

HALMA

Halma plc

Half Year Report 2018/2019



Safer, Cleaner, Healthier

Our purpose and strategy

Our purpose is to grow a safer, cleaner and healthier future for everyone, every day. Our companies' innovative products and solutions address many of the key issues facing the world today, with a core focus on safety, health and the environment.

Our strategy is to acquire and develop businesses in global niche markets with strong long-term growth drivers and high barriers to entry. The increasing rate of technological change, including data and connectivity, is opening up new ways of growing our businesses and leveraging our collaborative culture. Our growth strategies are powered by our unique business model and our skills and expertise, giving us a strong competitive advantage, and enabling us to deliver sustained growth and high returns.

Highlights

Record first half results and continued dividend growth

Revenue (£m)

£585.5m +16%

(2017/18: £506.3m)

Adjusted Profit before Taxation (£m)

£112.9m +19%

(2017/18: £94.5m)

Interim Dividend declared (per share)

6.11p +7%

(2017/18: 5.71p)

Return on Sales (%)

19.3%

(2017/18: 18.7%)

Continuing operations	2018	2017	Change
Revenue	£585.5m	£506.3m	+16%
Adjusted ¹ Profit before Taxation	£112.9m	£94.5m	+19%
Adjusted ² Earnings per Share	23.67p	19.37p	+22%
Statutory Profit before Taxation	£94.5m	£76.8m	+23%
Statutory Earnings per Share	19.67p	16.27p	+21%
Interim Dividend per Share ³	6.11p	5.71p	+7%
Return on Sales ⁴	19.3%	18.7%	
Return on Total Invested Capital ⁵	14.9%	13.4%	
Net Debt	£194.6m	£181.0m	

Pro-forma information:

- Adjusted to remove the amortisation and impairment of acquired intangible assets, acquisition items, significant restructuring costs and profit or loss on disposal of operations, totalling £18.4m (2017/18: £17.7m). See note 2 to the Condensed Interim Financial Statements.
- Adjusted to remove the amortisation and impairment of acquired intangible assets, acquisition items, significant restructuring costs, profit or loss on disposal of operations and the associated taxation thereon. See note 6 to the Condensed Interim Financial Statements.
- Interim dividend proposed and paid per share.
- Return on Sales is defined as Adjusted¹ profit before taxation from continuing operations expressed as a percentage of revenue from continuing operations.
- Return on Total Invested Capital (ROTIC) is defined as post-tax Adjusted¹ Profit as a percentage of average Total Invested Capital.
- Adjusted¹ Profit before Taxation, Adjusted² Earnings per Share, organic growth rates and ROTIC are alternative performance measures used by management. See notes 2, 6 and 9 to the Condensed Interim Financial Statements.

Review of Operations

Record half year results

Halma made strong progress during the first half of the year. Revenue increased by 16% to £585.5m (2017/18: £506.3m) including a negative currency translation effect of 2%. Organic revenue growth at constant currency was 14%, and there was a 4% contribution from acquisitions completed in the prior year.

Adjusted¹ profit before taxation increased by 19% to £112.9m (2017/18: £94.5m), also including a negative currency translation effect of 2%. Organic profit growth at constant currency was 16% with a 5% contribution from prior year acquisitions. Statutory profit before taxation increased by 23% to £94.5m (2017/18: £76.8m).

Return on Sales¹ improved to 19.3% (2017/18: 18.7%) even though, as planned, there was increased investment to drive strategic growth. Our companies increased R&D expenditure by 14% to £31.1m (2017/18: £27.3m) representing 5.3% of Group revenue (2017/18: 5.4%).

The Board has declared an increase of 7% in the interim dividend to 6.11p per share (2017/18: 5.71p per share). The interim dividend will be paid on 6 February 2019 to shareholders on the register on 28 December 2018.

Widespread revenue growth

We achieved organic revenue growth at constant currency in every major region, which reflected good performances across all four of our business sectors.

The USA remains our largest sales destination contributing 37% of total revenue. It grew 19% in the half year (23% at organic constant currency), driven by increases in all sectors, as well as a benefit from the phasing of the delivery of some large orders received in the second half of last year.

Revenue in the UK increased by 21%, including 13% at organic constant currency, with good growth in Environmental & Analysis and Infrastructure Safety. Mainland Europe revenue increased by 14% and by 8% at organic constant currency, with Medical and Environmental & Analysis contributing strongly. Good progress in the Near and Middle East in Infrastructure Safety underpinned strong growth of 17% in Other regions (14% at organic constant currency).

Asia Pacific's revenue growth of 5% on a reported and an organic constant currency basis reflected a good underlying performance against a tough comparative, with large projects having been delivered in China and Korea in the first half of last year. China grew revenue 8% on an organic constant currency basis.

The tables below summarise revenue growth by destination and by sector, including the rates of organic growth at constant currency. Organic constant currency rates exclude the effect of currency translation, as well as acquisitions and disposals from the time of completion.

Strong revenue and profit growth in all sectors

Infrastructure Safety revenue increased by 18% to £197.6m (2017/18: £167.9m). This included 13% organic constant currency growth, a 1% negative effect from currency translation and 6% growth from acquisitions completed in the prior year. There was growth in all major market segments. Strong growth in our Fire businesses contributed to high rates of organic constant currency growth in the USA, the UK and Other regions. Although Asia Pacific saw slower growth overall, there were good increases in China and Australasia.

Profit² grew by 17% to £41.7m (2017/18: £35.8m) including 12% organic constant currency growth, a 1% negative effect from currency translation and 6% growth from acquisitions completed in the prior year. Return on Sales was a healthy 21.1% (2017/18: 21.3%). R&D expenditure increased by 31% to £12.4m (2017/18: £9.4m). The sector is expected to make continued progress in the second half, in line with historical trends, with solid organic growth and recent acquisitions contributing to a strong full year performance.

In the first half, we acquired LAN Control Systems Limited, to strengthen our cloud-based system capabilities and to support tighter integration between fire, security and other building systems. After the period end, we announced two further acquisitions: in October, we announced the acquisition of Limotec bvba, a leading fire control panel designer and fire system seller in the Belgian market, to strengthen our continental European presence; and in November, we purchased Navtech Radar Limited, a UK-based designer and manufacturer of innovative radar surveillance solutions. Navtech builds on our existing capabilities in sensing vehicles, people and assets for safety and control applications, and provides new opportunities in the highway and critical infrastructure safety markets.

Process Safety revenue increased by 10% to £97.9m (2017/18: £88.8m). There was organic constant currency growth of 12% and a 2% negative effect from currency translation. The Safety Interlocks and Gas Sensors segments grew most strongly, with the former benefiting from a large contract for logistics safety from a major retailer in the USA. Pressure Relief and Pipeline Management grew at a slower rate.

External revenue by destination

	Half year 2018/19		Half year 2017/18		Change £m	% growth	% organic growth at constant currency
	£m	% of total	£m	% of total			
United States of America	216.0	37%	181.8	36%	34.2	19%	23%
Mainland Europe	124.3	21%	109.0	21%	15.3	14%	8%
United Kingdom	96.2	16%	79.7	16%	16.5	21%	13%
Asia Pacific	88.1	15%	84.0	17%	4.1	5%	5%
Other regions	60.9	11%	51.8	10%	9.1	17%	14%
	585.5	100%	506.3	100%	79.2	16%	14%

All major regions delivered organic constant currency growth, with particularly high growth in the USA. The UK, Asia Pacific and Other regions saw good growth, while there was more modest growth in Mainland Europe.

Profit² increased by 9% to £22.2m (2017/18: £20.2m) including 11% organic constant currency growth and a 2% negative effect from currency translation. Profit in the half year included some reorganisation costs in our Safety Interlocks and Pipeline Management businesses in order to improve performance in the longer-term. These will total between £1.5m – £2.0m for the full year with £0.7m in the first half. Return on Sales was consistent with the first half of last year at 22.6% (2017/18: 22.8%). R&D spend was up 11% to £3.4m (2017/18: £3.1m).

With the planned reorganisation costs, the sector is expected to have a lower profit growth rate in the second half, albeit with solid organic revenue growth, to deliver a good full year performance.

Medical revenue was up by 10% to £147.2m (2017/18: £133.3m). There was 14% organic constant currency growth, a 2% benefit from acquisitions in the last year and negative effects of 2% and 3% respectively from disposals and currency translation. The Diagnostics device business progressed very well and there was also good progress in the Ophthalmology, Sensor Technology and Patient Assessment segments, with the latter benefiting from last year's acquisitions.

There was organic constant currency revenue growth in all major regions, led by a strong increase in the USA, which represents over half of the sector's revenue. There was also healthy revenue growth in Mainland Europe and good progress in Asia Pacific and Other regions.

Profit² was £35.0m (2017/18: £28.7m), a 22% increase over a relatively weak performance in the first half of last year. This comprised a 22% organic constant currency increase, a 2% uplift from last year's acquisitions, a 1% contribution from disposals this year, and a 3% negative impact from currency translation. Return on Sales increased to 23.8%, up from 21.6% in 2017/18. R&D spend was £5.5m (2017/18: £5.9m), although in-line with the comparative period after excluding disposals.

In the first half, we made two small acquisitions for our Sensor Technology business, CenTrak, expanding its technology and distribution capabilities in the USA and Mainland Europe. We also sold one of our Diagnostic businesses, Accudynamics.

We expect more normal rates of organic growth from our Medical sector in the second half of the year, against a tougher second half comparative, to deliver a strong full year performance.

Environmental & Analysis revenue rose by 23% to £143.0m (2017/18: £116.5m) including 19% organic constant currency growth, a 6% benefit from acquisitions and a 2% negative effect from currency translation. There was growth in all main business segments with a particularly strong performance in Environmental Monitoring. Organic constant currency revenue from the USA, UK and Mainland Europe increased significantly, with the USA benefitting from large projects in the Photonics businesses. Asia Pacific and Other regions grew more steadily, with the former reflecting a tough comparative against a strong performance in the first half of last year.

Profit² improved by an impressive 33% to £29.0m (2017/18: £21.8m). Organic constant currency profit growth was 21% and there was

a 15% benefit from the Mini-Cam acquisition completed last year. Currency translation had a 3% negative effect. Return on Sales saw a further significant improvement from 18.7% to 20.3%, which continues the positive trend of margin improvement over recent years. There was continued increased strategic investment, with R&D spend rising by 9% to £9.6m, representing 6.8% of revenue (2017/18: £8.9m).

After an exceptional first half, the sector is expected to deliver more typical rates of growth in the second half of the year and achieve a strong full year performance.

Five acquisitions and one disposal completed this financial year

Our sector M&A teams have been strengthened significantly over the past year and this has contributed to us developing a more robust acquisition pipeline. Three acquisitions were completed during the period, with a further two early in the second half of the year.

