smiths

IMPROVING OUR WORLD THROUGH SMARTER ENGINEERING

ANNUAL REPORT & ACCOUNTS FY2023

WELCOME

We are pioneers of progress – improving our world through smarter engineering.

Smarter engineering enables us to solve the toughest problems for our customers and address critical global needs such as decarbonisation and green re-industrialisation, safety and security, and demand for data. At the same time building the long-term sustainability of Smiths and its global operations.

We are united by our purpose. It is what we do, how we think, and how we will continue to use our passion for technology and engineering.

ABOUT THIS REPORT

This is the FY2023 Annual Report of Smiths Group plc. Data presented in this report is for the 12 months to 31 July 2023 unless otherwise stated.

HOW TO NAVIGATE THIS REPORT

Throughout this report you will find extra information, performance data and links to additional data in the right-hand column.

- Supporting data, statistics or insights
- Links to additional content within the report
- Links to additional external content
- Quotes from our team and highlights

HOW TO ACCESS MORE INFORMATION

Use the links to navigate around the report and access external content. Our FY2023 Sustainability at Smiths report can also be found on our corporate website www.smiths.com.

Read more about sustainability in our Sustainability at Smiths report CLICK HERE

Read more about the Group on our website CLICK HERE

QUICK LINKS

STRATEGY AND PROGRESS VS TARGETS
Read more about our strategic progress.
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OUR DIVISIONS
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CAPITAL ALLOCATION PRIORITIES
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CLIMATE REPORTING
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THE BOARD'S KEY ACTIVITIES
Read more about the Board's key activities.
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A YEAR OF RECORD ORGANIC REVENUE AND HEADLINE EPS GROWTH

RECORD ANNUAL GROWTH

ORGANIC[1] REVENUE GROWTH OF +11.6%; HEADLINE EPS[2] 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[2] operating profit growth of +20.0%; with margin expansion of +20bps to 16.5%
- Return on capital employed (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 our Recordable Incident Rate
- Successful rollout of Smiths Leadership Behaviours, driving a 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 January 2023 and Heating & Cooling Products in August 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%, bringing the full year to 41.6p

FINANCIAL PERFORMANCE

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	

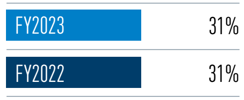
Statutory	FY2023	FY2022	Reported
Revenue	**£3,037m**	£2,566m	+18.3%
Operating profit	**£403m**	£117m	+244.4%
Profit for the year (after tax)[5]	**£232m**	£1,035m	(77.6)%
Basic EPS[5]	**65.5p**	267.1p	(75.5)%
Dividend per share	**41.6p**	39.6p	+5.1%

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 Smiths Medical.

GROSS VITALITY

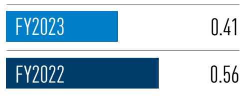
Percentage of revenue from new products



31%

SAFETY

Recordable Incident Rate



(26)%

GREENHOUSE GAS REDUCTION

Scope 1 & 2 GHG reduction

(11.8)%

OUR PRIORITIES AND TARGETS

OUR PURPOSE

PIONEERS OF PROGRESS

Improving our world through smarter engineering

OUR STRENGTHS

- WORLD CLASS ENGINEERING
- LEADING POSITIONS IN CRITICAL MARKETS
- GLOBAL CAPABILITIES
- ROBUST FINANCIAL FRAMEWORK

OUR PRIORITIES

- GROWTH
- EXECUTION
- PEOPLE

BUSINESS MODEL

See our business model.

→ PG 11

MARKETS AND MEGATRENDS

Read more about our markets and megatrends.

→ PG 3

KEY PERFORMANCE INDICATORS

See our KPIs over five years.

→ PG 29

SUSTAINABILITY AT SMITHS

Read more about our ESG framework and sustainability.

→ PG 32

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.

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.

MEDIUM-TERM FINANCIAL TARGETS

Organic revenue growth
4-6% (+M&A)

Headline EPS growth
7-10% (+M&A)

ROCE
15-17%

Operating profit margin
18-20%

Operating cash conversion
100%+

MARKETS AND MEGATRENDS

We track the evolution of key secular themes and trends and their impact on our markets and our business.

OUR MARKETS

We operate in four global markets:

GENERAL INDUSTRIAL

Customers put their trust in our products and services to support a wide range of general industrial applications in sectors including petrochemicals, mining, pulp & paper, water treatment, semiconductor testing, heating elements, automotive and rail transportation.

SAFETY & SECURITY

Our threat detection equipment helps keep people and assets safe. Demand in the security market is driven by persistent and evolving terror threats, changing security regulations, and increased global air travel and trade.

ENERGY

John Crane's mechanical seals and systems support energy operations worldwide including downstream and midstream oil & gas, power generation and low-/no-carbon energy solutions. Growth is driven by increased global demand for energy, decarbonisation, productivity, and enhanced environmental and safety requirements.

AEROSPACE

Aerospace growth is driven by increasing passenger and freight traffic and the development of new fuel-efficient aircraft. Satellite launches and emerging activities like deep space exploration are driving demand for high-reliability solutions in the space market.

MEGATRENDS

Powerful megatrends that are aligned with our purpose propel long-term growth in these markets. Smiths is uniquely positioned to access this growth.

DECARBONISATION AND GREEN RE-INDUSTRIALISATION

The need to mitigate climate change and deliver secure and affordable power is driving a fundamental revolution in energy use, energy sources and energy delivery to cut emissions across all sectors.

Macroeconomic policies and private-sector commitments are accelerating the pace of change to disrupt established energy markets and lock in the triple benefits of green re-industrialisation (affordability, security and sustainability).

Investment to deliver the Paris commitment on global warming is projected to exceed US$100 trillion by 2050; 3-4 times the rate of annual historical investment.

Efficiency and circular economy solutions

- Energy savings through efficiency and reducing waste is the most cost-effective solution to cut GHG emissions

Widespread green electrification

- Green electricity is the most efficient and best vector for decarbonisation and can now be produced at lower cost than fossil fuels
- Electrification is a significant and growing feature across multiple industrial and domestic markets

Low-/no-carbon fuels in hard-to-electrify sectors

- Activities that are not amenable to electrification will need to be fuelled by zero-carbon fuels

Carbon capture

- Carbon capture activities will accelerate as a means to further abate carbon emissions from heavy industrial sectors and enable the production of zero-carbon fuels

EVER-RISING SECURITY NEEDS

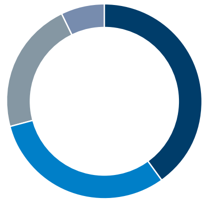
Persistent and evolving threats are driving security needs in a range of sectors to keep people and assets safe.

- Passenger air travel growing 6.1% per annum, freight growing 4.1%
- Consumer, business and government demands for safety are continually increasing
- Regulatory requirements amplify demand

INSATIABLE DEMAND FOR DATA

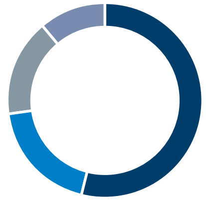
- Demand for data is continuously increasing as the world becomes more connected and computing expands. Faster data transmission, greater bandwidth and faster processing power are required across many sectors
- Global data consumption continues to double every 4 years
- Transmission data rates continue to double every 3.5 years
- More than 2,100 satellite launches in 2022, vs 134 ten years ago

REVENUE BY GLOBAL MARKET



General industrial	40%
Safety & Security	31%
Energy	22%
Aerospace	7%

REVENUE BY DESTINATION



Americas	54%
Europe	19%
Asia Pacific	16%
Rest of the World	11%

OUR DIVISIONS

Our four divisions operate in more than 50 countries. Together, the divisions and Group employ more than 15,000 people.

JOHN CRANE

Mission-critical technologies and services for energy and process industries that enable efficient and sustainable operations

John Crane is a global leader in the design, manufacture, installation and support of rotating equipment solutions that drive efficiency, safety, and environmental sustainability in large-scale industrial processes.

CUSTOMERS

- Energy: down- and mid-stream activities (e.g., refineries and pipelines) of energy multinationals and power generation, including growing applications in hydrogen and carbon capture
- Other process industries: a significant presence in chemical, life sciences, mining, and pulp & paper
- Aftermarket: increasing demand for full lifecycle asset management
- Ideally positioned to help customers meet their decarbonisation and energy transition objectives

COMPETITIVE STRENGTHS

- Strong and differentiated proprietary technologies and expertise across industries
- Largest installed base in the energy and industrials markets
- Innovation focused, growing service capabilities through digitisation and field engineering
- Customer intimacy and strategic alignment with end users through a network of ~200 service and support centres with unique field service capabilities

GROWTH DRIVERS

- Global demand for stable, secure and affordable energy supply
- Secular growth in energy and primary resource demand, especially in emerging markets
- Increasing demand for enhanced efficiency
- Energy transition – environmental safeguarding and cleaner processes. Requirement to reduce emissions, with particular emphasis on methane. Growth of a more diversified and cleaner low-carbon energy ecosystem, including hydrogen and carbon capture, which drive more demanding needs in compression, pumping and filtration
- Long-term customer partnerships and outsourcing

COMPETITORS

Competitors include Flowserve, EagleBurgmann, AES, FSD, A.W. Chesterton, Pall and TM filters

36%
of Group revenue

71% of John Crane revenue is from aftermarket sales

c.6,100
Colleagues

£1,079m
FY2023 revenue

+15.2%
Organic growth

£244m
FY2023 headline operating profit

+25.2%
Organic growth

SMITHS DETECTION

Detection and screening technologies for safety, security, and freedom of movement.

smiths detection

Smiths Detection is a global leader in the design, manufacture, installation and support of threat detection and screening technologies that protect people and assets.

CUSTOMERS

- Aviation: airports and governments, including regulators who are also highly involved and help shape market development
- Other security systems: high-energy cargo inspection systems for ports and borders; integrated screening systems for a broad range of urban situations (court houses, prisons, offices, shopping malls, rail stations, etc.); and advanced chemicals and explosives detectors for governments with whom we have long-standing partnerships

COMPETITIVE STRENGTHS

- Global reach and market-leading brand
- Differentiated proprietary technologies leveraged across a broad range of markets
- Significant research and development and digital capabilities
- Operating in regulated market segments that require product certification
- Increasing product sustainability – energy efficiency, supply chain and refurbishment
- Customer intimacy and loyalty through equipment cycle and aftermarket offer
- Coverage for 191 countries

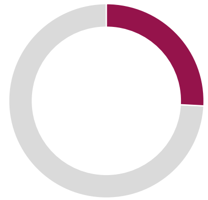
GROWTH DRIVERS

- Persistent and evolving threats to national security, public safety and critical infrastructure
- Changing aviation security regulations and customer requirements across our industries
- Growing populations and urbanisation
- Growth of global transportation infrastructure
- Global growth of international trade and e-commerce
- Need for integrated digital solutions and cyber security
- Increasing interest in solutions that enable the circular economy
- Staffing constraints are driving demand for digital image analysis software such as automated threat recognition
- Equipment replacement cycle, typically ~ten years

COMPETITORS

Competitors include Rapiscan, Leidos, Nuctech, Flir, Analogic and Chemring

26%
% of Group revenue



51% of Smiths Detection revenue is from aftermarket sales

c.3,100
Colleagues

£803m
FY2023 revenue

↗ +16.4%
Organic growth

£90m
FY2023 headline operating profit

↗ +15.4%
Organic growth

FLEX-TEK

Safe and efficient movement and temperature management of fluids

Flex-Tek is a global provider of high-performance engineered solutions that support the safe and efficient movement and temperature management of liquids and gases in a range of industry sectors.

CUSTOMERS

- Construction: heating, ventilation and air-conditioning (HVAC) distributors and builders (full range of heating elements, gas piping, flexible and metal ducting)
- Aerospace: aircraft manufacturers and their tier-one suppliers (full range of rigid and flexible, high- and low-pressure tubing and ducting for fluid conveyance)
- Industrial: specialist end uses including medical and industrial hoses and a broad range of heating elements for applications in industrial market segments

COMPETITIVE STRENGTHS

- Leading capability in design, manufacture and cost engineering
- High-performance, differentiated products
- Innovation focused
- Strong customer relationships and brand reputation

GROWTH DRIVERS

- Through-cycle growth of the US housing construction market
- Expanding international market for construction products
- The electrification of everything, leading to broad adoption of electrical heating solutions across industrial and domestic settings
- Long-term increase in commercial and military aircraft production
- Customer focus on efficient performance and environmental safeguarding
- Growth in use of medical devices

COMPETITORS

Competitors include Parker-Hannifin, Eaton, OmegaFlex, Warren, Watlow and Southwark Metal

25%
% of Group revenue

c.3,300
Colleagues

£768m
FY2023 revenue

↗ +10.1%
Organic growth

£149m
FY2023 headline operating profit

↗ +3.4%
Organic growth

SMITHS INTERCONNECT

Smarter interconnect solutions

Smiths Interconnect is a preferred supplier of advanced electronic components, sub-systems, optical and radio frequency products for customers requiring reliable, high-speed and secure connectivity, often in harsh environments.

CUSTOMERS/BUSINESS UNITS

- Connectors: high-reliability electrical interconnect solutions for specialised applications across a broad range of healthcare, industrial, transport, defence and aerospace customers
- Semiconductor test: test socket and probe card solutions for higher-performing applications (graphics processing, artificial intelligence and data communication) for a broad range of chip manufacturers
- Fibre-optics and radio frequency (RF) components: broad range of devices, including transceivers for demanding high-reliability environments, especially with space and aerospace customers
- Smiths Interconnect Inc.: antenna systems, multi-function RF systems, as well as time and frequency solutions for aerospace and defence customers

COMPETITIVE STRENGTHS

- Broad portfolio of cutting-edge technologies and products
- Strong research and engineering capabilities
- Customer intimacy and product customisation
- Global reach and support

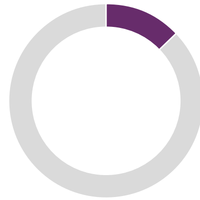
GROWTH DRIVERS

- Increased demand for faster data transmission, greater bandwidth and faster processing power in aerospace, defence and communications
- Growth of connectivity, as the world becomes more connected, driven by trends including the Internet of Things, Big Data, Internet of Space, and Industry 4.0
- Development of healthcare technology

COMPETITORS

Competitors include Amphenol, TE Connectivity, Molex, Cobham, Samtec, Glenair, Anaren, Leeno and Winway

13%
% of Group revenue



c.2,050
Colleagues

£387m
FY2023 revenue

(2.8)%
Organic growth

£62m
FY2023 headline operating profit

(11.9)%
Organic growth

CHAIRMAN'S STATEMENT

SIR GEORGE W. BUCKLEY
Chairman

Dear shareholders,

This is the final Chairman's shareholder letter I'll write to you since I retire at the upcoming shareholders' meeting. You'll have a new Chair, Steve Williams, at the close of voting.

You will likely know I write these letters myself, not our corporate staff. I've always thought a personal letter from the Chairman is important, and I generally use these letters as teaching pieces. This letter will reflect on past achievements and postulate a few things for the future.

Over the last 20 years, Smiths Group plc experienced only very moderate organic growth. My mission as Board leader was to try to change that pattern. But, as the Chairman, you are constrained by good governance because directors are generally required to be 'nose in, finger out'. While the Board constantly monitors performance, intervention only comes when the Board senses a significant deviation from performance and investor expectations. Until then, we are mostly advisers, guides, and inspirers, but sometimes cajolers and even pleaders. I've seen the Chair as a position where we can help develop the senior management team to learn new skills and approaches to persistent historical problems. All great leaders are great teachers.

During my tenure with Smiths, we have seen the disposal of the medical business, the COVID-19 pandemic, tremendous supply chain shortages, rampant inflation, the Russia-Ukraine war, tensions in both the Middle and Far East, and a growing trade war between the United States and China.

There are always challenges and worries in any period of history, but this one has had several spectacular problems. We haven't seen a global pandemic since the so-called 'Spanish flu' (Influenza type A, subtype H1N1) between 1918 and 1919. But we got one in COVID-19. I have written much previous commentary on supply chain dynamics, forecasting the end of COVID-19 and anticipating President Xi's change of heart regarding COVID-19. I recently spoke to the UK Parliament about rebuilding Britain's manufacturing and technological capabilities. We cannot solve poverty and social deprivation in Middlesbrough or South Wales simply by having more bankers in London.

Two primary causative agents were at work in producing this larger set of challenges. During the pandemic, it created temporary peaks in demand for certain types of services, local logistics and delivery services, plus huge demand for electronics and things related to safe environments where, except for factory workers, we all largely worked from home. Other things suffered: airline travel, transportation, restaurants and conventional retail shopping.

After the end of the pandemic, supply chain shortages were generated by a simultaneous start-up of all the world's economies. The illusory overshoot in companies' sales demand curves also led to panic buying, component shortages and huge price inflation. The outcome of panic buying was excess and sometimes high-priced inventory, high-priced shipping containers, and energy and food shortages because of the Russia-Ukraine war. The illusory overshoot in demand was the thing that could've been avoided most easily, including its contribution to inflation.

Regarding inflation, I have often used the phrase that the solution to high prices is high prices. Manufacturers re-engineer their products, substitute new materials, find ways to reduce waste, and find new suppliers. A significant piece of the inflation in the UK was due to energy. To illustrate this point, I pay nine cents per kilowatt hour in my home in Florida for my electrical energy. I pay 59 pence per kilowatt hour of energy in the UK, about eight times as much as in the United States. Therefore, any energy-intensive process manufacturing was crushed and cannot compete long term in the UK. We understand the obvious smelting and steelmaking processes, but a surprising component of this problem is manufacturing cars, where the paint process is hugely energy intensive. One way around this might be using body films instead of paint.

"Adaptability and proactive measures the Company took ensured minimal disruptions to our global operations during COVID-19. Over the last two years, the Company has also returned to encouraging levels of organic growth."

PERFORMANCE HIGHLIGHTS

Adaptability and proactive measures the Company took ensured minimal disruptions to our global operations during COVID-19. Over the last two years, the Company has also returned to encouraging levels of organic growth. Some comparisons benefit from easier year-over-year comparisons, but the results reported in the last two years still significantly bettered expectations.

Smiths businesses cover many industries, but among the largest are energy, construction and transportation – primarily aviation and airport-related businesses. But we also have a business in defence and vast opportunities to move into other areas of urban safety and food safety, for example. We have technologies currently applied to detecting military chemical warfare contaminants that can be applied in commercial property applications and the home. And sealing technologies developed by John Crane will have a significant role to play in the decarbonisation of existing industries, including oil & gas, and the growth of new low- and zero-carbon energy infrastructure like hydrogen, supported by carbon capture.

One of the most exciting developments is in Smiths Detection, where X-ray diffraction can help identify specific materials based on their molecular spacing, not just material density, which is what traditional X-ray methods use. This will make Smiths the world's most advanced hold baggage and carry-on baggage screening company.

Investors naturally worry about our end markets under pressure. Two of our end markets experienced significant contractions during the year. The first is electronics, particularly those related to semiconductor testing. The second is construction.

Contraction in our Smiths Interconnect business partially relates to silicon wafer volume and certain types of chipsets passing through semiconductor manufacturing. During the pandemic, those industries saw huge increases in demand for electronic products. Those electronic end markets contracted a few percentage points as the pandemic eased. However, demand in the upstream supply chain saw temporary contractions year-over-year of around 40% in many cases. That, in turn, reflects in the demand seen by businesses like Smiths Interconnect. These contractions are perfectly normal in electronics and tend to be relatively short-lived.

In any environment experiencing demand contraction, management has two primary responsibilities. The first estimates how deep the contraction will go, and the second is to estimate how long it will last. In any make-to-stock business, demand in the channel, both in expansion and contraction, is always many multiples of what happens in the end market. Typically, the higher the demand overshoot/undershoot, the shorter it lasts, as companies in the supply chain work to clear the excess inventory quickly. Regular readers will remember my forecasts of high energy costs and the consequence of panic buying during the illusory demand increase as the global economy restarted post-COVID-19. This is exactly what we're seeing.

Part of our Flex-Tek business participates in the important US construction industry. It's a make-to-stock business and supplies products through large retailers and distributors in the United States. A similar phenomenon of channel demand contractions to those in the electronics industry happens in construction. End market conditions change, and the channel adjusts quickly to new circumstances. It does this in both directions: increasing or decreasing demand. So, there's reason to expect that, as the calendar year 2024 unfolds, we will see improving demand conditions in the construction segment of Flex-Tek. The aviation segment of Flex-Tek remains robust as the demand for new airplanes increases rapidly.

At the end of the Smiths financial year, the US inflation rate was 3.2% compared to 6.8% in the UK. July's inflation rate was down to 0.2%, so it is clearly headed in the right direction. The demand for goods and services is up 0.3% and 0.5%, respectively. This data can all be found at www.bls.gov. The US Federal Reserve Bank has an inflation target of 2% and is still cautious, but perhaps unnecessarily. US housing starts have begun to increase again. It's reasonable to expect that the upward trend in housing starts will continue and will accelerate once the Federal Reserve either pauses or ultimately reduces interest rates. In conclusion, the pressure on our construction-oriented business will ease.

One of the most important data sets investors can examine is the US Bureau of Economic Analysis on its site, www.bea.gov. The Bureau publishes overall GDP numbers in a sequence of three estimates, but one of the most important Table 2 entries is the heading "Change in private inventories". In the first quarter of calendar year 2023, the change in private inventories was a full negative 214 basis points of GDP, indicating that the economy was, as expected, reducing inventories on a large-scale basis. The contribution to US GDP of change in private inventories in the second quarter is a positive 14 basis points, suggesting an easing in the inventory bleed-off. The US economy overall is running a little over 2% growth. While that may not be spectacular, it's stable in the economic context we find ourselves in.

The only real negative I see is that, in my view, the Federal Funds Rate is still too high and likely to produce an overshoot in cooling demand unless the Federal Reserve Bank eases monetary policy soon.

INNOVATION AND R&D

We remain committed to the belief that the best tool for new value creation is higher than market organic growth. The best unlock code to achieve this objective is innovation. As I have said in previous letters, the core of every company is dying, so the contribution to growth for innovation has to exceed the core attrition rate caused by cannibalisation, end-of-life technology, competitive attack, and changing customer preferences.

As we embark on a new year, we focus on innovation, growth, and increasing value to our shareholders. We identified key strategic priorities guiding our efforts in 2022 and beyond. We will continue to invest in research and development, driving innovation across our product lines and positioning Smiths as a leader in cutting-edge technologies.

In an early Chairman's letter, I said I believed the great crystal ball of the future for engineering companies is mathematics, electronics and materials science. The mathematics here covers every piece of engineering calculation and forecasting, including artificial intelligence, deep cognitive learning, and mathematical taxonomy. Electronics here include sensors, controllers, software, and the like. Materials science includes aspects of physics and chemistry, including X-ray diffraction, special surface coatings, nanomaterials, 3D printing, and graphene.

CONCLUSION

I sincerely thank our dedicated employees, esteemed shareholders, and valued customers. Smiths journey has been marked by resilience, innovation and a shared vision of a better future. As we navigate the path ahead, I am confident that our collective efforts will continue to drive success and create lasting value.

It has been both an honour and a privilege to serve as Chairman of this great business and, on behalf of the Board, I would like to thank you for your continued trust and partnership.

Sincerely,

SIR GEORGE W. BUCKLEY
Chairman of the Board, Smiths Group plc

We remain committed to the belief that the best tool for new value creation is higher than market organic growth. The best unlock code to achieve this objective is innovation.

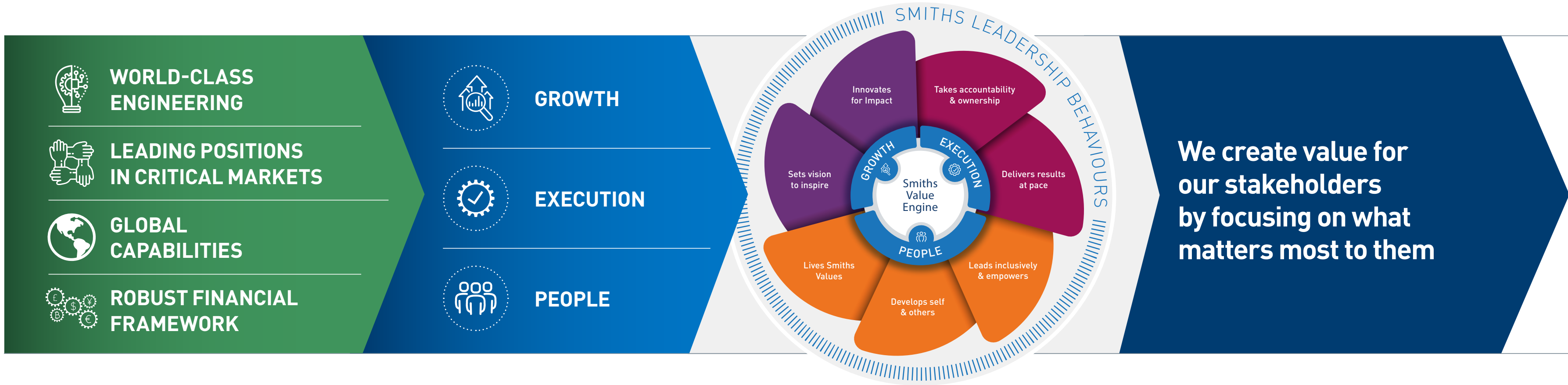
REVIEW OF THE YEAR
Read more about our performance.

→ PG 18

OUR BUSINESS MODEL

Our business model leverages our strengths to perform to our potential, deliver our purpose, and generate value for all stakeholders.

OUR STRENGTHS | **OUR STRATEGIC PRIORITIES** | **OUR CULTURE** | **OUR STAKEHOLDERS**



OUR STRENGTHS

WORLD-CLASS ENGINEERING

We have a long track record of innovating across our multiple markets. R&D investment consistently ahead of competitors ensures a strong pipeline of new products.

LEADING POSITIONS IN CRITICAL MARKETS

Our markets (General Industrial, Safety & Security, Energy and Aerospace) are secularly attractive and growing. We have leading positions in many key segments based on technology and/or service differentiation.

GLOBAL CAPABILITIES

We are present in more than 50 countries and our geographical spread and end market diversification provides stability and growth.

ROBUST FINANCIAL FRAMEWORK

Our robust financial framework derives from accelerating revenue growth; recurring, higher margin aftermarket revenues; good margins and return on capital; and low asset intensity and strong cash generation.

OUR STRATEGIC PRIORITIES

GROWING FASTER TO UNLOCK VALUE

We will grow faster by using our existing market positions to invest in focused new product development and commercialisation; by building out priority adjacencies; and disciplined M&A to augment strategy implementation.

STRONGER EXECUTION

We are focused on executing with agility, speed and greater consistency to deliver improved results.

INSPIRE AND EMPOWER OUR PEOPLE

Our people are critical to our success. Building an inclusive, high-performing and engaged team, and our commitment to development and talent progression will facilitate our ambitions.

OUR CULTURE

Our culture inspires and empowers our people to deliver. It has enabled Smiths to prosper for more than 170 years.

OUR VALUES

are the things that are important to us.

OUR LEADERSHIP BEHAVIOURS

make us dynamic, inclusive and focused on delivering results.

OUR CODE OF BUSINESS ETHICS

outlines the ethical standards we all commit to.

THE SMITHS EXCELLENCE SYSTEM (SES)

drives stronger execution and continuous improvement across all of our priorities.

OUR STAKEHOLDERS

OUR PEOPLE

Decent, inclusive, safe work, and environments where colleagues can build careers and flourish.

OUR CUSTOMERS

Differentiated technology, engineering and service solutions that make the businesses of our sophisticated global customers work and grow.

OUR SUPPLIERS

Collaborative supplier partnerships with enduring mutually beneficial outcomes.

COMMUNITIES AND SOCIETY

Environmental/social value though our products and direct contributions via taxes, wages and giving.

REGULATORS AND GOVERNMENTS

Openness, transparency and support for global policies that deliver a safe, secure and sustainable world.

OUR INVESTORS

Long-term financial value and returns for investors.

MARKETS AND MEGATRENDS
Read more about our markets and megatrends.
→ PG 3

DIVISIONS
Read about our divisions.
→ PG 4

STRATEGIC PRIORITIES
Read more about our strategy.
→ PG 12

CULTURE
Read more about our culture.
→ PG 13

STAKEHOLDERS
Read more about our stakeholders.
→ PG 58

PRINCIPAL RISKS AND UNCERTAINTIES
Read more about our principal risks and uncertainties.
→ PG 68

OUR STRATEGY

FY2023 was another strong year of progress in advancing our strategic priorities.

OUR STRATEGIC PRIORITIES		FY2023 PROGRESS
ACCELERATING GROWTH	– Taking full advantage of strong demand in most of our markets – Improving new product development and commercialisation – Extending our reach by building out priority adjacencies driven by megatrends of energy transition and sustainability, increasing security needs, and enhanced connectivity – Supplementing organic growth with disciplined M&A	– Record organic revenue growth; now nine consecutive quarters of growth – Double digit organic revenue growth in three of four Smiths divisions – +310bps of growth coming from new products. Gross vitality of 31% – £113m invested in R&D; capex +14.1% – Growing John Crane's presence in hydrogen and carbon capture. Now over 70 active projects – Growing Smiths Detection's penetration in other security systems segment, +34.9% revenue – Flex-Tek supporting development of the world's first Green Steel production facility – Smiths Interconnect acquisition of Plastronics – Continued active acquisition pipeline
STRENGTHENING EXECUTION	– Embedding the Smiths Excellence System across the Group – Accelerating pace and establishing a more consistent operating rhythm – Continuously improving to deliver value for customers – Executing against our environmental commitments	– +20bps headline operating profit margin to 16.5% – Strong profit growth in John Crane and Smiths Detection. Solid profit growth in Flex-Tek – 6 Master Black Belts and 31 Black Belts across the Group; 71 SES Black Belt projects underway or completed – +£14m incremental profit from SES projects – Reduction in working capital through second half supported by focused SES projects – Submitted Net Zero trajectory and targets for Scopes 1, 2 and 3 emissions to the Science-Based Target initiative – (11.8)% reduction in Scope 1 & 2 GHG emissions
DOING EVEN MORE TO INSPIRE AND EMPOWER OUR PEOPLE	– Building upon our world-class safety record – Accelerating talent development through the Smiths Leadership Behaviours – Creating an ever-more diverse and inclusive environment – Living Smiths Values each and every day	– Safety Recordable Incident Rate (RIR) down (26)% and record low lost time incident rate (LTIR) – Continued to embed Smiths Leadership Behaviours and integrated them into our Accelerate leadership development programme (300 trained in FY2023) – Expansion of diversity, equity and inclusion initiatives, including significant growth in activities to inspire and develop female leaders. 25% of senior leadership positions now held by women – My Say survey global e-Sat engagement score increased to 73. See page 14 – Launched Smiths Group Foundation and global volunteering policy

FY2023 PROGRESS AGAINST TARGETS

Organic revenue growth

4–6%

↗11.6%

FY2022: 3.8%

EPS growth

7–10%

↗39.6%

FY2022: 17.8%

ROCE

15–17%

↗15.7%

FY2022: 14.2%

Operating profit margin

18–20%

↗16.5%

FY2022: 16.3%

Operating cash conversion

100%+

↗86%

FY2022: 80%

● Target still to achieve
● FY2023 progress vs target

OUR PURPOSE
We are united by our purpose to improve our world through smarter engineering. It is what we do, how we think, and how we will continue to use our passion for technology and engineering.

BOARD OVERSIGHT
Read more about this and how the Board influences our culture.

→ PG 82

SMITHS VALUES

INTEGRITY
We do the right thing

RESPECT
We respect each other

OWNERSHIP
We take responsibility

CUSTOMER FOCUS
We earn our customers' trust

PASSION
We are united in purpose

OUR PEOPLE AND CULTURE

Our culture inspires and empowers our people to deliver our strategy. The four key elements of our cultural framework support the Smiths business model and drive positive outcomes for all our stakeholders. The framework is underpinned by governance processes set and monitored by the Smiths Board, which has ultimate responsibility for ensuring that our culture remains healthy and drives the long-term success of the Group.

1. OUR VALUES

Our Values are the things that are important to us as an organisation. They make us reliable, trustworthy and valued partners for each other, our customers and suppliers, and they make Smiths a place where we are happy and proud to work. We live them every day, in each action and decision that we take.

2. SMITHS LEADERSHIP BEHAVIOURS

The Smiths Leadership Behaviours take our Values to the next level. Grouped under growth, execution and people, they describe the behaviours needed to be displayed by all colleagues for the organisation to be dynamic, inclusive and focused on delivering results that create value and enable our growth strategy. Leadership is a mindset at Smiths. Everyone can be a leader.

SETS VISION TO INSPIRE
Collaborates to uncover future growth opportunities for Smiths. Shares this in a way that inspires and energises colleagues to take action.

INNOVATES FOR IMPACT
Committed to continuous improvement, takes opportunities to the market that differentiate Smiths and deliver sustainable value for all stakeholders.

TAKES ACCOUNTABILITY AND OWNERSHIP
Actively takes accountability, follows through on commitments and empowers others to own their outcomes.

DELIVERS RESULTS AT PACE
Takes an agile, focused and resilient approach that delivers excellent outcomes to meet customer/stakeholder expectations.

LEADS INCLUSIVELY AND EMPOWERS
Champions inclusion at every opportunity. Creates the environment where others can contribute and thrive, building trust and nurturing empowerment.

DEVELOPS SELF AND OTHERS
Visibly commits to their personal development and encourages the development of others to reach their full potential.

LIVES SMITHS VALUES
Embodies and promotes Smiths Values: integrity, respect, ownership, customer focus and passion, using these to guide all actions.

3. SMITHS CODE OF BUSINESS ETHICS

The Smiths Code is the foundational document that outlines the standards of behaviour to which we all commit at Smiths. It is a practical guide to what 'doing the right thing' looks like when conducting business and forging relationships legally, ethically and with integrity. The Code is supplemented by a suite of policies and procedures relating to specific ethics, compliance and people matters.

4. SMITHS EXCELLENCE SYSTEM

SES is central to how we solve problems and deliver improved results at Smiths. The SES structure, leadership, committed resources, tools and training ensure that we explicitly prioritise and resource projects according to impact and importance, and execute with greater pace, urgency and consistency in support of our Smiths Value Engine priorities.

MONITORING AND MEASURING THE HEALTH OF OUR CULTURE

ENGAGING WITH OUR COLLEAGUES

Our global communications activities are designed to engage colleagues around the world with our purpose, culture and strategy. Key communications materials are translated into our ten core languages.

Our Smiths Now app is a platform for colleagues to receive news from around the business and share their views and stories and is always active with grassroots content. There is also a global fortnightly e-newsletter, Signal, which amplifies key company news to the global business and our global virtual Town Halls have an online translation feature. Our intranet web portal acts as an online hub holding links to support, training and resources for many areas including SES, safety, ethics and compliance, and diversity and inclusion.

We undertook a large range of engagement activities in FY2023 including:

- My Say employee engagement survey (see right)
- Site visits by members of the Executive Committee and the Smiths Board
- Global Town Halls in September and March
- Global leadership summits for our extended and senior leadership teams (c.400 colleagues) in November, June and February
- Live broadcasts of 'fireside chats' featuring female members of the Executive Committee and the Smiths Board
- One-to-one meetings of the Chairman and senior leaders
- Live broadcasts and communications around our results announcements, our Capital Markets event in November 2022, and other key CEO and CFO external activities

MY SAY EMPLOYEE ENGAGEMENT SURVEY

We have been tracking engagement on a range of important cultural measures since 2017. We use the results of the survey in a transparent and meticulous way to surface issues and more precisely understand what we are doing well and where we need to do better, both at a high level and at grassroots level in individual teams.

We undertook our latest survey in May 2023, with updated questions to align the survey more closely with our cultural focus areas, testing the following categories:

- Overall happiness working at Smiths (our employee engagement eSat KPI) and excitement about our future
- Awareness and understanding of the Smiths Leadership Behaviours and people living our Values
- Commitment to safety and the environment
- Empowerment, continuous improvement, leadership, collaboration and understanding of individual priorities
- Career, recognition, feedback and opportunities to learn and grow
- Work/life balance, feeling cared about at work, equal opportunities
- Diverse perspectives valued, and ability to express thoughts and ideas/speak out

Strengths:

- Smiths is committed to providing a safe workplace
- I understand how my work contributes to company success
- Smiths is committed to having a positive impact on the environment
- We continually improve the way the work gets done
- People frequently express their thoughts and ideas
- I am able to find the balance I desire between my work life and personal life

Opportunities:

- Everyone has an equal opportunity to succeed
- I feel satisfied with the recognition I receive for my work
- I have good career opportunities at Smiths

Results from the survey and recommendations are reported to, and discussed by, the Executive Committee and the Smiths Board before being incorporated into strategic planning to prioritise action in lower scoring categories. Actions include continuing our efforts to strengthen and upskill our leaders; using the Leadership Behaviours as a driver for people to share their opinions and ideas; building stronger diversity and inclusion programmes; and continuing to improve our talent development processes to make career plans and prospects more visible. Each division and function have also identified improvement opportunities to work on in the coming year.

SPEAKING OUT

Engaging and communicating on ethical matters is vitally important, as is colleague trust in our procedures. Colleagues and business partners are expected to be vigilant and report any activity or behaviour – whether in our business or those of our partners – that they consider may be in breach of our ethics codes and policies or inconsistent with our Values. This can be done through their line manager, HR representative or the Legal team, or by using our confidential Speak Out reporting hotline, which is accessible 24 hours a day, seven days a week to colleagues and third parties. Reports to the hotline can be made anonymously. This is communicated regularly to ensure that awareness remains high.

We also use colleague feedback to build understanding of how we are doing on ethical matters, and to target our activities effectively. Our grassroots Ethics Ambassador network reviews plans and helps us to bring ethics to life, and to the widest possible audience, and our global Ethics Pulse survey delivers rich data on colleague perceptions across Smiths. This data is reported to the Audit & Risk Committee along with Speak Out data.

84%
of Smiths colleagues participated in the My Say survey (May 2022: 82%; industry benchmark 75%).

↗ +2%

12,158
Comments made in the My Say survey.

73
Overall eSat score for the My Say survey was 73 (May 2022: 72; industry benchmark 74).

↗ +1 point

OUR PEOPLE
Read more about our people.

→ PG 59

BUILDING SMITHS CULTURE IN FY2023

We recognise that a healthy culture requires continuous care and attention to support our ambitions. Some of the ways we nurtured our culture in FY2023 are given below.

SMITHS DAY	Our annual Smiths Day global celebration of Smiths culture took place in June 2023. Smiths Day celebrates our Values and the rich connections and relationships we have as colleagues. This year's theme 'contributing to our communities' encouraged every Smiths site to look outwards and to undertake a locally based activity as a way of giving back to their immediate communities.
EMBEDDING THE SMITHS LEADERSHIP BEHAVIOURS	After their launch at the end of FY2022, embedding the Smiths Leadership Behaviours has been an important focus in FY2023. The Behaviours are intended to become foundational to the colleague experience and are central to development, talent assessment, and progression and reward. Our Accelerate people leadership programme, launched in FY2023, is based around the Leadership Behaviours.
LAUNCH OF SUSTAINABILITY AT SMITHS FRAMEWORK	The Sustainability at Smiths ESG framework was formally launched to colleagues at the beginning of FY2023 with messages from our senior ESG leaders. Sustainability is at the heart of our purpose and the framework helps us to translate our purpose into practical action to create sustainability value.
ESG DOUBLE MATERIALITY ASSESSMENT	Our ESG double materiality assessment undertaken in FY2023 provided a robust analysis of the importance of culture and other ESG topics at Smiths. Safety, ethical behaviour and diversity were all highlighted as either highest-impact topics or critical enablers in the findings. Read more on page 33.
LAUNCH OF SMITHS GROUP FOUNDATION	The Smiths Group Foundation, a charitable giving foundation with a committed initial fund of £10m, was launched on Smiths Day to provide grants to charitable organisations that align with our purpose. At the same time, we launched global colleague volunteering principles which will enable every Smiths colleague to take one day paid volunteering leave each year from FY2024, and formal budgeting opportunities for charitable giving in our divisions, China and Group to support organisations falling outside of the scope of the Foundation.
CELEBRATION AND RECOGNITION EVENTS	Group and team events and communications recognised and celebrated: World Day for Health and Safety at Work; Earth Day; Global Recycling Day; International Women in Engineering Day; International Women's Day; Black History Month; and Pride month.
NEW CODE OF BUSINESS ETHICS	Our new Code of Business Ethics was launched by CEO Paul Keel in July 2023. The new Code is organised under our Values, is shorter and easier to read, and more practical to apply with links to all our policies. The new Code will be embedded through a programme of activity in FY2024.
SPEAK OUT AWARENESS	Speak Out awareness activities have been ongoing throughout FY2023.
SMITHS EXCELLENCE AWARDS	Our annual Smiths Excellence Awards recognise achievement across a range of disciplines and are enthusiastically supported by Smiths colleagues. The Smiths Leadership Behaviours were reflected in this year's award categories to emphasise their importance and impact. This year we had more than 500 submissions to the Awards.

This year's Smiths Day theme 'contributing to our communities' encouraged every Smiths site to look outwards and to undertake a locally-based activity as way of giving back to their immediate communities.

CEO MESSAGE

PAUL KEEL
Chief Executive Officer

£113m
R&D investment.
+6%

+20%
Growth in energy revenue.

Fellow shareholders,

Smiths had another strong year of progress in fiscal 2023 as we further accelerated our growth, sharpened our execution, and developed and empowered our talented people. Since our financials and strategic progress are covered in good detail in the following report, I will devote the lion's share of this year's message to longer-term trends underway in the markets we serve. In particular, I will comment on a curious disconnect I observe between the macro and the micro.

Most of the macro commentary at present leans towards the cautious, and there is fair reason for this. Inflation, while climbing less steeply, remains at historic highs. Committed to tamping this down, central banks have raised rates at the briskest pace since the 1980s. The expected result is softening demand, as has been visible in most forecasts of late. Similarly concerning, economics and geopolitics are often inversely related, so just as forecasts cool, tensions around the world continue to warm. Speaking of warm, environmental concerns, percolating for years, are reaching a boiling point. Further still, more than a few would argue that things may still get worse before they get better. The macro, in short, is pretty cloudy.

The micro, however, provides grounds for optimism, especially in our industrial technology corner of the world. FY2023 was a record year for Smiths – record topline and EPS growth. We commit to five medium-term financial targets (growth, EPS, ROCE, margins, cash conversion) and all five improved year-over-year. Promisingly, we are not alone in this regard. Over half of our 15 closest peers have delivered double-digit growth across the same period. Still more encouraging, this was not driven by a one-time bounce from COVID lows (although we do benefit from still-unmet demand in several end markets) or inflationary tailwinds that will eventually weaken (roughly half our FY2023 growth came from volume). The trends we see in our business are longer-lived, with growth now extending over nine consecutive quarters. The micro, in short, looks pretty good.

So, how do we reconcile the apparent disconnect of economic forecasts trending down but performance trending up? A few important factors help connect the dots.

INNOVATION

First, innovation is economically insensitive. In the period between the 'Panics' of 1873 and 1893, Bell invented the telephone and Edison patented the lightbulb. During the Great Depression, Carlson introduced the photocopier and Edwin brought us FM radio. Stagflation and a raft of skyjackings in the 1970s led to the introduction of X-ray scanning in airports. Wikipedia, Skype, YouTube and Facebook were all formed shortly after the Nasdaq crash of 2001, and Uber and Airbnb were both launched during the global financial crisis of 2008–09. Necessity helps, but capabilities and capital are the true mothers of invention. Knowing that innovative companies extend their lead when storm clouds form, we increased our R&D investment by 14% in FY2022 and another 6% this year. Returns on our investments are good. Fully three points of our FY2023 growth came from new products introduced just this year alone.

MARKET SELECTION

A second factor bridging the gap is market selection. All markets have cycles, but the most attractive ones cycle upward, in a northeast direction. Energy and aerospace are good examples. Energy demand has a 5- to 10-year cycle, with global growth peaking in 1984, 1988, 1996, 2004, 2010 and 2021. Growth in energy demand may soften in any given year, but it rarely turns negative. In fact, global energy demand has only contracted three times in the past 50 years (the early '80s recession, the global financial crisis and COVID) leading to a near-quadrupling of underlying demand across this time. Over 20% of Smiths revenue comes from energy markets, where we grew 20% in FY2023. Consistent with other upward-cycling markets, continued energy growth will be driven by secular long-term forces such as decarbonisation. Our world will invest around

+24%
Market investment in clean energy over two years.

+9%
Growth in aviation detection revenue.

FY2024 will mark Smiths Group's 110th consecutive year of being listed on the London Stock Exchange, and our 173rd of continuous operation. While a lot has changed across this time, our purpose of improving our world through smarter engineering has remained a steadfast guide.

US$100 trillion over the next 30 years to evolve from mostly fossil-based to low- and no-carbon energy sources. Global investment in energy will be about US$2.8 trillion in 2023, and investment in clean technologies such as low-emission fuels, carbon capture and heat pumps will represent more than 60% of the total. Clean energy investment is up 24% in just two years and participants in this market are seeing surging demand. Our pipeline of hydrogen and carbon capture opportunities, for example, more than doubled over the past 12 months.

Aviation markets behave similarly. While the cycle is a bit shorter, closer to five years, the trajectory is also steadily positive over time. Airline passenger volume has only dipped twice in the past three decades (9/11 and COVID), with volume up threefold across the period. As with energy markets, we are in the early days of an upcycle following airport closures around the globe in 2020–21. Powerful long-term forces are also at work here, such as the world's ever-rising need for better security and faster screening times. You would have experienced an example of this if you weren't required to remove your laptop the last time you went through an airport checkpoint. This safer and more efficient experience is made possible by technologies like computed tomography, automated tray returns and machine learning. Smiths is at the forefront of each, and propelled by this, our aviation detection business grew 9% in FY2023.

Not all of our end markets grew last year. As our Chairman notes in his letter, semiconductors are an example. Smiths has some exposure here – less than 3% of Group sales. On the one hand, the semiconductor market shares several similarities with energy and aviation. It's large (>US$500bn). It's global. It consistently grows over time (+10 times in 40 years). And it is cyclical. However, unlike energy and aviation, which are both cycling up, the global semiconductor market is coming off a record peak in 2022. Smiths makes test equipment used to measure chip performance and durability. As expected, this business contracted for us in FY2023, particularly during the second half. We expect these challenges to continue through the first part of FY2024, but we remain confident in the coming upcycle that we have seen so many times before. So much so, in fact, that we acquired a synergistic testing business in Q2, positioning us to extend our leadership position once recovery begins.

Further to our Chairman's letter, North American construction is another example of a market that contracted last year. Smiths also has exposure here – around 15% of Group sales. In this case, despite a market downturn, our business grew 9% in FY2023, marking our 14th straight year of expansion. The two effects mentioned earlier – innovation and market selection – have helped our business consistently grow even as the market naturally cycles. With respect to innovation, we have a technology platform that addresses specific customer needs by applying different resin layers to metallic tubing systems. We introduced a new product in this family at the start of the fiscal year and it is beginning to scale. In terms of market selection, our penetration is highest in parts of the US where population growth is strongest, such as the southeast, south central and the midwest. In support of this, we opened a new manufacturing facility in Texas in FY2023 and completed a synergistic acquisition in Ohio at the start of FY2024. Consistent with macro forecasts, we expect the US construction downcycle to continue for a few more quarters. Consistent with past performance, however, we expect our business to post another year of growth in FY2024.

PORTFOLIO BALANCE

The many benefits of portfolio balance are a third factor enabling industrial technology companies to shine, even against a cloudy macro. Balance takes many forms. The highest-performing industrials typically serve multiple end markets (we serve four major ones). They often balance one-time equipment sales with recurring aftermarket service revenues (our business is roughly half and half). They earn more price than they absorb, especially important in high inflation environments (our delta was +£40m in FY2023). And they are well balanced geographically. Worldwide reach is a prerequisite for serving global customers, and upswings in one part of the world offset downturns in others. Smiths has people and resources in more than 50 countries and, aside from the US, no country accounts for more than 5% of revenues. Our business outpaced GDP growth in all major regions of the world in FY2023.

LOOKING FORWARD

Looking forward to FY2024, the macro and micro should converge. After a period of serial downgrades, macro forecasts have recently started to improve. The most recent data published by the OECD, IMF, and World Bank all expect global GDP growth in 2024 to be modestly above 2023. Specific to Smiths, we've guided to 4-6% organic revenue growth, in line with the medium-term financial commitments we made at our November 2021 Capital Markets Day.

FY2024 will mark Smiths Group's 110th consecutive year of being listed on the London Stock Exchange, and our 173rd of continuous operation. While a lot has changed across this time, our purpose of improving our world through smarter engineering has remained a steadfast guide. I applaud my 15,000 colleagues around the world who live this purpose each and every day. I thank Sir George Buckley for his many contributions to Smiths over the last ten years and welcome Steve Williams, who takes over as Chair at our Annual General Meeting in November.

In closing, we're encouraged by our progress and proud of our accomplishments in FY2023. Energised by this momentum, we are even more excited by all we see ahead for Smiths.

Thank you for your trust and support,

PAUL KEEL
Chief Executive Officer

REVIEW OF THE YEAR

£3,037m
Revenue

+11.6%
Organic growth.

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

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 into the second half, with growth moderating to +3.6% reflecting the 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 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 CTiX scanners installed with threat recognition software, and Flex-Tek's ducting in the energy efficient Rheia air management systems. Gross vitality, which measures the proportion of

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%**

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%**

READ MORE
Our divisions.
→ PG 24

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 the 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.

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 highs, 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 a 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.

£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%**

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 Careers 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.

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.

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.
7 Normalised to reported revenue.

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.

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.

ESG performance is at the very centre of our purpose, and fundamental to each of our three key priorities.

Read more about sustainability in our Sustainability at Smiths report CLICK HERE

SMITHS LEADERSHIP BEHAVIOURS
Read more about our Leadership Behaviours.
→ PG 13

CFO REVIEW

CLARE SCHERRER
Chief Financial Officer

£350m
Returned to shareholders in FY2023.

+5%
Increase in dividend.

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.

