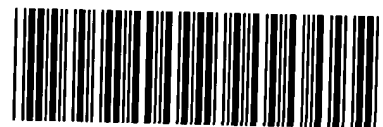


JOHN CRANE UK LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2018

THURSDAY



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JOHN CRANE UK LIMITED

COMPANY INFORMATION

Directors	D H Tallentire (resigned 5 January 2018) J G Long A D Powell J F Donatiello (appointed 5 January 2018)
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Registered number	00192121
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Registered office	Buckingham House 361-366 Buckingham Avenue Slough Berkshire SL1 4LU
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JOHN CRANE UK LIMITED

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JOHN CRANE UK LIMITED

**STRATEGIC REPORT
FOR THE YEAR ENDED 31 JULY 2018**

Introduction

The Directors present their Strategic Report on John Crane UK Limited ("the Company") for the year ended 31 July 2018.

Business review and principal activities

The Company's principal activity in the year is that of the manufacture, assembly and sale of mechanical seals and the engineering and sale of sealing solutions and associated equipment.

The results show a profit before taxation of £7,521k (2017: £11,464k) for the year on turnover of £72,028k (2017: £69,133k). The increase in turnover was due to improved sales to our fellow members of Smiths Group plc. The reduction in profit for the financial year is substantially driven by a reduction in margin due to a proportionate change towards larger original equipment manufacturer sales on strategic first fit projects where the selling price is lower than end user business.

The Company has not paid any dividends during the year (2017: £nil). The Company has received dividends during the year of £2,463k (2017: £59k) The majority of which, £2,382k (2017: £nil) is due to the dissolution of Global TI Ltd, a wholly owned dormant subsidiary. The balance sheet remains robust, with low long term liabilities and strong liquid net current assets.

Principal risks and uncertainties

The management of the business and the execution of the Company's strategy are subject to a number of risks.

The Company sells to many parts of the world and is therefore affected by changes in economic and political conditions in these countries, such as availability of foreign currency, exchange rates, interest rates and inflation. The diverse nature of our products and markets helps mitigate these issues. Forward exchange contracts, designated as cash flow hedges, are used to mitigate the foreign exchange risk on purchases and sales.

Many of the raw materials and products purchased are subject to volatility of price and supply. The range of suppliers and products helps to reduce the risks from the supply chain. In addition commodity prices, especially oil prices, affect global capital investment programmes, and therefore we can experience fluctuations in demand from our customers. The volatility of these fluctuations is limited by the geographical, industry and product spread of our portfolio.

Other risks include global and economic conditions, the effect of legislation or other regulatory action.

Key performance indicators

The Directors of Smiths Group plc manage the Group's operations on a divisional basis. For this reason, the Company's Directors believe that analysis using key performance indicators for the Company is not necessary or appropriate for an understanding of the development, performance or position of the business of John Crane UK Limited. The development, performance and position of the John Crane division of Smiths Group plc, which includes the Company, is discussed in the Business review section of the Group's Annual report which does not form part of this report.

**STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 JULY 2018**

This report was approved by the Board and signed on its behalf.



A D Powell
Director
Date: 10 October 2018

JOHN CRANE UK LIMITED

**DIRECTORS' REPORT
FOR THE YEAR ENDED 31 JULY 2018**

The Directors present their Annual Report and audited financial statements for the year ended 31 July 2018.

Directors' responsibilities statement

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. The Directors have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101).

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 Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the comply with the Companies Act 2006. The Directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of and other information included in Directors' Reports may differ from legislation in other jurisdictions.

Results and dividends

The profit for the financial year, after taxation, amounted to £7,840k (2017 - £14,289k).

No dividend was paid in the year and the Directors do not recommend the payment of a final dividend (2017: £ nil).

Directors

The Directors who served during the year were:

D H Tallentire (resigned 5 January 2018)

J G Long

A D Powell

J F Donatiello (appointed 5 January 2018)

JOHN CRANE UK LIMITED

DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 JULY 2018

Future developments

The Company had a satisfactory year. The Directors are satisfied with the position of the Company as at 31 July 2018 and with its future prospects. The current level of trading performance is expected to be maintained.

Financial risk management policies

The Company complies with the Smiths Group plc financial risk management policies. These policies are explained in the Treasury section of the Business review and the financial instruments note included in the Group's Annual report which does not form part of this report.

Operational credit risk:

The Company has implemented policies that require appropriate credit checks on potential customers before credit terms are offered. Customer credit limits are set based on credit ratings, past experience and other factors and subject to regular review. Concentrations of credit risk with respect to trade receivables are limited due to the diverse customer base.

Foreign exchange risks:

The Company makes a proportion of its sales and purchases in foreign currencies, principally US Dollar, Euro and Czech Koruna. The resulting foreign exchange risks are managed through hedging using financial instruments.

Financing:

Financing is managed on a Group basis. See the financial instruments note in the Annual Report and financial statements of Smiths Group plc for details of how the Group manages interest rate risks, financial credit risks and liquidity risks.

