



14 JUNE 2016

HALMA plc

**RESULTS FOR THE 53 WEEKS TO 2 APRIL 2016**

**Record revenue, profit and dividend**

Halma, the leading safety, health and environmental technology group, today announces its full year results for the 53 weeks to 2 April 2016.

**Highlights**

Continuing Operations	2016	2015	Change
Revenue	£807.8m	£726.1m	11%
Adjusted Profit before Taxation <sup>1</sup>	£166.0m	£153.6m	8%
Adjusted Earnings per Share <sup>2</sup>	34.26p	31.17p	10%
Statutory Profit before Taxation	£136.3m	£133.6m	2%
Statutory Earnings per Share	28.76p	27.49p	5%
Total Dividend per Share <sup>3</sup>	12.81p	11.96p	7%
Return on Sales <sup>4</sup>	20.6%	21.2%	
Return on Total Invested Capital <sup>5</sup>	15.6%	16.3%	
Net Debt	£246.7m	£100.9m	

- Revenue increased 11% with adjusted<sup>1</sup> pre-tax profit up 8%. Organic constant currency growth<sup>5</sup>: revenue up 6%, profit up 3%.
- Organic constant currency<sup>5</sup> revenue growth in all major regions. Strong growth in the US; solid progress in Europe, the UK and Asia Pacific.
- Double digit revenue and profit growth in Infrastructure Safety, Medical and Environmental & Analysis sectors; resilient demand in Process Safety.
- Substantial increase in new product development investment with R&D spend up by 19% representing 5.1% of Group revenue.
- Four acquisitions completed for a spend of £193m; additional M&A resources deployed across all sectors.
- Strong cash generation and balance sheet supports investment in organic growth and acquisitions.
- 7% increase in total dividend per share: 37<sup>th</sup> consecutive year of dividend per share increases of 5% or more.

Andrew Williams, Chief Executive of Halma, commented:

“Halma has made excellent progress, once again delivering record revenue, profit and dividends for shareholders. During the year, we grew organically, made four acquisitions and further increased investment for organic growth through talent development, innovation and international expansion. The resilience and diversity of our markets, long-term growth drivers and business model give us confidence that we can continue to grow in today’s varied market conditions. Since the period end, order intake has continued to be ahead of revenue and order intake last year. We expect to make further progress in the year ahead in line with our expectations.”

Notes:

- 1 Adjusted to remove the amortisation of acquired intangible assets, acquisition items and profit or loss on disposal of operations, totalling £29.7m (2015: £20.0m). See note 2 to the Results.
- 2 Adjusted to remove the amortisation of acquired intangible assets, acquisition items and profit or loss on disposal of operations, and the associated taxation thereon. See note 6 to the Results.
- 3 Total dividend paid and proposed per share.
- 4 Return on Sales is defined as adjusted<sup>1</sup> profit before taxation from continuing operations expressed as a percentage of revenue from continuing operations.
- 5 Organic growth rates and Return on Total Invested Capital (ROTIC) are non-GAAP performance measures used by management. See note 11 to the Results.

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A copy of this announcement, together with other information about Halma, may be viewed on its website: [www.halma.com](http://www.halma.com).

## NOTE TO EDITORS

1. Halma develops and markets products used worldwide to protect life and improve the quality of life. The Group comprises four business sectors:

- Process Safety                      Products which protect assets and people at work.
- Infrastructure Safety                Products which detect hazards to protect assets and people in public spaces, transportation and commercial buildings.
- Medical                                Products which enhance the quality of life for patients and improve the quality of care delivered by providers.
- Environmental & Analysis          Products and technologies for analysis in safety, life sciences and environmental markets.

The key characteristics of Halma's businesses are specialist technology and application knowledge for markets offering strong long term growth potential. Many Group businesses are market leaders in their specialist field.

2. High resolution photos of Halma senior management, including Chief Executive Andrew Williams, and images illustrating Halma business activities can be downloaded from its website: [www.halma.com](http://www.halma.com). Click on the 'News & Media' link, then 'Image Library'. Photo queries: David Waller +44 (0)1494 721111, e-mail: [dwaller@halmapr.com](mailto:dwaller@halmapr.com).
3. You can view or download copies of this announcement and the latest Half Year and Annual Reports from the website at [www.halma.com](http://www.halma.com) or request free printed copies by contacting [halma@halma.com](mailto:halma@halma.com).
4. A copy of the Annual Report and Accounts will be made available to shareholders on 21 June 2016 either by post or online at [www.halma.com](http://www.halma.com) and will be available to the general public online or on written request to the Company's registered office at Misbourne Court, Rectory Way, Amersham, Bucks HP7 0DE, UK.
5. This announcement contains certain forward-looking statements which have been made by the Directors in good faith using information available up until the date they approved the announcement. Forward-looking statements should be regarded with caution as by their nature such statements involve risk and uncertainties relating to events and circumstances that may occur in the future. Actual results may differ from those expressed in such statements, depending on the outcome of these uncertain future events.

# Strategic Review

## **Delivering value to shareholders through record revenue, profit and dividend**

Halma has made excellent progress, once again delivering record revenue, profit and dividends for shareholders.

Our ability to sustain success over a long period through changing market conditions is a testament to the quality and diversity of our portfolio of companies, which is focused on protecting life and improving the quality of life worldwide.

We have a clear growth strategy, a simple financial model and a customer-focused organisation which enables each business to adapt as their market opportunities change. The benefits of this were seen clearly in the past year, as growth in our Infrastructure Safety, Medical and Environmental & Analysis sectors ensured Halma made good progress while our Process Safety sector adjusted to more challenging market conditions.

Halma's continued success is only possible through the commitment and dedication of talented individuals throughout our organisation and I would like to take this opportunity to thank all of my colleagues for their contribution to another successful year.

## **Good organic growth and high returns**

Revenue increased by 11% to £808m (2015: £726m) including 6% organic constant currency growth and a 2% favourable currency impact. Adjusted profit<sup>1</sup> increased by 8% to £166.0m (2015: £153.6m) including 3% organic constant currency growth and a 2% favourable currency impact.

High returns were maintained with Return on Sales of 20.6% (2015: 21.2%). Return on Capital Employed for our operating companies remained strong at 72% (2015: 78%) and the Group's Return on Total Invested Capital was 15.6% (2015: 16.3%).

## **Strong cash generation and balance sheet supports future growth**

Cash generation was maintained at a high level and we ended the year with net debt of £247m (2015: £101m) after spending £193m (2015: £84m) on current year acquisitions, £24m (2015: £23m) on capital expenditure, and paying out £47m in dividends (2015: £43m) to shareholders and £27m of tax (2015: £31m).

Our balance sheet is strong and will support further investment in our future growth. We have revolving credit facilities of up to £360m until November 2018 and in November 2015 we agreed a US Private Placement totalling US\$250m. We do not aim to become a highly geared business and therefore our balance sheet strategy is to ensure that we have sufficient financial resources to achieve our strategic goal, of matching organic growth with acquisition growth and dividend growth, over the medium term.

## **Final dividend to increase by 7%**

Once again, the Board is recommending a final dividend increase of 7% giving a final dividend of 7.83p and a total dividend for the year of 12.81p (2015: 11.96p). The final dividend per share is subject to approval by shareholders at the AGM on 21 July 2016 and will be paid on 17 August 2016 to shareholders on the register at 15 July 2016.

## **Organic constant currency revenue growth in all major regions**

The strength of our long-term market growth drivers was reflected in the healthy rate of growth in all developed regions. Revenue from the USA increased by 22% to £273m (2015: £223m) including organic constant currency growth of 9%. Revenue from Mainland Europe grew by 7% to £179m (2015: £167m) and by 7% at organic constant currency while UK revenue was up by 5% to £145m (2015: £138m) with 4% organic constant currency growth.

Revenue from outside the USA, UK and Mainland Europe improved by 7% to £211m (2015: £197m), representing 26% of the Group (2015: 27%) and including 1% organic constant currency growth. Asia Pacific revenue grew by 7% to £125m (2015: £117m) including 3% organic constant currency growth. This included revenue growth of 10% in China to £54m (2015: £49m) and an increase of 29% in India to £11m (2015: £8m). Revenue from Other regions was up by 7% with good growth in Africa, Near and Middle East compensating for weaker demand in South America.

## **Record results for three sectors and resilient demand in Process Safety**

**Infrastructure Safety** revenue grew by 13% to a record £265m (2015: £234m) including organic growth of 6% at constant currency. Profit<sup>2</sup> rose by 12% to a record £56.2m (2015: £50.0m) with organic growth at constant currency of 5%. Return on Sales was 21.2% (2015: 21.4%).

There was double-digit organic constant currency revenue growth in the USA and mid-single digit organic growth in the UK and Mainland Europe. There was excellent progress in Africa, Near and Middle East which more than compensated for a modest organic decline in Asia Pacific. Firetrace USA, LLC the fire suppression business acquired in October 2015 traded in line with expectations and has integrated well within the Infrastructure Safety sector.

In the **Medical** sector revenue increased by 17% to a record £199m (2015: £169m), with impressive organic growth of 10% at constant currency. Profit<sup>2</sup> was up by 14% to a record £51.7m (2015: £45.4m), which included organic constant currency growth of 9%. Return on Sales remained strong at 26.0% (2015: 26.8%).

Organic constant currency revenue growth was strongest in Mainland Europe and Asia Pacific, with good growth in the UK and the USA. Value Added Solutions, acquired in May 2015 was successfully integrated into Diba Industries during the year. The integration of Visiometrics and CenTrak, acquired in December 2015 and February 2016 respectively, is also going well and both are well placed to make valuable contributions to the sector's progress in the year ahead.

The **Environmental & Analysis** sector performed excellently, with revenue up by 15% to a record £189m (2015: £164m) including organic growth of 11% at constant currency. Profit<sup>2</sup> also grew strongly, increasing by 26% to a record £34.5m

(2015: £27.4m) with impressive organic constant currency growth of 21%. Return on Sales improved to 18.3% (2015: 16.7%), which is now within the Group's target range of 18% to 22%.

Regionally there was double-digit organic constant currency growth in the USA, Asia Pacific and Africa, Near and Middle East. There was solid single-digit organic growth in the UK and Mainland Europe. There were no acquisitions completed in the year.

**Process Safety** revenue was 2% lower than last year at £155m (2015: £159m) including an organic constant currency decline of 5%. This was a resilient result given the challenging market conditions caused by the lower oil price in energy markets, which now represents 41% of sector revenue (2015: 48%). Profit<sup>2</sup> was down 12% to £39.6m (2015: £44.8m) including a 15% organic decline in constant currency. Return on Sales remained strong at 25.4% (2015: 28.3%).

Despite lower revenue, investment was maintained as certain businesses diversified into new markets including utilities and other process industries. This investment included a 4% increase in R&D spend, representing 3.7% of sector revenue (2015: 3.4%). Consequently, the sector is better positioned to consolidate its current level of profitability in the year ahead even though conditions in the energy-related markets are expected to remain challenging.

Regionally, there was modest organic constant currency revenue growth in the UK and Mainland Europe and a small organic decline in the USA. There was an organic constant currency revenue decline in Asia Pacific and Other regions, including a significant year-on-year reduction in South America following a major €4m project in the prior year.

#### **Four acquisitions completed in line with our disciplined M&A strategy**

Halma completed four acquisitions during the year, resulting in a spend of £193m in a single financial year.

This was particularly pleasing as the M&A market continued to be competitive with higher multiples being paid for larger businesses in Halma's attractive market sectors. Additional M&A resources were, and continue to be, added to each of our four sector boards so that we can continue to find high quality businesses to acquire at sensible prices. Over the medium term, our strategic goal is to match the average rate of acquisition profit growth to organic profit growth, since this ensures that we retain a strong balance sheet, sustain growth and increase dividends to shareholders.

Our core acquisition strategy is to find privately-owned businesses in, or adjacent to, our existing markets although each sector has the freedom to find new niches which possess the right product, market and financial characteristics. We consider selling businesses if any of these characteristics change adversely over time and attempts to diversify, or mitigate the situation, are not productive.

Every transaction is approved by the Group's Chief Executive and Finance Director, with all deals worth £10m or more approved by the Halma plc Board. Details of the transactions completed during the year are as follows:

- In May 2015, we completed the acquisition of Value Added Solutions, LLC (trading as VAS Integrated). VAS, which has been integrated into Diba Industries within the Medical sector, designs and manufactures fluidic-related plastic machined components and assemblies for life sciences and analytical instruments. The initial cash consideration was US\$5m (£3m). A further estimated US\$1m (£0.6m) will be paid in April 2017 based on its growth between joining Halma and October 2016, with no further consideration due to be paid after that.
- In October 2015, we acquired Firetrace USA, LLC, an Arizona-based manufacturer of customised fire suppression systems for confined spaces serving a range of end markets including transportation, process machinery, computer server hubs, defence and aerospace. This stand-alone addition to the Infrastructure Safety sector adds fire suppression technology to our successful fire detection business. The consideration paid was US\$110m (£73m) with no future contingent consideration to be paid.
- In December 2015, Halma acquired Visiometrics, S.L. located outside Barcelona, Spain and Visual Performance Diagnostics, Inc. located in California, USA (together referred to as Visiometrics). Visiometrics' products are used to measure objectively a person's visual acuity leading to a more precise determination of which elements of the eye's anatomy are affecting quality of vision, such as the early stages of cataract formation. This novel and new technology has high growth potential if it becomes a standard of care in the field of ophthalmic diagnosis where our Medical sector already has a strong global presence and this was reflected in the deal structure with the initial cash consideration of €18m (£13m) and a maximum total deferred contingent consideration of €107m (£78m) payable in instalments each year dependent on Visiometrics' financial performance to the end of 2020.
- In February 2016, Halma acquired CenTrak Inc., based in Pennsylvania, USA. CenTrak manufactures sensors and proprietary communication technology providing real-time location monitoring of people and assets in healthcare facilities. This is a new market niche for our Medical sector, although many elements of CenTrak's core technology are similar to that used widely in other Halma sectors. The cash consideration paid was US\$140m (£97m) and there is no future consideration contingent on performance. CenTrak is Halma's largest ever acquisition.

#### **Continued strategic investment to drive growth**

Halma's decentralised organisational structure gives our diverse range of businesses considerable management autonomy, albeit within a well-defined strategic and control framework. These are underpinned by the Halma Values of Achievement, Innovation, Empowerment and Customer satisfaction.

We have a clear view of how each business can benefit from being part of a larger group and make targeted central investments in three key areas to leverage this collective benefit: Talent development, Innovation and International expansion.

Increasingly, these central investments are being supplemented by sector-led initiatives targeted at the specific challenges and opportunities within each individual sector. Examples include the Medical sector introducing reward plans for increased

collaboration and the Process Safety sector establishing a Brazil hub to build a stronger presence in South America.

Progress in Halma's three key areas of strategic investment included the following:

#### Talent development

Halma's Executive Board has continued to spend substantial time building sector boards for each of our four sectors. A typical sector board comprises a Sector CEO, Sector Finance Director, Sector M&A Director and two, or more, Sector Vice Presidents (SVPs) – who chair the individual operating company boards. By April 2016, each Halma sector had two Sector Vice Presidents, with five out of the total eight positions filled through internal promotions.

The sector boards are tasked with boosting our M&A search efforts and seeking new opportunities to accelerate organic growth, for example, by encouraging greater collaboration. This requires a clear vision and strategy in each sector, as outlined in more detail in the sector reviews below.

During the year, we reviewed our range of Halma talent development programmes through the lens of the future needs of our growing business. In April 2016 we launched a new programme, called HPD Enterprise, which will help our SVPs and MDs think more entrepreneurially about how they can grow their businesses in fast-changing markets.

We considered also how we can continue to develop the rich talent emerging from our successful HPD Graduate programme. We have introduced a new initiative which will help our graduates to build on (at least) two years post HPD Graduate experience. We are offering to support them through an MBA programme with the aim of accelerating their progress into senior management positions within Halma companies.

Although we have made some progress towards increasing the diversity of our management talent, we want to do more. In addition to simple things such as insisting on diversity in candidate listings from head hunters, we are encouraging our company boards to make better use of existing resources. This includes co-opting junior managers as board advisers and appointing Managing Directors from other Halma companies as non-executive directors. While recognising that there is a lot more work to be done to have more diversity in our senior management, these actions will help to realise the benefits of greater diversity now as well as provide new development opportunities for the individuals involved.

#### Innovation

New product innovation is a vital component of creating organic growth and enables Halma companies to increase revenue and profitability through market share gain and market expansion.

Our investment in new product development increased substantially, with R&D spend up by 19% to £41.2m (2015: £34.6m) representing 5.1% of Group revenue (2015: 4.8%). All sectors increased investment, most notably the Medical sector which grew R&D spend from 4.0% to 4.5% of sector revenue - an absolute rise of 32%.

