SMITHS GROUP PLC - FULL YEAR RESULTS FOR 12 MONTHS ENDED 31 JULY 2023

Pioneers of progress – improving our world through smarter engineering

A year of record organic revenue and headline EPS growth

- **Record annual growth – organic[1] revenue growth of +11.6%; headline[2] EPS growth of +39.6%**
  - Full year growth delivered ahead of guidance, balanced between price and volume
  - +310bps of growth from new products, demonstrating the impact of innovation
  - Well positioned for FY2024 growth within our medium-term targets, with orders[3] up +6.7%

- **Continued improvement in execution – Smiths Excellence System ("SES") delivering benefits**
  - Headline operating profit growth of +20.0%; with margin expansion of +20bps to 16.5%
  - ROCE up +150bps to 15.7%, benefiting from strong profit growth
  - Cash conversion[2] up 6 percentage points to 86%; with improvement in working capital
  - Advancing our Sustainability strategy with significant progress across our environmental metrics

- **Empowering our people – increasing engagement with our colleagues and communities**
  - Continued improvement in our safety record, with a 26% reduction in Recordable Incident Rate
  - Successful rollout of Smiths Leadership Behaviours, driving our high-performance workforce
  - High employee engagement reflected in 310bps reduction in voluntary turnover
  - Launched Smiths Foundation, committing an initial £10m towards charitable STEM-related causes

- **Strong balance sheet – providing flexibility on capital allocation**
  - Successful acquisition of Plastronics in Jan 2023 and Heating & Cooling Products in Aug 2023
  - Net debt to EBITDA of 0.7x; £387m net debt
  - £350m returned to shareholders through dividends and share buyback, which is now complete
  - Proposed final dividend of 28.7p, up 5.1%, bringing the full year to 41.6p

FY2024 Outlook

- Expect FY2024 organic revenue growth within our medium-term target range of 4-6%, with continued margin expansion

Headline[2]	FY2023	FY2022	Reported	Organic[1]
Revenue	£3,037m	£2,566m	+18.3%	**+11.6%**
Operating profit	£501m	£417m	+20.0%	**+12.7%**
Operating profit margin[4]	16.5%	16.3%	+20bps	**+10bps**
Basic EPS	97.5p	69.8p	+39.6%	
ROCE[4]	15.7%	14.2%	+150bps	
Operating cash conversion[4]	86%	80%	+600bps	

Statutory	FY2023	FY2022	Reported
Revenue	£3,037m	£2,566m	+18.3%
Operating profit	£403m	£117m	+244.4%
Profit for the year (after tax)[5]	£232m	£1,035m	(77.6)%
Basic EPS[5]	65.5p	267.1p	(75.5)%
Dividend per share	41.6p	39.6p	+5.1%

Paul Keel, Chief Executive Officer, commented:

"We had another strong year of progress in fiscal 2023 as we further accelerated our growth, sharpened our execution, and developed our talented people. We delivered year-on-year improvement against all five of our medium-term financial commitments, including record organic sales and EPS growth.

"Innovation is central to our purpose of improving our world through smarter engineering, and new product launches contributed more than three percentage points to our growth. We continued to invest in R&D as artificial intelligence and other digital technologies are playing an increasingly important role in enabling us to support our customers more effectively. We are also further building our capabilities to capitalise on the growing megatrends we are exposed to across the major markets we serve, including energy transition and the world's ever-increasing need for better security.

"Looking forward to our next fiscal year, we expect to deliver 4-6% organic revenue growth, in line with our medium-term financial commitment. I applaud my 15,000 colleagues around the world who live Smiths' purpose each and every day. We are encouraged by our progress, proud of our accomplishments in FY2023, and even more excited by all we see ahead for Smiths."

UPCOMING EVENTS

Date	Event
16 November 2023	Q1 Trading Update
16 November 2023	Annual General Meeting
30 November 2023	John Crane Deep Dive
22 March 2024	HY2024 Interim Results

Statutory reporting

Statutory reporting takes account of all items excluded from headline performance.
See accounting policies for an explanation of the presentation of results and note 3 to the financial statements for an analysis of non-headline items.

Definitions

The following definitions are applied throughout the financial report:
[1] Organic is headline adjusted to exclude the effects of foreign exchange and acquisitions.
[2] Headline: In addition to statutory reporting, the Group reports on a headline basis. Definitions of headline metrics, and information about the adjustments to statutory measures, are provided in note 3 to the financial statements. Headline performance is on a Smiths Group basis, excluding the results of Smiths Medical.
[3] Order intake growth excludes the effects of foreign exchange.
[4] Alternative Performance Measures ("APMs") and Key Performance Indicators ("KPIs") are defined in note 29 to the financial statements.
[5] FY2022 statutory profit and EPS includes the proceeds from the sale of Medical.

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Presentation

The webcast presentation and Q&A will begin at 08.30 (UK time) today at: https://smiths.com/investors/results-reports-and-presentations. A recording will be available from 13.00 (UK time).

Legal Entity Identifier (LEI): 213800MJL6IPZS3ASA11

This document contains certain statements that are forward-looking statements. They appear in a number of places throughout this document and include statements regarding the intentions, beliefs and/or current expectations of Smiths Group plc (the "Company") and its subsidiaries (together, the "Group") and those of their respective officers, directors and employees concerning, amongst other things, the results of operations, financial condition, liquidity, prospects, growth, strategies, and the businesses operated by the Group. By their nature, these statements involve uncertainty since future events and circumstances can cause results and developments to differ materially from those anticipated. The forward-looking statements reflect knowledge and information available at the date of preparation of this document and, unless otherwise required by applicable law, the Company undertakes no obligation to update or revise these forward-looking statements. The Company and its directors accept no liability to third parties. This document contains brands that are trademarks and are registered and/or otherwise protected in accordance with applicable law.