CAPITAL ALLOCATION FRAMEWORK

1. ORGANIC INVESTMENT
- Target R&D at 4% of sales, focused on high return investments
- Capex to support growth
- Compensation linked to growth and new products

2. M&A
- Focus on core and adjacencies through bolt-on acquisitions
- Enhance technology roadmap
- Accelerate growth and create scale

3. RETURNS TO SHAREHOLDERS
- 70+ years of uninterrupted dividend
- Target dividend growth in-line with long-term earnings growth
- Maintain dividend cover of >2x

STRONG AND FLEXIBLE BALANCE SHEET TO SUPPORT GROWTH STRATEGY

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.

LITIGATION

Smiths Group faces different types of litigation in different jurisdictions. Please see below an update on the two significant litigation provisions. For more information, refer to note 23 of the Financial Statements.

John Crane, Inc. litigation

John Crane, Inc. (JCI) a subsidiary of the Group, continues to actively monitor the conduct and effect of its current and expected asbestos litigation, including the effective presentation of its 'safe product' defence, and intends to resist asbestos cases based on this defence. Approximately 310,000 claims against JCI have been dismissed before trial over the last 40 years. JCI is currently a defendant in cases involving approximately 20,000 claims. Despite these large numbers of claims, since the inception of asbestos litigation against JCI it has had 154 cases and has had to pay awards amounting to approximately $190m.

At 31 July 2023, the aggregate provision for JCI asbestos litigation, including for adverse judgements and defence costs, amounted to £204m (FY2022: £229m) expressed at the then current exchange rate. In deciding upon the amount of the provision, JCI has relied on independent expert advice from a specialist.

Titeflex Corporation litigation

Titeflex Corporation, a subsidiary of the Group in the Flex-Tek division, has received a number of claims in recent years from insurance companies seeking recompense on a subrogated basis for the effects of damages allegedly caused by its flexible gas piping products being energised by lightning strikes. It has also received a number of product liability claims relating to 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. The continuing progress of claims and the pattern of settlement, together with recent market-place activity, provide sufficient evidence to recognise a liability in the accounts.

At 31 July 2023, a provision of £41m (FY2022: £52m) has been made for the costs which the Group expects to incur in respect of these claims. For the Group's litigation provisions, because of the significant uncertainty associated with the future level of claims and of the costs arising out of the related litigation, there is no guarantee that the assumptions used to estimate the provision will result in an accurate prediction of the actual costs that may be incurred.

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

DIVISIONAL REVIEW

JOHN CRANE

FY2023 FINANCIAL PERFORMANCE

	FY2023 (£m)	FY2022 (£m)	FY Reported growth	H1 organic growth	H2 organic growth	FY organic growth
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**

OPERATING PROFIT

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

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.

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Reported revenue grew to record levels at over £1bn for the first time.

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

FY2023 FINANCIAL PERFORMANCE

	FY2023 (£m)	FY2022 (£m)	FY Reported growth	H1 organic growth	H2 organic growth	FY organic growth
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**

OPERATING PROFIT

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

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Read more about our divisions
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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.

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.

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.

FLEX-TEK

FY2023 FINANCIAL PERFORMANCE

	FY2023 (£m)	FY2022 (£m)	FY Reported growth	H1 organic growth	H2 organic growth	FY organic growth
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**

OPERATING PROFIT

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

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.

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, 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.

Read more about our divisions CLICK HERE

In Industrial, organic revenue was up +9.0% in the year reflecting strong demand for our products, primarily in HVAC applications.

SMITHS INTERCONNECT

FY2023 FINANCIAL PERFORMANCE

	FY2023 (£m)	FY2022 (£m)	FY Reported growth	H1 organic growth	H2 organic growth	FY organic growth
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**

OPERATING PROFIT

£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%**

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.

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.

Read more about our divisions CLICK HERE

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

KEY PERFORMANCE INDICATORS

FINANCIAL TARGETS

Our financial targets were set out at our Capital Markets Day in November 2021.

Alternative Performance Measures (APMs) and KPIs are defined in note 29 of the financial statements.

All measures exclude Smiths Medical which was sold in January 2022.

LINK TO STRATEGY

- Growth
- Execution
- People

ORGANIC REVENUE GROWTH

Growing faster is the primary driver of unlocking value creation for the Group.

FY2023 PROGRESS

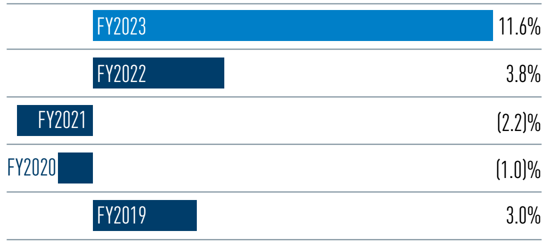
In FY2023 we delivered organic revenue growth in all four quarters of the year and full year growth of +11.6%.

MEDIUM-TERM TARGET

+4-6%

STRATEGY

PERFORMANCE



LINKED TO REMUNERATION

Read more in CEO review of the year.

→ PG 18

OPERATING PROFIT MARGIN

Stronger execution is the second key priority for the Group and will drive higher margins.

FY2023 PROGRESS

In FY2023 we delivered +20bps of margin progression to 16.5%, while continuing to invest in growth.

MEDIUM-TERM TARGET

18-20%

STRATEGY

PERFORMANCE

LINKED TO REMUNERATION

Read more in CEO review of the year.

→ PG 18

EARNINGS PER SHARE GROWTH

Strong margins will convert revenue growth into earnings growth.

FY2023 PROGRESS

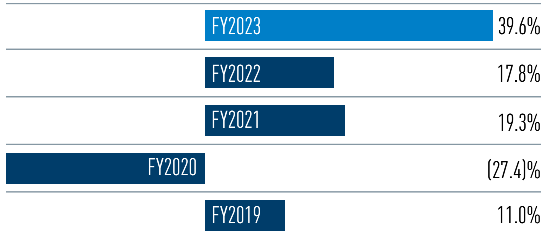
In FY2023 we delivered record EPS growth of +39.6%, driven by organic operating profit growth and the benefit of our share buyback programme.

MEDIUM-TERM TARGET

+7-10%

STRATEGY

PERFORMANCE



LINKED TO REMUNERATION

Read more in CEO review of the year.

→ PG 18

RETURN ON CAPITAL EMPLOYED (ROCE)

Monitoring our return on capital acts as a discipline on both organic and inorganic investment to drive maximum value from our growth.

FY2023 PROGRESS

In FY2023 ROCE increased +150bps into our target range driven by the strong operating profit performance.

MEDIUM-TERM TARGET

15-17%

STRATEGY

PERFORMANCE

FY2023	15.7%
FY2022	14.2%
FY2021	13.9%
FY2020	12.8%
FY2019	15.7%

LINKED TO REMUNERATION

Read more in CEO review of the year.

→ PG 18

OPERATING CASH CONVERSION

Maintaining our strong track record of cash conversion is a key component of our robust financial framework.

FY2023 PROGRESS

In FY2023 we improved our operating cash conversion by +6 percentage points to 86%, supported by an improvement in working capital in the second half of the year.

MEDIUM-TERM TARGET

100%

STRATEGY

PERFORMANCE

FY2023	86%
FY2022	80%
FY2021	129%
FY2020	112%
FY2019	74%

LINKED TO REMUNERATION

Read more in CEO review of the year.

→ PG 18

OPERATIONAL AND NON-FINANCIAL TARGETS

GROSS VITALITY

Gross Vitality measures the revenue contribution of products launched in the last five years. Improved new product development and commercialisation is a key component of our growth strategy.

FY2023 PROGRESS

In FY2023 Gross Vitality was 31% reflecting continued investment in R&D and new product development.

MEDIUM-TERM TARGET

30%+

STRATEGY

PERFORMANCE

FY2023	31%
FY2022	31%
FY2021	25%

READ MORE

Read more in CEO review of the year.

→ PG 18

GREENHOUSE GAS (GHG) REDUCTION

Meeting our commitment to deliver Net Zero Scope 1 & 2 GHG emissions by 2040 is a fundamental part of our sustainability strategy.

FY2023 PROGRESS

In FY2023 our Scope 1 & 2 emissions reduced (11.8)% in absolute terms due to actions on energy efficiency and a further increase in renewable electricity.

MEDIUM-TERM TARGET

Net Zero Scope 1 & 2 emissions by 2040

STRATEGY

PERFORMANCE

FY2023	(11.8)%
FY2022	(0.9)%

See page 45 for our statement on limited assurance.

LINKED TO REMUNERATION

Read more in Sustainability at Smiths.

→ PG 32

RECORDABLE INCIDENT RATE (RIR)

Our commitment to our people starts with keeping us all safe and healthy. This is our essential foundation and number one focus. Our key safety metric is RIR per 100 colleagues.

FY2023 PROGRESS
In FY2023 RIR fell by (26)% with improvement in every division. We continue to track below the industry average and in the top quartile of industry performance.

MEDIUM-TERM TARGET
A zero-harm workplace

STRATEGY

PERFORMANCE

READ MORE
Read more in Sustainability at Smiths.
→ PG 32

MY SAY SURVEY ENGAGEMENT SCORE

Engaging our people is key to the success of our strategy. We have been tracking employee engagement on a range of important cultural measures since 2017.

FY2023 PROGRESS
In FY2023 we updated the questions in the My Say survey to align it more closely with our cultural focus areas. The overall e-Sat survey score went up by 1 point.

MEDIUM-TERM TARGET
Upper quartile

STRATEGY

PERFORMANCE

READ MORE
Read more in Our people and culture.
→ PG 13

DIVERSITY

We are focused on proactively increasing the number of women in leadership roles at Smiths, with our measure being percentage of senior leadership positions held by women.

FY2023 PROGRESS
In FY2023 we increased the number of senior leadership positions held by women to 25%. We also undertook a wide range of activities to support female colleagues and increase female talent in our pipelines.

MEDIUM-TERM TARGET
30% by the end of FY2024

STRATEGY

PERFORMANCE

READ MORE
Read more in Sustainability at Smiths.
→ PG 32

SUSTAINABILITY AT SMITHS

Strong ESG performance is essential to deliver on our purpose and create value for each of our stakeholders. We organise our ESG commitments and objectives using our Sustainability at Smiths framework that we first introduced in FY2022.

In FY2023, we tested and further refined the framework by completing an ESG double materiality assessment (DMA) in accordance with requirements and best practices developed under the EU's Corporate Sustainability Reporting Directive (CSRD). As summarised from page 33 the ESG DMA validated the framework and helped to identify our best opportunities for value creation through our ESG performance.

During the year we submitted our Net Zero trajectory and targets to the Science-Based Targets initiative (SBTi). Our Net Zero/climate transition plan is published in this report. See page 40.

Read more about sustainability in our Sustainability at Smiths report.

GOVERNANCE AND OVERSIGHT

The Smiths Board of Directors and Executive Committee have ultimate responsibility for Smiths ESG performance and associated governance and oversight. Our collaboration model enables us to bring together the skills and knowledge of our Board, our Executive team and our business leaders to harness the knowledge and skills of the whole Group to drive and deliver innovation, effective execution and best practice.

See our ESG governance and delivery model on page 49.

METRICS AND REPORTING

ESG metrics and targets are incorporated into Smiths overall business performance dashboard and are reviewed annually to ensure they remain aligned with business priorities. The metrics cascade down through business and functional operating units as relevant and realistic building block targets that aggregate to deliver performance at the overall Group level. Metrics are reported to, and discussed by, the Executive Committee and the Board and its Committees. We report externally metrics relating to our material ESG areas and those required by reporting regulations.

See ESG metrics, targets and performance on page 44.

REWARD INCENTIVES

For FY2022, we began incorporating ESG performance alongside traditional financial metrics to determine the long-term incentive plan (LTIP) pay of our senior executives. For FY2023, we again assigned 15% of the LTIP award to reducing GHG emissions, now aligned to the pace of reductions required to deliver our Science-Based Targets (SBTs). In addition, we added an energy efficiency metric as a component of our Annual Incentive Plan (AIP) that potentially benefits approximately 6,000 colleagues.

In FY2024, we are continuing the same approach, setting:

- LTIP targets for absolute GHG reductions aligned to the pace required to deliver SBTs; and
- AIP targets for energy efficiency tailored to reward operational improvements that support sustainable and high-value delivery of our SBTs.

New product revenue targets (including named sustainability-focused products) were also included in the AIP in FY2023.

EXTERNAL FRAMEWORKS

We also look outside the Company to benchmark and evaluate progress and make sure that we are learning from our peers, sector leaders and subject-matter specialists. The measures used by third-party ratings agencies and framework developers help us to identify opportunities for improvement and additional disclosure that helps our external stakeholders understand and accurately assess our priorities and progress. While these external frameworks do not dictate our path, they are very helpful to inform our reporting, planning and prioritisation.

We are fully supportive of emerging sustainability reporting obligations and will take an approach guided by value creation and what matters to our stakeholders. We are preparing the business and internal workstreams for this enhanced reporting.

We currently report climate disclosures aligned with the Task Force on Climate-related Financial Disclosures (TCFD). See page 47.

We participate annually in the CDP global environmental reporting initiative and during the year completed our latest carbon and water submissions to CDP for FY2022.

Read more about sustainability and our ESG priorities in our FY2023 Sustainability at Smiths report
CLICK HERE

VALIDATING OUR SUSTAINABILITY AT SMITHS FRAMEWORK AND APPROACH

In FY2023 we completed an ESG double materiality assessment (DMA) which validated our existing prioritisation of ESG-related topics. It also provided a robust analysis of critical enablers and emerging matters of interest and importance to our multiple stakeholders and emerging regulatory requirements.

We conducted the DMA over five months with support from a specialist team from PwC. The findings and proposed next steps were discussed by the Smiths Executive Committee and presented to the Science, Sustainability & Excellence (SSE) Committee of the Board in July 2023. We agreed next steps and these are being integrated into short- and medium-term strategic planning and resourcing decisions. They are also being integrated into our ESG reporting and internal communication and education on ESG matters to increase impact and realise more value from our performance.

DMA APPROACH

1. DEFINE LIST OF TOPICS

Selection of 23 ESG topics based on:

- Smiths existing ESG framework elements
- Latest market practices/peer benchmarking
- Existing and future regulatory standards and frameworks

2. ASSESS TOPIC MATERIALITY ON TWO DIMENSIONS (DOUBLE MATERIALITY)

Impact materiality
Financial materiality

Internal stakeholder engagement including workshops, one-to-one interviews and a Group-wide colleague survey.

External stakeholder research on expectations and priorities covering customers, key shareholders, potential investors, key suppliers, peers and seven upcoming ESG regulations[1].

1 Corporate Sustainability Reporting Directive (CSRD), including European Sustainability Reporting Standards (ESRS) and EU Taxonomy; UK Green Taxonomy; Task Force on Climate-Related Financial Disclosures (TCFD); Taskforce on Nature-related Financial Disclosures (TNFD); Corporate Sustainability Due Diligence Directive (CSDDD); UK and EU REACH; Carbon Border Adjustment Mechanism (CBAM).

3. SYNTHESISE RESULTS

Customers, investors and Smiths internal views were prioritised through weighting to synthesise results.

Stakeholder		IMPACT MATERIALITY	WEIGHTING	FINANCIAL MATERIALITY	WEIGHTING
INTERNAL	Workshops	✓	30	✓	30
	Employee survey	✓	20	✓	20
EXTERNAL	Customers	✓	25	✓	20
	Investors	✓	5	✓	20
	Regulators	✓	10	–	–
	Peers	✓	5	✓	5
	Suppliers	✓	5	✓	5

See Group materiality picture on
→ PG 35

4. INTEGRATE OUTCOMES AND COMMUNICATE RESULTS

- Presentation/discussion with Executive Committee
- Presentation/discussion with SSE Committee
- Presentation/discussion with functional and divisional leadership teams
- Integration into FY2023 reporting
- Integration into strategic planning FY2024 and beyond
- Preparation for future reporting requirements

ASSESSMENT

We chose 23 ESG topics for assessment based on the diamonds of Smiths existing ESG framework, latest market practices as taken from a peer benchmarking exercise, and an analysis of existing and future regulatory standards and frameworks.

We assessed each topic on two dimensions:

- Impact materiality – an ESG topic is material when it pertains to Smiths material (actual or potential, positive or negative) impacts on people or the environment over the short, medium, or long term.
- Financial materiality – an ESG topic is material if it triggers, or may trigger, material financial effects on Smiths by generating risks or opportunities that have or are likely to have a material influence on cash-flows, development, performance, position, cost of capital or access to finance in the short, medium, or long term.

GROUP MATERIALITY PICTURE

The Group ESG double materiality picture is shown on page 35. It distributes the 23 topics into three distinct categories:

Highest-impact topics: Five key strategic and disclosure focus ESG topics where Smiths must place the most focus (four of which formed part of our existing ESG framework)

Critical enablers and foundational elements: Eight topics which we characterise as the key success factors for enabling progress on our ESG priorities

Base expectations and emerging issues: ESG topics to maintain and monitor performance

As expected, we observed some differences in the divisional materiality pictures driven by market sector, nature of operations, customers, geographies and regulatory environments. For example, the John Crane and Flex-Tek value propositions are highly aligned with the commercialising high-value green technology topic; Smiths Detection is further on its path to delivering Net Zero, and managing risk and maintaining strong and effective controls is an important focus due to operating in highly regulated markets; Smiths Interconnect is positioned in markets such as medical technology and space exploration so products can be ascribed a social value; and the evolving Government policy agenda in China makes reinforcing data privacy and cyber security an important topic for Smiths China.

Our stakeholders also place different emphasis on topics:

Customers: many share our Net Zero goals and we can meet their needs both with our technologies and by decarbonising our operations (their Scope 3 emissions).

Investors: are attracted to high-value green technologies that deliver long-term growth. Investors also have high expectations of Net Zero delivery.

Regulators: new regulations are coming down the track across the spectrum of ESG topics.

Peers: like Smiths, peers are moving ahead with SBTi-aligned Net Zero goals and green product offerings.

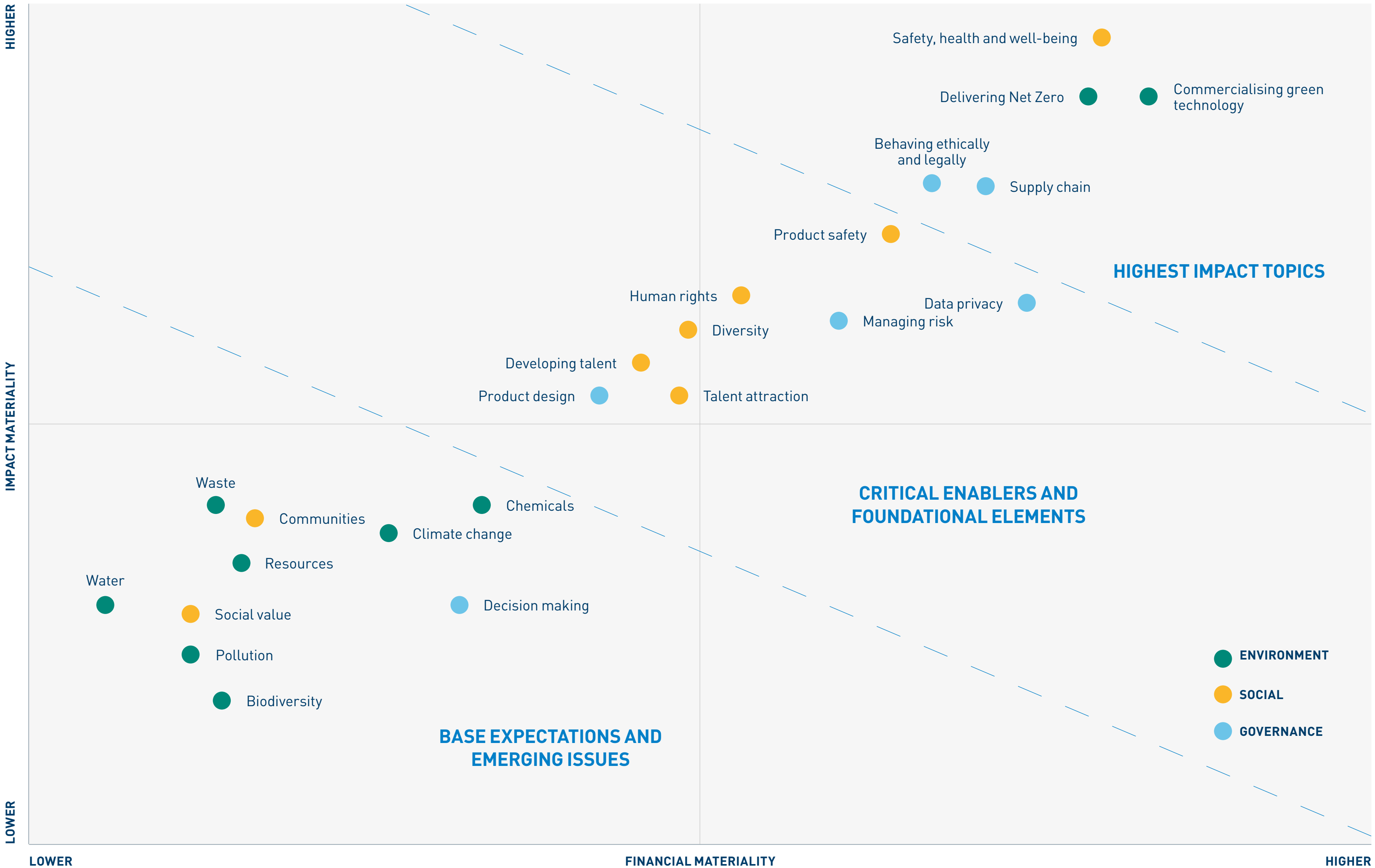
Suppliers: maintain their traditional focus on compliance and controls; now expanding to Net Zero GHG (our Scope 3 emissions).

VALIDATION

The DMA confirmed that all topics within the Sustainability at Smiths framework are important to our performance and valued by our stakeholders.
Of the 23 assessed topics, 21 mapped to the diamonds in the framework.

23 ESG TOPICS CHOSEN FOR ASSESSMENT

GROUP MATERIALITY PICTURE



HIGHEST IMPACT TOPICS

IMPROVING SAFETY, HEALTH AND WELL-BEING

The most material ESG topic, aligned with the findings of our My Say survey.

COMMERCIALISING HIGH-VALUE GREEN TECHNOLOGY

Material opportunity as viewed by external stakeholders.

DELIVERING NET ZERO GHG

Highly material to most stakeholders including customers who have set similar objectives and to our colleagues.

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Continued overleaf

TOPIC MAPPING

Of the 23 assessed topics, 21 mapped to topics in our Sustainability at Smiths framework.

ENVIRONMENTAL	SOCIAL	GOVERNANCE
DELIVERING NET ZERO GHG – Delivering Net Zero GHG – Climate change adaptation and resilience	**IMPROVING SAFETY, HEALTH AND WELL-BEING** – Improving safety, health and well-being	**BEHAVING ETHICALLY AND LEGALLY** – Behaving ethically and legally – Protection of human rights and affected communities
COMMERCIALISING HIGH-VALUE GREEN TECHNOLOGIES – Commercialising high-value green technologies	**PROMOTING DIVERSITY, EQUITY AND INCLUSION** – Promoting diversity, equity and inclusion	**MANAGING RISK AND MAINTAINING STRONG AND EFFECTIVE CONTROLS** – Managing risk and maintaining strong and effective controls – Product safety and quality assurance – Management of chemicals and hazardous substances – Reinforcing data privacy and cyber security
RESPECTING NATURAL RESOURCES – Respecting natural resources – Preventing pollution – Waste management – Water conservation and stewardship – Sustainable product design and lifecycle management	**CONTRIBUTING TO OUR COMMUNITIES** – Contributing to our communities – Delivering social value through our products **DEVELOPING TALENT** – Developing talent – Talent attraction and retention	**EFFECTIVE LONG-TERM DECISION MAKING AND TRANSPARENCY** – Effective long-term decision making and transparency
TOPICS NOT INCLUDED IN EXISTING FRAMEWORK – Biodiversity and ecological restoration	**TOPICS NOT INCLUDED IN EXISTING FRAMEWORK** – N/A	**TOPICS NOT INCLUDED IN EXISTING FRAMEWORK** – Supply chain management and responsible procurement

HIGHEST IMPACT TOPICS CONTINUED

SUPPLY CHAIN MANAGEMENT AND RESPONSIBLE PROCUREMENT

Customers and regulators particularly expect visibility across the supply chain which will be essential to deliver our Net Zero Scope 3 and human rights commitments, and new reporting requirements e.g., CBAM.

BEHAVING ETHICALLY AND LEGALLY

Consistently high priority across all stakeholder groups – vital for employee engagement and managing reputational risk.

SUSTAINABILITY AT SMITHS FRAMEWORK

Our Sustainability at Smiths ESG framework articulates the structure through which we manage ESG topics. Defining these topics clearly tightens the connection with operational execution and assists us to report in a transparent way to our stakeholders. We made minor changes to the framework to reflect the outcome of the FY2023 DMA.

Read more about the Sustainability at Smiths framework in our FY2023 Sustainability at Smiths report
CLICK HERE

COMMERCIALISING HIGH-VALUE GREEN TECHNOLOGIES

- High impact topic
- Executive Committee and Board approved strategic focus on decarbonisation and green re-industrialisation
- Green product data to be published in FY2024

DELIVERING NET ZERO GHG

- High impact topic
- Climate/Net Zero transition plan completed
- Targets submitted to SBTi
- Scope 1 & 2 emissions down (11.8)% in year
- Renewable electricity 70% of total use
- Linked to remuneration

→ PG 40

DEVELOPING AND ATTRACTING TALENT

- 300 leaders participated in the Accelerate leadership development programme
- 70% of open grade 11 and above roles were filled by internal candidates

CONTRIBUTING TO OUR COMMUNITIES

- Smiths Foundation and global volunteering policy launched
- £2.8bn direct economic contribution

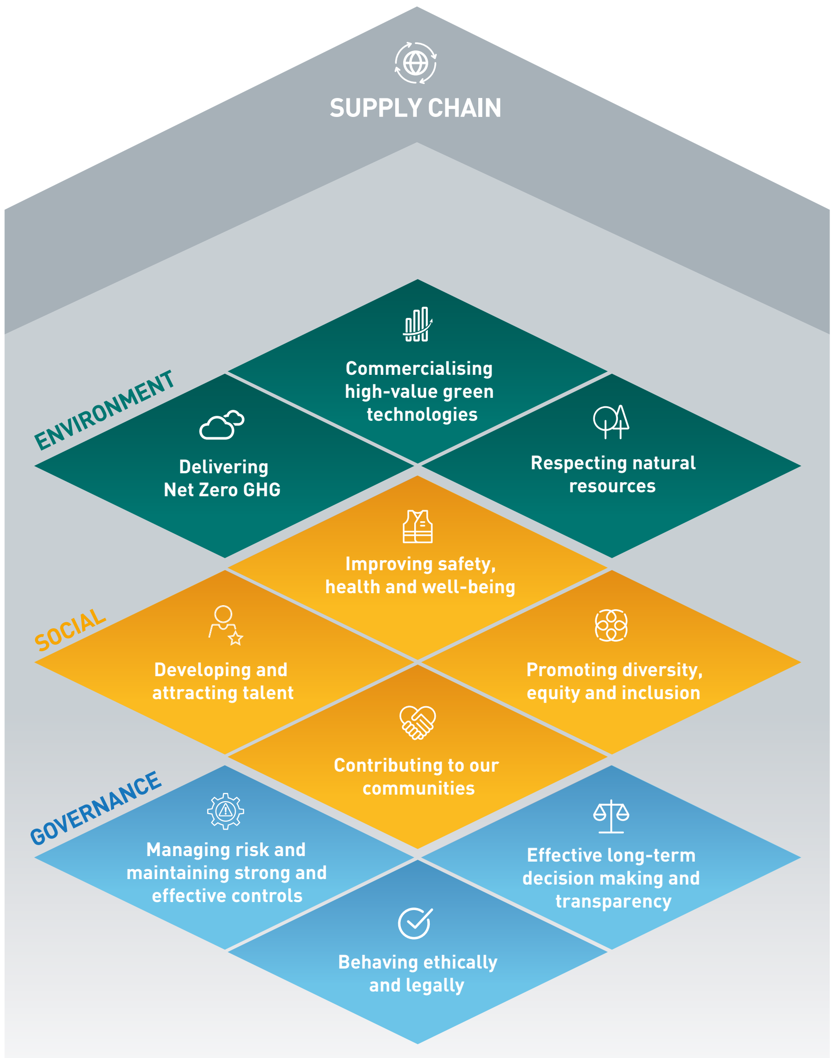
BEHAVING ETHICALLY AND LEGALLY

- High impact topic
- Incorporates human rights ESG topic
- Launched new Code of Business Ethics
- 299 Speak Out reports

MANAGING RISK AND MAINTAINING STRONG AND EFFECTIVE CONTROLS

- Incorporates product safety, product design and data privacy topics assessed in the DMA

Sustainability at Smiths



RESPECTING NATURAL RESOURCES

- (17.1)% reduction in water use in water-stressed locations vs FY2021 baseline
- 22 water reduction projects
- (20.2)% reduction in non-recyclable waste disposal vs FY2021 baseline
- 11 packaging reduction projects

SUPPLY CHAIN

- High impact topic
- Added to Sustainability at Smiths framework following DMA as cross-cutting ESG topic
- Incorporates human rights ESG topic
- Accelerated plans to implement supplier management system

IMPROVING SAFETY, HEALTH AND WELL-BEING

- Most material topic for Smiths
- RIR fell by (26)% during the year
- Over 13,000 safety look out observations and leadership tours

PROMOTING DIVERSITY, EQUITY AND INCLUSION

- 25% of senior leadership roles held by women
- Range of events celebrated across the Group

EFFECTIVE LONG-TERM DECISION MAKING AND TRANSPARENCY

- Managed under our overall governance framework

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Read more about each of the diamonds in the framework in our Sustainability at Smiths report.

COMMERCIALISING HIGH-VALUE GREEN TECHNOLOGIES	Our unique engineering capabilities and pioneering spirit position Smiths strongly to support customers on their journeys to decarbonise and deliver next generation efficient and sustainable infrastructure and processes. Commercialising differentiated products and services with sustainability impact has and will continue to enable Smiths to make a significant and positive contribution to global environmental goals.
DELIVERING NET ZERO GHG	In FY2022 Smiths committed to ambitious Net Zero targets that align us with the UN's critical global climate objectives and the ambition to limit global warming to 1.5°C. With the support of the Smiths Board and Executive Committee, we are planning for success with a Net Zero/climate transition plan which describes how, through consistent and prioritised focus across all aspects of our business over the next 25 years, we will deliver Net Zero emissions from our operations (Scope 1 & 2) by 2040 and our value chain (Scope 3) by 2050.
RESPECTING NATURAL RESOURCES	Natural resources are finite, and we believe that all businesses have a responsibility to use them respectfully and safely – responsibly sourcing, minimising consumption and preventing pollution. Our longstanding commitment to both non-GHG resource targets and product efficiency and stewardship are valued by our employees as the right thing to do, and by our customers as they seek to manage their own environmental footprints.
SUPPLY CHAIN	A deeper understanding and ability to effect change in our multiple supply chains is becoming increasingly critical as we seek to manage risk and make progress on all aspects of ESG.
IMPROVING SAFETY, HEALTH AND WELL-BEING	Our commitment to our people starts with keeping us all safe and healthy. Looking after our people in the workplace is an essential foundation and our number one focus. Driving to zero injuries and improved health is a shared commitment to one another, and it requires sharp focus and practical action. We strive to continuously improve by reducing risk across Smiths operations. This means systematic analysis of data, proactively designing and investing for safety, and strengthening our global and local safety cultures to deliver in our varied operating environments.
DEVELOPING AND ATTRACTING TALENT	Our colleagues can do remarkable things. Their passion and expertise have driven our business forward for more than 170 years. It is critical that we have the talent we need to meet the demands of the future. Our organisational commitment is to ensure that all our colleagues have opportunities to develop their knowledge and skills, reach their full potential, and build a career at Smiths. Creating an environment and infrastructure that achieves this is also the key to attracting the right talent to Smiths, whether young people at the beginning of their working lives, or experienced specialists should there be a gap to fill.

PROMOTING DIVERSITY, EQUITY AND INCLUSION	Our team of colleagues represents dozens of nations, speaking a multiplicity of languages, and embodying many different perspectives. We embrace these differences and promote actions and behaviours that will deliver an inclusive and supportive work environment where every member of the Smiths team feels that they belong and can be the best version of themselves. We know that when colleagues feel included, valued and encouraged to make a meaningful contribution, Smiths will thrive as we continue to attract and retain the diverse talent that we need.
CONTRIBUTING TO OUR COMMUNITIES	We aim to improve our world by contributing positively to our communities and society in general. Smiths products and services support critical global industries where we are creating social and environmental value by making the world safer and improving environmental performance. Our operations around the world play a beneficial role in local economies through job creation and skills development; procurement and generating tax revenues; and operating safely, environmentally responsibly and ethically. We also engage directly through fundraising, charitable giving and education initiatives. Healthy and prosperous communities and supportive relationships with them inspire and promote a sense of pride and ownership in our people.
BEHAVING ETHICALLY AND LEGALLY	Behaving ethically and with integrity is a fundamental part of our culture. We also operate in some highly regulated markets and sectors which require strict adherence to local and international industry regulations. We have expert teams in place to manage these matters and we use data and other intelligence objectively to identify relative performance gaps and emerging risk, and continually target improvements in our procedures.
EFFECTIVE LONG-TERM DECISION MAKING AND TRANSPARENCY	Good quality, ethical and effective decision making builds sustainable businesses and enables them to create long-term value for all stakeholders.
MANAGING RISK AND MAINTAINING STRONG AND EFFECTIVE CONTROLS	Continual assessment and management of risks, and assurance through internal controls, is an integral part of day-to-day operations at Smiths.

NET ZERO/CLIMATE TRANSITION PLAN

Work on the Smiths Net Zero/climate transition plan was completed in FY2023. Our Net Zero trajectory was submitted to the Science-Based Targets initiative (SBTi) in May.

TRANSITION PLAN OBJECTIVE	Establish a robust and credible, bottom-up, decarbonisation pathway and delivery plan, incorporating interim emission reduction targets, to meet our long-term Net Zero commitments: – Net Zero Scope 1 & 2 emissions by 2040 – Net Zero Scope 3 emissions by 2050 Medium term: FY2032 Long term: FY2040 and FY2050
PRIORITIES	Update and enhance bespoke emission reduction plans for every division working within agreed Group principles Surface and action material decarbonisation opportunities to frontload trajectory Embed plans into business planning and budget cycles Understand risks/challenges to maintain flexibility
KEY PHASES OF WORK continued overleaf	Set emissions baseline (FY2021) for each Scope Deeper dive to analyse base year Scope 3 emissions categories by division Establish hierarchy of preference for Scope 1 & 2 delivery mechanisms to enable consistent and efficient decisions across the Group Determine parameters/assumptions for external developments eg., decarbonisation of electricity grids, electrification and decarbonisation of transportation and distribution, progress of green heating options, and other industry/governmental commitments Maintain and monitor divisional Scope 1 & 2 operational transition plans to 2032 to enable approximately 50% reduction vs baseline by 2032 grouped by: – Emissions increases associated with strategic plan growth – Energy efficiency measures – Onsite renewables – Purchase of renewable electricity – Electrification of vehicle fleets – Green heating – Footprint and portfolio optimisation

COMMERCIALISING HIGH-VALUE GREEN TECHNOLOGIES

Read more about how we are addressing customer and societal Net Zero/climate transition needs through our products and services in our FY2023 Sustainability at Smiths report
CLICK HERE

KEY PHASES OF WORK continued	
	Divisional analysis of supply chain and supplier progress towards SBTs
	For Smiths Detection an additional analysis of the decarbonisation trajectory for products in use (Smiths Detection being the only division with a significant emissions inventory identified in this category)
	Creation of five-year divisional roadmaps of projects by Scope to embed into business planning and budget cycles
	Group planning for supplier prioritisation, engagement and implementation of Group-wide supplier management platform in FY2024
	Creation of overall Scope 3 roadmap to 2028 and 2032 and strategy beyond 2032
	Analysis of risks/challenges
	Review and sign off by Executive Committee (owned by Divisional Presidents and Chief Sustainability Officer)
	Review and sign off by SSE Committee of the Board

ELECTRICITY PREFERENCE HIERARCHY

We require electricity to run our business and, as part of the transition planning work, determined an electricity preference hierarchy to ensure we are making appropriate and consistent decisions across the Group as we move to 100% renewable electricity. This hierarchy has informed preparation of our divisional Scope 1 & 2 transition plans.

PREFERENCE HIERARCHY:

1. Energy efficiency measures
2. Renewable electricity self-supply for high-demand sites with adequate space, access to renewable resources, cost-effective delivery, and where regulation allows
3. Power Purchase Agreements (PPAs) – contracts to buy electricity for a set period of time from a specific energy system installed, owned and operated by a third party
4. Green electricity tariffs offered by local utilities sourcing/generating renewable electricity
5. Energy Attribution Certificates (EACs) – unbundled renewable certificates purchased separately from electricity. Reserved as a solution for challenging situations where no other option is available or viable

ENVIRONMENTAL PERFORMANCE

See our environmental performance data on page 44.

SCOPE 1 & 2 OPERATIONAL TRANSITION TO NET ZERO BY 2040

KEY ASSUMPTIONS IN MODEL:

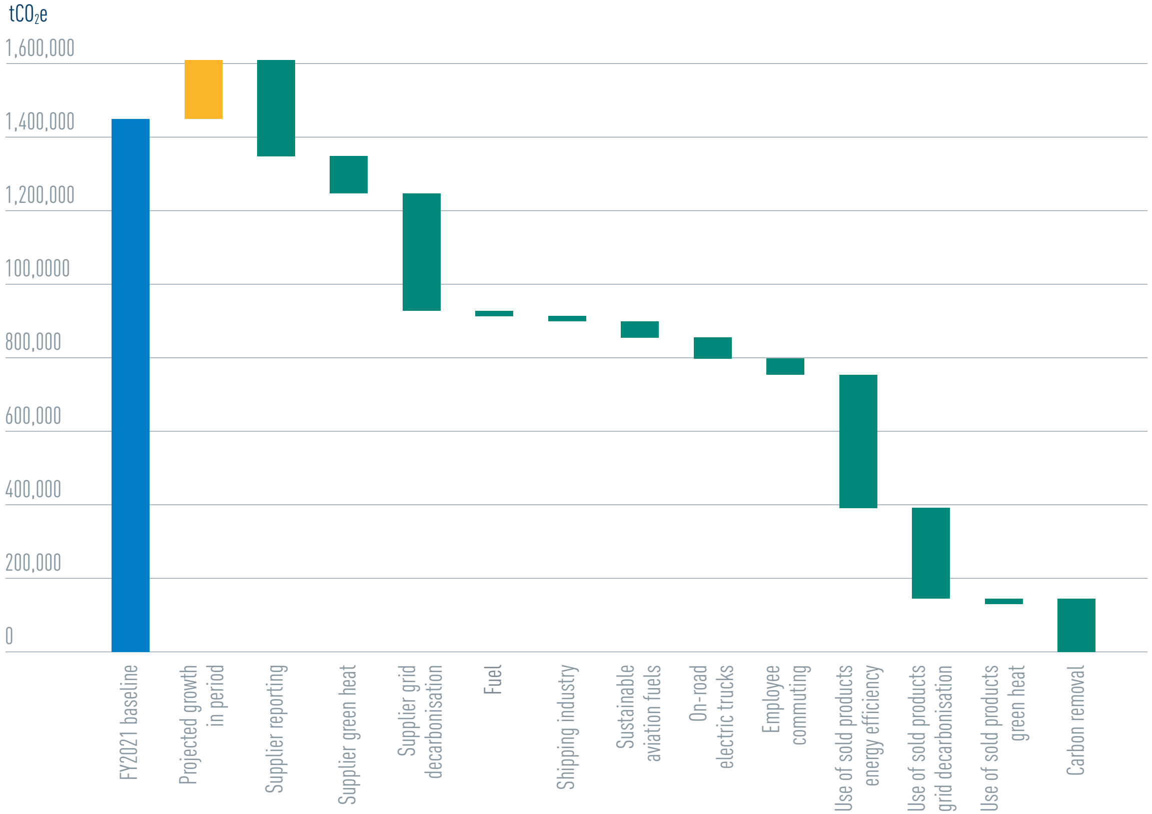
- Delivery of our commitments in accordance with those submitted to the SBTi with a c.50% reduction by 2032
- Carbon intensity of revenue growth will decrease over time
- Energy efficiency benefit is approximately 1% per year after business growth
- Onsite renewable options/technology/incentives improve so that they become increasingly cost-effective over time
- Renewable electricity and EACs will be available in necessary quantities
- Electric vehicles and associated infrastructure suiting our fleet needs will be available
- Zero-carbon fuels will be available to power the remaining portion of our operations not amenable to electrification
- Carbon removal solutions will be available to eliminate remaining emissions, if any

EXAMPLE DELIVERY PROJECTS IN FIVE-YEAR ROADMAPS:

CROSS-DIVISION/ GROUP	– Energy efficiency (Turn it Off) campaign (FY2023) – Site energy assessments using third-party partner
JOHN CRANE	– Slough heating (FY2023) – Lutin renewable electricity contract (FY2023) – Site solar reviews – Fleet electrification – Hnevotin renewable electricity contract
SMITHS DETECTION	– Solar Hemel and Vitry – Solar and heat pump installation Wiesbaden – Heat pump installation Hemel, Vitry, Edgewood – Fleet electrification – Renewable electricity Newark and Singapore

FLEX-TEK	– Solar evaluation (FY2024) – Green heat evaluation Springfield, Tutco, Scotia – New ovens and oven insulation – LED and motion sensors installation and air compressor upgrades – Renewable energy Amnitec
SMITHS INTERCONNECT	– Solar review for Costa Rica, Tampa and Mexico – Tunisia solar implementation – Fleet electrification – Review green heat Dundee and St. Aubin – LED projects and HVAC and air compressor replacements – Irving renewable electricity contract

SCOPE 3 VALUE CHAIN TRANSITION TO NET ZERO BY 2050



KEY ASSUMPTIONS IN MODEL:

- Emissions growth tracks as expected to business growth plans
- Scope 3 plan focused on purchased goods and services, capital goods, fuel and energy-related activities, and Smiths Detection energy consumption of products in use, is delivered with c.50% reduction by 2032
- External factors progress as expected:
  - Supplier action on emissions and emissions reporting
  - Energy efficiency across all sectors
  - Decarbonisation of electricity grids
  - Electrification and decarbonisation of transportation and distribution
  - Adoption of low-carbon heating options
  - Continued governmental commitments and actions to support cost-effective energy transition
- Successful introduction of supplier management platform and implementation of supplier engagement campaigns
- Continued supply chain engagement and diligence post-2032
- Carbon removal solutions will be available to eliminate remaining emissions, if any

EXAMPLE DELIVERY PROJECTS IN FIVE-YEAR ROADMAPS:

- Near-term cross-Group supplier engagement and diligence implementation
  - Supplier platform and standardised procurement, diligence and reporting processes
  - 50% of suppliers by spend to have targets aligned with the SBTi by FY2028
- Medium- and long-term cross-Group supplier engagement and diligence implementation beyond top 50% to disclose emissions and set SBTs
- Smiths Detection customer engagement programme on efficient use of products
- Smiths Detection circular economy expansion

ESG METRICS, TARGETS AND PERFORMANCE

ENVIRONMENT

NEW PRODUCT COMMERCIALISATION/GREEN TECHNOLOGIES

We report R&D spend as a percentage of sales and Gross Vitality which measures the revenue contribution of products launched in the last five years.

Medium-term target:

	Target	FY2023	FY2022
Gross Vitality	30%+	**31%**	31%

R&D as a percentage of sales was 3.7% in FY2023 (FY2022: 4.2%).

We are preparing for reporting under CSRD and will publish a green technology metric in FY2024.

ENERGY, RENEWABLE ELECTRICITY, WATER AND WASTE

Medium-term targets:

	FY2022–2024 target	Status
Use of renewable electricity[1]	**5% increase to 66%**	70%
Normalised non-recyclable waste[2]	**5% reduction**	(20.2)%
Normalised water use in stressed areas (11 locations)[2]	**5% reduction**	(17.1)%
Water reduction projects	**30**	22
Packaging reduction projects	**24**	11

1 Non-GHG producing electric sources including hydroelectric and nuclear.
2 Normalised to revenue.

ENERGY EFFICIENCY AND GHG EMISSIONS

Long-term targets:

– Net Zero emissions from our operations (Scope 1 & 2) by 2040
– Net Zero emissions from our supply chain and products in use (Scope 3) by 2050

Medium-term targets:

	FY2022–2024 target	Status
Normalised greenhouse gas emissions[1]	**5% reduction**	(30.8)%

1 Normalised to revenue.

In FY2022, to align decision making and ownership of our Net Zero targets and accelerate progress, new energy efficiency and emissions targets were added to Smiths annual and long-term incentive plans for FY2023.

Plan	Performance period	Measure	Target	Weighting	Performance
Annual Incentive Plan (AIP) – approximately 6,000 colleagues	1 year	**Energy efficiency[1]**	3% improvement in efficiency	10%	7.9% improvement in efficiency
Long-Term Incentive Plan (LTIP)	3 years	**Scope 1 & 2 GHG emissions reduction[2]**	15-20% reduction in emissions	15%	N/A

A further decision was made in FY2023 for FY2024 remuneration.

Plan	Performance period	Measure	Target	Weighting
AIP	1 year	**Energy efficiency[1]**	4.5% improvement in efficiency	10%
LTIP	3 years	**Scope 1 & 2 GHG emissions reduction[2]**	15-20% reduction in emissions	15%

1 The energy efficiency ratio is expressed as the MWh energy consumed (excluding renewable electricity produced and consumed onsite), divided by the local-currency revenue at budget rates (excluding price growth within the measurement year).
2 Scope 1 & 2 GHG emissions reduction (absolute): calculated in accordance with the WRI/WBCSD Greenhouse Gas Protocol. Reductions must be achieved with a balanced portfolio of actions that prioritise energy savings, onsite renewable electricity generation and purchase of renewable electricity.

70%
renewable electricity.

(11.8)%
reduction in Scope 1 & 2 emissions.

SECR GLOBAL ENERGY USE AND EMISSIONS DISCLOSURE

		FY2023	FY2022	Change
Global energy use – absolute values Δ	MWh	**218,094**	223,709	(2.5)%
UK energy use – absolute values	MWh	**11,394**	10,446	
Global emissions – absolute values				
Scope 1 (direct emissions) Δ	t CO_2e	**19,694**	19,591	
Scope 2 (market-based emissions) Δ	t CO_2e	**25,955**	32,193	
Scope 3 (value chain emissions) Δ	t CO_2e	**1,380,000**	1,450,000	
Total Scope 1 & 2 emissions	t CO_2e	**45,649**	51,784	(11.8)%
UK Scope 1 & 2 emissions	t CO_2e	**1,779**	1,755	
Global emissions – normalised values				
Scope 1 (direct emissions)	t CO_2e/£m revenue	**6.48**	7.63	
Scope 2 (indirect emissions)	t CO_2e/£m revenue	**8.55**	12.55	
Scope 3 (value chain emissions)	t CO_2e/£m revenue	**454.40**	565.08	
Total Scope 1 & 2 emissions	t CO_2e/£m revenue	**15.03**	20.18	(25.5)%

1 Previously published data has been restated following the FY2022 review and limited assurance process conducted by KPMG.

LIMITED ASSURANCE

KPMG has provided limited assurance under ISAE (UK) 3000 and 3410 over selected FY2022 and FY2023 information marked with Δ. For the full assurance opinions for FY2022 and FY2023 please see our corporate website www.smiths.com. This information was prepared in line with our reporting criteria which can also be found on our website.

GHG INVENTORY

Smiths assesses the GHG emissions associated with all its global operations for all four of its operational divisions and all sites. We have developed a GHG Inventory Management Plan (IMP) that outlines our methodology to provide systematic and appropriate GHG inventory data collection, manipulation and management, to produce a relevant, credible and transparent GHG inventory that will provide visibility into our near- and long-term goals. The IMP includes methods to estimate direct emissions from Smiths operations (Scope 1), indirect emissions from purchased energy (Scope 2), and value chain emissions (Scope 3).

The methods prescribed in the IMP conform to the World Resources Institute (WRI) and World Business Council for Sustainable Development (WBCSD) GHG Protocol and the United States Environmental Protection Agency (USEPA) Center for Corporate Climate Leadership Greenhouse Gas Inventory Guidance.

GHG BOUNDARIES

Per the GHG protocol, we have selected the operational control approach to set the organisational boundary for our GHG inventory, meaning 100% of GHG emissions from assets which the Company manages and over which it has authority to implement operational policies will be included. In selecting these organisational boundaries, Smiths evaluated equity share, financial control and operational control approaches and primarily considered the comprehensiveness of assets that would be included in the inventory under each of the three approaches, as well as which boundary would best reflect Smiths level of influence over emissions. This includes 98 locations globally.

As for our operational boundary, which determines the direct (Scope 1) and indirect (Scope 2 and 3) emissions associated with operations within Smiths organisational boundary, we defined this as operations where we have the full authority to introduce and implement operating policies. Operations or activities that are outside of Smiths operational control, and therefore excluded from our Scope 1 and Scope 2 inventories may become relevant when accounting for Scope 3 emissions.

GHG emissions are reported in metric tons of CO_2 equivalents (MT CO_2e). Because individual GHGs have different impacts on climate change, or global warming potentials (GWPs), CO_2e is used to express the impact of emissions from each GHG on a common scale. Smiths uses the IPCC Fifth Assessment Report (AR5) GWPs.

SOCIAL

SAFETY

Medium-term target: continuous improvement towards a zero-harm workplace

PERFORMANCE

Recordable injuries		Recordable incident rate Per 100 employees		Lost time incident rate Per 100 employees	
FY2023	64	FY2023	0.41	FY2023	0.14
FY2022	87	FY2022	0.56[1]	FY2022	0.25[1]
		FY2021	0.47	FY2021	0.20
		FY2020	0.35	FY2020	0.17
		FY2019	0.50	FY2019	0.24

1 FY2022 data restated due to reclassification of incidents.

Zero work-related colleague or contractor fatalities in FY2023.

Zero contractor recordable incidents in FY2023.

Over 13,000 safety look out observations and leadership tours in FY2023.