Company's policy for payment of creditors

The Company's policy and practice is to pay creditors promptly in accordance with agreed terms of business. The average time the Company took to pay an invoice was 51 days (2017: 33 days).

Research and development activities

The Company continues to fund its research and development activities necessary to support the ongoing needs of the business. R&D spend during the year was £4,247k (2017: £3,726k). The Company has increasingly reinforced its links with leading universities and external research facilities and continues to apply resources to developing new products and processes.

JOHN CRANE UK LIMITED

**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 JULY 2018**

Employee involvement

It is the Company's policy to provide equal opportunities for employment. The Company continues to be actively involved in all aspects of the training and development of young persons, including initiatives designed to ease the transition from school to work.

Employees are regularly provided with a wide range of information concerning the performance and prospects of the business in which they are involved. Methods of communication include regular senior management briefings, Intranet, email communications and announcements. Additionally, employee councils, information and consultation forums, and other consultative bodies allow the views of employees to be taken into account. Employees are entitled to join the Smiths Group Share Save Scheme, as detailed in note 25.

It is our policy to provide equal employment opportunities. The Company recruits, selects and promotes employees on the basis of their qualifications, skills, aptitude and attitude. In employment-related decisions, we comply with all applicable antidiscrimination requirements in the relevant jurisdictions. 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 on the basis of their aptitudes and abilities. We endeavour to find appropriate alternative jobs for those who are unable to continue in their existing job because of disability.

Disclosure of information to auditors

Each of the persons who are Directors at the time when this Directors' Report is approved has confirmed that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- the Director has taken all the steps that ought to have been taken as a Director in order to be aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Independent auditors

The auditors, PricewaterhouseCoopers LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board and signed on its behalf.



A D Powell
Director
Date: 10 October 2018

JOHN CRANE UK LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF JOHN CRANE UK LIMITED

Report on the audit of the financial statements

Opinion

In our opinion, John Crane UK Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 July 2018 and of its profit for the year then ended
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Balance Sheet as at 31 July 2018; the Statement of Comprehensive Income, the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 July 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

JOHN CRANE UK LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF JOHN CRANE UK LIMITED

As explained more fully in the Directors' responsibilities statement set out on page 3, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. 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.

In preparing the financial statements, the directors are responsible for assessing the 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 the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

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 an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

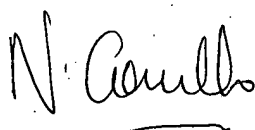
Other required reporting

Companies Act 2006 exception reporting

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



Nigel Comello (Senior statutory auditor)

for and on behalf of

PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors
London

10 October 2018

JOHN CRANE UK LIMITED

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 JULY 2018**

	Note	2018 £000	2017 £000
Turnover	3	72,028	69,133
Cost of sales		(48,476)	(40,728)
Gross profit		23,552	28,405
Distribution costs		(6,407)	(6,320)
Administrative expenses		(21,620)	(20,049)
Other operating income	4	9,251	9,064
Operating profit	5	4,776	11,100
Income from shares in group undertakings		2,463	59
Interest receivable and similar income	9	291	345
Interest payable and expenses	10	(9)	(40)
Profit before taxation		7,521	11,464
Income tax credit / (charge)	11	319	2,825
Profit for the financial year		7,840	14,289
Other comprehensive (expense) / income:			
Items that will be reclassified to profit or loss:			
Reclassification of cash flow hedges to the profit and loss		(480)	1,880
Net fair value losses on cash flow hedges		(221)	(283)
		(701)	1,597
Total comprehensive income for the year		7,139	15,886

The notes on pages 13 to 39 form part of these financial statements.

JOHN CRANE UK LIMITED
REGISTERED NUMBER: 00192121

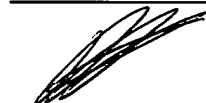
BALANCE SHEET
AS AT 31 JULY 2018

	Note	2018 £000	2017 £000
Fixed assets			
Goodwill	12	2,275	2,275
Intangible assets	13	1,427	1,396
Tangible assets	14	4,838	4,607
Investments	15	33	33
Deferred taxation	16	5,858	4,585
Current assets			
Stocks	17	5,293	4,838
Debtors	18	98,360	92,497
Cash at bank and in hand	19	1,657	788
		<u>105,310</u>	<u>98,123</u>
Creditors: amounts falling due within one year	20	(28,243)	(27,325)
Net current assets		<u>77,067</u>	<u>70,798</u>
Total assets less current liabilities		<u>91,498</u>	<u>83,694</u>
Creditors: amounts falling due after more than one year	21	(196)	(47)
		<u>91,302</u>	<u>83,647</u>
Provisions for liabilities			
Other provisions	23	(421)	(163)
		<u>(421)</u>	<u>(163)</u>
Net assets		<u>90,881</u>	<u>83,484</u>
Capital and reserves			
Called up share capital	24	480	480
Hedge reserve		(536)	165
Other reserves		7,599	7,341
Profit and loss account		83,338	75,498
		<u>90,881</u>	<u>83,484</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf by:

JOHN CRANE UK LIMITED
REGISTERED NUMBER: 00192121

BALANCE SHEET (CONTINUED)
AS AT 31 JULY 2018



A D Powell
Director

Date: 10 October 2018

The notes on pages 13 to 39 form part of these financial statements.

