment for our employees; providing financial and wellbeing support to our colleagues through difficult times; continuing to invest for growth in our companies; and by completing the acquisition of Static Systems Group in December 2020, concluding a strategic partnership with Oxbotica in January 2021, and, after the year end, making a number of smaller bolt-on acquisitions and acquiring PeriGen, Inc.

Our continued positive impact and focus on Environmental, Social and Governance (ESG) matters has been apparent in a number of areas, as outlined in the Sustainability section of this Annual Report, and our work to reduce the negative impact that our operations have on the world has led to important commitments to reduce our greenhouse gas emissions.

In addition to the strategic progress that we have made over the year, we continued to improve the diversity of our Board, Executive Board and senior leadership levels and rolled out further training on diversity, equity and inclusion.

Board changes

The past year has seen our succession plans come to fruition with the appointment of Dame Louise Makin as non-executive Director & Chair Designate and Dharmash Mistry as non-executive Director. I welcome them both to the Board and am confident that their contributions will help to shape Halma's future over the coming years.

In line with best practice, Daniela Barone Soares and I will retire at the 2021 AGM and not seek re-election. Daniela is a very valued member of the Board and we have benefitted greatly from her knowledge and experience, particularly on ESG. I would like to thank Daniela, on behalf of the Board, for her contribution and constructive challenge over her tenure and we wish her well for the future.

At the 2021 AGM, Adam Meyers will also be retiring from the Board – having extended his tenure last year to lead Halma's Safety sector on an interim basis. Adam joined the Halma Board in April 2008 and has always provided valuable insight on the business, derived from his extensive experience across all of Halma's sectors. On behalf of my fellow Board members, we would like to thank Adam greatly for his long service to the Company and wish him well in retirement.

Corporate Governance Statement

The Company reports against the Financial Reporting Council's (FRC) UK Corporate Governance Code 2018 (the "Code"), which is available at www.frc.org.uk. The Board has complied with the Principles set out in the Code for the year ended 31 March 2021 and reported against the Code Provisions. The new Remuneration Policy, being put to shareholders for approval at the 2021 AGM, will address most of the areas where the Company has not been in a position to fully comply with the Code Provisions and will also facilitate the engagement with employees on how executive remuneration aligns with wider pay policy. Further details on the proposed Policy are set out in the Remuneration Report.

Board priorities for 2021/22

While there is still uncertainty around the economic and health impact of the pandemic in the short and longer term, Halma is well-positioned to benefit from the opportunities that will arise and under Dame Louise's leadership, I am confident that Halma will continue its growth by maintaining strategic discipline and thoughtful capital allocation. The Board's priorities for 2021/22 will be:

— To appropriately engage and leverage the skills and experience of the new Board members, building their understanding of Halma and our businesses and continuing to evolve our strategy.

— Supporting M&A activity that is aligned to our purpose.

— Embedding sustainability and stakeholder views into Board decision-making.

— Developing digital growth metrics to capture data and monitor Halma's progress on connected products and digital services.

The exceptions to full compliance with the Provisions of the Code for the year ended 31 March 2021, along with the expected date by which we intend to comply with each Provision, are set out below.

Information on diversity, internal control and risk management, share capital and the composition and operation of the Board and its Committees is included in the Reports within this Governance section.

Annual General Meeting (AGM)

While our preference would have been to welcome shareholders in person for our 2021 AGM, the restrictions on public gatherings and social distancing measures in place at the date of this Report, have led us to make alternative arrangements for our AGM. We will have minimal physical attendance at our registered office in Amersham and strongly encourage shareholders to join the meeting virtually this year. This hybrid format will ensure that a wider group of shareholders can participate in the meeting and will crucially prioritise health and safety without compromising shareholder engagement with the Board or real-time voting at the meeting. I am really looking forward to welcoming shareholders virtually for the first time in Halma's AGM history.

Conclusion

I hope that you will find the information set out in this Report helpful in understanding our approach to governance, how we have applied the Principles of the Code and how our framework is structured to enable Halma to operate effectively in a rapidly changing political, economic, socio-cultural and technological environment.

Finally, on a personal note, I am very proud of Halma's achievements and have been honoured to serve as Chair. Its strong culture and corporate purpose is led from the top and I am grateful to the senior leadership team who have supported me throughout my tenure. I truly believe that Halma's organisational structure, supported by its robust governance and control framework, provides a strong foundation from which the Group can continue to deliver sustainable growth, returns and positive impact for the benefit of all our stakeholders.

Paul Walker
Chair

10 June 2021

Code Compliance

Code Provision	Explanation of non-compliance	Expected compliance by
36	The Remuneration Committee has not developed a formal policy for post-employment shareholding requirements. This item has been incorporated into our new Remuneration Policy (see pages 122 to 128) which is subject to a shareholder vote at the 2021 AGM.	22 July 2021
37	Remuneration schemes and policies do not enable the use of discretion to override formulaic outcomes. This item has been incorporated into our new Remuneration Policy (see pages 122 to 128) which is subject to a shareholder vote at the 2021 AGM.	22 July 2021
38	The pension contribution rates for executive Directors, or payments in lieu, are not aligned with those available to the workforce. The executive Directors have voluntarily committed to lower their cash-in-lieu of pension to 10.5% which will align to the maximum company contribution rate offered to the wider UK workforce.	31 December 2022
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 Remuneration Committee intends to recommend to the Board an appropriate approach for engagement with the workforce once the new Policy is approved by shareholders.	31 March 2022

Board of Directors

Committee Membership

A Audit Committee
N Nomination Committee
R Remuneration Committee

Chair of Committee
Member of Committee

Paul Walker
Chair

Appointed: April 2013
(July 2013 as Chair)

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. Paul will retire as Chair at the 2021 AGM and will not stand for re-election.

Current appointments:
RELX plc, non-executive Chair
Ashtead Group plc, non-executive Chair

N R

Dame Louise Makin
Independent non-executive Director, Chair Designate

Appointed: February 2021

Career and experience: Louise is an experienced executive and board director, having led businesses across multiple sectors. She was the Chief Executive Officer of BTG plc, the international specialist healthcare company, from 2004 to 2019. Louise led the transformation of the company through a combination of organic growth and acquisitions, and significantly increased its market capitalisation before its sale in 2019. She previously served as a non-executive Director of Premier Foods plc and Woodford Patient Capital Trust plc, and as a director of several not-for-profit organisations. Louise will replace Paul Walker as Chair at the conclusion of the 2021 AGM and brings a wealth of leadership and international experience to the Board.

Current appointments:
Atotech Ltd, non-executive Director
Intertek Group plc, non-executive Director (until 30 June 2021)

N R

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. Andrew served as a non-executive Director of Capita plc from January 2015 until May 2021.

Current appointments:
Cardiff Blues Limited, non-executive Director

N

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 Chair. 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

A N R

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

A N R

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 the Remuneration Committee at InterContinental Hotels Group plc, and Chair of the Corporate Responsibility & Sustainability Committee, and 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

A N R

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
Executive Director

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. 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. Adam stepped down as interim Sector Chief Executive, Safety, on 31 March 2021 following the appointment of his successor. He will retire from the Board at the conclusion of the 2021 AGM.

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

A N R

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 is the CEO of Snowball Impact Management, a diversified, multi-asset investment vehicle. Prior to that, Daniela was CEO of venture philanthropy organisation Impetus 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. Daniela will retire from the Board at the conclusion of the 2021 AGM.

Current appointments:
Intercontinental Hotels Group plc, non-executive Director
Snowball Investment Management, CEO
The Haddad Foundation, Trustee

A N R

Dharmash Mistry
Independent non-executive Director

Appointed: April 2021

Career and experience: Dharmash is an experienced technology venture capitalist, entrepreneur and non-executive director. He was formerly a Partner at Balderton & Lakestar, an executive at Emap PLC and worked earlier in his career at The Boston Consulting Group and as a Brand Manager at Procter & Gamble. Dharmash is founder of blow LTD, which he now chairs, and has served as a non-executive director at Hargreaves Lansdown PLC and Dixons Retail PLC.

Current appointments:
blow LTD, Chair
British Business Bank, non-executive Director
BBC Commercial Holdings, non-executive Director

A N R

Executive Board

The Executive Board is a management committee chaired by the Group Chief Executive, which primarily develops strategy, reviews operational matters and monitors business performance.

Andrew Williams
Group Chief Executive

Jennifer Ward
Group Talent, Culture and Communications Director

Marc Ronchetti
Chief Financial Officer

Adam Meyers
Executive Director

Laura Stoltenberg
Sector Chief Executive, Medical

Career and experience: Laura was appointed to the Executive Board in October 2019. She joined Halma as Divisional Chief Executive, Medical & Environmental in January 2019 from Medtronic, where she was Vice President and General Manager for MDI Solutions at Medtronic Diabetes. Prior to Medtronic, Laura was Chief Commercial Officer at Exact Sciences Corporation, and held leadership roles at GE Healthcare in general management, business development and strategy. Laura brings strong experience and capability in delivering growth-oriented strategies, managing talent and capital allocation as well as a depth of M&A experience in the Medical sector. Laura holds degrees in Electrical Engineering & Management from Bucknell University and an MBA from Columbia University.

Constance Baroudel
Sector Chief Executive, Environmental & Analysis

Career and experience: Constance was appointed to the Executive Board in April 2021. She joined Halma as Divisional Chief Executive, Medical & Environmental in August 2018 from FirstGroup plc where she held the position of Director, Strategy & Operational Performance. Prior to that she was Managing Director of Solutions at De La Rue plc. She brings a wealth of industrial and innovation experience and strong capability in driving organic growth in her sector. Constance holds an MSc in International Accounting & Finance from London School of Economics.

Wendy McMillan
Sector Chief Executive, Safety

Career and experience: Wendy was appointed to the Executive Board in April 2021. She joined Halma as a Divisional Chief Executive in the Safety Sector in February 2018. Prior to Halma she held a range of leadership roles with a focus on growth and transformation at Dyson, Arqiva and BT. Her early career was spent as a strategy consultant at Bain & Company. Wendy holds a Masters in Engineering, Economics and Management from Oxford University and has an MBA from INSEAD.

Inken Braunschmidt
Chief Innovation and Digital Officer Director

Career and experience: Inken joined Halma and was appointed to the Executive Board in July 2017 and is responsible for driving Halma's Digital and Innovation Strategy. Prior to joining Halma, Inken was the Chief Innovation Officer of innogy SE, a renewables energy company based in Germany and a subsidiary of RWE. Previously, Inken was MD of RWE's Strategy and Management Consultancy practice. Inken studied Business Administration and Innovation & Technology Management at Kiel University and has a PhD in Technology Management.

Current appointments:
James Fisher and Sons plc, non-executive Director

Catherine Michel
Chief Technology Officer

Career and experience: Catherine is the first Chief Technology Officer for Halma. She has global responsibility for the Group's data and IT strategy, with a focus on leveraging our data more fully, both operationally and in the solutions we provide to our customers and partners. Prior to joining Halma, Catherine was Chief Technology Officer and Chief Strategy Officer at Sigma Systems. Catherine began her career at Accenture and was founder and CTO of Tribold (later acquired by Sigma Systems in 2013).

Current appointments:
UK5G Advisory Board
Blancco Technology Group plc, non-executive Director

Funmi Adegoke
Group General Counsel

Career and experience: Funmi joined Halma's Executive Board as Group General Counsel in September 2020. She has global responsibility for the Group's legal and compliance affairs, as well as overseeing the Company Secretariat function. Prior to joining Halma, Funmi held senior legal and commercial roles in BP and Bombardier. She brings extensive experience in legal, regulatory and compliance matters to support the Group's growth. Funmi is a Barrister and holds a law degree from the University of Cambridge.

Current appointments:
Melrose Industries plc, non-executive Director

The Board's application of the UK Corporate Governance Code Principles

The Company reports against the Financial Reporting Council's (FRC) UK Corporate Governance Code, published in July 2018, which is available on its website at www.frc.org.uk. This section of the Report explains how the Company has applied the Principles set out in the Code.

A. The role of the Board

The Board's role is to provide entrepreneurial leadership, within a framework of prudent and effective controls, that promotes the interests of the Company 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 102) and certain decision-making and monitoring activities are delegated to Board Committees or management committees.

As a decentralised organisation, it is critical that Halma's governance and control structure is robust, clearly communicated and operates effectively. 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 set out in the separate Committee reports.

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 & 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. In addition, informal management groups have been established to review, monitor and take decisions in respect of minority investments and collaborative partnerships, and ESG matters. A summary of the responsibilities of each Board Committee and the Executive Committee are set out opposite.

Board meetings

The Board schedules six meetings per year but will usually meet on other occasions, as required, to discuss urgent matters or to approve event-driven items such as M&A, trading updates and, in the past year, to review and take decisions in response to the pandemic. 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.

Board meeting attendance

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

Board attendance	Eligible	Attended
Paul Walker	6	**6**
Dame Louise Makin	1	**1**
Andrew Williams	6	**6**
Marc Ronchetti	6	**6**
Adam Meyers	6	**6**
Jennifer Ward	6	**6**
Daniela Barone Soares	6	**6**
Carole Cran	6	**6**
Jo Harlow	6	**6**
Tony Rice	6	**6**
Roy Twite	6	**6**

B. Purpose, Values and Strategy

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 demand, protect and leverage to effectively optimise our cultural genes as set out on page 19. 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 and ethical decisions. At each meeting, the Board reviews any workforce concerns raised via the whistleblowing line or directly to the Executive or Company Secretary. All reports are investigated and appropriate action taken. Details of each report are provided to the Board in its role of monitoring corporate culture. The annual engagement survey results are also reviewed by the Board and any areas for improvement discussed.

At the annual Board strategy meeting – and regularly at the Nomination Committee meetings – the Group Talent, Culture and Communications Director provides detailed insight and feedback on Halma's talent pool, development programmes and culture across the Group.

C. Resources and Control Framework

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 procedures.

An authority matrix sets out the matters that are reserved for decision by the Board, those that can be approved by the Group Chief Executive and the financial authority that has been delegated to Executive Board members, the Divisional Chief Executives (DCEs) and to business managing directors. This approach ensures that businesses have a clear framework within which they can operate, balancing autonomy with the need for oversight and control, and provides clarity as to whether financial commitments can be approved at company, sector, Group or Board level. The connection between the operating companies and the Board governance structure is described below and, for

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.

Board Committees

Nomination Committee
— Reviews the size, balance and composition of the Board and Committees.
— Leads the Board's succession planning and keeps the senior leadership needs of the Company under review.
— Oversees the development of a diverse succession pipeline.
— Oversees the Board and Committee evaluations.

Read more p104

Audit Committee
— Monitors the integrity of financial statements, including significant financial judgements or estimates and ensures that the Annual Report is fair, balanced and understandable.
— Oversees the system of internal control and risk management.
— Monitors the effectiveness of the Internal Audit function.
— Reviews external Auditor independence and performance.
— Leads the audit tender process.

Read more p109

Remuneration Committee
— Keeps under review the framework and Policy on executive Director and senior management remuneration (including pension arrangements).
— Recommends to the Board the design, targets and framework for senior management performance-related pay and share awards.
— Approves service contracts for executive Directors.
— Review workforce remuneration policies and alignment with culture.

Read more p115

Share Plans Committee
Responsible for the administration arrangements relating to 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.

Management Committee

Executive Board
— Develops strategy and monitors operational, financial and non-financial performance, including sustainability.
— Drives the strategic priorities across all sectors and functional areas, such as finance, talent, culture and communications, legal and compliance, digital, innovation and IT.
— Leads Group initiatives such as diversity, equity and inclusion.
— Reinforces the operational and governance structures in place across the Group and acts as a forum for management decisions.
— Biographical information for each Executive Board member is set out on pages 92 and 93.

risk management, is illustrated in the risk governance framework on page 78.

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 management 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, the DCE provides a written report on the financial and business performance (including areas such as talent, culture, diversity, ESG and M&A) to the Executive Board and Halma's Chair on a regular basis.

Each Sector Chief Executive holds regular sector board meetings, attended by DCEs, relevant managing directors and sector employees, which provides a valuable forum for businesses to share and collaborate.

The Group's policies and procedures set out our requirements in the areas of financial reporting and control, health & safety, ethics, human resources, IT, data privacy and legal compliance. These procedures are made available to all employees via a dedicated SharePoint site. 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 and control or other matters but the Board reviews regular reports on 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, investigated and action taken as appropriate.

D. Engagement with shareholders and other stakeholders

Shareholders

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. The Chair 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 executive management and the Chair. The Board attends the AGM which gives individual shareholders the opportunity to engage directly with them and raise questions about the Company. In 2020 we were forced to hold a closed AGM but allowed shareholders to submit questions ahead of the meeting. For 2021, despite the current restrictions, we are able to improve our engagement by offering a hybrid AGM facility whereby shareholders can attend, speak and vote online. The Company normally hosts an annual investor engagement event, to showcase one of Halma's sectors, but this was not possible during the year as a result of the pandemic.

Employees

In accordance with the Code, the Board reviewed the methods that it uses to engage with its workforce and concluded that none of the three set out in the Code would be the most effective for engaging with Halma's global workforce. Our decentralised operating model and geographic spread of our companies led us to choose alternative engagement mechanisms which we consider are more fitting with our operating model and culture, as described below.

Each operating company has its own legally constituted board of directors 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 decisions on their other stakeholders.

The chair of each of our 42 companies meets with the Executive Board at least three times per year and normally with the Halma Board annually, which facilitates 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 clear and open communication with employees. 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.

There are currently three 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 are close channels of communication with our businesses. There are also frequent opportunities for the employee voice to be relayed to the Board via company management, operating company chair reports, Board presentations, site visits and through regular reporting of workforce concerns that have been raised via management or the independent whistleblowing service.

The Board-level position of Group Talent, Culture and 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 outlined on page 35.

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 5,000 employees across 21 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.

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 in place to facilitate effective engagement with the various groups across our workforce.

	Workforce groups included				
Board engagement mechanisms	**Wider Workforce**	**Central Functions**	**Operating Company Boards**	**Sector Board**	**Executive Board**
HalmaHub	●	●	●	●	●
Workforce engagement survey	●	●	●	●	●
Company and other site visits	●		●	●	
Senior Independent Director available	●	●	●	●	●
Accelerate CEO and 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 and reports				●	●
Development, Digital Accelerator and Graduate programmes	●	●	●	●	●

The Board's application of the UK Corporate Governance Code Principles continued

Other stakeholders

The Board's considers other stakeholder groups in its decision-making and our interaction with key stakeholders is set out in the table on pages 58 and 59 of the Strategic Report.

The principal decisions taken by the Board during the year, along with how the Directors considered stakeholder interests when discharging their duties under section 172 of the Companies Act, is set out below.

Principal Decision and stakeholders considered	Board's decision-making process	Long-term considerations
Dividend Shareholders, potential investors, 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, 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 and overheads in light of the pandemic and the uncertainty around the effects of COVID-19.
Acquisitions Shareholders, potential investors, 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 balances 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 know-how 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, lenders, employees, operating companies, customers, suppliers, government, society.	The Board were quick to meet to understand the implications of the health and economic crisis as its potential impact became apparent, with the health and wellbeing of our employees being the priority. Weekly updates were provided to the Board on the welfare of our employees, site closures and financial and operational performance of our businesses. Our businesses not only ensured the supply of life-sustaining products and services over the period but many re-purposed their operations to produce personal protective equipment for their local healthcare providers. The Board considered a wide range of operational and financial scenarios and the interests of multiple stakeholder groups to determine the appropriate level of overhead reductions. They took the decision to reinstate pay to normal levels and, given the strong performance in the second half of the year, decided to compensate employees for the temporary salary reductions that they had taken during the year to support the Group and ensure its strong financial position through those uncertain times.	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 and employees. While Halma was eligible for UK government support, we self-funded furlough payments to ensure that funds were made available to the smaller businesses that needed it. The Board's decision not to take government support has enabled us to maintain our progressive dividend payments to shareholders.
Greenhouse Gas Emissions Targets Shareholders, lenders, employees, operating companies, customers, suppliers, government, society.	The Board recognised the importance of a low carbon economy and the role that Halma has to play in achieving this and were mindful that this is a high priority for multiple stakeholder groups. Accordingly, the Board focused on areas where Halma can make most impact and took the decision to set a climate-related target – in line with the guidance from the Science Based Target Initiative – to reduce greenhouse gas emissions by 42% (from 2019/20 levels) by 2029/30, and are targeting net zero Scope 1 and 2 greenhouse gas emissions by 2040.	The Board recognises the effect that climate change is having on the natural and business world. While it presents a strategic opportunity for Halma, as a responsible company the Board recognises that the Company must act now to minimise the negative impact from its operations, to ensure a sustainable future for all. Setting targets and monitoring the Group's sustainability performance is an essential part of Halma's philosophy and strategy, which investors and other stakeholders will expect us to report on annually.

E. Workforce policies and practices

The Group's policies and procedures set out our requirements in the areas of financial reporting and control, health & safety, ethics, human resources, IT, data privacy and legal compliance. Halma's workforce-related polices and practices are set out in employee handbooks, tailored to meet local company law and needs.

Halma's Code of Conduct stipulates the expected behaviours and ethical duties that we require all employees to demonstrate. The Code of Conduct is reviewed annually by the Board and is acknowledged by every employee when they join the company. It provides a plain language summary on anti-bribery and corruption, insider dealing, conflicts of interest, modern slavery and human trafficking and information on how employees can raise concerns with senior management or via the third party confidential reporting service operated by NavexGlobal. Halma's Code of Conduct has been translated into nine languages, copies of which are available on our website at www.halma.com.

F. Chair independence and objective judgement

Paul Walker was independent on his appointment as Chair and has remained objective in his leadership of the Board. He ensures that no Director dominates Board meetings and that the voice of all Directors is heard and respected. Halma's culture of openness and transparency is apparent in how the Board members interact individually and collectively. The Executives genuinely value the views and challenge that the non-executive Directors bring and the transparent reporting by the Executives ensures that all stakeholder interests can be debated and well-informed, collective decisions made. Dame Louise was independent on appointment as a non-executive Director and remains so at the date of this Report. As part of her induction, the Company Secretary has supported Dame Louise on Board process and understanding the Board dynamics in order to preserve the Board's independent and objective thinking and appropriate level of challenge from the non-executives.

G. Board Composition

The Board is currently composed of 12 Directors, each bringing a variety of skills, knowledge and experience, in addition to diverse thinking. With four executive Directors and eight non-executive Directors (including the Chair), there is a strong independent element to Halma's Board which ensures that the balance of power rests with the non-executive members of the Board. After the AGM in July 2021, the Board will comprise nine directors, with three executive and six non-executive, maintaining an appropriate balance of 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 Chair 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 Chair.

The Chair, with the endorsement of the Nomination Committee, considers that the Board structure is appropriate for Halma – both in terms of size and the balance of skills and experience – which was recently echoed by the Directors in the externally-facilitated Board evaluation.

Biographies of each Director, including an overview of their skills and experience, are set out on pages 90 and 91.

The Board's application of the UK Corporate Governance Code Principles continued

H. Board responsibilities and time commitment
The division of responsibilities between the Directors and the Company Secretary is set out below.

Chair's responsibilities

Governance
— 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.

Strategy
— 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.

People
— 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 key stakeholders.

Group Chief Executive

— Providing coherent leadership and management of the Company.
— 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 strategic priorities.
— Maintaining an Executive Board of the right calibre and expertise, ensuring that succession plans are available and reviewed annually with the Chair 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 other stakeholders and effectively communicating Halma's investment proposition and purpose.
— Ensuring the Board hears the voice of the wider workforce on company matters and decisions.

Executive Directors

— 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 and diversity, equity and inclusion.
— Ensuring the Board is aware of the view of employees on issues of relevance to Halma.

Senior Independent Director

— Acting as a sounding board for the Chair.
— 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 Chair.

Independent non-executive Directors

— Contributing independent thinking and judgement and providing external experience and knowledge to the Board's 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

— Acting as a sounding board for the Chair 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 and regulatory compliance.

Time commitment
Director availability and time commitment to the Company is essential and we have experienced no issues with this during a particularly busy year where more frequent meetings were held, often at short notice. In addition to the scheduled and ad hoc Board and Committee meetings, all Directors are expected to attend the Annual General Meeting, the annual strategy meeting, Accelerate Halma/CEO and undertake operating company visits. The Board approve all significant external appointments before a Director can accept the appointment.

Our policy is that executive Directors are permitted to accept one external appointment, provided that it is beneficial to the Company and the development of the individual. It must not present a conflict of interest with the Group's activities or require a significant time commitment which could interfere with the performance of their executive duties.

For non-executive Directors, the number of external directorships is an important consideration when recruiting and a preferred candidate must reassure the Nomination Committee that they can allocate sufficient time to the role (around 20 days per annum is anticipated) before they are recommended for appointment. Prior to the Board's approval of any additional roles, an assessment is made of the time commitment required. All Directors are subject to an annual review, and time commitment and their personal contribution is a key factor that is assessed.

Tony Rice is Chair of two FTSE 250 companies, in addition to the Senior Independent Director and non-executive Director role he fulfils at Halma. The Board have no concerns in respect of 'over-boarding' and he shows true commitment to the Company. Tony has not only dedicated a considerable amount of time in supporting Halma and its businesses over the past year, including his attendance at all scheduled and the exceptional number of ad hoc Board and Committee meetings, but he has admirably led the successful search and appointment process for our new Chair.

Following the Chair's evaluation of each Director, the Board is satisfied that all Directors remain committed to the Company and have devoted the appropriate amount of time and effort to their role.

Details of Board attendance during the year is set out on page 94 and attendance for each Committee is in the relevant Committee reports on pages 104, 109 and 115.

How the Board supported strategy
Halma's clear and focused strategy has led to strong financial performance in challenging times and enabled the Board to increase the dividend. The Board has supported the evolution of Halma's growth strategy and the development of our growth enablers has helped to align the Board's allocation of human and capital resources to its strategic priorities – enabling our companies to continue to invest and deliver sustainable growth.

Mergers and Acquisitions (M&A)
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 finance, are made available to ensure that we can deliver on this strategic priority. 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, along with the financial performance of newly acquired businesses.

International Expansion
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 and Culture
The Board recognises the importance of talent and culture in driving not only Halma's growth, but also the behaviours that we expect from our people. In September 2016, the Board recognised the importance of talent to Halma's growth strategy and appointed Jennifer Ward to the Board to help to shape the talent pipeline, lead our diversity, equity and inclusion initiatives and also develop our brand and communications strategy. Talent discussions are a key feature at each Nomination Committee meeting and monitoring the Group's culture, diversity, equity and inclusion is an important role for the Board.

Finance, Legal and Risk
The Board has established a clear and robust framework to control financial investment, oversee financial performance and reporting, and to manage risks and opportunities. In 2020, the Board endorsed a new legal and compliance framework to enable operating companies to maintain their autonomy and agility while leveraging the scale of Halma to get quality advice and support, via a hand-picked panel of external lawyers, at competitive cost.

Digital Growth Engines
The Board take a close interest in Halma's desire to expand its digital capability and, in addition to allocating resource to support the Digital & Innovation function and for R&D within the operating companies, it appointed Dharmash Mistry in April 2021 to bring digital expertise to the Boardroom.

Innovation Network
The Directors share their deep and diverse knowledge and experience with senior management and company personnel throughout the year – enabling Halma companies to leverage the breadth of their network and obtain support, guidance and contacts in areas which are new.

Strategic Communications and Brand
A key focus in the Board's budget approval process has been allocating capital to resource the 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.

I. Board support
The Board and each Director has access to the advice and services of the Company Secretary, Mark Jenkins, and each can obtain independent professional advice at the Company's expense.

J. Board appointments
The Board has an established approach for seeking and evaluating candidates for Board positions, which was utilised for the appointment of Dame Louise Makin and Dharmash Mistry.

Prior to the Nomination Committee making a recommendation to the Board for an appointment, it identifies the skills, knowledge and experience required for the roles and agrees a job specification with the external search firm. A review of a long list of candidates, with commentary from the recruiter, is undertaken and any concerns over potential time commitment is a key consideration at this stage. Following the Committee's input, a shortlist of candidates is drawn up and interviews are held with a number of the Directors – including the Group Chief Executive, the Group Talent, Culture and Communications Director

The Board's application of the UK Corporate Governance Code Principles continued

A summary of the Board's activities throughout the year, including standing items and matters reserved for its decision, is set out below:

Strategy, Investor Relations & Communications

- Organisational restructure into three sectors to align with our purpose.
- Environmental, Social & Governance and Science Based Target setting.
- Brand update.
- Results Roadshow.
- Investor Relations updates.
- Shareholder engagement on Remuneration Policy.

Financial & Operational

- Safe working practices for employees in light of the pandemic, including monitoring employee cases by site.
- Financial and operational performance in light of the pandemic.
- Half Year results, Full Year results and Trading updates.
- Final and interim dividend.
- Budget for 2022.
- Sector updates and DCE presentations.
- Employee Benefit Trust share purchases.
- Share Incentive Plan allocation.
- Renewal of Global insurance programme.
- APAC growth opportunities and structure.

Governance, Compliance & Ethics

- Externally facilitated Board and Committee evaluations.
- AGM business and voting analysis.
- 2021 Annual Report.
- Cyber and IT security update.
- Legal risk review.
- Pensions update.
- Modern Slavery Act Statement.
- Annual review of Code of Conduct and key policies.
- 2018 UK Corporate Governance Code compliance.
- Diversity, equity and inclusion, including support for the 'Change the race ratio'.
- Response to BEIS on their white paper on audit and corporate governance reforms.

Talent & Culture

- Succession planning and talent development.
- Chair and non-executive Director appointments.
- Engagement survey results.
- Reviewing UK pension provision and paying a Real Living Wage.
- Parker Review submission.

Mergers & Acquisitions

- Acquisition & Disposals.
- M&A pipeline.
- Acquisition financing structure.
- Minority investments and business partnerships.
- Digital growth.

Standing Board agenda items

In addition to the Board matters considered above over the past year, at each meeting there are standing items, which include:

- 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 monitoring culture.
- Risk review.
- Legal and governance report.

Matters reserved for decision by the Board

- 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.

and the Chair. Based on the feedback from these interviews, references are taken up for the preferred candidates to inform the final decision. The Remuneration Committee agree the terms of the proposed offer and the Nomination Committee recommends their preferred candidate to the Board for approval. Once the candidate indicates that they will accept the role, the Board formally approve it and make an announcement to the market.

K. Board skills, experience and knowledge
The skills and experience of each Director is set out in their biography on pages 90 and 91. Consideration of the tenure for each non-executive Director is a key factor for the Nomination Committee in putting in place succession plans. The successful appointment of the Chair Designate and a new non-executive Director well ahead of the time when the current Chair and non-executive Director will step down demonstrates the effectiveness of the succession planning process. This has also enabled an appropriate overlap for handover and induction.

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. The Chair reviews the training and development needs of the Board, and each individual Director, at least annually. Further details can be found in the Nomination Committee Report.

L. Annual Board Effectiveness Review
The Chair 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 2021, the Board undertook its triennial externally-facilitated evaluation with the support of Independent Audit, which has no connection to Halma. The Board, on the recommendation of the Nomination Committee, decided that an interview-based assessment of the Directors with observation at meetings was not appropriate this year. Given the significant changes to the Board over the coming months (see below) and the fact that the pandemic had altered the normal meeting programme – with shorter, virtual meetings being focused largely on business critical decisions and the health and wellbeing of our employees – an external questionnaire-based evaluation was undertaken. The evaluation process and output is described in more detail in the Nomination Committee Report.

In line with our succession plans, Paul Walker, Daniela Barone Soares and Adam Meyers are standing down from the Board at the conclusion of the 2021 AGM and will not be standing for re-election. Following the annual evaluation of the Board and its Committees, and the individual performance reviews undertaken by the Chair, all Directors that are standing for re-election are considered to be effective in their role, hold recent and relevant experience for Halma's business and sector and they each continue to demonstrate commitment (in terms of time and effort) to the role.