The three acquisitions in the first half were relatively small technologically-driven bolt-on acquisitions, for a total consideration of £3m. These included the Infrastructure Safety sector's acquisition of LAN Control Systems Limited and, in our Medical division, the purchase of the trade and assets of Awarepoint and Elpas to expand CenTrak's technology and market reach.

In October 2018, we acquired Limotec bvba for a cash consideration of €9.3m (£8.2m), on a cash and debt free basis. Limotec's revenue in its last financial year to the end of December 2017 was €6.7m (£5.9m).

External revenue by sector

	Half year 2018/19	Half year 2017/18	Change	% growth	% organic growth at constant currency
	£m	£m	£m		
Process Safety	97.9	88.8	9.1	10%	12%
Infrastructure Safety	197.6	167.9	29.7	18%	13%
Medical	147.2	133.3	13.9	10%	14%
Environmental & Analysis	143.0	116.5	26.5	23%	19%
Inter-segmental revenue	(0.2)	(0.2)	-	-	-
	585.5	506.3	79.2	16%	14%

Review of Operations continued

In November 2018, we acquired Navtech Radar Limited for an initial cash consideration of £21m on a cash and debt free basis. Further earn-out considerations, capped at a total of £18m in cash, are payable dependent on profit growth in each of the three financial years to the end of March 2021. Navtech's revenue in the year to 31 March 2018 was £6.2m.

There was one disposal in the period. In June 2018, our Medical sector sold the Accudynamics Fluid Technology business for US\$5.4m, resulting in a small loss on disposal of US\$1.2m. The original US\$31.8m consideration on acquisition in December 2010 primarily related to goodwill and customer intangibles, which have now been successfully transferred to strengthen the product offering and market positions of other Halma Fluid Technology businesses.

These transactions demonstrate Halma's ability to find attractive, high quality businesses both in and adjacent to our existing sectors as well as to maintain a portfolio of growing, high return companies through disposals.

Good progress on the Halma 4.0 growth strategy

Halma's commitment to making a positive difference to people's lives, is encompassed in our purpose of 'Growing a safer, cleaner and healthier future for everyone, every day'.

This central purpose has helped us to build a group of businesses with common values and strong competitive positions in market niches with long-term growth drivers. Over many years, these fundamentals have been strengthened further by a relentless determination to increase investment in our strategic Growth Enablers, both centrally and within each sector. These include M&A, Innovation Network, Talent & Culture, Finance & Risk and International Expansion, together with the two recent additions of Strategic Communications and Digital Growth Engines.

As well as helping us to continue to grow our Core business, these Growth Enablers support exploration of new ways to grow, for example in growth opportunities which require a Convergence of technologies and capabilities between two or more businesses and/or new business models. In addition, we are building a stronger network of internal and external partnerships to provide us with a greater insight into new digital growth strategies and technologies at the Edge of our current business horizons.

Recent examples of this include our Medical sector company, Bio-Chem Fluidics' development of condition monitoring and data collection capabilities to improve the reliability of their miniature valves and pumps used in analytical instruments. In the Environmental & Analysis sector, Ocean Optics has created a spin-off business, called WAVE, which has developed a cloud-based lighting solution to improve wellbeing and commercial outcomes in public infrastructure.

As we continuously evolve our growth strategy, we are increasingly building a network of internal and external partnerships to leverage our access to diverse skills and assets to create even more value for the Group.

Currency impacts

We report our results in Sterling with 46% of Group revenue denominated in US Dollars and 12% in Euros during the period. Average exchange rates are used to translate results in the Income Statement. Sterling strengthened against the US Dollar during the first half of 2018/19, but was broadly unchanged against the Euro. This resulted in a 2% negative currency translation impact on Group revenue and profit in the first half of 2018/19 relative to 2017/18. In the second half of 2018/19, if exchange rates remain at current forecast levels, we expect the currency effect seen in the first half to reverse, resulting in a broadly neutral effect on the year as a whole.

Pension deficit

On an IAS19 basis the deficit on the Group's defined benefit plans at the half year end reduced to £20.7m (31 March 2018: £53.9m) before the related deferred tax asset. The values of the plans' liabilities reduced due to an increase in the discount rate used to value those liabilities, while further employer contributions also reduced the plans' deficit. The plans' actuarial valuation reviews, rather than the accounting basis, determine any cash payments by Halma to eliminate the deficit. The triennial actuarial valuation of the main Halma Group Pension Plan is now complete and a cash contribution of £8.6m has been agreed with the trustees for the 2018/19 financial year (2017/18: £8.2m), which will increase by 7% per annum. We expect the Apollo scheme triennial valuation to be finalised during the second half of the year, and for overall contributions across both schemes in the 2018/19 financial year to be consistent with our previous guidance of £12m.

On 26 October 2018, the High Court reached a judgment in relation to Lloyds Banking Group's defined benefit pension schemes which concluded that the schemes should equalise pension benefits for men and women as regards guaranteed minimum pension benefits. The issues arising from the judgment will apply to most other UK defined benefit pension schemes. We are working with the trustees of our pension schemes, and our actuarial and legal advisers, to understand the extent to which the judgment will crystallise additional liabilities for Halma's pension schemes. Current industry estimates are for incremental liabilities of affected pension schemes to be in the range of zero to three per cent of total liabilities, and we currently expect any liability for Halma's schemes to be in the lower end of that range.

Cash flow and funding

Cash conversion (adjusted operating cash flow as a percentage of adjusted operating profit – see note 9) was 86% (2017/18: 84%), ahead of our cash conversion target of 85%. The increase in working capital of £10.6m was lower than the first half of the prior year, despite the strong growth in the business. As well as greater organic investment, dividend and tax payments also increased this half year. Capital expenditure of £14.9m (2017/18: £10.1m) was 47% higher than the comparative period due to increased investment in facility and site expansion, manufacturing capabilities, and IT and system upgrades.

Net debt at the end of the period was £194.6m (31 March 2018: £220.3m). Gearing (the ratio of net debt to EBITDA) at half year end was 0.7 times (31 March 2018: 0.9 times), which is within our typical operating range of up to 2 times gearing.

In October 2018 we extended the £550m Revolving Credit Facility, put in place in November 2016, by a further year to 2023. The combination of good cash generation, a healthy balance sheet and committed external financial resources provides us with the capacity we need to invest in organic growth and acquisitions to meet our growth objectives as well as to sustain our progressive dividend policy.

Principal risks and uncertainties

A number of potential risks and uncertainties exist which could have a material impact on the Group's performance over the second half of the financial year and could cause actual results to differ materially from expected and historical results. The Group has processes in place for identifying, evaluating and managing key risks. These risks, together with a description of our approach to mitigating them, are set out on pages 52 to 57 of the Annual Report and Accounts 2018, which is available on the Group's website at www.halma.com. See note 15 to the Condensed Financial Statements for further details.

The UK referendum decision in June 2016 and the subsequent triggering of Article 50 in March 2017 mean that the UK is now scheduled to leave the European Union on 29 March 2019 ('Brexit'). This decision has created a new dimension to the uncertainties surrounding global economic growth and trading conditions between the UK and the EU during the transition process.

Halma has an executive working group to assess and monitor the potential impact on the Group of Brexit, to communicate updates and support our businesses in preparing for the range of possible outcomes.

In 2017/18, approximately 9% of Group revenue came from direct sales between the UK and the EU.

To date, the following Brexit risks have been identified as having an actual and/or potential impact on our business:

- Economic conditions: increased overall uncertainty including the specific impacts on growth, inflation, interest and currency rates
- Defined benefit pension liability: movements in bond yields affecting discount rates which may increase the liability
- Laws and regulations: potential changes to UK and EU-based law and regulation including product approvals, patents and import/export tariffs
- Talent: mobility of the workforce and availability of talent

Depending on the nature of Brexit, our business could also experience shorter-term disruption around the time of Brexit in its supply chain, including disruption associated with customer buying patterns, customs and border clearances and uncertainty over UK and EU product approvals.

Halma also continues to monitor closely, through working groups in the USA and China, the effects of changes to US trade policy, including the imposition of tariffs on imported goods, and related trade measures taken by China and other countries. In 2017/18, approximately 5% of Group revenue came from direct sales between the USA and China. The following key risks have been identified as having an actual and/or potential impact on our business:

- Volatility of order flow from customers
- Increased costs, which could in turn make the pricing of our products uncompetitive, resulting in a loss of market share
- Effects from changes in economic activity in the countries concerned, and more globally

While Brexit and US trade policy changes could adversely affect our business, we consider that our decentralised model, with businesses in diverse markets and locations, will enable each Halma company to adapt quickly to changing trading conditions. This agility, together with the regulation-driven demand for many of our products and services, will help us to mitigate any adverse impact and also take advantage of any opportunities presented.

The Directors do not consider that the principal risks and uncertainties have changed since the publication of the Annual Report and Accounts 2018 and confirm that they remain relevant for the second half of the financial year. As part of their ongoing assessment of risk throughout the period, the Directors have considered the above risks in the context of the Group's delivery of its financial objectives.

Going concern

After conducting a review of the Group's financial resources, the Directors have a reasonable expectation that the Group has 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 Condensed Interim Financial Statements.

Outlook

Halma made excellent progress in the first half, delivering record revenue, profit and dividends for shareholders, while continuing to invest in our strategic growth enablers for the longer term. Although the pace of technological and geopolitical changes is impacting economies and industries worldwide, we continue to benefit from the agility and resilience of our business model, as well as our geographic diversity, financial strength and focus on global niche markets.

Following a very strong first half, order intake continues to be ahead of both revenue and order intake for the comparable period last year. We remain on track to deliver more typical rates of constant currency organic growth in the second half, resulting in a strong full year performance.

Andrew Williams
Group Chief Executive

Marc Ronchetti
Chief Financial Officer

- 1 See Highlights, page 1.
- 2 See note 2 to the Condensed Interim Financial Statements.

Our business model

Our business has a positive impact on the world and creates value for all our stakeholders.

We have unique strengths

Enabled by technology, data and insights

Which help solve big problems



People and culture

We have empowered people who want to make a positive difference in the world.

Organisation

We have a decentralised structure, which gives us agility and allows us to move fast when markets change.

Innovation

We are passionate about improving how things work and pride ourselves on a culture in which new ideas can flourish.

Financial

Our operations are cash generative and this allows us to continually acquire new companies and reinvest in our existing companies.

Customer focus

Our companies stay close to their customers and develop long-standing relationships.

International expansion

We have deep experience of growing and acquiring businesses internationally.

M&A

We have proven capabilities for acquiring, merging and selling businesses.

Our companies make innovative products and develop solutions which have a core focus on safety, health and the environment.



Gas safety systems



Water quality



Environmental monitoring



Light analytics



Healthcare monitoring



Health diagnostics



Eye health



Industrial safety systems



People and vehicle sensors



Pressure safety systems



Security sensors



Fire systems

Our approach has a positive impact on the world and helps to solve global issues that affect all of us.



