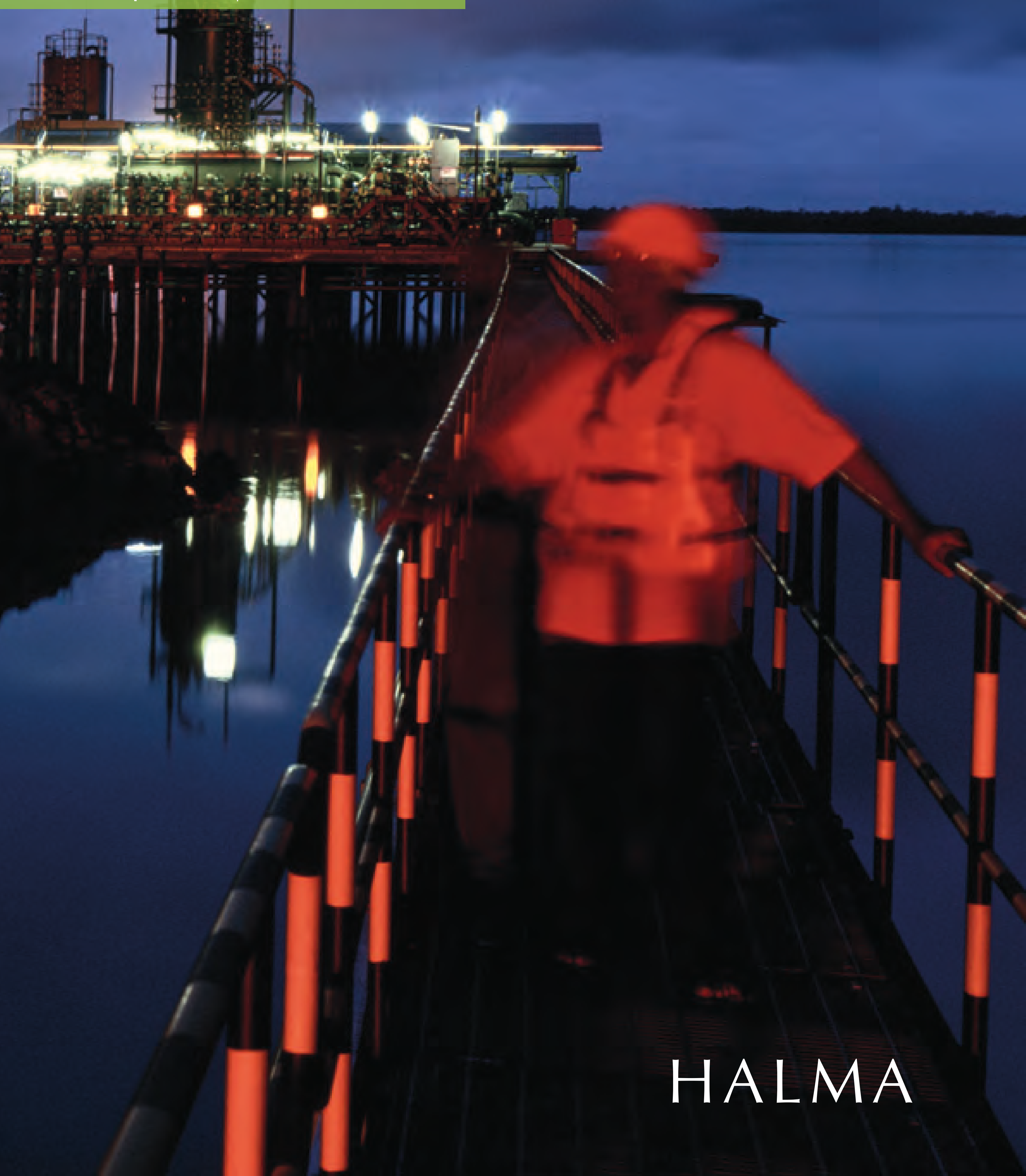
GROWTH THROUGH INNOVATION

Halma plc Annual Report and Accounts 2012



HALMA

Overview

01 Investment Proposition
02 Group at a Glance
04 Strategy and Business Model
06 Innovation in Healthcare and Analysis
08 Innovation in Infrastructure Sensors
10 Innovation in Industrial Safety

Business review

12 Chairman's Statement
14 Performance against Strategy
20 Strategic Review
25 Strategy in Action
30 Sector Reviews
- 30 Health and Analysis
- 38 Infrastructure Sensors
- 46 Industrial Safety

54 Financial Review
59 Risk Management and Internal Control
61 Principal Risks and Uncertainties
64 Corporate Responsibility

Governance

68 Board of Directors and Executive Board
71 Chairman's Introduction to Governance
72 Corporate Governance
76 Audit Committee Report
78 Nomination Committee Report
79 Remuneration Committee Report
80 Remuneration Report
87 Other Statutory Information
90 Directors' Responsibilities

Financial statements

91 Independent Auditor's Report – Group
92 Consolidated Income Statement
92 Consolidated Statement of Comprehensive Income and Expenditure
93 Consolidated Balance Sheet
94 Consolidated Statement of Changes in Equity
95 Consolidated Cash Flow Statement
96 Accounting Policies
102 Notes to the Accounts
135 Independent Auditor's Report – Company
136 Company Balance Sheet
137 Notes to the Company Accounts
142 Summary 2003 to 2012
144 Halma Directory
148 Shareholder Information and Advisers

INVESTMENT PROPOSITION

Halma has an impressive record of creating sustained shareholder value through the economic cycle. We have consistently delivered record profits, high returns, strong cash flows, low levels of balance sheet gearing and have a 30+ year track record of growing dividend payments by 5% or more every year.

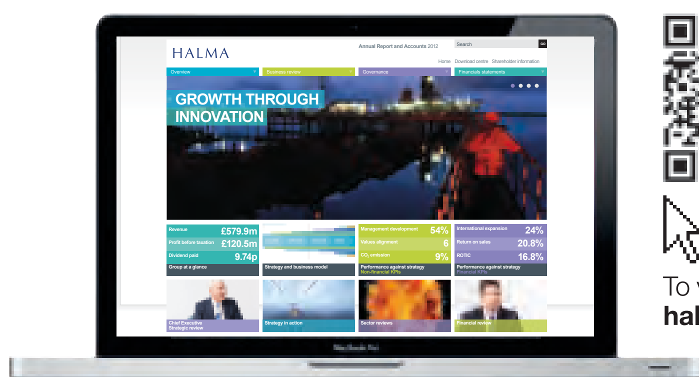
Our ability to achieve record profits through the recent periods of economic turbulence is derived from our strategy of having a group of businesses building strong competitive advantage in specialised safety, health and environmental technology markets with resilient growth drivers. These growth drivers, such as increasing Health and Safety regulation, mean that demand for our products is resilient, in both developed and developing regions, through periods of significant macro-economic change.

Organic growth generates the financial and business resources we need to fund acquisitions and keep increasing dividends.

We generate organic growth momentum by increasing levels of investment in people development, new product development and establishing platforms for growth in developing markets. Here, the need for Safety, Health and Environmental regulation is increasingly recognised by governments and the wider population.

Over the long term, we actively manage the mix of businesses in our Group to ensure we can sustain strong growth and returns. Whilst acquisitions accelerate entry into 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.

Halma's resilient market qualities, organic growth momentum and active portfolio management position us strongly to create shareholder value and achieve high levels of performance in the future.



To view our online report visit:
halmareports.com/annual-report-2012/

GROUP AT A GLANCE

Group highlights

Revenue
£579.9m

Growth
+12%

Year	Revenue
2012	£579.9m
2011	£518.4m
2010	£459.1m
2009	£455.9m
2008	£398.0m
2007	£354.6m
2006	£337.3m
2005	£299.1m
2004	£292.6m
2003	£267.3m

Adjusted profit before taxation
£120.5m

Growth
+15%

Year	Adjusted profit before taxation
2012	£120.5m
2011	£104.6m
2010	£86.2m
2009	£79.1m
2008	£73.2m
2007	£66.1m
2006	£59.6m
2005	£50.4m
2004	£50.3m
2003	£46.5m

Return on sales
20.8%

Year	Return on sales
2012	20.8%
2011	20.2%
2010	18.8%
2009	17.3%
2008	18.4%
2007	18.6%
2006	17.7%
2005	16.7%
2004	17.2%
2003	17.4%

Dividend paid and proposed
9.74p

Growth
+7%

Year	Dividend paid and proposed
2012	£36.7m
2011	£34.3m
2010	£32.0m
2009	£29.7m
2008	£28.2m
2007	£26.8m
2006	£25.3m
2005	£24.0m
2004	£22.8m
2003	£21.3m

Continuing operations	2012	2011	Change
Revenue	**£579.9m**	£518.4m	+12%
Adjusted Profit before Taxation[1]	**£120.5m**	£104.6m	+15%
Statutory Profit before Taxation	**£112.0m**	£98.3m	+14%
Adjusted Earnings per Share[2]	**24.46p**	20.49p	+19%
Statutory Earnings per Share	**23.01p**	19.23p	+20%
Total Dividend per Share[3]	**9.74p**	9.10p	+7%
Return on Sales[4]	**20.8%**	20.2%	
Return on Total Invested Capital[5]	**16.8%**	15.5%	
Return on Capital Employed[5]	**74.7%**	71.9%	

Pro-forma information:

1 Adjusted to remove the amortisation of acquired intangible assets, acquisition transaction costs, movement on contingent consideration and profit on disposal of operations of £8.5m (2011: £6.3m). See note 1 to the Accounts.

2 Adjusted to remove the amortisation of acquired intangible assets, acquisition transaction costs, movement on contingent consideration, profit on disposal of operations and the associated tax. 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 Organic growth rates, Return on Total Invested Capital and Return on Capital Employed are non-GAAP performance measures used by management in measuring the returns achieved from the Group's asset base. See note 3 to the Accounts.

Sector overview

Health and Analysis
44% of revenue

Revenue **£254m**
Profit[1] **£58m**

Infrastructure Sensors
35% of revenue

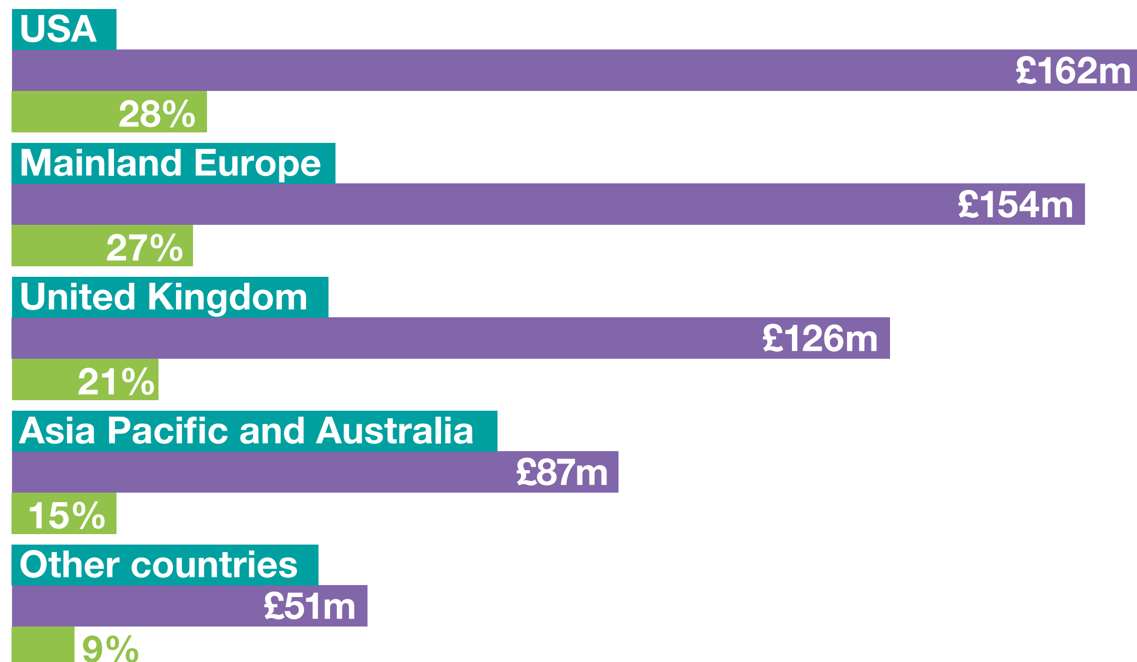
Revenue **£204m**
Profit[1] **£39m**

Industrial Safety
21% of revenue

Revenue **£122m**
Profit[1] **£29m**

Global overview

Revenue by destination



[1] See note 1 to the Accounts.

STRATEGY AND BUSINESS MODEL

Values alignment >p19

Acquisitions >p15

ACQUIRE

EMPOWER

Cash generation >p18

Development programmes >p18

Business model
What is Halma's growth objective?
We aim to double Group revenue and profit every five years.

Historically we have achieved this through a mix of acquisitions and organic growth. Return on Sales in excess of 18% and Return on Capital Employed over 45% ensure that cash generation is strong enough to sustain growth and increase dividends without the need for high levels of external funding.

Strategy
How do we grow?
We operate in relatively non-cyclical, specialised global niche markets. Our technology and application know-how provide the opportunity to generate growth, sustainable high returns and strong competitive advantage. Our chosen markets have significant barriers to entry. Demand for our products is underpinned by long-term, resilient growth drivers.

We place our operational resources close to our customers through locally managed autonomous businesses.

We reinvest cash into acquiring high performance businesses in, or close to, our existing markets.

Strategic priorities
Where do we invest?
We are making the following key strategic investments across the Group to sustain growth above market rates:

- Acquisitions
- Innovation (products and process)
- People development
- International expansion (especially Asia)

ROTIC >p17
Return on sales >p16
Organic revenue growth >p14
High rate of innovation >p15

INNOVATE

GROW

CO_2 emissions >p19
Organic profit growth >p14
International expansion >p16
ROCE >p17

Growth drivers
What drives long-term growth in our chosen markets?
Demand in each of our markets is driven by one or more of the following long-term growth drivers:

- Increasing demand for healthcare
- Increasing demand for energy and water
- Increasing urbanisation of population
- Increasing health and safety regulation

Values
How do we maintain a consistent culture across the Group?
Our values help to ensure a consistent set of standards and behaviours throughout the Group. This is particularly important given the Group's decentralised structure. Our core values are Achievement, Innovation, Empowerment and Customer Satisfaction. Our employees are required to act fairly in their dealings with fellow employees, customers, suppliers and business partners; these principles are included within our Code of Conduct which has been signed by each Group employee.

Our performance culture is underpinned by the alignment of reward and incentive plans.

Organisational structure
How does our structure help deliver competitive advantage?
Halma's 3 sectors are composed of 40 autonomous operating companies, each with their own board of directors. These are grouped into operating divisions, each chaired by a Halma Divisional Chief Executive (DCE), responsible for its own growth. DCEs understand the market needs of their companies and contribute broadly to their strategies. Through regular interaction between Executive Board members, common challenges and opportunities are identified. A small head office team focuses on setting the strategic framework and maintains a standard process of financial planning, reporting and control.

INNOVATION IN **HEALTH AND ANALYSIS**

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

Photonics

We have market leading technologies and products which use light and optics to measure substances as well as create, change and measure light.

We have manufacturing sites in the USA, Germany and China.

See page 32

Health Optics

We make handheld devices used to assess eye health, diagnose disease and assist with eye surgery as well as diagnostic devices for general medical applications.

These products are made in the USA, the UK, Germany and Switzerland.

See page 33

Water

We make instruments for monitoring and finding leaks in underground water pipelines and UV technology for disinfecting and treating water.

We manufacture our water products in the UK, The Netherlands, France, the USA and China.

See page 34

Fluid Technology

We make critical components such as pumps, probes, valves, connectors and tubing used by scientific, environmental and medical diagnostic instrument manufacturers for demanding fluid handling applications.

These products are made in the USA, the UK and China.

See page 35

INNOVATION IN INFRASTRUCTURE SENSORS

We make products which detect hazards to protect assets and people in public, commercial and industrial buildings.

Fire Detection

We make fire and smoke detectors and audible/visual warning devices.

We make fire products in the UK, USA and China.

See page 40

Automatic Door Sensors

We make sensors used on automatic doors in public, commercial and industrial buildings and transportation.

These products are made in China, Belgium and the USA.

See page 41

Elevator Safety

We make elevator/lift door safety sensors, emergency communication devices, displays and control panels for elevators.

These products are made in the Czech Republic, the USA, China, Singapore and India.

See page 42

Security Sensors

We make security sensors used in public and commercial property.

These products are made in the UK.

See page 43

INNOVATION IN INDUSTRIAL SAFETY

We make products which protect assets and people in industry.

Safety Interlocks

We make specialised mechanical, electrical and electromechanical locks which prevent accidents and ensure that critical processes operate safely.

We manufacture interlocks in the UK, the USA, The Netherlands, France, Tunisia, Australia and China.

See page 48

Gas Detection

We make portable instruments and fixed systems which detect flammable and hazardous gases.

We make our gas detectors in the UK.

See page 49

Bursting Disks

We make 'one time use' pressure relief devices to protect pressurised vessels and pipework in process industries.

Our bursting disks are made in the UK and the USA.

See page 50

Asset Monitoring

We make products which monitor the condition of physical assets underwater using innovative sensor and communications technologies.

Our asset monitoring products are made in the UK.

See page 51

CHAIRMAN'S STATEMENT

"We continue to invest in new programmes to develop our people further, exposing them to new ideas, techniques and markets."

Geoff Unwin
Chairman

Halma: what we do and our strategy

Our business is to make products which protect lives and improve the quality of life for people worldwide. We do this through continuous innovation in market-leading products which meet the increasing demands for improvements to health, safety and the environment. We build strong positions in niche markets where the demand is global. Our businesses are autonomous and highly entrepreneurial.

Strategically we aim to grow profit and revenue in excess of 5% p.a. organically, to have Return on Sales in the region of 18% to 22% and generate post-tax Return on Total Invested Capital of more than 12%. As a result, we are highly cash generative and reinvest in our businesses through people, product and market development, continue to acquire more companies with similar characteristics and strive to give annual dividend growth of 5% or more to our shareholders.

Performance

Full year revenue increased by 12% to £579.9m (2011: £518.4m), organic revenue growth[1] was 5%, and 6% at constant currency. Profit before tax, amortisation of acquired intangible assets, acquisition transaction costs, movement on contingent consideration and the profit on disposal of operations increased by 15% to £120.5m (2011: £104.6m), organic profit growth was 5% and the same at constant currency. Statutory profit before tax increased by 14% to £112.0m. Return on Total Invested Capital[1] increased to 16.8% (2011: 15.5%), Return on Capital Employed at the operating level increased to 74.7% (2011: 71.9%). Return on Sales[1] edged up to 20.8% compared to 20.2% the previous year. Net debt at the year end was £18.7m having spent £14.5m (including £1.1m of debt) on two acquisitions during the year, and received the first element of the disposal proceeds for Volumatic.

As a result the Board is recommending a final dividend of 5.95p per share giving a total dividend of 9.74p for the year, an increase of 7%. The final dividend is subject to approval by shareholders at the AGM on 24 July 2012 and will be paid on 22 August 2012 to shareholders on the register at 20 July 2012. This marks the 33rd consecutive year of dividend increases of 5% or more.

We also signed a new five-year banking facility of £260m (see the Financial Review).

Acquisitions/divestiture

During the year we purchased Kirk Key Interlock Company for US$14.5m, including US$1.9m of debt, which strengthened our position in the US interlock market; and Avo Photonics for US$9.1m (plus a contingent payment of up to US$11m based on future profit growth).

At the year end we divested Volumatic, a cash handling business, for £4.4m with an additional contingent consideration of up to £3.9m.

At the start of the 2012/13 financial year, we announced two further acquisitions in our Health and Analysis sector: Sensorex which manufactures electro-chemical sensors for water analysis applications for US$37.5m and Accutome which designs and manufactures surgical and diagnostic instruments for the ophthalmic market place for a cash consideration of US$20m, including US$2.3m of debt, plus a contingent performance payment of up to US$5m.

At the end of May 2012 we acquired SunTech Medical Group for an initial cash consideration of US$46m for the share capital and US$5m for cash retained in the business, plus a contingent performance payment of up to US$6m. SunTech, which also joins the Health and Analysis sector, is a pre-eminent supplier of clinical grade non-invasive blood pressure monitoring products.

So one can see that we continue to manage the portfolio actively and continue to seek out growth opportunities.

Geographic market development

One of our strategic aims is to have 30% of our revenue coming from markets outside the UK, USA and Mainland Europe by 2015. In 2006 the figure was 18%, last year we achieved 24% so we are well on our way. This reflects the focus and investments we have made over the recent years, and this year sales in China grew 25%.

Innovation

Technical and application innovation is at the heart of what we do, listening to our customers and imaginatively responding to their needs. You will see many examples in this report. During the year we held a hugely successful internal Innovation and Technology Exposition, where all our companies showcased their latest innovative applications. This, in turn, spawned many new ideas for using new technologies in different applications.

People

We continue to invest in new programmes to develop our people further, exposing them to new ideas, techniques and markets. We are also giving strong encouragement to diversity in all its aspects. The buzz between people at the Halma Innovation and Technology Exposition was palpable.

To everyone in the Group, sincere thanks for all you have done in producing these record results and building for the future.

Governance

During the year we responded to the consultation document from the Financial Reporting Council on Gender Diversity on Boards. In summary, our response was that we supported diversity on the Board but not just gender; we also seek a variety of experiences which will help accelerate growth in our business sectors in all geographies. Our strong preference is to develop policies and actions which support our aims rather than simply establish targets and quotas in this area. We believe the former evolves into part of our corporate culture more readily than simply setting a target.

I am delighted that Daniela Barone Soares has joined the Board and is bringing her extensive experience to bear in and around the Board.

Outlook

Many of the economic uncertainties that we saw at the beginning of the year are still with us. Our performance over the last year shows that we can make progress even in uncertain markets and we look forward to doing the same in the coming year.

Geoff Unwin
Chairman

Dividend paid and proposed

9.74p

Dividend growth

+7%

Year	Dividend
2012	£36.7m
2011	£34.3m
2010	£32.0m
2009	£29.7m
2008	£28.2m

[1] See Group highlights.

PERFORMANCE AGAINST STRATEGY

Key performance indicators: Financial

Strategic focus
Through strategic investment in people development, international expansion and innovation we aim to achieve organic growth in excess of our blended market growth rate of 5%.

Organic revenue growth

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

Performance

2012 performance

5%

Target

>5%

Organic revenue growth

Year	Growth
2012	5%
2011	11%
2010	1%
2009	11%
2008	8%

Comment
Solid organic revenue growth in line with our minimum target. Over the last five years our average rate of annual organic revenue growth has been 7% p.a. which is 2% in excess of our minimum target.

Organic profit growth

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

Performance

2012 performance

5%

Target

>5%

Organic profit growth

Year	Growth
2012	5%
2011	19%
2010	9%
2009	5%
2008	7%

Comment
Solid organic profit growth with a strong performance in the Industrial Safety sector. Over the last five years our average rate of annual organic profit growth has been 9% p.a.

2013 target
The Board has established a long-term minimum organic growth target of 5% p.a. representing the blended long-term average growth rate of our markets. This target remains appropriate given the Group's achievement of an overall revenue and profit objective of growing by 15% p.a. after acquisition revenue and profit are taken into account.

In order to meet the target of organic growth in excess of 5%, the Group will need to maintain its focus on investment in innovation, people development and geographic expansion in order to ensure the momentum developed over recent years is continued.

The primary factors affecting our ability to meet the target relate to competitive innovations overtaking the Group's technology and macro-economic factors.

See also

- Chief Executive's Strategic Review p20
- Financial Review p54
- Principal Risks and Uncertainties p61
- Note 3 to the Accounts p105

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.

High rate of innovation

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

Performance
2012 performance

4.7%

Target

>4%

R&D as a % of revenue

Year	%
2012	4.7%
2011	5.0%
2010	4.7%
2009	5.0%
2008	4.7%

Comment
Total spend in the year was £27.4m (2011: £25.7m) exceeding the 4% of revenue target. The highest rate of investment was in the Health and Analysis sector.

2013 target
New products contribute strongly to achieving organic growth, maintaining high returns and building strong market positions. The 4% minimum investment target is appropriate to the mix of product life cycles and technologies within Halma.

The HCAT development programme for engineers in the Group helps drive our technical and process innovation to fuel organic growth.

See also

- Chief Executive's Strategic Review p20
- Corporate Responsibility p64

Strategic focus
We buy companies with business and market characteristics like those of Halma. Acquired businesses have to be a good fit with our operating culture and strategy in addition to being value-enhancing financially.

Acquisitions

Definition
The cash outflow (including repayment of acquired bank loans) disclosed in the Consolidated Cash Flow Statement under Acquisition of businesses (plus any net debt acquired).

Performance
2012 performance

£20m

Acquisitions £m spent

Year	£m
2012	£20m
2011	£82m
2010	£2m
2009	£12m
2008	£47m

Comment
We have substantial financial capacity and facilities in place to comfortably finance acquisitions. We succeeded in buying two excellent companies during the year.

2013 target
2012 ended with sufficient financial capacity to finance further acquisitions, and two further businesses have been acquired early in the new year. Acquisition targets must meet our demanding criteria.

We have a strong pipeline of opportunities and have added further resources to our search activities.

See also

- Chief Executive's Strategic Review p20
- Financial Review p54
- Principal Risks and Uncertainties p61

Key performance indicators: Financial

International expansion

Strategic focus
The Health, Safety and Environmental markets in Asia and other developing regions are evolving quickly and offer us higher rates of growth in the future. We continue to invest in establishing local selling, technical and manufacturing resources to meet this current and future need.

Definition
Total sales to markets outside the UK, USA and Mainland Europe as a percentage of total revenue from continuing operations.

Performance

2012 performance

24%

Target

30% (by 2015)

Revenue outside the UK, USA and Mainland Europe

Year	%
2012	24%
2011	24%
2010	21%
2009	22%
2008	19%

Comment
Revenue outside the UK, USA and Mainland Europe was 24% of the Group total with revenue from Asia Pacific and Australasia up by 15%. Revenue from China grew by 25% to £29.5m which is now 4.5 times the level in 2006 when we established our first Halma hubs. Approximately 10% of Halma employees are based in China, and our three new Chinese regional offices are well established.

2013 target
Our aim is for revenue outside the UK, USA and Mainland Europe to be 30% of the Group total by 2015. Halma corporate hubs were established in China and India to assist companies in setting up local operations. More operating companies have established a presence in South America during 2011/12 and this trend should continue in 2012/13.

See also
- Chief Executive's Strategic Review p20
- Financial Review p54
- Note 1 to the Accounts p102

Return on sales

Strategic focus
We choose to operate in markets which are capable of delivering high returns. The ability to sustain these returns is a product of maintaining strong market and product positions together with excellent management of our operations and assets.

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

Performance

2012 performance

20.8%

Target

>18%

Return on sales

Year	%
2012	20.8%
2011	20.2%
2010	18.8%
2009	17.3%
2008	18.4%

Comment
High returns achieved representing a further improvement in performance against the previous year. The high rate of profitability of recent acquisitions was a significant contributor to the increase this year.

2013 target
We aim to achieve a Return on Sales within the 18% to 22% range whilst continuing to deliver profit growth.

See also
- Chief Executive's Strategic Review p20
- Financial Review p54
- Note 3 to the Accounts p105

Strategic focus
We choose to operate in markets which are capable of delivering high returns. The ability to sustain these returns is a product of maintaining strong market and product positions together with excellent management of our operations and assets.

ROTIC (Return on Total Invested Capital)

KPI definition
ROTIC is defined as the post-tax return from continuing operations before amortisation of acquired intangible assets, acquisition transaction costs, movement on contingent consideration and profit on disposal of operations, as a percentage of adjusted shareholders' funds.

Performance
2012 performance

16.8%

Target

>12%

ROTIC

Year	ROTIC
2012	16.8%
2011	15.5%
2010	13.6%
2009	13.1%
2008	14.1%

Comment
Record ROTIC achieved. These high returns are in excess of our long-term Weighted Average Cost of Capital (WACC) of 8.0% (2011: 8.5%).

Earnings increased faster than our asset base due to good operational management and acquisitions at sensible values.

2013 target
The target of 12% was set in 2005 when the Group's ROTIC was 12.1% and WACC was 7.9%. A range of 12% to 17% is considered representative of the Board's expectations over the long term.

See also

- Chief Executive's Strategic Review p20
- Financial Review p54
- Note 3 to the Accounts p105

ROCE (Return on Capital Employed)

KPI definition
ROCE is defined as the operating profit from continuing operations before amortisation of acquired intangible assets, acquisition transaction costs, movement on contingent consideration and profit on disposal of operations, as a percentage of capital employed.

Performance
2012 performance

75%

Target

>45%

ROCE

Year	ROCE
2012	75%
2011	72%
2010	61%
2009	48%
2008	56%

Comment
Very high returns above the target level achieved. The significant increase in recent years is due to concerted efforts to improve profitability and sustain high levels of efficiency in our operations.

2013 target
The target of >45% is set in order to ensure the efficient generation of cash at all levels to fund our target level of organic growth, acquisitions and dividend growth without Halma becoming a highly-leveraged group.

See also

- Chief Executive's Strategic Review p20
- Financial Review p54
- Note 3 to the Accounts p105

Key performance indicators: Financial

Strategic focus
Generating sufficiently high levels of cash provides the Group with freedom to pursue its strategic goals of organic growth, acquisitions and progressive dividends without becoming highly-leveraged.

Cash generation

KPI definition
Cash generated from operations expressed as a percentage of adjusted profit from continuing operations.

Performance

2012 performance

104%

Target

>100%

Operating cash to profit

Year	%
2012	104%
2011	108%
2010	131%
2009	109%
2008	104%

Comment
Cash conversion of 104% was above the target, a strong performance across the Group, in particular in the second half of the year.

2013 target
The goal of cash inflow exceeding 100% is a metric that has relevance at all levels of the organisation and aligns management action with the strategic goals of organic growth, acquisitions and progressive dividends.

See also

- Chief Executive's Strategic Review p20
- Financial Review p54

Key performance indicators: Non-financial

Strategic focus
The Halma Executive Development Programme (HEDP), the Halma Management Development Programme (HMDP) and the Halma Certificate in Applied Technology (HCAT) provide executives and middle managers with the necessary skills they need in their current and future roles.

Development programmes

KPI definition
Number of current employees attending an in-house development programme compared with the estimated pool of qualifying participants.

Performance

2012 performance

54%

Target

>50%

Management development

Year	%
2012	54%
2011	71%
2010	67%
2009	55%
2008	50%

Comment
Recognising the vital role that our people play in delivering organic growth, our training courses have been designed to enhance the skills of the next generation of directors, managers and innovators. With the introduction of HCAT's participation into the metric, the rate of participation has slightly reduced this year, although our target has been achieved once again.

2013 target
The introduction of the Halma Graduate Development Programme, with its first intake later in 2012, is a useful expansion of the Group's development programmes and is targeted to bring further new talent into the Group.

See also

- Chief Executive's Strategic Review p20
- Corporate Responsibility p64

[1] See Group highlights

Strategic focus
Halma conducts an annual survey of its employees to assess how well the Group's values are aligned with its employees' current experiences and future aspirations.

Values alignment

KPI definition
The survey of all Group employees looks for matching values in a comparison of the ten current culture values receiving the highest number of votes with the equivalent ten values employees desire for their working culture.

Performance

2012 performance

6

Target

≥5

Values alignment (out of 10)

Year	Value
2012	6
2011	5
2010	5
2009	6
2008	7

Comment
The survey invitation was extended to a greater number of Group employees this year, so an improvement in matching values is an excellent result.

2013 target
The minimum target of 5 matching values remains relevant; the goal for 2013 will be to improve the Group's communication of its values and to maintain a high rate of employee participation in the survey.

See also

- Chief Executive's Strategic Review p20
- Corporate Responsibility p64

Strategic focus
Halma's carbon policy was first approved by the Board in 2007. In 2010 the policy target was reviewed and continues to call for a 10% reduction in the carbon footprint every three years.

CO_2 emissions

KPI definition
The percentage change in the Group CO_2 emissions from electricity, oil, gas, vehicle business mileage and air miles travel.

Performance

2012 performance

9% reduction since 2010

Target

>10% reduction over 3 years to 2013

CO_2 emissions (tonnes/£m of revenue)

Year	Value
2012	43
2011	46
2010	47
2009	44
2008	44

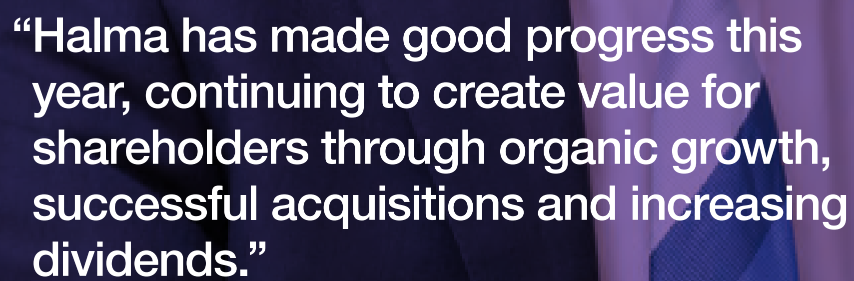
Comment
The Group's efforts to minimise its carbon footprint have ensured that CO_2 emissions related to our businesses are reviewed and controlled with businesses being held accountable for achieving their targets. We will need to make further efforts to achieve our 10% relative reduction in emissions over the three years to 2013 and believe that our Group Carbon Policy increases the focus on the CO_2 emissions.

2013 target
The importance of managing our operations to target a 10% relative reduction in CO_2 emissions over a three-year period is a metric endorsed by the Board.

See also

- Chief Executive's Strategic Review p20
- Corporate Responsibility p64

STRATEGIC REVIEW



"Halma has made good progress this year, continuing to create value for shareholders through organic growth, successful acquisitions and increasing dividends."

Andrew Williams
Chief Executive

Growth in all three sectors and all major regions
Revenue growth was achieved in all three sectors and in all major geographic regions and increased by 12% to £580m (2011: £518m). Adjusted[1] profit grew to £120.5m, an increase of 15% (2011: £104.6m). Organic revenue growth and organic profit growth were both 5%, increasing to 6% for continuing operations excluding the figures for Volumatic which we sold just before the year end.

Revenue grew in both developed and developing regions, demonstrating the resilience of the underlying growth drivers in our chosen markets of safety, health and environmental technology. UK was up by 18% to £126m (2011: £106m), whilst US increased 8% to £162m (2011: £150m). Revenue from Mainland Europe contributed £154m (2011: £138m), an increase of 12%. Revenue from outside these territories was up by 11%, representing 24% of the Group total (2011: 24%). This included 15% growth from Far East and Australasia. China revenue improved by 25% and represents slightly over 5% of Group revenue.

Health and Analysis performed well, increasing revenue by 16% to £254m (2011: £218m), contributing 44% of the Group (2011: 42%). Profit[2] grew substantially by 25% to £57.8m (2011: £46.1m), 46% of Group operating profit[2] (2011: 42%). Return on Sales grew strongly to 22.8% (2011: 21.1%). All four sub-sectors, Water, Photonics, Health Optics and Fluid Technology increased revenue with organic growth boosted significantly by acquisitions made in 2010/11. Following a tough first half year, Fluid Technology had a much steadier performance in the second half with revenue slightly ahead of the first six months. Water had a very good year gaining significant market share for water network monitoring instruments in the UK.

Infrastructure Sensors had a solid year increasing revenue by 4% to £204m (2011: £197m), 35% of the total (2011: 38%). Profit[2] was marginally ahead of last year at £39.1m (2011: £39.0m), which is 31% of Group operating profit[2] (2011: 36%). Return on Sales was 19.1% (2011: 19.8%). Fire Detection, Automatic Door Sensors and Security Sensors all increased revenue whilst Elevator Safety revenue was flat. A significant management reorganisation within Elevator Safety started in November 2011 and will be complete by mid-2012. This will reduce profitability in Elevator Safety by around £1m during the first half of 2012/13 but is expected to have delivered significant benefits to more than cover this charge by the end of the full year.

Industrial Safety performed strongly with revenue increasing by 19% to £122m (2011: £103m), which is 21% of the Group (2011: 20%). Profit[2] increased by 20% to £29.2m (2011: £24.4m), which is 23% of Group operating profit[2] (2011: 22%). The four sub-sectors of Gas Detection, Safety Interlocks, Bursting Disks and Asset Monitoring all increased revenue with demand underpinned by Health and Safety regulations and positive end-markets including Oil and Gas. Return on Sales in Industrial Safety remained the highest in the Group at 23.9% (2011: 23.7%).

Our three major measures of returns improved
Return on Sales improved to a new record of 20.8% (2011: 20.2%) with acquisitions improving margins in Health and Analysis and organic growth edging up Industrial Safety's performance. Infrastructure Sensors was a little lower than the prior year, albeit well within our 18% to 22% target range.

A high Return on Capital Employed is a key metric for Halma companies and is a characteristic we look for when considering acquisition prospects. This year it improved to 74.7% from an already very high level of 71.9% last year.

Return on Total Invested Capital is the post-tax return Halma has generated on all our assets including all historical goodwill. It is, therefore, an important long-term measure of how efficiently we deploy capital to grow our business both organically and through acquisition thereby creating value for shareholders. This year it increased to 16.8% (2011: 15.5%), well above our weighted average cost of capital, estimated to be around 8%.

Profit
£120.5m

Profit growth
+15%

Year	Profit
2012	£120.5m
2011	£104.6m
2010	£86.2m
2009	£79.1m
2008	£73.2m

Good cash generation and a strong balance sheet
Clearly, high returns are an indicator of a business' ability to generate cash. We aim to grow organically and through acquisition without becoming a highly geared business. This year cash generated was 104% of adjusted[1] profit (2011: 108%) and we ended the year in a strong position with net debt of £19m (2011: £37m).

In October 2011, we decided to renew and increase our bank credit facilities which were due to terminate in February 2013. We have put in place a £260m five-year revolving credit facility which gives us greater certainty over our medium-term funding and a greater freedom to complete acquisitions when suitable opportunities arise.

Strategic growth priorities
We have a clear strategy to generate sustained organic growth, actively manage our portfolio and deliver growing dividends. The medium-term rate of organic growth determines the rate at which we can acquire businesses and increase dividends. Our management reward structures are clearly aligned with our objectives of delivering sustained growth and high returns. We actively manage our business portfolio through acquiring in (or adjacent to) our existing markets, merging as market needs change and selling businesses where we do not see the medium-term prospects for sustaining high returns or growth.

We drive organic growth through a focus on investing in the three areas of: Innovation, People Development and International Expansion.

Innovation
Our businesses build market leadership, gain market share or create new market opportunities through innovation in products and processes. Within Halma, companies have great opportunities to collaborate and share know-how with their sister companies. We are creating a culture and environment to encourage this behaviour in a variety of ways including ensuring a diverse mix of representation at Halma training programmes and holding a biennial Halma Innovation and Technology Exposition. Network groups and forums focused on specific functional areas such as manufacturing and IT have also been established to foster regular benchmarking and continuous improvement.

Innovation by individual employees is formally recognised in Halma through a monthly Eureka award (top prize £1,000) and the Halma Annual Innovation Awards (top prize £20,000).

In 2012, the Halma Innovation Award was won by a team from Oseco in Oklahoma, USA, who designed a new Bursting Disk product which improves safety in Oil and Gas exploration. The runners-up were a team from HWM-Water in Cwmbran, UK, who developed a software platform which gives customers a 'data-gateway' to easily integrate their control systems with HWM's water monitoring technology. In third place

was a team from Ocean Thin Films in Colorado, USA, who created a spectral imaging camera which enables scientists to analyse target objects in real-time video through a range of discrete specialist optical filters simultaneously (see page 28).