JOHN CRANE UK LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 JULY 2018**

	Called up share capital	Hedge Reserve	Other reserves	Profit and loss account	Total equity
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
At 1 August 2017	480	165	7,341	75,498	83,484
Comprehensive income for the year					
Profit for the financial year	-	-	-	7,840	7,840
Reclassification of cash flow hedges to the profit and loss	-	(480)	-	-	(480)
Net fair value losses on cash flow hedges	-	(221)	-	-	(221)
Other comprehensive expense for the year	-	(701)	-	-	(701)
Total comprehensive income for the year	-	(701)	-	7,840	7,139
Capital contribution	-	-	258	-	258
Total transactions with owners	-	-	258	-	258
At 31 July 2018	480	(536)	7,599	83,338	90,881

The notes on pages 13 to 39 form part of these financial statements.

JOHN CRANE UK LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 JULY 2017**

	Called up share capital	Hedge Reserve	Other reserves	Profit and loss account	Total equity
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
At 1 August 2016	480	(1,432)	6,845	61,209	67,102
Comprehensive income for the year					
Profit for the year	-	-	-	14,289	14,289
Reclassification of cash flow hedges to the profit and loss	-	1,880	-	-	1,880
Net fair value losses on cash flow hedges	-	(283)	-	-	(283)
Other comprehensive income for the year	-	1,597	-	-	1,597
Total comprehensive income for the year	-	1,597	-	14,289	15,886
Capital contribution	-	-	496	-	496
Total transactions with owners	-	-	496	-	496
At 31 July 2017	480	165	7,341	75,498	83,484

JOHN CRANE UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2018**

1. Accounting policies

1.1 Basis of preparation of financial statements

These financial statements have been prepared in accordance with United Kingdom Accounting Standards, in particular, Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and the Companies Act 2006 (the Act), except for the departure from the Companies Act as explained in note 12. FRS 101 sets out a reduced disclosure framework for a 'qualifying entity' as defined in the standard which addresses the financial reporting requirements and disclosure exemptions in the individual financial statements of qualifying entities that otherwise apply the recognition, measurement and disclosure requirements of EU-adopted IFRS.

These financial statements have been prepared on a going concern basis and under the historical cost convention (as modified to include revaluation of certain financial instruments).

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Company operates.

There have been no new standards that were effective in the year that have had a material impact on the financial statements.

As the Company is a wholly owned subsidiary of Smiths Group plc which prepares publicly available consolidated group financial statements, the Company has not prepared consolidated financial statements as permitted by section 400 of the Companies Act 2006. These financial statements present information about the Company as an individual undertaking, and not about its group.

The principal accounting policies are set out below and have been applied consistently throughout the year.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2018**

1. Accounting policies (continued)

1.2 Financial reporting standard 101 - reduced disclosure exemptions

The company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirements of paragraphs 45(b) and 46-52 of IFRS 2 Share based payment
- the requirements of IFRS 7 Financial Instruments: Disclosures
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement
- the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
 - paragraph 79(a)(iv) of IAS 1;
 - paragraph 73(e) of IAS 16 Property, Plant and Equipment;
 - paragraph 118(e) of IAS 38 Intangible Assets;
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134-136 of IAS 1 Presentation of Financial Statements
- the requirements of IAS 7 Statement of Cash Flows
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- the requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member

1.3 Revenue recognition

Revenue from the sale of goods is recognised when the risks and rewards of ownership have been transferred to the customer, which is usually when title passes. The Company also enters into long term contracts for the supply of goods and services, with revenue being recognised over the life of such contracts.

Revenue from services is recognised in accounting periods in which the services are rendered, by reference to completion of the specific transaction, assessed on the basis of the actual service provided as a portion of the total services to be provided.

Revenue is measured at the fair value of the consideration received, net of trade discounts and sales taxes.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2018

1. Accounting policies (continued)

1.4 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.

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. 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. Any impairment is recognised immediately in the Statement of Comprehensive Income. Subsequent reversals of impairment losses for goodwill are not recognised.

1.5 Other intangible assets

Other intangible assets comprise of definite life computer software where amortisation is charged using the straight line method at a typical rate of 25%. Amortisation is charged to administration costs.

Intangible assets are initially recognised at cost. After recognition, under the cost model, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses.

1.6 Tangible fixed assets

Tangible fixed assets 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 – up to 25 years,
- Short leasehold property and leasehold improvements – up to the period of the lease,
- Plant, machinery, computer software etc. – 10% to 25%,
- Tools and other equipment – 10% to 33%.

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.

No borrowing costs are capitalised as part of tangible fixed assets.

JOHN CRANE UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2018**

1. Accounting policies (continued)

1.7 Development costs

Expenditure on research and development is charged to the Statement of Comprehensive Income in the year in which it is incurred with the exception of amounts recoverable from third parties.

1.8 Valuation of investments

Investments in subsidiaries and associates are measured at cost less accumulated impairment.