Safer

- Protecting worker safety in hazardous places
- Ensuring safe movement of people and vehicles as the global population increases
- Preventing loss of life and property due to fire and explosion



Cleaner

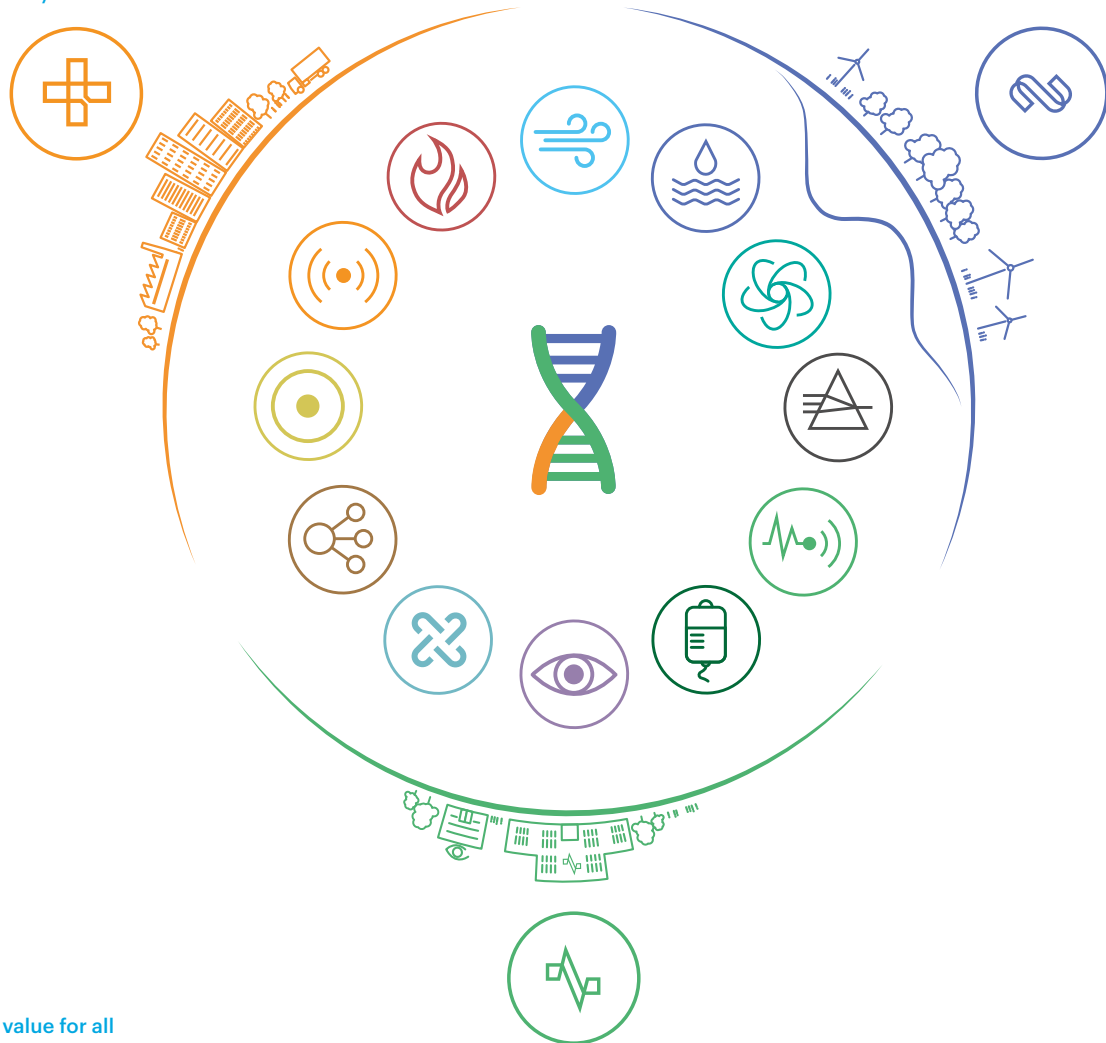
- Improving and monitoring air quality
- Protecting water security and sustainability
- Monitoring the impact of climate change



Healthier

- Eliminating preventable blindness
- Meeting the rising demand for healthcare due to ageing and lifestyle changes
- Diagnosing and managing long-term health conditions such as diabetes and hypertension

To create value
for everyone



We create value for all
our stakeholders through our
business model and by delivering
a clear growth strategy.

Communities

Our solutions help millions of people across the world by saving and protecting lives in a wide range of settings, from remote villages to densely populated cities.

Customers

Our businesses have the knowhow to continually deliver innovative solutions for our customers to help them succeed.

Operating companies

We share our value with the operating companies in our Group, by reinvesting in their businesses, enabling their growth, and developing their talent.

Shareholders

We generate value for shareholders through our sustainable earnings growth, increasing dividends and a high return on capital.

Our people

We develop and reward our people both financially and professionally in a culture that has a strong and united sense of purpose.

Suppliers

Our growth supports other businesses and their stakeholders up and down their supply chain.

Acquisition prospects and strategic partners

We attract new partners and companies who are aligned with our Purpose and want to benefit by being part of the wider Halma family.

Strategy at a glance

The Halma 4.0 strategy is to acquire and grow businesses in global niche markets. It is powered by our purpose and a unique set of growth enablers that relentlessly drive our success.

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

This is why we exist. It is our massive transformative purpose, and acts as our North Star to ensure we focus on doing those things that make it happen, and not doing those things that work against it.

2 **Growth Strategies**

The increasing rate of technological change, including data and connectivity, is opening up new ways of growing our business and leveraging the collaborative culture we have been building.

Core

This is what Halma has always done, and will continue to be our major focus. It includes investment in developing new products and growing internationally in niche markets with resilient long-term growth drivers.

Convergence

This is a new growth strategy focused on developing new products, services and business models by combining existing Halma technologies with new expertise and new partnerships inside or outside the Group.

Edge

This is a new growth strategy aimed at developing digital business models that have the potential to completely disrupt existing models and can scale exponentially.



3

Growth Enablers

Our growth strategies are powered by a unique set of skills and expertise across the Group that our companies can draw on to relentlessly drive their success.



M&A

We acquire and grow sustainable businesses with a focus on safety, health and the environment, in markets with resilient long-term growth drivers. We also sell or merge businesses to keep our Group focused on niches with growth potential.



International Expansion

We help our companies to build their businesses in key export markets, including developed and developing regions. We have established hubs in the USA, China and India to help our companies access these major markets.



Talent & Culture

We attract and develop people who want to make a difference. Our agile, de-centralised operating model empowers our leaders to have the freedom to make their own decisions and stay close to their customers.



Finance & Risk

We keep investing in our businesses to deliver strong organic growth and target new acquisitions. We provide financial discipline to give our leaders the insight to make good decisions.



Digital Growth Engines

We provide innovation and accelerator programmes to help our companies discover new opportunities and build digital capabilities which sharpen their competitive advantage.



Innovation Network

We enable our companies to connect with each other and with experts from around the world to ensure they are learning from each other and stay current with market trends.



Strategic Communications

We help our companies develop market-leading positions by improving how they tell their story and connect with customers to build their brand and increase revenue.

4

Achievements

Financial KPIs

Our businesses deliver exceptional results. We set ourselves a challenging target to double our earnings every five years and maintain high returns.

Non-financial KPIs

Culture is crucial. We work hard to develop an organisation that has the right mindset, talent and diversity to drive sustainable growth in an ethical way.

Customer satisfaction

Our operating model means that we work very close to our customers. Responding quickly to meet their needs is an essential component of our success.

Shareholder value

We focus on creating shareholder value through earnings growth with a high level of return on capital. We have increased our dividend by 5% or more for almost 40 consecutive years.

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Our impact

We aim to fulfil our **purpose** of growing a **safer**, **cleaner**, **healthier** future for everyone, every day.

Independent review report to Halma plc

Report on the Condensed Interim Financial Statements

Our conclusion

We have reviewed Halma plc's half year financial information (the "interim financial statements") in the Half Year Report of Halma plc for the six-month period ended 30 September 2018. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

What we have reviewed

The interim financial statements comprise:

- the Consolidated Balance Sheet as at 30 September 2018;
- the Consolidated Income Statement and Consolidated Statement of Comprehensive Income and Expenditure for the period then ended;
- the Consolidated Cash Flow Statement for the period then ended;
- the Consolidated Statement of Changes in Equity for the period then ended; and
- the explanatory notes to the interim financial statements.

The interim financial statements included in the Half Year Report have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1 in the notes to the interim financial statements, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the Group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the directors

The Half Year Report, including the interim financial statements, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the Half Year Report in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express a conclusion on the interim financial statements in the Half Year Report based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What a review of interim financial statements involves

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the Half Year Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

PricewaterhouseCoopers LLP Chartered Accountants

St. Albans
20 November 2018

Condensed Interim Financial Statements

Consolidated Income Statement

		Unaudited Six months to 30 September 2018			Unaudited Six months to 30 September 2017			Audited Year to 31 March 2018
	Notes	Before adjustments* £m	Adjustments* (note 2) £m	Total £m	Before adjustments* £m	Adjustments* (note 2) £m	Total £m	Total £m
Continuing operations								
Revenue	2	585.5	–	585.5	506.3	–	506.3	1,076.2
Operating profit		117.9	(17.5)	100.4	99.5	(17.7)	81.8	181.2
Share of results of associates		(0.1)	–	(0.1)	(0.1)	–	(0.1)	(0.3)
(Loss)/profit on disposal of operations	2	–	(0.9)	(0.9)	–	–	–	0.7
Finance income	3	0.1	–	0.1	0.1	–	0.1	0.3
Finance expense	4	(5.0)	–	(5.0)	(5.0)	–	(5.0)	(10.0)
Profit before taxation		112.9	(18.4)	94.5	94.5	(17.7)	76.8	171.9
Taxation	5	(23.1)	3.2	(19.9)	(21.1)	6.0	(15.1)	(17.7)
Profit for the period attributable to equity shareholders		89.8	(15.2)	74.6	73.4	(11.7)	61.7	154.2
Earnings per share from continuing operations	6	23.67p		19.67p	19.37p		16.27p	40.69p
Dividends in respect of the period	7							
Dividends paid and proposed (£m)				23.2			21.7	55.7
Per share				6.11p			5.71p	14.68p

* Adjustments include the amortisation and impairment of acquired intangible assets; acquisition items; significant restructuring costs; profit or loss on disposal of operations; and the associated taxation thereon. Note 9 provides more information on alternative performance measures.