R&D expenditure increased by 7% to £27.4m (2011: £25.7m) representing 4.7% of Group revenue (2011: 5.0%), well above our 4% KPI target. Underlying growth in R&D spend was in line with revenue growth so the slight decline in spend as a percentage of revenue was due to the lower rate of R&D investment of companies recently acquired. One of the ways we aim to add value to newly acquired businesses is by increasing their rate of innovation through investment in new products.

People development

Halma's decentralised operating structure relies upon having capable local managers empowered to make timely decisions in the best interests of their business. R&D, manufacturing, sales and administrative resources are controlled by local subsidiary boards who have an intimate knowledge of market dynamics and customer needs. Strategic objectives, annual performance goals and management incentives are aligned with a strong commitment to attract and develop high quality talent at all levels.

Halma offers a range of training programmes for employees including the Halma Executive Development Programmes (HEDP and HEDP+), Halma Management Development Programmes (HMDP and HMDP+) and Halma Certificate in Applied Technology (HCAT) programmes. During 2011/12, 166 employees attended these Halma-run programmes and many more benefited from training provided by their subsidiary company. The value of this investment is shown both in our excellent financial performance and succession planning. In April 2012, Philippe Felten the CEO of BEA, our Automatic Door Safety business, was promoted to the Halma Executive Board and took on the additional responsibility of our Security Sensors sub-sector.

In 2012, we launched the Halma Graduate Development Programme (HGDP) with the first group of UK and US graduates due to start in early Autumn 2012. Through HGDP, we aim to increase the depth of talent coming through our management ranks and also expect it to increase management diversity in the longer term. Graduates will work at Group companies in different global regions and attend residential training modules. Halma is an attractive employer for new graduates offering the chance to work in diverse markets, gaining international experience and providing a genuine opportunity for significant early career progression.

International expansion

We have made great strides in recent years growing our business in developing markets. In the process, we have learned a lot about these markets and have improved our understanding of the growth opportunities, both organic and through acquisitions. In the future, we expect to find a greater number of acquisition opportunities in developing markets and we are building the resources to support this objective.

Our strategic objective is for at least 30% of revenue to come from outside the UK, USA and Mainland Europe by 2015 and we maintained that metric at 24% this year even with the acquisition of two US-focused businesses in the year (2011: 24%). By 2015 China is targeted to be 10% of the Group total.

This year, good momentum was maintained in China with revenue increasing by 25% to £29.5m (2011: £23.6m) which is slightly over 5% of total revenue. This compares with £6.6m in 2006 when we set up our first hubs in Shanghai and Beijing. In 2012, the number of employees based in China represents 10% of the total Halma workforce.

A number of Halma businesses are investing in building stronger channels to market in South America either directly or by developing trading relationships with local businesses. Revenue from South America increased by 23% to £11.2m (2011: £9.1m).

"In the future, we expect to find a greater number of acquisition opportunities in developing markets and we are building the resources to support this objective."

In India, there was slower progress, with revenue increasing by 8% to £7.0m (2011: £6.4m). We are adding both sales and technical resource in Mumbai and during the year moved to larger premises. However, it is clear that India is not currently offering us the same rate of revenue growth as China, South-East Asia and South America.

Acquisitions and disposals

During the year, we completed two acquisitions and one disposal. Following the year end, we acquired a further three businesses. For these five acquisitions we paid £80m, including £3m of debt acquired, (plus potential for £14m of earn-outs) and received an initial payment of £4.4m for the disposal. All transactions, except the Kirk Key acquisition, were within our Health and Analysis sector.

In May 2011, we acquired Kirk Key Interlocks, based in Ohio, USA for US$14.5m (£8.8m), including US$1.9m of debt. Kirk Key was our most significant competitor for Safety Interlocks in the US market and is a strong addition to our group of market leading interlock businesses within the Industrial Safety sector.

In July 2011, we bought Avo Photonics, based in Pennsylvania, USA for US$9.1m (£5.7m) plus a one-year earn-out of up to US$11.0m dependent on profit growth. Avo adds significant new technology and manufacturing know-how to our Photonics businesses. Their expertise in miniature electro-optic design and manufacturing has potential applications across many other Halma sub-sectors.

In March 2012, we sold Volumatic, based in Coventry, UK to a private equity fund, for £4.4m plus performance based earn-outs of up to £3.9m. The end-markets for their cash counting products are retail and banking which do not have the long-term growth drivers we seek. This disposal is a further example of our ability to divest businesses for sensible prices where the longer-term returns and growth prospects do not meet our objectives. Volumatic was the only Halma business whose products and activities were not related to any of our 12 sub-sectors.

In April 2012, we paid US$37.5m (£23.4m) to acquire Sensorex, a manufacturer of water quality test sensors based in California, USA. Sensorex is very complementary to our existing water test business, Palintest, and joins the Water sub-sector.

In April 2012, we acquired Accutome for US$20m (£12.6m), including US$2.3m of debt, plus an earn-out of up to US$5m based on future profit growth. Accutome adds new products and greater sales and distribution strength in the USA for our Health Optics businesses. Based in Pennsylvania, USA, it already trades with our ophthalmic instrument businesses Keeler and Volk.

In May 2012, we acquired SunTech for US$46m (£29.6m) plus US$5m for cash retained in the business with a potential earn-out of US$6m. Their blood pressure monitoring technology is a perfect complement to Riester's own clinical grade blood pressure monitoring devices.

Our current acquisition prospect pipeline is strong. We are looking for successful businesses in, or closely related to, our existing sub-sectors. Although most of our transactions in recent years have been in the Health and Analysis sector, we continue to look for opportunities in our safety-related sectors too. This combination gives Halma a great balance between sustainable growth and strong returns.

Macro-economic, regulatory and competitive environment

With our focus on the supply of safety, health and environmental related products, Halma businesses are positioned in relatively non-cyclical markets that have clear, long-term growth prospects. Most of our markets are underpinned by regulatory drivers where customer spending is often non-discretionary. Our businesses benefit from strong market positions providing upgrade and replacement sales opportunities. These factors combine to create genuine resilience in tough economic conditions and enable us to achieve organic growth above prevailing market growth rates.

With demand for our products increasingly stimulated by regulation, we can invest for the longer term with confidence. Our competitive environment is heavily influenced by global, regional and national product approvals or technical validations. Compliance with product regulations is a steadily increasing overhead and a technical challenge but our focus on this area enables us to build competitive advantage. We are exposed to a very diverse range of niche markets, each with its own unique competitive environment. Our strategy is to empower local management to respond to changing market conditions by controlling their own competitive strategy. More details are given in the sector reviews on pages 30 to 53.

In the current macro-economic environment each of our businesses is experiencing very different challenges and opportunities according to their particular market and geographic exposure. In 2012/13, we expect the macro-economic and political circumstances in Europe and the Middle East to remain challenging with the USA maintaining a relatively low rate of growth. We believe that the broader socio-economic development of developing regions like Asia and South America will continue to increase demand for a safer environment and for greater access to healthcare and energy/water resources. This should benefit Halma businesses.

Our primary market growth drivers

Halma's strategy is to develop market positions with a horizon of ten years or more. Growth strategies within our individual operating businesses tend to have three to five-year horizons.

The markets we select must have robust growth drivers with potential for organic growth well above the underlying market or GDP growth.

All of our businesses are positioned in markets that are underpinned by at least one of the following growth drivers:

> "Our focus on Safety, Health and Environmental Technology is continuing to provide opportunities for growth in both developed and developing regions."

Increasing demand for healthcare
Three key demographic trends support increasing worldwide demand for healthcare: global population ageing, global population growth and rising incomes in the developing world. Demand for healthcare services and health-related products drives growth in our Health and Analysis markets.

Spending on healthcare continues to grow rapidly throughout the developed world, particularly in the USA where it is projected to rise by over a third between 2011 and 2016. Population growth and rising incomes in the developing world are other strong drivers of healthcare demand. China's healthcare expenditure, for example, grew at a compound annual growth rate of over 18% during 2006-2010, and is forecast to continue at this rate during the 12th Five Year Plan (2011-2015).

Population ageing creates rising healthcare needs and, as incomes rise, health services become available to an increasing number of people in the developing world. Continuous advances in medical technology create new medical procedures, which also stimulate demand for new instruments and equipment. The number of people aged 60 and over is increasing dramatically. In 2010 there were 759 million people in the world aged 60 and over; this is projected to rise to two billion by 2050. Although the older population is growing in all parts of the world, the increase is most marked in the developing world. The proportion of the world's older population living in less developed regions is forecast to rise from 65% in 2010 to about 80% by 2050.

Increasing demand for energy and water
Rising energy consumption and water usage, the inevitable consequences of social and economic development, are driven by three key trends: population growth; rising living standards; and changing patterns of food consumption and agriculture. Energy and water supply are interdependent in many economies. Consumption of water for energy production in the USA is forecast to rise by 50% from 2005 to 2030, accounting for 85% of the total US increase in water demand.

Global energy consumption is projected to increase by over 50% from 2008 to 2035 with the highest growth in non-OECD economies. While water demand rises relentlessly, the quality and availability of clean water continues to decline. Eighty per cent of the world's population lives in areas with high levels of threat to water security.

Several of our Health and Analysis businesses are positioned to benefit from the global trend of rising demand for water. In both developed and developing regions we see increasing competition for water resources between economic groups and between national governments. The increasing value placed on water resources drives demand for our water conservation, treatment, monitoring and testing products.

Continued investment in Oil and Gas exploration and extraction drives demand for our Industrial Safety products.

Increasing urbanisation
The world's population is currently growing faster than at any time in history. Despite a decline in the annual population growth rate to 1.2% per year, world population grows by about 83 million annually.

Future population increase will be a largely urban phenomenon. Falling birth rates in most developed economies mean that population growth will occur in the less developed regions, mainly among the poorest urban populations. The world's urban population is expected to rise by over 70% between 2011 and 2050. In China, for example, over two-thirds of the population is forecast to live in cities by 2030, a 300 million increase over 2012.

Urbanisation drives investment in non-residential buildings like shops, offices, and schools and in transportation, key markets for our Infrastructure Sensors businesses, while it also requires investment in healthcare facilities and utilities such as water, which are target markets in Health and Analysis.

Increasing Health & Safety regulation
The International Labour Organisation estimates that about 2.3 million men and women die from work-related accidents and diseases every year. This includes close to 360,000 fatal accidents and an estimated 1.95 million fatal work-related diseases. Every day nearly 1 million workers will suffer a workplace accident, and around 6,300 workers will die due to an accident or disease from their work. However, significant advances are being made in occupational safety and health (OSH) and the number of fatal accidents has fallen over the last ten years.

In economic terms it is estimated that roughly 4% of the annual global GDP (US$1.25 trillion), is lost by the direct and indirect costs of occupational accidents and diseases such as lost working time, compensation, production downtime and medical expenses.

Throughout the world, governments are requiring employers to comply with increasingly strict laws and regulations to protect workers from workplace hazards. In parallel with government regulations, many multinational employers based in the developed world are extending health and safety protocols to developing regions.

This combination of increasing safety regulation and globalisation drives demand for our Industrial Safety and Infrastructure Sensors products.

Delivering Corporate Responsibility and sustainability
Our primary market growth drivers mean that Halma companies operate in markets in which their products contribute positively to the wider community. These market characteristics and our commitment to health and safety, the environment and people development are reflected in the values held by our employees and our operating culture. We review our responsibility and sustainability reporting in accordance with best practice. Recent legislative changes, particularly concerning the environment and bribery and corruption, have provided an opportunity to review and ensure that our procedures in these important areas are accessible, compliant and firmly embedded within our business.

A detailed report on Corporate Responsibility is on pages 64 to 67.

Outlook
Our focus on safety, health and environmental technology is continuing to provide opportunities for growth in both developed and developing regions. The combination of strong local operational management and active portfolio management ensures that we are able to deliver short-term financial performance and invest for growth in the longer term. These qualities are reflected in this year's performance and in Halma's track record of growth and high returns over a long period. We expect to continue to make progress in the year ahead.

Andrew Williams
Chief Executive

[1] See Group highlights.
[2] See note 1 to the Accounts.

STRATEGY IN ACTION

ACQUIRE >
EMPOWER >
INNOVATE >
GROW >

Acquisitions are a key strategic investment which strengthen our product portfolios, add new technologies, deepen our management talent pool and extend our geographical reach. They help us to grow faster than underlying market growth rates, while delivering high returns and creating shareholder value.

Our Divisional Chief Executives are responsible for all acquisitions, mergers and disposals within the sub-sectors for which they are responsible. They are supported by two acquisition search specialists who were previously successful Presidents of Halma companies.

Our strategy is to buy companies with business and market characteristics that fit well with our operating culture and growth strategy, in addition to having strong financial metrics. As a highly cash-generative business with a strong balance sheet, our organic growth is supported by modest levels of bank funding enabling us to invest in acquisitions without accumulating excessive debt.

An active pipeline of opportunities

We sustain our track record of making successful acquisitions by having a continuously replenished pipeline of opportunities. In a typical year we look at about 500 businesses, actively review about 200 and make direct contact with about 100.

During 2011/12 this continuous process of researching markets and qualifying acquisition prospects enabled us to add Kirk Key Interlock Company to our Industrial Safety sector and Avo Photonics joined our photonics businesses within Health and Analysis. Three further companies, Sensorex, Accutome and SunTech Medical Group, were added to our Health and Analysis sector at the beginning of the 2012/13 financial year.

David Leighty (left) and George Gaydos (right) are Halma's acquisitions team responsible for finding new businesses that will enhance earnings through new intellectual assets, new management talent and a wider technological and geographic footprint.

EMPOWER

We invest in employee training to develop talent for our businesses. During 2011/12 over 160 employees completed Halma-run management development and technical training programmes.

Our first group-wide training initiative, the Halma Executive Development Programme (HEDP), was launched in 2005. This was followed by the Halma Management Development Programme (HMDP) and the Halma Certificate in Applied Technology (HCAT). These programmes bring together senior and middle managers, and engineers, from all of the subsidiaries and across all management disciplines. Our aim is to develop management skills and encourage the exchange of ideas. The value of our training investment is evident in the rising quality of management, our ability to fill senior vacancies internally and our excellent financial performance.

Fresh ideas

In 2011 we launched a new **Halma Graduate Development Programme** to find and develop graduates with the potential to become future leaders of our companies, or our next generation of technology innovators. The programme, which lasts 24 months, is based on work placements in operating companies and residential training to develop communication and teamwork skills.

The first group of 9 high calibre graduates originating from the USA, UK, China and New Zealand will begin work in Autumn 2012.

Michael Hamilton, Head of People Development, manages our centrally-funded skills development programmes that benefited 166 employees this year.

27%

More training

The number of employees completing centrally-funded training in 2011/12 rose by 27%.

INNOVATE

7%

Increase in R&D investment
We have once again increased our spending on innovation, investing £27.4m in R&D, up 7% from last year.

Innovation in products and processes is a key driver of growth. It enables us to build competitive advantage, gain market share, open up new markets and achieve high returns.

In addition to increasing our spending on innovation and R&D in 2011/12, we held a second Innovation and Technology Exposition to encourage collaboration through the sharing of ideas, new products and processes between all Halma companies.

Our training programme for technical engineers, the Halma Certificate in Applied Technology, provides delegates with new skills in project management, finance and customer-led innovation. We regularly celebrate the most successful creative ideas in design, selling and manufacturing across Halma with our monthly and annual innovation awards.

SpectroCam

SpectroCam is a multispectral imaging (MSI) camera system which makes MSI available to a much larger and diverse user base by taking MSI out of the research lab and into the field. It has significant performance improvements over other more expensive systems on the market and has immediately attracted significant customer interest.

SpectroCam uses thin film optical filters to split the imaged object or scene into multiple spectral images. These can then be isolated, combined or enhanced with image analysis software to obtain the physical and chemical attributes of the imaged object quickly and easily.

Dave Fish from Ocean Thin Films, one of our photonics companies, was one of this year's winners at our Annual Innovation Awards. The company's SpectroCam reflects Halma's move towards higher technology over the past decade.

GROW

International expansion is a key component of our growth strategy and an important element of how we add value to new acquisitions; we aim for at least 30% of revenue to come from outside the UK, USA and Mainland Europe by 2015. By that time China should contribute 10% of the total revenue.

In the past five years we have averaged over 30% annual sales growth in China. Chinese employee numbers have risen from 200 to approximately 450 people and we now generate over 5% of global revenue from China (up from less than 2% five years ago).

Starting in 2006 we have invested in five regional 'hub' offices, manufacturing facilities and regional sales teams. These hubs provide a low risk, quick-start platform for our businesses to enter the Chinese market. Twenty-eight of our businesses now have Chinese sales operations and nine also manufacture in China.

Emerging market focus

Investment in international expansion has resulted in significant revenue increase outside the UK/Europe and the USA. Since 2007 it has increased from 19% to the current 24% of total sales.

Many of our companies are turning their international expansion focus to South America. Our Health Optics businesses have recently set up a shared service centre in São Paulo, Brazil and many of our Industrial Safety businesses are establishing a direct presence in the region to address the Oil and Gas market.

Since **Martin Zhang** was appointed Director of Halma China in 2006 sales growth in China has averaged 30% per year.

30%

International expansion
Our target is for non-UK/US/Europe revenue to be 30% of the group total by 2015.

SECTOR REVIEW
HEALTH AND ANALYSIS

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

Performance

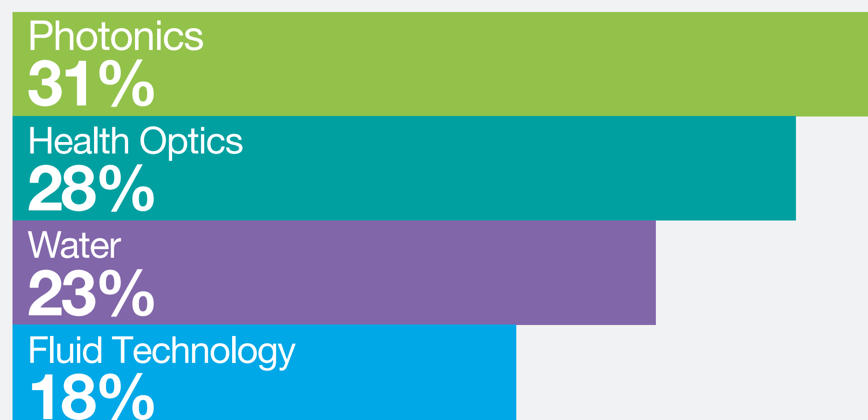
KPIs	Sector performance	Group target	Target met
Revenue growth[1]	16.2%	>5%	✓
Profit growth[1]	25.5%	>5%	✓
Return on Sales[2]	22.8%	>18%	✓
ROCE[3]	89.1%	>45%	✓
R&D % of Revenue[4]	5.1%	>4%	✓

Contribution to Group

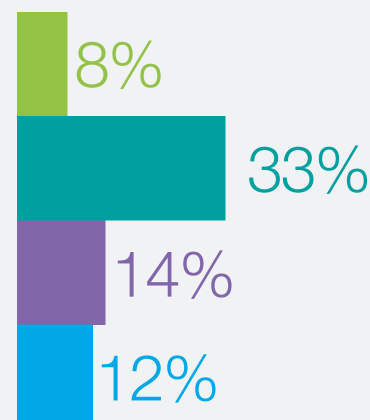
£m	2012	2011	2010	2009	2008
Revenue	254	218	178	167	137
Profit	58	46	35	29	28

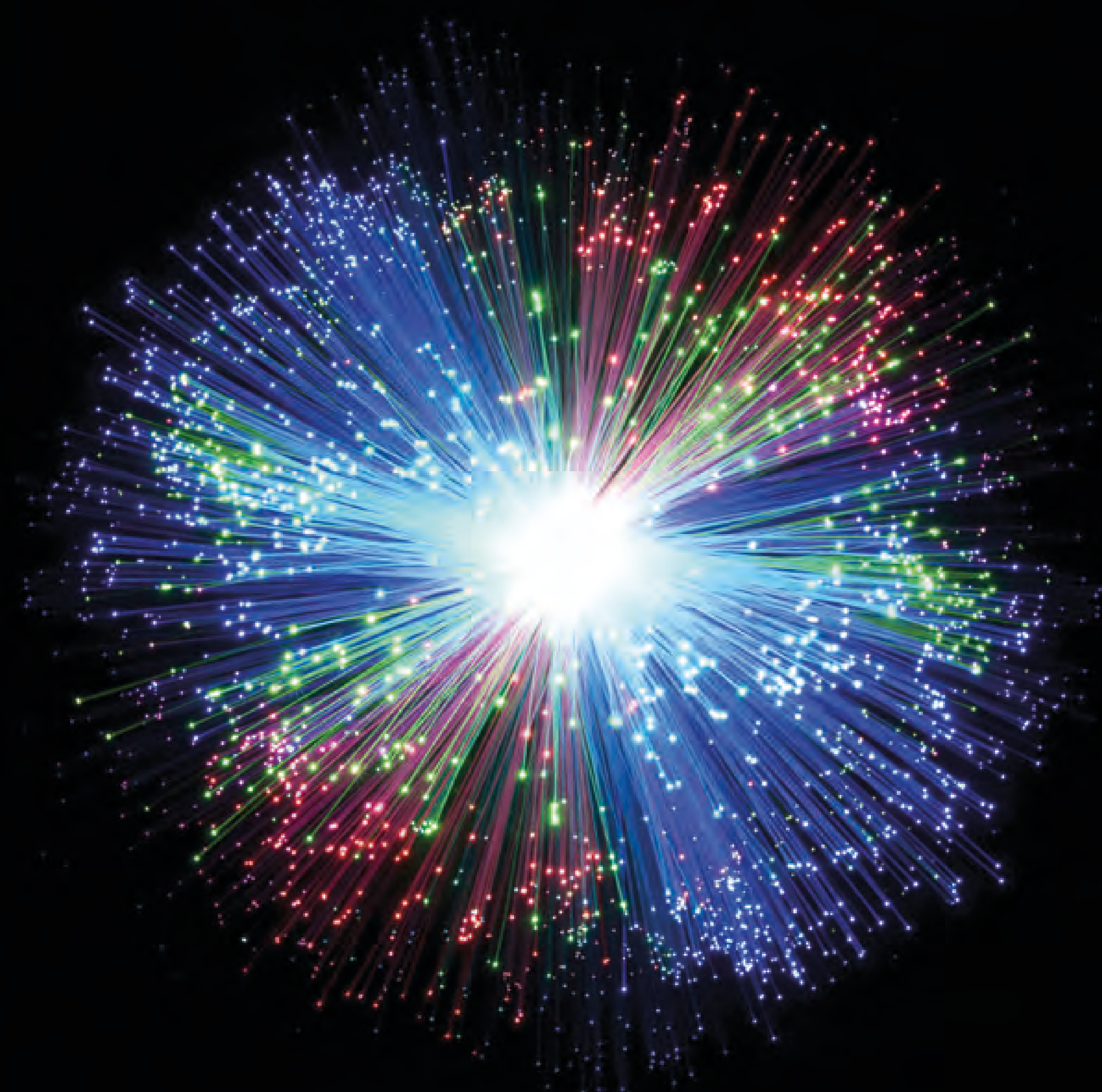
1 Sector revenue and adjusted[5] sector profit before finance expense are compared to the equivalent prior year figure.
2 Return on Sales is defined as adjusted[5] profit before finance expense and taxation expressed as a percentage of sector revenue.
3 Adjusted[5] sector profit before finance expense expressed as a percentage of sector operating net assets.
4 Sector research and development expenditure expressed as a percentage of sector revenue.
5 Adjusted to remove the amortisation of acquired intangible assets, acquisition transaction costs and movement on contingent consideration.

Sub-sector revenue split



Growth rate





Coated optical filter
Ocean Thin Films

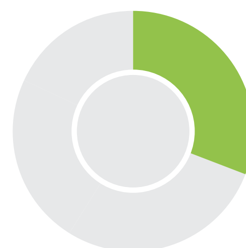
Photonics
Market leading opto-electronic technology for scientific, medical and environmental applications.

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

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

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

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



31%

% of sector revenue

Health Optics

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

Market trends and growth drivers

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

Strategy

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

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

Performance

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

Outlook

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

28%

% of sector revenue

Portable slit lamp for eye examinations
Keeler

Water leak locator
HWM-Water

Water

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

Market trends and growth drivers

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

Strategy

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

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

Performance

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

Outlook

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

23%

% of sector revenue

Fluid Technology

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

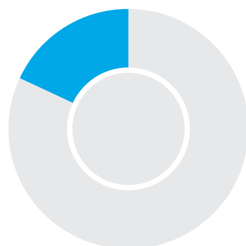
Market trends and growth drivers
Growth drivers for fluid technology markets remain strong, with rising demand for healthcare and improving standards of living around the world. We see good long-term growth prospects across all fluid technology markets, particularly in medical diagnostics and environmental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

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

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

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

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



18%
% of sector revenue

Mass flow meter
Alicat Scientific

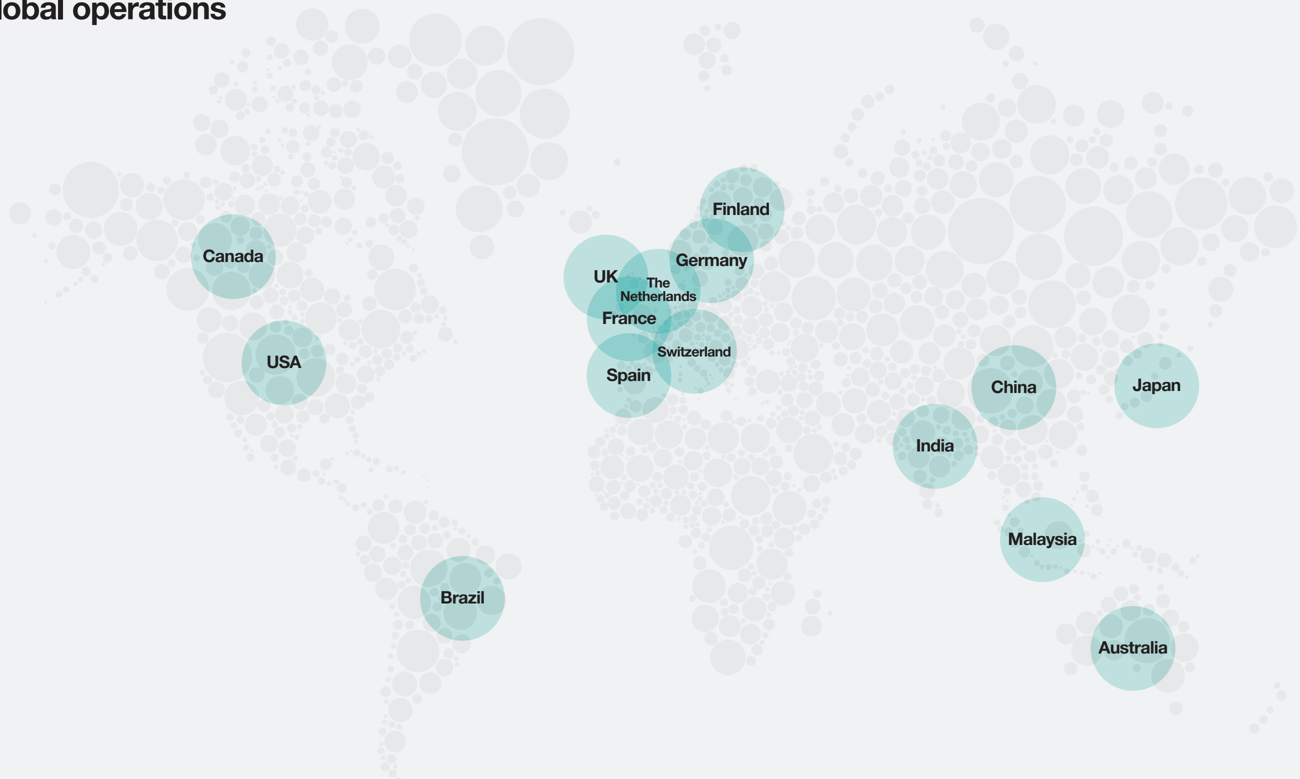
"DataGate is a breakthrough data management system. It leapfrogged the competition and set new standards in every key performance area. Customers liked the benefits and we have won a series of big contracts with the new technology. The R&D investment has paid off, exposing us to new markets such as commercial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

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

Sector revenue
£254m+16%

Sector profit
£58m+25%

Global operations



Sector growth drivers
– Increasing health and safety regulation
– Increasing demand for healthcare
– Increasing demand for energy and water

Strategic summary
Achievements

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

Directions

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

SECTOR REVIEW
INFRASTRUCTURE SENSORS

We make products which detect hazards to protect assets and people in public, commercial and industrial buildings.

Performance

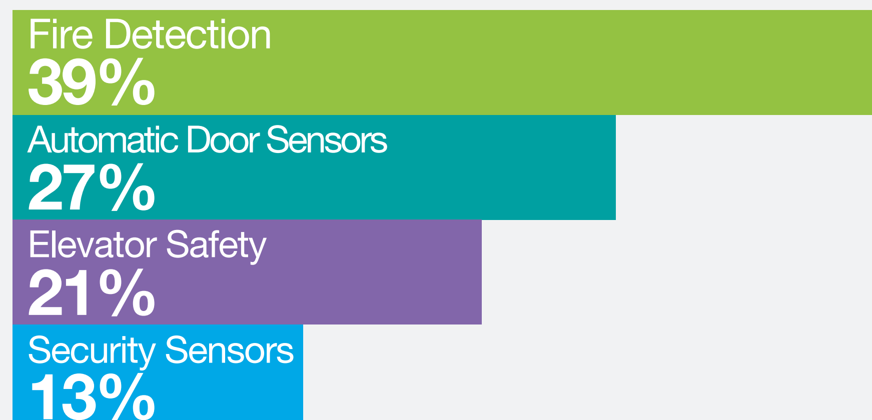
KPIs	Sector performance	Group target	Target met
Revenue growth[1]	3.6%	>5%	×
Profit growth[1]	0.2%	>5%	×
Return on Sales[2]	19.1%	>18%	✓
ROCE[3]	79.6%	>45%	✓
R&D % of Revenue[4]	4.9%	>4%	✓

Contribution to Group

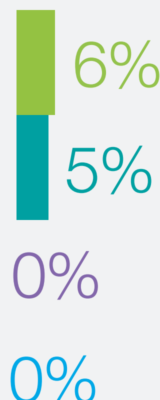
£m	2012	2011	2010	2009	2008
Revenue	204	197	183	186	167
Profit	39	39	36	33	29

1 Sector revenue and adjusted[5] sector profit before finance expense are compared to the equivalent prior year figure.
2 Return on Sales is defined as adjusted[5] profit before finance expense and taxation expressed as a percentage of sector revenue.
3 Adjusted[5] sector profit before finance expense expressed as a percentage of sector operating net assets.
4 Sector research and development expenditure expressed as a percentage of sector revenue.
5 Adjusted to remove the amortisation of acquired intangible assets, acquisition transaction costs and movement on contingent consideration.

Sub-sector revenue split



Growth rate



Fire Detection

Fire and smoke detectors and audible/visual warning devices used in public, commercial and industrial property.

Fire detector
Apollo Fire Detectors

Market trends and growth drivers

Worldwide fire market growth continues to be driven by legislation. Fire codes and standards governing installation, maintenance and servicing of fire products are extensive, often with differences at national, regional and even city level. In the emerging economies, codes and standards are still being created and slowly adopted. Although fire codes exist in Eastern Europe, South America and Asia there is often poor enforcement.

In the mature US and European markets, modest growth is forecast in 2012 for new installations and maintenance work. Stronger growth is expected in Asia Pacific and Latin American markets due to continuing construction investment, and increased regulation, particularly in China and Brazil.

Strategy

Our primary strategy is world leadership in safety-critical sensor products used in commercial, public and industrial buildings. We are one of the world's largest manufacturers of point smoke detectors. Investment in worldwide product approvals and innovation in new products and technology will drive market share growth, maintain competitive advantage and ensure good margins.

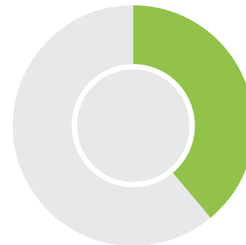
Further investment in extending sales coverage in emerging markets will aid organic growth.

Performance

Fire Detection revenue and profits grew. The Apollo brand was re-organised into a global business with significant operations in Europe, the United States and China. This gives us the ability to implement a global growth strategy with resources allocated according to the opportunity within each region.

Outlook

Despite slowing demand from the new construction sector we anticipate continued growth as regulation drives demand in existing buildings. We expect our Fire Detection businesses to continue to gain market share due to robust IP protection, technology leadership and further penetration of regional markets.



39%

% of sector revenue

Automatic Door Sensors

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

Market trends and growth drivers
Demand in the niches that we target is driven by increasing legislation which improves the safety and security of people and processes. Asia is expected to be the fastest growth area, with a return to growth in the Americas. Supported by high levels of R&D spending, we continue to diversify outside our primary pedestrian door market. We believe that rail transport presents considerable growth opportunities.

Strategy
Our core growth strategy is to maintain global market leadership in the pedestrian door sensors niche while growing sales by diversifying into industrial, security and transport door control applications.

Our response to the challenge of increased competitive pressure due to further consolidation among automatic door manufacturers is to enhance the value of our product offerings. Our unique award-winning laser scanner detectors demonstrate our commitment to global technology leadership. New, technologically advanced sensors, industry-leading manufacturing techniques and enhanced logistics will meet customers' needs and ensure competitive advantage.

Performance
Revenue and profit improved despite economic uncertainty in a number of regions. A global board reorganisation was successfully completed without impact on performance. Despite short-term delays in the Chinese high-speed train projects, the overall diversification targets were achieved while maintaining growth in the core pedestrian door business.

Outlook
Diversification into new applications such as transport, will enable revenue and profit growth above the rate of our traditional pedestrian door market. Spreading R&D resources globally will allow development of new products aligned with local customer needs and the ever-increasing regulations governing all of our door control markets.

27%
% of sector revenue

Automatic door sensor
BEA

Elevator display
E-Motive Display

Elevator Safety

Elevator/lift door safety sensors, emergency communication devices, displays and control panels.

Market trends and growth drivers

Urbanisation, population ageing and increasing safety awareness are global drivers in the elevator market. We see wide regional variations in patterns of demand, with very positive growth in the emerging economies of Asia and Brazil, where growth comes from new-build installations. In our US and European markets, which are dependent on legislation-driven upgrades and building modernisation, demand is more steady. The worldwide market for elevator safety products is expected to grow by around 7% during 2012. The Chinese government's social housing programme, with a target of 36 million affordable homes over the next five years, demonstrates the impact of urbanisation. Chinese infrastructure investment now accounts for over half of global new elevator installations, and is forecast to grow by up to 20% per year.

Strategy

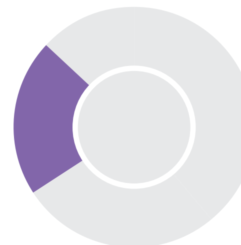
Our strategy is to strengthen our offering by moving from a regional to a global presence. During 2011/12 we began the integration of our European and Asian Elevator Safety businesses, whose core technologies are door detectors, displays and emergency telephones, under a single management team. Sales, R&D and manufacturing resources are being rationalised with facilities in Europe, India, Singapore and China.

Performance

Elevator Safety revenue was flat with profit lower partly due to reorganisation costs. We achieved strong revenue growth in Asia, while sales in Europe and the USA reflected the tougher trading conditions. Several global contracts were won for door safety devices which will provide significant revenue streams for the next three years at least.

Outlook

The global elevator market is showing signs of lower growth in 2012/13. China will continue to be the focus of new-build elevator demand with the social housing programme scheduled to run until at least 2015. Longer term, a substantial Chinese service and modernisation market should emerge. Outside Asia, we expect to grow from market share gains, geographical expansion and new products.



21%

% of sector revenue

Security Sensors

Security sensors and signals used in public, commercial and industrial property.

Market trends and growth drivers

We anticipate positive changes in this market driven by new European standards for intruder alarm systems that take effect during 2012. We have invested in a completely new product line to ensure that our customers meet the new compliance and certification standards. Our security business has formed technology partnerships with leading providers in other security sectors to offer integrated systems and advanced building management and communication platforms. Our new wireless intruder detection technology, Ricochet, is gaining share as the first system of its type robust enough for commercial environments.

Strategy

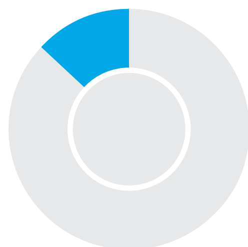
Our Security Sensors growth strategy remains focused on increasing revenue in Europe, the Middle East and Africa together with investment in sales resources in emerging economies like China and India. We have successfully integrated hazard signalling products into our security product portfolio to broaden our product offering. Innovation in new technologies, like Ricochet, will enable us to gain market share.

Performance

Revenue grew slightly with profit lower than the prior year. This was partly accounted for by high investment in a fully renewed product line to meet new regulatory standards and reduce production costs.

Outlook

We anticipate growth from Security Sensors during 2012/13. This should be supported by the impact of our new European-certified product portfolio, increasing adoption of wireless technology, and new revenue streams from our hazard signalling products.



13%

% of sector revenue

Wireless intruder alarm sensor
Texecom

"Packed with market-leading features, our new FIRERAY 5000 fire detector keeps us ahead of the competition with significant customer benefits. This detector is much faster and easier to install and maintain, and provides class-leading fire protection."
Fire Fighting Enterprises

Innovation in action
Designed so that it can be configured to comply with regulations worldwide, FIRERAY 5000 is a next generation fire detection system for high ceiling height environments. Featuring advanced technology, such as self-aligning sensors, automatic calibration and laser alignment, a single controller can monitor multiple infrared beam detectors.

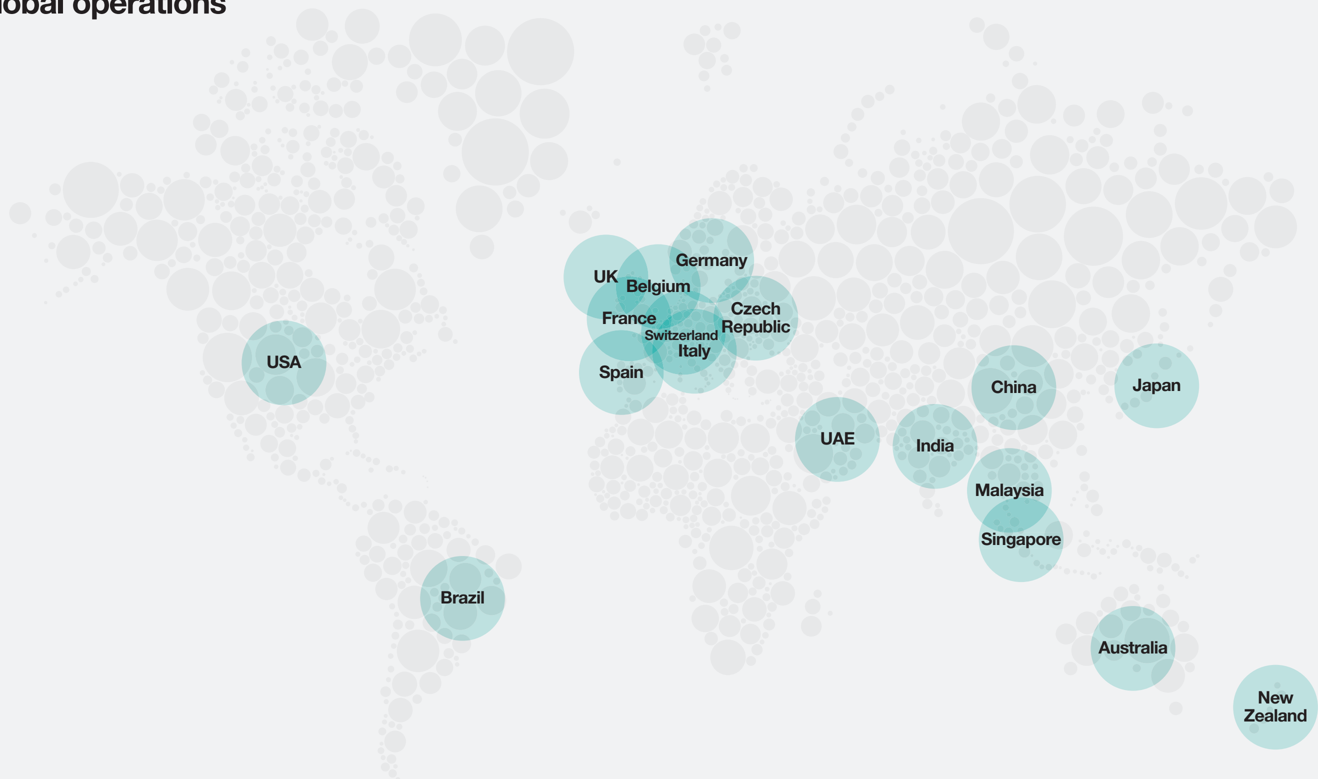
Sector revenue

£204m +4%

Sector profit

£39m +0%

Global operations



Sector growth drivers

– Increasing urbanisation
– Increasing health and safety regulation

Strategic summary

Achievements

– Record revenue and profit
– Automatic Door Sensors restructured into global business
– Elevator Safety's European and Asian businesses being restructured into global business with single Board of Directors
– Apollo Fire Detectors merged with Air Products and Controls (USA), Apollo Germany and Beijing Luhe (China) into a global business

Directions

– Sustain organic growth
– Increase resources and revenue in Asia
– Complete Elevator Safety restructuring in first half-year
– Continue automatic door safety diversification
– Bolt-on acquisitions
– Improve New Product Development roadmaps

SECTOR REVIEW
INDUSTRIAL SAFETY

We make products which protect assets and people in industry.

