

FINANCIAL STATEMENTS

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KPMG LLP'S INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF SMITHS GROUP PLC

1. OUR OPINION IS UNMODIFIED

In our opinion:

- the financial statements of Smiths Group Plc give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 July 2023, and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the Parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- the Group and Parent Company financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

WHAT OUR OPINION COVERS

We have audited the Group and Parent Company financial statements of Smiths Group Plc ("the Company") for the year ended 31 July 2023 (FY2023) included in the Annual Report, which comprise:

| GROUP (SMITHS GROUP PLC AND ITS SUBSIDIARIES) | PARENT COMPANY (SMITHS GROUP PLC) |
|--|--|
| The consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in equity, consolidated cash-flow statement | Company balance sheet, Company statement of changes in equity |
| Notes 1 to 31 to the Group financial statements, including the accounting policies. | Notes 1 to 13 to the Parent Company financial statements, including the accounting policies. |

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion and matters included in this report are consistent with those discussed and included in our reporting to the Audit & Risk Committee ("ARC").

We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities.

2. OVERVIEW OF OUR AUDIT

FACTORS DRIVING OUR VIEW OF RISKS

Following our FY2022 audit, and considering developments affecting the Group since then, we have updated our risk assessment decisions.

The Group recognises a goodwill balance in the Detection CGU of £630m which is subject to impairment assessment annually. The impairment assessment relies on assumptions and estimates which are subject to a high degree of uncertainty. These assumptions are sensitive to changes. Consistent with FY2022, there is significant auditor judgement involved in evaluating the assumptions and our assessment of the risk associated with this as a key audit matter remained consistent with the prior year.

The Group recognises a provision of £204m arising from ongoing asbestos litigation claims in John Crane Inc. There are significant judgements and estimates involved in the assumptions underlying the provision in respect of JCI asbestos litigation including the quantified projection period, the forecast number of future claims and associated claim and defence costs respectively and complex estimation methodology. Consistent with FY2022, there is significant auditor judgement involved in evaluating the assumptions and our assessment of the risk associated with this as a key audit matter remained consistent with the prior year.

The Parent company has material pension plan assets and liabilities, especially in the UK. Small changes in the assumptions used to determine the liabilities, in particular those relating to discount rates, inflation and mortality can have a significant impact on the valuation of the liabilities. The effect of these matters is that we determined that the pension assumptions have a high degree of estimation uncertainty. Due to the increase in discount rates in the year, the carrying value of the pension liability has reduced by £400m in the year. Consequently, while there is significant auditor judgement involved in evaluating the assumptions, our assessment of the risk associated with this as a key audit matter indicates a decrease in the potential impact of a material misstatement on the Group financial statements in the current year.

AUDIT COMMITTEE INTERACTION

During the year, the ARC met 4 times. KPMG are invited to attend all ARC meetings and are provided with an opportunity to meet with the ARC in private sessions without the Executive Directors being present. For each key audit matter, we have set out communications with the ARC in section 6, including matters that required particular judgement for each.

The matters included in the Audit & Risk Committee Chairman's report on pages 93 and 94 are materially consistent with our observations of those meetings.

Key Audit Matters

| | vs FY2022 | Item |
|---|-----------|------|
| Recoverability of goodwill in respect of the Smiths Detection CGU (a) | ↔ | 4.1 |
| Estimation of litigation provisions for asbestos in John Crane, Inc (a) | ↔ | 4.2 |
| Defined benefit pension plan liabilities for SIPS (b) | ↓ | 4.3 |

(a) Key audit matter to the Group financial statements

(b) Key audit matter to the Parent Company financial statements

OUR INDEPENDENCE

We have fulfilled our ethical responsibilities and remain independent of the Group in accordance with UK ethical requirements, including the FRC Ethical Standard as applied to listed public interest entities. Apart from the matters noted below, we have not performed any non-audit services during the year ended 31 July 2023 or subsequently which are prohibited by the FRC Ethical Standard.

During 2023, we identified that certain KPMG member firms had provided preparation of local GAAP financial statement services and, in some cases, foreign language translation services over the period FY2020 to FY2023. Some of those entities to whom services were provided are and have been in scope for the Group audit. The services, which have been terminated, were administrative in nature and did not involve any management decision-making or bookkeeping. The work had no direct or indirect effect on Smiths Group plc's consolidated financial statements

In our professional judgment, we confirm that based on our assessment of the breach, our integrity and objectivity as auditor has not been compromised and we believe that an objective, reasonable and informed third party would conclude that the provision of this service would not impair our integrity or objectivity for any of the impacted financial years. The Audit & Risk Committee concurred with this view.

We were first appointed as auditor by the shareholders for the year ended 31 July 2020. The period of total uninterrupted engagement is for the four financial years ended 31 July 2023.

The Group engagement partner is required to rotate every 5 years. As these are the first set of the Group's financial statements signed by Mike Barradell, he will be required to rotate off after the FY2027 audit.

The average tenure of partners responsible for component audits as set out in section 7 below is 4 years, with the shortest being 1 year and the longest being 4 years.

| | |
|---|-------------------------|
| Total audit fee | £8.1m |
| Audit related fees (including interim review) | £8.4m |
| Other services | £0.1m |
| Non-audit fee as a % of total audit and audit related fee % | 1.2% |
| Date first appointed | 13 November 2019 |
| Uninterrupted audit tenure | 4 years |
| Next financial period which requires a tender | 2030 |
| Tenure of Group engagement partner | 1 year |
| Average tenure of component signing partners | 4 years |

MATERIALITY (ITEM 6 BELOW)

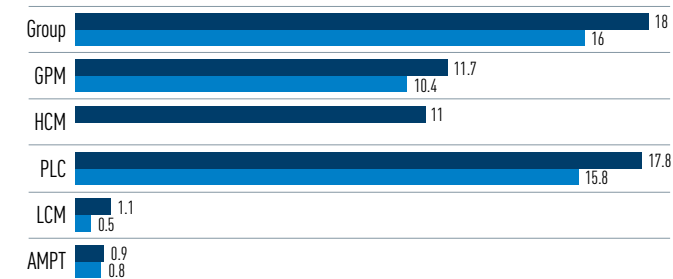
The scope of our work is influenced by our view of materiality and our assessed risk of material misstatement.

We have determined overall materiality for the Group financial statements as a whole at £18m (FY2022: £16m) and for the Parent Company financial statements as a whole at £17.8m (FY2022: £15.8m).

A key judgement in determining materiality was the most relevant metric to select as the benchmark, by considering which metrics have the greatest bearing on shareholder decisions.

Consistent with FY2022, we determined that Group profit before tax from continuing operations normalised to exclude the effect of specific items as explained in section 5 of this report remains the benchmark for the Group. We determined that normalised profit before tax remains the benchmark for the Group as Smiths Group Plc is publicly traded and a profit seeking entity. The Group is well established and operates in a stable environment across multiple geographies. The profitability and prospects for future net cash inflows is important to the users of the financial statements. We based our Group materiality on normalised PBTCO of £392m (FY2022: £314m), of which it represents 4.6% (FY2022: 5.1%).

Materiality for the Parent Company financial statements was determined with reference to a benchmark of Parent Company total assets, limited to be less than materiality for Group materiality as a whole of which it represents 0.4% (FY22: 0.4%).

MATERIALITY LEVELS USED IN OUR AUDIT

● FY2023 £m ● FY2022 £m

| | |
|--------------|--------------------------------------|
| Group | Group Materiality |
| GPM | Group Performance Materiality |
| HCM | Highest Component Materiality |
| PLC | Parent Company Materiality |
| LCM | Lowest Component Materiality |
| AMPT | Audit Misstatement Posting Threshold |

**GROUP SCOPE
(ITEM 7 BELOW)**

We have performed risk assessment and planning procedures to determine which of the Group's components are likely to include risks of material misstatement to the Group financial statements, the type of procedures to be performed at these components and the extent of involvement required from our component auditors around the world.

We subjected 7 (FY2022: 23) to full scope audits for Group purposes and 10 (FY2022:9) to specified risk-focused audit procedures or audit of specific account balances. The components for which we performed audit of specific account balances were not individually financially significant enough to require a full scope audit for Group purposes but were included in the scope of our Group reporting work in order to provide further coverage over the Group's results.

The scope of the audit work performed was predominately substantive as we placed limited reliance upon the Group's internal control over financial reporting.

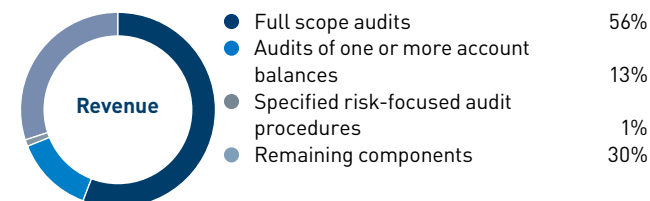
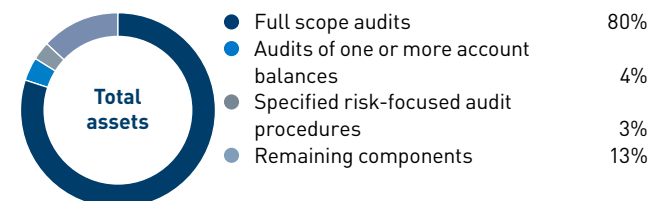
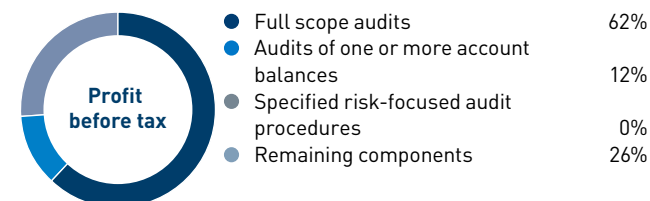
In the prior year, all components were identified based on the Group's legal entities. In the current year, we considered the Flex-Tek division as a single component, with the component auditor providing an opinion on the sub-consolidation prepared at the division level. This change to component scoping accounts for the reduction in the number of full scope components when compared to FY2022.

The components within the scope of our work accounted for the percentages illustrated opposite.

In addition, we have performed Group level analysis on the remaining components to determine whether further risks of material misstatement exist in those components.

We consider the scope of our audit, as communicated to the Audit & Risk Committee, to be an appropriate basis for our audit opinion.

COVERAGE OF GROUP FINANCIAL STATEMENTS



THE IMPACT OF CLIMATE CHANGE ON OUR AUDIT

We have considered the potential impacts of climate change on the financial statements as part of planning our audit. As the Group has set out on page 47, climate change has the potential to give rise to a number of transition risks and opportunities and physical risks and opportunities. The Group has stated their commitment to achieve Net Zero for Scope 1 & 2 emissions by 2040 and to achieve Net Zero for Scope 3 emissions by 2050. The areas of the financial statements that are most likely to be potentially affected by climate related changes and initiatives are future loss of revenue due to supply chain challenges. The Group considered the impact of climate change and the Group's targets in the preparation of the financial statements, as described on page 47 and concluded this did not have a material effect on the consolidated financial statements. We performed a risk assessment, taking into

account climate change risks and the commitments made by the Group. We held inquiries of management regarding their processes for assessing the potential impact of climate change risk on the Group's financial statements and held discussions with our own climate change professionals to challenge our risk assessment.

Based on our risk assessment we determined that there was no significant impact of climate change on our key audit matters included in section 4 or other key areas of the audit. We have read the Group's disclosure of climate related information in the front half of the Annual Report as set out on pages 47 to 57 and considered consistency with the financial statements and our audit knowledge.

3. GOING CONCERN, VIABILITY AND PRINCIPAL RISKS AND UNCERTAINTIES¹

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Parent Company or to cease their operations, and as they have concluded that the Group's and the Parent Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

GOING CONCERN

We used our knowledge of the Group, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Group's and Parent Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group's and Parent Company's available financial resources over this period were:

- Adverse trading conditions and impact on the Group's operations or that of its suppliers and customers, such as delays and cancellations of orders and deliveries, driven by geo-political and economic factors, resulting in a significant deterioration in the Group's liquidity position.
- Product quality failure which would result in reputational damage amongst customers and therefore reduction in orders and customer loss as well as potential significant liability claims raised against the Group.

We considered whether these risks could plausibly affect the liquidity or covenant compliance in the going concern period by comparing severe but plausible downside scenarios that could arise from these risks individually and collectively against the level of available financial resources and covenant thresholds indicated by the Group's financial forecasts. We also assessed the completeness of the going concern disclosure.

Accordingly, based on those procedures, we found the Directors' use of the going concern basis of accounting without any material uncertainty for the Group and Parent Company to be acceptable. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Group or the Parent Company will continue in operation.

OUR CONCLUSIONS

- We consider that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- We have not identified, and concur with the Directors' assessment that there is not a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's or Parent Company's ability to continue as a going concern for the going concern period;
- We have nothing material to add or draw attention to in relation to the Directors' statement on page 135 on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Parent Company's use of that basis for the going concern period, and we found the going concern disclosure on page 135 to be acceptable; and
- The related statement under the Listing Rules set out on page 75 is materially consistent with the financial statements and our audit knowledge.

DISCLOSURES OF EMERGING AND PRINCIPAL RISKS AND LONGER-TERM VIABILITY

OUR RESPONSIBILITY

We are required to perform procedures to identify whether there is a material inconsistency between the Directors' disclosures in respect of emerging and principal risks and the viability statement, and the financial statements and our audit knowledge.

Based on those procedures, we have nothing material to add or draw attention to in relation to:

- the Directors' confirmation within the going concern and viability statement on page 75 that they have carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- risk management disclosures describing these risks and how emerging risks are identified and explaining how they are being managed and mitigated; and
- the Directors' explanation in the going concern and viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to review the viability statement set out on page 75 under the Listing Rules.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Parent Company's longer-term viability.

OUR REPORTING

We have nothing material to add or draw attention to in relation to these disclosures.

We have concluded that these disclosures are materially consistent with the financial statements and our audit knowledge.

4. KEY AUDIT MATTERS

WHAT WE MEAN

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on:

- the overall audit strategy;
- the allocation of resources in the audit; and
- directing the efforts of the engagement team.

We include below the key audit matters in decreasing order of audit significance together with our key audit procedures to address those matters and our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, for the purpose of our audit of the financial statements as a whole. We do not provide a separate opinion on these matters.

4.1 VALUATION OF GOODWILL FOR DETECTION DIVISION (GROUP)

FINANCIAL STATEMENT ELEMENTS

| | FY2023 | FY2022 |
|----------------------------|--------|--------|
| Carrying Value of Goodwill | £630m | £644m |

OUR ASSESSMENT OF RISK VS FY2022

↔ We have not identified any significant changes to our assessment of the level of risk relating to Valuation of Goodwill for the Detection division compared to FY2022

OUR RESULTS

FY2023: Acceptable
FY2022: Acceptable

DESCRIPTION OF THE KEY AUDIT MATTER

Forecast-based assessment

The Group holds a significant amount of goodwill, especially in relation to the Smiths Detection cash generating unit (CGU). The value in use calculation for the CGU, which represents the estimated recoverable amount, is subjective due to the inherent uncertainty involved in forecasting and discounting estimated future cash flows (specifically the key assumptions – discount rate, projected cost inflation and 5 year revenue growth). The effect of these matters is that, as part of our risk assessment, we determined that the value in use of the Smiths Detection CGU has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount.

OUR RESPONSE TO THE RISK

We performed the tests below rather than seeking to rely on any of the group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.

Our procedures to address the risk included:

Benchmarking assumptions and historical comparison: Assessing and challenging the key assumptions through retrospective review and comparison to external industry forecast.

Our sector experience: Using our valuations specialists to challenge the appropriateness of discount rates by deriving our own independent range and using external market data to challenge the Group's assumption of 5-year revenue growth rates and EBIT margin.

Comparing valuations: Using our valuation specialist, we developed an independent valuation of the CGU's value in use. In doing so, we considered relevance and reliability of expected enterprise valuations per analyst reports and comparable companies' earnings multiple.

Sensitivity analysis: We performed sensitivity analysis on key assumptions of discount rate, revenue growth rate and EBIT margin projection

Assessing transparency: We assessed whether the Group's disclosures in respect of the judgement and estimates around goodwill recoverability for the Smiths Detection CGU, including disclosures of the sensitivity in the value in use calculations to changes in key assumptions

COMMUNICATIONS WITH THE SMITHS GROUP PLC'S AUDIT & RISK COMMITTEE

Our discussions with and reporting to the Audit & Risk Committee included:

- Our audit procedures relying fully on substantive audit procedures including engaging our valuation specialist team to test key assumptions in the impairment model.
- Our conclusion on the overall assessment of the assumptions underlying the impairment model.
- Our assessment of the adequacy of the disclosures in the financial statements particularly as it relates to sensitivity of the recoverable amount of the goodwill to changes in key assumptions.

AREAS OF PARTICULAR AUDITOR JUDGEMENT

We identified the following as the areas of particular auditor judgement:

- Estimate of the cumulative average revenue growth rate including estimate of EBIT margin projections over the forecast period being within a range we consider to be reasonable.
- Whether the discount rate used in the impairment model falls within an acceptable range.

OUR RESULTS

We found the Group's conclusion that there is no impairment of goodwill to be acceptable (FY2022 result: acceptable). We found the sensitivity disclosures made to be acceptable (FY2022 result: acceptable).

Further information in the Annual Report and Accounts: See the Audit & Risk Committee Report on page 93 for details on how the Audit & Risk Committee considered Valuation of Goodwill for Detection Division as an area of significant attention, page 140 for the accounting policy on Valuation of Goodwill for Detection Division, and page 163 note 11 for the financial disclosures.

4.2 ESTIMATION OF LITIGATION PROVISIONS FOR ASBESTOS IN JOHN CRANE, INC. (GROUP)

FINANCIAL STATEMENT ELEMENTS

| | FY2023 | FY2022 |
|---|--------|--------|
| Estimation of litigations provision for John Crane, Inc. ('JCI') asbestos | £204m | £229m |

OUR ASSESSMENT OF RISK VS FY2022

↔ We have not identified any significant changes to our assessment of the level of risk relating to Estimation of litigation provisions for asbestos in John Crane, Inc. compared to FY2022

OUR RESULTS

FY2023: Acceptable
FY2022: Acceptable

DESCRIPTION OF THE KEY AUDIT MATTER

Subjective estimate

There are significant judgements and estimates involved in the assumptions underlying the provision in respect of JCI asbestos litigation including the quantified projection period, the forecast number of future claims and associated claim and defence costs respectively and complex estimation methodology.

The effect of these matters is that, as part of our risk assessment, we determined that the asbestos litigation provision has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole.

OUR RESPONSE TO THE RISK

We performed the tests below rather than seeking to rely on any of the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.

Our procedures to address the risk included:

Our actuarial expertise: Challenging the key judgement of the ten-year projection period using our own actuarial specialist and our sector knowledge and expertise.

Benchmarking assumptions: Using our own actuarial specialists, we derived our own independent range of the estimated provision. We challenged the Group's assumptions underlying the asbestos provision relying on industry trends across comparable peer companies, and effect of inflation and discount rate assumptions through comparison to external market data.

Enquiry of lawyers: Obtaining external independent legal confirmations of historical and ongoing claims data used by the Group's management expert for estimating the future projected cost and claims.

Assessment of management's expert: Assessing the competency, knowledge and independence of the expert using our own specialist.

Assessing methodology: Using our own actuarial specialists, we evaluated the methodology applied by management to the estimation to assess whether the methodology utilised is in line with industry practice.

Historical comparison: Assessing and challenging the projected indemnity and defence expenditure through retrospective review of incurred cost.

Assessing transparency: Assessing whether the disclosures of the effect of reasonably possible changes in key judgements and assumptions reflects the risks inherent in the provision's estimation.

COMMUNICATIONS WITH THE SMITHS GROUP PLC'S AUDIT & RISK COMMITTEE

Our discussions with and reporting to the Audit & Risk Committee included:

- Our audit procedures relying fully on substantive audit procedures including engaging our valuation specialist team to test the reasonableness of the provision recognised in the year
- Our conclusion on the overall assessment of the assumptions supporting the litigation provision
- Our assessment of the adequacy of the related disclosures in the financial statements

AREAS OF PARTICULAR AUDITOR JUDGEMENT

We identified the following as the areas of particular auditor judgement:

- Appropriateness of ten-year projection period for the estimation of the litigation liability
- Range of possible outcome on litigation provision based on outcome of court judgements from ongoing litigation claims

OUR RESULTS

We found the level of litigation provisioning and related disclosures in the financial statements in respect of John Crane Inc. asbestos litigation to be acceptable (FY2022: acceptable).

Further information in the Annual Report and Accounts: See the Audit & Risk Committee Report on page 93 for details on how the Audit & Risk Committee considered estimation of litigation provision for asbestos in John Crane Inc as an area of significant attention, page 135 for the accounting policy on estimation of litigation provision for asbestos in John Crane Inc, and page 179 note 23 for the financial disclosures.

4.3 VALUATION OF UK DEFINED BENEFIT SIPS PENSION SCHEME LIABILITIES (PARENT COMPANY)

FINANCIAL STATEMENT ELEMENTS

| | FY2023 | FY2022 |
|--|---------|---------|
| UK defined benefit SIPS pension scheme liabilities | £1,251m | £1,603m |

OUR ASSESSMENT OF RISK VS FY2022

↓ We noted a significant reduction in the value of UK defined benefit SIPS pension scheme liabilities and consequently a reduction in the potential impact of a material misstatement on the financial statement.

OUR RESULTS

FY2023: Acceptable
FY2022: Acceptable

DESCRIPTION OF THE KEY AUDIT MATTER

Subjective valuation and significant transaction

The Parent Company has material pension plan assets and liabilities, especially in the UK. Small changes in the assumptions used to determine the liabilities, in particular those relating to discount rates, inflation and mortality can have a significant impact on the valuation of the liabilities.

The effect of these matters is that we determined that the pension assumptions have a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. We draw out amounts recognised and corresponding disclosures made in respect of uncertainties surrounding effective equalisation of benefits as a key audit matter for the Parent Company in our auditor's report.

OUR RESPONSE TO THE RISK

We performed the tests below rather than seeking to rely on any of the Company's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.

Our procedures to address the risk included:

Benchmarking assumptions: Challenging the key assumptions applied in the calculation of the liability, including the discount rates, inflation rates, mortality and pension increases with the support of our own actuarial specialists by comparing the Company's estimate of these assumptions against market data.

Assessing actuary's credentials: Assessing the competence, independence and integrity of the scheme's actuary.

Inspection of relevant documents: Inspecting legal advices, trustee communications and valuation documents to assess whether the amounts in relation to equalisation of retirement ages between men and women are accounted appropriately in the current year in accordance with the requirement of IAS 19 using our own actuarial specialists and our sector knowledge and expertise.

Assessing legal advisor's credentials: Assessing the competence, independence and integrity of the Trustee's and Company's legal advisors.

Assessing transparency: Assessing the adequacy of the disclosures in respect of the sensitivity of the obligation to key assumptions and uncertainties in respect of equalisation of benefits.

– Assessment of the appropriateness of the amounts recognised and corresponding disclosures made in respect of uncertainties surrounding effective equalisation of retirement ages between men and women.

OUR RESULTS

We found the valuation of the pension scheme liabilities of SIPS scheme and the amounts and corresponding disclosures made in respect of uncertainties surrounding effective equalisation of benefits to be acceptable (FY2022: acceptable).

COMMUNICATIONS WITH THE SMITHS GROUP PLC'S AUDIT & RISK COMMITTEE

Our discussions with and reporting to the Audit & Risk Committee included:

- Our conclusion on the overall assessment of the assumptions and key judgements supporting the estimation of the defined benefit obligation.
- Our assessment of the adequacy of the disclosures in the financial statements.

AREAS OF PARTICULAR AUDITOR JUDGEMENT

We identified the following as the areas of particular auditor judgement:

- Assessment of the assumptions supporting the defined benefit obligation.

Further information in the Annual Report and Accounts: See the Audit & Risk Committee Report on page 93 for details on how the Audit & Risk Committee considered valuation of UK defined benefit SIPS pension scheme liabilities as an area of significant attention, page 140 for the accounting policy on valuation of UK defined benefit SIPS pension scheme liabilities, and page 154 note 8 for the financial disclosures.

5. OUR ABILITY TO DETECT IRREGULARITIES, AND OUR RESPONSE

FRAUD – IDENTIFYING AND RESPONDING TO RISKS OF MATERIAL MISSTATEMENT DUE TO FRAUD

| | |
|--|---|
| FRAUD RISK ASSESSMENT | <p>To identify risks of material misstatement due to fraud (“fraud risks”) we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:</p> <ul style="list-style-type: none"> – Enquiring of Directors, the Audit & Risk Committee, internal audit and inspection of policy documentation as to the Group’s high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Group’s channel for “whistleblowing”, as well as whether they have knowledge of any actual, suspected or alleged fraud. – Reading Board, Audit & Risk, Disclosure, Transactions, Nomination & Governance, Remuneration & People, Finance Committee minutes. – Considering remuneration incentive schemes and performance targets for management and Directors including the organic revenue growth targets and EPS target for management remuneration. – Using analytical procedures to identify any unusual or unexpected relationships |
| RISK COMMUNICATIONS | <p>We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit. This included communication from the Group to full scope and audit of specific account balances scope component audit teams of relevant fraud risks identified at the Group level and requesting the full scope and audit account balance scope component audit teams to report to the Group audit team any instances of fraud that could give rise to a material misstatement at Group.</p> |
| FRAUD RISKS | <p>As required by auditing standards and taking into account possible pressures to meet profit targets, and our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular in the Smiths Detection Inc, USA and Smiths Detection Germany GmbH components. Within these components a significant portion of multi-year contracts (programme revenue) revenue is normally recognised in the last month of the year. Therefore, there is a risk of revenue being overstated during the year end closing period through the manipulation of the timing of recording of revenue from such pressure. We did not identify any additional fraud risks.</p> |
| PROCEDURES TO ADDRESS FRAUD RISKS | <p>We performed procedures including:</p> <ul style="list-style-type: none"> – Identifying journal entries to test for all components within full scope and audit of specific account balances scope based on risk criteria and comparing the identified entries to supporting documentation. These included unusual entries in revenue accounts, cash and cash equivalents or borrowings accounts and entries posted by senior finance management. – Testing consolidation adjustment entries posted and comparing the identified entries to supporting documentation. – Specified procedures to be completed by relevant component teams over period end revenue recognition procedures. These procedures included tests over pre-year end and post year end revenue transactions |

LAWS AND REGULATIONS – IDENTIFYING AND RESPONDING TO RISKS OF MATERIAL MISSTATEMENT RELATING TO COMPLIANCE WITH LAWS AND REGULATIONS

LAWS AND REGULATIONS RISK ASSESSMENT

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the Directors and other management (as required by auditing standards), and from inspection of the Group's regulatory and legal correspondence and discussed with the Directors and other management the policies and procedures regarding compliance with laws and regulations.

As the Group is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

RISK COMMUNICATIONS

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the Group audit team to full-scope component audit teams of relevant laws and regulations identified at the Group level, and a request for full scope component auditors to report to the Group team any instances of non-compliance with laws and regulations that could give rise to a material misstatement at Group level.

DIRECT LAWS CONTEXT AND LINK TO AUDIT

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, taxation legislation and pensions legislation, and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

MOST SIGNIFICANT INDIRECT LAW/REGULATION AREAS

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: health and safety, anti-bribery and corruption, considering dealings with government customers, employment law, and certain aspects of company legislation

Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

CONTEXT

CONTEXT OF THE ABILITY OF THE AUDIT TO DETECT FRAUD OR BREACHES OF LAW OR REGULATION

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of fraud, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

6. OUR DETERMINATION OF MATERIALITY

The scope of our audit was influenced by our application of materiality. We set quantitative thresholds and overlay qualitative considerations to help us determine the scope of our audit and the nature, timing and extent of our procedures, and in evaluating the effect of misstatements, both individually and in the aggregate, on the financial statements as a whole.

£18M (FY2022: £16M) MATERIALITY FOR THE GROUP FINANCIAL STATEMENTS AS A WHOLE

What we mean

A quantitative reference for the purpose of planning and performing our audit.

Basis for determining materiality and judgements applied

Materiality for the Group financial statements as a whole was set at £18m (FY2022: £16m). This was determined with reference to a benchmark of Group normalised profit before tax from continuing operations ('PBTCO').

Consistent with FY2022, we determined that Group normalised PBTCO remains the main benchmark for the Group. We determined that normalised profit before tax remains the benchmark for the Group as Smiths Group Plc is publicly traded and a profit seeking entity. The Group is well established and operates in a stable environment across multiple geographies. The profitability and prospects for future net cash inflows is important to the users of the financial statements.

We normalised PBTCO (FY2022: normalised PBTCO) for these items because they do not represent the normal, continuing operations of the Group. In making the adjustments for the

current year, we excluded the net credit of £4m due to the retirement benefit obligation past service equalisation costs (note 8 of the financial statements) and added back restructuring costs of £36 million (note 3 of the financial statements). (FY2022: PBTCO was normalised to exclude foreign exchange gain on intercompany loan with discontinued operations of £22 million, retirement benefit scheme settlement loss £171 million, past service equalisation cost £43 million and impairment of assets £19 million). As such, we based our Group materiality on Group normalised PBTCO of £392m (FY2022: £314m).

Our Group materiality of £18m was determined by applying a percentage to the normalised PBTCO. When using a benchmark of normalised PBTCO to determine overall materiality, KPMG's approach for listed entities considers a guideline range 3% – 5% of the measure. In setting overall Group materiality, we applied a percentage of 4.6% (FY2022: 5%) to the benchmark.

Materiality for the Parent Company financial statements as a whole was set at £17.8m (FY2022: £15.8m), determined with reference to a benchmark of Parent Company total assets, of which it represents 0.4% (FY2022: 0.4%).

£11.7M (FY2022: £10.4M) PERFORMANCE MATERIALITY

What we mean

Our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.

Basis for determining performance materiality and judgements applied

We have considered performance materiality at a level of 65% (FY2022: 65%) of materiality for Smiths Group Plc Group financial statements as a whole to be appropriate.

The Parent Company performance materiality was set at £11.5m (FY2022: £10.2m), which equates to 64.6% (FY2022: 64.6%) of materiality for the Parent Company financial statements as a whole.

We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

£0.89M (FY2022: £0.79M) AUDIT MISSTATEMENT POSTING THRESHOLD

What we mean

This is the amount below which identified misstatements are considered to be clearly trivial from a quantitative point of view. We may become aware of misstatements below this threshold which could alter the nature, timing and scope of our audit procedures, for example if we identify smaller misstatements which are indicators of fraud.

This is also the amount above which all misstatements identified are communicated to Smiths Group plc's Audit & Risk Committee.

Basis for determining the audit misstatement posting threshold and judgements applied

We set our audit misstatement posting threshold at 5% (FY2022: 5%) of our materiality for the Group financial statements. We also report to the Audit & Risk Committee any other identified misstatements that warrant reporting on qualitative grounds.

The overall materiality for the Group financial statements of £18m (FY2022: £16m) compares as follows to the main financial statement caption amounts:

| | Total Group revenue | | Group profit before tax | | Total Group assets | |
|-----------------------------------|---------------------|---------|-------------------------|--------|--------------------|---------|
| | FY2023 | FY2022 | FY2023 | FY2022 | FY2023 | FY2022 |
| Financial statement caption | £3,037m | £2,566m | £392m | £314m | £4,355m | £5,223m |
| Group materiality as % of caption | 0.6% | 0.6% | 4.6% | 5% | 0.4% | 0.3% |

7. THE SCOPE OF OUR AUDIT

GROUP SCOPE

What we mean

How the Group audit team determined the procedures to be performed across the Group.

The Group operates in more than 50 countries across six continents with the largest footprints being in the US, Europe and Asia. The Group is organised into four divisions: John Crane, Smiths Detection, Flex-Tek and Smiths Interconnect which is a consolidation of over 200 reporting components. We scoped the audit by obtaining an understanding of the Group and its environment and assessing the risk of material misstatement at the Group level. We have considered components based on their contribution to Group revenue; Group assets and Group profit before tax for continuing operations including whether we had sufficient coverage over each division and the specific risks in the components.

Of the Group's 208 (2022: 253) reporting components, we subjected 7 (2022: 23) to full scope audits for Group purposes and 9 (2022: 9) to specified risk-focused audit procedures or audit of specific account balances. In the prior year, all components were identified based on the Group's legal entities. In the current year, we considered the Flex-Tek division as a single reporting component, with the component auditor providing an opinion on the sub-consolidation prepared at the division level. This change to component scoping accounts for the reduction in the number of full scope components when compared to FY2022.

The components for which we performed audit of specific account balances were not individually financially significant enough to require a full scope audit for Group purposes but were included in the scope of our Group reporting work in order to provide further coverage over the Group's results. The audit of account balance has been completed for revenue, trade receivables and cash and cash equivalents accounts.

The components for which we performed specified risk-focused audit procedures were not individually financially significant enough to require an audit for Group reporting purposes but did present specific individual risks that needed to be addressed. Specified risk-focused audit procedures were performed over a number of areas, including litigation provisions and defined benefit pension assets and liabilities.

The remaining 30% (FY2022: 26%) of total Group revenue, 26% (FY2022: 18%) of Group profit before tax and 13% (FY2022: 25%) of total Group assets is represented by 191 (FY2022: 221) of reporting components, none of which individually represented more than 10% (FY2022: 10%) of any of total Group revenue, Group profit before tax or total Group assets. For these components, we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these.

We instructed 7 (FY2022: 23) reporting components to perform full scope audits for Group purposes, 3 reporting components (FY2022: 2) to perform specified audit procedures and 7 reporting components (FY2022: 7) to perform audit of account balances. The component materiality for all components ranged from £1.1m to £17.8m (FY2022: £0.6m to £15.8m). Please see table below for a summary

| Scope | Number of components | Range of materiality applied |
|---|----------------------|------------------------------|
| Full scope audits | 7 | £17.8m – £3.5m |
| Audit of one or more account balances | 7 | £3m – £1.1m |
| Specified risk focused audit procedures | 3 | £3m – £1.2m |

The Group audit team has also performed audit procedures on the following areas on behalf of the components:

- Intercompany balances and transactions
- Data and analytics
 - i. Revenue data and analytics routines
 - ii. Journal entry analysis
- IT Audit involvement over:
 - i. Understanding of information technology environment
 - ii. Test of design and implementation over general IT controls
 - iii. Test of design and implementation over automated controls
- Control environment, risk assessment, monitoring and information and communication components (CERAMIC) of internal control over financial reporting (ICFR)
- Review of transfer pricing arrangements across the Group

These items were audited by the Group team because of the centralised nature of the data processing activities within the Group. The Group team communicated the results of these procedures to the component teams.

The table below shows the summary of the Group reporting scope coverage in the year.

| | Group revenue | Group profit before tax | Group total assets |
|---|---------------|-------------------------|--------------------|
| FY2023 | | | |
| Full scope audits | 56% | 62% | 80% |
| Audit of one or more account balances | 13% | 12% | 4% |
| Specified risk focused audit procedures | 1% | – | 3% |
| Remaining components | 30% | 26% | 13% |
| FY2022 | | | |
| Full scope audits | 57% | 76% | 68% |
| Audit of one or more account balances | 17% | 6% | 3% |
| Specified risk focused audit procedures | – | – | 4% |
| Remaining components | 26% | 18% | 25% |

In addition, we have performed Group level analysis on the remaining components to determine whether further risks of material misstatement exist in those components.

The scope of the audit work performed was predominately substantive as we placed limited reliance upon the Group's internal control over financial reporting.

For those items excluded from normalised PBTCO, the component teams performed procedures on items relating to their components. The Group team performed procedures on the remaining excluded items.

The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved the component materialities, as detailed in the table above, having regard to the mix of size and risk profile of the Group across the components.

The work on 14 of the 17 components (FY2022: 30 of the 32 components) was performed by component auditors and the rest, including the audit of the Parent Company, was performed by the Group team.

GROUP AUDIT TEAM OVERSIGHT

What we mean

The extent of the Group audit team's involvement in component audits.

In working with component auditors, we:

- Held planning calls with component audit teams to discuss the significant areas of the audit relevant to the components.
- Issued Group audit instructions to component auditors on the scope of their work.
- Held risk assessment update discussions with all component audit teams before the commencement of the final phases of the audit led by the Group engagement partner.

- Visited 6 (FY2022: Nil) components in-person as the audit progressed to understand and challenge the audit approach and organised 4 video conferences with the partners and directors of the Group and component audit teams. At these visits and/ meetings/ and video conferences, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component audit teams. The Group team also attended the audit close meetings for all component teams.
- Inspection of component audit teams' key work papers in person or using remote technology capabilities to evaluate the quality of execution of the audits of the components.

8. OTHER INFORMATION IN THE ANNUAL REPORT

The Directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

ALL OTHER INFORMATION

OUR RESPONSIBILITY

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge.

OUR REPORTING

Based solely on that work we have not identified material misstatements or inconsistencies in the other information.

STRATEGIC REPORT AND DIRECTORS' REPORT

OUR RESPONSIBILITY AND REPORTING

Based solely on our work on the other information described above we report to you as follows:

- we have not identified material misstatements in the Strategic Report and the Directors' Report;

- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

DIRECTORS' REMUNERATION REPORT

OUR RESPONSIBILITY

We are required to form an opinion as to whether the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

OUR REPORTING

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

CORPORATE GOVERNANCE DISCLOSURES

OUR RESPONSIBILITY

We are required to perform procedures to identify whether there is a material inconsistency between the financial statements and our audit knowledge, and:

- the Directors' statement that they consider that the Annual Report and financial statements taken as a whole is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy;
- the section of the Annual Report describing the work of the Audit & Risk Committee, including the significant issues that the Audit & Risk Committee considered in relation to the financial statements, and how these issues were addressed; and
- the section of the Annual Report that describes the review of the effectiveness of the Group's risk management and internal control systems.

OUR REPORTING

Based on those procedures, we have concluded that each of these disclosures is materially consistent with the financial statements and our audit knowledge.

We are also required to review the part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in this respect.

OTHER MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

OUR RESPONSIBILITY

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

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

OUR REPORTING

We have nothing to report in these respects.

9. RESPECTIVE RESPONSIBILITIES

DIRECTORS' RESPONSIBILITIES

As explained more fully in their statement set out on page 115, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The Company is required to include these financial statements in an annual financial report prepared using the single electronic reporting format specified in the TD ESEF Regulation. This auditor's report provides no assurance over whether the annual financial report has been prepared in accordance with that format.