The return on investment of new product development is assessed monthly by each Halma company, both in terms of their previous track record and future expectations, including the proportion of their revenue generated from products launched in the past three years. All measures can vary significantly from company to company, depending on the characteristics of their market and the effectiveness of their new product development effort. Since 2013, the average contribution to Group revenue from products launched in the past three years has been around 22% although the individual company performances range from single digit to over 50%.

Halma's commitment to innovation extends beyond new product development and we are continuing to develop more collaboration between our businesses as this is a valuable way in which we can build a more innovative culture. We foster collaboration by providing opportunities for our senior managers to build a network of connections across Halma including the biennial Halma Innovation and Technology Exposition (HITE), our management training programmes and an internal social networking platform.

The best examples of innovation in Halma are recognised each year through the Halma Annual Innovation Awards. This year's first prize was won by HWM-Water for their PermaNET+ remote water leak monitoring and pinpointing system. The runners-up were Ocean Optics, for a new automated alignment and calibration process for their Flame product platform, and SunTech Medical for their Vet20 product, which provides non-invasive blood pressure readings on animals, without the need for sedation.

#### International expansion

Halma has continued to invest and encourage our businesses to accelerate growth in international markets. Increasingly, Halma companies in similar markets are working together more closely to coordinate their resources and build greater critical mass in key growth regions. For example, our ophthalmic diagnostic device businesses within the Medical sector are building a single sales organisation in China to carry products from multiple Halma companies.

The Halma hubs in China and India remain a focal point and catalyst for growth. In India, we have relocated our Head Office to Bengaluru, while retaining commercial offices in Mumbai and Vadodara. We have plans to expand into Chennai and Delhi in the medium term. In China, our R&D subsidy programme has helped 15 Halma companies hire 33 new engineers in the last three years to develop new products for the local market. This programme was refined and re-launched in April 2016 as we continue to see local product development as critical to sustained growth and building a strong market share.

#### **Corporate responsibility and sustainability is at Halma's core**

Halma's core strategy is to protect life and improve the quality of life for people worldwide.

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. Legislative changes, particularly concerning the environment and bribery and corruption, have provided an opportunity to review our procedures in these important areas and ensure they are accessible, compliant and firmly embedded within our business.

A detailed report on Sustainability is set out in the Annual Report and Accounts 2016.

### **Outlook**

The resilience and diversity of our markets, long-term growth drivers and business model give us confidence that we can continue to grow in today's varied market conditions. During the year, Halma has made four acquisitions and further increased investment for organic growth through Talent development, Innovation and International expansion. Since the period end, order intake has continued to be ahead of revenue and order intake last year. We expect to make further progress in the year ahead in line with our expectations.

### **Andrew Williams, Chief Executive**

<sup>1</sup> See Highlights.

<sup>2</sup> See note 2 to the Results.

# Financial Review

## Building on long-term achievement

Through a combination of organic and acquisitive growth Halma aims to deliver sustained long-term shareholder value. We have a long track record of growing dividends and of investment in our business. This year's record results build on that achievement.

## Record results

Halma achieved record revenue and profit for the thirteenth consecutive year. Revenue increased by 11.2% to £807.8m (2015: £726.1m) and adjusted<sup>1</sup> profit was up by 8.1% to £166.0m (2015: £153.6m). Our balance sheet remains strong following our highest ever spend on acquisitions. The Board is proposing a dividend increase of 7%, the 37th consecutive year of 5% or more dividend growth.

The 11.2% (£81.7m) increase in revenue included 5.7% organic constant currency revenue growth. Acquisitions, net of a small disposal in the prior year, contributed 3.5% to growth and there was a 2.0% positive currency translation impact.

The adjusted<sup>1</sup> profit increase of 8.1% (£12.4m) included 3.4% organic constant currency profit growth. Acquisitions contributed 2.9% to growth and there was a 1.8% positive currency translation impact.

Statutory profit before taxation increased by 2.0% to £136.3m (2015: £133.6m). Statutory profit is calculated after charging the amortisation of acquired intangible assets of £23.1m (2015: £19.9m) and after charging acquisition related items, including revisions to provisions for acquisition contingent consideration and related foreign exchange movements, of £7.2m (2015: £1.5m) arising from current and prior year acquisitions. There was also a gain on disposal of £0.6m (2015: £1.4m) relating to the part disposal of shares in our Associated operation, Optomed Oy.

In both the first and second half years revenue grew by 11%. There was a positive contribution from currency translation in both halves. Organic revenue growth at constant currency was 7% in the first half, and principally due to the performance of the Process Safety sector, was 4% in the second half.

Adjusted<sup>1</sup> profit grew by 8% in both the first and second half. The first half/second half profit split was 45%/55% as in the prior year. Organic constant currency profit growth was 4% in the first half and 3% in the second half.

Three of the four sectors delivered strong revenue and profit growth. Environmental & Analysis recovered strongly this year as expected to deliver a record result and delivered profit growth well ahead of significant revenue growth. Process Safety revenue and profit was lower than the prior year due to the impact of tougher conditions in oil and gas related markets, which make up around 40% of sector revenue, and the non-repeat in the second half of a contract in South America. Organic constant currency profit decline for Process Safety in the second half was broadly in line with the first half. Medical and Infrastructure Safety sectors achieved double digit rates of revenue and profit growth boosted by a contribution from acquisitions and good underlying organic growth.

This year we have simplified the calculation of our organic growth KPI to now exclude the first 12 months' performance (for profit, net of financing cost) of any acquisitions to calculate the organic growth rate. Previously we used the run rate at the time of acquisition to make the calculation. There was little impact this year on the organic growth rates arising from this change and we have revised the KPI comparatives for prior years accordingly.

Central administration costs of £8.9m (2015: £9.0m) were in line with last year. As expected there was an increase in investment in talent development, international expansion and the cost of our biennial HITE conference. This increase was offset by the profit on sale of a Group freehold property. We expect a further increase in the underlying costs in 2016/17 as we continue to support the growth of the Group.

## Revenue and profit growth

	2016 £m	2015 £m	Increase £m	Total	Organic growth <sup>2</sup>	Percentage growth Organic growth <sup>2</sup> at constant currency
Revenue	807.8	726.1	81.7	11.2%	7.7%	5.7%
Adjusted <sup>1</sup> profit	166.0	153.6	12.4	8.1%	5.2%	3.4%

## Widespread growth

Revenue grew in all major regions. The USA continues to be our largest revenue destination increasing by 22% to now contribute 34% (2015: 31%) of Group revenue, with strong growth in both the first and second half of the year. The high rates of organic growth in the Infrastructure Safety and Medical sectors were boosted by acquisitions, with the strong growth in the Environmental & Analysis sector being all organic. Currency translation benefited USA revenue and organic constant currency growth in the USA was 9%.

Mainland Europe revenue grew by 7% with growth in all sectors and a particularly strong increase in the Medical sector, which was largely organic. UK revenue increased by 5% with steady growth across all four sectors. 10% of Group revenue with its destination in Mainland Europe originates in the UK. Changes in short/medium term trading or regulatory arrangements between the UK and the EU would have an impact on the Group but are unlikely to be material.

Asia Pacific revenue grew by 7%. Medical and Environmental & Analysis delivered very good growth in Asia Pacific, leading to 10% growth in China, and together with Infrastructure Safety showed strong growth in India. Process Safety was affected by a slowdown in Australia. Africa, Near and Middle East grew by 27% with all sectors delivering growth and a very strong increase in the Middle East for Infrastructure Safety. There was revenue decline of 17% in Other countries with weak trading

across South America, following last year's major oil and gas related contract for Process Safety.

In total, revenue grew from territories outside UK/Mainland Europe/USA by 7% although slightly behind our 10% growth target for such revenue. This compares with 13% growth in revenue in UK/Mainland Europe/USA.

### Geographic revenue growth

	2016			2015			% organic growth at constant currency
	£m	% of total	£m	% of total	Change £m	% growth	
United States of America	272.9	34%	223.4	31%	49.5	22%	9%
Mainland Europe	179.3	22%	167.4	23%	11.9	7%	7%
United Kingdom	144.8	18%	138.3	19%	6.5	5%	4%
Asia Pacific	125.0	15%	116.8	16%	8.2	7%	3%
Africa, Near and Middle East	55.7	7%	44.0	6%	11.7	27%	16%
Other countries	30.1	4%	36.2	5%	(6.1)	(17%)	(22%)
	807.8	100%	726.1	100%	81.7	11%	6%

### Continued high returns

Halma's Return on Sales<sup>2</sup> has exceeded 16% for over 30 consecutive years. We aim to deliver Return on Sales in the range of 18-22%. This year Return on Sales was 20.6% (2015: 21.2%). Return on Sales for Process Safety reduced this year due to tough trading conditions but remains at the high rate of 25% with an improved performance in the second half. Medical and Infrastructure Safety sectors remained broadly in line with last year. Environmental & Analysis improved profitability as expected and exceeded 18% Return on Sales. Higher financing costs also reduced Return on Sales.

Adjusted<sup>1</sup> gross margin (revenue less direct material and direct labour costs) remained steady at 64.2% (2015: 64.6%) continuing a long trend of stability and reflecting strong management of pricing and input costs.

Return on Total Invested Capital<sup>2</sup> (ROTIC), the post-tax return on the Group's total assets including all historic goodwill, was 15.6% (2015: 16.3%). ROTIC remains well in excess of Group Weighted Average Cost of Capital (WACC) of 8.1% (2015: 7.6%).

### Volatility in currency managed effectively

Halma reports its results in Sterling. Our other key trading currencies are the US Dollar, Euro and to a lesser extent the Swiss Franc. Over 40% of Group revenue is denominated in US Dollars and approximately 10% in Euros.

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.

We take a neutral view of the future movements of currencies. After matching currency of revenue with currency costs wherever practical, forward exchange contracts are used to hedge a proportion (up to 75%) of the remaining forecast net transaction flows where there is a reasonable certainty of an exposure. We hedge up to 12 months and, in certain specific circumstances, up to 24 months forward. At 2 April 2016 over 50% of our next 12 months' currency trading transactions were hedged. There is a good degree of natural hedging within the Group in US Dollars but we typically spend less in Euros than we sell and so have a net exposure of approximately €35m at any time.

We saw continued volatility in currencies throughout the year. In the first half year Sterling weakened on average by 8% relative to the US Dollar and strengthened 12% against the Euro resulting in a 3% positive currency translation impact on revenue and 2% positive impact on profit. At that time we expected a broadly neutral currency translation impact for the year as a whole. However for the full year Sterling was 6% weaker relative to the US Dollar and 8% stronger relative to the Euro. Currency translation therefore had a positive impact of 2% on both revenue and profit in the full year. The sectors benefiting most from positive currency translation in the full year were Medical and Environmental & Analysis.

	Weighted average rates used in the Income Statement			Exchange rates used to translate the Balance Sheet	
	2016		2015	2016	2015
	First half	Full year	Full year	Year end	Year end
US\$	1.54	1.51	1.61	1.42	1.48
Euro	1.39	1.37	1.27	1.25	1.37

Based on the current mix of currency denominated revenue and profit, a 1% movement in the US Dollar relative to Sterling changes revenue by £3.4m and profit by £0.7m. Similarly, a 1% movement in the Euro changes revenue by £0.9m and profit by £0.2m.

Since the start of 2016, we have seen Sterling weaken and then strengthen against both the US Dollar and the Euro. We expect currency rates to continue to be volatile. If currencies were to continue at approximately US Dollar 1.45/Euro 1.30 relative to Sterling and assuming a constant mix of currency results, we would expect approximately 2% favourable currency translation impact on revenue and profit due to currency translation in 2016/17 compared with 2015/16. The positive impact would be greater in the first half of 2016/17 than the second half.

### Increased financing cost

The net financing cost in the Income Statement of £7.1m was higher than the prior year (2015: £4.9m). The average cost of financing was higher than 2015 due to the increased interest rate on long-term borrowing and the higher levels of average debt for the year, following acquisitions made in the second half of the year (see the Average debt and interest rates' table below for more information).

Interest cover (EBITDA as a multiple of net interest expense as defined by our revolving credit facility) was 46 times (2015: 51 times) which was well in excess of the four times minimum required in our banking covenants.

The net pension financing charge is included within the net financing cost. This year it increased to £2.0m (2015: £1.4m) because the net pension deficit at the start of the year, on which the interest cost is based, was above the deficit at the corresponding date in the prior year.

### Lower group tax rate

The Group's approach to tax is to ensure compliance with the tax regulations in all of the countries in which it operates. The key features of this are: (1) Tax compliance – Halma is committed to maintaining good relationships with tax authorities based on cooperation, transparency and paying in full the tax due in each jurisdiction; (2) Tax strategy – our tax arrangements have an underlying business purpose and, where possible, we consider mitigating tax in compliance with local legislation; and (3) Tax policy – the Board of Directors is regularly updated, either directly or through the Audit Committee, on the Group's Tax policy and management of tax risks.

The Group has major operating subsidiaries in 10 countries so the Group's effective tax rate is a blend of these national tax rates applied to locally generated profits. A significant proportion (approximately one quarter) of Group profit is generated and taxed in the UK. The Group's effective tax rate on adjusted profit reduced to 21.9% (2015: 23.2%). The UK corporation tax rate fell from 21% to 20% this year, and we benefited from an increase in widely claimed R&D related tax incentives, exemptions and reliefs (for example, under the UK 'Patent Box' rules).

### Strong cash generation

Cash generation is an important component of the Halma model underpinning further investment in our businesses, supporting value enhancing acquisitions and funding an increasing dividend. Our cash performance in 2015/16 was strong. Adjusted operating cash flow was £148.3m (2015: £138.7m) and represented 86% (2015: 87%) of adjusted operating profit, ahead of our cash conversion KPI target of 85%.

### Operating cash flow summary

	2016 £m	2015 £m
<b>Operating profit</b>	<b>142.9</b>	<b>137.1</b>
Net acquisition costs and contingent consideration fair value adjustments	7.2	1.5
Amortisation of acquisition-related acquired intangibles	23.1	19.9
<b>Adjusted operating profit</b>	<b>173.2</b>	<b>158.5</b>
Depreciation and other amortisation	21.8	21.0
Working capital movements	(5.8)	(6.0)
Capital expenditure net of disposal proceeds	(22.1)	(22.2)
Additional payments to pension plans	(7.7)	(6.6)
Other adjustments	(11.1)	(6.0)
<b>Adjusted operating cash flow</b>	<b>148.3</b>	<b>138.7</b>
<b>Cash conversion %</b>	<b>86%</b>	<b>87%</b>

### Non-operating cash flow and reconciliation to net debt

	2016 £m	2015 £m
<b>Adjusted operating cash flow</b>	<b>148.3</b>	<b>138.7</b>
Tax paid	(27.2)	(30.8)
Acquisition of businesses including cash/debt acquired	(202.6)	(88.2)
Net movement in loan notes	0.1	2.1
Net finance costs and arrangement fees	(4.7)	(3.0)
Dividends paid	(46.5)	(43.4)
Own shares purchased/ issue of shares	(3.0)	(6.0)
Adjustment for cash outflow on share awards not settled by own shares	(2.5)	–
Disposal of operations	0.9	4.2
Effects of foreign exchange	(8.6)	–
<b>Movement in net debt</b>	<b>(145.8)</b>	<b>(26.4)</b>
<b>Opening net debt</b>	<b>(100.9)</b>	<b>(74.5)</b>
<b>Closing net debt</b>	<b>(246.7)</b>	<b>(100.9)</b>

### Net debt to EBITDA

	2016 £m	2015 £m
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<b>Adjusted operating profit</b>	<b>173.2</b>	158.5
Depreciation and amortisation (excluding acquired intangible assets)	<b>21.8</b>	21.0
<b>EBITDA</b>	<b>195.0</b>	179.5
<b>Net debt to EBITDA</b>	<b>1.27</b>	0.56

A summary of the year's cash flow is shown in the table above. The largest outflows in the year were in relation to our record spend on acquisitions, dividends and taxation paid. Working capital outflow, comprising changes in inventory, receivables and creditors, totalled £5.8m (2015: £6.0m) and reflected strong control of operations at local company level.

Dividends totalling £46.5m (2015: £43.4m) were paid to shareholders in the year. Taxation paid was £27.2m (2015: £30.8m).

### Capital allocation and funding

Halma aims to deliver high returns, measured by Return on Total Invested Capital (ROTIC), well in excess of our cost of capital. Future earnings growth and strong cash returns underpin ROTIC and our capital allocation as follows:

- Investment for organic growth

Organic growth is our priority and is driven by investment in our businesses, in particular through capital expenditure, innovation of new products, international expansion and the development of our people.

- Regular and increasing returns to shareholders

We have maintained a long-term progressive dividend policy as our preferred route for delivering cash returns to shareholders.

- Value enhancing acquisitions

We supplement organic growth with acquisitions in related markets at sensible prices. This brings new technology and Intellectual Property into the Group and can expand our market reach.