Performance

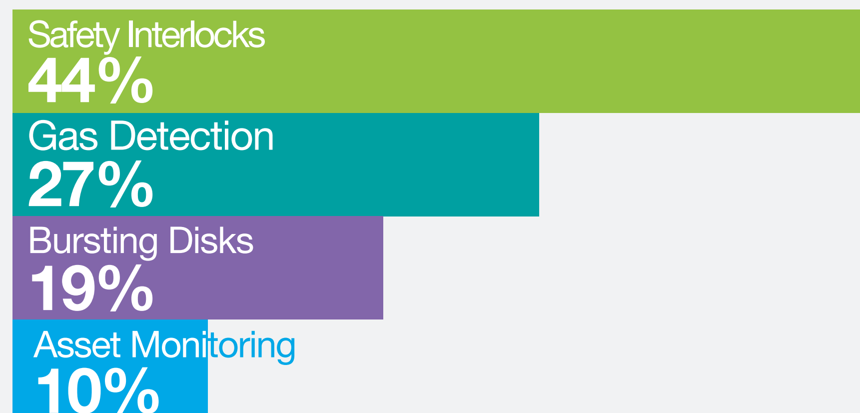
KPIs	Sector performance	Group target	Target met
Revenue growth[1]	18.6%	>5%	✓
Profit growth[1]	19.6%	>5%	✓
Return on Sales[2]	23.9%	>18%	✓
ROCE[3]	97.7%	>45%	✓
R&D % of Revenue[4]	3.7%	>4%	×

Contribution to Group

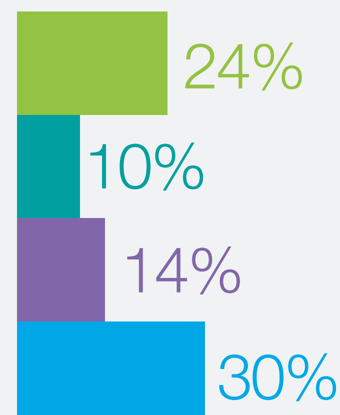
£m	2012	2011	2010	2009	2008
Revenue	122	103	98	103	91
Profit	29	25	20	22	20

1 Sector revenue and adjusted[5] sector profit before finance expense are compared to the equivalent prior year figure.
2 Return on Sales is defined as adjusted[5] profit before finance expense and taxation expressed as a percentage of sector revenue.
3 Adjusted[5] sector profit before finance expense expressed as a percentage of sector operating net assets.
4 Sector research and development expenditure expressed as a percentage of sector revenue.
5 Adjusted to remove the amortisation of acquired intangible assets, acquisition transaction costs and movement on contingent consideration.

Sub-sector revenue split



Growth rate



Safety interlock
Fortress Interlocks

Safety Interlocks

Specialised mechanical, electrical and electromechanical locks which ensure that critical processes operate safely.

Market trends and growth drivers

Legislation-driven improvements in workplace safety standards is a resilient, long-term growth driver in safety interlocks markets. Continuously rising global energy consumption also creates demand.

Worldwide demand for industrial safety products reflects changing social and ethical attitudes towards worker safety and a recognition of the economic and reputation costs of accidents. We are seeing that local workplace safety regulations in most less-developed markets are becoming more widespread and better enforced each year. China's growing consumption of energy and raw materials is creating strong demand for interlocks from coal and metals producers within the wider Asian region.

Strategy

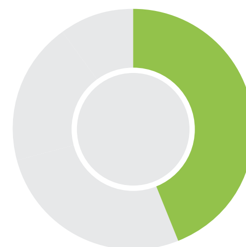
We will grow revenue by investment in sales and manufacturing resources and in developing new applications, particularly in emerging markets. New products custom-engineered to match the needs of individual markets will be a key focus. We will increase manufacture of safety interlocks in China for rapid delivery to customers in Asia.

Performance

Our Safety Interlocks businesses achieved record profit and revenue. We achieved strong growth in the UK and USA. Growth in China was steady while the government put investment in nuclear power on hold in response to the Fukushima nuclear disaster in Japan.

Outlook

We expect continued growth in most geographic areas. Demand in Europe will be slower, particularly if the sovereign debt crisis intensifies. Oil and Gas project completions are likely to increase substantially as contractor bottlenecks are eased. Nuclear power investment in China, a significant growth market for our safety systems, may resume during 2012/13.



44%

% of sector revenue

Gas Detection

Portable instruments and fixed systems which detect flammable and hazardous gases.

Market trends and growth drivers

Our core gas detection markets are the Oil and Gas industry, power generation, the utility industries and chemical processing. Global expansion of these markets will continue to support rising sales of toxic and flammable gas detection equipment. The underlying driver of demand is a growing focus on workplace safety coupled with the need to comply with stringent environmental and safety legislation. The global market is forecast to grow by around 4% p.a. New product introductions enable us to grow at rates in excess of the underlying market growth.

Strategy

Geographic expansion, particularly into the Americas and Asia, supports our goal of growing revenue ahead of underlying market growth. Investment in the upgrading and extension of our product range allows us to continue to gain market share. We will continue to strengthen our senior management in China and our global marketing team.

Performance

Our Gas Detection business again achieved record revenue and profits. This was based on market share gains in all regions except North America, Africa and Near and Middle East. We completed a comprehensive upgrade of our portable detector products in 2011/12. Our active new product development programme has resulted in over 50% of gas detector products sold during 2011/12 having been developed in the previous three years.

Outlook

We anticipate continued growth in Gas Detection revenues underpinned by resilient regulatory drivers in our core industrial safety markets. Further growth opportunities will come from our new product development pipeline and entry into new gas detection applications and markets.

27%

% of sector revenue

Personal gas detector
Crowcon Gas Detection

Bursting disk
Elfab

Bursting Disks

‘One time use’ pressure relief devices to protect pressurised vessels and pipework in process industries.

Market trends and growth drivers

Increasing global capital investment in both onshore and offshore Oil and Gas fields, combined with rising safety standards, continues to drive demand for our Bursting Disk safety devices. This rising investment trend is expected to be sustained during 2012 by high oil prices, with forecast growth of 13%. Technological advances have unlocked hydrocarbon resources from shale formations and we anticipate strong sales growth from this new gas production niche.

Strategy

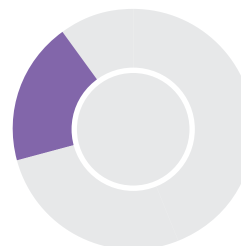
Our primary Bursting Disks strategy is to build on growth in our core oil, gas, process and manufacturing industry sectors while diversifying our customer base both geographically and in terms of applications. New offices were recently opened in China, Poland and Brazil. Potential new applications include medical instrumentation, aviation, storage safety and battery protection.

Performance

During 2011/12 our Bursting Disks businesses achieved record revenue and profit with growth in all geographic regions except Far East, Africa and Near and Middle East.

Outlook

Despite healthy market share in our traditional markets, we foresee additional growth potential through continued investment in innovative technology, expansion of global sales channels and diversification into new applications.



19%

% of sector revenue

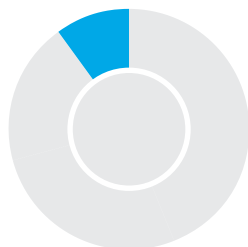
Asset Monitoring
Products for monitoring physical assets under water using sensors and communications technologies.

Market trends and growth drivers
Our sonar products are used primarily on underwater, remotely-operated vehicles to monitor Oil and Gas industry offshore assets. The relatively high prices of oil and gas have prompted increasing investment in offshore production. Brazil, in particular, is experiencing huge capital investment growth as offshore production becomes increasingly viable. Other underwater applications, such as maintenance of harbours, sea-walls and dams, are increasing as post-war infrastructure projects (particularly in the USA) begin to decay. Construction of offshore renewable energy projects, such as wave, tidal and offshore wind power, may produce future growth opportunities.

Strategy
Our strategy has been to grow market share through market-leading technology, investment in sales channels and entry into new niches like offshore renewable energy and subsea mining. During 2011/12 we expanded our presence in the USA and Brazil to get support resources closer to our customers.

Performance
High R&D investment in our Asset Monitoring sonar products continued to drive growth and we achieved significant increases in revenue and profit.

Outlook
We expect continued growth as high oil prices and political uncertainty over oil supply combine to drive investment in existing and new offshore assets. The relentless rise in global energy demand, forecast to rise by 30% between 2010 and 2040, also underpins growth in our subsea monitoring markets.



10%

% of sector revenue

Sonar imaging system
Tritech International

"Today's gas detection market demands personal monitors that are informative and easy to use. Customer research prompted two key technical innovations in our new Gas-Pro confined space entry monitor which give the user increased confidence that their environment is a safe place to work."
Crowcon Detection Instruments

Innovation in action
The new Gas-Pro personal gas detector is routinely used to check that a confined space is safe to enter and work in. An innovative pre-entry check function guides users through the process and logs data that shows safe pre-entry compliance or unsafe gas levels. Another new feature, a' traffic light' status indicator, tells the user at a glance whether their monitor is providing complete protection or needs calibration.

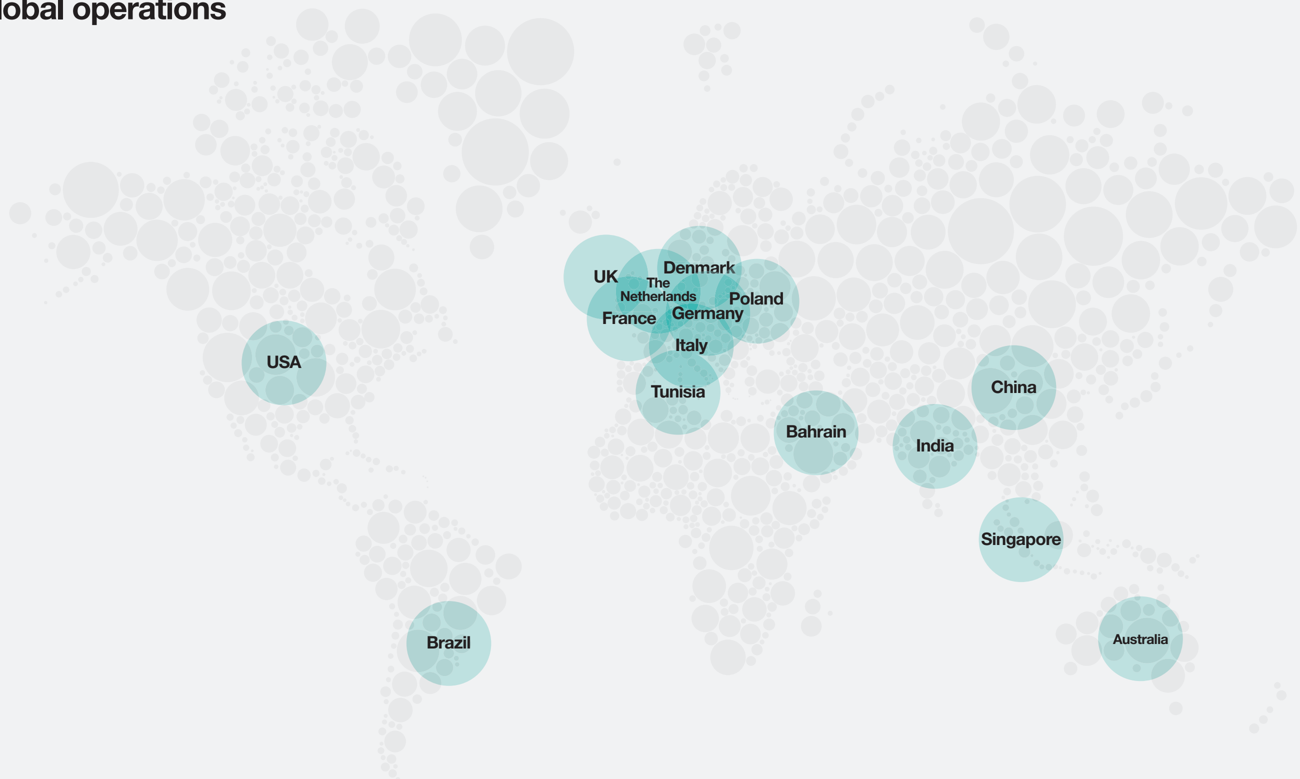
Sector revenue

£122m+19%

Sector profit

£29m+20%

Global operations



Sector growth drivers

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

Strategic summary

Achievements

- Record revenue and profit
- Revenue growth in China and Asia Pacific
- New offices opened in Brazil, Poland and China
- Over 20 new products launched
- Acquisition of Kirk Key

Directions

- Organic revenue and profit growth
- Increase rate of new product introductions
- Bolt-on acquisitions
- Grow sales outside of European and North American markets; expansion into China, India and South America.

FINANCIAL REVIEW

"Another year of record revenue, profit and dividend payments."
Kevin Thompson, Finance Director

1 In addition to those figures reported under IFRS Halma uses adjusted figures as key performance indicators as the Directors believe the adjusted figures give a more representative view of underlying performance. Adjusted profit figures exclude the amortisation of acquired intangible assets, acquisition transaction costs, movement on contingent consideration and profit on disposal of operations, all of which are included in statutory figures. More details are given in note 1 to the Accounts.
2 See Group highlights.

Delivering on our strategy
This was another strong year for Halma, continuing to deliver financial results in keeping with our strategic objectives. We continued to deliver organic growth while maintaining high returns and good cash flow. Once again we acquired high quality businesses and we disposed of one business. Our geographic reach expanded further, building on established success in many countries. These record results were delivered with a growing dividend for shareholders while maintaining a strong financial position.

Revenue and profit growth
Revenue grew by 11.9% to £579.9m (2011: £518.4m). Acquisitions made in 2011/12 and the prior year, at the run rate when acquired, added an incremental £34m to this year's revenue and so organic revenue growth was 5.4%. Currency translation had a minimal impact and therefore organic revenue growth at constant currency was 5.5%.

Revenue and profit growth				Percentage change		
	2012 £m	2011 £m	Increase £m	Total	Organic growth*	Organic growth* at constant currency
Revenue	**579.9**	518.4	61.5	11.9%	5.4%	5.5%
Adjusted[1] profit	**120.5**	104.6	15.9	15.2%	5.1%	4.9%

* Organic growth[2] is calculated excluding the results of acquisitions.

Adjusted[1] profit before tax increased by 15.2% to the record level of £120.5m (2011: £104.6m) with organic profit growth of 5.1% and 4.9% at constant currency. This is the ninth consecutive year of record results, part of Halma's long history of achieving growth.

We believe that the adjusted profit figure we use gives a helpful view of underlying performance trends. Statutory profit before tax increased by 13.9% to £112.0m (2011: £98.3m). Statutory profit before tax is after charging the following items: amortisation of acquired intangibles of £10.4m (2011: £4.8m) much higher this year due to the addition of intangible assets relating to acquisitions in 2010/11 and 2011/12; acquisition transaction costs £0.7m (2011: £1.3m); and movement on contingent consideration relating to acquisitions including foreign exchange movements of £0.9m (2011: £0.2m). It is also after crediting the £3.5m profit on disposal of Volumatic.

Health and Analysis continues to be the largest of our three sectors and now represents 44% (2011: 42%) of Group revenue and 46% (2011: 42%) of Group profit. Industrial Safety delivered the highest organic growth this year extending its record of recent strong growth.

from acquisitions. Mainland Europe is the next largest destination and grew by 12%, with Health and Analysis growing fastest. The UK saw significant growth of 18% in the year with a very strong performance by our Water business within Health and Analysis. Asia Pacific and Australasia grew by 15%, slower than the 29% reported last year but including 25% growth in China, now 5% of Group revenue. Economic and political uncertainty, particularly in the Middle East, also meant that the other countries grew by only 7%.

more, of Group revenue compared with 2006/07.

We are targeting to have 30% of our revenue outside the USA/Mainland Europe/UK by 2015. In 2011/12 the figure is 24%, the same as the prior year. In part this was due to the strong growth we have seen in developed markets but also because recent acquisitions have the majority of their sales in the USA and Europe although they have good opportunities for growth in developing regions of the world.

High Return on Sales

Our target is for the Group to operate in the 18% to 22% Return on Sales[2] range. It has been above 16% for every one of the past 27 years and is an important performance measure for the Group.

In 2011/12 we achieved 20.8% (2011: 20.2%) Return on Sales[2] with this year's increase coming from the high rate of profitability of recent acquisitions.

Geographic revenue growth	2012		2011			
	£m	**% of total**	£m	% of total	Change £m	% growth
United States of America	**162.0**	**28%**	150.3	29%	11.7	8%
Mainland Europe	**154.4**	**27%**	138.3	27%	16.1	12%
United Kingdom	**125.6**	**21%**	106.1	20%	19.5	18%
Asia Pacific and Australasia	**87.3**	**15%**	76.2	15%	11.1	15%
Other Countries	**50.6**	**9%**	47.5	9%	3.1	7%
	579.9	**100%**	518.4	100%	61.5	12%

Adjusted[1] profit before tax £m

£120.5m

Year	£m
2012	£120.5m
2011	£104.6m
2010	£86.2m
2009	£79.1m
2008	£73.2m

Half yearly adjusted[1] profit £m

£63.0m

H2: 2011/12

Half	£m
H2 11/12	£63.0m
H1 11/12	£57.5m
H2 10/11	£55.3m
H1 10/11	£49.3m
H2 09/10	£48.1m
H1 09/10	£38.1m

Return on sales[2] %

20.8%

Year	%
2012	20.8%
2011	20.2%
2010	18.8%
2009	17.3%
2008	18.4%

The first half/second half revenue and profit split was typical for Halma at 48%/52% building on a record first half performance. This continued the trend of half year over previous half year improvements we have seen in the past three years.

Geographic revenue growth

The USA continues to be our largest sales destination and its 8% growth benefited

The geographic revenue pattern in the second half of the year was similar to the first but with Mainland Europe growing less quickly and the USA increasing its rate of growth.

In the past five years there has been substantial change in our geographic profile with the UK now representing 6 percentage points less, and territories outside USA/Mainland Europe/UK 5 percentage points

High Return on Sales[2] is based on the good management of many factors including the mix of which products we sell, the cost of those products and close management of expenses. Gross margins (revenue less direct material and direct labour costs) exceeded 60% and remain a stable element of our profitability in the face of inevitable cost and price pressures.

Currency movement
The Group has both translational and transactional currency exposure. Translational exposures arise on the consolidation of overseas company results into Sterling. Transactional exposures arise where the currency of sale or purchase transactions differs from the functional currency in which each company prepares its local accounts. Whilst we do not attempt to forecast future movement in currencies, we understand their impact on our business and try to mitigate the risk of volatility with a transactional hedging strategy.

Halma reports its results in Sterling. The most important other trading currencies are the US Dollar, Euro, and to a lesser extent the Swiss Franc. Approximately 30% of Group revenue is denominated in US Dollars and 20% in Euros.

In 2011/12 there was a limited net currency translational impact on the results as, on average, the US Dollar weakened by 3% but the Euro strengthened by 2% and the Swiss Franc strengthened relative to 2010/11 – although the Swiss Franc movement had limited year on year impact as our Swiss business only joined the Group in late 2010/11. The net currency translation impact was therefore only 0.1% adverse on revenue and 0.2% favourable on profit.

Based on the current mix of currency denominated revenue and profit, a 1% movement in the US Dollar relative to Sterling changes revenue by £1.9m and profit by £0.35m. Similarly, a 1% movement in the Euro changes revenue by £0.9m and profit by £0.2m.

Within the Group there is a good degree of natural hedging (similar amounts of purchase and sale transactions) in US Dollars. We typically buy less products in Euros than we sell and so have a net exposure of approximately Euro 30m in any year. Our transactional hedging strategy is to fix currency rates up to 12 months, and in certain specific circumstances 24 months, forward. We hedge between 30-75% of each operating company's net exposure giving approximately 50% hedging of our trading transactions. This gives our businesses greater certainty in their overseas trading.

	Weighted average rates used in Income Statement		Year end exchange rates used to translate Balance Sheet	
	2012	2011	**2012**	2011
US Dollar	**1.60**	1.56	**1.60**	1.60
Euro	**1.16**	1.18	**1.20**	1.13

Increased finance cost
The net finance cost in the Income Statement increased to £1.4m (2011: £1.1m). The main elements are bank interest and funding costs and the pension financing charge. The net bank interest and funding costs increased because of higher average levels of debt, increased interest rates payable and the higher costs of funding our new bank facility.

The net pension financing charge reduced from £0.4m to £0.2m and this is dependent on the level of pension scheme assets and liabilities at the start of each year as well as the rates of return/discount rate applied to those assets/liabilities. This year the return on increased assets exceeded the cost of higher liabilities. In 2013/14 the pension accounting rules under IAS 19 will change and this will affect the Group Income Statement. The expected return on pension assets will be calculated using the same discount rate, effectively, as applied to the pension liabilities. This will cause a one-off increase in the net pension finance charge, which, based on current estimates, will reduce Group profit by approximately £1m for 2013/14 onwards. Comparative figures will be restated for this change at that time.

For 2012/13 we expect the net pension cost to be higher than 2011/12. In addition we expect a rise in bank interest and funding costs arising from a full year of the cost of the new bank facility.

Lower tax rates
Our approach to taxation is to minimise the tax burden in a responsible manner, managing good relationships with tax authorities based on legal compliance, transparency and cooperation.

The Group has its primary operating subsidiaries in 13 countries so the Group's effective tax rate is a blend of these different national rates applied to locally generated profits. As expected the effective tax rate on adjusted[1] profit reduced to 23.5% (2011: 26.2%) primarily due to the reduction in UK Corporation tax rates by 2%, the benefit of the low tax rates in Switzerland enjoyed by Medicel and the mix of profit earned in various jurisdictions.

We anticipate that the effective tax rate in 2012/13 will be similar to that in 2011/12.

> "We aim to deliver value to shareholders through consistent growth in earnings per share and increasing dividends."

Earnings per share and dividend increases
We aim to deliver value to shareholders through consistent growth in earnings per share and increasing dividends. Adjusted[2] earnings per share increased by 19.4% to 24.46p (2011: 20.49p). The increase was higher than the growth in adjusted[2] profit due to the reduction in the effective tax rate. Statutory earnings per share also increased by 19.7% with acquisition related expense

being higher than last year but this increase being offset by the gain on disposal. Halma has a long record of growing its dividend. An increase of 7% is recommended in the final dividend to 5.95p (2011: 5.56p) and together with the 7.1% increase in the interim dividend gives a total dividend of 9.74p (2011: 9.10p). At the year end share price this represents a dividend yield of 2.6%. With this dividend increase Halma will have continued with its progressive dividend policy and increased the annual dividend by 5% or more for every one of the last 33 years, paying out £270m to shareholders in the past decade.

Dividend cover (the ratio of profit after taxation to dividends paid and proposed) calculated using adjusted[2] profit is 2.51 times (2011: 2.25 times).

Further increased returns

Return on Total Invested Capital (ROTIC), the post-tax return on the Group's assets including all historical goodwill, increased to a record of 16.8% (2011: 15.5%). Once again we were able to increase profits at a greater rate than growth in the asset base. Halma's ROTIC exceeds our long-term Weighted Average Cost of Capital (WACC) calculated as being approximately 8% (2011: 8.5%), indicating the creation of value for shareholders by the Group.

Return on Capital Employed (ROCE), measures this operating efficiency of our businesses and was also a record at 74.7% (2011: 71.9%). Both the ROTIC and ROCE figures (see note 3 to the Accounts for the detailed calculations) exceeded our KPI targets.

Good cash generation

Cash generated from operations, excluding taxation paid, was £125.5m (2011: £113.2m) and represented 104% (2011: 108%) of adjusted[1] profit. A summary of the year's cash flow is shown in the table above.

The working capital increase in the year reflected the growth in our business, with the second half of the year seeing targeted working capital improvements.

Expenditure on property, plant and computer software this year was £16m (2011: £15m). This year's figure represents 122% of depreciation once again falling within the 100% to 125% range we would expect. Our businesses generate significant return from investment as evidenced by our ROCE and we therefore continue to encourage them to actively invest.

Taxation paid was £28m (2011: £18m) much higher than last year due to the tax paid on higher profits and a tax credit in the prior year. We expect a slightly lower ratio of tax paid to profit in the coming year as UK Corporation tax rates in particular fall.

Cash flow	2012 £m	2011 £m
Operating cash flow before movement in working capital	**133.1**	116.8
Increase in working capital	**(7.6)**	(3.6)
Cash generated from operations	**125.5**	113.2
Acquisition of businesses and cash/debt acquired	**(19.8)**	(82.1)
Investment in associates	**–**	(1.7)
Disposal of businesses	**3.6**	–
Development costs capitalised	**(4.7)**	(4.7)
Net capital expenditure	**(15.3)**	(14.8)
Dividends paid	**(35.2)**	(32.9)
Taxation paid	**(27.8)**	(18.1)
Issue of shares/treasury shares purchased	**(3.5)**	(4.5)
Net interest paid/loan arrangement fees	**(3.2)**	(0.5)
Exchange adjustments	**(1.2)**	(0.1)
	18.4	(46.2)
Net (debt)/cash brought forward	**(37.1)**	9.1
Net debt carried forward	**(18.7)**	(37.1)

Strong financial position and refinancing

Halma is highly cash generative and has substantial bank facilities. We have access to competitively priced finance at short notice and spread our risks to provide good liquidity for the Group. Group treasury policy is conservative and no speculative transactions are allowed.

In October 2011 we refinanced our revolving credit facility. We now have in place a £260m facility (previously £165m) for five years to 2016 with five high quality international banks. Covenants remain unchanged and limits were improved in the new facility which is on attractive terms. We have continued security over a major source of funding, providing significant firepower for value adding acquisitions. The Group continues to operate well within its banking covenants. We use debt to accelerate the Group's development and review our funding needs regularly to ensure we have ample headroom.

Year end net debt was £18.7m (2011: £37.1m). The net debt figure is a combination of £64.0m of debt and £45.3m of cash (boosted by the receipt of cash from the disposal late in the year) held around the world to finance local operations. We have an active repatriation programme and are building on our existing cash pooling arrangements to ensure that our cash/debt position is managed efficiently.

Further acquisitions and a disposal

Acquisitions and disposals are an important part of our growth model. Halma buys successful businesses in safety, health and environmental markets and helps them grow further through investment in increasing innovation, management development and international expansion. In the past ten years we have spent nearly £350m acquiring more than 25 businesses with deal sizes ranging from £70m down to below £1m.

In 2011/12 we spent £15m on two acquisitions plus £5m in payment of deferred consideration on acquisitions made in previous years. Details are given in the Chief Executive's Strategic Review.

Goodwill of £11m and intangible assets of £10m were recognised on the two acquisitions made in the year. As expected the amortisation of acquired intangible assets increased substantially to £10.4m (2011: £4.8m).

In March 2012 we disposed of Volumatic for a cash consideration of £4.4m with a further £1.5m retained in escrow for release to Halma on achievement of an agreed performance target. Up to a further £2.4m is receivable if future sales targets are met. Over the past five years Volumatic's average annual profit has been £0.6m and average revenue £4.6m.

At the beginning of 2012/13 we spent a further £65m on three more acquisitions.

The two businesses acquired in 2011/12, together with the disposal in 2011/12 and the three acquisitions in 2012/13, are expected to add a net amount of £29.5m to revenue and £5.7m (after financing costs) to profit in 2012/13 based on their run rates at acquisition/disposal.

In April 2012 Halma made a further investment of Euro 3.9m in Optomed Oy, the Finnish ophthalmic equipment manufacturer. This is included as an Associate in the Group accounts.

Pension commitments
The Group primarily provides either defined benefit (DB) or defined contribution pension arrangements for its employees. The DB sections of the Group's pension plans were closed to new entrants in January 2003. There are now fewer than 450 employees (11% of all employees) retaining access to future accrual under the DB plans so our key focus is in mitigating the impact of the past service deficit.

On an IAS 19 basis the deficit on the DB plans at March 2012 was £33m (2011: £36m) before the related deferred tax asset. Plan assets increased to £153.0m (2011: £140.8m) with some further recovery in equity values and additional cash contributions. In total, 59% of plan assets are invested in return seeking assets: 39% in equities and 20% in diversified growth funds providing a higher expected level of return over the longer term. No derivative financial instruments are currently used in investment. Plan liabilities increased to £186.0m (2011: £177.1m) mainly due to the reduction in the discount rate used to value these liabilities.

Triennial funding valuations of the DB plans are currently being performed. We continue to make extra contributions to the plans at a rate agreed with the actuary and expect this to be at the rate of £7m per year with the objective of eliminating the deficit over the next seven years. We will continue to develop and implement our plans for reducing the risk in the future cost of our DB plans over the coming year.

R&D investment
Expenditure on R&D increased to £27.4m (2011: £25.7m) an increase of 6.8% and representing 4.7% (2011: 5.0%) of revenue. All three sectors increased their absolute spend on R&D although the overall percentage of revenue fell due to a lower rate of R&D expenditure in some recent acquisitions.

We are required under IFRS to capitalise certain development expenditure and amortise it over an appropriate period, for us three years. R&D by its nature carries risk and all R&D projects, particularly those requiring capitalisation, are subject to close scrutiny and a rigorous approval and review process. In 2012 we capitalised £4.7m (2011: £4.7m) and amortised £3.7m (2011: £4.2m). This results in an asset carried on the Consolidated Balance Sheet, after £0.2m foreign exchange movements, of £10.5m (2011: £9.7m).

Managing risks and going concern considerations
The main risks facing the Group and how we address them are reviewed on pages 59 to 63. The key operating risks are covered in the Chief Executive's Strategic Review and Sector Reviews.

We spread risk across the Group via well-resourced independent operating units. There is extensive and regular review of operations at a local and divisional level. This review is supplemented by Internal Audit. In the year we continued to build on the strength of our local finance functions with a number of strong recruitments, particularly in the USA, giving us very good oversight at a local level across the Group.

We are in the process of refining our risk appetite analysis to enable an even greater focus on areas for future growth. We have nearly completed the rollout of a centralised IT disaster recovery solution to complement existing local processes within subsidiaries. During the year we substantially revised our policies and processes on the mitigation of Bribery and Corruption in line with best practice and have issued a new Code of Conduct to all staff. This supported our long-standing ethical approach to business.

The Board considers all of the above factors in its review of 'Going Concern' as described on page 75 and has been able to conclude its review satisfactorily. It takes discipline and hard work to manage risks well and maintain high returns consistently over time. Our commitment to this will ensure that our long-term delivery of value to shareholders continues.

Kevin Thompson
Finance Director

"In October 2011 we refinanced our revolving credit facility. This new five-year £260m facility gives security over funding and provides significant firepower for value adding acquisitions."

RISK MANAGEMENT AND INTERNAL CONTROL

Internal control

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

During the year, actions to strengthen the control environment continue to be taken centrally by Group management, particularly in the area of health and safety and bribery and corruption. The duties and responsibilities of subsidiary management are continually refreshed as well as documented in a manual circulated to all subsidiary managing directors. A comprehensive induction programme for subsidiary finance directors was launched in the year. We also strengthened the resources dedicated to identifying and investigating potential acquisitions and the policies to ensure a rapid and successful integration following acquisition. The scope of the Group's policies and the programme of compliance audits are regularly reviewed to ensure they are sufficient to address current risks. The Group placed additional emphasis on updating our business continuity plans over the past year.

The internal audit function has operated independently since 2004, reporting to the Audit Committee. In 2008/09, a dedicated Internal Audit manager was added to support the function and during 2010/11 an internal auditor based in China was recruited. Each year we implement further improvements to our Internal Audit procedures to enhance effectiveness.

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

- operating companies carry out a detailed risk assessment each year and identify mitigating actions in place or proposed for each significant risk. A risk register is compiled from this information, against which action is monitored through to resolution. Group management also compiles a summary of significant Group risks, documenting existing or planned actions to mitigate, manage or avoid risks;
- each month the board of every operating company meets, discusses and reports on its operating performance, its opportunities, the risks facing it and the resultant actions. The relevant Divisional Chief Executive chairs this meeting.

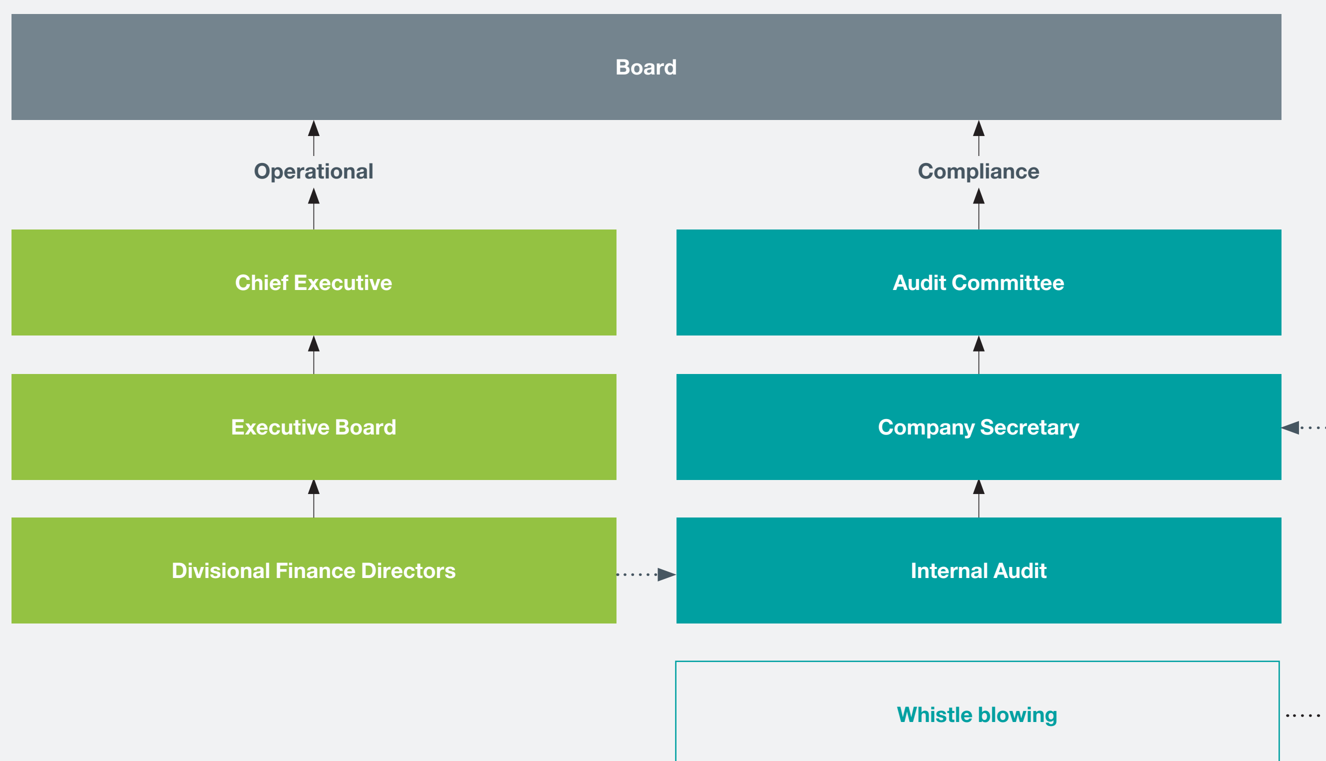
During the year, actions to further strengthen the control environment continued, particularly in the area of health & safety and bribery & corruption.

The Group's treasury and hedging policy was also updated to ensure that appropriate accounting and banking arrangements were in line with the Group's growth and to ensure continued compliance with accounting requirements.

Divisional Chief Executives meet regularly with the Chief Executive and Finance Director and report on divisional progress to the Executive Board;

- financial and trading 'warning signs' are reported to Group and divisional management. Weekly data on cash management and sales orders are also reported direct to the Chief Executive, the Finance Director and the Group finance team. This framework is designed to provide an early warning of potential risks and to direct appropriate action where necessary;
- the Chief Executive submits a report to each Halma plc Board meeting which includes financial information, the main features of Group operations and an analysis of the significant risks and opportunities facing the Group. The report also covers progress against strategic objectives and shareholder related issues;
- regular Director visits to Group companies are scheduled and open access to the subsidiary company boards is encouraged;
- cyclical and risk-based internal control visits are carried out by internal audit or senior finance staff resulting in actions being fed back to each company and followed up by Divisional Finance Directors and Divisional Chief Executives. Reviews are coded in terms of risk and a summary of all such reviews is given to the Audit Committee, with any significant control failings being reported directly to the Audit Committee; senior finance staff also conduct financial reviews at each operating company before publication of half-year and year-end figures. We have a Groupwide IT policy supported by a programme of IT audits; and
- the Chief Executive, Finance Director and Internal Audit report to the Audit Committee on all aspects of internal control. The Board receives regular reports from the Audit Committee chairman and the papers and minutes of the Audit Committee meetings are used as a basis for its annual review of internal control.

Group risk management



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

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

- a defined organisational structure with an appropriate delegation of authority to operational management which ensures appropriate segregation of key duties;
- the identification and appraisal of risks both formally, through the annual process of preparing business plans and budgets, through an annual detailed risk assessment carried out at local level and informally through close monitoring of operations;
- a comprehensive financial reporting system, recently enhanced, within which actual and forecast results are compared with approved budgets and the previous year's figures on a monthly basis. Weekly cash/sales/orders reporting including details of financial institutions are also maintained within the financial reporting system, all of which is reviewed at both local and Group level;
- an investment evaluation procedure to ensure an appropriate level of approval for all capital expenditure and other capitalised costs;
- self-certification by operating company management of compliance and control issues;
- a robust structure for electronic communication and conducting e-commerce to ensure that the Group is not negatively impacted by threats to its information technology infrastructure and to minimise potential for business disruptions. The Group has a wide range of measures, policies and framework in place which includes a virtual private network covering over 80 sites worldwide, secure firewalls, information management audits, disaster recovery and a mobile devices management system; and
- an acquisitions and disposals framework which governs the due diligence and negotiation and approval processes to ensure that value enhancing, quality investments are made in order to meet our strategic objectives.