Consolidated Statement of Comprehensive Income and Expenditure

	Unaudited Six months to 30 September 2018 £m	Unaudited Six months to 30 September 2017 £m	Audited Year to 31 March 2018 £m
Profit for the period	74.6	61.7	154.2
Items that will not be reclassified subsequently to the Income Statement:			
Actuarial gains on defined benefit pension plans	28.2	3.5	11.8
Tax relating to components of other comprehensive income that will not be reclassified	(5.2)	(0.7)	(2.4)
Items that may be reclassified subsequently to the Income Statement:			
Effective portion of changes in fair value of cash flow hedges	(0.6)	(0.3)	(0.1)
Exchange gains/(losses) on translation of foreign operations and net investment hedge	36.9	(36.7)	(62.9)
Tax relating to components of other comprehensive income that may be reclassified	–	0.1	–
Other comprehensive income/(expense) for the period	59.3	(34.1)	(53.6)
Total comprehensive income for the period attributable to equity shareholders	133.9	27.6	100.6

The exchange gains of £36.9m (six months to 30 September 2017: £36.7m loss; year to 31 March 2018: £62.9m loss) include losses of £10.7m (six months to 30 September 2017: £6.9m gains; year to 31 March 2018: £13.3m losses), which relate to net investment hedges.

Consolidated Balance Sheet

	Notes	Unaudited 30 September 2018 £m	Unaudited 30 September 2017 £m	Audited 31 March 2018 £m
Non-current assets				
Goodwill		655.6	586.8	632.1
Other intangible assets		229.9	216.4	234.6
Property, plant and equipment		109.6	102.6	103.7
Interests in associates		3.9	3.4	4.0
Deferred tax asset		30.9	55.3	37.0
		1,029.9	964.5	1,011.4
Current assets				
Inventories		141.2	124.2	128.0
Trade and other receivables		241.8	203.4	235.2
Tax receivable		0.7	0.4	0.8
Cash and bank balances		66.4	71.7	70.7
Derivative financial instruments	11	0.3	0.6	0.7
		450.4	400.3	435.4
Total assets		1,480.3	1,364.8	1,446.8
Current liabilities				
Trade and other payables		154.5	125.7	149.6
Borrowings		3.0	0.2	1.1
Provisions		18.2	4.7	8.8
Tax liabilities		13.3	14.9	12.2
Derivative financial instruments	11	0.5	0.4	0.2
		189.5	145.9	171.9
Net current assets		260.9	254.4	263.5
Non-current liabilities				
Borrowings		258.0	252.5	289.9
Retirement benefit obligations	10	20.7	66.8	53.9
Trade and other payables		9.7	11.4	12.6
Provisions		4.7	16.9	23.1
Deferred tax liabilities		70.4	96.0	67.0
		363.5	443.6	446.5
Total liabilities		553.0	589.5	618.4
Net assets		927.3	775.3	828.4
Equity				
Share capital		38.0	38.0	38.0
Share premium account		23.6	23.6	23.6
Own shares		(3.5)	(3.7)	(6.3)
Capital redemption reserve		0.2	0.2	0.2
Hedging reserve		(0.3)	0.1	0.3
Translation reserve		124.2	113.5	87.3
Other reserves		(10.9)	(10.3)	(5.9)
Retained earnings		756.0	613.9	691.2
Shareholders' funds		927.3	775.3	828.4

Consolidated Statement of Changes in Equity

For the Six months to 30 September 2018

	Share capital £m	Share premium account £m	Own shares £m	Capital redemption reserve £m	Hedging reserve £m	Translation reserve £m	Other reserves £m	Retained earnings £m	Total £m
At 31 March 2018 (audited)	38.0	23.6	(6.3)	0.2	0.3	87.3	(5.9)	691.2	828.4
Impact of changes in accounting policies	-	-	-	-	-	-	-	0.1	0.1
IFRS 9	-	-	-	-	-	-	-	(0.2)	(0.2)
IFRS 15	-	-	-	-	-	-	-	-	-
Restated balance at 31 March 2018	38.0	23.6	(6.3)	0.2	0.3	87.3	(5.9)	691.1	828.3
Profit for the period	-	-	-	-	-	-	-	74.6	74.6
Other comprehensive income and expense:									
Exchange differences on translation of foreign operations	-	-	-	-	-	37.3	-	-	37.3
Recycling of exchange reserves on disposal of business	-	-	-	-	-	(0.4)	-	-	(0.4)
Actuarial gains on defined benefit pension plans	-	-	-	-	-	-	-	28.2	28.2
Effective portion of changes in fair value of cash flow hedges	-	-	-	-	(0.6)	-	-	-	(0.6)
Tax relating to components of other comprehensive income and expense	-	-	-	-	-	-	-	(5.2)	(5.2)
Total other comprehensive income and expense	-	-	-	-	(0.6)	36.9	-	23.0	59.3
Dividends paid	-	-	-	-	-	-	-	(34.0)	(34.0)
Share-based payments charge	-	-	-	-	-	-	4.9	-	4.9
Deferred tax on share-based payment transactions	-	-	-	-	-	-	0.5	-	0.5
Excess tax deductions related to share-based payments on exercised awards	-	-	-	-	-	-	-	1.3	1.3
Purchase of own shares	-	-	(2.7)	-	-	-	-	-	(2.7)
Performance share plan awards vested	-	-	5.5	-	-	-	(10.4)	-	(4.9)
At 30 September 2018 (unaudited)	38.0	23.6	(3.5)	0.2	(0.3)	124.2	(10.9)	756.0	927.3

Own shares are ordinary shares in Halma plc purchased by the Company and held to fulfil the Company's obligations under the Company's share plans. As at 30 September 2018 the number of treasury shares held was Nil (30 September 2017: 3,990; 31 March 2018: 3,990) and the number of shares held by the Employee Benefit Trust was 289,966 (30 September 2017: 421,991 and 31 March 2018: 631,991).

Consolidated Statement of Changes in Equity

continued

For the Six months to 30 September 2017

	Share capital £m	Share premium account £m	Own shares £m	Capital redemption reserve £m	Hedging reserve £m	Translation reserve £m	Other reserves £m	Retained earnings £m	Total £m
At 1 April 2017 (audited)	38.0	23.6	(7.3)	0.2	0.4	150.2	(6.4)	579.9	778.6
Profit for the period	-	-	-	-	-	-	-	61.7	61.7
Other comprehensive income and expense:									
Exchange differences on translation of foreign operations	-	-	-	-	-	(36.7)	-	-	(36.7)
Actuarial gains on defined benefit pension plans	-	-	-	-	-	-	-	3.5	3.5
Effective portion of changes in fair value of cash flow hedges	-	-	-	-	(0.3)	-	-	-	(0.3)
Tax relating to components of other comprehensive income and expense	-	-	-	-	-	-	-	(0.6)	(0.6)
Total other comprehensive income and expense	-	-	-	-	(0.3)	(36.7)	-	2.9	(34.1)
Dividends paid	-	-	-	-	-	-	-	(31.7)	(31.7)
Share-based payments charge	-	-	-	-	-	-	3.5	-	3.5
Deferred tax on share- based payment transactions	-	-	-	-	-	-	(0.5)	-	(0.5)
Excess tax deductions related to share-based payments on exercised awards	-	-	-	-	-	-	-	1.1	1.1
Performance share plan awards vested	-	-	3.6	-	-	-	(6.9)	-	(3.3)
At 30 September 2017 (unaudited)	38.0	23.6	(3.7)	0.2	0.1	113.5	(10.3)	613.9	775.3

For the Year to 31 March 2018

	Share capital £m	Share premium account £m	Own shares £m	Capital redemption reserve £m	Hedging reserve £m	Translation reserve £m	Other reserves £m	Retained earnings £m	Total £m
At 1 April 2017 (audited)	38.0	23.6	(7.3)	0.2	0.4	150.2	(6.4)	579.9	778.6
Profit for the period	-	-	-	-	-	-	-	154.2	154.2
Other comprehensive income and expense:									
Exchange differences on translation of foreign operations	-	-	-	-	-	(62.9)	-	-	(62.9)
Actuarial gains on defined benefit pension plans	-	-	-	-	-	-	-	11.8	11.8
Effective portion of changes in fair value of cash flow hedges	-	-	-	-	(0.1)	-	-	-	(0.1)
Tax relating to components of other comprehensive income and expense	-	-	-	-	-	-	-	(2.4)	(2.4)
Total other comprehensive income and expense	-	-	-	-	(0.1)	(62.9)	-	9.4	(53.6)
Dividends paid	-	-	-	-	-	-	-	(53.4)	(53.4)
Share-based payments charge	-	-	-	-	-	-	7.9	-	7.9
Deferred tax on share- based payment transactions	-	-	-	-	-	-	(0.5)	-	(0.5)
Excess tax deductions related to share-based payments on exercised awards	-	-	-	-	-	-	-	1.1	1.1
Purchase of own shares	-	-	(2.6)	-	-	-	-	-	(2.6)
Performance share plan awards vested	-	-	3.6	-	-	-	(6.9)	-	(3.3)
At 31 March 2018 (audited)	38.0	23.6	(6.3)	0.2	0.3	87.3	(5.9)	691.2	828.4

Consolidated Cash Flow Statement

	Notes	Unaudited Six months to 30 September 2018 £m	Unaudited Six months to 30 September 2017 £m	Audited Year to 31 March 2018 £m
Net cash inflow from operating activities	8	96.8	76.0	173.3
Cash flows from investing activities				
Purchase of property, plant and equipment		(13.7)	(9.1)	(20.2)
Purchase of computer software		(1.2)	(1.0)	(1.9)
Purchase of other intangibles		(0.8)	(0.1)	(0.1)
Proceeds from sale of property, plant and equipment		0.4	1.2	1.7
Development costs capitalised		(4.3)	(5.0)	(9.4)
Interest received		0.1	0.1	0.2
Acquisitions of businesses		(4.7)	(17.1)	(111.7)
Disposal of business		3.0	–	–
Net cash used in investing activities		(21.2)	(31.0)	(141.4)
Cash flows from financing activities				
Dividends paid		(34.0)	(31.7)	(53.4)
Purchase of own shares		(2.6)	–	(2.6)
Interest paid		(4.0)	(3.5)	(7.2)
Loan arrangement fee paid		–	–	(0.4)
Proceeds from bank borrowings		28.0	30.7	119.2
Repayment of bank borrowings		(70.4)	(33.3)	(81.4)
Net cash used in financing activities		(83.0)	(37.8)	(25.8)
(Decrease)/increase in cash and cash equivalents		(7.4)	7.2	6.1
Cash and cash equivalents brought forward		69.7	65.6	65.6
Exchange adjustments		1.2	(1.1)	(2.0)
Cash and cash equivalents carried forward		63.5	71.7	69.7
		Unaudited Six months to 30 September 2018 £m	Unaudited Six months to 30 September 2017 £m	Audited Year to 31 March 2018 £m
Reconciliation of net cash flow to movement in net debt				
(Decrease)/increase in cash and cash equivalents		(7.4)	7.2	6.1
Net cash outflow/(inflow) from repayment/(drawdown) of bank borrowings		42.4	2.6	(37.8)
Net debt acquired		–	–	(3.1)
Loan notes repaid in respect of acquisitions		0.1	0.1	0.2
Exchange adjustments		(9.4)	5.5	10.7
		25.7	15.4	(23.9)
Net debt brought forward		(220.3)	(196.4)	(196.4)
Net debt carried forward		(194.6)	(181.0)	(220.3)

Notes to the Condensed Interim Financial Statements

1 Basis of preparation

General information

The Half Year Report, which includes the Interim Management Report and Condensed Interim Financial Statements for the six months to 30 September 2018, was approved by the Directors on 20 November 2018.