The above investment and shareholder returns are funded by strong cash flow and moderate levels of debt appropriate to our needs. Ensuring we have sufficient financial capacity is important to our model.

### Investment for organic growth

All sectors continue to innovate and invest in new products with R&D spend controlled by each individual Halma company. This year R&D expenditure grew by 19% with increased investment through the year, in particular in the Medical sector. R&D expenditure as a percentage of revenue increased to 5.1% (2015: 4.8%). There is a good pipeline of new products and the increased investment by our businesses reflects their strategy to expand their range of products to drive growth. In the medium term we expect R&D expenditure to increase broadly in line with revenue.

Under IFRS accounting rules we are required to capitalise certain development projects and amortise the cost over an appropriate period, which we determine as three years. In 2015/16 we capitalised/reclassified £8.6m (2015: £7.4m), acquired £3.6m, and amortised/disposed of £5.3m (2015: £5.6m). This results in an asset carried on the Consolidated Balance Sheet, after £0.7m of foreign exchange movements, of £23.5m (2015: £15.9m). All R&D projects and particularly those requiring capitalisation, are subject to rigorous review and approval processes.

Capital expenditure on property, plant and computer software this year was £24.1m (2015: £23.2m). This maintains investment in our operating capability and includes investment of £4m in a property in our Medical sector (2015: £5m).

### Regular and increasing returns for shareholders

Adjusted<sup>1</sup> earnings per share increased by 10% to 34.26p (2015: 31.17p) ahead of the increase in adjusted<sup>1</sup> profit, primarily due to the lower tax rate. Statutory earnings per share increased by 5% to 28.76p (2015: 27.49p) due to the lower tax rate and the factors noted previously affecting the calculation of statutory profit. We deliver shareholder value via consistent growth in earnings per share and this is reflected in our senior management share based incentives.

The Board is recommending a 7.1% increase in the final dividend to 7.83p per share (2015: 7.31p per share), which together with the 4.98p per share interim dividend, gives a total dividend of 12.81p (2015: 11.96p), up 7.1%. The final dividend for 2015/16 is subject to approval by shareholders at the AGM on 21 July 2016 and will be paid on 17 August 2016 to shareholders on the register at 15 July 2016. With this latest rise, Halma will have increased its dividend by 5% or more for 37 consecutive years.

Our long-term progressive dividend policy balances dividend increases with the medium-term rates of organic profit growth achieved, taking into account potential acquisition spend and maintaining moderate debt levels. Our policy is to maintain dividend cover (the ratio of adjusted profit after tax to dividends paid and proposed) above two times and this year dividend cover is 2.67 times (2015: 2.61 times). We continue to determine the dividend payout each year based on all of the factors noted above.

### Value enhancing acquisitions

Acquisitions and disposals are an important part of our growth strategy. We buy businesses already successful in, or adjacent to, the niches in which we operate. Sector acquisition resources to support this strategy continue to be increased.

In the year we spent £193m on four acquisitions (net of cash/(debt) acquired of £2m). In addition we paid £10m in contingent consideration and settlement of loan notes for acquisitions made in prior years, giving a total spend of £203m.

The acquisitions made in 2015/16 were as follows:

Value Added Solutions, LLC (VAS) was acquired in May 2015. VAS has been integrated with one of our Medical sector companies, Diba Industries, which is also based in Connecticut, USA. The initial cash consideration was US\$5m (£3m).

Firetrace USA, LLC was acquired in October 2015 and is based near Phoenix, Arizona. The initial consideration was US\$110m (£73m).

Visiometrics, S.L., located outside Barcelona, Spain and Visual Performance Diagnostics, Inc., located in Aliso Viejo, California, USA (together referred to as Visiometrics) were acquired in December 2015, joining our Medical sector. The cash consideration comprises three elements: €18m (£13m) paid at closing; deferred contingent consideration up to €69m (£50m) paid based on the profit performance of Visiometrics over the next three years; and deferred contingent consideration up to €40m (£29m) paid in royalties over the next five years with a maximum total consideration of €125m (£91m). Our current estimate is that €30m (£22m) will be paid in deferred contingent consideration and this has been accrued in these accounts.

CenTrak, Inc., based in Newtown, Pennsylvania, USA was acquired in February 2016 and also joins the Medical sector. The cash consideration was US\$140m (£97m).

Taking the four acquisitions together, £100m of the consideration was attributed to intangible assets which will be amortised, and £115m is goodwill which will be subject to an annual impairment review.

Based on their run rate at the time of acquisition, the businesses acquired in 2015/16 would add £41m to revenue and £8m (after financing costs) to profit in 2016/17.

### **Funding capacity increased via US Private Placement**

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

We continue to fund the combination of organic and acquisition growth through our strong cash flow and use of debt facilities. We hold a syndicated revolving credit facility of £360m which runs to November 2018. In November 2015 a US Private Placement was agreed for US\$250m, in a mix of Sterling, US Dollars, and Euros, at a weighted average interest rate of 2.5% over the outstanding borrowing period of five, seven and ten years. Funds were drawn down in January 2016 providing diversification of Group funding.

At the year end net debt was £246.7m (2015: £100.9m), a combination of £300.6m of debt and £53.9m of cash held around the world to finance local operations. The gearing ratio at year end (net debt to EBITDA) increased to 1.27 times (2015: 0.56 times) following strong acquisition expenditure this year. We are comfortable operating at this level of gearing and would increase to 2 times gearing if the timing of acquisitions required it. Net debt represents 7% (2015: 4%) of the Group's year end market capitalisation. The Group continues to operate well within its banking covenants with significant headroom under each financial ratio.

These sources of funding provide Halma with the financial resources to operate within its existing business model for the medium term, continuing investment in our business and with capacity for further acquisitions.

### **Average debt and interest rates**

	2016	2015
Average gross debt (£m)	<b>208.1</b>	164.8
Weighted average interest rate on gross debt	<b>1.54%</b>	1.38%
Average cash balances (£m)	<b>57.7</b>	45.6
Weighted average interest rate on cash	<b>0.38%</b>	0.29%
Average net debt (£m)	<b>150.4</b>	119.2
Weighted average interest rate on net debt	<b>1.99%</b>	1.80%

### **Pensions update**

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

The Group accounts for post-retirement benefits in accordance with IAS19 Employee Benefits. The Consolidated Balance Sheet reflects the net deficit on our pension plans at 2 April 2016 based on the market value of assets at that date and the valuation of liabilities using year end AA corporate bond yields.

On an IAS19 basis the deficit on the Group's DB plans at March 2016 has reduced to £52.3m (2015: £66.8m) before the related deferred tax asset. The value of plan assets reduced slightly to £221.9m (2015: £224.8m). In total, about 50% of plan assets are invested in return seeking assets providing a higher expected level of return over the longer term. Plan liabilities reduced to £274.2m (2015: £291.6m) primarily due to the increase in the discount rate.

The plan's actuarial valuation reviews, rather than the accounting basis, determine any cash deficit payments by Halma. Following the most recent triennial actuarial valuation of the two UK pension plans in 2014 and 2015, future cash contributions to eliminate the deficit have been agreed with the trustees. In 2015/16 these contributions amounted to £7.7m and it is planned that the annual amount will increase to £10.7m in 2016/17 with modest increases in subsequent years.

## **Risk management**

Halma has a well-established business and financial model which has delivered success consistently over the long term. The model is based on considerable autonomy and accountability at operating company and sector level, within a robust strategic framework supported by strong policies and clear procedures. In the year we have continued to develop risk and control capability within each sector to support the growth of our businesses. Risk is managed closely and is spread across well-resourced companies, each of which manages risk to its individual level of materiality. There are extensive review processes in place including peer financial review and Internal Audit. The key Group risks have been referenced below and in the Chief Executive's Strategic Review and Sector Reviews. In addition key risks are highlighted in the Audit Committee Report and Auditor's Report in the Annual Report and Accounts 2016.

The UK Corporate Governance Code issued by the Financial Reporting Council (FRC) requires regular monitoring of risk by the Board. As noted above, for many years we have had comprehensive and regular review of risk taking place at many levels throughout the organisation and this is discussed more fully in the Strategic Report and Governance sections within the Annual Report.

We are conscious of the increased risks arising in the area of cyber security and have continued to be very active this year in monitoring such threats and improving our defences. Awareness of these potential threats has been increased with our employees across the Group and good progress continues to be made.

The Board considers all of the above factors in its review of 'Going Concern' as described below. In addition a new Viability Statement is presented in an abridged form below, and in full in the Annual Report and Accounts 2016, extending the Board's review over a three year period. Both reviews have been concluded satisfactorily.

The Annual Report and Accounts are prepared in line with the latest requirements for integrated reporting and the Board has taken care to ensure that it is 'fair, balanced and understandable'. The Audit Committee took a key role in assessing compliance with reporting requirements supported by robust management processes.

## **Kevin Thompson, Finance Director**

<sup>1</sup> In addition to those figures reported under IFRS Halma uses adjusted figures as key performance indicators. 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 items and profit or loss on disposal of operations. All of these are included in the statutory figures. More details are given in note 11 to the Results.

<sup>2</sup> See Highlights.

# Process Safety Sector Review

**Products which protect assets and people at work. Specialised interlocks which safely control critical processes. Instruments which detect flammable and hazardous gases. Explosion protection and corrosion monitoring products.**

## **Philippe Felten, Sector Chief Executive, Process Safety**

We met the challenges in the oil and gas sector by focusing on a continuing strategy of product and end-market diversification, geographic expansion and market-leading customer service. New product R&D investment to drive diversification was maintained. At the same time, we carried out rigorous overhead control and reorganised management to align our businesses with changing market conditions.

## **Market trends and growth drivers**

The underlying long-term drivers in our Process Safety markets are unchanged, despite challenging market conditions. We expect them to remain the key growth factors:

- increasing and more stringent global health, safety and environmental regulations
- population growth and industrialisation stimulating rising energy demand
- increasing development, complexity and geographic spread of energy resources and their safety requirements

The global expectation of improvements in workplace health and safety is backed by government occupational safety and health programmes worldwide and continually increasing regulation. This will continue to drive long-term growth in our target process safety niches at rates above general economic growth.

The dramatic fall in oil prices – 60% down from their high point in 2014 – was caused by oversupply combined with lower demand due to slowing economic growth, particularly in China. Oil price decline has had a considerable impact on the oil and gas sector and on the wider global economy. Upstream capital expenditure (exploration and production) by the oil majors has been cut significantly, with many projects postponed. Capital investment in longer-term midstream and downstream projects (storage, processing and distribution), where our products have most exposure, is continuing.

Current market conditions are not expected to affect worldwide government and local authority programmes of imposing stricter legislation to protect people and the environment. We do not anticipate significant change in oil and gas upstream capital expenditure during 2016/17. Our businesses will continue to focus on market segments where investment continues and where our technical know-how translates into improved safety and operational efficiency for customers.

Midstream petrochemical and chemical processors have benefited significantly from falling oil prices due to cheaper feedstocks. In these markets we expect continued investment in raising safety standards and we expect to benefit from this trend.

Our businesses focusing on machine automation, sequential equipment control and gas detection have minor revenue exposure to oil and gas. These companies continued to grow strongly throughout 2015/16 and we are confident of continued growth in 2016/17. Innovation, deep understanding of customer applications and continuously improving geographic support are the main drivers for growth in the non-oil Process Safety markets.

## **Geographic trends**

We performed well in US and Asian non-oil markets and these territories remain key growth targets for this sector. India is still a growth market where demand for improved safety throughout the process industries is rising and we anticipate stronger emphasis on safety and environmental protection regulation in the medium term.

Europe was stable due to its flat economy but we expect to expand our position with our recently merged and strengthened business units.

In China our businesses are marketing collaboratively with shared sales teams and service facilities. This will reinforce our presence and deliver greater penetration in this market. The Tianjin chemical warehouse explosion in 2015, in which 173 people died, has prompted the Chinese government to raise safety standards in hazardous environments and actively enforce existing regulations.

In oil markets, the mature and declining North Sea and the USA will continue to be challenging. Production volumes are now falling even in the previously resilient US shale oil industry.

While we expect the upstream oil market will remain subdued on a global basis, there are opportunities in Asia and the Middle East where the activity level remains attractive.

## **Strategy**

Our strategy for growth in the Process Safety sector continues to focus on:

- investment in new products to diversify our end markets and meet local market needs
- geographic market expansion via shared regional sector hubs
- acquisitions, predominantly in adjacent markets with low oil and gas exposure

During 2015/16 we combined several companies with similar end markets to raise operating efficiency and support growth in chemical, petrochemical, pharmaceutical, and food and beverage markets around the globe. The strategic goals were to:

- speed up product innovation
- increase market and geographic diversification
- improve customer services

Two businesses that specialise in safety control systems for process valves were merged to create a strong and innovative valve management company. The merger will help accelerate product innovation and improved control technologies to make valve operation simpler, more efficient and safer.

Management of three of our machinery access safety businesses (based in the UK, USA and France) has been integrated with a single board. Each company continues to operate with its established branding and local manufacture, but R&D has been centralised. This strategy reinforces our ability to add value through innovation but maintains a local footprint so that close contact with customers remains a strength.

Our Process Safety businesses will continue to invest in R&D with an increased focus on understanding local customer needs, particularly in the new markets we enter. We encourage collaborative sharing of market intelligence about routes to market, sales channels, tender projects, OEM customers and end-users.

Our corrosion monitoring business, acquired in 2014, was impacted by the oil price fall and reduced capital and operating spend by customers. We have reorganised the business' structure and already see benefits in terms of market reach and increased efficiency.

## **Performance**

Revenue declined by 2% to £155m (2015: £159m) and profit<sup>1</sup> fell by 12% to £40m (2015: £45m). At constant currency, organic revenue was down 5% and profit was down 15%. Return on sales was 25.4% (2015: 28.3%).

Half of our Process Safety sector businesses are exposed to markets affected by the oil price. Many customers were forced to cut capital expenditure which negatively impacted our revenue. The other half of the sector, including gas detection, machine automation and sequential safety, delivered growth in line with expectations. We grew revenue in the UK, US and China while facing more challenging conditions in Europe and Australia.

Our companies active in valve management and pressure management have delivered consistent growth in recent years, driven by rising energy demand. In 2015/16 we faced significant capex reduction in the upstream oil and gas sector.

R&D spend in the sector increased to 3.7% of revenue and focused on delivering products and solutions that support our market diversification strategy. In addition, we have added monitoring capabilities allowing digital data communication with our safety-critical products.

## **Outlook**

Cost reduction and the diversification strategy focusing on, for instance, the chemical, pharmaceutical, and food and beverage process markets, combined with structural management changes, will let us make progress. Continued growth in our non-energy niches – machine automation, gas detection and sequential safety control systems – will continue to support sector growth.

We see growth opportunities for our gas safety products in niche applications and we expect growth in 2016/17 due to improved market intelligence and better sales execution, particularly in export markets.

Well-designed process safety systems have the dual role of increasing safety while maintaining high productivity. The evolution of monitored process safety systems incorporating sensors and digital data communications for alarm triggering opens new possibilities to position our value proposition: raising production process efficiency combined with regulatory safety compliance.

There is a clear trend for greater regulation in the chemical and petrochemical markets, and this will continue to drive demand for our process safety solutions. Our Process Safety acquisition policy is to acquire in high growth sectors relatively immune to commodity price cyclicalities.

We do not expect recovery in oil and gas customer spend during 2016/17. The benefits of our cost reduction and diversification efforts should help to mitigate these unfavourable market conditions as we move through the coming year.

<sup>1</sup> See note 2 to the Results.

# Infrastructure Safety Sector Review

**Products which detect hazards to protect assets and people in public spaces, transportation and commercial buildings. Fire and smoke detectors, fire detection and suppression systems, security sensors and audible/visual warning devices. Sensors used on automatic doors and elevators in buildings and transportation.**

## **Nigel Trodd, Sector Chief Executive, Infrastructure Safety**

The Infrastructure Safety sector delivered strong revenue and profit growth in 2015/16. Our results benefited from good performances from both established and recently acquired businesses. Firetrace LLC was acquired in October 2015, adding fire suppression products to our global fire portfolio.

## **Market trends and growth drivers**

Increasing health and safety regulation and rising safety awareness in both developed and developing regions is the primary driver in our Infrastructure Safety sector. Customer demand in this sector is also driven by:

- continuing global trends of population ageing, urbanisation and population growth
- economic growth in the developing world leading to increased investment in infrastructure and modernisation
- increasing desire for wireless connectivity, enabling automation in 'smart' buildings

Governments throughout the world continue to introduce increasingly stringent health and safety regulations. In mature markets, safety standards are constantly updated and compliance becomes increasingly demanding for our customers. For example, the adoption of new standards is advancing technology in elevator phones and door detectors which will stimulate market growth. Developing markets increasingly adopt and enforce globally-recognised safety standards in domestic, public and industrial environments. This includes the industrial high-speed door market which shows a clear trend towards the use of more sensors, not only to activate the door but also to increase safety around the door area.