PRINCIPAL RISKS AND UNCERTAINTIES

Risk description	Potential impact	Mitigation	Change*
Operational Risk We seek to continuously grow our profits, generating and sustaining a high return for shareholders within a clear strategic framework. We view risk within the context of this objective as well as in absolute terms. In any business the inherent risks that are an integral component of business activities must be identified, managed and mitigated. We perceive our primary operational risks to emanate from remoteness of operations and the actions and quality of our employees.	• Reduced financial performance • Inability to deliver growth strategy • Unexpected variation in Group results	Our key means of risk control is the choice of the markets in which we operate and the people and methods we use to exploit those market opportunities. Our choice is to operate in the safety and health-related technology markets which we consider to be robust over the long term. Our products are predominantly critical components or instruments which are warranted as fit for the purpose rather than systems or intangible products where satisfactory performance is contingent upon third parties. Our quality systems and close management mitigate the risk of product failure/recall and the risk of an accident or fatality. We invest heavily in identifying, recruiting and training talented people who are able to manage the risks we face while delivering the excellent results we require. We always seek to spread our risks. We have processes in place to ensure any major transactions are reviewed at the appropriate level.	→
Organic Growth, Customer and Supplier Risk and Competition The Group faces competition in the form of pricing, service, reliability and substitution. Individual operating companies are at some risk of over-reliance on larger customers. We rely on high quality service from our supply partners. These constitute an ongoing potential threat to our growth.	• Loss of market share • Disruption of service to customers • Reduced financial performance	Our focus on investing in management development, innovation and international growth is a direct result of assessing these risks. We do not place undue reliance on any one Group company nor does the Group rely heavily on one customer, supplier or transaction. We address customer concentration at Company level through active diversification of the customer base. No customer represents more than 2% of Group revenue. We aim to manage the risk of timing and quality of component supply by dual sourcing and long-standing working relationships. By empowering and resourcing local operations to respond to changing market needs, the potential adverse impact of downward price pressure and competition can be mitigated and growth maintained. We recognise the competitive threat coming from emerging economies and by operating within these economies, typically using local staff, we are better placed to make fast progress ourselves.	→
Research and Development New products are critical to our organic growth and underpin our ability to earn high margins and high returns over the long term.	• Reduced financial performance • Loss of market share • Failure to obtain adequate return on investment	By devolving control of product development into the autonomous operating businesses, we spread the risk and ensure that the resource is as close to the customer as possible. New product development 'best practice' is shared between Group companies and return on investment of past and future innovation projects is tracked monthly. Large R&D projects, especially those which are capitalised, require Head Office approval.	→
Intangible Resources Our businesses build competitive advantage and strengthen barriers to entry in many ways including patents, product approvals, technical innovation, product quality, customer service levels and branding. We look for these qualities in the businesses we seek to acquire. Protection of our intellectual property is important to our continued success.	• Loss of market share	The main intangible resources which deliver competitive advantage and which support our strategic objectives are: the patents and trademarks which protect our products; our employees, whose understanding of our technology, customers' needs and the dynamics of the markets we operate in, enable us to maintain leadership in many markets; and the enviable reputation enjoyed by our brands for superior product quality and market leading customer support. Whilst no single product or process is critical to the Group as a whole, all appropriate actions are taken to protect our intellectual property rights. With our development activity increasing in emerging economies we will often segregate the elements of a project to protect the know how.	→

* The arrows indicate the direction of change in particular risks during the year.

Risk description	Potential impact	Mitigation	Change*
Laws and Regulations Group operations are subject to wide-ranging laws and regulations including business conduct, employment, environmental and health and safety legislation. There is also exposure to product litigation and contractual risk. The laws and regulations we are exposed to as our businesses expand around the world increase each year.	• Reduced financial performance • Reputational damage • Diversion of management resources • Financial penalties	All Group companies have an employee handbook detailing employment practices, including the need to report any major legal or contractual risks. The Group's emphasis on excellent financial control, the deployment of high quality management resource and the strong focus on quality control over products and processes in each operating business helps to protect us from product failure, litigation and contractual issues. Each operating company has a health and safety manager responsible for compliance and our performance in this area is good. Updated Health and Safety policies and guidance were issued recently, with enhanced monthly reporting. We carry comprehensive insurance against all standard categories of insurable risk. Contract review and approval processes mitigate exposure to contractual liability. Our well established policies on bribery and corruption have been updated during the year to ensure continued compliance with best practice with a Group Code of Conduct issued and by appropriate clauses included in third party agreements.	↑
Acquisitions The identification and purchase of businesses which meet our demanding financial and growth criteria is an important part of our strategy for developing the Group, as is ensuring the new businesses are rapidly integrated into the Group.	• Reduced financial performance • Unforeseen liabilities • Failure to deliver expected returns	We acquire businesses whose technology and markets we know well. Divisional Chief Executives are responsible for finding and completing acquisitions in their business sectors subject to Board approval supported by central resources to search for opportunities. We use detailed post-acquisition integration plans. Incentives are aligned to encourage acquisitions which are value-enhancing from day one and to adversely impact executives for buying businesses which fail to deliver a return above a cost of capital.	→
Information Technology/ Business Interruption Group and operational management depend on timely and reliable information from our software systems. We seek to ensure continuous availability, security and operation of those systems.	• Delay or impact on decision making • Reduced service to customers • Loss of Intellectual Property	There is substantial redundancy and back up built into Group-wide systems. The spread of business offers good protection from individual events. We have a small central resource, Halma IT Services, to assist Group companies with any major IT needs and to ensure adequate IT security policies are used across the Group. We carry out regular IT audits. We utilise external penetration testing and have nearly completed the roll-out of a centralised IT disaster recovery solution to supplement local processes. Business Continuity plans are well advanced in each business unit.	→
Financial Irregularities and International Expansion Our objective is to grow our business across the world and to increase revenue and profit outside of developed markets and particularly in Asia. This presents both operating and cultural risks across the world. We recognise that the size and remoteness of some operations may not permit full segregation of duties and that Internal and External Audit procedures may not always identify a financial irregularity.	• Reduced financial performance • Reputational damage • Missed opportunity • Inability to deliver on growth strategy	The Group ensures that there is adequate local management and financial resource in each operational location ensuring they are adequately trained in financial matters whilst maintaining a culture of openness to promote disclosure. Responsibility for remote operations rests with operational management in the sponsoring company who supervises closely and visits frequently. We continue to seek, attract and develop senior talent in developing markets. Group companies operate a common set of reporting procedures and accounting policies, disseminated via the Group intranet. Internal Audit regularly reviews operations and we appointed a new Internal Auditor in China last year.	→

*The arrows indicate the direction of change in particular risks during the year.

Risk description	Potential impact	Mitigation	Change*
Cash A key risk is that the Group will run out of cash or have inadequate access to cash. In addition, cash deposits need to be held in a secure form or location.	• Constraints on, or inability to, trade • Inability to deliver on growth strategies • Permanent loss of shareholder funds	The strong cash flow generated by the Group provides financial flexibility. Cash needs are monitored regularly. In addition to short-term overdraft facilities the Group renewed and increased to £260m its five-year revolving credit facility during the year providing security of funding and sufficient headroom for its needs. Cash deposits are monitored centrally and spread amongst a number of highly rated banks. Subsidiaries report their cash status to Head Office every week.	→
Treasury Risks Foreign currency risk is the most significant treasury related risk for the Group. In times of increased volatility this can have a significant impact on performance. The Sterling value of overseas profit earned during the year is sensitive to the strength of Sterling, particularly against the US Dollar and the Euro. The Group is exposed to a lesser extent to other treasury risks such as interest rate risk and liquidity risk.	• Reduced financial performance • Reputational damage • Financial penalties	The Group does not use complex derivative financial instruments and no speculative treasury transactions are undertaken. Currency profits are not hedged. Currency hedging must fit with the commercial needs of the business and we have in place a hedging strategy to manage Group exposures. This requires the hedging of a substantial proportion of expected future transactions up to 12 months (and in exceptional cases 24 months) ahead. Longer term currency trends can only be covered through a wide geographic spread of operations. We closely monitor performance against the financial covenants on our revolving credit facility and are operating well within these covenants. The risk has increased because more of the Group's profits are derived from non-Sterling currencies.	↑
Economic Conditions In times of uncertain economic conditions businesses face additional or elevated levels of risk. These include market and customer risk, customer default, fraud, supply chain risk and liquidity risk. Uncertainty in the Eurozone in particular adds to current uncertainty.	• Reduced financial performance • Loss of market share • Unforeseen liabilities • Disruption of service to customers	We manage such risks primarily at local company level where they are best understood and where we are closest to the markets and our customers. Operating companies consider contingency plans as part of the annual budget process. The financial strength, availability of finance and diversity of the Group provides mitigation to much of this risk as does the demand for many of our products which is driven by legislation. We operate robust credit management at each operating company. The Halma Executive Board identifies any wider trends which require action. The Group has reviewed its potential exposure to the current macro-economic uncertainty relating to the Eurozone economies. The Group operates in a broad spread of markets, which substantially limits the risk associated with instability in any given territory. Whilst the Group has sales into Mainland Europe of £154m in 2011/12 (27% of total Group sales), sales into Greece, Ireland, Italy, Portugal and Spain represented just £26m (4% of total Group sales). The Group does not have any significant operations within these countries. The Group holds no significant cash deposits in, and none of the Group's funding is provided by an institution primarily located in, any of these countries.	↑
Pension Deficit Monitoring the funding needs of the Group's pension plans is essential to funding our pension obligations effectively. Our UK defined benefit pension plans are closed to new members.	• Excessive consumption of cash limiting investment • Unexpected variability in company results	There is regular dialogue with pension fund trustees and pension strategy is a regular Halma Board agenda item. The Group's strong cash flows and access to adequate borrowing facilities mean that the pensions risk can be adequately managed. The Group has increased pension contributions with the overall objective of paying off the deficit in line with the Actuary's recommendations. We monitor and consider alternative means of reducing our pension risk in light of the best long-term interest for shareholders.	→

* The arrows indicate the direction of change in particular risks during the year.

CORPORATE RESPONSIBILITY

Governance and commitment to Corporate Responsibility
Halma companies are involved in the manufacture of a wide range of products that protect and improve the quality of life for people worldwide. Therefore, safety is critical to the Group and is a major priority for management. Reduction of the Group's carbon footprint has received increased attention since 2007 with the initial objective of a 10% reduction in relative carbon usage in the three years to March 2010 renewed for the subsequent three years to March 2013.

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

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

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

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

A summary of our progress and performance for all areas of corporate responsibility follows. Halma has developed meaningful key performance indicators (KPIs) that reflect the importance the Group places on corporate responsibility and enable the Board to monitor the Group's progress in meeting its objectives and responsibilities in these areas. Details are given on pages 18 and 19.

Halma has an excellent health and safety record and a culture of safety is deeply embedded within the Group. We will continue to actively promote our safety culture over the coming year following a major update and relaunch of our internal Health and Safety policy, guidance and reporting.

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

Our products
Many of our innovative products play a very positive role in monitoring and improving the environment. Halma brands lead the world in a number of technologies which help to minimise environmental damage. Our principal environmental technologies are water leakage detection, gas emissions monitoring, water and effluent analysis, UV water treatment and optical sensing. We promote the use of UV water sterilisation which eliminates the need to use dangerous chemicals, as well as products that minimise the waste of clean water.

Our commitment to the development of equipment for measuring environmental changes and controlling the damaging impact of industrial activities is long term. We make safety equipment for use at

Customer satisfaction
Continuous improvement
Achievement
Innovation
Teamwork
Quality

Six matching values in top ten 2012

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

Carbon policy

The Group's policy on carbon is published on our website and has been distributed and explained to all Halma business units. A senior executive in each of our higher impact business units is responsible for implementing the carbon policy at local level. Our Finance Director, Kevin Thompson, has principal responsibility for coordinating and monitoring the policy.

Environmental Management System

We are committed to developing and implementing an environmental management system (EMS) throughout the Group to measure, control and, where practical, reduce our environmental impacts. We have developed performance indicators that assist local management in implementing the policy and ultimately developing an EMS. The requirement for an EMS and the related reporting has been rolled out to all UK business units, which represent approximately 41% of Group production facilities in terms of external turnover. All Group companies are encouraged to undertake ISO 14001, the international environmental accreditation, where warranted. The requirement to implement an EMS will be extended to the rest of the Group in the medium term. In terms of revenue, currently 22% (2011: 19%) of the Group has ISO 14001 approval.

Our impact

The environmental effect of our operations is relatively low compared to manufacturers in other sectors. Our manufacturing model is decentralised permitting our operations to be located close to their customers. Manufacturing operations are established across the world for this very reason rather than to save labour costs. The ethos of being close to our customers reflects the importance we place on the quality of our products and the service levels we provide to our customers. It also makes our operations more flexible and responsive to their markets and customers. With operations spread around the globe, our supplier base is understandably fragmented. Therefore, responsibility for vetting and managing suppliers is devolved to local management while meeting the Group's ethical standards.

FTSE4Good has assessed Halma as having a low impact on the environment. Nevertheless, Group companies are encouraged to improve energy efficiency, reduce waste and emissions and reduce the use of materials in order to minimise their environmental impact. The Group established baseline data in 2004/05 on emissions to air and water, water and energy consumption, and waste production, the results of which are updated on the Halma website each year. The data collected for the past five years has enabled the Group to set comprehensive and quantifiable objectives for reducing its environmental impacts in those areas and to set and monitor targets for reduction in key areas. The collected data confirms that the main area of impact on the environment is energy consumption.

The Group does not operate a fleet of distribution vehicles although we do own a number of company cars. From May 2007, we implemented a cap on permissible CO_2 emissions of all UK company vehicles and will extend this requirement to the rest of the world in due course. This limit is reduced each year so as to consistently reduce our vehicles' environmental impact. We have also set a fuel consumption standard for company vehicles in the USA which is reviewed annually.

We are committed to reducing our carbon footprint. We set a target in 2007 to reduce the Group's total carbon emissions relative to revenues by 10% over three years. Following a total reduction of 7% in the first two years, 2009/10 showed an increase following the acquisition of a high energy usage facility in the USA. We are working hard to reduce the energy impact of that facility and excluding that operation we would have achieved our target reduction.

Completed training

54% of eligible employees

We renewed our target in 2010 and are pleased to report that in the first two years we achieved a 9% reduction. We have initiated a number of carbon reduction actions, particularly in the UK, which are designed to help us meet our targets.

From April 2010, we have worked with a provider of energy efficiency and carbon reduction solutions to ensure compliance with the new Carbon Reduction Commitment Energy Efficiency Scheme (CRC) which is the UK's mandatory climate change and energy saving scheme administered by the Environment Agency. We are in full compliance with the CRC requirements. Already we have rolled out Automatic Meter Reading (AMR) technology to the majority of UK sites. All major UK sites have received an energy survey and set an action plan for improved energy usage. This initiative is backed up by specialist carbon management software and comprehensive training on its use. The Group's environmental performance will continue to be reported both in the Annual Report and on our website.

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

Halma and its people

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

Periodically we complete a survey of employees to determine whether our core values are authentic in our organisation. The survey establishes the values individual employees wish to see in our operating culture and to what extent they exist in our current culture.

In 2006, our survey of senior managers showed that five (50%) of the values they wanted to see in our business were actually present. In 2012, our survey of senior managers showed that six (60%) desired values were present in our business. This indicates that there is a healthy level of alignment between the culture we aspire to have and the culture we actually have.

No survey is capable of capturing all the appropriate sentiments, but our executives, who regularly visit all Group companies, agree that observable and valuable improvements in the Group culture have occurred over recent years. The Group will continue to monitor the survey results to enable us to better support our people in bringing these values and strengths to work so that they and we may derive further benefit from them.

Diversity

The Board of Directors responded to the consultation document that the UK's Financial Reporting Council issued in respect of 'Gender Diversity on Boards'.

Our experience is that throughout Halma, women are under-represented at manager and executive levels and we aim to increase the proportion of women in senior roles and on the Board of Directors by refreshing our policies and behaviours from both a 'top down' and 'bottom up' approach. To that end, we issued a Diversity Policy during the year which is available on our website. We appreciate the task ahead of us in a sector where graduates are more than 80% male, so part of our strategy will involve ensuring that Halma has a culture and working practices that make it more attractive to women.

Our efforts will not only be directed towards gender diversity, but also towards increasing the proportion of individuals with experience in the business and geographic markets in which we see our operations trending.

Our strong preference is to develop policies and actions which support our aims rather than establishing measurable targets. We believe the former evolves into part of the corporate culture more readily than simply setting a target.

DIVERSITY POLICY

Halma believes that the diversity of our staff is a significant contributor to our success:

- Diversity in our organisation attracts talented people to join the group and to develop to their full potential.
- Diversity within our leadership improves decision making processes and effective teamwork.
- Diversity encourages fresh thinking and challenges the status quo and boosts innovation.

Our policy's objectives are:

1. To build a culture that encourages talented people of all backgrounds, beliefs or any form of personal identity to want to work for Halma.
2. To use recruitment, training, development, promotion and compensation to increase diversity in our organisation.
3. To ensure that our procedures, systems and behaviours are not discriminatory.

Each year our Board of Directors reviews these policies and our implementation to ensure that they create and maintain a diverse and inclusive organisation.

Disabled employees

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

Employee consultation

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

Health and safety

The Group manages its activities to avoid causing any unnecessary or unacceptable risks to health and safety to our employees in the work place or to the public as a result of our activities. The policy is understood by all Group companies and was reinforced in 2010/11 through improved guidance and reporting following a comprehensive review led by an external expert. As a result, reporting of Health and Safety incidents and corrective action where needed has been given an even higher profile. Given the autonomous structure of the Group, operational responsibility for compliance with relevant local health and safety regulations is delegated to the directors of each Group company. We believe health and safety training is important and it is carried out within companies as appropriate. Adequate internal reporting exists in order that the Group's Finance Director can monitor each company's compliance with this policy.

Major injuries recorded	**2012**	2011	2010
Days lost due to work-related injuries	**301**	455	133
Total recorded injuries to all employees	**362**	505	233

The Group collects details of its worldwide reported health and safety incidents, and these are available on our website at www.halma.com. We are also pleased to report that there were no fatalities between 2009 and 2012.

People development

We run a number of people development programmes. The Halma Executive Development Programme (HEDP), which is based on our recognition of the fundamental part our people play in the success of the Group, continued to strengthen in 2011/12. HEDP is an integrated development plan for our senior people – including the next generation of Managing Directors and Divisional Chief Executives. Our objective is to provide these individuals with the tools and training they need to achieve more in their existing role and potentially to advance through the organisation if their achievements merit it.

Training	2012	2011	2010
Cumulative number of candidates that have completed HEDP	**194**	166	152
Cumulative number of candidates that have completed HMDP	**392**	319	277
Cumulative number of candidates that have completed HCAT	**36**	19	–

HEDP is aimed at employees already serving on subsidiary boards but we also encourage applications from senior functional managers who can demonstrate they already have equivalent responsibilities and will benefit from the programme.

There are approximately 240 such eligible employees in total.

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

Fourteen programmes have been successfully completed.

Now that a significant proportion of executives have completed HEDP, a follow up programme, HEDP+, has been introduced to provide updated training and to reinforce the original course contents, and four such courses were held in the year.

Complementing the HEDP is a programme for subsidiary managers and supervisors – the Halma Management Development Programme (HMDP). During the year, three HMDP and two HMDP+ programmes were completed giving a cumulative total of 392 employees who have completed HMDP. Programmes were held in the USA, Europe and Asia.

In 2011, we introduced a new programme, Halma Certificate of Applied Technology, targeted at our technical engineers to equip them with a broader understanding of Halma's technology, improve their productivity and provide specific skills training in areas such as project management. Two such programmes with 36 participants have been completed with great success.

The Halma Graduate Development Programme (HGDP) was introduced during 2011/12 and the first participants start working with us in Summer 2012. HGDP is targeted at engineering, science and technical graduates with the potential to become future leaders of our companies, or next generation specialists driving our technology.

The programme lasts 18 to 24 months and is based on placements in our various operating companies. Through project work participants quickly assume responsibility and learn in detail how businesses operate. We support participants through residential training modules to help develop communication and teamwork skills alongside a mentoring programme for personal development.

Community

In line with our decentralised structure, social and community activities are sponsored and undertaken at the direction of subsidiary management. Each subsidiary has the freedom to implement its own initiatives. This approach recognises that priorities will vary from business to business.

Responsible investment

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

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

Halma's policies reflect the core requirements of the Universal Declaration of Human Rights and the ILO Declaration on Fundamental Principles and Rights at Work. We do not tolerate practices which contravene these international standards. Regulatory demands upon us vary considerably around the world, so Halma establishes the core structure to ensure that Group companies fully comply with legislative and regulatory requirements while permitting them to tailor their approach to their particular needs.

Ethics

The Group culture is one of openness, integrity and accountability. Halma requires its employees to act fairly in their dealings with fellow employees, customers, suppliers and business partners. Halma introduced a new Code of Conduct during the year which applies to all Group employees and our external business relationships. We require suppliers to be of high quality and to operate to accepted international standards. Halma operates a confidential whistleblowing policy with an external call centre, which enables all Group employees to raise any concerns they may have.

Halma has a zero-tolerance policy on bribery and corruption which extends to all business dealings and transactions in which we are 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. A new, robust policy and guidance in this area was updated during the year in line with best practice.

***Cautionary note**: This Business Review has been prepared solely to assist shareholders to assess the Board's strategies and their potential to succeed. It should not be relied on by any other party, for other purposes. Forward-looking statements have been made by the Directors in good faith using information available up until the date that they approved the Report. Forward-looking statements should be regarded with caution because of the inherent uncertainties in economic trends and business risks.*

BOARD OF DIRECTORS

Geoff Unwin

Non-executive Chairman of Halma
Age 69
Location UK
Geoff was appointed non-executive Chairman of Halma in 2003, having been appointed to the Board in 2002. He is Chairman of Xchanging plc and OpenCloud Ltd. Geoff is also Chairman of Taptu Limited, a member of the Advisory Board of Palamon Capital Partners and also chairs one of their investments, RD Card Holdings Ltd. Previously he was a Non-voting Board Director of Capgemini Group, Chairman of Liberata plc from 2003 to 2011, Alliance Medical Group until December 2010, United Business Media plc from 2002 to 2007 and Chief Executive of Cap Gemini Ernst & Young until 2002.

Andrew Williams

Chief Executive
Age 45
Location UK
Andrew was appointed Chief Executive of Halma plc in February 2005. He was promoted to Director of the Halma plc Board in 2004. Andrew became a member of the Halma Executive Board in 2002 as Divisional Chief Executive after joining Halma in 1994 as Manufacturing Director of Reten Acoustics (now HWM-Water), where he became Managing Director in 1997. Andrew is a Chartered Engineer and a production engineering graduate of Birmingham University. He attended the Advanced Management Program at Wharton Business School, University of Pennsylvania in 2004.

Kevin Thompson

Finance Director
Age 52
Location UK
Kevin was appointed to the Halma plc Board in 1998. He became Group Finance Director in 1997 after joining the Halma Executive Board as Finance Director in 1995. Kevin joined Halma as Group Financial Controller in 1987. Kevin qualified as a Chartered Accountant with Price Waterhouse and is an economics and accounting graduate of Bristol University. He attended the Advanced Management Program at Harvard Business School in 2007.

Committee membership

	Audit	Nom[1]	Rem[2]
Geoff Unwin		• Chairman	• Member
Andrew Williams		• Member	
Kevin Thompson			
Stephen Pettit	• Member	• Member	• Member
Neil Quinn			
Jane Aikman	• Chairman		
Adam Meyers			
Norman Blackwell	• Member		• Member
Steve Marshall	• Member	• Member	• Chairman
Daniela Barone Soares	• Member		

• Chairman • Member

[1] Nomination Committee.
[2] Remuneration Committee.

Neil Quinn

Chief Executive, Industrial Safety Division
Age 62
Location UK
Neil was appointed to the Halma plc Board in 1998 and is Chief Executive of the Industrial Safety Division. He joined the Halma Executive Board in 1995 as Divisional Chief Executive. He became Managing Director of Apollo Fire Detectors in 1992, after joining as Sales Director in 1987. Neil has a material sciences degree from Sheffield University.

Adam Meyers

Chief Executive, Health Optics Division
Age 50
Location USA
Adam joined the Halma plc Board in April 2008 and is Chief Executive of the Health Optics Division. He became a member of the Halma Executive Board in 2003 as Divisional Chief Executive, having joined Halma in 1996 as President of Bio-Chem Valve. Adam gained his MBA from Harvard Business School and is a systems engineering graduate of the University of Pennsylvania.

Chairman
Executive Directors
Non-executive Directors
Company Secretary

Jane Aikman

Non-executive Director of Halma
Age 46
Location UK
Jane was appointed a non-executive Director of Halma in August 2007. Previously Jane was finance director of Infinis Limited, Wilson Bowden Plc and Pressac plc. She spent three years as an internal audit manager with GEC Alsthom and five years in East Asia with Asia Pulp and Paper Co Limited. Jane qualified as a Chartered Accountant with Ernst & Young and has a degree in civil engineering from Birmingham University.

Norman Blackwell

Non-executive Director of Halma
Age 59
Location UK
Norman was appointed a non-executive Director of Halma in July 2010. He is a non-executive director of Lloyds Banking Group Plc, non-executive Chairman of Interserve Plc and a non-executive director of Ofcom, the communications regulator. His past business roles have included Senior Independent Director at both Standard Life Plc and SEGRO plc, Director of Group Development at NatWest Group and Partner at McKinsey & Company. He was Chairman of the independent Centre for Policy Studies from 2000 to 2009 where he remains a board member. Norman was created a Life Peer in 1997 and served as Head of the Prime Minister's Policy Unit from 1995 to 1997.

Steve Marshall

Non-executive Director of Halma
Age 54
Location UK
Steve was appointed a non-executive Director of Halma in July 2010. He is non-executive Chairman of Balfour Beatty plc and Wincanton plc. He is a former chairman of Delta plc, Queens' Moat Houses plc and Torex Retail plc as well as a former non-executive director at Southern Water Services Limited. He was Group Chief Executive of Railtrack Group plc and prior to that Thorn plc, having also served as Finance Director at each company. His earlier career included a wide range of corporate and operational roles at Grand Metropolitan plc, Burton Group, Black & Decker and BOC Group. He is a fellow of the Chartered Institute of Management Accountants.

Stephen Pettit

Senior Independent Director of Halma
Age 61
Location UK
Stephen is the Senior Independent Director. He was appointed a non-executive Director of Halma in September 2003. He is also a non-executive director of National Grid plc and BT Group plc – Equality of Access Board. Previously Stephen was non-executive Chairman of ROK plc, an executive director with Cable & Wireless PLC and a divisional chief executive with BP PLC. Stephen has an MSc from London School of Economics and an MBA from INSEAD and is an Economics and Politics graduate of Cardiff University.

Daniela Barone Soares

Non-executive Director of Halma
Age 41
Location UK
Daniela was appointed a non-executive Director of Halma in November 2011. She is Chief Executive of Impetus Trust. She is on the advisory board and a trustee of a number of non-listed, social sector organisations in the UK and Brazil. Daniela's past business roles have included Head of Institutional Support at Save the Children, Assistant Vice President of Private Equity and Venture Capital at BancBoston Capital, Inc. and roles at Goldman, Sachs & Co. (New York) and Citibank, N.A. (Brazil). Daniela has an MBA from Harvard Business School and a BSc in Economics from Universidade Estadual de Campinas (UNICAMP), Brazil.

Carol Chesney

Company Secretary
Age 49
Location UK
Carol was appointed Company Secretary of Halma plc in 1998. She joined Halma in 1995 as Group Finance Manager having spent three years with English China Clays plc. She qualified as a Chartered Accountant with Arthur Andersen and is a mathematics graduate of Randolph-Macon Woman's College, Virginia.

EXECUTIVE BOARD

Charles Dubois

Chief Executive, Fluid Technology Division
Age 46
Location USA
Charles was appointed to the Executive Board in April 2008 and is Chief Executive of the Fluid Technology Division. He joined the Group in 1999 as Vice President of Perma Pure LLC and was previously President of Diba Industries. He earned his MBA from the F.W. Olin School of Business at Babson College and holds a Bachelor's degree in physics from the College of the Holy Cross.

Philippe Felten

Chief Executive, Security and Door Sensors Division
Age 47
Location Belgium
Philippe was appointed to the Executive Board in April 2012 and is Chief Executive of the Security and Door Sensors Division. He is Chief Executive of BEA Group where he joined in 1998 as Sales Director for Europe. Philippe completed the Programme for Executive Development at IMD Lausanne, holds a Bachelor degree in Marketing and Management (ICHEC – Brussels) and is an Electro-Mechanical Engineer (ECAM – Brussels).

Mark Lavelle

Chief Executive – Asset Monitoring Division
Age 52
Location UK
Mark joined the Executive Board as a Divisional Chief Executive in 2007 after having joined Halma as Managing Director of Keeler Instruments in November 2001. Mark has an MBA from INSEAD and a chemistry degree from Cambridge University.

Executive Board
Andrew Williams
Kevin Thompson
Charles Dubois
Phillipe Felten
Mark Lavelle
Adam Meyers
Neil Quinn
Rob Randelman
Allan Stamper
Nigel Trodd
Martin Zhang

Rob Randelman

Chief Executive, Photonics Division
Age 52
Location USA
Rob became a member of the Executive Board in April 2011 and is Chief Executive of the Photonics Division. He joined the Group in 2006 as Vice President of Sales at Ocean Optics, where he became President in 2007. Rob gained his PhD and MSE in Chemical Engineering from Lehigh University and is a Chemistry and Physics graduate of Ursinus College.

Allan Stamper

Chief Executive, Water Division
Age 57
Location UK
Allan was appointed to the Executive Board in October 2007 and is Divisional Chief Executive of the Water Division. He joined Halma in 2002 as Managing Director of Crowcon Detection Instruments. Allan has an MBA from Cranfield and is an engineering graduate of both Loughborough University (BSc) and Imperial College (MSc).

Nigel Trodd

Chief Executive, Elevator Safety and Fire Division
Age 54
Location Singapore
Nigel joined the Executive Board in July 2003 and is Chief Executive of the Elevators and Fire Division. He had joined Halma in July 2003 as Chief Executive of the Process Safety Division. Nigel is a member of the Chartered Institute of Marketing and a business studies graduate of Thames Valley University. He relocated to Singapore in April 2012.

Martin Zhang

Director – Halma China
Age 45
Location China
Martin was appointed as Adviser to the Halma Executive Board in February 2008. He joined the Group in June 2006 as Director of Halma China and successfully established Halma China offices in Beijing and Shanghai. Martin holds an Executive MBA from the University of Texas at Arlington (Tongji University Shanghai) and a Bachelor's degree in Chemical Engineering from Chengdu University of Science and Technology.

CHAIRMAN'S INTRODUCTION TO GOVERNANCE

"The Board is committed to maintaining very high standards of corporate governance and ensuring values and behaviours are consistent across the business."

Dear Shareholders,
I am pleased to present Halma's Corporate Governance report on behalf of our Board. The report deals with how the Board and its committees discharged their governance duties which I hope provides you with a clear and meaningful explanation of how we apply the principles of good governance enshrined in the UK Corporate Governance Code (the Code).

The Board is committed to maintaining very high standards of corporate governance and ensuring values and behaviours are consistent across the business. We have sought to manage the affairs of the Company not by merely following regimented rules, but by promoting open and transparent discussion, constructive challenge and support in the Board and across the Group. I continue to be pleased with the progress Halma has made. We continually seek to ensure best practice is maintained and that governance is integral to our strategy and decision-making processes for the benefit of our shareholders.

As I indicated in last year's Annual Report, after ten years of exemplary service, Richard Stone stepped down from the Board in July 2011. We strengthened and refreshed the composition of our Board with the appointment of Daniela Barone Soares in November 2011, who together with our existing Board members form a committed and diverse team.

I have always maintained that a key part of my role involves ensuring that there is a sufficient cadre of individuals being nurtured throughout the Group to enable effective succession planning. The promotions of Rob Randelman and Philippe Felten to the Executive Board, in April 2011 and April 2012 respectively, demonstrate the importance the Group places on developing in-house talent. Reviews of management capabilities and potential are performed on a routine basis and I am satisfied that sufficient resources exist within the Group, and that talent continues to be developed through programmes such as the Halma Executive Development Programme which itself evolves to meet the changing needs of the Group. Whenever we identify a need for improvement to management resources we take action to ensure full strength is attained as soon as practicable.

Lastly, I would like to encourage all shareholders to find the time to attend our AGM on 24 July 2012. It is an excellent opportunity to meet the Board, the Executive Board and a selection of the managing directors from our operating companies.

Geoff Unwin
Chairman
14 June 2012

Contents

Compliance with the Code	72
The Board	72
Board diversity	73
Board activity	74
Board performance and evaluation	74
Investor relations	74
Board committees	75
Internal control	75
Going concern	75
Audit Committee	76
Nomination Committee	78
Remuneration Committee	79
Remuneration report	80
Other statutory information	87
Directors' responsibility statement	90

CORPORATE GOVERNANCE

Compliance with the Code of best practice

As required by the Listing Rules of the Financial Services Authority this Report explains how the Company applies the principles and complies with the provisions of the Financial Reporting Council UK Corporate Governance Code (the Code) published in June 2010 which applied to the Company throughout the year ended 31 March 2012.

Throughout the year, the Company has fully complied with the provisions as set out in section 1 of the Code.

The Board has determined its ideal composition as a Chairman, five independent non-executive Directors and four executive Directors. The Board adjudged this composition as an appropriate structure for the Company providing valuable direct knowledge of operations and effective challenge surrounding the issues facing the Group.

In accordance with the Code all the Directors, being eligible, will offer themselves for re-election at the Annual General Meeting

The Board

The Board considers the Chairman and each of the non-executive Directors to be independent. In assessing independence, the Board considers that the Chairman and non-executive Directors are independent of management and free from business and other relationships which could interfere with the exercise of independent judgment now and in the future. The Board believes that any shareholdings of the Chairman and non-executive Directors serve to align their interests with those of shareholders.

Upon appointment and at regular intervals, all Directors are offered appropriate training. Under the Company's Articles, each Director is subject to re-election at least once every three years however, commencing last year, the Board has agreed that each Director shall stand for annual re-election. The Board confirms that all Directors standing for re-election continue to be effective and demonstrate commitment to their roles. Details of Directors' biographies appear on pages 68 and 69 and in the Notice of Meeting.

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

Chairman's responsibilities

Governance

- promoting high standards of corporate governance;
- leading, chairing and managing the Board;
- ensuring all Board committees are property structured and operate with appropriate terms of reference;
- to regularly consider the composition and succession planning of the Board and its committees;
- ensuring that the Board and its committees' performances are evaluated on a regular basis;
- ensuring adequate time is available for all agenda items.

Strategy

- leading the Board in developing the strategy of the business and achievement of its objectives;
- promoting open and constructive debate in Board meetings;
- ensuring effective implementation of Board decisions with the support of the Chief Executive;
- ensuring 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 Chief Executive;
- ensuring a strong working relationship between executive and non-executive directors;
- setting clear expectations concerning the Company's culture, value and behaviours; and
- ensuring effective relationships are maintained with all major stakeholders in the business.

Chief Executive's responsibilities

- providing coherent leadership and management of the Company with the Chairman;
- developing objectives, strategy and performance standards to be agreed by the Board;
- providing input to the Board's agenda;
- providing effective leadership of the Executive Board to achieve the agreed strategies and objectives;
- securing an Executive Board of the right calibre, with specific responsibility for its composition, and that its succession plan is reviewed annually with the Chairman and the non-executive Directors;
- monitoring, reviewing and managing key risks and strategies with the Board;
- ensuring that the assets of the Group are adequately safeguarded and maintained;
- building and maintaining the Company's communications and standing with shareholders, financial institutions and the public and effectively communicating the Halma plc investment proposition to all stakeholders;
- ensuring the Board is aware of the view of employees on issues of relevance to Halma plc;
- living and fostering the Group values which promote ethical practices, integrity and a positive work climate, enabling the Group to attract, retain and motivate a diverse group of high quality employees; and
- leading by example in establishing a performance orientated, customer focused and publicly responsible Group culture.

Board meeting attendance

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

Board attendance

	Board	Committees: Audit	Committees: Remuneration	Committees: Nomination	Overall attendance %
Total meetings	**6**	**3**	**3**	**2**	
Geoff Unwin	6	–	3	2	100%
Andrew Williams	6	–	–	2	100%
Kevin Thompson	6	–	–	–	100%
Stephen Pettit	6	3	3	2	100%
Neil Quinn	6	–	–	–	100%
Richard Stone[2]	4	1	2	–	100%
Jane Aikman	6	3	–	–	100%
Adam Meyers	6	–	–	–	100%
Lord Blackwell	6	3	3	–	100%
Steve Marshall	6	3	3	2	100%
Daniela Barone Soares[1]	2	2	–	–	100%

[1] Daniela Barone Soares attended both meetings of the Board and Audit Committee after her appointment on 10 November 2011.
[2] Richard Stone attended all four Board meetings, one Audit Committee meeting and two Remuneration Committee meetings before his retirement from the Board on 28 July 2011.

Board constitution

Following Richard Stone's resignation from the Board in July 2011, Stephen Pettit was appointed Senior Independent Director and Steve Marshall assumed responsibility for the Chairmanship of the Remuneration Committee. We have also made further progress in refreshing the composition and diversity of our Board with the appointment of Daniela Barone Soares in November 2011.

Board induction

Newly appointed non-executive Directors follow an induction programme which include scheduled trips to companies in each of the twelve sub-sectors to be achieved over a three-year period. As Daniela Barone Soares had no previous experience in the industry nor as a director of a listed company, an induction programme was designed for her, to ensure she obtained an in-depth understanding of the industry, the organisation and directors' responsibilities to enable her to contribute to the Board effectively.

Board diversity

The Board reviewed the report of Lord Davies published in February 2011 on Boardroom Diversity and contributed to the FRC review of Gender Diversity on Boards noting its support for the benefits of greater diversity, which is not just gender specific, but relates also to other factors such as market and international experience and diversity of thought. It was agreed by the Board that a manufacturing and technology company such as Halma would have to adopt policies to attract a greater number of females into management roles. The Board hopes to support these aims through the adoption and implementation of Halma's Diversity Policy rather than set quotas.

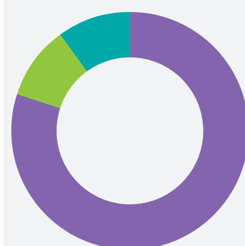
Following Daniela Barone Soares' appointment, the Board has a total of ten Directors. The skill set of the non-executive Directors includes financial, economics, banking, engineering, technology, IT, communications and consumer expertise. They include eight British, one American and one Brazilian nationals. 20% of the Board are women.

Halma has the ambition to increase the number of executives based outside Europe and the USA to better reflect the proportion of our revenue generated outside those markets.

Board composition

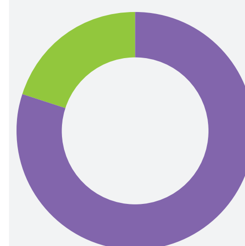
Executive Directors	4
Chairman	1
Independent non-executive Directors	5

Board composition by nationality



UK	8
USA	1
Brazil	1

Board composition by gender



Male	8
Female	2

Board activity throughout the year 2011/12
During the year the Board received training and briefing updates on changes in corporate governance, risk management and compliance, audits, bribery and corruption, health and safety, environmental matters, city and shareholders matters and other relevant legislative and accounting changes.

The Directors have a programmed schedule of meetings and visits with the Executive Board, Group companies and Halma's development programmes to ensure that they are able to engage with management and employees at all levels.

Board performance and evaluation
The Board considers the evaluation of its performance and that of the Audit, Nomination and Remuneration Committees annually, with each Committee also evaluating its own performance. This year, the Board engaged an external facilitator for full Board and Committee evaluations.

Dr Tracy Long of Boardroom Review carried out the evaluation. Dr Long has no other connection with the Company. The board effectiveness review covered three key areas namely the Board's:

- definition of its role and approach to its work;
- ability to work together effectively; and
- ability to optimise its use of time and contribution to the Company.

The evaluation process included a one-to-one interview with each Director and the Company Secretary and Dr Long observed the workings of the Board and its Committees during the February 2012 Board and Committees meetings. The key conclusions of the 2011/12 evaluation were first discussed with the Chairman and subsequently presented to the full Board. The evaluation results were discussed by the Board at the April 2012 Board meeting.