Our Purpose

We are pioneers of progress – improving our world through smarter engineering. Smarter engineering means helping to solve the toughest problems, for our customers, our communities and ourselves. We help to create a safer, more efficient and better-connected world.

Our Priorities and Targets

Smiths is intrinsically strong with world-class engineering, leading positions in critical markets, and distinctive global capabilities, all underpinned by a strong financial framework. In November 2021, we set out how Smiths will deliver performance in line with our significant potential by focusing on three top priorities of accelerating growth, strengthening execution and doing even more to inspire and empower our people.

Our focused plan, the Smiths Value Engine, is the means through which we will deliver the medium-term targets that we have set. In FY2023, we have continued to make meaningful progress towards these targets, outperforming on several metrics.

Targets	**Medium-Term Target**	FY2022	**FY2023**	**Progress**
Organic Revenue Growth	**4-6%** *(+ M&A)*	+3.8%	**+11.6%**	Accelerated, record organic revenue growth ahead of medium-term target
Headline EPS Growth	**7-10%** *(+ M&A)*	+17.8%	**+39.6%**	Record earnings growth, driven by organic operating profit and benefit of share buyback
ROCE	**15-17%**	14.2%	**15.7%**	Improvement in ROCE into target range with strong operating profit performance
Operating Profit Margin	**18-20%**	16.3%	**16.5%**	Margin improvement benefiting from SES with continued investment in growth
Operating Cash Conversion	**100%+**	80%	**86%**	Working capital improvement in H2 2023 to deliver solid cash conversion

These targets are underpinned by Smiths operational KPIs and environmental targets, including a commitment to Net Zero for Scope 1 and 2 emissions by 2040 and Net Zero for Scope 3 emissions by 2050.

FY2023 Business Performance

Smiths delivered record organic revenue growth of +11.6%, ahead of our guidance. We generated £501m of operating profit, up +20.0% on FY2022 as we continue to make significant progress on our strategy.

£m	FY2022	Foreign exchange	Acquisitions	**Organic movement**	**FY2023**
Revenue	2,566	146	8	**317**	**3,037**
Headline operating profit	417	27	0	**57**	**501**
Headline operating profit margin	16.3%				**16.5%**

GROWTH

Accelerating growth is the primary driver of unlocking enhanced value creation for the Group. We grew in every quarter of FY2023 and raised our guidance three times during the year, delivering record organic revenue growth of +11.6%. We have now delivered nine consecutive quarters of organic revenue growth.

Organic revenue growth (by business)	**H1 2023**	**H2 2023**	**FY2023**
John Crane	+14.6%	+15.8%	**+15.2%**
Smiths Detection	+14.0%	+18.8%	**+16.4%**
Flex-Tek	+17.0%	+3.6%	**+10.1%**
Smiths Interconnect	+3.3%	(8.4)%	**(2.8)%**
Smiths Group	**+13.5%**	**+9.9%**	**+11.6%**

Strong growth continued in the second half for our two largest businesses; with both John Crane and Smiths Detection delivering double digit growth throughout the year. Flex-Tek continued to grow in the second half, with growth moderating to +3.6% reflecting anticipated softness in the US construction market. Smiths Interconnect declined (8.4)% in the second half, as anticipated, impacted by a weakening semiconductor test market as well as delays in some large defence and aerospace programmes.

Revenue grew +18.3% on a reported basis, to £3,037m (FY2022: £2,566m). This included +£146m of favourable foreign exchange translation, and +£8m from the acquisition of Plastronics in January 2023.

Strong execution to access end market opportunity is the first of the four actionable levers for accelerating growth.

Our business operates across four major global end markets: General Industrial, Safety & Security, Energy, and Aerospace. Our strong market positions, coupled with the balanced market exposure we have across our businesses, are distinctive long-term advantages for Smiths.

Smiths organic revenue growth in our end markets	% of Smiths revenue	**H1 2023**	**H2 2023**	**FY2023**
General Industrial	40%	+15.4%	+1.0%	**+7.8%**
Safety & Security	31%	+9.4%	+14.4%	**+11.9%**
Energy	22%	+17.1%	+21.8%	**+19.5%**
Aerospace	7%	+10.1%	+10.8%	**+10.5%**
Smiths Group	**100%**	**+13.5%**	**+9.9%**	**+11.6%**

Smiths organic revenue in our largest end market, General Industrial, grew +7.8% in FY2023, supported by strong demand for John Crane's industrial products in chemical processing, water treatment and life sciences. Slower H2 growth of +1.0% reflects a strong prior year performance, and a softening in demand for Flex-Tek's heating, ventilation and air conditioning ("HVAC") products and Smiths Interconnect semiconductor test solutions. Organic revenue growth in Safety & Security was +11.9%, accelerating in the

second half due to Smiths Detection's strong delivery against its orderbook, partially offset by a decline in Smiths Interconnect from the timing of defence programmes. The +19.5% growth in Energy reflected strong demand in John Crane. Growth in Aerospace of +10.5% continued throughout the year driven by aircraft build demand benefiting Flex-Tek and helping to offset the impact of delays in aerospace programmes in Smiths Interconnect.