Urbanisation in Asia continues to drive demand for high-rise properties and, although new elevator installations in China have declined slightly for the first time in over 10 years, growth in all other regions mitigates the global position. Over the next five years the number of new elevator installations is expected to remain relatively flat. Currently over half of elevator market revenue comes from maintenance and refurbishment and this is set to continue its current growth trajectory of around 5% per year.

An increasing focus on home security is driving market growth in wireless security systems that often integrate fire detection as a secondary function. We are establishing ourselves as a major wireless smoke detector supplier in this sizeable, growing market. The automatic door market is also evolving towards system integration. Our ability to link up with alarm and building management systems and with the outside world in general is becoming an increasingly important part of our strategy.

## **Geographic trends**

Our automatic door control products continued to penetrate more geographic markets. Action has been taken in Eastern Europe, the Nordics, South America, Canada, Australia, Japan, India and the Middle East. Dedicated resources have been put in place to fuel our growth in those regions. A new regional sales office in Singapore was established in 2015. Our global account management and local presence allows us to efficiently supply and support those regions. Additionally, we actively seek local distributors to grow our market share.

The EMEA and US fire detection markets have predicted growth rates of 4% which, together with increasing our market share, provides healthy growth opportunities. China is projected to have the fastest growing fire detection market with growth estimated to be over 8% per year. South East Asia is also exhibiting strong growth of over 7%.

China remains a key growth market for our elevator products. As it matures from a market predominately dependent on new installations, to one driven by maintenance and refurbishment, the market will continue to grow. The mature western markets are forecast to continue to grow broadly in line with GDP while the rest of Asia-Pacific (including India) is forecast to grow in the region of 10%.

In security, we have a strong position in the UK market. There is an increasing contribution from India where many new bank branches are being built outside major cities and all are required to install intruder alarm systems.

## **Strategy**

In automatic door sensors our strategy is based on the application of our core competency – detecting people, vehicles and objects – into a broader range of markets such as transport and security. We have developed novel new laser-based sensor platforms which are enabling us to grow market share in our core pedestrian door market and open up new opportunities.

Halma's fire companies are increasingly focused on meeting customers' needs by supplying systems in addition to our system components, such as fire detectors. The acquisition of Advanced Electronics last year has accelerated this approach. The US market continues to deliver strong returns and this will be boosted by the introduction of significant new products over the next few years. In China we are focusing on the upper market segment as this important market continues to grow and is becoming more regulated.

Despite the changes in regulatory standards for elevator door detectors, this remains a market with price pressure, especially on new installations. However, as maintenance and refurbishment increasingly becomes the main global market our focus on premium products will, over time, increase sales and margins. We continue to diversify into other sections of the elevator market, namely LCD displays and elevator phones. The global market for phones is estimated to be around the

same size as the elevator door detector market and the in-car display market is at least twice the size.

Our security sensors business growth strategy is based on new product innovation which provides added functionality and ease of installation. We increased investment in the development of new wireless intrusion detection products and associated 'smart' security and building automation systems.

### **Performance**

The sector delivered strong revenue and profit growth in 2015/16. Revenue grew by 13% to £265m (2015: £234m) and profit<sup>1</sup> rose by 12% to £56m (2015: £50m). At constant currency, organic revenue was up 6% and profit up 5%. We continue to exceed Group targets on Return on Capital Employed and cash generation.

Return on Sales remained strong at 21.2%, due primarily to successful new product launches and an effective balance between investment and cost control to maintain margins. Revenue in all major markets increased during the year, with 4% growth in the UK and 48% in Africa, Near and Middle East. In the USA we achieved 39% growth.

Our door sensors business performed well in all segments, driven by increased market demand for safety around the door and an enlarged customer base. Our strategy of diversification, with its focus on the transportation and security market, also delivered strong growth thanks to increased demand for sensor applications based on our advanced laser technology.

Our fire business surpassed the previous year's performance. The first full year of the Advanced Electronics acquisition went well and the company performed above expectations. Firetrace met expectations in the first six months post acquisition.

Due to increased competition, especially in China, demand for our elevator door sensors was lower and sales of our elevator displays were flat. However, there was strong growth in sales of our telephone products.

In Security, we experienced a challenging year, due primarily to currency headwinds in our two major market areas, Europe and South Africa.

### **Outlook**

Our door sensors business is expected to continue its growth in all regions. We will continue to invest in geographic growth and in all segments, supported by ongoing investment in new technologies, the development of new competitive products and sales and marketing.

The outlook for our fire companies is strong, with a growing market and several new products on the horizon.

Profitability is expected to stabilise in elevator safety due to a more regional-based sales structure and an increased focus on new product development.

In security markets, we foresee a recovery due primarily to a higher level of interest in wireless security systems and continued growth of the 'smart buildings' market.

We have a pipeline of potential acquisitions and aim to continue to add complementary businesses to the sector. The sector expects to make progress in the year ahead.

<sup>1</sup> See note 2 to the Results.

## Medical Sector Review

**Products which enhance the quality of life for patients and improve the quality of care delivered by providers. Devices that assess eye health, assist with eye surgery and primary care applications. Critical fluidic components used by medical diagnostic OEMs and laboratories. Sensor technologies used in hospitals to track assets and support patient and staff safety.**

### **Adam Meyers, Sector Chief Executive, Medical**

The Medical sector delivered good organic revenue and profit growth in all of our niches, reaching record revenue and profit levels yet again. Profit and revenue growth, ROS and ROCE continue well above Group targets. We continued to strengthen the Medical sector organisation to support organic growth and acquisition activity.

Revenue allocated to R&D has increased, strengthening our innovative technology development pipeline and helping to fuel revenue growth. Despite this and other investments our cash contribution was still above Group target.

Three new businesses were acquired during the year. We continue to focus on acquiring in this sector.

### **Market trends and growth drivers**

The Medical sector growth driver of increasing demand for healthcare is underpinned by:

- worldwide population ageing and increasing life expectancy
- increasing prevalence of diabetes, obesity and hypertension
- increasing healthcare access in developing economies
- new medical diagnostic technologies
- new or improved surgical and pharmaceutical therapies

Global demand for medical devices is forecast to continue to grow by about 5% per year for the next few years with the highest growth of 8.5% in Asia.

A steady rise in the proportion of the global population aged over 60 drives demand for healthcare, in both developed and developing countries. Because eyesight problems and high blood pressure are both age-related, population ageing is a key driver for our ophthalmology and hypertension management businesses.

A third of American adults suffer from high blood pressure; this chronic disease is the primary, or contributing, cause of over 2.4 million American deaths each year. The prevalence of obesity throughout the world has almost doubled in the past 25 years leading to increases in both hypertension-related illness and diabetes-related eye disorders.

In China about 325 million adults have high blood pressure (the primary cardiovascular disease risk factor). Half of Chinese adults with hypertension are unaware of their condition and only 34% use anti-hypertensive drugs.

Cataract surgery is one of the most frequent surgical operations carried out worldwide. The estimated 20 million cataract operations carried out globally each year is forecast to grow by 5% annually until 2019.

Hospitals in both developed and developing markets are under pressure to improve patient outcomes, reduce costs, improve throughput and ensure safety of staff and patients. Our Real Time Location Systems (RTLS) let hospital managers track and monitor the location of patients, equipment and staff to cut costs and improve patient care. The global market for RTLS is forecast to grow at about 33% per year between 2015 and 2020.

Liquid handling is the principal process in laboratory automation and demand for our critical fluidic components is poised to grow at a CAGR of over 6%, at least until 2020. The largest geographic markets for laboratory automation are North America and Europe while Asia is expected to have the highest growth rate.

Each year the medical product regulatory environment gets tougher; product registration costs rise, testing is more rigorous and more audits are needed. The growing complexity of medical device registration underlines the value of our investment in well-established medical sales channels and market access.

### **Geographic trends**

While the global medical device market growth should provide opportunity for sustained revenue growth, we anticipate geographic variation due to local economic conditions, government spending programmes and currency fluctuations.

Medical device demand in North America, the largest global market for medical device technologies, is forecast to have a 3.7% CAGR until 2018, whereas Asia is expected to grow at a CAGR of 8.5%. In Europe medical device demand is forecast to grow at a CAGR of about 4% until 2018.

US healthcare spending was again stronger than anticipated in the past year and is forecast to rise by about 6% per year until 2024. This strong growth is due to many more Americans benefiting from health insurance through the Affordable Care Act, economic growth and the transition of an ageing population into the Medicare system. By 2024 the US government predicts that nearly US\$1 in every US\$5 spent will be on healthcare. We expect continued growth in the market for single-use surgical devices in the USA, but capital equipment sales may grow slowly.

Demand for ophthalmic products in China is growing fast at about 15% a year and the market is forecast to double in size by 2021. Our Chinese investment continues – more product registrations, more R&D engineers and development of localised products.

Although 400,000 people become blind from cataracts every year in China, it has the lowest cataract surgery rate in Asia. Cataract surgery rates in China will increase as access is improved, particularly in rural areas. However, government pressure on top urban hospitals and preferences for local products is producing a more challenging environment in China in

the short term.

### Strategy

The Medical sector is focused on enhancing the quality of life for patients and improving the quality of care delivered by providers. We serve niche applications in global markets. By investing in our current portfolio, and through acquiring additional companies, we aim to continue to deliver growth rates above Group targets.

Our businesses fall into two segments; Patient Care and Provider Solutions. The Patient Care segment involves businesses that develop and market devices to measure the health of patients. Areas of focus include ophthalmology and vital signs monitoring. In the Provider Solutions segment, we deliver products to diagnostic equipment manufacturers, laboratories and hospitals. Areas of focus here include critical fluidic components for instruments such as blood analysers, finished devices for laboratories, and sensor technologies that track assets and support patient and staff safety.

Key strategic initiatives to increase growth organically and via acquisition include:

- increasing collaboration to drive expansion and joint product development
- increasing R&D investment to broaden product lines and commercialise innovative new products
- further geographic penetration and increased local manufacturing
- improving talent and increasing diversity
- adjacent market niche expansion

We measure active collaboration across the sector and have seen an increase of 83% in inter-company trading this year. Collaboration on R&D projects continues within and outside the sector.

As indicated last year, R&D investment increased and reached 4.5% of revenue. This is an increase in spending of £2m and is now above Group target. Increased investment was mostly within the Patient Care segment.

Medical sector R&D focuses on components and instrumentation that will be readily accepted by our existing conservative customer base. We have begun expanding local development and manufacturing efforts in emerging markets to better satisfy local customer needs. This year we launched a locally developed and manufactured blood pressure device in China and began registering more devices for local manufacture there.

A growing Medical sector sales team in China jointly markets many of our ophthalmologic products. Collaborative selling helps us recruit high calibre talent and share customer intelligence and distribution channels. We also plan to set up a medical product manufacturing hub in Shenzhen.

### Performance

The Medical sector grew revenue by 17% to £199m (2015: £169m) and profit<sup>1</sup> by 14% to £52m (2015: £45m). Organic constant currency revenue growth and organic constant currency profit growth were 10% and 9% respectively.

We delivered revenue growth in major geographies with the USA ahead 23%, Europe up 19% and Asia Pacific ahead 20%. We also delivered 8% growth in the UK but were disappointed in Rest of World growth down 3%, largely due to a slowdown in Latin America.

Return on Sales remained strong at 26% despite increased investment, particularly in R&D.

Cash generation was above the Group target of 85% as we make investments to continue our strong revenue growth. We completed three acquisitions: VAS; Visiometrics; and CenTrak.

### Outlook

In the medium term we expect our Patient Care and Provider Solutions segments to outperform the market with sales driven by enhanced distribution in export markets, new products, increased penetration in existing markets and acquisitions.

The Medical businesses acquired in 2015/16 will have a significant positive impact on the sector's results in 2016/17 and beyond. We continue to build our pipeline of acquisition targets both within existing and adjacent niches.

<sup>1</sup> See note 2 to the Results.

# Environmental & Analysis Sector Review

**Products and technologies for analysis in safety, life sciences and environmental markets. Market-leading opto-electronic technology and gas conditioning products. Products to monitor water networks, UV technology for disinfecting water and water quality testing products.**

## **Chuck Dubois, Sector Chief Executive, Environmental & Analysis**

The Environmental & Analysis sector achieved record revenue and profit.

There was strong growth in emerging markets, in particular China and India. Our water network monitoring companies benefited from the new five-year investment cycle in the UK water industry. Renewed international emphasis on climate change is strengthening the position of our environmental applications.

The contribution to growth from new products continues to rise, specifically for our photonics businesses, and places us in a strong position for sustained growth in the future.

## **Market trends and growth drivers**

Our products protect and analyse the air we breathe, the water we drink and the food we eat. They enable the development and manufacture of new products that improve our health and well-being. The Environmental & Analysis sector long-term growth is sustained by four key drivers:

- increasing demand for life-critical resources such as energy and water
- increasing environmental monitoring and regulations
- scientific advances transferring into new industries
- worldwide population ageing and increasing standards of living

According to the United Nations, by 2030 demand for water may be 40% higher than supply. By 2050 water shortages are expected to affect over 50% of the global population due to increasing water usage by agriculture, manufacturing, domestic usage and energy production. Energy production is water-intensive and, with the world's population expected to reach 8 billion by 2025, an ever stronger emphasis is placed on energy management and efficiency. Our diversification in energy monitoring and building management systems, and continued efforts in water conservation technologies capture growth from these trends.

Today 1.8 billion people drink faecally-contaminated water and an even greater number drink water that is unsanitary. Our water testing kits help protect an increasing number of people in remote areas.

The UN Climate Change Conference in Paris in 2015 reiterated the efforts to limit global warming, and reach carbon neutrality in the second part of the 21st century. The EU is targeting a 40% emission reduction by 2030 compared to 1990 levels. This will multiply the opportunities for our environmental monitoring and analysis products.

Rapid urbanisation particularly affects air pollution. An estimated 80% of global greenhouse gas emissions are derived from cities, where 50% of the population being monitored is exposed to air pollution that is at least 2.5 times higher than the WHO recommended levels. Our mass flow meters are used to calibrate pollution monitoring equipment.

In China only 9% of the 190 largest cities meet the National Ambient Air Quality Standards. Our new gas conditioning equipment is suitable to measure the finest particles which are believed to be the greatest risk to health.

R&D investment continues to generate opportunities in adjacent and new markets. Increasing demand for calibration and quality control sensors is a strong driver for our technologies in food processing, pharmaceuticals and agriculture. Increasing adoption of cloud computing and extension of digital communications into new areas boosts demand for our technologies that enhance data communication.

Rising concerns about food safety are creating opportunities in both developed and developing economies.

By 2030, 150 million more city dwellers will be 65 or older, increasing the share of the population at higher risk from contamination of food and water.

## **Geographic trends**

The Environmental & Analysis sector sells into diverse market niches. The modest growth rates of the developed economies are being exceeded by, and at a more accelerated pace in, emerging economies.

Sales in emerging markets continue to grow strongly, reaching 30% of sector revenue. Developing world economic growth is driving profound transformations, raising expectations for cleaner air, purer water and safer food. China's environmental concerns are driving strong sales in environmental monitoring water testing, building on expanded R&D and manufacturing.

Food contamination scandals throughout the world are rising. Governments in emerging markets are tightening food quality regulations and the Food Safety Modernization Act is beginning to have an impact in the USA. Opportunities for our spectroscopy applications in the food safety market are appearing globally.

India is a key market for our light measurement equipment, where our technology is used to calibrate scientific instruments for remote sensing. We expect this to continue to grow in the coming year as governmental spending grows.

Our water network monitoring companies are benefiting from the new five-year investment cycle in the UK water industry, while diversification into energy distribution monitoring is a growing niche for sales of their sensors and data loggers.

Demand for water quality testing by NGOs, particularly in Africa and South America, continues to grow. Implementation of

water safety regulations in China is also fuelling growth for our water quality test kits.

### **Strategy**

Environmental & Analysis growth strategy centres on market-led new product development, geographic expansion and collaboration to increase market reach.

R&D is focused on applications with long-term drivers and defensible positions. Our businesses have increased marketing spend to ensure that new products fulfil specific market needs.

We continue to invest in hiring high calibre people in developing regions. As the sector expands in emerging markets, products to meet regional customer need and local manufacture continues to increase.

Our businesses share knowledge and have a strong pipeline of joint development projects. Several businesses re-sell other sector companies' products, and there are many active joint sales and marketing projects.

Acquisitions are integral to our sector growth strategy and we expect this to be a key part of our growth story in the future.

### **Performance**

The Environmental & Analysis sector grew revenue by 15% to £189m (2015: £164m) and profit<sup>1</sup> by 26% to £34m (2015: £27m). At constant currency, organic revenue growth was 11% and organic profit growth was 21%. Return on Sales improved to 18.3% (2015: 16.7%) and was back above Group target.