10. THE PURPOSE OF OUR AUDIT WORK AND TO WHOM WE OWE OUR RESPONSIBILITIES

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

MIKE BARRADELL

(Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada Square, London E14 5GL

25 September 2023

CONSOLIDATED INCOME STATEMENT

| | Notes | Year ended 31 July 2023 | | | Year ended 31 July 2022 | | |
|---|-------|-------------------------|--------------------------------|-------------|-------------------------|--------------------------------|--------------|
| | | Headline £m | Non-headline (note 3) £m | Total £m | Headline £m | Non-headline (note 3) £m | Total £m |
| CONTINUING OPERATIONS | | | | | | | |
| Revenue | 1 | 3,037 | – | 3,037 | 2,566 | – | 2,566 |
| Operating costs | 2 | (2,536) | (98) | (2,634) | (2,149) | (300) | (2,449) |
| Operating profit/(loss) | 2 | 501 | (98) | 403 | 417 | (300) | 117 |
| Interest income | 4 | 36 | – | 36 | 14 | – | 14 |
| Interest expense | 4 | (71) | (7) | (78) | (55) | – | (55) |
| Other financing (losses)/gains | 4 | – | (8) | (8) | – | 20 | 20 |
| Other finance income – retirement benefits | 4 | – | 7 | 7 | – | 7 | 7 |
| Finance (costs)/income | 4 | (35) | (8) | (43) | (41) | 27 | (14) |
| Profit/(loss) before taxation | | 466 | (106) | 360 | 376 | (273) | 103 |
| Taxation | 6 | (121) | (13) | (134) | (104) | 14 | (90) |
| Profit/(loss) for the year | | 345 | (119) | 226 | 272 | (259) | 13 |
| DISCONTINUED OPERATIONS | | | | | | | |
| Profit from discontinued operations | 3 | – | 6 | 6 | 49 | 973 | 1,022 |
| PROFIT/(LOSS) FOR THE YEAR | | 345 | (113) | 232 | 321 | 714 | 1,035 |
| Profit/(loss) for the year attributable to: | | | | | | | |
| Smiths Group shareholders – continuing operations | | 344 | (119) | 225 | 270 | (259) | 11 |
| Smiths Group shareholders – discontinued operations | | – | 6 | 6 | 49 | 973 | 1,022 |
| Non-controlling interests | | 1 | – | 1 | 2 | – | 2 |
| | | 345 | (113) | 232 | 321 | 714 | 1,035 |
| EARNINGS PER SHARE | | | | | | | |
| | 5 | | | | | | |
| Basic | | | | 65.5p | | | 267.1p |
| Basic – continuing | | | | 63.8p | | | 2.8p |
| Diluted | | | | 65.1p | | | 266.0p |
| Diluted – continuing | | | | 63.4p | | | 2.8p |

References in the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in equity and consolidated cash-flow statement relate to notes on pages 144 to 189, which form an integral part of the consolidated accounts.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Notes | Year ended 31 July 2023 £m | Year ended 31 July 2022 £m |
|---|-------|----------------------------------|----------------------------------|
| PROFIT FOR THE YEAR | | 232 | 1,035 |
| Other comprehensive income (OCI) | | | |
| OCI which will not be reclassified to the income statement: | | | |
| Re-measurement of retirement benefit assets and obligations | 8 | (114) | (17) |
| Taxation on post-retirement benefit movements | 6 | 32 | - |
| Fair value movements on financial assets at fair value through OCI | 14 | (18) | (63) |
| | | (100) | (80) |
| OCI which will be reclassified and reclassifications: | | | |
| Fair value gains and reclassification adjustments: | | | |
| - deferred in the period on cash-flow and net investment hedges | | 12 | (82) |
| - reclassified to income statement on cash-flow and net investment hedges | | 2 | 5 |
| | | 14 | (77) |
| Foreign exchange (FX) movements net of recycling: | | | |
| Exchange (losses)/gains on translation of foreign operations | | (101) | 276 |
| Exchange gains recycled to the income statement on disposal of business | | - | (196) |
| | | (101) | 80 |
| Total other comprehensive income, net of taxation | | (187) | (77) |
| Total comprehensive income | | 45 | 958 |
| Attributable to: | | | |
| Smiths Group shareholders | | 46 | 957 |
| Non-controlling interests | | (1) | 1 |
| | | 45 | 958 |
| Total comprehensive income attributable to Smiths Group shareholders arising from: | | | |
| Continuing operations | | 39 | 131 |
| Discontinued operations | | 6 | 827 |
| | | 45 | 958 |

CONSOLIDATED BALANCE SHEET

| | Notes | 31 July 2023 £m | 31 July 2022 £m |
|--------------------------------------|-------|--------------------|--------------------|
| NON-CURRENT ASSETS | | | |
| Intangible assets | 10 | 1,521 | 1,588 |
| Property, plant and equipment | 12 | 247 | 243 |
| Right of use assets | 13 | 105 | 106 |
| Financial assets – other investments | 14 | 371 | 395 |
| Retirement benefit assets | 8 | 195 | 309 |
| Deferred tax assets | 6 | 95 | 95 |
| Trade and other receivables | 16 | 75 | 69 |
| | | 2,609 | 2,805 |
| CURRENT ASSETS | | | |
| Inventories | 15 | 637 | 570 |
| Current tax receivable | 6 | 47 | 50 |
| Trade and other receivables | 16 | 772 | 738 |
| Cash and cash equivalents | 18 | 285 | 1,056 |
| Financial derivatives | 20 | 5 | 4 |
| | | 1,746 | 2,418 |
| TOTAL ASSETS | | 4,355 | 5,223 |
| CURRENT LIABILITIES | | | |
| Financial liabilities: | | | |
| – borrowings | 18 | (3) | (509) |
| – lease liabilities | 18 | (26) | (29) |
| – financial derivatives | 20 | (2) | (27) |
| Provisions | 23 | (70) | (88) |
| Trade and other payables | 17 | (723) | (682) |
| Current tax payable | 6 | (74) | (64) |
| | | (898) | (1,399) |
| NON-CURRENT LIABILITIES | | | |
| Financial liabilities: | | | |
| – borrowings | 18 | (534) | (538) |
| – lease liabilities | 18 | (91) | (90) |
| – financial derivatives | 20 | (18) | (20) |
| Provisions | 23 | (216) | (247) |
| Retirement benefit obligations | 8 | (106) | (115) |
| Corporation tax payable | 6 | (3) | (3) |
| Deferred tax liabilities | 6 | (43) | (44) |
| Trade and other payables | 17 | (40) | (46) |
| | | (1,051) | (1,103) |
| TOTAL LIABILITIES | | (1,949) | (2,502) |
| NET ASSETS | | 2,406 | 2,721 |

| | Notes | 31 July 2023 £m | 31 July 2022 £m |
|------------------------------------|-------|--------------------|--------------------|
| SHAREHOLDERS' EQUITY | | | |
| Share capital | 24 | 131 | 136 |
| Share premium account | | 365 | 365 |
| Capital redemption reserve | 26 | 24 | 19 |
| Merger reserve | 26 | 235 | 235 |
| Cumulative translation adjustments | | 386 | 487 |
| Retained earnings | | 1,431 | 1,659 |
| Hedge reserve | 26 | (188) | (202) |
| Total shareholders' equity | | 2,384 | 2,699 |
| Non-controlling interest equity | 26 | 22 | 22 |
| TOTAL EQUITY | | 2,406 | 2,721 |

The accounts on pages 130 to 189 were approved by the Board of Directors on 25 September 2023 and were signed on its behalf by:

PAUL KEEL
Chief Executive Officer

CLARE SCHERRER
Chief Financial Officer

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| Notes | Share capital and share premium £m | Other reserves £m | Cumulative translation adjustments £m | Retained earnings £m | Hedge reserve £m | Equity shareholders' funds £m | Non-controlling interest £m | Total equity £m |
|--|---------------------------------------|----------------------|--|-------------------------|---------------------|----------------------------------|--------------------------------|--------------------|
| At 31 July 2022 | 501 | 254 | 487 | 1,659 | (202) | 2,699 | 22 | 2,721 |
| Profit for the year | – | – | – | 231 | – | 231 | 1 | 232 |
| Other comprehensive income: | | | | | | | | |
| – re-measurement of retirement benefits after tax | – | – | – | (82) | – | (82) | – | (82) |
| – FX movements net of recycling | – | – | (101) | 2 | – | (99) | (2) | (101) |
| – fair value gains and related tax | – | – | – | (18) | 14 | (4) | – | (4) |
| Total comprehensive income for the year | – | – | (101) | 133 | 14 | 46 | (1) | 45 |
| Transactions relating to ownership interests: | | | | | | | | |
| Purchase of shares by Employee Benefit Trust | – | – | – | (24) | – | (24) | – | (24) |
| Share buybacks | 24 | (5) | 5 | (207) | – | (207) | – | (207) |
| Receipt of capital from non-controlling interest | – | – | – | – | – | – | 1 | 1 |
| Dividends: | | | | | | | | |
| – equity shareholders | 25 | – | – | (143) | – | (143) | – | (143) |
| Share-based payment | 9 | – | – | 13 | – | 13 | – | 13 |
| At 31 July 2023 | 496 | 259 | 386 | 1,431 | (188) | 2,384 | 22 | 2,406 |
| Notes | Share capital and share premium £m | Other reserves £m | Cumulative translation adjustments £m | Retained earnings £m | Hedge reserve £m | Equity shareholders' funds £m | Non-controlling interest £m | Total equity £m |
| At 31 July 2021 | 512 | 242 | 509 | 1,367 | (228) | 2,402 | 21 | 2,423 |
| Profit for the year | – | – | – | 1,033 | – | 1,033 | 2 | 1,035 |
| Other comprehensive income: | | | | | | | | |
| – re-measurement of retirement benefits after tax | – | – | – | (17) | – | (17) | – | (17) |
| – FX movements net of recycling | – | (1) | (22) | 1 | 103 | 81 | (1) | 80 |
| – fair value gains and related tax | – | – | – | (63) | (77) | (140) | – | (140) |
| Total comprehensive income for the year | – | (1) | (22) | 954 | 26 | 957 | 1 | 958 |
| Transactions relating to ownership interests: | | | | | | | | |
| Issue of new equity shares | 24 | 2 | – | – | – | 2 | – | 2 |
| Purchase of shares by Employee Benefit Trust | – | – | – | (16) | – | (16) | – | (16) |
| Proceeds from exercise of share options | – | – | – | 1 | – | 1 | – | 1 |
| Share buybacks | 24 | (13) | 13 | (511) | – | (511) | – | (511) |
| Dividends: | | | | | | | | |
| – equity shareholders | 25 | – | – | (150) | – | (150) | – | (150) |
| Share-based payment | 9 | – | – | 14 | – | 14 | – | 14 |
| At 31 July 2022 | 501 | 254 | 487 | 1,659 | (202) | 2,699 | 22 | 2,721 |

CONSOLIDATED CASH-FLOW STATEMENT

| | Notes | Year ended 31 July 2023 £m | Year ended 31 July 2022 £m |
|---|-------|----------------------------------|----------------------------------|
| Net cash inflow from operating activities | 28 | 293 | 279 |
| Cash-flows from investing activities | | | |
| Expenditure on capitalised development | | (21) | (22) |
| Expenditure on other intangible assets | | (7) | (8) |
| Purchases of property, plant and equipment | | (53) | (58) |
| Disposals of property, plant and equipment | | 2 | 3 |
| Acquisition of businesses | | (22) | – |
| (Payments)/proceeds on disposal of subsidiaries, net of cash disposed | | (7) | 1,331 |
| Net cash-flow used in investing activities | | (108) | 1,246 |
| Cash-flows from financing activities | | | |
| Proceeds from exercise of share options | 24 | – | 2 |
| Share buybacks | 24 | (207) | (511) |
| Purchase of shares by Employee Benefit Trust | 26 | (24) | (16) |
| Proceeds received on exercise of employee share options | | – | 1 |
| Settlement of cash-settled options | | – | (1) |
| Dividends paid to equity shareholders | 25 | (143) | (150) |
| Receipt of capital from non-controlling interest | | 1 | – |
| Lease payments | | (36) | (38) |
| Reduction and repayment of borrowings | | (527) | (295) |
| Cash (outflow)/inflow from matured derivative financial instruments | | (9) | 23 |
| Net cash-flow used in financing activities | | (945) | (985) |
| Net (decrease)/increase in cash and cash equivalents | | (760) | 540 |
| Cash and cash equivalents at beginning of year | | 1,055 | 405 |
| Movement in net cash held in disposal group | | – | 48 |
| Foreign exchange rate movements | | (10) | 62 |
| Cash and cash equivalents at end of year | 18 | 285 | 1,055 |
| Cash and cash equivalents at end of year comprise: | | | |
| – cash at bank and in hand | | 175 | 242 |
| – short-term deposits | | 110 | 814 |
| | | 285 | 1,056 |
| – bank overdrafts | | – | (1) |
| | | 285 | 1,055 |

BASIS OF PREPARATION

The accounts have been prepared in accordance with UK adopted International Accounting Standards in conformity with the requirements of the Companies Act 2006.

The consolidated financial statements have been prepared under the historical cost convention modified to include revaluation of certain financial instruments, share options and pension assets and liabilities, held at fair value as described below.

GOING CONCERN

The Directors are satisfied that the Group has adequate resources to continue to operate for a period not less than 12 months from the date of approval of the financial statements and that there are no material uncertainties around their assessment. Accordingly, the Directors continue to adopt the going concern basis of accounting.

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Strategic Report on pages 8 to 77. The Group's financial position, cash-flows, liquidity and borrowing facilities are described in the CFO review section on pages 21 to 23.

Other factors considered by the Board as part of its going concern assessment included the inherent uncertainties in cash-flow forecasts. Based on the above, the Directors have concluded that the Group is well placed to manage its financing and other business risks satisfactorily, and they have a reasonable expectation that the Group will have adequate resources to continue in operation for at least 12 months from the signing date of these financial statements. They therefore consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements.

KEY ESTIMATES AND SIGNIFICANT JUDGEMENTS

The preparation of the accounts in conformity with generally accepted accounting principles requires management to make estimates and judgements that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the accounts and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates.

The key sources of estimation uncertainty together with the significant judgements and assumptions used for these consolidated financial statements are set out below.

SOURCES OF ESTIMATION UNCERTAINTY

IMPAIRMENT REVIEWS OF INTANGIBLE ASSETS

In carrying out impairment reviews of intangible assets, a number of significant assumptions have to be made when preparing cash-flow projections to determine the value in use of the asset or cash generating unit (CGU). These include the future rate of market growth, discount rates, the market demand for the products acquired, the future profitability of acquired businesses or products, levels of reimbursement, and success in obtaining regulatory approvals. If actual results differ or changes in expectations arise, impairment charges may be required which would adversely impact operating results.

Critical estimates, and the effect of variances in these estimates, are disclosed in note 11.

RETIREMENT BENEFITS

Determining the value of the future defined benefit obligation involves significant estimates in respect of the assumptions used to calculate present values. These include future mortality, discount rate and inflation. The Group uses previous experience and independent actuarial advice to select the values for critical estimates. A portion of UK pension liabilities are insured via bulk annuity policies that match all or part of the scheme obligation to identified groups of pensioners. These assets are valued by an external qualified actuary at the actuarial valuation of the corresponding liability, reflecting this matching relationship.

The Group's principal defined benefit pension plans are in the UK and the US and these have been closed so that no future benefits are accrued. Critical estimates for these plans, and the effect of variances in these estimates, are disclosed in note 8.

PROVISIONS FOR LIABILITIES AND CHARGES

The Group has made provisions for claims and litigations where it has had to defend itself against proceedings brought by other parties. These provisions have been made for the best estimate of the expected expenditure required to settle each obligation, although there can be no guarantee that such provisions (which may be subject to potentially material revision from time to time) will accurately predict the actual costs and liabilities that may be incurred. The most significant of these litigation provisions are described below.

John Crane, Inc. (JCI), a subsidiary of the Group, is one of many co-defendants in litigation relating to products previously manufactured which contained asbestos. Provision of £204m (FY2022: £229m) has been made for the future defence costs which the Group is expected to incur and the expected costs of future adverse judgements against JCI. Whilst well-established incidence curves can be used to estimate the likely future pattern of asbestos-related disease, JCI's claims experience is significantly impacted by other factors which influence the US litigation environment. These can include: changing approaches on the part of the plaintiffs' bar; changing attitudes amongst the judiciary at both trial and appellate levels; and legislative and procedural changes in both the state and federal court systems. Because of the significant uncertainty associated with the future level of asbestos claims and of the costs arising out of the related litigation, there can be no guarantee that the assumptions used to estimate the provision will result in an accurate prediction of the actual costs that will be incurred.

In quantifying the expected costs JCI takes account of the advice of an expert in asbestos liability estimation. The following estimates were made in preparing the provision calculation:

- The period over which the expenditure can be reliably estimated is judged to be ten years, based on past experience regarding significant changes in the litigation environment that have occurred every few years and on the amount of time taken in the past for some of those changes to impact the broader asbestos litigation environment. See note 23 for a sensitivity analysis showing the impact on the provision of reducing or increasing this time horizon; and
- The future trend of legal costs, the rate of future claims filed, the rate of successful resolution of claims, and the average amount of judgements awarded have been projected based on the past history of JCI claims and well-established tables of asbestos incidence projections, since this is the best available evidence. Claims history from other defendants is not used to calculate

the provision because JCI's defence strategy generates a significantly different pattern of legal costs and settlement expenses. See note 23 for a sensitivity analysis showing the range of expected future spend.

Titeflex Corporation, a subsidiary of the Group in the Flex-Tek division, has received a number of claims from insurance companies seeking recompense on a subrogated basis for the effects of damage allegedly caused by lightning strikes in relation to its flexible gas piping product. It has also received a number of product liability claims regarding this product, some in the form of purported class actions. Titeflex Corporation believes that its products are a safe and effective means of delivering gas when installed in accordance with the manufacturer's instructions and local and national codes; however, some claims have been settled on an individual basis without admission of liability. Provision of £41m (FY2022: £52m) has been made for the costs which the Group is expected to incur in respect of these claims. In preparing the provision calculation, key estimates have been made about the impact of safe installation initiatives on the level of future claims. See note 23 for a sensitivity analysis showing the impact on the provision of reducing or increasing the expected impact. However, because of the significant uncertainty associated with the future level of claims, there can be no guarantee that the assumptions used to estimate the provision will result in an accurate prediction of the actual costs that may be incurred.

TAXATION

The Group has recognised deferred tax assets of £75m (FY2022: £103m) relating to losses and £60m (FY2022: £69m) relating to the John Crane, Inc. and Titeflex Corporation litigation provisions. The recognition of assets pertaining to these items requires management to make significant estimates as to the likelihood of realisation of these deferred tax assets and the phasing and attribution of future taxable profits. This is based on a number of factors, which management use to assess the expectation that the benefit of these assets will be realised, including expected future levels of operating profit, expenditure on litigation, pension contributions and the timing of the unwind of other tax positions.

Taxation liabilities included provisions of £46m (FY2022: £38m), the majority of which related to the risk of challenge to the geographic allocation of profits by tax authorities.

In addition to the risks provided for, the Group faces a variety of other tax risks, which result from operating in a complex global environment, including the ongoing reform of both international and domestic tax rules, new and ongoing tax audits in the Group's larger markets and the challenge to fulfil ongoing tax compliance filing and transfer pricing obligations given the scale and diversity of the Group's global operations.

The Group anticipates that a number of tax audits are likely to conclude in the next 12 to 24 months. Due to the uncertainty associated with such tax items, it is possible that the conclusion of open tax matters may result in a final outcome that varies significantly from the amounts noted above.

REVENUE RECOGNITION

Revenue is recognised as the performance obligations to deliver products or services are satisfied and revenue is recorded based on the amount of consideration expected to be received in exchange for satisfying the performance obligations.

Smiths Detection and Smiths Interconnect have multi-year contractual arrangements for the sale of goods and services. Where these contracts have separately identifiable components with distinct patterns of delivery and customer acceptance, revenue is accounted for separately for each identifiable component.

The Group enters into certain contracts for agreed fees that are performed across more than one accounting period and revenue is recognised over time. Estimates are required at the balance sheet date when determining the stage of completion of the contract activity. This assessment requires the expected total costs of the contract and the remaining costs to complete the contract to be estimated.

At 31 July 2023, the Group held contracts with a total value of £109m (2022: £181m), of which £83m (2022: £135m) had been delivered and £26m (2022: £47m) remains fully or partially unsatisfied. £24m of the unsatisfied amount is expected to be recognised in the coming year, with the remainder being recognised within two years. A 5% increase in the remaining cost to complete the contracts would have reduced Group operating profit in the current year by less than £1m (2022: less than £2m).

VALUATION OF FINANCIAL ASSETS

Following the sale of Smiths Medical the Group has recognised a financial asset for the fair value of the US\$100m additional sales consideration that is contingent on the future share price performance of the enlarged ICU Medical, Inc (ICU) business.

The earnout requires the Group to retain beneficial ownership of at least 1.25 million ICU shares and for the ICU share price to average US\$300 or more for any 30-day period during the first three years post-completion, or for any 45-day period in the fourth year post-completion.

An external valuation firm has been engaged to undertake Monte Carlo valuation simulations in order to estimate the probability of the future ICU share price exceeding US\$300. These valuation simulations have determined a fair value of £13m (US\$17m).

SIGNIFICANT JUDGEMENTS MADE IN APPLYING ACCOUNTING POLICIES

BUSINESS COMBINATIONS

On the acquisition of a business, the Group has to make judgements on the identification of specific intangible assets which are recognised separately from goodwill and then amortised over their estimated useful lives. These include items such as brand names and customer lists, to which value is first attributed at the time of acquisition. The capitalisation of these assets and the related amortisation charges are based on judgements about the value and economic life of such items.

Where acquisitions are significant, appropriate advice is sought from professional advisers before making such allocations.

RETIREMENT BENEFITS

At 31 July 2023 the Group has recognised £195m of retirement benefit assets (FY2022: £309m) and a net pension asset of £89m (FY2022: £194m), principally relating to the Smiths Industries Pension Scheme (SIPS), which arises from the rights of the employers to recover the surplus at the end of the life of the scheme.

The recognition of this surplus is a significant judgement. There is judgement required in determining whether an unconditional right of refund exists based on the provisions of the relevant Trust deed and rules. Having taken legal advice with regard to the rights of the Group under the relevant Trust deed and rules, it has been determined that the surplus is recoverable by the Group and therefore can be recognised. In particular, in the ordinary course of business, the trustees of the scheme do not have a unilateral power to terminate and wind up the scheme or augment benefits. If the pension scheme was wound up while it still had members, the scheme would need to buy out the benefits of all members. The buyout would cost significantly more than the carrying value of the scheme liabilities within these financial statements which are calculated in accordance with IAS 19: Employee benefits.

CAPITALISATION OF DEVELOPMENT COSTS

Expenditure incurred in the development of major new products is capitalised as internally generated intangible assets only when it has been judged that strict criteria are met, specifically in relation to the products' technical feasibility and commercial viability (the ability to generate probable future economic benefits).

The assessment of technical feasibility and future commercial viability of development projects requires significant judgement and the use of assumptions. Key judgements made in the assessment of future commercial viability include:

- Scope of work to achieve regulatory clearance (where required) – including the level of testing evidence and documentation;
- Competitor activity – including the impact of potential competitor product launches on the marketplace and customer demand; and
- Launch timeline – including time and resource required to establish and support the commercial launch of a new product.

TAXATION

As stated in the previous section 'Sources of estimation uncertainty', the Group has recognised deferred tax assets of £75m (FY2022: £103m) relating to losses and £60m (FY2022: £69m) relating to the John Crane, Inc. and Titeflex Corporation litigation provisions. The decision to recognise deferred tax assets requires judgement in determining whether the Group will be able to utilise historical tax losses in future periods. It has been concluded that there are sufficient taxable profits in future periods to support recognition.

The Group has also applied judgement in the decisions made to recognise provisions against uncertain tax positions; please see note 6 for further details.

PRESENTATION OF HEADLINE PROFITS AND ORGANIC GROWTH

In order to provide users of the accounts with a clear and consistent presentation of the performance of the Group's ongoing trading activity, the income statement is presented in a three-column format with 'headline' profits shown separately from non-headline items. In addition, the Group reports organic growth rates for sales and profit measures.

See note 1 for disclosures of headline operating profit and note 29 for more information about the alternative performance measures ('APMs') used by the Group.

Judgement is required in determining which items should be included as non-headline. The amortisation/impairment of acquired intangibles, legacy liabilities, material one-off items and certain re-measurements are included in a separate column of the income statement. See note 3 for a breakdown of the items excluded from headline profit.

Calculating organic growth also requires judgement. Organic growth adjusts the movement in headline performance to exclude the impact of foreign exchange, restructuring costs and acquisitions.

SIGNIFICANT ACCOUNTING POLICIES

BASIS OF CONSOLIDATION

The Group's consolidated accounts include the financial statements of Smiths Group plc (the 'Company') and all entities controlled by the Company (its subsidiaries). A list of the subsidiaries of Smiths Group plc is provided on pages 205 to 210.

The Company controls an entity when it (i) has power over the entity; (ii) is exposed or has rights to variable returns from its involvement with the entity; and (iii) has the ability to affect those returns through its power over the entity. The Group reassesses whether or not it controls a subsidiary if facts and circumstances indicate that there are changes to one or more of these three elements of control. Subsidiaries are fully consolidated from the date on which control is obtained by the Company to the date that control ceases.

Where the Group loses control of a subsidiary, the assets and liabilities are derecognised along with any related non-controlling interest and other components of equity. Any resulting gain or loss is recognised in the income statement. Any interest retained in the former subsidiary is measured at fair value when control is lost.

The non-controlling interests in the Group balance sheet represent the share of net assets of subsidiary undertakings held outside the Group. The movement in the year comprises the profit attributable to such interests together with any dividends paid, movements in respect of corporate transactions and related exchange differences.

Interests in associates are accounted for using the equity method. They are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the Group financial statements include the Group's share of the profit or loss and other comprehensive income of equity-accounted investees, until the date on which significant influence ceases.

All intercompany transactions, balances, and gains and losses on transactions between Group companies are eliminated on consolidation.

FOREIGN CURRENCIES

The Company's presentational currency and functional currency is sterling. The financial position of all subsidiaries and associates that have a functional currency different from sterling are translated into sterling at the rate of exchange at the date of that balance sheet, and the income and expenses are translated at average exchange rates for the period. All resulting foreign exchange rate movements are recognised as a separate component of equity.

Foreign exchange rate movements arising on the translation of non-monetary assets and liabilities held in hyperinflationary subsidiaries are recognised in OCI. The amounts taken to the CTA reserve represent the combined effect of restatement and translation and are expressed as a net change for the year.

On consolidation, foreign exchange rate movements arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, the cumulative amount of such foreign exchange rate movements is recognised in the income statement as part of the gain or loss on sale.

Foreign exchange rate movements arising on transactions are recognised in the income statement. Those arising on trading are taken to operating profit; those arising on borrowings are classified as finance income or cost.

REVENUE

Revenue is measured at the fair value of the consideration received, net of trade discounts (including distributor rebates) and sales taxes. Revenue is discounted only where the impact of discounting is material.

When the Group enters into complex contracts with multiple, separately identifiable components, the terms of the contract are reviewed to determine whether or not the elements of the contract should be accounted for separately. If a contract is being split into multiple components, the contract revenue is allocated to the different components at the start of the contract. The basis of allocation depends on the substance of the contract. The Group considers relative stand-alone selling prices, contractual prices and relative cost when allocating revenue.

The Group has identified the following different types of revenue:

(i) Sale of goods recognised at a point in time – generic products manufactured by Smiths

Generic products are defined as either:

- Products that are not specific to any particular customer;
- Products that may initially be specific to a customer but can be reconfigured at minimal cost, i.e., retaining a margin, for sale to an alternative customer; or
- Products that are specific to a customer but are manufactured at Smiths risk, i.e., we have no right to payment of costs plus margin if the customer refuses to take control of the goods.

For established products with simple installation requirements, revenue is recognised when control of the product is passed to the customer. The point in time that control passes is defined in accordance with the agreed shipping terms and is determined on a case-by-case basis. The time of dispatch or delivery of the goods to the customer is normally the point at which invoicing

occurs. However for some generic products, revenue is recognised when the overall performance obligation has been completed, which is often after the customer has completed its acceptance procedures and has assumed control.

Products that are sold under multiple element arrangements, i.e., contracts involving a combination of products and services, are bundled into a single performance obligation unless the customer can benefit from the goods or services either on their own, or together with other resources that are readily available to the customer and are distinct within the context of the contract.

For contracts that pass control of the product to the customer only on completion of installation services, revenue is recognised upon completion of the installation.

An obligation to replace or repair faulty products under the standard warranty terms is recognised as a provision. If the contract includes terms that either extend the warranty beyond the standard term or imply that maintenance is provided to keep the product working, these are service warranties and revenue is deferred to cover the performance obligation in an amount equivalent to the stand-alone selling price of that service.

(ii) Sale of goods recognised over time – customer-specific products where the contractual terms include rights to payment for work performed to date

Customer-specific products are defined as being:

- Products that cannot be reconfigured economically such that it remains profitable to sell to another customer;
- Products that cannot be sold to another customer due to contractual restrictions; and
- Products that allow Smiths to charge for the work performed to date in an amount that represents the costs incurred to date plus a margin, should the customer refuse to take control of the goods.

For contracts that meet the terms listed above, revenue is recognised over the period that the Group is engaged in the manufacture of the product, calculated using the input method based on the amount of costs incurred to date compared to the overall costs of the contract. This is considered to be a faithful depiction of the transfer of the goods to the customer as the costs incurred, total expected costs and total order value are known. The time of dispatch or delivery of the goods to the customer is normally the point at which invoicing occurs.

An obligation to provide a refund for faulty products under the standard warranty terms is recognised as a provision. If the contract includes terms that either extend the warranty beyond the standard term or imply that maintenance is provided to keep the product working, these are service warranties and revenue is deferred to cover the performance obligation in an amount equivalent to the stand-alone selling price of that service.

(iii) Services recognised over time – services relating to the installation, repair and ongoing maintenance of equipment

Services include installation, commissioning, testing, training, software hosting and maintenance, product repairs and contracts undertaking extended warranty services.

For complex installations where the supply of services cannot be separated from the supply of product, revenue is recognised upon acceptance of the combined performance obligation (see Sale of goods (i) above).

For services that can be accounted for as a separate performance obligation, revenue is recognised over time, assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Depending on the nature of the contract, revenue is recognised as follows:

- Installation, commissioning and testing services (when neither linked to the supply of product nor subject to acceptance) are recognised rateably as the services are provided;
- Training services are recognised on completion of the training course;
- Software hosting and maintenance services are recognised rateably over the life of the contract;
- Product repair services, where the product is returned to Smiths premises for remedial action, are recognised when the product is returned to the customer and they regain control of the asset;
- Onsite ad hoc product repair services are recognised rateably as the services are performed;
- Long-term product repair and maintenance contracts are recognised rateably over the contract term; and
- Extended service warranties are recognised rateably over the contract term.

Invoicing for services depends on the nature of the service provided with some services charged in advance and others in arrears.

Where contracts are accounted for under the revenue recognised over time basis, the proportion of costs incurred is used to determine the percentage of contract completion.

Contracts for the construction of substantial assets, which normally last in excess of one year, are accounted for under the revenue recognised over time basis, using an input method.

For fixed-price contracts, revenue is recognised based upon an assessment of the amount of cost incurred under the contract, compared to the total expected costs that will be incurred under the contract. This calculation is applied cumulatively with any over/under recognition being adjusted in the current period.

For cost-plus contracts, revenue is recognised based upon costs incurred to date plus any agreed margin.

For both fixed-price and cost-plus contracts, invoicing is normally based on a schedule with milestone payments.

CONTRACT COSTS

The Group has taken the practical expedient of not capitalising contract costs as they are expected to be expensed within one year from the date of signing.

LEASES

Lease liabilities are initially measured at the present value of the future lease payments at the commencement date, discounted by using either the rate implicit in the lease, or if not observable, the Group's incremental borrowing rate. Lease payments comprise contractual lease payments; variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date; and the amount expected to be payable under residual value guarantees.

Right of use assets are measured at commencement date at the amount of the corresponding lease liability and initial direct costs incurred. Right of use assets are depreciated over the shorter of the lease term and the useful life of the right of use assets, unless there is a transfer of ownership or purchase option which is reasonably certain to be exercised at the end of the lease term, in which case depreciation is charged over the useful life of the underlying asset. Right of use assets are subject to impairment.

When a lease contract is modified, either from a change to the duration of the lease or a change to amounts payable, the Group remeasures the lease liability by discounting the revised future lease payments at a revised discount rate. A corresponding adjustment is made to the carrying value of the related right of use asset.

Leases of buildings typically have lease terms between one and seven years, while plant and machinery generally have lease terms between one and three years. The Group also has certain leases of machinery with lease terms of 12 months or less and leases of office equipment with low value (typically below £5,000). The Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases and recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Interest on lease liabilities is presented as a financing activity in the Consolidated Cash-Flow Statement, included under the heading lease payments.

TAXATION

The charge for taxation is based on profits for the year and takes into account taxation deferred because of temporary differences between the treatment of certain items for taxation and accounting purposes.

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to taxation authorities. Tax benefits are not recognised unless it is likely that the tax positions are sustainable. Tax positions taken are then reviewed to assess whether a provision should be made based on prevailing circumstances. Tax provisions are included in current tax liabilities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income.

The Group operates and is subject to taxation in many countries. Tax legislation is different in each country, is often complex and is subject to interpretation by management and government authorities. These matters of judgement give rise to the need to create provisions for uncertain tax positions which are recognised when it is considered more likely than not that there will be a future outflow of funds to a taxing authority. Provisions are made against individual exposures

and take into account the specific circumstances of each case, including the strength of technical arguments, recent case law decisions or rulings on similar issues and relevant external advice.

The amounts are measured using one of the following methods, depending on which of the methods the Directors expect will better reflect the amount the Group will pay to the tax authority:

- The single best estimate method is used where there is a single outcome that is more likely than not to occur. This will happen, for example, where the tax outcome is binary or the range of possible outcomes is very limited; or
- Alternatively, a probability weighted expected value is used where, on the balance of probabilities, there will be a payment to the tax authority but there are a number of possible outcomes. In this case, a probability is assigned to each of the outcomes and the amount provided is the sum of these risk-weighted amounts. In assessing provisions against uncertain tax positions, management uses in-house tax experts, professional firms and previous experience of the taxing authority to evaluate the risk.

Deferred tax is provided in full using the balance sheet liability method. A deferred tax asset is recognised where it is probable that future taxable income will be sufficient to utilise the available relief. Tax is charged or credited to the income statement except when it relates to items charged or credited directly to equity, in which case the tax is also dealt with in equity.

Deferred tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary differences is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax liabilities and assets are not discounted.

IAS 12 International Tax Reform: Pillar Two Model Rules.

On 19th July 2023, the UK Endorsement Board adopted the Amendments to IAS 12 International Tax Reform: Pillar Two Model Rules, issued by the IASB in May 2023. The Amendments introduce a temporary mandatory exception from accounting for deferred taxes arising from the Pillar Two model rules and the Group has applied this exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes.

EMPLOYEE BENEFITS

Share-based compensation

The fair value of the shares or share options granted is recognised as an expense over the vesting period to reflect the value of the employee services received. The fair value of options granted, excluding the impact of any non-market vesting conditions, is calculated using established option pricing models, principally binomial models. The probability of meeting non-market vesting conditions, which include profitability targets, is used to estimate the number of share options which are likely to vest.

For cash-settled share-based payment, a liability is recognised based on the fair value of the payment earned by the balance sheet date. For equity-settled share-based payment, the corresponding credit is recognised directly in reserves.

Pension obligations and post-retirement benefits

Pensions and similar benefits (principally healthcare) are accounted for under IAS 19. The retirement benefit obligation in respect of the defined benefit plans is the liability (the present value of all expected future obligations) less the fair value of the plan assets.

The income statement expense is allocated between current service costs, reflecting the increase in liability due to any benefit accrued by employees in the current period, any past service costs/credits and settlement losses or gains which are recognised immediately, and the scheme administration costs.

Actuarial gains and losses are recognised in the statement of comprehensive income in the year in which they arise. These comprise the impact on the liabilities of changes in demographic and financial assumptions compared with the start of the year, actual experience being different to assumptions and the return on plan assets being above or below the amount included in the net pension interest cost.

Payments to defined contribution schemes are charged as an income statement expense as they fall due.

INTANGIBLE ASSETS

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary at the date of acquisition.

The goodwill arising from acquisitions of subsidiaries after 1 August 1998 is included in intangible assets, tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. The goodwill arising from acquisitions of subsidiaries before 1 August 1998 was set against reserves in the year of acquisition.

Goodwill is tested for impairment at least annually. Should the test indicate that the net realisable value of the CGU is less than current carrying value, an impairment loss will be recognised immediately in the income statement. Subsequent reversals of impairment losses for goodwill are not recognised.

Research and development

Expenditure on research and development is charged to the income statement in the year in which it is incurred with the exception of:

- Amounts recoverable from third parties; and
- Expenditure incurred in respect of the development of major new products where the outcome of those projects is assessed as being reasonably certain as regards viability and technical feasibility. Such expenditure is capitalised and amortised over the estimated period of sale for each product, commencing in the year that the product is ready for sale. Amortisation is charged straight line or based on the units produced, depending on the nature of the product and the availability of reliable estimates of production volumes.

The cost of development projects which are expected to take a substantial period of time to complete includes attributable borrowing costs.

Intangible assets acquired in business combinations

The identifiable net assets acquired as a result of a business combination may include intangible assets other than goodwill. Any such intangible assets are amortised straight line over their expected useful lives as follows:

| | |
|----------------------------------|----------------|
| Patents, licences and trademarks | up to 20 years |
| Technology | up to 13 years |
| Customer relationships | up to 15 years |

The assets' useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Software, patents and intellectual property

The estimated useful lives are as follows:

| | |
|-----------------------------------|--|
| Software | up to seven years |
| Patents and intellectual property | shorter of the economic life and the period the right is legally enforceable |

The assets' useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at historical cost less accumulated depreciation and any recognised impairment losses.

Land is not depreciated. Depreciation is provided on other assets estimated to write off the depreciable amount of relevant assets by equal annual instalments over their estimated useful lives. In general, the rates used are:

| | |
|---|------------------------------|
| Freehold and long leasehold buildings | 2% per annum |
| Short leasehold property | over the period of the lease |
| Plant, machinery, etc. | 10% to 20% per annum |
| Fixtures, fittings, tools and other equipment | 10% to 33% per annum |

The cost of any assets which are expected to take a substantial period of time to complete includes attributable borrowing costs.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). The cost of items of inventory which take a substantial period of time to complete includes attributable borrowing costs.

The net realisable value of inventories is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Provisions are made for any slow-moving, obsolete or defective inventories.

TRADE AND OTHER RECEIVABLES

Trade receivables and contract assets are either classified as 'held to collect' and initially recognised at fair value and subsequently measured at amortised cost, less any appropriate provision for expected credit losses or as 'held to collect and sell' and measured at fair value through other comprehensive income (FVOCI).

A provision for expected credit losses is established when there is objective evidence that it will not be possible to collect all amounts due according to the original payment terms. Expected credit losses are determined using historical write-offs as a basis, adjusted for factors that are specific to the debtor, general economic conditions of the industry in which the debtor operates and with a default risk multiplier applied to reflect country risk premium. The Group applies the IFRS 9 simplified lifetime expected credit loss approach for trade receivables and contract assets which do not contain a significant financing component

PROVISIONS

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Provisions for warranties and product liability, disposal indemnities, restructuring costs, property dilapidations and legal claims are recognised when: the Company has a legal or constructive obligation as a result of a past event; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are discounted where the time value of money is material.

Where there is a number of similar obligations, for example where a warranty has been given, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

DISCONTINUED OPERATIONS

A discontinued operation is either:

- A component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of, has been abandoned or meets the criteria to be classified as held for sale; or
- A business acquired solely for the purpose of selling it.

Discontinued operations are presented on the income statement as a separate line and are shown net of tax.

In accordance with IAS 21, gains and losses on intra-group monetary assets and liabilities are not eliminated. Therefore foreign exchange rate movements on intercompany loans with discontinued operations are presented on the income statement as non-headline finance cost items.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash at bank and in hand and highly liquid interest-bearing securities with maturities of three months or less.

In the cash-flow statement, cash and cash equivalents are shown net of bank overdrafts, which are included as current borrowings in liabilities on the balance sheet.

FINANCIAL ASSETS

The classification of financial assets depends on the purpose for which the assets were acquired. Management determines the classification of an asset at initial recognition and re-evaluates the designation at each reporting date. Financial assets are classified as: measured at amortised cost, fair value through other comprehensive income or fair value through profit and loss.

Financial assets primarily include trade receivables, cash and cash equivalents (comprising cash at bank, money-market funds, and short-term deposits), short-term investments, derivatives (foreign exchange contracts and interest rate derivatives) and unlisted investments.

- Trade receivables are classified either as 'held to collect' and measured at amortised cost or as 'held to collect and sell' and measured at fair value through other comprehensive income (FVOCI). The Group may sell trade receivables due from certain customers before the due date. Any trade receivables from such customers that are not sold at the reporting date are classified as 'held to collect and sell'.
- Cash and cash equivalents (consisting of balances with banks and other financial institutions, money-market funds and short-term deposits) and short-term investments are subject to low market risk. Cash balances, short-term deposits and short-term investments are measured at amortised cost. Money market funds are measured at fair value through profit and loss (FVPL).
- Derivatives are measured at FVPL.
- Listed and unlisted investments are measured at FVOCI.
- Deferred contingent consideration are measured at FVPL.

Financial assets are derecognised when the right to receive cash-flows from the assets has expired, or has been transferred, and the Group has transferred substantially all of the risks and rewards of ownership.

On initial recognition, the Group may make an irrevocable election to designate certain investments as FVOCI, if they are not held for trading or relate to contingent consideration on a business combination. When securities measured at FVOCI are sold or impaired, the accumulated fair value adjustments remain in reserves.

Financial assets are classified as current if they are expected to be realised within 12 months of the balance sheet date.

FINANCIAL LIABILITIES

Borrowings are initially recognised at the fair value of the proceeds, net of related transaction costs. These transaction costs, and any discount or premium on issue, are subsequently amortised under the effective interest rate method through the income statement as interest over the life of the loan and added to the liability disclosed in the balance sheet. Related accrued interest is included in the borrowings figure.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least one year after the balance sheet date.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

The Group uses derivative financial instruments to hedge its exposures to foreign exchange and interest rates arising from its operating and financing activities.

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising any resulting gain or loss depends on whether the derivative financial instrument is designated as a hedging instrument and, if so, the nature of the item being hedged.

Where derivative financial instruments are designated into hedging relationships, the Group formally documents the following:

- The risk management objective and strategy for entering the hedge;
- The nature of the risks being hedged and the economic relationship between the hedged item and the hedging instrument; and
- Whether the change in cash-flows of the hedged item and hedging instrument are expected to offset each other.

Changes in the fair value of any derivative financial instruments that do not qualify for hedge accounting are recognised immediately in the income statement.

Fair value hedge

The Group uses derivative financial instruments to convert part of its fixed rate debt to floating rate in order to hedge the risks arising from its external borrowings.

The Group designates these as fair value hedges of interest rate risk. Changes in the hedging instrument are recorded in the income statement, together with any changes in the fair values of the hedged assets or liabilities that are attributable to the hedged risk to the extent that the hedge is effective. Gains or losses relating to any ineffectiveness are immediately recognised in the income statement.

Cash-flow hedge

Cash-flow hedging is used by the Group to hedge certain exposures to variability in future cash-flows.

The effective portions of changes in the fair values of derivatives that are designated and qualify as cash-flow hedges are recognised in equity. The gain or loss relating to any ineffective portion is recognised immediately in the income statement. Amounts accumulated in the hedge reserve are recycled in the income statement in the periods when the hedged items will affect profit or loss (for example, when the forecast sale that is hedged takes place).

If a forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a liability, the gains and losses previously deferred in the hedge reserve are transferred from the reserve and included in the initial measurement of the cost of the asset or liability. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in the hedge reserve at that time remains in the reserve and is recognised when the forecast transaction is ultimately recognised in the income statement.

When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the income statement.

Net investment hedge

Hedges of net investments in foreign operations are accounted for similarly to cash-flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income; the gain or loss relating to any ineffective portion is recognised immediately in the income statement. When a foreign operation is disposed of, gains and losses accumulated in equity related to that operation are included in the income statement for that period.

FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The fair values of financial assets and financial liabilities are the amounts at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

IFRS 13: 'Fair value measurement' requires fair value measurements to be classified according to the following hierarchy:

- Level 1 – quoted prices in active markets for identical assets or liabilities;
- Level 2 – valuations in which all inputs are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 – valuations in which one or more inputs that are significant to the resulting value are not based on observable market data.

See note 21 for information on the methods which the Group uses to estimate the fair values of its financial instruments.

DIVIDENDS

Dividends are recognised as a liability in the period in which they are authorised. The interim dividend is recognised when it is paid and the final dividend is recognised when it has been approved by shareholders at the Annual General Meeting.

NEW ACCOUNTING STANDARDS EFFECTIVE 2023

No new accounting standards have been adopted in the financial year. The accounting policies adopted in the preparation of these consolidated financial statements are consistent with those followed in the previous financial year.

NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

No other new standards, new interpretations or amendments to standards or interpretations have been published which are expected to have a significant impact on the Group's financial statements.

PARENT COMPANY

The ultimate Parent Company of the Group is Smiths Group plc, a company incorporated in England and Wales and listed on the London Stock Exchange.

The accounts of the Parent Company, Smiths Group plc, have been prepared in accordance with the Companies Act 2006 and Financial Reporting Standard 101, 'Reduced Disclosure Framework'.

The Company accounts are presented in separate financial statements on pages 197 to 204. The principal subsidiaries of the Parent Company are listed in the above accounts.

1. SEGMENT INFORMATION

ANALYSIS BY OPERATING SEGMENT

The Group is organised into four divisions: John Crane; Smiths Detection; Flex-Tek; and Smiths Interconnect. These divisions design, manufacture and support the following products:

- **John Crane** – mechanical seals, seal support systems, power transmission couplings and specialised filtration systems;
- **Smiths Detection** – sensors and systems that detect and identify explosives, narcotics, weapons, chemical agents, biohazards and contraband;
- **Flex-Tek** – engineered components, flexible hosing and rigid tubing that heat and move fluids and gases; and
- **Smiths Interconnect** – specialised electronic and radio frequency board-level and waveguide devices, connectors, cables, test sockets and sub-systems used in high-speed, high-reliability, secure connectivity applications.