Our second lever for faster growth is **improved new product development and commercialisation**. During FY2023, +310bps of growth was delivered from high impact new products including John Crane's next-generation diamond coating product offering for high-speed and high-heat applications, Smiths Detection's next-generation 3D Computed Tomography ("CT") machines installed with threat recognition software, and Flex-Tek's ducting in energy efficient Rheia air management systems. Gross vitality, which measures the proportion of revenues coming from products launched in the last five years, was 31% (FY2022: 31%), supported by our successful new product commercialisation.

As an industrial technology leader, continuing to invest in R&D ensures we capitalise on the wealth of opportunities in our pipeline, with increasing demand for our sustainability-related products. During FY2023, we invested £113m in R&D (FY2022: £107m), of which £73m (FY2022: £80m) was an income statement charge, £21m was capitalised (FY2022: £12m) and £19m (FY2022: £15m) was funded by customers.

To support new product launches, and the strong demand for our existing solutions, we increased capex +14.1% in FY2023 to £81m (FY2022: £71m). This represents 1.6x depreciation and amortisation (FY2022: 1.5x).

Our third growth lever is **building out priority adjacencies**. Each of our four businesses are executing strategies to expand beyond their existing core markets and ensure we capitalise on the long-term megatrends of energy transition and sustainability, increasing security needs and enhanced connectivity. Examples in FY2023 include Flex-Tek's high temperature heating solution for the world's first green steel production facility; and Smiths Detection's +34.9% revenue growth in its Other Security Systems segment, supported by key wins in ports and borders and parcel delivery markets.

Our fourth growth lever is using **disciplined M&A** to augment our organic growth focus. In January 2023, Smiths Interconnect acquired Plastronics, a leading supplier of burn-in test sockets and patented spring probe contacts, extending our reach into an attractive market adjacency. We will benefit from Plastronics' attractive position in artificial intelligence, data centres and automotive end markets, and expanding Plastronics' sales globally by leveraging Smiths Interconnect's strong presence in Asia.

Following the year end, in August 2023, we acquired Heating & Cooling Products ("HCP") in our Flex-Tek business. This further expands the Group's presence in the North American HVAC market, enabling Smiths to serve more customers with an even broader product range. Acquired for $82m (approximately £65m), at less than 7x estimated 2023 EBITDA, this acquisition further demonstrates our disciplined and targeted approach to M&A.

EXECUTION

Stronger execution is our second key priority.

In FY2023, headline operating profit grew +12.7% (+£57m) on an organic basis, and +20.0% (+£84m) on a reported basis to £501m (FY2022: £417m). Headline operating profit benefited from strong profit growth in John Crane and Smiths Detection, and a solid contribution in Flex-Tek, partially offset by a decline in Smiths Interconnect.

£m	FY2022	Foreign exchange	Acquisitions	**Organic movement**	**FY2023**
Headline operating profit	417	27	0	**57**	**501**
Headline operating profit margin	16.3%	+10bps		**+10bps**	**16.5%**

Headline operating profit margin was 16.5%, up +20bps on a reported basis supported by volume growth, pricing more than offsetting inflation, and the benefits of SES and savings actions; all of which offset the impact of product mix and investment in growth. By division, strong operating leverage in John Crane reflected improved execution and supply chain conditions. Smiths Detection also improved its margin despite higher Original Equipment ("OE") sales mix. Flex-Tek and Smiths Interconnect contracted from their record prior year high margins, with Flex-Tek continuing to invest in new product development and commercialisation, and Smiths Interconnect seeing lower volumes.

Headline EPS grew +39.6%, driven by headline operating profit growth which contributed over a third of the growth, the share buyback programme which contributed another third, with the remainder of the growth coming from FX and a reduction in both the effective headline tax rate and interest expense. The headline tax charge for FY2023 of £121m (FY2022: £104m) represents an effective rate of 26.0% (FY2022: 27.6%).

ROCE increased +150bps to 15.7% (FY2022: 14.2%) reflecting the higher profitability of the Group. For further detail, please refer to note 29 of the financial statements.

Headline operating cash conversion for FY2023 was 86% (FY2022: 80%), with stronger conversion in the second half supported by improvement in working capital. This was delivered through targeted and disciplined working capital management helped by focused SES projects. Headline operating cash-flow[4] was £433m (FY2022: £332m). In FY2023, free cash-flow[4] generation was £178m (FY2022: £130m) or 35% of headline operating profit (FY2022: 31%).

During FY2023 we continued to make good progress on SES. There are currently 71 Black Belt projects completed or underway being driven by our 6 Master Black Belt and 31 Black Belt employees across the Group. Projects completed in the year contributed £14m of profit, ahead of our plan of £12m. For FY2024, we expect a contribution of £20m from SES as our hopper of new projects continues to scale.

We implemented some targeted savings projects across the Group through FY2023. These projects were focused on simplification and improving efficiency. Costs amounting to £36m in respect of these projects have been charged to non-headline in the year, with no further charges anticipated. In line with our previous communications, £11m of benefit was realised in FY2023 from these projects, with the annualised benefits expected to be £25m.

PEOPLE

Inspiring and empowering our people is our third key priority and our people plan is focused around four key areas of safety, leadership development, diversity, equity and inclusion, and engagement.

The first area, safety, is at the forefront of everything we do. Our Recordable Incident Rate ("RIR") for FY2023 improved to 0.41 (FY2022: 0.56), and we delivered a record low lost time injury rate of 0.14. This improvement in safety has been achieved through continuous reinforcement of our safety culture with over 13,000 Safety Leadership Tours and Safety Observations undertaken in the year. Of particular focus was our Royal Metal site, acquired in 2021, which delivered an 80% reduction in the number of incidents through changes to manufacturing, new risk management processes and leveraging technology to make safety easier.