This was a strong year for our photonics businesses. R&D projects created opportunities in existing and new markets, geographies and applications. As increasing numbers of industrial processes need more sophisticated measurement devices, we have been able to capture substantial growth.

China provided substantial growth for our water business, as we developed test kits specific to new environmental regulations. The return of business in the Middle East, along with the start of the new AMP five-year capital investment cycle in the UK, drove growth at our water monitoring businesses.

Continuing emerging market growth created a favourable environment for rising sales at our gas conditioning businesses where new products penetrated growth markets in China and India and increased developed region revenue.

### **Outlook**

Externally, global population growth, population ageing and increasing standards of living are driving demand for basic energy resources, cleaner air, safer water and food and healthcare spending. Our products and companies are well positioned to continue to take advantage of these long-term growth drivers.

We are strengthening our acquisition pipeline, and we expect to add complementary businesses in the coming years.

<sup>1</sup> See note 2 to the Results.

# Principal Risks and Uncertainties

Halma's principal risks and uncertainties are detailed below and are supported by the robust risk management and internal control systems and procedures noted in the Annual Report and Accounts 2016.

Risk description	Potential impact	Mitigation
<b>Globalisation</b> The global interconnectedness of operations poses wide-ranging challenges across the Group especially where businesses manage operational matters via remote locations; the increasing global spread of our businesses, particularly in China, requires additional vigilance over communication, culture, training and export controls/sanctions in order to anticipate and contain any vulnerabilities.	<ul style="list-style-type: none"> <li>- Weakening of financial, tax, audit and legal control and divergence from overall Group strategy in remote operations, leading to businesses taking on more risks than intended or unexpected financial outcomes.</li> <li>- Failure to comply with local laws and regulations in unfamiliar territories, leading to reputational issues and legal or regulatory disputes.</li> <li>- Continued international growth increases risk.</li> <li>- Missed opportunities due to failure to mobilise resources efficiently.</li> </ul>	<ul style="list-style-type: none"> <li>- Control is exercised locally in accordance with the Group's policy of autonomous management. We seek to employ local high-quality experts.</li> <li>- The increasing geographic diversity of operating personnel emphasises the importance the Group places on local knowledge and experience.</li> <li>- The Group's acquisition model ensures retention of management and staff in acquired businesses, meaning that local expertise is retained.</li> <li>- Sector Chief Executives ensure that overall Group strategy is fulfilled through ongoing review of the businesses. The right balance between autonomy and adherence to the overall objectives of the Group is a key function of the Sector Chief Executives, Sector Vice Presidents and Senior Finance Executives.</li> <li>- Regular visits to remote operations and maintenance of key adviser relationships by senior management, finance staff and Internal Audit support local control.</li> <li>- The Group's geographic and product diversity reduces risk.</li> </ul>
<b>Competition</b> The Group faces competition in the form of pricing, service, reliability and substitution.	<ul style="list-style-type: none"> <li>- Loss of market share due to price pressure and changing markets.</li> <li>- Reduced financial performance arising from competitive threats both from third parties and customers bringing production in-house.</li> </ul>	<ul style="list-style-type: none"> <li>- By empowering and resourcing innovation in local operations to respond to changing market needs, the potential adverse impact of downward price pressure and competition can be mitigated and growth maintained.</li> <li>- 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.</li> <li>- The Group operates in specialised global niche markets offering high barriers-to-entry.</li> </ul>
<b>Economic conditions</b> 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.	<ul style="list-style-type: none"> <li>- Reduced financial performance.</li> <li>- Loss of market share.</li> <li>- Unforeseen liabilities.</li> <li>- Disruption of service to customers.</li> <li>- Breaches of legal or regulatory requirements resulting in fines/penalties impacting the Group financially and reputationally.</li> <li>- Potential impairment of goodwill.</li> </ul>	<ul style="list-style-type: none"> <li>- Risks are primarily managed at the operating company level where local knowledge is situated. The financial strength and availability of pooled finances within the Group mitigates local risks faced by operating companies as does the robust credit management processes in place across the Group.</li> <li>- The Halma Executive Board identifies any wider trends which require action.</li> <li>- The Group's geographic diversity limits its exposure to economic risk arising in any one territory. The Group does not have significant operations, cash deposits or sources of funding in economically uncertain regions.</li> </ul>
<b>Financial Funding</b> A key risk is that the Group may run out of cash or not have access to adequate funding. In addition, cash deposits are required to be held in a secure form and location.	<ul style="list-style-type: none"> <li>- Constraints on trading and/or acquiring new companies limiting the Group's growth aspirations.</li> <li>- Availability of additional funding in traditional debt markets.</li> <li>- Permanent loss of shareholders' funds and/or restrictions on dividend payments.</li> <li>- Gearing has increased during the year.</li> </ul>	<ul style="list-style-type: none"> <li>- The strong cash flow generated by the Group provides financial flexibility.</li> <li>- Cash needs are monitored regularly. In addition to short-term overdraft facilities, the Group renewed and increased to £360m its five-year revolving credit facility in 2013 providing security of funding and sufficient headroom for its current needs.</li> <li>- The Group increased its funding capacity in 2016 via a US\$250m US Private Placement.</li> <li>- Cash deposits are monitored centrally and spread amongst a number of high credit-rated banks.</li> </ul>

<p><b>Treasury</b> Breaches of banking/USPP covenants and foreign currency risk are the most significant treasury-related risks for the Group. In times of increased volatility this can have a significant impact on performance. The Group is exposed to a lesser extent to other treasury risks such as interest rate risk and liquidity risk.</p>	<ul style="list-style-type: none"> <li>- Volatile financial performance arising from translation of earnings from the Group's increasing proportion of overseas operations or poorly-managed foreign exchange exposures.</li> <li>- Deviation from core strategy through the use of speculative or overly complex financial instruments.</li> <li>- Financial penalties, reputational damage and withdrawal of facilities arising from breach of banking/USPP covenants.</li> <li>- Increased interest rate risk on higher forecast borrowings.</li> </ul>	<ul style="list-style-type: none"> <li>- The risk has increased because more of the Group's profits are derived from non-Sterling currencies. 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.</li> <li>- The Group does not use overly complex derivative financial instruments and no speculative treasury transactions are undertaken.</li> <li>- We closely monitor performance against the financial covenants on our revolving credit facility and USPP and operate well within these covenants.</li> </ul>
<p><b>Pension deficit</b> To meet our pension obligations, we must adequately fund our closed UK defined benefit pension plans.</p>	<ul style="list-style-type: none"> <li>- Excessive consumption of cash, limiting investment in operations.</li> <li>- Unexpected variability in the Company's financial results.</li> </ul>	<ul style="list-style-type: none"> <li>- 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.</li> <li>- The Group has maintained additional pension contributions with the overall objective of paying off the deficit in line with the Actuary's recommendations. Alternative means of reducing pension risk is evaluated in light of the best long-term interest of shareholders.</li> </ul>
<p><b>Cyber security/Information Technology/Business interruption</b> Group and operational management depend on timely and reliable information from our IT systems to run their businesses. We seek to ensure continuous availability, security and operation of those information systems. Cyber threats continue to show an increasing trend.</p>	<ul style="list-style-type: none"> <li>- Delay or impact on decision making through lack of availability of sound data or disruption in/denial of service.</li> <li>- Reduced service to customers due to poor information handling or interruption of business.</li> <li>- Prevention, detection and containment of global threats to systems and critical information are inadequate.</li> <li>- Loss of commercially sensitive and/or personal information.</li> <li>- Intended and unintended actions of employees cause disruption, including fraud.</li> </ul>	<ul style="list-style-type: none"> <li>- There is substantial redundancy and back-up built into Group-wide systems and the spread of business offers good protection from individual events.</li> <li>- A small central resource, Halma IT Services, assists Group companies with strategic IT needs and ensures adequate IT security policies are used across the Group.</li> <li>- An IT security committee was set up in December 2012 comprising central and subsidiary IT personnel.</li> <li>- Halma IT has been ISO 27001: 2013 certified for its information security management systems.</li> <li>- Regular IT health checks are conducted. Comprehensive IT systems monitoring was introduced in 2014.</li> <li>- Cyber risk and security is a regular Board agenda item addressing the landscape as it evolves.</li> <li>- External penetration testing is utilised and the rollout of a centralised IT disaster recovery solution to supplement local processes has been completed.</li> <li>- Business continuity plans exist for each business unit and with ongoing testing.</li> <li>- Education/awareness of cyber threats continues to ensure Group employees protect themselves and Group assets.</li> </ul>
<p><b>Acquisitions</b> The identification and purchase of businesses which meet our demanding financial and growth criteria are an important part of our strategy for developing the Group, as is ensuring the new businesses are rapidly integrated into the Group.</p>	<ul style="list-style-type: none"> <li>- Failure to attract sufficient numbers of high-quality businesses to meet our strategic growth target.</li> <li>- Failure to deliver expected results resulting from poor acquisition selection.</li> <li>- Failure to identify new markets in which to expand.</li> <li>- Reduced financial</li> </ul>	<ul style="list-style-type: none"> <li>- The sector restructuring in April 2014 freed up additional resource to focus on M&amp;A activities supported by the appointment of dedicated sector acquisition personnel. Such resources remain under constant review.</li> <li>- We acquire small and medium sized businesses whose technology and markets we know well or who operate in adjacent markets.</li> <li>- Sector Chief Executives are responsible for finding and completing acquisitions in their business sectors, subject to Board approval, supported by sector and central resources, as necessary. We employ detailed post-acquisition integration plans.</li> <li>- Thorough due diligence is performed by a combination of in-house and external experts to ensure that a comprehensive appraisal of the commercial, legal and financial position of every target is obtained.</li> </ul>

	<p>performance arising from failure to integrate acquisitions into the Group.</p> <ul style="list-style-type: none"> <li>- Unforeseen liabilities arising from a failure to understand acquisition targets fully.</li> </ul>	<ul style="list-style-type: none"> <li>- Incentives are aligned to encourage acquisitions which are value-enhancing from day one.</li> </ul>
<p><b>Laws and regulations</b> Group operations are subject to wide-ranging laws and regulations including business conduct, employment, export controls/sanctions, 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.</p>	<ul style="list-style-type: none"> <li>- Unfavourable changes in laws and regulations that restrict the export of our products.</li> <li>- Reputational damage and/or loss arising from inadvertent non-compliance.</li> <li>- Diversion of management resources resulting in lost opportunities.</li> <li>- Penalties arising from breach of laws and regulations.</li> <li>- Loss of revenue and profit associated with contractual disputes.</li> </ul>	<ul style="list-style-type: none"> <li>- The Group's emphasis on excellent internal controls, high ethical standards, the deployment of high-quality management resources and the strong focus on quality control over products and processes in each operating business help to protect us from product failure, litigation, fraudulent activities and contractual issues.</li> <li>- Each operating company has a health and safety manager responsible for compliance and our performance in this area is good. Health and Safety policies, guidance and monthly reporting requirements are updated to reflect changing reporting and governance requirements and to enhance compliance. Our well-established policies on bribery and corruption have been maintained during the year to ensure continued compliance with best practice internally, via the Group Code of Conduct and externally, via appropriate clauses included in third-party agreements.</li> <li>- Comprehensive insurance covers all standard categories of insurable risk. Contract review and approval processes mitigate exposure to contractual liability.</li> <li>- The Group's whistleblowing policy and externally facilitated hotline assist the timely identification of potential problem areas.</li> <li>- Continued investment in international markets may introduce additional risk while we develop the appropriate commercial infrastructure necessary to build a direct presence.</li> </ul>
<p><b>Succession planning and staff quality</b> Group performance is dependent on having high-quality leaders at all levels and an organisation allowing us to continue to grow through acquisition as well as driving organic growth.</p>	<ul style="list-style-type: none"> <li>- Failure to recruit and to retain key staff leading to reduced innovation and progress in the business.</li> <li>- Unethical actions of staff causing reputational damage to the Group.</li> <li>- Acquisition growth limited due to our organisation's and leaders' inability to effectively manage acquisition integration.</li> <li>- International growth increasing the need for high-quality local talent.</li> </ul>	<ul style="list-style-type: none"> <li>- Group development programmes are under continuous development to ensure they deliver enhanced skills for executives and middle managers as needed in their current and future roles.</li> <li>- Comprehensive recruitment and ongoing evaluation processes assist high-quality hiring and development.</li> <li>- The Group regularly surveys staff to assess the alignment of individuals with Group values.</li> <li>- The Group Talent Director assists the identification and development of Group executives.</li> <li>- Ongoing focus on increasing the diversity of our employees worldwide to better meet our markets' needs and provide sufficient opportunities for advancement as well as clear succession planning.</li> <li>- Considerable time spent assessing senior management talent and establishing better processes to improve the talent pipeline has advanced our succession planning and talent quality.</li> </ul>
<p><b>Research &amp; Development and Intellectual Property strategy</b> New, high-quality products are critical to our organic growth and underpin our ability to earn high margins and high returns over the long term.</p>	<ul style="list-style-type: none"> <li>- Loss of market share resulting from product obsolescence and failure to innovate to meet customer needs.</li> <li>- Loss of market share resulting from a failure to protect key intellectual property.</li> <li>- Loss of market share resulting from product quality issues including the necessity to recall/replace product.</li> <li>- Diversion of resources to address related matters.</li> </ul>	<ul style="list-style-type: none"> <li>- Devolving control of product development to the autonomous operating businesses spreads risk and ensures that the people best placed to service the customers' needs are driving innovation.</li> <li>- New product development 'best practice' is shared between Group companies and return on investment of past and future innovation projects is tracked monthly. This ensures that the collective experience and expertise of the Group can be utilised to maximum effect.</li> <li>- Large R&amp;D projects, especially those which are capitalised, require Head Office approval, ensuring that the Group's significant projects are aligned to overall strategy.</li> <li>- Workforce quality and retention is a central objective. This focus ensures that intangible resources stay and grow within the business.</li> <li>- Operating businesses are actively encouraged to develop and protect know-how in local jurisdictions.</li> <li>- Innovation is encouraged and fostered throughout the Group, inter alia, via the Halma Innovation Awards.</li> </ul>

## Going Concern Statement

The Group's business activities, together with the main trends and factors likely to affect its future development, performance and position, and the financial position of the Group, its cash flows, liquidity position and borrowing facilities, are set out herein.

The Group has considerable financial resources (including a £360m five-year revolving credit facility, of which £236m was undrawn at 2 April 2016) 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.

## Longer-term Viability

During the year, the Board carried out a robust assessment of the principal risks affecting the Company, including those that would threaten its business model, future performance, solvency or liquidity. The Board has assessed the viability of the Company over a three year period, taking into account the Group's current position and the potential impact of the principal risks and uncertainties. Whilst the Board has no reason to believe that the Group will not be viable over a longer period, it has determined that three years is an appropriate period, as it is aligned with the Group's strategic planning process and therefore provides greater certainty over forecasting and, therefore, increases reliability in the modelling and stress testing of the Company's viability.

In making their assessment, the Board carried out a comprehensive exercise of financial modelling and stress-tested the model with various scenarios based on the principal risks identified in the Group's annual risk assessment process. In each scenario, the effect on the Group's KPIs and borrowing covenants was considered, along with any mitigating factors.

Based on this assessment, the Board confirms that they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the three year period to 31 March 2019. The full Viability Statement is set out in the Annual Report and Accounts 2016.

## Responsibility Statement of the Directors on the Annual Report and Accounts

The responsibility statement below has been prepared in connection with the Company's full Annual Report and Accounts for the 53 weeks to 2 April 2016. Certain parts thereof are not included within these Results.

We confirm that to the best of our knowledge:

1. the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, 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;
2. the Strategic 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; and
3. the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position, performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on 14 June 2016 and is signed on its behalf by:

A J Williams  
Chief Executive

K J Thompson  
Finance Director

# Results for the 53 weeks to 2 April 2016

## Consolidated Income Statement

	Notes	53 weeks to 2 April 2016			52 weeks to 28 March 2015		
		Before adjustments* £000	Adjustments* (note 2) £000	Total £000	Before adjustments* £000	Adjustments* (note 2) £000	Total £000
<b>Continuing operations</b>							
<b>Revenue</b>	2	807,805	–	807,805	726,134	–	726,134
<b>Operating profit</b>		173,225	(30,282)	142,943	158,500	(21,437)	137,063
Share of results of associate		(159)	–	(159)	64	–	64
Profit on disposal of operations	9	–	556	556	–	1,430	1,430
Finance income	3	217	–	217	167	–	167
Finance expense	4	(7,269)	–	(7,269)	(5,113)	–	(5,113)
<b>Profit before taxation</b>		166,014	(29,726)	136,288	153,618	(20,007)	133,611
Taxation	5	(36,373)	8,926	(27,447)	(35,706)	6,096	(29,610)
<b>Profit for the year attributable to equity shareholders</b>	2	129,641	(20,800)	108,841	117,912	(13,911)	104,001
<b>Earnings per share</b>	6						
<b>From continuing operations</b>							
Basic		34.26p		28.76p	31.17p		27.49p
Diluted				28.76p			27.48p
<b>Dividends in respect of the year</b>	7						
Paid and proposed (£000)				48,472			45,229
Paid and proposed per share				12.81p			11.96p

\* Adjustments include the amortisation of acquired intangible assets; acquisition items; profit or loss on disposal of operations; and the associated taxation thereon.