Basis of preparation

The Report has been prepared solely to provide additional information to shareholders as a body to assess the Board's strategies and the potential for those strategies to succeed. It should not be relied on by any other party or for any other purpose.

The Report 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 Report. 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.

The Report has been prepared in accordance with International Accounting Standard 34, applying the accounting policies and presentation that were applied in the preparation of the Group's statutory accounts for the Year to 31 March 2018, with the exception of the policy for taxes on income, which in the interim period is accrued using the effective tax rate that would be applicable to expected total income for the financial year, and except for the adoption of new accounting standards described below.

The figures shown for the Year to 31 March 2018 are based on the Group's statutory accounts for that period and do not constitute the Group's statutory accounts for that period as defined in Section 434 of the Companies Act 2006. These statutory accounts, which were prepared under International Financial Reporting Standards, have been filed with the Registrar of Companies. The audit report on those accounts was not qualified, did not include a reference to any matters to which the Auditor drew attention by way of emphasis without qualifying the report, and did not contain statements under Sections 498 (2) or (3) of the Companies Act 2006.

New accounting standards

With effect from 1 April 2018 the Group has adopted the following new accounting standards:

(a) IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 sets out the requirements for recognising revenue from contracts with customers. The standard requires entities to apportion revenue earned from contracts to individual promises, or performance obligations, on a stand-alone selling price basis, based on a five-step model.

The Group completed a transition exercise which was described in the Annual Report and Accounts 2018. Based on the work undertaken, most of the Group's companies are unaffected, but have implemented process changes to comply with IFRS 15 now and in the future. A small number of the Group's companies have individually material adjustments to their balance sheets through acceleration or deferral of revenue on the opening balance sheet. However, these are not material to the Group as a whole.

As stated in the Annual Report and Accounts 2018, the Group originally intended to apply a fully retrospective approach to transition. However, as the impact on the Group's results is not material, a modified retrospective approach has been taken on transition and so the comparatives for the six months to 30 September 2017 and the year to 31 March 2018 have not been restated. The impact of transition has been reflected in the restatement of retained earnings, as at 31 March 2018, as shown in the Consolidated Statement of Changes in Equity.

Given the impact of implementing the new accounting policy under IFRS 15 is not materially different to the financial performance and position under the IFRS that previously applied, there has been no presentation of the current year financial statements under the previous IFRS. There is also no significant impact on any earnings per share measures disclosed.

(b) IFRS 9 'Financial Instruments'

IFRS 9 provides a new expected losses impairment model for financial assets, including trade receivables, and includes amendments to classification and measurement of financial instruments. An accounting policy choice is available with regards to applying the new hedge accounting requirements or retaining IAS 39. The Group has elected to retain IAS 39.

The Group completed a transition exercise which was described in the Annual Report and Accounts 2018.

The Group's use of financial instruments is limited to short-term trading balances such as receivables and payables, borrowings and derivatives used for hedging foreign exchange risks. Therefore, the standard impacts the Group's classification of financial instruments and the measurement of impairment of short-term financial assets.

The Group has applied the new standard in accordance with the transition rules. As the impact on the Group's results is not material, the Group has elected to apply the limited exemption in IFRS 9 paragraph 7.2.15, relating to transition for classification, measurement and impairment. As a result, the comparatives for the six months to 30 September 2017 and the year to 31 March 2018 have not been restated. The impact of transition has been reflected in the restatement of retained earnings, as at 31 March 2018, as shown in the Consolidated Statement of Changes in Equity.

Notes to the Condensed Interim Financial Statements continued

Standards and interpretations not yet applied

At the date of approval of this Half Year Report, the following Standards and Interpretations that are potentially relevant to the Group, and which have not been applied in these financial statements, were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

- IFRS 16 'Leases' – effective for accounting periods beginning on or after 1 January 2019.
- Amendments to IAS 19: Plan Amendment, Curtailment of Settlement – effective for accounting periods beginning on or after 1 January 2019.
- Annual Improvements 2015-2017 Cycle – effective for accounting periods beginning on or after 1 January 2019.
- IFRIC Interpretation 23: Uncertainty over Income Tax Treatments – effective for accounting periods beginning on or after 1 January 2019.
- Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures – effective for accounting periods beginning on or after 1 January 2019.

The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group with the exception of IFRS 16 'Leases' where our review of the impact is ongoing as described below.

IFRS 16 'Leases'

For the Group, transition to IFRS 16 will take effect from 1 April 2019. The half year results for the six months ending 30 September 2019 will be IFRS 16 compliant with the first Annual Report published in accordance with IFRS 16 being for the year ending 31 March 2020.

IFRS 16 provides a single model for lessees which recognises a right of use asset and lease liability for all leases which are longer than one year, or which are not classified as low value. The distinction between finance and operating leases for lessees is removed.

The Group is currently assessing the impact of the new standard. The most significant impact currently identified will be that the Group's land and buildings leases will be brought on to the balance sheet. Further assessment of other leases is currently ongoing. The Group's future lease commitments for land and buildings as at 31 March 2018, which provides an indicator of the value to be brought on to the balance sheet, was £43m.

New accounting standards and interpretations applied for the first time

The following Standards with an effective date of 1 January 2018 have been adopted without any significant impact on the amounts reported in these financial statements:

- Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions.
- Annual Improvements 2014-2017 Cycle.
- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration.

Going concern

The Directors believe the Group is well placed to manage its business risks successfully. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current committed facilities, which includes a £550m five-year Revolving Credit Facility (RCF) completed in November 2016 of which £473m remains undrawn at the date of this report. The RCF was extended to November 2023 following the period end.

With this in mind, the Directors have a reasonable expectation that the Company and Group have adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis in preparing the half year Condensed Financial Statements.

New accounting policies with effect from 1 April 2018

(a) IFRS 15 'Revenue from Contracts with Customers'

Significant accounting policy

Revenue is recognised to depict the transfer of control over promised goods or services to customers in an amount that reflects the amount of consideration specified in a contract with a customer, to which the Group expects to be entitled in exchange for those goods or services.

Revenue represents sales, net of estimates for variable consideration, including rights to returns, and discounts, and excluding value added tax and other sales related taxes. The amount of variable consideration is not considered to be material to the Group as a whole.

Performance obligations are unbundled in each contractual arrangement if they are distinct from one another.

The way in which the Group satisfies its performance obligations varies by business and may be on shipment, delivery, as services are rendered or on completion of services depending on the nature of product and terms of the contract which govern how control passes to the customer. Revenue is recognised at a point in time or over time as appropriate.

Where the Group offers warranties that are of a service nature, revenue is recognised in relation to these performance obligations over time as the services are rendered. In our judgement we believe the associated performance obligations accrue evenly across the contractual term and therefore revenue is recognised on a pro-rated basis over the length of the service period.

Contract assets and liabilities

A contract asset is recognised when the Group's right to consideration is conditional on something other than the passage of time, for example the completion of future performance obligations under the terms of the contract with the customer. In some instances, the Group receives payments from customers based on a billing schedule, as established in the contract. Contract assets are recognised within Trade and other receivables and are assessed for impairment on a forward-looking basis using the expected lifetime losses approach, as required by IFRS 9 'Financial instruments'.

Nature of goods and services

The following is a description of the principal activities – separated by reportable segments, which are defined by markets rather than product type – from which the Group generates its revenue. For more detailed information about reportable segments, see Note 2.

Infrastructure Safety sector generates revenue from providing products that improve the safety and mobility of people and protects infrastructure. Products are generally sold separately, with contracts less than one year. Warranties are typically of an assurance nature. Revenue is recognised as control passes on delivery or despatch.

Payment is typically due within 60 days of invoice.

Process Safety sector generates revenue from providing products that protect assets and people at work. Products are generally sold separately, with contracts less than one year. Warranties are typically of an assurance nature. Revenue is recognised as control typically passes on delivery or despatch.

Payment is typically due within 60 days of invoice, except where a retention is held for documentation.

Medical sector generates revenue providing products and services that enhance quality of life and improve quality of care. Products are generally sold separately and warranties are typically of an assurance nature. Depending on the nature of the performance obligation, revenue is recognised as control passes on delivery or despatch or as the service is delivered. A limited number of companies have contracts where certain performance obligations are delivered over a number of years.

Payment is typically due within 60 days of invoice.

Environmental & Analysis generates revenue providing products and technologies that improve quality and efficient use of critical resources. Products and services are generally sold separately. Warranties are typically of an assurance nature, but some companies offer extended warranties. Depending on the nature of the performance obligation, revenue is recognised as control passes on delivery, despatch or as the service is delivered. Some companies have contracts where certain performance obligations are delivered over a number of years.

Payment is typically due within 60 days of invoice.

[\(b\) IFRS 9 'Financial Instruments'](#)

[\(i\) Classification](#)

From 1 April 2018, the Group classifies its financial assets in the following measurement categories:

- those that are measured subsequently at fair value (either through other comprehensive income or through profit or loss); and
- those that are measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

In respect of financial hedges, on initial application of IFRS 9, an entity may choose, as its accounting policy, to continue to apply the hedge accounting requirements of IAS 39 instead of the hedge accounting requirements of IFRS 9. The Group has elected to apply the IAS 39 hedge accounting requirements, and therefore hedging instruments are not considered under IFRS 9.

Notes to the Condensed Interim Financial Statements

continued

As a result of the above, at 1 April 2018, and throughout the current accounting period, the only financial assets held by the Group were cash and bank balances (held at fair value, with any gains or losses arising from currency rate changes reported through profit or loss); trade and other receivables (held at amortised cost); and derivative financial instruments (initially recognised at fair value and subsequently remeasured to fair value at each balance sheet date, the resulting gain or loss being reported through profit or loss, unless in a designated hedge relationship).

(ii) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

(iii) Impairment

From 1 April 2018, the Group assesses on a forward-looking basis the expected credit losses associated with its trade and other receivables carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

The Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. In order to estimate expected lifetime losses, the Group categorises its customers into groups with similar risk profiles, and determines the historic rates of impairment for each of those categories of customer. The Group then adjusts the risk profile for each group of customers by using forward looking information, such as the government risk of default for the country in which those customers are located, and determines an overall probability of impairment for the total trade and other receivables at the balance sheet date.