Biographical details of each Director are set out on pages 90 and 91 and in the Notice of Meeting, along with the rationale for recommending their re-election.

M. Role of the Audit Committee in ensuring independence and effectiveness of internal and external audit functions and integrity of reporting
See Audit Committee Report on page 114.

N. Fair, balanced and understandable reporting
See Audit Committee Report on page 114 and Directors' Responsibilities statement on page 143.

O. Risk management and internal control
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 78 and 79. The Group's principal risks and uncertainties are detailed on pages 80 to 83.

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.

P. Remuneration policies and practices
See Remuneration Committee Report on pages 115 to 139.

Q. Development of Remuneration Policy
See Remuneration Committee Report on pages 115 to 139.

R. Remuneration outcomes
See Remuneration Committee Report on pages 115 to 139.

Nomination Committee Report

Paul Walker,
Nomination Committee Chair

Committee composition and attendance

	Eligible	Attended
Paul Walker (Chair)	5	**5**
Dame Louise Makin	1	**1**
Carole Cran	5	**5**
Daniela Barone Soares	5	**5**
Jo Harlow	5	**5**
Tony Rice	5	**5**
Roy Twite	5	**5**
Andrew Williams	5	**5**

From 1 April 2021, Dharmash Mistry became a member of the Committee

The Committee normally schedules three meetings a year. However, due to the level of activity during the year, the Committee met five times and held a special meeting to discuss the appointment of the Chair Designate. The attendance at each Committee meeting is set out in the table above.

Board Composition and Diversity
The Board recognises the benefits of a diverse leadership team. The table opposite illustrates the composition and diversity of the Board at the date of this Report, along with the shape of the Board after our 2021 AGM. Details of the gender diversity of all our employees, including senior management, are set out in the Our people and culture section on page 61.

Committee composition
The Committee comprises the Chair, the Group Chief Executive and the five independent non-executive Directors. It is chaired by Paul Walker but he did not chair the meeting held in February 2021 which considered the recommendation to the Board for the appointment of Dame Louise Makin as a non-executive Director and Chair Designate.

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 of the Board and its Committees, ensuring that they have the appropriate skills, knowledge and resources to fulfil their duties.
— 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.
— Monitoring the development and diversity at senior management levels, to create a suitable pool of internal candidates for Board and Executive Board succession.
— Implementing the Board's own diversity policy.

Activities during the year

The Committee's main activities have been:

— Reviewing Chair and Group Chief Executive succession.

— Working with Lygon Group, who are not connected to the Company or any Halma Directors, to identify suitable candidates to become the successor to Paul Walker as Chair and to identify a non-executive Director with digital expertise.

— In February 2021, following a search led by Tony Rice, Senior Independent Director, recommending to the Board the appointment of Dame Louise Makin as non-executive Director from 9 February 2021 and Chair from 22 July 2021.

— In March 2021, recommending to the Board the appointment of Dharmash Mistry as non-executive Director from 1 April 2021.

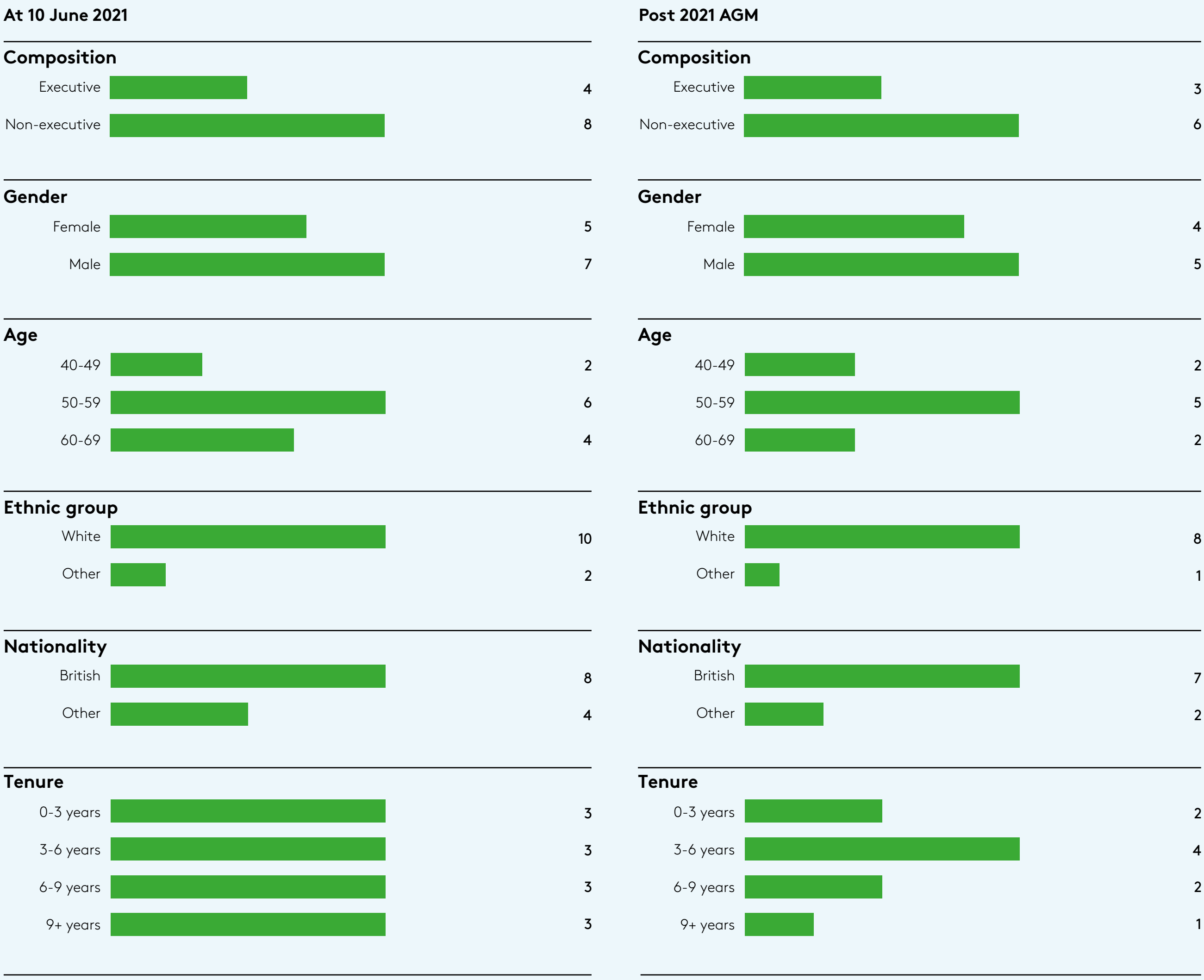
— Reviewing the proposed sector reorganisation and proposed appointment of Wendy McMillan and Constance Baroudel as Sector Chief Executives from 1 April 2021, allowing an extended period for the handover of responsibilities from Adam Meyers (for the Safety sector) and Laura Stoltenberg (for the Environmental & Analysis sector).

— Appointing Independent Audit, who are not connected to the Company or any Halma Directors, to undertake the externally facilitated Board and Committee evaluation.

— Following the individual Director evaluations, recommending the re-appointment of all Directors who are standing for election or re-election at the 2021 Annual General Meeting.

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 at the date of this Report and immediately after our 2021 AGM.



Board appointment process

The Board has an established approach for identifying and evaluating suitable candidates for Board positions, which was utilised in the recruitment of Dame Louise Makin and Dharmash Mistry. Prior to the Committee making a recommendation to the Board for an appointment, it undertakes the following steps:

— Agrees the skills, experience and knowledge required for, and complementary to, the role.

— Approves the role specification.

— Selects an independent global executive search firm, which understands Halma's business model and culture, to prepare a long list of potential external candidates and, for executive roles, to benchmark against internal candidates identified through the Committee's established succession planning process.

— Reviews the long list of candidate profiles and, based on insight from the search firm, creates a shortlist of diverse candidates for interview.

— Interviews are held with several members of the Committee (including the Chair and the Group Chief Executive) and the Group Talent, Culture and Communications Director.

— A preferred candidate or candidates are selected by the Committee and professional references taken up.

— The Committee members meet to share their comments on each candidate and confirm their preferred candidate before a unanimous or consensus decision is taken to recommend one candidate to the Board for appointment.

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 Chair and for the Chair, the Senior Independent Director. The Board and each Committee undertakes an evaluation of its own effectiveness and reports the findings to the Board. For the year ended 31 March 2021, the Board concluded that it, and its three Committees, had operated effectively.

Evaluation type and evaluator appointment process

In 2021, the evaluation was an externally-facilitated questionnaire-based evaluation undertaken by Independent Audit. In September 2020, the Committee formed a sub-committee comprising the Chair, Group Chief Executive, Group Talent, Culture and Communications Director and the Company Secretary to review the options for the external board evaluation. An initial review of the board evaluation market was undertaken by the Company Secretary and input obtained from each Director on the evaluators they had interacted with in their listed companies. This insight helped to shape a long list of 10 providers from which a shortlist of five were asked to provide written proposals. The Company Secretary engaged directly with each firm to understand their approach and points of difference. The first decision for the sub-committee was on the format of the evaluation. The following options were considered:

1) Defer the external evaluation until 2022 or beyond and undertake an internal evaluation.

2) Undertake an internal evaluation exercise with a review by an independent external evaluator.

3) Undertake an externally facilitated questionnaire-based evaluation, prepared, administered and analysed by an external evaluator.

4) Undertake a full interview-based external evaluation with a mid or top tier evaluation firm.

The sub-committee agreed that the upcoming changes in July 2021 – namely, the Chair stepping down following eight years tenure, the retirement of one non-executive Director who has served for nine years, the retirement of one Executive Director and the corresponding new appointments to the Board – will inevitably change the shape and dynamics of the Board. In addition, it was recognised that the pandemic had changed the cycle, frequency, format and focus of Board and Committee meetings over the past year (which were mainly virtual) such that a backwards-looking evaluation would not be reflective of the structure, format and business at future meetings. With the Committee's support, it was agreed that it would still be beneficial to undertake an external evaluation this year – not least to inform the incoming Chair of the current state – and the Committee and the Board concluded that a questionnaire-based format was most appropriate.

The final step in the process was to select two providers for a more detailed review. For each evaluation firm, the sub-committee reviewed their stated approach, their points of difference, cited FTSE clients and the fee proposed. Ultimately, the Committee recommended to the Board that Independent Audit be appointed to undertake the Board and Committee evaluations.

Evaluation structure

Independent Audit prepared questionnaires for the Board and three Committees using their Thinking Board online platform. The questions were reviewed by the Company Secretary, the Chair and the Committee Chairs and adapted to reflect topics that are most relevant to Halma at this time. The questionnaire was completed by the Board and Committee members and the Company Secretary. The executive Directors did not complete the questionnaire for Committees that they are not routinely attending. Independent Audit analysed the results and compiled a draft report, which was discussed with the Chair and Company Secretary. There were no significant revisions made to the report before it was issued to the Board. Independent Audit did not conduct interviews, observe meetings or review papers as part of the exercise but they did present their findings and suggested recommendations at the March 2021 Board meeting.

The report set out the scoring for each question and any narrative comments made. Independent Audit analysed the statements that scored the lowest and also identified the areas where the Directors thought that the Board was doing well.

External Evaluation Summary

Strengths of the Board

- Supports an effective executive team, while providing robust oversight
- Inclusive and well-chaired collaborative discussions
- Skills and experience leveraged to provide a good balance of support and challenge
- High quality papers and strong support from the Company Secretariat
- Good oversight of strategy and culture
- Focused on compliance and controls, as well as the Company's financial health
- Effective response to the pandemic – determining potential scenarios and contingency actions, along with a primary focus on employee safety

Development areas identified	Action taken/to be taken
Understanding the big customer, market and technology trends.	At our strategy review, we will refresh our understanding of macro-trends and disruptions which could re-shape elements of our strategy in the future.
Continuing focus on environmental, social and corporate governance (ESG) issues.	Since the evaluation was undertaken, we have already focussed heavily on ESG matters – evidenced by our carbon reduction commitments and Key Sustainability Objectives.
Re-evaluation of the preparedness for significant risk events.	The Board plans to review, in September, the learnings and any changes to our operating model or approach that have arisen from the experience we have gained through the pandemic, to improve our preparedness for future risk events.
Continuing focus on cyber security.	Cyber updates are a regular agenda item at the Board and Audit Committee.
Continuing focus on stakeholders in Board decision-making.	Decision-making during the pandemic amplified the need to carefully consider stakeholder interests in order to strike an appropriate balance in Board decisions. The embedded practice of reviewing the impact of decisions on our stakeholders has become a standard approach for the Board.

Specific suggestions were made, based on Independent Audit's experience and best practice, in response to areas raised from the questionnaire responses.

Evaluation findings and recommendations

Independent Audit acknowledged that, overall, responses were very positive and that the scores were significantly better than most boards that they review. The vast majority of questions received a positive score from everyone, indicating that the Directors feel that the Board and its committees are functioning well across almost all aspects of board effectiveness. They also identified that it is indicative of a well-functioning Board that non-executive Directors and executives are very aligned in their thinking. The report highlighted areas for the Board to develop further, clustered around a relatively small number of themes.

The development areas identified have been reviewed with the Chair and Chair Designate and will influence the Board and Committee meeting agendas for the coming year to ensure that each gets the Board's focus. We will report on our progress in next year's Committee Report.

The strengths, development areas and agreed actions for the Board are summarised in the table above.

Details of the findings relating to each Committee are set out in the respective Committee reports.

The Committee's evaluation found that it is strong at planning and executing succession plans for both non-executive Director and executive Director roles and has a good oversight of talent management. One area that was identified for further consideration was setting diversity and inclusion targets for the Group.

In accordance with best practice, Independent Audit have reviewed and approved the narrative in this section of the Committee's Report.

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 strong benefits that a diverse workforce brings. Accordingly, we require recruiters to make diversity a priority in their selection of potential candidates, 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 and culture section on pages 60 to 63 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 inclusive culture and diverse workforce across all levels.

Board Diversity Policy

The Committee recognises the benefits of a diverse Board and embraces diversity and inclusion in its widest sense. The Board has adopted a Diversity Policy, to complement the group-wide diversity and inclusion policy. This Policy confirms our commitment to ensuring that all candidates are fairly treated. We have achieved great progress on gender diversity at Board and Executive Board level and our Group Chief Executive's membership of the 30% Club since 2017 demonstrates our long-term commitment to this agenda. We will continue to focus our efforts on driving gender and ethnic diversity at the senior level throughout our business, complementing management's focus on diversity across the wider workforce.

The Board supports the recommendations of the Hampton-Alexander Review on gender diversity (to have at least 33% representation of women on FTSE 350 boards, the executive committee and direct reports by the end of 2020) and the Parker Review on ethnic diversity (to have at least one director from an ethnic minority background on FTSE 100 boards by 2021).

I am pleased to report that we exceeded the Hampton-Alexander target - as at 31 December 2020, we had 40% women on the Halma Board, 62.5% on the Executive Board and 36% women directly reporting into an Executive Board member. Halma has also had an ethnically diverse Director on the Board since 2011, which is prior to the publication of the Parker Review Committee's final report in October 2017 – so I am pleased to report that we met the Parker Review target at its inception and we will continue to meet the target this year.

Maintaining a focus on gender and ethnic diversity remains an important factor for the Committee when it is reviewing the composition of the Board, its Committees and talent within the senior management group.

Paul Walker
Committee Chair

For and on behalf of the Committee

10 June 2021

Audit Committee Report

Carole Cran, Audit Committee Chair

Committee composition and attendance

	Eligible	Attended
Carole Cran (Chair)	4	**4**
Daniela Barone Soares	4	**4**
Jo Harlow	4	**4**
Tony Rice	4	**4**
Roy Twite	4	**4**

From 1 April 2021, Dharmash Mistry became a member of the Committee

During the year, the Committee met formally on four occasions in July, September, November and January. The July and November meetings focusing on the Full Year and Half Year Reports and Results Announcements. The January meeting primarily focusing on the external and internal audit plans for the coming year and the September meeting, which in 2020/21 covered an IT and cyber security controls update and the risk and control environment within the Medical and the Environmental & Analysis sectors, which were presented by the Chief Technology Officer and Sector CEO respectively.

In addition, during the year as Audit Chair I have regular conversations with the Chief Financial Officer, Director of Risk & Internal Audit, Group Financial Controller, Company Secretary and also the audit partner at PwC, our external Auditor.

Given the impact of COVID-19 on business performance and work patterns, the Committee was particularly cognisant of any impact this may have on the key accounting judgements and on the control environment more broadly, with nothing of note to report thanks to everyone's hard work and the resilience of the business.

Committee composition and induction

The Committee comprised five independent non-executive Directors throughout the year, with Dharmash Mistry joining from 1 April 2021. 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 Committee Chair invites the Chair, 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, Head of Tax (who presented to the January 2021 meeting), Head of Treasury, sector CEOs and sector CFOs are invited to present on a cyclical basis to keep the Committee updated.

Appointments to the Committee are made by the Board and the remuneration of the Committee Chair reflects the additional responsibilities and time commitment required in the role. As part of the induction process for new members of the Committee, they will meet separately with key individuals – including the Committee 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, a specific update at the November meeting from the external Auditor 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 annually at the January meeting.

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 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 and periodically engaging an independent third-party review of internal audit's effectiveness.

External audit

- Managing the relationship with the external Auditor.
- Monitoring and reviewing the independence and performance of the Auditor and leading the tender process or Senior Statutory Auditor change.
- Formally evaluating Auditor 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.
- Making recommendations to the Board for the appointment or reappointment of the Auditor.

Governance

The Committee has four scheduled meetings per year, to coincide with the key events in the corporate reporting calendar and audit cycle. The Committee, and independently the Committee Chair, regularly meets with the Director of Risk & Internal Audit and separately with the external Auditor, without any executive Directors present. The Committee 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 (which was held virtually in 2020).

The Committee receives updates from the external Auditor and other professional advisers, where appropriate, on matters relevant to financial reporting, internal control, tax, 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 90 and 91.

The Committee Chair sets the forward agenda for the year but also 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 Committee Chair reports to the Board after each meeting on the key matters discussed. Committee minutes are circulated to all Board members and the external Auditor once they have been approved. Internal Audit reports that identify any significant control or compliance weakness, or other risk that requires immediate management attention, are circulated to the Committee via the Company Secretary when the report is issued. At the same time, commentary from the Chief Financial Officer on the background to the weakness, any mitigating controls and the actions being taken to address the findings is sent to the Committee members.

An evaluation of the Committee's own effectiveness is undertaken each year and the findings are reported to the Board. In 2021, this evaluation took the form of an externally-facilitated Committee-specific questionnaire prepared by Independent Audit and the report was provided to all Committee members. The evaluation demonstrated that the Committee was working effectively and noted that the members of the Committee considered it to be exercising good oversight of the reporting environment and effectively supporting and overseeing the work of the internal and external auditors. Some areas for improvement were identified which the Committee Chair discussed with the Chair, Group Chief Executive, Chief Financial Officer and the external Auditor to form a collective view on how best to address these points. A proposal was presented at the June 2021 Audit Committee and the actions to address each area were agreed.

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 the FRC's Audit Quality Review Report on PwC.
- Reviewing the Group's whistleblowing and compliance procedures and reports raised.
- Receiving updates on IT and cyber risk controls presented by the Chief Technology Officer.
- Re-approving the Tax Strategy and recommending its approval to the Board.
- Agreeing the external Auditor fee.
- Approving the Internal Audit Charter and work plan.
- Appointing KPMG to undertake an external evaluation of the Internal Audit function and reviewing the output.
- Reviewing the systems and controls for the prevention of bribery.
- Reviewing the Group's Principal and Emerging Risks.
- Reviewing the externally-facilitated Committee evaluation and agreeing appropriate actions.
- Receiving a presentation from the Group Head of Tax.
- Receiving a presentation from the Sector CEO on the controls environment in the Medical and Environmental & Analysis sectors.
- Receiving a technical accounting update from the Auditor.
- Formulating a response to BEIS on the audit and governance reforms white paper, with a focus on sharing our view on the potential implications for the Group.
- Reviewing the outcome of the IFRS Interpretations Committee final agenda decision on configuration or customisation costs in a cloud computing arrangement within IAS38 Intangible Assets – and considering its impact on the Group for the current year and potential impact on future years.

Whistleblowing

The Committee have 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, fraud, other financial or ethical misconduct. 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 Our polices and procedures section on 86.

All reports are provided to the Company Secretary for review, to ensure that they are appropriately investigated – with the support of Internal Audit and external resource, 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 directly to the Board in its role of monitoring culture and workforce concerns. Following a review during the year, the Committee was satisfied with the adequacy and security of the arrangements in place for concerns to be raised.

External Auditor

The external Auditor is appointed to give 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 2021. 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 and, in accordance with our Auditor Independence Policy, he will undertake his last audit for Halma for 2021/22.

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 this year, ahead of the financial year end in 2022. If a tender is not considered to be appropriate, then the rationale will be stated within the Committee's Report next year.

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. The Policy was updated last year to align to the FRC's revised Ethical Standard which applied from March 2020 and a summary is set out on page 112.

During the year, three pieces of permitted audit-related services work (in addition to the Half Year Report review) were undertaken by PwC, with total fees of circa £36,000. This work was pre-approved by the Committee Chair and reported to the Committee in accordance with our Policy.

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 2021 were £1.7m (2020: £1.7m) and permitted audit-related service fees were £0.1m (2020: £0.1m).

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.

The external auditor can be engaged by management to perform audit-related services, and 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 outlined below. The Committee is notified of audit-related projects with the external auditor which have 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 related, that are payable to the external auditor.

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

- The services are permitted (such that they fall within the specific categories of services listed at Section 5B of the Ethical Standard).
- The auditor is considered to be the most suitable supplier of the services.
- The external auditor's independence would not be compromised.

Fee cap for audit-related and non-audit services

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.

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 2020 and the full year ended 31 March 2021, the Committee considered the significant risks and material issues, judgements and estimates made in relation to the Group's financial statements, comprising:

- 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 valuation of contingent consideration arising on acquisitions in prior periods.
- 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 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 to future viability.

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:

- 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.
- 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.
- Considering the appropriateness and reasonableness of stated judgements and conclusions and that reporting was accurate.
- Assessing the position taken with regards to tax judgements.

Evaluation of the effectiveness of the Internal Audit function and the external Auditor
The Committee undertakes an annual review of the effectiveness of both the Internal Audit function and the External Auditor. During the year KPMG were engaged to perform an independent review of the effectiveness of the Internal Audit function. For the External Auditor, the review process was conducted primarily by way of a tailored on-line questionnaire which was completed by Committee members and other senior management who are engaged in the audit process. A summary of the process and key findings is set out below.

Internal audit evaluation process and outcome

External review covering →
- Review of key documentation
- Review of a sample of audit files
- Interviews with key business stakeholders
- Benchmarking against internal audit functions in comparable organisations

Interviews held with →
- Audit Committee Chair
- Group Chief Executive
- Chief Financial Officer
- Company Secretary
- Managing Director for Halma IT
- Sample of Sector management
- Sample of company Board members
- Internal Audit
- PwC Audit Partner

Results →

The report was shared with the Audit Committee and the findings presented by KPMG at a Committee meeting.

Outcome

Following review of the outcome of the quality assessment and feedback from the Chief Financial Officer and the Chair, the Committee concluded that the Internal Audit function is effective and that its strategy is in line with best practice.

External audit evaluation process

Bespoke questionnaire covering →
- External audit partner time commitment
- Quality of the team
- Accounting, technical and governance insight
- Policies for compliance with the revised Ethical Standards
- Quality and timeliness of reporting
- Clarity and authority of communications

Questionnaire completed by →
- Committee members
- Group Chief Executive
- Chief Financial Officer
- Director of Risk & Internal Audit
- Company Secretary
- Company CFOs
- Sector CFOs
- Group Financial Controller

Results →

Results of the questionnaire are collated centrally by the Group Financial Controller and a summary of the findings and the FRC's AQR Report on PwC as a firm, are provided to the Committee and the external Auditor.

Outcome

Following a review by the Committee of the outcome from the 2021 questionnaire and the AQR Report findings, the Committee confirmed that PwC is effective as external Auditor and recommended to the Board their reappointment as Auditor be proposed to shareholders at the 2021 AGM.

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

— The treatment and valuation of the contingent consideration payable in relation to NeoMedix and NovaBone, as well as those relating to smaller acquisitions.
— The fair value of acquired intangible assets and carrying values arising on the acquisition in the year of Static Systems Group.
— The appropriateness of the assumptions used in and outcomes of the Group's goodwill impairment review during the year, as well as the associated disclosures.
— The assumptions around discount rate and inflation rate that resulted in the significant increase in the net liability on the pension obligations.
— The evidence supporting the going concern basis of accounts preparation, the Viability Statement and the risk management 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 2021, the risk management and internal control processes, that were enhanced in the prior year, were embedded across the business. Individual risk owners, the Divisional Chief Executives, Executive Board and Halma Board were fully engaged in the process to update the Group's Principal Risks and the new minimum controls framework sets a clear expectation on the baseline of controls and compliance that Halma companies require. Regular reporting to the Committee by the Director of Internal Audit & Risk, and by circulation of internal audit findings to Committee members, ensures that there is a good understanding of any non-compliance that arises and the swift action being taken to close any gaps.

The Committee is satisfied that the risk management and internal control framework remains robust and effective, while still allowing autonomous and agile decision-making which is essential to Halma's decentralised structure and an integral part of Halma's growth strategy. No significant failings or weaknesses have been identified in the internal controls. Full details of the internal control framework and approach to risk management are set out on pages 78 and 79.

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. In addition, companies acquired during the year are audited within nine months from the date that they are acquired. 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. During the year, the Committee approved an increase in headcount, to add a US-based auditor to provide sufficient risk-based coverage for the USA as the group continues to grow. In addition, Grant Thornton have been appointed to provide IT co-source resource. 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 to address the findings.

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 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 Committee of the key working papers and results for each of the significant issues and judgements considered by the Committee in the period.

The Directors' statement on a fair, balanced and understandable Annual Report and Accounts is set out on page 143.

Carole Cran
Committee Chair

For and on behalf of the Committee
10 June 2021

Remuneration Committee Report

Jo Harlow, Remuneration Committee Chair

Committee composition and attendance

	Eligible	Attended
Jo Harlow (Chair)	6	**6**
Dame Louise Makin	1	**1**
Tony Rice	6	**6**
Paul Walker	6	**6**
Daniela Barone Soares	6	**5**
Roy Twite	6	**6**
Carole Cran	6	**6**

Dharmash Mistry became a member of the Committee with effect from 1 April 2021.

On behalf of the Board, I am pleased to present our Directors' Remuneration Report for the year ending 31 March 2021 and I am particularly pleased to be presenting this as Halma reports its 18th consecutive year of profit growth in the most challenging of circumstances. Halma continues to be a purpose-driven business with a sustainable mix of organic and acquisition growth, delivering 42 consecutive years of dividend per share growth of 5% or more.

This report includes both our proposed Remuneration Policy (which will be submitted for shareholder approval at the 2021 AGM) and our Annual Report on Remuneration, which sets out how our current policy was implemented during the year under review, and how, subject to its approval, our revised policy will be applied for the year ahead.

Our Response to COVID-19

I would like to start this letter by addressing how we responded to the COVID-19 crisis, noting that Halma's business model, agility and resilience were major assets throughout the pandemic, as evidenced by the results we have achieved in such an unprecedented time.

The points below outline the early remuneration actions taken to preserve cash due to the high level of uncertainty of our business performance related to the pandemic, as well as actions taken to restore pay where appropriate:

— Annual merit increases were initially deferred for all employees with increases subsequently awarded to those below Executive Board as of 1 October 2020. Pay freezes were maintained for Executive Directors and as such no increases were awarded throughout the 2021 fiscal year.

— Company, Sector and Group leaders also took a pay reduction, with the Halma plc and Executive Board members taking a 20% pay reduction for the three-month period from 1 April to 30 June 2020. Normal salaries were reinstated in July 2020. Bonuses were paid and share-related awards were granted to eligible employees in respect of the 2020 performance. As we delivered positive results through the pandemic year, we have restored employee sacrificed pay across the Group. This payment will be made as a top up to the formulaic outcome of the 2021 annual bonus to ensure that the bonus makes up the salary waived. However, this pay restoration will not be made to the members of the Executive and plc Boards.

— A self-funded furlough scheme was put in place for the small percentage of our workforce who were furloughed by their companies.

Halma did not request or receive support from the UK Government's Coronavirus Job Retention Scheme. We also did not utilise the UK Government's Covid Corporate Finance Facility. Halma did not need to raise additional capital, maintained payments to suppliers, paid back debt that came due in the period and was able to pay final 2020 and interim 2021 dividends.

The Committee continuously monitored remuneration decisions being taken across the Group over the fiscal year and considered executive pay in the context of the wider workforce and the broader impact on society, the Company and its shareholders. Whilst in parts of the world businesses and life are returning to some form of normality, for Halma, as a global business, the speed of recovery and the return to a more usual operating environment will vary across the sectors and geographies in which we operate. Our priority therefore remains, as it has been throughout the pandemic, the safety and wellbeing of our employees, our communities and customers. I know I and my colleagues on the Board are immensely grateful to all our employees for the dedication and commitment they have shown through this difficult year and to the management who have been exceptional in their leadership through this crisis.

Performance outcomes for 2021

In spite of the pandemic, our business has demonstrated robust levels of performance through this last year, with strong returns. Return on Sales increased from 19.9% to 21.1% and Return in Total Invested Capital (ROTIC) of 14.4% remaining well above our Weighted Average Cost of Capital of 6.7%. We have also seen adjusted profit growth of 4% in an extremely difficult year. Our financial strength has enabled continued investment in organic growth, as well as the return to Halma's strategy of acquisition growth, with the acquisition of Static Systems Group in December 2020 and PeriGen in April 2021. Our total shareholder return has continued to materially outperform the FTSE 100 index, with an investment of £100 in Halma shares on 31 March 2018 worth £177 as at 31 March 2021, compared to £109 for a similar investment in the FTSE 100 index. As mentioned above, we have also been able to continue with our progressive dividend policy, paying both a full year dividend for 2020 and the interim dividend of 6.87p per share for 2021 in February this year. The Board's recommendation of a final dividend of 10.78p per share, results in a total dividend for the year of 17.65p, representing an increase of 7.0% on the prior year.

Putting the 2021 outcomes into the context of Halma's consistent delivery of growth, returns and value, Halma has delivered another outstanding year, in spite of the pandemic. Halma's valuation reflects a rapid rise through the FTSE 100, based on strong fundamentals and future growth prospects:

— **Growth**: Positive EPS growth every year, with an EPS compound annual growth rate of 11.1% over the last ten years, versus a KPI target of greater than or equal to 10%.

— **Returns**: ROTIC well above target of greater than or equal to 12% every year over the last ten years, with average ROTIC of 15.9%, roughly double the cost of capitall.

— **Cash generation**: Cash conversion has exceeded our KPI of greater than or equal to 85% every year for the last ten years, averaging 90%.[1]

1 We have changed our cash conversion KPI to 90% to account for the beneficial effect of implementation of IFRS 16, which increases cash conversion by approximately 5 percentage points. This change took effect in 2020 and applies to all subsequent years. We have not restated historical comparatives prior to 2020, which should be compared to the previous 85% target.

Remuneration outcomes for 2021

At the start of the 2021 fiscal year and as the extent of the COVID-19 pandemic became apparent, the business made a prudent management decision to create a £5m central bad debt provision for potential impact on its receivables. As the extent or quantum of any bad debt was unknown at the time, the Committee considered it was equitable to exclude this item in rewarding management for the strong performance in 2020. The 2021 figures do not include the release of the £5m central bad debt provision which remains on the Balance Sheet as we go into 2022. The release of any or all of this provision will also be excluded from future remuneration award calculations.