The position and performance of each division are reported at each Board meeting to the Board of Directors. This information is prepared using the same accounting policies as the consolidated financial information except that the Group uses headline operating profit to monitor the divisional results and operating assets to monitor the divisional position. See note 3 and note 29 for an explanation of which items are excluded from headline measures.

Intersegment sales and transfers are charged at arm's length prices.

SEGMENT TRADING PERFORMANCE

| | Year ended 31 July 2023 | | | | | |
|--|-------------------------|---------------------------|----------------|------------------------------|--------------------------|-------------|
| | John Crane £m | Smiths Detection £m | Flex-Tek £m | Smiths Interconnect £m | Corporate costs £m | Total £m |
| Revenue | 1,079 | 803 | 768 | 387 | – | 3,037 |
| Divisional headline operating profit | 244 | 90 | 149 | 62 | – | 545 |
| Corporate headline operating costs | – | – | – | – | (44) | (44) |
| Headline operating profit/(loss) | 244 | 90 | 149 | 62 | (44) | 501 |
| Items excluded from headline measures (note 3) | (27) | (35) | (18) | (12) | (6) | (98) |
| Operating profit/(loss) | 217 | 55 | 131 | 50 | (50) | 403 |
| Headline operating margin | 22.6% | 11.2% | 19.4% | 16.0% | | 16.5% |

Year ended 31 July 2022

| | John Crane £m | Smiths Detection £m | Flex-Tek £m | Smiths Interconnect £m | Corporate costs £m | Total £m |
|--|------------------|---------------------------|----------------|------------------------------|--------------------------|-------------|
| Revenue | 901 | 655 | 647 | 363 | – | 2,566 |
| Divisional headline operating profit | 188 | 73 | 133 | 65 | – | 459 |
| Corporate headline operating costs | – | – | – | – | (42) | (42) |
| Headline operating profit/(loss) | 188 | 73 | 133 | 65 | (42) | 417 |
| Items excluded from headline measures (note 3) | (21) | (37) | (27) | (1) | (214) | (300) |
| Operating profit/(loss) | 167 | 36 | 106 | 64 | (256) | 117 |
| Headline operating margin | 20.9% | 11.1% | 20.6% | 18.0% | | 16.3% |

Operating profit is stated after charging (crediting) the following items:

| | Year ended 31 July 2023 | | | | | |
|---|-------------------------|---------------------------|----------------|------------------------------|-------------------------------------|-------------|
| | John Crane £m | Smiths Detection £m | Flex-Tek £m | Smiths Interconnect £m | Corporate and non-headline £m | Total £m |
| Depreciation – property, plant and equipment | 17 | 10 | 8 | 6 | 1 | 42 |
| Depreciation – right of use assets | 15 | 7 | 6 | 3 | 1 | 32 |
| Amortisation of capitalised development costs | – | 2 | – | – | – | 2 |
| Amortisation of software, patents and intellectual property | 3 | 1 | – | 2 | 1 | 7 |
| Amortisation of acquired intangibles | – | – | – | – | 52 | 52 |
| Share-based payment | 3 | 1 | 2 | 2 | 6 | 14 |
| Transition services cost reimbursement | – | – | – | – | (10) | (10) |

Year ended 31 July 2022

| | John Crane £m | Smiths Detection £m | Flex-Tek £m | Smiths Interconnect £m | Corporate and non-headline £m | Total £m |
|---|------------------|---------------------------|----------------|------------------------------|-------------------------------------|-------------|
| Depreciation – property, plant and equipment | 15 | 10 | 7 | 5 | 1 | 38 |
| Depreciation – right of use assets | 15 | 7 | 5 | 2 | 1 | 30 |
| Amortisation of capitalised development costs | – | 3 | – | – | – | 3 |
| Amortisation of software, patents and intellectual property | 3 | 1 | – | 2 | 1 | 7 |
| Amortisation of acquired intangibles | – | – | – | – | 51 | 51 |
| Share-based payment | 3 | 2 | 2 | 1 | 4 | 12 |
| Russia impairment charges and related closure costs | 9 | 10 | – | – | – | 19 |
| Transition services cost reimbursement | – | – | – | – | (7) | (7) |

The corporate and non-headline column comprises central information technology, human resources and headquarters costs and non-headline expenses (see note 3).

SEGMENT ASSETS AND LIABILITIES

Segment assets

31 July 2023

| | John Crane £m | Smiths Detection £m | Flex-Tek £m | Smiths Interconnect £m | Corporate and non-headline £m | Total £m |
|--|------------------|---------------------------|----------------|------------------------------|-------------------------------------|--------------|
| Property, plant, equipment, right of use assets, development projects, other intangibles and investments | 162 | 142 | 84 | 66 | 375 | 829 |
| Inventory, trade and other receivables | 489 | 599 | 226 | 160 | 10 | 1,484 |
| Segment assets | 651 | 741 | 310 | 226 | 385 | 2,313 |

31 July 2022

| | John Crane £m | Smiths Detection £m | Flex-Tek £m | Smiths Interconnect £m | Corporate and non-headline £m | Total £m |
|--|------------------|---------------------------|----------------|------------------------------|-------------------------------------|--------------|
| Property, plant, equipment, right of use assets, development projects, other intangibles and investments | 167 | 127 | 84 | 54 | 399 | 831 |
| Inventory, trade and other receivables | 429 | 524 | 244 | 167 | 13 | 1,377 |
| Segment assets | 596 | 651 | 328 | 221 | 412 | 2,208 |

Non-headline assets comprise receivables relating to non-headline items, acquisitions and disposals.

Segment liabilities

31 July 2023

| | John Crane £m | Smiths Detection £m | Flex-Tek £m | Smiths Interconnect £m | Corporate and non-headline £m | Total £m |
|--|------------------|---------------------------|----------------|------------------------------|-------------------------------------|--------------|
| Divisional liabilities | 200 | 357 | 91 | 62 | – | 710 |
| Corporate and non-headline liabilities | – | – | – | – | 339 | 339 |
| Segment liabilities | 200 | 357 | 91 | 62 | 339 | 1,049 |

31 July 2022

| | John Crane £m | Smiths Detection £m | Flex-Tek £m | Smiths Interconnect £m | Corporate and non-headline £m | Total £m |
|--|------------------|---------------------------|----------------|------------------------------|-------------------------------------|----------------|
| Divisional liabilities | (155) | (347) | (91) | (85) | – | (678) |
| Corporate and non-headline liabilities | – | – | – | – | (385) | (385) |
| Segment liabilities | (155) | (347) | (91) | (85) | (385) | (1,063) |

Non-headline liabilities comprise provisions and accruals relating to non-headline items, acquisitions and disposals.

Reconciliation of segment assets and liabilities to statutory assets and liabilities

| | Assets | | | Liabilities |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
| | 31 July 2023 £m | 31 July 2022 £m | 31 July 2023 £m | 31 July 2022 £m |
| Segment assets and liabilities | 2,313 | 2,208 | (1,049) | (1,063) |
| Goodwill and acquired intangibles | 1,415 | 1,501 | – | – |
| Derivatives | 5 | 4 | (20) | (47) |
| Current and deferred tax | 142 | 145 | (120) | (111) |
| Retirement benefit assets and obligations | 195 | 309 | (106) | (115) |
| Cash and borrowings | 285 | 1,056 | (654) | (1,166) |
| Statutory assets and liabilities | 4,355 | 5,223 | (1,949) | (2,502) |

Segment capital expenditure

The capital expenditure on property, plant and equipment, capitalised development and other intangible assets for each division is:

| | John Crane £m | Smiths Detection £m | Flex-Tek £m | Smiths Interconnect £m | Corporate and non-headline £m | Total £m |
|---|------------------|---------------------------|----------------|------------------------------|-------------------------------------|-------------|
| Capital expenditure year ended 31 July 2023 | 19 | 36 | 10 | 16 | – | 81 |
| Capital expenditure year ended 31 July 2022 | 24 | 23 | 11 | 12 | 1 | 71 |

Segment capital employed

Capital employed is a non-statutory measure of invested resources. It comprises statutory net assets adjusted to add goodwill recognised directly in reserves in respect of subsidiaries acquired before 1 August 1998 of £478m (FY2022: £478m) and eliminate retirement benefit assets and obligations and litigation provisions relating to non-headline items, both net of related tax, and net debt. See note 29 for a reconciliation of net assets to capital employed.

The 12-month rolling average capital employed by division, which Smiths uses to calculate divisional return on capital employed, is:

| | 31 July 2023 | | | | |
|---|------------------|---------------------------|----------------|------------------------------|--------------|
| | John Crane £m | Smiths Detection £m | Flex-Tek £m | Smiths Interconnect £m | Total £m |
| Average divisional capital employed | 1,022 | 1,154 | 570 | 466 | 3,212 |
| Average corporate capital employed | | | | | (16) |
| Average total capital employed – continuing operations | | | | | 3,196 |
| | 31 July 2022 | | | | |
| | John Crane £m | Smiths Detection £m | Flex-Tek £m | Smiths Interconnect £m | Total £m |
| Average divisional capital employed | 970 | 1,019 | 520 | 400 | 2,909 |
| Average corporate capital employed | | | | | 31 |
| Average total capital employed – continuing operations | | | | | 2,940 |

ANALYSIS OF REVENUE

The revenue for the main product and service lines for each division is:

| | Original equipment £m | Aftermarket £m | Total £m |
|---------------------------------|-----------------------------|-------------------|--------------|
| John Crane | | | |
| Revenue year ended 31 July 2023 | 314 | 765 | 1,079 |
| Revenue year ended 31 July 2022 | 279 | 622 | 901 |

| | Aviation £m | Other security systems £m | Total £m |
|---------------------------------|----------------|---------------------------------|-------------|
| Smiths Detection | | | |
| Revenue year ended 31 July 2023 | 535 | 268 | 803 |
| Revenue year ended 31 July 2022 | 467 | 188 | 655 |

| | Aerospace £m | Industrials £m | Total £m |
|---------------------------------|-----------------|-------------------|-------------|
| Flex-Tek | | | |
| Revenue year ended 31 July 2023 | 144 | 624 | 768 |
| Revenue year ended 31 July 2022 | 116 | 531 | 647 |

| | Components, connectors & subsystems £m |
|---------------------------------|---|
| Smiths Interconnect | |
| Revenue year ended 31 July 2023 | 387 |
| Revenue year ended 31 July 2022 | 363 |

Aftermarket sales contributed £1,545m (FY2022: £1,238m) of Group revenue: John Crane aftermarket sales were £765m (FY2022: £622m); Smiths Detection aftermarket sales were £413m (FY2022: £355m); Flex-Tek aftermarket sales were £367m (FY2022: £261m); and Smiths Interconnect aftermarket sales were £nil (FY2022: £nil).

Divisional revenue is analysed by the Smiths Group key global markets as follows:

| | General Industrial £m | Safety & Security £m | Energy £m | Aerospace £m | Total £m |
|---------------------------------|--------------------------|-------------------------|--------------|-----------------|--------------|
| John Crane | | | | | |
| Revenue year ended 31 July 2023 | 423 | – | 656 | – | 1,079 |
| Revenue year ended 31 July 2022 | 371 | – | 530 | – | 901 |
| Smiths Detection | | | | | |
| Revenue year ended 31 July 2023 | – | 803 | – | – | 803 |
| Revenue year ended 31 July 2022 | – | 655 | – | – | 655 |
| Flex Tek | | | | | |
| Revenue year ended 31 July 2023 | 624 | – | – | 144 | 768 |
| Revenue year ended 31 July 2022 | 531 | – | – | 116 | 647 |
| Smiths Interconnect | | | | | |
| Revenue year ended 31 July 2023 | 190 | 141 | – | 56 | 387 |
| Revenue year ended 31 July 2022 | 166 | 144 | – | 53 | 363 |
| Total | | | | | |
| Revenue year ended 31 July 2023 | 1,237 | 944 | 656 | 200 | 3,037 |
| Revenue year ended 31 July 2022 | 1,068 | 799 | 530 | 169 | 2,566 |

The Group's statutory revenue is analysed as follows:

| | Year ended 31 July 2023 £m | Year ended 31 July 2022 £m |
|---|----------------------------------|----------------------------------|
| Sale of goods recognised at a point in time | 2,244 | 1,849 |
| Sale of goods recognised over time | 36 | 99 |
| Services recognised over time | 757 | 618 |
| | 3,037 | 2,566 |

ANALYSIS BY GEOGRAPHICAL AREAS

The Group's revenue by destination and non-current operating assets by location are shown below:

| | Revenue | | Intangible assets, right of use assets and property, plant and equipment | |
|---------------|----------------------------------|----------------------------------|--|--------------------|
| | Year ended 31 July 2023 £m | Year ended 31 July 2022 £m | 31 July 2023 £m | 31 July 2022 £m |
| Americas | 1,641 | 1,423 | 1,254 | 1,324 |
| Europe | 563 | 480 | 519 | 498 |
| Asia Pacific | 493 | 421 | 71 | 76 |
| Rest of World | 340 | 242 | 29 | 39 |
| | 3,037 | 2,566 | 1,873 | 1,937 |

Revenue by destination attributable to the United Kingdom was £87m (FY2022: £75m). Other revenue found to be significant included, the United States of America, totalling £1,383m (FY2022: £1,206m), China (excluding Hong Kong) £150m (FY2022: £132m) and Germany £143m (FY2022: £123m). Revenue by destination has been selected as the basis for attributing revenue to geographical areas as this was the geographic attribution of revenue used by management to review business performance.

Non-current assets located in the United Kingdom total £123m (FY2022: £108m). Significant non-current assets held in the United States of America £1,181m (FY2022: £1,260m) and Germany £345m (FY2022: £340m).

2. OPERATING COSTS

The Group's operating costs for continuing operations are analysed as follows:

| | Year ended 31 July 2023 | | | Year ended 31 July 2022 | | |
|---|-------------------------|--------------------------------|--------------|-------------------------|--------------------------------|--------------|
| | Headline £m | Non-headline (note 3) £m | Total £m | Headline £m | Non-headline (note 3) £m | Total £m |
| Cost of sales – direct materials, labour, production and distribution overheads | 1,919 | – | 1,919 | 1,605 | – | 1,605 |
| Selling costs | 221 | – | 221 | 200 | – | 200 |
| Administrative expenses | 406 | 98 | 504 | 351 | 300 | 651 |
| Transition services cost reimbursement | (10) | – | (10) | (7) | – | (7) |
| Total | 2,536 | 98 | 2,634 | 2,149 | 300 | 2,449 |

Following the sale of the Smiths Medical business, the Group has provided transition services to the Smiths Medical Group, which is disclosed above as transition services cost reimbursement.

OPERATING PROFIT IS STATED AFTER CHARGING (CREDITING):

| | Year ended 31 July 2023 £m | Year ended 31 July 2022 £m |
|---|----------------------------------|----------------------------------|
| Research and development expense | 73 | 80 |
| Depreciation of property, plant and equipment | 42 | 38 |
| Depreciation of right of use assets | 32 | 30 |
| Amortisation of intangible assets | 61 | 61 |
| Russia impairment and related closure costs | – | 19 |
| Transition services cost reimbursement | (10) | (7) |

Research and development (R&D) cash costs were £113m (FY2022: £107m) comprising £73m (FY2022: £80m) of R&D expensed to the income statement, £21m (FY2022: £12m) of capitalised costs and £19m (FY2022: £15m) of customer funded R&D.

Administrative expenses include £2m (FY2022: £3m) in respect of lease payments for short-term and low-value leases which were not included within right of use assets and lease liabilities.

AUDITORS' REMUNERATION

The following fees were paid or are payable to the Company's auditors, KPMG LLP and other firms in the KPMG network, for the year ended 31 July 2023.

| | Year ended 31 July 2023 £m | Year ended 31 July 2022 (represented) £m |
|---|----------------------------------|---|
| Audit services | | |
| Fees payable to the Company's auditors for the audit of the Company's annual financial statements | 2.6 | 3.0 |
| Fees payable to the Company's auditors and its associates for other services: | | |
| – the audit of the Company's subsidiaries | 5.5 | 4.7 |
| | 8.1 | 7.7 |
| All other services | 0.5 | 0.8 |

Other services comprise audit-related assurance services of £0.5m (FY2022: £0.5m) and fees for reporting accountant services in connection with a class 1 disposal of Enil (FY2022: £0.3m). Audit-related assurance services include the review of the Interim Report and the limited assurance of the Group's Scope 1-3 Greenhouse Gas emissions metrics. Total fees for non-audit services comprise 6% (FY2022: 10%) of audit fees.

In the current year, the Group has agreed £0.3m of additional fees with the Group auditors relating to the audit of the prior year financial statements.

3. NON-STATUTORY PROFIT MEASURES

HEADLINE PROFIT MEASURES

The Group has identified and defined a 'headline' measure of performance which is not impacted by material non-recurring items or items considered non-operational/trading in nature. This non-GAAP measure of profit is not intended to be a substitute for any IFRS measures of performance, but is a key measure used by management to understand and manage performance. See the disclosures on presentation of results in accounting policies for an explanation of the adjustments. The items excluded from 'headline' are referred to as 'non-headline' items.

NON-HEADLINE OPERATING PROFIT ITEMS

I. CONTINUING OPERATIONS

The non-headline items included in statutory operating profit for continuing operations were as follows:

| | Notes | Year ended 31 July 2023 £m | Year ended 31 July 2022 £m |
|--|-------|----------------------------------|----------------------------------|
| Post-acquisition integration costs and fair value adjustment unwind | | | |
| Fair value loss on contingent consideration | | (6) | – |
| Unwind of acquisition balance sheet fair value uplift | | – | (2) |
| Acquisition and disposal related transaction costs and provision releases | | | |
| Business acquisition/disposal costs | | (1) | (5) |
| Legacy pension scheme arrangements | | | |
| Past service credit/(costs) for benefit equalisation and improvements | 8 | 4 | (43) |
| Scheme administration costs | 8 | (2) | |
| Retirement benefit scheme settlement loss | 8 | (1) | (171) |
| Non-headline litigation provision movements | | | |
| Movement in provision held against Titeflex Corporation subrogation claims | 23 | 7 | (2) |
| Provision for John Crane, Inc. asbestos litigation | 23 | (16) | (7) |
| Cost recovery for John Crane, Inc. asbestos litigation | | 7 | – |
| Other items | | | |
| Amortisation of acquired intangible assets | 10 | (52) | (51) |
| Restructuring costs | | (36) | – |
| Irrecoverable VAT on chain export transaction | | (2) | – |
| Russia impairment charges and related closure costs | 11 | – | (19) |
| Non-headline items in operating profit – continuing operations | | (98) | (300) |

Post-acquisition integration costs and fair value adjustment unwind

Following the sale of Smiths Medical to ICU Medical, Inc. (ICU) in FY2022, the Group holds a financial asset for the fair value of US\$100m additional sales consideration that is contingent on the future share price performance of ICU. In FY2023 a fair value loss of £6m has been recognised on this financial asset. This is considered to be a non-headline item on the basis that these charges result from acquisition accounting and do not relate to current trading activity.

The impact of unwinding the acquisition balance sheet fair value adjustments required by IFRS 3 'Business combinations' has been recognised as non-headline as the charges do not relate to trading activity. The £2m charged in the prior period was due to the unwind of fair value uplifts on the acquisition of Royal Metal Products.

Acquisition and disposal related transaction costs and provision releases

The £1m (FY2022: £5m) business acquisition/disposal costs represented incremental transaction costs including the acquisition of Plastronics in FY2023. These costs did not include the cost of employees working on transactions and were reported as non-headline because they are dependent on the level of acquisition and disposal activity in the year.

Legacy pension scheme arrangements

The past service credit/(costs) comprises the following:

- A net credit of £4m (FY2022: £19m debit) has been recognised in respect of equalisation charges of retirement benefits for men and women. The net credit comprises a further liability of £12m and the release of £16m, recognised in previous years, following the identification of additional evidence of the obligation for equalisation (see note 8 for further details); and
- In the prior year £24m of costs were recognised following the TI Group Pension Scheme (TIGPS) executing an insurance buy-in policy.

These past service credits/(costs) are reported as non-headline as they are non-recurring and relate to legacy pension liabilities.

Scheme administration costs of £2m (FY2022: £nil) relate to the TIGPS legacy pension scheme. As the Group has no expectation of receiving a refund from the scheme, an economic benefit value of zero has been placed on the TIGPS surplus. These are non-headline charges as the Smiths Group effectively has no economic exposure to these costs and they are paid from cash retained in the scheme.

Settlement losses of £1m (31 July 2022: £171m) on post-retirement benefit schemes relate to settlement arrangements made between the Group and former employees of the now disposed of Medical business. The prior year losses arose primarily on the buy-in of the TIGPS scheme. These items are considered non-headline as they are non-recurring and relate to legacy pension schemes.

Non-headline litigation provision movements

The following litigation costs and recoveries have been treated as non-headline items because the provisions were treated as non-headline when originally recognised and the subrogation claims and litigation relate to products that the Group no longer sells in these markets:

- The £7m credit (FY2022: £2m charge) recognised by Titeflex Corporation was principally driven by discount rate movements and a reduction in the expected costs to settle future claims. See note 23 for further details; and
- The £16m charge (FY2022: £7m) in respect of John Crane, Inc. asbestos litigation is principally due to litigation costs of £31m offset by £15m of discount rate movements following an increase in US treasury bond yields. See note 23 for further details; and
- In FY23 £7m (FY2022: £nil) of asbestos litigation costs were recovered by John Crane, Inc. via insurer settlements.

Other items

Acquisition related intangible asset amortisation costs of £52m (FY2022: £51m) were recognised in the current period. This is considered to be a non-headline item on the basis that these charges result from acquisition accounting and do not relate to current trading activity.

As announced in the FY2022 Annual Report, during FY2023 the Group has completed a restructuring project across the Group to better serve our customers, maximise growth opportunities and improve efficiency. In FY2023 £36m of non-headline charges have been expensed of which £26m has been paid to date, the remainder is forecast to be paid within the next 18 months. The restructuring project is a non-headline expense as the costs are material, non-recurring and part of a pre-approved programme.

The £2m of irrecoverable VAT (31 July 2022: £nil) relates to a historical VAT classification error. This error had resulted in certain intercompany chain export transactions being treated as VAT exempt when they should have been initially classified as subject to European VAT. This has been treated as non-headline as it relates to six years of past VAT practice and will involve payment and recovery of European VAT, which spans FY2023 and FY2024, so may have a material impact on the Group's headline cash conversion metric.

In the prior year a £19m charge has been recognised in relation to Russia impairment charges and related closure costs.

NON-HEADLINE FINANCE COSTS ITEMS

The non-headline items included in finance costs for continuing operations were as follows:

| | Notes | Year ended 31 July 2023 £m | Year ended 31 July 2022 £m |
|---|-------|----------------------------------|----------------------------------|
| Unwind of discount on provisions | 23 | (7) | (3) |
| Other finance income – retirement benefits | 8 | 7 | 7 |
| Interest payable on overdue VAT | | (7) | – |
| Other sundry financing losses | | (1) | – |
| Fair value gain on investment in early stage business | 14 | – | 1 |
| Foreign exchange gain on intercompany loan with discontinued operations | | – | 22 |
| Non-headline items in finance costs – continuing operations | | (8) | 27 |
| Continuing operations – non-headline loss before taxation | | (106) | (273) |

The financing elements of non-headline legacy liabilities, including the £7m (FY2022: £3m) unwind of discount on provisions, were excluded from headline finance costs because these provisions were originally recognised as non-headline and this treatment has been maintained for ongoing costs and credits.

Other finance income comprises £7m (FY2022: £7m) of financing credits relating to retirement benefits. These were excluded from headline finance costs because the ongoing costs and credits are a legacy of previous employee pension arrangements.

The £7m of interest payable on overdue VAT (FY2022: £nil) relates to a historic VAT classification error. This was excluded from headline finance costs because the underlying issue was recognised as non-headline and this treatment has been maintained for ongoing costs and credits.

NON-HEADLINE TAXATION (CHARGE)/CREDIT

The non-headline items included in taxation for continuing operations were as follows:

| | Notes | Year ended 31 July 2023 £m | Year ended 31 July 2022 £m |
|---|-------|----------------------------------|----------------------------------|
| Tax credit on non-headline loss | 6 | 18 | 19 |
| Increase in unrecognised UK deferred tax asset | 6 | (31) | (5) |
| Non-headline taxation (charge)/credit- continuing operations | | (13) | 14 |
| Continuing operations – non-headline loss for the year | | (119) | (259) |

Movement in unrecognised UK deferred tax asset

These movements are reported as non-headline because the original credit, related to non-headline charges was reported as non-headline.

II. DISCONTINUED OPERATIONS

The non-headline items for discontinued operations were as follows:

| | Year ended 31 July 2023 £m | Year ended 31 July 2022 £m |
|--|----------------------------------|----------------------------------|
| Non-headline operating profit items | | |
| Medfusion documentation remediation costs | – | (33) |
| Impairment of investment in Ivenix, Inc. convertible debt | – | (14) |
| Non-headline finance costs items | | |
| Foreign exchange loss on intercompany loan with parent | – | (22) |
| Gain on sale of discontinued operation | | |
| Gain on the sale of Smiths Medical to ICU Medical, Inc. | 6 | 1,036 |
| Non-headline taxation items | | |
| Tax on non-headline loss | – | 6 |
| Non-headline items in profit from discontinued operations | 6 | 973 |
| Profit for the year – non-headline items for continuing and discontinued operations | (113) | 714 |

In the current year the Group has recognised an additional £6m gain on transactions related to the sale of Smiths Medical. An £11m credit was released in respect of disposal and restructuring provisions, that are no longer required, and an offsetting additional £5m of provisions were charged in respect of potential indemnity, litigation and arbitration costs. These items are considered to be non-headline as they relate to discontinued former business activities.

In the prior period:

- Smiths Medical recognised a £33m provision against the costs of the remediation actions required to address each of the observations and discussion items contained in the US Food and Drug Administration 'for-cause' audit findings on the Medfusion product range; and
- The decision by Smiths Medical to exit its commercial agreement with Ivenix, Inc. triggered an indicator of impairment to the carrying value of the Smiths Medical investment in Ivenix, Inc. and management impaired the entire £14m value of Smiths Medical's investment; and
- The £22m foreign exchange loss on intercompany loan with parent directly offsets the foreign exchange gain in continuing operations.

4. NET FINANCE COSTS

| | Notes | Year ended 31 July 2023 £m | Year ended 31 July 2022 £m |
|--|-------|----------------------------------|----------------------------------|
| Interest income | | 36 | 14 |
| Interest expense: | | | |
| – bank loans and overdrafts, including associated fees | | (50) | (12) |
| – other loans | | (17) | (40) |
| – interest on leases | | (4) | (3) |
| Interest expense | | (71) | (55) |
| Headline net finance costs | | (35) | (41) |
| Other financing gains/(losses): | | | |
| – valuation movements on fair value hedged debt | | (9) | (32) |
| – valuation movements on fair value derivatives | | 9 | 33 |
| – foreign exchange and ineffectiveness on net investment hedges | | (3) | (2) |
| – retranslation of foreign currency bank balances | | 2 | (1) |
| – interest on overdue VAT | | (7) | – |
| – other items including counterparty credit risk adjustments and non-hedge accounted derivatives | | – | 2 |
| Other financing gains/(losses) | | (8) | – |
| Non-headline finance cost items: | | | |
| Foreign exchange gain on intercompany loan with discontinued operations | 3 | – | 22 |
| Unwind of discount on provisions | 3 | (7) | (3) |
| Fair value gain on investment in early stage business | 14 | – | 1 |
| Net interest income on retirement benefit obligations | 8 | 7 | 7 |
| Non-headline finance cost items | | – | 27 |
| Net finance costs | | (43) | (14) |

5. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the profit for the year attributable to equity shareholders of the Company by the average number of ordinary shares in issue during the year.

| | Year ended 31 July 2023 £m | Year ended 31 July 2022 £m |
|--|----------------------------------|----------------------------------|
| Profit attributable to equity shareholders for the year: | | |
| – continuing | 225 | 11 |
| – discontinued | 6 | 1,022 |
| Total | 231 | 1,033 |
| Average number of shares in issue during the year (note 24) | 352,891,120 | 386,678,211 |
| Statutory earnings per share total – basic | 65.5p | 267.1p |
| Statutory earnings per share total – diluted | 65.1p | 266.0p |
| Statutory earnings per share continuing operations – basic | 63.8p | 2.8p |
| Statutory earnings per share continuing operations – diluted | 63.4p | 2.8p |

Diluted earnings per share are calculated by dividing the profit attributable to ordinary shareholders by 354,681,819 (FY2022: 388,349,758) ordinary shares, being the average number of ordinary shares in issue during the year adjusted by the dilutive effect of employee share schemes. No options (FY2022: nil) were excluded from this calculation because their effect was anti-dilutive.

A reconciliation of statutory and headline earnings per share is as follows:

| | Year ended 31 July 2023 | | | Year ended 31 July 2022 | | |
|---|-------------------------|------------------|--------------------|-------------------------|------------------|--------------------|
| | £m | Basic EPS (p) | Diluted EPS (p) | £m | Basic EPS (p) | Diluted EPS (p) |
| Total profit attributable to equity shareholders of the Parent Company | 231 | 65.5 | 65.1 | 1,033 | 267.1 | 266.0 |
| Exclude: Non-headline items (note 3) | 113 | | | (714) | | |
| Headline earnings per share | 344 | 97.5 | 97.0 | 319 | 82.5 | 82.1 |
| Profit from continuing operations attributable to equity shareholders of the Parent Company | 225 | 63.8 | 63.4 | 11 | 2.8 | 2.8 |
| Exclude: Non-headline items (note 3) | 119 | | | 259 | | |
| Headline earnings per share – continuing operations | 344 | 97.5 | 97.0 | 270 | 69.8 | 69.5 |

6. TAXATION

This note only provides information about corporate income taxes under IFRS. Smiths companies operate in over 50 countries across the world. They pay and collect many different taxes in addition to corporate income taxes including: payroll taxes; value added and sales taxes; property taxes; product-specific taxes; and environmental taxes. The costs associated with these other taxes are included in profit before tax.

| | Year ended 31 July 2023 £m | Year ended 31 July 2022 £m |
|--|----------------------------------|----------------------------------|
| The taxation charge in the consolidated income statement for the year comprises: | | |
| Continuing operations | | |
| – current income tax charge | 112 | 68 |
| – current tax adjustments in respect of prior periods | (7) | 5 |
| Current taxation | 105 | 73 |
| Deferred taxation | 29 | 17 |
| Total taxation expense – continuing operations | 134 | 90 |
| Analysed as: | | |
| Headline taxation expense | 121 | 104 |
| Non-headline taxation charge/(credit) | 13 | (14) |
| Total taxation expense in the consolidated income statement | 134 | 90 |

| | Year ended 31 July 2023 £m | Year ended 31 July 2022 £m |
|--|----------------------------------|----------------------------------|
| Tax on items charged/(credited) to equity | | |
| Deferred tax: | | |
| – retirement benefit schemes | 32 | – |
| – share-based payment | – | (1) |
| | 32 | (1) |

The £32m (FY2022: £nil) charge to equity for retirement benefit schemes principally related to UK retirement schemes.

CURRENT TAXATION LIABILITIESCurrent tax
£m

| | |
|--|-------------|
| At 31 July 2021 | (19) |
| Foreign exchange loss | (4) |
| Charge to income statement | (73) |
| Tax paid | 79 |
| At 31 July 2022 | (17) |
| Comprising: | |
| Current tax receivable | 50 |
| Current tax payable within one year | (64) |
| Corporation tax payable after more than one year | (3) |
| At 31 July 2022 | (17) |
| Charge to income statement | (105) |
| Tax paid | 92 |
| At 31 July 2023 | (30) |
| Comprising: | |
| Current tax receivable | 47 |
| Current tax payable within one year | (74) |
| Corporation tax payable after more than one year | (3) |
| At 31 July 2023 | (30) |

Provisions for tax liabilities amount to £46m (FY2022: £38m) the majority of which relates to the risk of challenge from tax authorities to the geographic allocation of profits across the Group.

In addition to the risks provided for, the Group faces a variety of other tax risks, which result from operating in a complex global environment, including the ongoing reform of both international and domestic tax rules, new and ongoing tax audits in the Group's larger markets and the challenge to fulfil ongoing tax compliance filing and transfer pricing obligations given the scale and diversity of the Group's global operations.

The Group anticipates that a number of tax audits are likely to conclude in the next 12 to 24 months for which provisions are recognised based on best estimates and management's judgements concerning the ultimate outcome of the audit. Due to the uncertainty associated with such items, it is possible at a future date, on conclusion of open tax matters, the final outcome may vary significantly from the amounts noted above.

RECONCILIATION OF THE TAX CHARGE

The headline tax charge for the year of £121m (FY2022: £104m) represents an effective rate of 26.0% (FY2022: 27.6%).

The tax charge on the profit for the year for continuing operations is different from the standard rate of corporation tax in the UK, with a rate for FY2023 of 21.0% (FY2022: 19.0%). The differences are reconciled as follows:

| | Year ended 31 July 2023 £m | Year ended 31 July 2022 £m |
|---|----------------------------------|----------------------------------|
| Profit before taxation | 366 | 103 |
| Notional taxation expense at UK corporate rate of 21% (FY2022: 19.0%) | 77 | 20 |
| Different tax rates on non-UK profits and losses | 13 | 13 |
| Non-deductible expenses and other charges | 24 | 11 |
| Tax credits and non-taxable income | (10) | (6) |
| Non-headline UK deferred tax asset recognition adjustment | 31 | 5 |
| Other adjustments to unrecognised deferred tax | 2 | 10 |
| Non-tax relievable loss on UK pensions schemes | - | 41 |
| Tax on Smiths Medical consolidation adjustments | - | 2 |
| Prior year true-up | (3) | (6) |
| Total taxation expense in the consolidated income statement | 134 | 90 |
| Comprising: | | |
| Taxation on headline profit | 121 | 104 |
| Non-headline taxation items: | | |
| - Tax credit on non-headline loss | (18) | (19) |
| - UK deferred tax asset recognition adjustment | 31 | 5 |
| Taxation on non-headline items | 13 | (14) |
| Total taxation expense in the consolidated income statement | 134 | 90 |

The table above reconciles the notional taxation charge calculated at the UK tax rate, to the actual total tax charge. As a group operating in multiple countries, the actual tax rates applicable to profits in those countries are different from the UK tax rate. The impact is shown above as different tax rates on non-UK profits and losses. The Group's worldwide business leads to the consideration of a number of important factors which may affect future tax charges, such as: the levels and mix of profitability in different jurisdictions; transfer pricing regulations; tax rates imposed and tax regime reforms; acquisitions; disposals; restructuring activities; and settlements or agreements with tax authorities.

DEFERRED TAXATION ASSETS/(LIABILITIES)

| | Property, plant, equipment and intangible assets £m | Employment benefits £m | Losses carried forward £m | Provisions £m | Other £m | Total £m |
|---|---|------------------------------|------------------------------------|------------------|-------------|-------------|
| At 31 July 2021 | (56) | (105) | 144 | 78 | 3 | 64 |
| Reallocations | (15) | 1 | 9 | 1 | 4 | – |
| Charge to income statement – continuing operations | 4 | 50 | (54) | (10) | (7) | (17) |
| Credit to equity | – | 3 | – | – | (4) | (1) |
| Foreign exchange rate movements | (9) | – | 4 | 10 | – | 5 |
| At 31 July 2022 | (76) | (51) | 103 | 79 | (4) | 51 |
| Comprising: | | | | | | |
| Deferred tax assets | (1) | (56) | 76 | 65 | 11 | 95 |
| Deferred tax liabilities | (75) | 5 | 27 | 14 | (15) | (44) |
| At 31 July 2022 | (76) | (51) | 103 | 79 | (4) | 51 |
| Reallocations | – | (2) | 6 | (4) | – | – |
| Charge to income statement – continuing operations | 13 | (3) | (32) | (5) | (2) | (29) |
| Credit to equity | – | 32 | – | – | – | 32 |
| Foreign exchange rate movements | 3 | (1) | (2) | (4) | 2 | (2) |
| At 31 July 2023 | (60) | (25) | 75 | 66 | (4) | 52 |
| Comprising: | | | | | | |
| Deferred tax assets | (2) | (27) | 50 | 60 | 14 | 95 |
| Deferred tax liabilities | (58) | 2 | 25 | 6 | (18) | (43) |
| At 31 July 2023 | (60) | (25) | 75 | 66 | (4) | 52 |

Of the amounts included within 'Other', shown in the above table, as at 31 July 2023, amounts relating to tax on unremitted earnings were £19m (FY2022: £19m). The aggregate amount of temporary differences associated with investments in subsidiaries for which deferred tax liabilities have not been recognised is immaterial.

The deferred tax asset relating to losses has been recognised on the basis of strong evidence of future taxable profits against which the unutilised tax losses can be relieved or it is probable that they will be recovered against the reversal of deferred tax liabilities. The closing net deferred tax asset balance related to UK activities and included in the balance at 31 July 2023 amounted to £nil (FY2022: £nil). The deferred tax asset balance for provisions includes £51m (FY2022: £57m) relating to John Crane Inc. litigation provision, and £9m (FY2022: £12m) relating to Titeflex Corporation. See note 23 for additional information on provisions.

UNRECOGNISED DEFERRED TAX

The Group has £521m of unrecognised deferred tax relating to losses (FY2022: £335m).

The expiry date of operating losses carried forward is dependent upon the law of the various territories in which the losses arise. A summary of expiry dates in respect of which deferred tax has not been recognised is set out below:

| | 2023 £m | Expiry of losses | 2022 £m | Expiry of losses |
|--|------------|---------------------|------------|---------------------|
| Unrestricted losses – operating losses | 521 | No expiry | 335 | No expiry |
| Total unrecognised deferred tax on losses | 521 | | 335 | |

Unrecognised deferred tax relating to losses has increased by £186m (FY2022: £228m). This comprises an increase of £78m that principally matches the reduction in the UK pensions deferred tax liability, an increase of £75m relating to Detection and Interconnect USA current year losses and £33m from a FY2022 change in local accounting method for tax purposes resulting in additional losses being booked in FY2023.

DEVELOPMENTS IN THE GROUP TAX POSITION

In December 2021, the Organisation for Economic Co-operation and Development published rules relating to global minimum taxation called 'Pillar 2 rules', currently timetabled to apply in the UK to accounting periods beginning on or after 1 January 2024 (year ended 31 July 2025 for Smiths). The Group will continue to monitor the development and future implementation of these rules globally.

Smiths is actively working to fully understand the impact of the new rules and developing processes to enable compliance. Based upon our latest understanding, the current estimate of additional tax payable is not expected to have a material impact on the Group.

7. EMPLOYEES

| | Year ended 31 July 2023 | | | Year ended 31 July 2022 | | |
|--|--------------------------------|----------------------------------|-------------|--------------------------------|----------------------------------|-------------|
| | Continuing operations £m | Discontinued operations £m | Total £m | Continuing operations £m | Discontinued operations £m | Total £m |
| Staff costs during the period | | | | | | |
| Wages and salaries | 802 | – | 802 | 700 | 91 | 791 |
| Social security | 92 | – | 92 | 81 | 9 | 90 |
| Share-based payment (note 9) | 14 | – | 14 | 13 | 2 | 15 |
| Pension costs (including defined contribution schemes) (note 8) | 31 | – | 31 | 29 | 5 | 34 |
| | 939 | – | 939 | 823 | 107 | 930 |

The average number of persons employed, including employees on permanent, fixed term and temporary contracts, rounded to the nearest 50 employees was:

| | Year ended 31 July 2023 | Year ended 31 July 2022 |
|--|----------------------------|----------------------------|
| John Crane | 6,050 | 6,050 |
| Smiths Detection | 3,250 | 3,100 |
| Flex-Tek | 3,750 | 3,300 |
| Smiths Interconnect | 2,800 | 2,500 |
| Corporate (including central/shared IT services) | 300 | 300 |
| Continuing operations | 16,150 | 15,250 |
| Discontinued operations – Smiths Medical (in period to 6 January 2022) | – | 6,700 |
| Total | 16,150 | 21,950 |

KEY MANAGEMENT

The key management of the Group comprises Smiths Group plc Board Directors and Executive Committee members. Their aggregate compensation is shown below. Details of Directors' remuneration are contained in the report of the Remuneration & People Committee on pages 98 to 110.

| | Year ended 31 July 2023 £m | Year ended 31 July 2022 £m |
|---|----------------------------------|----------------------------------|
| Key management compensation | | |
| Salaries and short-term employee benefits | 12.0 | 10.3 |
| Cost of retirement benefits | 0.7 | 0.7 |
| Cost of share-based incentive plans | 4.9 | 4.7 |

No member of key management had any material interest during the period in a contract of significance (other than a service contract or a qualifying third-party indemnity provision) with the Company or any of its subsidiaries.

Options and awards held at the end of the period by key management in respect of the Company's share-based incentive plans were:

| | Year ended 31 July 2023 | | Year ended 31 July 2022 | |
|------------------|----------------------------------|--|----------------------------------|--|
| | Number of instruments '000 | Weighted average exercise price | Number of instruments '000 | Weighted average exercise price |
| LTIP | 1,580 | | 1,411 | |
| Restricted stock | – | | 8 | |
| SAYE | 16 | £11.45 | 16 | £11.43 |

RELATED PARTY TRANSACTIONS

The only related party transactions in FY2023 were key management compensation (FY2022: key management compensation).

8. RETIREMENT BENEFITS

Smiths provides retirement benefits to employees in a number of countries. This includes defined benefit and defined contribution plans and, mainly in the United Kingdom (UK) and United States of America (US), post-retirement healthcare.

DEFINED CONTRIBUTION PLANS

The Group operates defined contribution plans across many countries. In the UK a defined contribution plan has been offered since the closure of the UK defined benefit pension plans. In the US a 401(k) defined contribution plan operates. The total expense recognised in the consolidated income statement in respect of all these plans was £31m (FY2022: £34m).

DEFINED BENEFIT AND POST-RETIREMENT HEALTHCARE PLANS

The principal defined benefit pension plans are in the UK and in the US and these have been closed so that no future benefits are accrued.

For all schemes, pension costs are assessed in accordance with the advice of independent, professionally qualified actuaries. These valuations have been updated by independent qualified actuaries in order to assess the liabilities of the schemes as at 31 July 2023. Contributions to the schemes are made on the advice of the actuaries, in accordance with local funding requirements.