1.9 Stocks

Stocks are stated at the lower of cost and net realisable value, being the estimated selling price less costs to complete and sell. Cost is based on the cost of purchase on a weighted average basis. Work in progress and finished goods include labour and attributable overheads.

At each balance sheet date, stocks are assessed for impairment. If stock is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in the Statement of Comprehensive Income.

1.10 Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

1.11 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

1.12 Financial instruments

The Company recognises financial instruments when it becomes a party to the contractual arrangements of the instrument. Financial instruments are de-recognised when they are discharged or when the contractual terms expire. The Company's accounting policies in respect of financial instruments transactions are explained below:

Financial assets

The Company recognises its financial assets into one of the categories discussed below, depending on the purpose for which the asset was acquired.

Other than the financial assets in a qualifying hedging relationship, the Company's accounting policy for each category is as follows:

Fair value through profit or loss

This category comprises only in-the-money derivatives. These are carried in the Balance Sheet at fair value with changes in fair value recognised in the Statement of Comprehensive Income.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2018**

1. Accounting policies (continued)

1.12 Financial instruments (continued)

services to customers (e.g. trade receivables), but also incorporate other types of contractual monetary asset. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Company will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses in the Statement of Comprehensive Income. On confirmation that the trade receivable will not be collected, the gross carrying value of the asset is written off against the associated provision.

Financial liabilities

The Company classifies its financial liabilities into one of the categories discussed below, depending on the purpose for which the liability was acquired.

Fair value through profit or loss

The Company comprises only out-of-the-money derivatives. They are carried in the Balance Sheet at fair value recognised in the Income Statement.

At amortised cost

Financial liabilities at amortised cost including bank borrowings are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried into the Balance Sheet.

1.13 Creditors

Creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

Creditors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2018**

1. Accounting policies (continued)

1.14 Hedge accounting

The Company uses foreign currency forward contracts to manage its exposure to cash flow risk on its foreign currency trading payments and receipts. These derivatives are measured at fair value at each balance sheet date.

To the extent the cash flow hedge is effective, movements in fair value are recognised in other comprehensive income and presented in a separate cash flow hedge reserve. Any ineffective portions of those movements are recognised in profit or loss for the year.

When a hedged item is an unrecognised firm commitment, the cumulative hedging gain or loss on the hedged item is recognised as an asset or liability with a corresponding gain or loss recognised in profit or loss.

1.15 Foreign currency translation

Functional and presentation currency

The Company's functional and presentational currency is GBP.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses are recognised in the Statement of Comprehensive Income except when deferred in other comprehensive income as qualifying cash flow hedges.

Foreign exchange gains and losses and cash and cash equivalents are presented in the Statement of Comprehensive Income within 'finance income or costs'. All other foreign exchange gains and losses are presented in the Statement of Comprehensive Income within 'interest income/expense'.

1.16 Finance costs

Finance costs are charged to the Statement of Comprehensive Income over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2018

1. Accounting policies (continued)

1.17 Share based payments

Share based compensation

The Group operates a number of equity-settled share-based compensation plans and Smiths Group plc has made grants under these plans to Group employees working for the Company.

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 corresponding credit is treated as a capital contribution from the parent company.

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.

1.18 Operating leases: the Company as lessee

Rentals paid under operating leases are charged to the Statement of Comprehensive Income on a straight line basis over the lease term.

1.19 Pensions

The Company's principal arrangements are provided through the independent Smiths Industries Pension Scheme (SIPS), and TI Group Pension Scheme (TIGPS), defined benefit pension plans. The Company accounts for both schemes as if they were defined contribution schemes in accordance with 'IAS 19: Employee benefits' rules for defined benefit schemes that share risks between entities under common control.

1.20 Interest income

Interest income is recognised in the Statement of Comprehensive Income using the effective interest method.

1.21 Provisions for liabilities

Provisions are made where an event has taken place that gives the Company a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the Statement of Comprehensive Income in the year that the Company becomes aware of the obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2018**

1. Accounting policies (continued)

1.22 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the Statement of Comprehensive Income, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the balance sheet date in the countries where the Company operates and generates income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the Balance Sheet date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

1.23 Research and development

In the research phase of an internal project it is not possible to demonstrate that the project will generate future economic benefits and hence all expenditure on research shall be recognised as an expense when it is incurred. Intangible assets are recognised from the development phase of a project if and only if certain specific criteria are met in order to demonstrate the asset will generate probable future economic benefits and that its cost can be reliably measured. The capitalised development costs are subsequently amortised on a straight line basis over their useful economic lives, which range from 3 to 6 years.

If it is not possible to distinguish between the research phase and the development phase of an internal project, the expenditure is treated as if it were all incurred in the research phase only.

JOHN CRANE UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2018**

1. Accounting policies (continued)

1.24 Critical accounting policies

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are addressed below:

Warranty accrual

The Company recognises a warranty accrual based on specific claims made against past sales. The current level of warranty provision is £421k (2017: £163k).

Inventory provision

Stock that is expected to be obsolete or held in excess of demand is provided for based on historical usage levels. In addition, provisions are made against stock that is expected to be sold at below cost based on the likely future order price.