The review concluded that the Board was effective, methodical and thorough in the way it approaches its work. There was open and transparent debate and an even contribution from all members of the Board. There was an active and collaborative approach to performance management reflected in the constructive debates in the Remuneration Committee. The Board spent a significant amount of time considering risks and controls and was assisted by strong financial information, effective internal and external audit processes and a strong Audit Committee. Overall, the process confirmed the right blend of behaviours and skills around the Halma Board table. The Board freely and openly expresses any concerns which results in more considered outcomes emphasising collective responsibility, transparency, clarity and integrity.

The Board agreed the following recommendations from the review which would enable the Board to add further value to the business:

i) greater level of non-executive's knowledge regarding competitive and customer landscapes;

ii) greater individual contributions encouraged with enhancements from changes in Board composition; and

iii) provide more opportunities in the Board schedule to improve communication between executives and non-executives.

As in prior years, the Board also met in February 2012 before the scheduled Board meeting. There was a meeting of the Chairman and non-executive Directors with the Chief Executive. This was followed by a meeting of the Chairman and non-executive Directors only. The Senior Independent Director also led a meeting with the non-executive Directors without the Chairman present. The Executives were also given the opportunity to meet with the Chairman and/or the Senior Independent Director separately. The outcome of these meetings was then fed back to individuals by the Chairman, Senior Independent Director or Chief Executive, as appropriate.

Investor relations
The Board recognises the importance of effective communication with our shareholders. In regular meetings with shareholders and analysts the Chief Executive and Finance Director communicate the Group's strategy and results, disclosing such information as is permitted within the guidelines of the Listing Rules. Such meetings ensure that institutional shareholders representing over 50% of the Company's issued share capital meet or hold discussions with the Company on a regular basis. Major shareholders are also offered the opportunity to meet the Chairman and/or Senior Independent Director. Notes from all investor meetings are circulated to the Chairman with investor feedback results from roadshows circulated to the whole Board.

All shareholders are encouraged to attend the annual general meeting where they can gain a better understanding of the Company. Shareholders are able to pose questions to the Board on the matters put to the meeting, including the Annual Report and the management of the Company. Major shareholders are also invited to briefings following the half-year and annual results. The content of presentations to shareholders and analysts at results announcements and all announcements are available on the Group website: www.halma.com.

The Group website also contains electronic versions of the latest Annual Report and Accounts, Half-Year Reports, biographical

information on Directors and the Executive Board, share price information, and full subsidiary company contact details as well as links to their own websites. The website also features the facility to request e-mail alerts relating to announcements made by the Group.

The Financial calendar is set out on page 148.

Committees of the Board

Our Committees are a valuable part of the Company's corporate governance structure. The workload of the Committees includes the table of scheduled meetings as well as ad hoc meetings and communications frequently requiring considerable amounts of time. Our appointment of an additional non-executive Director at the end of 2011 enabled us to review the Committee allocations during the year to ensure their resources matched the workload.

Halma has six committees and sub-committees of the Board: the Audit Committee, the Nomination Committee, the Remuneration Committee, the Share Plans Committee, the Bank Guarantees and Facilities Committee and the Acquisitions and Disposals Committee. Each of these committees has terms of reference approved by the Board, copies of which are available on the website or on request from the Company Secretary.

Minutes of Committee meetings are made available to all Directors and the Chairmen of each of the three key Board Committees, the Audit, Nomination and Remuneration Committees, provide regular updates to the Board.

A chart setting out the Company's Board and Committees' structure is given below with the Board and Committee memberships and Directors' biographical details shown separately on pages 68 and 69. The responsibilities of the key Board Committees and the key issues and activities during 2011/12 are set out in the following Committee reports on pages 76 to 86.

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 has been delegated to the Audit Committee. Whilst not providing absolute assurance against material misstatements or loss, this system is designed to identify and manage those risks that could adversely impact the achievement of the Group's objectives. The Group's risk management structure and process is detailed on pages 59 and 60. The Group's principal risks and uncertainties are detailed on pages 61 to 63.

The Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group, which has been in place for the year under review and up to the date of approval of the Annual Report and Accounts. This process has been reviewed by the Board and the Board is satisfied that the Group accords with the Turnbull guidance. The Board will continue to review the system routinely to ensure that the system of internal control and risk management remains fit for purpose.

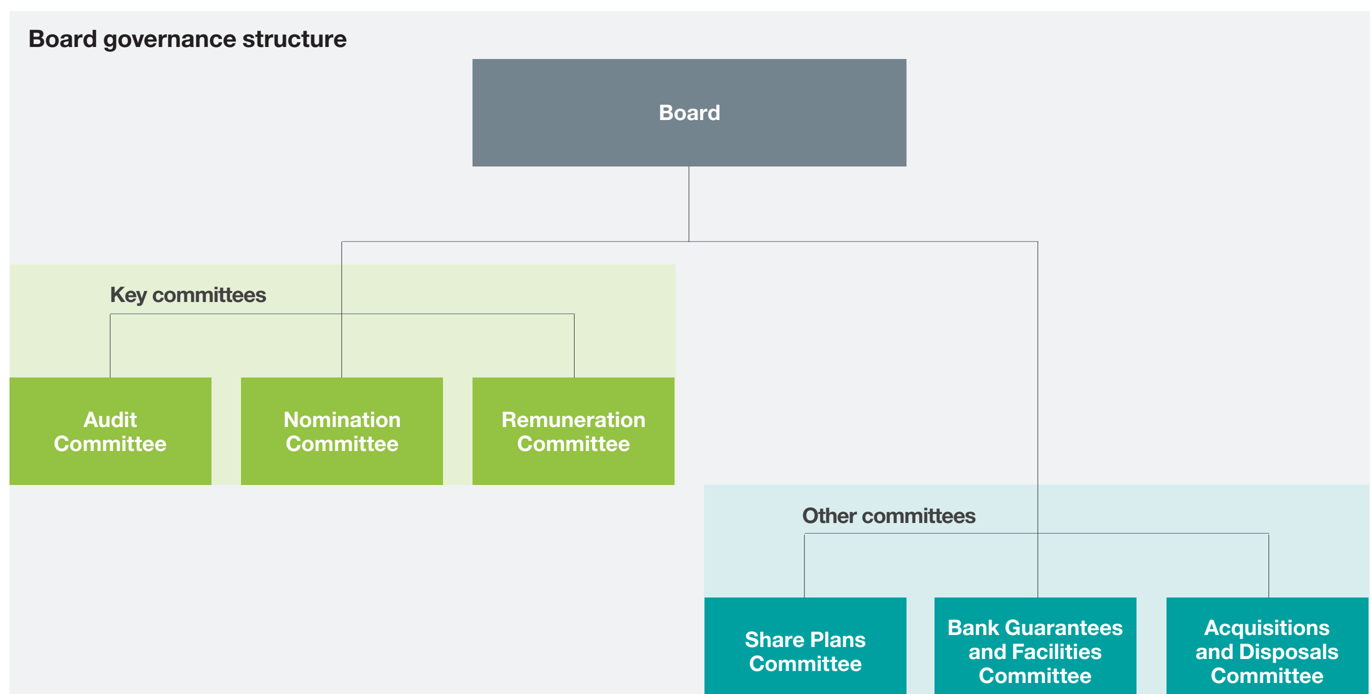
The Group's external auditors, Deloitte LLP, have audited the financial statements and have reviewed the internal financial control systems to the extent they consider necessary to support their audit report.

Going concern

The Group's business activities, together with the main trends and factors likely to affect its future development, performance and position, and the financial position of the Group, its cash flows, liquidity position and borrowing facilities, are set out in the Business Review. In addition, note 26 to the financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposures to currency and liquidity risks.

The Group has considerable financial resources (including a £260m five-year revolving credit facility) together with contracts with a diverse range of customers and suppliers across different geographic areas and industries. No one customer accounts for more than 2% of Group turnover. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully.

After conducting a formal review of the Group's financial resources, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Annual Report and Accounts.



AUDIT COMMITTEE REPORT

Members
- Jane Aikman (Chairman)
- Stephen Pettit
- Norman Blackwell
- Steve Marshall
- Daniela Barone Soares (from 10 November 2011)
- Richard Stone (until 28 July 2011)

Responsibilities
The Audit Committee is appointed by the Board from the non-executive Directors of the Group. The Audit Committee's terms of reference include all matters indicated by Disclosure and Transparency Rule 7.1 and the Code. The terms of reference are considered annually by the Audit Committee and are then referred to the Board for approval. The full terms of reference were last revised in February 2011 and can be found on the Company's website or can be obtained from the Company Secretary.

The primary responsibilities of the Audit Committee are to:

- monitor the integrity of the financial statements of the Group and any formal announcements relating to the Group's financial performance and review significant financial reporting judgments;
- have oversight of risk management, including the review of the Group's financial, operational and compliance internal controls, as well as whistleblowing and fraud prevention procedures;
- monitor and review the effectiveness of the Group's internal audit function;
- make recommendations to the Board, for a resolution to be put to the shareholders for their approval at the general meeting, on the appointment of the external auditors and the approval of the remuneration and terms of engagement of the external auditors;
- review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process, taking into consideration the periodic rotation of audit personnel and relevant UK professional and regulatory requirements; and
- develop and implement a policy on the engagement of the external auditors to supply non-audit services, taking into account relevant guidance regarding the provision of non-audit services by the external audit firm.

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

More specifically, during the year the Committee reviewed its own effectiveness and looked at its activities as detailed in the table below.

Audit Committee activities

Financial statements and reports	Risk management	Internal audit	External auditors and non-audit work
• reviewed the 31 March 2012 Annual Report and Accounts, the 1 October 2011 Half Year report and the IMSs issued in July 2011 and February 2012. As part of these reviews the Committee received a report from the external auditors on their audit of the Annual Report and Accounts; • reviewed the effectiveness of the Group's internal controls and disclosures made in the annual report and financial statements; • considered acquisition valuation methodology; • review of pension fund accounts; and • review of taxation provisions.	• considered the output from the Group-wide risk review process to identify, evaluate and mitigate risks, the Group's changing risk profile and future risk reports; and • agreed to extend the time devoted to risk at future meetings to adequately address risk management in the Group.	• evaluated the effectiveness and the scope of work to be undertaken by the Internal Audit function; • reviewed management responses to audit reports issued during the year; and • reviewed the Group's whistleblowing policy which allows Internal Audit to receive, in confidence, complaints on accounting, risk issues, internal controls, auditing issues and related matters.	• reviewed and agreed the scope of the audit work to be undertaken by the external auditors; • evaluated the independence and objectivity of the external auditors; and • agreed the terms of engagement and fees to be paid to the external auditors for their audit of the 31 March 2012 financial statements.

Governance
The Audit Committee was in place throughout the financial year with Jane Aikman as the Chair. All five members are independent non-executive Directors in accordance with provision C.3.1 of the Code. The Chief Executive, Finance Director and representatives from the external Auditors attend Committee meetings by invitation in order to provide appropriate advice. The Committee meets at least three times per year and routinely meets the Auditors without the involvement of the executive Directors. The Board has designated Jane Aikman as the member of the Audit Committee with recent and relevant financial experience. She is a chartered accountant, was recently a finance director and has listed company experience.

Training
The Audit Committee has extended all of its meetings by an hour to incorporate additional training on relevant topics, for example bribery and corruption, cyber security, financial reporting, internal control and governance.

Auditor independence
Deloitte LLP has been the external auditor of the Group since 2003. A review of the independence of Deloitte LLP was undertaken during the year, and the Committee concluded that the relevant independence continued to be met. It is of prime importance that adequate procedures are in place to safeguard the auditors' objectivity and independence. At the year-end the auditors formally confirmed their independence and that objectivity has been maintained. In addition, they are required to rotate the audit partner responsible for the Group audit every five years. Following a rigorous evaluation of the audit service and a change in audit partner in 2010/11, the Audit Committee agreed that a full tender was not required for the 2011/12 audit. There are no contractual obligations restricting the Committee's choice of external auditors.

The Group's 'Policy on Auditor Independence and Services provided by the External Auditor' sets out restrictions on the categories of non-audit services which the external auditors are allowed to provide to the Group. A summary of which is provided in the table below. This policy is regularly reviewed and states that the Group will only use the appointed external auditor for non-audit services in cases where these services do not conflict with the auditor's independence.

The Committee confirms that Deloitte LLP remains best placed to advise the Group on matters related to tax compliance and the structure of the Group. The Committee accepts that certain work of a non-audit nature is best undertaken by the external auditors, and appointments are made taking into account factors including expertise and cost. The Committee regularly reviews the amount and nature of the non-audit work the external auditors perform. The Audit Committee is notified of all non-audit services with external auditors' fees between £50,000 and £100,000. The policy also sets a fee level per project of £100,000 above which non-audit services are subject to a tendering process. The above fee levels for non-audit services are also subject to an annual cap equal to the audit fee. At each meeting, the Audit Committee also receives a summary of all fees, audit and non-audit, payable to the external auditor.

The audit fees payable to Deloitte LLP during 2011/12 were £660,000 (2011: £653,000) and non-audit service fees were £210,000 (2011: £251,000). The principal non-audit service is tax related. A summary of fees paid to the external auditors is set out in note 6 to the Accounts on page 107.

In accordance with International Standards on Auditing (UK & Ireland) 260 and Ethical Standard 1 issued by the Accounting Practices Board, and as a matter of best practice, the external Auditors have confirmed their independence as auditors of the Company, in a letter addressed to the Directors.

Accordingly, the Committee unanimously recommended to the Board that a resolution for the reappointment of Deloitte LLP as the Company's independent auditors be proposed to shareholders at the AGM in July 2012 and the Board has accepted and endorsed this recommendation.

On behalf of the Audit Committee

Jane Aikman
Chairman
14 June 2012

Policy of auditor independence and services

Prohibited non-audit services	Audit-related services not subject to separate tender if fees < £100,000	Permitted non-audit services, subject to approval
• appraisal or valuation services; • financial Information systems design and Implementation; • bookkeeping services; • management functions; • executive recruiting and resource services; • broker-dealer services; and • legal services.	• audits of businesses acquired or to be sold and due diligence services; • opinions/audit reports on information provided by the company upon request from a third party; • advice on accounting policies; • electronic data processing audits; and • tax services including local tax compliance.	• due diligence services relating to acquisitions of new businesses or significant investments, joint ventures or strategic alliances with fees in excess of £100,000; • public reporting on investment circulars; and • liquidation services in respect of redundant subsidiaries or associate companies.

NOMINATION COMMITTEE REPORT

Members
- Geoff Unwin (Chairman)
- Andrew Williams
- Stephen Pettit
- Steve Marshall

Responsibilities
The Nomination Committee is appointed by the Board from the non-executive Directors of the Group and the Chief Executive. The Nomination Committee's terms of reference include all matters indicated by the UK Corporate Governance Code. The terms of reference are considered annually by the Nomination Committee and are then referred to the Board for approval. The full terms of reference remain unchanged and can be found on the Company's website or can be obtained from the Company Secretary.

The primary responsibilities of the Nomination Committee are to:

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

Governance
The Nomination Committee was in place throughout the financial year. It is chaired by the Chairman of the Company who was deemed to be independent on appointment to the Board. Three of the four members of the Committee are independent non-executive Directors in accordance with provision B.2.1 of the UK Code.

Key issues and activities
The Committee met on two occasions during the year and considered:

- the reappointment of all Directors at the July 2011 AGM;
- succession planning;
- external board evaluation;
- Richard Stone's retirement;
- Stephen Pettit's appointment as Senior Independent Director;
- Steve Marshall's appointment as Chairman of the Remuneration Committee; and
- the nomination and appointment of Daniela Barone Soares as a non-executive Director.

When the need to appoint a Director is identified, a candidate profile is developed indicating the skills, knowledge and experience required taking into account the Board's existing composition. External search consultancies are retained when recruiting non-executive Directors and are used to evaluate internal and external candidates for succession planning. One of the reasons the Committee identified Daniela Barone Soares as the right candidate was her less 'conventional' career path compared to existing members of the Board. Her appointment brings greater diversity of thought to the Board discussions. As noted on page 73, the process of appointments to the Board is paramount in ensuring the Company's performance is maintained and continually improved upon.

On behalf of the Nomination Committee

Geoff Unwin
Chairman
14 June 2012

REMUNERATION COMMITTEE REPORT

Members
- Steve Marshall (Chairman)
- Geoff Unwin
- Stephen Pettit
- Norman Blackwell

Responsibilities
The primary responsibilities of the Committee are:

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

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

The full terms of reference, which were reviewed during the year, but last updated in February 2011, can be found on the Company's website or can be obtained from the Company Secretary.

Governance
The Remuneration Committee, which meets at least twice per year, was in place throughout the financial year. All members are independent in accordance with provision C.3.1 of the UK Corporate Governance Code.

None of the Committee has any personal financial interest (other than as shareholders), conflicts of interests arising from cross directorships or day-to-day involvement in running the business.

The Committee makes recommendations to the Board. No Director plays a part in any discussion about his or her own remuneration. In determining the Directors' remuneration for the year, the Committee consults Andrew Williams' (Chief Executive) proposals and relates the proposals to remuneration packages at comparable listed companies. The Committee consults Kepler Associates, who was appointed during the year, regarding the structuring of executive remuneration packages and reviews other external published material. Independent pension advice is provided to the Company by Lane, Clark & Peacock LLP. Neither Kepler Associates nor Lane, Clark & Peacock LLP are connected parties.

Activities
During 2011/12, the Committee continued to review the Company's remuneration strategy such that executives remain appropriately incentivised to meet the Group's objectives. Our prudent remuneration arrangements seek to support the demands of our business model and take into account principles of sound risk management and the social climate in which we operate. The company's strategy is that a substantial proportion of the remuneration of executive Directors should be performance related. The strategy relies upon three key components which produce an appropriate balance between fixed and variable pay over the short and long term:

- setting salaries just below median market rate levels;
- a performance related bonus scheme, rewarding growth in economic value added; and
- a performance-granted long-term equity-based incentive rewarding relative TSR performance and ROTIC.

Accordingly the Committee agreed that:

- executive Director base salaries for 2012/13 should be increased by an average of 3.6% (2011/12: 4.6%);
- the annual targets for the granting of performance shares were set appropriately; and
- the award of bonuses in respect of 2011/12 should only be based on objective measures and be related to the Company's performance.

The Committee has reviewed the Remuneration Report for 2011/12 and the Company's remuneration strategy, policy and details of executive remuneration follow.

On behalf of the Remuneration Committee

Steve Marshall
Chairman
14 June 2012

REMUNERATION REPORT

Report on Remuneration Strategy and Policy

Introduction

This report has been prepared in accordance with Schedule 8 to the Accounting Regulations under the Companies Act 2006. The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the Board has applied the principles relating to directors' remuneration in the UK Corporate Governance Code. As required by the Act, a resolution to approve the report will be proposed at the Annual General Meeting of the Company at which the financial statements will be approved.

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

UNAUDITED INFORMATION

Remuneration policy

Executive remuneration packages are designed to attract, retain and motivate the high calibre executives needed to manage the Group successfully and align their interests with those of the shareholders by rewarding them for enhancing value to shareholders.

The packages also seek to reward achievement of stretching performance targets without driving unacceptable behaviours or encouraging excessive risk taking.

The performance measurement of the executive Directors and key members of senior management and the determination of their annual remuneration package are undertaken by the Remuneration Committee.

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

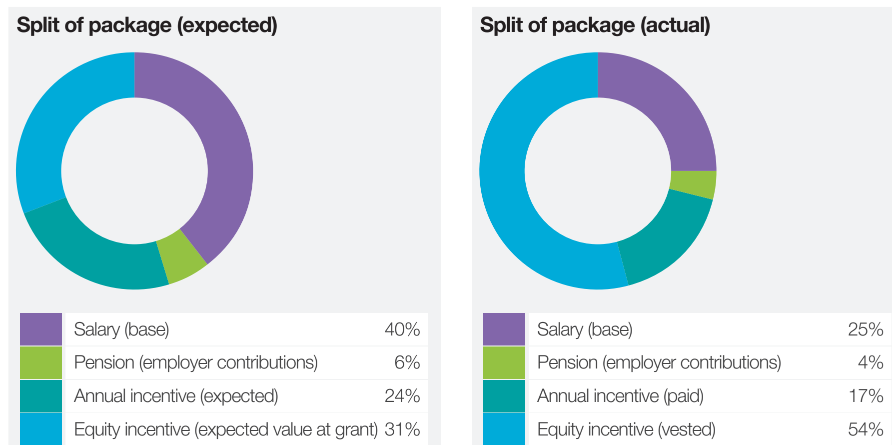
Element of remuneration	How this supports the strategy	Opportunity 2011/12	Performance measures/structure	Changes for 2012/13
Salary	Provides fixed remuneration that will attract and retain key employees and reflect their experience and personal contribution to Group strategy.	CEO – £435,000 CFO – £280,000 UK DCE – £223,000 US DCE – $380,000	Reviewed annually from 1 April. Benchmarked against appropriate market comparators. Linked to individual performance and contribution.	CEO – £450,000 CFO – £290,000 UK DCE – £231,000 US DCE – $394,000
Annual incentive	Incentivises the achievement of an objective annual target which supports the short – to medium-term strategy of the Group.	100% of salary paid in cash	Bonus is based 100% on growth in the Economic Value Added (EVA) compared with a target based on a weighted average of the previous three financial years. There are no individual objectives.	The EVA bonus is capped at 90% of salary with a further bonus of up to 25% of salary, subject to the overall cap of 100% of salary, being earned if revenue growth outside the UK, USA and Europe exceeds certain pre-set percentages (with this bonus fully payable at 25% growth).
Equity incentive	Incentivises executives to achieve superior returns to shareholders over a three-year period. Retains key individuals and aligns interests with shareholders reflecting the sustainability of the business model over the long term.	All executive Directors – up to 140% of salary delivered in Halma plc shares	50% based on TSR relative to a comparator group of the FTSE 250 excluding financial companies; full vesting requires upper quartile performance. 50% based on ROTIC exceeding 9.5%; full vesting requires ROTIC to be 14% or greater.	The ROTIC target for full vesting of awards is increased to 17% with partial vesting occurring when ROTIC is between 9.5% and 17%.
Pension	Provides competitive post-retirement benefits.	CEO – pensionable salary* of £139,185 plus cash supplement paid CFO – deferred member of pension plan; cash supplement paid UK DCE – retired member of pension plan US DCE – 401k participant	Executives participate in either a Group defined benefit pension plan, Group defined contribution pension plan or the US 401k money purchase arrangement. Cash supplements in lieu of company pension contributions are made to some individuals.	CEO – pensionable salary* of £146,423 plus cash supplement.

* The maximum pensionable salary on which future pensions are based is capped. The cap is increased each April by CPI. Final pensions are a proportion of the final pensionable salary based on the number of years of service.

As described above and below, executive Directors may earn annual bonus payments of up to 100% of their basic salary together with the benefits of participation in share plans which are subject to a maximum value, in the year of grant, of 140% of basic salary.

Each executive Director currently holds shares in the Company in excess of the guideline of one year's salary (see page 85).

Executive Director pay mix (2011/12)



The split of the actual package in the year under review reflects modest outcomes (of between threshold and target) under the annual bonus plan and the full vesting of the 2008 PSP awards in relation to the achievement of top quartile TSR and ROTIC of more than 14% p.a. over the past three years. The Committee is satisfied that this outcome is closely aligned with, and reflective of, Halma's strong underlying performance over this period.

Basic salary

Prior to the beginning of each year, each executive Director's basic salary is reviewed by the Committee against the market, Company performance and future strategy and when an individual changes position or responsibility. The Chief Executive is responsible for assessing the performance of each senior executive taking account of the complexity of the operations under their control, their opportunities for advancement with the Group, their remuneration relative to other executives in the Group and their bonus earning potential. He then formulates a remuneration proposal for the Committee's consideration. In deciding appropriate remuneration levels, the Committee also considers the Group as a whole and relies on objective external research which gives information on a comparator group of companies.

Basic salaries are reviewed in February of each year with increases, if appropriate, taking effect from 1 April. Executive Directors' contracts of service which include details of remuneration will be available for inspection at the Annual General Meeting.

Annual bonus payments

During the year the Committee carefully assessed existing incentive arrangements and determined that incentive levels are appropriately set. The Committee established the economic value added (EVA) objectives that must be met for each financial year if a cash bonus is to be paid. In setting appropriate bonus parameters the Committee determined that bonuses of approximately 60% of salary are payable on the achievement of targeted levels of growth. The maximum performance-related bonus that can be paid is 100% of basic annual salary.

For the Chief Executive and Finance Director, bonuses are calculated as above but based on Group profit exceeding a target calculated from the profits for the three preceding financial years after charging cost of capital, including the cost of acquisitions.

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

Executive Director bonus payments for 2012 totalled £725,000 versus £1,127,000 in the prior year reflecting the Group's performance in terms of reported profit, EVA and the relative contributions of organic and acquisition growth.

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

EVA calculation

Profit for each year	Minus	Minus	Plus/minus	Minus	Equals
	a charge on working capital	a charge on cost of acquisitions	unrealised profit in inventory	the resultant bonus itself (to make it self-financing)	the Economic Value Added (EVA) for each year

Transitional provisions exist for divisional restructuring to ensure Divisional Chief Executives remain appropriately incentivised. Subsidiary directors participate in bonus arrangements similar to those established for senior executives.

Performance share plan (PSP)

The Directors have long believed that share plans are an excellent way to provide motivation and align the longer-term interests of senior management with those of shareholders. The Committee, recognising the need to assess and evaluate such incentives, adopted a performance share plan following shareholder approval at the 2005 annual general meeting. This PSP replaced the existing share option plans in respect of future share awards. The Committee has responsibility for supervising the PSP and the grants under its terms.

How the PSP works

Performance criteria determine the amount to be granted and, after three years, the amount to vest as illustrated below:

Stages	Award criteria		Award assessment		Vesting criteria		Final shares vested
Process	Performance criteria determine the number of shares to be granted out of a Maximum Award level. Primary emphasis is placed upon the attainment of personal strategic objectives coupled with financial and operational success.		The assessment of the individual's achievement of their objectives establishes the proportion of the Maximum Award that an individual is granted (the Actual Award in the table below).		50% of the amount granted is subject to TSR growth relative to the FTSE 250, excluding financial companies, over the three-year vesting period. 50% of the amount granted is subject to ROTIC performance over each of the three years.		Awards vest on a sliding scale, as set out in the PSP vesting table below.
Timeline	Criteria set one year prior to grant.		Assessment occurs immediately prior to grant.		Vesting conditions apply throughout the three-year vesting period.		Three years from grant or pro- rata for good leavers.
PSP value	Opportunity to receive maximum Award.	X	% attainment of individual objectives.	X	% attainment of Group performance conditions.	=	Final shares vested.

The Committee believes that any incentive compensation awarded should be tied to the interests of the Company's shareholders. It therefore decided that the principal measures of those interests should be Relative Total Shareholder Return (TSR) and Return on Total Invested Capital (ROTIC).

PSP vesting table %

Future awards Percentage of award which vests		TSR (percentile) <50%	50%	75%	100%
ROTIC (post-tax)	≤9.5%	0.0	16.7	50.0	50.0
	12.0%	16.7	33.3	66.7	66.7
	14.5%	33.3	50.0	83.3	83.3
	17.0%	50.0	66.7	100.0	100.0

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

The Committee recognises that the Group's improving performance in respect of its absolute ROTIC percentage metric merits a recalibration of the performance target at which full vesting of the ROTIC element is achieved. To that end, the Committee has determined that full vesting will now occur at a ROTIC performance of 17% for awards made in 2012.

ROTIC (Return on total invested capital) %

Year	%
2012	16.8
2011	15.5
2010	13.6
2009	13.1
2008	14.1

Vested awards are satisfied in shares with sufficient shares being sold to meet tax and social costs owing, at the recipient's direction, and the net balance of shares transferred to the individual.

Awards lapse if they do not vest on the third anniversary of their award.

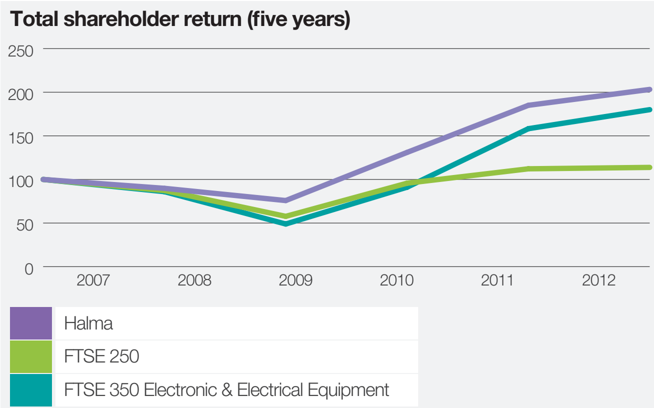
Current vesting expectations for awards made in 2009, 2010 and 2011 range from 50% to 99%.

Performance against objectives	Maximum award permitted*		Actual award 2011/12*		Estimate of vesting in 2014/15*
Chief Executive	140%	At individual % assessment level	138%	At 68.6% vesting expectation	95%
Finance Director	140%		135%		93%
Executive Directors	140%		134%		92%
Divisional Chief Executives	100%		96%		66%
Managing Directors and Divisional Finance Directors	40%		31%		21%

* Expressed as a percentage of 2011/12 base salary.

Awards vest after three years on a sliding scale, as set out above, subject to the Company's relative TSR performance against the FTSE 250, excluding financial companies, combined with a measure based upon an absolute ROTIC.

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



The five-year graph to the left shows the Company's TSR performance over the five years to 31 March 2012 as compared to the FTSE 250 and the FTSE 350 Electronic & Electrical Equipment sector indices, the latter of which the Company has been a constituent since it was reclassified in June 2006. Over the period indicated, the Company's TSR was 203% compared to 114% for the FTSE 250 and 180% for the FTSE 350 Electronic & Electrical Equipment sector.

At the commencement of the five-year period depicted in the graph, the Halma plc ordinary share price was 220.25p and the total of dividends paid in the year ended 31 March 2007 was 6.97p per share. The Halma plc ordinary share price at 31 March 2012 was 380.6p and the total of dividends paid in the year then ended was 9.35p per share.

Share option plans

The 1999 share option plan provided for the grant of two categories of option both of which are subject to performance criteria. The exercise criteria for this plan are noted in note 23 to the accounts.

No further grants may be made from this plan which has been replaced by the PSP approved by shareholders at the 2005 annual general meeting. The granting of options was spread over the life of the plan.

Dilution

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

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

Pension arrangements

Except as noted below, the executive Directors participate in the appropriate section of the Halma Group Pension Plan (the Plan). This section is a funded final salary occupational pension plan registered with HM Revenue & Customs, which provides a maximum pension of two-thirds of final pensionable salary after 25 or more years' service at normal pension age (60). Up to 5 April 2006, final pensionable salary was the greatest salary of the last three complete tax years immediately before retirement or leaving service. From 6 April 2011, final pensionable salary was capped at £139,185 and is increased annually thereafter by CPI.

Bonuses and other fluctuating emoluments and benefits-in-kind are not pensionable nor subject to any pension accrued supplement. The Plan also provides for life cover of three times salary, pensions in the event of early retirement through ill-health and dependants' pensions of one-half of the member's prospective pension.

Early retirement pensions, currently possible from age 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.

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

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

Benefits-in-kind

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

Directors' contracts

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

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

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

Non-executive Directors

Unless otherwise indicated, all non-executive Directors have a specific three-year term of engagement which may be renewed for further three-year terms if both the Director and the Board agree. Stephen Pettit, who is proposed for re-election had his terms of engagement extended for a third three-year term in 2009 and has agreed to remain on the Board for an additional period of at least one year to provide stability and continuity following the appointment of three non-executive Directors in the past two years. The Board will evaluate this mandate annually.

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

The contract in respect of Geoff Unwin's services provides for termination, by either party, by giving not less than six months' notice. Stephen Pettit, Jane Aikman, Norman Blackwell, Steve Marshall and Daniela Barone Soares have contracts in respect of their non-executive Director services which can be terminated, by either party, by giving not less than three months' notice.

The Chairman's and the non-executive Directors' fees were reviewed by the Board in April 2012 with increases taking effect from April 2012.

AUDITED INFORMATION

Aggregate Directors' remuneration

The total amounts for Directors' remuneration were as follows:

	2012 £000	2011 £000
Emoluments	**2,307**	2,649
Pension supplements	**150**	142
Gains on vesting of performance shares	**2,587**	1,377
Gains on exercise of share options	**126**	228
	5,170	4,396

Directors' remuneration

	Salaries and fees £000	Bonus £000	Benefits £000	Pension supplement £000	**2012 Total £000**	2011 Total £000
Geoff Unwin	145	–	–	–	**145**	145
Andrew Williams	435	173	26	77	**711**	926
Kevin Thompson	280	111	10	73	**474**	617
Stephen Pettit	46	–	–	–	**46**	42
Neil Quinn	223	203	15	–	**441**	444
Richard Stone**	17	–	–	–	**17**	52
Jane Aikman	42	–	–	–	**42**	43
Adam Meyers*	238	238	3	–	**479**	467
Norman Blackwell	40	–	–	–	**40**	27
Steve Marshall	46	–	–	–	**46**	28
Daniela Barone Soares**	16	–	–	–	**16**	–
	1,528	725	54	150	**2,457**	2,791

* Remunerated in US Dollars and translated at the prevailing average exchange rate for the year.
** To/from date of retirement/appointment.

Directors' interests

The Directors who held office at 31 March 2012 had the following interests in the ordinary shares of the Company:

	Shares 31 March 2012	Shares 2 April 2011
Geoff Unwin	68,250	68,250
Andrew Williams	420,806	364,885
Kevin Thompson	315,154	279,553
Stephen Pettit	2,000	2,000
Neil Quinn	261,041	219,571
Jane Aikman	2,000	2,000
Adam Meyers	203,064	182,929
Norman Blackwell	2,000	2,000
Steve Marshall	2,000	2,000
Daniela Barone Soares	–	–

There are no non-beneficial interests of Directors. There were no changes in Directors' interests from 31 March 2012 to 14 June 2012.

Performance share plan

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

	Date of grant	As at 2 April 2011	Granted/(vested) in the year	Five-day average share price on grant (pence)	As at 31 March 2012
Andrew Williams	Aug-08	274,297	(274,297)	201.30	**–**
	Aug-09	226,610		194.36	**226,610**
	Aug-10	200,215		281.08	**200,215**
	Aug-11		164,912	362.34	**164,912**
Kevin Thompson	Aug-08	173,154	(173,154)	201.30	**–**
	Aug-09	157,473		194.36	**157,473**
	Aug-10	124,126		281.08	**124,126**
	Aug-11		103,571	362.34	**103,571**
Neil Quinn	Aug-08	143,964	(143,964)	201.30	**–**
	Aug-09	125,620		194.36	**125,620**
	Aug-10	97,531		281.08	**97,531**
	Aug-11		80,810	362.34	**80,810**
Adam Meyers	Aug-08	110,507	(110,507)	201.30	**–**
	Aug-09	80,909		194.36	**80,909**
	Aug-10	110,005		281.08	**110,005**
	Aug-11		88,552	362.34	**88,552**

Performance conditions for the awards made in the financial year are set out above. The 2008 grants vested in August 2011 at a value of 368.597 per share with 100% of the original number of shares granted being transferred to participants net of any tax and social charges. The current vesting expectation for grants made in 2009 is 98.5%; for grants made in 2010, 99% and for grants made in 2011, 50%.

Share incentive plan

As part of their participation in the performance share plan, UK executive Directors were awarded a proportion of their 2011 awards in Free Shares under the provisions of the UK share incentive plan (SIP) on 1 October 2011, as follows: Andrew Williams, 921 shares; Kevin Thompson, 949 shares; and Neil Quinn, 949 shares. The Free Shares are held in trust for the participants and may transfer to them from the third anniversary of the award, on request and subject to continued employment. The share price on the award date was 315.6p. SIP shareholdings are included in Directors' interests above.

Directors' share options

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

	As at 2 April 2011	Lapsed	Exercised	Share price on exercise (p)	As at 31 March 2012	2012 Gains on Exercise (£)	2011 Gains on Exercise (£)
Andrew Williams	103,837	(12,000)	–	–	91,837	–	–
Kevin Thompson	177,286	(33,100)	–	–	144,186	–	–
Neil Quinn	170,256	(33,100)	–	–	137,156	–	75,246
Adam Meyers	352,781	(23,300)	60,000	355.20	269,481	125,718	153,169

There were no share option grants during the financial year. The gains are calculated by deducting the exercise price from the closing middle market price at the date of exercise or the actual gross sales proceeds if appropriate.

Details of Directors' options outstanding at 31 March 2012 are set out in the table below. The status of the options can be summarised as follows:

1. Exercisable at that date at a price less than 380.6p.
2. Not yet exercisable, will only be exercisable when the performance criteria, set out in note 22 to the accounts, have been met and have an exercise price per share of less than 380.6p.

	Status of options	Year of grant	Number of shares	Weighted average exercise price (pence) per share
Andrew Williams	2	2002-2004	91,837	140.03
Kevin Thompson	2	2002-2004	144,186	140.10
Neil Quinn	2	2002-2004	137,156	139.99
Adam Meyers	1	2003-2005	158,783	137.99
	2	2002-2004	110,698	140.07

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

The Company's Register of Directors' Interests, which is open to inspection at the Registered Office, contains full details of Directors' shareholdings and share options.

There have been no variations to the terms and conditions or performance criteria for share options during the financial year.

The closing middle market price of the Company's ordinary shares on Friday, 30 March 2012, the last trading day preceding the financial year end, was 380.6p per share and the range during the year was 306.3p to 429.6p.

Directors' pension entitlements

Two Directors are accruing benefits under the Company's defined benefit pension plan as follows:

	Age at 31 March 2012	Years of pensionable service at 31 March 2012	Accrued pension 2011 £000	Increase in the year £000	Accrued pension 2012 £000
Andrew Williams	44	17	44	6	50
Kevin Thompson	52	18	100	3	103

The accrued pension shown is that which would be paid annually on retirement at age 60 based on service to the end of the year. Kevin Thompson's increase in accrued pension relates entirely to inflation as he ceased future service accrual in 2006.

	Transfer value 2 April 2011	Directors' contributions £000	Increase in value net of contributions £000	Transfer value 31 March 2012
Andrew Williams	497	15	179	691
Kevin Thompson	1,573	-	365	1,938

The transfer values disclosed above do not represent a sum paid or payable to the individual Director. Instead they represent a potential liability of the pension plan. The transfer values are Gilt related and depend upon the relative standings of the Gilt market at the respective valuation dates. The increase in transfer values is predominantly due to the significant reduction in the yields available on UK Gilts over the year. The fall in yields has been widely attributed to the Bank of England's continued policy on Quantitative Easing and the Euro crisis. Other factors that have increased the transfer values are the impact of any additional service, revaluation in line with inflation and any real salary increases as well as the anticipated ageing of the members.

These values have been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11.

Adam Meyers is a member of the US 401k money purchase scheme. Company contributions paid in the year were $12,489 (£7,806) (2011: $24,015 (£15,394)).

The report was approved by the Board of Directors and signed on its behalf by:

Steve Marshall
Remuneration Committee (Chairman)
14 June 2012

OTHER STATUTORY INFORMATION

Activities
Halma plc is a holding company. A list of its principal subsidiary companies and their activities is set out on pages 144 to 147.

Ordinary dividends
The Directors recommend a final dividend of 5.95p per share and, if approved, this dividend will be paid on 22 August 2012 to ordinary shareholders on the register at the close of business on 20 July 2012. Together with the interim dividend of 3.79p per share already paid, this will make a total of 9.74p (2011: 9.10p) per share for the financial year.

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 22 to the accounts. The Company has one class of ordinary shares which carry no right to fixed income. Each share carries the right to one vote at general meetings of the Company.