Our biggest people initiative this year was the continued rollout of our Smiths Leadership Behaviours to define our expectations for an inclusive and high-performance culture. We continued the rollout of these seven behaviours to fully embed them throughout the organisation. We completed 94 workshops, attended by over 1,600 leaders and the behaviours are now used in our annual performance assessment process.

Alongside Smiths Leadership Behaviours, talent development is a key priority within our People plan. We are focused on growing and promoting talent from within and in FY2023, 70% of open roles for manager level and above were filled internally, versus 39% in the past. To support our talent development, we have relaunched the Accelerate Leadership Development programme having trained our first 300 leaders in FY2023, introduced mentoring programmes with the Executive Committee for our high potential leaders and continued to develop our Early Career Programme, which includes several engineering apprenticeship programmes.

Promoting diversity, equity and inclusion is another key part of our people strategy. We are specifically focused on increasing gender diversity at all levels of the organisation and we have ramped up our initiatives this year, including introducing women's support networks and flexible working arrangements. As at 31 July 2023, 25% of our senior leaders, 25% of our Executive Committee and 40% of our Board of directors are women. With the help of the multiple initiatives throughout the organisation, we expect to continue to drive improvement in these metrics.

Overall, through our focus on inspiring and empowering our people we have seen a year-on-year improvement in our voluntary attrition, down 310bps to 12% for our global employees and down 410bps for our engineering employees.

OUR ESG APPROACH

Environment, Social and Governance ("ESG") performance is at the very centre of our Purpose, and fundamental to each of our three key priorities.

Growth

ESG at Smiths is approached with a growth mindset. Our R&D is focused on commercialising high-value green technology. Our progress is evident through John Crane's growing presence in hydrogen and carbon capture markets with over 70 active projects and in Flex-Tek supporting the development of the world's first green steel production facility. Our proven ability to serve these customers positions us well today and in the future as the world increasingly relies upon smart engineering to achieve Net Zero.

Execution

Environmental metrics	FY2022	FY2023
Absolute Scope 1 & 2 GHG emissions reductions	0.9% reduction	**11.8% reduction**
Energy efficiency[6]	n/a	**7.9% improvement**
Proportion of electricity from renewable sources	63%	**70%**
Non-recyclable waste[7]	11.5% reduction	**9.8% reduction**
Water use in stressed areas[7]	4.5% reduction	**13.3% reduction**

[6] Normalised to local currency revenue, excluding growth from price. Data not available prior to 2022 I [7] Normalised to reported revenue

We are executing well against our ESG strategy, with significant progress against our sustainability metrics, which are now fully incorporated into both our annual and long-term incentives. In the year, we launched our first Sustainability report, submitted our Science Based Targets for review and validated our framework through completion of our first-ever ESG double materiality assessment in accordance with applicable

guidance under the Corporate Sustainability Reporting Directive ("CSRD"). We also extended the scope of the limited assurance work carried out by KPMG to follow the more rigorous ISAE3000/3410 standard for FY2022 and FY2023 data.

People

Engagement with our communities has long been a strength of Smiths. This year we have gone one step further with the launch of our new charitable foundation, "The Smiths Group Foundation". The foundation committed an initial £10m of funding linked to engineering-related good causes. The mission of the foundation is central to Smiths purpose of "Improving our world through smarter engineering." We also launched our global volunteering policy, amplifying the multitude of grass-roots efforts already in place across the organisation.

CAPITAL ALLOCATION

With our strong technology, market positions, and financial frameworks, our highest capital priority continues to be organic growth. Accretive M&A, either to strengthen core positions or to accelerate penetration of priority adjacencies comes second. Third, we have a strong track record of returning capital to shareholders, as evidenced by the £350m returned in FY2023, on top of the £661m returned in FY2022.

Organic investment

In FY2023 we invested £81m in capex projects, including £21m in capitalised R&D on programmes such as next-generation hold and cabin baggage screening and further advancements in our defence portfolio. A further £73m in R&D was charged to the income statement, supporting new product development.

M&A

In January 2023, Smiths Interconnect acquired Plastronics, a leading supplier of burn-in test sockets and patented spring probe contacts. In August 2023, following the year end close, Flex-Tek acquired HCP, a manufacturer of HVAC solutions in North America.

These acquisitions support our strategy to make complementary inorganic investments to accelerate our presence in adjacent markets or expand our product offering. We have an active acquisition pipeline and disciplined M&A approach across the Group.

Shareholder returns

During the year we continued to repurchase shares under the £742m share buyback programme initiated in November 2021, in connection with our commitment to return the majority of cash proceeds from the disposal of Smiths Medical to shareholders. We have now completed the share buyback programme.

In line with our progressive dividend policy and plan to rebuild dividend cover after the sale of Smiths Medical, the Board is recommending a final dividend of 28.7p, bringing the total dividend for the year to 41.6p, a year-on-year increase of +5.1% (FY2022: 39.6p). The final dividend will be paid on 24 November 2023 to shareholders on the register at close of business on 20 October 2023. Our dividend policy aims to increase dividends in line with growth in earnings and cash-flow, with the objective of maintaining minimum dividend cover of around 2 times. The policy enables us to retain sufficient cash-flow to finance investment in growth and meet our financial obligations. In setting the level of dividend payments, the Board considers prevailing economic conditions and future investment plans.

The Company offers a Dividend Reinvestment Plan ("DRIP") enabling shareholders to use their cash dividend to buy further shares in the Company – see our website for details. To participate in the DRIP, shareholders must submit their election notice to be received by 3 November 2023 ("the Election Date"). Elections received after the Election Date will apply to dividends paid after 24 November 2023. Purchases

under the DRIP are made on, or as soon as practicable after, the dividend payment date and at prevailing market prices.