The current level of inventory provision is £1,627k (2017: £1,927k).

Long term contracts

The Company holds a number of long term service contracts that require the customer to buyback the stock held for the customer on expiry. Since the risk and rewards of the stock have been transferred to the customer, the stock is derecognised and a long term debtor recognised for the expected settlement amount. This debtor is revalued each period based on the latest stock level and price. The total value of such debtors at the balance sheet date was £3,921k (2017: £3,850k).

2. General information

John Crane UK is a private company, limited by shares and incorporated in England. Its registered office and principle place of business is:

361-366 Buckingham Avenue
Slough
Berkshire
SL1 4LU

3. Turnover

An analysis of turnover by geographical area has not been provided because, in the opinion of the Directors, such an analysis would be seriously prejudicial to the interests of the business.

JOHN CRANE UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2018**

4. Other operating income

	2018 £000	2017 £000
Royalty receivable	9,251	9,064
	9,251	9,064

5. Operating profit

The operating profit is stated after charging:

	2018 £000	2017 £000
Research & development charged as an expense	4,247	3,726
Impairment (reversals)/charges recognised in the year on receivables (Administration costs)	(516)	(712)
Depreciation of tangible fixed assets	890	875
Gain or loss from the disposal of tangible assets	(3)	9
Amortisation of intangible assets	439	585
Inventory recognised as an expense in the year (Cost of sales)	34,904	30,143
Impairment of inventory (Cost of sales)	(92)	(115)
Exchange differences	(41)	1,858
Share based payments	258	496
Defined contribution pension cost	1,857	1,854
Operating Lease - Land & Buildings	1,145	1,145
Operating lease - Plant & machinery	294	342

6. Auditors' remuneration

The company paid the following amounts to its auditors in respect of the audit of the financial statements and for other services provided to the Company:

	2018 £000	2017 £000
Fees for the audit of the Company	77	83
Fees payable for the audit of other group companies	63	60
	140	143

JOHN CRANE UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2018**

7. Employees

	2018 £000	2017 £000
Staff costs were as follows:		
Wages and salaries	14,948	14,936
Social security costs	1,664	1,666
Other pension costs	1,857	1,854
Share based compensation	258	496
	<u>18,727</u>	<u>18,952</u>

The average monthly number of employees, including Directors, during the year was as follows:

	2018 No.	2017 No.
Production	158	161
Sales	90	87
Administration	135	141
	<u>383</u>	<u>389</u>

8. Directors' remuneration

	2018 £000	2017 £000
Directors' emoluments	431	348
Company contributions to defined contribution pension schemes	16	8
	<u>447</u>	<u>356</u>

JOHN CRANE UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2018**

Highest paid director

	2018	2017
	£000	£000
The highest paid director emoluments were as follows:		
Total amount of emoluments and amounts (excl. shares) receivable under long term incentive schemes.	282	152
Company contributions to defined contribution pension schemes	10	-
	292	152

The Directors provide services both to the Company and a number of other related Smiths Group plc entities. Aggregate emoluments represent the remuneration which is paid directly from the Company to the Directors. Retirement benefits are accruing to no Director (2017: 1) under the Smiths Industries defined benefit scheme and no Directors (2017: Nil) under the TI Group defined benefit pension scheme. During the financial year no Director (2017: 2) exercised options over shares of Smiths Group plc.

9. Interest receivable and similar income

	2018	2017
	£000	£000
Interest receivable from group companies	294	351
Other interest receivable	(3)	(6)
	291	345

10. Interest payable and similar charges

	2018	2017
	£000	£000
Bank interest payable	-	5
Other loan interest payable	22	36
Exchange losses from financing transactions	(13)	(1)
	9	40

JOHN CRANE UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2018**

11. Tax on profit

	2018	2017
	£000	£000
Corporation tax		
Current tax on profits for the year	1,429	2,174
Group relief obtained for no consideration	(190)	(339)
Double taxation relief	(1,239)	(1,835)
Adjustments in respect of previous periods	(87)	45
R&D tax credit receivable	(199)	(120)
	<u>(286)</u>	<u>(75)</u>
Foreign tax		
Foreign tax on income for the year	1,239	1,835
	<u>1,239</u>	<u>1,835</u>
Total current tax	<u>953</u>	<u>1,760</u>
Deferred tax		
Movement in deferred tax assets	(1,272)	(4,585)
Total deferred tax	<u>(1,272)</u>	<u>(4,585)</u>
Total tax credit for the year	<u>(319)</u>	<u>(2,825)</u>

JOHN CRANE UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2018**

11. Tax on profit (continued)

Factors affecting tax charge for the year

The tax assessed for the year is lower than (2017 - lower than) the standard rate of corporation tax in the UK of 19.0% (2017 - 19.67%). The differences are explained below:

	2018 £000	2017 £000
Profit before tax	7,521	11,464
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.0% (2017 - 19.67%)	1,429	2,255
Effects of:		
Expenses not deductible for tax purposes	59	38
Adjustments to tax charge in respect of prior periods	(87)	45
Adjustment in research and development tax credit leading to an increase (decrease) in the tax charge	(199)	(120)
Withholding tax suffered	1,239	1,835
Temporary differences arising on fixed assets	(1,272)	(4,585)
Group relief	(190)	(339)
Double taxation relief	(1,239)	(1,835)
Net adjustments for shared based payments	(59)	19
Intercompany bad debt movement not deductible for tax purposes	-	(138)
Total tax credit for the year	(319)	(2,825)

The Company is part of a UK tax group including all the UK based subsidiaries of Smiths Group plc. The value of these assets is reviewed regularly and is dependent on the ability to recover them against forecast UK taxable profits of the tax group. Based on this review a decision was made to recognise these assets as at 31 July 2017, as it is now likely they will be recoverable.

JOHN CRANE UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2018**

11. Tax on profit (continued)

Factors that may affect future tax charges

Smiths Group does not require UK Companies to compensate the surrendering company for the receipt of group relief. As a result, no payments or receipts in respect of group relief have been accrued in the current or prior year, and no payments or receipts will be recognised in future years if other group companies have losses available to surrender.

Changes to the UK corporation tax rates were substantively enacted as part of Finance Bill 2015 (on 26 October 2015) and Finance Bill 2016 (on 7 September 2016). These include reductions in the main rate to reduce the rate to 19% from 1 April 2017 and to 17% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

JOHN CRANE UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2018**

12. Goodwill

	2018 £000
Cost	
At 1 August 2017	9,280
At 31 July 2018	9,280
Amortisation	
At 1 August 2017	7,005
At 31 July 2018	7,005
Net book value	
At 31 July 2018	2,275
<i>At 31 July 2017</i>	<i>2,275</i>

The Company accounts for goodwill in accordance with the requirements of IFRS as applied under FRS 101. As a result, IFRS 3 is applied and goodwill is not amortised. Instead an annual impairment test is performed and any required impairment is recognised in the Statement of Comprehensive Income. The non-amortisation of goodwill is a departure from the Company Law requirement that acquired goodwill should be written off over its useful economic life. The Company has adopted this accounting policy for the overriding purpose of giving a true and fair view by preparing its accounts in accordance with applicable accounting standards, following the process required by Companies Act 2006 in this situation.

It is not possible to quantify the effect of the departure from the Companies Act, because a finite life for the goodwill has not been identified. However, the effect of amortising over a useful life of 5 years would be a charge of £1,856k (2017: £1,856k) against operating profit, and a corresponding reduction in the carrying value of goodwill in the balance sheet.

The accumulated amortisation of goodwill was charged before the transition date to FRS 101 of 1 August 2014 when the accounts were prepared under different accounting standards.

Goodwill is monitored at the John Crane UK Limited level by the Company for internal reporting purposes and therefore John Crane UK Limited is treated as one cash generating unit. The recoverable amount of the cash generating unit is assessed annually using a value in use model. Value in use is calculated as the net present value of the projected risk-adjusted post-tax cash flows plus a terminal value of the cash generating unit to which the goodwill is allocated. The key assumptions included in the model is the 5 years of specific cash flows, the terminal growth rate of 1.5% and the discount rate of 11.0%. The valuation indicates there is sufficient headroom such that a reasonably possible change to key assumptions is unlikely to result in an impairment of the related goodwill.

JOHN CRANE UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2018**

13. Intangible assets

	Total £000
Cost	
At 1 August 2017	16,690
Additions	470
Disposals	(296)
At 31 July 2018	<u>16,864</u>
Amortisation	
At 1 August 2017	15,294
Charge for the year	439
Disposals	(296)
At 31 July 2018	<u>15,437</u>
Net book value	
At 31 July 2018	<u><u>1,427</u></u>
At 31 July 2017	<u><u>1,396</u></u>

Intangible assets represent computer software, of which £422k (2017: £240k) is under construction

JOHN CRANE UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2018**

14. Tangible assets

	Freehold property £000	Short-term leasehold property £000	Plant and machinery £000	Fixtures and fittings £000	Total £000
Cost or valuation					
At 1 August 2017	2,348	1,190	10,428	4,291	18,257
Additions	-	75	1,046	187	1,308
Disposals	-	-	(799)	(99)	(898)
At 31 July 2018	2,348	1,265	10,675	4,379	18,667
Depreciation					
At 1 August 2017	1,040	1,190	7,742	3,678	13,650
Charge for the period on owned assets	91	-	641	158	890
Disposals	-	-	(612)	(99)	(711)
At 31 July 2018	1,131	1,190	7,771	3,737	13,829
Net book value					
At 31 July 2018	1,217	75	2,904	642	4,838
At 31 July 2017	1,308	-	2,686	613	4,607

Included within tangible assets is £634k (2017: £569k) of assets under construction.

JOHN CRANE UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018

15. Investments

	Unlisted investments £000
Cost or valuation	
At 1 August 2017	91
At 31 July 2018	91
Impairment	
At 1 August 2017	58
At 31 July 2018	58
Net book value	
At 31 July 2018	33
At 31 July 2017	33

In accordance with section 409 of the Companies Act 2006, a full list of related undertakings as at the year end, including their country of incorporation and percentage of share ownership, is disclosed below. All undertakings listed below are directly owned by the Company with an interest of ordinary shares.