Bonuses for 2021 were based on Economic Value Added (EVA) performance against a weighted average target of EVA for the past three years, and the targets were set to take COVID-19 into account. The Committee considered the targets to be both demanding and appropriate for the circumstances.

The Group's EVA performance metric generated total annual bonus payments for the executive directors of 48.2% of maximum potential outcome, with one third deferred into shares which will become available after two years. The Committee believes that this payout reflects the self-sufficient and robust performance of the business through this most difficult year.

In line with the changes made to the annual bonus plan for 2021, the Executive Share Plan (ESP) targets were set to ensure alignment with the changes to business forecasts due to COVID-19 and the 2020 grant was made on this basis. No change was made to inflight awards granted in 2018 and 2019.

For the 2018 ESP award, the three-year performance for average ROTIC (15.3%) and adjusted EPS growth over the three-year period (9.04%) has been strong and is reflected in the 73.7% vesting percentage.

In line with the 2018 Corporate Governance Code (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 2021 is a fair reflection of performance over the period and no use of discretion is warranted.

Remuneration Policy Review

Our remuneration principles

Our current policy was approved by shareholders at the 2018 AGM with a vote of over 97% in favour. The 2018 Policy reflected no material changes to the previous policy, acknowledging that we had just become a member of the FTSE 100. We have continued to operate our executive remuneration framework in a culture of strong governance and clear purpose and this approach has been supported by the principles which underline our current Policy:

Performance

A strong pay for performance culture, focusing on the long-term success of the organisation and the alignment to business strategy.

Talent

A dedication to attracting, retaining and motivating the right quality of talent, acknowledging the Halma DNA.

Growth and returns

A balance of focus on growth and returns ensuring the creation of shareholder value.

Our culture

A focus on being a good corporate citizen in line with our culture, the 2018 Corporate Governance code and market best practice.

We believe that these principles continue to serve us well and were used to consider changes for the 2021 policy update. The focus areas of our policy review were to implement changes in line with updates to the UK Corporate Governance Code, and to ensure that Halma's executive pay structure is aligned with stakeholder experience and reflects the Company's historical growth and future growth potential.

The talent that drove this success

Our strong financial results have translated into significant returns for shareholders. In response, Halma's valuation has grown over the last five years from the FTSE 250, into the FTSE 100 in December 2017 and at the time of writing, the FTSE 50. Halma's outstanding leadership team has been critical to achieving Halma's success and the Committee is keen to ensure that Halma continues to be able to motivate, retain and recognise this talent.

At the Board we review the succession plans and talent base for the Company regularly. Further, the recruitment, development and retention of talent at all levels has been identified as a principal risk with a high gross risk level (as noted on page 81).

As Halma has grown and has actively diversified its portfolio of companies and business models, the scale, scope and complexity of group, sector and operating company leadership roles have also grown substantially. Accordingly, there has been significant investment in our high performers and the recruitment of new talent globally to ensure Halma has the appropriate capabilities to fulfil its growth ambitions. Consequently, we have made significant amendments to remuneration below the Board to attract and retain this high calibre talent. At the same time, we have been conservative with Executive Director remuneration, with Halma's pay remaining aligned with the FTSE 250 benchmark.

The recruitment of talent in key roles at the corporate and individual company level has created compression with Executive Director pay. Retention risk has also become acute, as Halma has seen two members of the Executive Board leave the business; one to become a CEO at a FTSE 250 company and the other to join a private equity business. The Committee is also concerned that effective succession planning for the CEO and other Executive Director roles is not possible unless Halma offers an appropriate remuneration package for its size, complexity and growth trajectory. As such, the Committee has concluded that the new policy must address these issues in the current quantum of its Executive Directors.

The proposed changes

We engaged with shareholders representing circa 50% of our share capital, along with proxy agencies and we have really valued the time that has been taken to consider and fully understand our proposals. The constructive feedback we have received through our two rounds of shareholder consultation – via virtual meetings, emails and letters – has helped shape the Committee's thinking and the development of our New Policy. The key changes are:

Pensions

— We will align the pension contributions of the Executive Directors with those of the wider workforce. The incumbent Executive Directors have voluntarily committed to lowering their cash-in-lieu pension contributions, in a single step, to 10.5% by 31 December 2022. For Andrew Williams, our Group CEO, this is a reduction from 26% (20% pension contribution and 6% Defined Benefit pension compensatory payment) and for the other executive directors, a reduction from 18.7%. This change will be accompanied by an increase to employer pension contributions for the UK wider workforce, subject to a pensions consultation process. Specifically, there will be a change to the upper limit of the company contribution rate to 10.5%, the introduction of a new employee contribution tier with employees on the lowest pay offered higher company contributions. For most of our lower paid employees there is an increase in company contributions offered of at least 1%, showing our commitment to the financial wellbeing of our employees. In addition, we will formalise a decision that was made last year for any new UK Executive Director appointee – whether internal or external – to receive a company pension contribution (or cash equivalent) of 10.5% of salary, aligned with the new maximum company contribution rate offered to the UK employees.

Incentive maximums

— A re-calibration of the incentive quantum to align with the FTSE 100, (excluding financial services companies), with increases to maximum opportunity under the annual bonus and ESP to be implemented immediately for the 2021 awards. Specific details are noted on page 124.

Shareholding guidelines

— An increase to shareholding guidelines aligned to the increase in incentive quantum.

Post-cessation shareholding guidelines

— The introduction of a two-year post-cessation shareholding requirement at the lower of the share ownership guidelines or actual shareholding.

Malus and Clawback

— The introduction of enhanced malus and clawback provisions, applying to both the annual bonus and ESP awards.

Performance measures and sustainability

— The current flexibility to amend the annual bonus will be extended to the long-term incentive plan in the New Policy, ensuring that sustainability can be incorporated in the future in the annual bonus and / or the long-term incentives. Around two-thirds of Halma's revenue is broadly aligned with the four UN sustainability goals (SDG 3, 6, 9 and 11) that underpin Halma's purpose of growing a safer, cleaner, healthier future for everyone, every day. In that regard, the current measures for the annual bonus and the LTIP are also measuring Halma's success in focusing on sustainability. As a result of a strong, strategic leadership focus on diversity and inclusion over the last several years, over 60% of Halma's leaders on our Executive Board today are women. To further amplify our positive impact, the intention is to measure and track potential additional key environmental and social indicators over 2022, with a view to selecting the most appropriate for implementation in remuneration from 1 April 2022. The Committee will consider whether the selected measures are both material and measurable enough to become additional metrics or modifiers to the existing financial measures. Therefore, through 2022, there will be a focus on core business financials in incentives, both annual and long-term.

Quantum

As part of our consultation process, we found broad agreement with our shareholders on the need to align Halma's remuneration to its current size and complexity. We are cognisant of the current climate around executive pay and so I would like to set out further information regarding the salary and incentive quantum increases below:

- Our Executive Directors are high performing with an excellent track record in delivering both strong company performance and growth as evidenced by 18 consecutive years of record profit and a TSR of 690% over a ten-year period, making them highly attractive beyond the FTSE and the UK.
- No salary increases have been awarded to Executive Directors since 1 April 2019 because of a pay freeze implemented in 2021 due to COVID-19 uncertainty.
- We have been conservative in Executive Director salary progression and quantum changes to our Policy, resulting in Executive Director remuneration packages that remain aligned to those of a FTSE 250 company. The Committee believes it is necessary to reset both salary and incentive maximums in alignment with the FTSE 100 in order to resolve its concerns regarding compression, retention and succession. Even though Halma has grown in value to the FTSE 50, we believe it is appropriate to review pay against the FTSE 100 (excluding financial services companies) in this policy review.
- The increased levels of salary and incentive quantum will ensure that our Executive Directors will be rewarded for the continued delivery of growth, while continued stretching target ensure that maximum payout will be accompanied by increased shareholder value. It will also ensure appropriate differentiation between the CEO, other Executive Directors, the Executive Board and high performing talent.
- The Remuneration Committee considered shareholder feedback carefully and decided to amend the proposal with an increase to base salaries being implemented over a two-year period, as opposed to our initial proposal of a one-year period. The second increase would be subject to successful business performance achieved in 2022 and the phased increases are set out below:

Executive Director[2]	Current Position	Proposed Change – 2022	Proposed Change – 2023, subject to performance
Group CEO	£669,325	£776,500	£900,000
Group CFO	£425,000	£493,000	£574,000
GTCC Director	£340,000	£395,000	£460,000

- The intention is for this to be a one-off salary adjustment (implemented over two years) before returning to our normal approach of restraint, with future increases being aligned to the increases for the wider workforce (barring further significant changes to role and complexity).

The Committee has thought very carefully about these changes and believes that they are fully aligned with shareholders' interests.

Chair's remuneration

Last year, in line with the overall sentiment of the decision for salary reductions to be taken by the Executive and non-executive Directors, a planned increase to the Chair's fee noted in our 2019 report was deferred acknowledging the impact of COVID-19. We have now taken the opportunity to review the fees for our Chair and you will find details of this on page 134.

2 No details set out here for the Sector Chief Executive – Safety, Adam Meyers. Please see the next page for director changes.

Remuneration arrangements for 2022

We continue to operate our executive remuneration framework in a culture of strong governance and in line with our clear purpose.

We will continue to use EVA as the performance metric for annual bonus, with stretching growth targets aligned with our standard growth KPIs. We plan to proceed as normal with regards to the granting of share awards under the ESP, using adjusted EPS growth and ROTIC as our performance metrics based on stretching performance conditions. In 2022, we will internally pilot potential sustainability measures for future remuneration cycles. We believe that these arrangements demonstrate our continued commitment to aligning to shareholder expectations and represent stretching targets.

For the 2020 inflight ESP award subject to COVID-19 performance conditions, which you will find on page 132, we will continue to monitor performance through the vesting period and will engage with shareholders to ensure that outcomes reflect the underlying performance of the company and the experience of our stakeholders over the performance period.

Following the conclusion of our policy consultation, the Committee has reached several decisions with respect to applying the new policy to the 2022 cycle. These are laid out in detail on pages 133 and 134, and are summarised below:

Base Salary	We will implement the first part of the proposed increases to base salary with effect from 1 June 2021
Annual Bonus	— The maximum opportunity will increase in line with policy proposals: — From 150% to 200% of salary for the CEO and — From 150% to 180% of salary for all other Executive Directors — The target payout will be reduced from 60% of maximum to 50% of maximum — For fiscal year 2022, performance measure remains unchanged as EVA — The deferral of a third of any payout for two years remains unchanged
ESP	— The maximum opportunity will increase in line with the policy proposals to: — From 200% to 300% of salary for the CEO — From 175% to 250% of salary for the CFO — From 150% to 200% of salary for the GTCC Director — For fiscal year 2022, performance measures remain unchanged as adjusted EPS growth and ROTIC with performance conditions as set out on page 134 — Two-year post-vesting holding remains unchanged

In addition, the changes to the share ownership guidelines and tightening of malus and clawback provisions, as described on page 125, will also come into effect for 2022. The changes in pension to align with the wider workforce will be effective from 31 December 2022, at the latest.

Pay in the broader context

We believe that our people should be rewarded appropriately, and we work hard to continually improve our reward offering. Our all-employee share plan has been in place in the UK since the 1980s, offering employees the opportunity to benefit from Halma's success. We introduced a global parental leave policy in October 2020, evidence of our continued focus on diversity, equity and inclusion. We also support our employees' mental wellbeing through an Employee Assistance Programme, an offering of particular importance especially through the pandemic.

Our pension change project which will affect UK employees is a benefit change that we are particularly proud to be implementing, ensuring that we look after the financial wellbeing of our employees, with a view to making similar benefit changes across our other regions. You will find further examples in Our people and culture report on pages 60-63 on how we support our employees.

As part of the review of our proposals, we are implementing ESP maximum increases of 5% to 30% for participants below Executive Director level, which we believe will continue to support our goal of mitigating retention risk and aligning all leaders to our long term growth and shareholder interests.

You can read how the Board engages with the wider workforce on pages 96 and 97. Clearly some of that activity has been limited over the last year but we hope we can progress work in this area as COVID-19 restrictions are lifted around the world.

Director changes

Adam Meyers' retirement from the Executive Board and the Board was deferred, due to Paul Simmons' decision to leave Halma. As such, Adam served as Sector Chief Executive – Safety from 1 July 2020 to ensure an orderly handover to Paul's ultimate successor, Wendy McMillan who took over on 1 April 2021. Adam will be standing down from the Board at the AGM. Accordingly, Adam's remuneration package will be changed with effect from that date until his retirement on 1 July 2022 and you can find details of this on page 138.

I would like to take this opportunity to welcome our new Chair, Dame Louise Makin. As announced on 9 February 2021, Louise was appointed as an independent non-executive Director, with the intention to appoint her as Chair of the Board at the AGM as Paul Walker steps down after eight years in his role. Details of the remuneration arrangements on Louise's appointment as Chair can be found on page 134. Dharmash Mistry also joined as a non-executive Director on 1 April 2021 and I would like to take this opportunity to welcome him to the Halma plc Board. Daniela Barone Soares has now reached the end of her nine-year term and so will also be stepping down at the AGM. Both Paul and Daniela have provided invaluable support in my role as Remuneration Committee Chair and I wish them the very best for the future.

Shareholder voting at the 2021 AGM

I would once again like to thank our shareholders for the level and quality of your engagement over this last year. We will continue to maintain a close dialogue with you as we seek to deliver a competitive, motivating pay framework that is tightly aligned to your experience. We are very grateful to those investors for the time they took with us and for the feedback they provided, and we look forward to receiving your support for our New Policy as put forward at the 2021 AGM.

Jo Harlow
Committee Chair

For and on behalf of the Committee
10 June 2021

Aligning awards to performance

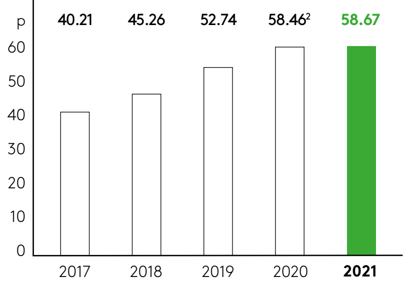
How did we perform in the year?

Executive Share Plan – outcome against targets: 73.7%

Adjusted earnings per share (p)

58.67p

+0.35%



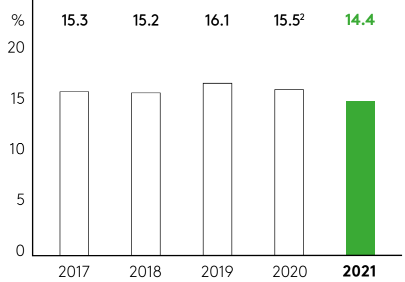
2 Excludes £5m of bad debt provision.

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: 9.04% average growth = 34.1% vesting

Return on total invested capital (%)

14.4%

(7%)



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: 15.3% average = 39.6% vesting)

Annual bonus plan – Outcome of 48% of max

Group threshold

£201m

Group actual

£264m

+31%

Financial performance

Organic profit growth[1] at constant currency

0.7%

1 See note 3 to the Accounts.

Dividends to shareholders

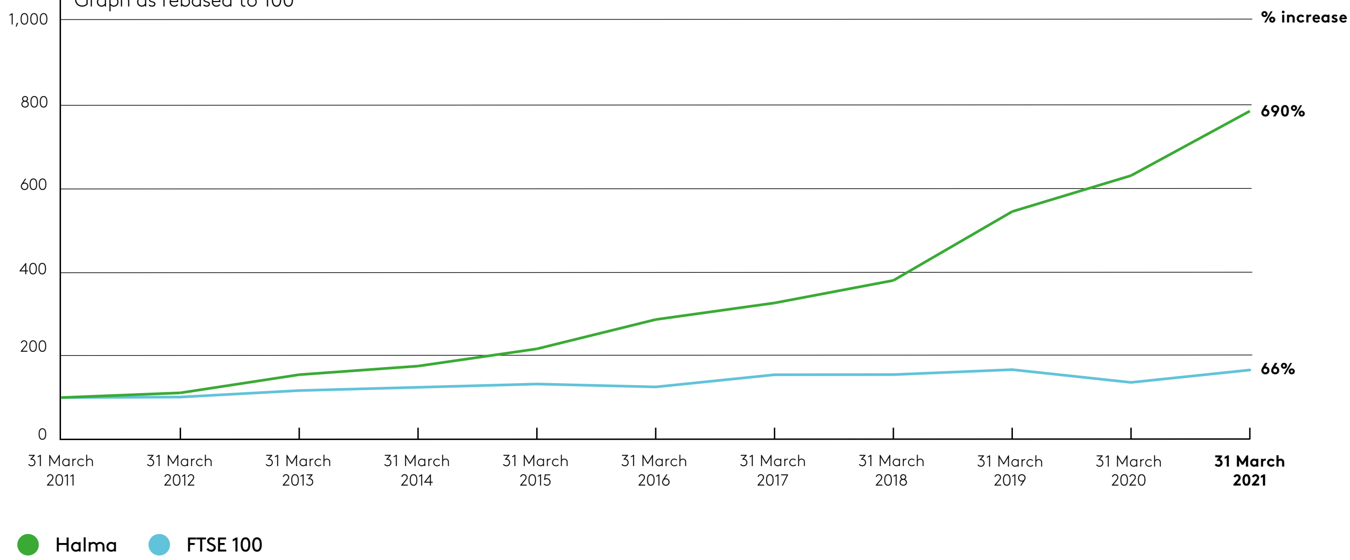
£66.8m

Return on Sales

21.1%

Total Shareholder Return

Graph as rebased to 100



New Remuneration Policy

	Current Position		Proposed policy	
Element	**Group CEO**	**Other Executive Directors**	**Group CEO**	**Other Executive Directors**
Annual Bonus	150% max for all positions		200% max	180% max
Target	60% of max for all positions		50% of max for all positions	
Deferral	33.3% for two years			
Long-Term Incentives	200% max	CFO: 175% max GTCC Director: 150% max	300% max	CFO: 250% max GTCC Director: 200% max
Post-vesting holding period	Two years for awards granted since the July 2018 AGM			
Share ownership	200% max for all		300% max	CFO: 250% max GTCC Director: 200% max
Post-cessation share ownership	No policy in place		Two years post-cessation at the lower of the share ownership guidelines or actual shareholding	
Malus and Clawback	A recovery and withholding provision in place		Enhanced wording	

Ensuring shareholder alignment

Proportion of short-term incentive award received in shares:

33.3%

annual bonus incentives

Increased shareholding guideline based on award size:

300%

For Group CEO, 250% for Group CFO and 200% for Group Talent Culture Communications Director

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

100%

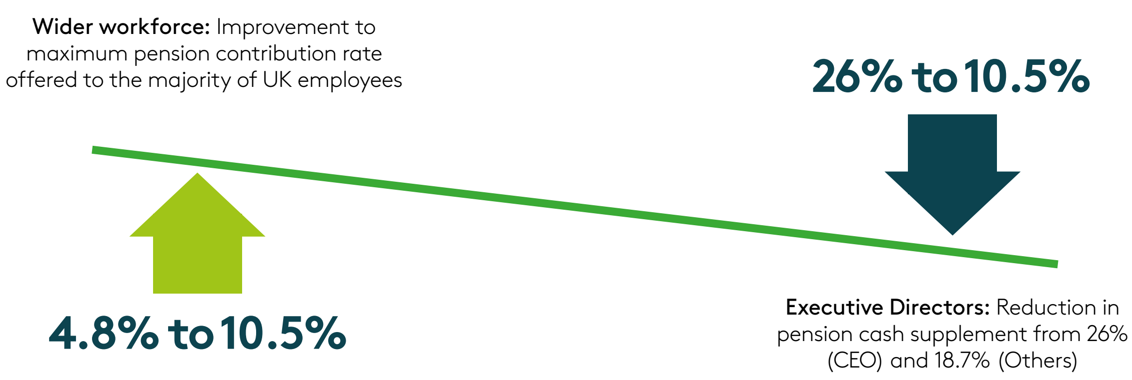
of vesting shares (net of tax and social security) arising from performance share awards granted since the 2018 AGM

Introduction of post-cessation requirement for a period of:

2 years

at the lower of the share ownership guidelines or actual shareholding

Pension alignment with the wider workforce[3]



3 Pension scheme changes are subject to member consultation

Directors' Remuneration Policy

This section of the Report sets out our new Remuneration Policy (the "New Policy") in detail. We consulted with shareholders extensively whilst we were formulating the New Policy to ensure that it aligned with the expectations of our shareholders. If the New Policy is approved at the AGM to be held on 22 July 2021, it will apply from that date. The current Remuneration Policy for Executive Directors applied from the date of the 2018 AGM (the "Policy") and continues to apply until the New Policy is approved at the 2021 AGM. The Remuneration Committee intends that the New Policy will operate for three years.

In designing the New Policy, the Committee was supported by internal experts and external advisers and undertook extensive shareholder consultation to ensure that all the proposals reflect best practice. The Committee determined that the principles which underpin our current Policy would remain unchanged as they reflect our culture of strong governance and clear purpose.

Principles underpinning our Policy

These principles are:

— A strong pay for performance culture, focusing on the long-term success of the organisation and the alignment to business strategy.

— A balance of focus on growth and returns ensuring the creation of shareholder value.

— A dedication to attracting, retaining and motivating the right quality of talent, acknowledging the Halma DNA.

— A focus on being a good corporate citizen in line with our culture, the 2018 Corporate Governance code and market best practice.

Policy Review Focus Areas

The areas which the Committee focused on in respect of the 2021 Policy review are:

Shareholder alignment	Pension	Sustainability	Quantum reset
— Increase to shareholding guidelines aligned to the increase in incentive quantum — Introduction of a two-year post-cessation shareholding requirement and enhanced Malus and Clawback terms	— Benefit improvement for UK employees — Alignment of Executive Director offering to the wider workforce	— No immediate change in performance metrics — Flexibility incorporated into the Annual Bonus and ESP to introduce measures in the future	— Ensuring robust succession planning — Addressing compression and retention issues

How the revised Policy addresses the factors set out in the UK Corporate Governance Code 2018

Whilst reviewing the Policy the Committee was cognisant of the remuneration factors set out in provision 40 of the 2018 UK Corporate Governance Code. The table below shows how the New Policy addresses each of these factors.

Clarity	We ensure pay for performance and our policy is designed to be logical and transparent. We believe this is clearly communicated to and understood by our stakeholders and participants.
Simplicity	Remuneration for Executive Directors is comprised of distinct elements: fixed pay, annual bonus award and the long-term incentive award.
Risk	A number of features within the Remuneration Policy exist to manage different kinds of risks; these include: — Malus and clawback provisions operating across all incentive plans. — The introduction of a post-cessation shareholding requirement. — Deferral of remuneration and holding periods. — Remuneration Committee discretion to override formulaic outturns to ensure incentive pay-outs reflect underlying business performance and shareholder experience. — Limits on awards specified within the policy and plan rules.
Predictability	Target ranges and potential maximum payments under each element of remuneration are disclosed. The Committee regularly reviews the performance of the inflight awards, so it understands the likely outcomes.
Proportionality	The Committee believes that poor performance should not be rewarded. Therefore, a significant portion of remuneration is performance based and requires achievement against challenging performance targets.
Alignment to Culture	Our business is performance orientated and our remuneration structure is appropriately aligned to our culture, with performance measures for variable awards being aligned to the Company's wider strategy.

See Corporate Governance Statement for an explanation of remuneration-related non-compliance with the Code and the expected compliance date (page 89).

The Remuneration Policy table

The table below summarises the key components of the New Policy:

Fixed Pay: Salary

Purpose and link to strategy	**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.**
Operation	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.
Maximum Opportunity	Base salary increases will be applied in line with the outcome of annual reviews (normally with effect from 1 June). Salaries for the financial year under review (and the following year) are disclosed in the Annual Report on Remuneration. 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.
Performance metrics	Not Applicable.

Fixed Pay: Benefits

Purpose and link to strategy	**To provide benefits that are competitive within the relevant market.**
Operation	Benefits are appropriate to the location of the Director 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.
Maximum Opportunity	Benefits may vary by role, and the level is determined to be appropriate for the role and circumstances of each individual Director. The maximum value will equate to the reasonable market cost of such benefits. The Committee retains the discretion to approve a higher cost of benefits 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). The rationale behind the exercise of such discretion will be provided in the relevant year's Annual Report on Remuneration.
Performance metrics	Not Applicable.

Fixed Pay: Pension

Purpose and link to strategy	**To provide competitive post-retirement benefits, or the cash allowance equivalent, to provide the opportunity for executives to save for their retirement.**
Operation	Executive Directors participate in a Group Defined Contribution pension plan. 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.
Maximum Opportunity	Defined Contribution: maximum contribution of 20% of pensionable salary, reducing to 10.5% of salary by the end of 31 December 2022 in line with wider workforce. 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. This will be reduced to 10.5% of salary by the end of 31 December 2022 in line with the UK wider workforce. 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. 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: £165,678 for 2020 and £166,506 for 2021.
Performance metrics	Not Applicable.

Annual Bonus	
Purpose and link to strategy	**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.**
Operation	The structure of the Annual Bonus 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 either through withholding future remuneration or requiring the executive to repay the requisite amount in the event of misstatement, error or misconduct; serious reputational damage to the business by the individual; and/or a breach of the company code of conduct.
Maximum Opportunity	Maximum opportunity: 200% of salary for Group CEO, 180% for other Executive Directors. Bonus payable at threshold: 0% of salary. 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.
Performance metrics	The bonus is based on the achievement of financial performance targets, including EVA. Other financial measures may supplement EVA at the discretion of the Committee. Such financial measures must comprise at least 80% of the overall bonus opportunity. The balance of 20% may be utilised, at the Committee's discretion, to support non-financial, but measurable, strategic growth priorities.

Long Term incentive: Executive Share Plan (ESP)	
Purpose and link to strategy	**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.**
Operation	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 either through withholding future remuneration or requiring the executive to repay the requisite amount in the event of misstatement, error or misconduct; serious reputational damage to the business by the individual; and/or a breach of the company code of conduct. A mandatory two-year holding period applies for awards granted after the 2018 AGM.
Maximum Opportunity	Maximum opportunity: Up to 300% of salary for Group CEO, 250% of salary for Group CFO and 200% of salary for other Executive Directors. The Committee can exercise discretion to override the formulaic ESP 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 and will ensure formulaic outturns do not result in windfall gains. Threshold performance will result in the vesting of 25% of the maximum award.
Performance metrics	Vesting of performance share awards is subject to continued employment and the Company's performance over a three-year performance period. Financial measures must comprise at least 80% of the overall ESP opportunity. The balance of 20% may be utilised, at the Committee's discretion, to support non-financial, but measurable, strategic growth priorities.

Share Incentive Plan (SIP)	
Purpose and link to strategy	**To encourage share ownership across all UK-based employees using HMRC-approved schemes**
Operation	The SIP is an HMRC-approved arrangement. It entitles all eligible UK-based employees to receive Halma shares in a potentially tax advantageous manner.
Maximum Opportunity	Participation limits are in line with those set by HMRC from time to time.
Performance metrics	Not applicable.

Share Ownership Guideline

Purpose and link to strategy	**Align Executive Directors' interests with those of long-term interests of shareholders.**
Operation	Executive Directors are expected to build a holding in the Company's shares to a minimum value broadly equivalent to their ESP award maximum opportunity: 300% for CEO, 250% for CFO and 200% for other Executive Directors. In addition, Executive Directors required to hold shares after cessation of employment. The requirement is to hold shares to the value of the share ownership guidelines or actual shareholding (if lower) for a period of two years post cessation of employment. Progress towards the share ownership guideline is monitored on an annual basis.
Maximum Opportunity	No maximum holding but requirement to build to minimum value.
Performance metrics	Not applicable.

Notes to the Policy Table

Differences in remuneration for employees

The remuneration policy for the Executive Directors is more heavily weighted towards variable and share-based pay than for other employees, to make a greater part of their pay conditional on the successful delivery of business strategy. This aims to create a clear link between the value created for shareholders and the remuneration received by the Executive Directors. However, the pension arrangements for the current Executive Directors are currently in the process of being aligned on the same terms as those offered to eligible UK employees. All UK-based employees have the opportunity to participate in the Share Incentive Plan.

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 New Policy. 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 131) 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.

Malus and Clawback

The Committee believes that it is appropriate for all variable pay awards to be subject to provisions that allow it to recover any value delivered (or which would otherwise be delivered) in connection with any variable award including annual incentive and ESP awards in exceptional circumstances, and where it believes that the value of those variable pay awards is no longer appropriate.

Malus provisions apply before payment and clawback provisions are in place following payment of the annual bonus (or vesting of any element of annual bonus deferred into an award over shares) or vesting of any ESP award.

The malus and clawback provisions can be used in certain scenarios. Such scenarios include but are not limited to:

- material misstatement of the Company's financial accounts;
- a material failure of risk management by the Company or any Group company;
- an error in calculation of any awards based on false or misleading information;
- gross misconduct by the relevant participant; and
- any action or omission on the part of a participant resulting in serious reputational damage to the Company, any member of the Group; a serious breach or non-observance of any code of conduct, policy or procedure operated by the Group.

Illustrations of the application of the proposed New Policy

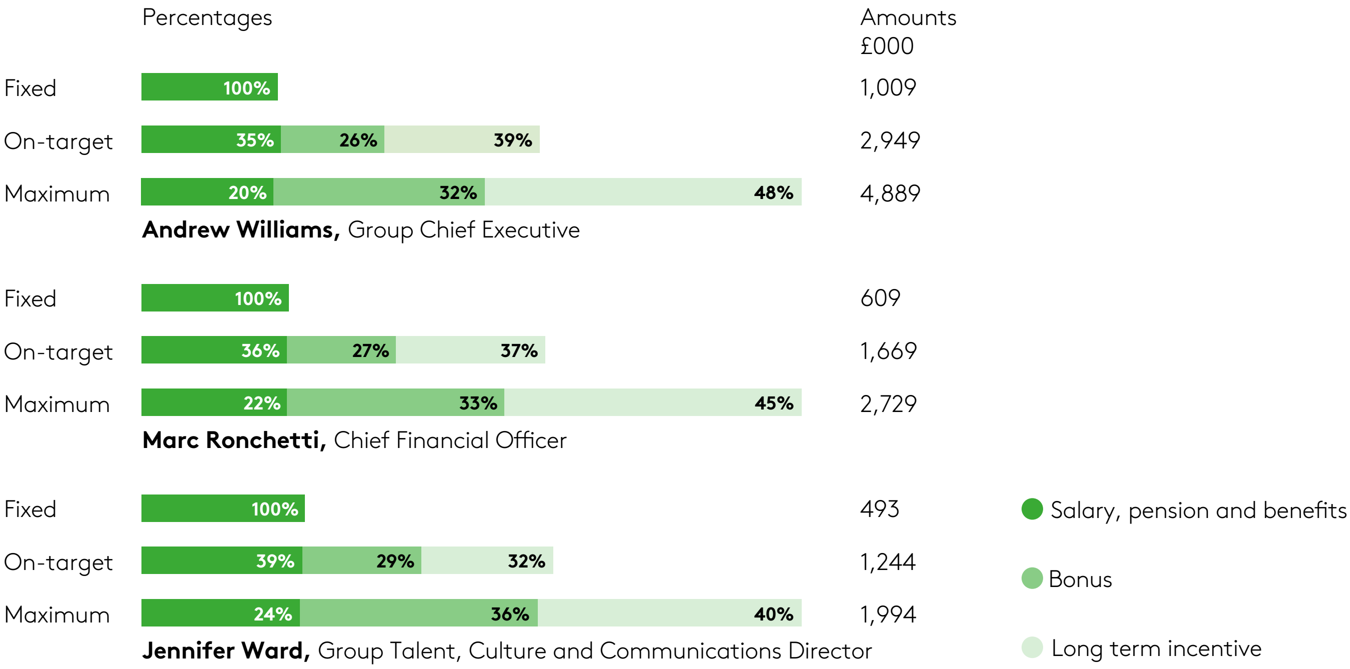
The following charts provide an estimate of the potential future rewards for Executive Directors, and the potential split between different elements of pay, under three different performance scenarios: "Fixed", "On-target" and "Maximum".