Net debt

Net debt[4] at 31 July 2023 was £387m (FY2022: £150m), an increase of £237m as we paid £143m in dividends and returned £207m to shareholders via our share buyback during the year. Net debt to headline EBITDA[4] was 0.7x (FY2022: 0.3x).

As at 31 July 2023, borrowings were £654m (FY2022: £1,166m) comprising a €650m bond which matures in February 2027 and £117m of lease liabilities. The £512m reduction in borrowings is due to repayment of a €600m bond in April 2023. There are no financial covenants associated with these borrowings. Cash and cash equivalents as at 31 July 2023 were £285m (FY2022: £1,056m).

In May 2023, we refinanced our $800m (c.£620m at the period-end exchange rate) revolving credit facility ("RCF") which was due to mature in November 2024. The new RCF is for the same amount, with the same lenders, on substantially the same terms and matures in May 2028. There are no financial covenants attached to the new facility and it remains undrawn. Taking cash and the RCF together, total liquidity was over £0.9bn at the end of the period.

ICU Medical stake

Since the sale of Smiths Medical in January 2022 the Group holds a financial asset reflecting our investment in 10% of the equity in ICU Medical, Inc ("ICU"). See note 14 of the financial statements for further detail.

STATUTORY RESULTS

Income Statement

The £98m difference between headline operating profit of £501m and statutory operating profit of £403m is non-headline items as defined in note 3 of the financial statements. The largest constituents relate to the amortisation of acquired intangible assets of £52m, costs from savings projects of £36m, acquisition related costs of £7m, £9m in costs for asbestos litigation in John Crane, Inc and a provision reduction of £7m for subrogation claims in Titeflex Corporation. Statutory operating profit of £403m was £286m higher than last year (FY2022: £117m), reflecting higher headline operating profit and lower non-headline charges.

Statutory finance costs were £43m (FY2022: £14m), mainly due to a prior year non-headline £22m foreign exchange gain on an intercompany loan with Smiths Medical.

Non-headline taxation items of £13m relate to amortisation of acquisition-related intangible assets, legacy pension scheme arrangements, litigation provisions and non-headline finance items. The statutory effective tax rate was 37% (FY2022: 87%). Please refer to notes 3 and 6 of the financial statements for further details.

Total Group profit after tax and EPS

Statutory profit after tax for the total Group decreased by 77.6% to £232m (FY2022: £1,035m) as the prior year included the profit on sale and results of Smiths Medical of £1,022m. Statutory basic EPS was 65.5p (FY2022: 267.1p).

Statutory cash-flow

Statutory net cash inflow from operating activities for the total Group was £293m (FY2022: £279m). See note 28 of the financial statements for a reconciliation of headline operating cash-flow to statutory cash-flow.

Pensions

Included within free cash-flow was £5m of pension contributions (FY2022: £9m). These contributions relate to unfunded, overseas schemes and healthcare arrangements.

It is not anticipated that any further contributions will be made to the TI Group Pension Scheme ("TIGPS"), the liabilities of which have now been insured via a series of buy-in annuities. Smiths and the TIGPS Trustee are working toward final buy-out of the scheme in order to deliver certainty for the Scheme's 21,000 members and remove future risk for Smiths.

The other major pension scheme, Smiths Industries Pension Scheme ("SIPS") is estimated to be in surplus on the Technical Provisions funding basis, and no cash contributions are currently being made. The Group and the SIPS Trustee continue to work together to progress towards the long-term funding target of full buy-out funding.

The two main UK pension schemes and the US pension plan are well hedged against changes in interest and inflation rates. Over 90% of their assets are invested in third-party annuities, government bonds, investment grade credit or cash, with no remaining equity investments. As at 31 July 2023, over 60% of the UK liabilities had been de-risked through the purchase of annuities from third party insurers.

Foreign exchange

The results of overseas operations are translated into sterling at average exchange rates. Net assets are translated at period-end rates. The Group is exposed to foreign exchange movements, mainly the US Dollar and the Euro. The principal exchange rates, expressed in terms of the value of Sterling, are shown in the following table.

	Average rates		Period-end rates	
	31 Jul 2023 (12 months)	31 Jul 2022 (12 months)	31 Jul 2023	31 Jul 2022
USD	1.21	1.32	1.29	1.22
EUR	1.15	1.18	1.17	1.19

Outlook

In FY2024, we expect organic revenue growth within our medium-term target range of 4-6%, with growth weighted towards the second half of the year. Our strong orderbooks in John Crane and Smiths Detection, along with our new product pipeline, give us confidence in delivering this growth despite a record comparator, moderating pricing environment, and the challenging market conditions facing parts of Flex-Tek and Smiths Interconnect. We also expect continued margin expansion in FY2024, as we continue to scale the Smiths Excellence System and reinvest to support future sustainable growth.

Business review

JOHN CRANE

John Crane is a leading provider of mission-critical engineered solutions, improving customers' reliability and sustainability in process industries. 61% of revenue is derived from the energy sector (downstream and midstream oil & gas and power generation, including renewable and sustainable energy sources). 39% is from other process industries including chemical, life sciences, mining, water treatment, and pulp & paper. 71% of John Crane revenue is from aftermarket sales. John Crane represents 36% of Group revenue.