## Consolidated Statement of Comprehensive Income and Expenditure

	53 weeks to 2 April 2016 £000	52 weeks to 28 March 2015 £000
<b>Profit for the year</b>	<b>108,841</b>	<b>104,001</b>
<b>Items that will not be reclassified subsequently to the Consolidated Income Statement:</b>		
Actuarial gains/(losses) on defined benefit pension plans	8,841	(34,795)
Tax relating to components of other comprehensive income that will not be reclassified	(2,304)	6,791
<b>Items that may be reclassified subsequently to the Consolidated Income Statement:</b>		
Effective portion of changes in fair value of cash flow hedges	(990)	71
Exchange gains on translation of foreign operations and net investment hedge	30,036	30,900
Exchange losses transferred to Income Statement on disposal of operation	22	189
Tax relating to components of other comprehensive income that may be reclassified	209	(23)
<b>Other comprehensive income for the year</b>	<b>35,814</b>	<b>3,133</b>
<b>Total comprehensive income for the year attributable to equity shareholders</b>	<b>144,655</b>	<b>107,134</b>

The exchange gain of £30,036,000 (2015: gain of £30,900,000) includes gains of £9,336,000 (2015: gains of £862,000) which relate to net investment hedges as described in the Annual Report and Accounts 2016.

## Consolidated Balance Sheet

	2 April 2016 £000	28 March 2015 £000
<b>Non-current assets</b>		
Goodwill	544,259	406,190
Other intangible assets	231,753	138,691
Property, plant and equipment	96,562	86,303
Interest in associate	3,722	4,236
Deferred tax asset	44,424	28,596
	<b>920,720</b>	<b>664,016</b>
<b>Current assets</b>		
Inventories	105,318	79,734
Trade and other receivables	183,619	156,464
Tax receivable	190	20
Cash and bank balances	53,938	41,230
Derivative financial instruments	1,131	1,069
	<b>344,196</b>	<b>278,517</b>
<b>Total assets</b>	<b>1,264,916</b>	<b>942,533</b>
<b>Current liabilities</b>		
Trade and other payables	122,791	102,717
Borrowings	4,748	1,705
Provisions	4,437	11,746
Tax liabilities	15,158	12,405
Derivative financial instruments	2,196	636
	<b>149,330</b>	<b>129,209</b>
<b>Net current assets</b>	<b>194,866</b>	<b>149,308</b>
<b>Non-current liabilities</b>		
Borrowings	295,908	140,419
Retirement benefit obligations	52,323	66,790
Trade and other payables	10,153	3,756
Provisions	18,510	1,549
Deferred tax liabilities	92,352	51,862
	<b>469,246</b>	<b>264,376</b>
<b>Total liabilities</b>	<b>618,576</b>	<b>393,585</b>
<b>Net assets</b>	<b>646,340</b>	<b>548,948</b>
<b>Equity</b>		
Share capital	37,965	37,965
Share premium account	23,608	23,608
Own shares*	(8,219)	(8,450)
Capital redemption reserve	185	185
Hedging reserve	(610)	171
Translation reserve	75,387	45,329
Other reserves	(5,831)	(4,073)
Retained earnings	523,855	454,213
<b>Shareholders' funds</b>	<b>646,340</b>	<b>548,948</b>

\* Referred to in prior years as Treasury shares

## Consolidated Statement of Changes in Equity

	Share capital £000	Share premium account £000	Own shares £000	Capital redemption reserve £000	Hedging reserve* £000	Translation reserve* £000	Other reserves £000	Retained earnings £000	Total £000
At 28 March 2015	37,965	23,608	(8,450)	185	171	45,329	(4,073)	454,213	548,948
Profit for the year	–	–	–	–	–	–	–	108,841	108,841
Other comprehensive income and expense:									
Exchange differences on translation of foreign operations	–	–	–	–	–	30,036	–	–	30,036
Exchange losses transferred to Income Statement on disposal of operations	–	–	–	–	–	22	–	–	22
Actuarial gains on defined benefit pension plans	–	–	–	–	–	–	–	8,841	8,841
Effective portion of changes in fair value of cash flow hedges	–	–	–	–	(990)	–	–	–	(990)
Tax relating to components of other comprehensive income	–	–	–	–	209	–	–	(2,304)	(2,095)
Total other comprehensive income and expense	–	–	–	–	(781)	30,058	–	6,537	35,814
Dividends paid	–	–	–	–	–	–	–	(46,473)	(46,473)
Share-based payment charge	–	–	–	–	–	–	3,845	–	3,845
Deferred tax on share-based payment transactions	–	–	–	–	–	–	109	–	109
Excess tax deductions related to share-based payments on exercised awards	–	–	–	–	–	–	–	737	737
Purchase of Own shares**	–	–	(3,003)	–	–	–	–	–	(3,003)
Performance share plan awards vested**	–	–	3,234	–	–	–	(5,712)	–	(2,478)
At 2 April 2016	37,965	23,608	(8,219)	185	(610)	75,387	(5,831)	523,855	646,340

\* The presentation of the Hedging and Translation reserves, which were previously netted, has been amended to show the two reserves and their movements in the year separately. The comparatives have been adjusted to reflect this amended presentation. There has been no impact on Shareholders' funds in either year.

\*\* The purchase of Employee Benefit Trust shares/treasury shares and performance share plan awards vested were shown net in Own shares in prior years, as were the share-based payments charge and performance share plan awards vested in Other reserves. The prior year comparative has been adjusted to show these gross amounts. There has been no impact on Shareholders' funds in either year.

Own shares are ordinary shares in Halma plc purchased by the Company and held to fulfil the Company's obligations under the Group's share plans. At 2 April 2016 the number of treasury shares held was 940,421 (2015: 1,371,785) and the number of shares held by the Employee Benefit Trust was 311,444 (2015: nil). The market value of Own shares was £11,417,000 (2015: £9,616,000).

The Translation reserve is used to record the difference arising from the retranslation of the financial statements of foreign operations. The Hedging reserve is used to record the portion of the cumulative net change in fair value of cash flow hedging instruments that are deemed to be an effective hedge.

The Capital redemption reserve was created on repurchase and cancellation of the Company's own shares. The Other reserves represent the provision for the value of the Group's equity-settled share plans.

	Share capital £000	Share premium account £000	Own shares £000	Capital redemption reserve £000	Hedging reserve* £000	Translation reserve* £000	Other reserves £000	Retained earnings £000	Total £000
At 29 March 2014	37,902	22,778	(7,054)	185	123	14,240	(2,745)	420,571	486,000
Profit for the year	—	—	—	—	—	—	—	104,001	104,001
Other comprehensive income and expense:									
Exchange differences on translation of foreign operations	—	—	—	—	—	30,900	—	—	30,900
Exchange losses transferred to Income Statement on disposal of operations	—	—	—	—	—	189	—	—	189
Actuarial losses on defined benefit pension plans	—	—	—	—	—	—	—	(34,795)	(34,795)
Effective portion of changes in fair value of cash flow hedges	—	—	—	—	71	—	—	—	71
Tax relating to components of other comprehensive income	—	—	—	—	(23)	—	—	6,791	6,768
Total other comprehensive income and expense	—	—	—	—	48	31,089	—	(28,004)	3,133
Share options exercised	63	830	—	—	—	—	—	—	893
Dividends paid	—	—	—	—	—	—	—	(43,399)	(43,399)
Share-based payment charge	—	—	—	—	—	—	3,828	—	3,828
Deferred tax on share-based payment transactions	—	—	—	—	—	—	291	—	291
Excess tax deductions related to share-based payments on exercised awards	—	—	—	—	—	—	—	1,044	1,044
Purchase of treasury shares**	—	—	(6,843)	—	—	—	—	—	(6,843)
Performance share plan awards vested**	—	—	5,447	—	—	—	(5,447)	—	—
At 28 March 2015	37,965	23,608	(8,450)	185	171	45,329	(4,073)	454,213	548,948

\* The presentation of the Hedging and Translation reserves, which were previously netted, has been amended to show the two reserves and their movements in the year separately. There has been no impact on Shareholders' funds in either year.

\*\* The purchase of Employee Benefit Trust shares/treasury shares and performance share plan awards vested were shown net in Own shares in prior years, as were the share-based payments charge and performance share plan awards vested in Other reserves. There has been no impact on Shareholders' funds in either year.

## Consolidated Cash Flow Statement

	Notes	53 weeks to 2 April 2016 £000	52 weeks to 28 March 2015 £000
<b>Net cash inflow from operating activities</b>	10	<b>149,273</b>	137,231
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(22,418)	(22,164)
Purchase of computer software		(1,669)	(1,021)
Purchase of other intangibles		(535)	(382)
Proceeds from sale of property, plant and equipment		2,364	1,411
Proceeds from sale of capitalised development costs		166	–
Development costs capitalised		(8,579)	(7,213)
Interest received		217	134
Acquisition of businesses, net of cash acquired	8	(202,575)	(87,743)
Disposal of operations, net of cash disposed	9	907	4,248
<b>Net cash used in investing activities</b>		<b>(232,122)</b>	(112,730)
<b>Financing activities</b>			
Dividends paid		(46,473)	(43,399)
Proceeds from issue of share capital		–	893
Purchase of Own shares		(3,003)	(6,843)
Interest paid		(4,149)	(3,118)
Loan arrangement fee paid		(770)	–
Proceeds from bank borrowings	10	74,788	68,962
Repayment of bank borrowings	10	(97,000)	(35,341)
Proceeds on issue of loan notes	10	167,473	–
<b>Net cash generated from/(used in) financing activities</b>		<b>90,866</b>	(18,846)
<b>Increase in cash and cash equivalents</b>	10	<b>8,017</b>	5,655
Cash and cash equivalents brought forward		39,525	33,126
Exchange adjustments		1,984	744
<b>Cash and cash equivalents carried forward</b>		<b>49,526</b>	39,525

	Notes	53 weeks to 2 April 2016 £000	52 weeks to 28 March 2015 £000
<b>Reconciliation of net cash flow to movement in net debt</b>			
Increase in cash and cash equivalents		8,017	5,655
Net cash outflow/(inflow) from repayment/(drawdown) of bank borrowings	10	22,212	(33,621)
Proceeds from issue of loan notes	10	(167,473)	–
Net debt acquired		–	(468)
Loan notes issued in respect of acquisitions*		(288)	(657)
Loan notes repaid in respect of acquisitions*		367	2,731
Exchange adjustments		(8,659)	(38)
		<b>(145,824)</b>	(26,398)
Net debt brought forward		<b>(100,894)</b>	(74,496)
<b>Net debt carried forward</b>		<b>(246,718)</b>	(100,894)

\* Of the £657,000 loan notes issued in the prior year £367,000 was converted at par into cash on 17 July 2015. New loan notes were issued totalling £288,000 on 15 April 2015, 8 July 2015 and 30 November 2015 in respect of the acquisition of Advanced Electronics Limited in the prior year. These loan notes, which attract interest at 1%, are convertible into cash at par on each anniversary of the acquisition date until 14 May 2019. A further £336,000 of loan notes outstanding at the balance sheet date were converted at par into cash post year-end on 14 May 2016.

# Notes to the Results

## 1 Basis of preparation

### General Information

The Results are based on the Company's financial statements which are 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.

With the exception of the new standards adopted in the year, as discussed below, there have been no significant changes in accounting policies from those set out in Halma plc's Annual Report and Accounts 2015. The accounting policies have been applied consistently throughout the years ended 2 April 2016 and 28 March 2015 other than those noted below.

The financial information set out in these Results does not constitute the Group's statutory accounts for the years ended 2 April 2016 and 28 March 2015 but is derived from those accounts. Statutory accounts for 2015 have been delivered to the Registrar of Companies and those for 2016 will be delivered following the Company's Annual General Meeting. The auditor's reports on the 2015 and the 2016 accounts were unqualified, did not draw attention to any matters by way of emphasis without qualifying their report and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

The following Standards with an effective date of 1 January 2015 have been adopted without any significant impact on the amounts reported in these financial statements:

IAS19 (amended) 'Defined Benefit Plans: Employee Contributions'

Annual Improvements 2010-2012 Cycle, specifically amendments to IFRS 2 'Share Based Payments' and IFRS 8 'Operating Segments'

Annual Improvements 2011-2013, specifically amendments to IFRS 3 'Business Combinations' and IFRS 13 'Fair Value Measurement'

These Results were approved by the Board of Directors on 14 June 2016.

## 2 Segmental analysis

### Sector analysis

The Group has four reportable segments (Process Safety, Infrastructure Safety, Medical, and Environmental & Analysis), 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.

### Segment revenue and results

	Revenue (all continuing operations)	
	53 weeks to 2 April 2016 £000	52 weeks to 28 March 2015 £000
Process Safety	155,467	158,372
Infrastructure Safety	264,843	234,063
Medical	198,715	169,333
Environmental & Analysis	188,928	164,412
Inter-segmental sales	(148)	(46)
<b>Revenue for the year</b>	<b>807,805</b>	<b>726,134</b>

Inter-segmental sales are charged at prevailing market prices and have not been disclosed separately by segment as they are not considered material. Revenue derived from the rendering of services was £25,134,000 (2015: £22,022,000). All revenue was otherwise derived from the sale of products.

	Profit (all continuing operations)	
	53 weeks to 2 April 2016 £000	52 weeks to 28 March 2015 £000
<b>Segment profit before allocation of adjustments*</b>		
Process Safety	39,557	44,772
Infrastructure Safety	56,167	49,992
Medical	51,695	45,385
Environmental & Analysis	34,527	27,403
	<b>181,946</b>	<b>167,552</b>
<b>Segment profit after allocation of adjustments*</b>		
Process Safety	36,095	40,280
Infrastructure Safety	50,965	49,585
Medical	34,747	31,981
Environmental & Analysis	30,413	25,699
<b>Segment profit</b>	<b>152,220</b>	<b>147,545</b>
Central administration costs	(8,880)	(8,988)
Net finance expense	(7,052)	(4,946)
<b>Group profit before taxation</b>	<b>136,288</b>	<b>133,611</b>
Taxation	(27,447)	(29,610)
<b>Profit for the year</b>	<b>108,841</b>	<b>104,001</b>

\* Adjustments include the amortisation of acquired intangible assets; acquisition items; and profit or loss on disposal of operations.

The accounting policies of the reportable segments are the same as the Group's accounting policies. Acquisition transaction costs, adjustments to contingent consideration and release of fair value adjustments to inventory (collectively 'acquisition items') are recognised in the Consolidated Income Statement. Segment profit, before these acquisition items and the other adjustments, is disclosed separately above as this is the measure reported to the Chief Executive for the purpose of allocation of resources and assessment of segment performance.

These adjustments are analysed as follows:

53 weeks to 2 April 2016							
	Acquisition items						
	Amortisation of acquired intangible assets £000	Transaction costs £000	Adjustments to contingent consideration £000	Release of fair value adjustments to inventory £000	Total amortisation charge and acquisition items £000	Disposal of operations (note 9) £000	Total £000
Process Safety	(3,462)	–	–	–	(3,462)	–	(3,462)
Infrastructure Safety	(2,398)	(1,101)	(827)	(842)	(5,168)	(34)	(5,202)
Medical	(13,018)	(2,926)	(826)	(768)	(17,538)	590	(16,948)
Environmental & Analysis	(4,225)	–	111	–	(4,114)	–	(4,114)
<b>Total Segment &amp; Group</b>	<b>(23,103)</b>	<b>(4,027)</b>	<b>(1,542)</b>	<b>(1,610)</b>	<b>(30,282)</b>	<b>556</b>	<b>(29,726)</b>

The transaction costs arose mainly on the acquisitions (see note 8) of Value Added Solutions, LLC (VAS), Firetrace USA, LLC (Firetrace), Visiometrics, S.L. (Visiometrics), and CenTrak Inc. (CenTrak), which were acquired on 19 May 2015, 5 October 2015, 16 December 2015 and 3 February 2016 respectively.

The £827,000 charge in the Infrastructure Safety sector related to a revision in the estimate of the remaining contingent consideration payable on Advanced Electronics Limited (Advanced) acquired in the prior year. The £826,000 charge in the Medical sector related to exchange differences arising on the revaluation of Visiometric's contingent consideration which is denominated in Euros. The remaining £111,000 credit to contingent consideration related to a revision in the estimate of the remaining payable on a prior year acquisition (ASL) from £197,000 to £86,000.

The release of fair value adjustments to inventory arises from revaluing the inventories of Firetrace and CenTrak at acquisition.