The changes in the present value of the net pension asset in the period were:

| | Year ended 31 July 2023 £m | Year ended 31 July 2022 £m |
|--|----------------------------------|----------------------------------|
| At beginning of period | 194 | 413 |
| Foreign exchange rate movements | 1 | – |
| Current service cost | (2) | (2) |
| Headline scheme administration costs | (4) | (4) |
| Non-headline scheme administration costs | (2) | |
| Past service cost, curtailments, settlements – continuing operations | 4 | (214) |
| Settlements – discontinued operations | – | (3) |
| Finance income – retirement benefits | 7 | 7 |
| Contributions by employer | 5 | 9 |
| Actuarial (losses)/gains | (114) | 3 |
| Retirement benefit obligations disposed of with Smiths Medical | – | 5 |
| Unrecognised assets due to surplus restriction | – | (20) |
| Net retirement benefit asset | 89 | 194 |

The £413m net retirement benefit asset at the start of FY2022 included £5m of pension obligations disclosed within liabilities held for sale.

UK PENSION SCHEMES

Smiths Group's funded UK pension schemes are subject to a statutory funding objective, as set out in UK pension legislation. Scheme trustees need to obtain regular actuarial valuations to assess the scheme against this funding objective. The trustees and sponsoring companies need to agree funding plans to improve the position of a scheme when it is below the acceptable funding level.

The UK Pensions Regulator has extensive powers to protect the benefits of members, promote good administration and reduce the risk of situations arising which may require compensation to be paid from the Pension Protection Fund. These include imposing a schedule of contributions or the calculation of the technical provisions, where a trustee and company fail to agree appropriate calculations.

Smiths Industries Pension Scheme (SIPS)

This scheme was closed to future accrual effective 1 November 2009. SIPS provides index-linked (to applicable caps) pension benefits based on final earnings at date of closure. SIPS is governed by a corporate trustee (S.I. Pension Trustees Limited, a wholly owned subsidiary of Smiths Group plc). The board of trustee directors currently comprises four Company-nominated trustees and four member-nominated trustees, with an independent chairman selected by Smiths Group plc. Trustee directors are responsible for the management, administration, funding and investment strategy of the scheme.

The most recent actuarial valuation of this scheme has been performed using the Projected Unit Method as at 31 March 2020. The valuation showed a surplus of £34m on the Technical Provisions funding basis at the valuation date and the funding position has improved since then. As part of the valuation agreement, no contributions are currently being paid to SIPS and the Group's current expectation is that these contributions will not recommence (although there are circumstances relating to the Scheme's funding level in which contributions could be due to SIPS). The next actuarial valuation, due as at 31 March 2023, is currently in progress, with the results expected later in 2023.

The duration of SIPS liabilities is around 18 years (FY2022: 20 years) for active deferred members, 19 years (FY2022: 20 years) for deferred members and 10 years (FY2022: 11 years) for pensioners and dependants. Durations have reduced primarily due to the increase in discount rate assumption, which reduces the average time it takes to receive all future pension payments when weighted by the present value of those future pension payments.

Under the governing documentation of SIPS, any future surplus would be returnable to Smiths Group plc by refund, assuming gradual settlement of the liabilities over the lifetime of the scheme.

In SIPS, as part of ongoing data cleansing work being undertaken to prepare the scheme for a potential full buy-out in the future, a wider review is being carried out to determine if the method used in the early 1990s to equalise retirement ages between men and women was implemented correctly. In FY2022, an additional liability of £19m was recognised as a past service cost to reflect the expected impact of correcting this issue for certain sections of the scheme. In the current year, a further liability of £12m has been recognised and £16m recognised in previous years has been released following the identification of additional evidence of the obligation for equalisation,

resulting in a net credit to the income statement of £4m. The review remains ongoing however, no further material additional liabilities are expected.

SIPS uses a Liability Driven Investment (LDI) strategy to hedge against interest and inflation rate changes. During the significant volatility that followed the UK Government's mini budget in September 2022, this hedging policy meant that SIPS asset values fell, as did the value of its obligations. All of SIPS's collateral requirements in respect of the LDI assets were met, with no support required from the Group.

TI Group Pension Scheme (TIGPS)

This scheme was closed to future accrual effective 1 November 2009. TIGPS provides index-linked (to applicable caps) pension benefits based on final earnings at the date of closure. TIGPS is governed by a corporate trustee (TI Pension Trustee Limited, an independent company). The board of trustee directors comprises four Company-nominated trustees and four member-nominated trustees, with an independent trustee director selected by the trustee. The trustee is responsible for the management, administration, funding and investment strategy of the scheme.

In June 2022 the TIGPS trustee completed a deal to secure its remaining uninsured pension liabilities, by way of a bulk annuity buy-in with Rothersey Life plc. This means all of the scheme's liabilities are insured via seven buy-in policies. The final buy-in has been secured with an intention to fully buy-out the Scheme as soon as reasonably practical and within a period of four years. The FY2022 income statement recognised a settlement loss of £171m in relation to the buy-in.

In terms agreed between the Group and the TIGPS trustee prior to the transaction, when TIGPS converts all of its buy-in policies to buy-out policies and subsequently winds up, the trustee is expected to use any surplus remaining, after the costs of buying-out and winding up the scheme have been met, to improve member benefits. The FY 2022 income statement recognised a past service cost of £24m in relation to the derecognition of the remaining surplus. The Group has no expectation of receiving a refund from the scheme and has placed an economic benefit value of zero on the TIGPS surplus from 10 June 2022.

As TIGPS currently retains the legal obligation to pay all scheme benefits, TIGPS liabilities remain part of the retirement benefit obligations on the balance sheet alongside the corresponding buy-in assets. These liabilities and assets will be derecognised at the point the buy-in policies are converted to buy-outs and the legal obligation for payment of benefits is transferred to the relevant insurers.

The most recent actuarial valuation of this scheme has been performed using the Projected Unit Method as at 5 April 2020. The valuation showed a surplus of £22m on the Technical Provisions funding basis at the valuation date and the funding position has improved since then. Given TIGPS's circumstances, the Group's current expectation is that no further contributions to TIGPS will be required. The next actuarial valuation, due as at 5 April 2023, is currently in progress, with the results expected later in 2023.

The duration of the TIGPS liabilities is around 20 years (FY2022: 21 years) for active deferred members, 18 years (FY2022: 19 years) for deferred members and 10 years (FY2022: 10 years) for pensioners and dependants.

US PENSION PLANS

The valuations of the principal US pension and post-retirement healthcare plans were performed using census data at 1 January 2023.

The pension plans were closed with effect from 30 April 2009 and benefits were calculated as at that date and are not revalued. Governance of the US pension plans is overseen by a Settlor Committee appointed by Smiths Group Services Corp, a wholly owned subsidiary of the Group.

The duration of the liabilities for the largest US plan is around 15 years (FY2022: 16 years) for active deferred members, 14 years (FY2022: 15 years) for deferred members and 10 years (FY2022: 10 years) for pensioners and dependants.

RISK MANAGEMENT

In respect of uninsured liabilities, the pensions schemes are exposed to risks that:

- Investment returns are below expectations, leaving the schemes with insufficient assets in future to pay all their pension obligations;
- Members and dependants live longer than expected, increasing the value of the pensions which the schemes have to pay;
- Inflation rates are higher than expected, causing amounts payable under index-linked pensions to be higher than expected; and
- Increased contributions are required to meet funding targets if lower interest rates increase the current value of liabilities.

These risks are managed separately for each pension scheme. However, the Group has adopted a common approach of closing defined benefit schemes to cap members' entitlements and of supporting trustees in adopting investment strategies which aim to hedge the value of assets against changes in the value of liabilities caused by changes in interest and inflation rates.

Across SIPS and TIGPS, approximately 60% of all liabilities are now de-risked through 11 bulk annuities.

TIGPS

TIGPS has covered roughly 100% of liabilities with matching annuities, eliminating investment return, longevity, inflation and funding risks in respect of those liabilities.

SIPS

SIPS has covered roughly 33% of liabilities with matching annuities, eliminating investment return, longevity, inflation and funding risks in respect of those liabilities. It has also adopted a LDI strategy to hedge interest and inflation risks of the scheme's uninsured liabilities by investment in gilts together with the use of gilt repurchase arrangements, total return swaps, inflation swaps and interest rate swaps. The strategy also takes into account the scheme's corporate bond investments.

The critical estimates and principal assumptions used in updating the valuations are set out below:

| | 2023 UK | 2023 US | 2023 Other | 2022 UK | 2022 US | 2022 Other |
|--|------------|------------|---------------|------------|------------|---------------|
| Rate of increase in salaries | n/a | n/a | 2.5% | n/a | n/a | 2.2% |
| Rate of increase for active deferred members | 4.0% | n/a | n/a | 4.0% | n/a | n/a |
| Rate of increase in pensions in payment | 3.3% | n/a | 1.6% | 3.4% | n/a | 1.2% |
| Rate of increase in deferred pensions | 3.3% | n/a | n/a | 3.4% | n/a | n/a |
| Discount rate | 5.1% | 5.2% | 2.8% | 3.5% | 4.5% | 1.1% |
| Inflation rate | 3.3% | n/a | 0.4% | 3.4% | n/a | 1.3% |

The assumptions used in calculating the costs and obligations of the Group's defined benefit pension plans are set by the Group after consultation with independent professionally qualified actuaries. The assumptions used are estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily occur in practice. For countries outside the UK and USA, assumptions are disclosed as a weighted average.

Inflation rate assumptions

The RPI inflation assumption of 3.3% has been derived using the Aon UK Government Gilt Prices Only Curve with an Inflation Risk Premium of 0.2% p.a.

The Government's response to its consultation on RPI reform was published on 25 November 2020, and strongly implied that RPI will become aligned with CPI-H from 2030. No specific allowance (beyond anything already priced into markets) has been factored into the RPI assumptions for potential changes. The assumption for the long-term gap between RPI and CPI is 0.5% p.a. (FY2022: 0.6%) reflecting the Group's view on the market pricing of this gap over the lifetime of the UK schemes' liabilities, i.e., 0.9% p.a. (FY2022: 1.0%) pre-2030 and 0.1% p.a. post-2030 (FY2022: 0.2%).

Short-term inflation has continued at rates higher than the Government's targets, though future inflation is expected to fall in the short term as the Bank of England increases interest rates to combat high inflation. Consequently, the long-term inflation assumptions are similar to the prior year. The full impact of current high inflation is mitigated to an extent by the caps in place on index-linked increases. The Board considered and declined a request from the Trustee of SIPS to recommend an additional discretionary increase to pensions in payment. However, there is no change in the Group's constructive obligations and allowance for certain discretionary increases in future continues to be included in the defined benefit obligations shown below.

Discount rate assumptions

The UK schemes use a discount rate based on the annualised yield on the Aon GBP Single Agency Select AA Curve, using the expected cash-flows from a notional scheme with obligations of the same duration as that of the UK schemes, whereas in previous years the Aon GBP Select AA Curve was used. The increase in the discount rate assumption at 31 July 2023 arises from market conditions and is not impacted by the change in discount rate methodology.

The US Plan uses a discount rate based on the annualised yield derived from Willis Towers Watson's RATE:Link (10th – 90th) model using the Plan's expected cash-flows.

The discount rate assumptions have increased significantly since the prior year, largely due to the significant volatility that followed the UK Government's mini budget in September 2022, though other factors have contributed to the continued rise in bond yields since then, including heightened political uncertainty, increases to interest rates to combat persistent high inflation and market illiquidity. A higher discount rate has led to a lower value being placed on the retirement benefit obligations, though there has also been a corresponding reduction in the value of assets.

Mortality assumptions

The mortality assumptions used in the principal UK schemes are based on the latest 'SAPS S3' birth year tables with relevant scaling factors based on the recent experience of the schemes. The assumption allows for future improvements in life expectancy in line with the 2021 latest 2022 CMI projections, with a smoothing factor of 7.0 and 'A' parameter of 0.5%/0.25% (SIPS/TIGPS) and blended to a long-term rate of 1.25%. The latest CMI projections incorporate allowance for the impact of COVID-19, equivalent to a reduction in life expectancy of around 0.5 years.

The mortality assumptions used in the principal US schemes are based on generational mortality using the latest Pri-2012 sex-distinct, employee/non-disabled annuitant table, with a 2012 base year, projected forward generationally with the latest MP-2021 mortality scale. No explicit adjustment has been made to mortality assumptions in respect of COVID-19. The impact of COVID-19 remains uncertain and further data studies are underway to better predict the impact on future mortality.

UK schemes

| Expected further years of life | Male | | Female | |
|--|--------------|--------------|--------------|--------------|
| | 31 July 2023 | 31 July 2023 | 31 July 2022 | 31 July 2022 |
| Member who retires next year at age 65 | 21 | 23 | 22 | 24 |
| Member, currently 45, when they retire in 20 years' time | 20 | 24 | 23 | 25 |

US schemes

| Expected further years of life | Male | | Female | |
|--|--------------|--------------|--------------|--------------|
| | 31 July 2023 | 31 July 2023 | 31 July 2022 | 31 July 2022 |
| Member who retires next year at age 65 | 21 | 22 | 21 | 22 |
| Member, currently 45, when they retire in 20 years' time | 22 | 24 | 22 | 24 |

SENSITIVITY

Sensitivities in respect of the key assumptions used to measure the principal pension schemes as at 31 July 2023 are set out below. These sensitivities show the hypothetical impact of a change in each of the listed assumptions in isolation, with the exception of the sensitivity to inflation which incorporates the impact of certain correlating assumptions. In practice, such assumptions rarely change in isolation.

| | Profit before tax for year ended 31 July 2023 £m | Increase/(decrease) in scheme assets 31 July 2023 £m | (Increase)/decrease in scheme liabilities 31 July 2023 £m | Profit before tax for year ended 31 July 2022 £m | Increase/(decrease) in scheme assets 31 July 2022 £m | (Increase)/decrease in scheme liabilities 31 July 2022 £m |
|--|---|--|---|---|--|---|
| Rate of mortality – one year increase in life expectancy | (2) | 60 | (88) | (2) | 84 | (135) |
| Rate of mortality – one year decrease in life expectancy | 2 | (62) | 89 | 2 | (84) | 136 |
| Rate of inflation – 0.25% increase | (1) | 23 | (43) | (1) | 34 | (69) |
| Discount rate – 0.25% increase | 2 | (36) | 60 | 2 | (49) | 97 |
| Market value of scheme assets – 2.5% increase | 2 | 30 | – | 1 | 40 | – |

The effect on profit before tax reflects the impact of current service cost and net interest cost. The value of the scheme assets is affected by changes in mortality rates, inflation and discounting because they affect the carrying value of the insurance assets.

Asset valuation

The pension schemes hold assets in a variety of pooled funds, in which the underlying assets typically are invested in credit and cash assets. These funds are valued. The price of the funds is set by administrators/custodians employed by the investment managers and based on the value of the underlying assets held in the funds. Prices are generally updated daily, weekly or quarterly depending upon the frequency of the fund's dealing.

Bonds are valued using observable broker quotes. Gilt repurchase obligations are valued by the relevant manager, which derives the value using an industry recognised model with observable inputs.

Total return, interest and inflation swaps and forward FX contracts are bilateral agreements between counterparties and do not have observable market prices. These derivative contracts are valued using observable inputs.

Insured liabilities comprise annuity policies that match all or part of the scheme obligation to identified groups of members. These assets are valued by an external qualified actuary at the actuarial valuation of the corresponding liability, reflecting this matching relationship.

The insurance policies are treated as qualifying insurance policies as none of the insurers are related parties of Smiths Group, and the proceeds of the policies can only be used to pay or fund employee benefits for the respective schemes, are not available to Smiths Group's creditors and cannot be paid to Smiths Group.

Retirement benefit plan assets

31 July 2023 – £m

| | UK schemes | US schemes | Other countries | Total |
|-----------------------------|--------------|------------|-----------------|--------------|
| Cash and cash equivalents | 93 | 1 | 1 | 95 |
| Pooled funds: | | | | |
| – Pooled equity | – | – | 3 | 3 |
| – Pooled Diversified Growth | – | – | 13 | 13 |
| – Pooled credit | 320 | – | – | 320 |
| Corporate bonds | 203 | 141 | – | 344 |
| Government bonds/LDI | 421 | 44 | 3 | 468 |
| Insured liabilities | 1,323 | – | – | 1,323 |
| Property | 7 | – | – | 7 |
| Total market value | 2,367 | 186 | 20 | 2,573 |

31 July 2022 – £m

| | UK schemes | US schemes | Other countries | Total |
|-----------------------------|--------------|------------|-----------------|--------------|
| Cash and cash equivalents | 90 | 1 | 1 | 92 |
| Pooled funds: | | | | |
| – Pooled equity | – | – | 3 | 3 |
| – Pooled Diversified Growth | – | – | 15 | 15 |
| – Pooled credit | 379 | – | – | 379 |
| Corporate bonds | 412 | 167 | – | 579 |
| Government bonds/LDI | 498 | 57 | 3 | 558 |
| Insured liabilities | 1,649 | – | – | 1,649 |
| Property | 39 | – | – | 39 |
| Total market value | 3,067 | 225 | 22 | 3,314 |

The UK Government bonds/LDI portfolios contain £717m (FY2022: £960m) of UK Government bonds (gilts), £276m (FY2022: £476m) of gilt repurchase obligations and £18m of interest and inflation swap obligations (FY2022: £9m assets) and forward FX contracts with a net obligation of £2m (FY2022: £5m asset). These are held to hedge against foreign currency risk. The pooled funds, insured liabilities and property assets are unquoted. The scheme assets do not include any property occupied by, or other assets used by, the Group.

The asset valuations are effective as at the end of the period, consistent with the calculations determining the obligations, except for a small legacy commercial property investment which is due to be sold down over 2023. This investment is only valued at the end of each calendar quarter, so no valuation is available as at the period end. The Group considers taking the most recent available valuation to be appropriate given the size of the commercial property investment relative to the overall value of invested assets and wider commercial property market returns since the most recent valuation.

The Group acknowledges that responsibility for the effective management of the schemes' assets lies primarily with the trustees, but also accepts that any risks inherent in the investment strategy, including ESG and climate risk, are ultimately underwritten by the Group. Consequently, the Group ensures that the trustees' investment strategy and statements of investment principles are compatible with the Group's wider sustainability strategy. For TIGPS, where all benefits are now secured by way of annuity purchase, all investment risks including ESG and climate risk, have effectively now been eliminated. For SIPS, a significant portion of investment risks have already been eliminated through annuity purchase and the scheme's time horizon to full buy-in, hence exposure to investment risks including ESG and climate risk, continues to reduce.

Present value of funded scheme liabilities and assets for the main UK and US schemes

| | 31 July 2023 – £m | | |
|---|-------------------|--------------|--------------|
| | SIPS | TIGPS | US schemes |
| Present value of funded scheme liabilities: | | | |
| – Active deferred members | (25) | (18) | (31) |
| – Deferred members | (388) | (326) | (86) |
| – Pensioners | (838) | (561) | (85) |
| Present value of funded scheme liabilities | (1,251) | (905) | (202) |
| Market value of scheme assets | 1,446 | 921 | 186 |
| Surplus restriction | – | (16) | – |
| Surplus/(deficit) | 195 | – | (16) |

31 July 2022 – £m

| | SIPS | TIGPS | US schemes |
|---|----------------|----------------|--------------|
| Present value of funded scheme liabilities: | | | |
| – Active deferred members | (32) | (23) | (41) |
| – Deferred members | (561) | (442) | (109) |
| – Pensioners | (1,010) | (670) | (88) |
| Present value of funded scheme liabilities | (1,603) | (1,135) | (238) |
| Market value of scheme assets | 1,912 | 1,155 | 225 |
| Surplus restriction | – | (20) | – |
| Surplus/(deficit) | 309 | – | (13) |

Net retirement benefit obligations

| | 31 July 2023 – £m | | | |
|--|-------------------|-------------|-----------------|------------|
| | UK schemes | US schemes | Other countries | Total |
| Market value of scheme assets | 2,367 | 186 | 20 | 2,573 |
| Present value of funded scheme liabilities | (2,156) | (202) | (25) | (2,383) |
| Surplus restriction | (16) | – | – | (16) |
| Surplus/(deficit) | 195 | (16) | (5) | 174 |
| Unfunded pension plans | (37) | (6) | (36) | (79) |
| Post-retirement healthcare | (3) | (1) | (2) | (6) |
| Present value of unfunded obligations | (40) | (7) | (38) | (85) |
| Net pension asset/(liability) | 155 | (23) | (43) | 89 |
| Comprising: | | | | |
| Retirement benefit assets | 195 | – | – | 195 |
| Retirement benefit liabilities | (40) | (23) | (43) | (106) |
| Net pension asset/(liability) | 155 | (23) | (43) | 89 |

| | 31 July 2022 – £m | | | |
|--|-------------------|-------------|-----------------|-------------|
| | UK schemes | US schemes | Other countries | Total |
| Market value of scheme assets | 3,067 | 225 | 22 | 3,314 |
| Present value of funded scheme liabilities | (2,738) | (238) | (27) | (3,003) |
| Surplus restriction | (20) | – | – | (20) |
| Surplus/(deficit) | 309 | (13) | (5) | 291 |
| Unfunded pension plans | (43) | (7) | (40) | (90) |
| Post-retirement healthcare | (4) | (1) | (2) | (7) |
| Present value of unfunded obligations | (47) | (8) | (42) | (97) |
| Net pension asset/(liability) | 262 | (21) | (47) | 194 |
| Comprising: | | | | |
| Retirement benefit assets | 309 | – | – | 309 |
| Retirement benefit liabilities | (47) | (21) | (47) | (115) |
| Net pension asset/(liability) | 262 | (21) | (47) | 194 |

Where any individual scheme shows a recoverable surplus under IAS 19, this is disclosed on the balance sheet as a retirement benefit asset. The IAS 19 surplus of any one scheme is not available to fund the IAS 19 deficit of another scheme. The retirement benefit asset disclosed arises from the rights of the employers to recover the surplus at the end of the life of the scheme, i.e., when the last beneficiary's obligation has been met.

Amounts recognised in the consolidated income statement

| | Year ended 31 July 2023 £m | Year ended 31 July 2022 £m |
|---|----------------------------------|----------------------------------|
| Amounts charged to operating profit | | |
| Current service cost | 2 | 2 |
| Past service costs – benefit equalisations | (5) | 43 |
| Settlement loss | 1 | 171 |
| Headline scheme administration costs | 4 | 4 |
| Non-headline scheme administration costs | 2 | – |
| | 4 | 220 |
| The operating cost is charged as follows: | | |
| Headline administrative expenses | 6 | 6 |
| Non-headline settlement loss | 1 | 171 |
| Non-headline administrative expenses | (3) | 43 |
| | 4 | 220 |
| Amounts credited to finance costs | | |
| Non-headline other finance income – retirement benefits | (7) | (7) |

| | Year ended 31 July 2023 £m | Year ended 31 July 2022 £m |
|--|----------------------------------|----------------------------------|
| Amounts recognised directly in the consolidated statement of comprehensive income | | |
| Re-measurements of retirement defined benefit assets and liabilities | | |
| Difference between interest credit and return on assets | (660) | (835) |
| Experience gains on scheme liabilities | (54) | (31) |
| Actuarial gains arising from changes in demographic assumptions | 48 | 1 |
| Actuarial gains/(losses) arising from changes in financial assumptions | 548 | 868 |
| Movement in surplus restriction | 4 | (20) |
| | (114) | (17) |

Changes in present value of funded scheme assets

31 July 2023 – £m

| | UK schemes | US schemes | Other countries | Total |
|-------------------------------------|--------------|------------|-----------------|--------------|
| At beginning of period | 3,067 | 225 | 22 | 3,314 |
| Interest on assets | 105 | 10 | 1 | 116 |
| Actuarial movement on scheme assets | (638) | (21) | (1) | (660) |
| Scheme administration costs | (5) | (1) | – | (6) |
| Foreign exchange rate movements | – | (10) | – | (10) |
| Assets distributed on settlements | – | (4) | – | (4) |
| Benefits paid | (162) | (13) | (2) | (177) |
| At end of period | 2,367 | 186 | 20 | 2,573 |

31 July 2022 – £m

| | UK schemes | US schemes | Other countries | Total |
|---|--------------|------------|-----------------|--------------|
| At beginning of period | 4,104 | 272 | 30 | 4,406 |
| Interest on assets | 70 | 8 | 1 | 79 |
| Actuarial movement on scheme assets | (773) | (62) | – | (835) |
| Employer contributions | 3 | – | 1 | 4 |
| Scheme administration costs | (3) | (1) | – | (4) |
| Foreign exchange rate movements | – | 33 | – | 33 |
| Assets transferred on business disposal | – | – | (5) | (5) |
| Assets distributed on settlements | (180) | – | – | (180) |
| Curtailment gains/(losses) | – | (9) | – | (9) |
| Benefits paid | (154) | (16) | (5) | (175) |
| At end of period | 3,067 | 225 | 22 | 3,314 |

Changes in present value of funded defined benefit obligations

31 July 2023 – £m

| | UK schemes | US schemes | Other countries | Total |
|---|----------------|--------------|-----------------|----------------|
| At beginning of period | (2,738) | (238) | (27) | (3,003) |
| Past service costs | 4 | – | – | 4 |
| Interest on obligations | (94) | (10) | (1) | (105) |
| Actuarial movement on liabilities | 510 | 19 | 1 | 530 |
| Foreign exchange rate movements | – | 11 | – | 11 |
| Liabilities extinguished on settlements | – | 3 | – | 3 |
| Benefits paid | 162 | 13 | 2 | 177 |
| At end of period | (2,156) | (202) | (25) | (2,383) |

31 July 2022 – £m

| | UK schemes | US schemes | Other countries | Total |
|--|----------------|--------------|-----------------|----------------|
| At beginning of period | (3,558) | (273) | (38) | (3,869) |
| Past service costs | (43) | – | – | (43) |
| Interest on obligations | (61) | (8) | (1) | (70) |
| Actuarial movement on liabilities | 761 | 54 | 2 | 817 |
| Foreign exchange rate movements | – | (33) | – | (33) |
| Liabilities transferred on business disposal | – | – | 5 | 5 |
| Curtailment gains/(losses) | – | 6 | – | 6 |
| Liabilities extinguished on settlements | 9 | – | – | 9 |
| Benefits paid | 154 | 16 | 5 | 175 |
| At end of period | (2,738) | (238) | (27) | (3,003) |

Changes in present value of unfunded defined benefit pensions and post-retirement healthcare plans

| | Assets | | Obligations | |
|--|----------------------------|----------------------------|----------------------------|----------------------------|
| | Year ended 31 July 2023 £m | Year ended 31 July 2022 £m | Year ended 31 July 2023 £m | Year ended 31 July 2022 £m |
| At beginning of period | – | – | (98) | (124) |
| Current service cost | – | – | (1) | (1) |
| Interest on obligations | – | – | (3) | (2) |
| Actuarial movement | – | – | 12 | 21 |
| Employer contributions | 5 | 5 | – | – |
| Liabilities transferred on business disposal | – | – | – | 4 |
| Benefits paid | (5) | (5) | 5 | 5 |
| At end of period | – | – | (85) | (97) |

Changes in the effect of the asset ceiling over the year

| | Year ended 31 July 2023 £m | Year ended 31 July 2022 £m |
|---|----------------------------------|----------------------------------|
| Irrecoverable asset at beginning of period | (20) | – |
| Actuarial movement on scheme assets | 4 | (20) |
| At end of period | (16) | (20) |

Cash contributions

Company contributions to the defined benefit pension plans and post-retirement healthcare plans totalled £5m (FY2022: £9m). No contributions were made to funded schemes in the year (FY2022: £3m to SIPS, £1m to Other). During the year, £5m (FY2022: £5m) was spent on providing benefits under unfunded defined benefit pension and post-retirement healthcare plans.

In FY2024, cash contributions to the Group's schemes are expected to be up to £10m in total.

9. EMPLOYEE SHARE SCHEMES

The Group operates share schemes and plans for the benefit of employees. The nature of the principal schemes and plans, including general conditions, is set out below:

LONG-TERM INCENTIVE PLAN (LTIP)

The LTIP is a share plan under which an award over a capped number of shares will vest after the end of a three-year performance period if performance conditions are met. LTIP awards are made to selected senior executives, including the Executive Directors.

LTIP performance conditions

Each performance condition has a threshold below which no shares vest and a maximum performance target at or above which the award vests in full. For performance between 'threshold' and 'maximum', awards vest on a straight-line sliding scale. The performance conditions are assessed separately; so performance on one condition does not affect the vesting of the other elements of the award. To the extent that the performance targets are not met over the three-year performance period, awards lapse. There is no re-testing of the performance conditions.

LTIP awards have performance conditions relating to organic revenue growth, growth in headline EPS, ROCE, free cash-flow and meeting ESG targets.

SMITHS EXCELLENCE PLAN (SEP)

The last Smiths Excellence Plan (SEP) grant was issued in October 2019, vested on 31 July 2021 and exercised in October 2021. No further SEP awards have been made.

RESTRICTED STOCK

Restricted stock is used by the Remuneration & People Committee, as a part of recruitment strategy, to make awards in recognition of incentive arrangements forfeited on leaving a previous employer. If an award is considered appropriate, the award will take account of relevant factors including the fair value of awards forfeited, any performance conditions attached, the likelihood of those conditions being met and the proportion of the vesting period remaining.

SAVE AS YOU EARN (SAYE)

The SAYE scheme is an HM Revenue & Customs approved all-employee savings-related share option scheme which is open to all UK employees. Participants enter into a contract to save a fixed amount per month of up to £500 in aggregate for three years and are granted an option over shares at a fixed option price, set at a discount to market price at the date of invitation to participate. The number of shares is determined by the monthly amount saved and the bonus paid on maturity of the savings contract. Options granted under the SAYE scheme are not subject to any performance conditions.

| Ordinary shares under option/award ('000) | Long-term incentive plans | SEP | Restricted stock | Save as you earn scheme | Total | Weighted average exercise price |
|---|---------------------------------|------------|---------------------|-------------------------------|--------------|--|
| 31 July 2021 | 4,915 | 851 | 64 | 1,085 | 6,915 | £1.63 |
| Reclassification | 348 | (348) | – | – | – | – |
| Granted | 2,255 | – | 212 | 167 | 2,634 | £0.71 |
| Exercised | (224) | (313) | (163) | (138) | (838) | £1.90 |
| Lapsed | (1,984) | (190) | (30) | (229) | (2,433) | £0.97 |
| 31 July 2022 | 5,310 | – | 83 | 885 | 6,278 | £1.45 |
| Granted | 2,023 | – | 24 | 253 | 2,300 | £1.47 |
| Exercised | (309) | – | (20) | (109) | (438) | £2.88 |
| Lapsed | (2,196) | – | – | (71) | (2,267) | £0.33 |
| 31 July 2023 | 4,828 | – | 87 | 958 | 5,873 | £1.78 |

Options and awards were exercised on an irregular basis during the period. The average closing share price over the financial year was 1,629.8p (FY2022: 1,476.3p). There has been no change to the effective option price of any of the outstanding options during the period. The number of exercisable share options at 31 July 2023 was nil (31 July 2022: nil).

| Range of exercise prices | Total shares under options/awards at 31 July 2023 ('000) | Weighted average remaining contractual life at 31 July 2023 (months) | Total shares under options/awards at 31 July 2022 ('000) | Weighted average remaining contractual life at 31 July 2022 (months) |
|--------------------------|---|--|---|--|
| £0.00 – £2.00 | 4,915 | 17 | 5,393 | 19 |
| £6.01 – £10.00 | 444 | 6 | 490 | 18 |
| £10.01 – £12.00 | 514 | 33 | 395 | 29 |

For the purposes of valuing options to arrive at the share-based payment charge, the binomial option pricing model has been used. The key assumptions used in the model were volatility of 25% to 20% (FY2022: 25% to 20%) and dividend yield of 2.4% (FY2022: 2.6%), based on historical data, for the period corresponding with the vesting period of the option. These generated a weighted average fair value for LTIP of £15.03 (FY2022: £14.81), and restricted stock of £14.60 (FY2022: £14.59). Staff costs included £14m (FY2022: £15m) for share-based payments, of which £13m (FY2022: £14m) related to equity-settled share-based payments.

10. INTANGIBLE ASSETS

| | Goodwill £m | Development costs £m | Acquired intangibles (see table below) £m | Software, patents and intellectual property £m | Total £m |
|---------------------------------------|----------------|----------------------------|---|--|--------------|
| Cost | | | | | |
| At 31 July 2021 | 1,207 | 156 | 562 | 177 | 2,102 |
| Foreign exchange rate movements | 104 | 6 | 68 | 10 | 188 |
| Additions | – | 12 | – | 6 | 18 |
| At 31 July 2022 | 1,311 | 174 | 630 | 193 | 2,308 |
| Foreign exchange rate movements | (45) | (2) | (31) | (3) | (81) |
| Business combinations | 7 | – | 13 | – | 20 |
| Additions | – | 21 | – | 7 | 28 |
| Disposals | – | – | – | (38) | (38) |
| At 31 July 2023 | 1,273 | 193 | 612 | 159 | 2,237 |
| Amortisation and impairments | | | | | |
| At 31 July 2021 | 59 | 114 | 287 | 144 | 604 |
| Foreign exchange rate movements | 4 | 6 | 35 | 6 | 51 |
| Amortisation charge for the year | – | 3 | 51 | 7 | 61 |
| Impairment charge for the year | 4 | – | – | – | 4 |
| At 31 July 2022 | 67 | 123 | 373 | 157 | 720 |
| Foreign exchange rate movements | (3) | (1) | (19) | (4) | (27) |
| Amortisation charge for the year | – | 2 | 52 | 7 | 61 |
| Disposals | – | – | – | (38) | (38) |
| At 31 July 2023 | 64 | 124 | 406 | 122 | 716 |
| Net book value at 31 July 2023 | 1,209 | 69 | 206 | 37 | 1,521 |
| Net book value at 31 July 2022 | 1,244 | 51 | 257 | 36 | 1,588 |
| Net book value at 31 July 2021 | 1,148 | 42 | 275 | 33 | 1,498 |

In addition to goodwill, acquired intangible assets comprise:

| | Patents, licences and trademarks £m | Technology £m | Customer relationships £m | Total acquired intangibles £m |
|---------------------------------------|---|------------------|---------------------------------|--|
| Cost | | | | |
| At 31 July 2021 | 17 | 134 | 411 | 562 |
| Foreign exchange rate movements | 2 | 18 | 48 | 68 |
| At 31 July 2022 | 19 | 152 | 459 | 630 |
| Foreign exchange rate movements | – | (9) | (22) | (31) |
| Business combinations | 1 | 2 | 10 | 13 |
| At 31 July 2023 | 20 | 145 | 447 | 612 |
| Amortisation | | | | |
| At 31 July 2021 | 5 | 67 | 215 | 287 |
| Foreign exchange rate movements | 1 | 10 | 24 | 35 |
| Charge for the year | 2 | 10 | 39 | 51 |
| At 31 July 2022 | 8 | 87 | 278 | 373 |
| Foreign exchange rate movements | – | (6) | (13) | (19) |
| Charge for the year | 1 | 11 | 40 | 52 |
| At 31 July 2023 | 9 | 92 | 305 | 406 |
| Net book value at 31 July 2023 | 11 | 53 | 142 | 206 |
| Net book value at 31 July 2022 | 11 | 65 | 181 | 257 |
| Net book value at 31 July 2021 | 12 | 67 | 196 | 275 |

Individually material intangible assets comprise:

- £53m of customer-related intangibles attributable to United Flexible (remaining amortisation period: 4 years);
- £48m of customer-related intangibles attributable to Morpho Detection (remaining amortisation period: 6 years);
- £27m of customer-related intangibles attributable to Royal Metal (remaining amortisation period: 5 years);
- £24m of development cost intangibles attributable to a computed tomography programme in Detection that is currently under development; and
- £18m of development cost intangibles attributable to a X-ray diffraction programme in Detection that is currently under development.

The charge associated with the amortisation of intangible assets is included in operating costs on the consolidated income statement.

11. IMPAIRMENT TESTING

GOODWILL

Goodwill is tested for impairment at least annually or whenever there is an indication that the carrying value may not be recoverable.

Further details of the impairment review process and judgements are included in the 'Sources of estimation uncertainty' section of the 'Basis of preparation' for the consolidated financial statements.

For the purpose of impairment testing, assets are grouped at the lowest levels for which there are separately identifiable cash-flows, known as cash generating units (CGUs), taking into consideration the commonality of reporting, policies, leadership and intra-divisional trading relationships. Goodwill acquired through business combinations is allocated to groups of CGUs at a divisional (or operating segment) level, being the lowest level at which management monitors performance separately.

The carrying value of goodwill at 31 July is allocated by division as follows:

| | 2023 £m | 2023 Number of CGUs | 2022 £m | 2022 Number of CGUs |
|---------------------|--------------|---------------------------|--------------|---------------------------|
| John Crane | 131 | 1 | 132 | 1 |
| Smiths Detection* | 630 | 1 | 644 | 2 |
| Flex-Tek | 183 | 1 | 194 | 1 |
| Smiths Interconnect | 265 | 1 | 274 | 1 |
| | 1,209 | 4 | 1,244 | 5 |

* In FY2022 the Smiths Detection CGU was restructured. The Detection Russia business split into a separate CGU and subsequently fully impaired.

Critical estimates used in impairment testing

The recoverable amount for impairment testing is determined from the higher of fair value less costs of disposal and value in use of the CGU. In assessing value in use, the estimated future cash-flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money, from which pre-tax discount rates are determined.

Fair value less costs of disposal is calculated using available information on past and expected future profitability, valuation multiples for comparable quoted companies and similar transactions (adjusted as required for significant differences) and information on costs of similar transactions. Fair value less costs to sell models are used when trading projections in the strategic plan cannot be adjusted to eliminate the impact of a major restructuring.

The value in use of CGUs is calculated as the net present value of the projected risk-adjusted cash-flows of each CGU. These cash-flow forecasts are based on the FY2024 business plan and the five-year detailed divisional strategic projections which have been prepared by divisional management and approved by the Board.

The principal assumptions used in determining the value in use were:

- Revenue: Projected sales were built up with reference to markets and product categories. They incorporated past performance, historical growth rates and projections of developments in key markets;
- Average earnings before interest and tax margin: Projected margins reflect historical performance, our expectations for future cost inflation and the impact of all completed projects to improve operational efficiency and leverage scale. The projections did not include the impact of future restructuring projects to which the Group was not yet committed;
- Projected capital expenditure: The cash-flow forecasts for capital expenditure were based on past experience and included committed ongoing capital expenditure consistent with the FY2024 budget and the divisional strategic projections. The forecast did not include any future capital expenditure that improved/enhanced the operation/asset in excess of its current standard of performance;
- Discount rate: The discount rates have been determined with reference to illustrative weighted average cost of capital (WACC) for each CGU. In determining these discount rates, management have considered systematic risks specific to each of the Group's CGUs. These risk adjusted discount rates have then been validated against the Group's WACC, the WACCs of the CGU's peer group and an average of discount rates used by other companies for the industries in which Smiths divisions operate. Pre-tax rates of 11.4% to 13.0% (FY2022: 11.3% to 12.3%) have been used for the impairment testing; and
- Long-term growth rates: For the purposes of the Group's value in use calculations, a long-term growth rate into perpetuity was applied immediately at the end of the five-year detailed forecast period. CGU-specific long-term growth rates have been calculated by revenue weighting the long-term GDP growth rates of the markets that each CGU operates in. The long-term growth rates used in the testing ranged from 2.2% to 2.7% (FY2022: 1.7% to 2.4%). These rates do not reflect the long-term assumptions used by the Group for investment planning.

Of the principal assumptions above, the key assumptions that the impairment models are most sensitive to are: the revenue growth assumption; the average earnings before interest and tax margin assumption; and the discount rate assumption.

The assumptions used in the impairment testing of CGUs with significant goodwill balances were as follows:

| | As at 31 May 2023 | | | |
|--|-------------------|------------------|--------------|---------------------|
| | John Crane | Smiths Detection | Flex-Tek | Smiths Interconnect |
| Net book value of goodwill (£m) | 135 | 649 | 191 | 279 |
| Basis of valuation | Value in use | Value in use | Value in use | Value in use |
| Discount rate – pre-tax | 13.0% | 12.2% | 11.8% | 11.5% |
| – post-tax | 9.7% | 9.3% | 9.4% | 9.4% |
| Period covered by management projections | 5 years | 5 years | 5 years | 5 years |
| Capital expenditure – annual average over projection period (£m) | 27 | 27 | 10 | 20 |
| Revenue – compound annual growth rate over projection period | 5.3% | 4.5% | 3.4% | 4.7% |
| Average earnings before interest and tax margin | 24.6% | 14.5% | 19.5% | 18.6% |
| Long-term growth rates | 2.7% | 2.4% | 2.2% | 2.5% |

| | As at 31 May 2022 | | | |
|--|-------------------|------------------|--------------|---------------------|
| | John Crane | Smiths Detection | Flex-Tek | Smiths Interconnect |
| Net book value of goodwill (£m) | 132 | 640 | 187 | 266 |
| Basis of valuation | Value in use | Value in use | Value in use | Value in use |
| Discount rate – pre-tax | 12.3% | 11.3% | 11.7% | 11.5% |
| – post-tax | 9.1% | 8.7% | 9.2% | 9.3% |
| Period covered by management projections | 5 years | 5 years | 5 years | 5 years |
| Revenue – compound annual growth rate over projection period | 5.3% | 3.8% | 3.8% | 6.0% |
| Average earnings before interest and tax margin | 24.9% | 14.1% | 19.7% | 17.8% |
| Long-term growth rates | 1.9% | 2.4% | 1.7% | 2.1% |

Forecast earnings before interest and tax have been projected using:

- Expected future sales based on the strategic plan, which was constructed at a market level with input from key account managers, product line managers, business development and sales teams. An assessment of the market and existing contracts/programmes was made to produce the sales forecast; and
- Current cost structure and production capacity, which include our expectations for future cost inflation. The projections did not include the impact of future restructuring projects to which the Group was not yet committed.

Sensitivity analysis

Smiths Detection is the only CGU of the Group that has limited goodwill impairment testing headroom. For all of the Group's other CGUs the recoverable amount of the CGU exceeded the carrying value, on the basis of the assumptions set out in the preceding tables and any reasonably possible changes thereof.

The estimated recoverable amount of the Smiths Detection CGU exceeded the carrying value by £225m. Any decline in estimated value in use in excess of this amount would result in the recognition of impairment charges.