	FY2023 £m	FY2022 £m	FY Reported growth	Organic growth H1	Organic growth H2	Organic growth FY
Revenue	**1,079**	**901**	**+19.8%**	**+14.6%**	**+15.8%**	**+15.2%**
Original Equipment	169	148	+14.3%	+13.3%	+6.8%	+9.9%
Aftermarket	487	382	+27.5%	+18.5%	+27.8%	+23.2%
Energy	656	530	+23.8%	**+17.1%**	**+21.8%**	**+19.5%**
Original Equipment	145	131	+10.5%	+14.1%	(0.9)%	+6.0%
Aftermarket	278	240	+16.0%	+9.2%	+12.3%	+10.9%
General Industrial	423	371	+14.0%	**+10.9%**	**+7.6%**	**+9.2%**
Headline operating profit	**244**	**188**	**+29.7%**	**+24.6%**	**+25.7%**	**+25.2%**
Headline operating profit margin	**22.6%**	**20.9%**	**+170bps**	**+190bps**	**+180bps**	**+180bps**
Statutory operating profit	217	167	+29.9%			
Return on capital employed	23.8%	19.4%	+440bps			
R&D cash costs as % of sales	1.7%	2.5%	(80)bps			

Revenue

£m	FY2022 reported	Foreign exchange	**Organic movement**	**FY2023 reported**
Revenue	901	36	**142**	**1,079**

John Crane delivered record organic revenue growth of +15.2% for the year, accelerating to +15.8% in H2 executing well against strong demand, with orders up +15%. Organic revenue grew across all segments and geographies. Aftermarket organic revenue grew +18.4% to make up 71% of sales (FY2022: 69%) and OE grew +8.1%.

Reported revenue grew to record levels at over £1bn for the first time, which was up +19.8% reflecting the organic growth and a favourable foreign exchange impact.

In Energy, organic revenue grew +19.5% benefiting from an increased focus on energy security and higher demand for energy efficiency and emissions reduction solutions. John Crane is well positioned to support customers with their decarbonisation goals as they look to become more efficient and reduce leakage within existing facilities or invest in new infrastructure for low carbon alternatives. Notable contract wins in the year included one of the world's largest offshore Carbon Capture and Storage ("CCS") facilities in Malaysia and compressor seals for use in an innovative energy storage solution for a customer in Europe. John Crane's leadership in this area was recognised by the UK government through a £925k grant awarded for its innovative high temperature sealing solution, which is designed to improve customer efficiency through reduced emissions.

The Industrial segment grew +9.2% organically, driven by strong demand across chemical processing, water treatment and life sciences. Efficiency in industrial processes is as important as it is to John Crane's Energy customers, evidenced by multiple wins across all markets.

Operating profit and ROCE

£m	FY2022 reported	Foreign exchange	Organic movement	FY2023 reported
Headline operating profit	188	7	**49**	**244**
Headline operating profit margin	20.9%			**22.6%**

Headline operating profit of £244m grew a record +25.2% on an organic basis, resulting in +170bps of margin expansion. This was driven by the increased volumes and improving plant efficiency, pricing offsetting inflation and benefits from SES and savings projects, while continuing to invest in growth to service the strong demand.

On a reported basis, headline operating profit was up +29.7%, including a favourable foreign exchange impact. The difference between statutory and headline operating profit includes the net cost in relation to the provision for John Crane, Inc. asbestos litigation and charges from savings projects.

ROCE was 23.8%, up 440bps, reflecting the record headline operating profit growth.

R&D

Cash R&D expenditure was 1.7% of sales (FY2022: 2.5%). John Crane's continued investment in R&D is primarily focused on reducing product lead times and enhancing the efficiency, performance and sustainability of high duty seals and hydrogen compressors.

John Crane plays a significant role in its customers' sustainability journeys through reducing leaks, including for demanding hydrocarbon pipelines. John Crane's recently launched Safematic Upstream Pumping System product nearly eliminates cooling water requirements, delivering significant energy and emissions reductions in liquid sealing.

SMITHS DETECTION

Smiths Detection is a global leader in the detection and identification of threats and contraband, supporting safety, security and freedom of movement. It produces equipment for customers in the Aviation market and Other Security Systems for ports & borders, defence and urban security markets. 51% of Smiths Detection's sales are derived from the aftermarket. Smiths Detection represents 26% of Group revenue.

	FY2023 £m	FY2022 £m	FY Reported growth	Organic growth H1	Organic growth H2	Organic growth FY
Revenue	**803**	**655**	**+22.6%**	**+14.0%**	**+18.8%**	**+16.4%**
Original Equipment	226	198	+14.2%	+10.3%	+8.6%	+9.4%
Aftermarket	309	269	+14.6%	+10.3%	+7.0%	+8.6%
Aviation	**535**	**467**	**+14.5%**	**+10.3%**	**+7.7%**	**+8.9%**
Original Equipment	164	102	+60.2%	+39.2%	+64.4%	+51.3%
Aftermarket	104	86	+21.5%	+2.9%	+28.3%	+15.2%
Other Security Systems	**268**	**188**	**+42.7%**	**+22.9%**	**+47.9%**	**+34.9%**
Headline operating profit	**90**	**73**	**+23.1%**	**+4.5%**	**+26.8%**	**+15.4%**
Headline operating profit margin	**11.2%**	**11.1%**	**+10bps**	**(110)bps**	**+70bps**	**0bps**
Statutory operating profit	55	36	+52.8%			
Return on capital employed	7.7%	7.1%	+60bps			
R&D cash costs as % of sales	8.4%	9.3%	(90)bps			

Revenue

£m	FY2022 reported	Foreign exchange	Organic movement	FY2023 reported
Revenue	655	34	**114**	**803**

Smiths Detection returned firmly to growth in FY2023 with organic revenue growth of +16.4%, executing well against the multi-year orderbook. Growth was delivered across all segments with particularly strong growth in lower margin OE, up +23.9% organically. Aftermarket revenue grew +10.2% organically, making up 51% of sales (FY2022: 54%). Orders grew +6% in the year, supporting revenue growth in FY2024, which due to the expected timing of order delivery will be weighted towards the second half. Reported revenue was up +22.6% reflecting the organic growth and a favourable foreign exchange impact.