The £590,000 profit on disposal in the Medical sector relates to the disposal of 8.8% of the Group's ownership interest in Optomed Oy on 26 August 2015. See note 9 for further details. The £34,000 loss on disposal of operations relates to warranty claims arising on the Monitor disposal in the prior year.

52 weeks to 28 March 2015							
	Acquisition items						
	Amortisation of acquired intangible assets £000	Transaction costs £000	Adjustments to contingent consideration £000	Release of fair value adjustments to inventory £000	Total amortisation charge and acquisition items £000	Disposal of operations (note 9) £000	Total £000
Process Safety	(3,026)	(928)	–	(538)	(4,492)	–	(4,492)
Infrastructure Safety	(765)	(486)	(102)	(130)	(1,483)	1,076	(407)
Medical	(12,156)	(21)	(1,581)	–	(13,758)	354	(13,404)
Environmental & Analysis	(4,007)	–	2,303	–	(1,704)	–	(1,704)
Total Segment & Group	(19,954)	(1,435)	620	(668)	(21,437)	1,430	(20,007)

The transaction costs arose mainly on the acquisitions of Rohrbach Cosasco Systems Inc. (RCS), Advanced and Plasticspritzerei AG, which were acquired in the prior year. The charge of £1,581,000 to contingent consideration related mainly to a revision in the estimate of the remaining MST payable from US\$6,504,000 to US\$9,061,000. The £2,303,000 credit to contingent consideration related to a revision in the estimate of the remaining ASL payable from £2,500,000 to £197,000. The release of fair value adjustments to inventory arose from revaluing the inventories of RCS and Advanced at acquisition.

## Geographic information

The Group's revenue from external customers (by location of customer) is detailed below:

	Revenue by destination	
	53 weeks to 2 April 2016 £000	52 weeks to 28 March 2015 £000
United States of America	272,933	223,374
Mainland Europe	179,290	167,363
United Kingdom	144,821	138,312
Asia Pacific	124,992	116,842
Africa, Near and Middle East	55,712	44,037
Other countries	30,057	36,206
	<b>807,805</b>	<b>726,134</b>

## 3 Finance income

	53 weeks to 2 April 2016 £000	52 weeks to 28 March 2015 £000
Interest receivable	217	134
Fair value movement on derivative financial instruments	–	33
	<b>217</b>	<b>167</b>

## 4 Finance expense

	53 weeks to 2 April 2016 £000	52 weeks to 28 March 2015 £000
Interest payable on borrowings	4,104	3,090
Amortisation of finance costs	561	530
Net interest charge on pension plan liabilities	2,013	1,419
Other interest payable	45	28
	<b>6,723</b>	<b>5,067</b>
Fair value movement on derivative financial instruments	508	–
Unwinding of discount on provisions	38	46
	<b>7,269</b>	<b>5,113</b>

## 5 Taxation

	53 weeks to 2 April 2016 £000	52 weeks to 28 March 2015* £000
<b>Current tax</b>		
UK corporation tax at 20% (2015: 21%)	9,093	9,397
Overseas taxation	25,014	24,851
Adjustments in respect of prior years	(3,422)	(725)
<b>Total current tax charge</b>	<b>30,685</b>	<b>33,523</b>
<b>Deferred tax</b>		
Origination and reversal of timing differences	(4,833)	(4,075)
Adjustments in respect of prior years	1,595	162
<b>Total deferred tax credit</b>	<b>(3,238)</b>	<b>(3,913)</b>
<b>Total tax charge recognised in the Consolidated Income Statement</b>	<b>27,447</b>	<b>29,610</b>
Reconciliation of the effective tax rate:		
Profit before tax	136,288	133,611
Tax at the UK corporation tax rate of 20% (2015: 21%)	27,258	28,058
Overseas tax rate differences	9,970	7,562
Tax incentives, exemptions and credits (including patent box, R&D and High-Tech status)	(5,964)	(3,675)
Permanent differences	(1,990)	(1,772)
Adjustments in respect of prior years	(1,827)	(563)

	<b>27,447</b>	29,610
<b>Effective tax rate</b>	<b>20.1%</b>	22.2%

\* The comparative has been restated for consistency with the current year disclosure. There is no change to the prior year tax charge.

	<b>53 weeks to 2 April 2016 £000</b>	52 weeks to 28 March 2015 £000
Adjusted* profit before tax	<b>166,014</b>	153,618
Total tax charge on adjusted* profit	<b>36,373</b>	35,706
<b>Effective tax rate</b>	<b>21.9%</b>	23.2%

\* Adjustments include the amortisation of acquired intangible assets; acquisition items; and profit or loss on disposal of operations.

## 6 Earnings per ordinary share

Basic earnings per ordinary share are calculated using the weighted average of 378,412,359 shares in issue during the year (net of shares purchased by the Company and held as own shares) (2015: 378,328,541). Diluted earnings per ordinary share are calculated using the weighted average of 378,412,359 shares (2015: 378,475,804), which includes dilutive potential ordinary shares of nil (2015: 147,263). Dilutive potential ordinary shares were 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 items; profit or loss on disposal of operations; and the associated taxation thereon. 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:

	<b>53 weeks to 2 April 2016 £000</b>	52 weeks to 28 March 2015 £000	<b>Per ordinary share 53 weeks to 2 April 2016 pence</b>	52 weeks to 28 March 2015 pence
<b>Earnings from continuing operations</b>	<b>108,841</b>	104,001	<b>28.76</b>	27.49
Amortisation of acquired intangible assets (after tax)	<b>16,102</b>	14,121	<b>4.26</b>	3.73
Acquisition transaction costs (after tax)	<b>2,941</b>	1,423	<b>0.78</b>	0.38
Release of fair value adjustments to inventory (after tax)	<b>998</b>	474	<b>0.26</b>	0.13
Adjustments to contingent consideration (after tax)	<b>1,315</b>	(1,162)	<b>0.35</b>	(0.31)
Profit on disposal of operations (after tax)	<b>(556)</b>	(945)	<b>(0.15)</b>	(0.25)
<b>Adjusted earnings</b>	<b>129,641</b>	117,912	<b>34.26</b>	31.17

## 7 Dividends

	<b>Per ordinary share 53 weeks to 2 April 2016 pence</b>	52 weeks to 28 March 2015 pence	<b>53 weeks to 2 April 2016 £000</b>	52 weeks to 28 March 2015 £000
<b>Amounts recognised as distributions to shareholders in the year</b>				
Final dividend for the year to 28 March 2015 (29 March 2014)	<b>7.31</b>	6.82	<b>27,629</b>	25,799
Interim dividend for the year to 2 April 2016 (28 March 2015)	<b>4.98</b>	4.65	<b>18,844</b>	17,600
	<b>12.29</b>	11.47	<b>46,473</b>	43,399
<b>Dividends declared in respect of the year</b>				
Interim dividend for the year to 2 April 2016 (28 March 2015)	<b>4.98</b>	4.65	<b>18,844</b>	17,600
Proposed final dividend for the year to 2 April 2016 (28 March 2015)	<b>7.83</b>	7.31	<b>29,628</b>	27,629
	<b>12.81</b>	11.96	<b>48,472</b>	45,229

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting on 21 July 2016 and has not been included as a liability in these financial statements. If approved, the final dividend for 2015/16 will be paid on 17 August 2016 to shareholders on the register at the close of business on 15 July 2016.

The Company offers a Dividend Reinvestment Plan ('DRIP') to enable shareholders to elect to have their cash dividends reinvested in Halma shares. Shareholders who wish to elect for the DRIP for the forthcoming final dividend, but have not already done so, should return a DRIP mandate form to the Company's Registrars no later than 27 July 2016.

## 8 Acquisitions

In accounting for acquisitions, adjustments are made to the book values of the net assets of the companies acquired to reflect their fair values to the Group. Acquired inventories are valued at fair value adopting Group bases and any liabilities for warranties relating to past trading are recognised. Other previously unrecognised assets and liabilities at acquisition are included and accounting policies are aligned with those of the Group where appropriate.

The Group made four acquisitions during the year: Value Added Solutions LLC (VAS); Firetrace USA, LLC (Firetrace); Visiometrics, S.L. (Visiometrics); and CenTrak Inc. (CenTrak).

The four acquisitions in the year contributed £21,798,000 of revenue and £3,128,000 of profit after tax for the year ended 2 April 2016. 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 £38,362,000 and £5,565,000 higher respectively.

The combined fair value adjustments made for all acquisitions, excluding acquired intangible assets recognised and deferred tax thereon, resulted in net adjustments to goodwill of negative £3,262,000.

Below are summaries of the assets and liabilities acquired and the purchase consideration of:

- a) The total of VAS, Firetrace, Visiometrics and CenTrak;
- b) VAS, on a stand-alone basis;
- c) Firetrace, on a stand-alone basis;
- d) Visiometrics, on a stand-alone basis; and
- e) CenTrak, on a stand-alone basis.

### (A) Total of VAS, Firetrace, Visiometrics and CenTrak

	Book value £000	Fair value adjustments £000	Total £000
<b>Non-current assets</b>			
Intangible assets	2,233	101,306	103,539
Investment	14	(14)	–
Property, plant and equipment	742	231	973
Deferred tax	354	148	502
<b>Current assets</b>			
Inventories	12,941	4,146	17,087
Trade and other receivables	12,410	(512)	11,898
Cash and cash equivalents	1,830	–	1,830
<b>Total assets</b>	<b>30,524</b>	<b>105,305</b>	<b>135,829</b>
<b>Current liabilities</b>			
Trade and other payables	(9,984)	4	(9,980)
Provisions	(128)	(872)	(1,000)
Corporation tax	(2)	2	–
<b>Non-current liabilities</b>			
Other payables	(5,578)	5	(5,573)
Deferred tax	–	(24,371)	(24,371)
<b>Total liabilities</b>	<b>(15,692)</b>	<b>(25,232)</b>	<b>(40,924)</b>
<b>Net assets of businesses acquired</b>	<b>14,832</b>	<b>80,073</b>	<b>94,905</b>
Initial cash consideration paid (VAS, Firetrace, Visiometrics and CenTrak)			187,601
Initial consideration repayable*			(846)
Additional consideration payable*			986
Contingent purchase consideration paid			6,558
Contingent purchase consideration estimated to be paid (VAS and Visiometrics)			15,432
<b>Total consideration</b>			<b>209,731</b>
<b>Goodwill arising on current year acquisitions</b>			<b>114,826</b>

\* Estimate in respect of net tangible asset and cash adjustments, and other contractual clauses.

Due to their contractual dates, the fair value of receivables acquired (shown above) approximate to the gross contractual amounts receivable. The amount of gross contractual receivables not expected to be recovered is immaterial.

There are no material contingent liabilities recognised in accordance with paragraph 23 of IFRS 3 (revised).

£919,000 and £17,297,000 of goodwill arising on the acquisitions of VAS and Firetrace respectively are expected to be deductible for tax purposes.

As at the date of approval of the financial statements, the acquisition accounting for VAS and all prior year acquisitions is complete. Other than VAS, the accounting for certain balances on current year acquisitions is provisional. These balances mainly comprise the valuation of CenTrak's acquired intangible assets, as a result of the proximity of its acquisition date to the year end, and the initial considerations which are subject to the net tangible asset adjustments and other contractual clauses being agreed.

**Analysis of cash outflow in the Consolidated Cash Flow Statement**

	<b>53 weeks to 2 April 2016 £000</b>	<b>52 weeks to 28 March 2015 £000</b>
Initial cash consideration paid	<b>187,601</b>	90,828
Cash acquired on acquisitions	<b>(1,830)</b>	(9,619)
Contingent consideration paid in relation to current year acquisitions	<b>6,558</b>	2,601
Contingent consideration paid and loan notes repaid in cash in relation to prior year acquisitions*	<b>10,246</b>	3,933
<b>Net cash outflow relating to acquisitions (per Consolidated Cash Flow Statement)</b>	<b>202,575</b>	87,743

\* The £10,246,000 comprises £368,000 loan notes and £9,878,000 contingent purchase consideration paid into escrow in respect of prior year acquisitions, of which £9,419,000 had been provided in the prior year's financial statements.

**(B) Value Added Solutions, LLC.**

	Book value £000	Fair value adjustments £000	Total £000
<b>Non-current assets</b>			
Intangible assets	2	1,881	1,883
Property, plant and equipment	26	212	238
<b>Current assets</b>			
Inventories	22	7	29
Trade and other receivables	193	(11)	182
<b>Total assets</b>	<b>243</b>	<b>2,089</b>	<b>2,332</b>
<b>Current liabilities</b>			
Trade and other payables	(27)	(6)	(33)
Provisions	–	(2)	(2)
<b>Non-current liabilities</b>			
Other payables	(5)	5	–
<b>Total liabilities</b>	<b>(32)</b>	<b>(3)</b>	<b>(35)</b>
<b>Net assets of businesses acquired</b>	<b>211</b>	<b>2,086</b>	<b>2,297</b>
Initial cash consideration paid			3,228
Contingent purchase consideration estimated to be paid			645
<b>Total consideration</b>			<b>3,873</b>
<b>Goodwill arising on acquisition</b>			<b>1,576</b>

The Group acquired the entire interest in Value Added Solutions, LLC on 19 May 2015 for an initial cash consideration of US\$5,000,000 (£3,228,000). The maximum contingent consideration payable is US\$1,500,000 (£968,000). The current provision of US\$1,000,000 (£645,000) represents the fair value of the estimated payable based on performance to date and the expectation of future cash flows. The contingent consideration is payable based on annualised gross margin for an eighteen month performance period to 1 October 2016.

VAS forms part of the Medical sector and operates as a 'bolt-on' to Diba Industries Inc. (Diba). Diba creates innovative fluid handling solutions that are invaluable to device OEMs, while VAS specialises in precision plastic machining, production of thermally bonded manifolds, and fluid component integrations. VAS adds complementary expertise, capabilities, and products that allow Diba to provide broader solutions to its existing customers, as well as expand its customer base. VAS's production facility is located in Berlin, Connecticut, USA, approximately one hour from Diba's headquarters.

The excess of the fair value of the consideration paid over the fair value of the assets acquired is represented by customer related intangibles of £1,451,000; and technology related intangibles of £432,000; with residual goodwill arising of £1,576,000. The goodwill represents:

- the technical expertise of the acquired workforce;
- the opportunity to leverage this expertise across some of Halma's businesses; and
- the ability to exploit the Group's existing customer base.

The VAS acquisition contributed £1,460,000 of revenue and £131,000 of profit after tax for the year ended 2 April 2016. If this acquisition had been held since the start of the financial year, it is estimated that the Group's reported revenue and profit after tax would have been £322,000 and £11,000 higher respectively.

**(C) Firetrace USA, LLC.**

	Book value £000	Fair value adjustments £000	Total £000
<b>Non-current assets</b>			
Intangible assets	1,784	35,479	37,263
Property, plant and equipment	342	55	397
<b>Current assets</b>			
Inventories	7,721	2,768	10,489
Trade and other receivables	5,405	(518)	4,887
Cash and cash equivalents	107	–	107
<b>Total assets</b>	<b>15,359</b>	<b>37,784</b>	<b>53,143</b>
<b>Current liabilities</b>			
Trade and other payables	(2,064)	20	(2,044)
Provisions	(50)	(700)	(750)
<b>Non-current liabilities</b>			
Deferred tax	–	(2,629)	(2,629)
<b>Total liabilities</b>	<b>(2,114)</b>	<b>(3,309)</b>	<b>(5,423)</b>
<b>Net assets of businesses acquired</b>	<b>13,245</b>	<b>34,475</b>	<b>47,720</b>
Initial cash consideration paid			72,675
Initial consideration repayable			(607)
<b>Total consideration</b>			<b>72,068</b>
<b>Goodwill arising on acquisition</b>			<b>24,348</b>

On 5 October 2015 the Group acquired the entire interest in Firetrace USA, LLC and its subsidiary companies for a total cash consideration of US\$110,000,000 (£72,675,000), adjustable based on the closing date net assets. The adjustment was determined to be US\$nil. No contingent consideration is payable. It is estimated that US\$919,000 (£607,000) of this consideration will be repaid.

Firetrace, based in Scottsdale, Arizona, USA, designs and manufactures automatic fire detection and suppression systems for installation in small enclosed environments to protect people and critical assets. It will continue to operate out of its current facilities and existing management will remain in place. Firetrace has become part of the Infrastructure Safety sector and further extends the Group's product offering within the fire protection industry.

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 £28,686,000; technology related intangibles of £3,861,000; and trademarks, brands and patents of £4,715,000 with residual goodwill arising of £24,348,000. The residual goodwill represents:

- the technical expertise of the acquired workforce;
- future business from new customers; and
- the opportunity to develop new technologies and products to support future growth.

The Firetrace acquisition contributed £15,257,000 of revenue and £2,404,000 of profit after tax for the year ended 2 April 2016. If this acquisition had been held since the start of the financial year, it is estimated that the Group's reported revenue and profit after tax would have been £11,444,000 and £2,978,000 higher respectively.