EMPLOYEE ENGAGEMENT

Employee engagement is measured in our annual My Say survey. See page 14 for more information on My Say.

Medium-term target: E-sat: Upper quartile score.

	E-sat score
FY2023	**73**
FY2022	**72**
FY2021	**71**
FY2020	**73**
FY2019	**72**

The survey response rate was 84% in FY2023 (FY2022: 82%). 12,158 comments were submitted in FY2023.

DEVELOPING TALENT

An internal talent mobility metric, as measured by the percentage of available roles filled by internal candidates is monitored by management and will be published from FY2024. In FY2023 70% of open grade 11 and above roles were filled by internal candidates.

REWARD AND RECOGNITION

Recognising and rewarding colleagues in a fair, open and meaningful way is an important underpin to developing and attracting talent. We are committed to fair pay practices, ensuring colleagues are rewarded fairly and equally for the work they do, and that they have opportunities to participate in our success.

We have been an accredited Living Wage employer in the UK since 2018. In the UK, we operate an all-colleague Sharesave Scheme, which enables colleagues to buy Smiths shares at a discounted rate. In FY2023 we have continued with our process to align colleague benefits across markets, so they are the same for colleagues in any of our four divisions or Group. We completed this work in China, India and Mexico during the year.

GENDER DIVERSITY

Medium-term target: 30% of senior leadership positions[1] held by women by end of FY2024.

FY2023	25%
FY2022	24%
FY2021	23%

Other gender disclosures

	Male	%	Female	%
Board of Directors	**6**	60%	**4**	40%
Executive Committee[1]	**9**	75%	**3**	25%
Senior Leadership Team[2]	**493**	75%	**163**	25%
Total colleagues[3]	**10,796**	71%	**4,360**	29%

1 The Executive Committee does not include the Company Secretary.
2 Senior Leadership Team is the KPI used to track gender diversity at Smiths. It is defined as all colleagues that are Grade 14 or above. These colleagues are able to influence and drive business results.
2 Employees on permanent and fixed term contracts.

Data for senior managers (Executive Committee plus Directors of subsidiary undertakings) as defined by the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 is Female: 34 (17%) and Male: 164 (83%).

Data for the senior management (Executive Committee, including the Company Secretary, and their direct Reports) as defined by the UK Corporate Governance Code 2018 is Female: 47 (36%) and Male: 82 (64%).

Data for the Women in Leadership (Executive Committee and their direct reports) as defined by the FTSE Women Leaders definition is Female: 46 (36%) and Male: 81 (64%).

COMMUNITIES

We report externally our direct contribution to communities and society using a composite number of employee costs + supplier costs + tax paid.

From FY2024 we will report the total value of annual grants made by the Smiths Foundation.

	FY2023 £m	FY2022 £m	FY2021 £m
Employee costs	**939**	823	751
Supplier costs	**1,732**	1,364	1,063
Tax paid	**146**	140	133
Total	**£2.82bn**	£2.33bn	£1.95bn

(26)%

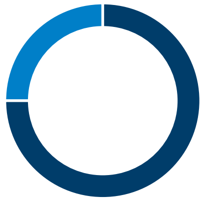
reduction in RIR.

25%

of senior leadership positions held by women.

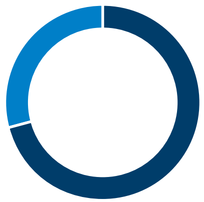
GENDER DIVERSITY

Senior leadership team



Male	75%
Female	25%

Total colleagues



Male	71%
Female	29%

TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

COMPLIANCE STATEMENT

FCA LISTING RULES

In this report, we set out our climate-related financial disclosures consistent with all of the Task Force on Climate-related Financial Disclosures (TCFD) recommendations and recommended disclosures pursuant to Listing Rule 9.8.6R (8). This includes all four of the TCFD pillars and the 11 recommended disclosures set out in the report entitled 'Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures' published in October 2021 by the TCFD. In completing this work, we made use of TCFD guidance material including the TCFD technical supplement on the use of scenario analysis, TCFD Guidance on Metrics, Targets and Transition Plans, and the TCFD Guidance for All Sectors. We are reporting against the TCFD framework in line with FCA Listing Rules.

In FY2024, we plan to continue our progress in reporting against all four pillars of the recommendations and align with the recommendations of the Transition Plan Taskforce (TPT) which is due to be released later this year. This will include conducting a quantitative scenario analysis. More detailed information on FY2024 priorities in reporting against TCFD is outlined in the TCFD summary in our FY2023 Sustainability at Smiths report.

The TCFD provides an internationally recognised framework to provide clear, comprehensive and high-quality information on the impacts of climate change. Over several years, we have progressed our alignment with the TCFD recommendations to embed the management of climate-related risks and opportunities into our processes, and to ensure that our business strategy is adapting to the effects of climate change.

Our diverse range of products and geographical spread of assets allows the business to be resilient to climate risks, such as cost and availability of resources, in the short term. We are also well prepared for market opportunities presenting themselves due to climate change. However, we recognise the potential impacts of climate risks on our business in the long term and have continued to implement mitigation strategies to ensure that we remain resilient.

GOVERNANCE

BOARD

The Board has overall responsibility for our approach to sustainability matters, including climate change. Oversight of this is delegated to sub-committees. Climate risk management has been delegated to the Audit & Risk Committee and delivery on our commitments in relation to climate change to the Science, Sustainability & Excellence (SSE) Committee. The Board has oversight of our Group-level and divisional strategies, receiving performance updates from our divisions three times a year. This includes an annual strategy presentation, an operations update and a half-year progress discussion. Our divisions report to the SSE Committee on a rolling annual basis. Read more about the work of the SSE Committee on page 111. Related Board member competencies for climate change can be found in the Board biographies on page 80. Our governance structure is outlined on page 79.

STRATEGIC DECISIONS RELATING TO CLIMATE RISKS AND OPPORTUNITIES

As the world transitions to a low-carbon economy, the Group has identified a number of climate-related opportunities relating to global investment in decarbonisation and green re-industrialisation. Commercialising these high-value green technologies is a strategic priority and is built into our divisional strategic plans. The Board also considers climate-related issues when reviewing strategy and performance objectives. Energy and GHG metrics are presented and discussed in management reviews. In FY2023, the Board approved the setting of operational Net Zero transition targets aligned with the SBTi and holds responsibility for overseeing performance against these. The Board has visibility of implementation of our climate transition plan and is regularly updated on progress against climate metrics and targets.

AUDIT & RISK COMMITTEE
The Audit & Risk Committee is responsible for reviewing the effectiveness of risk management across the business (see page 91), including climate risks which are integrated into our enterprise risk management framework. On a rolling basis, divisions attend the Audit & Risk Committee and present the outcome of divisional assessments which include climate risks and opportunities. Twice a year, the Committee reviews the Group's principal risks. Climate change has been identified as a Group principal risk and is managed and owned by the Audit & Risk Committee.

SCIENCE, SUSTAINABILITY AND EXCELLENCE COMMITTEE
The SSE Committee is responsible for overseeing the delivery of climate-related commitments and opportunities, such as the commercialisation of green products, mitigating the impacts of climate change, and setting and reviewing progress against relevant climate-related targets. The Committee met four times during the year to assess progress against targets including GHG emissions, renewable energy use, energy efficiency, water use and waste disposal. On a rolling basis, divisions provide a deep-dive on progress against their SBT plans, new product development and innovation. For more information on the work of the SSE Committee see page 111.

EXECUTIVE COMMITTEE
Divisional Presidents form part of the Executive Committee and are responsible for our divisions' approach to sustainability, including climate change. The Executive Committee reports to the CEO, who reports directly to the Board six times a year. Discussions at the Executive Committee relate to commercial climate activities such as new product development and operational climate activity, such as energy and GHG reductions. The Chief Sustainability Officer works closely with the Group Head of Strategy and Communications and Divisional Presidents to ensure sustainability is embedded in strategic, commercial and operational decision making.

Climate-related risks are managed and reported in line with wider risk management processes, with the outcomes of divisional assessments integrated into executive-level strategic planning and priorities. Climate-related opportunities such as those relating to the decarbonisation/energy transition agenda have been communicated to the Executive Committee and Board, culminating in a Group-wide strategic response for markets and opportunities.

A number of key climate-related issues were discussed by the Executive Committee and the Board in FY2023 including:

1. Science-based targets and transition planning for Net Zero Scope 1, 2 and 3 emissions
2. Strategic opportunities arising from the energy transition/decarbonisation and green revenue tracking dashboards
3. Alignment of remuneration with environmental targets

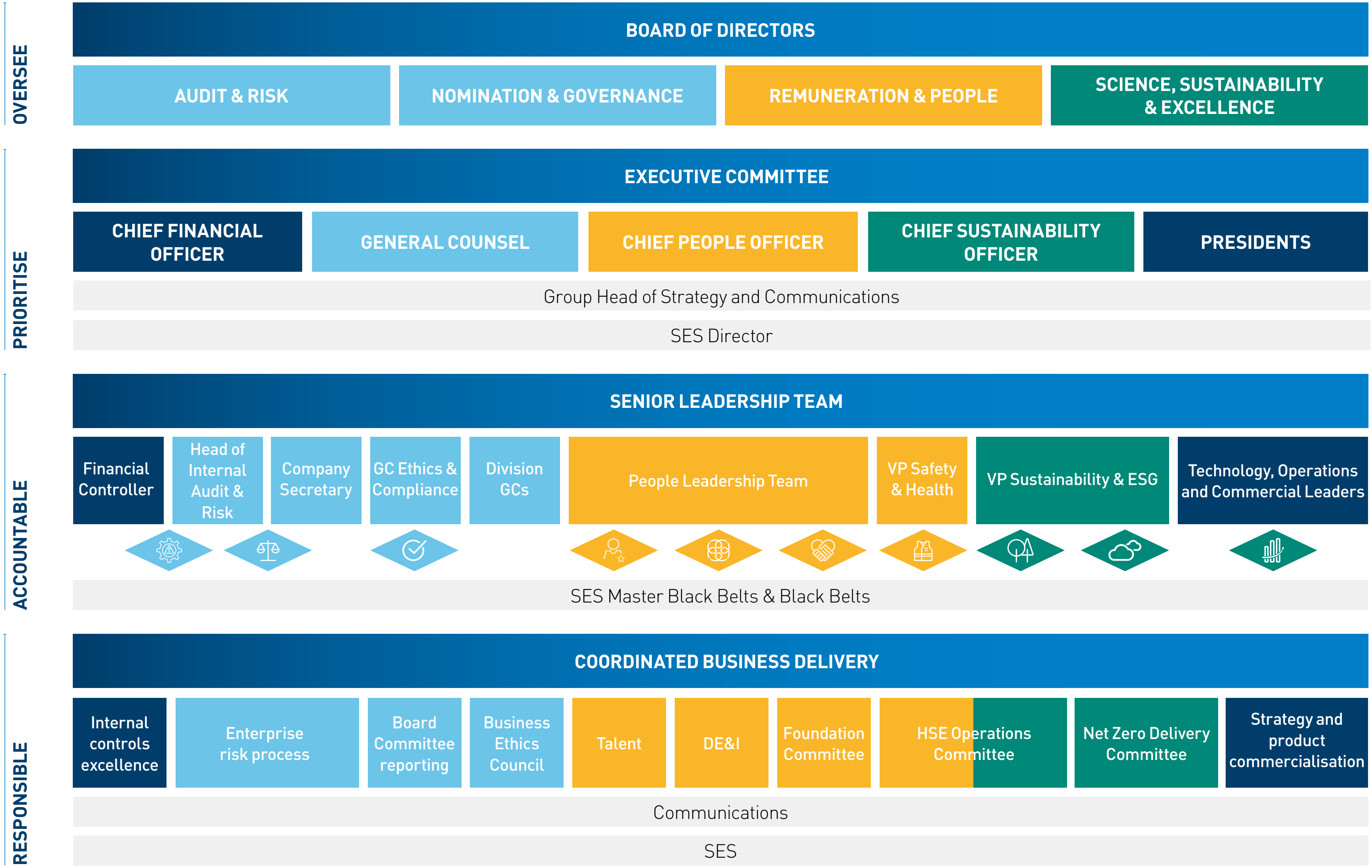
EXECUTIVE REMUNERATION
Scope 1 & 2 reduction targets continue to make up part of our LTIP. From FY2023 onwards, we introduced climate-related metrics (energy efficiency) into our AIP and (absolute GHG reduction) into our LTIP to more closely align decision making and ownership of climate goals. Details can be found in the Remuneration & People Committee Report on page 98. FY2024 remuneration metrics continue to incorporate these climate-related targets.

The SSE Committee is responsible for overseeing the delivery of climate-related commitments and opportunities, such as the commercialisation of green products, mitigating the impacts of climate change, and setting and reviewing progress against relevant climate-related targets.

SEE MORE
Our Net Zero/climate transition plan.
→ PG 40

ESG GOVERNANCE AND DELIVERY

The diagram below shows how sustainability/ESG matters are managed at Smiths. As described on page 48, climate matters are integrated into this overall management framework.



STRATEGY

The transition to a low-carbon world poses significant opportunities for Smiths as demand for green technology and energy efficient products increases.

DISTRIBUTION OF SMITHS GREEN TECHNOLOGY

EFFICIENCY AND CIRCULAR ECONOMY SOLUTIONS **Solutions that help our customers to use less, waste less and reduce emissions** – Efficient, reliable and lower emission oil and gas value streams – Resource efficiency in industrial processes – Water reduction for process industries and energy transition minerals – Effective and lower energy safety and security infrastructure – Detection solutions for resource mining and recycling – Building efficiency – residential and commercial – Smaller, lighter and more efficient connectivity components	John Crane Smiths Detection Flex-Tek Smiths Interconnect

WIDESPREAD GREEN ELECTRIFICATION
Solutions that help our customers move from carbon-intense fuels to green electricity
– Electrical heating for:
  – Building heating, ventilation and air-conditioning (HVAC)
  – Industrial processes
– High-power electrical connectors to enable efficient and reliable transmission of electricity
	Flex-Tek
	Smiths Interconnect

LOW-/NO-CARBON FUELS IN HARD-TO-ELECTRIFY SECTORS **Solutions that help our customers to make, store, move and use new fuels** – Efficient compression, transportation and storage of hydrogen – Reliable pumping and compression of biofuels and synthetic fuels – Filtration of hydrogen and low-carbon marine fuels	John Crane Flex-Tek
CARBON CAPTURE **Solutions that help our customers efficiently capture, transport, sequester and/or use carbon** – Proven and reliable CO_2 capture technologies – Efficient and reliable transportation, storage and injection of CO_2	John Crane

See our Sustainability at Smiths report for more information on decarbonisation megatrends and how we are commercialising high-value green technologies.

CLIMATE RISKS AND OPPORTUNITIES

We have identified a range of physical and transition risks and opportunities that could impact our business.

The climate transition also gives rise to legal risks, such as stricter GHG emission regulations, as well as market risks such as from new and emerging competitors. Extreme weather events such as floods and extreme temperatures pose physical risks, including damage to assets, both owned by us and within our supply chain, as well as disruption to transportation routes. More extreme temperatures may also lead to new opportunities in our markets, such as remote sensing and cooling systems.

The time horizons considered for identified climate-related risks and opportunities, found in the table below, align to our targets which have been submitted to the SBTi. While we recognise that climate-related risks will occur over short-, medium- and long-term horizons, our assessment determines that climate-related risks and opportunities are likely to impact the business in the medium and long term. We believe that we remain resilient to climate risks with the adaptation and mitigation strategies that are in place. It was determined that the climate risks identified do not have a significant impact on the business, although are considered as a Group principal risk in aggregation. We will continue to assess the materiality of any financial impact arising.

Time horizons for materialisation: climate risks and opportunities	Description
Short term	**2023–2028**
Medium term	**2028–2032**
Long term	**2032–2040**

Each of our identified risks and opportunities has been assessed by scenario analysis, which is described alongside an explanation of their potential impact on the business, subsequent actions we are taking to respond, and the associated time horizon.

SCENARIO ANALYSIS

We have carried out scenario analysis on our climate risks and opportunities for several years and, in FY2022, we collaborated with external consultants to extend our qualitative scenario analysis to two scenarios for both physical and transition risks and opportunities. Next year, we plan to develop our assessment of financial impacts, integrating quantitative analysis where possible. This year, we have reviewed the findings of the scenario analysis, finding no significant changes to the modelled impact of climate risks and opportunities since last year.

While scenario analysis is hypothetical and does not provide a certain forecast, it helps to identify how our most material climate-related risks and opportunities will likely impact us and our operations in the future. This subsequently informs our risk management strategies, as well as the metrics and targets we use to monitor such issues, enabling us to become more resilient to risks and seize opportunities in the long term.

PHYSICAL SCENARIOS

For the physical scenarios, the Intergovernmental Panel on Climate Change's (IPCC) Representative Concentration Pathway RCP 4.5 and RCP 8.5 scenarios were used. The impacts highlighted a change in annual rainfall levels at our sites and seasonal differences in temperature. Extreme weather events such as flooding, wildfires and drought will become more severe and frequent. See page 52 for more information on how we are managing these impacts.

For the transition scenarios, the International Energy Agency's (IEA) World Energy Outlook Sustainable Development Scenario (SDS) and Stated Policies Scenario (STEPS) were used. The STEPS scenario provides a benchmark to assess the potential achievements of recent developments in energy and climate policy and the SDS scenario assumes full alignment with the Paris Agreement to hold the rise in global average temperature to well below 2°C.

A summary of our risk and opportunities assessment across each scenario can be found below.

Risk/ opportunity	Risk description	TCFD category	Time horizon for materialisation	Which parts of the business will be most impacted?	Potential impact on the business	Response/actions we're taking and how they are managed	RCP4.5 scenario 2040 medium term	RCP4.5 scenario 2080 long term	RCP8.5 scenario 2040 medium term	RCP8.5 scenario 2080 long term
PHYSICAL RISKS										
Damage to Group assets from extreme weather events	Extreme weather events: hurricanes; tropical storms; flooding; wildfires; and sea-level rise. A number of Smiths divisions have already experienced site-specific disruption due to wildfires and flood events.	Environment (acute physical)	Medium	All divisions	Increased costs and resulting revenue losses due to repair and increasing insurance costs.	All sites are required by policy to complete annual site-specific risk assessments through the divisional Business Continuity Plans review, which considers risks from a wide range of issues, including from severe weather. A number of John Crane sites have been identified as vulnerable, so mitigation measures are being put in place such as: relocations; alert systems; guidance from insurance providers when sites come up for insurance policy renewal; and local, specific mitigation measures such as independent generators.				
Damage to key supply chain assets from extreme weather events			Medium	All divisions	Loss of revenue due to disruption/delay of manufacturing processes.	Development of a coordinated procurement process for consideration of physical risks in procuring new suppliers.				
Temperature regulation requirements during heatwaves and cold snaps	Increasing average temperatures across all seasons, as well as more extreme heatwaves and cold snaps requiring the temperature in buildings to be regulated in order to minimise health and safety risks.	Environment (chronic physical)	Medium	All divisions	Health and safety risks from overheating or freezing mean there are higher operating costs from increased air conditioning and heating. Capital costs associated with retrofitting assets to provide sufficient temperature are also high.	Consideration of extreme weather risk when deciding where to expand existing operations and annual business continuity reviews across our sites.				
Disruption to transportation and distribution networks from extreme weather events	Weather events directly impacting transportation networks.	Environment (acute physical)	Medium	All divisions	Loss of revenue due to delays in getting products to market, caused by supply chain disruption.	We are reviewing and investigating ways to minimise travel distances by ensuring products are produced as close to customers as possible. We aim to avoid the use of single-source materials to increase resilience over regional disruption. This includes looking at reducing double handling of products by having suppliers send directly to customers.				

KEY

Black text in table = Current activity
Blue text = Future activity

Risk key	Definition
Very high risk	Very significant impact on the Company
High risk	Significant impact on the Company
Moderate risk	Moderate impact on the Company
Low risk	Relatively marginal impact on the Company
Very low risk	Marginal impact on the Company

Risk/ opportunity	Risk description	TCFD category	Time horizon for materialisation	Which parts of the business will be most impacted?	Potential impact on the business	Response/actions we're taking and how they are managed	RCP4.5 scenario 2040 medium term	RCP4.5 scenario 2080 long term	RCP8.5 scenario 2040 medium term	RCP8.5 scenario 2080 long term
PHYSICAL OPPORTUNITIES										
Growth in remote sensing market	Smiths Interconnect: Growth in satellite demand and requirements for climate change/weather/ environmental tracking and monitoring.	Environment (chronic physical)	Medium	Smiths Interconnect	Increased revenue from growth in demand for satellite technology for environmental monitoring and tracking.	Opportunities in remote sensing and cooling systems have been incorporated into business planning and other relevant sectors are also being monitored for changes in demand (e.g., communication systems).				
Increased demand for cooling systems	Ongoing extreme variation in global temperatures will increase demand for heating, ventilation and air conditioning (HVAC) systems from Flex-Tek globally. John Crane also has the opportunity to develop sealing and water filtration technology for transportation and cleaning of water in water-stressed locations.	Environment (chronic physical)	Medium	Flex-Tek and John Crane	Increased revenue from increased demand for residential and domestic cooling systems, driven by ongoing variation in global temperatures.					

KEY

Black text in table = Current activity
Blue text = Future activity

Opportunity key	Definition
Very high opportunity	Very significant impact on the Company
High opportunity	Significant impact on the Company
Moderate opportunity	Moderate impact on the Company
Low opportunity	Relatively marginal impact on the Company
Very low opportunity	Marginal impact on the Company

Risk/ opportunity	Risk description	TCFD category	Time horizon for materialisation	Which parts of the business will be most impacted?	Potential impact on the business	Response/actions we're taking and how they are managed	RCP4.5 scenario 2040 medium term	RCP4.5 scenario 2080 long term	RCP8.5 scenario 2040 medium term	RCP8.5 scenario 2080 long term
TRANSITION RISKS										
Increased regulations and pricing on GHG emissions	Regulations relating to GHG emissions, including the cost of reporting and complying with regulations (e.g., carbon taxes, CBAM).	Political and legal risk	Medium	All divisions	Greater costs associated with emissions reduction, monitoring and reporting obligations. Risk of reduced access to investment opportunities from failure to meet these.	We have established the Energy Governance Committee (now known as the Net Zero Delivery Committee) and other cross-functional working groups to drive and track initiatives.				
Increased transportation costs	Greater fuel costs related to freight and internal transportation.	Market risk	Medium	All divisions	Greater fuel costs due to increased pricing on GHG emissions.	Reduction in double handling of products, optimising space in freight through reusable and recyclable packaging solutions and exploring localised business models.				
Cost and availability of resources	Increased price and reduced availability of critical raw materials. For Smiths Interconnect, there are concerns around lithium and beryllium and for Smiths Detection there is a risk of limited supply of key components.	Market risk	Medium	All divisions	Limited supply of materials and components could lead to price volatility and production constraints.	The procurement team for Smiths Interconnect tracks critical raw materials and reports monthly. Actions are taken based on trends such as pre-buys or vendor managed inventory. The division also periodically looks at alternative materials. Smiths Detection continually monitors availability of critical materials and parts for its products.				
New and emerging competitors	Reduced accessible market due to increased competition in Net Zero/ energy efficiency space such as methane leakage. For example, there is a risk of overcrowding in the methane leak detection and remediation market for John Crane in 2030.	Market risk	Medium	All divisions	Reduced revenue due to greater competition in product market.	John Crane has implemented procedures to track and respond to changes in demand from traditional oil & gas customers to additionally target its portfolio of products and services to target new customers and markets e.g., hydrogen and carbon capture. Smiths Detection monitors power consumption of its products relative to competitors and product durability and strives to be best in class to lower total cost of ownership.				

KEY

Black text in table = Current activity

Blue text = Future activity

Risk key	Definition
Very high risk	Very significant impact on the Company
High risk	Significant impact on the Company
Moderate risk	Moderate impact on the Company
Low risk	Relatively marginal impact on the Company
Very low risk	Marginal impact on the Company

Risk/ opportunity	Risk description	TCFD category	Time horizon for materialisation	Which parts of the business will be most impacted?	Potential impact on the business	Response/actions we're taking and how they are managed	RCP4.5 scenario 2040 medium term	RCP4.5 scenario 2080 long term	RCP8.5 scenario 2040 medium term	RCP8.5 scenario 2080 long term
TRANSITION OPPORTUNITIES										
Aviation/ aerospace energy efficiency requirements	Demand for energy efficient detection products.	Products and services	Medium	Smiths Detection	Revenue from development of more energy efficient safety and security infrastructure.	Smiths Detection monitors power consumption of its products relative to competitors and product durability and strives to be best in class to lower total cost of ownership.				
Growth in energy efficiency products market	Increased demand for efficiency and emission reduction products.	Products and services	Medium	John Crane	Increased revenue from sealing solutions that reduce hydrocarbon leakage from oil & gas and other infrastructure.	Continuing development of next generation solutions for oil & gas and other industrial customers that align with their decarbonisation targets, such as via digitisation.				

KEY

Black text in table = Current activity
Blue text = Future activity

Opportunity key	Definition
Very high opportunity	Very significant impact on the Company
High opportunity	Significant impact on the Company
Moderate opportunity	Moderate impact on the Company
Low opportunity	Relatively marginal impact on the Company
Very low opportunity	Marginal impact on the Company

IMPACT ON THE BUSINESSES, STRATEGY AND FINANCIAL PLANNING

We submitted our Net Zero transition plan and GHG emissions reduction targets to the SBTi in May 2023. These outline our operational Net Zero GHG trajectory to meet a 1.5°C scenario by achieving Net Zero Scope 1 & 2 emissions by 2040 and Net Zero Scope 3 emissions by 2050. This aligns with the Net Zero by 2050 targets set out by the UK and US governments (which are our largest areas of operation). We are preparing to comply with Transition Plan Taskforce (TPT) guidance next year. Our transition plan was developed with consideration of the updated TCFD guidance and lays out our 2028, 2032 and long-term Net Zero milestones and emission reduction targets. See Net Zero/climate transition plan on page 40.

Divisional-level initiatives and actions to reduce Scope 1 & 2 emissions are based on energy efficiency, green electricity (including implementation of solar technologies and fleet electrification), and alternative fuels. The majority of our Scope 3 emissions will be addressed by in-country grid decarbonisation and via targeting significant suppliers with education and training to set and meet their own SBT targets. The impacts of our transition plan on our customers, suppliers and other stakeholders, and on our business are integrated into the roadmap. In developing our transition plan, we have considered, and align with, the Net Zero economy commitments in the countries in which we operate, in particular where we are headquartered.

The opportunities identified within the climate scenario analysis form part of our strategic priority to commercialise high-value green technologies to increase green product revenues.

RISK MANAGEMENT

We adopt a Group-wide approach to risk management which is discussed in detail on pages 66 to 74. The Board has overall responsibility for ensuring that a robust risk management process is in place and delegates responsibility to the Audit & Risk Committee to ensure that it is adhered to. Climate risk management is considered in line with the existing risk management framework. This year, for the first time, climate risk was identified as a Group principal risk. See page 68 for more information on our Group principal risks.

Updates to climate regulation, including the emergence of new climate-related regulation is picked up in line with our Group-wide regulation monitoring processes.

In previous years, we have considered a wide range of risks and opportunities relating to climate change that were identified with the support of external technical specialists and then evaluated through a series of Group and divisional workshops. These include, for example, impacts relating to damage to assets from weather events, cost and availability of resources, regulation related to GHG emissions and increased demand for green technologies. The identification process includes assessment of the full value chain, such as impacts relating to key supply chain assets from extreme weather events.

At the Group, divisional and site levels, risks and mitigating controls are allocated to relevant owners. This year, each of our divisions conducted their annual review of climate-related risks in divisional risk registers to ensure accuracy of impact assessment and adequacy of mitigation actions. The results of these reviews are consolidated and managed in our risk register as per the enterprise risk management process.

Twice a year, a top-down review of our principal risks and opportunities, including climate risks, is conducted as part of the wider risk management process. In FY2023, we conducted an ESG double materiality assessment to understand the ESG topics of most importance to our business as outlined on page 33.

We continued our detailed procedures to assess and manage climate risks and opportunities via scenario analysis. This incorporates analysis of base case revenue streams, climate scenario analysis conducted over two physical and two transition climate scenarios against medium- and long-term time horizons. Risks and opportunities have been considered alongside established mitigation measures and strategic actions during validation workshops held at Group and divisional level to determine materiality of impacts over time.

The Executive Committee has responsibility for designing the enterprise risk management framework and ensuring that it is effectively deployed. The Audit & Risk Committee is responsible for overseeing the effectiveness of our management and implementation of internal controls, including those related to climate risks. Divisional and functional teams are responsible for day-to-day management and reporting of risks, including climate risk. They identify new and emerging risks, escalate where appropriate, and take action to ensure risks are managed appropriately. Prioritisation of risks is supported by matrices to improve, monitor (controls/ability to respond), monitor (risks) and accept/optimise.

METRICS AND TARGETS

We have identified relevant metrics and targets to monitor progress in achieving our sustainability goals, as well as manage and mitigate identified climate-related risks and opportunities as detailed on page 57. Metrics and targets are monitored by the SSE Committee and inform decision making to execute our strategic priorities.

Sustainability metrics form part of the Smiths annual and long-term incentive plans. These include metrics on GHG emissions reductions (Scope 1 & 2 emissions absolute reduction target) and energy efficiency.

We have committed to Net Zero Scope 1 & 2 emissions across our operations by 2040, with Net Zero Scope 3 emissions reached by 2050 in line with the 1.5°C Business Ambition under the UN Race to Zero. As per our submission to the SBTi, we have committed to interim targets of 50% reduction in Scope 1 & 2 emissions by 2032 and 50% of suppliers by spend with SBTs by 2028. As required by the SBTi, our proposed interim reduction target covers more than two-thirds of our total Scope 3 GHG inventory.

Our Scope 1 & 2 emissions have decreased significantly this year as we progress conversion of our energy mix to renewable electricity, as well as undertake transition initiatives such as fleet electrification. Our Scope 3 emissions have also decreased year-on-year. Further details of Scope 1, 2 and 3 emissions can be found on page 45 including progress during FY2023. More detail, including our methodology for calculation of emissions in line with the GHG Protocol, can be found in our FY2023 Sustainability at Smiths report.

We continue to monitor completion of annual business continuity plan reviews and have surpassed our three-year targets on waste and water reduction. We will assess whether water targets are renewed at the end of the three-year goal period, given the relatively low consumption required in our operations.

Information on how metrics and targets are linked to our remuneration policy can be found in the Remuneration & People Committee Report from page 98. Progress towards achieving other sustainability targets is included in the Sustainability at Smiths section from page 32. Our Scope 1, 2 and 3 emissions for both FY2022 and FY2023 have undergone an external limited assurance process. We anticipate that further metrics and targets will be established during FY2024 as we move into our next three-year goal period. In the coming year we will review our disclosure of other cross-industry climate-related metrics.

MONITORING METRICS AND TARGETS

The table below outlines the key metrics and targets used to monitor climate risks and opportunities. Performance against the majority of these metrics is monitored by the SSE Committee. Further detail, including historical performance, can be found on pages 44 and 45. Our FY2023 Sustainability at Smiths report describes the basis of preparation of our metrics and targets.

	Unit of measure	Metric	Metric target set and reported?	Metric performance for FY2023	Linked to identified climate risks and opportunities
GHG EMISSIONS	tCO_2e	Absolute Scope 1 & 2 emissions	Yes – zero by 2040 with 50% reduction by 2032	(11.8)% reduction year-on-year	Pricing on GHG emissions – tracking our GHG emissions helps us to remain aligned with upcoming regulations and is of value to our customers seeking to reduce emissions in their supply chains.
GHG EMISSIONS	tCO_2e	Absolute Scope 3 emissions	Yes – zero by 2050	(4.8)% reduction year-on-year	Pricing on GHG emissions – tracking our GHG emissions helps us to remain aligned with upcoming regulations and is of value to our customers seeking to reduce emissions in their supply chains.
PHYSICAL RISKS	%	All site business continuity plans to be reviewed annually	Yes, not reported externally	N/A	All identified physical risks – reviewing our site business continuity plans enables us to plan and mitigate against potential physical risks from climate change.
TRANSITION RISKS	%	Revenue from green technologies	No – data to be reported in FY2024	N/A	Monitoring revenue from products with sustainability, including climate, benefits.
TRANSITION RISKS	%	% reduction in normalised non-recyclable waste	Yes – 5% reduction between FY2022 and FY2024	(20.2)% reduction vs FY2021 baseline	Cost and availability of resources – monitoring our reduction in waste and setting targets helps to reduce the resources used by our business.
TRANSITION RISKS	%	% reduction in normalised water use in water-stressed areas	Yes – 5% reduction between FY2022 and FY2024	(17.1)% reduction vs FY2021 baseline	Cost and availability of resources – monitoring our water use and setting reduction targets helps to reduce the resources used by our business.

STAKEHOLDERS AND SECTION 172 STATEMENT

During the year ended 31 July 2023, the Board has acted in accordance with Section 172(1) of the Companies Act 2006, with each Director acting in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole.

Understanding the needs and priorities of our key stakeholders and building strong and positive relationships is critical to our success. Stakeholder engagement takes place across the Group, operationally by our divisional teams and management, at a Group-level, and by the Board.

In a business as diversified as Smiths, engagement with most stakeholder groups is handled locally by management, or by specialist Group teams. The Board maintains oversight and only engages directly if there are issues which truly warrant its involvement or where it can add value. This is particularly true of engagement with customers and suppliers (the majority of whom are unique to a specific division) but is also usually the case for governments, regulators and our local communities.

The outcomes of stakeholder engagement, including concerns raised, are reported to the Board and Board Committees on a regular basis through our usual processes that support informed decision-making. The reporting was enhanced during the period to include greater focus on macro conditions and stakeholders. This was partly in response to feedback received as part of the FY2022 Board Evaluation process (see page 85). Discussion and decision-making by the Board takes the views of key stakeholders into account, in order to balance their needs, and effectively build the sustainable, long-term success of the Group. Throughout FY2023 we have matured our approach with a focus on critical business priorities that are regularly reported, underpinned by relevant data, in a global performance dashboard that allows tracking against the targets that have been set. Where needed, corrective actions were presented and discussed.

During the year ended 31 July 2023, the Board has acted in accordance with Section 172(1) of the Companies Act 2006, with each Director acting in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole. In doing so, the Directors had regard to the interests of other stakeholders, whilst maintaining and overseeing high standards of business conduct. Our approach to key stakeholders and stakeholder considerations that influenced Board discussions, the outcomes of these discussions and the Board's principal decisions are outlined in this section, along with illustrative examples.

PEOPLE

OUR APPROACH

Our people are vital to the success of Smiths.

We aim to attract and retain the very best by creating an environment for colleagues based on respect, personal growth, recognition and development of talent, and a sense of belonging and purpose.

Our culture is a powerful asset and empowers and enables our people to deliver our purpose. It is supported by our Values and our Leadership Behaviours which influence every decision, guide how we behave, and help make Smiths a place where people are happy and proud to work.

KEY PEOPLE PRIORITIES

- Health, safety and well-being
- Purpose and culture
- Ethical behaviour
- Reward and recognition
- Employee retention and engagement
- Talent development
- Diversity, equity and inclusion
- Sustainability
- Community contribution

BOARD AND MANAGEMENT ENGAGEMENT ACTIVITIES

- Management engages with colleagues through regular Town Hall meetings, Company news updates, and through our online tools where colleagues can share their views. See page 14 for more information
- Non-executive Directors undertake workforce engagement activities, including in-person site visits and attendance at colleague meetings, forums and events. Regular updates are provided to the Remuneration & People Committee. Such activities included:
  - Richard Howes met members of the senior leadership team over a period of 12 months as part of his induction programme. He also visited John Crane's Morton Grove site, met key team members and learnt about operational aspects of the business
  - Noel Tata attended the Indian Managing Directors' Council and met members of the India leadership team. He also toured Mumbai airport to see Smiths Detection machinery in operation
  - Sir George Buckley and Pam Cheng met SES Master Black Belts. Sir George shared his perspective on excellence, his experience in other companies, and what SES means for Smiths. Pam offered her experience and expertise in the area of change management
  - Bill Seeger attended the China Ethics Committee and Global HSE team meeting
  - Mark Seligman met with senior leaders from across the Finance function including Finance and Finance Excellence, Tax, Investor Relations, Internal Audit and Divisional CFOs
- Across the year, the Board met with colleagues of varying seniority. This included divisional teams and those in corporate functions, allowing for informal introductions to Board members
- Talent Roundtables were held to discuss top talent and identify potential Executive Committee successors. Following this process Sir George Buckley met c.30 extended leadership team members across Smiths
- The Company established a Group mentoring scheme to give senior leaders an Executive Committee formal mentor to foster the 'developing self and others' Smiths Leadership Behaviour
- Management identified a need to increase female senior leaders' visibility in order to amplify role modelling across the Group and demonstrate female representation in senior positions
- The Board and Remuneration & People Committee receive regular updates and deep-dives from the Chief People Officer on employee engagement, reward, talent, and diversity and inclusion. It also monitors KPI metrics relating to those areas
- The Audit & Risk Committee is provided with updates on 'Speak Out', our confidential reporting hotline, and other reports and statistics relating to the Group's ethical policies and performance
- The Board receives health and safety reports at every Board meeting and regular updates on the Group's pension arrangements
- DE&I continued to be an area of focus to help create a more diverse and inclusive Smiths and we are targeting improved gender balance

OUTCOMES OF ENGAGEMENT IN FY2023

- The Board approved the refined people strategy with a focus on the Leadership Behaviours and developing and retaining talent. This included: a focus on early years careers including apprenticeships and graduate opportunities; and a global leadership training programme aligned with the Leadership Behaviours and the talent process
- Implementation of a quarterly colleague webinar featuring a female Executive Committee member and a female Non-executive Director, which has included Dame Ann Dowling and Pam Cheng in FY2023, with Karin Hoeing to lead in FY2024. Initiatives such as these are important as we continue to foster a more diverse and inclusive environment
- Mentees of the mentoring scheme have taken on expanded roles and responsibilities, resulting in cross-functional and cross-divisional internal career changes. All of the mentees of the Executive Committee have now become mentors for the next leadership tier. This is cascading the mentoring culture at Smiths
- Engagement measured by our annual My Say engagement survey, which had a very high response rate of 84% of our employees, improved by one point since last year and is now just one point below the industry benchmark. It was encouraging to see that four out of our five businesses (including the corporate centre) tracked improvement in engagement, while one remained flat year-on-year. My Say results can be found on page 14
- The Board considered and declined the request from the Trustee of the Smiths Industries Pension Scheme (SIPS) to recommend paying the 2023 stated aim discretionary increase. This decision was taken with the security of all SIPS members benefits in mind. The Company continues to work with the SIPS Trustee to progress towards the long-term target of full buyout funding

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Governance.
→ PG 78

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84%
colleague participation in My Say engagement survey.

CUSTOMERS

OUR APPROACH

Meeting customer needs and exceeding their expectations with products, quality and service, and the way we conduct business and pay attention to the things that matter to them, is a fundamental part of our operating model and our Values.

Strong and enduring customer relationships will sustain Smiths into the future.

KEY CUSTOMER PRIORITIES

- Product innovation, lead times, quality and aftermarket service
- ESG performance of products to help customers meet their own ESG goals
- Long-term strategic relationships
- Mutual confidence and respect
- Ethical behaviour
- Data protection

BOARD AND MANAGEMENT ENGAGEMENT ACTIVITIES

- Management teams engage with customers through formal feedback activities such as surveys, quarterly business reviews, aftermarket service team reviews, and senior team meetings with key customers. They also integrate informal feedback from conversations had with customers by our operational and field-based teams
- Management teams use Key Account Management structures and Customer Relationship Management tools across our business to deliver timely and high-quality responses to our customers. We aim to apply best practices, develop skills and capabilities, and deliver continuous improvement in execution to enhance the overall customer experience
- Customers and market challenges are considered as part of the monthly divisional performance updates to the Executive Committee with a deep-dive every quarter
- Divisional performance reports including customer data and commentary are sent to the Board on a quarterly basis and deep-dives on divisional performance and strategy are held on a rotational basis
- The Board monitors performance indicators relating to customer satisfaction such as On-Time-In-Full (OTIF) and Cost of Poor Quality (COPQ)
- The SSE Committee reviews the progress of strategic projects as well as new products introduced to the market. On a rotational basis divisions provide deep-dives on innovation and new product development. For more information see the SSE Report on page 111
- The Board reviewed key market and sector specific macroeconomic indicators to understand the impact of the macroeconomic environment on our customers
- The Board met with material customers of John Crane and Smiths Detection during the year to understand what it is like to do business with Smiths

OUTCOMES OF ENGAGEMENT IN FY2023

- The Board heard the challenges of key customers in the security and energy sectors. This led to a deeper understanding of the solutions required by our customers and highlighted the importance of our continued focus on commercialising high-value green technologies to align with our customers' decarbonisation journeys
- The Board continued to focus on reducing lead times for customers, where it was necessary, at the expense of investment in working capital and notably higher inventory levels, to mitigate the effects of disrupted supply chains
- Customer input was gathered frequently to inform new product development and customer service improvements. Management initiated SES projects with suppliers to help them reduce lead times and improve forecasting on key component shipments. These activities all help maintain quality customer relationships
- The Board discussed and was satisfied that the culture of the Group is appropriately focused on customer needs and that customer risks are being managed appropriately. However, the Board agreed it would dedicate more time in FY2024 to understanding customer priorities

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CEO review of the year.
→ PG 18

3.7%

R&D spend as a % of revenue.

SUPPLIERS

OUR APPROACH

Developing mutually beneficial relationships with our suppliers and building resilience, quality and efficiency across our supply chain is a fundamental contributor to our customer offer and the long-term sustainability of Smiths.

We operate a total value supply chain approach that considers all aspects of a supplier's contribution to generate and capture value. This includes ethical and environmental matters, including GHG reduction, and alignment with our Values, continuous improvement and risk.

KEY SUPPLIER PRIORITIES

- Long-term relationships with Smiths
- Mutual confidence and respect
- Ethical behaviour, meeting ESG standards
- Innovation partnerships

BOARD AND MANAGEMENT ENGAGEMENT ACTIVITIES

- Management teams meet regularly with suppliers to review performance, discuss new business opportunities, set goals and work on improvement areas. For our higher value and/or more complex products, management engages with our suppliers at the highest level to partner on R&D, new product introduction, quality and continuous improvement projects
- Updates on suppliers and supply chain are included in divisional performance updates to the Executive Committee
- Divisional performance reports are sent to the Board ahead of each Board meeting and deep-dives on divisional performance and strategy are discussed by the Board on a rotational basis. The reports include updates on suppliers and supply chain
- At each Board meeting the Board selects a critical priority for a deep-dive, many of which have a link with our suppliers
- The Audit & Risk Committee was updated on cyber risks including potential cyber security breaches in the supply chain

OUTCOMES OF ENGAGEMENT IN FY2023

- In order to meet our Net Zero targets, management engaged with suppliers to determine our Scope 3 baseline for submission to the SBTi
- Supply chain was identified as a material issue in the FY2023 ESG DMA. As a result, supply chain has been added to the ESG framework. Management is reviewing actions for FY2024; these will include introducing a global supplier management system to gather standardised supplier data (including ESG data) and help manage relationships with suppliers
- Management worked with suppliers to ensure continuity of supply for our key customers. This included working in partnership with suppliers on SES projects in the areas of supply and customer satisfaction
- Smiths continued to strengthen its cyber resilience. In addition, management continue to enhance relationships with suppliers so that cyber breaches in our supply chain are reported to us in a timely manner. This design helps to protect Smiths, our employees, products and customers

SEE MORE
Read more about sustainability in our Sustainability at Smiths report
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COMMUNITIES AND SOCIETY

OUR APPROACH

We aim to improve our world by contributing positively to our communities and society in general.

Smiths products and services support critical global industries where we are pioneering progress in safety, efficiency and environmental performance. Our operations around the world play a beneficial role in local economies through job creation and skills development; procurement and generating tax revenues; operating safely, environmentally responsibly and ethically; and direct engagement.

Healthy and prosperous communities and strong relationships are aligned with our Values and inspire and promote a sense of pride and ownership in our people.

KEY COMMUNITY PRIORITIES

- Safe and effective operations
- Green technology, environmental performance, respecting natural resources
- Fair employment, skills development and prosperity
- Ethical behaviour
- Direct engagement – education and community support

BOARD AND MANAGEMENT ENGAGEMENT ACTIVITIES

- Our teams across the world engage directly with their local communities through fundraising, charitable giving and education initiatives
- Science, technology, engineering and maths (STEM) education initiatives are particularly important to management and to our colleagues as a way to share their passion for engineering and encourage young people to consider careers in the sector. Many of our sites run STEM programmes
- The Board is provided with updates on the elements of the Group's operations which impact the wider community, including the Group's Global Tax Strategy. This describes our approach to the responsible management of tax affairs to enhance long-term shareholder value while contributing to public expenditure and the welfare of our local communities
- The Audit & Risk Committee receives regular reports on issues raised through the Group's Speak Out reporting hotline which enables reporting of matters affecting communities such as safety, ethical behaviour, human rights and modern slavery
- Colleagues are regularly involved in and support local community events
- The SSE Committee heard how the divisions have been driving environmental change in their businesses. It also provided challenge and guidance on the divisions' roadmaps to achieve Net Zero

OUTCOMES OF ENGAGEMENT IN FY2023

- The Board approved the launch of the Smiths Group Foundation, a charitable giving foundation with a committed initial fund of £10m. Grants will be available to charitable organisations with a primary focus on expanding access to STEM skills
- The Board approved the implementation of global colleague volunteering principles which will enable every Smiths colleague to take one day of paid volunteering leave each year from FY2024
- The Group introduced formal budgeting opportunities for charitable giving in our divisions, China and Group of at least £250,000 per year in aggregate from FY2024 to enable continued support for local organisations that fall outside of the scope of the Foundation
- Our annual Smiths Day global celebration of Smiths culture took place in June 2023. This year's theme 'contributing to our communities' encouraged every Smiths site to look outwards into their community and find opportunities to give back
- The SSE Committee was supportive of the submission of SBTs and related plans for Scopes 1, 2 and 3 to the SBTi in May 2023, demonstrating Smiths commitment to achieving our Net Zero goals
- The Company continued to contribute to society with a direct economic contribution value of £2.8bn in FY2023

SEE MORE
Read more about sustainability in our Sustainability at Smiths report
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£10m
The Smiths Group Foundation committed initial fund.

GOVERNMENTS AND REGULATORS

OUR APPROACH

Governments and regulators are vital to our business as they are policy setters and influencers in the markets where we operate.

In the normal course of business, we build relationships with governments, policymakers and regulators across the world. We do this at both Group and at divisional levels so that we are able to operate effectively and to ensure our interests and those of the industries in which we operate are represented in decision-making.

KEY GOVERNMENT AND REGULATOR PRIORITIES

- Product and operational safety
- Net Zero and environmental policies
- Protection of natural resources
- Defence and security
- Safe and fair working conditions
- Economic growth and prosperity
- Trade compliance
- Ethical behaviour
- Privacy and data protection

BOARD AND MANAGEMENT ENGAGEMENT ACTIVITIES

- Our Government Relations team based in the UK, US, Europe and Asia guides and supports our relationships with key regulators, local policymakers, budget holders and industry groups. It also leads our outreach and relationship programme with government bodies and regulators, with the aim of promoting a deeper understanding of the Smiths culture and products. The team further enables greater access to funding both at regional and national levels, through engagement with key agencies ahead of and during funding programmes
- Government policy and regulators are considered during formulation of divisional strategies
- Updates on regulatory processes for approval of new products are provided during divisional performance reviews at the Executive Committee

OUTCOMES OF ENGAGEMENT IN FY2023

- Management approved policy guidelines and an operational framework within which government relations are conducted. The business sustains harmonious relations with governments and the relevant regulatory authorities in the countries where we manufacture and operate
- We completed the alignment of responsibilities for ESG and Government Relations under the Chief Sustainability Officer
- John Crane received, together with its two university partners, circa £925,000 in research funding from the UK Department for Energy Security and Net Zero (DESNZ) for its high temperature sealing solution for the supercritical CO_2 power cycle in carbon capture. By engaging with the UK Government during the application process the Government Relations team contributed to a stronger project, clearly aligned with DESNZ's objectives

£925k
funding from DESNZ for carbon capture research.

INVESTORS

OUR APPROACH

We are committed to openness and transparency with all capital providers and to the effective management of risk. We report routinely to shareholders through our formal results activities and undertake regular meetings and one-off events such as Capital Markets Days and investor conferences. Third-party analyst and broker briefings also form part of our communications schedule.

Shareholders are directly consulted by the Board on such matters as Remuneration Policy and views are sought on key corporate activity.

KEY INVESTOR PRIORITIES

- Sustainable growth
- Shareholder returns
- Delivering against our strategy
- Openness and transparency
- Maintaining effective controls and managing risk
- Environmental performance and social impact
- Appropriate remuneration and incentive arrangements

BOARD AND MANAGEMENT ENGAGEMENT ACTIVITIES

- The Board attends the AGM and General Meetings where shareholders are invited to submit questions to the Board in person or in advance of the meeting
- The Chief Executive Officer and the Chief Financial Officer host results presentations and Q&A sessions for current and prospective investors. They attended investor conferences and met with a broad spread of the Group's capital providers throughout the year
- Members of the Board engaged with investors at the Capital Markets Day in November 2022. In addition, Bill Seeger met with an investor at their request to discuss financial performance, progress against the Company's strategy and capital allocation
- Analyst and broker briefings, and feedback following meetings with major or prospective shareholders, are circulated to Directors
- The Board considered investors and the UK Pensions Act 2021 prior to approving the Group's capital allocation policy
- The Board considered succession planning for the Chairman, Sir George Buckley, taking into account feedback from investors

OUTCOMES OF ENGAGEMENT IN FY2023

- The Board continued to focus on the Group's strategy including the Smiths Value Engine and our three priorities of growth, execution and people
- The Board discussed feedback from the Capital Markets Day with management which reaffirmed that our strategic priorities aligned with the wider investor community
- Meetings are being arranged with 12 investors for FY2024, representing approximately 38% of the issued share capital of the Company, to meet the new Chair, Steve Williams
- The Board agreed to repay the Company's €600m Eurobond at maturity from existing cash resources, and approved the renewal of the US$800m revolving credit facility for a further 5-year term, to provide the Company with an efficient and flexible balance sheet which benefits all investors
- The Board continued with the share buyback programme and approved the payment of the final dividend for FY2022 and the FY2023 interim dividend

NON-FINANCIAL INFORMATION STATEMENT

The following disclosure aligns to the non-financial reporting requirements contained in sections 414CA and 414CB of the Companies Act 2006 and reflects our commitment to and management of the environment, employees, social matters, human rights and anti-bribery and anti-corruption. Our Smiths cultural framework supports our efforts in these areas and is described on page 13.