In Aviation, organic revenue grew +8.9% with continued strong demand for Smith Detection's latest range of 3D CT machines for cabin baggage, CTIX, with over 1,000 now sold, supported by regulatory requirements in many countries mandating upgrades. Smiths Detection continues to achieve a good win rate in Aviation with key contract wins in all regions of the world across the year including provision of CTIX machines to Birmingham and Edinburgh airports in the UK and JAL Airline in Japan, and full-sized lane configurations to the US Transportation Security Administration.

Other Security Systems ("OSS") grew +34.9% driven by high growth in all three sub-segments of urban security, ports and borders and defence, demonstrating good progress in these attractive market adjacencies. Order intake in defence was very strong for both current and future chemical and biological detection requirements, including for the US DoD on their next-generation programme. Smiths Detection has also been contracted to provide security screening at COP28 in November this year.

Operating profit and ROCE

£m	FY2022 Reported	Foreign exchange	Organic movement	FY2023 reported
Headline operating profit	73	5	12	**90**
Headline operating profit margin	11.1%			**11.2%**

Headline operating profit was up +15.4% on an organic basis for the year, supported by the strong organic revenue growth, SES benefits and targeted actions on cost. On a reported basis, headline operating profit was up +23.1% including favourable foreign exchange translation.

Headline operating profit margin of 11.2% was up 10bps on a reported basis as the benefits of SES and cost actions offset the mix impact of lower margin OE. These OE deliveries will secure longer-term, high margin aftermarket revenue, which together with a building SES impact, will support future margin expansion.

The difference between statutory and headline operating profit primarily reflects amortisation of acquired intangibles and charges from savings projects.

ROCE increased by +60bps to 7.7%, driven by the headline operating profit growth.

R&D

Cash R&D increased +9.8% representing 8.4% of sales (FY2022: 9.3%). This includes an increase in customer funded projects to £18m (FY2022: £14m).

Smiths Detection continued to invest in next-generation detection devices, new algorithms to improve the detection of dangerous goods, and digital solutions to strengthen the aftermarket proposition. During the year Smiths Detection launched a new high volume air cargo screening technology and an extension of their automated detection algorithm.

FLEX-TEK

Flex-Tek provides innovative solutions to heat and move fluids and gases for industrial and aerospace applications that support energy efficiency and improved air quality. 81% of Flex-Tek's revenue is derived from Industrials and 19% from the Aerospace sector. Flex-Tek represents 25% of Group revenue.

	FY2023	FY2022	FY Reported	Organic growth		
	£m	£m	growth	H1	H2	FY
Revenue	**768**	**647**	**+18.6%**	**+17.0%**	**+3.6%**	**+10.1%**
General Industrial	624	531	+17.5%	+17.5%	+0.9%	**+9.0%**
Aerospace	144	116	+24.4%	+14.8%	+16.4%	**+15.6%**
Headline operating profit	**149**	**133**	**+11.9%**	**+9.0%**	**(2.0)%**	**+3.4%**
Headline operating profit margin	**19.4%**	**20.6%**	**(120)bps**	**(150)bps**	**(110)bps**	**(130)bps**
Statutory operating profit	131	106	+23.6%			
Return on capital employed	26.1%	25.6%	+50bps			
R&D cash costs as % of sales	0.4%	0.4%	0bps			

Revenue

£m	FY2022 reported	Foreign exchange	Organic movement	FY2023 reported
Revenue	647	50	**71**	**768**

Organic revenue grew +10.1% in the year, with growth in H2 of +3.6%. Revenue on a reported basis grew +18.6%, supported by a favourable foreign exchange translation.

In Industrial, organic revenue was up +9.0% in the year reflecting strong demand for Flex-Tek's products, primarily in HVAC applications. These products include energy efficiency solutions such as the Rheia air distribution system and the partnership with Midrex to deliver heating solutions that enable the production of commercial "green steel". As expected, demand slowed in the second half reflecting a softer US HVAC market. In Aerospace, organic revenue grew +15.6% in the year, with growth in the second half accelerating to +16.4% supported by an increasing number of aircraft builds.

Operating profit and ROCE

£m	FY2022 reported	Foreign exchange	Organic movement	FY2023 reported
Headline operating profit	133	11	**5**	**149**
Headline operating profit margin	20.6%			**19.4%**

Headline operating profit grew +3.4% on an organic basis, driven by the revenue growth which was partly offset by higher costs including starting up a new facility in Houston to expand capacity. This increase in costs, together with continued investments in new product development and a product mix impact, contributed to a 19.4% headline operating margin, (120)bps lower than the record prior year comparator.

The difference between statutory and headline operating profit is due to amortisation of acquired intangible assets and the provision for Titeflex Corporation subrogation claims.

ROCE increased +50bps to 26.1% reflecting the continued profit growth in FY2023.

In August 2023, Flex-Tek acquired HCP expanding its presence in the North American HVAC market and broadening its product range and customer base.

R&D

Cash R&D expenditure grew in-line with sales remaining at 0.4% of sales (FY2022: 0.4%). R&D is focused on developing new products for the construction market, and an expanded product offering in aerospace.