Management recognise that the goodwill impairment testing headroom of the Smiths Detection CGU is most sensitive to movements in the revenue growth rate, the EBIT margin and the discount rate assumptions. Of these key assumptions, management consider that the EBIT margin assumption is the most sensitive.

The Smiths Detection financial model assumes that EBIT margins grow from 11.2% in FY2023 to an average of 14.5% over the five-year financial model period. This increase in EBIT margin is principally driven by a change in revenue and profit mix, with the proportion of higher margin aftermarket revenue growing over the five-year projection period.

Management considers that it is plausible that this margin growth may not be fully captured by the business. For the CGU to be impaired, the average EBIT margin over the five-year financial model would have to be less than 12.3%; management recognises this to be a reasonably plausible downside scenario.

If the assumptions used in the impairment review were changed to a greater extent than as presented in the following table, the changes would, in isolation, lead to impairment losses being recognised for the year ended 31 July 2023:

| Change required for carrying value to equal recoverable amount – FY2023 | Smiths Detection |
|---|-------------------|
| Revenue – compound annual growth rate (CAGR) over five-year projection period | -460 bps decrease |
| Average earnings before interest and tax margin | -220 bps decrease |
| Post-tax discount rate | +140 bps increase |
| Change required for carrying value to equal recoverable amount – FY2022 | Smiths Detection |
| Revenue – compound annual growth rate (CAGR) over five-year projection period | -240 bps decrease |
| Average earnings before interest and tax margin | -130 bps decrease |
| Post-tax discount rate | +70 bps increase |

Note: Long-term growth rates are not included in the sensitivity tables above as management consider that there is no reasonably possible change in long-term growth rate that would result in an impairment.

PROPERTY, PLANT AND EQUIPMENT, RIGHT OF USE ASSETS AND FINITE-LIFE INTANGIBLE ASSETS

At each reporting period date, the Group reviews the carrying amounts of its property, plant, equipment, right of use assets and finite-life intangible assets to determine whether there is any indication that those assets have suffered an impairment loss.

The Group has no indefinite life intangible assets other than goodwill. During the year, impairment tests were carried out for capitalised development costs that have not yet started to be amortised and acquired intangibles where there were indications of impairment. Value in use calculations were used to determine the recoverable values of these assets.

12. PROPERTY, PLANT AND EQUIPMENT

| | Land and buildings £m | Plant and machinery £m | Fixtures, fittings, tools and equipment £m | Total £m |
|---------------------------------------|--------------------------|---------------------------|---|-------------|
| Cost or valuation | | | | |
| At 31 July 2021 | 172 | 388 | 122 | 682 |
| Foreign exchange rate movements | 14 | 37 | 6 | 57 |
| Additions | 4 | 42 | 6 | 52 |
| Disposals | (14) | (10) | (5) | (29) |
| At 31 July 2022 | 176 | 457 | 129 | 762 |
| Foreign exchange rate movements | (6) | (14) | (2) | (22) |
| Business combinations | – | 2 | – | 2 |
| Additions | 10 | 33 | 10 | 53 |
| Disposals | (2) | (15) | (17) | (34) |
| At 31 July 2023 | 178 | 463 | 120 | 761 |
| Depreciation | | | | |
| At 31 July 2021 | 106 | 260 | 104 | 470 |
| Foreign exchange rate movements | 9 | 25 | 5 | 39 |
| Charge for the year | 7 | 24 | 7 | 38 |
| Disposals | (14) | (10) | (4) | (28) |
| At 31 July 2022 | 108 | 299 | 112 | 519 |
| Foreign exchange rate movements | (4) | (8) | (2) | (14) |
| Charge for the year | 8 | 25 | 9 | 42 |
| Disposals | (2) | (14) | (17) | (33) |
| At 31 July 2023 | 110 | 302 | 102 | 514 |
| Net book value at 31 July 2023 | 68 | 161 | 18 | 247 |
| Net book value at 31 July 2022 | 68 | 158 | 17 | 243 |
| Net book value at 31 July 2021 | 66 | 128 | 18 | 212 |

13. RIGHT OF USE ASSETS

| | Properties £m | Vehicles £m | Equipment £m | Total £m |
|---------------------------------------|------------------|----------------|-----------------|-------------|
| Cost or valuation | | | | |
| At 31 July 2021 | 146 | 17 | 1 | 164 |
| Foreign exchange rate movements | 12 | 1 | – | 13 |
| Recognition of right of use asset | 18 | 4 | – | 22 |
| Derecognition of right of use asset | (2) | (1) | – | (3) |
| At 31 July 2022 | 174 | 21 | 1 | 196 |
| Foreign exchange rate movements | (6) | (1) | – | (7) |
| Recognition of right of use asset | 27 | 7 | 1 | 35 |
| Derecognition of right of use asset | (5) | – | – | (5) |
| At 31 July 2023 | 190 | 27 | 2 | 219 |
| Depreciation | | | | |
| At 31 July 2021 | 46 | 10 | – | 56 |
| Foreign exchange rate movements | 5 | 1 | – | 6 |
| Charge for the year | 25 | 5 | – | 30 |
| Derecognition of right of use asset | (1) | (1) | – | (2) |
| At 31 July 2022 | 75 | 15 | – | 90 |
| Foreign exchange rate movements | (4) | – | – | (4) |
| Charge for the year | 27 | 4 | 1 | 32 |
| Derecognition of right of use asset | (4) | – | – | (4) |
| At 31 July 2023 | 94 | 19 | 1 | 114 |
| Net book value at 31 July 2023 | 96 | 8 | 1 | 105 |
| Net book value at 31 July 2022 | 99 | 6 | 1 | 106 |
| Net book value at 31 July 2021 | 100 | 7 | 1 | 108 |

14. FINANCIAL ASSETS – OTHER INVESTMENTS

| | Investment in ICU Medical, Inc equity £m | Deferred contingent consideration £m | Investments in early stage businesses £m | Cash collateral deposit £m | Total £m |
|--|---|---|---|-------------------------------------|-------------|
| Cost or valuation | | | | | |
| At 31 July 2021 | – | – | 7 | 4 | 11 |
| Foreign exchange rate movements | – | – | 1 | – | 1 |
| Additions | 426 | 30 | 4 | – | 460 |
| Disposal | – | – | (4) | – | (4) |
| Fair value change through profit and loss | – | (11) | 1 | – | (10) |
| Fair value change through other comprehensive income | (62) | – | (1) | – | (63) |
| At 31 July 2022 | 364 | 19 | 8 | 4 | 395 |
| Fair value change through profit and loss | – | (6) | – | – | (6) |
| Fair value change through other comprehensive income | (17) | – | (1) | – | (18) |
| At 31 July 2023 | 347 | 13 | 7 | 4 | 371 |

Following the sale of Smiths Medical the Group has recognised a financial asset for its investment in 10% of the equity in ICU Medical, Inc (ICU) and a financial asset for the fair value of US\$100m additional sales consideration that is contingent on the future share price performance of ICU.

The Group's investments in early-stage businesses are in businesses that are developing or commercialising related technology. Cash collateral deposits represent amounts held on deposit with banks as security for liabilities or letters of credit.

15. INVENTORIES

| | 31 July 2023 £m | 31 July 2022 £m |
|-------------------------------|--------------------|--------------------|
| Raw materials and consumables | 201 | 187 |
| Work in progress | 130 | 106 |
| Finished goods | 306 | 277 |
| Total inventories | 637 | 570 |

In FY2023, operating costs included £1,622m (FY2022: £1,323m) of inventory consumed, £26m (FY2022: £12m) was charged for the write-down of inventory and £16m (FY2022: £12m) was released from provisions no longer required.

INVENTORY PROVISIONING

| | 31 July 2023 £m | 31 July 2022 £m |
|---|--------------------|--------------------|
| Gross inventory carried at full value | 545 | 492 |
| Gross value of inventory partly or fully provided for | 158 | 131 |
| Inventory provision | (66) | (53) |
| Inventory after provisions | 637 | 570 |

16. TRADE AND OTHER RECEIVABLES

| | 31 July 2023 £m | 31 July 2022 £m |
|--------------------|--------------------|--------------------|
| Non-current | | |
| Trade receivables | 2 | 1 |
| Contract assets | 65 | 58 |
| Other receivables | 8 | 10 |
| | 75 | 69 |
| Current | | |
| Trade receivables | 493 | 506 |
| Prepayments | 40 | 33 |
| Contract assets | 121 | 127 |
| Other receivables | 118 | 72 |
| | 772 | 738 |

Trade receivables do not carry interest. Management considers that the carrying value of trade and other receivables approximates to the fair value. Trade and other receivables, including accrued income and other receivables qualifying as financial instruments are accounted for at amortised cost. The maximum credit exposure arising from these financial assets was £744m (FY2022: £726m).

Contract assets comprise unbilled balances not yet due on contracts, where revenue recognition does not align with the agreed payment schedule. The main movements in the year arose from increases in contract asset balances of £19m (FY2022: £19m) principally within Smiths Interconnect and Smiths Detection, offset by £9m decreases in John Crane and £7m (FY2022: £15m) decrease due to foreign currency translation losses.

A number of Flex-Tek's and Interconnect's customers provide supplier finance schemes which allow their suppliers to sell trade receivables, without recourse, to banks. This is commonly known as invoice discounting or factoring. During FY2023 the Group collected £128m of receivables through these schemes (FY2022: £92m). The impact of invoice discounting on the FY2023 balance sheet was that trade receivables were reduced by £26m (2022: £19m). Costs of discounting were £2m (FY2022: less than £1m), charged to the income statement within financing costs. The cash received via these schemes was classified as an operating cash inflow as it had arisen from operating activities.

Trade receivables are disclosed net of provisions for expected credit loss, with historical write-offs used as a basis, adjusted for factors that are specific to the debtor, general economic conditions of the industry in which the debtor operates and a default risk multiplier applied to reflect country risk premium. Credit risk is managed separately for each customer and, where appropriate, a credit limit is set for the customer based on previous experience of the customer and third-party credit ratings. The Group has no significant concentration of credit risk, with exposure spread over a large number of customers. The largest single customer was the US Federal Government, representing 7% (FY2022: 7%) of Group revenue.

AGEING OF TRADE RECEIVABLES

| | 31 July 2023 £m | 31 July 2022 £m |
|---|--------------------|--------------------|
| Trade receivables which are not yet due | 389 | 396 |
| Trade receivables which are between 1-30 days overdue | 52 | 51 |
| Trade receivables which are between 31-60 days overdue | 19 | 24 |
| Trade receivables which are between 61-90 days overdue | 12 | 11 |
| Trade receivables which are between 91-120 days overdue | 8 | 7 |
| Trade receivables which are more than 120 days overdue | 45 | 54 |
| | 525 | 543 |
| Expected credit loss allowance provision | (30) | (36) |
| Trade receivables | 495 | 507 |

Movement in expected credit loss allowance

| | 31 July 2023 £m | 31 July 2022 £m |
|--|--------------------|--------------------|
| Brought forward loss allowance at the start of the period | 36 | 32 |
| Exchange adjustments | (1) | 4 |
| Increase in allowance recognised in the income statement | 4 | 8 |
| Amounts written off or recovered during the year | (9) | (8) |
| Carried forward loss allowance at the end of the year | 30 | 36 |

17. TRADE AND OTHER PAYABLES

| | 31 July 2023 £m | 31 July 2022 £m |
|--|--------------------|--------------------|
| Non-current | | |
| Other payables | 13 | 13 |
| Contract liabilities | 27 | 33 |
| | 40 | 46 |
| Current | | |
| Trade payables | 247 | 282 |
| Other payables | 51 | 57 |
| Other taxation and social security costs | 66 | 30 |
| Accruals | 200 | 183 |
| Contract liabilities | 159 | 130 |
| | 723 | 682 |

Trade and other payables, including accrued expenses and other payables qualifying as financial instruments, are accounted for at amortised cost and are categorised as "Trade and other financial payables" in note 21.

Contract liabilities comprise deferred income balances of £186m (FY2022: £163m) in respect of payments being made in advance of revenue recognition. The movement in the year arises primarily from the long-term contracts of the Smiths Detection division where invoicing under milestones precedes the delivery of the programme performance obligations. Revenue recognised in the year includes £97m (FY2022: £113m) that was included in the opening contract liabilities balance. This revenue primarily relates to the delivery of performance obligations in the Smiths Detection business.

18. BORROWINGS AND NET DEBT

This note sets out the calculation of net debt, an important measure in explaining our financing position. Net debt includes accrued interest and fair value adjustments relating to hedge accounting.

| | 31 July 2023 £m | 31 July 2022 £m |
|--|--------------------|--------------------|
| Cash and cash equivalents | | |
| Net cash and deposits | 285 | 1,056 |
| Short-term borrowings | | |
| €600m 1.25% Eurobond 2023 | – | (502) |
| Overdrafts | – | (1) |
| Lease liabilities | (26) | (29) |
| Interest accrual | (3) | (6) |
| | (29) | (538) |
| Long-term borrowings | | |
| €650m 2.00% Eurobond 2027 | (534) | (538) |
| Lease liabilities | (91) | (90) |
| | (625) | (628) |
| Borrowings/gross debt | (654) | (1,166) |
| Derivatives managing interest rate risk and currency profile of the debt | (18) | (40) |
| Net debt | (387) | (150) |

CASH AND CASH EQUIVALENTS

| | 31 July 2023 £m | 31 July 2022 £m |
|----------------------------------|--------------------|--------------------|
| Cash at bank and in hand | 175 | 242 |
| Short-term deposits | 110 | 814 |
| Cash and cash equivalents | 285 | 1,056 |

Cash and cash equivalents include highly liquid investments with maturities of three months or less. Borrowings are accounted for at amortised cost and are categorised as other financial liabilities. See note 18 for a maturity analysis of borrowings. Interest of £17m (FY2022: £30m) was charged to the consolidated income statement in the period in respect of public bonds.

ANALYSIS OF FINANCIAL DERIVATIVES ON BALANCE SHEET

| | Non-current assets £m | Current assets £m | Current liabilities £m | Non-current liabilities £m | Net balance £m |
|--|-----------------------------|-------------------------|------------------------------|----------------------------------|-------------------|
| Derivatives managing interest rate risk and currency profile of the debt | – | – | – | (18) | (18) |
| Foreign exchange forward contracts | – | 5 | (2) | – | 3 |
| At 31 July 2023 | – | 5 | (2) | (18) | (15) |
| Derivatives managing interest rate risk and currency profile of the debt | – | – | (20) | (20) | (40) |
| Foreign exchange forward contracts | – | 4 | (7) | – | (3) |
| At 31 July 2022 | – | 4 | (27) | (20) | (43) |

MOVEMENTS IN ASSETS/(LIABILITIES) ARISING FROM FINANCING ACTIVITIES

| | Changes in net debt | | | | | Changes in other financing items: FX contracts £m | Total liabilities from financing activities £m |
|--|---------------------------------|-----------------------------------|----------------------------|--|----------------|--|---|
| | Cash and cash equivalents £m | Other short-term borrowings £m | Long-term borrowings £m | Interest rate & cross-currency swaps £m | Net debt £m | | |
| At 31 July 2022 | 1,056 | (538) | (628) | (40) | (150) | (3) | (153) |
| Foreign exchange gains/(losses) | (10) | (21) | (10) | – | (41) | (4,031) | (4,072) |
| Net cash inflow from continuing operations | (761) | 564 | – | 8 | (189) | 4,031 | 3,842 |
| Net movement from new leases and modifications | – | (34) | – | – | (34) | – | (34) |
| Interest rate hedge fair value movements | – | (2) | 16 | – | 14 | – | 14 |
| Revaluation of derivative contracts | – | – | – | 14 | 14 | 6 | 20 |
| Interest expense taken to income statement* | – | 28 | – | – | 28 | – | 28 |
| Interest paid | – | (29) | – | – | (29) | – | (29) |
| Reclassifications | – | 3 | (3) | – | – | – | – |
| At 31 July 2023 | 285 | (29) | (625) | (18) | (387) | 3 | (384) |

* The Group has also incurred £9m (FY2022: £8m) of bank charges that were expensed when paid and were not included in net debt.

| | Changes in net debt | | | | | Changes in other financing items: FX contracts £m | Total liabilities from financing activities £m |
|--|---------------------------------|-----------------------------------|----------------------------|--|----------------|--|---|
| | Cash and cash equivalents £m | Other short-term borrowings £m | Long-term borrowings £m | Interest rate & cross-currency swaps £m | Net debt £m | | |
| At 31 July 2021 | 405 | (36) | (1,466) | 75 | (1,022) | 1 | (1,021) |
| Foreign exchange gains/(losses) | 62 | (3) | 4 | – | 63 | (6,799) | (6,736) |
| Net cash inflow from continuing operations* | 589 | 34 | 295 | – | 918 | 6,799 | 7,717 |
| Net movement from lease modifications | – | (22) | – | – | (22) | – | (22) |
| Interest rate hedge fair value movements | – | 2 | 27 | – | 29 | – | 29 |
| Revaluation of derivative contracts | – | – | – | (115) | (115) | (4) | (119) |
| Interest expense taken to income statement** | – | (35) | – | – | (35) | – | (35) |
| Interest paid | – | – | 34 | – | 34 | – | 34 |
| Reclassifications | – | (478) | 478 | – | – | – | – |
| At 31 July 2022 | 1,056 | (538) | (628) | (40) | (150) | (3) | (153) |

* In FY22, the net cash inflow for the total Group including discontinued operations was £589m, £57m of which related to the cash held by Smiths Medical at the time of disposal.

** The Group has also incurred £9m (FY2022: £8m) of bank charges that were expensed when paid and were not included in net debt.

CASH POOLING

Cash and overdraft balances in interest compensation cash pooling systems are reported gross on the balance sheet. The cash pooling agreements incorporate a legally enforceable right of net settlement. However, as there is no intention to settle the balances net, these arrangements do not qualify for net presentation. At 31 July 2023 the total value of overdrafts on accounts in interest compensation cash pooling systems was £nil (FY2022: £nil). The balances held in zero balancing cash pooling arrangements have daily settlement of balances. Therefore netting is not relevant.

CHANGE OF CONTROL

The Company has in place credit facility agreements under which a change of control would trigger prepayment clauses. The Company has one bond in issue, the terms of which would allow bondholders to exercise put options and require the Company to buy back the bonds at their principal amount plus interest if a rating downgrade occurs at the same time as a change of control takes effect.

LEASE LIABILITIES

Lease liabilities have been measured at the present value of the remaining lease payments. The weighted average incremental borrowing rate applied to lease liabilities in FY2023 was 4.01% (FY2022: 3.63%).

19. FINANCIAL RISK MANAGEMENT

The Group's international operations and debt financing expose it to financial risks which include the effects of changes in foreign exchange rates, debt market prices, interest rates, credit risks and liquidity risks. The management of operational credit risk is discussed in note 16.

TREASURY RISK MANAGEMENT POLICY

The Board maintains a Treasury Risk Management Policy, which governs the treasury operations of the Group and its subsidiary companies and the consolidated financial risk profile to be maintained. A report on treasury activities, financial metrics and compliance with the Policy is circulated to the Chief Financial Officer each month and key elements to the Audit & Risk Committee on a semi-annual basis.

The Policy maintains a treasury control framework within which counterparty risk, financing and debt strategy, cash and liquidity, interest rate risk and currency translation management are reserved for Group Treasury, while currency transaction management is devolved to operating divisions.

Centrally directed cash management systems exist globally to manage overall liquid resources efficiently across the divisions. The Group uses financial instruments to raise financing for its global operations, to manage related interest rate and currency financial risk, and to hedge transaction risk within subsidiary companies.

The Group does not speculate in financial instruments. All financial instruments hedge existing business exposures and all are recognised on the balance sheet.

The Policy defines four treasury risk components and for each component a set of financial metrics to be measured and reported monthly against pre-agreed objectives.

1) Credit quality

The Group's strategy is to maintain a solid investment-grade rating to ensure access to the widest possible sources of financing at the right time and to optimise the resulting cost of debt capital. The credit ratings at the end of July 2023 were BBB+ / Baa2 (both stable) from Standard & Poor's and Moody's respectively. An essential element of an investment-grade rating is consistent and robust cash-flow metrics. The Group's objective is to maintain a net debt/headline EBITDA ratio of two times or lower over the medium term. Capital management is discussed in more detail in note 26.

2) Debt and interest rate

The Group's risk management objectives are to ensure that the majority of funding is drawn from the public debt markets with the average maturity profile of gross debt to be at or greater than three years, and between 40-60% of gross debt (excluding leases) is at fixed rates. At 31 July 2023 these measures were 100% (FY2022: 100%), 3.6 years (FY2022: 2.7 years) and 54% (FY2022: 44%).

The Group has no financial covenants in its external debt agreements. Interest rate risk management is discussed in note 19(b).

3) Liquidity management

The Group's objective is to ensure that at any time undrawn committed facilities, net of short-term overdraft financing, are at least £300m and that committed facilities have at least 12 months to run until maturity. At 31 July 2023, these measures were £622m (FY2022: £657m) and 57 months (FY2022: 27 months). At 31 July 2023, net cash resources were £285m (FY2022: £1,055m). Liquidity risk management is discussed in note 19(d).

4) Currency management

The Group is an international business with the majority of its net assets denominated in foreign currency. It protects the balance sheet and reserves from adverse foreign exchange movements by financing foreign currency assets where appropriate in the same currency. The Group's objective for managing transaction currency exposure is to reduce medium-term volatility to cash-flow, margins and earnings. Foreign exchange risk management is discussed in note 19(a) below.

(A) FOREIGN EXCHANGE RISK

Transactional currency exposure

The Group is exposed to foreign currency risks arising from sales or purchases by businesses in currencies other than their functional currency. It is Group policy that, when the net foreign exchange exposure to known future sales and purchases is material, this exposure is hedged using forward foreign exchange contracts. The net exposure is calculated by adjusting the expected cash-flow for payments or receipts in the same currency linked to the sale or purchase. This policy minimises the risk that the profits generated from the transaction will be affected by foreign exchange movements which occur after the price has been determined. Hedge accounting documentation and effectiveness testing are only undertaken if it is cost-effective.

The following table shows the currency of financial instruments. It excludes loans and derivatives designated as net investment hedges.

| | At 31 July 2023 | | | | |
|--|-----------------|------------|-------------|-------------|-------------|
| | Sterling £m | US\$ £m | Euro £m | Other £m | Total £m |
| Financial assets and liabilities | | | | | |
| Financial instruments included in trade and other receivables | 43 | 372 | 127 | 184 | 726 |
| Financial instruments included in trade and other payables | (64) | (216) | (93) | (103) | (476) |
| Cash and cash equivalents | 50 | 115 | 29 | 91 | 285 |
| Borrowings not designated as net investment hedges | (27) | (54) | (12) | (24) | (117) |
| | 2 | 217 | 51 | 148 | 418 |
| Exclude balances held in operations with the same functional currency. | (7) | (287) | (57) | (153) | (504) |
| Exposure arising from intra-Group loans | – | 127 | 28 | (73) | 82 |
| Future forward foreign exchange contract cash-flows | (63) | (23) | (48) | 133 | (1) |
| | (68) | 34 | (26) | 55 | (5) |
| | At 31 July 2022 | | | | |
| | Sterling £m | US\$ £m | Euro £m | Other £m | Total £m |
| Financial assets and liabilities | | | | | |
| Financial instruments included in trade and other receivables | 41 | 423 | 114 | 169 | 747 |
| Financial instruments included in trade and other payables | (52) | (239) | (98) | (101) | (490) |
| Cash and cash equivalents | 355 | 506 | 74 | 120 | 1,055 |
| Borrowings not designated as net investment hedges | (28) | (58) | (14) | (19) | (119) |
| | 316 | 632 | 76 | 169 | 1,193 |
| Exclude balances held in operations with the same functional currency. | (322) | (149) | (80) | (142) | (693) |
| Exposure arising from intra-Group loans | – | (419) | (27) | (89) | (535) |
| Future forward foreign exchange contract cash-flows | (42) | (40) | (38) | 120 | – |
| | (48) | 24 | (69) | 58 | (35) |

Financial instruments included in trade and other receivables comprise trade receivables, accrued income and other receivables which qualify as financial instruments. Similarly, financial instruments included in trade and other payables comprise trade payables, accrued expenses and other payables that qualify as financial instruments.

Based on the assets and liabilities held at the year-end, if the specified currencies were to strengthen 10% while all other market rates remained constant, the change in the fair value of financial instruments not designated as net investment hedges would have the following effect:

| | Impact on profit for the year FY2023 £m | Gain/(loss) recognised in reserves FY2023 £m | Impact on profit for the year FY2022 £m | Gain/(loss) recognised in reserves FY2022 £m |
|-----------|--|---|--|---|
| US dollar | - | 1 | (3) | 1 |
| Euro | 1 | - | 8 | (1) |
| Sterling | - | (1) | 4 | - |

These sensitivities were calculated before adjusting for tax and exclude the effect of quasi-equity intra-Group loans.

Cash-flow hedging

The Group uses forward foreign exchange contracts to hedge future foreign currency sales and purchases. At 31 July 2023, contracts with a nominal value of £123m (FY2022: £141m) were designated as hedging instruments. In addition, the Group had outstanding foreign currency contracts with a nominal value of £252m (FY2022: £226m) which were being used to manage transactional foreign exchange exposures, but were not accounted for as cash-flow hedges. The fair value of the contracts is disclosed in note 20.

The majority of hedged transactions will be recognised in the consolidated income statement in the same period that the cash-flows are expected to occur, with the only differences arising because of normal commercial credit terms on sales and purchases. It is the Group's policy to hedge 80% of certain exposures for the next two years and 50% of highly probable exposures for the next 12 months.

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedging instrument. The foreign exchange forward contracts have similar critical terms to the hedged items, such as the notional amounts and maturities. Therefore, there is an economic relationship and the hedge ratio is established as 1:1.

The main sources of hedge ineffectiveness in these hedging relationships are the effect of the Group's and the counterparty credit risks on the fair value of the foreign exchange forward contracts, which is not reflected in the fair value of the hedged item and the risk of over-hedging where the hedge relationship requires re-balancing. No other sources of ineffectiveness emerged from these hedging relationships. Any hedge ineffectiveness is recognised immediately in the income statement in the period that it occurs. Of the foreign exchange contracts designated as hedging instruments, 98% are for periods of 12 months or less (FY2022: 98%).

The following table presents a reconciliation by risk category of the cash-flow hedge reserve and analysis of other comprehensive income in relation to hedge accounting:

| | Year ended 31 July 2023 £m | Year ended 31 July 2022 £m |
|--|-------------------------------|-------------------------------|
| Brought forward cash-flow hedge reserve at start of year | (3) | 2 |
| Foreign exchange forward contracts: Net fair value gains on effective hedges | 1 | (6) |
| Amount reclassified to income statement – finance costs | 2 | 1 |
| Carried forward cash-flow hedge reserve at end of year | - | (3) |

The following tables set out information regarding the change in value of the hedged item used in calculating hedge ineffectiveness as well as the impacts on the cash-flow hedge reserve:

| Hedged item | Hedged exposure | Hedging instrument | Financial year | Changes in value of the hedged item for calculating ineffectiveness £m | Changes in value of the hedging instrument for calculating ineffectiveness £m | Cash-flow hedge reserve £m |
|---------------------|-----------------------|----------------------------|----------------|---|--|-------------------------------|
| Sales and purchases | Foreign currency risk | Foreign exchange contracts | FY2023 | 1 | (1) | 1 |
| | | | FY2022 | (6) | 6 | (6) |

Cash-flow hedges generated £nil of ineffectiveness in FY2023 (FY2022: £nil) which was recognised in the income statement through finance costs.

Translational currency exposure

The Group has significant investments in overseas operations, particularly in the US and Europe. As a result, the sterling value of the Group's balance sheet can be significantly affected by movements in exchange rates. The Group seeks to mitigate the effect of these translational currency exposures by matching the net investment in overseas operations with borrowings denominated in their functional currencies, except where significant adverse interest differentials or other factors would render the cost of such hedging activity uneconomic. This is achieved by borrowing primarily in the relevant currency or in some cases indirectly using cross-currency swaps.

Net investment hedges

The table below sets out the currency of loans and swap contracts designated as net investment hedges:

| | At 31 July 2023 | | | At 31 July 2022 | | |
|---|-----------------|--------------|--------------|-----------------|--------------|----------------|
| | US\$ £m | Euro £m | Total £m | US\$ £m | Euro £m | Total £m |
| Loans designated as net investment hedges | - | (293) | (293) | - | (451) | (451) |
| Cross-currency swap | (247) | - | (247) | (615) | - | (615) |
| | (247) | (293) | (540) | (615) | (451) | (1,066) |

At 31 July 2023, cross-currency swaps hedged the Group's exposure to US dollars and euros (31 July 2022: US dollars and euros). All the cross-currency swaps designated as net investment hedges were non-current (FY2022: current and non-current). Swaps generating £247m of the US dollar exposure (FY2022: £261m) will mature in February 2027.

In addition, non-swapped borrowings were also used to hedge the Group's exposure to euros (31 July 2022: US dollars and euros). Borrowings generating £293m of the euro exposure (FY2022: £287m) will mature in February 2027.

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedging instrument. The swaps and borrowings have the same notional amount as the hedged items and, therefore, there is an economic relationship with the hedge ratio established as 1:1.

The main sources of hedge ineffectiveness in these hedging relationships are the effect of the counterparty and the Group's own credit risk on the fair value of the foreign exchange forward contracts which is not reflected in the fair value of the hedged item and the risk of over-hedging where the hedge relationship requires re-balancing. No other sources of ineffectiveness emerged from these hedging relationships. Any hedge ineffectiveness is recognised immediately in the income statement in the period that it occurs.

The following table presents a reconciliation by risk category of the net investment hedge reserve and analysis of other comprehensive income in relation to hedge accounting:

| | Year ended 31 July 2023 £m | Year ended 31 July 2022 £m |
|---|----------------------------------|----------------------------------|
| Brought forward net investment hedge reserve at start of year | (207) | (238) |
| Cross-currency swaps * Net fair value gains on effective hedges | 40 | (77) |
| Bonds Net fair value gains on effective hedges | (29) | 5 |
| Amounts removed from the hedge reserve and recognised in the income statement Profit/(loss) on business disposal | - | 103 |
| Carried forward net investment hedge reserve at end of year | (196) | (207) |

* The FY2022 reported amount for net fair value losses on effective hedges of cross-currency swaps was incorrectly presented as £82m rather than £77m. The total reserve balances and net assets for FY2022 are not impacted by the correction to this table.

The following table sets out information regarding the change in value of the hedged item used in calculating hedge ineffectiveness as well as the impacts on the net investment hedge reserve as at 31 July 2022 and 31 July 2021:

| Hedged item | Hedged exposure | Hedging instrument | Financial year | Changes in value of the hedged item for calculating ineffectiveness £m | Changes in value of the hedging instrument for calculating ineffectiveness £m | Net investment hedge reserve £m |
|--------------------|-----------------------|----------------------|----------------|--|--|---------------------------------------|
| Overseas operation | Foreign currency risk | Cross-currency swaps | FY2023 | (40) | 40 | 40 |
| | | Bonds | FY2023 | 29 | (29) | (29) |
| | | | | (11) | 11 | 11 |
| Overseas operation | Foreign currency risk | Cross-currency swaps | FY2022 | 82 | (82) | (82) |
| | | Bonds | FY2022 | (5) | 5 | 5 |
| | | | | 77 | (77) | (77) |

Net investment hedges generated £1m of ineffectiveness in FY2022 (FY2022: £1m) which was recognised in the income statement through finance costs.

The fair values of these net investment hedges are subject to exchange rate movements. Based on the hedging instruments in place at the year-end, if the specified currencies were to strengthen 10% while all other market rates remained constant, it would have the following effect:

| | Loss recognised in hedge reserve 31 July 2023 £m | Loss recognised in hedge reserve 31 July 2022 £m |
|-----------|---|---|
| US dollar | 27 | 68 |
| Euro | 33 | 50 |

These movements would be fully offset by an opposite movement on the retranslation of the net assets of the overseas subsidiaries. These sensitivities were calculated before adjusting for tax.

(B) INTEREST RATE RISK

The Group operates an interest rate policy designed to optimise interest cost and reduce volatility in reported earnings. The Group's current policy is to require interest rates to be fixed within a band of between 40% and 60 % of the level of gross debt (excluding leases). This is achieved through fixed rate borrowings and interest rate swaps. At 31 July 2023 54% (FY2022: 44%) of the Group's gross borrowings (excluding leases) were at fixed interest rates, after adjusting for interest rate swaps and the impact of short maturity derivatives designated as net investment hedges.

The Group monitors its fixed rate risk profile against both gross and net debt. For medium-term planning, it focuses on gross debt to eliminate the fluctuations of variable cash levels over the cycle. The weighted average interest rate on borrowings and cross-currency swaps at 31 July 2023, after interest rate swaps, was 4.53% (FY2022: 3.06%).

Interest rate profile of financial assets and liabilities and the fair value of borrowings

The following table shows the interest rate risk exposure of investments, cash and borrowings, with the borrowings adjusted for the impact of interest rate hedging. Other financial assets and liabilities do not earn or bear interest, and for all financial instruments except borrowings, the carrying value is not materially different from their fair value.

As at 31 July 2023

| | At fair value through profit or loss £m | Cash and cash equivalents £m | Borrowings £m | Fair value of borrowings £m |
|--|--|---------------------------------|------------------|--------------------------------|
| Fixed interest | | | | |
| Less than one year | – | – | (29) | (29) |
| Between one and five years | – | – | (365) | (347) |
| Greater than five years | – | – | (24) | (24) |
| Total fixed interest financial liabilities | – | – | (418) | (400) |
| Floating rate interest financial assets/(liabilities) | 4 | 215 | (236) | (240) |
| Total interest-bearing financial assets/(liabilities) | 4 | 215 | (654) | (640) |
| Non-interest-bearing assets in the same category | – | 70 | – | – |
| Total | 4 | 285 | (654) | (640) |

As at 31 July 2022

| | At fair value through profit or loss £m | Cash and cash equivalents £m | Borrowings £m | Fair value of borrowings £m |
|--|--|---------------------------------|------------------|--------------------------------|
| Fixed interest | | | | |
| Less than one year | – | – | (203) | (203) |
| Between one and five years | – | – | (357) | (359) |
| Greater than five years | – | – | (24) | (24) |
| Total fixed interest financial liabilities | – | – | (584) | (586) |
| Floating rate interest financial assets/(liabilities)* | 4 | 970 | (582) | (586) |
| Total interest-bearing financial assets/(liabilities) | 4 | 970 | (1,166) | (1,172) |
| Non-interest-bearing assets in the same category | – | 86 | – | – |
| Total | 4 | 1,056 | (1,166) | (1,172) |

* Floating rate interest financial assets in the prior year have been amended to remove the investments in ICU Medical Inc., contingent consideration and investments in early-stage business that were incorrectly reported as having interest rate exposure.

Interest rate hedging

The Group also has exposures to the fair values of non-derivative financial instruments such as EUR fixed rate borrowings. To manage the risk of changes in these fair values, the Group has entered into fixed-to-floating interest rate swaps and cross-currency interest rate swaps, which for accounting purposes are designated as fair value hedges.

At 31 July 2023 and 31 July 2022, the Group had designated the following hedges against variability in the fair value of borrowings arising from fluctuations in base rates:

- €300m of the fixed/floating and € exchange exposure of EUR/USD interest rate swaps maturing on 23 February 2027 partially hedging the € 2027 Eurobond; and
- €400m of the fixed/floating element of the EUR/USD interest rate swaps that partially hedged the € 2023 Eurobond was repaid on 28 April 2022.

The fair values of the hedging instruments are disclosed in note 20. The effect of the swaps was to convert £257m (FY2022: £588m) debt from fixed rate to floating rate. The swaps have similar critical terms to the hedged items, such as the reference rate, reset dates, notional amounts, payment dates and maturities. Therefore, there is an economic relationship and the hedge ratio is established as 1:1. Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedging instrument.

The main source of hedge ineffectiveness in these hedging relationships is the effect of the currency basis risk on cross-currency interest rate swaps which are not reflected in the fair value of the hedged item. No other sources of ineffectiveness emerged from these hedging relationships. Any hedge ineffectiveness was recognised immediately in the income statement in the period in which it occurred.

The following table sets out the details of the hedged exposures covered by the Group's fair value hedges:

| Hedged item | Hedged exposure | Financial year | Changes in value of hedged item for calculating ineffectiveness £m | Changes in value of the hedging instrument for calculating ineffectiveness £m | Carrying amount | | Accumulated fair value adjustments on hedged item | |
|----------------------|------------------------------------|----------------|---|--|-----------------|-------------------|---|-------------------|
| | | | | | Assets £m | Liabilities £m | Assets £m | Liabilities £m |
| Fixed rate bonds (a) | Interest rate risk | FY2023 | (2) | 2 | – | – | – | – |
| | Interest rate & currency rate risk | FY2023 | 16 | (16) | – | 233 | – | (21) |
| | | | 14 | (14) | – | 233 | – | (21) |
| Fixed rate bonds (a) | Interest rate risk | FY2022 | 8 | (8) | – | 336 | – | (2) |
| | Interest rate & currency rate risk | FY2022 | 21 | (20) | – | 252 | – | (5) |
| | | | 29 | (28) | – | 588 | – | (7) |

(a) Classified as borrowings.

Fair value hedges generated a £nil ineffectiveness in FY2023 (FY2022: £1m) which was recognised in the income statement through finance costs.

Sensitivity of interest charges to interest rate movements

The Group has exposure to sterling, US dollar and euro interest rates. However, the Group does not have a significant exposure to interest rate movements for any individual currency. Based on the composition of net debt and investments at 31 July 2023, and taking into consideration all fixed rate borrowings and interest rate swaps in place, a one percentage point (100 basis points) change in average floating interest rates for all three currencies would have a £2m impact (FY2022: £2m impact) on the Group's profit before tax.

(C) FINANCIAL CREDIT RISK

The Group is exposed to credit-related losses in the event of non-performance by counterparties to financial instruments, but does not currently expect any counterparties to fail to meet their obligations. Credit risk is mitigated by the Board-approved policy of only placing cash deposits with highly rated relationship bank counterparties within counterparty limits established by reference to their Standard & Poor's long-term debt rating. In the normal course of business, the Group operates cash pooling systems, where a legal right of set-off applies.

The maximum credit risk exposure in the event of other parties failing to perform their obligations under financial assets, excluding trade and other receivables and derivatives, totals £295m at 31 July 2023 (FY2022: £1,067m).

| | 31 July 2023 £m | 31 July 2022 £m |
|---|--------------------|--------------------|
| Cash in AAA liquidity funds | 78 | 551 |
| Cash at banks with at least a AA- credit rating | 31 | 104 |
| Cash at banks with all other A credit ratings | 170 | 397 |
| Cash at other banks | 6 | 4 |
| Investments in bank deposits | 4 | 4 |
| Other investments | 7 | 7 |
| | 296 | 1,067 |

At 31 July 2023, the maximum exposure with a single bank for deposits and cash was £65m (FY2022: £339m). The bank has a credit rating of A+. The maximum mark to market exposure with a single bank for derivatives was out of the money in both the current and prior year and does not represent a credit risk.

(D) LIQUIDITY RISK**Borrowing facilities**

Board policy specifies the maintenance of unused committed credit facilities of at least £300m at all times to ensure that the Group has sufficient available funds for operations and planned development. The Group has Revolving Credit Facilities of US\$800m maturing 5 May 2028. At the balance sheet date, the Group had the following undrawn credit facilities:

| | 31 July 2023 £m | 31 July 2022 £m |
|--|--------------------|--------------------|
| Expiring after more than four years (FY 2022: two years) | 622 | 657 |

Cash deposits

As at 31 July 2023, £110m (FY2022: £814m) of cash and cash equivalents was on deposit with various banks of which £78m (FY2022: £558m) was in liquidity funds. £4m (FY2022: £4m) of investments comprised bank deposits held to secure liabilities and letters of credit.

Gross contractual cash-flows for borrowings

As at 31 July 2023

| | Borrowings £m | Fair value adjustments £m | Contractual interest payments £m | Total contractual cash-flows £m |
|------------------------------|------------------|---------------------------------|---|--|
| Less than one year | (29) | – | (11) | (40) |
| Between one and two years | (27) | – | (11) | (38) |
| Between two and three years | (20) | – | (11) | (31) |
| Between three and four years | (13) | – | (11) | (24) |
| Between four and five years | (561) | 21 | – | (540) |
| Greater than five years | (24) | – | – | (24) |
| Total | (674) | 21 | (44) | (697) |

As at 31 July 2022

| | Borrowings £m | Fair value adjustments £m | Contractual interest payments £m | Total contractual cash-flows £m |
|------------------------------|------------------|---------------------------------|---|--|
| Less than one year | (539) | 2 | (17) | (554) |
| Between one and two years | (23) | – | (11) | (34) |
| Between two and three years | (20) | – | (11) | (31) |
| Between three and four years | (14) | – | (11) | (25) |
| Between four and five years | (552) | 5 | (11) | (558) |
| Greater than five years | (24) | – | – | (24) |
| Total | (1,172) | 7 | (61) | (1,226) |

The figures presented in the borrowings column include the non-cash adjustments which are highlighted in the adjacent column. The contractual interest reported for borrowings is before the effect of interest rate swaps.

Gross contractual cash-flows for derivative financial instruments

As at 31 July 2023

| | Receipts £m | Payments £m | Net cash-flow £m |
|-----------------------|----------------|----------------|------------------------|
| Assets | | | |
| Less than one year | 209 | (204) | 5 |
| Greater than one year | 6 | (6) | – |
| Liabilities | | | |
| Less than one year | 159 | (161) | (2) |
| Greater than one year | 252 | (270) | (18) |
| Total | 626 | (641) | (15) |

As at 31 July 2022

| | Receipts £m | Payments £m | Net cash-flow £m |
|-----------------------|----------------|----------------|------------------------|
| Assets | | | |
| Less than one year | 495 | (521) | (26) |
| Greater than one year | 270 | (290) | (20) |
| Liabilities | | | |
| Less than one year | 212 | (209) | 3 |
| Greater than one year | 8 | (8) | – |
| Total | 985 | (1,028) | (43) |

This table above presents the undiscounted future contractual cash-flows for all derivative financial instruments. For this disclosure, cash-flows in foreign currencies are translated using the spot rates at the balance sheet date. The fair values of these financial instruments are presented in note 20.

Gross contractual cash-flows for other financial liabilities

The contractual cash-flows for financial liabilities included in trade and other payables were £463m (FY2022: £474m) due in less than one year, £13m (FY2022: £13m) due between one and five years.