ENVIRONMENT

We have committed to ambitious Net Zero targets: Net Zero emissions from our operations (Scope 1 & 2) by 2040, and Net Zero emissions from our supply chain and products in use (Scope 3) by 2050, and present our Net Zero/climate transition plan in this report. We also have longstanding commitments to use natural resources efficiently and minimise waste. The policies that support our approach are:

- Environmental Sustainability Policy
- Health, Safety and Environment (HSE) Policy
- Responsible Minerals Sourcing Policy

You can find more information on the environment on the following pages:

- Review of the year, page 20
- KPIs, page 30
- Sustainability at Smiths, pages 35 to 45
- Task Force on Climate-related Financial Disclosures (TCFD), pages 47 to 57
- Principal risks and uncertainties, pages 68 to 70
- Remuneration & People Committee Report, page 101
- Science, Sustainability & Excellence Committee Report, pages 111 and 112

EMPLOYEES

Our people are vital to the success of Smiths. We aim to attract and retain the very best by creating an environment for employees based on respect, personal growth, recognition and development of talent, and a sense of belonging and purpose.

We provide equal employment opportunities. We recruit, support and promote our people based on their qualifications, skills, aptitude and attitude. In employment-related decisions, we comply with all applicable anti-discrimination requirements in the relevant jurisdictions. We have zero tolerance for discrimination, harassment or retaliation.

People with disabilities are given full consideration for employment and subsequent training (including retraining, if needed, for people who have become disabled), career development and promotion based on their aptitude and ability. We endeavour to find roles for those who are unable to continue in their existing job because of disability. We recruit using balanced slates and interview panels where possible and have gender-neutral job descriptions. Our procedures and training activities advocate and enforce fair treatment for all.

Policies that support our approach are:

- Fair Employment Policy
- Recruitment Policy; helping us to attract and retain our staff transparently
- Global Mobility Assignment Policy

You can find information on our employees on the following pages:

- Our People and culture, pages 13 to 15
- Review of the year, page 20
- KPIs, page 31
- Sustainability at Smiths, pages 35 to 39 and 45 to 46.
- Stakeholders and Section 172 Statement, page 59
- Principal risks and uncertainties, pages 68 to 69 and 71
- Remuneration & People Committee Report, page 99

SOCIAL MATTERS

We aim to improve our world by contributing positively to our communities and society. Smiths products and services support critical global industries and our operations around the world play a role in local economies through job creation; procurement and generating tax revenues; operating responsibly and ethically; and engaging directly. The policies that support our approach are:

- Code of Business Ethics
- Data Protection and Privacy Policy
- Data Protection Code of Conduct
- Supplier Code of Conduct

You can find information on social matters on the following pages:

- Review of the year, page 20
- Sustainability at Smiths, pages 35 to 39 and 46
- Stakeholders and Section 172 Statement, page 62

HUMAN RIGHTS AND ANTI-BRIBERY AND ANTI-CORRUPTION

We consider violations of human rights to be appalling crimes. Conduct that exploits workers or denies them the rights and benefits to which they are legally entitled is wholly inconsistent with our Values and policies and is not tolerated. We recognise the important responsibility we have, and we support the vision of a world where everyone can access decent work and enjoy their universal human rights. We have not identified any serious human rights issues in our operations or in those of our suppliers in FY2023.

Our Human Rights Policy is guided by the international human rights principles encompassed in the Universal Declaration of Human Rights, the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, and the United Nations Guiding Principles on Business and Human Rights. We adhere to national laws and regulations in each market in which we operate and, should we encounter conflict between internationally recognised human rights and national laws, we will seek ways to honour the principles of international human rights. All persons working for, or on behalf of, Smiths are required to adhere to our Policy and approach.

Bribery and corruption matters are covered by our Code of Business Ethics. We also have specific policies and procedures relating to activities that create bribery and corruption risks, and an umbrella Anti-bribery and corruption policy that provides a single view of our approach. These policies cover a broad range of matters including the giving and receiving of gifts, meals and hospitality; invitations to government officials; our approach to facilitation payments; and controls around the appointment of distributors and agents, customs brokers and freight forwarders. Our ethics dashboard enables us to interrogate our register of gifts, meals and entertainment in an effective and useful way. We also have a specific China Anti-bribery and corruption policy.

We are committed to upholding high ethical standards wherever we operate around the world, and we require our suppliers and other business partners to do the same. The policies that support our approach are:

- Code of Business Ethics
- Anti-bribery and anti-corruption policy
- The Smiths Modern Slavery and Human Trafficking Statement (found on our website www.smiths.com)
- Human Rights Policy (found on our website www.smiths.com)

You can read more about the Group's whistleblowing hotline Speak Out in the Audit & Risk Committee Report on page 97

POLICY DUE DILIGENCE AND OUTCOMES

Smiths operates a confidential Speak Out reporting hotline to report behaviour and activities that breach our Values, our policies, or the law. This is critical to assessing the effectiveness of our policies. All reports to the Speak Out hotline are investigated, and metrics associated with reporting monitored. Reports can be made anonymously. Our ethics training operates in two tiers – online modules delivered in all our core languages, and group training activities covering specific subjects. Additionally, we run regional ethics workshops for leaders across Smiths to embed a deeper understanding of our ethics and compliance critical drivers.

During FY2023 we continued to review the effectiveness of our policies, including:

- Revising and relaunching our Code of Business Ethics
- Reviewing our ethics dashboard which enables us to view key information, track progress and analyse data
- Ethics Pulse surveys to check organisational engagement on ethical matters and Speak Out
- Undertaking targeted risk assessments to ensure that our Human Rights Policy was being followed
- Continuing to monitor and review procurement-related modern slavery and human rights risks and controls

OTHER INFORMATION

Other information to support this statement can be found as follows:

- Business model on page 11
- Non-financial KPIs on pages 30 and 31
- Sustainability at Smiths on pages 33 to 46 and our Sustainability at Smiths report which can be found on our website www.smiths.com
- Task Force on Climate-related Financial Disclosures on pages 47 to 57
- Stakeholders and Section 172 Statement on pages 58 to 63
- Principal risks and uncertainties on pages 68 to 74
- Viability Statement on pages 75 to 77

RISK MANAGEMENT

We operate across a number of markets and geographies. We are prepared to accept certain levels of risk to realise our ambitions, and our purpose to improve our world through smarter engineering.

We understand the risks we face and take a proactive approach to risk management in order to maximise opportunities, drive better commercial decision-making, and protect our people and our businesses.

RISK GOVERNANCE

The Board and its Committees set the culture and approve the strategy of the Group. The Board ensures appropriate oversight and monitoring through a number of mechanisms, including strategy reviews, Committee meetings, management reports and focused reviews of selected risk areas.

On behalf of the Board, the Audit & Risk Committee is responsible for reviewing and assessing the effectiveness of the Group's risk management and internal control systems. The review process covers the Group's principal risks, as well as financial, operational and compliance controls.

The Executive Committee is responsible for designing the Enterprise Risk Management (ERM) framework and ensuring that it is effectively deployed throughout the Group. The Executive Committee also ensures that risk owners and decision makers understand the Board's risk appetite, and ensures that risks, including climate risk, are adequately managed, and conducts an annual assessment of strategic risk. Each principal risk is owned by a member or members of the Executive Committee.

ENTERPRISE RISK MANAGEMENT ROLES AND RESPONSIBILITIES

3rd LINE OF DEFENCE	**BOARD AND AUDIT & RISK COMMITTEE**	– Approves the strategy and set the culture and risk appetite of the Group – Reviews and assesses the effectiveness of risk management and internal control systems – Monitors through Board processes and good governance
	INTERNAL AUDIT	**Independent assurance** – Provides assurance on internal controls, programmes, systems and risk management processes
2nd LINE OF DEFENCE	**EXECUTIVE COMMITTEE AND SENIOR MANAGEMENT**	– Design and establish risk management and internal control systems – Ensure that the risk appetite of the Board is understood by risk owners and decision makers – Ensure risks are adequately managed
	RISK AND COMPLIANCE FUNCTIONS	**Monitoring and compliance** – Develop and manage the ERM process – Monitor risks and controls – Develop and manage policies and control frameworks – Ensure financial, legal and ethical compliance – Ensure security, quality, and health and safety
1st LINE OF DEFENCE	**DIVISIONAL MANAGEMENT**	**Risk ownership and mitigation** – Identify, manage and escalate risks – Set division strategic objectives – Establish and apply internal control systems – Escalate issues to the Executive Committee as required
	OPERATIONAL TEAMS	**Conducting business activities in accordance with Group policies and standards** – Understand roles and responsibilities – Comply with policies – Follow risk management processes

Running a business involves the continual assessment and management of risks – it is an integral part of day-to-day operations. Our ERM process supports open communication on risk between the Board and Audit & Risk Committee, the Executive Committee, our divisions, functions and sites. It enables us to manage and monitor the risks which could threaten successful execution of our strategy and ensures our strategic, financial, compliance and operational risks are appropriately considered by the Executive Committee and by the Board.

Our divisional and functional teams are responsible for the day-to-day management and reporting of risks, including climate risk. They identify new and emerging risks, escalate where appropriate, and take action to ensure risks are managed as required. Our divisions also conduct annual assessments of the risks they face. In FY2023 these were updated to ensure that the latest views were presented and considered.

Internal audit provides independent and objective assurance to both the Audit & Risk and Executive Committees on the adequacy and effectiveness of our risk management and internal control processes. It facilitates the ERM process and provides site-based controls and assurance reviews of key programmes, processes and systems.

The Audit & Risk Committee, on behalf of the Board, reviews the effectiveness of the risk management process, considering principal risks and uncertainties and actions taken by management to manage those risks.

During FY2023 the Executive Committee agreed the ERM timetable and the risks selected for deep-dive discussions at Executive and Audit & Risk Committee meetings. These were: supply chain; cyber; and Flex-Tek commercial risks. The Group's list of principal risks was also discussed and recalibrated by the Executive Committee.

The following items relating to our principal risks were also discussed at Board, Finance Committee, and SSE Committee meetings during FY2023: organic growth and financial performance; tax, treasury, liquidity, pensions and insurance; technology; health and safety; acquisitions; litigation; our people strategy; and ESG matters.

There is a requirement for risk owners to demonstrate how they provide assurance that controls are working effectively. Examples are provided in the tables of principal risks from page 69.

In addition, a further 31 risk workshops were facilitated at operational sites during the year to support the bottom-up view of risk that has fed into divisional and functional risk assessments.

The Directors consider the risk management process to be effective.

EMERGING RISKS

Emerging risks and horizon scanning are integrated into the ERM process. Functions in the business often take the lead in identifying and promoting risk awareness and mitigation activities.

Climate change has moved from an emerging risk to a Group principal risk. During FY2022 we undertook a scenario analysis, including climate risk and opportunities workshops for Group and the divisions. Outcomes from this work are described in the Task Force on Climate-related Financial Disclosures (TCFD) section on page 47.

PRINCIPAL RISKS AND UNCERTAINTIES

We maintain a register of principal risks and uncertainties covering the strategic, financial, operational and compliance risks faced by the Group.

RISK PROCESS

We review each risk and rate a number of factors: gross impact, applying the hypothetical assumption there are no mitigating controls in place; residual impact and likelihood, taking into account existing mitigating controls; the reputational impact of a risk; and velocity, which reflects the expected time we would have to react should a risk materialise. These, in turn, drive mitigation priorities. A trend metric shows the net position of the risk year-on-year. We report on the connectivity between risks to help understand the potential for one risk to have an impact on another. This is presented against each risk in the form of a 'risk relationship' chart indicating the linkage between each principal risk and others on the list. This has been used as an input to the Viability Statement assessment and will be used more widely in future risk scenario planning and mitigation work.

CHANGES TO PRINCIPAL RISKS

Our principal risks continue to evolve in response to our changing risk environment. This year, based on our current assessment of their materiality, we have replaced our environment, social and governance (ESG) risk with a broader climate-related risk, capturing both the opportunity and risk of energy transition and climate-related regulatory risks. We have also increased the likelihood and residual impact of our cyber risk.

While we continue to monitor and manage a wide range of risks, the tables that follow summarise those risks considered to have the greatest potential impact if they were to materialise.

PRINCIPAL RISKS AND UNCERTAINTIES

Principal risk	Link to strategy	Gross risk	Residual risk	Likelihood	Velocity	Trend
1. ORGANIC GROWTH Ability to achieve organic growth in line with market opportunity	Growth, Execution, People	Very high	Moderate	Possible	Years	Stable
2. CLIMATE CHANGE Missed opportunities in energy transition and change in climate conditions causing business disruption and economic loss for the Group	Execution	High	Low	Possible	Years	New
3. TECHNOLOGY Technology disruption by existing or future competitor	Growth, Execution, People	Very high	Moderate	Probable	Years	Stable
4. PEOPLE Ability to attract and retain people	People	Moderate	Low	Possible	Months	Stable
5. BUSINESS CONTINUITY Business disruption to supply chain or operations	Execution	High	Moderate	Probable	Weeks	Stable
6. ECONOMY AND GEOPOLITICS Impact of economic and geopolitical environment	Growth	High	Moderate	Likely	Weeks	Stable
7. COMMERCIAL Loss of focus on customers and not competing in the right markets	Growth	High	Low	Possible	Years	Stable
8. PRODUCT QUALITY Failure of product causes serious harm to people/property	Execution	Moderate	Low	Probable	Weeks	Stable
9. CYBER SECURITY Impact of enterprise or product cyber event	Execution	High	Moderate	Likely	Days	Up
10. LEGAL AND COMPLIANCE Significant ethical breach or failing to meet contractual obligations	Execution	High	Low	Possible	Days	Stable

KEY

LINK TO STRATEGY

Growth

Execution

People

LIKELIHOOD

Almost certain	>80%
Likely	>60%
Probable	>40%
Possible	>20%
Unlikely	<20%

TREND

New

Stable

Up

CONNECTIVITY BETWEEN PRINCIPAL RISKS

Principal risk	ORGANIC GROWTH	CLIMATE CHANGE	TECHNOLOGY	PEOPLE	BUSINESS CONTINUITY	ECONOMY AND GEOPOLITICS	COMMERCIAL	PRODUCT QUALITY	CYBER SECURITY	LEGAL AND COMPLIANCE
ORGANIC GROWTH		✓	✓	✓	✓	✓	✓	✓		
CLIMATE CHANGE	✓		✓	✓	✓		✓			✓
TECHNOLOGY	✓	✓		✓			✓			
PEOPLE	✓	✓	✓		✓	✓				✓
BUSINESS CONTINUITY	✓	✓		✓		✓			✓	
ECONOMY AND GEOPOLITICS	✓			✓	✓		✓			
COMMERCIAL	✓	✓	✓			✓		✓		
PRODUCT QUALITY	✓						✓			✓
CYBER SECURITY					✓					
LEGAL AND COMPLIANCE		✓		✓				✓		

1. ORGANIC GROWTH – Ability to achieve organic growth in line with market opportunity

Failure to deliver anticipated organic growth, which may lead to missing strategic growth targets and shareholder value erosion.

HOW THIS COULD IMPACT OUR STRATEGY OR BUSINESS MODEL

- Not growing could have an adverse effect on our valuation
- Lack of growth and/or erosion of our market leadership positions could impact our ability to attract and retain talent

EXAMPLES OF HOW WE MANAGE THIS RISK

- A clear Group strategy to achieve organic growth goals, underpinned by detailed divisional strategies
- Detailed reviews of existing and potential new markets to identify opportunities with significant growth potential
- A people plan focused on securing and retaining the best talent to execute our strategy and deliver organic growth
- An annual incentive programme to support profitable growth
- Monthly forecasting, annual budgeting, and an annual review of our multi-year strategic plan
- Ongoing investment in research and development to drive innovation and growth
- The Smiths Excellence System (SES), which contributes to effective execution

EXAMPLES OF HOW WE KNOW THE CONTROLS ARE WORKING EFFECTIVELY

- Divisional monthly operating reviews
- The Board's regular review of our performance and KPIs
- Functional reviews of SES and our people strategy

RISK OWNER

Divisional Presidents

TREND

— Stable

2. CLIMATE CHANGE – Missed opportunities in energy transition and change in climate conditions causing business disruption and economic loss for the Group

Failure to identify and act on the significant opportunities arising from the world's transition to a low-carbon economy and/or failure to respond appropriately to climate change risks and regulation.

HOW THIS COULD IMPACT OUR STRATEGY OR BUSINESS MODEL

- If we do not position ourselves to serve our customers and growing markets in decarbonisation and green re-industrialisation, we will not reach our full commercial potential
- If we do not make progress towards and then achieve our own Net Zero commitments our Company reputation and customer relationships may be damaged
- We may not be able to attract and retain key talent if we are not viewed as a socially responsible and sustainable organisation
- If we do not communicate sufficiently our approach to managing climate opportunities and risk, we may limit the number of interested debt and equity investors
- Extreme weather caused by climate change may have an impact on our markets and our operations if not identified and addressed

EXAMPLES OF HOW WE MANAGE THIS RISK

- The Group has reviewed and is pursuing strategic market opportunities arising from the energy transition/decarbonisation
- Products with a sustainability impact have been prioritised for commercialisation in our new product pipelines
- A comprehensive Net Zero/climate transition plan has been prepared for Scope 1, 2 and 3 GHG emissions and submitted to the Science-Based Targets initiative (SBTi)
- GHG reduction and energy efficiency targets are built into our performance scorecard and our annual and long-term incentive plans
- We have published our second Sustainability at Smiths report and communicate regularly internally and externally on environmental matters

EXAMPLES OF HOW WE KNOW THE CONTROLS ARE WORKING EFFECTIVELY

- All divisions are engaged in new product development that contributes to sustainability
- Our FY2023 Scope 1 & 2 GHG reduction of (11.8)% is in line with the trajectory needed for our SBTs
- The Science, Sustainability & Excellence (SSE) Committee meets four times a year to review sustainable products and progress on our sustainability goals
- The environmental commitment topic scored highly in our My Say employee survey

RISK OWNER
Chief Sustainability Officer

TREND
New risk

3. TECHNOLOGY – Technology disruption by existing or future competitor

If we fail to maintain our technological differentiation and our innovation pipeline does not meet customers' evolving requirements, we may lose market share to a new or existing competitor. This could impact our financial performance and our ability to attract and retain talent.

HOW THIS COULD IMPACT OUR STRATEGY OR BUSINESS MODEL

- If our technological differentiation were to erode, it could have an adverse effect on our financial performance and our ability to attract and retain talent

EXAMPLES OF HOW WE MANAGE THIS RISK

- We proactively position our portfolio around the most attractive markets where we can sustainably hold a leadership position based on technology differentiation
- Our diversified portfolio serves a range of sectors and geographies, and mitigates our exposure to any one sector or area
- Our continuing investment in R&D (FY2023: 3.7% of Group revenue, FY2022: 4.2%) with an increasing focus on shared digital development
- Our focus on nurturing a culture of innovation
- Our focus on processes that support new product development and commercialisation
- We track Gross Vitality as a KPI
- We maintain robust intellectual property (IP) protection via patents and other protections, and pursue litigation to protect our differentiation, where appropriate

EXAMPLES OF HOW WE KNOW THE CONTROLS ARE WORKING EFFECTIVELY

- Reviews of our product commercialisation progress at our monthly operating reviews
- The consideration of technology priorities as part of our long-term strategic planning
- Our SSE Committee's regular reviews of both new product development and commercialisation

RISK OWNER
Divisional Presidents

TREND
Stable

4. PEOPLE – Ability to attract and retain people

Failing to attract, develop and retain the right people with the right skills may affect our ability to achieve our commercial ambitions.

HOW THIS COULD IMPACT OUR STRATEGY OR BUSINESS MODEL

- If we do not attract and retain key talent, our business performance may suffer
- If we do not retain key management when we make acquisitions, we may not realise the value of those acquisitions

EXAMPLES OF HOW WE MANAGE THIS RISK

- Fair and competitive pay practices benchmarked against the external market
- Our focus on embedding and evaluating performance against Smiths Leadership Behaviours
- Investment in early career programmes
- Planning for the introduction of technical engineering communities, technical career ladders
- Our targeted talent and succession planning
- Increasing internal talent mobility
- Our onboarding for new hires
- Our structured assessment, development and reward programme
- Enhanced diversity and inclusion initiatives

EXAMPLES OF HOW WE KNOW THE CONTROLS ARE WORKING EFFECTIVELY

- Formal and informal measures of culture, for example, our regular employee engagement surveys
- The Remuneration & People Committee's regular review of key people metrics

RISK OWNER
Chief People Officer

TREND
Stable

5. BUSINESS CONTINUITY – Business disruption to supply chain or operations

Disruption to our supply chain, manufacturing or service operations, or customers' operations could impact our financial performance.

HOW THIS COULD IMPACT OUR STRATEGY OR BUSINESS MODEL

- If we are unable to deliver products and services to our customers, it will adversely affect our financial performance and reputation
- Cost pressure and volatility in commodities, goods and labour may affect our ability to serve customers and erode our competitive advantage

EXAMPLES OF HOW WE MANAGE THIS RISK

- SES has increased our focus on resilient and cost-effective supply
- We have tested business continuity and disaster recovery plans in place for critical locations
- We regularly evaluate key sites against a range of risk factors using external benchmarks
- Mitigation plans for sole source suppliers, sub-contractors and service providers, including qualifying alternative sources of supply where appropriate
- Property damage and business interruption insurance

EXAMPLES OF HOW WE KNOW THE CONTROLS ARE WORKING EFFECTIVELY

- We test business continuity plans annually
- Divisional risk mitigation plans reviewed by the Audit & Risk Committee
- Business interruption risk surveys which are completed annually with an external provider at key operational sites
- Insurance is reviewed at least annually by the Audit & Risk Committee

RISK OWNER
Divisional Presidents

TREND
Stable

6. ECONOMY AND GEOPOLITICS – Impact of economic and geopolitical environment

The challenging economic and geopolitical environment in which we operate may have an adverse effect on demand for our products, our cost structure, pricing strategies, profitability and market share. External adverse events could cause an unanticipated and sudden disruption to our business.

HOW THIS COULD IMPACT OUR STRATEGY OR BUSINESS MODEL

- A regional or global recession could reduce demand for our products
- If we are unable to pass additional inflation on through pricing, our financial performance may suffer
- Geopolitical tensions relating to Russia, China, India and the Middle East could adversely impact our operations
- The introduction of new tariffs and/or taxes could adversely impact our financial performance

EXAMPLES OF HOW WE MANAGE THIS RISK

- Our geographic footprint and diversified portfolio of businesses mitigate the exposure we have to any one country or sector
- Our divisions monitor order flows and other leading indicators in order to respond quickly to deteriorating market conditions and tariffs/trade barriers
- Our government relations team actively monitors relevant developments and represents our interests
- Our network of trade compliance officers across the Group monitors upcoming changes in regulation and oversees import and export activities
- In FY2023 the Board received an update from an external speaker on geopolitical events

EXAMPLES OF HOW WE KNOW THE CONTROLS ARE WORKING EFFECTIVELY

- Divisional reporting on order trends at monthly operating reviews
- Active tracking of inflation and pricing at monthly operating reviews

RISK OWNER
Chief Financial Officer

TREND
— Stable

7. COMMERCIAL – Loss of focus on customers and not competing in the right markets

Failure to act in a timely manner and adapt our market strategy in response to changes in the commercial environment in which we operate may result in an adverse effect on our financial performance and market share.

HOW THIS COULD IMPACT OUR STRATEGY OR BUSINESS MODEL

- If we fail to develop growth markets and geographies, it could affect our strategic progress and financial performance
- Significant disruption to government budgets could result in fewer contracts being awarded to Smiths, adversely affecting our financial performance
- If we do not innovate in line with our customers' needs, we may lose market share, and this could adversely impact our results

EXAMPLES OF HOW WE MANAGE THIS RISK

- New product innovation feedback through market research and direct feedback from existing and potential customers
- Our diversified portfolio of businesses mitigates exposure to any one country, sector or customer
- Our growth strategy places emphasis on expanding operations in higher-growth customer markets as well as geographic regions which are currently underserved, including Asia
- Our regular strategy reviews evaluate adjacent market opportunities and the evolving competitive environment including reviewing new/potential market entrants
- Our Government Relations function collaborates with colleagues across the Group to advise on developments

EXAMPLES OF HOW WE KNOW THE CONTROLS ARE WORKING EFFECTIVELY

- Strategic reviews, including commercial excellence reviews, and divisional deep-dives, including detailed monitoring of pricing
- Customer input is gathered frequently to inform new product development, marketing segmentation/communication, and customer service improvement
- Strong and long-term customer relationships
- Managing Director councils in India and China provide cross-divisional alignment to support our growth strategy

RISK OWNER
Divisional Presidents

TREND
— Stable

8. PRODUCT QUALITY – Failure of product causes serious harm to people/property

Failure of one of our products, including failure due to non-compliance with product regulation, may result in financial loss and reputational damage. In the ordinary course of business, we could be subject to material product liability claims and lawsuits, including potential class actions from customers or third parties.

HOW THIS COULD IMPACT OUR STRATEGY OR BUSINESS MODEL

- If we were to suffer reputational damage, it could lead to a loss of customers/future business
- If our products were to cause material harm to people or property and/or business interruption for customers due to quality issues, design defects, manufacturing failures or component failures, we could suffer reputational damage, loss of business and higher costs beyond anticipated warranty claims. These may include contractual claims for penalties, indemnities and damages, and also product liability claims arising from end-users and other affected third parties (potentially large classes)

EXAMPLES OF HOW WE MANAGE THIS RISK

- Divisional quality risk assessments that address product failures, product performance, product safety, product compliance, regulatory compliance, and market authorisation
- Quality assurance processes embedded in manufacturing locations for critical equipment, supporting compliance with customer requirements and industry regulations
- Quality development and quality integration built into new product development processes
- Risk analysis and mitigation processes relating to product cyber resilience embedded in the product lifecycle process. Proactive steps taken to ensure product cyber-related risks are continually monitored and managed
- Insurance cover for product liability and other related risks such as aviation grounding. Insurance and legal teams collaborate to ensure that contracts (and supplier flow-downs) cover insurance issues, and that claims are notified
- Contracting and litigation managed under the oversight of the Group General Counsel with regular reporting to the Executive Committee and Board

EXAMPLES OF HOW WE KNOW THE CONTROLS ARE WORKING EFFECTIVELY

- Regular quality reporting (e.g., defective parts per million (DPPM) and cost of poor quality (COPQ)) and actions to drive improvement in key metrics
- Group and divisional governance frameworks (including Delegation of Authority) ensure a close working relationship between legal and commercial teams (including quality) to manage risks

RISK OWNER
Divisional Presidents

TREND
Stable

9. CYBER SECURITY – Impact of enterprise or product cyber event

Cyber attacks attempting to compromise the confidentiality, integrity and availability of IT systems and the data held on them are a continuing risk. We operate in markets and product areas which are known to be of interest to cyber criminals. Digitalisation and increased interconnectivity of our products intensifies the risk.

HOW THIS COULD IMPACT OUR STRATEGY OR BUSINESS MODEL

- If a cyber attack compromised confidentiality, integrity or availability of our assets, it could adversely affect our ability to deliver to customers and, ultimately, our financial performance and reputation
- If we had a cyber security breach, we could be exposed to significant losses, particularly concerning our security products. These could include not only customer losses but also those of a potentially large class of third parties

EXAMPLES OF HOW WE MANAGE THIS RISK

- Board oversight of the defence in depth approach to mitigating cyber risk
- Proactive focus on information and cyber security risks supported by a robust governance framework
- Group-wide assessment of critical information assets and protection to enhance security
- Information Security Awareness programme
- Security monitoring to provide early detection of hostile activity on Smiths networks and an incident management process
- Partnership and monitoring arrangements in place with critical third parties, including communications service providers
- Cyber risk analysis and mitigation processes embedded in the product lifecycle process to increase resilience

EXAMPLES OF HOW WE KNOW THE CONTROLS ARE WORKING EFFECTIVELY

- Formal reviews with the Executive Committee and the Board
- Vulnerability scanning/event reporting
- External reviews of threats, processes, controls and capabilities
- Mandatory staff training
- Compliance with recognised standards

RISK OWNER
Chief Financial Officer

TREND
Up

10. LEGAL AND COMPLIANCE – Significant ethical breach or failing to meet contractual obligations

We have more than 15,000 colleagues in more than 50 countries. Individuals may not all behave in accordance with the Group's Values and in accordance with ethical and legal requirements. We operate within increasingly complex legal regimes, often in highly regulated markets and with governments, customers and suppliers requiring strict adherence to laws. We may fail to deliver contracted products and services or fail in our contractual execution due to delays or breaches by our suppliers or other counterparties.

HOW THIS COULD IMPACT OUR STRATEGY OR BUSINESS MODEL

- An ethics or compliance breach could cause harm to our reputation, financial performance, customer relationships and our ability to attract and retain talent
- Failure to comply with trade compliance requirements (import and export) could lead to significant fines and/or delays to procurement or supplies
- Failure to meet strict conditions within government contracts, particularly in the US, could prevent us from bidding for contracts or have other serious financial and reputational consequences
- Breach of contract resulting in significant expenses due to disputes and claims, loss of customers, damage to our reputation with other customers/prospective customers, and loss of revenue and profit due to higher costs, liquidated damages or other penalties
- Contracts, particularly those with governments, may include terms that provide for unlimited liabilities, including for loss of profits, IP indemnities, perpetual warranties or allowing the counterparty to cancel, modify or terminate unilaterally and seek alternative sources of supply at our expense

EXAMPLES OF HOW WE MANAGE THIS RISK

- Our ethics and compliance team run a proactive programmatic approach, areas of which are at different stages of maturity including:
  - Managing an independent Speak Out reporting line and investigations process with communications encouraging the reporting of ethics violations (includes ability to report anonymously and a non-retaliation policy)
  - Anti-bribery and anti-corruption training is mandated for all employees online; and in-person training with a process for monitoring and reporting compliance
  - Policies and processes to mitigate risks are in place, including policies and procedures to mitigate distributor and agent-related risks, including due diligence, contractual controls and internal approvals
  - Anti-trust training programmes
  - Modern Slavery and Transparency Statement and procedures to reduce the risk of modern slavery within the Group and our supply chain
- Network of trade compliance officers across the Group who monitor upcoming changes in regulation and oversee import and export activities
- Monitoring and acting on upcoming legislative changes
- Multi-functional programme for General Data Protection Regulation (GDPR) compliance

EXAMPLES OF HOW WE KNOW THE CONTROLS ARE WORKING EFFECTIVELY

- Multiple measures to assess culture including My Say results, Speak Out reports, Ethics Pulse surveys, internal audit findings, exit interviews and ethics questions in performance reviews
- Monitoring and reporting on compliance with ethics and compliance policies, on training statistics, on investigations, on Ethics Pulse metrics (Executive Committee and Audit & Risk Committee oversight)
- Divisional legal teams embedded in the business, working cross-functionally throughout the contract lifecycle, contract risk tool rolled out in three divisions and used to assess mitigation of risk through contract negotiations

RISK OWNER
Group General Counsel

TREND
Stable

GOING CONCERN AND VIABILITY STATEMENT

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 8 to 77. The financial position of the Company, its cash-flows, liquidity position and borrowing facilities are described on pages 21 to 23. In addition, the notes to the financial statements include the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The Group has undertaken a detailed going concern review with a severe but plausible downside scenario taking into account everything that has been learnt since March 2020.

At 31 July 2023 the net debt of the Group was £387m, a £237m increase from 31 July 2022. At the end of July, the Group had available cash and short-term deposits of £285m. These liquid resources are immediately available with 96% invested with the Group's global banking partners. The Group's debt profile shows an average maturity of 3.6 years (from 2.5 years at 31 July 2022). There are no scheduled repayments of debt due until February 2027.

The Group maintains a core US$800m committed Revolving Credit Facility (RCF) from these banks which was renewed in May 2023 and matures in May 2028.

The RCF remained undrawn at 31 July 2023 and has no financial covenants attached.

The Directors, having made appropriate enquiries, have a reasonable expectation that the Company and the Group have adequate resources to continue in operation for a period of at least 12 months from the date of this Report. Thus, they continue to adopt the going concern basis of accounting in preparing the financial statements of the Company and the Group.

In accordance with the requirements of the 2018 UK Corporate Governance Code, the Directors have assessed the longer-term prospects of the Group, taking into account its current position and a range of internal and external factors, including the principal risks detailed on pages 68 to 74 (the 'viability assessment').

The Directors have determined that a three-year period to 31 July 2026 is an appropriate timeframe for the viability assessment. The selected period is considered to be appropriate as, based on the historical performance of the Group, a three-year outlook represents an optimum balance of long-term projection and acceptable forecasting accuracy. The three-year viability assessment timeframe also takes into account considerations such as the maturity of the Group's borrowing facilities and the cyclicality of the performance of the Group's underlying markets. In making this viability assessment, the Directors have considered the current financial position and prospects of the Group, including the current year business performance, the detailed operating plan for 2024 and forecasts for 2025 and 2026. Against these financial projections, the Directors took into account the principal risks (as outlined on pages 68 to 74) to develop a set of plausible scenarios (as set out overleaf) with potentially high-impact outcomes.

In addition to the scenario-specific assumptions (detailed overleaf) the principal assumptions for this three-year viability assessment are as follows:

- FX rates for £ at US$1.22 and €1.18 and are modelled to remain at this level in the forecast period;
- Interest payments have been updated to reflect latest forecast interest rate increases with no further refinancing with overdrafts and the Group's RCF drawn to maintain our minimum cash requirements;
- Dividend payments are made in line with a 7% increase in dividend per share. Even under the downside scenarios it has been assumed that dividend increases are maintained, representing a potential mitigating action that could be taken;
- The share buyback of £742m is completed in Q1 of FY2024 in all scenarios; and
- The RCF was renewed in May FY2023 and will be accessible throughout the period as there are no financial covenants attached.

Consideration was then given to the magnitude of the gross risks and their potential impact, directly or indirectly, on the Group's future performance and liquidity. The assessment included stress testing of the Group's financial capacity to absorb the impact of such adverse events, either individually or in combination, and what mitigating actions the Group could take to respond to them in order to protect its business.

The Directors also considered the Group's ability to raise additional liquidity. In performing this assessment, the Directors have taken comfort from the diversity of the Group's businesses across different markets, industries, geographies, products and customers. In order to ensure consistency, the base case used for the three-year viability assessment has also been reconciled against divisional impairment review models.

The Group holds a tradeable commodity through its investment in 10% of the equity in ICU Medical, Inc. The base case assumes that the Group could contemplate a possible reduction in this investment, the cash inflows from which would remove any need to utilise the RCF over the period. The downside scenarios do not include any cash inflows from the sale of this investment.

The downside results below show the impact on EBITDA, net debt and headroom under each scenario. The headroom includes the currently unutilised RCF of US$800m (£656m). This renewal removed the only interest covenant to which the Group was subject.

Based on the robust assessment, the Directors confirm that given the current strong cash position, under all scenarios they have a reasonable expectation the Group will remain viable for the period being assessed and will continue to operate and meet its liabilities as they fall due. The Directors have no reason to doubt that the Group will continue in business beyond the period under assessment.

SCENARIOS MODELLED

Scenarios	Link to principal risks	Scenario-specific assumptions
SCENARIO 1 An economic shock (political unrest or resurgence of a pandemic) leads to significant supply chain disruption, low customer demand and recessionary circumstances extending into the following year.	Business continuity and Economy and geopolitics	– 20% fall in revenue across the Group in FY2024 and a 10% fall in FY2025 and a further 5% fall in FY2026 compared to the base case – 65% reduction in operating profit in FY2024 due to plant closures, customer and supply chain disruption, and a 35% fall in FY2025 and 20% in FY2026 – Increased working capital due to stock builds and customer defaults – No mitigating activities such as restructuring and headcount reductions
SCENARIO 2 One of John Crane's mechanical seals is identified as faulty and the cause of an explosion at a major refinery causing the deaths of two staff and significant damage to the plant. John Crane is sued for the costs of repair and restoration of the plant in addition to the consequential losses of plant closure.	Product quality	– Legal defence costs of £20m per annum plus a one-off payment of £100m in FY2024 in settlement of deceaseds' claims – Legal defence costs of £5m per annum over the review period in relation to agreement of restoration costs – Restoration costs of £50m spread over the three-year review period – Legal defence costs of £25m per annum over the review period in relation to mitigation of consequential loss claims – One-off payment of £250m payable in FY2024 in settlement of the losses claim – Insurance claim rejected

SCENARIOS MODELLED CONTINUED

Scenarios	Link to principal risks	Scenario-specific assumptions
SCENARIO 3 Following a product cyber attack, a terrorism-related incident occurs at a US airport. As a consequence, the US Government revokes Smiths Detection's licence. Sales of Detection's products to the US military and all other governmental contracts have been banned and due to the reputational damage, the impact of the ban will spread to other Group divisions.	Cyber security	– Immediate loss of all US-based Government contracts within Smiths Detection. – 25% fall in other Smiths Detection revenue over FY2024 – Loss of 50% of Smiths Interconnect's North America revenue – Legal defence costs of £10m per annum – £100m fine levied by the US Government for security breach – £50m compensation paid to the US Government in FY2024 in respect of previous products purchased that may have security flaws – Insurance claim under product liability is not met or delayed outside of the review period
SCENARIO 4 Smiths Detection is found guilty of bribing government officials in Asian countries in order to land significant contracts. This damages the Group's reputation and leads to worldwide regulators imposing significant sanctions on the Group.	Legal and compliance	– Regulatory fines globally amounting to £100m – Loss of all future revenue in both China and Japan – 10% sales erosion in Smiths Detection's USA and EMEA markets due to reputational damage – £50m of severance costs incurred – 10% fall in revenue within other Smiths businesses due to the reputational impact
SCENARIO 5 A major fire at the John Crane plant in Czech Republic renders the facility unusable, causing severe disruption to production.	Business continuity	– Loss of six months' EMEA revenue and margin in FY2024 – 20% reduction in future (FY2025 and FY2026) EMEA revenue due to loss in market shares and competitiveness – Breach of supply contracts leading to legal defence costs of £20m per annum plus a one-off settlement of £50m in FY2024 – Refurbishment and repair costs of £50m in Czech Republic (net of insurance claims) – Costs of increasing capacity and other John Crane sites incurs an additional £50m of cost – Capital expenditure on replacement equipment in Czech Republic of £10m (net of insurance claims)
SCENARIO 6 Combination of scenarios 2 and 3.	Product quality and cyber security	– As above

The Strategic Report was approved by the Board on 25 September 2023.

By order of the Board

PAUL KEEL
Chief Executive Officer

CHAIRMAN'S INTRODUCTION

CHAIRMAN'S GOVERNANCE STATEMENT

I am pleased to introduce our Corporate Governance Report, in which we describe our governance arrangements, the operation of the Board and its Committees, and how the Board discharged its responsibilities during the year.

Board succession planning continued to be a key focus this year with my retirement as Chairman of the Board at the conclusion of this year's Annual General Meeting (AGM). I would like to thank everyone for their significant contribution and commitment to Smiths since I joined the Board in 2013. I joined the Board with a resolve to help grow Smiths which was spurred not only by an enduring affection for a great company, but also from the desire to give something back to Britain after a long career. From reflecting over my time as Chairman, I am proud to see we have reached many significant milestones, and have continued to focus on greater innovation, sustainability, people and financial agility to help better support the Smiths Value Engine that connects our purpose, our strengths and our priorities of Growth, Execution and People.

Further changes to the Board this year included the appointment of Steve Williams as my successor as Chair of the Board, subject to his election as Director at this years' AGM. Steve has over 40 years of global business experience and brings with him a clear focus on environment, social and governance (ESG) matters. Richard Howes also joined us in September 2022 and will take over as Chair of the Audit & Risk Committee later in the year. I would like to welcome Steve and I wish him, the Company, and our people every future success after my retirement. The Board will continue to comprise of six males and four females, two Directors from historically under-represented ethnic groups and seven with a birthplace or background outside the UK. For a Group such as Smiths, with a diverse workforce and a wide geographic spread, that diversity is crucial, but it is equally important that the Directors are capable and suitably experienced individuals. The biographies of our Directors can be found on pages 80 and 81.

We continue to monitor the ongoing regulatory reforms in relation to audit and governance, and welcome the FCA's proposed changes to transform and streamline the Listing Rules. The Listing Rules changes represent a continuation of the efforts to reduce barriers to listed companies in the UK, helping businesses to remain competitive in today's market. Smiths continues to prioritise governance at the core of its business. I would like to acknowledge the work undertaken by Smiths to maintain an effective governance framework, including oversight by the Audit & Risk Committee on the internal controls enhancement programme.

It is evident that the expectations on governance have increased in recent years and ensuring a strong governance framework that supports the Group's long-term strategic goals is critical if we are to support the business and enhance the interests of all our stakeholders for the future. The Board continually keeps its governance arrangements under review and I would like to thank the Committee Chairs for ensuring governance has been constructive and effective.

Finally, I would like to thank the Smiths workforce and my fellow Directors for their work on shareholders' behalf this year. It has been a privilege to serve as Chairman, and I look forward to watching this special company continue to flourish in the future.

I hope you find the following report interesting, and, along with my fellow Committee Chairs, I would be happy to discuss any of the content at our upcoming AGM.

SIR GEORGE W. BUCKLEY
Chairman

UK CORPORATE GOVERNANCE CODE COMPLIANCE

In FY2023, and at the date of this report, the Company applied the Principles and complied with all Provisions of the UK Corporate Governance Code (the Code) as explained throughout this report. A copy of the Code is available from the Financial Reporting Council's (FRC) website at frc.org.uk. Further information on compliance with the Code can be found as follows:

ROLE OF THE BOARD

The primary role of the Board is to lead Smiths in a way that ensures its long-term sustainable success. The Board is responsible for approving Group strategy and for overseeing its implementation. Subject to applicable legislation and regulation and the Articles of Association, the Directors may exercise all powers of the Company.

The Board exercises oversight of the Company and in doing so ensures that the strategy is consistent with our purpose and is delivered in line with our Values. In support of protecting and growing stakeholder value the Board continually monitors the internal controls, risk management and viability of the Company, as well as considering the views of stakeholders.

The Board has approved a governance framework of systems and controls to effectively discharge its collective responsibility. The framework includes the delegation of specific authorities to the Board's five Committees, as set out in the table. The governance framework, which includes the Matters Reserved for the Board and the Terms of Reference for each of the Board's Committees, can be found on our website at www.smiths.com. The governance framework was reviewed by the Board and by each respective Committee as applicable during the year.

GOVERNANCE MODEL

BOARD

BOARD COMMITTEES

Nomination & Governance Committee	Audit & Risk Committee	Remuneration & People Committee	Science, Sustainability & Excellence Committee	Finance Committee
Reviews and makes recommendations to the Board on the structure, size and composition of the Board and its Committees. It also leads the process for Director appointments and Director and senior management succession planning. Oversees the ongoing suitability of the Group's governance framework.	Ensures the integrity of the Group's financial reporting and audit processes, and the maintenance of sound internal control and risk management systems, including oversight of the Internal Audit function and the Group's ethics and compliance activities. Manages the relationship with the external auditor, including making recommendations to the Board and shareholders in relation to the appointment and reappointment of the external auditor.	Responsible for the Group's Directors' Remuneration Policy and reviews and oversees the Group's remuneration strategy for the Executive Directors and senior management. Oversees, on behalf of the Board, the implementation of the People strategy for the Group, including the Group's approach to diversity, equity and inclusion.	Oversees the Group's culture and approach to science, sustainability and excellence (SSE). This includes overseeing: the Company's strategy (as it relates to science and technology); the Group's sustainability strategy; the Smiths Excellence System (SES); and reviewing and determining SSE targets, metrics and key performance indicators (KPIs) relating to remuneration.	Oversees and provides agility to the Group's approach to capital management including sources and uses of cash, portfolio activity, changes to capital structure and budgetary planning.

EXECUTIVE MANAGEMENT COMMITTEES

Executive Committee	Investment Committee	Disclosure Committee
Assists the Chief Executive Officer in discharging his responsibilities and is collectively responsible for implementing strategy, ensuring consistent execution and embedding the culture and Values.	Assesses high-value and high-risk proposals, capital expenditure, asset disposal and special revenue expenditure projects which require Chief Executive Officer or Board approval.	Advises the Chief Executive Officer and the Board on the identification of inside information, and the timing and method of its disclosure.

READ MORE
Nomination & Governance Committee
→ PG 87

READ MORE
Audit & Risk Committee
→ PG 91

READ MORE
Remuneration & People Committee
→ PG 98

READ MORE
Science, Sustainability & Excellence Committee
→ PG 111

SEE MORE
Read more about our Finance Committee
CLICK HERE

BOARD BIOGRAPHIES

SIR GEORGE BUCKLEY
Chairman
Appointed: 1 August 2013. Sir George will retire from the Board at the conclusion of the 2023 AGM

R N S F

Skills and experience: Sir George has extensive experience of large, multi-industry businesses operating in global markets and has had a long career in engineering and innovation. As Chairman, Sir George ensures effective communication with key stakeholders and that the Board provides strong leadership and guidance for the executive management team. He holds a PhD in Electrical Engineering.

Career experience: Sir George has held previous roles of Chairman and CEO at 3M Company, a US-based global technology company and Dow Jones 30 component, Chairman and CEO of Brunswick Corporation and Chief Technology Officer for appliances, motors and controls at Emerson Electric Company. Sir George also brings non-executive experience to the Board, having served as Non-executive Director at PepsiCo Inc. and Hitachi Limited, and as Chairman of Stanley Black & Decker, Inc.

PAUL KEEL
Chief Executive Officer
Appointed: 25 May 2021

Skills and experience: Paul has a strong track record of energising stakeholders and delivering results in diversified, innovation-led businesses. His strategic leadership and international experience position him well to accelerate Smiths Group's growth and deliver on its significant potential. He is a graduate of Carleton College and Harvard Business School.

Career experience: Prior to joining Smiths in 2021, Paul worked at 3M Company where he led a number of global businesses ranging in size from US$400 million to US$5 billion. He was also SVP of several enterprise-wide functions including Manufacturing & Supply Chain, Marketing & Sales, and Strategy & Business Development. Paul's other experience includes roles of increasing responsibility at General Mills, McKinsey & Company and General Electric.

CLARE SCHERRER
Chief Financial Officer
Appointed: 29 April 2022

Skills and experience: Clare has extensive experience working with and advising a broad range of industrial companies around the globe. She has particularly relevant experience in the sectors in which Smiths has strong positions, including energy, safety & security and aerospace. She holds a BA from Harvard University and an MBA from the Harvard Business School.

Career experience: Clare joined Smiths from Goldman Sachs where she spent more than 25 years, and was a Partner for more than a decade, and most recently Co-Head of the Global Industrials business. Prior to joining Smiths, Clare had been a close adviser to the Group for a number of years, including having advised on the sale of Smiths Medical as well as having contributed to the development of the strategy announced at the November 2021 Capital Markets event. Prior to Goldman Sachs, Clare was a consultant at McKinsey & Company.

Other significant appointments: Independent Non-executive Director and Member of the Audit Committee of Legrand SA.

PAM CHENG
Non-executive Director
Appointed: 1 March 2020

A R N S

Skills and experience: Pam's experience in the areas of R&D, manufacturing, sales and marketing, commercial operations, supply chain management and technology gained within large global businesses in strategically important regions for Smiths, further strengthens the Board's discussions on embedding world-class operations. Pam holds a BSc and a Master's degree in chemical engineering from Stevens Institute of Technology, New Jersey and an MBA in Marketing from Pace University, New York, USA.

Career experience: Pam is Executive Vice President, Global Operations, IT & Chief Sustainability Officer at AstraZeneca plc, a multinational pharmaceutical and biopharmaceutical company. Pam assumed additional responsibly for the AstraZeneca sustainability strategy and function in January 2023. Prior to joining AstraZeneca in 2015, Pam was President of MSD (Merck & Co., Inc.) in China. Pam has also held various engineering and project management positions at Universal Oil Products, Union Carbide Corporation and GAF Chemicals.

DAME ANN DOWLING
Non-executive Director
Appointed: 19 September 2018

A R N S

Skills and experience: Dame Ann's contribution to engineering research is internationally recognised, and her knowledge and background offer a different perspective to Board discussions, particularly as they relate to engineering, innovation and sustainability. Dame Ann has a degree in Mathematics and a PhD in Engineering.

Career experience: Dame Ann has had a distinguished academic career and is currently a Deputy Vice Chancellor and an Emeritus Professor of Mechanical Engineering at the University of Cambridge, where she served as Head of Engineering for five years until 2014. She served as the President and Chairman of Trustees of the Royal Academy of Engineering from 2014 to 2019 and as a Non-executive Director of BP plc from 2012 until May 2021, where she was a member of the Safety and Sustainability Committee.

KARIN HOEING
Non-executive Director
Appointed: 2 April 2020

R N S

Skills and experience: Karin brings current executive experience of oil & gas, defence, security, and aerospace to the Board gained from a range of roles at large multinational groups. Karin provides valuable assistance and advice in executive and non-executive succession planning as well as ESG and sustainability matters. Karin holds a Diploma Geophysics (MSc Geophysics) from the University of Hamburg, Germany.

Career experience: Karin is Group ESG, Culture and Business Transformation Director at BAE Systems plc. Prior to joining BAE she led one of the major international business divisions at Schlumberger, a multinational oil services company. Karin spent 20 years at Schlumberger, where she held a number of senior HR, marketing, technology and line management leadership positions across Europe, the Middle East and Asia.

Other significant appointments: Non-Executive Director at 25x25

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KEY

- A Audit & Risk Committee
- R Remuneration & People Committee
- N Nomination & Governance Committee
- S Science, Sustainability & Excellence Committee
- F Finance Committee
- ◯ Committee Chair

All Non-executive Directors are independent and, in the Chairman's case, independent on appointment.