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

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 being himself 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 he is the holder. Electronic and paper proxy appointments and voting instructions must be received not later than 48 hours before the meeting. A holder of ordinary shares can lose the entitlement to vote at general meetings where that holder has been served with a disclosure notice and has failed to provide the Company with information concerning interests held in those shares. Except as set out above and as permitted under applicable statutes, there are no limitations on voting rights of holders of a given percentage, number of votes or deadlines for exercising voting rights.

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.

Treasury shares
Shares held in treasury do not have voting rights and are not eligible for dividends.

Employee share plans
Details of employee share plans are set out in note 23 to the accounts.

Appointment and replacement 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 Acts and related legislation. Directors can be appointed by the Company by ordinary resolution at a general meeting or by the Board. If a director is appointed by the Board, such director will hold office until the next annual general meeting and shall then be eligible for re-election at that meeting. In accordance with the UK Corporate Governance Code all the Directors will retire and, being eligible, will offer themselves for re-election at this year's Annual General Meeting. The Company can remove a director from office, including by passing a special resolution or by notice being given by all the other directors. The Articles themselves may be amended by special resolution of the shareholders.

Power of Directors
The powers of Directors are described in the Matters Reserved for the Board, copies of which are available on request from the Company Secretary, and the Corporate Governance Statement on page 72.

Essential contracts 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 and employee share plans.

The only significant agreement, in terms of its likely impact on the business of the Group as a whole, containing such provisions is that governing the £260m 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 Group has contractual arrangements with a wide range of suppliers. The Group is not unduly dependent upon contractual arrangements with any particular customer. Whilst the loss or disruption to certain of these arrangements could temporarily affect the Group's business, none is considered to be essential.

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

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

Allotment authority

Under the Companies Act 2006 the Directors may only allot shares if authorised by shareholders to do so. At the Annual General Meeting an ordinary resolution will be proposed which, if passed, will authorise the Directors to allot and issue new shares up to an aggregate nominal value of £12,500,000 (up to 125,000,000 new ordinary shares of 10p each), being just less than one-third of the issued share capital of the Company (excluding treasury shares) as at 13 June 2012 (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 conclusion of the Annual General Meeting of the Company in 2013. 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 13 June 2012 (the latest practicable date prior to the publication of the Notice of Meeting), the Company had 378,555,028 ordinary shares of 10p each in issue of which 1,396,240 were held as treasury shares, which is equal to approximately 0.4% of the issued share capital of the Company (excluding treasury shares) as at that date.

The Companies Act 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 Annual General Meeting a special resolution will be proposed which, if passed, will authorise the Directors to issue a limited number of shares for cash and/or sell treasury shares without offering them to shareholders first. The authority is for an aggregate nominal amount of up to 5% of the aggregate nominal value of the issued share capital of the Company as at 13 June 2012 (the latest practicable date prior to the publication of the Notice of Meeting). The resolution will also modify statutory pre-emption rights to deal with legal, regulatory or practical problems that may arise on a rights 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, except under share plans previously approved in general meeting.

Directors

The names of the Directors of the Company who served throughout the year including brief biographies, are set out on pages 68 and 69.

Directors' indemnities

The Company has entered into deeds of indemnity with each of the current Directors, which remain in force at the date of this report. These are qualifying third-party indemnity provisions for the purposes of the Companies Act 2006.

Purchase of the Company's own shares

The Company was authorised at the 2011 Annual General Meeting to purchase up to 37,600,000 of its own 10p ordinary shares in the market. This authority expires at the end of the 2012 Annual General Meeting. In accordance with the Directors' stated intention to seek annual renewal, a special resolution will be proposed at the Annual General Meeting to renew this authority, until the end of next year's Annual General Meeting, in respect of up to 37,800,000 ordinary shares, which is approximately 10% of the Company's issued share capital (excluding treasury shares) as at 13 June 2012 (the latest practicable date prior to the publication of the Notice of Meeting). The Directors consider it desirable that the possibility of making such purchases, under appropriate circumstances, is available. Their present intention is that the shares purchased under the authority will be held in treasury for future cancellation, sale for cash or transfer for the purposes of, or pursuant to, an employee share plan, although in the light of circumstances at the time it may be decided to cancel them immediately on repurchase. The effect of any cancellation would be to reduce the number of shares in issue. For most purposes, while held in treasury, shares are treated as if they have been cancelled (for example, they carry no voting rights and do not rank for dividends).

Following approval of the Performance Share Plan (PSP) at the 2005 Annual General Meeting, the Directors made, and intend to continue to make, routine purchases of Halma shares in the market for holding in treasury until required for vesting under the PSP. In the year to 31 March 2012, 1,070,579 shares, with a nominal value of £107,057.90, which is 0.3% of the Company's issued share capital as at 13 June 2012 (the latest practicable date prior to the publication of the Notice of Meeting), were purchased in the market for treasury. Otherwise, the Directors have no present intention of using this authority. In reaching a decision to purchase shares, the Directors will take into account the Company's cash resources, capital requirements and the effect of any purchase on the Company's earnings per share. It is anticipated that renewal of the authority will be requested at subsequent annual general meetings.

As at 13 June 2012, which is the latest practicable date prior to the publication of the Notice of Meeting, options were outstanding to subscribe for a total number of 2,160,900 ordinary shares, or 0.6% of the Company's issued share capital. If the proposed authority were to be used in full and all of the repurchased shares were cancelled (but the Company's issued share capital otherwise remained unaltered), the total number of options to subscribe for ordinary shares at that date would represent approximately 0.6% of the Company's issued share capital (excluding treasury shares).

Supplier payment policy
The Company does not follow any particular supplier payment code of practice. The Company has due regard to the payment terms of suppliers and generally settles all undisputed accounts within 30 days of the due date for payment. At 31 March 2012 the Company's trade creditors, amounting to £1.3m (2011: £0.9m), represented 25 days (2011: 25 days) of its annual purchases.

Donations
Group companies made charitable donations amounting to £46,015, principally to universities, (2011: £2,451) during the financial year. There were no political donations (2011: £nil).

Substantial shareholdings
On 13 June 2012, the Company had been notified, in accordance with chapter 5 of the Disclosure and Transparency Rules, of the following voting rights as a shareholder of the Company.

	31 March 2012		13 June 2012		
	No. of ordinary shares	Percentage of voting rights and issued share capital	No. of ordinary shares	Percentage of voting rights and issued share capital	Nature of holdings
Sprucegrove Investment Management Ltd	22,317,670	5.94	22,317,670	5.92	Indirect
Massachusetts Financial Services Company	18,904,896	5.03	18,904,896	5.01	Indirect
Capital Research and Management Company	18,804,168	5.00	18,804,168	4.99	Indirect
Schroder Investment Management	18,667,466	4.97	18,667,466	4.95	Indirect
Norges Bank Investment Management	11,293,494	3.01	15,294,184	4.06	Direct
Sanderson Asset Management Ltd	14,891,762	3.96	14,891,762	3.95	Direct
Barclays Bank PLC	14,646,007	3.90	14,646,007	3.88	Indirect
Legal and General Group Plc	14,874,651	3.96	11,248,247	2.98	Direct

Annual General Meeting
The Company's Annual General Meeting will be held on 24 July 2012. The Notice of Meeting, together with an explanation of the proposed resolutions, is enclosed with this Annual Report and is also available on the Company's website at www.halma.com.

Special Business
The Board will propose three special resolutions under Special Business at the Annual General Meeting, in accordance with the EU Shareholder Rights Directive implemented in August 2009, to permit the Company to retain the ability to call general meetings (other than annual general meetings) at 14 days' notice rather than 21 days' notice.

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

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

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

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

By order of the Board

Carol Chesney
Company Secretary
14 June 2012

DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the Group financial statements, International Accounting Standard 1 requires that Directors:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Directors' responsibility statement
We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the management report, which is incorporated into the Directors' Report, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board

Andrew Williams
Chief Executive
14 June 2012

Kevin Thompson
Finance Director

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HALMA PLC

We have audited the Group financial statements of Halma plc for the 52 week period ended 31 March 2012 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income and Expenditure, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement and the related notes 1 to 31. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditor
As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements
In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 March 2012 and of its profit for the 52 week period then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the Group financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' Statement contained within Corporate Governance in relation to going concern;
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to the shareholders by the Board on Directors' remuneration.

Other matters
We have reported separately on the parent company financial statements of Halma plc for the 52 week period ended 31 March 2012 and on the information in the Directors' Remuneration Report that is described as having been audited.

Alexander Butterworth ACA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Reading, UK

14 June 2012

CONSOLIDATED INCOME STATEMENT

	Notes	52 weeks to 31 March 2012 Before Adjustments* £000	Adjustments* (note 1) £000	Total £000	52 weeks to 2 April 2011 Before Adjustments* £000	Adjustments* (note 1) £000	Total £000
Continuing operations							
Revenue	1	**579,883**	**–**	**579,883**	518,428	–	518,428
Operating profit		**121,944**	**(12,034)**	**109,910**	105,708	(6,259)	99,449
Share of results of associates		**(37)**	**–**	**(37)**	(59)	–	(59)
Profit on disposal of continuing operations	29	**–**	**3,543**	**3,543**	–	–	–
Finance income	4	**10,070**	**–**	**10,070**	9,420	–	9,420
Finance expense	5	**(11,512)**	**–**	**(11,512)**	(10,518)	–	(10,518)
Profit before taxation	6	**120,465**	**(8,491)**	**111,974**	104,551	(6,259)	98,292
Taxation	9	**(28,256)**	**2,996**	**(25,260)**	(27,367)	1,509	(25,858)
Profit for the year attributable to equity shareholders	1	**92,209**	**(5,495)**	**86,714**	77,184	(4,750)	72,434
Earnings per share	2						
From continuing operations							
Basic		**24.46p**		**23.01p**	20.49p		19.23p
Diluted				**22.97p**			19.19p
Dividends in respect of the year	10						
Paid and proposed (£000)				**36,738**			34,275
Paid and proposed per share				**9.74p**			9.10p

* Adjustments include the amortisation of acquired intangible assets; acquisition transaction costs; movement on contingent consideration; profit on disposal of continuing operations; and the associated taxation thereon.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME AND EXPENDITURE

	Notes	52 weeks to 31 March 2012 £000	52 weeks to 2 April 2011 £000
Profit for the year		**86,714**	72,434
Exchange differences on translation of foreign operations and net investment hedge		**(5,707)**	(4,268)
Actuarial (losses)/gains on defined benefit pension plans	28	**(3,024)**	857
Effective portion of changes in fair value of cash flow hedges	26	**545**	(311)
Tax relating to components of other comprehensive income	9	**(11)**	(887)
Other comprehensive expense for the year		**(8,197)**	(4,609)
Total comprehensive income for the year attributable to equity shareholders		**78,517**	67,825

The exchange differences of £5,707,000 (2011: £4,268,000) comprise £776,000 (2011: £211,000) which relate to net investment hedges as described on page 100.

CONSOLIDATED BALANCE SHEET

	Notes	31 March 2012 £000	2 April 2011 £000
Non-current assets			
Goodwill	11	**267,471**	259,954
Other intangible assets	12	**74,483**	73,490
Property, plant and equipment	13	**72,118**	69,891
Interests in associates	14	**1,968**	1,989
Deferred tax asset	21	**11,039**	10,779
		427,079	416,103
Current assets			
Inventories	15	**57,368**	54,540
Trade and other receivables	16	**114,674**	110,456
Tax receivable		**288**	237
Cash and cash equivalents		**45,305**	42,610
Derivative financial instruments	26	**469**	327
		218,104	208,170
Total assets		**645,183**	624,273
Current liabilities			
Trade and other payables	18	**93,499**	85,511
Provisions	19	**2,618**	2,887
Tax liabilities		**11,870**	14,997
Derivative financial instruments	26	**126**	858
		108,113	104,253
Net current assets		**109,991**	103,917
Non-current liabilities			
Borrowings	17	**64,014**	79,688
Retirement benefit obligations	28	**32,997**	36,237
Trade and other payables	20	**13,388**	22,848
Provisions	19	**2,301**	1,593
Deferred tax liabilities	21	**26,258**	24,269
		138,958	164,635
Total liabilities		**247,071**	268,888
Net assets		**398,112**	355,385
Equity			
Share capital	22	**37,856**	37,824
Share premium account		**22,177**	21,744
Treasury shares		**(4,569)**	(5,016)
Capital redemption reserve		**185**	185
Hedging and translation reserve		**29,212**	34,511
Other reserves		**1,346**	3,634
Retained earnings		**311,905**	262,503
Shareholders' funds		**398,112**	355,385

The financial statements of Halma plc, company number 40932, were approved by the Board of Directors on 14 June 2012.

A J Williams
Director

K J Thompson
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital £000	Share premium account £000	Treasury shares £000	Capital redemption reserve £000	Hedging and translation reserve £000	Other reserves £000	Retained earnings £000	Total £000
At 2 April 2011	**37,824**	**21,744**	**(5,016)**	**185**	**34,511**	**3,634**	**262,503**	**355,385**
Profit for the period	–	–	–	–	–	–	**86,714**	**86,714**
Other comprehensive income and expense:								
Exchange differences on translation of foreign operations	–	–	–	–	**(5,707)**	–	–	**(5,707)**
Actuarial losses on defined benefit pension plans	–	–	–	–	–	–	**(3,024)**	**(3,024)**
Effective portion of changes in fair value of cash flow hedges	–	–	–	–	**545**	–	–	**545**
Tax relating to components of other comprehensive income	–	–	–	–	**(137)**	–	**126**	**(11)**
Total other comprehensive income and expense	–	–	–	–	**(5,299)**	–	**(2,898)**	**(8,197)**
Share options exercised	**32**	**433**	–	–	–	–	–	**465**
Dividends paid	–	–	–	–	–	–	**(35,232)**	**(35,232)**
Share-based payments	–	–	–	–	–	**(2,082)**	–	**(2,082)**
Deferred tax on share-based payment transactions	–	–	–	–	–	**(206)**	–	**(206)**
Excess tax deductions related to share-based payments on exercised options	–	–	–	–	–	–	**818**	**818**
Net movement in treasury shares	–	–	**447**	–	–	–	–	**447**
At 31 March 2012	**37,856**	**22,177**	**(4,569)**	**185**	**29,212**	**1,346**	**311,905**	**398,112**
At 2 April 2010	37,765	20,959	(2,581)	185	39,013	4,178	222,974	322,493
Profit for the period	–	–	–	–	–	–	72,434	72,434
Other comprehensive income and expense:								
Exchange differences on translation of foreign operations	–	–	–	–	(4,268)	–	–	(4,268)
Actuarial gains on defined benefit pension plans	–	–	–	–	–	–	857	857
Effective portion of changes in fair value of cash flow hedges	–	–	–	–	(311)	–	–	(311)
Tax relating to components of other comprehensive income	–	–	–	–	77	–	(964)	(887)
Total other comprehensive income and expense	–	–	–	–	(4,502)	–	(107)	(4,609)
Share options exercised	59	785	–	–	–	–	–	844
Dividends paid	–	–	–	–	–	–	(32,891)	(32,891)
Share-based payments	–	–	–	–	–	(764)	–	(764)
Deferred tax on share-based payment transactions	–	–	–	–	–	220	–	220
Excess tax deductions related to share-based payments on exercised options	–	–	–	–	–	–	93	93
Net movement in treasury shares	–	–	(2,435)	–	–	–	–	(2,435)
At 2 April 2011	37,824	21,744	(5,016)	185	34,511	3,634	262,503	355,385

Treasury shares are ordinary shares in Halma plc purchased by the Company and held to fulfil the Company's obligations under the performance share plan. At 31 March 2012 the number of treasury shares held was 1,404,269 (2011: 1,847,368) and their market value was £5,344,648 (2011: £6,558,156). The net movement of treasury shares of £447,000 (2011: (£2,435,000)) comprises the purchase of treasury shares of £3,985,000 (2011: £5,358,000) offset by the transfer to Other reserves of £4,432,000 (2011: £2,923,000).

The Hedging and translation reserve is used to record differences arising from the retranslation of the financial statements of foreign operations and the portion of the cumulative net change in the fair value of cash flow hedging instruments that are deemed to be an effective hedge. Other than a net income of £127,000 (2011: charge of £281,000), all amounts at year end relate to translation movements.

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 equity-settled share option plans and performance share plan.

CONSOLIDATED CASH FLOW STATEMENT

	Notes	52 weeks to 31 March 2012 £000	52 weeks to 2 April 2011 £000
Net cash inflow from operating activities	25	**97,687**	95,064
Cash flows from investing activities			
Purchase of property, plant and equipment		**(15,196)**	(14,399)
Purchase of computer software		**(1,293)**	(1,019)
Purchase of other intangibles		**(46)**	(6)
Proceeds from sale of property, plant and equipment		**1,244**	677
Development costs capitalised		**(4,718)**	(4,735)
Interest received		**212**	317
Acquisition of businesses, net of cash acquired	24	**(18,667)**	(82,093)
Acquisition of investments in associates		**–**	(1,708)
Disposal of business, net of cash disposed		**3,554**	–
Net cash used in investing activities		**(34,910)**	(102,966)
Financing activities			
Dividends paid		**(35,232)**	(32,891)
Proceeds from issue of share capital		**465**	844
Purchase of treasury shares		**(3,985)**	(5,358)
Interest paid		**(1,490)**	(825)
Loan arrangement fee		**(1,903)**	–
Proceeds from borrowings	25	**76,456**	76,156
Repayment of borrowings	25	**(94,050)**	(18,152)
Net cash (used in)/from financing activities		**(59,739)**	19,774
Increase in cash and cash equivalents	25	**3,038**	11,872
Cash and cash equivalents brought forward		**42,610**	31,006
Exchange adjustments		**(343)**	(268)
Cash and cash equivalents carried forward		**45,305**	42,610

ACCOUNTING POLICIES

Basis of accounting
The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted for use in the European Union (EU) and therefore comply with Article 4 of the EU IAS legislation and with those parts of the Companies Act 2006 that are applicable to companies reporting under IFRS. The financial statements have also been prepared in accordance with IFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations issued and effective at the time of preparing these accounts.

The principal Group accounting policies are explained below and have been applied consistently throughout the years ended 2 April 2011 and 31 March 2012 other than those noted below.

The Group accounts have been prepared under the historical cost convention, except as described below under the heading 'Derivative financial instruments and hedge accounting'.

New standards and interpretations
The following new standards and interpretations have been adopted in the current year but have not had a material impact on the reported results or the financial position:

- IFRIC 13 'Customer loyalty programmes'
- IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments'
- Amendment to IFRS 3 'Measurement of non-controlling interests'
- Amendment to IFRS 1 'Limited Exemption from Comparative IFRS 7 disclosures for first time adopters'
- Amendment to IFRS 7 'Clarification of level of disclosure required around credit risk and collateral held'
- Amendment to IAS 24 'Clearer definition of a related party'
- Amendment to IFRIC 14 'Prepayment on a Minimum Funding Requirement'

At the date of authorisation of these financial statements, the following Standards and Interpretations 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):

- IFRS 1 (amended) Severe Hyperinflation and removal of fixed dates for first-time adopters
- IFRS 1 (amended) Government loans at below market rates of interest
- IFRS 7 (amended) Offsetting financial assets and financial liabilities
- IFRS 9 Financial Instruments – Classification and Measurement
- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities
- IFRS 13 Fair Value Measurement
- IAS 1 (amended) Presentation of items of Other Comprehensive Income
- IAS 12 (amended) Deferred Tax: Recovery of Underlying Assets
- IAS 19 (amended) Employee Benefits
- IAS 27 (amended) Separate Financial Statements
- IAS 28 (amended) Investments in Associates and Joint Ventures
- IAS 32 (amended) Offsetting financial assets and financial liabilities
- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

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, except for the following:

IFRS 9 'Financial Instruments', which will introduce a number of changes in the presentation of financial instruments;

IFRS 13 'Fair Value Measurement' which will impact the measurement of fair value of certain assets and liabilities;

IAS 1 'Amendments to presentation of Other Comprehensive Income' which will impact the presentation of Financial Statements. This will impact the presentation of various items within the Statement of Other Comprehensive Income by requiring the separation of items that will later be reclassified through the Income Statement from those that will never pass through the Income Statement; and

IAS 19 (revised) 'Employee Benefits', which requires the replacement of the expected return on assets and interest charge on pension scheme liabilities with a net financing cost based on the discount rate. Whilst the Group's total defined benefit pension obligation will be unaffected, the Group's net finance cost in the income statement is expected to increase with a corresponding increase in the actuarial gain recognised in Other comprehensive income.

The Group has not completed its assessment of the full impact of these pronouncements on the consolidated results, financial position or cash flows of the Group.

Going concern
The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is contained on page 75.

Key sources of estimation uncertainty and critical accounting judgments
The preparation of Group accounts in conformity with IFRS requires the Directors to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experiences and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The following three areas of key estimation uncertainty and critical accounting judgment have been identified as having significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next financial year:

Goodwill impairment
Determining whether goodwill is impaired requires an estimation of the value in use of cash generating units (CGUs) to which goodwill has been allocated. In turn, the value in use calculation involves an estimation of the present value of future cash flows of CGUs. The future cash flows are based on annual budgets, as approved by the Board, to which the management's expectation of market-share and long-term growth rates are applied. The present value is then calculated based on management's judgment of future discount rates. The Board reviews these key assumptions (market-share, long-term growth rates, and discount rates) and the sensitivity analysis around these assumptions. Further details are provided in note 11.

Defined benefit pension scheme liabilities
Determining the value of the future defined benefit obligation requires judgment in respect of the assumptions used to calculate present values. These include future mortality, discount rate, inflation and salary increases. Management makes these judgments in consultation with an independent actuary. Details of the judgments made in calculating these transactions are disclosed in note 28.

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 of other intangible assets at acquisition. The assumptions involved in valuing these intangible assets require the use of estimates and judgements which may differ from the actual outcome. These estimates and judgements cover future growth rates, expected inflation rates and the discount rate used.

Basis of consolidation
The Group accounts include the accounts of Halma plc and its subsidiary companies made up to 31 March 2012, 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.

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. For acquisitions after 3 April 2010, 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; 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 purchase consideration payable 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.

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 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.

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 is not in 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 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 period of acquisition.

Where a Group company transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate. Losses may provide evidence of an impairment of the asset transferred in which case appropriate provision is made for impairment.

Other intangible assets
(a) Product development costs
Research expenditure is written off in the financial year in which it is incurred.

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

(b) Acquired intangible assets
An intangible resource acquired with a subsidiary undertaking is recognised as an intangible asset if it is separable from the acquired business or arises from contractual or legal rights, is expected to generate future economic benefits and its fair value can be measured reliably. Acquired intangible assets, comprising trademarks and customer relationships, are amortised through the Consolidated Income Statement on a straight-line basis over their estimated economic lives of between three and 10 years.

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

(d) Other intangibles
Other intangibles are amortised through the Consolidated Income Statement on a straight-line basis over their estimated economic lives of between three and 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 net realisable value and its value in use. An asset's value in use represents the present value of the future cash flows expected to be derived from the asset or from the cash generating unit to which it relates. The present value is calculated using a discount rate that reflects the current market assessment of the time value of money and the risks specific to the asset concerned.

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

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 Chief Executive Officer) 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 (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, corporate and deferred taxation balances, defined benefit scheme liabilities, contingent purchase consideration, all components of net cash/borrowings and derivative financial instruments.

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

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

In the event that an overseas subsidiary is disposed of or closed, the profit or loss on disposal or closure will be determined after taking into account the cumulative translation difference held within the Hedging and translation reserve attributable to that subsidiary. As permitted by IFRS 1, the Group has elected to deem the Hedging and 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.

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 26.

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 re-measured 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 26 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 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 Swiss Franc 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, the changes in value of the borrowings are recognised in the Statement of Comprehensive Income and accumulated in the Hedging and translation reserve. The ineffective part of any change in value caused by changes in exchange rates is recognised in the Consolidated Income Statement.

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

Revenue on long term contracts is recognised while the contracts are in progress. Revenue is recognised proportionally to the stage of completion of the contract, based on the fair value of goods and services provided to date, taking into account the sign-off of milestone delivery by customers. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

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

Freehold property	2%
Leasehold properties:	
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$^{1}/_{3}$%

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

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

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

For defined benefit schemes, the asset or liability recorded in the balance sheet is the difference between the fair value of the scheme's assets and the present value of the defined obligation at that date. The defined benefit obligation is calculated separately for each scheme 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. Interest on pension plans' liabilities are recognised within finance expense and the expected return on the schemes' assets are recognised within finance income in the Consolidated Income Statement.

Contributions to defined contribution schemes are charged to the Consolidated Income Statement when they fall due.

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

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

(b) Share option plans

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

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

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

(c) Performance share plan

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

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

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

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

Inventories

Inventories and work in progress 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.

Provisions

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.

Operating profit

Operating profit is stated after charging restructuring costs but before the share of results of associates, investment income and finance costs.

Taxation

Taxation comprises current and deferred tax. Tax is recognised in the Consolidated Income Statement except to the extent that it relates to items recognised directly in Shareholders' funds, in which case it too is recognised in Shareholders' funds. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or subsequently enacted at the balance sheet date, along with any adjustment to tax payable in respect of previous years. Taxable profit differs from net 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 period when the liability is settled or the asset is realised. Deferred tax assets are only recognised to the extent that recovery is probable.

Cash and cash equivalents

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

Dividends

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

NOTES TO THE ACCOUNTS

1 Segmental analysis

Sector analysis

The Group has three main reportable segments (Health and Analysis, Infrastructure Sensors, and Industrial Safety), which are defined by markets rather than product type. Each segment includes businesses with similar operating and marketing characteristics. These segments are consistent with the internal reporting as reviewed by the Chief Executive Officer.

Segment revenue and results

	Revenue (all continuing operations)	
	52 weeks to 31 March 2012 £000	52 weeks to 2 April 2011 £000
Health and Analysis	**253,647**	218,330
Infrastructure Sensors	**204,280**	197,209
Industrial Safety	**122,240**	103,058
Inter-segmental sales	**(284)**	(169)
Revenue for the year	**579,883**	518,428

Inter-segmental sales are charged at prevailing market prices and have not been disclosed separately by segment as they are not considered material. The Group does not analyse revenue by product group and has no material revenue derived from the rendering of services.

	Profit (all continuing operations)	
	52 weeks to 31 March 2012 £000	52 weeks to 2 April 2011 £000
Segment profit before allocation of amortisation of acquired intangible assets, acquisition costs and profit on disposal of continuing operations		
Health and Analysis	**57,848**	46,108
Infrastructure Sensors	**39,099**	39,023
Industrial Safety	**29,226**	24,435
	126,173	109,566
Segment profit after allocation of amortisation of acquired intangible assets, acquisition costs and profit on disposal of continuing operations		
Health and Analysis	**49,779**	40,170
Infrastructure Sensors	**39,276**	38,981
Industrial Safety	**28,627**	24,156
Segment profit	**117,682**	103,307
Central administration costs	**(4,266)**	(3,917)
Net finance expense	**(1,442)**	(1,098)
Group profit before taxation	**111,974**	98,292
Taxation	**(25,260)**	(25,858)
Profit for the year	**86,714**	72,434

The accounting policies of the reportable segments are the same as the Group's accounting policies. For acquisitions after 3 April 2010, acquisition transaction costs and movement on contingent consideration are recognised in the Consolidated Income Statement. Segment profit, before these acquisition costs, the amortisation of acquired intangible assets and the profit on disposal of continuing operations is disclosed separately above as this is the measure reported to the Chief Executive Officer for the purpose of allocation of resources and assessment of segment performance.

1 Segmental analysis continued

The amortisation of acquired intangible assets, acquisition transaction costs, movement on contingent consideration (including any arising from foreign exchange revaluation) and profit on disposal of continuing operations are analysed as follows:

		Acquisition costs			2012
	Amortisation of acquired intangibles	**Transaction costs**	**Adjustments to contingent consideration**	**Disposal of continuing operations (note 29)**	**Total**
Health and Analysis	**(9,804)**	**(667)**	**(1,141)**	**3,543**	**(8,069)**
Infrastructure Sensors	**–**	**–**	**177**	**–**	**177**
Industrial Safety	**(548)**	**(51)**	**–**	**–**	**(599)**
Total Group	**(10,352)**	**(718)**	**(964)**	**3,543**	**(8,491)**

The transaction costs mainly arose on the acquisitions in note 24 of SunTech Medical Group Limited (£225,000), Kirk Key Interlock Company LLC. (£51,000), Avo Photonics, Inc. (£55,000), Accutome, Inc. (£100,000) and Sensorex Inc. (£141,000).

		Acquisition costs			2011
	Amortisation of acquired intangibles	Transaction costs	Adjustments to contingent consideration	Disposal of continuing operations	Total
Health and Analysis	(4,481)	(1,226)	(231)	–	(5,938)
Infrastructure Sensors	–	(42)	–	–	(42)
Industrial Safety	(279)	–	–	–	(279)
Total Group	(4,760)	(1,268)	(231)	–	(6,259)

Segment assets and liabilities

Before goodwill, interests in associates and acquired intangible assets are allocated to specific segment assets/liabilities	Assets		Liabilities	
	2012 £000	2011 £000	**2012 £000**	2011 £000
Health and Analysis	**94,933**	90,854	**31,018**	33,733
Infrastructure Sensors	**77,261**	77,051	**29,304**	28,702
Industrial Safety	**49,376**	45,300	**20,513**	17,967
Total segment assets/liabilities excluding goodwill, interests in associates and acquired intangible assets	**221,570**	213,205	**80,835**	80,402
Goodwill	**267,471**	259,954	**–**	–
Interests in associates	**1,968**	1,989	**–**	–
Acquired intangible assets	**61,082**	60,851	**–**	–
Total segment assets/liabilities including goodwill, interests in associates and acquired intangible assets	**552,091**	535,999	**80,835**	80,402

After goodwill, interests in associates and acquired intangible assets are allocated to specific segment assets/liabilities	Assets		Liabilities	
	2012 £000	2011 £000	**2012 £000**	2011 £000
Health and Analysis	**317,280**	310,219	**31,018**	33,733
Infrastructure Sensors	**157,577**	159,622	**29,304**	28,702
Industrial Safety	**77,234**	66,158	**20,513**	17,967
Total segment assets/liabilities including goodwill and acquired intangible assets	**552,091**	535,999	**80,835**	80,402
Cash and cash equivalents/borrowings	**45,305**	42,610	**64,014**	79,688
Derivative financial instruments	**469**	327	**126**	858
Other unallocated assets/liabilities	**47,318**	45,337	**102,096**	107,940
Total Group	**645,183**	624,273	**247,071**	268,888

Segment assets and liabilities, excluding the allocation of goodwill, interests in associates and acquired intangible assets, have been disclosed separately above as this is the measure reported to the Chief Executive Officer for the purpose of monitoring segment performance and allocating resources between segments. Other unallocated assets include land and buildings and tax assets, and unallocated liabilities include contingent purchase consideration, retirement benefit provisions and tax liabilities.

1 Segmental analysis continued

Other segment information

	Additions to non-current assets		Depreciation and amortisation	
	2012 £000	2011 £000	**2012 £000**	2011 £000
Health and Analysis	**21,934**	120,593	**16,987**	11,221
Infrastructure Sensors	**7,146**	6,733	**5,494**	5,852
Industrial Safety	**12,813**	3,576	**4,522**	4,034
Total segment additions/depreciation and amortisation	**41,893**	130,902	**27,003**	21,107
Unallocated	**979**	2,324	**666**	623
Total Group	**42,872**	133,226	**27,669**	21,730

Non-current asset additions comprise acquired and purchased goodwill, intangible assets and property, plant and equipment.

There were no impairment losses incurred during the year (2011: £nil).

Geographical information

The Group's revenue from external customers (by location of customer) and its non-current assets by geographical location are detailed below:

	Revenue by destination		Non-current assets	
	2012 £000	2011 £000	**2012 £000**	2011 £000
United States of America	**161,951**	150,280	**40,021**	38,977
Mainland Europe	**154,428**	138,313	**26,682**	26,296
United Kingdom	**125,613**	106,131	**345,480**	336,673
Asia Pacific and Australasia	**87,277**	76,207	**3,792**	3,378
Africa, Near and Middle East	**27,750**	28,756	**–**	–
Other countries	**22,864**	18,741	**65**	–
	579,883	518,428	**416,040**	405,324

Non-current assets comprise goodwill, other intangible assets, investments in associates and property, plant and equipment.

Information about major customers

The Group had no revenue from a single customer, which accounts for more than 2% of the Group's revenue.

2 Earnings per ordinary share

Basic earnings per ordinary share are calculated using the weighted average of 376,926,013 shares in issue during the year (net of shares purchased by the Company and held as treasury shares) (2011: 376,608,974). Diluted earnings per ordinary share are calculated using the weighted average of 377,473,142 shares (2011: 377,365,635), which includes dilutive potential ordinary shares of 547,129 (2011: 756,661). Dilutive potential ordinary shares are calculated from those exercisable share options where the exercise price is less than the average price of the Company's ordinary shares during the year.

Adjusted earnings are calculated as earnings from continuing operations excluding the amortisation of acquired intangible assets, acquisition transaction costs, movement on contingent consideration and profit on disposal of continuing operations after tax. The Directors consider that adjusted earnings represent a more consistent measure of underlying performance. A reconciliation of earnings and the effect on basic earnings per share figures is as follows:

			Per ordinary share	
	2012 £000	2011 £000	**2012 pence**	2011 pence
Earnings from continuing operations	**86,714**	72,434	**23.01**	19.23
Add back amortisation of acquired intangible assets (after tax)	**7,561**	3,315	**2.00**	0.88
Acquisition transaction costs (after tax)	**691**	1,268	**0.18**	0.34
Adjustments to contingent consideration (after tax)	**786**	167	**0.21**	0.04
Profit on disposal of continuing operations (after tax)	**(3,543)**	–	**(0.94)**	–
Adjusted earnings	**92,209**	77,184	**24.46**	20.49

3 Non-GAAP measures

The Board uses certain non-GAAP measures to help it effectively monitor the performance of the Group. These measures include Return on Capital Employed, Return on Total Invested Capital and organic growth.

Return on Capital Employed

	2012 £000	2011 £000
Operating profit before amortisation of acquired intangible assets, acquisition transaction costs and movement on contingent consideration, but after share of results of associates	**121,907**	105,649
Computer software costs within intangible assets	**2,678**	2,734
Capitalised development costs within intangible assets	**10,508**	9,653
Other intangibles within intangible assets	**215**	252
Property, plant and equipment	**72,118**	69,891
Inventories	**57,368**	54,540
Trade and other receivables	**114,674**	110,456
Trade and other payables	**(93,499)**	(85,511)
Provisions	**(2,618)**	(2,887)
Net tax liabilities	**(11,582)**	(14,760)
Non-current trade and other payables	**(13,388)**	(22,848)
Non-current provisions	**(2,301)**	(1,593)
Add back contingent purchase consideration	**29,110**	27,037
Capital employed	**163,283**	146,964
Return on Capital Employed	**74.7%**	71.9%

Return on Total Invested Capital

	2012 £000	2011 £000
Post-tax profit before amortisation of acquired intangible assets, acquisition transaction costs, movement on contingent consideration and profit on disposal of continuing operations	**92,209**	77,184
Total shareholders' funds	**398,112**	355,385
Add back retirement benefit obligations	**32,997**	36,237
Less associated deferred tax assets	**(7,920)**	(9,422)
Cumulative amortisation of acquired intangibles	**36,306**	26,642
Goodwill on disposals	**5,441**	5,441
Goodwill amortised prior to 3 April 2004	**13,177**	13,177
Goodwill taken to reserves prior to 28 March 1998	**70,931**	70,931
Total invested capital	**549,044**	498,391
Return on Total Invested Capital	**16.8%**	15.5%

Organic growth

Organic growth measures the change in revenue and profit from continuing Group operations. The effect of acquisitions and disposals made during the prior financial year, and acquisitions made in the current financial year has been equalised by adjusting the current year results for a pro-rated contribution based on their revenue and profit before taxation at the date of acquisition or disposal. The results of disposals made in the prior financial year have been removed from the prior year reported revenue and profit before taxation. Organic growth has been calculated as follows:

	Revenue			Profit* before taxation		
	2012 £000	2011 £000	% growth	2012 £000	2011 £000	% growth
Continuing operations	**579,883**	518,428		**120,465**	104,551	
Acquired revenue/profit	**(33,715)**	–		**(10,538)**	–	
	546,168	518,428	5.4%	**109,927**	104,551	5.1%

* Before amortisation of acquired intangible assets, acquisition transaction costs, movement on contingent consideration and profit on disposal of continuing operations.

4 Finance income

	2012 £000	2011 £000
Interest receivable	**212**	317
Expected return on pension scheme assets	**9,529**	9,103
	9,741	9,420
Fair value movement on derivative financial instruments	**329**	–
	10,070	9,420

5 Finance expense

	2012 £000	2011 £000
Interest payable on bank loans and overdrafts	**1,383**	690
Amortisation of finance costs	**282**	–
Interest charge on pension scheme liabilities	**9,684**	9,525
Other interest payable	**107**	135
	11,456	10,350
Fair value movement on derivative financial instruments	**–**	121
Unwinding of discount on provisions	**56**	47
	11,512	10,518

6 Profit before taxation

Profit before taxation comprises:

	2012 £000	2011 £000
Revenue	**579,883**	518,428
Cost of sales	**(384,397)**	(345,841)
Gross profit	**195,486**	172,587
Distribution costs	**(11,812)**	(11,072)
Administrative expenses	**(73,764)**	(62,066)
Profit on disposal of continuing operations	**3,543**	–
Share of results of associates	**(37)**	(59)
Net finance expense	**(1,442)**	(1,098)
Profit before taxation	**111,974**	98,292

Included within administrative expenses are the amortisation of acquired intangible assets and acquisition costs.

		2012 £000	2011 £000
Profit before taxation is stated after charging/(crediting):			
Depreciation		**12,178**	11,523
Amortisation		**15,491**	10,207
Research and development*		**22,706**	20,953
Foreign exchange loss/(gain)		**1,065**	(346)
Profit on disposal of operations		**(3,543)**	–
Profit on sale of property, plant and equipment and computer software		**(495)**	(55)
Cost of inventories recognised as an expense		**289,675**	259,322
Staff costs (note 7)		**154,432**	138,097
Auditors' remuneration	Audit services to the Company	**126**	123
	Audit of the company's subsidiaries	**534**	530
	Total audit fees	**660**	653
	Interim agreed upon procedures	**27**	12
	Tax compliance services	**19**	57
	Tax advisory services	**120**	159
	Other services	**31**	10
	Total non-audit fees	**197**	238
	Audit of Group pension plan	**13**	13
	Total fees	**870**	904
Operating lease rents:	Property	**6,661**	5,871
	Other	**818**	837

* A further £4,718,000 (2011: £4,735,000) 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) was:

	2012 Number	2011 Number
United States of America	**1,285**	1,080
Mainland Europe	**722**	680
United Kingdom	**1,745**	1,705
Asia Pacific and Australasia	**591**	410
Other countries	**4**	–
	4,347	3,875

Group employee costs comprise:

	2012 £000	2011 £000
Wages and salaries	**127,255**	113,705
Social security costs	**18,847**	16,971
Pension costs (note 28)	**4,975**	4,638
Share-based payment charge (note 23)	**3,355**	2,783
	154,432	138,097

8 Directors' remuneration

The remuneration of the Directors is set out on pages 84 to 86 within the Remuneration report described as being audited and forms part of these financial statements.