**(D) Visiometrics, S.L.**

	Book value £000	Fair value adjustments £000	Total £000
<b>Non-current assets</b>			
Intangible assets	344	14,582	14,926
Property, plant and equipment	122	–	122
Deferred tax	348	–	348
<b>Current assets</b>			
Inventories	255	(92)	163
Trade and other receivables	1,030	2	1,032
Cash and cash equivalents	42	–	42
<b>Total assets</b>	<b>2,141</b>	<b>14,492</b>	<b>16,633</b>
<b>Current liabilities</b>			
Trade and other payables	(1,120)	(9)	(1,129)
Provisions	–	(36)	(36)
Corporation tax	(2)	2	–
<b>Non-current liabilities</b>			
Deferred Tax	–	(3,707)	(3,707)
<b>Total liabilities</b>	<b>(1,122)</b>	<b>(3,750)</b>	<b>(4,872)</b>
<b>Net assets of businesses acquired</b>	<b>1,019</b>	<b>10,742</b>	<b>11,761</b>
Initial cash consideration paid			13,144
Initial cash consideration repayable			(239)
Contingent purchase consideration paid into escrow			6,558
Contingent purchase consideration estimated to be paid			14,787
<b>Total consideration</b>			<b>34,250</b>
<b>Goodwill arising on acquisition</b>			<b>22,489</b>

On 16 December 2015 the Group acquired the entire share capitals of Visiometrics S.L., located outside Barcelona, Spain, and Visual Performance Diagnostics, Inc., located in California, USA, collectively Visiometrics. Initial consideration paid for the company was €18,000,000 (£13,144,000) adjustable for the final agreed value of net tangible assets and cash at closing, for which €327,000 (£239,000) is owed to the Group at the balance sheet date.

€9,000,000 (£6,558,000) was paid on closing into escrow; €6,300,000 to be released to the vendors immediately on reaching €2,000,000 EBITDA in any 12 month period ending December 2016 (the EBITDA Reserve Goal); and the remaining €2,700,000, less any indemnity claim, released to the vendors in March 2018 dependent on reaching the EBITDA Reserve Goal. Management's current best estimate is that the EBITDA Reserve Goal will be met. Further contingent consideration is payable based on two elements; Royalty and the Core earn-out. The Royalty is payable annually over five years to December 2020 at a percentage of the gross margin on sales made to one customer. The estimated payable is €10,242,000 (£7,453,000). The Core earn-out is payable annually over three years to December 2018 based on a multiple of EBITDA over a target threshold. The estimated payable for the Core earn-out is €11,114,000 (£8,088,000). The undiscounted total estimated contingent consideration payable for the EBITDA Reserve Goal, Royalty and Core earn-outs is therefore €30,356,000 (£22,099,000).

The fair value of contingent consideration payable is estimated based on performance observed to date and the expectation of likely future cash flows, and is discounted at the Group's forecast cost of borrowing over the earn-out period. The fair value recognised is €29,294,000 (£21,345,000). The maximum contingent consideration payable is €109,000,000 subject to a maximum total consideration of €125,000,000.

Visiometrics designs, manufactures and markets ophthalmic diagnostic instruments. It is part of the Medical sector, which includes devices used to assess eye health, assist with eye surgery and primary care applications. The CEO and management team will continue to operate the business out of its current locations.

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 £12,110,000; and technology related intangibles of £2,716,000; with residual goodwill arising of £22,489,000. The residual goodwill represents:

- the technical expertise of the acquired workforce;
- the opportunity to leverage this expertise across some of Halma's businesses; and
- the opportunity to develop new technologies and products to support future growth.

The Visiometrics acquisition contributed £861,000 of revenue and £260,000 of profit after tax for the year ended 2 April 2016. If this acquisition had been held since the start of the financial year, it is estimated that the Group's reported revenue and profit after tax would have been £2,649,000 higher and £45,000 lower respectively.

**(E) CenTrak, Inc.**

	Book value £000	Fair value adjustments £000	Total £000
<b>Non-current assets</b>			
Intangible assets	103	49,364	49,467
Investment	14	(14)	–
Property, plant and equipment	252	(36)	216
Deferred tax	6	148	154
<b>Current assets</b>			
Inventories	4,943	1,463	6,406
Trade and other receivables	5,782	15	5,797
Cash and cash equivalents	1,681	–	1,681
<b>Total assets</b>	<b>12,781</b>	<b>50,940</b>	<b>63,721</b>
<b>Current liabilities</b>			
Trade and other payables	(6,773)	(1)	(6,774)
Provisions	(78)	(134)	(212)
<b>Non-current liabilities</b>			
Provisions	(5,573)	–	(5,573)
Deferred tax	–	(18,035)	(18,035)
<b>Total liabilities</b>	<b>(12,424)</b>	<b>(18,170)</b>	<b>(30,594)</b>
<b>Net assets of businesses acquired</b>	<b>357</b>	<b>32,770</b>	<b>33,127</b>
Initial cash consideration paid			98,554
Additional consideration payable			986
<b>Total consideration</b>			<b>99,540</b>
<b>Goodwill arising on acquisition</b>			<b>66,413</b>

On 3 February 2016 the Group acquired the entire share capital of CenTrak, Inc., located in Newtown, Pennsylvania, USA. Initial consideration paid for the company was US\$140,000,000 (£97,317,000) plus an initial payment for the estimated value of net tangible assets and cash at closing of US\$1,780,000 (£1,237,000). This was subsequently further increased by US\$1,418,000 (£986,000) which is owed by the Group at the balance sheet date. No contingent consideration is payable. CenTrak designs and manufactures sensors and proprietary communication technology that provides precise and reliable location data for the healthcare market. It is part of the Group's Medical sector which includes a range of healthcare device companies serving niche applications in global markets. It will continue to operate out of its current facilities and existing management will remain in place.

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 £21,615,000; and technology related intangibles of £24,287,000; with residual goodwill arising of £66,413,000. The residual goodwill represents:

- the technical expertise of the acquired workforce;
- the opportunity to leverage this expertise across some of Halma's businesses; and
- the ability to exploit the Group's existing customer base.

The CenTrak acquisition contributed £4,220,000 of revenue and £333,000 of profit after tax for the year ended 2 April 2016. If this acquisition had been held since the start of the financial year, it is estimated that the Group's reported revenue and profit after tax would have been £23,947,000 and £2,621,000 higher respectively.

## 9 Disposal of operations

The total profit on disposal of operations of £556,000 comprises a charge of £34,000 related to the disposal of Monitor Elevator Products, Inc. (Monitor) in the prior year arising from a claim under the warranty arrangement, and £590,000 credit for the partial disposal of shares in the Group's associate, Optomed Oy (Optomed) on 26 August 2015. The Group disposed of 9,176 shares in Optomed, representing 8.8% of its ownership interest in the associate. Consideration received was €1,236,000 (£907,000). The Group's residual interest in Optomed after the disposal was 28.6%, reducing to 26.7% by the year-end.

The total profit on disposal of operations shown in the prior year of £1,430,000 comprises £1,076,000 for the disposal of Monitor, £223,000 for the partial disposal of shares in Optomed and £131,000 for the fair value gain recognised in relation to the disposal of PSRM. The £4,248,000 cash inflow represents the £3,180,000, £695,000 and £610,000 proceeds from the sale of the shares in Monitor, Optomed, and PSRM respectively plus the £36,000 overdraft in Monitor less the disposal costs of £273,000. Further details are provided on page 149 of the Annual Report and Accounts 2015.

## 10 Notes to the Consolidated Cash Flow Statement

	53 weeks to 2 April 2016 £000	52 weeks to 28 March 2015 £000
<b>Reconciliation of profit from operations to net cash inflow from operating activities:</b>		
Profit on continuing operations before finance income and expense, share of results of associate and profit on disposal of operations	142,943	137,063
Depreciation of property, plant and equipment	15,245	14,005
Amortisation of computer software	1,348	1,211
Amortisation of capitalised development costs and other intangibles	5,202	5,505
Impairment of capitalised development costs	–	236
Amortisation of acquired intangible assets	23,103	19,954
Share-based payment expense in excess of amounts paid	1,899	3,803
Additional payments to pension plans	(7,728)	(6,560)
Profit on sale of property, plant and equipment and computer software	(1,345)	(590)
Operating cash flows before movement in working capital	180,667	174,627
Increase in inventories	(4,809)	(1,097)
Increase in receivables	(8,786)	(10,656)
Increase in payables and provisions	7,844	5,801
Revision to estimate of, and exchange differences arising on, contingent consideration payable	1,543	(620)
<b>Cash generated from operations</b>	<b>176,459</b>	<b>168,055</b>
Taxation paid	(27,186)	(30,824)
<b>Net cash inflow from operating activities</b>	<b>149,273</b>	<b>137,231</b>

	53 weeks to 2 April 2016 £000	52 weeks to 28 March 2015 £000
<b>Analysis of cash and cash equivalents</b>		
Cash and bank balances	53,938	41,230
Overdrafts (included in current borrowings)	(4,412)	(1,705)
<b>Cash and cash equivalents</b>	<b>49,526</b>	<b>39,525</b>

	At 28 March 2015 £000	Reclass £000	Cash flow £000	Cash acquired £000	Loan notes repaid/ (issued) £000	Exchange adjustments £000	At 2 April 2016 £000
<b>Analysis of net debt</b>							
Cash and bank balances	41,230	–	8,894	1,830	–	1,984	53,938
Overdrafts	(1,705)	–	(2,707)	–	–	–	(4,412)
Cash and cash equivalents	39,525	–	6,187	1,830	–	1,984	49,526
Loan notes falling due within one year	–	(367)	–	–	31	–	(336)
Loan notes falling due after more than one year	(657)	367	–	–	(167,425)	(4,397)	(172,112)
Bank loans falling due after more than one year	(139,762)	–	22,212	–	–	(6,246)	(123,796)
<b>Total net debt</b>	<b>(100,894)</b>	<b>–</b>	<b>28,399</b>	<b>1,830</b>	<b>(167,394)</b>	<b>(8,659)</b>	<b>(246,718)</b>

The net cash outflow from bank loans comprised repayments of £97,000,000 offset by drawdowns of £74,788,000.

The net cash inflow from loan notes comprised £167,473,000 from the drawdown of a United States Private Placement, and £288,000 from the issue of loan notes in respect of the Advanced acquisition in the prior year, offset by £367,000 repayment of existing Advanced loan notes.

The sum of the above £6,187,000 cash inflow and £1,830,000 net cash acquired is equal to the increase in cash and cash equivalents of £8,017,000 in the Consolidated Cash Flow Statement.

## 11 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 Total Invested Capital, Return on Capital Employed, Organic growth at constant currency, Adjusted operating profit and Adjusted operating cash flow.

<b>Return on Total Invested Capital</b>	<b>2 April 2016 £000</b>	<b>28 March 2015 £000</b>
<b>Post-tax profit before adjustments*</b>	<b>129,641</b>	<b>117,912</b>
Total shareholders' funds	646,340	548,948
Add back retirement benefit obligations	52,323	66,790
Less associated deferred tax assets	(9,619)	(13,085)
Cumulative amortisation of acquired intangible assets	112,478	83,958
Historical adjustments to goodwill**	89,549	89,549
<b>Total Invested Capital</b>	<b>891,071</b>	<b>776,160</b>
<b>Average Total Invested Capital</b>	<b>833,616</b>	<b>721,255</b>
<b>Return on Total Invested Capital (ROTIC)</b>	<b>15.6%</b>	<b>16.3%</b>

<b>Return on Capital Employed</b>	<b>2 April 2016 £000</b>	<b>28 March 2015 £000</b>
<b>Operating profit before adjustments*, but after share of results of associate</b>	<b>173,066</b>	<b>158,564</b>
Computer software costs within intangible assets	3,215	2,835
Capitalised development costs within intangible assets	23,540	15,865
Other intangibles within intangible assets	903	450
Property, plant and equipment	96,562	86,303
Inventories	105,318	79,734
Trade and other receivables	183,619	156,464
Trade and other payables	(122,791)	(102,717)
Current provisions	(4,437)	(11,746)
Net tax liabilities	(14,968)	(12,385)
Non-current trade and other payables	(10,153)	(3,756)
Non-current provisions	(18,510)	(1,549)
Add back contingent purchase consideration	17,075	9,650
<b>Capital Employed</b>	<b>259,373</b>	<b>219,148</b>
<b>Average Capital Employed</b>	<b>239,261</b>	<b>204,428</b>
<b>Return on Capital Employed (ROCE)</b>	<b>72.3%</b>	<b>77.6%</b>

\* Adjustments include the amortisation of acquired intangible assets; acquisition items; and profit or loss on disposal of operations.

\*\* Includes goodwill amortised prior to 3 April 2004 and goodwill taken to reserves.

### Organic growth

Organic growth measures the change in revenue and profit from continuing Group operations. At the year end, the method for calculating organic growth was changed. The revised method equalises the effect of acquisitions by:

- removing from the year of acquisition their entire revenue and profit before taxation, and
- in the following year, removing the revenue and profit for the number of months equivalent to the pre-acquisition period in the prior year.

The resultant effect is that the acquisitions are removed from organic results for one full year of ownership.

The results of disposals are removed from the prior period reported revenue and profit before taxation. The effects of currency changes are removed through restating the current year revenue and profit before taxation at the prior year exchange rates.

Organic growth at constant currency has been calculated as follows:

	Revenue			Adjusted profit* before taxation		
	53 weeks to 2 April 2016 £000	52 weeks to 28 March 2015 £000	% growth	53 weeks to 2 April 2016 £000	52 weeks to 28 March 2015 £000	% growth
Continuing operations	807,805	726,134		166,014	153,618	
Acquired and disposed revenue/profit	(27,070)	(1,124)		(4,376)	64	
<b>Organic growth</b>	<b>780,735</b>	<b>725,010</b>	<b>7.7%</b>	<b>161,638</b>	<b>153,682</b>	<b>5.2%</b>
Constant currency adjustment	(14,466)			(2,725)	–	
<b>Organic growth at constant currency</b>	<b>766,269</b>	<b>725,010</b>	<b>5.7%</b>	<b>158,913</b>	<b>153,682</b>	<b>3.4%</b>

\* Adjustments include the amortisation of acquired intangible assets; acquisition items; and profit or loss on disposal of operations.

## Adjusted operating profit

	53 weeks to 2 April 2016 £000	52 weeks to 28 March 2015 £000
<b>Operating profit</b>	<b>142,943</b>	<b>137,063</b>
Add back:		
Acquisition items	7,179	1,483
Amortisation of acquired intangible assets	23,103	19,954
<b>Adjusted operating profit</b>	<b>173,225</b>	<b>158,500</b>

## Adjusted operating cash flow

	53 weeks to 2 April 2016 £000	52 weeks to 28 March 2015 £000
<b>Net cash from operating activities (note 10)</b>	<b>149,273</b>	<b>137,231</b>
Add back:		
Taxes paid	27,186	30,824
Proceeds from sale of property, plant and equipment	2,364	1,411
Proceeds from sale of capitalised development costs	166	–
Share awards vested not settled by own shares*	2,478	–
Less:		
Purchase of property, plant and equipment	(22,418)	(22,164)
Purchase of computer software and other intangibles	(2,204)	(1,403)
Development costs capitalised	(8,579)	(7,213)
<b>Adjusted operating cash flow</b>	<b>148,266</b>	<b>138,686</b>
<b>Cash conversion % (adjusted operating cash flow/adjusted operating profit)</b>	<b>86%</b>	<b>87%</b>

\* See Consolidated Statement of Changes in Equity

## 12 Events after the balance sheet date

There were no events after the balance sheet date.

## 13 Related party transactions

### Trading transactions

	2 April 2016 £000	28 March 2015 £000
<b>Associated companies</b>		
Purchases from associated companies	1,254	638
Amounts due to associated companies	153	161
Amounts due from associated companies	–	–
<b>Other related parties</b>		
Rent charged by other related parties	121	113
Amounts due to other related parties	2	–

Other related parties comprises one company with a Halma employee on the board and from which the Halma subsidiary rents 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 Executive Board members, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 'Related Party Disclosures'. Further information about the remuneration of individual Directors is provided in the audited part of the Directors' Remuneration Report in the Annual Report and Accounts 2016.

	<b>53 weeks to 2 April 2016 £000</b>	52 weeks to 28 March 2015 £000
Wages and salaries	<b>5,658</b>	5,212
Pension costs	<b>180</b>	169
Share-based payment charge	<b>2,341</b>	1,799
	<b>8,179</b>	7,180

#### Cautionary note

These Results contain certain forward-looking statements which have been made by the Directors in good faith using information available up until the date they approved the announcement. Forward-looking statements should be regarded with caution as by their nature such statements involve risk and uncertainties relating to events and circumstances that may occur in the future. Actual results may differ from those expressed in such statements, depending on the outcome of these uncertain future events.