RICHARD HOWES

Non-executive Director

Appointed: 1 September 2022

A R N

Skills and experience: Richard's background in senior financial positions at large listed companies in a variety of sectors brings valuable insight to the Board's discussions. Richard holds a BSc in Geography from Loughborough University and is a Fellow of the ICAEW.

Career experience: Richard is Chief Financial Officer of Bunzl plc, the specialist international distribution and services Group. Richard qualified as a Charted Accountant with Ernst & Young before moving to the investment bank Dresdner Kleinwort Benson. Prior to joining Bunzl in 2019, Richard held CFO positions at various multinational businesses including Inchcape plc, Coats Group plc and Bakkavor plc.

BILL SEEGER

Senior Independent Director

Appointed: 12 May 2014

A R N F

Skills and experience: Bill has had a long and successful career in finance in the engineering sector, gaining an in-depth knowledge of global markets. Bill's extensive experience in global engineering businesses supports the Board's robust decision-making. Bill has a BA in economics and an MBA.

Career experience: Bill was appointed Chairman of the Remuneration & People Committee on 1 July 2018, and as Senior Independent Director at the 2018 AGM. Bill has been Chairman of the Finance Committee since it was formalised in November 2021. With effect from 1 February 2022 Bill was appointed to the Board of ICU Medical, Inc. in accordance with the terms of the shareholder agreement entered into with the sale of Smiths Medical. He is also a member of ICU's Audit and Compliance Committee. Bill was Group Finance Director at GKN plc, a global engineering group, until his retirement in 2014. At GKN he also held the roles of CEO of the Propulsion Systems Division and CFO of the Aerospace Division. Prior to that, Bill spent 30 years at TRW, a US-based automotive and aerospace group, where he held various senior finance positions.

Other significant appointments: Non-Executive Director and Chair of the Audit & Risk Committee at Spectris plc and Lecturer at UCLA Anderson School of Management.

MARK SELIGMAN

Non-executive Director

Appointed: 16 May 2016

A R N F

Skills and experience: Mark's extensive experience in corporate finance and capital markets supports Board discussion of the Group's portfolio management and strategy. Mark brings non-executive experience to the Board, having served as senior independent director and audit committee chairman at several FTSE 100 companies. Mark has an MA in philosophy, politics and economics.

Career experience: Mark is a former senior investment banker and during his executive career he held various roles at Credit Suisse, including Chairman of UK Investment Banking.

Other significant appointments: Senior Independent Director at NatWest Group plc and Alternate member at Panel on Takeovers and Mergers for the Association for Financial Markets in Europe.

NOEL TATA

Non-executive Director

Appointed: 1 January 2017

A R N

Skills and experience: Noel has had a successful career in global business. He has extensive experience of the high-growth economies which are key markets for our growth strategy and has been invaluable in developing key strategic relationships in Asia since joining the Board. Noel has a BA in Economics.

Career experience: Noel was the Managing Director of Tata International Limited (TIL), a global trading and distribution company and a trading arm of the Tata Group, a privately owned multinational holding company. Under the terms of the Tata Group governance guidelines, he retired from the position of Managing Director on 12 November 2021. He was thereafter reappointed as a Director and Non-Executive Chairman of TIL with effect from 15 November 2021.

Other significant appointments: Each of the following companies forms part of the Tata Group: Non-independent Non-executive Chairman at Tata Investment Corporation, Trent Ltd and Voltas Ltd. Non-independent Non-executive Vice Chairman at Tata Steel Limited and Titan Company Ltd.

STEVE WILLIAMS

Chair Designate and Non-executive Director

Appointed: 1 September 2023. Steve will stand for election at the 2023 AGM. Subject to his election at the AGM, Steve will be appointed as Chair of the Board on 16 November 2023

Skills and experience: Steve is an experienced CEO with a track record of growth and transformation. He has more than 40 years of international global business experience. Steve brings a clear focus on environment, social and governance (ESG) matters and throughout his career has demonstrated creating value for customers, shareholders, employees, and communities as both an executive and a non-executive director. Steve has a BSc in Engineering.

Career experience: Steve was previously a non-executive director at TC Energy Corporation. Steve served as an advisory board member of Canada's Ecofiscal Commission and a board member of the Business Council of Canada until 2019. He served as Chief Executive Officer of Suncor Energy from 2012 to 2019 and as President from 2011 to 2018. Prior to that, he held various senior leadership roles at Suncor and ExxonMobil in the UK, where he spent 18 years.

Other significant appointments: Chair of Alcoa Corporation and Non-executive Director of Enbridge Inc.

MATTHEW WHYTE

Company Secretary

Appointed: 1 August 2021

Skills and experience: Matthew is a Chartered Company Secretary and a Fellow of The Chartered Governance Institute UK and Ireland. Matthew joined Smiths in 2017 having previously gained governance and legal experience in senior roles in large multinational listed groups in a variety of sectors, most recently at Schroders plc and Rio Tinto plc.

OTHER DIRECTORS WHO SERVED DURING FY2023

Tanya Fratto stepped down from the Board in November 2022 at the conclusion of the AGM. Her biography can be found in our FY2022 Annual Report.

READ MORE

The biographies of Executive Committee members can be found on our website.

CLICK HERE

BOARD ACTIVITY

During FY2023, the Directors continued to provide oversight, challenge and guidance on a broad range of topics. This included the development and implementation of the Group's strategic objectives, culture and operational performance. The key areas of focus and activity for the Board during the year are set out below.

STRATEGY AND PURPOSE

- Ensured that our focus on strategy and business decisions aligned with our purpose along with the Smiths Value Engine's three priorities of Growth, Execution and People
- Completed strategic deep-dives, and endorsed the implementation of each division's strategy, including M&A. Each deep-dive included the Group's response to climate change and opportunities connected with energy transition
- Received updates on the launch of the in-market operating model for Smiths China
- Ensured stakeholder considerations were embedded in discussions and decision-making through enhanced reporting from each of the divisions
- Received reports on progress against our sustainability targets and agreed to the external assurance of our greenhouse gas (GHG) and energy efficiency data
- Received reports on the successes, challenges and financial benefits of SES
- Approved the acquisition of Plastronics, a leader in the semiconductor test socket market, and received updates on its integration with the business. Further information can be found in the Strategic Report on page 19
- Received updates from external speakers on the macroeconomic environment including the impact of high inflation, financial crisis, geopolitical events and energy transition
- Considered the feedback from stakeholders on the Capital Markets event held in November 2022

PEOPLE, VALUES AND CULTURE

- Received updates from the Non-executive Directors on their workforce engagement activities, including Richard Howes' induction programme. Further information is included on page 88
- Received regular updates on the Group's pension arrangements and health and safety performance
- Ensured that incentive plans were better aligned to business priorities
- Received updates on the Group's People strategy
- Monitored Group-wide cultural change via the implementation of the Smiths Leadership Behaviours. Furthermore, the results of the My Say colleague survey helped the Board to understand the perception and strength of the use of the Behaviours across the Group
- Approved the establishment of the Smiths Group Foundation. More information on page 20

SUCCESSION AND LEADERSHIP

- Approved the appointment of a new Chair, as detailed on page 88
- Focused on Board succession planning and key roles within the business including senior management succession plans and the talent pipeline across the Group

FINANCE

- Considered business performance through a series of divisional operating reviews at Board meetings
- Reviewed and approved the Group's results announcements and the FY2022 Annual Report
- Approved the renewal of the Group's US$800m revolving credit facility
- Approved the final dividend for FY2022 and the FY2023 interim dividend

GOVERNANCE AND RISK

- Received updates on our principal risks including deep-dives at the Audit & Risk Committee from the divisions on supply chain and other key risks as detailed on page 96
- Continued oversight of our internal controls in order to ensure an effective control environment
- Approved and provided oversight of the Ethics & Compliance annual work programme
- Undertook an External Quality Assessment of the Internal Audit function
- Ongoing consideration of the Group's compliance with the Code and related activities
- Undertook an internal Board evaluation to review the effectiveness of the Board and its Committees, which included discussing the progress made from the previous year's evaluation and agreeing actions for the next financial year. See pages 85 and 86
- Established a forward agenda focused on strategy and business oversight to ensure regular reviews of key areas of focus

The Board completed strategic deep-dives, and endorsed the implementation of each division's strategy, including M&A. Each deep-dive included the Group's response to climate change and opportunities connected with energy transition.

HOW THE BOARD OPERATES

The following role specifications set out the clear division of responsibility between executive and non-executive Directors, which supports the integrity of the Board's operations.

There is a schedule of matters which are considered significant to Smiths and have therefore been reserved for decisions by the Board. This is due to their strategic, financial, or reputational implications or consequences. The formal schedule, which is integrated into our governance framework, can be found on our website.

The Chief Executive Officer is responsible for preparing and recommending the strategy and for the day-to-day management of the Company. Executive management implement the Group's strategy and provide the Chief Executive Officer, and the Board as a whole, with the information they need to make decisions that will determine the long-term success of the Group.

At each scheduled Board meeting the Chief Executive Officer and the Chief Financial Officer present separate reports, detailing business performance and progress against strategy. These are supplemented by regular performance updates from the Chief Executive Officer to the Directors between meetings. When appropriate, invitations to Board meetings are extended to Divisional Presidents, heads of functions and subject matter experts, supporting visibility of talent and executive succession planning. External advisers are invited to attend as necessary. Director attendance at Board and Committee meetings in FY2023 is set out on page 84.

To ensure the continued effectiveness of the Board, the Chairman meets the Non-executive Directors without the Executive Directors present after each Board meeting. He also has separate meetings with the Senior Independent Director and the Chairs of the Board Committees on a regular basis and with each of the other Non-executive Directors at least annually. The Senior Independent Director typically will consult with the other Non-executive Directors without the Chairman present at least annually, to assess the performance of the Chairman.

DIVISION OF RESPONSIBILITIES

CHAIRMAN

- Ensures the Board's continued effectiveness
- Shapes boardroom culture and encourages individual Director engagement
- Leads the Board and sets the Board agenda, determining the style and tone of discussions at Board meetings
- Leads the annual Board evaluation

CHIEF EXECUTIVE OFFICER

- Develops and proposes strategy to the Board
- Sets and communicates the culture, Values, and Behaviours for the Group
- Leads the Executive Committee
- Manages the day-to-day operations of the Company
- Manages relationships with key stakeholders

CHIEF FINANCIAL OFFICER

- Supports the Chief Executive Officer in ensuring the development and execution of strategy
- Ensures the accuracy and completeness of the Group's financial statements to ensure they reflect a true and accurate rendition of the Company's performance
- Ensures the Group operates robust risk management and internal control systems to ensure accurate and timely financial and non-financial reporting and ultimately to safeguard stakeholders' interests

SENIOR INDEPENDENT DIRECTOR

- Supports the Chairman in the delivery of the Board's objectives
- Is available to shareholders if they wish to raise any concerns
- Oversees workforce engagement by the Non-executive Directors
- Leads the Chair succession process

NON-EXECUTIVE DIRECTORS

- Provide constructive challenge and strategic guidance to Board and Committee discussions
- Oversee management and the business and offer specialist advice
- Assess the effectiveness of systems of internal control and risk management

COMPANY SECRETARY

- Advises the Board on governance matters
- Supports the Chairman in the efficient and effective functioning of the Board and its Committees
- Ensures the Board receives quality information in a timely manner

TIME COMMITMENT

All Directors must allocate sufficient time to their work in order to discharge their responsibilities effectively. An expected time commitment of 25 days per annum is set out in the Non-executive Director letter of appointment. However, Committee Chairs, the Senior Independent Director and the Chairman commit more time as required. In the normal course of business, Directors are expected to familiarise themselves with business priorities and challenges, prepare for and attend Board and Committee meetings, attend the AGM, engage with stakeholders and participate in the Board evaluation process. Executive Directors are not permitted to take on the chairmanship or more than one non-executive directorship in a FTSE 100 company, or any other significant appointment. Any appointment to other directorships is reviewed in advance by the Board for conflicts and time commitment considerations.

In FY2023 the Board concluded that the Chairman and the Non-executive Directors devoted sufficient time to fulfil their commitments to Smiths. This included considering the Directors' positions held at other organisations. Particular consideration was given to Noel Tata's other commitments as he holds a number of Board-level positions outside the Group all of which are at Tata Group companies, as shown in his biography on page 81. The Board reaffirmed that Noel's other commitments do not prevent him from committing sufficient time to his work as a Director, as evidenced by his attendance and effective participation at all Board and Committee meetings and ad hoc Board update calls. As a current executive with contacts in higher-growth countries which are a strategic focus for Smiths, he brings valuable and distinct experience to our Board discussions.

ADVICE AND INSURANCE

Our Directors are able to seek independent professional advice at the expense of Smiths to enable them to fulfil their obligations as members of the Board. In addition, the Directors and Officers of Smiths and its subsidiaries have the benefit of a Directors' and Officers' liability insurance policy. During FY2023, and at the date of this report, qualifying third-party indemnity provisions (as defined by section 234 of the Act) have remained in force for the Directors of the Company and certain other employees in respect of their directorships of some subsidiary companies in relation to certain losses and liabilities which they may incur (or may have incurred) to third parties in the course of their professional duties for the Company, or a subsidiary.

DIRECTOR ATTENDANCE

	Board[6]	Nomination & Governance Committee	Audit & Risk Committee	Remuneration & People Committee	Science, Sustainability & Excellence Committee	Finance Committee
Sir George Buckley[1]	6/7	2/3	–	4/5	4/4	6/6
Paul Keel	7/7	–	–	–	–	–
Clare Scherrer	7/7	–	–	–	–	–
Pam Cheng	7/7	3/3	4/4	5/5	4/4	–
Dame Ann Dowling	7/7	3/3	4/4	5/5	4/4	–
Tanya Fratto[2]	1/2	–	1/2	2/2	–	–
Karin Hoeing[3]	7/7	3/3	–	5/5	2/4	–
Richard Howes[4]	7/7	3/3	4/4	4/4	–	–
Bill Seeger[5]	7/7	3/3	4/4	5/5	–	5/6
Mark Seligman	7/7	3/3	4/4	5/5	–	6/6
Noel Tata	7/7	3/3	4/4	5/5	–	–

1 In accordance with the Code, Sir George Buckley did not attend the Nomination & Governance Committee, Remuneration & People Committee or an ad hoc Board meeting relating to the succession of the Chairman.
2 Tanya Fratto stepped down from the Board at the conclusion of the AGM on 16 November 2022. She was unable to attend the November Board and Committee meetings due to personal circumstances.
3 Karin Hoeing was unable to attend the November 2022 Science, Sustainability & Excellence Committee due to a pre-existing commitment. Karin was unable to attend the July 2023 Science, Sustainability & Excellence Committee due to an unforeseen flight rescheduling on the day of the meeting. Karin provided her comments and input on the matters under consideration to the Chair of the Committee prior to the meetings being held.
4 Richard Howes was appointed on 1 September 2022 and so was not eligible to attend the Remuneration & People Committee held in August 2022.
5 Bill Seeger was unable to attend the 17 January 2023 Finance Committee due to the short notice of the meeting. Immediately subsequent to the meeting the subject matter was discussed with Mr Seeger who endorsed the proposed course of action.
6 Includes six scheduled and one ad hoc Board meeting.

BOARD EVALUATION

Each year an evaluation of the Board and its Committees is conducted to monitor their effectiveness and to help identify any improvement opportunities. It is externally facilitated every three years. This year the evaluation was carried out internally.

The annual evaluation of the performance of the Non-executive Directors and the Chief Executive Officer is led by the Chairman. The Senior Independent Director and the Chief Executive Officer lead the evaluations for the Chairman and the Chief Financial Officer respectively.

The evaluation of the Non-executive Directors includes individual meetings with the Chairman. Feedback is given to the Chief Executive Officer by the Chairman after each Board meeting and on an ad hoc basis throughout the year. All Directors are invited to complete an effectiveness questionnaire, which for FY2023 included a comprehensive review of various aspects including strategy, risk and committee effectiveness amongst other topics.

Independent Audit Ltd, who has supported the evaluation process since FY2019, but has no other connection to the Company, assisted with the interpretation of the results of the questionnaires issued to the Board.

The findings of the evaluation are used to inform future Board agenda planning and develop specific actions for improvement. The actions to be taken following the FY2023 evaluation have been grouped in four themes: strategic decision-making; succession planning; Board communication; and stakeholder engagement. A summary is set out below. Overall, the Board agreed that significant progress had been made since the internal evaluation last year. The Board seeks to continuously improve the effectiveness of the Board and its Committees and the actions identified in the FY2023 effectiveness review support this. It is the present intention that the FY2024 evaluation will be externally facilitated. The last externally facilitated Board evaluation was in FY2021.

BOARD EVALUATION FINDINGS AND ACTIONS

STRATEGIC DECISION MAKING

FY2022 EVALUATION FINDINGS	ACTION TAKEN IN FY2023	FY2023 EVALUATION FINDINGS AND ACTIONS FOR FY2024
– Seek to increase time spent on strategic deep-dives to underscore the Board's focus on organic growth when formulating agendas – Seek to increase the visibility of macro conditions and external markets and the impact of opportunities arising from technology	– Enhanced reporting from the divisions and senior leaders with a specific focus on macro conditions, external markets, technology and innovation. This included presentations from customers and the Group's external advisers – When formulating its agendas, the Board has dedicated additional time for strategic deep dives on organic and non-organic growth particularly in the areas of climate change and the opportunities connected to customers' decarbonisation commitments	– Increase time spent in Board discussions for in-depth debate of scenarios, key assumptions and alternatives as well as risks on major projects – Continue to focus on developing a long-term growth strategy with specific attention given to discuss the approach to be taken to inorganic growth, particularly establishing risk appetite

FY2022 EVALUATION FINDINGS	ACTION TAKEN IN FY2023	FY2023 EVALUATION FINDINGS AND ACTIONS FOR FY2024
SUCCESSION PLANNING		
– Board succession planning for non-executive positions was identified to be a key focus for consideration including Chair, Senior Independent Director and Committee Chair positions – Focus on Executive Committee development and succession planning, including providing opportunities for the Non-executive Directors to meet individually and in small groups with a cross-section of employees	– The successful search for a new Chair was a key focus during the year. As part of an orderly succession plan, in anticipation of the retirement of the Senior Independent Director, a number of Committee Chair succession changes were agreed and will take effect at the conclusion of the AGM – A continued focus on Executive Committee development and succession planning. Non-executive Directors met individually and in small groups with a cross-section of employees, increasing Board oversight of talent within the business. A number of senior appointments were made from the Company's internal talent pool – Select Executive Committee and senior leadership talent were allocated Board and Executive Committee level mentors respectively	– Ensure a successful handover and induction for the new Chair of the Board – Ensure a successful handover of the Senior Independent Director and Committee Chair roles – Continued focus on the executive and non-executive talent pool and pipeline – Align succession plans to the skills required to deliver on the organisation's strategic objectives
BOARD COMMUNICATION		
– Remote or hybrid meetings should continue and the organisation of Board and Committee meetings works well	– Remote and hybrid meetings continue to be used when practical – Board papers continued to be well structured and provide a strong basis for effective discussions and decision-making	– Continuous review of the Board and Committee agendas, materials and operation to support effective decision-making and discharge of duties
STAKEHOLDER ENGAGEMENT		
– Continue the focus on ESG, people, talent, culture and suppliers – Focus on the establishment of the role of the Science, Sustainability & Excellence Committee – Continue to pursue opportunities for Non-executive Directors to meet with employees to get a deeper understanding of the culture within Smiths	– The Science, Sustainability & Excellence Committee continued to have oversight for many activities important to the Group's stakeholders including approving our Science Based Targets initiative (SBTi) submission, Net Zero targets and ESG-related incentive targets – New opportunities for the Board to meet with employees were implemented including informal lunches and site visits to gain a better understanding of culture – Deep-dives on supplier challenges were provided to the Board – A Board workforce engagement strategy was endorsed and implemented. Activity is reported to the Remuneration & People Committee at each meeting – The Board met with two customers from the security and energy sectors	– Enhance focus on how Company culture is embedded through increased time on the Board agenda with specific deep-dives scheduled for FY2024 – Dedicate additional time to communicating with, and meeting, external stakeholders with increased focus on customers, suppliers and site visits – Ensure the remuneration strategy and new Remuneration Policy continue to support delivery of our strategy and contribute to an engaged workforce – Continue to refine the scope of the Science, Sustainability & Excellence Committee

NOMINATION & GOVERNANCE COMMITTEE REPORT

CHAIRMAN'S STATEMENT

I am pleased to present the Committee's report for FY2023. The Committee has delegated responsibility from the Board to review the structure, size and composition of the Board and its Committees, in addition to assessing its effectiveness, performance, and independence. The Committee is dedicated to maintaining a diverse and inclusive range of appointments, with a wide variety of skills, expertise and experience. This ensures that the Board as a whole, and its Committees, can effectively navigate the complexities of our industry and contribute to the long-term success of our company.

This is my final report as Chairman of the Committee, having joined the Board in August 2013. In last year's report I highlighted that a key focus in 2023 would be Board succession. As such, following a comprehensive selection process, without my involvement and led by Bill Seeger as Senior Independent Director, Steve Williams will be appointed as Chair of the Board from November 2023. This is subject to his election at the 2023 AGM. His role as Chair Designate commenced at the start of September 2023. Board succession will continue to be a focus during FY2024 as Bill Seeger retires from the Board in May 2024.

We were also pleased to welcome Richard Howes to the Board as a Non-executive Director in September 2022. In the FY2022 Annual Report we disclosed the details of the rigorous search process that was undertaken when recommending his appointment.

During the year we oversaw the development of senior management succession plans and the talent pipeline. We endorsed the appointments of Ted Wan and James Down to the Executive Committee. Ted leads our China business and the opportunities that presents. James is the General Counsel of the Group. Pleasingly, both were internal promotions.

More information about our activities can be found on the following pages.

I would like to thank both past and present members of the Committee for their hard work and contributions throughout my tenure.

SIR GEORGE W. BUCKLEY
Chairman of the Nomination & Governance Committee

COMMITTEE MEMBERSHIP AND MEETINGS

The members of the Committee, their biographies and attendance at meetings during the year can be found on pages 80, 81 and 84.

The Chief Executive Officer is normally invited to attend Committee meetings. Other members of senior management are invited to attend as necessary.

GOVERNANCE

The Committee is responsible for keeping the Board's governance framework under review. During the year enhancements to the framework were approved. The Committee also reviewed the Board skills and experience matrix and its own Terms of Reference.

Looking ahead, the Nomination & Governance Committee remains committed to assessing the effectiveness of the Board and taking necessary steps to ensure that the Company maintains an appropriate balance of skills, experience, knowledge and diversity. The Committee will also continue to monitor emerging governance trends, regulatory changes, and industry developments, allowing it to adapt and respond effectively in a way that is appropriate for Smiths strategic objectives and governance framework.

COMMITTEE PERFORMANCE EVALUATION

In FY2023, the performance of the Committee was considered as part of the internal Board evaluation process. Overall, it was confirmed that the Committee continues to operate effectively.

SELECTION AND APPOINTMENT OF A NEW CHAIR

As part of the Committee's succession planning, Bill Seeger, as the Senior Independent Director, oversaw the search process and appointment of Steve Williams as successor to Sir George Buckley. The search process was facilitated by Russell Reynolds, an independent executive search consultant which has no connection to the Company, other than in assisting and facilitating in the search for senior management. Russell Reynolds was selected after a comprehensive review of search firms. Russell Reynolds is a signatory to the Enhanced Code of Conduct for Executive Search Firms. The Committee held several unscheduled meetings to focus on the appointment to ensure a comprehensive selection process.

IDENTIFY

Initially, the Committee developed a candidate profile and then a small working group comprising Karin Hoeing, Mark Seligman and Paul Keel was established to support Bill Seeger. The agreed profile included key attributes required for the role such as previous experience, cultural fit, management of complex stakeholder relationships, and driving growth. The details of the role profile and requirements of the role were shared with Russell Reynolds. Russell Reynolds then identified an extensive and diverse list of potential candidates who were appraised by the working group against the agreed brief. This created a longlist which was reviewed by the Committee to produce a shortlist which complied with the Board's Diversity Policy.

INTERVIEW

The shortlisted candidates were interviewed by the working group, who together determined the preferred list of candidates for consideration by the Committee. As well as meeting the candidates, the working group discussed timings of the appointment and handover of the role. The preferred candidates then met with all Non-executive Directors, after which the Board met to discuss feedback.

SELECT

Prior to the final selection and appointment, the Senior Independent Director obtained references from key stakeholders. The Committee was unanimous in its selection and recommended to the Board that Steve Williams be appointed as Chair, given his breadth of experience and fit to the attributes in the agreed brief.

CONSIDERATIONS

Steve Williams' external roles were considered prior to his appointment and the Board agreed that there was no conflict which might impact his role at Smiths. The Board also considered his other commitments from a time perspective. The Board considered that he would have sufficient time to fulfil his responsibilities to the Company.

APPOINT

Steve Williams' appointment as a Non-executive Director and Chair Designate took effect on 1 September 2023. Subject to his election by shareholders, he will be appointed as Chair of the Board at the conclusion of the 2023 AGM when Sir George Buckley steps down.

INDUCTION

A comprehensive induction programme developed specifically for Steve Williams, taking into account his previous experience, knowledge, and skills is underway. This involves briefings on the role and responsibilities of being a UK listed Company Director, meeting with senior leaders in the business, corporate advisers, investors and other stakeholders, as well as visits to the Group's operations.

INDUCTION

To ensure that they are able to effectively contribute to discussions and decision-making, all of our Directors participate in an induction programme on joining the Board. Each induction programme is tailored to provide the individual Director with the necessary knowledge and understanding of the Group, its markets and its material stakeholders based on their personal experience and background.

On joining the Board, Richard Howes was given a tailored induction programme to develop the necessary knowledge and understanding of the Group and his role. It included visiting Group operations in the US and Europe and meeting with key senior leaders across the business. Information on Steve Williams' induction can be found in the adjacent box.

INFORMATION AND TRAINING

The Board recognises the importance of ongoing training and our Directors are given the opportunity to update their skills and experience on a regular basis. Any individual development needs are discussed with the Directors at the annual performance evaluation. In order for the Directors to remain aware of business priorities and external developments, the Board is provided with formal reports and updates from the divisions, functional leaders and external advisers on a regular basis. This year the Board was given an update from external speakers on the macroeconomic environment including the impact of high inflation, financial crises, geopolitical events and energy transition.

In order to operate effectively our Directors must receive accurate, timely and high-quality information. The Company Secretary and his team assist the Chairman and Chief Executive Officer in ensuring effective information flows and that the Board is provided with all relevant information to enable the Directors to discharge their responsibilities.

DIVERSITY

The Board supports the principles of gender and ethnic diversity and pays close attention to the international nature of its makeup. Members of the Board and senior management will collectively possess diversity of gender, national birthplace, social and ethnic backgrounds, cognitive and personal strengths, along with a combination of skills, experience and knowledge. This is important for the effective operation of the Board and oversight of the Group.

The Committee is responsible for recommending appointments to the Board following its regular assessment of the Board and its Committees' composition, whilst also considering the Group's strategic objectives. The Committee makes recommendations based on the merit of individual candidates, having due regard for the benefits of diversity in the broadest sense, including gender and ethnicity and also the need to ensure the effective functioning of the Board at all times, especially as membership of the Board is refreshed.

In order to help achieve these aspirations, the Committee only partners with firms accredited under the Enhanced Code of Conduct for Executive Search Firms. The use of Executive search firms helps to ensure non-UK nationals, women and candidates from historically under-represented ethnic groups are represented on the shortlist for all Board positions.

As at 31 July 2023, the Board met all of its own diversity targets, as well as the targets set out in the Financial Conduct Authority's Listing Rule 9.8.6R(9)(a). Steve Williams was appointed to the Board on 1 September 2023. As Sir George Buckley will step down from the Board at the conclusion of the AGM in November 2023, the Board is satisfied that its gender and ethnicity targets will not be impacted on a long-term basis. Numerical diversity data, in the format required by Listing Rule 9.8.6R(10), is outlined below as at 31 July 2023. The Board and executive management were asked to disclose which characteristic they identified with.

SEX/GENDER REPRESENTATION

	Number of Board members	Percentage of the Board	Number of senior positions on the Board (CEO, CFO, SID and Chair)	Number in executive management[1]	Percentage of executive management[1]
Men	6	60%	3	10	77%
Women	4	40%	1	3	23%
Not specified/prefer not to say	0	0%	0	0	0%

ETHNICITY REPRESENTATION

	Number of Board members	Percentage of the Board	Number of senior positions on the Board (CEO, CFO, SID and Chair)	Number in executive management[1]	Percentage of executive management[1]
White British or other White (including minority white groups)	8	80%	4	12	92%
Mixed/Multiple Ethnic Groups	0	0%	0	0	0%
Asian/Asian British	2	20%	0	1	8%
Black/African/Caribbean/Black British	0	0%	0	0	0%
Other ethnic group including Arab	0	0%	0	0	0%
Not specified/prefer not to say	0	0%	0	0	0%

1 Defined as the Executive Committee and the Company Secretary in accordance with Listing Rule 9.8.6R(10).

DIVERSITY PERFORMANCE AGAINST SMITHS TARGETS

BIRTHPLACE OR BACKGROUND

Policy target

At least 50% of the Board with a birthplace or background outside of the UK

● Outside the UK **60%** ● UK **40%**

GENDER – BOARD

Policy target

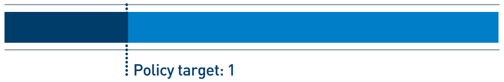
At least 40% of the Board to be female

● Female **40%** ● Male **60%**

GENDER – KEY BOARD POSITIONS

Policy target

At least one of the Chairman, Senior Independent Director, Chief Executive Officer or Chief Financial Officer position will be held by a female



● Female **1** ● Male **3**

ETHNICITY

Policy target

At least one Director from a historically under-represented ethnic group

● Historically under-represented ethnic group **2**
● Non-historically under-represented ethnic group **8**

Diversity information for the Group, including the disclosure required by the UK Corporate Governance Code, can be found on page 46.

The Board Diversity Policy can be found on our website.

Read more about Diversity, Equity and Inclusion at Smiths in our Sustainability at Smiths report.

CLICK HERE

INDEPENDENCE AND OBJECTIVITY

The Board keeps the independence of the Non-executive Directors under continuous review. In July 2023, the Committee reviewed the guidance contained in the Code and assessed the performance and independence of each of the Non-executive Directors.

Bill Seeger was appointed as a Director in May 2014 and as such he has served on the Board for more than nine years. A particularly rigorous review of Bill's performance and independence was undertaken. The Board concluded that he contributed to constructive challenge and debate at meetings and that he continues to demonstrate the qualities of objectivity and independence.

Having served on the Board for more than six years, Mark Seligman's continued objectivity and independence was also subject to rigorous review.

The Committee concluded that each of the Non-executive Directors that were assessed contributed effectively to the operation of the Board and that they should all be considered as independent and objective.

CONFLICTS OF INTEREST

All Directors must avoid situations where they have a direct or indirect interest that conflicts, or may possibly conflict, with the best interests of Smiths. The Board has the authority to authorise conflicts and potential conflicts in accordance with our Articles of Association and the Companies Act 2006 (Act), and Board approval must be granted before a Director accepts a new external appointment, whether it amounts to a conflict or not. The Company Secretary maintains a Register of Conflicts which is reviewed by the Directors at least twice a year, and the Board retains the power to vary or terminate any authorisation previously provided.

DIRECTOR ELECTION AND RE-ELECTION

Each year Smiths Directors are subject to election or re-election by shareholders at the AGM. The Chairman, on behalf of the Board, has confirmed that each Non-executive Director standing for re-election at this year's AGM continues to be an effective member of the Board and has demonstrated the commitment required. The rules regarding the appointment and replacement of Directors are determined by our Articles of Association and the Act. The Articles of Association can be found on our website and can only be amended by a special resolution of shareholders.

Sir George Buckley reached the nine-year anniversary since his appointment on 1 August 2022. Notwithstanding his tenure, following the appointment of Paul Keel, the Committee agreed and the Board supported that Sir George Buckley should be invited at the 2022 AGM to seek re-election and to remain as Chairman to oversee a period of significant strategic change for the Group. Following the appointment of Steve Williams on 1 September 2023 and after a short handover period, Sir George Buckley will retire from the Company at the conclusion of the 2023 AGM and as such will not be standing for re-election.

On behalf of the Board, the Senior Independent Director has confirmed that he supports Steve Williams' election to the Board at the 2023 AGM.

The Board determined that notwithstanding that Bill Seeger reached his nine-year anniversary since appointment on 12 May 2023, he should nonetheless be invited to seek re-election by shareholders at the 2023 AGM. As the serving Senior Independent Director, his re-election will facilitate continuity and support the Chair transition process for a period of approximately six months. Bill Seeger will retire from the Board in May 2024.

AUDIT & RISK COMMITTEE REPORT

CHAIRMAN'S STATEMENT

I am pleased to present the Committee's report for FY2023 which is my last one as Chairman of the Committee. The Committee continues to fulfil an important oversight role, monitoring the integrity of the Group's financial reporting and the effectiveness of its system of internal control and risk management framework. Details of our work can be found on pages 92 to 97.

A key focus for the Committee this year has been the development and maturity of the Group's control environments. At each meeting we were provided with updates from the Finance Excellence function, particularly in relation to our internal controls enhancement programme. We were pleased to hear positive feedback from EY, who are supporting us on the programme. The work we have undertaken this year puts us in a strong position for readiness for the FRC proposed changes to the UK Corporate Governance Code.

This year we challenged the business to embed the level of controls we have in our financial information, into our non-financial information, specifically in respect of GHG emissions and energy data. Additional assurance layers were therefore established for the Group's GHG and energy efficiency metrics. The Smiths finance teams have implemented control procedures to provide a second line of defence in the review and validation of our site and divisional Scope 1 & 2 energy use data, with KPMG engaged to provide a third line of defence in the limited assurance of our Scope 1, 2, & 3 GHG emissions inventories. The completion of International Standard on Assurance Engagement (ISAE) Limited Assurance on our FY2022 and FY2023 emissions inventories and energy efficiency metric has been an important achievement.

In accordance with the International Standards for the Professional Practice of Internal Auditing, this year the Committee undertook an External Quality Assessment (EQA) of the Internal Audit function by an independent third party, PwC. We were pleased with the results of the EQA. Our Internal Audit function's performance against the Standards is strong, which is a testament to their focus on quality and continuous improvement.

Looking ahead to FY2024, the Committee will remain focused on the Group's internal controls programme and we will continue to oversee the development of plans to meet the Government's audit and governance reform proposals. As I hand over the Chairmanship to Richard Howes, I would like to thank my colleagues on the Committee for their contribution during the year. I look forward to continuing our work in FY2024.

MARK SELIGMAN
Chairman of the Audit & Risk Committee

COMMITTEE MEMBERSHIP AND MEETINGS

All members of the Committee are independent Non-executive Directors and collectively have recent and relevant financial, accounting and sector experience. Committee member biographies and attendance at meetings during the year can be found on pages 80, 81 and 84. The Board considers that Mark Seligman and Richard Howes have the recent and relevant financial experience required to chair the Committee.

At the invitation of the Chairman of the Committee, and in order to maintain effective communications, the Board Chairman, Chief Executive Officer, Chief Financial Officer and an audit partner of KPMG attended all meetings. Other regular attendees included the Group Financial Controller, the Director of Internal Audit, Senior Vice President and General Counsel, Ethics and Compliance and Deputy Secretary. Divisional Presidents, the Vice President Finance Excellence and senior management were also invited to attend as appropriate. At the conclusion of each meeting, KPMG and the Director of Internal Audit were each given the opportunity to discuss matters with the Committee without executive management being present.

The heads of Internal Audit and Ethics and Compliance, together with KPMG, have direct access to the Committee should they wish to raise any concerns outside formal Committee meetings.

The Committee works to a structured programme of activities and meetings to coincide with key events around our financial calendar and, on behalf of the Board, to provide oversight of the Group's risk management and internal control process. The Chairman of the Committee reports formally to the Board on the Committee's activities after each meeting.

COMMITTEE PERFORMANCE EVALUATION

Through the annual Board evaluation process, see pages 85 and 86, the Board has again confirmed the effectiveness of this Committee in its role of supporting the Board in compliance with its duties.

COMMITTEE ACTIVITIES

FINANCIAL AND NARRATIVE REPORTING

The Committee reviewed the full and half yearly results announcements, the Annual Report and the Viability and Going Concern Statement before recommending them to the Board for approval.

The Group has internal control and risk management arrangements in place to support the financial reporting process which provide reasonable assurance that the financial statements are prepared in accordance with applicable standards. These arrangements included seeking divisional confirmation that the reported information gives a true and fair view of the results for the period and ensuring that record keeping allows an accurate and fair reflection of transactions. More information on risk management and internal controls can be found on page 96.

An important responsibility of the Committee is to review and agree the most significant management accounting estimates and judgements which impact the financial statements. The key areas of judgement in the year are set out overleaf. After receiving reports on the significant estimates and areas of judgement and after discussion with KPMG, the Committee agreed that the judgements made were appropriate and correctly reflected and presented in the Annual Report.

Fair, balanced and understandable

The Committee applied the same due diligence approach adopted in previous years in order to assess whether the Annual Report is fair, balanced and understandable, one of the key Code requirements. This included being updated on the internal verification process carried out to support the Committee's assessment of the disclosures made in the Annual Report. The Committee also reviewed various materials on risk management and internal controls, going concern and the assessment of the Group's long-term viability. In doing so it considered the:

- Accuracy, integrity and consistency of the messages conveyed in the Annual Report;
- Appropriateness of the level of detail in the narrative reporting;
- Correlation between judgements, estimation of uncertainties and issues, and the associated disclosures; and
- Explanations of the differences between statutory and headline reported results.

Taking the above into account, together with the views expressed by KPMG, the Committee recommended, and in turn the Board confirmed, that the 2023 Annual Report, taken as a whole, is fair, balanced and understandable and provides the necessary information for shareholders to assess the Company's position, performance, business model and strategy.

SIGNIFICANT FINANCIAL REPORTING MATTERS

The key areas of judgement for FY2023 are as follows:

AREAS OF FOCUS	ACTIONS TAKEN
IMPAIRMENT – INTANGIBLE ASSETS (INCLUDING GOODWILL)	
The Group holds a significant amount of goodwill, especially in relation to the Smiths Detection cash generating unit (CGU).	Smiths Detection was the Group's only CGU where the impairment headroom was limited for FY2023 and where a plausible downside scenario or a reasonable change in key assumptions could cause the carrying value of the CGU to be close to its recoverable value. During FY2023, strong demand drove historical levels of growth in revenue and increased profits. In FY2023 Smiths Detection continued to navigate issues with the supply of key components. As orders and revenues have grown, it has been necessary for Smith Detection to build inventory to compensate for the supply chain variability. This has reduced cash conversion but increased the carrying value of the CGU. The Committee challenged the level of intangible assets and the assumptions used to justify their carrying values, including the applicable discount rate used for impairment testing purposes. It also reviewed and agreed additional disclosures in the sensitivity of the impairment model and movements in the key judgements. See note 11 of the financial statements.
REVENUE RECOGNITION	
Smiths Detection and Smiths Interconnect have multi-year contractual arrangements for the sale of goods and services. Estimates are required at the balance sheet date when determining the stage of completion of contracts for revenue recognition.	The Committee reviewed management's revenue recognition judgements. The timing of revenue recognition involves judgements as to when control of an asset passes to the customer or, particularly with Smiths Detection and Smiths Interconnect, as to the stage of completion of contract activity and whether the separate performance obligations have been fulfilled. The Committee reviewed and concurred with management's conclusions on the timing of revenue recognition, significant judgements for complex programmes and contract accounting. See note 1 of the financial statements.
TAXATION	
The Group has extensive international operations, and in the normal course of business the Directors make judgements and estimates in relation to potential tax exposures.	Management assesses the assets and liabilities recognised in income and deferred tax, as well as the treatment of losses in the UK. Particular focus was given to the recognition of UK deferred tax assets, deferred tax assets relating to the John Crane, Inc. asbestos provision, and the Titeflex Corporation CSST provision. The Committee was updated on the ongoing tax audits and the uncertainty associated with the outcome of tax audits that are likely to conclude in the next 12 to 24 months. The Committee noted that the final outcome may vary significantly from the amounts currently provided for tax risks. See note 6 of the financial statements.
VAT ERROR ON CHAIN EXPORT TRANSACTIONS	
During FY2023 a historic VAT classification error was identified, which has resulted in certain European intercompany chain export transactions being treated as VAT exempt when they should have been initially classified as subject to VAT with subsequent refund at the time of export. In correcting this error the Group has recognised £2m of irrecoverable VAT and £7m of interest on the late payment of VAT.	The Committee was updated on the status of the investigation into this VAT classification error and the wider Group review of VAT classification. The Group-wide investigation identified similar classification issues in other European entities, against which provisions have been made. The Committee challenged management on the treatment and agreed that the classification errors had been appropriately treated as non-headline. The errors uncovered relate to up to six years of past VAT practice and involve the payment and recovery of European VAT, spanning FY2023 and FY2024. This would have materially impacted the Group's headline cash conversion metric during those years.

AREAS OF FOCUS	ACTIONS TAKEN
PROVISIONS FOR LIABILITIES AND CHARGES	
The Group holds significant material provisions for John Crane, Inc. asbestos litigation and the Titeflex Corporation CSST product claims.	The Committee considered the appropriateness of the level of the provisions held against John Crane, Inc. asbestos litigation and the Titeflex Corporation CSST claims. In particular, the Committee considered the treatment of potential liabilities, the changes to the assumptions made in calculating the provisions, sensitivities to changes in assumptions and advice received from the Group's specialist external advisers. The Committee agreed the ten-year time period for John Crane, Inc. asbestos litigation remained appropriate. In the case of the John Crane, Inc. asbestos litigation, the Committee also agreed with the judgement. However, whilst large numbers of claims are made against John Crane, Inc. and other defendants every year, due to both known and as yet unknown developments in the US legal system and other events that will impact the asbestos legal environment, a sufficiently reliable estimate cannot be made to cover the full period over which it is expected that costs will be incurred. In both these cases, it was determined that the assumptions fairly reflect the position. See note 23 of the financial statements.
POST-RETIREMENT BENEFITS	
The Group has material pension plan assets and liabilities and there is a high degree of estimation uncertainty.	The Committee considered the impact of the extreme spike in gilt yields following the 23 September 2022 'mini-budget' on Smiths Industries Pension Scheme's (SIPS) Liability Driven Investments (LDIs). The gilt yield spike resulted in a sudden increase in the collateral required to be posted to LDI funds. SIPS maintained sufficient collateral during the spike in gilt yields, and its hedging remained intact. However, the SIPS Trustee acted in accordance with advice and took steps to disinvest a proportion of assets from the corporate bond/credit fund to bolster the LDI collateral readily available. The Committee reviewed and agreed the methods, assumptions and benchmarks used by the actuaries to calculate the position of the UK and US schemes at 31 July 2023. These continue to show a net accounting surplus position which was reduced by £114m in FY2023. The Committee agreed with the treatment and corresponding disclosures on these matters. See note 8 of the financial statements.
PRESENTATION OF HEADLINE PROFITS AND ORGANIC GROWTH	
The Group presents headline profits and organic growth measures which require adjustment to IFRS required data. This is a material judgement and requires a consistent application of the Group's accounting policy on this topic.	The Committee considered the policy, presentation and judgements in relation to the Group's performance, in particular the separation of headline and non-headline items. This included the consideration of which items related to the Group's ongoing trading activity or those which should be recorded as non-headline. The Committee recognised that, as announced in the FY2022 Annual Report, the Group's restructuring project to better serve our customers, maximise growth opportunities and improve efficiency has been treated as non-headline due to the project being material and part of a pre-approved programme. The Committee also reviewed the appropriate level of disclosure for the restructuring charge recognised in FY2023. In addition, the Committee also considered those judgements in connection with items to be reflected or adjusted in organic performance. See note 3 of the financial statements.
INVENTORY MANAGEMENT AND PROVISIONING	
The Group's inventory position has increased over the past reporting periods due in part to investment to mitigate post-COVID-19 supply chain inefficiencies. The increasing level of working capital held by the business increases the risk that the controls and processes may no longer be appropriate to adequately address inherent risks.	The Committee considered the results and conclusions from inventory management and provisioning review with each division. The reviews challenged the divisions' inventory management and provisioning policies, procedures and practices. The Committee noted that Detection contributed significantly to the Group's increased inventory and had the largest inventory balance in the Group. However, it recognised that 80% of Detection's inventory was either a finished good directly related to a sales order or an aftermarket spare.

EXTERNAL AUDIT

The Committee places great importance on the quality, effectiveness and independence of the external audit process. Following a tender process KPMG was appointed as the Company's external auditor at the 2019 AGM. Michael Maloney, the KPMG audit partner responsible for the Company's audit since 2019 retired following the completion of the FY2022 audit. Mike Barradell was appointed as the lead engagement partner for FY2023. His tenure will be limited to five years in line with audit standards and due to KPMG partner rotation policies.

The Committee confirms that the Company has complied with the provisions of the Statutory Audit Services Order 2014 relating to the UK audit market for large companies throughout the year under review and as at the date of this report.

SCOPE OF THE EXTERNAL AUDIT PLAN AND FEE PROPOSAL

The Committee reviewed and approved KPMG's proposed audit plan and fee for the FY2023 audit. The Committee continued to monitor KPMG's execution of the audit plan during the year.

INDEPENDENCE AND OBJECTIVITY

The Committee is responsible for the implementation and monitoring of the Group's policies on external audit, which are designed to maintain the objectivity and safeguard the independence of the external auditor. These policies are reviewed annually. They cover the engagement of the external auditor for non-audit services and the appointment by the Group of former employees of the external auditor.

In addition to monitoring compliance with Group policies, the Committee's review of KPMG's independence included examining written confirmation from KPMG that they remained independent and objective within the context of applicable professional standards and considering the performance of the audit engagement partner.

NON-AUDIT SERVICES

Notwithstanding developing practice being adopted by audit firms not to provide non-audit services to audit clients, the Committee recognises that certain permissible non-audit services can be completed more efficiently by, and be purchased more cost-effectively from, the incumbent auditor due to the audit firm's existing knowledge of the Group and its systems. Under the policy approved by the Committee, it has delegated its responsibility for authorising the purchase of non-audit services from the external auditor to the Chairman of the Committee and/or the Chief Financial Officer within specific limits.

Details of the fees paid to KPMG for the year ended 31 July 2023 can be found in note 2 of the financial statements. Non-audit fees as a percentage of audit fees totalled 6% (FY2022: 10%). Non-audit fees in FY2023 principally comprised audit-related assurance services for the interim report and the limited assurance of the Group's Scope 1-3 Greenhouse Gas emissions metrics.

The Group would not expect in the ordinary course of business for non-audit fees to exceed 20% of the average of the previous three years' total Group audit fees unless exceptional circumstances existed. The Committee confirms that the non-audit work performed by KPMG during the year, was properly assessed and authorised in accordance with the Group's policy.

In early 2023, KPMG identified that KPMG network firms in Argentina, China, Egypt, Hong Kong and Qatar had provided financial statement preparation assistance services and/or foreign language translation services over the period 2020 to 2023 to Smiths entities in those regions. The services, which have since been terminated, were administrative in nature and did not involve any management decision-making or bookkeeping. None of the impacted entities are material or significant components of the Group audit. In addition, there was no self-review threat in relation to the work performed by KPMG's group audit team, and no direct or indirect effect on Smiths Group plc consolidated financial statements. KPMG sent a letter to the Audit & Risk Committee explaining the cause, analysis of implications and actions taken. The Audit & Risk Committee reviewed the letter and following discussions, have concurred with KPMG's professional judgement, that based on the assessment of the breach, KPMG's integrity, objectivity, impartiality of judgement, and professional scepticism were not impaired with respect to the impacted periods. Apart from this matter, KPMG has not performed any non-audit services during the year ended 31 July 2023 or subsequently which are prohibited by the FRC Ethical Standard.

EFFECTIVENESS OF THE EXTERNAL AUDIT

The Committee continually assessed the effectiveness of the external auditor during the year, including its independence, objectivity, appropriate mindset and professional scepticism. The Committee considered:

- The conclusion of the FY2022 audit process;
- The audit review of FY2023 interim results;
- Early-stage delivery of the FY2023 audit;
- The review of audit plans;
- Content, insight and value of KPMG's reports;
- Robustness and perceptiveness of KPMG in handling of key accounting and audit judgements;
- Management's responses to any audit findings;
- Discussions with management (both with and without the external auditor present) and with the external auditor (both with and without management present); and
- The findings of the various FRC's Audit Quality Inspection Reports with regard to KPMG and the implications and learnings for the Smiths audit.

The Committee ensured that it was satisfied that the Committee's and management's feedback from previous effectiveness reviews had been adequately addressed. It also considered other statutory reporting, audit planning and scope deliverables, and that KPMG had continued to devote sufficient time and resources to understand and assess the business, its key risks and controls.

After taking into account the factors above and its general interaction with KPMG throughout the period, the Committee was satisfied that the audit was effective. The Committee therefore agreed that it was appropriate to recommend to the Board that the reappointment of KPMG as the Company's auditor for a further year be proposed to shareholders at the 2023 AGM. A further review of the FY2023 audit will be conducted ahead of the FY2024 interim results.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for ensuring that sound risk management and internal control systems are in place. The Executive Committee is responsible for designing the risk management and internal control systems and ensuring they are effectively deployed throughout the Group. The risk management and internal control processes identify, assess, manage and monitor risks that have the potential to affect the achievement of our strategy. The Executive Committee and risk owners review our principal risks throughout the year. They assess the effectiveness of existing controls and the resulting residual risks and identify any additional necessary actions. We have a sound risk management and internal control systems in place. However, they can provide only reasonable, not absolute, assurance against material loss to the Group or material misstatement in the financial statements. More detail can be found on pages 66 to 74.

EFFECTIVENESS OF THE GROUP'S RISK MANAGEMENT AND INTERNAL CONTROLS

In FY2023, the Committee, on behalf of the Board and with the assistance of the Internal Audit function, monitored, reviewed and assessed the effectiveness of the Group's risk management and internal control systems in the context of the Group's strategy, business model and risk appetite.