Directors' remuneration comprises:

	2012 £000	2011 £000
Wages, salaries and fees	**2,457**	2,791
Pension costs	**45**	54
Share-based payment charge	**1,035**	1,004
	3,537	3,849

9 Taxation

	2012 £000	2011 £000
Current tax		
UK corporation tax at 26% (2011: 28%)	**9,021**	10,009
Overseas taxation	**15,635**	14,154
Adjustments in respect of prior years	**753**	947
Total current tax charge	**25,409**	25,110
Deferred tax		
Origination and reversal of timing differences	**362**	1,361
Adjustments in respect of prior years	**(511)**	(613)
Total deferred tax (credit)/charge	**(149)**	748
Total tax charge recognised in the Consolidated Income Statement	**25,260**	25,858
Reconciliation of the effective tax rate:		
Profit before tax	**111,974**	98,292
Tax at the UK corporation tax rate of 26% (2011: 28%)	**29,113**	27,522
Overseas tax rate differences	**3,574**	2,996
Permanent differences	**(7,669)**	(4,994)
Adjustments in respect of prior years	**242**	334
	25,260	25,858
Effective tax rate (after amortisation of acquired intangible assets, acquisition transaction costs, movement on contingent consideration and profit on disposal of continuing operations)	**22.6%**	26.3%

9 Taxation continued

	2012 £000	2011 £000
Profit before tax*	**120,465**	104,551
Total tax charge*	**28,256**	27,367
Effective tax rate*	**23.5%**	26.2%

* Before amortisation of acquired intangible assets, acquisition transaction costs, movement on contingent consideration and profit on disposal of continuing operations.

In addition to the amount charged to the Consolidated Income Statement, the following amounts relating to tax have been recognised directly in the Consolidated Statement of Comprehensive Income and Expenditure:

	2012 £000	2011 £000
Deferred tax (note 21)		
Retirement benefit obligations	**(126)**	964
Short-term timing differences	**137**	(77)
	11	887

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:

	2012 £000	2011 £000
Current tax		
Excess tax deductions related to share-based payments on exercised options	**818**	93
Deferred tax (note 21)		
Change in estimated excess tax deductions related to share-based payments	**(206)**	220
	612	313

10 Dividends

	Per ordinary share			
	2012 pence	2011 pence	2012 £000	2011 £000
Amounts recognised as distributions to shareholders in the year				
Final dividend for the year to 2 April 2011 (3 April 2010)	**5.56**	5.19	**20,934**	19,550
Interim dividend for the year to 31 March 2012 (2 April 2011)	**3.79**	3.54	**14,298**	13,341
	9.35	8.73	**35,232**	32,891
Dividends declared in respect of the year				
Interim dividend for the year to 31 March 2012 (2 April 2011)	**3.79**	3.54	**14,298**	13,341
Proposed final dividend for the year to 31 March 2012 (2 April 2011)	**5.95**	5.56	**22,440**	20,934
	9.74	9.10	**36,738**	34,275

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting on 24 July 2012 and has not been included as a liability in these financial statements.

11 Goodwill

	2012 £000	2011 £000
Cost		
At beginning of year	**259,954**	195,334
Additions (note 24)	**10,708**	66,798
Exchange adjustments	**(3,191)**	(2,178)
At end of year	**267,471**	259,954
Provision for impairment		
At beginning and end of year	**–**	–
Carrying amounts	**267,471**	259,954

11 Goodwill continued

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

	2012 £000	2011 £000
Health and Analysis		
Water	**11,592**	11,756
Photonics	**55,090**	43,927
Health Optics	**67,810**	70,852
Fluid Technology	**29,949**	29,990
	164,441	156,525
Infrastructure Sensors		
Fire Detection	**11,350**	11,275
Security Sensors	**15,795**	15,795
Automatic Door Sensors	**42,783**	45,433
Elevator Safety	**10,388**	10,068
	80,316	82,571
Industrial Safety		
Bursting Disks	**7,239**	7,239
Safety Interlocks	**7,466**	5,610
Asset Monitoring	**8,009**	8,009
	22,714	20,858
Total Group	**267,471**	259,954

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

Key assumptions used in 'value in use' calculations

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

- Discount rates;
- Market share during the budget period for the financial year to March 2013; and
- Growth rate used to extrapolate risk adjusted cash flows beyond the budget period.

Discount rates are based on the Group's borrowing and equity profile. The Directors do not currently expect any significant change in the present base discount rate of 10.23% (2011: 9.05%). 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) used in long-term return measures such as ROTIC. Discount rates are calculated for each CGU, reflecting the size of each business and specific geographic and industry factors, resulting in the impairment testing using discount rates ranging from 10.75% to 12.98%.

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

Growth rate estimates of respectively 3.25% and 2.50% for the first and second year onwards into perpetuity following the budget year are based on management estimates keeping in view past performance growth.

Sensitivity to changes in assumptions

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

12 Other intangible assets

	Acquired intangibles			Internally generated capitalised development costs £000	Computer software £000	Other intangibles[3] £000	Total £000
	Customer relationships[1] £000	Trademarks[2] £000	Total £000				
Cost							
At 3 April 2010	22,251	20,898	43,149	20,347	8,521	287	72,304
Assets of businesses acquired	36,881	7,509	44,390	–	1	127	44,518
Additions at cost	–	–	–	4,735	1,019	6	5,760
Disposals	–	–	–	(23)	(77)	(16)	(116)
Retirements	–	–	–	(29)	(241)	(21)	(291)
Reclassification of category[4]	–	–	–	–	(64)	–	(64)
Exchange adjustments	171	(217)	(46)	(163)	(127)	(15)	(351)
At 2 April 2011	**59,303**	**28,190**	**87,493**	**24,867**	**9,032**	**368**	**121,760**
Assets of businesses acquired (note 24)	**8,995**	**984**	**9,979**	**–**	**9**	**–**	**9,988**
Assets of business sold	**–**	**–**	**–**	**(774)**	**(137)**	**–**	**(911)**
Additions at cost	**–**	**–**	**–**	**4,718**	**1,293**	**46**	**6,057**
Disposals	**–**	**–**	**–**	**–**	**(86)**	**–**	**(86)**
Retirements	**–**	**–**	**–**	**(1)**	**(135)**	**–**	**(136)**
Exchange adjustments	**361**	**(445)**	**(84)**	**(224)**	**(70)**	**4**	**(374)**
At 31 March 2012	**68,659**	**28,729**	**97,388**	**28,586**	**9,906**	**418**	**136,298**
Accumulated amortisation							
At 3 April 2010	13,873	8,046	21,919	11,145	5,471	64	38,599
Charge for the year	2,398	2,362	4,760	4,168	1,217	62	10,207
Disposals	–	–	–	–	(66)	–	(66)
Retirements	–	–	–	–	(208)	(6)	(214)
Reclassification of category[4]	–	–	–	–	(40)	–	(40)
Exchange adjustments	5	(42)	(37)	(99)	(76)	(4)	(216)
At 2 April 2011	**16,276**	**10,366**	**26,642**	**15,214**	**6,298**	**116**	**48,270**
Charge for the year	**7,192**	**3,160**	**10,352**	**3,734**	**1,319**	**86**	**15,491**
Assets of business sold	**–**	**–**	**–**	**(774)**	**(131)**	**–**	**(905)**
Disposals	**–**	**–**	**–**	**–**	**(85)**	**–**	**(85)**
Retirements	**–**	**–**	**–**	**(1)**	**(134)**	**–**	**(135)**
Exchange adjustments	**(366)**	**(322)**	**(688)**	**(95)**	**(39)**	**1**	**(821)**
At 31 March 2012	**23,102**	**13,204**	**36,306**	**18,078**	**7,228**	**203**	**61,815**
Carrying amounts							
At 31 March 2012	**45,557**	**15,525**	**61,082**	**10,508**	**2,678**	**215**	**74,483**
At 2 April 2011	43,027	17,824	60,851	9,653	2,734	252	73,490

1 Customer relationship assets are amortised over their useful economic lives estimated to be between three and ten years.

2 Trademarks (including protected technical knowledge) are amortised over their useful economic lives estimated to be between three and ten years.

3 Other intangibles comprise licences and product registration costs amortised over their useful economic lives estimated to be between three and five years.

4 The net transfer from property, plant and equipment to computer software relates to identifiable software assets.

13 Property, plant and equipment

	Land and buildings				
	Freehold properties £000	Long leases £000	Short leases £000	Plant, equipment and vehicles £000	Total £000
Cost					
At 3 April 2010	34,344	2,206	5,625	103,733	145,908
Assets of businesses acquired	–	1	6	1,744	1,751
Additions at cost	1,881	120	584	11,814	14,399
Disposals	–	(4)	(11)	(3,051)	(3,066)
Retirements	–	–	(231)	(2,862)	(3,093)
Reclassification of category (note 12)	–	–	15	49	64
Exchange adjustments	(385)	(30)	(54)	(1,447)	(1,916)
At 2 April 2011	**35,840**	**2,293**	**5,934**	**109,980**	**154,047**
Assets of businesses acquired (note 24)	**–**	**–**	**35**	**888**	**923**
Assets of business sold	**(269)**	**(19)**	**–**	**(1,581)**	**(1,869)**
Additions at cost	**167**	**128**	**673**	**14,228**	**15,196**
Disposals	**–**	**(35)**	**(127)**	**(3,633)**	**(3,795)**
Retirements	**–**	**–**	**(266)**	**(4,630)**	**(4,896)**
Reclassification of category (note 12)	**–**	**90**	**10**	**(100)**	**–**
Exchange adjustments	**(428)**	**(17)**	**4**	**(964)**	**(1,405)**
At 31 March 2012	**35,310**	**2,440**	**6,263**	**114,188**	**158,201**
Accumulated depreciation					
At 3 April 2010	7,473	760	3,472	67,417	79,122
Charge for the year	792	165	639	9,927	11,523
Disposals	–	(1)	(10)	(2,582)	(2,593)
Retirements	–	–	(215)	(2,773)	(2,988)
Reclassification of category (note 12)	–	–	7	33	40
Exchange adjustments	(116)	(12)	(41)	(779)	(948)
At 2 April 2011	**8,149**	**912**	**3,852**	**71,243**	**84,156**
Assets of business sold	**(142)**	**–**	**–**	**(1,309)**	**(1,451)**
Charge for the year	**758**	**177**	**656**	**10,587**	**12,178**
Disposals	**–**	**(26)**	**(117)**	**(3,064)**	**(3,207)**
Retirements	**–**	**–**	**(253)**	**(4,484)**	**(4,737)**
Reclassification of category (note 12)	**–**	**90**	**4**	**(94)**	**–**
Exchange adjustments	**(113)**	**(6)**	**(4)**	**(733)**	**(856)**
At 31 March 2012	**8,652**	**1,147**	**4,138**	**72,146**	**86,083**
Carrying amounts					
At 31 March 2012	**26,658**	**1,293**	**2,125**	**42,042**	**72,118**
At 2 April 2011	27,691	1,381	2,082	38,737	69,891

14 Associates

	2012 £000	2011 £000
Interests in associates		
At beginning of the year	**1,989**	–
Acquisition cost of investments	**–**	2,046
Exchange adjustments	**16**	2
Group's share of loss of associates	**(37)**	(59)
At end of the year	**1,968**	1,989

	2012 £000	2011 £000
Aggregated amounts relating to associates		
Total assets	**4,869**	5,442
Total liabilities	**(5,071)**	(5,094)
Net (liabilities)/assets	**(202)**	348
Group's share of net assets of associates	**4**	72
Total revenue	**1,597**	100
Loss	**(340)**	(406)
Group's share of loss of associates	**(37)**	(59)

Although the Group holds only 15% of the voting rights, Optomed Oy is treated as an associate because the Group is one of three investors of which two must approve certain major decisions made by the business. The Group also holds 50% of the equity of PSRM Immobilien AG (PSRM), which it acquired as part of the Medicel AG business acquisition. PSRM is treated as an associate, and not a subsidiary, because the party holding the remaining 50% is considered to exert more control.

Both associates have a 31 December year end, although results coterminous with the Group's year end have been consolidated.

Details of the Group's associates held at 31 March 2012 are as follows:

Name of associate	Country of incorporation	Proportion of ownership interest	Principal activity
Optomed Oy	Finland	15%	Design, manufacture and selling
PSRM Immobilien AG	Switzerland	50%	Property management

15 Inventories

	2012 £000	2011 £000
Raw materials and consumables	**33,313**	30,832
Work in progress	**6,306**	7,050
Finished goods and goods for resale	**17,749**	16,658
	57,368	54,540

The above is stated net of provision for slow-moving and obsolete stock, movements of which are shown below:

	2012 £000	2011 £000
At beginning of the year	**8,846**	8,602
Amounts reversed against inventories previously impaired	**(1,358)**	(917)
Write downs of inventories recognised as an expense and utilisation	**930**	1,117
Business sold	**(44)**	–
Exchange adjustments	**(51)**	44
At end of the year	**8,323**	8,846

There is no material difference between the balance sheet value of inventories and their cost of replacement. None of the inventory has been pledged as security.

16 Trade and other receivables

	2012 £000	2011 £000
Trade receivables	**101,980**	100,184
Allowance for doubtful debts	**(2,163)**	(2,150)
	99,817	98,034
Other receivables	**5,703**	3,987
Prepayments and accrued income	**9,154**	8,435
	114,674	110,456

The movement in the allowance for doubtful debts in respect of trade receivables during the year was as follows:

	2012 £000	2011 £000
At beginning of the year	**2,150**	1,566
Net impairment loss recognised	**708**	1,163
Amounts recovered against trade receivables previously written down	**(656)**	(574)
Business sold	**(5)**	–
Exchange adjustments	**(34)**	(5)
At end of the year	**2,163**	2,150

An impairment has been recorded against the trade receivables which the Group believes may not be recoverable. In the case of trade receivables that are past due, management makes an assessment of the risk of non-collection, taking into account factors such as previous default experience, any disputes or other factors delaying payment and the risk of bankruptcy or other failure of the customer to meet their obligations. For trade receivables that are not past due, taking into account good historical collection experience, management records an impairment charge only where there is a specific risk of non-collection.

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 and accrued income 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	
	2012 £000	2011 £000	2012 £000	2011 £000
Not yet due	**79,167**	74,906	**78,950**	74,628
Up to one month overdue	**14,996**	17,194	**14,986**	17,151
Up to two months overdue	**2,760**	4,030	**2,733**	3,897
Up to three months overdue	**1,521**	1,554	**1,457**	1,462
Over three months overdue	**3,536**	2,500	**1,691**	896
	101,980	100,184	**99,817**	98,034

17 Borrowings

	2012 £000	2011 £000
Unsecured bank loans (all falling due after more than one year)	**64,014**	79,688

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

18 Trade and other payables: falling due within one year

	2012 £000	2011 £000
Trade payables	**44,847**	45,118
Other taxation and social security	**5,349**	4,604
Provision for contingent purchase consideration	**18,480**	5,882
Other payables	**1,825**	2,673
Accruals and deferred income	**22,998**	27,234
	93,499	85,511

The £5,882,000 provision for contingent consideration from 2011 was mainly paid in the current period (Accudynamics, LLC.: £4,375,000 and SphereOptics LLC: £1,249,000). The current year provision mainly comprises a transfer from provisions due after one year (Medicel AG: £10,410,000 and SphereOptics LLC: £937,000) and the contingent consideration arising on a current year acquisition, Avo Photonics, Inc. (£6,875,000).

19 Provisions

Provisions are presented as:

	2012 £000	2011 £000
Current	**2,618**	2,887
Non-current	**2,301**	1,593
	4,919	4,480

	Dilapidations and empty property £000	Product warranty £000	Legal, contractual and other £000	Total £000
At beginning of the year	**1,774**	**2,106**	**600**	**4,480**
Additional provision in the year	**207**	**1,183**	**54**	**1,444**
Acquired on acquisition	**90**	**155**	**–**	**245**
Business sold	**–**	**(43)**	**–**	**(43)**
Utilised during the year	**(93)**	**(25)**	**(8)**	**(126)**
Released during the year	**(280)**	**(501)**	**(294)**	**(1,075)**
Exchange adjustments	**–**	**(3)**	**(3)**	**(6)**
At end of the year	**1,698**	**2,872**	**349**	**4,919**

Dilapidations and empty property provisions

Dilapidations and empty property provisions exist where the Group has lease contracts under which the unavoidable costs of meeting its obligations under the contracts exceed the economic benefits expected to be received under them. The provisions comprise the Directors' best estimates of future payments:

a) to restore the fabric of buildings to their original condition where it is a condition of the leases prior to return of the properties; and

b) on vacant properties, the rental costs of which are not expected to be recoverable from subleasing the properties.

These commitments cover the period from 2012 to 2028, 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. 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.

Legal, contractual and other

Legal, contractual and other 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, assesses that it is more likely than not that such proceedings may be successful.

20 Trade and other payables: falling due after one year

	2012 £000	2011 £000
Provision for contingent purchase consideration	**10,630**	21,155
Other payables	**2,758**	1,693
	13,388	22,848

The provision for contingent consideration mainly comprises £10,384,000 (2011: £19,823,000), payable in June 2013, £220,000 (2011: £371,000) and £nil (2011: £931,000) due on the Medicel AG, Guromed USA, LLC and SphereOptics LLC acquisitions respectively. The 2011 non-current provisions (£11,347,000) transferred to current provision (note 18) in the current year comprised Medicel AG (£10,410,000) and SphereOptics LLC (£937,000).

The increase in the contingent consideration on Medicel AG to £20,794,000 (2011: £19,823,000) mainly arises from updated exchange rates and unwinding of discount interest.

21 Deferred tax

	Retirement benefit obligations £000	Acquired intangible assets £000	Accelerated tax depreciation £000	Short–term timing differences £000	Share–based payment £000	Goodwill timing differences £000	Total £000
At 2 April 2011	**9,422**	**(14,430)**	**(7,883)**	**1,991**	**1,707**	**(4,297)**	**(13,490)**
(Charge)/credit to Consolidated Income Statement	**(1,628)**	**2,766**	**520**	**(725)**	**35**	**(819)**	**149**
(Charge)/credit to Consolidated Statement of Comprehensive Income	**126**	**–**	**–**	**(137)**	**–**	**–**	**(11)**
Charge to equity	**–**	**–**	**–**	**–**	**(206)**	**–**	**(206)**
Acquired (note 24)	**–**	**(3,922)**	**14**	**221**	**–**	**1,925**	**(1,762)**
Business sold	**–**	**–**	**(34)**	**(3)**	**–**	**–**	**(37)**
Exchange adjustments	**–**	**(36)**	**(2)**	**129**	**–**	**47**	**138**
At 31 March 2012	**7,920**	**(15,622)**	**(7,385)**	**1,476**	**1,536**	**(3,144)**	**(15,219)**

	Retirement benefit obligations £000	Acquired intangible assets £000	Accelerated tax depreciation £000	Short–term timing differences £000	Share–based payment £000	Goodwill timing differences £000	Total £000
At 3 April 2010	12,060	(6,493)	(8,579)	2,972	1,801	(4,342)	(2,581)
(Charge)/credit to Consolidated Income Statement	(1,674)	1,445	907	(1,102)	(314)	(10)	(748)
(Charge)/credit to Consolidated Statement of Comprehensive Income	(964)	–	–	77	–	–	(887)
Credit to equity	–	–	–	–	220	–	220
Acquired	–	(9,472)	(211)	(52)	–	55	(9,680)
Exchange adjustments	–	90	–	96	–	–	186
At 2 April 2011	9,422	(14,430)	(7,883)	1,991	1,707	(4,297)	(13,490)

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:

	2012 £000	2011 £000
Deferred tax liability	**(26,258)**	(24,269)
Deferred tax asset	**11,039**	10,779
Net deferred tax liability	**(15,219)**	(13,490)

21 Deferred tax continued

Movement in deferred tax liability:

	2012 £000	2011 £000
At beginning of year	**(13,490)**	(2,581)
Credit/(charge) to Consolidated Income Statement:		
UK	**760**	(849)
Overseas	**(611)**	101
Charge to Consolidated statement of comprehensive income	**(11)**	(887)
(Charge)/credit to equity	**(206)**	220
Acquired (note 24)	**(1,762)**	(9,680)
Business sold	**(37)**	–
Exchange adjustments	**138**	186
At end of year	**(15,219)**	(13,490)

The UK government's budget statements in March 2011 and March 2012 announced a phased reduction in the main UK corporation tax rate from 28% to 22%, with the first 2% reduction taking effect from 1 April 2011 being substantively enacted on 29 March 2011. The second 2% reduction taking effect from 1 April 2012, bringing the overall main UK corporation tax rate to 24%, was substantively enacted on 26 March 2012.This rate reduction has no material impact on the financial statements as at 31 March 2012. No account will be taken of the expected further 2% reduction in UK tax rates until substantive enactment of these changes. Until this change and other potential changes are enacted it is not possible to identify the impact these changes might have. However, for indicative purposes only, had the UK main corporate tax rate been reduced to 22% the net impact on recognised deferred tax assets and liabilities at 31 March 2012 would not have been material.

No deferred tax liability is recognised on temporary differences of £13,561,000 (2011: £16,079,000) relating to the unremitted earnings of overseas subsidiaries as the Group is able to control the timings of the reversal of these temporary differences and it is probable that they will not reverse in the forseeable future. Temporary timing differences in connection with interests in associates are insignificant.

At 31 March 2012 the Group had unused capital tax losses of £574,000 (2011: £808,000) for which no deferred tax asset has been recognised.

22 Share capital

	Issued and fully paid	
	2012 £000	2011 £000
Ordinary shares of 10p each	**37,856**	37,824

The number of ordinary shares in issue at 31 March 2012 was 378,555,028 (2011: 378,235,685), including treasury shares of 1,404,269 (2011: 1,847,368).

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

	Issued and fully paid £000
At 2 April 2011	**37,824**
Share options exercised	**32**
At 31 March 2012	**37,856**

The total consideration received in cash in respect of share options exercised amounted to £465,000.

At 31 March 2012 options in respect of 2,160,900 (2011: 2,975,991) ordinary shares remained outstanding. Further details of these are given in note 23 to the accounts.

At the date of these accounts, the number of ordinary shares in issue was 378,555,028 including treasury shares of 1,396,240.

23 Share-based payments

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

	2012			2011		
	Equity-settled £000	**Cash-settled £000**	**Total £000**	Equity-settled £000	Cash-settled £000	Total £000
Share incentive plan	**572**	**–**	**572**	415	–	415
Share option plans	**(26)**	**–**	**(26)**	(9)	–	(9)
Performance share plan	**2,373**	**436**	**2,809**	2,169	208	2,377
	2,919	**436**	**3,355**	2,575	208	2,783

The Group has recorded liabilities of £432,000 (2011: £364,000) in respect of the cash settled portion of the awards granted under the performance share plan.

Share incentive plan

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

Share option plans

The Group has outstanding issued options to acquire ordinary shares in the Company under a share option plan, approved by shareholders in 1999. This share option plan provided for the grant of two categories of option, both of which are subject to performance criteria.

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

All options lapse if not exercised within 10 years from the date of grant.

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

Options in respect of 2,160,900 ordinary shares remained outstanding at 31 March 2012 under the 1999 Plan. Subject to the performance restrictions on the exercise of options granted under this Plan, options are exercisable for the periods and at the prices set out below:

Number of shares	Option price	Five years from	Seven years from
56,214	144.33p		2005
165,615	134.00p		2006
329,378	142.25p		2007
44,528	145.67p		2008
468,939	144.33p	2007	
514,551	134.00p	2008	
581,675	142.25p	2009	

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

	2012		2011	
	Number of share options	**Weighted average option price**	Number of share options	Weighted average option price
Outstanding at beginning of year	**2,975,991**	**143.54p**	4,133,788	139.90p
Exercised during the year	**(319,343)**	**144.95p**	(581,648)	145.08p
Lapsed during the year	**(495,748)**	**157.08p**	(576,149)	115.88p
Outstanding at end of year	**2,160,900**	**140.23p**	2,975,991	143.54p
Exercisable at end of year	**595,735**	**140.41p**	915,078	141.99p

The weighted average share price at the date of exercise for share options exercised during the year was 393.31p (2011: 303.17p).

The options outstanding at 31 March 2012 had exercise prices from 134.0p to 145.67p (2011: 134.0p to 163.5p) and a weighted average remaining contractual life of 1.5 years (2011: 2.2 years).

23 Share-based payments continued

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

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

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

Performance share plan

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

Awards made under this Plan vest after three years on a sliding scale subject to the Group's relative Total Shareholder Return against the FTSE250 excluding financial companies, combined with an absolute Return on Total Invested Capital measure. Awards which do not vest on the third anniversary of their award lapse.

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

	2012 Number of shares awarded	2011 Number of shares awarded
Outstanding at beginning of year	**4,385,681**	4,263,672
Granted during the year	**1,415,044**	1,338,629
Vested during the year (pro-rated for 'good leavers')	**(1,513,266)**	(1,076,240)
Lapsed during the year	**(154,117)**	(140,380)
Outstanding at end of year	**4,133,342**	4,385,681
Exercisable at end of year	**–**	–

The weighted average share price at the date of awards vesting during the year was 369.4p (2011: 271.4p).

The performance shares outstanding at 31 March 2012 had a weighted average remaining contractual life of 1.3 years (2011: 1.4 years).

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

	2012	2011	2010
Expected volatility (%)	**27%**	27%	27.5%
Expected life (years)	**3**	3	3
Share price on date of grant (p)	**362.34**	281.08	196.90
Option price (p)	**nil**	nil	nil
Fair value per option (%)	**68.6%**	66.9%	61.8%
Fair value per option (p)	**248.57**	188.04	121.68

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

24 Acquisitions

The Group made two acquisitions during the period. Below are summaries of the assets and liabilities acquired and the purchase consideration of:

a) the total of both acquisitions and adjustments to prior year acquisitions;

b) the two acquisitions, namely Kirk Key Interlock Company, LLC. and Avo Photonics, Inc.

(A) Total of both acquisitions and adjustments to prior year acquisitions

	Book value £000	Provisional fair value adjustments £000	Total £000
Non-current assets			
Intangible assets	9	9,979	9,988
Property, plant and equipment	518	405	923
Current assets			
Inventories	739	17	756
Trade and other receivables	1,565	(41)	1,524
Cash and cash equivalents	49	–	49
Deferred tax	–	1,917	1,917
Total assets	2,880	12,277	15,157
Current liabilities			
Trade and other payables	(763)	(220)	(983)
Bank loans	(1,144)	–	(1,144)
Provisions	–	(245)	(245)
Corporation tax	(41)	(4)	(45)
Non-current liabilities			
Deferred tax	–	(3,679)	(3,679)
Total liabilities	(1,948)	(4,148)	(6,096)
Net assets of businesses acquired	932	8,129	9,061
Cash consideration			13,305
Contingent purchase consideration (current year acquisitions)			6,464
Total consideration			19,769
Goodwill arising on current year acquisitions			10,781
Goodwill arising on prior year acquisitions			(73)
			10,708

Due to their contractual dates, the fair value of receivables acquired (shown above) approximates 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).

£2,033,000 of the goodwill arising on acquisitions in the year is expected to be deductible for tax purposes.

Together, both acquisitions contributed £10,198,000 of revenue and £1,992,000 of profit after tax for the year ended 31 March 2012. If these acquisitions had been held since the start of the financial year, it is estimated the Group's reported revenue and profit after tax would have been £1,803,000 and £229,000 higher respectively.

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

Adjustments to prior year acquisitions resulted in decreases to net assets and consideration payable of £5,000 and £78,000 respectively leading to a reduction in goodwill of £73,000.

24 Acquisitions continued

Analysis of cash outflow in the Consolidated Cash Flow Statement

	2012 £000	2011 £000
Cash consideration in respect of acquisitions	13,305	82,063
Cash acquired on acquisitions	(49)	(2,672)
Contingent consideration paid in relation to prior year acquisitions*	5,411	2,702
Net cash outflow relating to acquisitions (per cash flow statement)	18,667	82,093
Bank loans acquired	1,144	–
Net cash outflow, including repayment of acquired bank loans	19,811	82,093

* Of the £5,411,000 (2011: £2,702,000) contingent purchase consideration payment £5,411,000 (2011: £1,122,000) had been provided in the prior year's financial statements.

(Bi) Kirk Key Interlock Company, LLC.

	Book value £000	Provisional fair value adjustments £000	Total £000
Non-current assets			
Intangible assets	9	5,555	5,564
Property, plant and equipment	290	410	700
Current assets			
Inventories	598	(77)	521
Trade and other receivables	738	1	739
Cash and cash equivalents	47	–	47
Deferred tax	–	1,918	1,918
Total assets	1,682	7,807	9,489
Current liabilities			
Trade and other payables	(443)	(103)	(546)
Bank loans	(1,144)	–	(1,144)
Provisions	–	(42)	(42)
Non-current liabilities			
Deferred tax	–	(2,111)	(2,111)
Total liabilities	(1,587)	(2,256)	(3,843)
Net assets of businesses acquired	95	5,551	5,646
Cash consideration			7,679
Contingent purchase consideration			–
Total consideration			7,679
Goodwill arising on acquisition			2,033

On 9 May 2011, the Group acquired 100% of the issued share capital of Kirk Key Interlock Company, LLC. (Kirk Key). Kirk Key is based in Ohio, USA and manufactures interlocking systems to protect personnel and equipment in industrial applications. Kirk Key forms part of the Industrial Safety sector and was acquired to give Halma greater market strength in the USA. 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 £4,571,000 and brand intangibles of £984,000 with residual goodwill arising of £2,033,000. The goodwill represents the value of the acquired workforce, cross-selling opportunities and the ability to exploit the Group's existing distribution arrangements, particularly in the Americas.

The initial consideration was US$12,583,000 (US$14,458,000 including repayment of US$1,875,000 bank loans). There are no contingent consideration payment arrangements.

The Kirk Key acquisition contributed £5,873,000 of revenue and £1,170,000 of profit after tax for the year ended 31 March 2012.

24 Acquisitions continued

(Bii) Avo Photonics, Inc.

	Book value £000	Provisional fair value adjustments £000	Total £000
Non-current assets			
Intangible assets	–	4,424	4,424
Property, plant and equipment	228	(5)	223
Current assets			
Inventories	140	50	190
Trade and other receivables	826	(68)	758
Cash and cash equivalents	2	–	2
Total assets	1,196	4,401	5,597
Current liabilities			
Trade and other payables	(320)	(22)	(342)
Provisions	–	(203)	(203)
Corporation tax	(41)	(23)	(64)
Non-current liabilities			
Deferred tax	–	(1,568)	(1,568)
Total liabilities	(361)	(1,816)	(2,177)
Net assets of businesses acquired	835	2,585	3,420
Cash consideration			5,704
Contingent purchase consideration			6,464
Total consideration			12,168
Goodwill arising on acquisition			8,748

On 8 July 2011, the Group acquired 100% of the issued share capital of Avo Photonics, Inc. (Avo). Avo, based in Pennsylvania, USA, designs and manufactures advanced, miniaturised photonic components and subsystems for OEM customers serving a wide range of end-markets. Avo forms part of the Health and Analysis sector and was acquired to give Halma's Photonics businesses access to additional technologies and manufacturing processes. 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 £4,424,000 with residual goodwill arising of £8,748,000. The goodwill represents the engineering expertise of the acquired workforce, the opportunity to leverage this expertise across all Halma's Photonics businesses and the ability to exploit the Group's existing customer base.

The initial consideration was US$9,126,000 followed by contingent consideration payable on or around June 2012 of between US$nil and US$11,000,000 dependent on the profits of the acquired business for the year up to March 2012. The Directors revised the initial estimate of US$10,341,000 of contingent consideration to US$11,000,000 at year end, and the increase of US$659,000 was recognised in the Consolidated Income Statement.

The Avo acquisition contributed £4,325,000 of revenue and £822,000 of profit after tax for the year ended 31 March 2012.

24 Acquisitions continued

Since the balance sheet, the Group has made three further acquisitions.

(C) Accutome, Inc., Sensorex Inc. and SunTech Medical Group Limited

Due to the proximity of the acquisition dates to the date of approval of the Annual Report, it is only practicable to provide provisional summaries of the assets and liabilities acquired and the purchase consideration for two of the acquisitions, namely Accutome, Inc. and Sensorex Inc.

(Ci) Accutome, Inc.

	Book value £000	Provisional fair value adjustments £000	Total £000
Non-current assets			
Intangible assets	20	6,924	6,944
Property, plant and equipment	683	(42)	641
Current assets			
Inventories	2,768	40	2,808
Trade and other receivables	1,800	(527)	1,273
Total assets	5,271	6,395	11,666
Current liabilities			
Trade and other payables	(1,475)	(433)	(1,908)
Bank loans and overdrafts	(1,553)	–	(1,553)
Provisions	–	(25)	(25)
Non-current liabilities			
Deferred tax	–	(2,256)	(2,256)
Total liabilities	(3,028)	(2,714)	(5,742)
Net assets of businesses acquired	2,243	3,681	5,924
Cash consideration			11,044
Contingent purchase consideration			3,120
Total consideration			14,164
Goodwill arising on acquisition			8,240

On 2 April 2012, the Group acquired 100% of the issued share capital of Accutome, Inc. (Accutome). Accutome, based in Pennsylvania, USA, with a wholly owned subsidiary located in the Netherlands, designs, manufactures and sells surgical and diagnostic instruments and a variety of pharmaceuticals for the ophthalmic marketplace. Accutome is best known for its leading ultrasound diagnostic equipment (used prior to cataract surgery and to diagnose certain eye conditions), and for its surgical instrumentation, featuring its leading diamond bladed surgical knives. Accutome forms part of the Health and Analysis sector and was acquired to further expand Halma's footprint in ophthalmic diagnostic and surgical instrumentation. The excess of the fair value of the consideration paid over the fair value of the assets acquired is represented by supplier arrangement, customer-related, and trademark intangibles of £6,924,000 with residual goodwill arising of £8,240,000. The goodwill represents:

a) the value of the acquired workforce;

b) the ability to exploit Accutome's distribution arrangements;

c) potential synergies with other Halma companies within the ophthalmic market; and

d) the ability to exploit the Group's existing distribution arrangements, particularly outside North America.

The initial cash consideration of US$17,697,000 (US$20,000,000 including repayment of US$2,303,000 bank loans) is adjustable based on the level of net working capital at closing. Contingent consideration of between US$nil and US$5,000,000 is payable dependent on the profits of the acquired business for the period up to September 2013. The Directors estimate that contingent consideration of US$5,000,000 will be paid.

24 Acquisitions continued

(Cii) Sensorex Inc.

	Book value £000	Provisional fair value adjustments £000	Total £000
Non-current assets			
Intangible assets	–	12,689	12,689
Property, plant and equipment	286	–	286
Current assets			
Inventories	564	(121)	443
Trade and other receivables	1,176	(63)	1,113
Total assets	2,026	12,505	14,531
Current liabilities			
Trade and other payables	(268)	(207)	(475)
Provisions	–	(19)	(19)
Non-current liabilities			
Deferred tax	–	–	–
Total liabilities	(268)	(226)	(494)
Net assets of businesses acquired	1,758	12,279	14,037
Cash consideration (including £318,000 closing net asset adjustment)			23,716
Contingent purchase consideration			–
Total consideration			23,716
Goodwill arising on acquisition			9,679

On 2 April 2012, the Group acquired the trade and assets of Sensorex Inc. (Sensorex). Sensorex, based in California, USA, manufactures electrochemical sensors for water analysis applications. Sensorex forms part of the Health and Analysis sector and was acquired for its range of sensors and associated accessories, which are incorporated by OEMs manufacturing single and multi-parameter probes and instruments for monitoring water quality, a market that is forecast to see continued growth. The excess of the fair value of the consideration paid over the fair value of the assets acquired is represented by customer related and technological know-how intangibles of £12,689,000 with residual goodwill arising of £9,679,000. The goodwill represents:

a) the value of the acquired workforce;

b) potential synergies with other Halma companies within the Water market, especially the hubs in China and India; and

c) the ability to exploit the Group's existing distribution arrangements, particularly outside US North America.

The initial cash consideration of US$37,500,000 is adjustable based on the final level of agreed net tangible assets at closing. There are no contingent consideration payment arrangements.

(Ciii) SunTech Medical Group Limited

On 31 May 2012 the Group acquired SunTech Medical Group Limited (SunTech). The initial cash consideration of US$46,000,000 for the share capital and US$5,000,000 for cash retained in the business is adjustable based on the final level of agreed working capital and cash at closing. Contingent consideration of up to US$6,000,000 is payable if earnings for the year to December 2012 exceed a pre-determined target. SunTech forms part of the Health and Analysis sector and is a pre-eminent supplier of clinical grade non-invasive blood pressure monitoring products and technologies. Due to the proximity of the acquisition date to the date of approval of the Annual Report, it is impracticable to provide further information.

25 Notes to the Consolidated Cash Flow Statement

	2012 £000	2011 £000
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 associates and profit on disposal of continuing operations	**109,910**	99,449
Depreciation of property, plant and equipment	**12,178**	11,523
Amortisation of computer software	**1,319**	1,217
Amortisation of capitalised development costs and other intangibles	**3,820**	4,230
Retirement/disposals of capitalised development costs and other intangibles	**–**	83
Amortisation of acquired intangible assets	**10,352**	4,760
Share-based payment expense in excess of amounts paid	**2,432**	2,015
Additional payments to pension plans	**(6,419)**	(6,399)
Profit on sale of property, plant and equipment and computer software	**(495)**	(55)
Operating cash flows before movement in working capital	**133,097**	116,823
Increase in inventories	**(3,777)**	(5,369)
Increase in receivables	**(1,190)**	(7,944)
(Decrease)/increase in payables and provisions	**(2,671)**	9,670
Cash generated from operations	**125,459**	113,180
Taxation paid	**(27,772)**	(18,116)
Net cash inflow from operating activities	**97,687**	95,064

	2012 £000	2011 £000
Reconciliation of net cash flow to movement in net debt		
Increase in cash and cash equivalents	**3,038**	11,872
Cash outflow/(inflow) from repayment/(drawdowns) of borrowings	**17,594**	(58,004)
Net debt acquired	**(1,144)**	–
Exchange adjustments	**(1,119)**	(28)
	18,369	(46,160)
Net (debt)/cash brought forward	**(37,078)**	9,082
Net debt carried forward	**(18,709)**	(37,078)

	2012 £000	2011 £000
Analysis of cash and cash equivalents		
Cash and bank balances	**45,305**	42,610

	At 2 April 2011 £000	Cash flow £000	Net debt acquired £000	Exchange adjustments £000	At 31 March 2012 £000
Analysis of net debt					
Cash and cash equivalents	42,610	**3,038**	**–**	**(343)**	**45,305**
Bank loans	(79,688)	**17,594**	**(1,144)**	**(776)**	**(64,014)**
Analysis of net debt	(37,078)	**20,632**	**(1,144)**	**(1,119)**	**(18,709)**

The net cash outflow from bank loans in 2012 comprised drawdowns of £76,456,000 offset by repayments of £94,050,000 (2011: net cash inflow comprising drawdowns of £76,156,000 offset by repayments of £18,152,000).

Included within cash and cash equivalents is an amount of £nil (2011: £1,983,000) which is restricted.

26 Financial instruments

Policy

The Group's treasury policies seek to minimise financial risks and to ensure sufficient liquidity for the Group's operations and strategic plans. No complex derivative financial instruments are used, and no trading or speculative transactions in financial instruments are undertaken. Where the Group does use financial instruments these are mainly to manage the currency risks arising from normal operations and its financing. Operations are financed mainly through retained profits and, in certain geographical locations, bank borrowings. Foreign currency risk is the most significant aspect for the Group in the area of financial instruments. It is exposed to a lesser extent to other risks such as interest rate risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks and these policies are summarised below. 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 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 17 to the Accounts, 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 a significant investment in overseas operations in the USA and EU, with further investments in Australia, New Zealand, Singapore, Switzerland, China and India. As a result, the Group's balance sheet can be affected by movements in these countries' exchange rates. Where significant and appropriate, currency denominated net assets are hedged by currency borrowings. These currency exposures are reviewed regularly.

Interest rate risk

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

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

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. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. 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 geographical 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, derivative financial instruments and cash of £160,736,000 (2011: £153,630,000) 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.

26 Financial instruments continued

Liquidity risk

On 20 October 2011, the Group signed a new unsecured five-year revolving credit facility for £260m. This replaced the previous £165m facility which was due to expire in February 2013. This facility is the main source of long-term funding for the Group to October 2016, and is with a syndicate of five bankers.