Potential reward opportunities are based on Halma's proposed new remuneration policy, applied to salaries as at 1 June 2021. 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 50% 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.



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% change in the share price over the vesting and holding period:

Executive Director	50% increase in share price
Andrew Williams	6,053
Marc Ronchetti	3,345
Jennifer Ward	2,389

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.
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.

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.

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
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.

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	–

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 Chair. 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.

Chair and non-executive Directors' remuneration policy

Chair and non-executive Director fees

Purpose and link to strategy	To attract and retain individuals with the requisite skills, experience and knowledge to contribute to the Board
Operation	Non-executive Director fees are determined by the Board and may comprise a base fee, committee chair fee and Senior Independent Director fee. The Chair's fee is determined by the Committee. Travel and other expenses incurred in the performance of non-executive duties for the Company may be reimbursed or paid for directly by the Company, as appropriate, including any tax due on the benefits.
Maximum Opportunity	Fees are normally reviewed annually. Increases are typically effective from 1 January. The fee paid to the Chair is determined by the Committee and fees to non-executive Directors 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 non-executive Directors. These fees are the sole element of non-executive remuneration and they are not eligible for participation in Group incentive awards, nor do they receive any retirement benefits.
Performance metrics	Not applicable.

Non-executive Directors' letters of appointment

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 Chair 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 Chair'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	July 2021	3 months
Roy Twite	July 2014	July 2023	3 months
Tony Rice	August 2014	August 2023	3 months
Carole Cran	January 2016	January 2022	3 months
Jo Harlow	October 2016	October 2022	3 months
Louise Makin	February 2021	February 2024	3 months

Non-executive Director recruitment

In recruiting a new Chair or non-executive Director, the Committee will use the policy as set out above.

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. Due to the nature of our business and the impact of COVID-19, we did not specifically consult with employees as part of the process of developing the New Policy. However, in addition to the employee engagement detailed on pages 96 and 97 we have established an approximate gender pay gap figure for our UK and US companies and the CEO pay ratio is available to employees. The Committee ensures that it is fully briefed on pay practices across the Company generally and it usually reviews external market data annually.

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. The Committee has actively engaged with shareholders as part of formulating the New Policy. Outline proposals were sent to shareholders, who together own approximately 50 per cent of the Company and meetings were held with the shareholders that chose to engage with us on the proposals. A meeting was also held with ISS and we corresponded with Glass Lewis and the Investment Association via letters and emails on the proposals.

The Remuneration Committee also seeks ongoing advice from its external advisers on wider shareholder views, to ensure that it is kept up to date with any changes in market practice and shareholder sentiment.

Annual Remuneration Report

Remuneration Committee

In this section we give details of the composition of the Committee and the activities undertaken during 2021. All members of the Committee are considered independent within the definition set out in the Code. The Committee is appointed by the Board and operates under written terms of reference, which are available at www.halma.com. The membership comprises:

Chair: Jo Harlow

Committee members: All other non-executive Directors in office at the date of this Remuneration Report.

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.

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 Chair, 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.

Meetings

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.

During the year, the Committee met formally six times. Attendance by individual members of the Committee is disclosed on page 115. In addition, informal conference calls can also take place. The principal agenda items at the formal meetings were as follows:

Meeting	Agenda items	
June 2020	— Appointment of new Remuneration Adviser — 2020 Annual Bonus outturn — 2020 ESP vesting	— 2021 Remuneration elements – Annual Bonus and ESP targets — Shareholder update — Review of Remuneration Policy
July 2020	— 2020 Directors' Remuneration Report — 2020 Remuneration elements – Approval of annual bonus payout and vesting of ESP	— 2021 Remuneration elements – Annual Bonus and ESP targets — Review of Remuneration Policy
October 2020	— Review of Remuneration Policy	— Update on global parental leave policy
November 2020	— Review of Remuneration Policy, including confirmation to commence the first round of shareholder consultation	— ESP vesting update
January 2021	— Corporate governance code matters — Review of Remuneration Policy including update on first round of shareholder consultation	— Deep dive on Annual Bonus and ESP measures
March 2021	— Corporate governance code matters — Review of Remuneration Policy including update on second round of shareholder consultation — 2021 Directors' Remuneration Report	— 2021 Remuneration elements – update on formulaic outcome estimates and ESP vesting — 2022 Annual Bonus targets

External advisers

Mercer Kepler (Mercer) acted as independent remuneration adviser to the Committee until June 2020, having done so since November 2017. After a thorough and competitive process, Willis Towers Watson was appointed.

Willis Towers Watson is a member of the Remuneration Consultants' Group and, as such, voluntarily operates under the Remuneration Consultants' Group Code of Conduct in relation to executive remuneration consulting in the UK. This is based upon principles of transparency, integrity, objectivity, competence, due care and confidentiality by executive remuneration consultants. Willis Towers Watson has confirmed that it has adhered to that Code of Conduct throughout the year for all remuneration services provided to the Company. Therefore, the Committee is satisfied that it is independent and objective. The Remuneration Consultants' Group Code of Conduct is available at remunerationconsultantsgroup.com. Willis Towers Watson's fees for the year with respect to executive remuneration matters was £121,627, based on an agreed fee and Mercer's was £21,710 (2020: £37,200). Willis Towers Watson also provided services to the Company globally which comprise remuneration benchmarking and other consultancy advice.

Shareholder vote at 2018 and 2020 Annual General Meeting

The following table shows the results of the vote on the Annual Remuneration Report at the 2020 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%	
Directors' Remuneration Report (2020)				
Total number of votes	289,576,827	13,355,617	302,932,444	1,725,497
% of votes cast	95.59%	4.41%	100%	

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) Regulations 2008 and subsequent amendments.

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. Changes are proposed to the Remuneration Policy, which will be subject to a binding vote at the 2021 AGM and the Annual Report on Remuneration will be subject to an advisory vote by shareholders also at the 2021 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 2021; 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.

Remuneration for 2021

Single figure of total remuneration for Directors

The table below sets out the single figure of total remuneration received by Directors for the years to 31 March 2021 and 31 March 2020.

	Andrew Williams £000		Marc Ronchetti £000		Adam Meyers[1] £000		Jennifer Ward £000	
	2021	2020	2021	2020	2021	2020	2021	2020
Salary	636	669	404	425	412	423	323	340
Benefits[2]	31	33	24	17	30	20	24	24
Pension[3]	165	174	76	79	62	67	60	64
Total Fixed Pay	**832**	**876**	**504**	**521**	**504**	**510**	**407**	**428**
Annual Bonus[4]	484	808	307	515	295	368	246	411
ESP[5]	1,708	2,225	948	643	778	1,004	625	813
Total Variable Pay	**2,192**	**3,033**	**1,255**	**1,158**	**1,073**	**1,372**	**871**	**1,224**
SIP[6]	3	3	3	3	–		3	3
Total Pay	**3,027**	**3,912**	**1,762**	**1,682**	**1,577**	**1,882**	**1,281**	**1,655**

1 Remunerated in US dollars and translated at the average exchange rate for the year (2021: US$1.308, 2020: US$1.271)
2 Benefits: mainly comprises company car and private medical insurance
3 Pension: value based on the Company's pension contribution, or cash supplement in lieu of pension, during the year
4 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.
5 ESP: Figures relate to awards vesting based on performance to the years ended 31 March 2021 and 2020. For the 2021 award 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 2021 of 2436p. For the award vesting for the year ended 31 March 2020, these figures have been revised from last year's report to reflect the actual share price on the vesting date of 2187p.
6 SIP is based on the face value of shares at grant.

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 vested on 15 July 2020.

— 12,691 DSA shares granted in 2018 vested on 15 July 2020.

Incentive outcomes for 2021

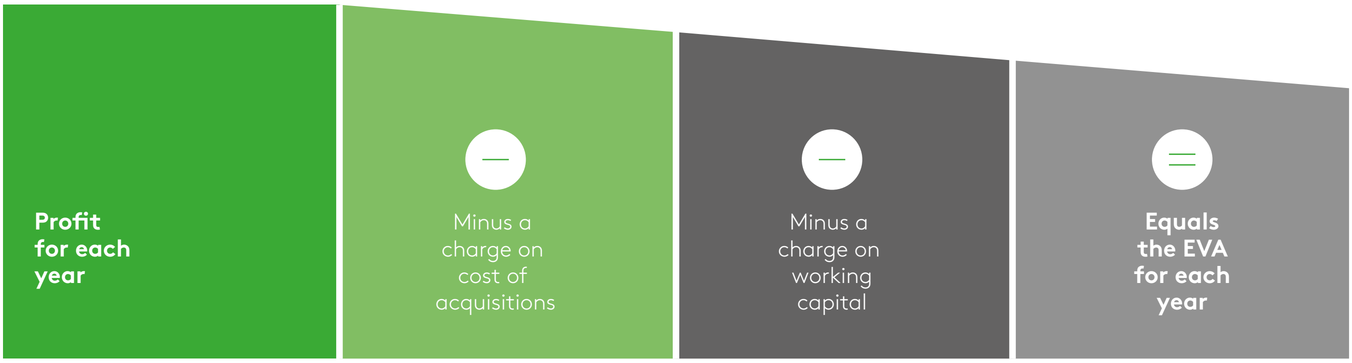
Annual bonus in respect of 2021

In 2021, the maximum bonus opportunity for Executive Directors was 150% of salary, solely linked to performance as measured by an Economic Value Added (EVA) calculation.

As disclosed in last year's report, since the bonuses for 2021 continued to be based on EVA performance against a weighted average target of EVA for the past three years, the Committee decided to adjust the targets to take account of COVID-19. In adjusting the targets the Committee felt that the resulting targets were as demanding and appropriate given the circumstances.

Bonuses for the Executive Directors are calculated based on Group profit exceeding a target calculated from the profits for the three preceding financial years after charging a cost of capital, including on 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:



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	£201,497	£269,424	£264,193	72%
Marc Ronchetti	£201,497	£269,424	£264,193	72%
Adam Meyers	US$265,976	US$355,639	US$348,735	72%
Jennifer Ward	£201,497	£269,424	£264,193	72%

Last year, the Committee applied judgment in determining the annual bonus outcome for 2020 with the exclusion of the additional bad debt provision from the calculation. As was agreed at the time, the benefit on any release of the provision would be excluded in future years. At present, the additional provision release has not been released and as such no adjustment is made in the annual bonus outcome for 2021. This will be excluded upon release in the future.

The deferred bonus awards are derived as one third of the bonus earned for 2021. 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 2021	Cash-settled	Value of 2021 deferred bonus award
Andrew Williams	72%	£484,225	£322,817	£161,408
Marc Ronchetti	72%	£307,467	£204,978	£102,489
Adam Meyers	72%	$388,038	$259,479	$128,559
Jennifer Ward	72%	£245,974	£163,983	£81,991

Deferred bonus awards will be granted under the ESP in June 2021. 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): 2018 Awards (vesting at the end of the year to 31 March 2021)

In July 2018, 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:

EPS[1]		ROTIC[2] (post-tax)		Total
Performance levels	% 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 2021. Average ROTIC was 15.3% (the average ROTIC for financial years 2019, 2020 and 2021) and adjusted EPS growth was 9.04% per annum for the period from 1 April 2018 to 31 March 2021, resulting in vesting of 73.7% of the awards. The estimated vesting value included in the 2021 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	**95,121**	**1,302**	**73.7%**	**70,104**	**2436p**	**1,708**	**854**	**854**
Marc Ronchetti	**52,786**	**723**		**38,903**		**948**	**474**	**474**
Adam Meyers	**43,342**	**593**		**31,943**		**778**	**389**	**389**
Jennifer Ward	**34,797**	**476**		**25,645**		**625**	**313**	**312**

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.

In line with regulations, the values disclosed above and in the single total figure of remuneration table on page 130 capture the number of interests vesting for performance to 31 March 2021. 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 2021 of 2436p. The actual values at vesting will be trued-up in the next Annual Remuneration Report.

Incentive Awards granted during 2021

Long-term incentive – Executive Share Plan: Performance Share Awards (granted during the year to 31 March 2021)

On 28 July 2020, 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 2020 to 31 March 2023.

The ROTIC element will be based on the average ROTIC for 2021, 2022 and 2023. The EPS element will be based on EPS growth from 1 April 2020 to 31 March 2023. These two elements are equally weighted at 50% each. The performance targets applying to these awards are as set out below and are based on an adjustment that was made to align targets with the changes to the business forecasts due to COVID-19.

EPS[1]		ROTIC[2] (post-tax)		Total
Performance levels	% of award vesting[3]	Performance levels	% of award vesting[3]	
< 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.

The award is eligible to vest in full on the third anniversary of the date of grant (28 July 2023), 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%	59,083	2259.6p	1,335
Marc Ronchetti	175%	32,756		740
Adam Meyers	150%	28,099		635
Jennifer Ward	150%	22,411		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 2021)

On 28 July 2020, 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 2020. Awards are not subject to performance conditions as they are deferred awards relating to bonus earned for the year ended 31 March 2020. Awards vest in full on the second anniversary of the date of grant (28 July 2022).

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 2020 £000	Amount awarded in shares
Andrew Williams	11,925	2259.6p	269	808	33.3%
Marc Ronchetti	7,593		172	515	33.3%
Adam Meyers	5,430		123	368	33.3%
Jennifer Ward	6,057		137	411	33.3%

Implementation of remuneration policy for the year to 31 March 2022

Salary

Part of the proposals for the New Policy includes increases to base salaries for the Executive Directors over the next two years. The Committee has thought very carefully about these changes, ultimately deciding that the adjustments are a fair reflection of the contribution the individuals bring to the business, address key remuneration issues and are fully aligned with shareholders' interests.

The Committee has also decided to move the effective date of any increases to 1 June going forward.

The increases for the 2022 fiscal year are shown below but are subject to approval at the AGM. In the event the increases are approved at the AGM, they will be implemented in August 2021 and backdated to 1 June 2021. The proposed increases for 2023 are also shown but these will be subject to performance over the next financial year and will be reported on in next year's Report.

Base Salary, effective 1 June 2021

Executive Director	Salary from 1 June 2021	Salary from 1 April 2020	% change
Andrew Williams	£776,500	£669,325	16%
Marc Ronchetti	£493,000	£425,000	16%
Jennifer Ward	£395,000	£340,000	16%

Planned base salaries, effective 1 June 2022, subject to performance

Executive Director	Salary from 1 June 2022	Salary from 1 June 2021	% change
Andrew Williams	£900,000	£776,500	16%
Marc Ronchetti	£574,000	£493,000	16%
Jennifer Ward	£460,000	£395,000	16%

Pension and benefits

Pension contributions will remain unchanged for 2022 but will reduce to 10.5% by 31 December 2022 in line with the maximum rate offered to the UK wider workforce.

Annual bonus

The maximum annual bonus opportunity for 2021 will increase in line with the policy proposals and will be 200% for the CEO and 180% for the other Executive Directors. One third of the bonus earned will be deferred into a share award which vests in full after two years.

Bonuses for 2022 will continue to be based on EVA performance against a weighted average target of EVA for the past three years as described above. 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 June 2021, based on the current policy. If the New Policy is approved, a top-up grant would be made after the AGM in July 2021. The number of shares over which awards will be made is determined by the average share price for the five trading days prior to the date of award. The value of each performance share award, relative to salary and reflecting the policy proposals has been fixed as follows:

Executive Director	Salary for 2022	Performance share award	Value of award
Andrew Williams	£776,500	300%	£2,329,500
Marc Ronchetti	£493,000	250%	£1,232,500
Jennifer Ward	£395,000	200%	£790,000

The performance share awards 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 2021, 2022 and 2023. The full performance conditions are set out in detail below.

EPS[1]		ROTIC[2] (post-tax)		
Performance levels	% of award vesting[3]	Performance levels	% of award vesting[3]	Total
< 5%	0.0%	< 11.0%	0.0%	0.0%
5%	12.5%	11.0%	12.5%	25%
12% or more	50%	17% 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 Committee will review the impacts of the accounting interpretation of IAS 38 with regards to configuration and customisation costs for cloud computing arrangements on the Group's ongoing technology investments and the impact of tax law changes on the Group's effective tax rate. This review will be done based on the principle that any adjustment ensures that the outturn is measured on a like for like basis as the targets.

Chair and non-executive Director fees

The Chair's and the non-executive Directors' fees were last increased by the Board in April 2019. Last year, in line with the overall sentiment of the decision for salary reductions to be taken by the Executive and non-executive Directors, a planned increase to the Chair's fee noted in our 2019 report was deferred acknowledging the impact of COVID-19. We have now taken the opportunity to review the fees for our Chair. There are no changes to the fees for the non-executive Directors but a review will be carried out in January 2022.

Fees	Fees from 1 June 2021	Fees from 1 April 2020
Chair	**£400,000**	£280,000
Base fee	**£58,500**	£58,500
Senior Independent Director	**£10,000**	£10,000
Audit Committee Chair	**£15,000**	£15,000
Remuneration Committee Chair	**£10,000**	£10,000
Committee Member	**£nil**	£nil

The following table sets out the total remuneration for the Chair and the non-executive Directors for the year end 31 March 2021.

Non-executive Director[1]	2021 £000	2020 £000
Paul Walker	**266**	280
Daniela Barone Soares	**56**	59
Roy Twite	**56**	59
Tony Rice	**65**	77
Carole Cran	**70**	74
Jo Harlow	**65**	59
Louise Makin[2]	**8**	n/a

1 Fees have been rounded to the nearest £1,000
2 Louise Makin was appointed from 9 February 2021

CEO Pay ratio

This is our second year of reporting the CEO pay ratio and the following table sets out our CEO pay ratio figures in respect of 2021 and 2020. All figures are calculated using pay and benefits data for the year to 31 March 2021 and for part-time employees, the full-time equivalent salary and benefits is used.

Year	Method	25th Percentile: **pay ratio,** total pay and benefits, (salary)	50th Percentile: **pay ratio,** total pay and benefits, (salary)	75th Percentile: **pay ratio,** total pay and benefits, (salary)
2021	**Option A**	**141:1**	**110:1**	**68:1**
		£21,496	**£27,568**	**£44,220**
		(£19,830)	**(£25,450)**	**(£40,097)**
2020	Option A	183:1	139:1	86:1
		£20,700	£27,300	£43,900
		(£19,200)	(£25,300)	(£40,000)

As was done last year, Option A was chosen as it is the most statistically accurate method, considered best practice by the Government, in line with shareholder expectations 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 per the table on page 130.

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 robust returns – even through the challenging COVID circumstances.

The composition of our business did not change significantly through the year, despite the Board's decision to self-fund the small percentage of our workforce who were furloughed by their companies. In a normal year, we would expect the ratio to be higher. However, over the period from 1 April to 30 June 2020, the CEO took a 20% salary reduction. In addition, compared to last year, the CEO's variable pay has reduced as a result of the COVID-19 impact on business performance as seen in the lower vesting percentage for the 2018 award. In contrast, employee pay at the 25th, 50th and 75th percentile has remained broadly the same, resulting in a lower CEO pay ratio for the year.

Directors' pensions

A review has been undertaken of pension arrangements across the UK companies, the result of which is that there will be an increase to employer pension contributions for the UK wider workforce to a maximum of 10.5% from 4.8% by 31 March 2022. Executive Directors' pension arrangements were included in this review and they have voluntarily committed to lowering their cash-in-lieu pension contributions to 10.5% by 31 December 2022. For Andrew Williams, this is a reduction from 26% and for the other Executive Directors, a reduction from 18.7%. If any new directors are appointed, their pension arrangements will be in line with the wider UK workforce.

Andrew Williams is the only UK Executive Director who is a 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 (£166,506 for 2021).

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 2021	Years of pensionable service at 31 March 2021	Increase in accrued benefits £000	Increase in accrued benefits net of inflation £000	Accrued benefits at 31 March 2021 £000
Andrew Williams	**53**	**20**	**0.4**	**–**	**67**

Percentage change in Directors' remuneration versus employees

The table below shows the percentage change in the salary/fees, bonus outcomes and benefits of the Directors for 2020 and 2021, compared with the percentage change in the same components of pay for employees. The employee percentages shown represent the change in median employee pay, comparing the median UK employee on 31 March 2021 with the median UK employee on 31 March 2020, ranked based on the total of salary, benefits and bonus.

	Salary/fee % change	Benefits % change	Annual Bonus % change
Executive Directors			
Andrew Williams	(5%)	(6%)	(40%)
Marc Ronchetti	(5%)	41%	(40%)
Adam Meyers	3%	(50%)	20%
Jennifer Ward	(5%)	0%	(40%)
Non-executive Directors			
Paul Walker	(5%)	n/a	n/a
Daniela Barone Soares	(5%)	n/a	n/a
Roy Twite	(5%)	n/a	n/a
Tony Rice	(16%)	n/a	n/a
Carole Cran	(5%)	n/a	n/a
Jo Harlow	10%	n/a	n/a
Louise Makin[1]	n/a	n/a	n/a
Employees	(5%)	(22%)	10%

1 Louise Makin was appointed on 9 February 2021.

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 2020 to the financial year ended 31 March 2021.

	2021 £m	2020 £m	% change
Distribution to shareholders	**66.8**	62.5	**6.9**
Employee remuneration (gross)	**366**	376	**(2.7)**
Employee remuneration (pro-rated)	**334**	328	**1.8**

The Directors are proposing a final dividend for the year ended 31 March 2021 of 10.78p per share (2020: 9.96p).

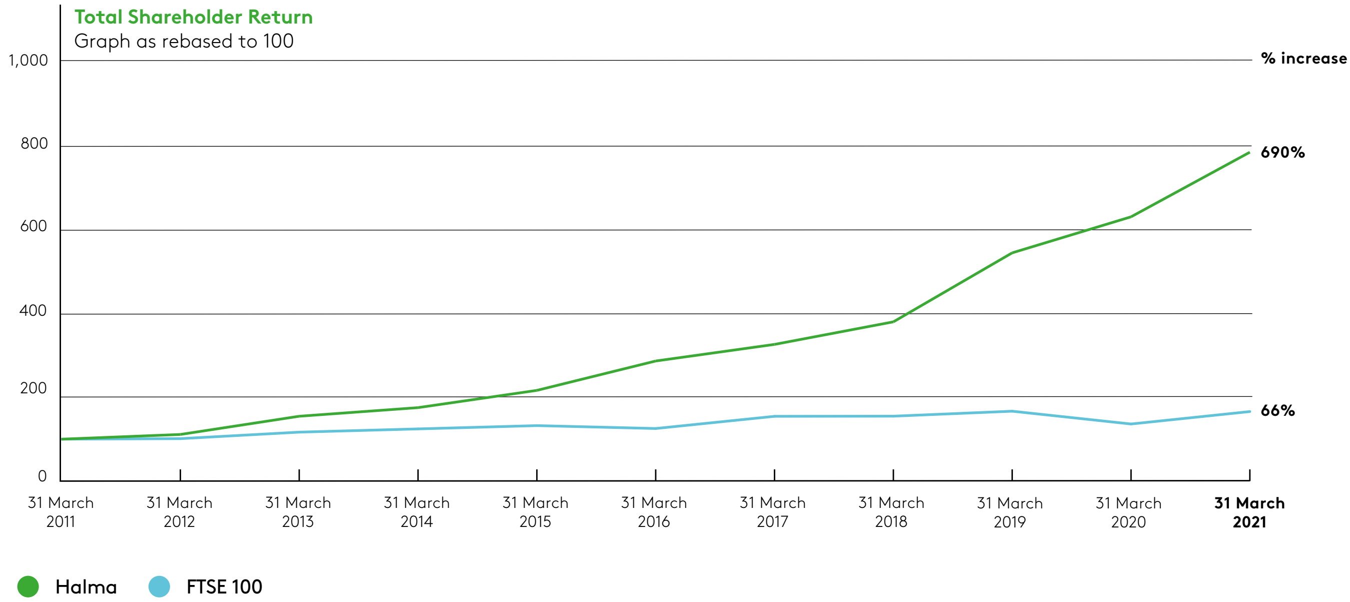
Pro-rated employee remuneration represents a restatement of the prior year gross employee remuneration for the current year number of employees.

Pay-for-performance

The ten-year graph below shows the Company's TSR performance over the ten years to 31 March 2021 as compared to the FTSE 100 index. Over the period indicated, the Company's TSR was 690% compared to 66% 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 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.



	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Andrew Williams single figure remuneration (£000)	£1,715	£1,958	£1,543	£2,006	£2,423	£2,337	£3,429	£3,954	£3,912	**£3,027**
Annual bonus outcome (% of maximum)	40%	48%	37%	53%	53%	34%	89%	100%	81%	**48%**
PSP vesting outcome (% of maximum)	100%	98%	74%	78%	95%	92%	90%	90%	91%	**74%**

Directors' interests in Halma shares

The interests of the Directors in office at 31 March 2021 (and their connected family members) in the ordinary shares of the Company at the following dates were as follows:

	31 March 2021	31 March 2020
Paul Walker	**30,000**	30,000
Andrew Williams	**701,072**	650,922
Marc Ronchetti	**26,296**	8,019
Adam Meyers	**350,480**	348,480
Jennifer Ward	**67,127**	42,882
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
Louise Makin	**10,000**	–

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 2021 to 10 June 2021.

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 2020	Granted/ (vested) in the year	Five-day average share price on grant (p)	As at 31 March 2021
Andrew Williams	ESP	03-Jul-17	111,484	(101,729)	1118	**–**
	ESP	02-Jul-18	95,121		1369.2	**95,121**
	DSA	02-Jul-18	20,339	(20,339)	1369.2	**–**
	ESP	01-Jul-19	65,264		2045.6	**65,264**
	DSA	01-Jul-19	15,961		2045.6	**15,961**
	ESP	28-Jul-20		59,083	2259.6	**59,083**
	DSA	28-Jul-20		11,925	2259.6	**11,925**
Marc Ronchetti	ESP	03-Jul-17	11,511	(10,503)	1118	**–**
	ESP	23-Nov-17	20,720	(18,907)	1293.4	**–**
	ESP	02-Jul-18	52,786		1369.2	**52,786**
	DSA	02-Jul-18	4,796	(4,796)	1369.2	**–**
	ESP	01-Jul-19	36,182		2045.6	**36,182**
	DSA	01-Jul-19	8,642		2045.6	**8,642**
	ESP	28-Jul-20		32,756	2259.6	**32,756**
	DSA	28-Jul-20		7,593	2259.6	**7,593**
Adam Meyers	ESP	03-Jul-17	50,300	(45,899)	1118	**–**
	ESP	02-Jul-18	43,342		1369.2	**43,342**
	DSA	02-Jul-18	3,997	(3,997)	1369.2	**–**
	ESP	01-Jul-19	30,046		2045.6	**30,046**
	DSA	01-Jul-19	9,773		2045.6	**9,773**
	ESP	28-Jul-20		28,099	2259.6	**28,099**
	DSA	28-Jul-20		5,430	2259.6	**5,430**
Jennifer Ward	ESP	03-Jul-17	40,733	(37,169)	1118	**–**
	ESP	02-Jul-18	34,797		1369.2	**34,797**
	DSA	02-Jul-18	8,295	(8,295)	1369.2	**–**
	ESP	01-Jul-19	24,755		2045.6	**24,755**
	DSA	01-Jul-19	7,821		2045.6	**7,821**
	ESP	28-Jul-20		22,411	2259.6	**22,411**
	DSA	28-Jul-20		6,057	2259.6	**6,057**

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.

Future payments to Adam Meyers

Adam Meyers will stand down from the Board on 22 July 2021. He will remain as an employee of the Group and be available for 15 days per quarter until he retires from the company on 1 July 2022. From 22 July 2021, he will receive a pro-rated annual salary of $134,500 and reimbursement for any business and travel expenses. Adam will not be entitled to a bonus for the period from 23 July 2021 or a PSP award in June 2021 but will be entitled to a bonus for the period 1 April 2021 to 22 July 2021. His outstanding Deferred Bonus awards, including any deferred bonus award granted in 2022, will vest in full at the normal vesting date (two years from grant) and, as a good leaver, Adam's outstanding PSP awards will vest, subject to performance, on a time pro-rata up to his retirement date.

Share Incentive Plan	Date of grant	As at 1 April 2020	Granted, >3 years or (withdrawn) in the year	Share price on award (p)	As at 31 March 2021
Andrew Williams	>3 years	4,441	322		**4,763**
	01-Oct-18	239		1504	**239**
	01-Oct-19	183		1961	**183**
	01-Oct-20		183	2397	**150**
Marc Ronchetti	>3 years		314		**314**
	01-Oct-18	239		1504	**239**
	01-Oct-19	183		1961	**183**
	01-Oct-20		183	2397	**250**
Jennifer Ward	>3 years	1,358	318		**1,676**
	01-Oct-18	239		1504	**239**
	01-Oct-19	183		1961	**183**
	01-Oct-20		150	2397	**150**

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' 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 2021.

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 217 to 222. 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 87:

— 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 Report on pages 64 to 77).

Dividends

The Directors recommend a final dividend of 10.78p per share and, if approved, the dividend will be paid on 12 August 2021 to ordinary shareholders on the register at the close of business on 9 July 2021. Together with the interim dividend of 6.87p per share already paid, this will make a total dividend of 17.65p (2020: 16.50p) 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 90 and 91.

The Remuneration Report on pages 129 to 139 provides details of the interests of each Director in the shares of the Company.

Liability insurance and 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. Each Director is covered by appropriate directors' and officers' liability insurance, at the Company's expense.

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 96 and 97. 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 58 and 59. Examples of how the Directors had regard to stakeholder interests when making principal decisions during the year are set out on page 98.

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 102.

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. While the loss or disruption to certain of these arrangements could temporarily affect the Group's business, none are 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 10 June 2021 (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 2022 and 22 October 2022. 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 10 June 2021, 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 10 June 2021 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.

Substantial shareholdings
As at 31 March 2021, 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 2021		
	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**

During the period between 31 March 2021 and 10 June 2021 (the latest practicable date prior to the publication) no changes to substantial shareholdings were disclosed to the Company.

Purchase of the Company's own shares

The Company was authorised at the 2020 AGM to purchase up to 37,900,000 of its own 10p ordinary shares in the market. This authority expires on 31 August 2021. 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 2022 AGM and 22 October 2022, 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 10 June 2021.

Annual General Meeting

The Company's AGM will be held on 22 July 2021. Given the continuing uncertainty regarding the easing of UK Government public health guidance and legislation relating to the COVID-19 pandemic, and mindful of the health and wellbeing of our shareholders and employees, we propose to hold this year's AGM as a combined physical and electronic meeting via a live webcast (a hybrid format). Accordingly, we expect only a small number of Directors and the Company Secretary to attend the AGM in person. Although we expect attendance in person at the AGM to be possible, in light of the ongoing COVID-19 situation and the uncertainties regarding future developments, we strongly encourage shareholders not to attend the AGM in person. Shareholders can instead attend and participate in the AGM virtually via a live webcast, where they will be able to vote electronically and ask questions.

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.

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.

Going concern statement

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 2021, its cash flows, liquidity position and borrowing facilities are set out in the Strategic Report. In addition, note 27 to the financial statements 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 and its principal risks set out on pages 80 to 83. Under the potential scenarios considered, which includes a severe but plausible downside scenario, 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 £670m which includes a £550m Revolving Credit Facility maturing in November 2023 of which £333.4m remains undrawn at the date of this report. The earliest maturity in these facilities is for £70.0m in January 2023. The financial covenants on these facilities are for leverage (net debt/adjusted EBITDA[1]) of not more than three times and for adjusted interest cover of not less than four times.