The Committee receives risk deep-dive reports from the divisions and principal risk owners throughout the year. The divisional reports take place on a rotational basis to enable the Committee to cover all principal risks over time. The deep-dives are intended to inform the Committee's assessment of the effectiveness of risk management and internal control systems. This year the divisions also provided reviews on business continuity, in particular supply chain, and other key risks as applicable to their business, for example, procurement, market trajectory and disruption, quality and ESG. It also received updates on cyber, and ethics and compliance risks. The deep-dives on cyber covered Smiths cyber security framework, employee communication and training programmes to increase cyber awareness, and planned investment to improve resilience. The Committee relies on other inputs to assess if the risk management and internal controls system is effective. For example, the following items relating to our principal risks were discussed at the Board, Finance Committee, and SSE Committee meetings during FY2023: organic growth and financial performance; tax, treasury, liquidity, pensions and insurance; technology; health and safety; acquisitions; litigation; our people strategy; and ESG.

Consideration of the divisional risk registers alongside the principal risk deep-dives and other thematic risk areas enables the Committee and full Board to understand the culture, risks and opportunities, and assurance processes throughout the business and the potential impact on the Group. No significant failings or weaknesses were identified.

The Committee was also provided with updates in relation to the Finance Excellence Programme particularly in relation to projects to improve and standardise finance activity across the Group and ongoing activity to improve the financial control framework. The current year activity puts Smiths in a strong position for readiness for the FRC proposed changes regarding internal controls over financial reporting.

PRINCIPAL RISKS UPDATE

The Committee carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity. We replaced our ESG principal risk with climate risk on our risk register. Climate risk covers the energy transition opportunity and risks as well as climate-related regulatory risks. Due to the increasing proliferation of cyber attacks, the Committee approved increasing the probability of Smiths cyber security risk from probable to likely and the residual impact from low to moderate. Other risks remain relatively stable. Economic and geopolitical risks remain elevated, although the risk of regional or global recession is subsiding. Actions we have taken to mitigate supply chain challenges remain evident in our inventory levels and the divisions are working to reduce inventory to appropriate levels while also supporting growth.

A description of the principal risks facing the Group and how these were reviewed to assess the Group's viability can be found on pages 68, 75 and 76.

INTERNAL AUDIT

Internal Audit is independent of the business and so has no responsibility for operational business management. This ensures the integrity and objectivity of its annual Audit Plan, which is approved by the Committee. The authority of the Internal Audit function is derived from the Committee. The Director of Internal Audit is accountable to the Board through the Committee Chairman, although administratively the Director of Internal Audit reports to the Chief Financial Officer.

In order to carry out the responsibilities, as set out in a charter approved by the Committee, the Internal Audit function has:

- full and unrestricted access to all records, property and personnel;
- independent access to the Committee Chairman and members of the Committee;
- the right to request meetings with the Committee; and
- the authority and obligation to report significant findings or other concerns to the Committee.

During the period, the Committee received progress reports on the execution of the FY2023 Internal Audit Plan and discussed any high-priority control enhancement opportunities and action plans to address these. The Committee also approved the FY2024 Internal Audit Plan, including the proposed audit scope, approach, coverage and budget including the allocation of resources.

The Committee oversees the performance of the Internal Audit function through the Director of Internal Audit's attendance at Committee meetings, review of work presented throughout the course of the year, and a review of agreed KPIs which are reported to the Committee at each Committee meeting. This year, in accordance with the International Standards for the Professional Practice of Internal Auditing, the Committee undertook an EQA of the Internal Audit function by an independent third party. The results of the EQA conducted by PwC recognise that Internal Audit's performance against standards is strong, with minor improvements suggested. This is a testament to the function's focus on quality and continuous improvement. The improvement opportunity identified related to redefining the function's future, considering the increasing emphasis on internal controls and the changing risk environment. These will be addressed through the Internal Audit FY2024 Plan.

ETHICS AND COMPLIANCE

During the year, the Committee reviewed the Ethics and Compliance annual work programme and provided oversight of investigations into allegations of non-compliance with the Code of Business Ethics. This included matters raised through the Group's ethics reporting procedures including the Group's Speak Out hotline which allows for anonymous reporting. Smiths Speak Out hotline comprises a number of different channels (including call centres operated by an independent third party across the Group's global operations) for employees and other stakeholders to report concerns.

During the year there were no matters raised that required the Committee's direct intervention or investigations which resulted in a material loss to the Group or a detrimental impact on our customers or suppliers. The Committee receives regular reports on the total number and nature of cases by region, the ratio of anonymous vs attributed ethics reports, and the ratio of substantiated vs unsubstantiated cases. The anonymous vs attributed metric is used to monitor trust in the Group's reporting system. Accordingly, the Committee considered that the Group's processes and arrangements for employees to report concerns, including anonymously and without retaliation, about any improprieties and the arrangements for any subsequent investigation as necessary, were both appropriate and effective.

During the year, the Committee provided oversight of a number of areas targeted by the Ethics and Compliance work programme. More information on the Group's approach to behaving ethically and legally can be found on page 39 and in the Sustainability at Smiths report found on our website.

ASSESSMENT OF INTERNAL CONTROL AND RISK MANAGEMENT ARRANGEMENTS

The Committee was satisfied that the Group's processes governing financial reporting and controls, its culture, ethical standards and its relationships with stakeholders continued to be effective.

The Committee was also satisfied with the appropriateness and adequacy of the Group's risk management arrangements, internal control framework and three lines of defence model.

REMUNERATION & PEOPLE COMMITTEE REPORT

BILL SEEGER
Chairman of the Remuneration & People Committee

Our objectives are to create clear alignment between remuneration and sustainable, long-term stakeholder interests. We take account of shareholder views and ensure that performance supports the delivery of business strategy through targeting KPIs.

CHAIRMAN'S STATEMENT

I am pleased to present the Remuneration Report for the year to 31 July 2023.

The Directors' Remuneration Policy was approved at the AGM on 17 November 2021. The Directors' Remuneration Report for FY2023 will be put to an advisory shareholder vote at the AGM on 16 November 2023. I look forward to your continued support at the upcoming annual meeting.

BROADER CONTEXT FOR FY2023

We have continued to show resilience in the face of wider economic challenges and maintain our commitment to growth, execution and empowering our people. In terms of our people priorities, we have further improved our world class safety record, developed our internal talent pool with a significant increase in internal hires and launched a charitable foundation. The Smiths Foundation has an initial £10m commitment which will be used towards STEM-related non-profit organisations.

FY2023 has seen the successful introduction of leadership behaviours at Smiths. The Smiths Leadership Behaviours serve as a foundation to unlock the full potential of our company. They describe the behaviours needed for the organisation to be dynamic, inclusive and focused on delivering results that create value. They apply to everyone at Smiths and are relevant to every role. The Smiths Leadership Behaviours provide a basis for which our people can be assessed not only on what they do, but how they do it.

We introduced a GHG emissions reduction metric into our LTIP two years ago and more recently reinforced our commitment to our focused sustainability goals with the introduction of an energy efficiency metric for all divisions in the annual bonus. Setting the right metrics is undertaken in collaboration with the Science, Sustainability and Excellence (SSE) Committee. Further detail on our commitment to having relevant and robust sustainability metrics in our incentive plans is available on page 12 of the Sustainability at Smiths Report.

INCENTIVE OUTTURNS FOR THE YEAR

The Committee considered outcomes under the FY2023 annual bonus and the FY2021 LTIP awards in the context of the performance of the business and wider stakeholder experience. FY2023 was a year of record organic revenue and EPS growth. We have posted nine consecutive quarters of growth and year-on-year improvement on all five of our medium-term financial targets. We are well positioned for growth within our medium-term targets next year, supported by a healthy order intake.

As a result, it was considered appropriate to award an AIP bonus of 70.0% of maximum opportunity for FY2023, representing an achievement between target and maximum against the financial and non-financial metrics. One-third of the bonus earned will be deferred into shares for the Executive Directors.

The FY2021 LTIP award vested at 75.6% of maximum, reflecting performance over a three-year period aligned to the sustainable growth of the business over that period of time.

The Committee did not exercise any discretion in respect of the incentive outcomes.

IMPLEMENTATION FOR FY2024

The base salaries of the Executive Directors have been increased by 5.0% effective from 1 October 2023. In 2022, management elected to focus a greater proportion of the salary increase budget on employees who were more significantly affected by inflationary pressures. This resulted in a below-market salary increase of 2.5% for Paul Keel. Clare Scherrer did not receive a salary increase in October 2022. For 2023, the salary increase budget is aligned across all employees in the wider UK workforce and the increases of 5% for both Paul Keel and Clare Scherrer reflect this.

There are minimal changes to either the Annual Incentive Plan (AIP) or Long-Term Incentive Plan (LTIP) for the FY2024 awards. New Product Commercialisation (NPC) remains an important strategic driver of growth. For the FY2024 AIP, the weighting on the NPC metric has been incorporated into the broader Revenue metric. Payment of the Revenue outcome will be subject to meeting minimum NPC criteria. There are no changes to the LTIP metrics, weightings or ranges for the FY2024 awards which will be made in October 2023. The metrics in both the short-term and long-term incentive plans are aligned to the delivery of our strategy.

CONSIDERATION OF THE WIDER WORKFORCE

Our colleagues are our greatest asset. The Remuneration & People Committee is responsible for the Group's overall remuneration strategy and monitors pay and employment conditions across our workforce. During the year, the Committee received an update from HR leaders in a number of business areas, to understand how pay policies are implemented across the Group and highlighting a range of new initiatives. This included an extensive review of the benefits offered to our colleagues, and the introduction of a global parental leave policy.

The Board as a whole continues to pursue opportunities for Non-executive Directors to meet with employees under an organised programme of in-person site visits to get a deeper understanding of the culture within Smiths. Non-executive Directors attend employee forums and events engaging directly with our People. Updates are provided to the Remuneration & People Committee and further details on these activities are provided on page 59.

REMUNERATION POLICY REVIEW

As part of the three-yearly cycle, the Remuneration Policy will be formally reviewed during FY2024 to ensure that it remains clearly aligned to sustainable, long-term stakeholder interests and market best practice.

During this review we will consult with key shareholders to explain any proposed changes and take their views into account. The new Policy will be presented to shareholders for approval at the 2024 AGM.

COMMITTEE MEMBERSHIP AND MEETINGS

The membership of the Committee and their meeting attendance during the year is set out on pages 80, 81 and 84 of this report. I had served on a remuneration committee for at least 12 months prior to my appointment as Chairman of the Committee.

Sir George Buckley is absent when his own remuneration as Chairman of the Board is under consideration.

The Chief Executive attends meetings of the Committee by invitation but he is not involved in the determination of his own remuneration, or present during consideration of any changes to it.

COMMITTEE PERFORMANCE EVALUATION

The annual evaluation of the Committee was conducted as part of the internally facilitated evaluation process of the Board and its Committees. The findings relating to the Committee were discussed with me. More information can be found on page 85. Overall, the Committee is viewed as effective and performing well and is rigorous in discharging its responsibilities.

There were four scheduled Committee meetings held during the year and one special meeting.

OTHER ACTIVITIES OF THE COMMITTEE IN FY2023

In addition to those highlighted elsewhere in this statement, the Committee has also undertaken the following activities in FY2023:

- Reviewed business plans and performance to assess their potential impact on existing and future incentive arrangements;
- Reviewed remuneration of the wider workforce and related policies to ensure internal alignment of reward;
- Approved FY2024 salary increases for the Executive Committee considering available budget, individual performance rating, position in salary range and the increases provided across the wider workforce;
- Reviewed the Committee's performance and Terms of Reference; and
- Approved the Remuneration Report for inclusion in the Annual Report.

LOOKING FORWARD

It has been my pleasure to serve Smiths and its stakeholders as a Non-executive Director since May 2014. This is my fifth and final year as Chairman of the Remuneration & People Committee and I am confident the Committee is in safe hands as I pass responsibility to Karin Hoeing. Karin is an experienced Non-executive Director and has been a member of the Remuneration & People Committee since April 2020. I wish Karin every success in this role.

BILL SEEGER
Chairman of the Remuneration & People Committee

IMPLEMENTATION OF REMUNERATION POLICY IN FY2023

BASE SALARY

Paul Keel received:
£893,229

Clare Scherrer received:
£553,750

PENSION AND BENEFITS

- Pension contributions of 12% of base salary for Paul Keel and Clare Scherrer, in line with the rate available to the wider UK workforce.
- Benefits included healthcare, insurance, car benefit, tax return preparation and relocation benefits for the CEO.

ANNUAL BONUS (AIP)

Total bonus payout (% of maximum):

Paul Keel:
70.0%

Clare Scherrer:
70.0%

Performance measure	Threshold (25% payout)	Outturn	Maximum (full payout)	Achievement (% of max)
Revenue (30%)	£2,700m	£3,013m	£2,977m	100%
Operating Profit (30%)	£441m	£497m	£512m	79.5%
Headline operating cash conversion (20%)				
H1 (10%)	90%	63%	110%	0%
FY (10%)	95%	87%	115%	0%
New product commercialisation (10%)	£62.4m	£76.1m	£93.6m	61.5%
Energy efficiency (10%)	-1.5%	-7.9%	-4.5%	100%

LONG-TERM INCENTIVE (LTIP)

Total vesting (% of maximum):

Paul Keel:
75.6%

Clare Scherrer:
N/A

Performance measure	Threshold (25% payout)	Outturn	Maximum (full payout)	Achievement (% of max)
Organic revenue growth (25%)	2.0%	4.4%	6.0%	70%
EPS growth after tax (25%)	5.0%	17.3%	14.0%	100%
Free cash-flow (25%)	40%	47.6%	55%	63%
Average ROCE (25%)	13%	14.8%	16%	70%

SINGLE FIGURE (£000)

	Paul Keel	Clare Scherrer
Salary	893	554
Pension and benefits	381	97
Annual bonus	1,251	640
Long term incentives	1,760	–

STATEMENT OF IMPLEMENTATION OF REMUNERATION POLICY IN FY2024

BASE SALARY

Paul Keel:
£941,719
(5% increase)

Clare Scherrer:
£581,438
(5% increase)

UK wider workforce increases of 5%.

PENSION

Paul Keel:
12%
of base salary

Clare Scherrer:
12%
of base salary

BENEFITS

Paul Keel: Benefits package consisting of healthcare, insurance, car benefit, tax return preparation and relocation benefits

Clare Scherrer: Benefits package consisting of healthcare, insurances, car benefit and tax return preparation.

ANNUAL BONUS (MAXIMUM OPPORTUNITY)

Paul Keel:
200%
of base salary

Clare Scherrer:
165%
of base salary

Performance measure	Weighting
Revenue[1]	40%
Operating profit	30%
Headline operating cash conversion	20%
Energy efficiency	10%

- 33% of annual bonus deferred into shares for three years
- Specific targets are considered to be commercially sensitive and will be disclosed retrospectively

1 Subject to a new product commercialisation underpin

LONG-TERM INCENTIVE (LTIP)

Paul Keel:
189,900
shares

Clare Scherrer:
91,342
shares

Performance measure	Weighting	Threshold (25% vesting)	Maximum (full vesting)
Revenue growth	30%	3.5%	6.5%
EPS growth after tax	20%	6%	11%
Average free cash-flow	20%	45%	55%
Average ROCE	15%	14%	17%
Absolute reduction in GHG	15%	15%	20%

- Two-year post-vesting holding period applies
- The same fixed number of shares as in 2022 will be granted to Paul Keel and Clare Scherrer in October 2023, per the Policy

PERFORMANCE MEASURES AND LINK TO STRATEGY

	GROWTH					EXECUTION				PEOPLE				
Annual bonus (AIP)	1	2	3	4	5	1	2	3	4	1	2	3	4	5
Operating profit	✓	✓	✓		✓		✓		✓					
Revenue growth	✓	✓	✓				✓		✓					
Operating cash conversion						✓	✓		✓					
New product commercialisation[1]		✓	✓		✓									
Energy efficiency					✓				✓				✓	✓
Long-Term Incentive Plan (LTIP)														
EPS growth after tax	✓			✓			✓							
Revenue rogwth	✓	✓	✓	✓			✓							
Free cash-flow						✓	✓							
Average ROCE	✓	✓					✓							
Reduction in GHG emissions									✓				✓	✓

1 Acts as an underpin to the revenue performance measure in AIP.

GROWTH
1. Strong execution to maximise underlying market expansion
2. Improved product development and commercialisation
3. Building out priority adjacencies
4. Disciplined M&A
5. Sustainability at Smiths

EXECUTION
1. Operational
2. Financial
3. Functional
4. Sustainability at Smiths

PEOPLE
1. Safety and wellbeing
2. Inspire and empower talent
3. Diversity, equity and inclusion
4. Communities
5. Sustainability at Smiths

SHAREHOLDING REQUIREMENTS

Executive Directors should build a minimum shareholding equivalent to the annual fixed number of shares awarded under the LTIP within five years and are required to hold shares equivalent to their full in-employment shareholding guideline, or actual holding if lower, for two years post-employment.

ALIGNMENT WITH THE UK CORPORATE GOVERNANCE CODE

The table below details how the Committee addresses the factors set out within Provision 40 of the Code:

CLARITY	– The Committee welcomes transparency and regular engagement with shareholders with regard to executive remuneration. During 2023, as there have been no changes to Remuneration Policy, the Committee Chairman has not been required to consult with shareholders on remuneration matters. The Committee intends to consult with shareholders as part of the upcoming Remuneration Policy review in 2024.
SIMPLICITY	– Participants in incentive plans receive annual communications to confirm award levels and performance measures. Supporting guidance documents and instructional videos are available online. The Remuneration Policy for Executive Directors underpins that of the wider workforce and the 2021 Policy review further simplified the arrangements
RISK	– The Committee considers the effective management of risk throughout the delivery of incentive plans, applying reasonable discretion to override formulaic outcomes if necessary – The Committee considers that the structure of incentive arrangements does not encourage unnecessary risk taking – For Executive Directors, one-third of the annual bonus payment is deferred into shares with an additional three years until vesting – Robust malus and claw back provisions are in place for incentive plans and are clearly communicated
PREDICTABILITY	– Our Policy clearly outlines the maximum award levels and vesting outcomes applicable to annual bonus and LTIP. As stated above under 'Risk', the Committee has the ability to apply discretion to formulaic outcomes and clear malus and claw back provisions exist
PROPORTIONALITY	– There is a link between strategic business objectives and performance outcome, as outlined on page 101 – Our Policy for our incentive plans outlines threshold, target and maximum opportunity levels, with actual outcomes dependent on performance achieved against predetermined measures – Through the design of the Policy and the discretion of the Committee, poor performance is not rewarded
ALIGNMENT TO CULTURE	– Smiths Group Values of passion, integrity, respect, ownership and customer focus underpin the design and operation of the incentive programmes. The business strategy is supported by these Values which are widely communicated across the Company. The addition of the Smiths Leadership Behaviours, of which 'Living Smiths Values' is one, describe the behaviours needed for the organisation to be dynamic, inclusive and focused on delivering results that create value

CONSIDERATION OF WIDER WORKFORCE

The Committee considers all stakeholder groups when setting executive pay, including our people. The Committee is briefed on pay arrangements across the business and receives reports on people priorities within each of the divisions. In addition, a summary of remuneration related issues raised by employees through the employee engagement survey is presented to the Committee. As part of a comprehensive schedule of Non-executive Director engagement with the workforce, in 2023 all Board members, including the Committee Chairman attended events across our regional markets to discuss culture, people priorities, employee remuneration and benefit arrangements across the Group. Details of the engagement programme and in-person site visits are summarised on page 59. The overall responsibility for workforce engagement rests with the Senior Independent Director while each Non-executive Director has responsibility for workforce engagement in a specific geographical region and business area.

SINGLE FIGURE OF ANNUAL REMUNERATION (AUDITED)

EXECUTIVE DIRECTORS

	Salary		Benefits		Payments in lieu of pension contribution		Total fixed		Annual bonus		Long-term incentives		Total performance related		Total	
	FY2023 £000	FY2022 £000	**FY2023 £000**	FY2022 £000	**FY2023 £000**	FY2022 £000	**FY2023 £000**	FY2022 £000	**FY2023 £000**	FY2022 £000	**FY2023 £000**	FY2022 £000	**FY2023 £000**	FY2022 £000	**FY2023 £000**	FY2022 £000
Paul Keel	893	875	274	361	107	96	1,274	1,332	1,251	678	1,760	–	3,011	678	4,285	2,010
Clare Scherrer	554	141	31	7	66	17	651	165	640	91	–	–	640	91	1,291	256

SALARY

Clare Scherrer was appointed to the Board as Chief Financial Officer on 29 April 2022 with an annual base salary of £553,750. The values in the single figure table above in respect of FY2022 reflect the remuneration paid from 29 April 2022.

BENEFITS

Benefits for Executive Directors include life assurance, disability insurance, private healthcare insurance, car related benefits, tax return preparation and relocation benefits (CEO only). The benefit value for Paul Keel has been restated for FY2022 to include UK tax of £177,597 settled by the company in October 2022 on a grossed up basis for housing, car and relocation payments. This is in accordance with the CEO service contract. The benefit figure for FY2023 includes an estimated UK tax payment of £116,197, calculated on the same basis.

PENSION

Executives may choose either to participate in the Company's defined contribution pension plan or to receive a pension allowance in lieu thereof. Paul Keel and Clare Scherrer received an allowance in lieu of pension contribution equivalent to 12% of salary during the year. This is aligned to the rate available to the wider UK workforce.

FY2023 ANNUAL BONUS OUTCOME

The maximum annual bonus opportunities for FY2023 were 200% of salary for Paul Keel and 165% of salary for Clare Scherrer.

For FY2023, financial metrics made up 90% of the annual bonus, with the final 10% based on performance against energy efficiency objectives. The table below summarises the financial targets and the Company's actual performance (restated at budget exchange rates) against these for the FY2023 annual bonus.

	Performance targets, actual performance and outturn					
Measure	Weighting	Threshold 25% payout	Target 50% payout	Maximum 100% payout	Actual	Outturn
Revenue	30%	£2,700m	£2,835m	£2,977m	£3,013m	30.0%
Operating profit	30%	£441m	£474m	£512m	£497m	23.9%
Headline operating cash conversion						
H1	10%	90%	100%	110%	63%	0.0%
FY	10%	95%	105%	115%	87%	0.0%
New product commercialisation	10%	£62.4m	£70.9m	£93.6m	£76.1m	6.1%
Total financial	90%					**60.0%**
Energy efficiency	10%	-1.5%	-3.0%	-4.5%	-7.9%	10%
Total	**100%**					**70.0%**

OVERALL FY2023 ANNUAL BONUS OUTTURN

The following table sets out the overall FY2023 bonus outturn for Executive Directors:

	Maximum opportunity	Outturn (percentage of maximum)
Paul Keel	200%	70.0%
Clare Scherrer	165%	70.0%

The Committee considered the amounts carefully in the context of the Group's performance, individual performance and the current macroeconomic environment, and determined that the amounts were a fair reflection of performance in the past financial year. One-third of the annual bonus will be deferred into Smiths shares for three years.

FY2021 LONG-TERM INCENTIVE PLAN OUTCOME

Paul Keel received an award under the FY2021 LTIP, subject to the following performance conditions:

Measure	Weighting	Performance period	Threshold 25%	Maximum 100%	Actual	Outturn (% of vesting)
Average organic revenue growth	25%	1 August 2020 to 31 July 2023	2%	6%	4.4%	17.5%
Average annual Group EPS growth after tax	25%	1 August 2020 to 31 July 2023	5%	14%	17.3%	25.0%
Average ROCE	25%	1 August 2020 to 31 July 2023	13%	16%	14.8%	17.4%
Free cash-flow	25%	1 August 2020 to 31 July 2023	40%	55%	47.6%	15.7%
Total vesting						**75.6%**

The Group EPS growth after tax performance has been calculated to exclude the impact of the share buy-back scheme in order to ensure the targets were not materially easier to achieve than when originally set.

No discretion was exercised by the Remuneration & People Committee in respect of the formulaic outcomes under the LTIP. No awards were due to vest to Clare Scherrer under this award. The value included in the single figure table has been calculated using an estimated share price, based on the share price over the last quarter of the financial year of £16.51. The share price appreciation attributable to the FY2021 LTIP for Paul Keel was 19.29% (£284,729).

An additional holding period of two years will apply to the shares vesting.

SCHEME INTERESTS AWARDED IN RESPECT OF FY2023 (AUDITED)

Scheme interests awarded are outlined below.

	Scheme	Form of award	Date of grant	Number of shares awarded	Award price	Face value (£000)	% vesting at threshold performance	Performance period end date
Paul Keel	LTIP	Conditional shares	2 November 2022	189,900	1,554p	2,951	25%	31 July 2025
Paul Keel	Deferred bonus	Conditional shares	3 October 2022	14,941	1,513p	226	N/A	N/A
Clare Scherrer	LTIP	Conditional shares	2 November 2022	91,342	1,554p	1,419	25%	31 July 2025
Clare Scherrer	Deferred bonus	Conditional shares	3 October 2022	2,009	1,513p	30	N/A	N/A

The performance measures for the FY2023 LTIP award are as follows:

Measure	Weighting	Threshold (25% vesting)	Maximum
EPS growth after tax	20%	6.0% p.a.	11.0% p.a.
Revenue growth	30%	3.5% p.a.	6.5% p.a.
Average free cash-flow (as a percentage of operating profit)	20%	45%	55%
Average ROCE	15%	14%	17%
Reduction in GHG emissions (normalised)	15%	15%	20%
Total	**100%**		

PAYMENTS TO PAST DIRECTORS (AUDITED)

Andy Reynolds Smith's FY2021 LTIP will vest in 2023, pro-rated for service to 31 July 2021. 59,875 shares will vest at 75.6%. This is equivalent to 45,265 shares a with an estimated value of £747,325.

John Shipsey was paid an amount of £498,129 in lieu of notice for the unserved part of his 12-month notice period. The payment in lieu of notice was made in monthly instalments to 29 April 2023.

Mr Shipsey's share awards under the Company's LTIP are preserved in accordance with the good leaver provisions of the LTIP, subject to a time pro-rating adjustment and normal vesting dates. Mr Shipsey's FY2021 LTIP will vest in 2023, pro-rated for service to 31 July 2022. 63,892 shares will vest at 75.6%. This is equivalent to 48,302 shares with an estimated value of £797,466.

PAYMENTS FOR LOSS OF OFFICE

There were no payments for loss of office in FY2023.

DIRECTORS' SHARE OPTIONS AND LONG-TERM SHARE PLANS (AUDITED)

Director and Plan	Options and awards held on 31 July 2023	Options and awards held on 31 July 2022	Performance test	Exercise price	Grant date	Vesting date+	Expiry date++	Date vested	Number	Exercise price	Market price at date of grant	Market price at date of vesting
Paul Keel												
LTIP	141,059	141,059	A	n/a	28/09/21	01/10/23						
	189,900	189,900	B	n/a	05/11/21	01/10/24						
	189,900	0	B	n/a	02/11/22	15/10/25						
Deferred bonus award	5,378	5,378	–	n/a	05/11/21	04/11/24						
	14,941	0	–	n/a	03/10/22	03/10/25						
SAYE	1,547	1,547	–	1163p	17/05/22	01/08/25	01/02/26					
Clare Scherrer												
LTIP	91,342	0	B	n/a	02/11/22	15/10/25						
Deferred bonus award	2,009	0	–	n/a	03/10/22	03/10/25						
SAYE	1,346	0	–	1,337p	16/05/23	01/08/26	01/02/27					

NOTES

- The high and low market prices of the ordinary shares during the period 1 August 2022 to 31 July 2023 were 1,807p and 1,478p respectively. The mid-market closing price on 29 July 2022 was 1,543p and on 31 July 2023 was 1,699p.
- The mid-market closing price of a Smiths Group share on the date of the LTIP awards made to Directors in the FY2023 financial year was 1,554p (2 November 2022).
- The SAYE options over 1,547 shares granted to and held by Paul Keel at 31 July 2023 were granted at an exercise price below the market price of a Smiths Group share on 17 May 2022 (1,454p). Shares are granted in May but the savings period commences in August.
- The SAYE options over 1,346 shares granted to and held by Clare Scherrer at 31 July 2023 were granted at an exercise price below the market price of a Smiths Group share on 16 May 2023 (1,337p). Shares are granted in May but the savings period commences in August.
- None of the options or awards listed above was subject to any payment on grant.
- No options or awards have been granted to or exercised by Directors or have lapsed during the period 1 August to 15 September 2023.
- At 31 July 2023, the trustee of the Employee Share Trust held 1,742,929 shares. The market value of the shares held by the trustee on 31 July 2023 was £29,612,364 and all dividends were waived in the year in respect of the shares held by the trustee.
- Special provisions permit early exercise of options and vesting of awards in the event of retirement, redundancy, and death.

KEY

LTIP The Smiths Group Long-Term Incentive Plan 2015.

SAYE The Smiths Group Sharesave Scheme.

\+ The vesting dates shown above in respect of awards made under the LTIP are subject to the relevant performance test(s) being passed.

++ The expiry dates shown above apply in normal circumstances.

PERFORMANCE TESTS

A LTIP awards in 2020 – 25% subject to EPS growth; 25% subject to ROCE; 25% subject to free cash-flow; 25% subject to organic revenue growth.

B LTIP awards in 2021 and 2022 – 20% subject to EPS growth; 15% subject to ROCE; 20% subject to free cash-flow; 30% subject to revenue growth; 15% subject to reduction in greenhouse gas emissions.

– There are no performance criteria for the Deferred Bonus Shares awards or SAYE.

SHARE OWNERSHIP REQUIREMENT FOR EXECUTIVE DIRECTORS

Executive Directors are required to build a minimum shareholding equivalent to the annual fixed number of shares awarded under the LTIP within five years. Executive Directors are required to retain at least 50% of any net vested share awards (after sales to meet tax liabilities) until those guidelines are achieved. Shares under deferred bonus awards and LTIP awards which have vested but are subject to a further holding period (net of assumed income tax) count towards the requirement. Awards that are still subject to performance conditions do not count towards the requirement.

Executive Directors will be required to hold shares equivalent to their full in-employment shareholding guideline, or actual holding if lower, for two years post-employment, in line with best practice guidance. To enforce this requirement, vested shares are held in a nominee account provided by Smiths share plan administrator. This policy applies to Andy Reynolds Smith, who stepped down from the Group during FY2021, and John Shipsey who stepped down from the Group during FY2022. Mr Reynolds Smith was required to hold a number of shares in the Company with a value at least equal to £2,109,450 at 31 July 2021 until at least 31 July 2023, while Mr Shipsey is required to hold 54,959 shares in the Company until at least 31 July 2024.

SHARE SCHEME DILUTION LIMITS

The Company complies with the guidelines laid down by the Investment Association. These restrict the issue of new shares under all the Company's share schemes in any ten-year period to 10% of the issued ordinary share capital and under the Company's discretionary schemes to 5% in any ten-year period. As at 31 July 2023 the headroom available under these limits was 7.93% and 3.67% respectively.

EXECUTIVE DIRECTORS' SHAREHOLDINGS (AUDITED)

The table below shows the shareholding for each Executive Director against their respective shareholding requirement as at 31 July 2023.

Director	Shareholding requirement	Shares owned outright	Shares subject to performance	Vested shares in holding period	Shares arising from bonus deferral	Save As You Earn (SAYE)	Current shareholding (% of requirement)[1]	Shareholding requirement met
Paul Keel	189,900 shares	25,000	520,859	0	20,319	1,547	20%	No
Clare Scherrer	91,342 shares	25,000	91,342	0	2,009	1,346	30%	No

There have been no changes to the Directors' shareholdings between 1 August 2023 and 15 September 2023.

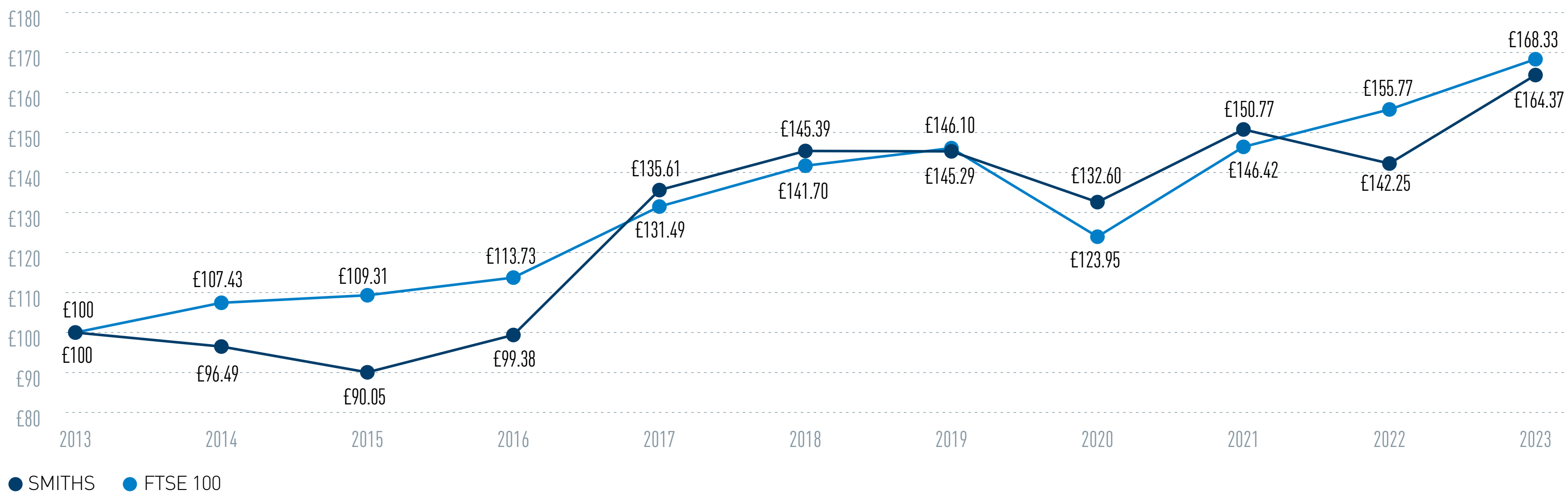
FOOTNOTES

1 Shares owned outright (including vested shares in holding period), and the net of income tax value of shares arising from bonus deferral are taken into account for the shareholding requirement. Executive Directors have five years from the date of appointment to meet the required personal shareholding; Paul Keel has until 25 May 2026 and Clare Scherrer has until 29 April 2027 to meet the requirement.

TSR PERFORMANCE

The following graph shows the Company's total shareholder return (TSR) performance over the past ten years compared to the FTSE 100 Index. The FTSE 100 Index, of which the Company has been a member throughout the period, has been selected to reflect the TSR performance of other leading UK-listed companies. The values of hypothetical £100 investments in the FTSE 100 Index and Smiths Group plc shares at 31 July 2023 were £168.33 and £164.37 respectively.

TOTAL SHAREHOLDER RETURN



CHIEF EXECUTIVE'S REMUNERATION FOR THE LAST TEN YEARS

	FY2023 P Keel	FY2022 P Keel	FY2021 P Keel	FY2021 A Reynolds Smith	FY2020 A Reynolds Smith	FY2019 A Reynolds Smith	FY2018 A Reynolds Smith	FY2017 A Reynolds Smith	FY2016 A Reynolds Smith	FY2016 P Bowman	FY2015 P Bowman	FY2014 P Bowman
Total remuneration £000	4,285	1,832	450	2,753	2,196	4,130	3,251	2,320	2,964	1,602	4,195	3,912
Annual bonus outcome (% max)	70%	39%	76%	70%	17%	41%	42%	96%	89%	88%	80%	43%
Common Investment Plan outcome (% max)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	100%	100%	100%
LTIP outcome (% max)	76%	n/a	n/a	19%	31%	75%	32%	n/a	n/a	18%	17%	18%

CHIEF EXECUTIVE PAY RATIOS

These ratios set out the comparison between the Chief Executive's remuneration and that for employees in the UK workforce.

Total remuneration

Year	Method	25th percentile ratio	Median pay ratio	75th percentile ratio
FY2023	Option B	**128:1**	**92:1**	**62:1**
FY2022	Option B	58:1	39:1	26:1
FY2021	Option B	105:1	75:1	47:1
FY2020	Option B	75:1	53:1	34:1
FY2019	Option B	133:1	97:1	65:1

Salary

Year	Method	25th percentile ratio	Median pay ratio	75th percentile ratio
FY2023	Option B	**27:1**	**19:1**	**13:1**
FY2022	Option B	28:1	20:1	13:1
FY2021	Option B	35:1	25:1	17:1
FY2020	Option B	31:1	22:1	15:1
FY2019	Option B	36:1	26:1	18:1

	Salary (£)	Total Remuneration (£)
Chief Executive	893,229	4,285,650
25th percentile employee	33,260	33,452
Median employee	46,521	46,789
75th percentile employee	68,720	69,392

The pay data for employees in the UK workforce has been calculated using Option B, based on the data used for gender pay reporting, due to the availability of data at the time the Annual Report was published. The gender pay reporting basis comprises salary and benefits as at 15 April 2023 and incentive payments payable in respect of FY2023. The Committee considers that this provides an outcome that is representative of the employees at these pay levels. It is assumed that the value of employee benefits is 7.0% of base salary as an average across the workforce.

The workforce remuneration figures are those paid to UK employees whose pay is at the 25th, median and 75th percentile of pay for the Group's UK employees. Figures are shown on both the prescribed basis using total pay and also salary only which provides a useful ongoing comparison as it is a less volatile basis. The CEO pay ratio for salary has seen a slight decrease at the 25th percentile and median and remained static at the 75th percentile. There is a significant increase in all ratios with regard to total remuneration. Strong business performance this year has resulted in a bonus between target and maximum for the CEO and FY2023 is the first time the LTIP has vested for the CEO since the date of his appointment.

PERCENTAGE CHANGE IN DIRECTORS' REMUNERATION

	FY2022 to FY2023			FY2021 to FY2022			FY2020 to FY2021		
	Salary/ fees	Benefits	Bonus	Salary/ fees	Benefits	Bonus	Salary/ fees	Benefits	Bonus
CEO	2.1%	-24.1%	185%	0%	239%	204%	n/a	n/a	n/a
CFO	0.0%	10.7%	176%	n/a	n/a	n/a	n/a	n/a	n/a
Non-executive Director remuneration	2.5%	12.0%	n/a	2.5%	100%	n/a%	-4.0%	-100%	n/a
Average of all employees	2.5%	2.5%	180%	2.5%	2.5%	-34%	0.0%	0.0%	267%

'All employees' is defined as all UK Group employees. This was 190 employees at all grades in FY2023. It was 200 employees and 196 employees for FY2022 and FY2021 respectively.

Remuneration for the CEO Paul Keel was pro-rated for service from 25 May 2021 – 31 July 2021 for FY2021. Remuneration for the CFO Clare Scherrer was pro-rated for service from 29 April 2022 – 31 July 2022 for FY2022.

RELATIVE IMPORTANCE OF SPEND ON PAY

The table below shows shareholder distributions (i.e., dividends and share buybacks) and total employee pay expenditure for FY2023 and FY2022, and the percentage change. The distributions are lower for FY2023 owing to a significantly lower number of share buybacks than in FY2022.

	FY2023 £m	FY2022 £m	Change
Shareholder distributions	350	661	-47%
Employee costs	939	823	14%

EXECUTIVE DIRECTORS' SERVICE CONTRACTS

The Company's policy is that Executive Directors are normally employed on terms which include a one-year rolling period of notice from the Company and six months' notice from the individual. The contract includes provision for the payment of a predetermined sum in the event of termination of employment in certain circumstances (but excluding circumstances where the Company is entitled to dismiss without compensation). In addition to payment of basic salary, pension allowance and benefits in respect of the unexpired portion of the one-year notice period and for good leavers only, the predetermined sum would include annual bonus and share awards only in respect of the period they have served, payable following the end of the relevant performance period and subject to the normal performance conditions.

Paul Keel is employed under a service contract with the Company dated and effective from 25 May 2021. He became an Executive Director with effect from 25 May 2021.

Clare Scherrer is employed under a service contract with the Company dated 13 April 2022 and effective 29 April 2022. She became an Executive Director with effect from 29 April 2022.

The service contracts for both Executive Directors may be terminated by 12 months' notice given by the Company or six months' notice given by the Director. The Company may elect to terminate the contract by making a payment in lieu of notice equal to the Director's base salary and benefits (including pension allowance) in respect of any unserved period of notice. The service contracts contain specific provisions enabling a reduction in any phased payments in lieu of notice, in the event that the Director finds alternative employment during the notice period. The service contracts are available for viewing at the Company's Registered Office.

CHANGE OF CONTROL PROVISIONS

In the event of a change of control, LTIP awards will vest to the extent that each of the performance conditions is met based on the Committee's assessment of performance over the performance period to the date of change of control. For internal performance measures, the Committee may exercise its judgement in determining the outcome based on its assessment of whether or not the performance conditions would have been met to a greater or lesser extent at the end of the full performance period. Awards will also normally be pro-rated to reflect the time that has elapsed between the grant of the award and the date of change of control. The Committee retains discretion to vary these provisions on a case by-case basis.

NON-EXECUTIVE DIRECTORS

Single figure of annual remuneration (audited)

	Salary/fees		Benefits[1]		Total	
	FY2023 £000	FY2022 £000	**FY2023 £000**	FY2022 £000	**FY2023 £000**	FY2022 £000
Sir George Buckley[2]	465	461	44	47	509	508
Pam Cheng	91	77	-	–	91	77
Dame Ann Dowling[3]	99	87	2	3	101	90
Tanya Fratto[4]	26	81	3	–	29	81
Karin Hoeing	79	73	-	–	79	73
Richard Howes	68	–	-	–	68	–
Bill Seeger[5]	151	146	4	–	155	146
Mark Seligman[6]	99	100	-	–	99	100
Noel Tata	95	89	3	–	98	89

NON-EXECUTIVE DIRECTOR FEES

Non-executive Director fees paid during FY2023 and payable during FY2024 are shown below. It was determined that the fee increase for the outgoing Chairman and the Non-executive Directors should mirror that awarded to senior employees and that of the wider UK workforce. The fee increases of 5.0% will be effective from 1 October 2023.

	FY2024	FY2023
Fee payable to Chair of the Board for all responsibilities[1]	£467,000	£466,920
Non-executive Director base fee	£78,598	£74,855
Additional fee payable to the Senior Independent Director	£20,000	£20,000
Additional fee for Committee Chairs	£20,000	£20,000
Attendance allowance for each meeting outside the Non-executive Director's home continent	£4,000	£4,000

1 The fee stated above will be payable to Steve Williams when he takes over as Chair of the Board at the conclusion of the 2023 Annual General Meeting

SHARE OWNERSHIP GUIDANCE FOR NON-EXECUTIVE DIRECTORS

Non-executive Directors are encouraged to acquire shares in the Company with a value of one times the annual base fee, over a five-year period. The five-year period is from the later of 1 August 2021 or the date of appointment to the Board. In addition, the Non-executive Directors are encouraged to retain a shareholding of one times the annual base fee for at least two years after the Director leaves the Board.

NON-EXECUTIVE DIRECTORS' SHAREHOLDINGS (AUDITED)

The table below shows the shareholding for each Non-executive Director.

	31 July 2023
Sir George Buckley	29,649
Pam Cheng	6,000
Dame Ann Dowling	5,813
Tanya Fratto[1]	1,500
Karin Hoeing	1,299
Richard Howes	3,307
Bill Seeger	10,000
Mark Seligman	6,000
Noel Tata	6,000

1 Tanya Fratto retired as a Non-executive Director on 16 November 2022. The shareholding shown represents shares held as at 16 November 2022.

Following a quarterly acquisition of ordinary shares, under a share purchase agreement using a fixed proportion of his after-tax fees received from the Company (20%), Sir George Buckley acquired 783 shares. Karin Hoeing acquired 193 shares and Richard Howes acquired 104 shares on 1 August 2023. There have been no further changes between 1 August 2023 and 15 September 2023.

FOOTNOTES

1 Benefits for the Chairman and Non-executive Directors relate to reimbursed travel-related and other expenses (including flight costs and tax support where applicable), which are grossed-up for the UK income tax and National Insurance contributions paid by the Company on their behalf.
2 Sir George Buckley's fee is in respect of all his responsibilities for Smiths Group.
3 Dame Ann Dowling's fee comprised her Non-executive Director's fee and her additional fee for chairing the Science, Sustainability & Excellence Committee.
4 Tanya Fratto retired as a Non-executive Director effective from 16 November 2022.
5 Bill Seeger's fees comprised his Non-executive Director's fee, his additional fees for chairing the Remuneration & People and Finance Committees and his additional fee as Senior Independent Director.
6 Mark Seligman's fees comprised his Non-executive Director's fee and his additional fee for chairing the Audit & Risk Committee.

CHAIRMAN'S AND NON-EXECUTIVE DIRECTORS' LETTERS OF APPOINTMENT

The Chairman and the Non-executive Directors serve the Company under letters of appointment and do not have contracts of service or contracts for services. Except where appointed at a General Meeting, Directors stand for election by shareholders at the first AGM following appointment. The Board has resolved that all Directors who are willing to continue in office will stand for re-election by the shareholders each year at the AGM. Either party can terminate the appointment on one month's written notice and no compensation is payable in the event of an appointment being terminated early. The letters of appointment or other applicable agreements are available for viewing at the Company's Registered Office.

	Date of appointment
Sir George Buckley	1 August 2013
Pam Cheng	1 March 2020
Dame Ann Dowling	19 September 2018
Karin Hoeing	2 April 2020
Richard Howes	1 September 2022
Bill Seeger	12 May 2014
Mark Seligman	16 May 2016
Noel Tata	1 January 2017

STATEMENT OF SHAREHOLDER VOTING

The table below sets out the Company voting outcome of the advisory resolution for approval of the Directors' Remuneration Report at the 2022 AGM and the approval of the Directors' Remuneration Policy at the 2021 AGM:

Resolution	Votes for	% of votes cast for	Votes against	% of votes cast against	Total votes cast	Votes withheld (abstentions)
Directors' Remuneration Report	282,175,313	96.01%	11,719,764	3.99%	293,895,077	192,763
Directors' Remuneration Policy	282,034,458	86.69%	43,312,009	13.31%	325,346,467	4,371,952

ADVISERS TO THE COMMITTEE

During the year, the Committee received material assistance and advice from the Chief Executive Officer, the Chief People Officer, the Global Reward Director, Deloitte LLP and Freshfields Bruckhaus Deringer LLP. The Committee's appointed independent remuneration adviser is Deloitte LLP. The Company Secretary is secretary to the Committee.

The Company paid a total fee of £89,450 to Deloitte LLP in relation to remuneration advice to the Committee during the year. Fees were determined on the basis of time and expenses.

During FY2023, Deloitte LLP provided the Committee with information on market, compliance support for this year's Directors' Remuneration Report and the provision of other advice relating to remuneration governance and market practice. Deloitte LLP is a founding member of the Remuneration Consultants Group and a signatory to its Code of Conduct. Deloitte LLP provided additional tax advisory services including global corporation tax compliance and employee mobility advice, as well as company secretarial, internal audit co-source, transaction and consultancy services. The Committee is satisfied that the advice provided by Deloitte LLP is objective and independent and that it does not have connections with the Group that may impair its independence.

SUMMARY OF REMUNERATION POLICY

Full details of the Remuneration Policy for Executive Directors, which was approved by shareholders at the AGM on 17 November 2021, are set out on the Company's website and in the 2021 Annual Report and Accounts on pages 112 to 119.

The Directors' Remuneration Report has been approved by the Board and signed on its behalf by:

BILL SEEGER
Chairman of the Remuneration & People Committee

SCIENCE, SUSTAINABILITY & EXCELLENCE COMMITTEE REPORT

CHAIR'S STATEMENT

I am pleased to present our Committee Report for FY2023. Science, Sustainability and Excellence (SSE) are critical elements of support for the execution of our strategy. We had a full agenda this year on SSE topics and have made good progress.

We submitted our proposed Science-Based Targets (SBTs) and related plans for Scopes 1, 2 and 3 to the SBTi in May 2023, demonstrating our absolute commitment to achieving our Net Zero goals. Completion of ISAE Limited Assurance on our FY2022 and FY2023 emissions inventories and energy efficiency metric was also an important step forward. This work was performed by our auditors KPMG and was a valuable exercise to test our processes and controls for monitoring the accuracy of these critical underpinning data.

Our ESG double materiality assessment was finalised with support from PwC, with the assessment confirming that our ESG strategy and framework are fit for purpose and capture well the most material issues for our stakeholders.

Linking our environmental targets in the form of energy efficiency to remuneration for a larger group of Smiths colleagues has generated enthusiasm across the Company, focusing the business on the necessary cultural change and building critical foundations to achieve our Net Zero goals. As such, we were pleased to recommend further targets to the Remuneration & People Committee for FY2024. More information can be found on page 98.

The Committee received deep-dive presentations from our divisions on a rolling basis throughout the year. The deep-dives from Smiths Interconnect and Smiths Detection covered science in the form of innovation and new product development (NPD). From March, the deep-dives were expanded for John Crane and Flex-Tek to include presentations on their divisional roadmaps to deliver our SBT trajectory. We also received updates on SES projects. These deep-dives are important to the Committee as they enable us to review the culture, opportunities and risks in relation to SSE across the Group. They also bring to life the innovative and exciting work taking place in the divisions which, in turn, ensures the long-term sustainability of Smiths business model.

Over the next year, I look forward to the Committee's continued oversight of our SSE agenda, including further deep-dives from the divisions and Group experts, together with regular progress updates on the development and commercialisation of our new products and on our journey to Net Zero. I am particularly excited by the opportunities presented when these combine, with the innovation and new products we have in the pipeline supporting us and our customers in meeting ESG commitments and the wider green agenda. We believe this is a continuing and significant commercial opportunity for Smiths.

I would like to thank colleagues across Smiths who are driving sustainability, innovation, more efficient processes and the commercialisation of new products. The Committee has observed a real step change in enthusiasm for SSE matters over recent years. I would also like to thank my colleagues on the Committee for their contributions during the year and I look forward to continuing our work in FY2024.

DAME ANN DOWLING
Chair of the Science, Sustainability & Excellence Committee

COMMITTEE MEMBERSHIP AND MEETINGS

There were four scheduled meetings during the year. The members of the Committee, their biographies, and attendance at meetings during the year can be found on pages 80, 81 and 84. The Chief Executive Officer, Chief Sustainability Officer and Group SES Director attended every meeting. Other senior leaders were invited to attend as necessary.