The Group has applied IFRS 9 retrospectively but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the group's previous accounting policies, which can be found in the Annual Report and Accounts for the year ended 31 March 2018. The impact of the transition to IFRS 9 is immaterial with an adjustment to opening retained earnings of £0.1m.

2 Segmental analysis

Sector analysis

The Group has four main 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 market characteristics. These segments are consistent with the internal reporting as reviewed by the Group Chief Executive.

Segment revenue and results

Unaudited Six months to 30 September 2018

Revenue by sector and destination (all continuing operations)

	United States of America £m	Mainland Europe £m	United Kingdom £m	Asia Pacific £m	Africa, Near and Middle East £m	Other countries £m	Total £m
Process Safety	32.5	19.8	15.4	13.9	12.0	4.3	97.9
Infrastructure Safety	39.8	61.2	50.2	24.4	16.2	5.8	197.6
Medical	78.2	25.6	6.0	21.7	6.6	9.1	147.2
Environmental & Analysis	65.6	17.7	24.7	28.1	3.7	3.2	143.0
Inter-segmental sales	(0.1)	–	(0.1)	–	–	–	(0.2)
Revenue for the period	216.0	124.3	96.2	88.1	38.5	22.4	585.5

Unaudited Six months to 30 September 2017

Revenue by sector and destination (all continuing operations)

	United States of America £m	Mainland Europe £m	United Kingdom £m	Asia Pacific £m	Africa, Near and Middle East £m	Other countries £m	Total £m
Process Safety	26.4	19.3	14.5	13.0	10.3	5.3	88.8
Infrastructure Safety	33.1	52.6	41.6	24.3	10.7	5.6	167.9
Medical	70.6	23.1	5.9	20.6	5.7	7.4	133.3
Environmental & Analysis	51.9	14.0	17.7	26.1	4.0	2.8	116.5
Inter-segmental sales	(0.2)	–	–	–	–	–	(0.2)
Revenue for the period	181.8	109.0	79.7	84.0	30.7	21.1	506.3

Unaudited year end 31 March 2018

Revenue by sector and destination (all continuing operations)

	United States of America £m	Mainland Europe £m	United Kingdom £m	Asia Pacific £m	Africa, Near and Middle East £m	Other countries £m	Total £m
Process Safety	52.1	40.6	29.5	28.1	24.8	9.4	184.5
Infrastructure Safety	66.4	112.2	87.8	46.1	23.9	12.4	348.8
Medical	145.3	51.3	13.0	42.7	13.2	18.3	283.8
Environmental & Analysis	110.4	33.6	43.1	58.0	7.8	6.5	259.4
Inter-segmental sales	(0.2)	–	(0.1)	–	–	–	(0.3)
Revenue for the period	374.0	237.7	173.3	174.9	69.7	46.6	1,076.2

Inter-segmental sales are charged at prevailing market prices and have not been disclosed separately by segment as they are not considered material. The Group does not analyse revenue by product group. Revenue derived from the rendering of services was £33.4m (six months to 30 September 2017: £23.4m; year to 31 March 2018: £49.6m). All revenue was otherwise derived from the sale of products.

Notes to the Condensed Interim Financial Statements continued

2 Segmental analysis continued

Segment revenue and results continued

	Unaudited Six months to 30 September 2018 £m	Profit (all continuing operations)	
		Unaudited Six months to 30 September 2017 £m	Audited Year to 31 March 2018 £m
Segment profit before allocation of adjustments*			
Process Safety	22.2	20.2	43.3
Infrastructure Safety	41.7	35.8	73.3
Medical	35.0	28.7	67.0
Environmental & Analysis	29.0	21.8	55.0
	127.9	106.5	238.6
Segment profit after allocation of adjustments*			
Process Safety	20.2	18.2	39.4
Infrastructure Safety	37.3	33.2	65.1
Medical	26.5	17.5	44.7
Environmental & Analysis	25.5	19.9	47.7
Segment profit	109.5	88.8	196.9
Central administration costs	(10.1)	(7.1)	(15.3)
Net finance expense	(4.9)	(4.9)	(9.7)
Group profit before taxation	94.5	76.8	171.9
Taxation	(19.9)	(15.1)	(17.7)
Profit for the period	74.6	61.7	154.2

* Adjustments include the amortisation and impairment of acquired intangible assets; acquisition items; significant restructuring costs; and profit or loss on disposal of operations. Note 9 provides more information on alternative performance measures.

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 other adjustments, is disclosed separately above as this is the measure reported to the Group Chief Executive for the purpose of allocation of resources and assessment of segment performance.

2 Segmental analysis continued

These adjustments are analysed as follows:

Unaudited for the Six months to 30 September 2018							
	Amortisation and impairment of acquired intangibles £m	Acquisition items			Total amortisation charge and acquisition items £m	Disposal of operations and significant restructuring £m	Total £m
		Transaction costs £m	Adjustments to contingent consideration £m	Release of fair value adjustments to inventory £m			
Process Safety	(2.0)	-	-	-	(2.0)	-	(2.0)
Infrastructure Safety	(3.0)	-	-	(1.4)	(4.4)	-	(4.4)
Medical	(8.0)	-	0.4	-	(7.6)	(0.9)	(8.5)
Environmental & Analysis	(4.5)	-	1.1	(0.1)	(3.5)	-	(3.5)
Total Segment & Group	(17.5)	-	1.5	(1.5)	(17.5)	(0.9)	(18.4)

The £1.5m adjustment to contingent consideration comprises a credit of £1.1m in Environmental & Analysis arising from a change in estimate of the payable for FluxData, Inc. (FluxData), and a credit of £0.4m in Medical arising from exchange differences on the payables for Visiometrics S.L. (Visiometrics) which is denominated in Euros.

The £1.5m charge relates to the release of the remaining fair value adjustment on revaluing the inventory of Firetrace Limited (£1.4m) and Mini-Cam Enterprises Limited and subsidiaries (Mini-Cam) (£0.1m).

The loss on disposal of operations of £0.9m arose on the sale of the trade and assets of Accudynamics Inc, for sale proceeds of £4.1m. The net assets on disposal were £4.3m, which together with the disposal of related goodwill of £0.8m and disposal costs of £0.3m, offset by the recycling of foreign exchange gains of £0.4m, resulted in a net loss on disposal (before taxation) of £0.9m.

Unaudited for the Six months to 30 September 2017							
	Amortisation and impairment of acquired intangibles £m	Acquisition items			Total amortisation charge and acquisition items £m	Disposal of operations and significant restructuring £m	Total £m
		Transaction costs £m	Adjustments to contingent consideration £m	Release of fair value adjustments to inventory £m			
Process Safety	(2.0)	-	-	-	(2.0)	-	(2.0)
Infrastructure Safety	(2.5)	(0.1)	-	-	(2.6)	-	(2.6)
Medical	(9.9)	(0.8)	(0.5)	-	(11.2)	-	(11.2)
Environmental & Analysis	(2.9)	-	1.1	(0.1)	(1.9)	-	(1.9)
Total Segment & Group	(17.3)	(0.9)	0.6	(0.1)	(17.7)	-	(17.7)

The transaction costs arose mainly on the acquisitions of CasMed NIBP and Cardios during the period.

The £0.6m adjustment to contingent consideration comprises a credit of £1.1m in Environmental & Analysis arising from a change in estimate of the payable for FluxData, a prior year acquisition, offset by £0.5m in Medical arising from exchange differences on the payables for Visiometrics which is denominated in Euros and for Cardios Sistemas Comercial e Industrial Ltda and Cardio Dinamica Ltda (together Cardios) which is denominated in Brazilian Reals.

The £0.1m charge relates to the release of the remaining fair value adjustment on revaluing the inventory of FluxData on acquisition in the prior year.

Notes to the Condensed Interim Financial Statements continued

2 Segmental analysis continued

Audited for the year to 31 March 2018

	Amortisation and impairment of acquired intangibles £m	Acquisition items			Total amortisation charge and acquisition items £m	Disposal of operations and significant restructuring £m	Total £m
		Transaction costs £m	Adjustments to contingent consideration £m	Release of fair value adjustments to inventory £m			
Process Safety	(3.9)	–	–	–	(3.9)	–	(3.9)
Infrastructure Safety	(5.2)	(0.8)	–	(2.1)	(8.1)	–	(8.1)
Medical	(18.5)	(1.0)	(3.2)	(0.3)	(23.0)	0.7	(22.3)
Environmental & Analysis	(7.1)	(0.8)	1.5	(1.0)	(7.4)	–	(7.4)
Total Segment & Group	(34.7)	(2.6)	(1.7)	(3.4)	(42.4)	0.7	(41.7)

The transaction costs arose mainly on the acquisitions during the period of Setco, S.A. (Setco) (£0.1m) and Argus Security S.r.l. and Sterling Safety Systems Limited (together Argus) (£0.7m) within Infrastructure Safety, Cas Medical Systems Inc's Non-Invasive Blood Pressure Monitoring product line (CasMed NIBP) (£0.5m) and Cardios (£0.5m) within Medical, and Mini-Cam (£0.8m) within Environmental & Analysis.

The £1.7m adjustment to contingent consideration comprises: a debit of £2.5m in Medical arising from a change in estimate of the payable for CasMed NIBP (£0.7m) and Visiometrics (£1.8m), offset by a credit of £1.5m in Environmental & Analysis arising from a change in estimate of the payable for FluxData. Exchange differences on the payable for Visiometrics which is denominated in Euros, and for Cardios which is denominated in Brazilian Reals, contributes a further debit of £0.7m in Medical.

The £3.4m release of fair value adjustments to inventory relates to Firetrace (£1.4m), Argus (£0.6m) and Setco (£0.1m) within Infrastructure Safety, Cardios (£0.3m) within Medical, and Mini-Cam (£0.8m) and FluxData (£0.2m) within Environmental & Analysis. All amounts have now been released in relation to Argus, Setco, Cardios and FluxData.

The total assets and liabilities of all four segments have not been disclosed as there have been no material changes to those disclosed in the Annual Report and Accounts 2018.

3 Finance income

	Unaudited Six months to 30 September 2018 £m	Unaudited Six months to 30 September 2017 £m	Audited Year to 31 March 2018 £m
Interest receivable	0.1	0.1	0.2
Fair value movement on derivative financial instruments	–	–	0.1
	0.1	0.1	0.3

4 Finance expense

	Unaudited Six months to 30 September 2018 £m	Unaudited Six months to 30 September 2017 £m	Audited Year to 31 March 2018 £m
Interest payable on loans and overdrafts	3.9	3.4	7.0
Amortisation of finance costs	0.4	0.5	1.0
Net interest charge on pension plan liabilities	0.6	0.9	1.7
Other interest payable	0.1	0.1	0.2
	5.0	4.9	9.9
Fair value movement on derivative financial instruments	–	0.1	–
Unwinding of discount on provisions	–	–	0.1
	5.0	5.0	10.0

5 Taxation

The total Group tax charge for the six months to 30 September 2018 of £19.9m (six months to 30 September 2017: £15.1m; year to 31 March 2018: £17.7m) comprises a current tax charge of £21.2m (six months to 30 September 2017: £18.0m; year to 31 March 2018: £38.6m) and a deferred tax credit of £1.3m (six months to 30 September 2017: £2.9m; year to 31 March 2018: £20.9m). The tax charge is based on the estimated effective tax rate for the year, for profit before tax before adjustments. The tax rates applied to the adjustments are established on an individual basis for each adjustment.