Our base case scenario has been prepared using forecasts from each of our operating companies as well as cash outflows on acquisitions and dividends in line with pre COVID-19 levels. In addition, a severe but plausible downside scenario has been modelled showing trading at similar levels to those in the year ended 31 March 2021. This reduction in trading to that currently forecasted could be caused by further significant, unexpected COVID-19 impacts or another significant downside event. In mitigating the impacts of the downside scenario there are actions that can be taken which are entirely discretionary to the business such as acquisitions spend and dividend growth rates. In addition, the Group has demonstrated strong resilience and flexibility in the first half of the year in managing overheads which could be used to further mitigate the impacts of the downside scenario.

Neither 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.

Post-balance sheet events

Events subsequent to the year end are reported in note 32 to the Accounts on page 209.

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:

	Page
Details of long-term incentives	193
Contracts of significance	141
Shareholder waiver of dividends	140
Shareholder waiver of future dividends	140

Corporate Governance Statement

The Company's statement on corporate governance can be found in the Corporate Governance Report on page 88. 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
10 June 2021

1 Net debt and adjusted EBITDA are on a pre-IFRS 16 basis for covenant purposes

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 accounting standards in conformity with the requirements of the Companies Act 2006 and the 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). Additionally, the Financial Conduct Authority's Disclosure Guidance and Transparency Rules require the directors to prepare the group financial statements in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. 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 international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in 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.

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 90 and 91 confirm that, to the best of their knowledge:

— The Company financial statements, which have been prepared in accordance with United Kingdom Accounting Standards, comprising FRS 101, 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 international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in 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 152 to 227 were approved by the Board of Directors on 10 June 2021 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

10 June 2021

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 2021 and of the group's profit and the group's cash flows for the year then ended;
— the group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
— 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.

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 2021; 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.

Our opinion is consistent with our reporting to the Audit Committee.

Separate opinion in relation to international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union

As explained in note Accounting Policies to the financial statements, the group, in addition to applying international accounting standards in conformity with the requirements of the Companies Act 2006, has also applied international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

In our opinion, the group financial statements have been properly prepared in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

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.

Other than those disclosed in note 6 to the financial statements, we have provided no non-audit services to the company or its controlled undertakings in the period under audit.

Our audit approach
Overview

Audit scope
- There were no significant components within the Group.
- We performed audit procedures over 49 reporting components in the Group.
- This provided coverage of 68% revenue, 66% profit before tax, and 88% net assets.

Key audit matters
- Valuation of one specific contingent consideration balance (group)
- Valuation of uncertain tax positions (group)
- Assessment of impairment of goodwill and other intangible assets (group)
- The impact of COVID-19 (group).

Materiality
- Overall group materiality: £13,900,000 (FY20: £13,300,000) based on 5% of profit before tax before adjustments.
- Overall company materiality: £11,160,000 (FY20: £11,200,000) based on 1% of total assets.
- Performance materiality: £10,425,000 (group) and £8,370,000 (company).

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. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

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.

Acquisition accounting – valuation of acquired intangibles (group) and Impairment of investments (company), which were key audit matters last year, are no longer included because of the relative level of assessed audit risk associated with them. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Valuation of one specific contingent consideration balance (group) There are ten acquisitions which were completed in previous years where the final contingent consideration remains unsettled at 31 March 2021. The total provision held in respect of all contingent consideration estimated at 31 March 2021 is £29.4m . The performance periods relevant for the calculation of the contingent consideration 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 £70.7m) there is a risk of material misstatement in the assessment 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 the related acquisitions based on risk weighted assessments of the forecast performance of each business. Of the ten acquisitions with outstanding contingent consideration at 31 March 2021, we have concluded that 9 have a low risk of material misstatement and our work has principally focussed on the one balance assessed as higher risk. Refer to Accounting Policies note and notes 20, 25 and 27 for management's disclosures of the relevant judgements and estimates.	— Our audit primarily focused on the risk of an inaccurate estimate of contingent consideration for the one balance assessed as higher risk. — 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 this calculation, reconciling it to the relevant accounting records. — 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 is materially appropriate. — We have discussed the contingent consideration and the likely cash outflow directly with management's advisors. We have also involved our own experts to be able to challenge management's advisors and assess the reasonableness of management's assumptions. — We have reviewed the disclosures in the Annual Report, including note 25, and agree that these are consistent with our audit work performed and the disclosure requirements of IFRS 3. Based on the work done, as summarised above, we have concluded the contingent consideration is appropriately stated.
Valuation of uncertain tax positions (group) A contingent liability of up £13.9m 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. In January 2021, the Group received a Charging Notice from HM Revenue & Customs ("HMRC") for £13.9m assessed for the period from 1 April 2016 to 31 December 2018. The Group has appealed against the notice but as there is no right of postponement the amount charged was paid in full in February 2021. Although the Group has appealed against the notice, the final outcome remains uncertain. The £13.9m payment made has been recognised as a receivable on the basis that management believes it is more likely than not that the amount will be recovered. The resulting £13.9m contingent liability is disclosed in note 31.	— Whilst we have assessed all material uncertain tax positions, our audit focused mainly on the State Aid contingent liability as other material risk positions have been assessed as remote. — In relation to State Aid, 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. Given the payment of this amount in full in February 2021, this payment on account has resulted in a tax receivable asset recognised on the basis it is more likely than not it will be recovered. We have concluded that the recognition of the asset is supportable at 31 March 2021. — In relation to other tax exposures, we have reviewed management's analysis, obtained advice prepared by management's advisors and involved our own experts to assess the appropriateness of the provided advice and the overall position taken by management that all other material risk positions are remote. — We have reviewed disclosures included in note 31 of the Annual Report setting out the contingent liability and agree these are consistent with our audit work performed and the relevant IFRS requirements. Based on the work performed and summarised above, we have concluded that the Group's treatment of the State Aid exposure and the associated disclosures of the resulting contingent liability are appropriate. Other tax exposures within the Group have either been appropriately provided for or the underlying risks have been assessed as remote and we concur with this assessment.

Key audit matter	How our audit addressed the key audit matter

Assessment of impairment of goodwill and other intangible assets (group)
The Group holds significant goodwill and other intangible assets balances of £808.5m (2020: £838.4m) and £290.0m (2020: £328.4m) respectively as at 31 March 2021. The valuation of these assets is judgemental and there is a risk they may be impaired.
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 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.
As per management's impairment model, there is a substantial headroom in all CGU Groups. The CGU Group with the lowest headroom is the Healthcare Assessment CGU group, where the assumptions used are more sensitive and where we have specifically assessed the risk of impairment as higher.
Management also assessed whether there are any indications that other intangible assets may be impaired. Where such indications are identified, management estimates the recoverable amount of these assets and compares them 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 which would make the risk of misstatement anything other than a normal risk.
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.
	— We have assessed the methodology and approach applied by management in performing their impairment reviews, including the identification of CGU groups and the allocation of CGUs into the relevant groups, and ensured this is consistent with the requirements of IAS 36 'Impairment of Assets'.
	— We have obtained management's annual impairment assessment for all 11 CGU groups 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 year one cash flows and assessed the short and long-term growth rates applied to them to determine value in use. In doing this, we compared the cash flow forecasts to the latest Board approved budgets and compared prior year budget to actual data, in order to assess the quality of the forecasting process. We have tested the growth rate assumptions by comparing them to management's strategic plans and previous sector growth rates.
	— We have recalculated management's own sensitivity analysis of key assumptions and applied our own independent sensitivities by replacing key assumptions with alternative scenarios to ascertain the extent of change in those assumptions that, either individually or collectively, would be required for the assets to be impaired. Our sensitivity testing also included the application of reasonable alternative scenarios in order to assess for any potential material impairment under such conditions.
	— For the Healthcare Assessment CGU group, we have:
	  — used our valuation experts to calculate an independent WACC rate and long-term growth rate; and
	  — performed additional sensitivity analysis in addition to those done on other CGU Groups.
	— 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 2021 and that appropriate disclosures have been made in the financial statements.

The impact of COVID-19 (group) The outbreak of COVID-19 continued to impact the Group during the year ended 31 March 2021 although the trading impact was more significant in the first half of the year. Management has considered the impact of the pandemic on both the Group and Company financial statements. Primarily, these considerations related to the estimate of expected credit losses on accounts receivable balances and an additional provision of £5m which was created in FY20 is still in place at 31 March 2021. There is a risk that the financial impact arising from COVID-19 which has been recorded by management is inadequate. 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.	— 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 2021. We have noted no significant impact on our audit, or material impact on the financial statements, arising from COVID-19. — 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 as a result of the pandemic. — Whilst the majority 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. — We have also reviewed the disclosures in the financial statements in respect of the impact of COVID-19 and concluded that these are appropriate. 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.

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 more than 240 reporting components within the consolidation.

We did not identify any individually significant components within the Group, with no single component providing more than 15% of the Group's external revenue or profit before taxation before adjustments. We determined the most efficient approach to scoping was to perform full scope procedures over 28 reporting components where statutory audits are already required in the 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 8 components in the United States, China, the UK and the Czech Republic. 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 3% of the Group's revenue.

Based on the detailed audit work performed across the Group, we have gained coverage of 68% of total revenue, 66% of profit before tax, and 88% 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:

	Financial statements – group	Financial statements – company
Overall materiality	£13,900,000 (FY20: £13,300,000).	£11,160,000 (FY20: £11,200,000).
How we determined it	Based on 5% of profit before tax before adjustments.	Based on 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 stakeholders in assessing the underlying performance of the Group. This benchmark excludes 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 £0.1m to £11.2m. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £10,425,000 for the group financial statements and £8,370,000 for the company financial statements.

In determining the performance materiality, we considered a number of factors – the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls – and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £695,000 (group audit) (FY20: £665,000) and £695,000 (company audit) (FY20: £665,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the group's and the company's ability to continue to adopt the going concern basis of accounting included:

— Review of management's base case and severe but plausible downside scenario, ensuring the directors have considered all appropriate factors, including the cash flows, the liquidity position of the Group, available borrowing facilities and the relevant financial and non-financial covenants.
— Review of the underlying going concern model prepared by management, along with performing sensitivity analysis to assess the impact of movements in significant assumptions on the overall liquidity headroom and the banking covenants.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the group's and the company's ability to continue as a going concern.

In relation to the directors' reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this 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 our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

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 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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.

Directors' Remuneration

In our opinion, the part of the Annual Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Corporate governance statement
The Listing Rules require us to review the directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the company's compliance with the provisions of the UK Corporate Governance Code specified for our review. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement, included within the Governance section of the Annual report is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

— The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
— The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
— The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the group's and company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
— The directors' explanation as to their assessment of the group's and company's prospects, the period this assessment covers and why the period is appropriate; and
— The directors' statement as to whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the directors' statement regarding the longer-term viability of the group was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the group and company and their environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

— The directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the group's and company's position, performance, business model and strategy;
— The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
— The section of the Annual Report describing the work of the Audit Committee.

We have nothing to report in respect of our responsibility to report when 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.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' Responsibilities, 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

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 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, either in the underlying books and records or as part of the consolidation process, and management bias in 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 and the Group's legal team, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
- Review of reporting component auditors' work;
- Challenging assumptions and judgements made by management in their significant accounting estimates that involved considering future events that are inherently uncertain. In particular, we focused our work on impairment of intangible fixed assets, the valuation of uncertain tax positions and the valuation of contingent consideration;
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations 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. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. 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.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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 obtained 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 Annual 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 4 years, covering the years ended 31 March 2018 to 31 March 2021.

Owen Mackney (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Watford

10 June 2021

Consolidated Income Statement

	Notes	Year ended 31 March 2021 Before adjustments* £m	Year ended 31 March 2021 Adjustments* (note 1) £m	Year ended 31 March 2021 Total £m	Year ended 31 March 2020 Before adjustments* £m	Year ended 31 March 2020 Adjustments* (note 1) £m	Year ended 31 March 2020 Total £m
Continuing operations							
Revenue	1	**1,318.2**	**–**	**1,318.2**	1,338.4	–	1,338.4
Operating profit		**288.3**	**(47.5)**	**240.8**	279.2	(45.8)	233.4
Share of loss of associate	14	**–**	**–**	**–**	(0.1)	–	(0.1)
Profit on disposal of operations	30	**–**	**22.1**	**22.1**	–	2.9	2.9
Finance income	4	**1.0**	**–**	**1.0**	0.6	–	0.6
Finance expense	5	**(11.0)**	**–**	**(11.0)**	(12.7)	–	(12.7)
Profit before taxation	6	**278.3**	**(25.4)**	**252.9**	267.0	(42.9)	224.1
Taxation	9	**(55.8)**	**6.2**	**(49.6)**	(49.4)	9.7	(39.7)
Profit for the year	1	**222.5**	**(19.2)**	**203.3**	217.6	(33.2)	184.4
Attributable to:							
Owners of the parent				**203.4**			184.4
Non-controlling interests				**(0.1)**			–
Earnings per share	2						
From continuing operations							
Basic and diluted		**58.67p**		**53.61p**	57.39p		48.66p
Dividends in respect of the year	10						
Paid and proposed (£m)				**66.8**			62.5
Paid and proposed per share				**17.65p**			16.50p

* Adjustments include the amortisation of acquired intangible assets; acquisition items; significant restructuring costs, and profit or loss on disposal of operations; 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 2021 £m	Year ended 31 March 2020 £m
Profit for the year		**203.3**	184.4
Items that will not be reclassified subsequently to the Consolidated Income Statement:			
Actuarial (losses)/gains on defined benefit pension plans	29	**(30.6)**	22.5
Tax relating to components of other comprehensive income that will not be reclassified	9	**5.9**	(4.0)
Items that may be reclassified subsequently to the Consolidated Income Statement:			
Effective portion of changes in fair value of cash flow hedges	27	**1.0**	(0.5)
Deferred tax in respect of cash flow hedges accounted for in the hedging reserve	9	**(0.2)**	0.1
Exchange (losses)/gains on translation of foreign operations and net investment hedge		**(72.7)**	29.1
Exchange (gains)/losses on translation of foreign operations recycled to the income statement on disposal		**(2.8)**	0.1
Other comprehensive (expense)/income for the year		**(99.4)**	47.3
Total comprehensive income for the year		**103.9**	231.7
Attributable to			
Owners of the parent		**104.0**	231.7
Non-controlling interests		**(0.1)**	–

The exchange losses of £72.7m (2020: gains of £29.1m) includes gains of £19.9m (2020: losses of £11.9m) which relate to net investment hedges as described in note 27.

Consolidated Balance Sheet

	Notes	31 March 2021 £m	31 March 2020 £m
Non-current assets			
Goodwill	11	**808.5**	838.4
Other intangible assets	12	**290.0**	328.4
Property, plant and equipment	13	**180.8**	184.3
Interest in associates and other investments	14	**9.3**	4.8
Retirement benefit asset	29	**–**	5.4
Tax receivable	31	**13.9**	–
Deferred tax asset	22	**1.3**	1.3
		1,303.8	1,362.6
Current assets			
Inventories	15	**167.8**	170.6
Trade and other receivables	16	**268.0**	286.6
Tax receivable		**2.5**	10.7
Cash and bank balances		**134.1**	106.3
Derivative financial instruments	27	**1.7**	1.0
		574.1	575.2
Total assets		**1,877.9**	1,937.8
Current liabilities			
Trade and other payables	17	**186.7**	186.7
Borrowings	19	**3.0**	75.1
Lease liabilities	28	**13.3**	13.0
Provisions	20	**35.4**	28.0
Tax liabilities		**8.9**	9.4
Derivative financial instruments	27	**0.7**	1.0
		248.0	313.2
Net current assets		**326.1**	262.0
Non-current liabilities			
Borrowings	19	**322.3**	345.0
Lease liabilities	28	**51.7**	48.5
Retirement benefit obligations	29	**22.5**	10.6
Trade and other payables	21	**16.8**	13.3
Provisions	20	**8.4**	21.6
Deferred tax liabilities	22	**40.6**	48.7
		462.3	487.7
Total liabilities		**710.3**	800.9
Net assets		**1,167.6**	1,136.9
Equity			
Share capital	23	**38.0**	38.0
Share premium account		**23.6**	23.6
Own shares		**(20.9)**	(14.3)
Capital redemption reserve		**0.2**	0.2
Hedging reserve		**0.7**	(0.1)
Translation reserve		**73.2**	148.7
Other reserves		**(13.6)**	(7.7)
Retained earnings		**1,065.8**	949.2
Equity attributable to owners of the Company		**1,167.0**	1,137.6
Non-controlling interests		**0.6**	(0.7)
Total equity		**1,167.6**	1,136.9

The financial statements of Halma plc, company number 00040932, were approved by the Board of Directors on 10 June 2021.

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 2020	**38.0**	**23.6**	**(14.3)**	**0.2**	**(0.1)**	**148.7**	**(7.7)**	**949.2**	**(0.7)**	**1,136.9**
Profit for the year	–	–	–	–	–	–	–	**203.4**	**(0.1)**	**203.3**
Other comprehensive income and expense:										
Exchange loss on translation of foreign operations and net investment hedge	–	–	–	–	–	**(72.7)**	–	–	–	**(72.7)**
Exchange gains on translation of foreign operations recycled to income statement on disposal	–	–	–	–	–	**(2.8)**	–	–	–	**(2.8)**
Actuarial losses on defined benefit pension plans	–	–	–	–	–	–	–	**(30.6)**		**(30.6)**
Effective portion of changes in fair value of cash flow hedges	–	–	–	–	**1.0**	–	–	–	–	**1.0**
Tax relating to components of other comprehensive income and expense	–	–	–	–	**(0.2)**	–	–	**5.9**	–	**5.7**
Total other comprehensive income and expense	–	–	–	–	**0.8**	**(75.5)**	–	**(24.7)**	–	**(99.4)**
Dividends paid	–	–	–	–	–	–	–	**(63.7)**	–	**(63.7)**
Share-based payment charge	–	–	–	–	–	–	**11.9**	–	–	**11.9**
Deferred tax on share-based payment transactions	–	–	–	–	–	–	**(0.4)**	–	–	**(0.4)**
Excess tax deductions related to share-based payments on exercised awards	–	–	–	–	–	–	–	**1.6**	–	**1.6**
Purchase of own shares	–	–	**(16.2)**	–	–	–	–	–	–	**(16.2)**
Performance share plan awards vested	–	–	**9.6**	–	–	–	**(17.4)**	–	–	**(7.8)**
Adjustments to non-controlling interest arising on acquisition	–	–	–	–	–	–	–	–	**1.4**	**1.4**
At 31 March 2021	**38.0**	**23.6**	**(20.9)**	**0.2**	**0.7**	**73.2**	**(13.6)**	**1,065.8**	**0.6**	**1,167.6**

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 2021 the number of shares held by the Employee Benefit Trust was 891,622 (2020: 760,894). The market value of own shares was £21.2m (2020: £14.6m).

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	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

Consolidated Cash Flow Statement

	Notes	Year ended 31 March 2021 £m	Year ended 31 March 2020 £m
Net cash inflow from operating activities	26	**277.6**	255.5
Cash flows from investing activities			
Purchase of property, plant and equipment – owned assets	13	**(22.8)**	(31.2)
Purchase of computer software	12	**(2.8)**	(2.6)
Purchase of other intangibles	12	**(1.2)**	(0.3)
Proceeds from sale of property, plant and equipment and capitalised development costs		**0.9**	1.9
Development costs capitalised	12	**(15.4)**	(14.7)
Interest received		**0.8**	0.5
Acquisition of businesses, net of cash acquired	25	**(46.4)**	(232.8)
Disposal of business	30	**26.1**	7.6
Purchase of equity investments	14	**(3.4)**	(4.8)
Net cash used in investing activities		**(64.2)**	(276.4)
Cash flows from financing activities			
Dividends paid		**(63.7)**	(61.2)
Purchase of own shares		**(16.2)**	(16.7)
Interest paid		**(10.0)**	(11.1)
Proceeds from bank borrowings	26	**–**	308.1
Repayment of bank borrowings	26	**(7.3)**	(151.7)
Repayment of loan notes	26	**(72.2)**	–
Repayment of lease liabilities, net of interest		**(14.1)**	(13.7)
Net cash generated (used in)/from financing activities		**(183.5)**	53.7
Increase in cash and cash equivalents	26	**29.9**	32.8
Cash and cash equivalents brought forward		**105.4**	72.1
Exchange adjustments		**(4.2)**	0.5
Cash and cash equivalents carried forward	26	**131.1**	105.4

	Notes	Year ended 31 March 2021 £m	Year ended 31 March 2020 £m
Reconciliation of net cash flow to movement in net debt			
Increase in cash and cash equivalents		**29.9**	32.8
Net cash outflow/(inflow) from repayment/(drawdown) of bank borrowings	26	**7.3**	(156.4)
Loan notes repaid	26	**72.2**	0.1
Lease liabilities – additions including interest		**(25.0)**	(18.1)
Lease liabilities – arising on acquisition		**(0.5)**	(8.2)
Lease liabilities – extinguished on disposal		**1.8**	–
Repayment of lease liabilities	28	**16.4**	15.8
Exchange adjustments		**17.0**	(9.3)
Decrease/(increase) in net debt		**119.1**	(143.3)
Net debt brought forward		**(375.3)**	(181.7)
Impact of changes in accounting policies – IFRS 16 'Leases'		**–**	(50.3)
Restated net debt brought forward		**(375.3)**	(232.0)
Net debt carried forward		**(256.2)**	(375.3)

Accounting Policies

Basis of presentation
The consolidated financial statements of Halma are prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and have also applied International Financial Reporting Standards (IFRS) adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union (EU). The financial statements have also been prepared in accordance with 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 2021 and 31 March 2020, other than those noted below.

The Group accounts have been prepared under the historical cost convention, except as described below under the headings 'Derivative financial instruments and hedge accounting', 'Financial assets at fair value through other comprehensive income (FVOCI)', 'Pensions' and 'Business combinations and goodwill'.

New Standards and Interpretations applied for the first time in the year ended 31 March 2021
The following Standards with an effective date of 1 January 2020 have been adopted without any significant impact on the amounts reported in these financial statements:

— Amendments to IFRS 3: Definition of a Business

— Amendments to IAS 1 and IAS 8: Definition of Material

— Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7

— Conceptual Framework: Amendments to References to the Conceptual Framework in IFRS Standards

In April 2021 the IFRS IC published its final agenda decision on Configuration and Customisation ('CC') costs in a Cloud Computing Arrangement. The agenda decision considers how a customer accounts for configuration or customisation costs where an intangible asset is not recognised in a cloud computing arrangement. The agenda decision does not have a material impact on the Group in respect of the current year or prior years. The Group is evaluating the IFRIC publication in respect of costs expected to be incurred in the next year and will update its accounting policy accordingly in the short term to reflect the agenda decision published.

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 or UK):

— Interest Rate Benchmark Reform – Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

— Reference to the Conceptual Framework – Amendments to IFRS 3

— Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16

— Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37

— Classification of Liabilities as Current or Non-current – Amendments to IAS 1

— COVID-19 Related Rent Concessions – Amendment to IFRS 16

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 (ROTIC), 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.

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 2021, 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 and its principal risks set out on pages 80 to 83. Under the potential scenarios considered, which includes a severe but plausible downside scenario, 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 £670m which includes a £550m Revolving Credit Facility maturing in November 2023 of which £333.4m remains undrawn at the date of this report. The earliest maturity in these facilities is for £70.0m in January 2023. 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 case scenario has been prepared using forecasts from each of our Operating Companies as well as cash outflows on acquisitions and dividends in line with pre COVID-19 levels. In addition, a severe but plausible downside scenario has been modelled showing trading at similar levels to those in the year ended 31 March 2021. This reduction in trading to that currently forecasted could be caused by further significant, unexpected COVID-19 impacts or another significant downside event. In mitigating the impacts of the downside scenario there are actions that can be taken which are entirely discretionary to the business such as acquisitions spend and dividend growth rates. In addition, the Group has demonstrated strong resilience and flexibility in the first half of the year in managing overheads which could be used to further mitigate the impacts of the downside scenario.

Neither 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.

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; plus
- the recognised amount of any non-controlling interests in the acquiree measured at the proportionate share of the value of net identifiable assets acquired; plus
- the fair value of the existing equity interest in the acquiree; less
- 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.

Payments for contingent consideration are classified as investing activities within the Consolidated Cash Flow Statement, with movements in contingent consideration provisions after the measurement period included as a reconciling item between operating profit and cash inflow from operating activities.

Key accounting policies continued

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 20 years. The carrying value of intangible assets is reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

(b) Product development costs

Research expenditure is charged to the Consolidated Income Statement in the financial year in which it is incurred.

Development expenditure is expensed 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, meeting the recognition criteria of IAS 38 'Intangible Assets', 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.

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 in the period the expense relates to.

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 CGU groups 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. Further details are provided in note 11. There have been no changes to the CGU groups in the current year.

Recoverability of non-current taxation assets

In the current year, determining the recoverability of tax assets requires management's judgement in assessing the amounts paid 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 that the £13.9m paid to HM Revenue & Customs (HMRC) in the year, included within non-current assets on the Consolidated Balance Sheet, will ultimately be recovered. Further details are provided in note 31.

Key sources of estimation uncertainty

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.

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. Management engages third party specialists to assist with the valuation assumption in respect of acquired 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 CGU groups. The future cash flows are based on annual budgets and forecasts of CGUs, 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. Management believes that there is no reasonably possible change in any of the key assumptions that would cause the carrying value of any CGU group to exceed its recoverable amount. 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.

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 2021, 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 provisioning 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.

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. Such reversals are recognised in the Consolidated Income Statement. Impairment losses in respect of goodwill are not reversed.

Other accounting policies continued

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 and 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.

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 satisfies its performance obligation, 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. The transaction price is allocated to each performance obligation on a relative standalone selling price basis.

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 as work progresses. Progress is measured with reference to the actual cost incurred as a proportion of the total costs expected to be incurred under the contract. 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.

Other accounting policies continued

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. A contract liability is only recognised on non-cancellable contracts that provide unconditional rights to payment from the customer for products and services that the Group has not yet completed providing or that it will provide in the near future. 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').

Costs to obtain or fulfil a contract

The incremental costs of obtaining a contract with a customer are capitalised as an asset if the Group expects to recover them. Costs such as sales commissions may be incurred when the Group enters into a new contract. Costs to obtain or fulfil a contract are presented in the Consolidated Balance Sheet as assets until the performance obligation to which they relate has been met. These assets are amortised on consistent basis with how the related revenue is recognised. Costs to obtain or fulfil a contract are immaterial as at 31 March 2021 or 31 March 2020.

The Group applies the practical expedient in IFRS 15 (paragraph 94) and recognises incremental costs of obtaining a contract as an expense when incurred if the amortisation period of the asset that the Group would otherwise have recognised is one year or less.

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 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. Non-monetary assets and liabilities denominated in foreign currencies are measured in terms of historical costs using the exchange rate at the date of the initial transaction. Any gain or loss arising on monetary assets and liabilities 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 Consolidated 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.

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

Under the Executive share plan, awards of shares are made to 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 accumulated impairment and accumulated 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 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 assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Where the Group determines the contract is, or contains, a lease, a right-of-use asset and a lease liability is recognised at the lease commencement date.

The lease term is determined from the commencement date of the lease and covers the non-cancellable term. If the Group has an extension option, which it considers reasonably certain to exercise, then the lease term will be considered to extend beyond that non-cancellable period. If the Group has a termination option, which it considers it reasonably certain to exercise, then the lease term will be considered to be until the point the termination option will take effect. The Group deem that it is not reasonably certain to exercise an extension option or a termination option with an exercise date past the planning horizon of five years.

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 end of the lease term unless the right-of-use asset is deemed to have a useful life shorter than the lease term. The Group has taken the practical expedient to not separate lease and non-lease components and so account for both as a single lease component.

The right-of-use assets are also subject to impairment testing under IAS 36. Refer to the previous section on Impairment of non-current assets for further details.

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 payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. Variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees are not material to the Group. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs. 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. Lease payments for short-term leases, low-value assets and variable lease payments not included in the measurement of the lease liability are classified as cash flows from operating activities within the Consolidated Cash Flow Statement. The Group has classified the principal and interest portions of lease payments within financing activities.

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.

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 market characteristics. These segments are consistent with the internal reporting reviewed each month by the Group Chief Executive.

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 hazardous gases and analyse air quality; and explosion protection and corrosion monitoring systems. Products are generally sold separately, with contracts less than one year in length. 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; security sensors; and people and vehicle flow technologies. Products are generally sold separately, with contracts typically less than one year in length. 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 optical, optoelectronic and spectral imaging systems; water, air and gases monitoring technologies; and systems for water analysis and treatment. Products and services are generally sold separately. Warranties are typically of an assurance nature, but some companies within the Group 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; technologies and solutions to enable in-vitro diagnostic systems and life-science discoveries and development; 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)

	Year ended 31 March 2021 Revenue by sector and destination (all continuing operations)						
	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	**62.5**	**40.6**	**27.6**	**30.5**	**20.2**	**7.4**	**188.8**
Infrastructure Safety	**97.4**	**138.7**	**111.0**	**69.9**	**17.3**	**16.2**	**450.5**
Environmental & Analysis	**148.9**	**35.7**	**56.4**	**56.4**	**5.8**	**5.6**	**308.8**
Medical	**200.6**	**61.0**	**19.2**	**59.3**	**10.8**	**20.4**	**371.3**
Inter-segmental sales	**(0.6)**	**–**	**(0.6)**	**–**	**–**	**–**	**(1.2)**
Revenue for the year	**508.8**	**276.0**	**213.6**	**216.1**	**54.1**	**49.6**	**1,318.2**

	Year ended 31 March 2020 Revenue by sector and destination (all continuing operations)						
	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

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 £52.6m (2020: £53.1m). All revenue was otherwise derived from the sale of products.

	Year ended 31 March 2021		
	Revenue recognised over time £m	Revenue recognised at a point in time £m	Total Revenue £m
Process Safety	**0.6**	**188.2**	**188.8**
Infrastructure Safety	**3.4**	**447.1**	**450.5**
Environmental & Analysis	**69.2**	**239.6**	**308.8**
Medical	**20.6**	**350.7**	**371.3**
Inter-segmental sales	**–**	**(1.2)**	**(1.2)**
Revenue for the year	**93.8**	**1,224.4**	**1,318.2**

	Year ended 31 March 2020		
	Revenue recognised over time £m	Revenue recognised at a point in time £m	Total Revenue £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
Inter-segmental sales	–	(0.3)	(0.3)
Revenue for the year	82.6	1,255.8	1,338.4

1 Segmental analysis and revenue from contracts with customers continued

Segment revenue disaggregation continued

	Year ended 31 March 2021			
	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	**188.1**	**0.7**	**–**	**188.8**
Infrastructure Safety	**449.1**	**1.4**	**–**	**450.5**
Environmental & Analysis	**302.8**	**6.0**	**–**	**308.8**
Medical	**365.8**	**5.2**	**0.3**	**371.3**
Inter-segmental sales	**(1.2)**	**–**	**–**	**(1.2)**
Revenue for the year	**1,304.6**	**13.3**	**0.3**	**1,318.2**

	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

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 2021 Total £m	Recognised < 1 year £m	Recognised 1-2 years £m	Recognised > 2 years £m
Process Safety	**1.0**	**0.9**	**0.1**	**–**
Infrastructure Safety	**17.4**	**12.7**	**0.5**	**4.2**
Environmental & Analysis	**15.2**	**6.3**	**2.9**	**6.0**
Medical	**6.7**	**6.3**	**0.4**	**–**
Inter-segmental sales	**–**	**–**	**–**	**–**
Total	**40.3**	**26.2**	**3.9**	**10.2**

		Aggregate transaction price allocated to unsatisfied performance obligations		
	31 March 2020 Total £m	Recognised < 1 year £m	Recognised 1-2 years £m	Recognised > 2 years £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

1 Segmental analysis and revenue from contracts with customers continued

Segment results

	Profit (all continuing operations)	
	Year ended 31 March 2021 £m	Year ended 31 March 2020 £m
Segment profit before allocation of adjustments*		
Process Safety	**36.6**	43.9
Infrastructure Safety	**110.6**	107.7
Environmental & Analysis	**77.4**	69.4
Medical	**86.6**	84.4
	311.2	305.4
Segment profit after allocation of adjustments*		
Process Safety	**30.3**	38.6
Infrastructure Safety	**96.5**	83.4
Environmental & Analysis	**92.2**	62.6
Medical	**66.8**	77.9
Segment profit	**285.8**	262.5
Central administration costs	**(22.9)**	(26.3)
Net finance expense	**(10.0)**	(12.1)
Group profit before taxation	**252.9**	224.1
Taxation	**(49.6)**	(39.7)
Profit for the year	**203.3**	184.4

* Adjustments include the amortisation of acquired intangible assets; acquisition items; and significant restructuring costs and profit or loss on disposal of operations. Note 3 provides more information on alternative performance measures.