COMMITTEE PERFORMANCE EVALUATION

Through the annual Board evaluation process, described on pages 85 and 86, the Board confirmed the effectiveness of the Committee in its role supporting the Board in compliance with its remit.

COMMITTEE ACTIVITIES

The main topics considered at Committee meetings were:

SCIENCE

All divisions updated the Committee on their NPD processes and pipelines and how science, technology, sustainability and a deep understanding of customer needs and aspirations are influencing their next generations of products. These divisional deep-dives brought to life NPD in each division and enabled the Committee to test future developments to ensure they are sufficiently aspirational and aligned with Smiths strategic aims. The Committee is highly engaged in this area, regularly tracking the development and commercialisation of new and emerging technologies and products. We are excited by the differentiated product opportunities in the pipeline, particularly those designed to support our customers to decarbonise and deliver efficient and sustainable infrastructure and processes.

SUSTAINABILITY

The Committee continued to monitor progress against Smiths sustainability metrics including GHG emissions, renewable electricity, energy efficiency, water use and waste disposal. The Committee was updated on the work of the Energy Governance Committee (now known as the Net Zero Delivery Committee), a cross-divisional working group set up to coordinate a diverse mix of projects to meet our Net Zero targets. These projects include energy efficiency projects, onsite renewable projects, procurement of green electricity, moving to green fleets and alternative energy solutions.

During the divisional deep-dives, the Committee heard how the divisions have been driving environmental change in their businesses. As part of these updates, John Crane and Flex-Tek's roadmaps to achieve their SBT trajectories were reviewed by the Committee who provided challenge and guidance.

The Committee recommended to the Audit & Risk Committee the approval of the ISAE Limited Assurance of FY2022 and FY2023 energy efficiency and GHG data. Internal controls and rigour relating to sustainability data have progressed during the year and the Limited Assurance review by KPMG was an important exercise which highlighted where control efforts should be focused in the future. The Limited Assurance review also supported the Committee's confirmation to the Remuneration & People Committee of the attainment of the FY2023 energy efficiency targets and its recommendation for the new FY2024 targets to be included in remuneration.

An ESG double materiality assessment was undertaken during the year, with oversight from the Committee. While this was an important exercise, it brought no surprises but, rather, confirmed that our current prioritisation of ESG-related topics is indeed on those of highest importance to our multiple stakeholders. The results highlighted five key ESG topics where Smiths must place the most focus. These are: 1) improving safety, health and well-being; 2) delivering Net Zero GHG; 3) commercialising high-value green technologies; 4) behaving ethically and legally; and 5) supply chain management. As well as confirming the material ESG topics for Smiths, the assessment also supported our choice of key development areas for FY2024. The Committee is pleased with the outcome of the assessment and that so many colleagues engaged with the process through an internal survey. For more information on the ESG double materiality assessment, see page 32.

We were pleased to approve the FY2023 Sustainability at Smiths report which provides stakeholders with an enhanced understanding of the Group's approach to, and measurement of, ESG progress. The report can be found on our website.

EXCELLENCE

The Group SES Director attended each Committee meeting to report on SES. The Committee was updated on the embedding of phase two of SES which leverages our Group focus on continuous improvement towards greater results-orientated process improvements.

The Committee heard how the appointment of Master Black Belts and Black Belts, as well as projects that align with business priorities and deliver results, have helped drive support for SES through the business. High demand in the business for SES training has also shown the Committee that the value of SES is understood. Deep-dives from each division demonstrated how SES is becoming truly embedded in the business and in Smiths culture.

Our divisions also highlighted how they have been working in partnership with our suppliers on SES projects in the areas of supply and customer satisfaction to ensure continuity of supply for key customers.

Finally, the Committee was updated on the Internal Audit review of SES. The team assessed various SES projects and metrics to ensure that the communicated benefits were accurate. This was a valuable assurance exercise.

DIRECTORS' REPORT

The Strategic Report is a requirement of the Companies Act 2006 (the Act) and can be found on pages 8 to 77. The Company has chosen, in accordance with section 414C(11) of the Act, to include certain matters in its Strategic Report that would otherwise be disclosed in this Directors' Report. The Strategic Report and the Directors' Report together are the management report for the purposes of Rule 4.1.8R of the Disclosure Guidance and Transparency Rules.

Other information that is relevant to the Directors' Report, and which is also incorporated by reference, can be found as follows:

Disclosure	Location
Likely future developments in the Company	Strategic Report pages 8-31
Directors' dividend recommendation	Strategic Report pages 21-22
Research and development activities	Strategic Report pages 24-28
Employment of disabled persons	Non-Financial Information Statement pages 64-65
Engagement with UK employees	Our People and Culture page 13-15 Sustainability at Smiths page 46 Employee Share Schemes note 9
Engagement with suppliers, customers and others in a business relationship with the Company	Stakeholders and Section 172 Statement pages 60-61
Political donations and expenditure	Directors' Report page 114
GHG, energy consumption and energy efficiency	Sustainability at Smiths pages 44-45
Corporate Governance Statement	Governance Report pages 78
Directors during FY2023	Governance Report pages 80-81
Director appointment	Governance Report page 90
Amendment of Articles of Association	Governance Report page 90
Indemnities	Governance Report page 84
Directors' responsibility statement	Statement of Directors' responsibilities page 115
Disclosure of information to the auditor	Statement of Directors' responsibilities page 115
Financial instruments	Financial risk management note 19
Share capital disclosures	Share capital note 24
Acquisition of own shares (share buyback programme)	Share capital note 24
Directors' powers	Governance Report page 79 Share capital note 24
Post balance sheet event	Post balance sheet event note 30
Overseas branches	Subsidiary undertakings page 210
Change of control	Remuneration Report page 109 Directors' Report page 113 Borrowings and net debt note 18

CHANGE OF CONTROL

The Company and two of its divisions, Smiths Detection and Smiths Interconnect, have Special Security Agreements with the US Department of Defense in order to comply with the US government's national security requirements. In the event of a change of control of the Company, the agreements may be terminated or altered by the US Department of Defense.

LISTING RULES DISCLOSURE

Information required by the FCA's Listing Rules can be found as set out below. There are no further disclosures required in accordance with Listing Rule 9.8R.

Listing Rule	Disclosure	Location
9.8.4R(1)	Capitalised interest	There was no interest capitalised during FY2023
9.8.4R(12)(13)	Dividend waiver	Dividend note 25
9.8.6R(1)	Directors' interests	Remuneration Report pages 109
9.8.6R(2)	Major shareholders' interests	Directors' Report page 114
9.8.6R(3)(a)(b)	Going Concern and Viability Statement	Strategic Report pages 75-77
9.8.6R(4)(a)	Purchase of own shares	Share capital note 24
9.8.6R(5)(6)(a) and (b)	UK Corporate Governance Code compliance	Governance Report page 78
9.8.6R(7)	Unexpired term of Service Contract	Remuneration Report pages 108-109
9.8.6R(8)(a)(b)	Statement on inclusion of TCFD	Sustainability at Smiths page 47
9.8.6R(9)(10)(11)	Board diversity targets	Governance Report page 89

POLITICAL DONATIONS

The Group did not give any money for political purposes in the UK, the EU or outside of the EU, nor did it make any political donations to political parties or other political organisations, or to any independent election candidates, or incur any political expenditure during the year. In accordance with the US Federal Election Campaign Act, Smiths provides administrative support to a federal Political Action Committee (PAC) in the US funded by the voluntary political contributions of eligible employees. The PAC is not controlled by the Company and all decisions regarding the amounts and recipients of contributions are directed by a steering committee comprising Government Relations employees and reported to all eligible to contribute to the PAC. Contributions to political organisations reported by the PAC during FY2023 totalled US$6,000 (FY2022: US$8,000).

MAJOR SHAREHOLDER' INTERESTS

As at 31 July 2023, the Company had been notified under the FCA's Disclosure Guidance & Transparency Rules, or had received disclosures pursuant to the Act, of the following holdings of voting rights in its shares:

	Number of voting rights	% of total voting rights	Date of notification
BlackRock, Inc.	23.3m	5.9	31 May 2018
Harris Associates L.P.	19.7m	5.0	22 July 2019
Dodge & Cox	19.2m	5.0	12 March 2022
Ameriprise Financial, Inc.	17.7m	5.0	5 December 2022
Artemis Investment Management LLP	17.6m	4.9	25 October 2022

No further notifications were received between 1 August and 15 September 2023.

By order of the Board

MATTHEW WHYTE
Company Secretary

25 September 2023

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the Annual Report, including a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement, and the Group and Parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. Under that law the Directors have elected to prepare the Group financial statements in accordance with UK-adopted international accounting standards in conformity with the requirements of the Act and applicable law and have elected to prepare the Parent Company financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 'Reduced Disclosure Framework.'

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable, relevant, reliable and prudent;
- For the Group financial statements, state whether applicable UK-adopted international accounting standards have been followed;
- For the Parent Company financial statements, state whether applicable United Kingdom Accounting Standards have been followed subject to any material departures disclosed and explained in the Parent Company financial statements;
- Assess the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- Use the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Act and, as regards the Group financial statements, Article 4 of the IAS Regulation. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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

In accordance with Disclosure Guidance and Transparency Rule 4.1.14R, the financial statements will form part of the annual financial report prepared using the single electronic reporting format under the Transparency Directive European Single Electronic Format (ESEF) Regulation. The auditor's report on these financial statements provides no assurance over the ESEF format.

DIRECTORS' RESPONSIBILITY STATEMENT

Each of the Directors (who are listed on pages 80 and 81) confirms that to the best of his or her knowledge:

- The financial statements, which have been prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- The Strategic Report and Directors' Report, together the management report, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- As at the date of this Annual Report and financial statements, there is no relevant audit information of which the Company's auditor is unaware. Each Director has taken all the steps he or she should have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

We consider the Annual Report and financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

Signed on behalf of the Board of Directors:

PAUL KEEL
Chief Executive Officer

25 September 2023

KPMG LLP'S INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF SMITHS GROUP PLC

FINANCIAL STATEMENTS

1. OUR OPINION IS UNMODIFIED

In our opinion:

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

WHAT OUR OPINION COVERS

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

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

BASIS FOR OPINION

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

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

2. OVERVIEW OF OUR AUDIT

FACTORS DRIVING OUR VIEW OF RISKS

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

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

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

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

Key Audit Matters	vs FY2022	Item
Recoverability of goodwill in respect of the Smiths Detection CGU (a)	←→	**4.1**
Estimation of litigation provisions for asbestos in John Crane, Inc (a)	←→	**4.2**
Defined benefit pension plan liabilities for SIPS (b)	↓	**4.3**

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

AUDIT COMMITTEE INTERACTION

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

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

OUR INDEPENDENCE

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

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

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

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

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

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

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

MATERIALITY (ITEM 6 BELOW)

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

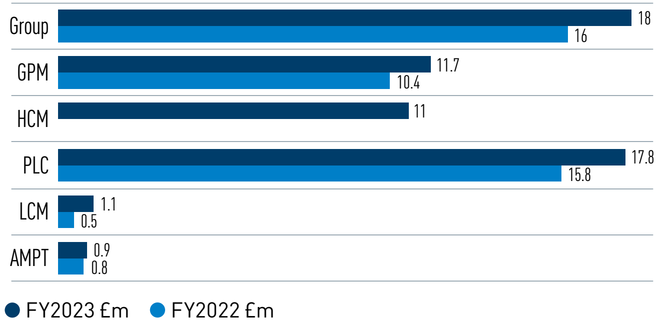
We have determined overall materiality for the Group financial statements as a whole at £18m (FY2022: £16m) and for the Parent Company financial statements as a whole at £17.8m (FY2022: £15.8m).

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

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

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

MATERIALITY LEVELS USED IN OUR AUDIT



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

GROUP SCOPE (ITEM 7 BELOW)

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

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

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

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

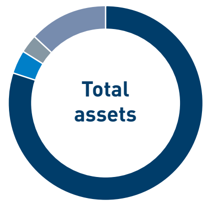
The components within the scope of our work accounted for the percentages illustrated opposite.

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

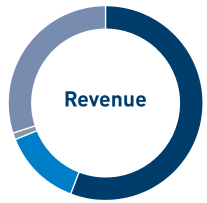
We consider the scope of our audit, as communicated to the Audit & Risk Committee, to be an appropriate basis for our audit opinion.

COVERAGE OF GROUP FINANCIAL STATEMENTS

Full scope audits	62%
Audits of one or more account balances	12%
Specified risk-focused audit procedures	0%
Remaining components	26%



Full scope audits	80%
Audits of one or more account balances	4%
Specified risk-focused audit procedures	3%
Remaining components	13%



Full scope audits	56%
Audits of one or more account balances	13%
Specified risk-focused audit procedures	1%
Remaining components	30%

THE IMPACT OF CLIMATE CHANGE ON OUR AUDIT

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

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

3. GOING CONCERN, VIABILITY AND PRINCIPAL RISKS AND UNCERTAINTIES[1]

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

GOING CONCERN

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

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

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

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

OUR CONCLUSIONS

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

DISCLOSURES OF EMERGING AND PRINCIPAL RISKS AND LONGER-TERM VIABILITY

OUR RESPONSIBILITY

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

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

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

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

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

OUR REPORTING

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

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

4. KEY AUDIT MATTERS

WHAT WE MEAN

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

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

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

4.1 VALUATION OF GOODWILL FOR DETECTION DIVISION (GROUP)

FINANCIAL STATEMENT ELEMENTS

	FY2023	FY2022
Carrying Value of Goodwill	**£630m**	£644m

OUR ASSESSMENT OF RISK VS FY2022

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

OUR RESULTS

FY2023: Acceptable
FY2022: Acceptable

DESCRIPTION OF THE KEY AUDIT MATTER

Forecast-based assessment

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

OUR RESPONSE TO THE RISK

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

Our procedures to address the risk included:

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

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

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

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

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

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

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

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

AREAS OF PARTICULAR AUDITOR JUDGEMENT

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

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

OUR RESULTS

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

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

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

FINANCIAL STATEMENT ELEMENTS

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

OUR ASSESSMENT OF RISK VS FY2022

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

OUR RESULTS

FY2023: Acceptable
FY2022: Acceptable

DESCRIPTION OF THE KEY AUDIT MATTER

Subjective estimate

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

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

OUR RESPONSE TO THE RISK

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

Our procedures to address the risk included:

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

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

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

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

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

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

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

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

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

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

AREAS OF PARTICULAR AUDITOR JUDGEMENT

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

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

OUR RESULTS

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

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

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

FINANCIAL STATEMENT ELEMENTS

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

OUR ASSESSMENT OF RISK VS FY2022

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

OUR RESULTS

FY2023: Acceptable
FY2022: Acceptable

DESCRIPTION OF THE KEY AUDIT MATTER

Subjective valuation and significant transaction

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

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

OUR RESPONSE TO THE RISK

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

Our procedures to address the risk included:

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

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

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

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

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

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

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

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

AREAS OF PARTICULAR AUDITOR JUDGEMENT

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

- Assessment of the assumptions supporting the defined benefit obligation.
- Assessment of the appropriateness of the amounts recognised and corresponding disclosures made in respect of uncertainties surrounding effective equalisation of retirement ages between men and women.

OUR RESULTS

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

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

5. OUR ABILITY TO DETECT IRREGULARITIES, AND OUR RESPONSE

FRAUD – IDENTIFYING AND RESPONDING TO RISKS OF MATERIAL MISSTATEMENT DUE TO FRAUD	
FRAUD RISK ASSESSMENT	To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included: – Enquiring of Directors, the Audit & Risk Committee, internal audit and inspection of policy documentation as to the Group's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Group's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud. – Reading Board, Audit & Risk, Disclosure, Transactions, Nomination & Governance, Remuneration & People, Finance Committee minutes. – Considering remuneration incentive schemes and performance targets for management and Directors including the organic revenue growth targets and EPS target for management remuneration. – Using analytical procedures to identify any unusual or unexpected relationships
RISK COMMUNICATIONS	We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit. This included communication from the Group to full scope and audit of specific account balances scope component audit teams of relevant fraud risks identified at the Group level and requesting the full scope and audit account balance scope component audit teams to report to the Group audit team any instances of fraud that could give rise to a material misstatement at Group.
FRAUD RISKS	As required by auditing standards and taking into account possible pressures to meet profit targets, and our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular in the Smiths Detection Inc, USA and Smiths Detection Germany GmbH components. Within these components a significant portion of multi-year contracts (programme revenue) revenue is normally recognised in the last month of the year. Therefore, there is a risk of revenue being overstated during the year end closing period through the manipulation of the timing of recording of revenue from such pressure. We did not identify any additional fraud risks.
PROCEDURES TO ADDRESS FRAUD RISKS	We performed procedures including: – Identifying journal entries to test for all components within full scope and audit of specific account balances scope based on risk criteria and comparing the identified entries to supporting documentation. These included unusual entries in revenue accounts, cash and cash equivalents or borrowings accounts and entries posted by senior finance management. – Testing consolidation adjustment entries posted and comparing the identified entries to supporting documentation. – Specified procedures to be completed by relevant component teams over period end revenue recognition procedures. These procedures included tests over pre-year end and post year end revenue transactions

LAWS AND REGULATIONS – IDENTIFYING AND RESPONDING TO RISKS OF MATERIAL MISSTATEMENT RELATING TO COMPLIANCE WITH LAWS AND REGULATIONS	
LAWS AND REGULATIONS RISK ASSESSMENT	We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the Directors and other management (as required by auditing standards), and from inspection of the Group's regulatory and legal correspondence and discussed with the Directors and other management the policies and procedures regarding compliance with laws and regulations. As the Group is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.
RISK COMMUNICATIONS	We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the Group audit team to full-scope component audit teams of relevant laws and regulations identified at the Group level, and a request for full scope component auditors to report to the Group team any instances of non-compliance with laws and regulations that could give rise to a material misstatement at Group level.
DIRECT LAWS CONTEXT AND LINK TO AUDIT	The potential effect of these laws and regulations on the financial statements varies considerably. Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, taxation legislation and pensions legislation, and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.
MOST SIGNIFICANT INDIRECT LAW/REGULATION AREAS	Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: health and safety, anti-bribery and corruption, considering dealings with government customers, employment law, and certain aspects of company legislation Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.
CONTEXT	
CONTEXT OF THE ABILITY OF THE AUDIT TO DETECT FRAUD OR BREACHES OF LAW OR REGULATION	Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of fraud, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

6. OUR DETERMINATION OF MATERIALITY

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

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

What we mean

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

Basis for determining materiality and judgements applied

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

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

We normalised PBTCO (FY2022: normalised PBTCO) for these items because they do not represent the normal, continuing operations of the Group. In making the adjustments for the current year, we excluded the net credit of £4m due to the retirement benefit obligation past service equalisation costs (note 8 of the financial statements) and added back restructuring costs of £36 million (note 3 of the financial statements). (FY2022: PBTCO was normalised to exclude foreign exchange gain on intercompany loan with discontinued operations of £22 million, retirement benefit scheme settlement loss £171 million, past service equalisation cost £43 million and impairment of assets £19 million). As such, we based our Group materiality on Group normalised PBTCO of £392m (FY2022: £314m).

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

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

£11.7M (FY2022: £10.4M PERFORMANCE MATERIALITY

What we mean

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

Basis for determining performance materiality and judgements applied

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

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

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

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

What we mean

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

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

Basis for determining the audit misstatement posting threshold and judgements applied

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

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

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

7. THE SCOPE OF OUR AUDIT

GROUP SCOPE

What we mean

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

GROUP AUDIT TEAM OVERSIGHT	What we mean	
	The extent of the Group audit team's involvement in component audits. In working with component auditors, we: – Held planning calls with component audit teams to discuss the significant areas of the audit relevant to the components. – Issued Group audit instructions to component auditors on the scope of their work. – Held risk assessment update discussions with all component audit teams before the commencement of the final phases of the audit led by the Group engagement partner.	– Visited 6 (FY2022: Nil) components in-person as the audit progressed to understand and challenge the audit approach and organised 4 video conferences with the partners and directors of the Group and component audit teams. At these visits and/ meetings/ and video conferences, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component audit teams. The Group team also attended the audit close meetings for all component teams. – Inspection of component audit teams' key work papers in person or using remote technology capabilities to evaluate the quality of execution of the audits of the components.

8. OTHER INFORMATION IN THE ANNUAL REPORT

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

ALL OTHER INFORMATION

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

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

STRATEGIC REPORT AND DIRECTORS' REPORT

OUR RESPONSIBILITY AND REPORTING
Based solely on our work on the other information described above we report to you as follows:
- we have not identified material misstatements in the Strategic Report and the Directors' Report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

DIRECTORS' REMUNERATION REPORT

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

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

CORPORATE GOVERNANCE DISCLOSURES

OUR RESPONSIBILITY
We are required to perform procedures to identify whether there is a material inconsistency between the financial statements and our audit knowledge, and:
- the Directors' statement that they consider that the Annual Report and financial statements taken as a whole is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy;
- the section of the Annual Report describing the work of the Audit & Risk Committee, including the significant issues that the Audit & Risk Committee considered in relation to the financial statements, and how these issues were addressed; and
- the section of the Annual Report that describes the review of the effectiveness of the Group's risk management and internal control systems.

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

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

We have nothing to report in this respect.

OTHER MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

OUR RESPONSIBILITY

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

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

OUR REPORTING

We have nothing to report in these respects.

9. RESPECTIVE RESPONSIBILITIES

DIRECTORS' RESPONSIBILITIES

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

AUDITOR'S RESPONSIBILITIES

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

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

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

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

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

MIKE BARRADELL
(Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square, London E14 5GL

25 September 2023

CONSOLIDATED INCOME STATEMENT

	Notes	Year ended 31 July 2023 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

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

CONSOLIDATED BALANCE SHEET

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

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

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

PAUL KEEL
Chief Executive Officer

CLARE SCHERRER
Chief Financial Officer

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Notes	Share capital and share premium £m	Other reserves £m	Cumulative translation adjustments £m	Retained earnings £m	Hedge reserve £m	Equity shareholders' funds £m	Non-controlling interest £m	Total equity £m
At 31 July 2022		**501**	**254**	**487**	**1,659**	**(202)**	**2,699**	**22**	**2,721**
Profit for the year		–	–	–	231	–	231	1	232
Other comprehensive income:									
– re-measurement of retirement benefits after tax		–	–	–	(82)	–	(82)	–	(82)
– FX movements net of recycling		–	–	(101)	2	–	(99)	(2)	(101)
– fair value gains and related tax		–	–	–	(18)	14	(4)	–	(4)
Total comprehensive income for the year		**–**	**–**	**(101)**	**133**	**14**	**46**	**(1)**	**45**
Transactions relating to ownership interests:									
Purchase of shares by Employee Benefit Trust		–	–	–	(24)	–	(24)	–	(24)
Share buybacks	24	(5)	5	–	(207)	–	(207)	–	(207)
Receipt of capital from non-controlling interest		–	–	–	–	–	–	1	1
Dividends:									
– equity shareholders	25	–	–	–	(143)	–	(143)	–	(143)
Share-based payment	9	–	–	–	13	–	13	–	13
At 31 July 2023		**496**	**259**	**386**	**1,431**	**(188)**	**2,384**	**22**	**2,406**

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

CONSOLIDATED CASH-FLOW STATEMENT

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

BASIS OF PREPARATION

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

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

GOING CONCERN

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

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

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

KEY ESTIMATES AND SIGNIFICANT JUDGEMENTS

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

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

SOURCES OF ESTIMATION UNCERTAINTY

IMPAIRMENT REVIEWS OF INTANGIBLE ASSETS

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

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

RETIREMENT BENEFITS

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

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

PROVISIONS FOR LIABILITIES AND CHARGES

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

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

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

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

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

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

TAXATION

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

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

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

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

REVENUE RECOGNITION

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

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

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

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

VALUATION OF FINANCIAL ASSETS

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

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

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

SIGNIFICANT JUDGEMENTS MADE IN APPLYING ACCOUNTING POLICIES

BUSINESS COMBINATIONS

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

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

RETIREMENT BENEFITS

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

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

CAPITALISATION OF DEVELOPMENT COSTS

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

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

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

TAXATION

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

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

PRESENTATION OF HEADLINE PROFITS AND ORGANIC GROWTH

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

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

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

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

SIGNIFICANT ACCOUNTING POLICIES

BASIS OF CONSOLIDATION

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

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

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

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

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

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

FOREIGN CURRENCIES

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

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

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

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

REVENUE

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

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

The Group has identified the following different types of revenue:

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

Generic products are defined as either:

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

For established products with simple installation requirements, revenue is recognised when control of the product is passed to the customer. The point in time that control passes is defined in accordance with the agreed shipping terms and is determined on a case-by-case basis. The time of dispatch or delivery of the goods to the customer is normally the point at which invoicing occurs. However for some generic products, revenue is recognised when the overall performance obligation has been completed, which is often after the customer has completed its acceptance procedures and has assumed control.

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

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

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

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

Customer-specific products are defined as being:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

CONTRACT COSTS

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

LEASES

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

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

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

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

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

TAXATION

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

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

The Group operates and is subject to taxation in many countries. Tax legislation is different in each country, is often complex and is subject to interpretation by management and government authorities. These matters of judgement give rise to the need to create provisions for uncertain tax positions which are recognised when it is considered more likely than not that there will be a future outflow of funds to a taxing authority. Provisions are made against individual exposures and take into account the specific circumstances of each case, including the strength of technical arguments, recent case law decisions or rulings on similar issues and relevant external advice.

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

– The single best estimate method is used where there is a single outcome that is more likely than not to occur. This will happen, for example, where the tax outcome is binary or the range of possible outcomes is very limited; or

– Alternatively, a probability weighted expected value is used where, on the balance of probabilities, there will be a payment to the tax authority but there are a number of possible outcomes. In this case, a probability is assigned to each of the outcomes and the amount provided is the sum of these risk-weighted amounts. In assessing provisions against uncertain tax positions, management uses in-house tax experts, professional firms and previous experience of the taxing authority to evaluate the risk.

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

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

IAS 12 International Tax Reform: Pillar Two Model Rules.

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

EMPLOYEE BENEFITS

Share-based compensation

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

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

Pension obligations and post-retirement benefits

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

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

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

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

INTANGIBLE ASSETS

Goodwill

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

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

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

Research and development

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

– Amounts recoverable from third parties; and

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

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

Intangible assets acquired in business combinations

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

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

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

Software, patents and intellectual property

The estimated useful lives are as follows:

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

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

PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

INVENTORIES

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

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

TRADE AND OTHER RECEIVABLES

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

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

PROVISIONS

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

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

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

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

DISCONTINUED OPERATIONS

A discontinued operation is either:

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

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

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

CASH AND CASH EQUIVALENTS

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

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

FINANCIAL ASSETS

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

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

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

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

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

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

FINANCIAL LIABILITIES

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

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

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

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

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

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

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

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

Fair value hedge

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

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

Cash-flow hedge

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

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

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

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

Net investment hedge

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

FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

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

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

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

DIVIDENDS

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

NEW ACCOUNTING STANDARDS EFFECTIVE 2023

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

NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

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

PARENT COMPANY

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

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

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

1. SEGMENT INFORMATION

ANALYSIS BY OPERATING SEGMENT

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

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

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

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

SEGMENT TRADING PERFORMANCE

Year ended 31 July 2023

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

Year ended 31 July 2022

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

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

Year ended 31 July 2023

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

	John Crane £m	Smiths Detection £m	Flex-Tek £m	Smiths Interconnect £m	Corporate and non-headline £m	Total £m
						Year ended 31 July 2022
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

	John Crane £m	Smiths Detection £m	Flex-Tek £m	Smiths Interconnect £m	Corporate and non-headline £m	Total £m
						31 July 2023
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**

	John Crane £m	Smiths Detection £m	Flex-Tek £m	Smiths Interconnect £m	Corporate and non-headline £m	Total £m
						31 July 2022
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

	John Crane £m	Smiths Detection £m	Flex-Tek £m	Smiths Interconnect £m	Corporate and non-headline £m	Total £m
						31 July 2023
Divisional liabilities	200	357	91	62	–	710
Corporate and non-headline liabilities	–	–	–	–	339	339
Segment liabilities	**200**	**357**	**91**	**62**	**339**	**1,049**

	John Crane £m	Smiths Detection £m	Flex-Tek £m	Smiths Interconnect £m	Corporate and non-headline £m	Total £m
						31 July 2022
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 on pages 98 to 110.

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

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

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

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

RELATED PARTY TRANSACTIONS

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

8. RETIREMENT BENEFITS

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

DEFINED CONTRIBUTION PLANS

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

DEFINED BENEFIT AND POST-RETIREMENT HEALTHCARE PLANS

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

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

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

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

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

UK PENSION SCHEMES

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

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

Smiths Industries Pension Scheme (SIPS)

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

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

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

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

In SIPS, as part of ongoing data cleansing work being undertaken to prepare the scheme for a potential full buy-out in the future, a wider review is being carried out to determine if the method used in the early 1990s to equalise retirement ages between men and women was implemented correctly. In FY2022, an additional liability of £19m was recognised as a past service cost to reflect the expected impact of correcting this issue for certain sections of the scheme. In the current year, a further liability of £12m has been recognised and £16m recognised in previous years has been released following the identification of additional evidence of the obligation for equalisation, resulting in a net credit to the income statement of £4m. The review remains ongoing however, no further material additional liabilities are expected.

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

TI Group Pension Scheme (TIGPS)

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

In June 2022 the TIGPS trustee completed a deal to secure its remaining uninsured pension liabilities, by way of a bulk annuity buy-in with 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%
Discount rate – 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%
Discount rate – 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**
Sales and purchases	Foreign currency risk	Foreign exchange contracts	FY2023	1	(1)	1
			FY2022	(6)	6	(6)

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

Translational currency exposure

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

Net investment hedges

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(B) INTEREST RATE RISK

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

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

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

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

	As at 31 July 2023			
	At fair value through profit or loss £m	Cash and cash equivalents £m	Borrowings £m	Fair value of borrowings £m
Fixed interest				
Less than one year	–	–	(29)	(29)
Between one and five years	–	–	(365)	(347)
Greater than five years	–	–	(24)	(24)
Total fixed interest financial liabilities	**–**	**–**	**(418)**	**(400)**
Floating rate interest financial assets/(liabilities)	4	215	(236)	(240)
Total interest-bearing financial assets/(liabilities)	**4**	**215**	**(654)**	**(640)**
Non-interest-bearing assets in the same category	–	70	–	–
Total	**4**	**285**	**(654)**	**(640)**

	As at 31 July 2022			
	At fair value through profit or loss £m	Cash and cash equivalents £m	Borrowings £m	Fair value of borrowings £m
Fixed interest				
Less than one year	–	–	(203)	(203)
Between one and five years	–	–	(357)	(359)
Greater than five years	–	–	(24)	(24)
Total fixed interest financial liabilities	**–**	**–**	**(584)**	**(586)**
Floating rate interest financial assets/(liabilities)*	4	970	(582)	(586)
Total interest-bearing financial assets/(liabilities)	**4**	**970**	**(1,166)**	**(1,172)**
Non-interest-bearing assets in the same category	–	86	–	–
Total	**4**	**1,056**	**(1,166)**	**(1,172)**

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

Interest rate hedging

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

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

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

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

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

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

Hedged item	Hedged exposure	Financial year	Changes in value of hedged item for calculating ineffectiveness £m	Changes in value of the hedging instrument for calculating ineffectiveness £m	Carrying amount Assets £m	Carrying amount Liabilities £m	Accumulated fair value adjustments on hedged item Assets £m	Accumulated fair value adjustments on hedged item 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.

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

ACCOUNTING FOR OTHER DERIVATIVE CONTRACTS

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

NETTING

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

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

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

Hedged exposure	Hedging instrument		Maturity at 31 July 2023 Up to one year	Maturity at 31 July 2023 One to five years	Maturity at 31 July 2023 More than five years	Maturity at 31 July 2022 Up to one year	Maturity at 31 July 2022 One to five years	Maturity at 31 July 2022 More than five years
Fair value hedges								
Interest rate risk	Interest rate swaps – EUR	– Notional amount (£m)	–	–	–	336	–	–
		– Average spread over three-month EURIBOR	–	–	–	1.015%	–	–
Interest rate/ foreign currency risk	Cross-currency swaps (EUR:GBP)	– Notional amount (£m)	–	254	–	–	254	–
		– Average exchange rate	–	0.845	–	–	0.845	–
		– Average spread over three-month GBP SONIA	–	1.860%	–	–	1.860%	–
Net investment hedges								
Foreign currency risk	Cross-currency swaps (EUR:USD)	– Notional amount (£m)	–	–	–	354	–	–
		– Average exchange rate	–	–	–	1.0773	–	–
	Cross-currency swaps (GBP:USD)	– Notional amount (£m)	–	247	–	–	261	–
		– Average exchange rate	–	1..2534	–	–	1.2534	–
Cash-flow hedges								
Foreign currency risk	Foreign exchange contracts (EUR:GBP)	– Notional amount (£m)	41	8	–	28	8	–
		– Average exchange rate	0.7842	0.8893	–	0.8323	1.1676	–
	Foreign exchange contracts (EUR:USD)	– Notional amount (£m)	30	–	–	77	–	–
		– Average exchange rate	1.0939	–	–	4.1785	–	–
	Foreign exchange contracts (USD:GBP)	– Notional amount (£m)	18	–	–	16	–	–
		– Average exchange rate	1.2269	–	–	1.3273	–	–
	Foreign exchange contracts (GBP:CZK)	– Notional amount (£m)	10	–	–	6	–	–
		– Average exchange rate	27.7919	–	–	30.2988	–	–
	Foreign exchange contracts (EUR:AUD)	– Notional amount (£m)	7	–	–	6	–	–
		– Average exchange rate	1.6603	–	–	1.5226	–	–

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

21. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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 21 September 2023 and will be paid to shareholders on 24 November 2023, subject to approval by the shareholders. This dividend is payable to all shareholders on the register of members at 6.00pm on 20 October 2023 (the record date).

WAIVER OF DIVIDENDS

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

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

26. RESERVES

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

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

CAPITAL MANAGEMENT

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

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

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

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

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

HEDGE RESERVE

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

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

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

NON-CONTROLLING INTEREST

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

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

27. ACQUISITIONS

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

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

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

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

POST BALANCE SHEET DATE ACQUISITION

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

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

28. CASH-FLOW

CASH-FLOW FROM OPERATING ACTIVITIES

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

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

HEADLINE CASH MEASURES – CONTINUING OPERATIONS

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

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

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

HEADLINE CASH CONVERSION

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

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

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

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

29. ALTERNATIVE PERFORMANCE MEASURES AND KEY PERFORMANCE INDICATORS

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

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

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

APM term	Definition and purpose
CAPITAL EMPLOYED	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 on page 130. This common measure is used by the Group to measure and monitor performance.
RETURN ON CAPITAL EMPLOYED (ROCE)	Smiths ROCE is calculated over a rolling 12-month period and is the percentage that headline operating profit represents of the monthly average capital employed on a rolling 12-month basis. This measure of return on invested resources is used to monitor performance and capital allocation within the Group. See below for Group ROCE and note 1 for divisional headline operating profit and divisional capital employed.

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

KPI term	Definition and purpose
DIVIDEND COVER – HEADLINE	Dividend cover is the ratio of headline earnings per share (see note 5) to dividend per share (see note 25). This commonly used measure indicates the number of times the dividend in a financial year is covered by headline earnings.
EARNINGS PER SHARE (EPS) GROWTH	EPS growth is the growth in headline basic EPS (see note 5), on a reported basis. EPS growth is used to measure and monitor performance.
FREE CASH-FLOW (AS A % OF OPERATING PROFIT)	This measure is defined as free cash-flow divided by headline operating profit averaged over a three-year performance period. This cash generation measure is used by the Group as a performance measure for remuneration purposes.
GREENHOUSE GAS (GHG) EMISSIONS REDUCTION	GHG reduction is calculated as the percentage change in normalised Scope 1 & 2 GHG emissions. Normalised is calculated as tCO_2e per £m of revenue. This measure is used to monitor environmental performance.

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

CAPITAL EMPLOYED

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

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

RETURN ON CAPITAL EMPLOYED (ROCE)

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

CREDIT METRICS

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

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

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

Ratio of net debt to headline EBITDA

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

30. POST BALANCE SHEET EVENTS

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

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

31. AUDIT EXEMPTION TAKEN FOR SUBSIDIARIES

The following subsidiaries are exempt from the requirements of the Companies Act 2006 relating to the audit of individual accounts by virtue of Section 479A of that Act for FY2023.

Company name	Company number
EIS Group Plc	61407
Flexibox International Limited	394688
Flex-Tek Group Limited	11545405
Graseby Limited	894638
SI Properties Limited	160881
SITI 1 Limited	4257042
Smiths Detection Group Limited	5138140
Smiths Detection Investments Limited	5146644
Smiths Finance Limited	7888063
Smiths Group Finance EU Limited	10440573
Smiths Group Finance US Limited	10440608
Smiths Group Innovation Limited	10953689
Smiths Interconnect Group Limited	6641403
Smiths Pensions Limited	2197444

UNAUDITED GROUP FINANCIAL RECORD 2019–2023

		Year ended 31 July 2023 £m	Year ended 31 July 2022 £m	Year ended 31 July 2021 £m	Year ended 31 July 2020 £m	Year ended 31 July 2019 £m
Income statement metrics – headline*						
Continuing operations	Revenue	3,037	2,566	2,406	2,548	2,498
	Headline operating profit	501	417	372	327	427
	Headline profit before tax	466	376	332	278	376
Discontinued operations	Revenue	–	356	849	918	874
	Headline operating profit	–	66	177	184	147
	Headline profit before tax	–	65	176	180	144
Income statement metrics – statutory**						
Revenue		3,037	2,566	2,406	2,548	2,498
Operating profit		403	117	326	241	326
Profit before taxation		360	103	240	133	304
Profit for the year		232	1,035	285	267	227
Balance sheet metrics***						
Net debt		(387)	(150)	(1,018)	(1,141)	(1,197)
Shareholders' equity		2,384	2,699	2,402	2,373	2,360
Average capital employed		3,196	2,940	4,165	4,315	3,972
Ratios***						
Headline operating profit: revenue (%)		16.5	16.5	16.9	14.7	17.0
Headline effective tax rate (%)		26.0	27.2	27.1	26.2	25.9
Return on capital employed (%)		15.7	14.2	13.2	11.8	14.4
Return on shareholders' funds (%)		11.3	10.0	11.6	10.8	12.3
Cash-flow metrics***						
Headline operating cash		433	318	630	575	474
Headline operating cash conversion (%)		86	76	125	123	83
Free cash-flow		178	130	383	273	234
Free cash-flow per share (p)		51.0	35.9	96.6	68.9	59.1
Earnings per share***						
Headline earnings per share (p)		97.1	82.5	93.1	84.8	96.8
Dividends and dividend cover***						
Pence per share		41.6	39.60	37.70	35.00	45.90
Headline dividend cover		2.3	2.1	2.5	2.4	2.1

* The headline income statement metrics in the above five-year record have been presented to reflect the reclassification of the Smiths Medical business as a discontinued operation and the Group's current accounting policy of including restructuring and pension administration costs within headline profit.

** The statutory income statement metrics are presented based on continuing operations for both the current and comparative years.

*** Balance sheet metrics, ratios, cash-flow metrics, earnings per share, dividend cover and number of employees are presented based on both continuing and discontinued operations for all years.

UNAUDITED SUPPLEMENTARY CONSOLIDATED INCOME STATEMENT – US DOLLAR TRANSLATION

	Year ended 31 July 2023			Year ended 31 July 2022		
	Headline $m	Non-headline (note 3) $m	Total $m	Headline $m	Non-headline (note 3) $m	Total $m
CONTINUING OPERATIONS						
Revenue	3,680	–	3,680	3,377	–	3,377
Operating costs	(3,073)	(119)	(3,192)	(2,828)	(395)	(3,223)
Operating profit/(loss)	**607**	**(119)**	**488**	**549**	**(395)**	**154**
Interest income	44	–	44	18	–	18
Interest expense	(86)	(8)	(94)	(72)	–	(72)
Other financing gains/(losses)	–	(10)	(10)	–	26	26
Other finance charges – retirement benefits	–	8	8	–	9	9
Finance costs	(42)	(10)	(52)	(54)	35	(19)
Profit/(loss) before taxation	**565**	**(129)**	**436**	**495**	**(360)**	**135**
Taxation	(147)	(16)	(163)	(137)	18	(119)
Profit/(loss) for the year	**418**	**(145)**	**273**	**358**	**(342)**	**16**
DISCONTINUED OPERATIONS						
Profit on discontinued operations	–	7	7	64	1,280	1,344
PROFIT/(LOSS) FOR THE YEAR	**418**	**(138)**	**280**	**422**	**938**	**1,360**
Profit/(loss) for the year attributable to:						
Smiths Group shareholders – continuing operations	417	(145)	272	355	(342)	13
Smiths Group shareholders – discontinued operations	–	7	7	64	1,280	1,344
Non-controlling interests	1	–	1	3	–	3
	418	**(138)**	**280**	**422**	**938**	**1,360**
EARNINGS PER SHARE						
Basic			79.4c			351.5c
Basic – continuing			77.3c			3.7c
Diluted			78.9c			350.0c
Diluted – continuing			76.8c			3.7c

Assets and liabilities have been translated into US dollars at the exchange rate at the date of that balance sheet and income, expenses and cash-flows are translated at average exchange rates for the period. This reflects the accounting approach that Smiths Group plc would use if the Group moved to reporting in US dollars without making any changes to its Group structure or financing arrangements.

UNAUDITED SUPPLEMENTARY CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME – US DOLLAR TRANSLATION

	Year ended 31 July 2023 $m	Year ended 31 July 2022 $m
PROFIT FOR THE YEAR	280	1,360
Other comprehensive income (OCI):		
OCI which will not be reclassified to the income statement:		
Re-measurement of post-retirement benefits assets and obligations	(138)	(22)
Taxation on post-retirement benefits movements	39	–
Fair value movements on financial assets at fair value through OCI	(22)	(83)
	(121)	(105)
OCI which will be reclassified and reclassifications:		
Fair value gains/(losses) and reclassification adjustments:		
– deferred in the year on cash-flow and net investment hedges	15	(108)
– reclassified to income statement on cash-flow and net investment hedges	2	7
	17	(101)
Foreign exchange (FX) movements net of recycling:		
Exchange losses/(gains) on translation of foreign operations	(122)	363
Exchange gains recycled to the income statement on disposal on business	–	(258)
	(122)	105
Total other comprehensive income, net of taxation	**(226)**	**(101)**
Total comprehensive income	**54**	**1,259**
Attributable to:		
Smiths Group shareholders	55	1,258
Non-controlling interests	(1)	1
	54	**1,259**

UNAUDITED SUPPLEMENTARY CONSOLIDATED BALANCE SHEET – US DOLLAR TRANSLATION

	31 July 2023 $m	31 July 2022 $m
NON-CURRENT ASSETS		
Intangible assets	1,956	1,933
Property, plant and equipment	318	296
Right of use assets	135	129
Financial assets – other investments	477	481
Retirement benefit assets	251	376
Deferred tax assets	122	116
Trade and other receivables	96	84
	3,355	**3,415**
CURRENT ASSETS		
INVENTORIES	819	694
Current tax receivable	60	61
Trade and other receivables	993	897
Cash and cash equivalents	366	1,286
Financial derivatives	6	5
	2,244	**2,943**
TOTAL ASSETS	**5,599**	**6,358**
CURRENT LIABILITIES		
Financial liabilities		
– borrowings	(4)	(620)
– lease liabilities	(33)	(35)
– financial derivatives	(3)	(33)
Provisions for liabilities and charges	(90)	(107)
Trade and other payables	(930)	(829)
Current tax payable	(95)	(78)
	(1,155)	**(1,702)**
NON-CURRENT LIABILITIES		
Financial liabilities		
– borrowings	(687)	(655)
– lease liabilities	(117)	(110)
– financial derivatives	(23)	(24)
Provisions for liabilities and charges	(278)	(301)
Retirement benefit obligations	(136)	(140)
Current tax payable	(4)	(4)
Deferred tax liabilities	(55)	(54)
Trade and other payables	(51)	(56)
	(1,351)	**(1,344)**
TOTAL LIABILITIES	**(2,506)**	**(3,046)**
NET ASSETS	**3,093**	**3,312**

	31 July 2023 $m	31 July 2022 $m
SHAREHOLDERS' EQUITY		
Share capital	168	166
Share premium account	469	444
Capital redemption reserve	31	23
Merger reserve	302	286
Retained earnings	2,337	2,612
Hedge reserve	(242)	(246)
Total shareholders' equity	**3,065**	**3,285**
Non-controlling interest equity	28	27
TOTAL EQUITY	**3,093**	**3,312**

UNAUDITED SUPPLEMENTARY CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – US DOLLAR TRANSLATION

	Share capital and share premium $m	Other reserves $m	Retained earnings $m	Hedge reserve $m	Equity shareholders' funds $m	Non-controlling interest $m	Total equity $m
At 31 July 2022	610	309	1,617	(246)	3,285	27	3,312
Profit for the year	–	–	279	–	279	1	280
Other comprehensive income:							
– re-measurement of retirement benefits after tax	–	–	(99)	–	(99)	–	(99)
– FX movements net of recycling	33	18	999	(13)	41	(1)	40
– fair value gains/(losses) and related tax	–	–	(22)	17	(4)	–	(4)
Total comprehensive income for the year	**33**	**18**	**1,157**	**4**	**217**	**–**	**217**
Transactions relating to ownership interests:							
Purchase of shares by Employee Benefit Trust	–	–	(29)		(29)		(29)
Share buybacks	(6)	6	(251)		(251)		(251)
Dividends:							
– equity shareholders	–	–	(173)		(173)	1	(172)
Share-based payment	–	–	16		16		16
At 31 July 2023	**637**	**333**	**2,337**	**(242)**	**3,065**	**28**	**3,093**

	Share capital and share premium $m	Other reserves $m	Retained earnings $m	Hedge reserve $m	Equity shareholders' funds $m	Non-controlling interest $m	Total equity $m
At 31 July 2021	**712**	**336**	**2,608**	**(317)**	**3,339**	**29**	**3,368**
Profit for the year	–	–	1,357	–	1,357	3	1,360
Other comprehensive income:							
– re-measurement of retirement benefits after tax	–	–	(22)	–	(22)	–	(22)
– FX movements net of recycling	**(88)**	**(44)**	**(377)**	**172**	**(337)**	**(5)**	**(342)**
– fair value gains/(losses) and related tax	–	–	(83)	(101)	(184)	–	(184)
Total comprehensive income for the year	(88)	(44)	875	71	814	(2)	812
Transactions relating to ownership interests:							
Issue of new equity shares	3	–	–	–	3	–	3
Purchase of shares by Employee Benefit Trust	–	–	(21)	–	(21)	–	(21)
Proceeds from exercise of share options	–	–	1	–	1	–	1
Share buybacks	(17)	17	(672)	–	(672)	–	(672)
Dividends:							
– equity shareholders	–	–	(197)	–	(197)	–	(197)
Share-based payment	–	–	18	–	18	–	18
At 31 July 2022	**610**	**309**	**2,612**	**(246)**	**3,285**	**27**	**3,312**

UNAUDITED SUPPLEMENTARY CONSOLIDATED CASH-FLOW STATEMENT – US DOLLAR TRANSLATION

	Year ended 31 July 2023 $m	Year ended 31 July 2022 $m
Net cash inflow from operating activities	355	367
Cash-flows from investing activities		
Expenditure on capitalised development	(25)	(29)
Expenditure on other intangible assets	(8)	(11)
Purchases of property, plant and equipment	(64)	(76)
Disposals of property, plant and equipment	2	4
Receipt of capital from non-controlling interest	1	–
Acquisition of businesses	(27)	–
Proceeds on disposal of subsidiaries, net of cash disposed	(8)	1,751
Net cash-flow used in investing activities	**(129)**	**1,639**
Cash-flows from financing activities		
Proceeds from exercise of share options	–	3
Share buybacks	(251)	(672)
Purchase of shares by Employee Benefit Trust	(29)	(21)
Proceeds received on exercise of employee share options	–	1
Settlement of cash-settled options	–	(1)
Dividends paid to equity shareholders	(173)	(197)
Lease payments	(44)	(50)
Reduction and repayment of borrowings	(639)	(388)
Cash inflow from matured derivative financial instruments	(11)	30
Net cash-flow used in financing activities	**(1,147)**	**(1,295)**
Net decrease in cash and cash equivalents	**(921)**	**711**
Cash and cash equivalents at beginning of year	1,285	563
Cash held in disposal group	–	63
Exchange differences	2	(52)
Cash and cash equivalents at end of year	**366**	**1,285**
Cash and cash equivalents at end of year comprise:		
– cash at bank and in hand	225	295
– short-term deposits	141	991
	366	1,286
– bank overdrafts	–	(1)
	366	**1,285**

UNAUDITED GROUP US DOLLAR FINANCIAL RECORD 2019–2023

		Year ended 31 July 2023 $m	Year ended 31 July 2022 $m	Year ended 31 July 2021 $m	Year ended 31 July 2020 $m	Year ended 31 July 2019 $m
Income statement metrics – headline*						
Continuing operations	Revenue	3,680	3,377	3,264	3,216	3,218
	Headline operating profit	607	549	504	412	550
	Headline profit before tax	565	495	450	351	484
Discontinued operations	Revenue	–	468	1,152	1,159	1,126
	Headline operating profit	–	87	240	232	189
	Headline profit before tax	–	86	239	227	185
Income statement metrics – statutory**						
Revenue		3,680	3,377	3,264	3,216	3,218
Operating profit		488	154	442	304	420
Profit before taxation		436	135	325	169	391
Profit for the year		280	1,362	387	337	291
Balance sheet metrics***						
Net debt		(497)	(183)	(1,415)	(1,495)	(1,462)
Shareholders' equity		3,065	3,285	3,339	3,107	2,882
Average capital employed		4,109	3,578	5,790	5,652	4,852
Ratios***						
Headline operating profit: revenue (%)		16.5	16.5	16.9	14.7	17.0
Headline effective tax rate (%)		26.0	27.2	27.1	26.2	25.9
Return on capital employed (%)		15.7	14.2	13.2	11.8	14.4
Return on shareholders' funds (%)		10.9	9.9	12.2	10.6	12.1
Cash-flow metrics***						
Headline operating cash		525	829	855	726	611
Headline operating cash conversion (%)		86	76	125	123	83
Free cash-flow		216	171	520	345	301
Free cash-flow per share (c)		61.8	47.2	131.1	68.9	76.1
Earnings per share***						
Headline earnings per share (c)		117.7	108.6	126.3	107.0	124.7
Dividends and dividend cover***						
Cents per share (c)		50.4	52.1	51.1	44.2	59.1
Headline dividend cover		2.3	2.1	2.5	2.4	2.1

* The headline income statement metrics in the above five-year record have been presented to reflect the reclassification of the Smiths Medical business as a discontinued operation and the Group's current accounting policy of including restructuring and pension administration costs within headline profit.