Company name	Country of incorporation	Holding (%)
John Crane Iskra (1)	Russia	50 (no controlling interest)
TI Group Automotive Systems Argentina (2)	Argentina	5

Ref	Registered Office
(1)	Akademika Vedeneeva str., 28, 614038 Perm, Russia
(2)	Leandro N Alem 1110 piso 13, C1001AAT, CABA Buenos Aires, Argentina

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2018**

16. Deferred taxation

	2018 <i>£000</i>
At 1 August 2017	4,585
Utilised in year	1,137
Charged to income statement	136
At 31 July 2018	5,858

The deferred tax asset is made up as follows:

	2018 <i>£000</i>
Accelerated capital allowances	5,858
	5,858

The Company is part of a UK tax group including all the UK based subsidiaries of Smiths Group plc. The value of these assets is reviewed regularly and is dependent on the ability to recover them against forecast UK taxable profits of the tax group. Based on this review a decision was made to recognise these assets as at 31 July 2017, as it is now likely they will be recoverable.

17. Stocks

	2018 <i>£000</i>	2017 <i>£000</i>
Raw materials and consumables	48	49
Work in progress (goods to be sold)	1,046	841
Finished goods and goods for resale	4,199	3,948
	5,293	4,838

Stocks are stated after provision for impairments of £1,627k (2017: £1,927k)

JOHN CRANE UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2018**

18. Debtors

	2018 £000	2017 £000
Due after more than one year		
Trade debtors	949	3,850
Derivatives designed as cash flow hedges	10	16
	959	3,866
Due within one year		
Trade debtors	10,862	7,836
Amounts owed by group undertakings	26,052	17,643
Due from parent undertaking	59,637	61,578
Other debtors	62	36
Prepayments and accrued income	397	482
Tax recoverable	365	308
Derivatives designed as cash flow hedges	26	748
	98,360	92,497

Trade receivables are stated after provisions for impairment of £999k (2017: £1,530k).

The interest due on the amounts owed by the parent undertaking is equal to the aggregate of 12 month GBP LIBID per annum. The outstanding principal of the loan and all accrued interest shall be repaid on 31 July 2019.

19. Cash at bank and in hand

	2018 £000	2017 £000
Cash at bank and in hand	1,657	788
	1,657	788

JOHN CRANE UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018

20. Creditors: Amounts falling due within one year

	2018 £000	2017 £000
Trade creditors	5,670	2,950
Amounts owed to group companies	18,622	20,261
Other taxation and social security	1,091	860
Other creditors	145	92
Accruals and deferred income	2,331	2,732
Derivatives designed as cash flow hedges	384	430
	<u>28,243</u>	<u>27,325</u>

Amounts owed to group undertakings are unsecured, interest free and repayable on demand.

21. Creditors: Amounts falling due after more than one year

	2018 £000	2017 £000
Derivatives designed as cash flow hedges	196	47
	<u>196</u>	<u>47</u>

JOHN CRANE UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2018**

22. Financial instruments

	2018 £000	2017 £000
Financial assets		
Derivative financial instruments designated as cash flow hedges	36	764
Loans and receivables	97,927	91,251
	<u>97,963</u>	<u>92,015</u>
Financial liabilities		
Derivative financial instruments designated as cash flow hedges	(580)	(477)
Financial liabilities held at amortised cost	(27,859)	(26,895)
	<u>(28,439)</u>	<u>(27,372)</u>

Derivative financial instruments comprise of foreign currency contracts designated as cash flow hedges against foreign currency movements in sales and purchases.

Gains and losses recognised in the hedging reserve in shareholders' equity on forward foreign exchange contracts designated as cash flow hedges will be released to the statement of comprehensive income within one year from the balance sheet date. The notional principal amounts of the outstanding forward foreign exchange contracts at 31 July 2018 were £42,485k (2017: £58,349k). In the year £480k (2017: £1,880k) was reclassified from the hedge reserve to the profit and loss as a result of maturing cash flow hedges. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the balance sheet date.

23. Other provisions

	Service guarantees and product liability £000
At 1 August 2017	163
Released to total comprehensive income	336
Utilised in year	(78)
At 31 July 2018	<u>421</u>

JOHN CRANE UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2018**

24. Called up share capital

	2018 £000	2017 £000
Shares classified as equity		
Authorised		
2,280,000 (2017: 2,280,000) Ordinary Shares of £1 each	2,280	2,280
Allotted, called up and fully paid		
280,000 (2017: 280,000) Ordinary Shares of £1 each	280	280
Allotted, called up and partly paid		
2,000,000 (2017: 2,000,000) Ordinary Shares of £1 each	200	200

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2018**

25. Share based payments

Company employees participate in share schemes and plans that the ultimate parent company, Smiths Group plc operates for the benefit of employees. All entitlements under the schemes relate to the shares of Smiths Group plc. The Company recognises a charge for the benefit of the employee services realised, and a capital contribution from the Group because the Group does not charge the Company for the costs of these options. The nature of the schemes and plans is set out below:

Smiths Group share option schemes**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 the three year performance period if performance conditions are met. LTIP awards are made to selected senior executives, and have performance conditions relating to underlying operating profit growth, ROCE and operating cash conversion.