The tax charge includes £17.3m (six months to 30 September 2017: £14.9m; year to 31 March 2018: £29.1m) in respect of overseas tax.

Notes to the Condensed Interim Financial Statements

continued

6 Earnings per ordinary share

Basic and diluted earnings per ordinary share are calculated using the weighted average of 379,043,693 (30 September 2017: 379,219,351; 31 March 2018: 378,987,354) shares in issue during the period (net of shares purchased by the Company and held as treasury and Employee Benefit Trust shares). There are no dilutive or potentially dilutive ordinary shares.

Adjusted earnings are calculated as earnings from continuing operations excluding the amortisation and impairment of acquired intangible assets; acquisition items; significant restructuring costs; 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:

	Unaudited Six months to 30 September 2018 £m	Unaudited Six months to 30 September 2017 £m	Audited Year to 31 March 2018 £m
Earnings from continuing operations	74.6	61.7	154.2
Amortisation of acquired intangible assets (after tax)	14.9	11.8	26.0
Acquisition transaction costs (after tax)	–	0.6	2.4
Adjustments to contingent consideration (after tax)	(1.5)	(0.7)	1.9
Release of fair value adjustments to inventory (after tax)	1.1	0.1	2.6
Disposal of operations and restructuring (after tax)	0.7	–	(0.7)
Impact of US tax reform measures	–	–	(14.9)
Adjusted earnings	89.8	73.5	171.5

	Per ordinary share		
	Unaudited Six months to 30 September 2018 pence	Unaudited Six months to 30 September 2017 Pence	Audited Year to 31 March 2018 pence
Earnings from continuing operations	19.67	16.27	40.69
Amortisation of acquired intangible assets (after tax)	3.93	3.12	6.85
Acquisition transaction costs (after tax)	–	0.15	0.65
Adjustments to contingent consideration (after tax)	(0.40)	(0.19)	0.51
Release of fair value adjustments to inventory (after tax)	0.29	0.02	0.69
Disposal of operations and restructuring (after tax)	0.18	–	(0.19)
Impact of US tax reform measures	–	–	(3.94)
Adjusted earnings	23.67	19.37	45.26

7 Dividends

	Per ordinary share		
	Unaudited Six months to 30 September 2018 pence	Unaudited Six months to 30 September 2017 pence	Audited Year to 31 March 2018 pence
Amounts recognised as distributions to shareholders in the period			
Final dividend for the year to 31 March 2018 (1 April 2017)	8.97	8.38	8.38
Interim dividend for the year to 31 March 2018	–	–	5.71
	8.97	8.38	14.09
Dividends in respect of the period			
Interim dividend for the year to 31 March 2019 (31 March 2018)	6.11	5.71	5.71
Final dividend for the year to 31 March 2018	–	–	8.97
	6.11	5.71	14.68

	Unaudited Six months to 30 September 2018 £m	Unaudited Six months to 30 September 2017 £m	Audited Year to 31 March 2018 £m
Amounts recognised as distributions to shareholders in the period			
Final dividend for the year to 31 March 2018 (1 April 2017)	34.0	31.7	31.7
Interim dividend for the year to 31 March 2018	–	–	21.7
	34.0	31.7	53.4
Dividends in respect of the period			
Interim dividend for the year to 31 March 2019 (31 March 2018)	23.2	21.7	21.7
Final dividend for the year to 31 March 2018	–	–	34.0
	23.2	21.7	55.7

Notes to the Condensed Interim Financial Statements

continued

8 Notes to the Consolidated Cash Flow Statement

	Unaudited Six months to 30 September 2018 £m	Unaudited Six months to 30 September 2017 £m	Audited Year to 31 March 2018 £m
Reconciliation of profit from operations to net cash inflow from operating activities			
Profit on continuing operations before finance income and expense, share of results of associates and profit or loss on disposal of operations	100.4	81.8	181.2
Financial instruments at fair value through profit or loss	(0.1)	(0.2)	(0.3)
Depreciation of property, plant and equipment	9.8	9.1	18.9
Loss on disposal of capitalised development costs	0.7	–	–
Amortisation of computer software	0.8	0.8	1.6
Amortisation of capitalised development costs and other intangibles	4.3	3.4	7.1
Impairment of intangibles	–	–	0.7
Amortisation of acquired intangible assets	17.5	17.3	34.7
Share-based payment expense in excess of/(less than) amounts paid	–	0.6	4.4
Payments to pension plans	(5.5)	(5.4)	(10.7)
Profit on sale of property, plant and equipment and computer software	–	(0.5)	(0.5)
Operating cash flows before movement in working capital	127.9	106.9	237.1
Increase in inventories	(9.9)	(8.7)	(9.1)
(Increase)/decrease in receivables	(1.2)	4.0	(24.6)
Increase/(decrease) in payables and provisions	0.5	(8.1)	9.3
Revision to estimate of contingent consideration payable	(1.5)	(0.6)	1.7
Cash generated from operations	115.8	93.5	214.4
Taxation paid	(19.0)	(17.5)	(41.1)
Net cash inflow from operating activities	96.8	76.0	173.3

	Unaudited 30 September 2018 £m	Unaudited 30 September 2017 £m	Audited 31 March 2018 £m
Analysis of cash and cash equivalents			
Cash and bank balances	66.4	71.7	70.7
Overdrafts (included in current Borrowings)	(2.9)	–	(1.0)
Cash and cash equivalents	63.5	71.7	69.7

8 Notes to the Consolidated Cash Flow Statement continued

	At 31 March 2018 £m	Reclass £m	Cash flow £m	Net cash/(debt) acquired £m	Loan notes repaid £m	Exchange adjustments £m	At 30 September 2018 £m
Analysis of net debt							
Cash and bank balances	70.7	-	(5.5)	-	-	1.2	66.4
Overdrafts	(1.0)	-	(1.9)	-	-	-	(2.9)
Cash and cash equivalents	69.7	-	(7.4)	-	-	1.2	63.5
Loan notes falling due within one year	(0.1)	(0.1)	-	-	0.1	-	(0.1)
Loan notes falling due after more than one year	(176.6)	0.1	-	-	-	(4.4)	(180.9)
Bank loans falling due after more than one year	(113.3)	-	42.4	-	-	(6.2)	(77.1)
Total net debt	(220.3)	-	35.0	-	0.1	(9.4)	(194.6)

Overdrafts and Loan notes falling due within one year are included as current borrowings in the Consolidated Balance Sheet. Loan notes and Bank loans falling due after more than one year are included as non-current borrowings.

9 Alternative performance measures

The Board uses certain non-GAAP measures to help it effectively monitor the performance of the Group. The Directors consider that these represent a more consistent measure of underlying performance. 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.

Return on Total Invested Capital (ROTIC)

	Unaudited Six months to 30 September 2018 £m	Unaudited Six months to 30 September 2017 £m	Audited Year to 31 March 2018 £m
Profit after tax	74.6	61.7	154.2
Adjustments ¹	15.2	11.7	17.3
Adjusted profit after tax¹	89.8	73.4	171.5
Shareholders' funds	927.3	775.3	828.4
Add back retirement benefit obligations	20.7	66.8	53.9
Less associated deferred tax assets	(3.6)	(12.4)	(9.7)
Cumulative amortisation of acquired intangible assets	219.0	179.7	191.0
Historical adjustments to goodwill ²	89.5	89.5	89.5
Total Invested Capital	1,252.9	1,098.9	1,153.1
Average Total Invested Capital³	1,203.0	1,098.0	1,125.5
Return on Total Invested Capital (annualised)⁴	14.9%	13.4%	15.2%

Notes to the Condensed Interim Financial Statements continued

9 Alternative performance measures continued

Return on Capital Employed (ROCE)

	Unaudited Six months to 30 September 2018 £m	Unaudited Six months to 30 September 2017 £m	Audited Year to 31 March 2018 £m
Profit before tax	94.5	76.8	171.9
Adjustments ¹	18.4	17.7	41.7
Net finance costs	4.9	4.9	9.7
Adjusted operating profit¹ after share of results of associates	117.8	99.4	223.3
Computer software costs within intangible assets	5.1	4.6	4.7
Capitalised development costs within intangible assets	30.2	30.0	29.9
Other intangibles within intangible assets	3.0	1.1	0.9
Property, plant and equipment	109.6	102.6	103.7
Inventories	141.2	124.2	128.0
Trade and other receivables	241.8	203.4	235.2
Trade and other payables	(154.5)	(125.7)	(149.6)
Provisions	(18.2)	(4.7)	(8.8)
Net tax liabilities	(12.6)	(14.5)	(11.4)
Non-current trade and other payables	(9.7)	(11.4)	(12.6)
Non-current provisions	(4.7)	(16.9)	(23.1)
Add back contingent purchase consideration	14.8	15.2	25.0
Capital Employed	346.0	307.9	321.9
Average Capital Employed³	334.0	305.1	312.1
Return on Capital Employed (annualised)⁴	70.5%	65.2%	71.6%

1 Adjustments include the amortisation and impairment of acquired intangible assets; acquisition items; significant restructuring costs and profit or loss on disposal of operations. These also include the associated taxation on adjusting items where after-tax measures.

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

3 The ROTIC and ROCE measures are expressed as a percentage of the average of the current period's and prior year's Total Invested Capital and Capital Employed respectively. Using an average as the denominator is considered to be more representative. The March 2017 Total Invested Capital and Capital Employed balances were £1,097.1m and £302.2m respectively.

4 The ROTIC and ROCE measures are calculated as annualised Adjusted profit after tax divided by Average Total Invested Capital and annualised Adjusted operating profit after share of results of associates divided by Average Capital Employed respectively.

Organic growth and constant currency

Organic growth measures the change in revenue and profit from continuing Group operations. The measure 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.

Constant currency measures the change in revenue and profit excluding the effects of currency movements. The measure restates the current year's revenue and profit at last year's exchange rates.