20. DERIVATIVE FINANCIAL INSTRUMENTS

The tables below set out the nominal amount and fair value of derivative contracts held by the Group, identifying the derivative contracts which qualify for hedge accounting treatment.

At 31 July 2023

| | Contract or underlying nominal amount £m | Fair value | | |
|---|---|--------------|-------------------|-------------|
| | | Assets £m | Liabilities £m | Net £m |
| Foreign exchange contracts (cash-flow hedges) | 123 | 1 | (1) | – |
| Foreign exchange contracts (not hedge accounted) | 252 | 4 | (1) | 3 |
| Total foreign exchange contracts | 375 | 5 | (2) | 3 |
| Cross-currency swaps (fair value and net investment hedges) | 247 | – | (18) | (18) |
| Total financial derivatives | 622 | 5 | (20) | (15) |
| Balance sheet entries: | | | | |
| Non-current | 256 | – | (18) | (18) |
| Current | 366 | 5 | (2) | 3 |
| Total financial derivatives | 622 | 5 | (20) | (15) |

At 31 July 2022

| | Contract or underlying nominal amount £m | Fair value | | |
|---|---|--------------|-------------------|-------------|
| | | Assets £m | Liabilities £m | Net £m |
| Foreign exchange contracts (cash-flow hedges) | 141 | 3 | (5) | (2) |
| Foreign exchange contracts (not hedge accounted) | 226 | 1 | (2) | (1) |
| Total foreign exchange contracts | 367 | 4 | (7) | (3) |
| Cross-currency swaps (fair value and net investment hedges) | 615 | – | (40) | (40) |
| Total financial derivatives | 982 | 4 | (47) | (43) |
| Balance sheet entries: | | | | |
| Non-current | 269 | – | (20) | (20) |
| Current | 713 | 4 | (27) | (23) |
| Total financial derivatives | 982 | 4 | (47) | (43) |

ACCOUNTING FOR OTHER DERIVATIVE CONTRACTS

Any foreign exchange contracts which are not formally designated as hedges and tested are classified as 'held for trading' and not hedge accounted.

NETTING

International Swaps and Derivatives Association (ISDA) master netting agreements are in place with derivative counterparties except for contracts traded on a dedicated international electronic trading platform used for operational foreign exchange hedging. Under these agreements if a credit event occurs, all outstanding transactions under the ISDA are terminated and only a single net amount per counterparty is payable in settlement of all transactions. The ISDA agreements do not meet the criteria for offsetting, since the offsetting is enforceable only if specific events occur in the future, and there is no intention to settle the contracts on a net basis.

| | Assets 31 July 2023 £m | Liabilities 31 July 2023 £m | Assets 31 July 2022 £m | Liabilities 31 July 2022 £m |
|---|------------------------------|-----------------------------------|------------------------------|-----------------------------------|
| Gross value of assets and liabilities | 5 | (20) | 4 | (47) |
| Related assets and liabilities subject to master netting agreements | (5) | 5 | (4) | 4 |
| Net exposure | – | (15) | – | (43) |

The maturity profile, average interest and foreign currency exchange rates of the hedging instruments used in the Group's hedging strategies are as follows:

| Hedged exposure | Hedging instrument | | Maturity at 31 July 2023 | | | Maturity at 31 July 2022 | | |
|---|--------------------------------------|---|--------------------------|-------------------|----------------------|--------------------------|-------------------|----------------------|
| | | | Up to one year | One to five years | More than five years | Up to one year | One to five years | More than five years |
| Fair value hedges | | | | | | | | |
| Interest rate risk | Interest rate swaps – EUR | – Notional amount (£m) | – | – | – | 336 | – | – |
| | | – Average spread over three-month EURIBOR | – | – | – | 1.015% | – | – |
| Interest rate/ foreign currency risk | Cross-currency swaps (EUR:GBP) | – Notional amount (£m) | – | 254 | – | – | 254 | – |
| | | – Average exchange rate | – | 0.845 | – | – | 0.845 | – |
| | | – Average spread over three-month GBP SONIA | – | 1.860% | – | – | 1.860% | – |
| | | | | | | | | |
| Net investment hedges | | | | | | | | |
| Foreign currency risk | Cross-currency swaps (EUR:USD) | – Notional amount (£m) | – | – | – | 354 | – | – |
| | | – Average exchange rate | – | – | – | 1.0773 | – | – |
| | Cross-currency swaps (GBP:USD) | – Notional amount (£m) | – | 247 | – | – | 261 | – |
| | | – Average exchange rate | – | 1.2534 | – | – | 1.2534 | – |
| Cash-flow hedges | | | | | | | | |
| Foreign currency risk | Foreign exchange contracts (EUR:GBP) | – Notional amount (£m) | 41 | 8 | – | 28 | 8 | – |
| | | – Average exchange rate | 0.7842 | 0.8893 | – | 0.8323 | 1.1676 | – |
| | Foreign exchange contracts (EUR:USD) | – Notional amount (£m) | 30 | – | – | 77 | – | – |
| | | – Average exchange rate | 1.0939 | – | – | 4.1785 | – | – |
| | Foreign exchange contracts (USD:GBP) | – Notional amount (£m) | 18 | – | – | 16 | – | – |
| | | – Average exchange rate | 1.2269 | – | – | 1.3273 | – | – |
| | Foreign exchange contracts (GBP:CZK) | – Notional amount (£m) | 10 | – | – | 6 | – | – |
| | | – Average exchange rate | 27.7919 | – | – | 30.2988 | – | – |
| | Foreign exchange contracts (EUR:AUD) | – Notional amount (£m) | 7 | – | – | 6 | – | – |
| | | – Average exchange rate | 1.6603 | – | – | 1.5226 | – | – |

At 31 July 2023, the Group had forward foreign exchange contracts with a nominal value of £123m (FY2022: £141m) designated as cash-flow hedges. These forward foreign exchange contracts are in relation to sale and purchase of multiple currencies with varying maturities up to 19 September 2024. The largest single currency pairs are disclosed above and make up 100% of the notional hedged exposure. The notional and fair values of these foreign exchange forward derivatives are shown in the nominal amount and fair value of derivative contracts table on page 176.

21. FAIR VALUE OF FINANCIAL INSTRUMENTS

| As at 31 July 2023 | Notes | Basis for determining fair value | At amortised cost £m | At fair value through profit or loss £m | At fair value through OCI £m | Total carrying value £m | Total fair value £m |
|---------------------------------------|-------|----------------------------------|----------------------|---|------------------------------|-------------------------|---------------------|
| Financial assets | | | | | | | |
| Other investments | 14 | A | – | 4 | 347 | 351 | 351 |
| Other investments | 14 | F | – | 13 | 7 | 20 | 20 |
| Cash and cash equivalents | 18 | B | 285 | – | – | 285 | 285 |
| Trade and other financial receivables | 16 | B/C | 726 | – | – | 726 | 726 |
| Derivative financial instruments | 20 | C | – | 5 | – | 5 | 5 |
| Total financial assets | | | 1,011 | 22 | 354 | 1,387 | 1,387 |
| Financial liabilities | | | | | | | |
| Trade and other financial payables | | B | (476) | – | – | (476) | (476) |
| Short-term borrowings | 18 | B/D | (3) | – | – | (3) | (3) |
| Long-term borrowings | 18 | E | (534) | – | – | (534) | (520) |
| Lease liabilities | 18 | E | (117) | – | – | (117) | (117) |
| Derivative financial instruments | 20 | C | – | (20) | – | (20) | (20) |
| Total financial liabilities | | | (1,130) | (20) | – | (1,150) | (1,136) |

The fair value of a financial instrument is the price at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction. Fair values have been determined with reference to available market information at the balance sheet date, using the methodologies described below:

- A Carrying value is assumed to be a reasonable approximation to fair value for all of these assets and liabilities (Level 1 as defined by IFRS 13).
- B Carrying value is assumed to be a reasonable approximation to fair value for all of these assets and liabilities (Level 2 as defined by IFRS 13).
- C Fair values of derivative financial assets and liabilities, and trade receivables held to collect or sell are estimated by discounting expected future contractual cash-flows using prevailing interest rate curves. Amounts denominated in foreign currencies are valued at the exchange rate prevailing at the balance sheet date. These financial instruments are included on the balance sheet at fair value, derived from observable market prices (Level 2 as defined by IFRS 13).

| As at 31 July 2022 | Notes | Basis for determining fair value | At amortised cost £m | At fair value through profit or loss £m | At fair value through OCI £m | Total carrying value £m | Total fair value £m |
|---------------------------------------|-------|----------------------------------|----------------------|---|------------------------------|-------------------------|---------------------|
| Financial assets | | | | | | | |
| Other investments | 14 | A | – | 4 | 364 | 368 | 368 |
| Other investments | 14 | F | – | 19 | 8 | 27 | 27 |
| Cash and cash equivalents | 18 | A | 506 | 550 | – | 1,056 | 1,056 |
| Trade and other financial receivables | 16 | B/C | 807 | – | – | 807 | 807 |
| Derivative financial instruments | 20 | C | – | 4 | – | 4 | 4 |
| Total financial assets | | | 1,313 | 577 | 372 | 2,262 | 2,262 |
| Financial liabilities | | | | | | | |
| Trade and other financial payables | 17 | B | (728) | – | – | (728) | (728) |
| Short-term borrowings | 18 | D | (509) | – | – | (509) | (509) |
| Long-term borrowings | 18 | D | (538) | – | – | (538) | (544) |
| Lease liabilities | 18 | E | (119) | – | – | (119) | (119) |
| Derivative financial instruments | 20 | C | – | (47) | – | (47) | (47) |
| Total financial liabilities | | | (1,894) | (47) | – | (1,941) | (1,947) |

D Borrowings are carried at amortised cost. Amounts denominated in foreign currencies are valued at the exchange rate prevailing at the balance sheet date. The fair value of borrowings is estimated using quoted prices (Level 1 as defined by IFRS 13).

E Leases are carried at amortised cost. Amounts denominated in foreign currencies are valued at the exchange rate prevailing at the balance sheet date. The fair value of the lease contract is estimated by discounting contractual future cash-flows (Level 2 as defined by IFRS 13).

F The fair value of instruments is estimated by using unobservable inputs to the extent that relevant observable inputs are not available. Unobservable inputs are developed using the best information available in the circumstances, which may include the Group's own data, taking into account all information about market participation assumptions that is reliably available (Level 3 as defined by IFRS 13).

IFRS 13 defines a three-level valuation hierarchy:

Level 1 – quoted prices for similar instruments

Level 2 – directly observable market inputs other than Level 1 inputs

Level 3 – inputs not based on observable market data

22. COMMITMENTS

At 31 July 2023, commitments, comprising bonds and guarantees arising in the normal course of business, amounted to £207m (FY2022: £234m), including pension commitments of £56m (FY2022: £56m) and charitable funding commitments for the Smiths Group Foundation of £10m (FY2022: Nil). In addition, the Group has committed expenditure on capital projects amounting to £13m (FY2022: £15m).

23. PROVISIONS AND CONTINGENT LIABILITIES

| | Trading | Non-headline and legacy | | | Total |
|---------------------------------|-----------|--------------------------------|------------------------------------|-----------|------------|
| | £m | John Crane, Inc. litigation £m | Titeflex Corporation litigation £m | Other £m | £m |
| At 31 July 2021 | 11 | 212 | 47 | 17 | 287 |
| Foreign exchange rate movements | 1 | 30 | 6 | 2 | 39 |
| Provision charged | 6 | 6 | 2 | 26 | 40 |
| Provision released | (3) | – | – | – | (3) |
| Unwind of provision discount | – | 2 | 1 | – | 3 |
| Utilisation | (4) | (21) | (4) | (2) | (31) |
| At 31 July 2022 | 11 | 229 | 52 | 43 | 335 |
| Comprising: | | | | | |
| Current liabilities | 10 | 34 | 14 | 30 | 88 |
| Non-current liabilities | 1 | 195 | 38 | 13 | 247 |
| At 31 July 2022 | 11 | 229 | 52 | 43 | 335 |
| Foreign exchange rate movements | – | (12) | (3) | – | (15) |
| Provision charged | 5 | 13 | – | 18 | 36 |
| Provision released | (4) | – | (7) | (14) | (25) |
| Unwind of provision discount | – | 6 | 1 | – | 7 |
| Utilisation | (4) | (32) | (2) | (14) | (52) |
| At 31 July 2023 | 8 | 204 | 41 | 33 | 286 |
| Comprising: | | | | | |
| Current liabilities | 6 | 27 | 13 | 24 | 70 |
| Non-current liabilities | 2 | 177 | 28 | 9 | 216 |
| At 31 July 2023 | 8 | 204 | 41 | 33 | 286 |

The John Crane, Inc. and Titeflex Corporation litigation provisions were the only provisions that were discounted; other provisions have not been discounted as the impact would be immaterial.

TRADING

The provisions included as trading represent amounts provided for in the ordinary course of business. Trading provisions are charged and released through headline profit.

Warranty provision and product liability

At 31 July 2023, the Group had warranty and product liability provisions of £6m (FY2022: £7m). Warranties over the Group's products typically cover periods of between one and three years. Provision is made for the likely cost of after-sales support based on the recent past experience of individual businesses.

Commercial disputes and litigation in respect of ongoing business activities

The Group has on occasion been required to take legal action to protect its intellectual property and other rights against infringement. It has also had to defend itself against proceedings brought by other parties, including product liability and insurance subrogation claims. Provision is made for any expected costs and liabilities in relation to these proceedings where appropriate, although there can be no guarantee that such provisions (which may be subject to potentially material revision from time to time) will accurately predict the actual costs and liabilities that may be incurred.

Contingent liabilities

In the ordinary course of its business, the Group is subject to commercial disputes and litigation such as government price audits, product liability claims, employee disputes and other kinds of lawsuits, and faces different types of legal issues in different jurisdictions. The high level of activity in the US, for example, exposes the Group to the likelihood of various types of litigation commonplace in that country, such as 'mass tort' and 'class action' litigation, legal challenges to the scope and validity of patents, and product liability and insurance subrogation claims. These types of proceedings (or the threat of them) are also used to create pressure to encourage negotiated settlement of disputes. Any claim brought against the Group (with or without merit) could be costly to defend. These matters are inherently difficult to quantify. In appropriate cases a provision is recognised based on best estimates and management judgement but there can be no guarantee that these provisions (which may be subject to potentially material revision from time to time) will result in an accurate prediction of the actual costs and liabilities that may be incurred. There are also contingent liabilities in respect of litigation for which no provisions are made.

The Group operates in some markets where the risk of unethical or corrupt behaviour is material and has procedures, including an employee ethics alert line, to help it identify potential issues. Such procedures will, from time to time, give rise to internal investigations, sometimes conducted with external support, to ensure that the Group properly understands risks and concerns and can take steps both to manage immediate issues and to improve its practices and procedures for the future. The Group is not aware of any issues which are expected to generate material financial exposures.

NON-HEADLINE AND LEGACY

John Crane, Inc.

John Crane, Inc. (JCI) is one of many co-defendants in numerous lawsuits pending in the United States in which plaintiffs are claiming damages arising from alleged exposure to, or use of, products previously manufactured which contained asbestos. Until 2006, the awards, the related interest and all material defence costs were met directly by insurers. In 2007, JCI secured the commutation of certain insurance policies in respect of product liability. Provision is made in respect of the expected costs of defending known and predicted future claims and of adverse judgements in relation thereto, to the extent that such costs can be reliably estimated.

The JCI products generally referred to in these cases consist of industrial sealing products, primarily packing and gaskets. The asbestos was encapsulated within these products in such a manner that causes JCI to understand, based on tests conducted on its behalf, that the products were safe. JCI ceased manufacturing products containing asbestos in 1985.

JCI continues to actively monitor the conduct and effect of its current and expected asbestos litigation, including the most efficacious presentation of its 'safe product' defence, and intends to continue to resist these asbestos claims based upon this defence. The table below summarises the JCI claims experience over the last 40 years since the start of this litigation:

| | Year ended 31 July 2023 | Year ended 31 July 2022 | Year ended 31 July 2021 | Year ended 31 July 2020 | Year ended 31 July 2019 |
|--|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| JCI claims experience | | | | | |
| Claims against JCI that have been dismissed | 310,000 | 306,000 | 305,000 | 297,000 | 285,000 |
| Claims JCI is currently a defendant in | 20,000 | 22,000 | 22,000 | 25,000 | 38,000 |
| Cumulative final judgements, after appeals, against JCI since 1979 | 154 | 149 | 149 | 149 | 144 |
| Cumulative value of awards (US\$m) since 1979 | 190 | 175 | 175 | 175 | 168 |

The number of claims outstanding at 31 July 2023 reflected the benefit of 4,000 (FY2022: 1,000) claims being dismissed in the year.

JCI has also incurred significant additional defence costs. The litigation involves claims for a number of allegedly asbestos-related diseases, with awards, when made, for mesothelioma tending to be larger than those for the other diseases. JCI's ability to defend mesothelioma cases successfully is, therefore, likely to have a significant impact on its annual aggregate adverse judgement and defence costs.

John Crane, Inc. litigation provision

The provision is based on past history of JCI claims and well-established tables of asbestos-related disease incidence projections. The provision is determined using advice from asbestos valuation experts, Bates White LLC. The assumptions made in assessing the appropriate level of provision include: the period over which the expenditure can be reliably estimated; the future trend of legal costs; the rate of future claims filed; the rate of successful resolution of claims; and the average amount of judgements awarded. The provision utilised in the period is higher than previous periods, principally due to the resolution of outstanding verdicts from previous periods.

Trial delays arising from the COVID-19 pandemic have largely abated and trial activity has returned to pre-pandemic levels.

Established incidence curves can be used to estimate the likely future pattern of asbestos-related disease. However, JCI's claims experience is also significantly impacted by other factors which influence the US litigation environment. These can include: changing approaches on the part of the plaintiffs' bar; changing attitudes amongst the judiciary at both trial and appellate levels in specific jurisdictions which move the balance of risk and opportunity for claimants; and legislative and procedural changes in both the state and federal court systems.

The projections use a limited time horizon on the basis that Bates White LLC consider that there is substantial uncertainty in the asbestos litigation environment. So probable expenditures are not reasonably estimable beyond this time horizon. Asbestos is the longest running mass tort litigation in American history and is constantly evolving in ways that cannot be anticipated. JCI's defence strategy also generates a significantly different pattern of legal costs and settlement expenses from other defendants. Thus JCI is in an extremely rare position, and evidence from other litigation cannot be used to improve the reliability of the projections. A ten-year (FY2022: ten-year) time horizon has been used based on past experience regarding significant changes in the litigation environment that have occurred every few years and on the amount of time taken in the past for some of those changes to impact the broader asbestos litigation environment.

The rate of future claims filed has been estimated using well-established tables of asbestos incidence projections to determine the likely population of potential claimants, and JCI's past experience to determine what proportion of this population will make a claim against JCI. The JCI products generally referred to in claims had industrial and marine applications. As a result, the incidence curve used for JCI projections excludes construction workers, and is a composite of the curves that predict asbestos exposure-related disease from shipyards and other occupations. This is consistent with JCI's litigation history.

The rate of successful resolution of claims and the average amount of any judgements awarded are projected based on the past history of JCI claims, since this is the best available evidence, given JCI's unusual strategy of defending all claims.

The future trend of legal costs is estimated based on JCI's past experience, adjusted to reflect the assumed levels of claims and trial activity, since the number of trials is a key driver of legal costs.

John Crane, Inc. litigation insurance recoveries

While JCI has certain excess liability insurance, JCI has met defence costs directly. The calculation of the provision does not take account of any potential recoveries from insurers.

John Crane, Inc. litigation provision sensitivities

The provision may be subject to potentially material revision from time to time if new information becomes available as a result of future events. There can be no guarantee that the assumptions used to estimate the provision will result in an accurate prediction of the actual costs that will be incurred because of the significant uncertainty associated with the future level of asbestos claims and of the costs arising out of related litigation, including the unpredictability of jury verdicts.

John Crane, Inc. statistical reliability of projections over the ten-year time horizon

In order to evaluate the statistical reliability of the projections, a population of outcomes is modelled using randomised verdict outcomes. This generated a distribution of outcomes with future spend at the 5th percentile of £180m and future spend at the 95th percentile of £245m (FY2022: £203m and £268m, respectively). Statistical analysis of the distribution of these outcomes indicates that there is a 50% probability that the total future spend will fall between £228m and £257m (FY2022: between £239m and £263m), compared to the gross provision value of £246m (FY2022: £258m).

John Crane, Inc. litigation provision history

The JCI asbestos litigation provision of £204m (FY2022: £229m) is a discounted pre-tax provision using discount rates, being the risk-free rate on US debt instruments for the appropriate period. The deferred tax asset related to this provision is shown within the deferred tax balance (note 6).

The JCI asbestos litigation provision has developed over the last five years as follows:

| | Year ended 31 July 2023 £m | Year ended 31 July 2022 £m | Year ended 31 July 2021 £m | Year ended 31 July 2020 £m | Year ended 31 July 2019 £m |
|---|----------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
| John Crane, Inc. litigation provision | | | | | |
| Gross provision | 246 | 258 | 220 | 235 | 257 |
| Discount | (42) | (29) | (8) | (4) | (20) |
| Discounted pre-tax provision | 204 | 229 | 212 | 231 | 237 |
| Deferred tax | (51) | (57) | (54) | (59) | (50) |
| Discounted post-tax provision | 153 | 172 | 158 | 172 | 187 |
| Operating profit charge/(credit) | | | | | |
| Increased provisions for adverse judgements and legal defence costs | 28 | 24 | 10 | 14 | 7 |
| Change in US risk-free rates | (15) | (18) | (5) | 16 | 8 |
| Subtotal – items charged to the provision | 13 | 6 | 5 | 30 | 15 |
| Litigation management, legal fees in connection with litigation against insurers and defence strategy | 2 | 1 | 1 | 1 | 2 |
| Recoveries from insurers | (7) | – | (9) | (3) | (11) |
| Total operating profit charge/(credit) | 8 | 7 | (3) | 28 | 6 |
| Cash-flow | | | | | |
| Provision utilisation – legal defence costs and adverse judgements | (32) | (21) | (13) | (23) | (24) |
| Litigation management expense | (2) | (1) | – | (1) | (2) |
| Recoveries from insurers | 7 | – | 9 | 3 | 11 |
| Net cash outflow | (27) | (22) | (4) | (21) | (15) |

John Crane, Inc. sensitivity of the projections to changes in the time horizon used

If the asbestos litigation environment becomes more volatile and uncertain, the time horizon over which the provision can be calculated may reduce. Conversely, if the environment became more stable, or JCI changed approach and committed to long-term settlement arrangements, the time period covered by the provision might be extended.

The projections use a ten-year time horizon. Reducing the time horizon by one year would reduce the provision by £16m (FY2022: £18m) and reducing it by five years would reduce the provision by £87m (FY2022: £97m).

We consider, after obtaining advice from Bates White LLC, that to forecast beyond ten years requires that the litigation environment remains largely unchanged with respect to the historical experience used for estimating future asbestos expenditures. Historically, the asbestos litigation environment has undergone significant changes more often than every ten years. If one assumed that the asbestos litigation environment would remain unchanged for longer and extended the time horizon by one year, it would increase the pre-tax provision by £13m (FY2022: £15m) and extending it by five years would increase the pre-tax provision by £48m (FY2022: £56m). However, there are also reasonable scenarios that, given certain recent events in the US asbestos litigation environment, would result in no additional asbestos litigation for JCI beyond ten years. At this time, how the asbestos litigation environment will evolve beyond ten years is not reasonably estimable.

John Crane, Inc. contingent liabilities

Provision has been made for future defence costs and the cost of adverse judgements expected to occur. JCI's claims experience is significantly impacted by other factors which influence the US litigation environment. These can include: changing approaches on the part of the plaintiffs' bar; changing attitudes amongst the judiciary at both trial and appellate levels; and legislative and procedural changes in both the state and federal court systems. As a result, whilst the Group anticipates that asbestos litigation will continue beyond the period covered by the provision, the uncertainty surrounding the US litigation environment beyond this point is such that the costs cannot be reliably estimated.

Although the methodology used to calculate the JCI litigation provision can in theory be applied to show claims and costs for longer periods, the Directors consider, based on advice from Bates White LLC, that the level of uncertainty regarding the factors used in estimating future costs is too great to provide for reasonable estimation of the numbers of future claims, the nature of such claims or the cost to resolve them for years beyond the ten-year time horizon.

Titeflex Corporation

Titeflex Corporation, a subsidiary of the Group in the Flex-Tek division, has received a number of claims in the US from insurance companies seeking recompense on a subrogated basis for the effects of damage allegedly caused by lightning strikes in relation to its flexible gas piping product. It has also received product liability claims regarding this product in the US, some in the form of purported class actions. Titeflex Corporation believes that its products are a safe and effective means of delivering gas when installed in accordance with the manufacturer's instructions and local and national codes. However, some claims have been settled on an individual basis without admission of liability. Equivalent third-party products in the US marketplace face similar challenges.

Titeflex Corporation litigation provision

The continuing progress of claims and the pattern of settlement, together with recent marketplace activity, provide sufficient evidence to recognise a liability in the accounts. Therefore provision has been made for the costs which the Group is expected to incur in respect of future claims to the extent that such costs can be reliably estimated. Titeflex Corporation sells flexible gas piping with extensive installation and safety guidance designed to assure the safety of the product and minimise the risk of damage associated with lightning strikes.

The assumptions made in assessing the appropriate level of provision, which are based on past experience, include: the period over which expenditure can be reliably estimated; the number of future settlements; the average amount of settlements; and the impact of statutes of repose and safe installation initiatives on the expected number of future claims. The assumptions relating to the number of future settlements exclude the use of recent claims history due to the uncertain impact that the COVID-19 lockdown has had on the number of claims.

The provision of £41m (FY2022: £52m) is a discounted pre-tax provision using discount rates, being the risk-free rate on US debt instruments for the appropriate period. The deferred tax asset related to this provision is shown within the deferred tax balance (note 6).

| | 31 July 2023 £m | 31 July 2022 £m |
|-------------------------------|--------------------|--------------------|
| Gross provision | 78 | 87 |
| Discount | (37) | (35) |
| Discounted pre-tax provision | 41 | 52 |
| Deferred tax | (9) | (12) |
| Discounted post-tax provision | 32 | 40 |

Titeflex Corporation litigation provision history

A credit of £8m (FY2022: £2m charge) has been recognised by Titeflex Corporation in respect of changes to the estimated cost of future claims from insurance companies seeking recompense for damage allegedly caused by lightning strikes. The lower gross provision value has been principally driven by an increase in the discount factor deriving from increasing US dollar discount rates.

Titeflex Corporation litigation provision sensitivities

The significant uncertainty associated with the future level of claims and of the costs arising out of related litigation means that there can be no guarantee that the assumptions used to estimate the provision will result in an accurate prediction of the actual costs that will be incurred. Therefore the provision may be subject to potentially material revision from time to time, if new information becomes available as a result of future events.

The projections incorporate a long-term assumption regarding the impact of safe installation initiatives on the level of future claims. If the assumed annual benefit of bonding and grounding initiatives were 0.5% higher, the provision would be £2m (FY2022: £3m) lower, and if the benefit were 0.5% lower, the provision would be £2m (FY2022: £4m) higher.

The projections use assumptions of future claims that are based on both the number of future settlements and the average amount of those settlements. If the assumed average number of future settlements increased 10%, the provision would rise by £3m (FY2022: £5m), with an equivalent fall for a reduction of 10%. If the assumed amount of those settlements increased 10%, the provision would rise by £2m (FY2022: £4m), also with an equivalent fall for a reduction of 10%.

Other non-headline and legacy provisions

Non-headline provisions comprise all provisions that were disclosed as non-headline items when they were charged to the consolidated income statement. Legacy provisions comprise non-material provisions relating to former business activities and discontinued operations and properties no longer used by Smiths.

These non-material provisions include non-headline reorganisation, disposal indemnities, litigation and arbitration in respect of old products and discontinued business activities, which includes claims received in connection with the disposal of Smiths Medical in the prior year. Provision is made for the best estimate of the expected expenditure related to the defence and/or resolution of such matters. There is an inherent risk in legal proceedings that the outcome may be unfavourable to the Group, and as such there can be no guarantee that such provisions (which may be subject to potentially material revision from time to time) will be sufficient.

Reorganisation

At 31 July 2023, there were reorganisation provisions of £7m (FY2022: £1m) relating to the various restructuring programmes that are expected to be utilised in the next 18 months.

Property

At 31 July 2023, there were provisions of £10m (FY2022: £10m) related to actual and potential environmental issues for sites currently or previously occupied by Smiths operations.

24. SHARE CAPITAL

| | Number of shares | Average number of shares | Issued capital £m | Consideration £m |
|--|--------------------|--------------------------|-------------------|------------------|
| Ordinary shares of 37.5p each | | | | |
| Total share capital at 31 July 2021 | 396,377,114 | 396,350,586 | 149 | |
| Issue of new equity shares – exercise of share options | 131,942 | 125,354 | – | 2 |
| Share buybacks | (34,152,897) | (9,797,729) | (13) | (511) |
| Total share capital at 31 July 2022 | 362,356,159 | 386,678,211 | 136 | |
| Share buybacks | (13,053,169) | (32,555,024) | (5) | (207) |
| Shares held in Employee Benefit Trust | – | (1,232,067) | | |
| Total share capital at 31 July 2023 | 349,302,990 | 352,891,120 | 131 | |

SHARE CAPITAL STRUCTURE

As at 31 July 2023, the Company's issued share capital was 349,302,990 ordinary shares with a nominal value of 37.5p per share. All of the issued share capital was in free issue and all issued shares are fully paid.

The Company's ordinary shares are listed and admitted to trading on the Main Market of the London Stock Exchange. The Company has an American Depositary Receipt (ADR) programme and one ADR equates to one ordinary share. As at 31 July 2023, 3,335,964 ordinary shares were held by the nominee of the programme in respect of the same number of ADRs in issue.

The holders of ordinary shares are entitled to receive the Company's Reports and Accounts, to attend and speak at General Meetings of the Company, to appoint proxies and to exercise voting rights. None of the ordinary shares carry any special rights with regard to control of the Company or distributions made by the Company.

There are no known agreements relating to, or restrictions on, voting rights attached to the ordinary shares (other than the 48-hour cut-off for casting proxy votes prior to a General Meeting). There are no restrictions on the transfer of shares, and there is no requirement to obtain approval for a share transfer. There are no known arrangements under which financial rights are held by a person other than the holder of the ordinary shares. There are no known limitations on the holding of shares.

POWERS OF DIRECTORS

The Directors are authorised to issue and allot shares and to buy back shares subject to receiving shareholder approval at the General Meeting. Such authorities were granted by shareholders at the 2022 Annual General Meeting. At the 2023 AGM, it will be proposed that the Directors be granted new authorities to allot and buy back shares.

SHARE BUYBACKS

As at 15 September 2023 (the latest practicable date for inclusion in this report), the Company had an unexpired authority to repurchase ordinary shares up to a maximum of 10.7 million ordinary shares (FY2022: 59 million). As at 15 September 2023, the Company did not hold any shares in treasury. Any ordinary shares purchased may be cancelled or held in treasury.

In connection with the sale of Smiths Medical to ICU Medical, Inc., and in the light of our strong balance sheet and cash-flows, the Group announced that it intended to return an amount representing 55% of the initial cash proceeds (equating to an aggregate purchase price of up to US\$1bn or £742m) to shareholders in the form of a Share Buyback Programme. All shares purchased under the Programme will be cancelled. This Programme was initiated on 19 November 2021 as announced to the London Stock Exchange on 11 November 2021 and following shareholder approval at the General Meeting held on 17 November 2021.

A total number of 13,008,032 ordinary shares of 37.5p each were repurchased during the period, for a total consideration of £206,142,265, of which 84,195 shares with a value of £1,430,464 were yet to settle and be cancelled. In total since the start of the Programme, 47,290,261 shares have been repurchased, for a total consideration of £718,939,264, representing 11.93% of the called-up ordinary share capital outstanding at the start of the Programme.

A further 1,379,697 ordinary shares have been repurchased during the period of 1 August 2023 to 15 September 2023, bringing the total number of shares repurchased to 48,669,958. At 15 September 2023, the Group had paid £737m of the expected £742m payable under the Programme, with the remaining £5m expected to be utilised within the next two weeks.

EMPLOYMENT SHARE SCHEMES

Shares acquired through Company share schemes and plans rank pari passu with the shares in issue and have no special rights. The Company operates an Employee Benefit Trust, with an independent trustee, to hold shares pending employees becoming entitled to them under the Company's share schemes and plans. On 31 July 2023, the Trust held 1,742,929 (FY2022: 618,662) ordinary shares in the Company. The Trust waived its dividend entitlement on its holding during the year, and the Trust abstains from voting any shares held at General Meetings.

25. DIVIDENDS

The following dividends were declared and paid in the period:

| | Year ended 31 July 2023 £m | Year ended 31 July 2022 £m |
|--|----------------------------------|----------------------------------|
| Ordinary final dividend of 27.3p (FY2022: 26.0p) paid 19 November 2022 | 97 | 103 |
| Ordinary interim dividend of 12.9p (FY2022: 12.3p) paid 17 May 2023 | 46 | 47 |
| | 143 | 150 |

In the current year a total dividend of 40.2p has been paid, comprising a final dividend of 27.3p paid in respect of FY2022 and an interim dividend of 12.9p paid in respect of FY2023. In the prior year a total dividend of 38.3p was paid, comprising a final dividend of 26.0p paid in respect of FY2021 and an interim dividend of 12.3p paid in respect of FY2022.

The final dividend for the year ended 31 July 2023 of 28.7p per share was recommended by the Board on 21 September 2023 and will be paid to shareholders on 24 November 2023, subject to approval by the shareholders. This dividend is payable to all shareholders on the register of members at 6.00pm on 20 October 2023 (the record date).

WAIVER OF DIVIDENDS

The following waived all dividends payable in the year, and all future dividends, on their shareholdings in the Company:

- Winterflood Client Nominees Limited (Buck Trustees Dividend Waived Ltd)

26. RESERVES

Retained earnings include the value of Smiths Group plc shares held by the Smiths Industries Employee Benefit Trust. In the year the Company issued nil (FY2022: nil) shares to the Trust, the Trust purchased 1,553,558 shares (FY2022: 1,069,998 shares) in the market for a consideration of £25m (FY2022: £16m) and redeemed 429,291 shares (FY2022: 777,700) to employees for a cumulative option cost of £1m (FY2022: £nil). At 31 July 2023, the Trust held 1,742,929 (FY2022: 618,662) ordinary shares.

Other reserves comprise the capital redemption reserve, revaluation reserve and merger reserve, which arose from share repurchases, revaluations of property, plant and equipment, and merger accounting for business combinations before the adoption of IFRS, respectively.

CAPITAL MANAGEMENT

Capital employed comprises total equity adjusted for goodwill recognised directly in reserves, net retirement benefit-related assets and liabilities, net litigation provisions relating to non-headline items and net debt. The efficiency of the allocation of capital to the divisions is monitored through the return on capital employed (ROCE). This ratio is calculated over a rolling 12-month period and is the percentage that headline operating profit comprises of monthly average capital employed. In FY2023 ROCE was 15.7% (FY2022: 14.2%); see note 29.

Capital structure is based on the Directors' judgement of the balance required to maintain flexibility, whilst achieving an efficient cost of capital.

The FY2023 ratio of net debt to headline EBITDA of 0.7 (FY2022: 0.3) is within the Group's stated policy of 2.0 or less over the medium term. The Group's robust balance sheet and record of strong cash generation are more than able to fund immediate investment needs and legacy obligations. See note 29 for the definition of headline EBITDA and the calculation of this ratio.

As part of its capital management, the Group maintains a solid investment grade credit rating to ensure access to the widest possible sources of financing and to optimise the resulting cost of capital. At 31 July 2023, the Group had a credit rating of BBB+/Baa2 (FY2022: BBB+/Baa2) with Standard & Poor's and Moody's respectively.

The Board has a progressive dividend policy for future payouts, with the aim of increasing dividends in line with the long-term underlying growth in earnings. In setting the level of dividend payments, the Board will take into account prevailing economic conditions and future investment plans, along with the objective to maintain a minimum dividend cover of at least two times.

HEDGE RESERVE

The hedge reserve on the balance sheet records the cumulative gain or loss on designated hedging instruments, and comprises:

| | 31 July 2023 £m | 31 July 2022 £m |
|---|--------------------|--------------------|
| Net investment hedge reserve (net of £8m of deferred tax (FY2022: £8m)) | (188) | (205) |
| Cash-flow hedge reserve | – | 3 |
| | (188) | (202) |

See transactional currency exposure risk management disclosures in note 19 for additional details of cash-flow hedges, and translational currency exposure risk management disclosure also in note 19 for additional details of net investment hedges.

NON-CONTROLLING INTEREST

The Group has recorded non-controlling interests of £22m (FY2022: £22m), of which the most significant balance is in John Crane Japan Inc., which represented £19m (FY2022: £20m) of the total non-controlling interests.

The non-controlling interest in John Crane Japan Inc. represents a 30% interest. John Crane Japan Inc. generated operating profits of £5m in the period (FY2022: £5m), and cash inflows from operating activities of £2m (FY2022: £5m). It paid dividends of £1m (FY2022: £1m) and tax of £2m (FY2022: £1m). At 31 July 2023, the company contributed £53m (FY2022: £57m) of net assets to the Group.

27. ACQUISITIONS

On 5 January 2023, the Group's Interconnect division acquired 100% of the share capital of Plastronics Sockets & Connectors (Plastronics) for consideration of £25m. The acquisition was financed using the Group's own cash resources. Plastronics is a leading supplier of burn-in test sockets and patented spring probe contacts for the semiconductor test market segment. This acquisition strengthens the existing portfolio of Smiths Interconnect and provides cross-selling opportunities in Asia and the US.

The intangible assets recognised on acquisition comprise customer relationships, intellectual property and technology. Goodwill represents the expected synergies from the strategic fit of the acquisition and the value of the expertise in the assembled workforce. From the date of acquisition to 31 July 2023, Plastronics contributed £8m to revenue and less than £1m to profit before taxation and amortisation. If the Group had acquired this business from the beginning of the financial year, the acquisition would have contributed £15m to revenue and less than £1m to profit before taxation.

Provisional balances at the date of acquisition have been provided in the table below. The amounts remain provisional due to the fair value of the deferred consideration not being finalised.

| | | Plastronics £m |
|--|-------------------------------|-------------------|
| Non-current assets | | |
| | – acquired intangible assets | 13 |
| | – plant and machinery | 2 |
| Current assets | | |
| | – inventory | 3 |
| | – trade and other receivables | 3 |
| Current liabilities | | |
| | – trade and other payables | (3) |
| Net assets acquired | | 18 |
| Goodwill on current period acquisitions | | 7 |
| Cash paid during the period | | 22 |
| Deferred consideration | | 3 |
| Total consideration | | 25 |

POST BALANCE SHEET DATE ACQUISITION

On 30 August 2023, the Group acquired the business of Heating & Cooling Products (HCP), for consideration of approximately £65m, financed using the Group's own cash resources. HCP is a US-based manufacturer of Heating, Ventilation & Air Conditioning (HVAC) solutions. This acquisition will further expand the Flex-Tek division's presence in the North American HVAC market, enabling Smiths to serve customers with an even broader product range.

The acquisition has historically contributed £47m of annualised revenue and £6m of annualised profit before taxation. Due to the short time between the completion of the acquisition and the announcement date, it has not been possible to complete the determination of the fair values of the acquired balance sheet.

28. CASH-FLOW

CASH-FLOW FROM OPERATING ACTIVITIES

| | Year ended 31 July 2023 | | | Year ended 31 July 2022 | | |
|--|-------------------------|--------------------|-------------|-------------------------|--------------------|-------------|
| | Headline £m | Non-headline £m | Total £m | Headline £m | Non-headline £m | Total £m |
| Operating profit: | | | | | | |
| – continuing operations | 501 | (98) | 403 | 417 | (300) | 117 |
| – discontinued operations | – | 6 | 6 | 66 | (47) | 19 |
| Amortisation of intangible assets | 9 | 52 | 61 | 10 | 51 | 61 |
| Impairment of intangible assets | – | – | – | – | 4 | 4 |
| Impairment of investment within discontinued operations | – | – | – | – | 14 | 14 |
| Depreciation of property, plant and equipment | 42 | – | 42 | 38 | – | 38 |
| Depreciation of right of use assets | 32 | – | 32 | 30 | – | 30 |
| (Gain)/loss on disposal of property, plant and equipment | – | – | – | (2) | – | (2) |
| (Gain)/loss on fair value of contingent consideration | – | 6 | 6 | – | – | – |
| Share-based payment expense | 13 | – | 13 | 13 | – | 13 |
| Retirement benefits* | 5 | (7) | (2) | 5 | 207 | 212 |
| Decrease/(increase) in inventories | (88) | (1) | (89) | (173) | 4 | (169) |
| Decrease/(increase) in trade and other receivables | (10) | (53) | (63) | (87) | 4 | (83) |
| Increase/(decrease) in trade and other payables | 10 | 39 | 49 | 131 | (2) | 129 |
| Increase/(decrease) in provisions | (2) | (32) | (34) | (1) | 22 | 21 |
| Cash generated from operations | 512 | (88) | 424 | 447 | (43) | 404 |
| Interest paid | (73) | (2) | (75) | (51) | – | (51) |
| Interest received | 36 | – | 36 | 13 | 1 | 14 |
| Tax paid | (92) | – | (92) | (88) | – | (88) |
| Net cash inflow from operating activities | 383 | (90) | 293 | 321 | (42) | 279 |
| – continuing operations | 383 | (90) | 293 | 274 | (42) | 232 |
| – discontinued operations | – | – | – | 47 | – | 47 |

* The retirement benefits non-headline operating activities principally relate to employer contributions to legacy defined benefit and post-retirement healthcare plans.

HEADLINE CASH MEASURES – CONTINUING OPERATIONS

The Group measure of headline operating cash excludes interest and tax, and includes capital expenditure supporting organic growth. The Group uses operating cash-flow for the calculation of cash conversion and free cash-flow for management of capital purposes. See note 29 for additional details.