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:

Year ended 31 March 2021

		Acquisition items					
	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	**(5.5)**	**–**	**–**	**(0.8)**	**(6.3)**	**–**	**(6.3)**
Infrastructure Safety	**(11.7)**	**–**	**(2.4)**	**–**	**(14.1)**	**–**	**(14.1)**
Environmental & Analysis	**(8.6)**	**–**	**1.3**	**–**	**(7.3)**	**22.1**	**14.8**
Medical	**(16.5)**	**(1.9)**	**0.4**	**(1.8)**	**(19.8)**	**–**	**(19.8)**
Total Segment & Group	**(42.3)**	**(1.9)**	**(0.7)**	**(2.6)**	**(47.5)**	**22.1**	**(25.4)**

The transaction costs arose on the acquisition of Static Systems (£0.5m) during the year and costs relating to Visiometrics (£1.4m), both in the Medical sector.

The £0.7m adjustment to contingent consideration comprised: a charge of £2.4m in Infrastructure Safety arising from an increase in the estimate of the payables for Navtech (£1.5m) and FireMate (£0.9m); a credit of £1.3m in Environmental & Analysis arising from a decrease in estimate of the payables for Invenio (£0.8m) and Enoveo (£0.5m), and a credit of £0.4m in Medical arising from a decrease in the estimated payable for NeoMedix (£1.7m), offset by an increase in estimate of the payable for Infowave (£0.9m) and Spreo (£0.2m), and a charge of £0.2m arising from exchange differences on balances denominated in Euros.

The £2.6m release of fair value adjustments to inventory relates to Sensit (£0.8m) in Process Safety and NovaBone (£1.3m), Maxtec (£0.2m) and Static Systems (£0.3m) in Medical. All amounts have now been released in relation to Sensit, NovaBone, Maxtec and Static Systems.

Year ended 31 March 2020

		Acquisition items					
	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 Segment & Group	(38.3)	(5.9)	2.5	(4.1)	(45.8)	2.9	(42.9)

In the prior year, the transaction costs arose mainly on the acquisitions during that 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 related 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.

1 Segmental analysis and revenue from contracts with customers continued

Segment assets and liabilities

Before goodwill, interest in associates and other investments and acquired intangible assets are allocated to specific segment assets/liabilities	Assets 31 March 2021 £m	Assets 31 March 2020 £m	Liabilities 31 March 2021 £m	Liabilities 31 March 2020 £m
Process Safety	**88.1**	96.4	**24.7**	27.3
Infrastructure Safety	**213.5**	189.0	**77.7**	67.8
Environmental & Analysis	**111.5**	138.6	**50.0**	54.5
Medical	**155.7**	161.1	**54.0**	46.2
Total segment assets/liabilities excluding goodwill, interest in associates and other investments and acquired intangible assets	**568.8**	585.1	**206.4**	195.8
Goodwill	**808.5**	838.4	**–**	–
Interest in associate and other investments	**9.3**	4.8	**–**	–
Acquired intangible assets	**241.7**	283.3	**–**	–
Total segment assets/liabilities including goodwill, interest in associates and other investments and acquired intangible assets	**1,628.3**	1,711.6	**206.4**	195.8

After goodwill, interest in associates and other investments and acquired intangible assets are allocated to specific segment assets/liabilities	Assets 31 March 2021 £m	Assets 31 March 2020 £m	Liabilities 31 March 2021 £m	Liabilities 31 March 2020 £m
Process Safety	**191.8**	216.4	**24.7**	27.3
Infrastructure Safety	**528.6**	515.0	**77.7**	67.8
Environmental & Analysis	**290.4**	339.3	**50.0**	54.5
Medical	**617.5**	640.9	**54.0**	46.2
Total segment assets/liabilities including goodwill, interest in associates and other investments and acquired intangible assets	**1,628.3**	1,711.6	**206.4**	195.8
Cash and bank balances/borrowings	**134.1**	106.3	**325.3**	420.1
Derivative financial instruments	**1.7**	1.0	**0.7**	1.0
Other unallocated assets/liabilities	**113.8**	118.9	**177.9**	184.0
Total Group	**1,877.9**	1,937.8	**710.3**	800.9

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 Year ended 31 March 2021 £m	Additions to non-current assets Year ended 31 March 2020 £m	Depreciation, amortisation and impairment Year ended 31 March 2021 £m	Depreciation, amortisation and impairment Year ended 31 March 2020 £m
Process Safety	**4.1**	41.7	**11.3**	9.7
Infrastructure Safety	**18.1**	100.7	**21.7**	22.5
Environmental & Analysis	**8.0**	14.2	**15.9**	17.4
Medical	**49.6**	126.3	**24.1**	22.8
Total segment additions/depreciation, amortisation and impairment	**79.8**	282.9	**73.0**	72.4
Unallocated	**33.8**	31.6	**20.1**	17.5
Total Group	**113.6**	314.5	**93.1**	89.9

Non-current asset additions comprise acquired and purchased goodwill, other intangible assets, property, plant and equipment, interests in associates and other investments.

During the year impairment losses of £2.8m were recognised on Property, plant and equipment and intangible assets, of which £0.4m was recognised in Process Safety, £0.5m was recognised in Infrastructure Safety, £0.9m was recognised in Environmental & Analysis, £0.5m was recognised in Medical and £0.5m was unallocated (2020: £5.2m comprising £2.0m in Infrastructure Safety, £1.6m in Environmental & Analysis and £1.6m in Medical). Impairment losses mainly related to capitalised development costs and were recorded as a result of changes in the expected outcome of projects.

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 2021 £m	Non-current assets 31 March 2020 £m
United States of America	**659.7**	755.0
Mainland Europe	**240.7**	254.0
United Kingdom	**263.1**	224.4
Asia Pacific	**118.7**	114.5
Other countries	**6.4**	8.0
	1,288.6	1,355.9

Non-current assets comprise goodwill, intangible assets, interest in associate and other investments, and property, plant and equipment.

Information about major customers

No single customer accounts for more than 5% (2020: 5%) of the Group's revenue.

2 Earnings per ordinary share

Basic and diluted earnings per ordinary share are calculated using the weighted average of 379,157,495 shares in issue during the year (net of shares purchased by the Company and held as own shares) (2020: 379,086,833). 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 and profit or loss on disposal of operations. 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 2021 £m	Year ended 31 March 2020 £m	Per ordinary share Year ended 31 March 2021 pence	Per ordinary share Year ended 31 March 2020 pence
Earnings from continuing operations attributable to owners of the parent	**203.4**	184.4	**53.61**	48.66
Amortisation of acquired intangible assets (after tax)	**32.0**	30.3	**8.44**	7.98
Acquisition transaction costs (after tax)	**1.6**	5.3	**0.43**	1.41
Adjustments to contingent consideration (after tax)	**0.7**	(2.5)	**0.20**	(0.66)
Release of fair value adjustments to inventory (after tax)	**2.0**	3.0	**0.52**	0.78
Disposal of operations and restructuring (after tax)	**(17.1)**	(2.9)	**(4.53)**	(0.78)
Adjusted earnings attributable to owners of the parent	**222.6**	217.6	**58.67**	57.39

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 (ROTIC), 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 2021 £m	31 March 2020 £m
Profit after tax	**203.3**	184.4
Adjustments[1]	**19.2**	33.2
Adjusted profit after tax[1]	**222.5**	217.6
Total equity	**1,167.6**	1,136.9
Add back net retirement benefit obligations	**22.5**	5.2
Less associated deferred tax assets	**(4.0)**	(0.5)
Cumulative amortisation of acquired intangible assets	**297.2**	283.5
Historical adjustments to goodwill[2]	**89.5**	89.5
Total Invested Capital	**1,572.8**	1,514.6
Average Total Invested Capital[3]	**1,543.7**	1,426.5
Return on Total Invested Capital (ROTIC)[4]	**14.4%**	15.3%

Return on Capital Employed

	31 March 2021 £m	31 March 2020 £m
Profit before tax	**252.9**	224.1
Adjustments[1]	**25.4**	42.9
Net finance costs	**10.0**	12.1
Lease interest	**(2.3)**	(2.1)
Adjusted operating profit[1] after share of results of associates and lease interest	**286.0**	277.0
Computer software costs within intangible assets	**6.0**	5.9
Capitalised development costs within intangible assets	**38.9**	36.1
Other intangibles within intangible assets	**3.4**	3.1
Property, plant and equipment	**180.8**	184.3
Inventories	**167.8**	170.6
Trade and other receivables	**268.0**	286.6
Trade and other payables	**(186.7)**	(186.7)
Lease liabilities	**(13.3)**	(13.0)
Provisions	**(35.4)**	(28.0)
Net tax receivable	**7.5**	1.3
Non-current trade and other payables	**(16.8)**	(13.3)
Non-current provisions	**(8.4)**	(21.6)
Non-current lease liabilities	**(51.7)**	(48.5)
Add back contingent purchase consideration	**29.4**	40.1
Capital Employed	**389.5**	416.9
Average Capital Employed[3]	**403.2**	387.9
Return on Capital Employed (ROCE)[4]	**70.9%**	71.4%

1 Adjustments include the amortisation of acquired intangible assets; acquisition items; and significant restructuring costs and profit or loss on disposal of operations. 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 2019 Total Invested Capital and Capital Employed balances were £1,338.3m and £358.9m 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 and lease interest divided by Average Capital Employed respectively.

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 2021 £m	Year ended 31 March 2020 £m	**% growth**	**Year ended 31 March 2021 £m**	Year ended 31 March 2020 £m	**% growth**
Continuing operations	**1,318.2**	1,338.4	**(1.5)%**	**278.3**	267.0	**4.2%**
Acquired and disposed revenue/profit	**(72.4)**	(4.5)		**(12.6)**	(0.6)	
Organic growth	**1,245.8**	1,333.9	**(6.6)%**	**265.7**	266.4	**(0.3)%**
Constant currency adjustment	**14.0**	–		**2.6**	–	
Organic growth at constant currency	**1,259.8**	1,333.9	**(5.6)%**	**268.3**	266.4	**0.7%**

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 2021 £m	Year ended 31 March 2020 £m	**% growth**	**Year ended 31 March 2021 £m**	Year ended 31 March 2020 £m	**% growth**
Continuing operations	**188.8**	200.0	**(5.6)%**	**36.6**	43.9	**(16.7)%**
Acquisition and currency adjustments	**(12.5)**	–		**(2.2)**	–	
Organic growth at constant currency	**176.3**	200.0	**(11.9)%**	**34.4**	43.9	**(21.5)%**

Infrastructure Safety

	Revenue			Adjusted* segment profit		
	Year ended 31 March 2021 £m	Year ended 31 March 2020 £m	**% growth**	**Year ended 31 March 2021 £m**	Year ended 31 March 2020 £m	**% growth**
Continuing operations	**450.5**	466.5	**(3.4)%**	**110.6**	107.7	**2.7%**
Acquisition and currency adjustments	**(7.4)**	(1.6)		**(1.7)**	–	
Organic growth at constant currency	**443.1**	464.9	**(4.7)%**	**108.9**	107.7	**1.2%**

3 Alternative performance measures continued

Sector Organic growth at constant currency continued

Environmental & Analysis

	Revenue			Adjusted* segment profit		
	Year ended 31 March 2021 £m	Year ended 31 March 2020 £m	**% growth**	**Year ended 31 March 2021 £m**	Year ended 31 March 2020 £m	**% growth**
Continuing operations	**308.8**	325.0	**(5.0)%**	**77.4**	69.4	**11.4%**
Acquisition and currency adjustments	**4.5**	(2.9)		**1.4**	(0.7)	
Organic growth at constant currency	**313.3**	322.1	**(2.7)%**	**78.8**	68.7	**14.7%**

Medical

	Revenue			Adjusted* segment profit		
	Year ended 31 March 2021 £m	Year ended 31 March 2020 £m	**% growth**	**Year ended 31 March 2021 £m**	Year ended 31 March 2020 £m	**% growth**
Continuing operations	**371.3**	347.2	**7.0%**	**86.6**	84.4	**2.6%**
Acquisition and disposal and currency adjustments	**(43.0)**	–		**(11.0)**	0.1	
Organic growth at constant currency	**328.3**	347.2	**(5.4)%**	**75.6**	84.5	**(10.5)%**

* Adjustments include in the current and prior year the amortisation of acquired intangible assets; acquisition items and significant restructuring costs and profit or loss on disposal of operations.

Adjusted operating profit

	Year ended 31 March 2021 £m	Year ended 31 March 2020 £m
Operating profit	**240.8**	233.4
Add back:		
Acquisition items (note 1)	**5.2**	7.5
Amortisation of acquired intangible assets	**42.3**	38.3
Adjusted operating profit	**288.3**	279.2

Adjusted operating cash flow

	Year ended 31 March 2021 £m	Year ended 31 March 2020 £m
Net cash from operating activities (note 26)	**277.6**	255.5
Add back:		
Net acquisition costs paid	**2.4**	5.2
Taxes paid	**53.8**	52.4
Proceeds from sale of property, plant and equipment	**0.9**	1.9
Share awards vested not settled by own shares (Note 24)	**7.8**	6.0
Less:		
Purchase of property, plant and equipment	**(22.8)**	(31.2)
Purchase of computer software and other intangibles	**(4.0)**	(2.9)
Development costs capitalised	**(15.4)**	(14.7)
Adjusted operating cash flow	**300.3**	272.2
Cash conversion % (adjusted operating cash flow/adjusted operating profit)	**104%**	97%

4 Finance income

	Year ended 31 March 2021 £m	Year ended 31 March 2020 £m
Interest receivable	**0.8**	0.6
Net interest credit on pension plan liabilities	**0.1**	–
Fair value movement on derivative financial instruments	**0.1**	–
	1.0	0.6

5 Finance expense

	Year ended 31 March 2021 £m	Year ended 31 March 2020 £m
Interest payable on borrowings	**7.7**	8.7
Interest payable on lease obligations	**2.3**	2.1
Amortisation of finance costs	**0.7**	0.7
Net interest charge on pension plan liabilities	**–**	0.8
Other interest payable	**0.1**	0.2
	10.8	12.5
Fair value movement on derivative financial instruments	**0.2**	0.2
	11.0	12.7

6 Profit before taxation

Profit before taxation comprises:

	Year ended 31 March 2021 £m	Year ended 31 March 2020 £m
Revenue	**1,318.2**	1,338.4
Direct materials/direct labour	**(551.0)**	(559.6)
Production overhead	**(113.9)**	(113.3)
Selling costs	**(120.3)**	(136.6)
Distribution costs	**(24.3)**	(25.4)
Administrative expenses	**(267.9)**	(270.1)
Operating profit	**240.8**	233.4
Share of loss of associate	**–**	(0.1)
Profit on disposal of operations	**22.1**	2.9
Net finance expense	**(10.0)**	(12.1)
Profit before taxation	**252.9**	224.1

Included within administrative expenses are the amortisation of acquired intangible assets, transaction costs, and adjustments to contingent consideration. Included within direct materials/direct labour is the release of fair value adjustments to inventory.

6 Profit before taxation continued

		Year ended 31 March 2021 £m	Year ended 31 March 2020 £m
Profit before taxation is stated after charging/(crediting):			
Depreciation		**37.3**	35.8
Amortisation		**53.0**	48.9
Impairment of intangible assets		**2.3**	5.2
Impairment of property, plant and equipment		**0.5**	–
Impairment loss on trade receivables (note 16)		**0.5**	8.3
Research and development*		**54.9**	57.3
Foreign exchange loss/(gain)		**2.8**	(0.4)
Profit on disposal of operations (note 30)		**(21.6)**	(2.9)
Loss/(profit) on sale of property, plant and equipment and computer software		**0.7**	(0.1)
Cost of inventories recognised as an expense		**664.9**	672.9
Staff costs (note 7)		**366.4**	376.4
Auditors' remuneration	Audit services to the Company	**0.5**	0.5
	Audit of the Company's subsidiaries	**1.2**	1.1
	Total audit fees	**1.7**	1.6
	Interim review	**0.1**	0.1
	Other services	**–**	–
	Total non-audit fees	**0.1**	0.1
	Total fees	**1.8**	1.7

* A further £15.4m (2020: £14.7m) of development costs has been capitalised in the year. See note 12.

7 Employee information

The average number of persons employed by the Group (including Directors) by entity location was:

	Year ended 31 March 2021 Number	Year ended 31 March 2020 Number
United States of America	**2,427**	2,282
Mainland Europe	**1,152**	1,126
United Kingdom	**2,201**	2,303
Asia Pacific	**1,246**	1,187
Other countries	**94**	94
	7,120	6,992

The monthly average number of persons employed by the Group (including Directors) by employee location was:

	Year ended 31 March 2021 Number	Year ended 31 March 2020 Number
United States of America	**2,395**	2,302
Mainland Europe	**1,117**	1,098
United Kingdom	**2,224**	2,229
Asia Pacific	**1,237**	1,225
Other countries	**147**	138
	7,120	6,992

Group employee costs comprise:

	Year ended 31 March 2021 £m	Year ended 31 March 2020 £m
Wages and salaries	**300.7**	309.6
Social security costs	**40.8**	42.9
Pension costs (note 29)	**11.5**	11.6
Share-based payment charge (note 24)	**13.4**	12.3
	366.4	376.4

8 Directors' remuneration

The remuneration of the Directors is set out on pages 129 to 139 within the Annual Remuneration Report described as being audited and forms part of these financial statements.

Directors' remuneration comprises:

	Year ended 31 March 2021 £m	Year ended 31 March 2020 £m
Wages, salaries and fees	**4.0**	4.9
Pension costs	**0.1**	0.1
Share-based payment charge	**3.1**	2.9
	7.2	7.9

9 Taxation

	Year ended 31 March 2021 £m	Year ended 31 March 2020 £m
Current tax		
UK corporation tax at 19% (2020: 19%)	**11.5**	12.3
Overseas taxation	**40.7**	30.5
Adjustments in respect of prior years	**1.7**	(2.9)
Total current tax charge	**53.9**	39.9
Deferred tax		
Origination and reversal of timing differences	**(4.4)**	(0.4)
Adjustments in respect of prior years	**0.1**	0.2
Total deferred tax credit	**(4.3)**	(0.2)
Total tax charge recognised in the Consolidated Income Statement	**49.6**	39.7
Reconciliation of the effective tax rate:		
Profit before tax	**252.9**	224.1
Tax at the UK corporation tax rate of 19% (2020: 19%)	**48.1**	42.6
Overseas tax rate differences	**6.3**	6.1
Effect of intra-group financing	**(6.5)**	(6.2)
Tax incentives, exemptions and credits (including patent box, R&D and High-Tech status)	**(4.4)**	(3.8)
Permanent differences	**4.3**	3.7
Adjustments in respect of prior years	**1.8**	(2.7)
Total tax charge recognised in the Consolidated Income Statement	**49.6**	39.7
Effective tax rate	**19.6%**	17.7%

	Year ended 31 March 2021 £m	Year ended 31 March 2020 £m
Adjusted* profit before tax	**278.3**	267.0
Total tax charge on adjusted* profit	**55.8**	49.4
Effective tax rate	**20.1%**	18.5%

* Adjustments include the amortisation of acquired intangible assets, acquisition items, significant restructuring costs and profit or loss on disposal of operations. 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. The UK government announced in the Budget on 3 March 2021 an intention to increase the UK corporation tax rate from 19% to 25% with effect from 1 April 2023. This change will impact the value of our UK deferred tax balances as well as the tax charged on UK profits from the effective date.

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 2021 £m	Year ended 31 March 2020 £m
Current tax		
Retirement benefit obligations	**(2.5)**	–
Deferred tax (note 22)		
Retirement benefit obligations	**(3.4)**	4.0
Effective portion of changes in fair value of cash flow hedges	**0.2**	(0.1)
	(5.7)	3.9

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 2021 £m	Year ended 31 March 2020 £m
Current tax		
Excess tax deductions related to share-based payments on exercised awards	**(1.6)**	(1.4)
Deferred tax (note 22)		
Change in estimated excess tax deductions related to share-based payments	**0.4**	(0.5)
Impact of changes in accounting policies: IFRS 16 'Leases'	**–**	(0.9)
	(1.2)	(2.8)

10 Dividends

	Per ordinary share Year ended 31 March 2021 pence	Year ended 31 March 2020 pence	Year ended 31 March 2021 £m	Year ended 31 March 2020 £m
Amounts recognised as distributions to shareholders in the year				
Final dividend for the year ended 31 March 2020 (31 March 2019)	**9.96**	9.60	**37.7**	36.4
Interim dividend for the year ended 31 March 2021 (31 March 2020)	**6.87**	6.54	**26.0**	24.8
	16.83	16.14	**63.7**	61.2
Dividends declared in respect of the year				
Interim dividend for the year ended 31 March 2021 (31 March 2020)	**6.87**	6.54	**26.0**	24.8
Proposed final dividend for the year ended 31 March 2021 (31 March 2020)	**10.78**	9.96	**40.8**	37.7
	17.65	16.50	**66.8**	62.5

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting on 22 July 2021 and has not been included as a liability in these financial statements.

11 Goodwill

	31 March 2021 £m	31 March 2020 £m
Cost		
At beginning of year	**838.4**	694.0
Additions (note 25)	**20.6**	122.5
Adjustments to prior years (note 25)	**3.6**	0.4
Disposals (note 30)	**(3.8)**	–
Exchange adjustments	**(50.3)**	21.5
At end of year	**808.5**	838.4
Provision for impairment		
At beginning and end of year	**–**	–
Carrying amounts	**808.5**	838.4

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.

Where goodwill has been allocated to a cash-generating unit (CGU) group and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal.

Before recognition of any impairment losses, the carrying amount of goodwill has been allocated to CGU groups as follows:

	31 March 2021 £m	31 March 2020 £m
Process Safety		
Gas Detection	**14.4**	15.9
Bursting Discs	**8.4**	9.3
Safety Interlocks and Corrosion Monitoring	**55.9**	61.4
	78.7	86.6
Infrastructure Safety		
Fire	**114.2**	112.4
Doors, Security and Elevators	**112.2**	116.0
	226.4	228.4
Environmental & Analysis		
Water	**74.4**	75.7
Optical Analysis	**64.1**	74.9
Environmental Monitoring	**12.7**	9.3
	151.2	159.9
Medical		
Life Sciences	**37.6**	40.3
Healthcare Assessment	**184.4**	176.8
Therapeutic Solutions	**130.2**	146.4
	352.2	363.5
Total Group	**808.5**	838.4

11 Goodwill continued

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 budgets prepared by management and strategic plans 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 that are reflected in the budget period for the financial year to March 2022;
- Discount rates; and
- 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 year to March 2022 and relate to revenue forecasts, expected project outcomes and forecast operating margins in each of the operating companies. The relative 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 years to March 2023 and March 2024. A long-term rate is applied to these values for the year to March 2025 and onwards. The potential impacts of climate change are not currently considered a key assumption and no imminent risks or opportunities are assumed as the Group is at a relatively early stage of its climate change journey and no material risks and opportunities which should be included in the relevant future cash flows have currently been identified. However, we have taken initial steps during the current year towards assessing these potential risks and opportunities and further work will be performed in the coming year. All CGU groups have significant headroom and any future impacts of climate change are not expected to have a material impact on the carrying value of goodwill.

Short-term growth rates for the years 2023 and 2024 for all CGU groups are based on sector strategic plans. 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 9.26% (2020: 9.36%). 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 7.92% to 12.58% (2020: 8.39% to 13.19%) 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 2021	31 March 2020	**31 March 2021**	31 March 2020	**31 March 2021**	31 March 2020
Fire	**11.43%**	12.23%	**10.14%**	12.90%	**2.04%**	1.99%
Doors, Security and Elevators	**10.50%**	11.83%	**10.14%**	12.90%	**2.04%**	1.99%
Healthcare Assessment	**12.58%**	13.19%	**8.32%**	11.22%	**1.87%**	2.04%
Therapeutic Solutions	**10.95%**	11.45%	**8.32%**	11.22%	**1.87%**	2.04%

* Applied to calculate year two and three cash flows in the current year, and year three cash flows only in the prior year.

Sensitivity to changes in assumptions

The Directors believe 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.

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 2019	284.2	88.6	65.9	438.7	91.1	20.7	4.6	555.1
Assets of businesses acquired	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**
Assets of businesses acquired (note 25)	**7.3**	**5.9**	**2.2**	**15.4**	**–**	**–**	**–**	**15.4**
Assets of business sold	**(1.9)**	**(2.9)**	**(2.1)**	**(6.9)**	**(0.4)**	**(0.4)**	**(0.5)**	**(8.2)**
Additions at cost	**–**	**–**	**–**	**–**	**15.4**	**2.8**	**1.2**	**19.4**
Disposals and retirements	**–**	**–**	**–**	**–**	**(4.4)**	**(1.1)**	**–**	**(5.5)**
Transfers	**–**	**–**	**–**	**–**	**(0.4)**	**1.0**	**–**	**0.6**
Exchange adjustments	**(20.9)**	**(10.5)**	**(4.9)**	**(36.3)**	**(4.6)**	**(1.0)**	**(0.5)**	**(42.4)**
At 31 March 2021	**319.9**	**141.1**	**78.0**	**539.0**	**113.3**	**24.2**	**5.2**	**681.7**
Accumulated amortisation & impairment								
At 1 April 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**
Charge for the year	**25.2**	**12.0**	**5.1**	**42.3**	**7.9**	**2.4**	**0.4**	**53.0**
Assets of business sold	**(1.9)**	**(2.9)**	**(2.1)**	**(6.9)**	**–**	**(0.3)**	**(0.3)**	**(7.5)**
Impairment	**–**	**–**	**–**	**–**	**1.9**	**0.4**	**–**	**2.3**
Disposals and retirements	**–**	**–**	**–**	**–**	**(4.4)**	**(1.0)**	**–**	**(5.4)**
Transfers	**–**	**–**	**–**	**–**	**–**	**0.5**	**–**	**0.5**
Exchange adjustments	**(14.5)**	**(3.9)**	**(3.2)**	**(21.6)**	**(2.6)**	**(0.8)**	**(0.2)**	**(25.2)**
At 31 March 2021	**202.1**	**50.3**	**44.9**	**297.3**	**74.4**	**18.2**	**1.8**	**391.7**
Carrying amounts								
At 31 March 2021	**117.8**	**90.8**	**33.1**	**241.7**	**38.9**	**6.0**	**3.4**	**290.0**
At 31 March 2020	142.1	103.5	37.7	283.3	36.1	5.9	3.1	328.4

1 Customer and supplier relationship assets are amortised over their useful economic lives estimated to be between three and 20 years. Within this balance individually material balances relate to:
- CenTrak: £13.5m (2020: £16.4m);
- Mini-Cam: £11.0m (2020: £12.7m); and
- Ampac: £13.4m (2020: £15.9m).

The remaining amortisation periods for these assets are 10 years, seven years, and 12 years respectively.

2 Technical know-how assets are amortised over their useful economic lives, estimated to be between three and 15 years. Within this balance individually material balances relate to:
- CenTrak £8.9m (2020: £11.8m);
- NeoMedix £8.5m (2020: £10.1m); and
- NovaBone £20.8m (2020: £24.7m).

The remaining amortisation periods for these assets are five years, 13 years, and 14 years respectively.

3 Trademarks, brands and patents (which include protected intellectual property) are amortised over their useful economic lives estimated to be between eight and 20 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 (Note 28) £m	Owned assets Freehold land and buildings £m	Owned assets Leasehold buildings and improvements £m	Owned assets Plant, equipment and vehicles £m	Total £m
Cost					
At 1 April 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	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**
Transfer between category	**–**	**0.1**	**(0.1)**	**(0.7)**	**(0.7)**
Assets of businesses acquired (note 25)	**0.6**	**2.4**	**–**	**0.6**	**3.6**
Assets of business sold	**(4.0)**	**–**	**(0.4)**	**(6.6)**	**(11.0)**
Additions at cost	**23.7**	**4.6**	**1.3**	**16.9**	**46.5**
Disposals and retirements	**(16.6)**	**–**	**(4.4)**	**(9.9)**	**(30.9)**
Exchange adjustments	**(6.1)**	**(2.7)**	**(0.9)**	**(9.6)**	**(19.3)**
At 31 March 2021	**106.9**	**63.6**	**21.1**	**205.0**	**396.6**
Accumulated depreciation					
At 1 April 2019	–	14.3	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**
Transfer between category	**–**	**0.1**	**(0.1)**	**(0.6)**	**(0.6)**
Charge for the year	**14.4**	**1.2**	**3.2**	**18.5**	**37.3**
Impairment	**0.2**	**–**	**–**	**0.3**	**0.5**
Assets of business sold	**(2.4)**	**–**	**(0.3)**	**(3.9)**	**(6.6)**
Disposals and retirements	**(16.2)**	**–**	**(4.1)**	**(8.7)**	**(29.0)**
Exchange adjustments	**(2.6)**	**(0.7)**	**(0.5)**	**(6.1)**	**(9.9)**
At 31 March 2021	**47.3**	**16.4**	**13.0**	**139.1**	**215.8**
Carrying amounts					
At 31 March 2021	**59.6**	**47.2**	**8.1**	**65.9**	**180.8**
At 31 March 2020	55.4	43.4	10.8	74.7	184.3

Note 28 Leases contains further details of the Group's right-of-use assets. None of the property, plant and equipment has been pledged as security.

14 Interest in associate and other investments

	31 March 2021 £m	31 March 2020 £m
Interest in associate	**1.4**	–
Financial assets at fair value through other comprehensive income		
– Equity instruments	**7.9**	4.8
	9.3	4.8

Interest in associate

	31 March 2021 £m	31 March 2020 £m
Interest in associate		
At beginning of the year	**–**	3.9
Additions in the year (note 30)	**1.4**	–
Group's share of loss of associate	**–**	(0.1)
Disposal (note 30)	**–**	(3.8)
At end of year	**1.4**	–

During the year, the Group incorporated a new entity, OneThird B.V., to spin out the food technology start-up business from Ocean Insight, investing £0.9m on set up. On 26 March 2021, OneThird B.V., issued new shares to external investors that reduced the Group's ownership interest from 60% to 35.3%, valuing the Group's share at €1.5m (£1.4m) and resulting in a gain on deemed disposal of £0.5m. Following the deemed disposal, OneThird B.V. now meets the tests to be accounted for as an associate.

	31 March 2021 £m	31 March 2020 £m
Aggregated amounts relating to associate		
Current assets	**1.2**	–
Current liabilities	**–**	–
Net assets	**1.2**	–
Group's share of net assets of associate	**0.4**	–
Total revenue	**–**	10.3
Loss	**–**	(0.5)
Group's share of loss of associate	**–**	(0.1)

The results of associate in the prior year related to the Group's previous associate, Optomed, prior to its disposal.

Financial assets at fair value through other comprehensive income (FVOCI)

Equity investments at FVOCI comprise the following individual investments:

	31 March 2021 £m	31 March 2020 £m
Unlisted securities		
Owlytics Healthcare Limited	**1.7**	1.7
Valencell Inc.	**3.2**	3.1
Oxbotica Limited	**3.0**	–
	7.9	4.8

During the year no gains or losses were recognised in other comprehensive income relating to these equity investments (2020: £nil).