Organic growth at constant currency has been calculated as follows:

9 Alternative performance measures continued

Organic growth at constant currency

	Revenue			Adjusted profit* before taxation		
	Unaudited Six months to 30 September 2018 £m	Unaudited Six months to 30 September 2017 £m	% growth	Unaudited Six months to 30 September 2018 £m	Unaudited Six months to 30 September 2017 £m	% growth
Continuing operations	585.5	506.3	15.6%	112.9	94.5	19.4%
Acquired and disposed revenue/profit	(19.6)	(2.8)		(4.8)	0.4	
Organic growth	565.9	503.5	12.4%	108.1	94.9	13.9%
Constant currency adjustment	8.9	–		2.0	–	
Organic growth at constant currency	574.8	503.5	14.2%	110.1	94.9	16.1%

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

Sector organic growth at constant currency

Organic growth at constant currency is calculated for each segment using the same method as described above.

Process Safety	Revenue			Adjusted* segment profit		
	Unaudited Six months to 30 September 2018 £m	Unaudited Six months to 30 September 2017 £m	% growth	Unaudited Six months to 30 September 2018 £m	Unaudited Six months to 30 September 2017 £m	% growth
Continuing operations	97.9	88.8	10.3%	22.2	20.2	9.4%
Acquisition and currency adjustments	1.3	–		0.4	–	
Organic growth at constant currency	99.2	88.8	11.8%	22.6	20.2	11.4%

Infrastructure Safety	Revenue			Adjusted* segment profit		
	Unaudited Six months to 30 September 2018 £m	Unaudited Six months to 30 September 2017 £m	% growth	Unaudited Six months to 30 September 2018 £m	Unaudited Six months to 30 September 2017 £m	% growth
Continuing operations	197.6	167.9	17.7%	41.7	35.8	16.8%
Acquisition and currency adjustments	(8.3)	–		(1.8)	–	
Organic growth at constant currency	189.3	167.9	12.7%	39.9	35.8	11.7%

Medical	Revenue			Adjusted* segment profit		
	Unaudited Six months to 30 September 2018 £m	Unaudited Six months to 30 September 2017 £m	% growth	Unaudited Six months to 30 September 2018 £m	Unaudited Six months to 30 September 2017 £m	% growth
Continuing operations	147.2	133.3	10.4%	35.0	28.7	21.8%
Acquisition and currency adjustments	1.0	(2.8)		0.5	0.4	
Organic growth at constant currency	148.2	130.5	13.6%	35.5	29.1	22.1%

Notes to the Condensed Interim Financial Statements continued

9 Alternative performance measures continued

Sector organic growth at constant currency continued

Environmental & Analysis	Revenue			Adjusted* segment profit		
	Unaudited Six months to 30 September 2018 £m	Unaudited Six months to 30 September 2017 £m	% growth	Unaudited Six months to 30 September 2018 £m	Unaudited Six months to 30 September 2017 £m	% growth
Continuing operations	143.0	116.5	22.7%	29.0	21.8	33.1%
Acquisition and currency adjustments	(4.7)	–		(2.7)	–	
Organic growth at constant currency	138.3	116.5	18.7%	26.3	21.8	20.6%

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

Adjusted operating profit

	Unaudited Six months to 30 September 2018 £m	Unaudited Six months to 30 September 2017 £m	Audited Year to 31 March 2018 £m
Operating profit	100.4	81.8	181.2
Add back:			
Acquisition items	–	0.4	7.8
Amortisation of acquired intangible assets	17.5	17.3	34.7
Adjusted operating profit	117.9	99.5	223.7

Adjusted operating cash flow

	Unaudited Six months to 30 September 2018 £m	Unaudited Six months to 30 September 2017 £m	Audited Year to 31 March 2018 £m
Net cash from operating activities (note 8)	96.8	76.0	173.3
Add back:			
Net acquisition costs	–	0.9	2.6
Taxes paid	19.0	17.5	41.1
Proceeds from sale of property, plant and equipment	0.4	1.2	1.7
Share awards vested not settled by own shares*	4.9	3.3	3.3
Less:			
Purchase of property, plant and equipment	(13.7)	(9.1)	(20.2)
Purchase of computer software and other intangibles	(2.0)	(1.1)	(2.0)
Development costs capitalised	(4.3)	(5.0)	(9.4)
Adjusted operating cash flow	101.1	83.7	190.4
Cash conversion % (adjusted operating cash flow/adjusted operating profit)	86%	84%	85%

* See Consolidated Statement of Changes in Equity.

10 Retirement benefits

The Group's significant defined benefit plans are for the qualifying employees of its UK subsidiaries. The defined benefit obligation at 30 September 2018 of £20.7m (30 September 2017: £66.8m; 31 March 2018: £53.9m) has been estimated based on the latest triennial actuarial valuations updated to reflect current assumptions regarding discount rates, inflation rates and asset values. The latest triennial valuations were carried out at 1 December 2017 for the Halma Group Pension Plan, which has been finalised and approved by the Group; and 1 April 2018 for the Apollo Pension and Life Assurance Plan, which is being finalised.

The discount rate has increased to 2.9% (30 September 2017: 2.6%; 31 March 2018: 2.5%), as a result of changes in financial assumptions (0.2%) and market conditions (0.2%). In line with evolving market practice, the Group has adopted a 'single agency' approach to bond classifications and has removed bonds that have a quasi-government aspect. All other assumptions are materially unchanged.

In addition, the defined benefit plan assets have been updated to reflect deficit reduction payments in the period totalling £5.7m (30 September 2017: £5.4m; 31 March 2018: £11.1m). The UK plans are closed to future accrual.

No allowance had been made at 30 September 2018 for Guaranteed Minimum Payments ('GMP') equalisation in the calculation of our pension obligations. On 26 October, the High Court reached a judgment in relation to Lloyds Banking Group's defined benefit pension schemes which concluded that the schemes should be amended to equalise pension benefits for men and women as regards guaranteed minimum pension benefits. The issues determined by the judgment arise in relation to most other defined benefit pension schemes. We are working with the trustees of our pension schemes, and our actuarial and legal advisers, to understand the extent to which the judgment will crystallise additional liabilities for Halma's pension schemes. Current industry estimates are for incremental liabilities of affected pension schemes to be in the range of zero to three per cent of total liabilities, and we currently expect any liability for Halma's schemes to be in the lower end of that range. Any adjustment necessary is expected to be recognised in the Income Statement in the second half of 2018/19.

11 Fair values of financial assets and liabilities

As at 30 September 2018, with the exception of the Group's fixed rate loan notes, there were no significant differences between the book value and fair value (as determined by market value) of the Group's financial assets and liabilities.

The fair value of floating rate borrowings approximates to the carrying value because interest rates are reset to market rates at intervals of less than one year.

The fair value of the Group's fixed rate loan notes arising from the United States Private Placement completed in January 2016 is estimated to be £181.3m, against a carrying value of £180.9m.

The fair value of financial instruments is estimated by discounting the future contracted cash flow using readily available market data and represents a level 2 measurement in the fair value hierarchy under IFRS 7.

As at 30 September 2018, the total forward foreign currency contracts outstanding were £43.0m. The contracts mostly mature within one year and therefore the cash flows and resulting effect on profit and loss are expected to occur within the next 12 months.

The fair values of the forward contracts are disclosed as a £0.3m (30 September 2017: £0.6m; 31 March 2018: £0.7m) asset and £0.5m (30 September 2017: £0.4m; 31 March 2018: £0.2m) liability in the Consolidated Balance Sheet.

Any movements in the fair values of the contracts are recognised in equity until the hedge transaction occurs, when gains/losses are recycled to finance income or finance expense.

12 Subsequent events

On 18 October 2018, The Group acquired the entire share capital of Limotec bvba, a leading fire control panel designer and manufacturer and fire system seller, for a total cash consideration of €9.3m (£8.2m).

On 14 November 2018, the Group acquired the entire share capital of Navtech Radar Limited for an initial cash consideration of £25m (including acquired cash of £4m) with an earn-out of up to £18m payable for EBIT growth to 31 March 2021.

13 Contingent liability

As previously reported, on 24 November 2017 the European Commission published an opening decision that the United Kingdom controlled foreign company group financing partial exemption (FCPE) constitutes State Aid. The Group has benefitted from the FCPE in 2018 and prior periods. The benefit at 30 September 2018 was approximately £15.4m (31 March 2018: £12.0m) in respect of tax and approximately £0.4m in respect of interest (31 March 2018: £0.3m). At present the Group believes no provision is required in respect of this issue.

Notes to the Condensed Interim Financial Statements continued

14 Other matters

Seasonality

The Group's financial results have not historically been subject to significant seasonal trends.

Equity and borrowings

Issues and repurchases of Halma plc's ordinary shares and drawdowns and repayments of borrowings are shown in the Consolidated Cash Flow Statement.

Related party transactions

There were no significant changes in the nature and size of related party transactions for the period to those reported in the Annual Report and Accounts 2018.

15 Principal risks and uncertainties

A number of potential risks and uncertainties exist that could have a material impact on the Group's performance over the second half of the financial year and could cause actual results to differ materially from expected and historical results.

The Group has in place processes for identifying, evaluating and managing key risks. These risks, together with a description of the approach to mitigating them, are set out on pages 52 to 57 in the Annual Report and Accounts 2018, which is available on the Group's website at www.halma.com. The Directors do not consider that the principal risks and uncertainties have changed since the publication of the Annual Report and Accounts.

The principal risks and uncertainties relate to:

- Cyber
- Organic growth
- Making and integrating acquisitions
- Talent and diversity
- Innovation
- Competition
- Economic and geopolitical uncertainty
- Natural disasters
- Communications
- Non-compliance with laws and regulations
- Financial controls
- Treasury management
- Product failure

16 Responsibility statement

We confirm that to the best of our knowledge:

- a) these Condensed Financial Statements have been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting' as adopted by the European Union;
- b) this Half Year Report includes a fair review of the information required by Disclosure Guidance and Transparency Rule (DTR) 4.2.7R (indication of important events during the period and description of principal risks and uncertainties for the remainder of the financial year); and
- c) this Half Year Report includes a fair review of the information required by DTR 4.2.8R (disclosure of related party transactions and changes therein).

By order of the Board

Andrew Williams
Group Chief Executive
20 November 2018

Marc Ronchetti
Chief Financial Officer

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Andrew Williams	<i>Group Chief Executive</i>
Marc Ronchetti	<i>Chief Financial Officer</i>
Adam Meyers	
Jennifer Ward	
Daniela Barone Soares*	
Carole Cran*	
Jo Harlow*	
Tony Rice*	<i>Senior Independent Director</i>
Roy Twite*	

* Non-executive

Company Secretary

Mark Jenkins

Executive Board

Andrew Williams	<i>Group Chief Executive</i>
Marc Ronchetti	<i>Chief Financial Officer</i>
Adam Meyers	<i>Sector Chief Executive, Medical and Environmental</i>
Paul Simmons	<i>Sector Chief Executive, Safety</i>
Jennifer Ward	<i>Group Talent and Communications Director</i>
Inken Braunschmidt	<i>Chief Innovation and Digital Officer</i>

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