The table below reconciles the Group's net cash-flow from operating activities to headline operating cash-flow and free cash-flow:

| | Year ended 31 July 2023 | | | Year ended 31 July 2022 | | |
|---|-------------------------|--------------------|-------------|-------------------------|--------------------|-------------|
| | Headline £m | Non-headline £m | Total £m | Headline £m | Non-headline £m | Total £m |
| Net cash inflow from operating activities | 383 | (90) | 293 | 274 | (42) | 232 |
| Include: | | | | | | |
| Expenditure on capitalised development, other intangible assets and property, plant and equipment | (81) | – | (81) | (71) | – | (71) |
| Repayment of lease liabilities | (36) | – | (36) | (34) | – | (34) |
| Disposals of property, plant and equipment | 2 | – | 2 | 3 | – | 3 |
| Free cash-flow | | | 178 | | | 130 |
| Exclude: | | | | | | |
| Repayment of lease liabilities | 36 | – | 36 | 34 | – | 34 |
| Interest paid | 73 | – | 73 | 46 | – | 46 |
| Interest received | (36) | – | (36) | (13) | – | (13) |
| Tax paid | 92 | – | 92 | 79 | – | 79 |
| Operating cash-flow | 433 | (90) | 343 | 318 | (42) | 276 |

HEADLINE CASH CONVERSION

Headline operating cash conversion for continuing operations is calculated as follows:

| | Year ended 31 July 2023 | | | Year ended 31 July 2022 | | |
|---|-------------------------|------------------------------|--|-------------------------|------------------------------|--|
| | As reported £m | Restructuring costs £m | Pro-forma excluding restructuring costs £m | As reported £m | Restructuring costs £m | Pro-forma excluding restructuring costs £m |
| Headline operating profit | 501 | – | 501 | 417 | – | 417 |
| Headline operating cash-flow | 433 | – | 433 | 318 | 14 | 332 |
| Headline operating cash conversion | 86% | | 86% | 76% | | 80% |

RECONCILIATION OF FREE CASH-FLOW TO NET MOVEMENT IN CASH AND CASH EQUIVALENTS:

| | Year ended 31 July 2023 £m | Year ended 31 July 2022 £m |
|--|----------------------------------|----------------------------------|
| Free cash-flow | 178 | 130 |
| Investment in financial assets and acquisition of businesses | (22) | – |
| Disposal of businesses and discontinued operations | (7) | 1,331 |
| Other net cash-flows used in financing activities (note: repayment of lease liabilities is included in free cash-flow) | (909) | (937) |
| Net decrease in cash and cash equivalents for discontinued operations | – | 16 |
| Net increase/(decrease) in cash and cash equivalents | (760) | 540 |

29. ALTERNATIVE PERFORMANCE MEASURES AND KEY PERFORMANCE INDICATORS

The Group uses several alternative performance measures (APMs) in order to provide additional useful information on underlying trends and the performance and position of the Group. APMs are non-GAAP and not defined by IFRS; therefore, they may not be directly comparable with other companies' APMs and should not be considered a substitute for IFRS measures.

The Group uses these measures, which are common across the industry, for planning and reporting purposes, to enhance the comparability of information between reporting periods and business units. The measures are also used in discussions with the investment analyst community and by credit rating agencies.

We have identified and defined the following key measures which are used within the business by management to assess the performance of the Group's businesses:

| APM term | Definition and purpose |
|----------------------------|---|
| CAPITAL EMPLOYED | <p>Capital employed is a non-statutory measure of invested resources. It comprises statutory net assets and is adjusted as follows:</p> <ul style="list-style-type: none"> – To add goodwill recognised directly in reserves in respect of subsidiaries acquired before 1 August 1998; – To eliminate the Group's investment in ICU Medical, Inc. equity and deferred consideration contingent on the future share price performance of ICU Medical, Inc; and – To eliminate post-retirement benefit assets and liabilities and non-headline litigation provisions related to John Crane, Inc. and Titeflex Corporation, both net of deferred tax, and net debt. <p>It is used to monitor capital allocation within the Group. See below for a reconciliation from net assets to capital employed.</p> |
| CAPITAL EXPENDITURE | <p>Comprises additions to property, plant and equipment, capitalised development and other intangible assets, excluding assets acquired through business combinations: see note 1 for an analysis of capital expenditure. This measure quantifies the level of capital investment into ongoing operations.</p> |

| | |
|--|---|
| DIVISIONAL HEADLINE OPERATING PROFIT (DHOP) | DHOP comprises divisional earnings before central costs, finance costs and taxation. DHOP is used to monitor divisional performance. A reconciliation of DHOP to operating profit is shown in note 1. |
| FREE CASH-FLOW | Free cash-flow is calculated by adjusting the net cash inflow from operating activities to include capital expenditure, the repayment of lease liabilities, the proceeds from the disposal of property, plant and equipment and the investment in financial assets relating to operating activities and pensions financing outstanding at the balance sheet date. The measure shows cash generated by the Group before discretionary expenditure on acquisitions and returns to shareholders. A reconciliation of free cash-flow is shown in note 28. |
| GROSS DEBT | Gross debt is total borrowings (bank, bonds and lease liabilities). It is used to provide an indication of the Group's overall level of indebtedness. See note 18 for an analysis of gross debt. |
| HEADLINE | The Group has defined a 'headline' measure of performance that excludes material non-recurring items or items considered non-operational/trading in nature. Items excluded from headline are referred to as non-headline items. This measure is used by the Group to measure and monitor performance excluding material non-recurring items or items considered non-operational. See note 3 for an analysis of non-headline items. |
| HEADLINE EBITDA | EBITDA is a widely used profit measure, not defined by IFRS, being earnings before interest, taxation, depreciation and amortisation. A reconciliation of headline operating profit to headline EBITDA is shown in the note below. |
| NET DEBT | Net debt is total borrowings (bank, bonds and lease liabilities) less cash balances and derivatives used to manage the interest rate risk and currency profile of the debt. This measure is used to provide an indication of the Group's overall level of indebtedness and is widely used by investors and credit rating agencies. See note 18 for an analysis of net cash/(debt). |
| NON-HEADLINE | The Group has defined a 'headline' measure of performance that excludes material non-recurring items or items considered non-operational/trading in nature. Items excluded from headline are referred to as non-headline items. This is used by the Group to measure and monitor material non-recurring items or items considered non-operational. See note 3 for an analysis of non-headline items. |

OPERATING CASH-FLOW

Comprises free cash-flow and excludes cash-flows relating to the repayment of lease liabilities, interest and taxation. The measure shows how cash is generated from operations in the Group. A reconciliation of operating cash-flow is shown in note 28.

OPERATING PROFIT

Operating profit is earnings before finance costs and tax. A reconciliation of operating profit to profit before tax is shown on the income statement on page 130. This common measure is used by the Group to measure and monitor performance.

RETURN ON CAPITAL EMPLOYED (ROCE)

Smiths ROCE is calculated over a rolling 12-month period and is the percentage that headline operating profit represents of the monthly average capital employed on a rolling 12-month basis. This measure of return on invested resources is used to monitor performance and capital allocation within the Group. See below for Group ROCE and note 1 for divisional headline operating profit and divisional capital employed.

The key performance indicators (KPIs) used by management to assess the performance of the Group's businesses are as follows:

| KPI term | Definition and purpose |
|--|---|
| DIVIDEND COVER – HEADLINE | Dividend cover is the ratio of headline earnings per share (see note 5) to dividend per share (see note 25). This commonly used measure indicates the number of times the dividend in a financial year is covered by headline earnings. |
| EARNINGS PER SHARE (EPS) GROWTH | EPS growth is the growth in headline basic EPS (see note 5), on a reported basis. EPS growth is used to measure and monitor performance. |
| FREE CASH-FLOW (AS A % OF OPERATING PROFIT) | This measure is defined as free cash-flow divided by headline operating profit averaged over a three-year performance period. This cash generation measure is used by the Group as a performance measure for remuneration purposes. |
| GREENHOUSE GAS (GHG) EMISSIONS REDUCTION | GHG reduction is calculated as the percentage change in normalised Scope 1 & 2 GHG emissions. Normalised is calculated as tCO ₂ e per £m of revenue. This measure is used to monitor environmental performance. |

| KPI term | Definition and purpose |
|---|--|
| GROSS VITALITY | Gross Vitality is calculated as the percentage of revenue derived from new products and services launched in the last five years. This measure is used to monitor the effectiveness of the Group's new product development and commercialisation. |
| MY SAY ENGAGEMENT SCORE | The overall score in our My Say employee engagement survey. The biannual survey is undertaken Group-wide. This measure is used by the Group to monitor employee engagement. |
| OPERATING CASH CONVERSION | Comprises headline operating cash-flow, excluding restructuring costs, as a percentage of headline operating profit. This measure is used to show the proportion of headline operating profit converted into cash-flow from operations before investment, finance costs, non-headline items and taxation. The calculation is shown in note 28. |
| OPERATING PROFIT MARGIN | Operating profit margin is calculated by dividing headline operating profit by revenue. This measure is used to monitor the Group's ability to drive profitable growth and control costs. |
| ORGANIC GROWTH | Organic growth adjusts the movement in headline performance to exclude the impact of foreign exchange and acquisitions. Organic growth is used by the Group to aid comparability when monitoring performance. |
| ORGANIC REVENUE GROWTH (REMUNERATION) | Organic revenue growth (remuneration) is compounded annualised growth in revenue after excluding the impact of foreign exchange and acquisitions. The measure used for remuneration differs from organic revenue growth in that it is calculated on a compounded annualised basis. This measure has historically been used by the Group for aligning remuneration with business performance. |
| PERCENTAGE OF SENIOR LEADERSHIP POSITIONS TAKEN BY FEMALES | Percentage of senior leadership positions taken by females is calculated as the percentage of senior leadership roles (G14+ group) held by females. This measure is used by the Group to monitor diversity performance. |
| R&D CASH COSTS AS A % OF SALES | This measure is defined as the cash cost of research and development activities (including capitalised R&D, R&D directly charged to the P&L and customer-funded projects) as a percentage of revenue. Innovation is an important driver of sustainable growth for the Group and this measures our investment in research and development to drive innovation. |
| RECORDABLE INCIDENT RATE (RIR) | Recordable Incident Rate is calculated as the number of recordable incidents – where an incident requires medical attention beyond first aid – per 100 colleagues, per year across Smiths. This measure is used by the Group to monitor health and safety performance. |

CAPITAL EMPLOYED

Capital employed is a non-statutory measure of invested resources. It comprises statutory net assets adjusted to add goodwill recognised directly in reserves in respect of subsidiaries acquired before 1 August 1998 of £478m (FY2022: £478m), to eliminate the Group's investment in ICU Medical, Inc. equity and deferred consideration contingent on the future share price performance of ICU Medical, Inc. and to eliminate post-retirement benefit assets and liabilities and non-headline litigation provisions related to John Crane, Inc. and Titeflex Corporation, both net of related tax, and net debt.

| | Notes | 31 July 2023 £m | 31 July 2022 £m |
|--|-------|--------------------|--------------------|
| Net assets | | 2,406 | 2,721 |
| Adjust for: | | | |
| Goodwill recognised directly in reserves | | 478 | 478 |
| Retirement benefit assets and obligations | 8 | (89) | (194) |
| Tax related to retirement benefit assets and obligations | | 31 | 57 |
| John Crane, Inc. litigation provisions and related tax | 23 | 153 | 172 |
| Titeflex Corporation litigation provisions and related tax | 23 | 32 | 40 |
| Investment in ICU Medical, Inc. equity | 14 | (347) | (364) |
| Deferred contingent consideration | 14 | (13) | (19) |
| Net debt | 18 | 387 | 150 |
| Capital employed | | 3,038 | 3,041 |

RETURN ON CAPITAL EMPLOYED (ROCE)

| | Notes | Year ended 31 July 2023 £m | Year ended 31 July 2022 £m |
|---|-------|----------------------------------|----------------------------------|
| Headline operating profit for previous 12 months – continuing operations | | 501 | 417 |
| Average capital employed – continuing operations (excluding investment in ICU Medical, Inc. equity) | 1 | 3,196 | 2,940 |
| ROCE | | 15.7% | 14.2% |

CREDIT METRICS

Smiths Group monitors the ratio of net debt to headline EBITDA as part of its management of credit ratings; see note 26 for details. This ratio is calculated as follows:

Headline earnings before interest, tax, depreciation and amortisation (headline EBITDA)

| | Notes | Year ended 31 July 2023 £m | Year ended 31 July 2022 £m |
|---|-------|----------------------------------|----------------------------------|
| Headline operating profit | | 501 | 417 |
| Exclude: | | | |
| – depreciation of property, plant and equipment | 12 | 42 | 38 |
| – depreciation of right of use assets | 13 | 32 | 30 |
| – amortisation and impairment of development costs | 10 | 2 | 3 |
| – amortisation of software, patents and intellectual property | 10 | 7 | 7 |
| Headline EBITDA | | 584 | 495 |

Ratio of net debt to headline EBITDA

| | Notes | Year ended 31 July 2023 £m | Year ended 31 July 2022 £m |
|---|-------|----------------------------------|----------------------------------|
| Headline EBITDA | | 584 | 495 |
| Net debt | 18 | 387 | 150 |
| Ratio of net debt to headline EBITDA | | 0.7 | 0.3 |

30. POST BALANCE SHEET EVENTS

Details of the proposed final dividend announced since the end of the reporting period are given in note 25.

On 30 August 2023, the Group completed the acquisition of HCP, see note 27 for details.

31. AUDIT EXEMPTION TAKEN FOR SUBSIDIARIES

The following subsidiaries are exempt from the requirements of the Companies Act 2006 relating to the audit of individual accounts by virtue of Section 479A of that Act for FY2023.

| Company name | Company number |
|--------------------------------------|----------------|
| EIS Group Plc | 61407 |
| Flexibox International Limited | 394688 |
| Flex-Tek Group Limited | 11545405 |
| Graseby Limited | 894638 |
| SI Properties Limited | 160881 |
| SITI 1 Limited | 4257042 |
| Smiths Detection Group Limited | 5138140 |
| Smiths Detection Investments Limited | 5146644 |
| Smiths Finance Limited | 7888063 |
| Smiths Group Finance EU Limited | 10440573 |
| Smiths Group Finance US Limited | 10440608 |
| Smiths Group Innovation Limited | 10953689 |
| Smiths Interconnect Group Limited | 6641403 |
| Smiths Pensions Limited | 2197444 |

UNAUDITED GROUP FINANCIAL RECORD 2019-2023

| | | Year ended 31 July 2023 £m | Year ended 31 July 2022 £m | Year ended 31 July 2021 £m | Year ended 31 July 2020 £m | Year ended 31 July 2019 £m |
|---|--|----------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
| Income statement metrics – headline* | | | | | | |
| Continuing operations | Revenue | 3,037 | 2,566 | 2,406 | 2,548 | 2,498 |
| | Headline operating profit | 501 | 417 | 372 | 327 | 427 |
| | Headline profit before tax | 466 | 376 | 332 | 278 | 376 |
| Discontinued operations | Revenue | – | 356 | 849 | 918 | 874 |
| | Headline operating profit | – | 66 | 177 | 184 | 147 |
| | Headline profit before tax | – | 65 | 176 | 180 | 144 |
| Income statement metrics – statutory** | | | | | | |
| | Revenue | 3,037 | 2,566 | 2,406 | 2,548 | 2,498 |
| | Operating profit | 403 | 117 | 326 | 241 | 326 |
| | Profit before taxation | 360 | 103 | 240 | 133 | 304 |
| | Profit for the year | 232 | 1,035 | 285 | 267 | 227 |
| Balance sheet metrics*** | | | | | | |
| | Net debt | (387) | (150) | (1,018) | (1,141) | (1,197) |
| | Shareholders' equity | 2,384 | 2,699 | 2,402 | 2,373 | 2,360 |
| | Average capital employed | 3,196 | 2,940 | 4,165 | 4,315 | 3,972 |
| Ratios*** | | | | | | |
| | Headline operating profit: revenue (%) | 16.5 | 16.5 | 16.9 | 14.7 | 17.0 |
| | Headline effective tax rate (%) | 26.0 | 27.2 | 27.1 | 26.2 | 25.9 |
| | Return on capital employed (%) | 15.7 | 14.2 | 13.2 | 11.8 | 14.4 |
| | Return on shareholders' funds (%) | 11.3 | 10.0 | 11.6 | 10.8 | 12.3 |
| Cash-flow metrics*** | | | | | | |
| | Headline operating cash | 433 | 318 | 630 | 575 | 474 |
| | Headline operating cash conversion (%) | 86 | 76 | 125 | 123 | 83 |
| | Free cash-flow | 178 | 130 | 383 | 273 | 234 |
| | Free cash-flow per share (p) | 51.0 | 35.9 | 96.6 | 68.9 | 59.1 |
| Earnings per share*** | | | | | | |
| | Headline earnings per share (p) | 97.1 | 82.5 | 93.1 | 84.8 | 96.8 |
| Dividends and dividend cover*** | | | | | | |
| | Pence per share | 41.6 | 39.60 | 37.70 | 35.00 | 45.90 |
| | Headline dividend cover | 2.3 | 2.1 | 2.5 | 2.4 | 2.1 |

* The headline income statement metrics in the above five-year record have been presented to reflect the reclassification of the Smiths Medical business as a discontinued operation and the Group's current accounting policy of including restructuring and pension administration costs within headline profit.

** The statutory income statement metrics are presented based on continuing operations for both the current and comparative years.

*** Balance sheet metrics, ratios, cash-flow metrics, earnings per share, dividend cover and number of employees are presented based on both continuing and discontinued operations for all years.

UNAUDITED SUPPLEMENTARY CONSOLIDATED INCOME STATEMENT – US DOLLAR TRANSLATION

| | Year ended 31 July 2023 | | | Year ended 31 July 2022 | | |
|---|-------------------------|---------------------------------|--------------|-------------------------|---------------------------------|--------------|
| | Headline \$m | Non-headline (note 3) \$m | Total \$m | Headline \$m | Non-headline (note 3) \$m | Total \$m |
| CONTINUING OPERATIONS | | | | | | |
| Revenue | 3,680 | – | 3,680 | 3,377 | – | 3,377 |
| Operating costs | (3,073) | (119) | (3,192) | (2,828) | (395) | (3,223) |
| Operating profit/(loss) | 607 | (119) | 488 | 549 | (395) | 154 |
| Interest income | 44 | – | 44 | 18 | – | 18 |
| Interest expense | (86) | (8) | (94) | (72) | – | (72) |
| Other financing gains/(losses) | – | (10) | (10) | – | 26 | 26 |
| Other finance charges – retirement benefits | – | 8 | 8 | – | 9 | 9 |
| Finance costs | (42) | (10) | (52) | (54) | 35 | (19) |
| Profit/(loss) before taxation | 565 | (129) | 436 | 495 | (360) | 135 |
| Taxation | (147) | (16) | (163) | (137) | 18 | (119) |
| Profit/(loss) for the year | 418 | (145) | 273 | 358 | (342) | 16 |
| DISCONTINUED OPERATIONS | | | | | | |
| Profit on discontinued operations | – | 7 | 7 | 64 | 1,280 | 1,344 |
| PROFIT/(LOSS) FOR THE YEAR | 418 | (138) | 280 | 422 | 938 | 1,360 |
| Profit/(loss) for the year attributable to: | | | | | | |
| Smiths Group shareholders – continuing operations | 417 | (145) | 272 | 355 | (342) | 13 |
| Smiths Group shareholders – discontinued operations | – | 7 | 7 | 64 | 1,280 | 1,344 |
| Non-controlling interests | 1 | – | 1 | 3 | – | 3 |
| | 418 | (138) | 280 | 422 | 938 | 1,360 |
| EARNINGS PER SHARE | | | | | | |
| Basic | | | 79.4c | | | 351.5c |
| Basic – continuing | | | 77.3c | | | 3.7c |
| Diluted | | | 78.9c | | | 350.0c |
| Diluted – continuing | | | 76.8c | | | 3.7c |

Assets and liabilities have been translated into US dollars at the exchange rate at the date of that balance sheet and income, expenses and cash-flows are translated at average exchange rates for the period. This reflects the accounting approach that Smiths Group plc would use if the Group moved to reporting in US dollars without making any changes to its Group structure or financing arrangements.

UNAUDITED SUPPLEMENTARY CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME – US DOLLAR TRANSLATION

| | Year ended 31 July 2023 \$m | Year ended 31 July 2022 \$m |
|---|-----------------------------------|-----------------------------------|
| PROFIT FOR THE YEAR | 280 | 1,360 |
| Other comprehensive income (OCI): | | |
| OCI which will not be reclassified to the income statement: | | |
| Re-measurement of post-retirement benefits assets and obligations | (138) | (22) |
| Taxation on post-retirement benefits movements | 39 | – |
| Fair value movements on financial assets at fair value through OCI | (22) | (83) |
| | (121) | (105) |
| OCI which will be reclassified and reclassifications: | | |
| Fair value gains/(losses) and reclassification adjustments: | | |
| – deferred in the year on cash-flow and net investment hedges | 15 | (108) |
| – reclassified to income statement on cash-flow and net investment hedges | 2 | 7 |
| | 17 | (101) |
| Foreign exchange (FX) movements net of recycling: | | |
| Exchange losses/(gains) on translation of foreign operations | (122) | 363 |
| Exchange gains recycled to the income statement on disposal on business | – | (258) |
| | (122) | 105 |
| Total other comprehensive income, net of taxation | (226) | (101) |
| Total comprehensive income | 54 | 1,259 |
| Attributable to: | | |
| Smiths Group shareholders | 55 | 1,258 |
| Non-controlling interests | (1) | 1 |
| | 54 | 1,259 |

UNAUDITED SUPPLEMENTARY CONSOLIDATED BALANCE SHEET – US DOLLAR TRANSLATION

| | 31 July 2023 \$m | 31 July 2022 \$m | | 31 July 2023 \$m | 31 July 2022 \$m |
|--|---------------------|---------------------|---------------------------------|---------------------|---------------------|
| NON-CURRENT ASSETS | | | SHAREHOLDERS' EQUITY | | |
| Intangible assets | 1,956 | 1,933 | Share capital | 168 | 166 |
| Property, plant and equipment | 318 | 296 | Share premium account | 469 | 444 |
| Right of use assets | 135 | 129 | Capital redemption reserve | 31 | 23 |
| Financial assets – other investments | 477 | 481 | Merger reserve | 302 | 286 |
| Retirement benefit assets | 251 | 376 | Retained earnings | 2,337 | 2,612 |
| Deferred tax assets | 122 | 116 | Hedge reserve | [242] | [246] |
| Trade and other receivables | 96 | 84 | Total shareholders' equity | 3,065 | 3,285 |
| | 3,355 | 3,415 | Non-controlling interest equity | 28 | 27 |
| CURRENT ASSETS | | | TOTAL EQUITY | | |
| INVENTORIES | | | | 3,093 | 3,312 |
| Current tax receivable | 819 | 694 | | | |
| Trade and other receivables | 60 | 61 | | | |
| Cash and cash equivalents | 993 | 897 | | | |
| Financial derivatives | 366 | 1,286 | | | |
| | 6 | 5 | | | |
| | 2,244 | 2,943 | | | |
| TOTAL ASSETS | | | | | |
| | 5,599 | 6,358 | | | |
| CURRENT LIABILITIES | | | | | |
| Financial liabilities | | | | | |
| – borrowings | (4) | (620) | | | |
| – lease liabilities | (33) | (35) | | | |
| – financial derivatives | (3) | (33) | | | |
| Provisions for liabilities and charges | (90) | (107) | | | |
| Trade and other payables | (930) | (829) | | | |
| Current tax payable | (95) | (78) | | | |
| | (1,155) | (1,702) | | | |
| NON-CURRENT LIABILITIES | | | | | |
| Financial liabilities | | | | | |
| – borrowings | (687) | (655) | | | |
| – lease liabilities | (117) | (110) | | | |
| – financial derivatives | (23) | (24) | | | |
| Provisions for liabilities and charges | (278) | (301) | | | |
| Retirement benefit obligations | (136) | (140) | | | |
| Current tax payable | (4) | (4) | | | |
| Deferred tax liabilities | (55) | (54) | | | |
| Trade and other payables | (51) | (56) | | | |
| | (1,351) | (1,344) | | | |
| TOTAL LIABILITIES | | | | | |
| | (2,506) | (3,046) | | | |
| NET ASSETS | | | | | |
| | 3,093 | 3,312 | | | |

UNAUDITED SUPPLEMENTARY CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – US DOLLAR TRANSLATION

| | Share capital and share premium \$m | Other reserves \$m | Retained earnings \$m | Hedge reserve \$m | Equity shareholders' funds \$m | Non-controlling interest \$m | Total equity \$m |
|--|--|--------------------------|-----------------------------|-------------------------|---|------------------------------------|------------------------|
| At 31 July 2022 | 610 | 309 | 1,617 | (246) | 3,285 | 27 | 3,312 |
| Profit for the year | – | – | 279 | – | 279 | 1 | 280 |
| Other comprehensive income: | | | | | | | |
| – re-measurement of retirement benefits after tax | – | – | (99) | – | (99) | – | (99) |
| – FX movements net of recycling | 33 | 18 | 999 | (13) | 41 | (1) | 40 |
| – fair value gains/(losses) and related tax | – | – | (22) | 17 | (4) | – | (4) |
| Total comprehensive income for the year | 33 | 18 | 1,157 | 4 | 217 | – | 217 |
| Transactions relating to ownership interests: | | | | | | | |
| Purchase of shares by Employee Benefit Trust | – | – | (29) | – | (29) | – | (29) |
| Share buybacks | (6) | 6 | (251) | – | (251) | – | (251) |
| Dividends: | | | | | | | |
| – equity shareholders | – | – | (173) | – | (173) | 1 | (172) |
| Share-based payment | – | – | 16 | – | 16 | – | 16 |
| At 31 July 2023 | 637 | 333 | 2,337 | (242) | 3,065 | 28 | 3,093 |
| | Share capital and share premium \$m | Other reserves \$m | Retained earnings \$m | Hedge reserve \$m | Equity shareholders' funds \$m | Non-controlling interest \$m | Total equity \$m |
| At 31 July 2021 | 712 | 336 | 2,608 | (317) | 3,339 | 29 | 3,368 |
| Profit for the year | – | – | 1,357 | – | 1,357 | 3 | 1,360 |
| Other comprehensive income: | | | | | | | |
| – re-measurement of retirement benefits after tax | – | – | (22) | – | (22) | – | (22) |
| – FX movements net of recycling | (88) | (44) | (377) | 172 | (337) | (5) | (342) |
| – fair value gains/(losses) and related tax | – | – | (83) | (101) | (184) | – | (184) |
| Total comprehensive income for the year | (88) | (44) | 875 | 71 | 814 | (2) | 812 |
| Transactions relating to ownership interests: | | | | | | | |
| Issue of new equity shares | 3 | – | – | – | 3 | – | 3 |
| Purchase of shares by Employee Benefit Trust | – | – | (21) | – | (21) | – | (21) |
| Proceeds from exercise of share options | – | – | 1 | – | 1 | – | 1 |
| Share buybacks | (17) | 17 | (672) | – | (672) | – | (672) |
| Dividends: | | | | | | | |
| – equity shareholders | – | – | (197) | – | (197) | – | (197) |
| Share-based payment | – | – | 18 | – | 18 | – | 18 |
| At 31 July 2022 | 610 | 309 | 2,612 | (246) | 3,285 | 27 | 3,312 |

UNAUDITED SUPPLEMENTARY CONSOLIDATED CASH-FLOW STATEMENT – US DOLLAR TRANSLATION

| | Year ended 31 July 2023 \$m | Year ended 31 July 2022 \$m |
|--|-----------------------------------|-----------------------------------|
| Net cash inflow from operating activities | 355 | 367 |
| Cash-flows from investing activities | | |
| Expenditure on capitalised development | (25) | (29) |
| Expenditure on other intangible assets | (8) | (11) |
| Purchases of property, plant and equipment | (64) | (76) |
| Disposals of property, plant and equipment | 2 | 4 |
| Receipt of capital from non-controlling interest | 1 | – |
| Acquisition of businesses | (27) | – |
| Proceeds on disposal of subsidiaries, net of cash disposed | (8) | 1,751 |
| Net cash-flow used in investing activities | (129) | 1,639 |
| Cash-flows from financing activities | | |
| Proceeds from exercise of share options | – | 3 |
| Share buybacks | (251) | (672) |
| Purchase of shares by Employee Benefit Trust | (29) | (21) |
| Proceeds received on exercise of employee share options | – | 1 |
| Settlement of cash-settled options | – | (1) |
| Dividends paid to equity shareholders | (173) | (197) |
| Lease payments | (44) | (50) |
| Reduction and repayment of borrowings | (639) | (388) |
| Cash inflow from matured derivative financial instruments | (11) | 30 |
| Net cash-flow used in financing activities | (1,147) | (1,295) |
| Net decrease in cash and cash equivalents | (921) | 711 |
| Cash and cash equivalents at beginning of year | 1,285 | 563 |
| Cash held in disposal group | – | 63 |
| Exchange differences | 2 | (52) |
| Cash and cash equivalents at end of year | 366 | 1,285 |
| Cash and cash equivalents at end of year comprise: | | |
| – cash at bank and in hand | 225 | 295 |
| – short-term deposits | 141 | 991 |
| | 366 | 1,286 |
| – bank overdrafts | – | (1) |
| | 366 | 1,285 |

UNAUDITED GROUP US DOLLAR FINANCIAL RECORD 2019–2023

| | | Year ended 31 July 2023 \$m | Year ended 31 July 2022 \$m | Year ended 31 July 2021 \$m | Year ended 31 July 2020 \$m | Year ended 31 July 2019 \$m |
|---|--|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| Income statement metrics – headline* | | | | | | |
| Continuing operations | Revenue | 3,680 | 3,377 | 3,264 | 3,216 | 3,218 |
| | Headline operating profit | 607 | 549 | 504 | 412 | 550 |
| | Headline profit before tax | 565 | 495 | 450 | 351 | 484 |
| Discontinued operations | Revenue | – | 468 | 1,152 | 1,159 | 1,126 |
| | Headline operating profit | – | 87 | 240 | 232 | 189 |
| | Headline profit before tax | – | 86 | 239 | 227 | 185 |
| Income statement metrics – statutory** | | | | | | |
| | Revenue | 3,680 | 3,377 | 3,264 | 3,216 | 3,218 |
| | Operating profit | 488 | 154 | 442 | 304 | 420 |
| | Profit before taxation | 436 | 135 | 325 | 169 | 391 |
| | Profit for the year | 280 | 1,362 | 387 | 337 | 291 |
| Balance sheet metrics*** | | | | | | |
| | Net debt | (497) | (183) | (1,415) | (1,495) | (1,462) |
| | Shareholders' equity | 3,065 | 3,285 | 3,339 | 3,107 | 2,882 |
| | Average capital employed | 4,109 | 3,578 | 5,790 | 5,652 | 4,852 |
| Ratios*** | | | | | | |
| | Headline operating profit: revenue (%) | 16.5 | 16.5 | 16.9 | 14.7 | 17.0 |
| | Headline effective tax rate (%) | 26.0 | 27.2 | 27.1 | 26.2 | 25.9 |
| | Return on capital employed (%) | 15.7 | 14.2 | 13.2 | 11.8 | 14.4 |
| | Return on shareholders' funds (%) | 10.9 | 9.9 | 12.2 | 10.6 | 12.1 |
| Cash-flow metrics*** | | | | | | |
| | Headline operating cash | 525 | 829 | 855 | 726 | 611 |
| | Headline operating cash conversion (%) | 86 | 76 | 125 | 123 | 83 |
| | Free cash-flow | 216 | 171 | 520 | 345 | 301 |
| | Free cash-flow per share (c) | 61.8 | 47.2 | 131.1 | 68.9 | 76.1 |
| Earnings per share*** | | | | | | |
| | Headline earnings per share (c) | 117.7 | 108.6 | 126.3 | 107.0 | 124.7 |
| Dividends and dividend cover*** | | | | | | |
| | Cents per share (c) | 50.4 | 52.1 | 51.1 | 44.2 | 59.1 |
| | Headline dividend cover | 2.3 | 2.1 | 2.5 | 2.4 | 2.1 |

* The headline income statement metrics in the above five-year record have been presented to reflect the reclassification of the Smiths Medical business as a discontinued operation and the Group's current accounting policy of including restructuring and pension administration costs within headline profit.

** The statutory income statement metrics are presented based on continuing operations for both the current and comparative year.

*** Balance sheet metrics, ratios, cash-flow metrics, earnings per share, dividend cover and number of employees are presented based on both continuing and discontinued operations for all years.

SMITHS GROUP PLC COMPANY ACCOUNTS

COMPANY BALANCE SHEET

| | Notes | 31 July 2023 £m | 31 July 2022 £m |
|--|-------|--------------------|--------------------|
| NON-CURRENT ASSETS | | | |
| Right of use assets | 2 | – | 5 |
| Investments | 3 | 2,431 | 2,422 |
| Loans due from subsidiaries | 3 | 2,447 | 561 |
| Retirement benefit assets | 10 | 195 | 309 |
| | | 5,073 | 3,297 |
| CURRENT ASSETS | | | |
| Trade and other receivables | 5 | 67 | 62 |
| Current tax receivable | | – | 5 |
| Cash and cash equivalents | 7 | 98 | 770 |
| Financial derivatives | 9 | 6 | 9 |
| | | 171 | 846 |
| TOTAL ASSETS | | 5,244 | 4,143 |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 6 | (2,180) | (588) |
| Lease liabilities | 7 | – | (1) |
| Financial derivatives | 9 | (6) | (29) |
| | | (2,186) | (618) |
| NON-CURRENT LIABILITIES | | | |
| Borrowings | 7 | (557) | (545) |
| Lease liabilities | 7 | – | (5) |
| Loans due to subsidiaries | | (5) | – |
| Provisions for liabilities and charges | 8 | (1) | (2) |
| Retirement benefit liabilities | 10 | (40) | (47) |
| Financial derivatives | 9 | (18) | (20) |
| | | (621) | (619) |
| TOTAL LIABILITIES | | (2,807) | (1,237) |
| NET ASSETS | | 2,437 | 2,906 |

SHAREHOLDERS' EQUITY

| | Notes | 31 July 2023 £m | 31 July 2022 £m |
|----------------------------|-------|--------------------|--------------------|
| Called up share capital | 11 | 131 | 136 |
| Share premium account | 11 | 365 | 365 |
| Capital redemption reserve | 11 | 24 | 19 |
| Other reserves | 11 | 181 | 181 |
| Profit and loss account | 11 | 1,736 | 2,205 |
| TOTAL EQUITY | | 2,437 | 2,906 |

The Company's loss for the period was £22m (FY2022: £1,257m profit).

The accounts on pages 197 to 204 were approved by the Board of Directors on 25 September 2023 and were signed on its behalf by:

PAUL KEEL

Chief Executive Officer

CLARE SCHERRER

Chief Financial Officer

Smiths Group plc – registered number 137013

COMPANY STATEMENT OF CHANGES IN EQUITY

| | Share capital £m | Share premium £m | Capital redemption reserve £m | Other reserves £m | Retained profit £m | Shareholders' equity £m |
|--|---------------------|---------------------|-------------------------------------|-------------------------|--------------------------|-------------------------------|
| At 31 July 2022 | 136 | 365 | 19 | 181 | 2,205 | 2,906 |
| Profit for the year | – | – | – | – | (22) | (22) |
| Other comprehensive income: | | | | | | |
| – re-measurement of retirement benefits | – | – | – | – | (117) | (117) |
| – taxation recognised on retirement benefits | – | – | – | – | 30 | 30 |
| Total comprehensive income for the year | – | – | – | – | (109) | (109) |
| Transactions with owners: | | | | | | |
| Purchase of shares by Employee Benefit Trust | – | – | – | – | (24) | (24) |
| Shares purchased under a buyback programme | (5) | – | 5 | – | (207) | (207) |
| Dividends paid to equity shareholders | – | – | – | – | (142) | (142) |
| Share-based payment | – | – | – | – | 13 | 13 |
| Total transactions with owners recognised in equity | (5) | – | 5 | – | (360) | (360) |
| At 31 July 2023 | 131 | 365 | 24 | 181 | 1,736 | 2,437 |
| | Share capital £m | Share premium £m | Capital redemption reserve £m | Other reserves £m | Retained profit £m | Shareholders' equity £m |
| At 31 July 2021 | 149 | 363 | 6 | 181 | 1,628 | 2,327 |
| Profit for the year | – | – | – | – | 1,257 | 1,257 |
| Other comprehensive income: | | | | | | |
| – re-measurement of retirement benefits | – | – | – | – | (23) | (23) |
| – taxation recognised on retirement benefits | – | – | – | – | 6 | 6 |
| Total comprehensive income for the year | – | – | – | – | 1,240 | 1,240 |
| Transactions with owners: | | | | | | |
| Issue of new equity shares | – | 2 | – | – | – | 2 |
| Purchase of shares by Employee Benefit Trust | – | – | – | – | (16) | (16) |
| Proceeds received on exercise of employee share options | – | – | – | – | 1 | 1 |
| Shares purchased under a buyback programme | (13) | – | 13 | – | (511) | (511) |
| Dividends paid to equity shareholders | – | – | – | – | (150) | (150) |
| Share-based payment | – | – | – | – | 13 | 13 |
| Total transactions with owners recognised in equity | (13) | 2 | 13 | – | (663) | (661) |
| At 31 July 2022 | 136 | 365 | 19 | 181 | 2,205 | 2,906 |

COMPANY ACCOUNTING POLICIES

BASIS OF PREPARATION

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101). In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of UK-adopted international accounting standards (Adopted IFRSs), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

These accounts have been prepared on a going concern basis and under the historical cost convention modified to include revaluation of certain financial instruments, share options and pension assets and liabilities held at fair value.

As permitted by Section 408(3) of the Companies Act 2006, the Company's income statement and statement of comprehensive income have not been presented. As permitted by Section 408(2), information about the Company's employee numbers and costs is not presented.

GOING CONCERN

The Directors are satisfied that the Group, (of which the Company is the holding company) has adequate resources to continue to operate for a period not less than 12 months from the date of approval of the financial statements and that there are no material uncertainties around their assessment. Accordingly, the Directors continue to adopt the going concern basis of accounting. Details of the going concern assessment for the Group are provided in the accounting policies note of the consolidated financial statements.

EXEMPTIONS FROM THE REQUIREMENTS OF IFRS APPLIED IN ACCORDANCE WITH FRS 101

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share-based payment' (details of the number and weighted-average exercise prices of share options, and how the fair value of goods or services received was determined);
- IFRS 7, 'Financial Instruments: Disclosures';
- Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities);
- Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information requirements in respect of:
 - paragraph 79(a)(iv) of IAS 1;
 - paragraph 73(e) of IAS 16 'Property, plant and equipment';
- The following paragraphs of IAS 1, 'Presentation of financial statements':
 - 10(d) (statement of cash-flows);
 - 16 (statement of compliance with all IFRS);
 - 38A (requirement for minimum of two primary statements, including cash flow statements);
 - 38B-D (additional comparative information);

- 111 (cash flow statement information); and
- 134-136 (capital management disclosures).
- IAS 7, 'Statement of cash-flows'
- Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective)
- Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation)
- The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.
- The requirements of paragraphs 52 and 58 of IFRS 16 Leases

SIGNIFICANT JUDGEMENTS, KEY ASSUMPTIONS AND ESTIMATES

The preparation of the accounts in conformity with generally accepted accounting principles requires management to make estimates and judgements that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the accounts and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates.

The key sources of estimation uncertainty together with the significant judgements and assumptions used in these Parent Company financial statements are set out below.

SOURCES OF ESTIMATION UNCERTAINTY

Taxation

The Company has recognised deferred tax assets of £40m (FY2022: £66m) relating to revenue losses brought forward. The recognition of these assets requires management to make significant estimates as to the ability to recover them against the unwind of other tax positions and forecast UK taxable profits of the tax group. Further detail on the Company's deferred taxation position is included in note 4.

Retirement benefits

Determining the value of the future defined benefit obligation involves significant estimates in respect of the assumptions used to calculate present values. These include future mortality, discount rate and inflation. The Company uses previous experience and independent actuarial advice to select the values for critical estimates. A portion of the Company's pension liabilities are insured via bulk annuity policies that match all or part of the scheme obligation to identified groups of pensioners. These assets are valued by an external qualified actuary at the actuarial valuation of the corresponding liability, reflecting this matching relationship.

The Company's principal defined benefit pension plans have been closed so that no future benefits are accrued. Critical estimates for these plans, and the effect of variances in these estimates, are disclosed in note 8 to the consolidated financial statements.

SIGNIFICANT JUDGEMENTS MADE IN APPLYING ACCOUNTING POLICIES

Taxation

As stated in the previous section 'Sources of estimation uncertainty', the Company has recognised deferred tax assets of £40m (FY2022: £66m) relating to revenue losses brought forward. The decision to recognise deferred tax assets requires judgement in determining whether the Company will be able to utilise historical tax losses in future periods. It has been concluded that there are sufficient taxable profits in future periods to support recognition.

Retirement benefits

At 31 July 2023 the Company has recognised £195m of retirement benefit assets (FY2022: £309m), which arises from the rights of the employers to recover the surplus at the end of the life of the scheme.

The recognition of this surplus is a significant judgement. There is judgement required in determining whether an unconditional right of refund exists based on the provisions of the relevant Trust deed and rules. Having taken legal advice with regard to the rights of the Company under the relevant Trust deed and rules, it has been determined that the surplus is recoverable by the Company and therefore can be recognised. If the pension schemes were wound up while they still had members, the schemes would need to buy out the benefits of all members. The buyouts would cost significantly more than the carrying value of the scheme liabilities within these financial statements which are calculated in accordance with IAS 19: Employee benefits.

FOREIGN CURRENCIES

Foreign currency transactions are recorded at the exchange rate ruling on the date of transaction. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the retranslation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the profit and loss account.

LEASES

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term, which includes periods covered by renewal options the Company is reasonably certain to exercise. In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date.

The Company recognises right of use assets at the commencement date of the lease. Right of use assets are measured at cost including the amount of lease liabilities recognised and initial direct costs incurred, less any incentives granted by the lessor. Right of use assets are subject to impairment and are depreciated over the shorter of the lease term and the useful life of the right of use asset.

The Company has a buildings lease with a remaining term of five months. Other leases with lease terms of 12 months or less and leases of office equipment with low value (typically below £5,000) are recognised as an expense on a straight-line basis over the lease term with the Company having applied 'short-term lease' and 'lease of low-value assets' recognition exemptions.

INVESTMENTS IN AND LOANS TO GROUP COMPANIES

The Company's investments in shares in Group companies are stated at cost less provision for impairment. Any impairment is charged to the profit and loss account as it arises.