Further information on methods and assumptions used in determining fair value is provided in note 27.

15 Inventories

	31 March 2021 £m	31 March 2020 £m
Raw materials and consumables	**92.0**	90.1
Work in progress	**15.8**	16.9
Finished goods and goods for resale	**60.0**	63.6
	167.8	170.6

The above is stated net of provision for slow-moving and obsolete stock, movements of which are shown below:

	31 March 2021 £m	31 March 2020 £m
At beginning of the year	**27.1**	21.5
Write downs of inventories recognised as an expense	**7.4**	3.9
Recognition of provisions for businesses acquired	**1.2**	1.8
Derecognition of provisions for businesses disposed	**(0.4)**	–
Amounts reversed against inventories previously impaired and utilisation	**(3.1)**	(0.8)
Exchange adjustments	**(1.7)**	0.7
At end of the year	**30.5**	27.1

In the year ended 31 March 2021, previous write-downs against inventory were 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 original cost of inventories and their cost of replacement. None of the inventory has been pledged as security.

16 Trade and other receivables

	31 March 2021 £m	31 March 2020 £m
Trade receivables	**238.8**	249.8
Allowance for doubtful debts	**(11.2)**	(12.7)
	227.6	237.1
Other receivables	**8.7**	11.0
Prepayments	**17.4**	18.3
Contract assets (note 18)	**14.3**	20.2
	268.0	286.6

Other receivables comprise various financial assets across the Group, including sales tax receivables and other non-trade balances.

Receivables due in more than one year comprise of £nil (2020: £0.3m) in trade receivables and £1.9m in other receivables (2020: £2.2m).

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 2021 £m	31 March 2020 £m
At beginning of the year	**12.7**	5.0
Net impairment loss recognised	**0.5**	8.3
Amounts recovered against trade receivables previously written down/amounts utilised	**(1.8)**	(0.9)
Recognition of provisions for businesses acquired	**0.1**	0.2
Exchange adjustments	**(0.3)**	0.1
At end of the year	**11.2**	12.7

The Group assesses on a forward-looking basis the expected credit losses associated with its trade and other receivables carried at amortised cost.

The Group assessed that no provisions or impairments were required in relation to contract assets (2020: £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 2021 £m	31 March 2020 £m	31 March 2021 £m	31 March 2020 £m
Not yet due	**181.2**	181.4	**181.0**	181.1
Up to one month overdue	**32.0**	34.6	**31.5**	34.3
Between one and two months overdue	**7.7**	10.5	**7.5**	10.5
Between two and three months overdue	**5.7**	5.0	**5.5**	4.5
Over three months overdue	**12.2**	18.3	**2.1**	6.7
	238.8	249.8	**227.6**	237.1

17 Trade and other payables: falling due within one year

	31 March 2021 £m	31 March 2020 £m
Trade payables	**84.8**	89.5
Other taxation and social security	**11.4**	8.7
Other payables	**6.0**	7.0
Accruals	**67.1**	64.0
Contract liabilities (note 18)	**16.0**	16.2
Deferred government grant income	**1.4**	1.3
	186.7	186.7

Other payables comprise various balances across the Group including share-based payments related amounts of £2.0m (2020: £2.4m), deferred R&D expenditure tax credits and other non-trade payables. These comprise £5.3m of financial liabilities and £0.7m of non-financial liabilities.

18 Contract balances

	31 March 2021 £m	31 March 2020 £m
Contract assets (note 16)	**14.3**	20.2
Contract liabilities current (note 17)	**16.0**	16.2
Contract liabilities non-current (note 21)	**11.0**	10.0
Total contract liabilities	**27.0**	26.2

	Contract assets		Contract liabilities	
	31 March 2021 £m	31 March 2020 £m	31 March 2021 £m	31 March 2020 £m
Amounts included in contract balances at the beginning of the year	**20.2**	9.1	**(26.2)**	(18.6)
Transfers to receivables during the year	**(17.7)**	(9.5)		
Performance obligations arising in the current reporting year				
Increases as a result of billing ahead of performance			**(16.7)**	(29.5)
Decreases as a result of revenue recognised in the year			**15.1**	23.5
Increases as a result of performance in advance of billing	**13.7**	20.2		
Amounts arising through business combinations	**–**	–	**–**	(1.0)
Exchange movements	**(1.9)**	0.4	**0.8**	(0.6)
Amounts included in contract balances at the end of the year	**14.3**	20.2	**(27.0)**	(26.2)

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 decreased as the Group has provided less 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 2021 £m	31 March 2020 £m
Loan notes falling due within one year	**–**	74.2
Overdrafts	**3.0**	0.9
Total borrowings falling due within one year	**3.0**	75.1
Unsecured loan notes falling due after more than one year	**105.3**	108.6
Unsecured bank loans falling due after more than one year	**217.0**	236.4
Total borrowings falling due after more than one year	**322.3**	345.0
Total borrowings	**325.3**	420.1

The loan notes falling due within one year at 31 March 2020, related to the first repayment due under the United States Private Placement completed in November 2015 which were repaid in January 2021.

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.

20 Provisions

Provisions are presented as:

	31 March 2021 £m	31 March 2020 £m
Current	**35.4**	28.0
Non-current	**8.4**	21.6
	43.8	49.6

	Contingent purchase consideration £m	Dilapidations £m	Product warranty £m	Legal, contractual and other £m	Total £m
At 1 April 2020	**40.1**	**2.3**	**6.2**	**1.0**	**49.6**
Additional provision in the year	**3.5**	**0.6**	**4.1**	**2.0**	**10.2**
Arising on acquisition (note 25)	**–**	**–**	**0.1**	**3.2**	**3.3**
Liabilities of business sold	**–**	**(0.1)**	**–**	**–**	**(0.1)**
Utilised during the year	**(9.9)**	**–**	**(1.5)**	**(1.3)**	**(12.7)**
Released during the year	**(3.0)**	**(0.3)**	**(0.8)**	**(0.5)**	**(4.6)**
Exchange adjustments	**(1.3)**	**–**	**(0.2)**	**(0.4)**	**(1.9)**
At 31 March 2021	**29.4**	**2.5**	**7.9**	**4.0**	**43.8**

Contingent purchase consideration

The provision at the beginning of the year comprised £19.1m payable within one year relating to the previous acquisitions of Navtech, Visiometrics, LAN, Enoveo, NeoMedix, NovaBone and Spreo. The balance at the beginning of the year due after more than one year of £21.0m related to the estimate for the final earnout period for Navtech and earnouts for Invenio, Enoveo, Infowave, NeoMedix, FireMate, NovaBone and Spreo.

The £3.5m additional provision in the year related to revisions to the estimates for Navtech (£1.5m increase), Infowave (£0.9m increase), FireMate (£0.9m increase) and Spreo (£0.2m increase).

The £9.9m utilised during the year related to the second earnout period for Navtech (£5.6m), the earnout for FireMate (£3.5m), the first NovaBone holdback amount of (£0.5m), first earnout period for Invenio (£0.2m) and LAN (£0.1m).

The £3.0m released during the year related to the revisions to the estimate of NeoMedix (£1.7m reduction), Invenio (£0.8m reduction) and Enoveo (£0.5m reduction).

The closing total provision is £29.4m, of which £26.1m is payable within one year, includes amounts based on actual results for the final earnout period for Navtech, the first earnout periods for Infowave, Spreo and NeoMedix, and the second earnout period for Invenio. It also includes estimates for the final earnout period for Visiometrics, for the year ended 31 December 2018, which is subject to final agreement, estimates for the future earnouts for NeoMedix and LAN and the remaining holdback amount for NovaBone.

The balance due after more than one year of £3.3m comprises the final earnout periods for Infowave, NovaBone, Invenio and Spreo.

The total contingent purchase consideration payable in future for the existing acquisitions is a minimum of £12.2m with a maximum possible payable of £70.7m.

The basis for the calculation of each contingent consideration arrangement is set out on page 201 in note 27, including sensitivity of the estimation of the liabilities to changes in the assumptions.

Dilapidations

The dilapidations provisions are for the continuing obligations under leases in respect of property dilapidation and reinstatement provisions. 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 2021 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 2021 £m	31 March 2020 £m
Other payables	**2.0**	2.5
Other taxation and social security	**2.5**	–
Accruals	**0.6**	0.1
Contract liabilities (note 18)	**11.0**	10.0
Deferred government grant income	**0.7**	0.7
	16.8	13.3

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 2020	**0.5**	**(69.4)**	**(6.3)**	**4.1**	**5.6**	**18.1**	**(47.4)**
Credit/(charge) to Consolidated Income Statement	**0.1**	**10.3**	**(1.2)**	**(1.6)**	**–**	**(3.3)**	**4.3**
Credit/(charge) to Consolidated Statement of Comprehensive Income	**3.4**	**–**	**–**	**(0.2)**	**–**	**–**	**3.2**
Charge to equity	**–**	**–**	**–**	**–**	**(0.4)**	**–**	**(0.4)**
Arising on acquisition (note 25)	**–**	**(2.9)**	**(0.2)**	**0.7**	**–**	**(0.1)**	**(2.5)**
Deferred tax of business sold (note 30)	**–**	**–**	**1.2**	**0.1**	**–**	**0.9**	**2.2**
Exchange adjustments	**–**	**3.3**	**0.5**	**(0.3)**	**–**	**(2.2)**	**1.3**
At 31 March 2021	**4.0**	**(58.7)**	**(6.0)**	**2.8**	**5.2**	**13.4**	**(39.3)**

	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	–	(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)

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:

	31 March 2021 £m	31 March 2020 £m
Deferred tax liability	**(40.6)**	(48.7)
Deferred tax asset	**1.3**	1.3
Net deferred tax liability	**(39.3)**	(47.4)

Deferred tax balances expected to unwind in less than one year are insignificant.

Movement in net deferred tax liability:

	31 March 2021 £m	31 March 2020 £m
At beginning of year	**(47.4)**	(31.8)
Impact of changes in accounting policies: IFRS 16 'Leases'	**–**	0.9
(Charge)/credit to Consolidated Income Statement:		
UK	**(2.0)**	(2.1)
Overseas	**6.3**	2.3
Charge to Consolidated Statement of Comprehensive Income	**3.2**	(3.9)
Charge to equity	**(0.4)**	0.5
Arising on acquisition (note 25)	**(2.5)**	(13.4)
Deferred tax of business sold (note 30)	**2.2**	–
Exchange adjustments	**1.3**	0.1
At end of year	**(39.3)**	(47.4)

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, £84.7m (2020: £75.1m) 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 £6.4m (2020: £5.7m) 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. Temporary timing differences in connection with the interest in associate are insignificant.

At 31 March 2021 the Group had unused capital tax losses of £0.3m (2020: £0.3m) and other tax losses of £0.8m (2020: £nil) for which no deferred tax asset has been recognised.

23 Share capital

	Issued and fully paid	
	31 March 2021 £m	31 March 2020 £m
Ordinary shares of 10p each	**38.0**	38.0

The number of ordinary shares in issue at 31 March 2021 was 379,645,332 (2020: 379,645,332), including shares held by the Employee Benefit Trust of 891,622 (2020: 760,894).

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 2021			Year ended 31 March 2020		
	Equity-settled £m	Cash-settled £m	Total £m	Equity-settled £m	Cash-settled £m	Total £m
Share incentive plan	**1.1**	**–**	**1.1**	0.9	–	0.9
Executive share plan	**11.9**	**0.4**	**12.3**	10.5	0.9	11.4
	13.0	**0.4**	**13.4**	11.4	0.9	12.3

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. Forfeited shares are reallocated in subsequent grants. The costs of providing this Plan are recognised in the Consolidated Income Statement over the three-year vesting period.

Executive share plan (ESP)

Under the ESP, in which executive Directors and certain senior employees participate, deferred share awards are made as either performance awards or deferred awards. Performance awards vest after three years based on Earnings Per Share and Return on Total Invested Capital (ROTIC) 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. Shares awarded under this Plan are purchased in the market by the Plan's trustees and are held as own shares until their transfer to qualifying employees. Under the terms of the trust deed, Halma is required to provide the trust with the necessary funds to purchase the shares ahead of vesting. Dividends accrue on unvested awards and are settled in cash on vesting.

The following table shows the number of deferred shares granted and outstanding at the beginning and end of the reporting period:

	2021 Number of shares awarded	2020 Number of shares awarded
Outstanding at beginning of year	**2,175,864**	2,289,919
Granted during the year	**726,410**	757,280
Vested during the year (pro-rated for 'good leavers')	**(870,681)**	(761,652)
Lapsed during the year	**(225,263)**	(109,683)
Outstanding at end of year	**1,806,330**	2,175,864
Exercisable at end of year	**–**	–

The performance shares outstanding at 31 March 2021 had a weighted average remaining contractual life of 13 months (2020: 12 months).

The fair value of the awards was calculated using an appropriate simulation method, with the inputs below:

	2021	2020	2019
Expected life (years)	**2/3**	2/3	3
Share price on date of grant (p)	**2,260.0**	2,046.0	1,370.0
Option price (p)	**Nil**	Nil	Nil
Fair value per option (%)	**100%**	100%	100%
Fair value per option (p)	**2,260.0**	2,046.0	1,369.2

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.

Net settlement feature for withholding tax obligations

The Group withholds an amount for an employee's tax obligation associated with a share-based payment and transfers that amount in cash to the relevant tax authority on the employee's behalf. The deferred shares granted under the ESP include a net settlement feature under which shares are withheld in order to settle the employee's tax obligations.

Where permitted by local regulations, the Group is settling the deferred share grant on a net basis by withholding the number of shares with a fair value equal to the monetary value of the employee's tax obligation and only issuing the remaining shares on completion of the vesting period. An amount of £7.8m was withheld and paid to the taxation authority in relation to the deferred shares granted in July 2017 (2020: £6.0m).

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 2021, the Group completed the acquisition of the Static Systems Group.

Below are summaries of the assets acquired and liabilities assumed and the purchase consideration of:

a) the total of acquisitions;

b) Static Systems Group; and

c) 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, decreased the goodwill recognised by £1.3m (2020: £2.7m increase).

As at the date of approval of the financial statements, the acquisition accounting for all prior year acquisitions is complete. The accounting for the current year acquisitions is provisional; relating to finalisation of certain provisional balances.

a) Total of acquisitions

	Total £m
Non-current assets	
Intangible assets	**15.4**
Property, plant and equipment	**3.5**
Current assets	
Inventories	**2.0**
Trade and other receivables	**2.5**
Cash and cash equivalents	**7.9**
Total assets	**31.3**
Current liabilities	
Trade and other payables	**(3.7)**
Lease liabilities	**(0.2)**
Provisions	**(0.1)**
Corporation tax	**(0.2)**
Non-current liabilities	
Lease liabilities	**(0.3)**
Provisions	**(3.2)**
Deferred tax	**(2.5)**
Total liabilities	**(10.2)**
Net assets of businesses acquired	**21.1**
Non-controlling interest	**(1.4)**
Initial cash consideration paid	**37.0**
Additional amounts paid in respect of cash acquired and other adjustments	**6.9**
Total consideration	**43.9**
Goodwill arising on acquisitions (current year)	**20.6**
Goodwill arising on acquisitions (prior year)	**3.6**
Total goodwill	**24.2**

Analysis of cash outflow in the Consolidated Cash Flow Statement

	Year ended 31 March 2021 £m	Year ended 31 March 2020 £m
Initial cash consideration paid	**37.0**	226.2
Cash acquired on acquisitions	**(7.9)**	(8.0)
Initial cash consideration adjustment and other amounts paid to vendors on current year acquisitions	**6.9**	4.1
Contingent consideration paid and loan notes repaid in cash in relation to prior year acquisitions*	**10.4**	10.5
Net cash outflow relating to acquisitions (per Consolidated Cash Flow Statement)	**46.4**	232.8

* The £10.4m comprises £9.9m contingent consideration paid and £0.5m other amounts in respect of prior period acquisitions all of which had been provided in the prior period's financial statements.

25 Acquisitions continued

b) Static Systems Group

	Total £m
Non-current assets	
Intangible assets	**15.4**
Property, plant and equipment	**3.6**
Current assets	
Inventories	**2.0**
Trade and other receivables	**2.4**
Cash and cash equivalents	**7.9**
Total assets	**31.3**
Current liabilities	
Trade and other payables	**(3.9)**
Lease liabilities	**(0.2)**
Provisions	**(0.1)**
Corporation tax payable	**(0.2)**
Non-current liabilities	
Lease liabilities	**(0.3)**
Deferred tax	**(3.3)**
Total liabilities	**(8.0)**
Net assets of business acquired	**23.3**
Initial cash consideration paid	**37.0**
Additional amounts paid in respect of cash acquired and other adjustments	**6.9**
Total consideration	**43.9**
Goodwill arising on acquisition	**20.6**

On 18 December 2020, the Group acquired the Static Systems Group ('Static Systems') for an initial cash consideration of £37.0m adjustable for cash acquired and other adjustments. The adjustment was determined to be £6.9m. The acquisition comprised of the entire share capital of Static Systems Holdings Limited and its subsidiary Static Systems Group Limited (formerly Static Systems Group Plc).

Static Systems, based in Wolverhampton, UK, is a designer, manufacturer and installer of critical communication systems, which are central to UK healthcare trusts' patient care infrastructure. Its technology enables hospital patients to alert healthcare specialists in an emergency, protecting lives and decreasing the response time of care provided. 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 £7.3m; trade name of £2.2m and technology related intangibles of £5.9m; with residual goodwill arising of £20.6m. 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 provide a route to the UK healthcare market for certain existing products and services within the Group's Medical sector.

Static Systems contributed £6.6m of revenue and £1.0m of profit after tax for the year ended 31 March 2021.

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 £14.9m higher and £1.7m higher respectively.

Acquisition costs totalling £0.5m were recorded in the Consolidated Income Statement.

The goodwill arising on the Static Systems acquisition is not expected to be deductible for tax purposes.

25 Acquisitions continued

c) Adjustments in respect of prior year acquisitions

	Total £m
Current liabilities	
Trade and other payables	**0.2**
Non-current liabilities	
Provisions	**(3.2)**
Deferred tax	**0.8**
Total liabilities	**(2.2)**
Net adjustments to assets of businesses acquired in prior years	**(2.2)**
Non-controlling interest	**(1.4)**
Adjustment to goodwill	**3.6**

In finalising the acquisition accounting for the prior year acquisition of NeoMedix, an adjustment of £3.2m was made to include a legal provision in relation to a case in existence at the acquisition date. There was an adjustment made to decrease the related deferred tax liability of £0.7m. Overall this resulted in an increase in goodwill of £2.5m.

In finalising the acquisition accounting for the prior year acquisition of Ampac, an adjustment of £0.2m was made to decrease trade and other payables and £0.1m was made to reduce deferred tax. Overall this resulted in a corresponding decrease in goodwill of £0.3m.

In finalising the acquisition accounting for the prior year acquisition of FireMate, a correction of the calculation of non-controlling interest was made resulting in an increase in goodwill of £1.4m.

The adjustments were not material and as such the comparative balance sheet was not restated; instead the adjustments have been made through the current year.

26 Notes to the Consolidated Cash Flow Statement

	Year ended 31 March 2021 £m	Year ended 31 March 2020 £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 profit on disposal of operations	**240.8**	233.4
Financial instruments at fair value through profit or loss	**–**	0.1
Depreciation and impairment of property, plant and equipment	**37.8**	35.8
Amortisation and impairment of computer software	**2.8**	2.2
Amortisation of capitalised development costs and other intangibles	**8.3**	8.4
Impairment of capitalised development costs	**1.9**	5.2
Amortisation of acquired intangible assets	**42.3**	38.3
Share-based payment expense in excess of amounts paid	**3.7**	4.8
Payments to defined benefit pension plans net of charge	**(13.1)**	(12.5)
Loss/(profit) on sale of property, plant and equipment and computer software	**0.7**	(0.1)
Operating cash flows before movement in working capital	**325.2**	315.6
Increase in inventories	**(6.7)**	(5.1)
Decrease/(increase) in receivables	**4.3**	(9.0)
Increase in payables and provisions	**7.9**	8.9
Revision to estimate of, and exchange differences arising on, contingent consideration payable	**0.7**	(2.5)
Cash generated from operations	**331.4**	307.9
Taxation paid	**(53.8)**	(52.4)
Net cash inflow from operating activities	**277.6**	255.5

	Year ended 31 March 2021 £m	Year ended 31 March 2020 £m
Analysis of cash and cash equivalents		
Cash and bank balances	**134.1**	106.3
Overdrafts (included in current borrowings)	**(3.0)**	(0.9)
Cash and cash equivalents	**131.1**	105.4

26 Notes to the Consolidated Cash Flow Statement continued

	1 April 2020 £m	Cash flow £m	Net cash/ (debt) acquired £m	Net (cash)/ debt disposed £m	Loan notes repaid £m	Additions £m	Exchange adjustments £m	31 March 2021 £m
Analysis of net debt								
Cash and bank balances	**106.3**	**24.5**	**7.9**	**(0.4)**	**–**	**–**	**(4.2)**	**134.1**
Overdrafts	**(0.9)**	**(2.1)**	**–**	**–**	**–**	**–**	**–**	**(3.0)**
Cash and cash equivalents	**105.4**	**22.4**	**7.9**	**(0.4)**	**–**	**–**	**(4.2)**	**131.1**
Loan notes falling due within one year	**(74.2)**	**–**	**–**	**–**	**72.2**	**–**	**2.0**	**–**
Loan notes falling due after more than one year	**(108.6)**	**–**	**–**	**–**	**–**	**–**	**3.3**	**(105.3)**
Bank loans falling due after more than one year	**(236.4)**	**7.3**	**–**	**–**	**–**	**–**	**12.1**	**(217.0)**
Lease liabilities	**(61.5)**	**16.4**	**(0.5)**	**1.8**	**–**	**(25.0)**	**3.8**	**(65.0)**
Total net debt	**(375.3)**	**46.1**	**7.4**	**1.4**	**72.2**	**(25.0)**	**17.0**	**(256.2)**

The net increase in cash and cash equivalents of £29.9m comprised cash inflow of £22.4m, cash acquired of £7.9m and cash disposed of £0.4m.

The net cash outflow from loan notes of £72.2m arose on the maturity of the first tranche of USPP loan notes in January 2021.

The net cash outflow from bank loans of £7.3m comprised repayments of £7.3m.

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.

	Borrowings £m	Leases £m	Overdraft £m	Total liabilities from financing activities £m	Trade and other payables falling due within one year £m
At 1 April 2019	253.8	50.3	9.1	313.2	164.8
Cash flows from financing activities	156.3	(15.8)	–	140.5	(9.0)
Acquisition of subsidiaries	–	8.2	–	8.2	11.4
Exchange adjustments	9.1	0.7	–	9.8	0.5
Other changes*	–	18.1	(8.2)	9.9	19.0
At 31 March 2020	**419.2**	**61.5**	**0.9**	**481.6**	**186.7**
Cash flows from financing activities	**(79.5)**	**(16.4)**	**–**	**(95.9)**	**(7.8)**
Acquisition/disposal of subsidiaries	**–**	**(1.3)**	**–**	**(1.3)**	**2.7**
Exchange adjustments	**(17.4)**	**(3.8)**	**–**	**(21.2)**	**(5.2)**
Other changes*	**–**	**25.0**	**2.1**	**27.1**	**10.3**
At 31 March 2021	**322.3**	**65.0**	**3.0**	**390.3**	**186.7**

* Other changes include movements in overdraft which is treated as cash, interest accruals, reclassifications from non-current to current liabilities, lease additions and other movements in working capital balances.

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 £402.8m (2020: £386.3m) 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, of which the first tranche was repaid during the year. These facilities are the main sources of long-term funding for the Group.

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. All covenants have been complied with.

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 £1.4m (2020: £1.3m) 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 (2020: £0.3m) impact on the Group's profit before tax for the year ended 31 March 2021.

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 £3.9m at 31 March 2021 (2020: £1.6m). These comprised Sterling denominated bank deposits of £0.1m (2020: £0.1m), and Euro, US Dollar and Renminbi bank deposits of £3.8m (2020: £1.5m) which earn interest at local market rates. Cash balances of £130.1m (2020: £104.7m) earn interest at local market rates.

The financial liabilities which are subject to interest rate fluctuations comprise bank loans and overdrafts which totalled £220.0m at 31 March 2021 (2020: £237.3m). 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 2.63%.

The Group's weighted average interest cost on net debt for the year was 3.22% (2020: 3.52%). Excluding IFRS16 lease liabilities, the weighted average interest cost on net debt for the year was 3.13% (2020: 3.48%).

	31 March 2021 £m	31 March 2020 £m
Analysis of interest-bearing financial liabilities		
Sterling denominated bank loans	**44.0**	50.0
US Dollar denominated bank loans	**110.7**	146.7
Euro denominated bank loans	**23.9**	–
Australian Dollar denominated bank loans	**21.0**	30.5
Swiss Franc denominated bank loans	**17.0**	9.2
Brazilian Reais denominated bank loans	**0.4**	–
Total bank loans	**217.0**	236.4
Overdrafts (principally Sterling and US Dollar denominated)	**3.0**	0.9
Sterling denominated loan notes	**59.0**	82.0
US Dollar denominated loan notes	**22.5**	51.4
Euro denominated loan notes	**23.8**	49.4
Total interest-bearing financial liabilities	**325.3**	420.1

For the year ended 31 March 2021 it is estimated that a general increase of one percentage point in interest rates would have reduced the Group's profit before tax by £2.2m (2020: £1.8m).

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 2021						
Accruals	**0.1**	**0.4**	**0.1**	**0.6**	**–**	**0.6**
Other payables	**0.8**	**0.1**	**1.1**	**2.0**	**–**	**2.0**
Contingent purchase consideration	**3.0**	**0.3**	**–**	**3.3**	**–**	**3.3**
Bank loans	**0.4**	**216.6**	**–**	**217.0**	**–**	**217.0**
Loan notes	**73.1**	**38.2**	**–**	**111.3**	**(6.0)**	**105.3**
Lease liabilities	**16.1**	**37.7**	**17.3**	**71.1**	**(19.4)**	**51.7**
	93.5	**293.3**	**18.5**	**405.3**	**(25.4)**	**379.9**

	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
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
	32.8	351.9	51.0	435.7	(20.8)	414.9

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 the first tranche of £72.2m maturing in January 2021. The remaining loan notes as at 31 March 2021 were £59m, €28m and US$31m at a weighted average interest rate of 2.63%. Interest is payable half yearly.

The Group's undrawn committed facilities available at 31 March 2021 were £333.4m (2020: £313.6m) of which £nil (2020: £nil) matures within one year and £333.4m (2020: £313.6m) between two and five years.

The Group has an additional short-term unsecured and committed US bank facility of £12m maturing in November 2023. The facility was undrawn at 31 March 2021.

The Group has a Brazilian Reais bank loan of £0.4m (2020: £nil) maturing in February 2023.

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 £26.5m (2020: £15.3m) of overdraft facilities. Total overdrafts for the Group as at 31 March 2021 were £3.0m (2020: £0.9m).

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 £107.5m (2020: £187.4m). 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 is 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.

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:

- Invenio – For the year ended 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.
- Enoveo – Based on 2 times multiple of EBIT above a target threshold of €0.9m (£0.8m) for the year ended 31 March 2022 subject to a maximum earn out of €0.4m (£0.3m).
- Infowave – Based on 6 times multiple of EBIT above the greater of the prior year EBIT and target threshold of US$1.4m (£1.1m) for the year ended 31 March 2022 subject to a maximum of US$2.0m (£1.6m).
- 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 $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).
- NovaBone – 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).
- Spreo – Based on 30% of qualifying healthcare revenue for the year ended 31 March 2022 and the 18-month period ended 30 September 2023 up to a maximum earn out of US$2.0m (£1.6m) in each period.

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
Invenio	**0.6**	–
Enoveo	–	–
Infowave	**1.1**	**0.1**
NeoMedix	**4.9**	**0.1**
NovaBone	**1.2**	**0.5**
Spreo	**0.5**	–

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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 2021	31 March 2020	**31 March 2021 m**	31 March 2020 m	**31 March 2021 £m**	31 March 2020 £m	**31 March 2021 £m**	31 March 2020 £m
Forward contracts not in a designated cash flow hedge								
US Dollars	**1.37**	1.27	**11.8**	1.4	**8.6**	1.1	**–**	–
Euros	**1.11**	–	**1.8**	–	**1.6**	–	**(0.1)**	–
Other currencies	**–**	–	**–**	–	**8.1**	1.4	**–**	(0.1)
					18.3	2.5	**(0.1)**	(0.1)
Forward contracts in a designated cash flow hedge								
US Dollars	**1.42**	1.28	**8.3**	5.4	**5.9**	4.2	**0.2**	(0.1)
Euros	**1.12**	1.13	**22.8**	24.0	**20.3**	21.2	**0.8**	–
Other currencies	**–**	–	**–**	–	**7.1**	10.3	**0.1**	0.2
					33.3	35.7	**1.1**	0.1
Total forward contracts								
US Dollars	**1.39**	1.28	**20.1**	6.7	**14.5**	5.3	**0.2**	(0.1)
Euros	**1.12**	1.13	**24.6**	24.0	**22.0**	21.2	**0.7**	–
Other currencies	**–**	–	**–**	–	**15.2**	11.7	**0.1**	0.1
					51.7	38.2	**1.0**	–
Amounts recognised in the Consolidated Income Statement							**(0.1)**	(0.1)
Amounts recognised in the Consolidated Statement of Comprehensive Income and Expenditure							**1.1**	0.1
							1.0	–

The fair values of the forward contracts are disclosed as a £1.7m (2020: £1.0m) asset and £0.7m (2020: £1.0m) liability in the Consolidated Balance Sheet.

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 2021 £m	31 March 2020 £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	**(0.1)**	(0.4)
Amounts recognised in the Consolidated Statement of Comprehensive Income and Expenditure	**1.1**	(0.1)
Net movement in the Hedging reserve in the year in relation to the effective portion of changes in fair value of cash flow hedges	**1.0**	(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; and

— 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 199 as well as non-GBP intercompany loans are used as net investment hedges for foreign currency net assets with carrying value of €56.0m (2020: €56.0m), US$183.5m (2020: US$246.5m), A$38.0m (2020: A$61.8m), CHF22.1m (2020: CHF11.1m) and NZ$10.9m (2020: NZ$10.6m). The hedging ratio was 1:1. The change in the carrying value of the borrowings that was recognised in other comprehensive income was a gain of £19.9m (2020: loss of £11.9m).

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 2021 £m	31 March 2020 £m	**31 March 2021 £m**	31 March 2020 £m
US Dollar	**895.1**	1,007.6	**266.5**	327.9
Euro	**251.3**	254.5	**97.3**	97.4

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 2021 £m	31 March 2020 £m	**31 March 2021 £m**	31 March 2020 £m
Profit	**12.7**	12.3	**3.2**	3.0
Other equity	**57.1**	61.8	**14.0**	14.3

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 Leases

The Group has lease contracts for land and buildings, as well as various items of plant, machinery, vehicles and other equipment used in its operations. The Group also has certain leases of machinery with lease terms of 12 months or less and leases of office equipment with low value. The Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

Right-of-use assets by asset category

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period, split by asset category:

	Land and buildings £m	Plant, equipment and vehicles £m	Total £m
Cost, net of accumulated depreciation and accumulated impairment			
At 1 April 2020	**53.9**	**1.5**	**55.4**
Assets of businesses acquired (note 25)	**0.1**	**0.5**	**0.6**
Additions at cost	**23.0**	**0.7**	**23.7**
Assets of business sold	**(1.6)**	**–**	**(1.6)**
Impairment	**(0.2)**	**–**	**(0.2)**
Disposals and retirements	**(0.4)**	**–**	**(0.4)**
Depreciation charge for the year	**(13.7)**	**(0.7)**	**(14.4)**
Exchange adjustments	**(3.5)**	**–**	**(3.5)**
At 31 March 2021	**57.6**	**2.0**	**59.6**
At 31 March 2021			
Cost	**103.5**	**3.4**	**106.9**
Accumulated depreciation and accumulated impairment	**(45.9)**	**(1.4)**	**(47.3)**
Net carrying amount	**57.6**	**2.0**	**59.6**

Lease liabilities

Set out below are the carrying amounts of lease liabilities included under current and non-current liabilities and the movements during the period:

	Year ended 31 March 2021 £m	Year ended 31 March 2020 £m
At 1 April 2020	**61.5**	–
Arising on adoption of IFRS 16	**–**	50.3
Additions	**22.7**	16.0
Accretion of interest	**2.3**	2.1
Payments	**(16.4)**	(15.8)
Liabilities of business acquired	**0.5**	8.2
Liabilities of business disposed	**(1.8)**	–
Exchange adjustments	**(3.8)**	0.7
At 31 March 2021	**65.0**	61.5
Current	**13.3**	13.0
Non-current	**51.7**	48.5
At 31 March 2021	**65.0**	61.5

The maturity analysis of lease liabilities is disclosed in note 27.