Smiths Group Sharesave Scheme (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 or five 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 are 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.

Smiths Excellence Plan (SEP)

In September 2016 the Smiths Excellence plan (SEP) was introduced. Awards vest after two years, depending on performance on the operational objectives during the first year and continued employment with the Group. There is no retesting of performance. However the Remuneration Committee has discretion to adjust vesting rates if material misstatements in reported performance are subsequently identified and awards are subject to clawback provisions in the event of mis-conduct.

Range of exercise prices and remaining contractual life

Options outstanding under LTIP schemes at 31 July 2018 have an exercise price of £0.00 (2017: £0.00), with a weighted average remaining contractual life of 0.9 year (2017: 1.3 years).

Options outstanding under SEP schemes at 31 July 2018 have an exercise price of £0.00 (2017: £0.00), with a weighted average remaining contractual life of 0.9 years (2017: 1.0 year).

Options outstanding under SAYE schemes at 31 July 2018 had exercise prices between £8.11 and £13.00 (2017: £8.11 and £13.00), with a weighted average contractual life of 2.3 years (2017: 2.3 years).

Options were exercised on an irregular basis during the period. The average closing share price over the financial year was 1,589.60p (2017: 1,499.95p).

Cost of share based payment arrangements

Included within staff costs is an expense arising from share based payment transactions of £258,000 (2017: £496,000).

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2018**

26. Pension commitments

Staff of the Company participated in the Smiths Industries Pension Scheme (SIPS) and the TI Group Pension Scheme (TIGPS), defined benefit pension plans based in the UK. With effect from 1 January 2006, a number of employees of the Company who are members of the SIPS scheme became employees of the ultimate parent Company, Smiths Group plc, and now perform their services under contract from that Company. These pension schemes were closed with effect from 31 October 2009.

The assets of these schemes are held in a separate trustee-administered fund and the pensions costs are assessed in accordance with the advice of independent, professionally-qualified actuaries. Further details of these pension plans, the actuarial assumptions used and the latest actuarial valuations can be found in the consolidated financial statements of Smiths Group plc for the year ended 31 July 2018.

The pension cost for the Company in respect of the defined benefit pension plans was £3,685k (2017: £2,940k). This represents contributions payable to Smiths Group plc which is responsible for making contributions to the pension funds on behalf of the Group as a whole.

For the SIPS the Company contributions are set with respect to the current service period only, so the Company will account for any contributions as if the scheme was a defined contribution scheme.

For the TIGPS, the Company made a contribution of £3,685k in the year as part of the funding plans which Smiths Group has agreed with the trustees. The Company is accounting for this scheme as if the scheme was a defined contribution scheme, because the Company is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis. Given the complex history of mergers, acquisitions and disposals which have affected TIGPS, it is not possible to allocate the scheme members to the participating employers. Smiths Group plc is the sponsoring employer for this scheme. The net defined benefit obligation is recorded in the individual company accounts of Smiths Group plc. Further information on the assumptions and other details of the defined benefit schemes can be found in the Smiths Group annual report, which includes the individual accounts for the Smiths Group plc. The triennial valuation of the scheme was performed using the Projected Unit Method as at 5 April 2015.

The Company also provides a defined contribution pension plan for its employees. The cost of the contributions for this plan were £1,856k (2017: £1,854k). The outstanding contributions at the balance sheet date for this plan were £0k (2017: £0k)

27. Operating lease commitments

At 31 July 2018 the Company had future minimum lease payments under non-cancellable operating leases as follows:

	2018	2017
	£000	£000
Not later than 1 year	1,141	1,145
Later than 1 year and not later than 5 years	4,158	713
Greater than 5 years	158	-
Total Land & Buildings	5,457	1,858

JOHN CRANE UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2018**

	2018	2017
	£000	£000
Not later than 1 year	210	198
Later than 1 year and not later than 5 years	276	295
Total Other	486	493

28. Other financial commitments

Contracts placed for future capital expenditure not provided in the financial statements £1,236k (2017: £304k)

Future capital expenditure authorised by Directors but not contracted and not provided in the financial statements £204k (2017: £274k)

In addition to this, the Company has £50k (2017: £50k) of bank guarantee facilities provided to it.

29. Controlling party

For the year ended 31 July 2018, John Crane UK Limited was a wholly owned subsidiary of John Crane Group Limited.

The ultimate parent undertaking and controlling party is Smiths Group plc, which is the parent undertaking of the smallest and largest group to prepare consolidated financial statements. Smiths Group plc is incorporated in the United Kingdom and registered in England and Wales.

The annual report and financial statements of Smiths Group plc may be obtained from the Company Secretary, Smiths Group plc, 11-12 St James's Square, London, SW1Y 4LB.