** The statutory income statement metrics are presented based on continuing operations for both the current and comparative year.

*** Balance sheet metrics, ratios, cash-flow metrics, earnings per share, dividend cover and number of employees are presented based on both continuing and discontinued operations for all years.

SMITHS GROUP PLC COMPANY ACCOUNTS

COMPANY BALANCE SHEET

	Notes	31 July 2023 £m	31 July 2022 £m
NON-CURRENT ASSETS			
Right of use assets	2	–	5
Investments	3	2,431	2,422
Loans due from subsidiaries	3	2,447	561
Retirement benefit assets	10	195	309
		5,073	**3,297**
CURRENT ASSETS			
Trade and other receivables	5	67	62
Current tax receivable		–	5
Cash and cash equivalents	7	98	770
Financial derivatives	9	6	9
		171	**846**
TOTAL ASSETS		**5,244**	**4,143**
CURRENT LIABILITIES			
Trade and other payables	6	(2,180)	(588)
Lease liabilities	7	–	(1)
Financial derivatives	9	(6)	(29)
		(2,186)	**(618)**
NON-CURRENT LIABILITIES			
Borrowings	7	(557)	(545)
Lease liabilities	7	–	(5)
Loans due to subsidiaries		(5)	–
Provisions for liabilities and charges	8	(1)	(2)
Retirement benefit liabilities	10	(40)	(47)
Financial derivatives	9	(18)	(20)
		(621)	**(619)**
TOTAL LIABILITIES		**(2,807)**	**(1,237)**
NET ASSETS		**2,437**	**2,906**

	Notes	31 July 2023 £m	31 July 2022 £m
SHAREHOLDERS' EQUITY			
Called up share capital	11	131	136
Share premium account	11	365	365
Capital redemption reserve	11	24	19
Other reserves	11	181	181
Profit and loss account	11	1,736	2,205
TOTAL EQUITY		**2,437**	**2,906**

The Company's loss for the period was £22m (FY2022: £1,257m profit).

The accounts on pages 197 to 204 were approved by the Board of Directors on 25 September 2023 and were signed on its behalf by:

PAUL KEEL
Chief Executive Officer

CLARE SCHERRER
Chief Financial Officer

Smiths Group plc – registered number 137013

COMPANY STATEMENT OF CHANGES IN EQUITY

	Share capital £m	Share premium £m	Capital redemption reserve £m	Other reserves £m	Retained profit £m	Shareholders' equity £m
At 31 July 2022	136	365	19	181	2,205	2,906
Profit for the year	–	–	–	–	(22)	(22)
Other comprehensive income:						
– re-measurement of retirement benefits	–	–	–	–	(117)	(117)
– taxation recognised on retirement benefits	–	–	–	–	30	30
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**(109)**	**(109)**
Transactions with owners:						
Purchase of shares by Employee Benefit Trust	–	–	–	–	(24)	(24)
Shares purchased under a buyback programme	(5)	–	5	–	(207)	(207)
Dividends paid to equity shareholders	–	–	–	–	(142)	(142)
Share-based payment	–	–	–	–	13	13
Total transactions with owners recognised in equity	**(5)**	**–**	**5**	**–**	**(360)**	**(360)**
At 31 July 2023	**131**	**365**	**24**	**181**	**1,736**	**2,437**

	Share capital £m	Share premium £m	Capital redemption reserve £m	Other reserves £m	Retained profit £m	Shareholders' equity £m
At 31 July 2021	**149**	**363**	**6**	**181**	**1,628**	**2,327**
Profit for the year	–	–	–	–	1,257	1,257
Other comprehensive income:						
– re-measurement of retirement benefits	–	–	–	–	(23)	(23)
– taxation recognised on retirement benefits	–	–	–	–	6	6
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**1,240**	**1,240**
Transactions with owners:						
Issue of new equity shares	–	2	–	–	–	2
Purchase of shares by Employee Benefit Trust	–	–	–	–	(16)	(16)
Proceeds received on exercise of employee share options	–	–	–	–	1	1
Shares purchased under a buyback programme	(13)	–	13	–	(511)	(511)
Dividends paid to equity shareholders	–	–	–	–	(150)	(150)
Share-based payment	–	–	–	–	13	13
Total transactions with owners recognised in equity	**(13)**	**2**	**13**	**–**	**(663)**	**(661)**
At 31 July 2022	**136**	**365**	**19**	**181**	**2,205**	**2,906**

COMPANY ACCOUNTING POLICIES

BASIS OF PREPARATION

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101). In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of UK-adopted international accounting standards (Adopted IFRSs), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

These accounts have been prepared on a going concern basis and under the historical cost convention modified to include revaluation of certain financial instruments, share options and pension assets and liabilities held at fair value.

As permitted by Section 408(3) of the Companies Act 2006, the Company's income statement and statement of comprehensive income have not been presented. As permitted by Section 408(2), information about the Company's employee numbers and costs is not presented.

GOING CONCERN

The Directors are satisfied that the Group, (of which the Company is the holding company) has adequate resources to continue to operate for a period not less than 12 months from the date of approval of the financial statements and that there are no material uncertainties around their assessment. Accordingly, the Directors continue to adopt the going concern basis of accounting. Details of the going concern assessment for the Group are provided in the accounting policies note of the consolidated financial statements.

EXEMPTIONS FROM THE REQUIREMENTS OF IFRS APPLIED IN ACCORDANCE WITH FRS 101

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share-based payment' (details of the number and weighted-average exercise prices of share options, and how the fair value of goods or services received was determined);
- IFRS 7, 'Financial Instruments: Disclosures';
- Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities);
- Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information requirements in respect of:
  - paragraph 79(a)(iv) of IAS 1;
  - paragraph 73(e) of IAS 16 'Property, plant and equipment';
- The following paragraphs of IAS 1, 'Presentation of financial statements':
  - 10(d) (statement of cash-flows);
  - 16 (statement of compliance with all IFRS);
  - 38A (requirement for minimum of two primary statements, including cash flow statements);
  - 38B-D (additional comparative information);
  - 111 (cash flow statement information); and
  - 134-136 (capital management disclosures).
- IAS 7, 'Statement of cash-flows'
- Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective)
- Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation)
- The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.
- The requirements of paragraphs 52 and 58 of IFRS 16 Leases

SIGNIFICANT JUDGEMENTS, KEY ASSUMPTIONS AND ESTIMATES

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

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

SOURCES OF ESTIMATION UNCERTAINTY

Taxation

The Company has recognised deferred tax assets of £40m (FY2022: £66m) relating to revenue losses brought forward. The recognition of these assets requires management to make significant estimates as to the ability to recover them against the unwind of other tax positions and forecast UK taxable profits of the tax group. Further detail on the Company's deferred taxation position is included in note 4.

Retirement benefits

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

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

SIGNIFICANT JUDGEMENTS MADE IN APPLYING ACCOUNTING POLICIES

Taxation

As stated in the previous section 'Sources of estimation uncertainty', the Company has recognised deferred tax assets of £40m (FY2022: £66m) relating to revenue losses brought forward. The decision to recognise deferred tax assets requires judgement in determining whether the Company will be able to utilise historical tax losses in future periods. It has been concluded that there are sufficient taxable profits in future periods to support recognition.

Retirement benefits

At 31 July 2023 the Company has recognised £195m of retirement benefit assets (FY2022: £309m), which arises from the rights of the employers to recover the surplus at the end of the life of the scheme.

The recognition of this surplus is a significant judgement. There is judgement required in determining whether an unconditional right of refund exists based on the provisions of the relevant Trust deed and rules. Having taken legal advice with regard to the rights of the Company under the relevant Trust deed and rules, it has been determined that the surplus is recoverable by the Company and therefore can be recognised. If the pension schemes were wound up while they still had members, the schemes would need to buy out the benefits of all members. The buyouts would cost significantly more than the carrying value of the scheme liabilities within these financial statements which are calculated in accordance with IAS 19: Employee benefits.

FOREIGN CURRENCIES

Foreign currency transactions are recorded at the exchange rate ruling on the date of transaction. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the retranslation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the profit and loss account.

LEASES

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term, which includes periods covered by renewal options the Company is reasonably certain to exercise. In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date.

The Company recognises right of use assets at the commencement date of the lease. Right of use assets are measured at cost including the amount of lease liabilities recognised and initial direct costs incurred, less any incentives granted by the lessor. Right of use assets are subject to impairment and are depreciated over the shorter of the lease term and the useful life of the right of use asset.

The Company has a buildings lease with a remaining term of five months. Other leases with lease terms of 12 months or less and leases of office equipment with low value (typically below £5,000) are recognised as an expense on a straight-line basis over the lease term with the Company having applied 'short-term lease' and 'lease of low-value assets' recognition exemptions.

INVESTMENTS IN AND LOANS TO GROUP COMPANIES

The Company's investments in shares in Group companies are stated at cost less provision for impairment. Any impairment is charged to the profit and loss account as it arises.

The recoverability of intercompany loans is assessed applying the methodology of IFRS 9 by looking at the credit quality of the subsidiary and any support available to the entity. These calculations require the use of estimates including projected future cash-flows and other future events. The application of the expected credit loss model has not had a material impact on the Company's loan receivables provisioning position.

FINANCIAL INSTRUMENTS

The policies disclosed in the Group accounting policies on pages 135 to 143 for recognition, measurement and presentation of financial instruments are applied in the Company accounts.

TAXATION

Deferred tax is provided using the balance sheet liability method. A deferred tax asset is recognised where it is probable that future taxable income will be sufficient to utilise the available relief.

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

PROVISIONS

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

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

RETIREMENT BENEFITS

The Company has both defined benefit and defined contribution plans. The policies disclosed in the Group accounting policies on pages 135 to 143 for recognition, measurement and presentation of retirement benefits are applied in the Company accounts. Note 8 to the consolidated accounts explains the valuation basis for the Company's retirement benefit schemes assets and liabilities.

SHARE-BASED PAYMENT

The Company operates a number of equity-settled and cash-settled share-based compensation plans.

The fair value of the shares or share options granted is recognised over the vesting period to reflect the value of the employee services received. The charge relating to grants to employees of the Company is recognised as an expense in the profit and loss account and the charge for grants to employees of other Group companies is recognised as an investment in the relevant subsidiary.

The fair value of options granted, excluding the impact of any non-market vesting conditions, is calculated using established option pricing models, principally binomial models. The probability of meeting non-market vesting conditions, which include profitability targets, is used to estimate the number of share options that are likely to vest.

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

DIVIDENDS

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

NOTES TO THE COMPANY ACCOUNTS

1. AUDIT FEE AND DIRECTORS EMOLUMENTS

The audit fee paid to KPMG LLP for the Parent Company was £0.1m (FY2022: £0.1m).

Directors' emoluments in the year amounted to £7m (FY2022: £4m). Further information is in the Remuneration & People Committee Report on pages 98 to 110.

2. RIGHT OF USE ASSETS

	Properties £m
Cost or valuation	
At 31 July 2021	8
At 31 July 2022	**8**
Derecognition of right of use asset	(5)
At 31 July 2023	**3**
Depreciation	
At 31 July 2021	2
Charge for the year	1
At 31 July 2022	3
Charge for the year	–
At 31 July 2023	**3**
Net book value at 31 July 2023	**–**
Net book value at 31 July 2022	5
Net book value at 31 July 2021	6

3. INVESTMENTS AND LOANS DUE FROM SUBSIDIARIES

	Shares in subsidiary undertakings £m	Loans due from subsidiaries £m	Total £m
Cost or valuation			
At 31 July 2021	**2,419**	**612**	**3,031**
Foreign exchange rate movements	–	21	21
Contribution through share options	8	–	8
Decrease in advances due from subsidiaries	–	(71)	(71)
At 31 July 2022	**2,427**	**562**	**2,989**
Foreign exchange rate movements	–	(16)	(16)
Contribution through share options	9	–	9
Increase in advances due from subsidiaries	–	1,902	1,902
At 31 July 2023	**2,436**	**2,448**	**4,884**
Provision for impairment			
At 31 July 2021, 31 July 2022 and 31 July 2023	**5**	**1**	**6**
Net book value at 31 July 2023	**2,431**	**2,447**	**4,878**
Net book value at 31 July 2022	2,422	561	2,983
Net book value at 31 July 2021	2,414	611	3,025

Loans due to subsidiaries are offset against loans due from subsidiaries only to the extent that there is a legal right of set-off. At 31 July 2023 £nil of loans payable are offset against loans receivable (FY2022: £1,664m). The Company has large offsetting loan balances because it uses loans to reduce its foreign currency exposures and separately monitor net cash generated from trading activities.

The Company's subsidiaries are largely held according to business lines by the following holding companies, which are incorporated in England:

Smiths Group International Holdings Limited
Smiths Detection Group Limited
John Crane Group Limited
Flex-Tek Group Limited
Smiths Interconnect Group Limited

The principal subsidiaries and their countries of incorporation are:

England
Smiths Detection – Watford Ltd
John Crane UK Limited

Other
Smiths Detection Germany GmbH (Germany)
Smiths Detection (Asia-Pacific) Pte Ltd (Singapore)
John Crane Middle East FZE (UAE)
John Crane Technology (Tianjin) Co Limited (China)
John Crane Saudi Arabia Ltd (Saudi Arabia)
John Crane Canada Inc (Canada)

United States
Smiths Detection, Inc.
John Crane, Inc.
Titeflex Corporation
Flexible Technologies, LLC
Tutco, LLC
Royal Metal Products, LLC
Smiths Interconnect Americas, Inc.
Smiths Interconnect, Inc.
Kreisler Manufacturing Corp
Smiths Tubular Systems – Laconia Inc.

Of the companies above, Smiths Group International Holdings Limited is 100% owned directly by the Company. The others are 100% owned through intermediate holding companies. Shareholdings are of ordinary shares or common stock. All of the above subsidiaries operate in their country of incorporation.

See pages 205 to 210 for a complete list of subsidiary undertakings.

4. DEFERRED TAX ASSETS AND LIABILITIES

The Company has recognised the following deferred tax assets and liabilities:

	Share-based payment £m	Retirement benefit obligations £m	Losses carried forward £m	Other £m	Total £m
At 31 July 2021	**3**	**(123)**	**89**	**3**	**(28)**
(Charge)/credit to income statement	(2)	51	(23)	(3)	23
Charge to equity	(1)	6	–	–	5
At 31 July 2022	**–**	**(66)**	**66**	**–**	**–**
(Charge)/credit to income statement	–	(4)	(26)	–	(30)
Charge to equity	–	30	–	–	30
At 31 July 2023	**–**	**(40)**	**40**	**–**	**–**

The Company is part of a UK tax group including all its UK-based subsidiaries. The Company has recognised deferred tax assets of £40m (FY2022: £66m) relating to revenue losses carried forward. The recognition of these assets is dependent on the ability to recover them against the unwind of other tax positions and forecast of the UK tax group. The treatment of these assets is reviewed regularly.

At 31 July 2023 the Company has unrecognised deferred tax assets of £54m (FY22: £41m) relating to losses £51m (FY22: £36m), share-based payments £1m (FY22: £3m) and other £2m (FY22: £2m).

From 1 April 2023, the rate increases from 19% to 25%. Deferred tax, as at 31 July 2023 has been calculated at the 25% rate.

5. TRADE AND OTHER RECEIVABLES

	31 July 2023 £m	31 July 2022 £m
Amounts owed by subsidiaries	66	61
Other receivables	1	1
	67	**62**

6. TRADE AND OTHER PAYABLES

	31 July 2023 £m	31 July 2022 £m
Amounts owed to subsidiaries	2,162	58
Term loans due within one year	–	504
Other creditors	5	15
Accruals and deferred income	13	11
	2,180	**588**

7. BORROWINGS AND NET DEBT

	31 July 2023 £m	31 July 2022 £m
Cash at bank	20	10
Short-term deposits	78	760
Cash and cash equivalents	**98**	**770**
Lease liabilities falling due within one year	–	(1)
Lease liabilities falling due after one year	–	(5)
Term loans falling due within one year	–	(504)
Term loans falling due after one year	(557)	(545)
Borrowings	**(557)**	**(1,055)**
Net debt	**(459)**	**(285)**

Term loans and lease liabilities

The currency and coupons for the term loans are disclosed in note 18 of the Group accounts.

	31 July 2023 £m	31 July 2022 £m
Less than one year	–	505
Between one and two years	–	1
Between two and five years	557	548
Greater than five years	–	1
Smiths Group plc term loans and lease liabilities	**557**	**1,055**

See the liquidity risk disclosures in note 19 in the Group accounts for information on the cash and borrowing facilities available to the Group. Smiths has revolving credit facilities of US$800m maturing on 5 May 2028.

8. PROVISIONS FOR LIABILITIES AND CHARGES

	At 31 July 2022 £m	Charged against profit £m	Utilisation £m	At 31 July 2023 £m
Disposals	**2**	(1)	–	**1**

The closing disposal provision relates to warranties and other obligations in respect of a past disposal and is expected to be utilised within the next five years.

9. DERIVATIVES

The tables below set out the nominal amount and fair value of derivative contracts held by the Company:

	At 31 July 2023			
		Fair value		
	Contract or underlying nominal amount £m	Assets £m	Liabilities £m	Net £m
Foreign exchange contracts (not hedge accounted)	647	6	(6)	–
Cross-currency swaps (fair value and net investment hedges)	247	–	(18)	(18)
Total financial derivatives	**894**	**6**	**(24)**	**(18)**
Balance sheet entries				
Comprising:				
Non-current		–	(18)	(18)
Current		6	(6)	–
Total financial derivatives		**6**	**(24)**	**(18)**

	At 31 July 2022			
		Fair value		
	Contract or underlying nominal amount £m	Assets £m	Liabilities £m	Net £m
Foreign exchange contracts (not hedge accounted)	593	9	(9)	–
Cross-currency swaps (fair value and net investment hedges)	615	–	(40)	(40)
Total financial derivatives	**1,208**	**9**	**(49)**	**(40)**
Balance sheet entries				
Comprising:				
Non-current		–	(20)	(20)
Current		9	(29)	(20)
Total financial derivatives		**9**	**(49)**	**(40)**

Derivatives, including forward exchange contracts, currency swaps, interest rate instruments and embedded derivatives are Level 2 fair value instruments and are valued at the net present value of the future cash-flows calculated using market data at the balance sheet date (principally exchange rates and yield curves).

The debit to the income statement arising from change in fair value in the year was £16m (FY2022: £28m).

10. POST-RETIREMENT BENEFITS

The Company is the principal employer for the two major defined benefit plans in the UK. The Company is accounting for all the UK defined benefit schemes (funded and unfunded) and virtually all of the post-retirement healthcare schemes.

The retirement benefit assets and liabilities comprise:

	31 July 2023 £m	31 July 2022 £m
Market value of scheme assets	2,367	3,067
Present value of funded scheme liabilities	(2,156)	(2,738)
Surplus restriction	(16)	(20)
Surplus	195	309
Unfunded pension plans	(37)	(43)
Post-retirement healthcare	(3)	(4)
Present value of unfunded obligations	(40)	(47)
Net pension asset	**155**	**262**
Comprising:		
Retirement benefit assets	195	309
Retirement benefit liabilities	(40)	(47)
Net pension asset	**155**	**262**

See the disclosures for UK schemes in note 8 to the consolidated accounts for the circumstances of the major schemes, risk management, principal assumptions, assets and liabilities and the funding position of the two major schemes.

11. SHARE CAPITAL AND RESERVES

SHARE CAPITAL

	Number of shares	Issued capital £m	Consideration £m
Ordinary shares of 37.5p each			
Total share capital at 31 July 2021	396,377,114	149	
Shares purchased under a buyback programme	(34,152,897)	(13)	(511)
Issue of new equity shares – exercise of share options	131,942	–	2
Total share capital at 31 July 2022	362,356,159	136	
Shares purchased under a buyback programme	(13,053,169)	(5)	(207)
Total share capital at 31 July 2023	**349,302,990**	**131**	

At 31 July 2023, all of the issued share capital was in free issue. All issued shares are fully paid. See note 9 to the consolidated accounts for information about share schemes, including total shares under options and options exercisable at the balance sheet date. During the year, the Company received £nil (FY2022: £2m) on the issue of shares in respect of the exercise of options awarded under various share option schemes.

Smiths Industries Employee Benefit Trust

The retained earnings include the purchase of Smiths Group plc shares by the Smiths Industries Employee Benefit Trust, and the issue of these shares upon the exercise of share options. The consideration paid was £25m (2022: £16m) and £1m (2022: £nil) was received as a result of employees exercising share options under the SAYE. At 31 July 2023 the Trust held 1,742,929 (2022: 618,662) ordinary shares.

Distributable profits

Smiths Group plc, the Parent Company of the Group, holds investments in subsidiaries and operates as a financing entity for the Group. Its profits are derived from dividend receipts, royalties, corporate recharges, and loan interests from its subsidiary companies. Prior to the declaration of interim and final dividends to shareholders, the Board conducts a review of the level of distributable profits of the Parent Company. This ensures the profits provide sufficient coverage for dividend payments; see note 26 in the Group accounts for a discussion of capital management and the factors which the Board considers when proposing dividends.

In accordance with the UK Companies Act 2006 Section 831(1), a public company may only make a distribution if, after fulfilling this distribution, the amount of its net assets is not less than the aggregate of its called-up share capital and non-distributable reserves as it appears in the relevant accounts. The Company establishes what is realised and unrealised in accordance with the guidance provided by ICAEW TECH 02/17BL and the requirements of UK law.

Profits available for distribution at 31 July 2023 and 31 July 2022 were comprised as follows:

	2023 £m	2022 £m
Net assets	2,437	2,906
Less:		
Issued share capital	(131)	(136)
Share premium	(365)	(365)
Capital redemption reserve	(24)	(19)
Other non-distributable reserves	(1,054)	(1,058)
Distributable profits	**863**	**1,328**

Other reserves

Other reserves arose from the cancellation of the share premium arising from an equity-funded acquisition in the year ended 30 July 1988.

Differential between consolidated and Parent Company net assets

The Group's consolidated balance sheet shows net assets that are £31m lower (FY2022: £185m lower) than the net assets shown on the Parent Company's balance sheet. This deficit principally arose in 2007 when the Group returned £2.1bn of capital to shareholders, creating a net asset deficit of £1.9bn. Earnings retained within the Group have subsequently reduced this deficit.

12. CONTINGENT LIABILITIES

The Company has provided guarantees and arranged letter of credit facilities to support the Group's pension plans. The current amount outstanding under letters of credit is £56m (FY2022: £56m). The Company has guaranteed the US$800m revolving credit facility available to a subsidiary.

13. POST BALANCE SHEET EVENT

Details of the proposed final dividend announced since the end of the reporting period are given in note 25 to the Group consolidated financial statements.

SUBSIDIARY UNDERTAKINGS

A full list of the Group's related undertakings as at 31 July 2023 is provided below. The entities are grouped by the country in which they are incorporated and details of their registered office address, classes of shares and ownership is disclosed. Related undertakings include subsidiaries, associated undertakings, joint ventures and associates.

Name	Security	Direct (%)	Total (%)
UNITED KINGDOM			
11-12 St James's Square, London, SW1Y 4LB			
Air Log Limited	Ordinary		100
CVE Trustee Limited	Ordinary	100	100
EIS Group Plc	Ordinary	100	100
Flex-Tek Group Limited	Ordinary		100
Flightspares Limited	Ordinary	100	100
Francis Shaw and Company (Manchester) Limited	Ordinary		100
Francis Shaw PLC	37% 2nd Pref Ordinary; 5.25% Cum Pref; Dif; Ordinary		100
Graseby Limited	Ordinary	100	100
Roof Units (Group) Limited	Ordinary	100	100
S.I. Pension Trustees Limited	Ordinary	100	100
SI Properties Limited	Ordinary	100	100
SITI 1 Limited	Common		100
Smiths Aerospace Components Tyseley Limited	Ordinary	100	100
Smiths Aerospace Gloucester Limited	Ordinary; Ordinary A		100
Smiths Finance Limited	Ordinary; RDM		100
Smiths Group Finance EU Limited	Ordinary		100
Smiths Group Finance US Limited	Ordinary		100
Smiths Group Innovation Limited	Ordinary		100
Smiths Group International Holdings Limited	Ordinary	100	100
Smiths Industries Limited	7% Non Cum Pref; Ordinary	100	100
Smiths Nominees Limited	Ordinary	100	100
Smiths Pensions Limited	Ordinary	99	100
Smiths Wolverhampton Limited	Ordinary		100
Sovos Limited	Ordinary		100
TI Corporate Services Limited	Ordinary	100	100
TI Group Limited	Ordinary	100	100

Name	Security	Direct (%)	Total (%)
Tigrup No. 7 Limited	Ordinary	100	100
Tigrup No. 14 Limited	Ordinary		100
TI Pension Trustee Limited	Limited By Guarantee		100
XDG Limited	Ordinary	100	100
XDG Services Limited	Ordinary		99
29 Dunsinane Avenue, Dundee, DD2 3QF			
Flexible Ducting Limited	Ordinary		100
Trak Microwave Limited	Ordinary		100
Abercanaid, Merthyr Tydfil, Mid Glamorgan, CF48 1UX			
Amnitec Hose Limited	Ordinary		100
Amnitec Limited	Ordinary		100
Brooklyn House, 44 Brook Street, Shepshed, Loughborough, LE12 9RG			
Gastite Systems Limited	Ordinary		100
Buckingham House, 361-366 Buckingham Avenue, Slough, Berkshire, SL1 4LU			
Flexibox International Limited	Ordinary		100
John Crane Group Limited	Ordinary		100
John Crane Investments Limited	Ordinary		100
John Crane UK Limited	Ordinary		100
Project Sugar Limited	Ordinary		100
Smiths Business Information Services Limited	Ordinary		100
Century House, Maylands Avenue, Hemel Hempstead, Hertfordshire, HP2 7DE			
Smiths Detection Group Limited	Ordinary		100
Smiths Detection Investments Limited	Ordinary		100
Smiths Detection Kuwait Security Devices and Systems, their Installation and Maintenance (LLC)* *registered address of parent	Cash share		49
Smiths Detection Limited	Ordinary	100	100
Smiths Detection-Watford Limited	Ordinary		100
Smiths Heimann Limited	Ordinary	100	100
No 1 Exchange, Market Street, Aberdeen, Scotland			
John Crane Asset Management Solutions Limited	Ordinary		100
Unit 130 Centennial Park, Elstree, Hertfordshire, WD6 3TJ			
Hypertac Limited	Ordinary		100
Smiths Industries Industrial Group Limited	Ordinary		100
Smiths Interconnect Group Limited	Ordinary		100

Name	Security	Direct (%)	Total (%)
ANGOLA			
Rue Kwamme Nkrumah, Torres Impor-Africa, 3 Andar, Apt A, Luanda			
John Crane (Angola) Prestacao De Services Ltd	Ordinary		100
ARGENTINA			
Av. Leandro N. Alem 1110, 13 Floor, Baker Mackenzie Office, Buenos Aires			
John Crane Argentina SA	Common		100
TI Group Automotive Systems (Argentina) SA	Ordinary		100
AUSTRALIA			
549 – 551, Somerville Road, Sunshine, Melbourne, VIC 3020			
Flexibox Pty Limited	Ordinary		100
John Crane Australia Pty Limited	Ordinary		75
Botany Grove Estate Unit 5, 14A Baker Street, Botany, NSW 2019			
Smiths Detection (Australia) Pty Ltd	Ordinary		100
AZERBAIJAN REPUBLIC			
32, Dostluq Street, Salyan Highway PO Box AZ1023, Baku			
John Crane Baku LLC	Ordinary		100
BELGIUM			
Glasstraat 37, Antwerpen, 2170			
John Crane Belgium NV	Ordinary		100
BRAZIL			
Industrial District of The City of Rio Claro, State of São Paulo, AV. Brasil Number 4.700, CEP 13505-600			
Smiths Brasil Ltda	Ordinary		100
CANADA			
423, Green North Road, Stoney Creek, Ontario, L8E 3A1			
John Crane Canada Inc	Common		100
3700, Stock Exchange Tower, P.O. Box 242, 800 Place Victoria, Montreal, PQ, H4Z 1E9			
Smiths Detection Montreal Inc.	Class A Shares; Class B Shares		100
4610, Eastgate Parkway, Unit 3, Mississauga, Ontario, L4W 3W6			
Flexible Technologies (Canada) Ltd.	Ordinary		100
16771, Sainte Marie Rd, Kirkland, Quebec, H9H 5H3			
Smiths Interconnect Canada Inc	Common Shares		100

Name	Security	Direct (%)	Total (%)
CHILE			
Americo Vespucio 2542, Complejo Empresarial El Cortijo, Conchali, Santiago			
John Crane Chile SA	Ordinary		100
CHINA			
No. 1, Lane 65, Huanlong Road, Pudong New District, Shanghai			
Smiths (Shanghai) Management Co., Ltd	Ordinary		100
No. 7, Factory Building, Maqiao Industrial Square, Changshu Economic Development Zone, Changshu, Jiangsu 215536			
Changshu Flex-Tek Thermal Fluid Systems Manufacturer Co. Ltd	Ordinary		100
No.9, No. 1, Haitai Huake Road, Huayuan Industrial District (Outside The Ring), Binhai Hi-Tech, Industrial Park, Tianjin			
John Crane Technology (Tianjin) Co Limited	Ordinary		100
No. 14 Unit, No. 78, XingLin Road, Suzhou Industrial Park, Suzhou 215026			
Antares Advanced Test Technologies (Suzhou) Co. Ltd	Ordinary		100
No. 120, Sanjiang Avenue, Economic Development Zone, Mianyang, Sichuan Province			
Huafeng Smiths Interconnect (Sichuan) Co., Ltd	Ordinary		60
Room 923B, No 55, Xili Road, Shanghai, (China) Pilot Free Trade Zone			
SMO Detection Equipment (Shanghai) Co., Ltd	Ordinary		100
Room 1668, No. 14F Floor 3 Datong Building, Huanghe Avenue, Nankai District, Tianjin			
John Crane China Co Limited	Ordinary		100
COLOMBIA			
Calle 46A No 82-54 Int 14, Parque Empresarial San Cayetano, Bogota			
John Crane Colombia SA	Ordinary		100
COSTA RICA			
33rd St. Number 777 Barrio Francisco Peralta, Central Avenue & 8th, San Jose			
Smiths Interconnect Sociedad Anonima	Ordinary		100
CZECH REPUBLIC			
Jana Sigmunda 78, Lutin, 78349			
John Crane A.S.	Ordinary		100
DOMINICAN REPUBLIC			
Calle El Recodo, #2 Bella Vista, Santa Domingo			
John Crane Dominicana SA	Ordinary		100

Name	Security	Direct (%)	Total (%)
EGYPT			
139, Mogamaa El Masanea Street, El Amireya, Cairo			
John Crane Egypt Llc	Ordinary		100
John Crane Egypt Sealing Systems Llc	Ordinary		100
Nile City Towers, North Tower, 22nd Floor, Ramlet Boulaq, Nile Cournich, Cairo			
Detection Technologies Egypt	Quotas		100
FINLAND			
PO Box 10, Punasillantie 15, Muurame, 40950			
John Crane Safematic Oy	Ordinary		100
FRANCE			
22, Avenue Maurice Chevalier, 77833 Ozoir-La-Ferriere, Paris			
Titeflex Europe S.A.S.	Ordinary		100
31 Rue Isidore Maille, Saint-Aubin-Les-Elbeuf, 76410			
Hypertac S.A.	Ordinary		100
36 Rue Charles Heller, Vitry Sur Seine, F-94400			
Smiths Detection France S.A.S.	Shares		100
114, Rue Jules Ferry, B.p.35, Deville-Les-Rouen, 76250			
John Crane France S.A.S.	Ordinary		100
T I S A (France)	Ordinary		100
GERMANY			
Am Zirkus 2, Berlin, 10117			
John Crane Filtration Technologies GmbH	Ordinary		100
Gewerbestraße 15 a, Graben, 86836			
Gastite Systems Deutschland GmbH	Ordinary		100
Im Herzen 4, Wiesbaden, 65205			
Smiths Detection GmbH	Shares		100
Smiths Detection Germany GmbH	Ordinary		100
Neckarweg 3, Vellmar, 34246			
Herkules Holding GmbH	Ordinary		100
Seebach GmbH	Ordinary		100
Reepschlager Str., 10B, Lubeck, 23556			
Flexschlauch Produktions GmbH	Shares		100
Tolzer Strasse, 15 82031, Grunwald			
Zamor KG	Ordinary		48
Ulrichsberger Strasse 17, Deggendorf, 94469			
Hypertac GmbH	Ordinary		100
Werner–Von–Siemens – Str.6, Fulda, 36041			
John Crane GmbH	Ordinary		100

Name	Security	Direct (%)	Total (%)
GREECE			
3 Stratigou Tobre Street, Municipality Of Agia Paraskevi, Athens, 153 42			
John Crane Hellas – Engineered Sealing Systems Monoprosopi Epe	Ordinary		100
GUERNSEY			
Level 5, Mill Court, La Charroterie, St Peter Port, GY1 1EJ			
Smiths Group Insurance Limited	Ordinary		100
HONG KONG			
4008-4009, 40/F, One Pacific Place, 88 Queensway			
Smiths Interconnect Group (HK) Limited	Ordinary		100
Smiths Interconnect Hong Kong Co Limited	Ordinary		100
Smiths Detection Hong Kong Limited	Ordinary		100
HUNGARY			
2040 Budaors, Gyar U. 2			
John Crane Hungary Kft	Ordinary		100
INDIA			
D-196 Okhla Industrial Area, Phase-1, New Delhi, 110020			
Plenty India Limited	Ordinary Shares		100
No 11, 1st Phase, Peenya, Industrial Area, Bangalore, 560058			
John Crane Sealing Systems India Private Limited	Ordinary		100
Smiths Interconnect India Private Limited	Ordinary		100
No 38, Kiadb Industrial Area, Bangalore, 561203			
STS Titeflex India Pvt Ltd	Ordinary		100
Shirwal, Maharashtra 412801			
Seebach Filter Solutions India Pvt Ltd	Ordinary		100
Vardhman Crown Mall, Unit No. 300 3rd Floor, Sector 19 Dwarka, New Delhi 110075			
Smiths Detection Systems Private Limited	Class A Equity Shares; Class B Equity Shares		100
INDONESIA			
Cilandak Commercial Estate Bldg 401A, Ji. Kko Cilandak, Jakarta, 12560			
PT John Crane Indonesia	Ordinary		99
IRELAND			
Deloitte Offices, 6 Lapps Quay, Cork			
Smiths Detection Ireland Limited	Ordinary; Ordinary B; Ordinary D; Series C		100
T53/54, Shannon Industrial Estate, Shannon, Co. Clare			
John Crane (Ireland) Limited	Ordinary		100

Name	Security	Direct (%)	Total (%)
ITALY			
Via Da Bissone 7A, Genova, 16153			
Hypertac SpA	Ordinary		100
Via Giotto 3, Muggio, 20835			
John Crane Italia SpA	Ordinary		100
Smiths Detection Italia srl	Quota Value of Shares		100
Smiths Group Italia Srl	Ordinary		100
JAPAN			
1-1-1 Uchisaiwaicho, Chiyoda-ku, Tokyo			
Smiths Detection Japan Gk	Cash Contribution		100
2222, Kamitoyama Ritto City, Ritto-Shi, Shiga-Ken			
John Crane Japan Inc	Ordinary		70
KAZAKHSTAN			
Atyrau Region, Gatyrau, Station K Arabathan, House Production Site 14, 060000			
John Crane Kazakhstan	Ordinary		100
KOREA, REPUBLIC OF			
Migeundong, Westgate Tower 15F, 70 Chungjeong-Ro, Seodaemun-Gu, Seoul			
John Crane Korea Co Ltd	Ordinary		100
MALAYSIA			
207, Jalan Tun Razak, Suite 13.03, 13th Floor, Menara Tan & Tan, Kuala Lumpur, 50400			
Flexible Ducting Malaysia Sdn Bhd (in liquidation)	Ordinary		100
Menara LGB, 1, Jalan Wan Kadir Taman Tun Dr Ismail, 60000 Kuala Lumpur, WPKL			
John Crane Malaysia Sdn Bhd	Ordinary		100
Smiths Detection Malaysia Sdn Bhd	Ordinary		100
MEXICO			
679, Poniente 152, Vallejo Delegacion Azcapotzalco, Mexico City, 2300			
Industrias John Crane Mexico S.A. de C.V.	Series A; Series B		100
Av. Primero De Mayo Lote 3 Edificio 1B, Prologis Park, Reynosa, 88780			
Tutco De Mexico SRL de CV	Ordinary		100
Carretera Ciudad Victoria Matamoros, Km.173+600, Solonia San Fernando Centro, Tamaulipas, San Fernando, CP 87600			
John Crane Sociedad De Responsibilidad Limitada De Capital Variable	Ordinary		100
Carretera Libre Antiguo Camino Tijuana 20221-B, Fideicomiso el Florido, Tijuana, Baja California, 22234			

Name	Security	Direct (%)	Total (%)
Smiths Interconnect Mexico S. de Rl de C.v.	Equity Quotas		100
Paseo De La Reforma 505, Col, Cuauhtemoc, 6500, Ciudad De Mexico			
Smiths Detection Mexico S. de Rl de C.v.	Partes Sociales		100
NETHERLANDS			
Abraham van Stolkweg 118, Rotterdam, 3041 JA			
Amnitec BV	Ordinary		100
Bergen 9 – 17, Barendrecht, Zuid, 2993LR			
John Crane Holland BV	Ordinary		100
Smiths Detection Benelux BV	Ordinary		100
Buckingham House, 361-366 Buckingham Avenue, Slough, Berkshire, SL1 4LU, England			
Smiths Group Holdings Netherlands BV	Ordinary		100
Hydrograaf 25, PO Box 442, 6900 Ak Zevenaar, Duiven, 6921 RS			
Indufil BV	Ordinary		100
NEW ZEALAND			
Deloitte, Level 18, 80 Queen Street, Auckland 1010			
Smiths Detection New Zealand Limited	Ordinary		100
PERU			
Av. Guillermo Dansey 2124, Urbanizacion Industrial Conde, Lima			
John Crane Peru Sac	Common Shares		100
POLAND			
1327, ul. Bielska, Poland, 43-374 Buczkowi			
John Crane Poland Sp Z O.O.	Ordinary		100
PUERTO RICO			
654 Plaza, Suite #933, 654 Munoz Rivera Ave, San Juan, 00918			
John Crane Caribe Ltd	Common Shares		100
RUSSIAN FEDERATION			
Room 501, Floor 5, bld.1, 5-104 Octyabrskaya Emb., St. Petersburg 193079			
Smiths Detection Rus LLC	Ordinary		100
B.savvinsky Per, D.11, Moscow, 119435			
LLC John Crane Rus	Ordinary		100
SAUDI ARABIA			
Dammam Industrial City, Dammam, 3243			
John Crane Saudi Arabia Ltd	Ordinary		100
Building 7, Zone A, Airport road, Business Gate, P.O Box Riyadh 11683, 93597			
Smiths Detection Saudi Arabia Ltd	Shares		100

Name	Security	Direct (%)	Total (%)
SINGAPORE			
6 Shenton Way, OUE Downtown #26-00, 068809			
John Crane Singapore Pte Limited	Ordinary		100
20, Pasir Panjang Road, #13-26 Mapletree Business City, 117439			
Smiths Connectors Asia Pte. Ltd.	Ordinary		100
Smiths Detection (Asia Pacific) Pte. Ltd	Ordinary		100
47, Kallang Pudding Road, #06-13, The Crescent, Kallang, Singapore, 349318			
Plastronics Asia Pte. LTD	Ordinary		100
SLOVAKIA			
Dvorakovo nabrezie 10, Bratislava-mestska cast Stare Mesto, 811 02			
John Crane Slovakia SRO	Ordinary		100
SOUTH AFRICA			
2, Jansen Road, Nuffield Industrial Sites, Springs Gauteng, 1559			
Flexibox (Pty) Limited	Ordinary		100
John Crane Pty Ltd	Ordinary		100
SPAIN			
Cemento 1, Torrejon De Ardoz, Madrid			
John Crane Iberica SA	Ordinary		100
SWEDEN			
Knivsta, 74180			
Habia Teknofluor AB	Shares		100
Teknofluor Holding AB	Shares		100
Faltspatsgatan 4, Se-421 30 Vastra Frolunda			
John Crane Sverige AB	Ordinary		100
SWITZERLAND			
Hohenrainstrasse 10, 4133 Pratteln			
John Crane (Switzerland) AG	Ordinary		100
TAIWAN			
324-4, Fong-Jen Road, Renwu District, Kaohsiung City 814			
John Crane Taiwan Co Ltd.	Ordinary		100
THAILAND			
9/311, 31st Floor, Um Tower, Ramkhamhaeng Road, Suanluang District, Bangkok			
John Crane (Thailand) Limited	Ordinary; Pref		100
99/3 Moo 5, Kingkaew Road, Tambol Rajatheva, Amphoe Bangplee, Samutprakarn Province, 10540			
Smiths Detection (Thailand) Limited	Pref; Ordinary		100

Name	Security	Direct (%)	Total (%)
TUNISIA			
Zone Industrielle Route De Khniss, Monastir, 5000			
Smiths Connectors Tunisia SARL	Ordinary		100
TURKEY			
Istanbul Sariyer, Huzur Mahallesi, Ahmet Bayman Caddessi, Dis, Reklamcilik Apt No:17-19/1			
John Crane Endustriyel Sizdirmazlik Sistemleri Ltd	Ordinary		100
UNITED ARAB EMIRATES			
Building B10, Industrial Mussaffah, M44, Sector 15, Abu Dhabi			
Smiths Detection Security Systems Llc	Shares		49
Dubai Airport Free Zone, PO Box 48225, Building No. 8WA (West Side), 401, Dubai			
Smiths Detection Middle East Fze	Shares		100
S20113, Jebel Ali Free Zone, 61040			
John Crane Middle East Fze	Ordinary		100
UNITED STATES OF AMERICA			
51 Growth Road, Laconia, NH, 03246			
Lakes Region Tubular Products Inc.	Common Stock		100
116, Pine Street, 3rd Floor, Suite 320, Harrisburg, PA 17101			
Tutco, LLC	Ordinary		100
180 Van Riper Avenue, Elmwood Park, NJ 07407			
Kreisler Industrial Corp	Common Stock		100
Kreisler Manufacturing Corp	Common Stock		100
815 Forestwood Drive, Romeoville, IL 60446			
US Hose Corp	Common Stock		100
2001, 46th St. NE, Suite 188, Kansas City, Missouri, 64116			
Smiths Interconnect Americas, Inc.	Common Stock		100
2601, Texas Drive, Irving, TX, 75062			
Plas2, LLC	Membership interests		100
Plastronics H-Pin, LTD	Membership interests		100
Plastronics Socket Partners, LTD	Membership interests		100
2801 Red Dog Lane, Knoxville, TN 37914			
Fulton Bellows LLC	Membership interests		100
The Corporation Trust Company, 1209 Orange Street, Wilmington, DE, 19801			
Asset And Intelligence Management Services, LLC	Ordinary Stock		100

Name	Security	Direct (%)	Total (%)
Flexible Technologies, LLC	Ordinary Shares		100
Flex-Tek Group (US) LLC	Ordinary		100
John Crane Group, LLC	Ordinary		100
John Crane Inc	Common; Preferred		100
John Crane USA, Inc	Ordinary		100
MDII Investments LLC	Ordinary		100
Royal Metal Products, LLC	Ordinary		100
Smiths Business Information Services, Inc.	Common Stock		100
Smiths Detection International, LLC	Equity Interests		100
Smiths Detection US Holdings, LLC	Membership interests		100
Smiths Detection US, LLC	Ordinary		100
Smiths Group Services Corp.	Common Stock		100
Smiths Interconnect, Inc.	Common Stock		100
Smiths US Innovation LLC	Ordinary		100
CT Corporation System, 9 Capitol Street, Concord, NH 03301			
Smiths Tubular Systems-Laconia, Inc	Ordinary Shares		100
CT Corporation System, 155 Federal Street, Suite 700, Boston, MA 02110			
Titeflex Commercial, Inc.	Ordinary		100
One Corporate Center, Hartford, CT 06103-3220			
Titeflex Corporation	Ordinary		100
The Corporation Trust Company of Nevada, 701 S Carson Street, Suite 200, Carson City, NV, 89701			
Smiths Detection Inc	Common Stock		100
VENEZUELA			
Carretera Vía A Perijá, Km 8 ½, Avenida 50, Local N° 185-72, Zona Industrial El Silencio, Maracaibo, 4001			
John Crane Venezuela CA	Class A; Class B; Common		100
ASSOCIATES			
RUSSIAN FEDERATION			
28, Academica Vedeneeva Street, Perm, Permskiy Region, 614038			
Llc John Crane Iskra	Ordinary		50

OVERSEAS BRANCHES

The Company does not operate through any branches. Some Group subsidiary companies have established branch operations outside the UK.

FINANCIAL CALENDAR

	2023	2024 (provisional)
Announcement of FY2023 Results	26 September	
Dividend Ex-Dividend Date	19 October	
Dividend Record Date	20 October	
Last DRIP Election Date	3 November	
Annual General Meeting	16 November	
Q1 Trading Update	16 November	
Dividend Payment Date	24 November	
Announcement of FY2024 Interim Results		22 March
Interim Dividend Ex-Dividend Date		4 April
Interim Dividend Record Date		5 April
Last DRIP Election Date		19 April
Interim Dividend Payment Date		13 May
FY2024 financial year-end		31 July
Announcement of FY2024 Results		September

REGISTERED OFFICE

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Incorporated in England & Wales
Company No. 137013

www.smiths.com

REGISTRARS

Our share register is maintained by Equiniti. If you have any questions about your Smiths shares, please contact Equiniti www.shareview.co.uk.

Telephone:
T: + 44 (0)371 384 2943 (in the UK)
Lines open 8:30am to 5:30pm (UK time), Monday to Friday (excluding public holidays in England and Wales).

For deaf and speech impaired customers, Equiniti welcomes calls via Relay UK. Please see www.relayuk.bt.com for more information.

Write to:
Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA

Equiniti offers the Shareview portfolio service to investors; visit www.shareview.co.uk to register for an account. Through Shareview you can access information about your investments, including balance movements and indicative share prices, as well as practical help about transferring your shares or updating your personal details.

DIVIDENDS

Since November 2019 Smiths no longer issues dividend cheques. In order to have your dividends paid directly to your bank or building society account please contact Equiniti for a copy of the Bank Mandate Form, or register your nominated bank or building society account by visiting www.shareview.co.uk.

By registering your account all future dividends will be paid securely by direct credit on the dividend payment date.

Alternatively, Smiths offers a Dividend Reinvestment Plan. For more information please visit our website or contact Equiniti.

ORDINARY SHARES

The market value of an ordinary share of the Company on 31 March 1982 for the purposes of capital gains tax was 136.875p (taking into account the sub-division of 50p shares into 25p shares on 14 January 1985 and the sub-division and consolidation of 25p shares into 37.5p shares on 18 June 2007).

ANNUAL GENERAL MEETING (AGM)

The 2023 Smiths Group plc AGM will be held at 11.00am on Thursday 16 November 2023 at Freshfields Bruckhaus Deringer, 100 Bishopsgate, London EC2P 2SR. The Notice of AGM is a separate document which is sent out at least 20 working days before the AGM and made available on our website. If you are in any doubt as to what action you should take in relation to the resolutions being proposed at the AGM, you are recommended to consult your stockbroker, bank manager, solicitor, accountant or other independent professional adviser authorised under the Financial Services and Markets Act 2000. The meeting will be webcast and may be viewed online by registering on our website www.smiths.com.

Shareholders, their appointed proxies and authorised corporate representatives have the right to ask questions at the AGM relating to the business of the meeting. Such persons will also be able to submit questions to the AGM in advance by emailing secretary@smiths.com by 6.00pm on Thursday, 9 November 2023 or by asking questions in person at the AGM. Shareholders who submit questions in advance of the AGM should include their full name and Shareholder Reference Number in their email. The responses to the pre-submitted questions will be answered at the AGM. Please note that where a number of similar questions have been asked, we will group these accordingly.

Shareholders who are unable to attend the AGM in person are encouraged to vote their shares by appointing a proxy and issuing voting instructions. Electronic and paper proxy appointments and voting instructions must be received by the Company's Registrar not later than 48 hours before the AGM is held in order to be valid. Shareholders who are not CREST members can appoint a proxy and vote online by visiting www.sharevote.co.uk. CREST members, CREST personal members and other CREST-sponsored members should consult the CREST Manual or their sponsor or voting service provider for instructions on electronic proxy appointment and voting.

FORWARD-LOOKING STATEMENTS

This report contains certain 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. Forward-looking statements can be identified by the use of forward-looking terminology, including terms such as "believes", "estimates", "anticipates", "expects", "forecasts", "intends", "plans", "projects", "goal", "target", "aim", "may", "will", "would", "could" or "should" or, in each case, their negative or other variations or comparable terminology. By their nature, these statements involve uncertainty and are subject to known and unknown risks, including, without limitation, those discussed under the section titled 'Principal risks and uncertainties' in this report. Future events and circumstances can cause performance, results and developments to differ materially from those expressed, implied or anticipated. The past business and financial performance of the Group is not to be relied on as an indication of its future performance. 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. Undue reliance should not be placed on such forward-looking statements. Nothing in this document should be construed as a profit forecast or be interpreted to mean that future earnings per share of the Company will necessarily match or exceed its historical published earnings per share. 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. Some of the products described in these materials are under development and are not available for sale, and we make no definitive claims about the final features or benefits of these products.

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