The following are the amounts recognised in Consolidated Income Statement:

	Year ended 31 March 2021 £m	Year ended 31 March 2020 £m
Depreciation expense of right-of-use assets	**14.4**	13.2
Impairment expense of right-of-use assets	**0.2**	–
Interest expense on lease liabilities	**2.3**	2.1
Expense relating to short-term leases and leases of low-value assets	**0.3**	0.3
Total amount recognised in Consolidated Income Statement	**17.2**	15.6

The Group had total cash outflows for leases of £16.4m in the year (2020: £15.8m).

The Group did not have any leases impacted by the COVID-19-Related Rent Concessions – amendment to IFRS 16 Leases.

28 Leases continued

Extension options

Some leases of buildings contain extension options exercisable by the Group before the end of the non-cancellable contract period. Where practical, the Group seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Group and not the lessors. For extension options exercisable within 5 years of commencement the Group assesses at lease commencement whether it is reasonably certain to exercise the extension options. For options that are exercisable more than 5 years from commencement the Group assesses whether it is reasonably certain to exercise the option when this option becomes exercisable within 5 years. The Group will also reassess whether it is reasonably certain to exercise the option where there is a significant event or change in circumstances within its control.

As at 31 March 2021, potential future cash outflows of £23.0m (undiscounted) (2020: £12.5m) 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 £0.2m (2020: £0.1m). No other lease modifications occurred during the year.

The future cash outflows relating to leases that have not yet commenced are £3.0m (2020: £nil).

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 £11.5m (2020: £11.6m) recognised in employee costs (note 7), comprise £10.9m (2020: £10.8m) related to defined contribution plans and £0.6m (2020: £0.8m) related to defined benefit plans, including administration expenses of £nil (2020: £0.5m).

Defined contribution plans

The amount charged to the Consolidated Income Statement in respect of defined contribution plans was £10.9m (2020: £10.8m) 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.

The current triennial valuations for both schemes, are underway as at 1 December 2020 and 1 April 2021 respectively.

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 2021	31 March 2020	1 April 2019
Key assumptions used (UK plans):			
Discount rate	**1.95%**	2.55%	2.40%
Expected return on plan assets	**1.95%**	2.55%	2.40%
Expected rate of salary increases (while still applicable)	**n/a**	n/a	n/a
Pension increases LPI 2.5%	**2.10%**	1.85%	2.10%
Pension increases LPI 3.0%	**2.40%**	2.05%	2.40%
Inflation – RPI	**3.20%**	2.50%	3.20%
Inflation – CPI	**2.40%**	1.70%	2.20%

29 Retirement benefits continued

Mortality assumptions

CMI tables have been used, consistent with those used in the last completed triennial valuations. The assumed life expectations on retirement at age 65 are:

	31 March 2021 Years	31 March 2020 Years	31 March 2019 Years
Retiring today:			
Males	**22.4**	22.1	22.1
Females	**24.3**	24.0	24.0
Retiring in 20 years:			
Males	**24.2**	23.5	23.5
Females	**26.2**	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 8.8%/increase by 9.6%
Rate of inflation	Increase/decrease by 0.5%	Increase by 5.8%/decrease by 5.6%
Rate of mortality	Increase by one year	Increase by 3.9%

Amounts recognised in the Consolidated Income Statement in respect of the UK and Swiss defined benefit plans are as follows:

	31 March 2021			31 March 2020		
	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	**–**	**0.6**	**0.6**	–	0.3	0.3
Net interest (credit)/charge on pension plan liabilities	**(0.1)**	**–**	**(0.1)**	0.8	–	0.8
	(0.1)	**0.6**	**0.5**	0.8	0.3	1.1

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 £30.8m (2020: gain of £4.5m).

The cumulative amount of actuarial losses recognised in the Consolidated Statement of Comprehensive Income and Expenditure since the date of transition to IFRS is £89.8m (2020: £59.2m).

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 2021			31 March 2020		
	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	**(347.6)**	**(8.0)**	**(355.6)**	(296.1)	(7.9)	(304.0)
Fair value of plan assets	**327.0**	**6.1**	**333.1**	293.3	5.5	298.8
Net Retirement benefit obligation	**(20.6)**	**(1.9)**	**(22.5)**	(2.8)	(2.4)	(5.2)
Plans with net retirement benefit assets	**–**	**–**	**–**	5.4	–	5.4
Plans with net retirement benefit obligations	**(20.6)**	**(1.9)**	**(22.5)**	(8.2)	(2.4)	(10.6)

Under the current arrangements, cash contributions in the region of £14-15m per year will be made for the immediate future with the objective of eliminating the pension deficit.

29 Retirement benefits continued

Movements in the present value of the UK and Swiss defined benefit obligations were as follows:

	Year ended 31 March 2021 £m	Year ended 31 March 2020 £m
At beginning of year	**(304.0)**	(331.4)
Service cost	**(0.6)**	(0.3)
Interest cost	**(7.4)**	(7.8)
Remeasurement gains/(losses):		
Actuarial losses and gains arising from changes in financial assumptions	**(53.7)**	25.1
Actuarial gains and losses arising from experience adjustments	**(0.2)**	(0.1)
Contributions from plan members	**(0.9)**	(0.5)
Benefits paid	**10.6**	11.5
Exchange adjustments	**0.6**	(0.5)
At end of year	**(355.6)**	(304.0)

Movements in the fair value of the UK and Swiss plan assets were as follows:

	Year ended 31 March 2021 £m	Year ended 31 March 2020 £m
At beginning of year	**298.8**	292.2
Interest income	**7.5**	7.0
Actuarial gains/(losses) excluding interest income	**23.3**	(2.5)
Contributions from the sponsoring companies	**13.7**	12.8
Contributions from plan members	**0.9**	0.5
Benefits paid	**(10.6)**	(11.5)
Exchange adjustments	**(0.5)**	0.3
At end of year	**333.1**	298.8

The net movement on actuarial gains and losses of the UK and Swiss plans was as follows:

	Year ended 31 March 2021 £m	Year ended 31 March 2020 £m
Defined benefit obligations	**(53.9)**	25.0
Fair value of plan assets	**23.3**	(2.5)
Net actuarial (losses)/gains	**(30.6)**	22.5

The analysis of the UK plan assets and the expected rate of return at the balance sheet date were as follows:

Fair value of UK plan assets

	Year ended 31 March 2021 £m	Year ended 31 March 2020 £m
Equity instruments	**94.8**	77.1
Debt instruments	**204.8**	194.4
Property/infrastructure/cash	**27.4**	21.8
	327.0	293.3

All the UK plan assets are market quoted.

	Expected rate of return	
	31 March 2021 %	31 March 2020 %
Equity instruments	**1.95**	2.55
Debt instruments	**1.95**	2.55
Property/infrastructure/cash	**1.95**	2.55
	1.95	2.55

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 2022 is £14.6m.

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 10 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 2021					
Halma	**9.5**	**9.8**	**31.2**	**58.7**	**109.2**
Apollo	**1.0**	**1.1**	**3.4**	**6.3**	**11.8**

30 Disposal of operations

During the current year the Group recognised a profit on disposal of operations of £22.1m (2020: £2.9m), which comprised the following:

On 17 December 2020, the Group disposed of its entire interest in Fiberguide Industries, Inc. to a third party for proceeds of US$37.6m (£27.6m). This transaction resulted in the recognition of a gain in the Consolidated Income Statement as follows:

	£m
Proceeds of disposal	**27.6**
Less: net assets on disposal (including deferred tax)	**(3.9)**
Less: allocation of goodwill disposed	**(3.8)**
Less: costs of disposal	**(1.1)**
Add: foreign exchange gain recycled to the Consolidated Income Statement on disposal	**2.8**
Profit on disposal	**21.6**

On 26 March 2021, OneThird B.V., a company that was incorporated to spin-out the food technology start-up business from Ocean Insight, issued new shares for €0.8m (£0.7m) to external investors that reduced the Group's ownership interest from 60% to 35.3% resulting in a gain on deemed disposal of £0.5m (net of disposal costs of £0.4m). Following the partial disposal OneThird B.V. meets the tests to be accounted for as an associate.

Cash received on disposal of operations in the year of £26.1m comprised proceeds from the sale of Fiberguide Industries Inc., of £27.6m, less £1.1m of disposal costs, less disposal costs of £0.4m relating to the spin-out and partial disposal of OneThird B.V..

In the prior year, in January 2020, the Group disposed of its entire interest in Optomed Oy to third parties for sale proceeds of £7.6m less disposal costs of £0.4m. £0.8m was also received from escrow relating to the previous sale of Accudynamics.

31 Contingent liabilities

Group financing exemptions applicable to UK controlled foreign companies

On 24 November 2017, the European Commission (EC) 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 EC's final decision concluded that the FCPE rules, as they applied up to 31 December 2018, constitute State Aid. As previously reported, the Group has benefitted from the FCPE with the total benefit for the periods from 1 April 2013 to 31 December 2018 being approximately £15.4m in respect of tax.

Appeals have been made by the UK government, the Group and other UK-based groups to annul the EC decision. Notwithstanding these appeals, under EU law, the UK government is required to commence collection proceedings. In January 2021, the Group received a Charging Notice from HM Revenue & Customs (HMRC) for £13.9m assessed for the period from 1 April 2016 to 31 December 2018. The Group has appealed against the notice but as there is no right of postponement the amount charged was paid in full in February 2021. In February 2021, the Group received confirmation from HMRC that it was not a beneficiary of State Aid for the period from 1 April 2013 to 31 March 2016.

The final impact on the Group remains uncertain. However, based on its current assessment, the Group considers that the appeal will be successful and therefore £13.9m is included within non-current assets on the Consolidated Balance Sheet to reflect the Group's view that the amount paid will ultimately be recovered.

In April 2021, a Charging Notice for £0.8m was received. The £0.8m comprised interest on the £13.9m assessment noted above and the interest was paid in May 2021.

The Group's maximum potential exposure at 31 March 2021 in respect of recoverability of non-current assets is £13.9m.

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 or material 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

From 1 April 2021, the Group aligned its organisational structure and financial reporting with our purpose and focus on safety, environmental and health markets. The three sectors are called Safety, Environmental & Analysis, and Medical. Each sector is led by a Sector CEO and small sector support team. Process Safety has been combined with Infrastructure Safety to form a single Safety sector, with the exception of the Group's two Gas sensor companies (Crowcon and Sensit), which have moved from Process Safety to Environmental & Analysis. We will report on the basis of this revised structure in the Interim Statement for the six months ending 30 September 2021.

On 27 April 2021, the Group acquired PeriGen, Inc., (PeriGen), based in North Carolina, USA. PeriGen's advanced technology protects mothers and their unborn babies by alerting doctors, midwives and nurses to potential problems during childbirth. The cash consideration for PeriGen was US$58m (approximately £42m), on a cash and debt free basis. A detailed purchase price allocation exercise is currently being performed to calculate the goodwill arising on acquisition. The company continues to run under its own management team and has become part of the Group's Medical sector.

The Group has also acquired the following bolt-on acquisitions.

On 1 April 2021, Fortress Interlocks Pty Limited, an industrial access control company in the Group's Safety sector, bought the assets and IP associated with monitored safety valves from FluidSentry Pty in Australia for consideration of A$0.6m (£0.3m).

On 26 April 2021, Argus Security S.R.L., a fire safety company in the Group's Safety sector, purchased its Italian distributor for consideration of €0.5m (£0.4m).

On 30 April 2021, Crowcon Detection Instruments Limited, a company in the Group's Environmental & Analysis sector purchased its UK flue gas analyser distribution partner, Anton Industrial Services Limited, for consideration of £1.9m.

On 3 May 2021, the Group acquired Orca GmbH, a German manufacturer of ultraviolet disinfection systems, primarily for the food and beverage sector, for an initial consideration of €6.2m (£5.3m). The maximum contingent consideration payable is €2.5m (£2.2m) based on profit-based targets for the years ending 31 March 2022, 31 March 2023 and 31 March 2024. The company has become part of the Group's Environmental & Analysis sector.

On 7 May 2021, Rudolf Riester GmbH, a company in the Group's Medical sector acquired RNK, a US-based digital stethoscope company, for an initial consideration of US$2.7m (£1.9m).

There were no other known material non-adjusting events which occurred between the end of the reporting period and prior to the authorisation of these financial statements on 10 June 2021.

33 Related party transactions

Trading transactions

	Year ended 31 March 2021 £m	Year ended 31 March 2020 £m
Associated companies		
Transactions with associated companies		
Purchases from associated companies	**–**	1.0
Balances with associated companies		
Amounts due to associated companies	**–**	–
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 129 to 139.

	Year ended 31 March 2021 £m	Year ended 31 March 2020 £m
Wages and salaries	**6.1**	7.8
Pension costs	**0.1**	0.2
Share-based payment charge	**4.4**	4.3
	10.6	12.3

34 Commitments

Capital commitments

Capital expenditure relating to the purchase of equipment authorised and contracted at 31 March 2021 but not recognised in these accounts amounts to £3.1m (2020: £1.6m).

Company Balance Sheet

	Notes	31 March 2021 £m	31 March 2020 £m
Fixed assets			
Intangible assets	C3	**0.9**	0.7
Tangible assets	C4	**7.8**	6.4
Investments	C5	**347.5**	300.0
Retirement benefit asset	C13	**–**	5.4
Deferred tax asset	C10	**2.9**	0.7
		359.1	313.2
Current assets			
Debtors	C6	**742.0**	806.9
Short-term deposits		**0.1**	0.1
Current tax		**3.3**	0.6
Cash at bank and in hand		**11.7**	1.6
		757.1	809.2
Creditors: amounts falling due within one year			
Borrowings	C7	**22.6**	99.0
Creditors	C8	**74.8**	80.5
		97.4	179.5
Net current assets		**659.7**	629.7
Total assets less current liabilities		**1,018.8**	942.9
Creditors: amounts falling due after more than one year			
Borrowings	C7	**321.9**	345.0
Retirement benefit obligations	C13	**8.3**	–
Creditors	C9	**13.1**	21.2
Net assets		**675.5**	576.7
Capital and reserves			
Share capital	C11	**38.0**	38.0
Share premium account		**23.6**	23.6
Own shares		**(20.9)**	(14.3)
Capital redemption reserve		**0.2**	0.2
Other reserves		**(40.6)**	(29.5)
Profit and loss account		**675.2**	558.7
Total equity		**675.5**	576.7

The Company reported a profit for the financial year ended 31 March 2021 of £198.2m (2020: £108.5m).

The financial statements of Halma plc, company number 00040932, were approved by the Board of Directors on 10 June 2021.

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 2020	**38.0**	**23.6**	**(14.3)**	**0.2**	**(29.5)**	**558.7**	**576.7**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**198.2**	**198.2**
Other comprehensive income and expense:							
Actuarial losses on defined benefit pension plan	**–**	**–**	**–**	**–**	**–**	**(23.2)**	**(23.2)**
Tax relating to components of other comprehensive income and expense	**–**	**–**	**–**	**–**	**–**	**4.4**	**4.4**
Total other comprehensive expense for the year	**–**	**–**	**–**	**–**	**–**	**(18.8)**	**(18.8)**
Dividends paid	**–**	**–**	**–**	**–**	**–**	**(63.7)**	**(63.7)**
Share-based payment charge	**–**	**–**	**–**	**–**	**6.6**	**–**	**6.6**
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	**–**	**–**	**(16.2)**	**–**	**–**	**–**	**(16.2)**
Performance share plan awards vested	**–**	**–**	**9.6**	**–**	**(17.4)**	**–**	**(7.8)**
At 31 March 2021	**38.0**	**23.6**	**(20.9)**	**0.2**	**(40.6)**	**675.2**	**675.5**
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

Notes to the Company Accounts

C1 Accounting policies

Corporate Information

Halma plc (the Company) is a public limited company incorporated and domiciled in England, United Kingdom (registration number 00040932). The registered address of the Company is Misbourne Court, Rectory Way, Amersham, Buckinghamshire, HP7 0DE, United Kingdom.

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, pension assets 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 paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 Leases;
- the requirements of paragraph 58 of IFRS 16;
- the requirements of IAS 7 Statement of Cash Flows and related notes;
- the effects of new but not yet effective IFRS;
- 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; and
- 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 2021

The following Standards and Interpretations applied for the first time, with effect from 1 April 2020, and have been adopted in the preparation of these Company Accounts.

- Amendments to IFRS 3: Definition of a Business
- Amendments to IAS 1 and IAS 8: Definition of Material
- Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7
- Conceptual Framework: Amendments to References to the Conceptual Framework in IFRS Standards
- COVD-19-Related Rent Concessions – Amendment to IFRS 16

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 is 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.

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 out-of-the-money derivatives and contingent purchase consideration. 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 166.

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 the Company is included in the consolidated financial statements, made up to 31 March each year, it is not required to present a separate profit and loss account as permitted by Section 408(3) of the Companies Act 2006, as such 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 £198.2m (2020: £108.5m).

Auditors' remuneration for audit services to the Company was £0.5m (2020: £0.5m).

Total employee costs (including Directors) were:

	Year ended 31 March 2021 £m	Year ended 31 March 2020 £m
Wages and salaries	**18.0**	20.3
Social security costs	**2.3**	2.6
Pension costs	**0.3**	1.1
	20.6	24.0

Included within wages and salaries are share-based payment charges under IFRS 2 of £4.9m (2020: £5.5m).

	Year ended 31 March 2021 Number	Year ended 31 March 2020 Number
Monthly average number of employees (all in the UK)	**80**	79

Details of Directors' remuneration are set out on pages 129 to 139 within the Annual Remuneration Report and form part of these financial statements.

C3 Fixed assets – intangible assets

	Computer Software £m	**Other intangibles £m**	**Total £m**
Cost			
At 1 April 2020	**1.8**	**–**	**1.8**
Additions at cost	**0.7**	**0.1**	**0.8**
Disposals	**(0.3)**	**–**	**(0.3)**
At 31 March 2021	**2.2**	**0.1**	**2.3**
Accumulated amortisation			
At 1 April 2020	**1.1**	**–**	**1.1**
Charge for the year	**0.3**	**–**	**0.3**
Impairment	**0.3**	**–**	**0.3**
Disposals	**(0.3)**	**–**	**(0.3)**
At 31 March 2021	**1.4**	**–**	**1.4**
Carrying amounts			
At 31 March 2021	**0.8**	**0.1**	**0.9**
At 31 March 2020	0.7	–	0.7

C4 Fixed assets – tangible assets

	Freehold properties £m	Plant equipment and vehicles £m	Total £m
Cost			
At 1 April 2020	**6.3**	**1.7**	**8.0**
Additions at cost	**1.7**	**0.1**	**1.8**
Disposals	**–**	**(0.1)**	**(0.1)**
At 31 March 2021	**8.0**	**1.7**	**9.7**
Accumulated depreciation			
At 1 April 2020	**0.9**	**0.7**	**1.6**
Charge for the year	**0.1**	**0.3**	**0.4**
Disposals	**–**	**(0.1)**	**(0.1)**
At 31 March 2021	**1.0**	**0.9**	**1.9**
Carrying amounts			
At 31 March 2021	**7.0**	**0.8**	**7.8**
At 31 March 2020	5.4	1.0	6.4

C5 Investments

Shares in Group companies

	31 March 2021 £m	31 March 2020 £m
At cost less amounts written off at beginning of year	**300.0**	284.3
Increase in investments	**48.6**	20.5
Decrease in investments	**(1.1)**	(4.8)
At cost less amounts written off at end of year	**347.5**	300.0

The increase of £48.6m in the year comprises additions from the acquisition of Static Systems Holdings Limited of £43.9m and additional investments into existing subsidiaries: £0.5m additional investment in Halma Euro Trading Limited and £4.2m in Halma Ventures Limited. The decrease in investment of £1.1m relates to the disposal of LAN Control Systems Limited (LAN). As part of an internal group restructuring LAN was sold to FireMate Software Pty Limited, a subsidiary company 70% owned by the Group.

In the prior year the increase of £20.5m in the year comprised 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 related to the return of capital from Halma Ventures Limited on the sale of its investment in Optomed Oy.

C5 Investments continued

Subsidiaries

Details of the Company's subsidiaries at 31 March 2021 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	The Bridges, Balliol Business Park, Newcastle Upon Tyne, Tyne and Wear, NE12 8EW	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	4th Floor, Building 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

C5 Investments continued
Subsidiaries 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, 1° e 2° 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 n° 509, 16° 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, Waterbrook 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
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	2 Grand Canal Square, Grand Canal Harbour, Dublin 2	Ireland	Ordinary Shares	100
Eiffel Management Services Ltd	2 Grand Canal Square, Grand Canal Harbour, Dublin 2	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 B.V.	J. Keplerweg 10S, 2408AC Alphen aan den Rijn	Netherlands	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*
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

C5 Investments continued

Subsidiaries continued

Name	Registered Address	Country	Class	Group %
Firetrace International Asia Pte. Ltd	16 Collyer Quay, #11-01, Hitachi Tower, Singapore, 049318	Singapore	Ordinary Shares	100
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 Holdings Limited	(1)	United Kingdom	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 UK DS 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
Hyfire Wireless Fire Solutions Limited (previously Sterling Safety Systems Limited)	B12a Holly Farm Business Park, Honiley, Kenilworth, Warwickshire, CV8 1NP	United Kingdom	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*

C5 Investments continued

Subsidiaries continued

Name	Registered Address	Country	Class	Group %
Keeler Instruments, Inc.	456 Parkway, Lawrence Park Ind. Estate, Broomall PA 19008	United States	Ordinary Shares	100
Keeler Limited	Clewer 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
Kirk Key Interlock Company, LLC	9048 Meridian Circle NW, North Canton OH 44720	United States	Ordinary Shares	100
Klaxon 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	70
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	The Bridges, Balliol Business Park, Newcastle Upon Tyne, Tyne and Wear, NE12 8EW	United Kingdom	Ordinary Shares	100
Navtech Radar Limited	Home Farm, Ardington, Wantage, Oxfordshire. OX12 8PD	United Kingdom	Ordinary Shares	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
Pixelteq, 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*

C5 Investments continued
Subsidiaries continued

Name	Registered Address	Country	Class	Group %
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
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 Trasnport 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)	Unit 7b West Station Business Park, Spital Road, Maldon, CM9 6FF	United Kingdom	Ordinary Shares	100*
Sonar Research & Development Limited	(1)	United Kingdom	Ordinary Shares	100*
Static Systems Group Limited	Heath Mill Road, Wombourne, Wolverhampton, WV5 8AN	United Kingdom	Ordinary Shares	100
Static Systems Holdings Limited	Heath Mill Road, Wombourne, Wolverhampton, WV5 8AN	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, Jinxiongda Technology Park, Guanlan, Bao'an District, Shenzhen, Guangdong, 518110	China	Ordinary Shares	100

C5 Investments continued

Subsidiaries continued

Name	Registered Address	Country	Class	Group %
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
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 2021 £m	31 March 2020 £m
Amounts falling due within more than one year:		
Amounts due from Group companies	**1.2**	–
Amounts falling due within one year:		
Amounts due from Group companies	**729.7**	795.8
Other debtors	**–**	0.3
Prepayments	**11.1**	10.8
	742.0	806.9

C7 Borrowings

	31 March 2021 £m	31 March 2020 £m
Falling due within one year:		
Overdrafts	**22.6**	24.8
Unsecured loan notes	**–**	74.2
	22.6	99.0
Falling due after more than one year:		
Unsecured loan notes	**105.3**	108.6
Unsecured bank loans	**216.6**	236.4
	321.9	345.0
Total borrowings	**344.5**	444.0

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 (2020: within two to five years). At 31 March 2021, £333.4m (2020: £313.6m) remained committed and undrawn, and
- 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 2021, the outstanding loan notes totalled £105.3m (2020: £182.8m). The first tranche of loan notes, totalling £72.2m, was repaid in January 2021. The remaining loan notes 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 2021 and 1 April 2020 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 £26.5m (2020: £15.3m) are cross-guaranteed. Total overdrafts for the Group as at 31 March 2021 was £3.0m (2020: £0.9m).

C8 Creditors: amounts falling due within one year

	31 March 2021 £m	31 March 2020 £m
Trade creditors	**2.0**	2.4
Amounts owing to Group companies	**53.6**	60.1
Other taxation and social security	**1.2**	1.3
Other creditors	**0.5**	0.9
Provision for contingent consideration	**9.6**	5.7
Accruals	**7.9**	10.1
	74.8	80.5

C9 Creditors: amounts falling due after more than one year

	31 March 2021 £m	31 March 2020 £m
Amounts owing to Group companies	**12.3**	11.7
Other creditors	**0.4**	0.3
Provision for contingent consideration	**0.4**	9.2
	13.1	21.2
These liabilities fall due as follows:		
Within one to two years	**0.8**	9.0
Within two to five years	**–**	0.5
After more than five years	**12.3**	11.7

C10 Deferred tax

	Retirement benefit obligations £m	Short-term timing differences £m	Total £m
At 1 April 2020	**(1.0)**	**1.7**	**0.7**
Charge to Profit and Loss account	**–**	**(0.1)**	**(0.1)**
Credit to comprehensive income	**2.6**	**–**	**2.6**
Charge to equity	**–**	**(0.3)**	**(0.3)**
At 31 March 2021	**1.6**	**1.3**	**2.9**
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

C11 Share capital

	Issued and fully paid	
	31 March 2021 £m	31 March 2020 £m
Ordinary shares of 10p each	**38.0**	38.0

The number of ordinary shares in issue at 31 March 2021 was 379,645,332 (2020: 379,645,332), including shares held by the Employee Benefit Trust of 891,622 (2020: 760,894).

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 2021 was £3.7m (2020: £3.5m).

Net interest credit on pension plan assets/liabilities of £0.3m (2020: net interest charge of £0.4m) 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 2021 £m	Year ended 31 March 2020 £m
Defined benefit obligations	**(40.6)**	19.8
Fair value of plan assets	**17.4**	(0.3)
Net actuarial (losses)/gains	**(23.2)**	19.5

The actual return on plan assets was a gain of £23.5m (2020: gain of £5.3m).

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 2021 £m	31 March 2020 £m	31 March 2019 £m
Present value of defined benefit obligations	**(268.7)**	(231.5)	(255.2)
Fair value of plan assets	**260.4**	236.9	232.9
(Liability)/asset recognised in the Company Balance Sheet	**(8.3)**	5.4	(22.3)

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 2021 £m	Year ended 31 March 2020 £m
At beginning of year	**(231.5)**	(255.2)
Interest cost	**(5.8)**	(6.0)
Remeasurement (losses)/gains:		
Actuarial gains and losses arising from changes in financial assumptions	**(40.6)**	19.8
Benefits paid	**9.2**	9.9
At end of year	**(268.7)**	(231.5)

Movements in the fair value of the plan assets were as follows:

	Year ended 31 March 2021 £m	Year ended 31 March 2020 £m
At beginning of year	**236.9**	232.9
Interest income	**6.1**	5.6
Actuarial gains/(losses), excluding interest income	**17.4**	(0.3)
Contributions from the sponsoring companies	**9.2**	8.6
Benefits paid	**(9.2)**	(9.9)
At end of year	**260.4**	236.9

Further details of Halma Group Pension Plan, including all disclosures required under FRS 101, are contained in note 29 to the Group accounts.

Summary 2012 to 2021

	2011/12 £m	2012/13 £m	(Restated) (note 5) 2012/13 £m	2013/14 £m
Revenue (note 1)	579.9	619.2	619.2	676.5
Overseas sales (note 1)	454.3	503.6	503.6	548.6
Profit before taxation, and adjustments (note 2)	120.5	130.7	128.5	140.2
Net tangible assets/capital employed	163.3	188.7	188.7	189.7
Borrowings (excluding overdrafts)	64.0	160.0	160.0	107.6
Cash and cash equivalents (net of overdrafts)	45.3	49.7	49.7	33.1
Number of employees (note 1)	4,347	4,716	4,716	4,999
Earnings per ordinary share (note 1)	23.01p	25.22p	24.79p	28.14p
Adjusted earnings per ordinary share (note 2)	24.46p	26.22p	25.79p	28.47p
Year-on-year increase in adjusted earnings per ordinary share	19.4%	7.2%	5.4%	10.4%
Return on Sales (notes 1 and 3)	20.8%	21.1%	20.8%	20.7%
Return on Capital Employed (restated – note 4)	78.6%	76.4%	75.8%	76.6%
Return on Total Invested Capital (restated – note 4)	17.6%	16.9%	16.6%	16.7%
Year-on-year increase in dividends per ordinary share (paid and proposed)	7%	7%	7%	7%
Ordinary share price at financial year end	381p	518p	518p	579p
Market capitalisation at financial year end	1,440.8	1,962.6	1,962.6	2,192.6

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 2019/20 and 2020/21, 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.

2014/15 £m	(Restated) (note 6) 2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	**2020/21 £m**
726.1	807.8	961.7	1,076.2	1,210.9	1,338.4	**1,318.2**
587.8	663.0	806.7	902.9	1,010.0	1,117.2	**1,104.6**
153.6	166.0	194.0	213.7	245.7	267.0	**278.3**
219.1	258.6	302.2	322.0	358.9	416.9	**389.5**
140.4	296.2	262.1	290.0	253.8	419.2	**322.3**
39.5	49.5	65.6	69.7	72.1	105.4	**131.1**
5,328	5,604	5,771	6,113	6,508	6,992	**7,120**
27.49p	28.76p	34.25p	40.69p	44.78p	48.66p	**53.61p**
31.17p	34.26p	40.21p	45.26p	52.74p	57.39p	**58.67p**
9.5%	9.9%	17.4%	12.6%	16.5%	8.8%	**2.2%**
21.2%	20.6%	20.2%	19.9%	20.3%	19.9%	**21.1%**
77.6%	72.4%	72.5%	71.6%	75.1%	71.4%	**70.9%**
16.3%	15.6%	15.3%	15.2%	16.1%	15.3%	**14.4%**
7%	7%	7%	7%	7%	5%	**7%**
701p	912p	1024p	1179p	1672p	1921p	**2374p**
2,661.3	3,462.4	3,887.6	4,476.0	6,347.7	7,293.0	**9,012.8**

Shareholder Information

Financial calendar

Annual General Meeting	22 July 2021
2020/21 Final dividend payable	12 August 2021
2021/22 Half year end	30 September 2021
2021/22 Half year results	November 2021
2021/22 Interim dividend payable	February 2022
2021/22 Year end	31 March 2022
2021/22 Final results	June 2022

Dividend history

	2021	2020	2019	2018	2017
Interim	**6.87p**	6.54p	6.11p	5.71p	5.33p
Final	**10.78p***	9.96p	9.60p	8.97p	8.38p
Total	**17.65p**	16.50p	15.71p	14.68p	13.71p

* 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 22 July 2021.

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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