The Group has a strong cash flow and the funds generated by operating companies are managed regionally based on geographic location.

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

Currency exposures

Translational exposures

It is estimated, by reference to the Group's US Dollar and Euro denominated profits, that a one per cent change in the value of the US Dollar relative to Sterling would have had a £353,000 (2011: £337,000) impact on the Group's reported profit before tax; and a one per cent change in the value of the Euro relative to the Sterling would have had a £227,000 (2011: £204,000) impact on the Group's profit before tax for the year ended 31 March 2012.

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 result of movement in exchange rates. The exposures are predominantly Euro and US Dollar. 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 £4,006,000 at 31 March 2012 (2011: £3,190,000). These comprised Sterling denominated deposits of £4,002,000 (2011: £2,700,000), and Euro, USDollar and other currency deposits of £4,000 (2011: £490,000) which are placed on local money markets and earn interest at market rates. Cash balances of £41,299,000 (2011: £39,420,000) earn interest at local market rates.

The financial liabilities which are subject to interest rate fluctuations comprise bank loans, bank overdrafts and certain unsecured loans, which totalled £64,014,000 at 31 March 2012 (2011: £79,688,000). All bank loans bear interest at floating rates or fixed rates where the fixed period is typically no more than three 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 base rates.

	2012 £000	2011 £000
Analysis of interest bearing financial liabilities		
Sterling denominated bank loans	**47,000**	53,000
Euro denominated bank loans	**–**	3,198
Swiss Franc denominated bank loans	**17,014**	23,490
Total bank loans	**64,014**	79,688

At 31 March 2012 it is estimated that a general increase of one percentage point in interest rates would reduce the Group's profit before tax by £892,000 (2011: £478,000).

Maturity of financial liabilities

With the exception of the contingent purchase consideration, other payables, provisions and borrowings due after one year, all of the Group's financial liabilities mature in one year or less or on demand. The total of the contractual contingent purchase consideration due after one year includes £10,452,000 (2011: £8,164,000) due between one and two years, and the balance of £178,000 (2011: £13,290,000) due between two and five years. Other creditors due after more than one year include £1,017,000 (2011: £725,000) due between one and two years, £1,088,000 (2011:£284,000) due between two and five years, with the balance of £653,000 (2010: £684,000) due after more than five years.

26 Financial instruments continued

Borrowing facilities

The Group's principal source of long-term funding is its unsecured five-year £260m revolving credit facility, which expires in October 2016.

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.

The Group's undrawn committed facilities available at 31 March 2012 were £205,361,000 (2011: £100,312,000) of which £9,375,000 (2011: £15,000,000) mature within one year and £195,986,000 (2011: £85,312,000) between two and five years.

UK companies have cross-guaranteed £17,370,000 (2011: £17,670,000) of overdraft facilities of which £nil (2011: £nil) was drawn.

Fair values of financial assets and financial liabilities

As at 31 March 2012 and 2 April 2011 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.

Fair value and carrying amount of financial instruments	2012 Carrying amount £000	2012 Fair value £000	2011 Carrying amount £000	2011 Fair value £000
Trade and other receivables	**105,520**	**105,520**	102,021	102,021
Trade, other payables and provisions (falling due within one year)	**(90,768)**	**(90,768)**	(83,794)	(83,794)
Trade, other payables and provisions (falling due after one year)	**(15,689)**	**(15,689)**	(24,441)	(24,441)
Cash and cash equivalents	**45,305**	**45,305**	42,610	42,610
Fixed rate borrowings	**(64,014)**	**(64,014)**	(79,688)	(79,688)
Derivative financial instruments (in a designated cash flow hedge)	**306**	**306**	(475)	(475)
Derivative financial instruments (not in a designated cash flow hedge)	**37**	**37**	(56)	(56)
	(19,303)	**(19,303)**	(43,823)	(43,823)

The fair value of the floating and fixed rate borrowings approximate to the carrying value because interest rates are reset to market rates at intervals of less than one year.

The fair value of the 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.

26 Financial instruments continued

Hedging

As explained previously, 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 forward 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	
	2012	2011	2012 000	2011 000	2012 £000	2011 £000	2012 £000	2011 £000
Forward contracts not in a designated cash flow hedge								
US Dollars	**1.58**	1.61	**2,123**	(5,106)	**1,347**	(3,176)	**20**	17
Euros	**1.19**	1.17	**3,049**	2,331	**2,552**	1,995	**11**	(68)
Other currencies	**–**	–	**–**	–	**524**	732	**6**	(5)
					4,423	(449)	**37**	(56)
Forward contracts in a designated cash flow hedge								
US Dollars	**1.57**	1.55	**6,878**	5,290	**4,391**	3,418	**87**	113
Euros	**1.16**	1.19	**10,949**	14,462	**9,476**	12,186	**335**	(570)
Czech Koruna	**28.74**	29.04	**(90,000)**	(48,300)	**(3,132)**	(1,663)	**(114)**	78
Other currencies	**–**	–	**–**	–	**(524)**	(1,424)	**(2)**	(96)
					10,211	12,517	**306**	(475)
Total forward contracts								
US Dollars	**1.57**	0.76	**9,001**	184	**5,738**	242	**107**	130
Euros	**1.16**	1.18	**13,998**	16,793	**12,028**	14,181	**346**	(638)
Czech Koruna	**28.74**	29.04	**(90,000)**	(48,300)	**(3,132)**	(1,663)	**(114)**	78
Other currencies	**–**	–	**–**	–	**–**	(692)	**4**	(101)
					14,634	12,068	**343**	(531)
Amounts recognised in the Consolidated Income Statement							**156**	(173)
Amounts recognised in the Consolidated Statement of Comprehensive Income and Expenditure							**187**	(358)
							343	(531)

The fair values of the forward contracts are disclosed as a £469,000 (2011: £327,000) asset and £126,000 (2011: £858,000) liability in the Consolidated Balance Sheet.

Any movements in the fair values of the contracts are recognised in equity until the hedge transaction occurs, when gains/losses are recycled to finance income or finance expense.

	2012 £000	2011 £000
Analysis of movement in hedging reserves		
Amounts removed from statement of changes in equity and included in Consolidated Income Statement during the year	**358**	47
Amounts recognised in the Consolidated Statement of Comprehensive Income and Expenditure	**187**	(358)
Net movement in hedging reserves in the year in relation to the effective portion of changes in fair value of cash flow hedges	**545**	(311)
At beginning of year	**(358)**	(47)
At end of year	**187**	(358)

There was no ineffectiveness arising with regards to forward contracts in a designated cash flow hedge.

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

26 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 and Swiss Franc as their functional currencies.

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 currency) and the currency of Mainland Europe (Euro currency).

The carrying amount of the Group's Euro and US Dollar denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Assets		Liabilities	
	2012 £000	2011 £000	**2012 £000**	2011 £000
Euro	**64,384**	66,472	**15,062**	16,308
US Dollar	**98,487**	95,572	**27,634**	23,308

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	
	2012 £000	2011 £000	**2012 £000**	2011 £000
Profit	**3,246**	3,097	**2,081**	1,871
Other equity	**6,075**	6,144	**4,503**	4,655

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 are earned in this currency.

27 Commitments

Capital commitments

Capital expenditure authorised and contracted at 31 March 2012 but not provided in these accounts amounts to £877,000 (2011: £920,000).

Commitments under operating leases

The Group has entered into commercial leases on properties and other equipment. The former expire between April 2012 and November 2028 and the latter between April 2012 and January 2016. Only certain property agreements contain an option for renewal at rental prices based on market prices at the time of exercise.

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

	Land and buildings		Other	
	2012 £000	2011 £000	**2012 £000**	2011 £000
Within one year	**6,093**	6,027	**441**	377
Within two to five years	**15,274**	14,526	**695**	648
After five years	**4,558**	4,038	**–**	–
	25,925	24,591	**1,136**	1,025

28 Retirement benefits

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

Defined contribution schemes

The amount charged to the Consolidated Income Statement in respect of defined contribution schemes was £2,877,000 (2011: £2,495,000) and represents contributions payable to these schemes by the Group at rates specified in the rules of the plans. The assets of the schemes are held separately from those of the Group in funds under the control of trustees. Where there are employees who leave the schemes prior to vesting fully in the contributions, the ancillary contributions payable by the Group are reduced by the amount of forfeited contributions.

Defined benefit schemes

The Group operates defined benefit schemes for qualifying employees of its UK subsidiaries. Under the schemes, 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 schemes are funded schemes.

The most recent actuarial valuation of the Halma Group Pension Plan assets and the present value of the defined benefit obligation was carried out at 1 December 2008 by Mr Adrian Gibbons, Fellow of the Institute of Actuaries. The present value of the defined benefit obligation, the related current service cost and past service cost were measured using the projected unit credit method. The 2011 actuarial valuation has not yet been finalised and is awaiting Principal Employer's agreement. Mr Gibbons also carried out the 1 April 2009 actuarial valuation of the Apollo Pension and Life Assurance Plan on the same basis.

The projected unit credit method is an accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings. The accumulated benefit obligation (ABO) is an actuarial measure of the present value for service already rendered but differs from the projected unit credit method in that it includes no assumptions for future salary increases. At the balance sheet date the gross accumulated benefit obligation was £186m.

An alternative method of valuation is a solvency basis, often estimated using the cost of buying out benefits at the balance sheet date with a suitable insurance company. This amount represents the amount that would be required to settle the scheme liabilities at the balance sheet date rather than the Group continuing to fund the ongoing liabilities of the scheme. The Group estimates that this would amount to £315m (2011: £268m).

	2012	2011	2010
Key assumptions used:			
Discount rate	**5.00%**	5.50%	5.60%
Expected return on scheme assets	**5.68%**	6.69%	7.00%
Expected rate of salary increases	**3.20%**	4.40%	4.50%
Pension increases LPI 2.5%	**2.25%**	2.30%	2.40%
Pension increases LPI 3.0%	**2.75%**	2.75%	2.75%
Inflation – RPI	**3.20%**	3.4%	3.50%
Inflation – CPI	**2.45%**	2.9%	N/A

Mortality assumptions:

Investigations have been carried out within the past three years into the mortality experience of the Group's defined benefit schemes. These investigations concluded that the current mortality assumptions include sufficient allowance for future improvements in mortality rates. The assumed life expectations on retirement at age 65 are:

	2012 Years	2011 Years	2010 Years
Retiring today:			
Males	**22.1**	22.0	21.9
Females	**24.9**	24.8	24.7
Retiring in 20 years:			
Males	**24.0**	23.9	23.8
Females	**26.8**	26.7	26.6

28 Retirement benefits continued

The Halma Group Pension Plan baseline mortality assumption in 2012, 2011 and 2010 is derived from the SN03 tables less one year.

The Apollo Pension and Life Assurance Plan baseline mortality assumption in 2012 and 2011 is derived from the SN03 tables (2010: PA92 medium cohort tables plus one year).

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

Assumption	Change in assumption	Impact on scheme liabilities
Discount rate	Increase/decrease by 0.5%	Decrease/increase by 9.4%
Rate of inflation	Increase/decrease by 0.5%	Increase/decrease by 6.6%
Rate of salary growth	Increase/decrease by 0.5%	Increase/decrease by 2.1%
Rate of mortality	Increase by one year	Increase by 2.4%

Amounts recognised in income in respect of these defined benefit schemes are as follows:

	2012 £000	2011 £000
Current service cost	**2,098**	2,143
Curtailment gain	**(101)**	–
Interest cost	**9,684**	9,525
Expected return on scheme assets	**(9,529)**	(9,103)
	2,152	2,565

Actuarial gains and losses have been reported in the Consolidated Statement of Comprehensive Income and Expenditure.

The actual return on scheme assets was £7.7m (2011: £8.2m).

The cumulative amount of actuarial losses recognised in the Consolidated Statement of Comprehensive Income and Expenditure since the date of transition to IFRSs is £25m (2011: £22m).

The amount included in the balance sheet arising from the Group's obligations in respect of its defined benefit retirement benefit schemes is as follows:

	2012 £000	2011 £000	2010 £000
Present value of defined benefit obligations	**(185,956)**	(177,055)	(170,901)
Fair value of scheme assets	**152,959**	140,818	127,830
Deficit in scheme	**(32,997)**	(36,237)	(43,071)
Past service cost not yet recognised in balance sheet	**–**	–	–
Liability recognised in the balance sheet	**(32,997)**	(36,237)	(43,071)

Movements in the present value of defined benefit obligations were as follows:

	2012 £000	2011 £000
At beginning of year	**(177,055)**	(170,901)
Service cost	**(2,098)**	(2,143)
Curtailment gain	**101**	–
Interest cost	**(9,684)**	(9,525)
Actuarial gains and losses	**(1,220)**	1,799
Contributions from scheme members	**(994)**	(1,025)
Benefits paid	**4,877**	4,625
Premiums paid	**117**	115
At end of year	**(185,956)**	(177,055)

28 Retirement benefits continued

Movements in the fair value of scheme assets were as follows:

	2012 £000	2011 £000
At beginning of year	**140,818**	127,830
Expected return on scheme assets	**9,529**	9,103
Actuarial losses	**(1,804)**	(942)
Contributions from the sponsoring companies	**8,416**	8,542
Contributions from scheme members	**994**	1,025
Benefits paid	**(4,877)**	(4,625)
Premiums paid	**(117)**	(115)
At end of year	**152,959**	140,818

The net movement on actuarial gains and losses was as follows:

	2012 £000	2011 £000
Defined benefit obligations	**(1,220)**	1,799
Fair value of scheme assets	**(1,804)**	(942)
Net actuarial (losses)/gains	**(3,024)**	857

The analysis of the scheme assets and the expected rate of return at the balance sheet date were as follows:

	Expected return			Fair value of assets		
	2012 %	2011 %	2010 %	2012 £000	2011 £000	2010 £000
Equity instruments	**6.50**	7.50	7.80	**90,460**	86,934	83,641
Debt instruments	**4.20**	5.20	5.20	**50,320**	42,419	33,604
Property	**5.00**	6.00	6.30	**12,179**	11,465	10,585
	5.68	6.69	7.00	**152,959**	140,818	127,830

The overall expected rate of return is a weighted average.

In July 2010, the UK government announced that CPI should be used as the basis for statutory minimum pension increases. The impact of the change to CPI (from RPI) for the UK plan, where the pension rules mandate inflation according to the deemed statutory index, was a credit to the Consolidated Statement of Comprehensive Income and Expenditure of £1.0m (2011: £2.5m).

In conjunction with the trustees, the Group has recently conducted an asset-liability review for its defined benefit pension scheme. The results of this review 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 scheme. 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 scheme's investment strategy.

As a consequence, the Group will be giving more emphasis to a closer return matching of scheme assets and liabilities, both to ensure the long-term security of our defined benefit commitment and to reduce earnings and balance sheet volatility.

The five-year history of experience adjustments was as follows.

	2012 £000	2011 £000	2010 £000	2009 £000	2008 £000
Present value of defined benefit obligations	**(185,956)**	(177,055)	(170,901)	(132,379)	(145,992)
Fair value of scheme assets	**152,959**	140,818	127,830	89,811	110,035
Deficit in the scheme	**(32,997)**	(36,237)	(43,071)	(42,568)	(35,957)
Experience adjustments on scheme liabilities					
Amount	**(224)**	157	(136)	–	273
Percentage of scheme liabilities	**–**	–	–	–	–
Experience adjustments on scheme assets					
Amount	**(1,804)**	(944)	27,648	(33,696)	12,327
Percentage of scheme assets	**(1)%**	(1)%	22%	(37)%	11%

The estimated amounts of contributions expected to be paid to the schemes during the year ending 31 March 2013 is £8.8m plus £1.4m relating to the apportionment agreement on the disposal of Volumatic Limited.

The levels of contributions are based on the current service cost and the expected future cash flows of the defined benefit scheme. The Group estimates the scheme liabilities on average to fall due over 19 and 27 years, respectively, for the Halma and Apollo plans.

29 Disposal of business

On 30 March 2012, the Group disposed of Volumatic Limited for an initial cash consideration of £4.4 million. A further £1.5 million is retained in escrow and will be released to Halma on attainment of an agreed performance target. Additional contingent consideration of up to £2.4 million is payable upon the attainment of pre-determined sales levels over the two years to March 2014, giving a total maximum cash consideration of £8.3 million if all performance targets are achieved. The directors estimate that the £1.5 million held in escrow and £0.3 million of the contingent consideration will be received. The profit on disposal is estimated to be £3.5 million, being the £4.4 million initial consideration, £1.5 million held in escrow and £0.3 million contingent consideration, less £0.4 million of transaction costs and £2.3 million of net assets. Due to the nature and size of the disposed operation, it has not been separately disclosed as a discontinued operations as defined by IFRS 5.

The cash inflow in the Consolidated Cash Flow Statement of £3,554,000 comprises £4,355,000 initial consideration less £420,000 transaction costs and £381,000 cash held by the disposed business.

30 Events after the balance sheet date

On 2 April 2012, the Group acquired Accutome, Inc. (Accutome) for an initial cash consideration of US$20.0 million, adjustable based on the level of net working capital at closing. Further contingent consideration of between US$nil and US$5.0 million is payable dependent on the profits of the business for the period up to September 2013. Accutome designs, manufactures and sells surgical and diagnostic instruments and a variety of pharmaceuticals for the ophthalmic marketplace. Further information is provided in note 24.

On 2 April 2012, the Group acquired the trade and assets of Sensorex Inc. (Sensorex), for a cash consideration of US$37.5 million, adjustable based on the level of net tangible assets at closing. Sensorex manufactures electrochemical sensors for water analysis applications. Further information is provided in note 24.

On 31 May 2012, the Group acquired SunTech Medical Group Limited (SunTech). The initial cash consideration of US$46,000,000 for the share capital and US$5,000,000 for cash retained in the business is adjustable based on the final level of agreed working capital and cash at closing. Contingent consideration of up to US$6,000,000 is payable if earnings for the year to December 2012 exceed a pre-determined target. SunTech forms part of the Health and Analysis Sector and is a pre-eminent supplier of clinical grade non-invasive blood pressure monitoring products and technologies. Due to the proximity of the acquisition date to the date of approval of the Annual Report, it is impracticable to provide further information.

On 25 April 2012, the Group increased its investment in Optomed Oy from 15% to 40% for a cash consideration of Euro 3,894,000. Further information about the Group's investments in associates can be found in note 14.

31 Related party transactions

Trading transactions

	2012 £000	2011 £000
Associated companies		
Purchases from associated companies	**860**	57
Amounts due to associated companies	**98**	401
Amounts due from associated companies	**302**	–
Other related parties		
Rent charged by other related parties	**365**	109
Amounts due to other related parties	**20**	–

Other related parties comprise two companies with Halma employees on the Boards and from which two Halma subsidiaries rent property. 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 Divisional Chief Executives, 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 Directors' Remuneration Report on pages 84 to 86.

	2012 £000	2011 £000
Wages and salaries	**4,342**	4,351
Pension costs	**173**	185
Shared-based payment charge	**1,532**	959
	6,047	5,495

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HALMA PLC

We have audited the parent company financial statements of Halma plc for the 52 week period ended 31 March 2012 which comprise the parent company Balance Sheet and the related notes C1 to C12. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditor
As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the Financial Statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on Financial Statements
In our opinion the parent company financial statements:

- give a true and fair view of the state of the parent company's affairs as at 31 March 2012;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006
In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the parent company financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter
We have reported separately on the Group financial statements of Halma plc for the 52 week period ended 31 March 2012.

Alexander Butterworth ACA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Reading, UK
14 June 2012

COMPANY BALANCE SHEET

	Notes	31 March 2012 £000	2 April 2011 £000
Fixed assets			
Tangible assets	C3	**3,862**	3,925
Investments	C4	**135,971**	136,501
		139,833	140,426
Current assets			
Debtors (amounts falling due within one year)	C5	**27,243**	27,244
Debtors (amounts falling due after more than one year)	C5	**194,522**	170,417
Short-term deposits		**4,002**	2,701
Cash at bank and in hand		**2,024**	232
		227,791	200,594
Creditors: amounts falling due within one year			
Borrowings	C6	**3,686**	2,808
Creditors	C7	**20,945**	21,213
Current tax payable		**3,252**	5,588
		27,883	29,609
Net current assets		**199,908**	170,985
Total assets less current liabilities		**339,741**	311,411
Creditors: amounts falling due after more than one year			
Borrowings	C6	**64,014**	79,688
Creditors	C8	**20,467**	20,844
Net assets		**255,260**	210,879
Capital and reserves			
Share capital	C10	**37,856**	37,824
Share premium account	C11	**22,177**	21,744
Treasury shares	C11	**(4,569)**	(5,016)
Capital redemption reserve	C11	**185**	185
Other reserves	C11	**(2,202)**	94
Profit and loss account	C11	**201,813**	156,048
Shareholders' funds	C12	**255,260**	210,879

The financial statements of Halma plc, company number 40932, were approved by the Board of Directors on 14 June 2012.

A J Williams
Director

K J Thompson
Director

NOTES TO THE COMPANY ACCOUNTS

C1 Accounting Policies

Basis of preparation

The separate Company financial statements are presented as required by the Companies Act 2006 and have been prepared on the historical cost basis and comply with applicable United Kingdom Accounting Standards and law. The principal Company accounting policies have been applied consistently throughout the current and preceding years and are described below.

Related parties

The Company is exempt under the terms of FRS 8 'Related Party Disclosures' from disclosing transactions with other members of the Halma Group.

Foreign currencies

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

Share-based payments

The Company has adopted FRS 20 and the accounting policies followed are in all material respects the same as the Group's policy under IFRS 2. This policy is shown on pages 100 and 101.

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 20%

Leases

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

Pensions

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

Taxation

Taxation comprises current and deferred tax.

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

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

Bank borrowings

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

C2 Result for the year

As permitted by Section 408(3) of the Companies Act 2006, the Profit and Loss Account of Halma plc is not presented as part of these accounts. The Company has reported a profit after taxation of £81,439,000 (2011: £68,194,000).

Auditor's remuneration for audit services to the Company was £126,000 (2011: £123,000).

Total employee costs (including Directors) were:

	2012 £000	2011 £000
Wages and salaries	4,546	4,285
Social security costs	473	439
Pension costs	389	398
	5,408	5,122

	2012 Number	2011 Number
Number of employees (all in the UK)	45	41

Details of Directors' remuneration are set out on pages 80 to 86 within the Remuneration Report and form part of these financial statements.

C3 Fixed assets – tangible assets

	Freehold properties £000	Plant equipment and vehicles £000	Total £000
Cost			
At 2 April 2011	3,312	2,100	5,412
Additions at cost	–	615	615
Disposals	(269)	(419)	(688)
At 31 March 2012	3,043	2,296	5,339
Accumulated depreciation			
At 2 April 2011	412	1,075	1,487
Charge for the year	47	319	366
Disposals	(121)	(255)	(376)
At 31 March 2012	338	1,139	1,477
Carrying amounts			
At 31 March 2012	2,705	1,157	3,862
At 2 April 2011	2,900	1,025	3,925

C4 Investments

Shares in Group companies

	2012 £000	2011 £000
At cost less amounts written off at beginning of year	136,501	90,191
(Reduction)/increase	(530)	46,310
At cost less amounts written off at end of year	135,971	136,501

The reduction of £530,000 in the current year relates to the Company's disposal of Volumatic Limited. The increase in the prior year of £46,310,000 related to the Company's increased investment in one of its subsidiaries.

Details of principal subsidiary companies are set out on pages 144 to 147. Halma plc owns 100% of the ordinary share capital of all its subsidiaries, which are incorporated in Great Britain, other than those listed below, where they principally operate. All of the companies' interests below are held by subsidiary companies.

C4 Investments continued

Name of company	Country of incorporation
Fortress Interlocks Pty Limited	Australia
Beijing Ker'Kang Instrument Limited Company	China
Hydreka S.A.S.	France
SERV Trayvou Interverrouillage S.A.S.	France
Apollo Gesellschaft für Meldetechnologie mbH	Germany
Ocean Optics Germany	Germany
Rudolf Riester GmbH	Germany
Diba Japan KK	Japan
Berson Milieutechniek B.V.	The Netherlands
Netherlocks Safety Systems B.V.	The Netherlands
Bureau D'Electronique Appliquée S.A.	Belgium
TL Jones Limited	New Zealand
E-Motive Display Pte Limited	Singapore
Medicel AG	Switzerland
Fabrication de Produits de Sécurité SaRL	Tunisia
Halma Holdings Inc.	USA
Accudynamics LLC	USA
Air Products and Controls Inc.	USA
Alicat Scientific, Inc.	USA
Aquionics Inc.	USA
Avo Photonics, Inc.	USA
B.E.A. Inc.	USA
Bio-Chem Fluidics Inc.	USA
Diba Industries, Inc.	USA
Fiberguide Industries Inc.	USA
Janus Elevator Products Inc.	USA
Kirk Key Interlock Company, LLC.	USA
Labsphere, Inc.	USA
Ocean Optics, Inc.	USA
Oklahoma Safety Equipment Co. Inc.	USA
Perma Pure LLC	USA
Riester USA LLC	USA
SphereOptics Inc.	USA
Volk Optical Inc.	USA

C5 Debtors

	2012 £000	2011 £000
Amounts falling due within one year:		
Amounts due from Group companies	**20,759**	24,131
Other debtors	**1,845**	8
Prepayments and accrued income	**4,464**	2,293
Deferred tax asset (note C9)	**175**	812
	27,243	27,244
Amounts falling due after more than one year:		
Amounts due from Group companies	**194,522**	170,417

C6 Borrowings

	2012 £000	2011 £000
Falling due within one year:		
Overdrafts	**3,686**	2,808
Falling due after more than one year:		
Unsecured bank loans	**64,014**	79,688
Total borrowings	**67,700**	82,496

On 26 October 2011, the Company signed a new unsecured five-year revolving credit facility for £260 million. This replaced the previous £165 million facility which was due to expire in February 2013. Therefore, the facility under which the bank loans are drawn expires within two to five years (2011: within two to five years) and at 31 March 2012 £195,986,000 (2011: £85,312,000) remained committed and undrawn.

The bank overdrafts, which are unsecured, at 31 March 2012 and 2 April 2011 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 £17,370,000 (2011: £17,670,000) are cross-guaranteed. Of these facilities £379,000 (2011: £598,000) was drawn.

C7 Creditors: amounts falling due within one year

	2012 £000	2011 £000
Trade creditors	**1,278**	911
Amounts owing to Group companies	**15,185**	13,975
Other taxation and social security	**1,281**	1,401
Other creditors	**816**	919
Accruals and deferred income	**2,385**	4,007
	20,945	21,213

C8 Creditors: amounts falling due after more than one year

	2012 £000	2011 £000
Amounts owing to Group companies	**20,122**	20,451
Other creditors	**345**	393
	20,467	20,844
These liabilities fall due as follows:		
Within one to two years	**345**	393
Within two to five years	**–**	–
After more than five years	**20,122**	20,451

C9 Deferred tax

	2012 £000	2011 £000
Movement in deferred tax asset:		
At beginning of year	**812**	805
Charge to profit and loss account	**(195)**	(141)
(Charge)/credit to reserves	**(442)**	148
At end of year (note C5)	**175**	812

Deferred tax comprises short-term timing differences.

C10 Share capital

	Issued and fully paid	
	2012 £000	2011 £000
Ordinary shares of 10p each	**37,856**	37,824

The number of ordinary shares in issue at 31 March 2012 was 378,555,028 (2011: 378,235,685), including treasury shares of 1,404,269 (2011: 1,847,368). Changes during the year in the issued ordinary share capital were as follows:

	Issued and fully paid £000
At 2 April 2011	**37,824**
Share options exercised	**32**
At 31 March 2012	**37,856**

The total consideration received in cash in respect of share options exercised amounted to £465,000 (2011: £844,000). At the date of these accounts, the number of ordinary shares in issue was 378,555,028 (2011: 378,247,685), including treasury shares of 1,396,240 (2011: 1,847,368). Details of share options in issue on the Company's share capital and share-based payments are included in note 23 to the Group accounts.

C11 Reserves

				Non-distributable	Distributable
	Share premium account £000	Treasury shares £000	Capital redemption reserve £000	Other reserves £000	Total profit and loss account £000
At 2 April 2011	**21,744**	**(5,016)**	**185**	**94**	**156,048**
Profit transferred to reserves	–	–	–	–	**81,439**
Dividends paid	–	–	–	–	**(35,232)**
Issue of shares	**433**	–	–	–	–
Movement in other reserves	–	–	–	**(2,296)**	–
Net movement in treasury shares	–	**447**	–	–	–
Deferred tax to equity	–	–	–	–	**(442)**
At 31 March 2012	**22,177**	**(4,569)**	**185**	**(2,202)**	**201,813**

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

C12 Reconciliation of movement in shareholders' funds

	2012 £000	2011 £000
At beginning of year	**210,879**	177,986
Profit after taxation	**81,439**	68,194
Dividends paid	**(35,232)**	(32,891)
Issue of shares	**465**	844
Net movement in treasury shares	**447**	(2,435)
Movement in other reserves	**(2,296)**	(967)
Deferred tax to equity	**(442)**	148
At end of year	**255,260**	210,879

SUMMARY 2003 TO 2012

	UK GAAP 2002/03 £000	UK GAAP 2003/04 £000
Revenue (note 2)	267,293	292,640
Overseas sales (note 2)	188,161	206,102
Profit before taxation, acquired intangibles amortisation and goodwill written off (note 3)	46,508	50,284
Net tangible assets/capital employed	86,854	95,935
Borrowings	27,667	26,934
Cash and cash equivalents	27,574	48,482
Employees (note 2)	2,793	2,925
Earnings per ordinary share (note 2)	7.76p	6.09p
Adjusted earnings per ordinary share (note 3)	8.55p	9.44p
Year on year increase/(decrease) in adjusted earnings per ordinary share	(6.0%)	10.4%
Return on Sales (notes 2 and 4)	17.4%	17.2%
Return on Capital Employed (note 5)	41.7%	50.5%
Year on year increase in dividends per ordinary share (paid and proposed)	10%	7%
Ordinary share price at financial year end	114p	149p
Market capitalisation at financial year end	£416.7m	£546.5m

Notes:

1. The amounts disclosed for periods up to and including 2003/04 are stated on the basis of UK GAAP, as it is not practicable to restate amounts prior to the date of transition to IFRS.
2. Continuing and discontinued operations.
3. Adjusted to remove amortisation of acquired intangible assets and, from 2010/11, acquisition transaction costs and movement on contingent consideration. IFRS figures include results of discontinued operations up to the date of their sales or closure but exclude material discontinued and continuing profits on sales or closures of operations.
4. Return on Sales is defined as profit before taxation, goodwill/acquired intangible asset amortisation, acquisition costs (from 2010/11) and exceptional items expressed as a percentage of revenue.
5. Return on Capital Employed is defined in note 3 to the accounts.

UK GAAP 2004/05 £000	IFRS 2004/05 £000	IFRS 2005/06 £000	IFRS 2006/07 £000	IFRS 2007/08 £000	IFRS 2008/09 £000	IFRS 2009/10 £000	IFRS 2010/11 £000	**IFRS 2011/12 £000**
299,119	299,119	337,348	354,606	397,955	455,928	459,118	518,428	**579,883**
218,745	218,745	249,055	258,050	288,701	351,522	360,779	412,297	**454,270**
50,389	49,912	59,641	66,091	73,215	79,087	86,214	104,551	**120,465**
80,750	104,417	105,396	113,048	134,320	173,128	145,519	146,964	**163,283**
33,344	33,344	32,308	29,762	72,393	86,173	21,924	79,688	**64,014**
45,348	45,348	35,826	22,051	28,118	34,987	31,006	42,610	**45,305**
3,002	3,002	3,187	3,326	3,683	4,018	3,689	3,875	**4,347**
7.97p	9.38p	11.08p	11.86p	13.49p	14.07p	16.10p	19.23p	**23.01p**
9.42p	9.45p	11.27p	12.42p	13.86p	15.30p	16.89p	20.49p	**24.46p**
(0.2%)	N/A	19.3%	10.9%	11.5%	10.4%	10.4%	21.3%	**19.4%**
16.8%	16.7%	17.7%	18.6%	18.4%	17.3%	18.8%	20.2%	**20.8%**
52.1%	48.8%	56.9%	60.1%	55.8%	47.7%	61.3%	71.9%	**74.7%**
5%	5%	5%	5%	5%	5%	7%	7%	**7%**
161p	161p	188p	220p	192p	156p	259p	355p	**381p**
£593.8m	£593.8m	£693.4m	£821.8m	£717.7m	£583.7m	£978.1m	£1,342.7m	**£1,440.8m**

HALMA DIRECTORY

Principal operating companies by sector and sub-sector		Main products
Health and Analysis		
Photonics	Avo Photonics, Inc.	Advanced, miniaturised photonic components and subsystems for OEM customers serving a wide range of end-markets
	Fiberguide Industries Inc.	Design and manufacture of optical fibre cables and assemblies
	Labsphere, Inc.	Light testing and measurement products and specialised optical coatings
	Ocean Optics, Inc.	Miniature fibre optic spectrometers for consumer electronics, process control, environmental monitoring, life sciences and medical diagnostics
	Ocean Thin Films, Inc.	Dichroic optical filters and precision optics for scientific, defence, metrology and entertainment applications
Health Optics	Accutome, Inc.	Surgical and diagnostic instruments and a variety of pharmaceuticals for the ophthalmic marketplace
	Keeler Limited	Ophthalmic instruments for diagnostic assessment of eye conditions
	Medicel AG	Instruments for ophthalmic surgery
	Rudolf Riester GmbH	Diagnostic medical devices for ophthalmology, blood pressure measurement and ear, nose and throat diagnostics
	SunTech Medical Group Limited	Clinical grade non-invasive blood pressure monitoring products and technologies
	Volk Optical Inc.	Ophthalmic equipment and lenses as aids to diagnosis and surgery
Water	Aquionics Inc.	Ultraviolet treatment of drinking water, waste water, water for re-use and water used in industrial processes
	Berson Milieutechniek B.V.	Ultraviolet light equipment for treating drinking water, waste water and water re-use applications
	Hanovia Limited	Ultraviolet light equipment for treating water used in the manufacture of food, drinks, pharmaceuticals and electronic components
	HWM-Water Limited	Instrumentation for recording data, and quantifying, detecting and controlling leakage in underground water pipelines
	Hydreka S.A.S.	Equipment and software for flow analysis of water and sewerage systems and leak detection systems
	Palintest Limited	Instruments for analysing water and measuring environmental pollution
	Sensorex Inc.	Electrochemical sensors for water analysis applications in the process industry and laboratory markets
Fluid Technology	Accudynamics, LLC.	Components primarily used in medical, life science and scientific instruments
	Alicat Scientific, Inc.	Mass flow meters and controllers for high-precision fluid flow measurement
	Bio-Chem Fluidics Inc.	Miniature valves, micro pumps and fluid components for medical, life science and scientific instruments
	Diba Industries, Inc.	Specialised components and complete fluid transfer subassemblies for medical, life science and scientific instruments
	Perma Pure LLC	Gas dryers and humidifiers for fuel cell, medical, scientific and industrial use
Infrastructure Sensors		
Fire Detection	Apollo Fire Detectors Limited	Smoke and heat detectors, sounders, beacons and interfaces
	Fire Fighting Enterprises Limited	Beam smoke detectors and specialist fire extinguishing systems
Automatic Door Sensors	Bureau D'Electronique Appliquée S.A. (BEA)	Sensors for automatic doors
Elevator Safety	Janus Elevator Products Inc.	Elevator safety components including, displays, door systems and emergency communications
	Memco Limited	Infrared safety systems for elevator doors and elevator emergency communications
	Monitor Elevator Products LLC.	Custom manufacturing of control panels for the elevator industry
	TL Jones Asia Pacific Limited	Elevator infrared safety systems, emergency communications and electronic information displays for passengers
Security Sensors	Texecom Limited	Security sensor and signalling products

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Singapore	+65 6776 4111	info@tljones.com	www.tljones.com
Haslingden, Lancashire	+44 (0)1706 220460	sales@texe.com	www.texe.com

Principal operating companies by sector and sub-sector		Main products
Industrial Safety		
Safety Interlocks	Castell Safety International Limited	Safety systems for controlling hazardous industrial processes
	Fortress Interlocks Limited	Safety systems for controlling access to dangerous machines
	Kirk Key Interlock Company, LLC.	Key interlocks and interlocking systems for the protection of personnel and equipment
	Netherlocks Safety Systems B.V.	Process safety systems for petrochemical and industrial applications
	SERV Trayvou Interverrouillage S.A.S.	Safety systems for controlling access to dangerous machines
	Smith Flow Control Limited	Process safety systems for petrochemical and industrial applications
Gas Detection	Crowcon Detection Instruments Limited	Gas detection instruments for personnel and plant safety
Bursting Disks	Elfab Limited	Pressure sensitive relief devices to protect process plant
	Oklahoma Safety Equipment Co. Inc. (Oseco)	Pressure sensitive relief devices to protect process plant
Asset Monitoring	Tritech International Limited	Equipment for underwater surveying, condition monitoring, ROV piloting, infrastructure maintenance, construction and security

Group	
Halma Holdings Inc.	Halma North American Head Office
Halma International Limited Representative Offices	Halma China hubs in Shanghai, Beijing, Chengdu, Guangzhou and Shenyang
Halma Trading and Services India Pvt Ltd	Halma India hub

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SHAREHOLDER INFORMATION AND ADVISERS

Financial calendar	
2011/12 Interim results	22 November 2011
2011/12 Interim dividend paid	8 February 2012
Interim management statement	16 February 2012
2011/12 Preliminary results	14 June 2012
2011/12 Report and Accounts issued	25 June 2012
Annual General Meeting and interim management statement	24 July 2012
2011/12 Final dividend payable	22 August 2012
2012/13 Interim results	20 November 2012
2012/13 Interim dividend payable	February 2013
Interim management statement	February 2013
2012/13 Preliminary results	June 2013

Analysis of shareholders at 17 May 2012	Shareholders Number	%	Shares Number	%
Number of shares held				
1 – 5,000	4,756	76.6	7,074,027	1.9
5,001 – 25,000	924	14.9	9,682,006	2.5
25,001 – 100,000	273	4.4	13,447,798	3.5
100,001 – 750,000	178	2.9	50,975,169	13.5
750,001 and over	76	1.2	297,376,028	78.6
	6,207	100.0	378,555,028	100.0

Share price London Stock Exchange, pence per 10p share	2012	2011	2010	2009	2008
Highest	430	367	264	222	246
Lowest	306	240	156	143	182

Dividends Pence per 10p share	2012	2011	2010	2009	2008
Interim	3.79	3.54	3.31	3.15	3.00
Final	5.95*	5.56	5.19	4.78	4.55
Total	9.74	9.10	8.50	7.93	7.55

* Proposed.

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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 e-mail news alert service to automatically receive an e-mail when significant announcements are made.

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

Dividend 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 there is no 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 the tax voucher of your last dividend payment.

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 1 August 2012.

American Depositary Receipts
The Halma plc American Depositary Receipts (ADRs) are traded on the Over The Counter market (OTC) under the symbol HLMLY. One ADR represents three Halma plc ordinary shares. JPMorgan Chase Bank, N.A. is the depositary. If you should have any queries, please contact:

JPMorgan Chase & Co, PO Box 64504, St Paul, MN 55164-0504, USA. E-mail: jpmorgan.adr@wellsfargo.com. Telephone number for general queries: (800) 990 1135. Telephone number from outside the USA: +1 651 453 2128.

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 e-mail 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, selecting 'Electronic Shareholder Communications' and follow the registration process. You may change the way you receive communications at any time by contacting Computershare.

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

Annual General Meeting
The 118th Annual General Meeting of Halma plc will be held in the Ballroom at The Berkeley Hotel, Wilton Place, London SW1X 7RL on Tuesday 24 July 2012 at 11 am.

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To view our online report visit: **halmareports.com/annual-report-2012/**

HALMA

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