The recoverability of intercompany loans is assessed applying the methodology of IFRS 9 by looking at the credit quality of the subsidiary and any support available to the entity. These calculations require the use of estimates including projected future cash-flows and other future events. The application of the expected credit loss model has not had a material impact on the Company's loan receivables provisioning position.

FINANCIAL INSTRUMENTS

The policies disclosed in the Group accounting policies on pages 135 to 143 for recognition, measurement and presentation of financial instruments are applied in the Company accounts.

TAXATION

Deferred tax is provided using the balance sheet liability method. A deferred tax asset is recognised where it is probable that future taxable income will be sufficient to utilise the available relief.

Deferred tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

PROVISIONS

Provisions for disposal indemnities, restructuring costs, property dilapidations and legal claims are recognised when: the Company has a legal or constructive obligation as a result of a past event; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are discounted where the time value of money is material.

RETIREMENT BENEFITS

The Company has both defined benefit and defined contribution plans. The policies disclosed in the Group accounting policies on pages 135 to 143 for recognition, measurement and presentation of retirement benefits are applied in the Company accounts. Note 8 to the consolidated accounts explains the valuation basis for the Company's retirement benefit schemes assets and liabilities.

SHARE-BASED PAYMENT

The Company operates a number of equity-settled and cash-settled share-based compensation plans.

The fair value of the shares or share options granted is recognised over the vesting period to reflect the value of the employee services received. The charge relating to grants to employees of the Company is recognised as an expense in the profit and loss account and the charge for grants to employees of other Group companies is recognised as an investment in the relevant subsidiary.

The fair value of options granted, excluding the impact of any non-market vesting conditions, is calculated using established option pricing models, principally binomial models. The probability of meeting non-market vesting conditions, which include profitability targets, is used to estimate the number of share options that are likely to vest.

For cash-settled share-based payment schemes, a liability is recognised based on the fair value of the payment earned by the balance sheet date. For equity-settled share-based payment schemes, the corresponding credit is recognised directly in reserves.

DIVIDENDS

Dividends are recognised as a liability in the period in which they are authorised. The interim dividend is recognised when it is paid and the final dividend is recognised when it has been approved by shareholders at the Annual General Meeting.

NOTES TO THE COMPANY ACCOUNTS

1. AUDIT FEE AND DIRECTORS EMOLUMENTS

The audit fee paid to KPMG LLP for the Parent Company was £0.1m (FY2022: £0.1m).

Directors' emoluments in the year amounted to £7m (FY2022: £4m). Further information is in the Remuneration & People Committee Report on pages 98 to 110.

2. RIGHT OF USE ASSETS

| | Properties £m |
|---------------------------------------|------------------|
| Cost or valuation | |
| At 31 July 2021 | 8 |
| At 31 July 2022 | 8 |
| Derecognition of right of use asset | (5) |
| At 31 July 2023 | 3 |
| Depreciation | |
| At 31 July 2021 | 2 |
| Charge for the year | 1 |
| At 31 July 2022 | 3 |
| Charge for the year | – |
| At 31 July 2023 | 3 |
| Net book value at 31 July 2023 | – |
| Net book value at 31 July 2022 | 5 |
| Net book value at 31 July 2021 | 6 |

3. INVESTMENTS AND LOANS DUE FROM SUBSIDIARIES

| | Shares in subsidiary undertakings £m | Loans due from subsidiaries £m | Total £m |
|--|---|---|--------------|
| Cost or valuation | | | |
| At 31 July 2021 | 2,419 | 612 | 3,031 |
| Foreign exchange rate movements | – | 21 | 21 |
| Contribution through share options | 8 | – | 8 |
| Decrease in advances due from subsidiaries | – | (71) | (71) |
| At 31 July 2022 | 2,427 | 562 | 2,989 |
| Foreign exchange rate movements | – | (16) | (16) |
| Contribution through share options | 9 | – | 9 |
| Increase in advances due from subsidiaries | – | 1,902 | 1,902 |
| At 31 July 2023 | 2,436 | 2,448 | 4,884 |
| Provision for impairment | | | |
| At 31 July 2021, 31 July 2022 and 31 July 2023 | 5 | 1 | 6 |
| Net book value at 31 July 2023 | 2,431 | 2,447 | 4,878 |
| Net book value at 31 July 2022 | 2,422 | 561 | 2,983 |
| Net book value at 31 July 2021 | 2,414 | 611 | 3,025 |

Loans due to subsidiaries are offset against loans due from subsidiaries only to the extent that there is a legal right of set-off. At 31 July 2023 £nil of loans payable are offset against loans receivable (FY2022: £1,664m). The Company has large offsetting loan balances because it uses loans to reduce its foreign currency exposures and separately monitor net cash generated from trading activities.

The Company's subsidiaries are largely held according to business lines by the following holding companies, which are incorporated in England:

- Smiths Group International Holdings Limited
- Smiths Detection Group Limited
- John Crane Group Limited
- Flex-Tek Group Limited
- Smiths Interconnect Group Limited

The principal subsidiaries and their countries of incorporation are:

England

Smiths Detection – Watford Ltd
John Crane UK Limited

Other

Smiths Detection Germany GmbH (Germany)
Smiths Detection (Asia-Pacific) Pte Ltd (Singapore)
John Crane Middle East FZE (UAE)
John Crane Technology (Tianjin) Co Limited (China)
John Crane Saudi Arabia Ltd (Saudi Arabia)
John Crane Canada Inc (Canada)

United States

Smiths Detection, Inc.
John Crane, Inc.
Titeflex Corporation
Flexible Technologies, LLC
Tutco, LLC
Royal Metal Products, LLC
Smiths Interconnect Americas, Inc.
Smiths Interconnect, Inc.
Kreislter Manufacturing Corp
Smiths Tubular Systems – Laconia Inc.

Of the companies above, Smiths Group International Holdings Limited is 100% owned directly by the Company. The others are 100% owned through intermediate holding companies. Shareholdings are of ordinary shares or common stock. All of the above subsidiaries operate in their country of incorporation.

See pages 205 to 210 for a complete list of subsidiary undertakings.

4. DEFERRED TAX ASSETS AND LIABILITIES

The Company has recognised the following deferred tax assets and liabilities:

| | Share-based payment £m | Retirement benefit obligations £m | Losses carried forward £m | Other £m | Total £m |
|-------------------------------------|---------------------------|--------------------------------------|------------------------------|-------------|-------------|
| At 31 July 2021 | 3 | (123) | 89 | 3 | (28) |
| (Charge)/credit to income statement | (2) | 51 | (23) | (3) | 23 |
| Charge to equity | (1) | 6 | – | – | 5 |
| At 31 July 2022 | – | (66) | 66 | – | – |
| (Charge)/credit to income statement | – | (4) | (26) | – | (30) |
| Charge to equity | – | 30 | – | – | 30 |
| At 31 July 2023 | – | (40) | 40 | – | – |

The Company is part of a UK tax group including all its UK-based subsidiaries. The Company has recognised deferred tax assets of £40m (FY2022: £66m) relating to revenue losses carried forward. The recognition of these assets is dependent on the ability to recover them against the unwind of other tax positions and forecast of the UK tax group. The treatment of these assets is reviewed regularly.

At 31 July 2023 the Company has unrecognised deferred tax assets of £54m (FY22: £41m) relating to losses £51m (FY22: £36m), share-based payments £1m (FY22: £3m) and other £2m (FY22: £2m).

From 1 April 2023, the rate increases from 19% to 25%. Deferred tax, as at 31 July 2023 has been calculated at the 25% rate.

5. TRADE AND OTHER RECEIVABLES

| | 31 July 2023 £m | 31 July 2022 £m |
|------------------------------|--------------------|--------------------|
| Amounts owed by subsidiaries | 66 | 61 |
| Other receivables | 1 | 1 |
| | 67 | 62 |

6. TRADE AND OTHER PAYABLES

| | 31 July 2023 £m | 31 July 2022 £m |
|--------------------------------|--------------------|--------------------|
| Amounts owed to subsidiaries | 2,162 | 58 |
| Term loans due within one year | – | 504 |
| Other creditors | 5 | 15 |
| Accruals and deferred income | 13 | 11 |
| | 2,180 | 588 |

7. BORROWINGS AND NET DEBT

| | 31 July 2023 £m | 31 July 2022 £m |
|---|--------------------|--------------------|
| Cash at bank | 20 | 10 |
| Short-term deposits | 78 | 760 |
| Cash and cash equivalents | 98 | 770 |
| Lease liabilities falling due within one year | – | (1) |
| Lease liabilities falling due after one year | – | (5) |
| Term loans falling due within one year | – | (504) |
| Term loans falling due after one year | (557) | (545) |
| Borrowings | (557) | (1,055) |
| Net debt | (459) | (285) |

Term loans and lease liabilities

The currency and coupons for the term loans are disclosed in note 18 of the Group accounts.

| | 31 July 2023 £m | 31 July 2022 £m |
|--|--------------------|--------------------|
| Less than one year | – | 505 |
| Between one and two years | – | 1 |
| Between two and five years | 557 | 548 |
| Greater than five years | – | 1 |
| Smiths Group plc term loans and lease liabilities | 557 | 1,055 |

See the liquidity risk disclosures in note 19 in the Group accounts for information on the cash and borrowing facilities available to the Group. Smiths has revolving credit facilities of US\$800m maturing on 5 May 2028.

8. PROVISIONS FOR LIABILITIES AND CHARGES

| | At 31 July 2022 £m | Charged against profit £m | Utilisation £m | At 31 July 2023 £m |
|-----------|--------------------------|---------------------------------|-------------------|--------------------------|
| Disposals | 2 | (1) | – | 1 |

The closing disposal provision relates to warranties and other obligations in respect of a past disposal and is expected to be utilised within the next five years.

9. DERIVATIVES

The tables below set out the nominal amount and fair value of derivative contracts held by the Company:

| | At 31 July 2023 | | | |
|---|--|--------------|-------------------|-------------------------|
| | Contract or underlying nominal amount £m | Assets £m | Liabilities £m | Fair value Net £m |
| Foreign exchange contracts (not hedge accounted) | 647 | 6 | (6) | – |
| Cross-currency swaps (fair value and net investment hedges) | 247 | – | (18) | (18) |
| Total financial derivatives | 894 | 6 | (24) | (18) |
| Balance sheet entries | | | | |
| Comprising: | | | | |
| Non-current | | – | (18) | (18) |
| Current | | 6 | (6) | – |
| Total financial derivatives | | 6 | (24) | (18) |

At 31 July 2022

| | Fair value | | | |
|---|--|--------------|-------------------|-------------|
| | Contract or underlying nominal amount £m | Assets £m | Liabilities £m | Net £m |
| Foreign exchange contracts (not hedge accounted) | 593 | 9 | (9) | – |
| Cross-currency swaps (fair value and net investment hedges) | 615 | – | (40) | (40) |
| Total financial derivatives | 1,208 | 9 | (49) | (40) |
| Balance sheet entries | | | | |
| Comprising: | | | | |
| Non-current | | – | (20) | (20) |
| Current | | 9 | (29) | (20) |
| Total financial derivatives | | 9 | (49) | (40) |

Derivatives, including forward exchange contracts, currency swaps, interest rate instruments and embedded derivatives are Level 2 fair value instruments and are valued at the net present value of the future cash-flows calculated using market data at the balance sheet date (principally exchange rates and yield curves).

The debit to the income statement arising from change in fair value in the year was £16m (FY2022: £28m).

10. POST-RETIREMENT BENEFITS

The Company is the principal employer for the two major defined benefit plans in the UK. The Company is accounting for all the UK defined benefit schemes (funded and unfunded) and virtually all of the post-retirement healthcare schemes.

The retirement benefit assets and liabilities comprise:

| | 31 July 2023 £m | 31 July 2022 £m |
|--|--------------------|--------------------|
| Market value of scheme assets | 2,367 | 3,067 |
| Present value of funded scheme liabilities | (2,156) | (2,738) |
| Surplus restriction | (16) | (20) |
| Surplus | 195 | 309 |
| Unfunded pension plans | (37) | (43) |
| Post-retirement healthcare | (3) | (4) |
| Present value of unfunded obligations | (40) | (47) |
| Net pension asset | 155 | 262 |
| Comprising: | | |
| Retirement benefit assets | 195 | 309 |
| Retirement benefit liabilities | (40) | (47) |
| Net pension asset | 155 | 262 |

See the disclosures for UK schemes in note 8 to the consolidated accounts for the circumstances of the major schemes, risk management, principal assumptions, assets and liabilities and the funding position of the two major schemes.

11. SHARE CAPITAL AND RESERVES

SHARE CAPITAL

| | Number of shares | Issued capital £m | Consideration £m |
|--|--------------------|----------------------|---------------------|
| Ordinary shares of 37.5p each | | | |
| Total share capital at 31 July 2021 | 396,377,114 | 149 | |
| Shares purchased under a buyback programme | (34,152,897) | (13) | (511) |
| Issue of new equity shares – exercise of share options | 131,942 | – | 2 |
| Total share capital at 31 July 2022 | 362,356,159 | 136 | |
| Shares purchased under a buyback programme | (13,053,169) | (5) | (207) |
| Total share capital at 31 July 2023 | 349,302,990 | 131 | |

At 31 July 2023, all of the issued share capital was in free issue. All issued shares are fully paid. See note 9 to the consolidated accounts for information about share schemes, including total shares under options and options exercisable at the balance sheet date. During the year, the Company received £nil (FY2022: £2m) on the issue of shares in respect of the exercise of options awarded under various share option schemes.

Smiths Industries Employee Benefit Trust

The retained earnings include the purchase of Smiths Group plc shares by the Smiths Industries Employee Benefit Trust, and the issue of these shares upon the exercise of share options. The consideration paid was £25m (2022: £16m) and £1m (2022: £nil) was received as a result of employees exercising share options under the SAYE. At 31 July 2023 the Trust held 1,742,929 (2022: 618,662) ordinary shares.

Distributable profits

Smiths Group plc, the Parent Company of the Group, holds investments in subsidiaries and operates as a financing entity for the Group. Its profits are derived from dividend receipts, royalties, corporate recharges, and loan interests from its subsidiary companies. Prior to the declaration of interim and final dividends to shareholders, the Board conducts a review of the level of distributable profits of the Parent Company. This ensures the profits provide sufficient coverage for dividend payments; see note 26 in the Group accounts for a discussion of capital management and the factors which the Board considers when proposing dividends.

In accordance with the UK Companies Act 2006 Section 831(1), a public company may only make a distribution if, after fulfilling this distribution, the amount of its net assets is not less than the aggregate of its called-up share capital and non-distributable reserves as it appears in the relevant accounts. The Company establishes what is realised and unrealised in accordance with the guidance provided by ICAEW TECH 02/17BL and the requirements of UK law.

Profits available for distribution at 31 July 2023 and 31 July 2022 were comprised as follows:

| | 2023 £m | 2022 £m |
|----------------------------------|--------------|--------------|
| Net assets | 2,437 | 2,906 |
| Less: | | |
| Issued share capital | (131) | (136) |
| Share premium | (365) | (365) |
| Capital redemption reserve | (24) | (19) |
| Other non-distributable reserves | (1,054) | (1,058) |
| Distributable profits | 863 | 1,328 |

Other reserves

Other reserves arose from the cancellation of the share premium arising from an equity-funded acquisition in the year ended 30 July 1988.

Differential between consolidated and Parent Company net assets

The Group's consolidated balance sheet shows net assets that are £31m lower (FY2022: £185m lower) than the net assets shown on the Parent Company's balance sheet. This deficit principally arose in 2007 when the Group returned £2.1bn of capital to shareholders, creating a net asset deficit of £1.9bn. Earnings retained within the Group have subsequently reduced this deficit.

12. CONTINGENT LIABILITIES

The Company has provided guarantees and arranged letter of credit facilities to support the Group's pension plans. The current amount outstanding under letters of credit is £56m (FY2022: £56m). The Company has guaranteed the US\$800m revolving credit facility available to a subsidiary.

13. POST BALANCE SHEET EVENT

Details of the proposed final dividend announced since the end of the reporting period are given in note 25 to the Group consolidated financial statements.

SUBSIDIARY UNDERTAKINGS

A full list of the Group's related undertakings as at 31 July 2023 is provided below. The entities are grouped by the country in which they are incorporated and details of their registered office address, classes of shares and ownership is disclosed. Related undertakings include subsidiaries, associated undertakings, joint ventures and associates.

| Name | Security | Direct (%) | Total (%) |
|--|--|------------|-----------|
| UNITED KINGDOM | | | |
| 11-12 St James's Square, London, SW1Y 4LB | | | |
| Air Log Limited | Ordinary | | 100 |
| CVE Trustee Limited | Ordinary | 100 | 100 |
| EIS Group Plc | Ordinary | 100 | 100 |
| Flex-Tek Group Limited | Ordinary | | 100 |
| Flightspares Limited | Ordinary | 100 | 100 |
| Francis Shaw and Company (Manchester) Limited | Ordinary | | 100 |
| Francis Shaw PLC | 37% 2nd Pref Ordinary; 5.25% Cum Pref; Dif; Ordinary | | 100 |
| Graseby Limited | Ordinary | 100 | 100 |
| Roof Units (Group) Limited | Ordinary | 100 | 100 |
| S.I. Pension Trustees Limited | Ordinary | 100 | 100 |
| SI Properties Limited | Ordinary | 100 | 100 |
| SITI 1 Limited | Common | | 100 |
| Smiths Aerospace Components Tyseley Limited | Ordinary | 100 | 100 |
| Smiths Aerospace Gloucester Limited | Ordinary; Ordinary A | | 100 |
| Smiths Finance Limited | Ordinary; RDM | | 100 |
| Smiths Group Finance EU Limited | Ordinary | | 100 |
| Smiths Group Finance US Limited | Ordinary | | 100 |
| Smiths Group Innovation Limited | Ordinary | | 100 |
| Smiths Group International Holdings Limited | Ordinary | 100 | 100 |
| Smiths Industries Limited | 7% Non Cum Pref; Ordinary | 100 | 100 |
| Smiths Nominees Limited | Ordinary | 100 | 100 |
| Smiths Pensions Limited | Ordinary | 99 | 100 |
| Smiths Wolverhampton Limited | Ordinary | | 100 |
| Sovos Limited | Ordinary | | 100 |
| TI Corporate Services Limited | Ordinary | 100 | 100 |
| TI Group Limited | Ordinary | 100 | 100 |

| Name | Security | Direct (%) | Total (%) |
|---|----------------------|------------|-----------|
| Tigrup No. 7 Limited | Ordinary | 100 | 100 |
| Tigrup No. 14 Limited | Ordinary | | 100 |
| TI Pension Trustee Limited | Limited By Guarantee | | 100 |
| XDG Limited | Ordinary | 100 | 100 |
| XDG Services Limited | Ordinary | | 99 |
| 29 Dunsinane Avenue, Dundee, DD2 3QF | | | |
| Flexible Ducting Limited | Ordinary | | 100 |
| Trak Microwave Limited | Ordinary | | 100 |
| Abercanaid, Merthyr Tydfil, Mid Glamorgan, CF48 1UX | | | |
| Amnitec Hose Limited | Ordinary | | 100 |
| Amnitec Limited | Ordinary | | 100 |
| Brooklyn House, 44 Brook Street, Shepshed, Loughborough, LE12 9RG | | | |
| Gastite Systems Limited | Ordinary | | 100 |
| Buckingham House, 361-366 Buckingham Avenue, Slough, Berkshire, SL1 4LU | | | |
| Flexibox International Limited | Ordinary | | 100 |
| John Crane Group Limited | Ordinary | | 100 |
| John Crane Investments Limited | Ordinary | | 100 |
| John Crane UK Limited | Ordinary | | 100 |
| Project Sugar Limited | Ordinary | | 100 |
| Smiths Business Information Services Limited | Ordinary | | 100 |
| Century House, Maylands Avenue, Hemel Hempstead, Hertfordshire, HP2 7DE | | | |
| Smiths Detection Group Limited | Ordinary | | 100 |
| Smiths Detection Investments Limited | Ordinary | | 100 |
| Smiths Detection Kuwait Security Devices and Systems, their Installation and Maintenance (LLC)* | | | |
| *registered address of parent | Cash share | | 49 |
| Smiths Detection Limited | Ordinary | 100 | 100 |
| Smiths Detection-Watford Limited | Ordinary | | 100 |
| Smiths Heimann Limited | Ordinary | 100 | 100 |
| No 1 Exchange, Market Street, Aberdeen, Scotland | | | |
| John Crane Asset Management Solutions Limited | Ordinary | | 100 |
| Unit 130 Centennial Park, Elstree, Hertfordshire, WD6 3TJ | | | |
| Hypertac Limited | Ordinary | | 100 |
| Smiths Industries Industrial Group Limited | Ordinary | | 100 |
| Smiths Interconnect Group Limited | Ordinary | | 100 |

| SUBSIDIARY UNDERTAKINGS | | | | CONTINUED | | | | OVERVIEW | STRATEGIC REPORT | GOVERNANCE | FINANCIAL STATEMENTS |
|---|--------------------------------|------------|-----------|---|----------|------------|-----------|----------|------------------|------------|----------------------|
| Name | Security | Direct (%) | Total (%) | Name | Security | Direct (%) | Total (%) | | | | |
| ANGOLA | | | | CHILE | | | | | | | |
| Rue Kwamme Nkrumah, Torres Impor-Africa, 3 Andar, Apt A, Luanda | | | | Americo Vespuccio 2542, Complejo Empresarial El Cortijo, Conchali, Santiago | | | | | | | |
| John Crane (Angola) Prestacao De Services Ltd | Ordinary | | 100 | John Crane Chile SA | Ordinary | | 100 | | | | |
| ARGENTINA | | | | CHINA | | | | | | | |
| Av. Leandro N. Alem 1110, 13 Floor, Baker Mackenzie Office, Buenos Aires | | | | No. 1, Lane 65, Huanlong Road, Pudong New District, Shanghai | | | | | | | |
| John Crane Argentina SA | Common | | 100 | Smiths (Shanghai) Management Co., Ltd | Ordinary | | 100 | | | | |
| Tl Group Automotive Systems (Argentina) SA | Ordinary | | 100 | No. 7, Factory Building, Maqiao Industrial Square, Changshu Economic Development Zone, Changshu, Jiangsu 215536 | | | | | | | |
| AUSTRALIA | | | | Changshu Flex-Tek Thermal Fluid Systems Manufacturer Co. Ltd | Ordinary | | 100 | | | | |
| 549 – 551, Somerville Road, Sunshine, Melbourne, VIC 3020 | | | | No.9, No. 1, Haitai Huake Road, Huayuan Industrial District (Outside The Ring), Binhai Hi-Tech, Industrial Park, Tianjin | | | | | | | |
| Flexibox Pty Limited | Ordinary | | 100 | John Crane Technology (Tianjin) Co Limited | Ordinary | | 100 | | | | |
| John Crane Australia Pty Limited | Ordinary | | 75 | No. 14 Unit, No. 78, XingLin Road, Suzhou Industrial Park, Suzhou 215026 | | | | | | | |
| Botany Grove Estate Unit 5, 14A Baker Street, Botany, NSW 2019 | | | | Antares Advanced Test Technologies (Suzhou) Co. Ltd | Ordinary | | 100 | | | | |
| Smiths Detection (Australia) Pty Ltd | Ordinary | | 100 | No. 120, Sanjiang Avenue, Economic Development Zone, Mianyang, Sichuan Province | | | | | | | |
| AZERBAIJAN REPUBLIC | | | | Huafeng Smiths Interconnect (Sichuan) Co., Ltd | Ordinary | | 60 | | | | |
| 32, Dostluq Street, Salyan Highway PO Box AZ1023, Baku | | | | Room 923B, No 55, Xili Road, Shanghai, (China) Pilot Free Trade Zone | | | | | | | |
| John Crane Baku LLC | Ordinary | | 100 | SMO Detection Equipment (Shanghai) Co., Ltd | Ordinary | | 100 | | | | |
| BELGIUM | | | | Room 1668, No. 14F Floor 3 Datong Building, Huanghe Avenue, Nankai District, Tianjin | | | | | | | |
| Glasstraat 37, Antwerpen, 2170 | | | | John Crane China Co Limited | Ordinary | | 100 | | | | |
| John Crane Belgium NV | Ordinary | | 100 | COLOMBIA | | | | | | | |
| BRAZIL | | | | Calle 46A No 82-54 Int 14, Parque Empresarial San Cayetano, Bogota | | | | | | | |
| Industrial District of The City of Rio Claro, State of São Paulo, AV. Brasil Number 4.700, CEP 13505-600 | | | | John Crane Colombia SA | Ordinary | | 100 | | | | |
| Smiths Brasil Ltda | Ordinary | | 100 | COSTA RICA | | | | | | | |
| CANADA | | | | 33rd St. Number 777 Barrio Francisco Peralta, Central Avenue & 8th, San Jose | | | | | | | |
| 423, Green North Road, Stoney Creek, Ontario, L8E 3A1 | | | | Smiths Interconnect Sociedad Anonima | Ordinary | | 100 | | | | |
| John Crane Canada Inc | Common | | 100 | CZECH REPUBLIC | | | | | | | |
| 3700, Stock Exchange Tower, P.O. Box 242, 800 Place Victoria, Montreal, PQ, H4Z 1E9 | | | | Jana Sigmunda 78, Lutín, 78349 | | | | | | | |
| Smiths Detection Montreal Inc. | Class A Shares; Class B Shares | | 100 | John Crane A.S. | Ordinary | | 100 | | | | |
| 4610, Eastgate Parkway, Unit 3, Mississauga, Ontario, L4W 3W6 | | | | DOMINICAN REPUBLIC | | | | | | | |
| Flexible Technologies (Canada) Ltd. | Ordinary | | 100 | Calle El Recodo, #2 Bella Vista, Santa Domingo | | | | | | | |
| 16771, Sainte Marie Rd, Kirkland, Quebec, H9H 5H3 | | | | John Crane Dominicana SA | Ordinary | | 100 | | | | |
| Smiths Interconnect Canada Inc | Common Shares | | 100 | | | | | | | | |

| Name | Security | Direct (%) | Total (%) | Name | Security | Direct (%) | Total (%) |
|---|----------|------------|-----------|---|--|------------|-----------|
| EGYPT | | | | GREECE | | | |
| 139, Mogamaa El Masanea Street, El Amireya, Cairo | | | | 3 Stratigou Tobre Street, Municipality Of Agia Paraskevi, Athens, 153 42 | | | |
| John Crane Egypt Llc | Ordinary | | 100 | John Crane Hellas – Engineered Sealing Systems Monoprosopi Epe | Ordinary | | 100 |
| John Crane Egypt Sealing Systems Llc | Ordinary | | 100 | GUERNSEY | | | |
| Nile City Towers, North Tower, 22nd Floor, Ramlet Boulaq, Nile Cournich, Cairo | | | | Level 5, Mill Court, La Charroterie, St Peter Port, GY1 1EJ | | | |
| Detection Technologies Egypt | Quotas | | 100 | Smiths Group Insurance Limited | Ordinary | | 100 |
| FINLAND | | | | HONG KONG | | | |
| PO Box 10, Punasillantie 15, Muurame, 40950 | | | | 4008-4009, 40/F, One Pacific Place, 88 Queensway | | | |
| John Crane Safematic Oy | Ordinary | | 100 | Smiths Interconnect Group (HK) Limited | Ordinary | | 100 |
| FRANCE | | | | HUNGARY | | | |
| 22, Avenue Maurice Chevalier, 77833 Ozoir-La-Ferriere, Paris | | | | 2040 Budaors, Gyar U. 2 | | | |
| Titeflex Europe S.A.S. | Ordinary | | 100 | John Crane Hungary Kft | Ordinary | | 100 |
| 31 Rue Isidore Maille, Saint-Aubin-Les-Elbeuf, 76410 | | | | INDIA | | | |
| Hypertac S.A. | Ordinary | | 100 | D-196 Okhla Industrial Area, Phase-1, New Delhi, 110020 | | | |
| 36 Rue Charles Heller, Vitry Sur Seine, F-94400 | | | | Plenty India Limited | Ordinary Shares | | 100 |
| Smiths Detection France S.A.S. | Shares | | 100 | No 11, 1st Phase, Peenya, Industrial Area, Bangalore, 560058 | | | |
| 114, Rue Jules Ferry, B.p.35, Deville-Les-Rouen, 76250 | | | | John Crane Sealing Systems India Private Limited | Ordinary | | 100 |
| John Crane France S.A.S. | Ordinary | | 100 | Smiths Interconnect India Private Limited | Ordinary | | 100 |
| T I S A (France) | Ordinary | | 100 | No 38, Kiadb Industrial Area, Bangalore, 561203 | | | |
| GERMANY | | | | INDONESIA | | | |
| Am Zirkus 2, Berlin, 10117 | | | | Cilandak Commercial Estate Bldg 401A, Ji. Kko Cilandak, Jakarta, 12560 | | | |
| John Crane Filtration Technologies GmbH | Ordinary | | 100 | PT John Crane Indonesia | Ordinary | | 99 |
| Gewerbestraße 15 a, Graben, 86836 | | | | IRELAND | | | |
| Gastite Systems Deutschland GmbH | Ordinary | | 100 | Deloitte Offices, 6 Lapps Quay, Cork | | | |
| Im Herzen 4, Wiesbaden, 65205 | | | | Smiths Detection Ireland Limited | Ordinary; Ordinary B; Ordinary D; Series C | | 100 |
| Smiths Detection GmbH | Shares | | 100 | T53/54, Shannon Industrial Estate, Shannon, Co. Clare | | | |
| Smiths Detection Germany GmbH | Ordinary | | 100 | John Crane (Ireland) Limited | Ordinary | | 100 |
| Neckarweg 3, Vellmar, 34246 | | | | | | | |
| Herkules Holding GmbH | Ordinary | | 100 | | | | |
| Seebach GmbH | Ordinary | | 100 | | | | |
| Reepschlager Str., 10B, Lubeck, 23556 | | | | | | | |
| Flexschlauch Produktions GmbH | Shares | | 100 | | | | |
| Tolzer Strasse, 15 82031, Grunwald | | | | | | | |
| Zamor KG | Ordinary | | 48 | | | | |
| Ulrichsberger Strasse 17, Deggendorf, 94469 | | | | | | | |
| Hypertac GmbH | Ordinary | | 100 | | | | |
| Werner-Von-Siemens – Str.6, Fulda, 36041 | | | | | | | |
| John Crane GmbH | Ordinary | | 100 | | | | |

| Name | Security | Direct (%) | Total (%) |
|---|-----------------------|------------|-----------|
| ITALY | | | |
| Via Da Bissone 7A, Genova, 16153 | | | |
| Hypertac SpA | Ordinary | | 100 |
| Via Giotto 3, Muggio, 20835 | | | |
| John Crane Italia SpA | Ordinary | | 100 |
| Smiths Detection Italia srl | Quota Value of Shares | | 100 |
| Smiths Group Italia Srl | Ordinary | | 100 |
| JAPAN | | | |
| 1-1-1 Uchisaiwaicho, Chiyoda-ku, Tokyo | | | |
| Smiths Detection Japan Gk | Cash Contribution | | 100 |
| 2222, Kamitoyama Ritto City, Ritto-Shi, Shiga-Ken | | | |
| John Crane Japan Inc | Ordinary | | 70 |
| KAZAKHSTAN | | | |
| Atyrau Region, Gatyrau, Station K Arabathan, House Production Site 14, 060000 | | | |
| John Crane Kazakhstan | Ordinary | | 100 |
| KOREA, REPUBLIC OF | | | |
| Migeundong, Westgate Tower 15F, 70 Chungjeong-Ro, Seodaemun-Gu, Seoul | | | |
| John Crane Korea Co Ltd | Ordinary | | 100 |
| MALAYSIA | | | |
| 207, Jalan Tun Razak, Suite 13.03, 13th Floor, Menara Tan & Tan, Kuala Lumpur, 50400 | | | |
| Flexible Ducting Malaysia Sdn Bhd (in liquidation) | Ordinary | | 100 |
| Menara LGB, 1, Jalan Wan Kadir Taman Tun Dr Ismail, 60000 Kuala Lumpur, WPKL | | | |
| John Crane Malaysia Sdn Bhd | Ordinary | | 100 |
| Smiths Detection Malaysia Sdn Bhd | Ordinary | | 100 |
| MEXICO | | | |
| 679, Poniente 152, Vallejo Delegacion Azcapotzalco, Mexico City, 2300 | | | |
| Industrias John Crane Mexico S.A. de C.V. | Series A; Series B | | 100 |
| Av. Primero De Mayo Lote 3 Edificio 1B, Prologis Park, Reynosa, 88780 | | | |
| Tutco De Mexico SRL de CV | Ordinary | | 100 |
| Carretera Ciudad Victoria Matamoros, Km.173+600, Solonia San Fernando Centro, Tamaulipas, San Fernando, CP 87600 | | | |
| John Crane Sociedad De Responsabilidad Limitada De Capital Variable | Ordinary | | 100 |
| Carretera Libre Antiguo Camino Tijuana 20221-B, Fideicomiso el Florido, Tijuana, Baja California, 22234 | | | |

| Name | Security | Direct (%) | Total (%) |
|---|-----------------|------------|-----------|
| Smiths Interconnect Mexico S. de RL de C.v. | Equity Quotas | | 100 |
| Paseo De La Reforma 505, Col, Cuauhtemoc, 6500, Ciudad De Mexico | | | |
| Smiths Detection Mexico S. de RL de C.v. | Partes Sociales | | 100 |
| NETHERLANDS | | | |
| Abraham van Stolkweg 118, Rotterdam, 3041 JA | | | |
| Amnitec BV | Ordinary | | 100 |
| Bergen 9 – 17, Barendrecht, Zuid, 2993LR | | | |
| John Crane Holland BV | Ordinary | | 100 |
| Smiths Detection Benelux BV | Ordinary | | 100 |
| Buckingham House, 361-366 Buckingham Avenue, Slough, Berkshire, SL1 4LU, England | | | |
| Smiths Group Holdings Netherlands BV | Ordinary | | 100 |
| Hydrograaf 25, PO Box 442, 6900 Ak Zevenaar, Duiven, 6921 RS | | | |
| Indufil BV | Ordinary | | 100 |
| NEW ZEALAND | | | |
| Deloitte, Level 18, 80 Queen Street, Auckland 1010 | | | |
| Smiths Detection New Zealand Limited | Ordinary | | 100 |
| PERU | | | |
| Av. Guillermo Dansey 2124, Urbanizacion Industrial Conde, Lima | | | |
| John Crane Peru Sac | Common Shares | | 100 |
| POLAND | | | |
| 1327, ul. Bielska, Poland, 43-374 Buczkowi | | | |
| John Crane Poland Sp Z O.O. | Ordinary | | 100 |
| PUERTO RICO | | | |
| 654 Plaza, Suite #933, 654 Munoz Rivera Ave, San Juan, 00918 | | | |
| John Crane Caribe Ltd | Common Shares | | 100 |
| RUSSIAN FEDERATION | | | |
| Room 501, Floor 5, bld.1, 5-104 Octyabrskaya Emb., St. Petersburg 193079 | | | |
| Smiths Detection Rus LLC | Ordinary | | 100 |
| B.savvinsky Per, D.11, Moscow, 119435 | | | |
| LLC John Crane Rus | Ordinary | | 100 |
| SAUDI ARABIA | | | |
| Dammam Industrial City, Dammam, 3243 | | | |
| John Crane Saudi Arabia Ltd | Ordinary | | 100 |
| Building 7, Zone A, Airport road, Business Gate, P.O Box Riyadh 11683, 93597 | | | |
| Smiths Detection Saudi Arabia Ltd | Shares | | 100 |

| Name | Security | Direct (%) | Total (%) | Name | Security | Direct (%) | Total (%) |
|---|----------------|------------|-----------|---|----------------------|------------|-----------|
| SINGAPORE | | | | TUNISIA | | | |
| 6 Shenton Way, OUE Downtown #26-00, 068809 | | | | Zone Industrielle Route De Khniss, Monastir, 5000 | | | |
| John Crane Singapore Pte Limited | Ordinary | | 100 | Smiths Connectors Tunisia SARL | Ordinary | | 100 |
| 20, Pasir Panjang Road, #13-26 Mapletree Business City, 117439 | | | | TURKEY | | | |
| Smiths Connectors Asia Pte. Ltd. | Ordinary | | 100 | Istanbul Sariyer, Huzur Mahallesi, Ahmet Bayman Caddesi, Dis, Reklamcilik Apt No:17-19/1 | | | |
| Smiths Detection (Asia Pacific) Pte. Ltd | Ordinary | | 100 | John Crane Endustriyel Sizmirmazlik Sistemleri Ltd | Ordinary | | 100 |
| 47, Kallang Pudding Road, #06-13, The Crescent, Kallang, Singapore, 349318 | | | | UNITED ARAB EMIRATES | | | |
| Plastronics Asia Pte. LTD | Ordinary | | 100 | Building B10, Industrial Mussaffah, M44, Sector 15, Abu Dhabi | | | |
| SLOVAKIA | | | | Smiths Detection Security Systems Llc | Shares | | 49 |
| Dvorakovo nabrezie 10, Bratislava-mestska cast Stare Mesto, 811 02 | | | | Dubai Airport Free Zone, PO Box 48225, Building No. 8WA (West Side), 401, Dubai | | | |
| John Crane Slovakia SRO | Ordinary | | 100 | Smiths Detection Middle East Fze | Shares | | 100 |
| SOUTH AFRICA | | | | S20113, Jebel Ali Free Zone, 61040 | | | |
| 2, Jansen Road, Nuffield Industrial Sites, Springs Gauteng, 1559 | | | | John Crane Middle East Fze | Ordinary | | 100 |
| Flexibox (Pty) Limited | Ordinary | | 100 | UNITED STATES OF AMERICA | | | |
| John Crane Pty Ltd | Ordinary | | 100 | 51 Growth Road, Laconia, NH, 03246 | | | |
| SPAIN | | | | Lakes Region Tubular Products Inc. | Common Stock | | 100 |
| Cemento 1, Torrejon De Ardoz, Madrid | | | | 116, Pine Street, 3rd Floor, Suite 320, Harrisburg, PA 17101 | | | |
| John Crane Iberica SA | Ordinary | | 100 | Tutco, LLC | Ordinary | | 100 |
| SWEDEN | | | | 180 Van Riper Avenue, Elmwood Park, NJ 07407 | | | |
| Knivsta, 74180 | | | | Kreisler Industrial Corp | Common Stock | | 100 |
| Habia Teknofluor AB | Shares | | 100 | Kreisler Manufacturing Corp | Common Stock | | 100 |
| Teknofluor Holding AB | Shares | | 100 | 815 Forestwood Drive, Romeoville, IL 60446 | | | |
| Faltspatsgatan 4, Se-421 30 Vastra Frolunda | | | | US Hose Corp | Common Stock | | 100 |
| John Crane Sverige AB | Ordinary | | 100 | 2001, 46th St. NE, Suite 188, Kansas City, Missouri, 64116 | | | |
| SWITZERLAND | | | | Smiths Interconnect Americas, Inc. | Common Stock | | 100 |
| Hohenrainstrasse 10, 4133 Pratteln | | | | 2601, Texas Drive, Irving, TX, 75062 | | | |
| John Crane (Switzerland) AG | Ordinary | | 100 | Plas2, LLC | Membership interests | | 100 |
| TAIWAN | | | | Plastronics H-Pin, LTD | Membership interests | | 100 |
| 324-4, Fong-Jen Road, Renwu District, Kaohsiung City 814 | | | | Plastronics Socket Partners, LTD | Membership interests | | 100 |
| John Crane Taiwan Co Ltd. | Ordinary | | 100 | 2801 Red Dog Lane, Knoxville, TN 37914 | | | |
| THAILAND | | | | Fulton Bellows LLC | Membership interests | | 100 |
| 9/311, 31st Floor, Um Tower, Ramkhamhaeng Road, Suanluang District, Bangkok | | | | The Corporation Trust Company, 1209 Orange Street, Wilmington, DE, 19801 | | | |
| John Crane (Thailand) Limited | Ordinary; Pref | | 100 | Asset And Intelligence Management Services, LLC | Ordinary Stock | | 100 |
| 99/3 Moo 5, Kingkaew Road, Tambol Rajatheva, Amphoe Bangplee, Samutprakarn Province, 10540 | | | | | | | |
| Smiths Detection (Thailand) Limited | Pref; Ordinary | | 100 | | | | |

| Name | Security | Direct (%) | Total (%) |
|--|--------------------------|------------|-----------|
| Flexible Technologies, LLC | Ordinary Shares | | 100 |
| Flex-Tek Group (US) LLC | Ordinary | | 100 |
| John Crane Group, LLC | Ordinary | | 100 |
| John Crane Inc | Common; Preferred | | 100 |
| John Crane USA, Inc | Ordinary | | 100 |
| MDII Investments LLC | Ordinary | | 100 |
| Royal Metal Products, LLC | Ordinary | | 100 |
| Smiths Business Information Services, Inc. | Common Stock | | 100 |
| Smiths Detection International, LLC | Equity Interests | | 100 |
| Smiths Detection US Holdings, LLC | Membership interests | | 100 |
| Smiths Detection US, LLC | Ordinary | | 100 |
| Smiths Group Services Corp. | Common Stock | | 100 |
| Smiths Interconnect, Inc. | Common Stock | | 100 |
| Smiths US Innovation LLC | Ordinary | | 100 |
| CT Corporation System, 9 Capitol Street, Concord, NH 03301 | | | |
| Smiths Tubular Systems-Laconia, Inc | Ordinary Shares | | 100 |
| CT Corporation System, 155 Federal Street, Suite 700, Boston, MA 02110 | | | |
| Titeflex Commercial, Inc. | Ordinary | | 100 |
| One Corporate Center, Hartford, CT 06103-3220 | | | |
| Titeflex Corporation | Ordinary | | 100 |
| The Corporation Trust Company of Nevada, 701 S Carson Street, Suite 200, Carson City, NV, 89701 | | | |
| Smiths Detection Inc | Common Stock | | 100 |
| VENEZUELA | | | |
| Carretera Vía A Perijá, Km 8 ½, Avenida 50, Local N° 185-72, Zona Industrial El Silencio, Maracaibo, 4001 | | | |
| John Crane Venezuela CA | Class A; Class B; Common | | 100 |
| ASSOCIATES | | | |
| RUSSIAN FEDERATION | | | |
| 28, Academica Vedeneeva Street, Perm, Permskiy Region, 614038 | | | |
| Llc John Crane Iskra | Ordinary | | 50 |

OVERSEAS BRANCHES

The Company does not operate through any branches. Some Group subsidiary companies have established branch operations outside the UK.