SMITHS INTERCONNECT

Smiths Interconnect designs high performance connectivity solutions for demanding applications in the aerospace and defence, semiconductor test, and industrial end-markets. Smiths Interconnect represents 13% of Group revenue.

	FY2023 £m	FY2022 £m	FY Reported growth	Organic growth H1	Organic growth H2	Organic growth FY
Revenue	**387**	**363**	**+6.5%**	**+3.3%**	**(8.4)%**	**(2.8)%**
Headline operating profit	**62**	**65**	**(4.6)%**	**(1.7)%**	**(20.7)%**	**(11.9)%**
Headline operating profit margin	**16.0%**	**18.0%**	**(200)bps**	**(80)bps**	**(250)bps**	**(170)bps**
Statutory operating profit	50	64	(21.9)%			
Return on capital employed	13.3%	16.3%	(300)bps			
R&D cash costs as % of sales	6.3%	5.6%	+70bps			

Revenue

£m	FY2022 reported	Foreign exchange	Acquisitions	**Organic movement**	**FY2023 Reported**
Revenue	363	26	8	**(10)**	**387**

Smith Interconnect's organic revenue declined (2.8)% for the year following the strong +13.9% growth last year, with +3.3% growth in H1 more than offset by the (8.4)% decline in H2. Reported revenue grew +6.5% in the year including a favourable foreign exchange impact and an £8m contribution from the acquisition of Plastronics.

The performance in the year reflected a weakening in the semiconductor market and delayed timing on large aerospace and defence related programmes, partly offset by strong demand for industrial connector products such as a new medical cable assembly product. Contraction into FY2024 is expected with FY2023 orders down 17%, continued weakness in the semiconductor market and a slowing in connectors.

During the first half, Smiths Interconnect acquired Plastronics to strengthen the product portfolio and leverage Plastronics' attractive positions in artificial intelligence, data centres and automotive end markets.

Operating profit and ROCE

£m	FY2022 reported	Foreign exchange	Acquisitions	**Organic movement**	**FY2023 reported**
Headline operating profit	65	5	0	**(8)**	**62**
Headline operating profit margin	18.0%				**16.0%**

Headline operating profit declined (11.9)% on an organic basis, resulting in a (200)bps reduction in operating profit margin to 16.0%. This decline was driven by the lower volumes and continued investment in R&D. Headline operating profit was down (4.6)% on a reported basis, reflecting the organic decline, partly offset by a favourable foreign exchange impact.

The difference between statutory and headline operating profit reflects the amortisation of acquired intangibles, acquisition costs and charges from savings projects.

ROCE reduced (300)bps to 13.3% driven by the lower operating profit.

R&D

Cash R&D expenditure increased to 6.3% of sales (FY2022: 5.6%). R&D is focused on bringing to market new products that improve connectivity and product integrity in demanding operating environments. Product launches include the next-generation of radio frequency components and transceivers.

CONSOLIDATED INCOME STATEMENT

	Notes	Year ended 31 July 2023 Headline £m	Year ended 31 July 2023 Non-headline (note 3) £m	Year ended 31 July 2023 Total £m	Year ended 31 July 2022 Headline £m	Year ended 31 July 2022 Non-headline (note 3) £m	Year ended 31 July 2022 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

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**
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**

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**

ACCOUNTING POLICIES

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 within the Annual Report 2023. The Group's financial position, cash-flows, liquidity and borrowing facilities are described in the CFO review section within the Annual Report 2023.

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 within the Annual Report 2023.

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.

NOTES TO THE 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:

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

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

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

Smiths Interconnect	Components, connectors & subsystems £m
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 £nil (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 liabilities

	Current 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 within the Annual Report 2023.

	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 Rothesay 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 31 July 2023**	**Female 31 July 2023**	Male 31 July 2022	Female 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 31 July 2023**	**Female 31 July 2023**	Male 31 July 2022	Female 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)**

Amounts recognised directly in the consolidated statement of comprehensive income

	Year ended 31 July 2023 £m	Year ended 31 July 2022 £m
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
	703	623
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						
	Cash and cash equivalents £m	Other short-term borrowings £m	Long-term borrowings £m	Interest rate & cross-currency swaps £m	**Net debt £m**	Changes in other financing items: FX contracts £m	**Total liabilities from financing activities £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						
	Cash and cash equivalents £m	Other short-term borrowings £m	Long-term borrowings £m	Interest rate & cross-currency swaps £m	**Net debt £m**	Changes in other financing items: FX contracts £m	**Total liabilities from financing activities £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**
			FY2023	1	(1)	1
Sales and purchases	Foreign currency risk	Foreign exchange contracts	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
	Interest rate risk	FY2023	(2)	2	–	–	–	–
Fixed rate bonds (a)	Interest rate & currency rate risk	FY2023	16	(16)	–	233	–	(21)
			14	**(14)**	**–**	**233**	**–**	**(21)**
	Interest rate risk	FY2022	8	(8)	–	336	–	(2)
Fixed rate bonds (a)	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 and £1m (FY 2022: £nil) due after more than 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:

			Maturity at 31 July 2023			Maturity at 31 July 2022		
Hedged exposure	Hedging instrument		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 above.

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)**

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)**

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).

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 25 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	Capital employed is a non-statutory measure of invested resources. It comprises statutory net assets and is adjusted as follows: – 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. It is used to monitor capital allocation within the Group. See below for a reconciliation from net assets to capital employed.
Capital expenditure	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.
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. 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_2e per £m of revenue. This measure is used to monitor environmental performance.
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