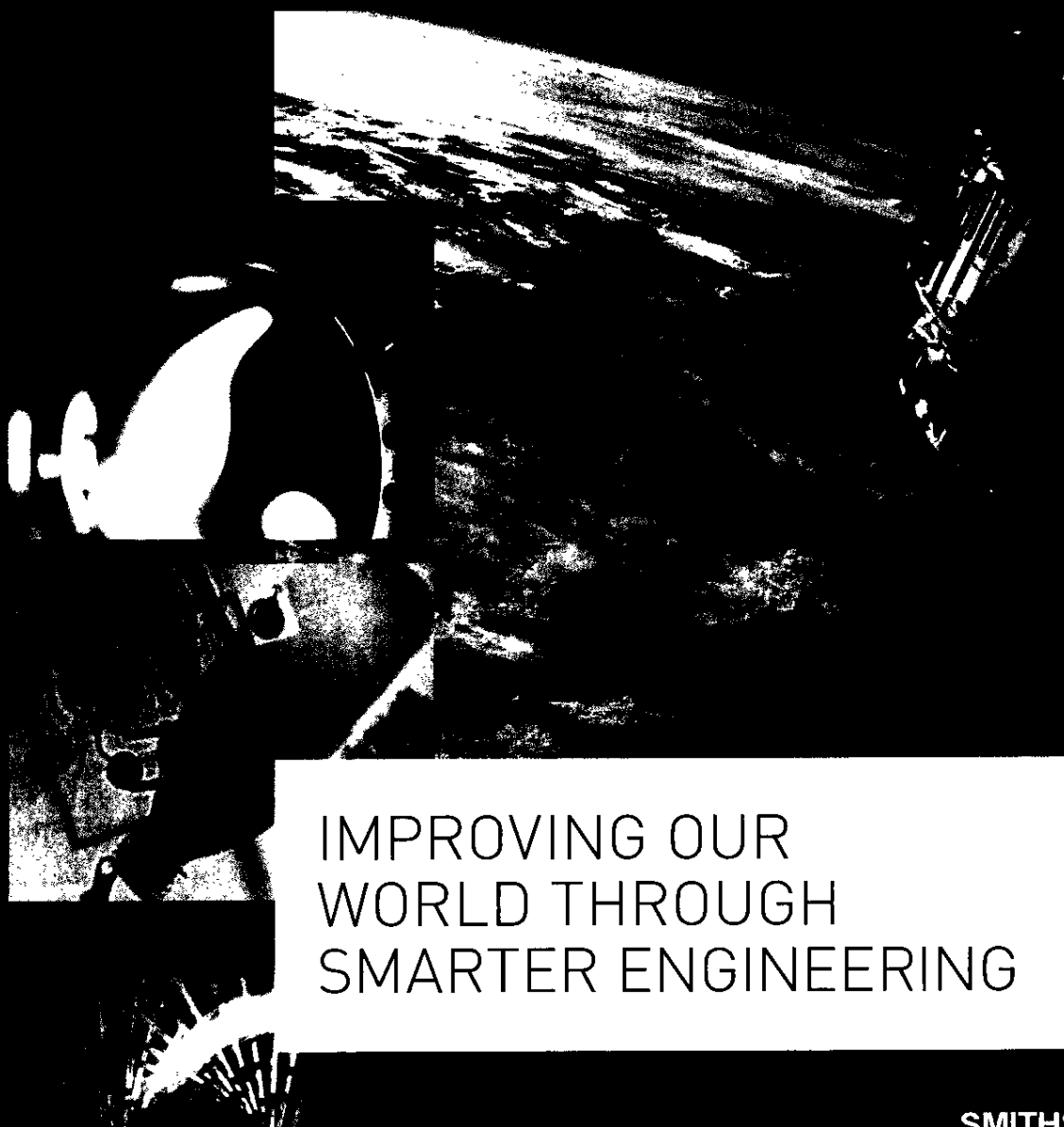


smiths

PIONEERS OF PROGRESS



IMPROVING OUR
WORLD THROUGH
SMARTER ENGINEERING

SMITHS GROUP PLC

Annual Report
FY2022

Company number
00437043

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COMPANIES HOUSE

OUR PURPOSE

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

Smarter engineering means helping to solve the toughest problems, for our customers, our communities and ourselves. We help to create a safer, more efficient and better-connected world.

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 to be successful in the future.



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Our Purpose at Smiths



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FY2022 HIGHLIGHTS

GROWTH AND STRONGER EXECUTION

Accelerating growth – +3.8% organic revenue growth, fastest in nearly a decade

- Organic revenue growth ahead of expectations; +3.8%¹ (H1: +3.4%; H2: +4.1%); five consecutive quarters of growth; reported growth of +6.7%
- Headline² EPS growth +17.8%
- High demand across most end markets with strong order growth of +11%³
- £51m of revenue from new products launched in FY2022; R&D investment increased +14%
- Targeted M&A contributed +1.8% of reported growth
- Increasing returns to shareholders with proposed total dividend of 39.6p, +5%

Stronger execution – Smiths Excellence System fully embedded

- Resilient operating margin of 16.3% with headline operating profit² of £417m
- Price offsetting inflation and mitigating other supply chain impacts
- Solid operating cash conversion⁴ of 80%; investment in working capital and capex to support growth and mitigate supply chain impacts
- More focused portfolio following completion of Smiths Medical sale and rapid return of proceeds with share buyback programme now 76% complete
- Smiths Excellence System now fully embedded, with high-impact projects underway and targeted savings actions to drive enhanced efficiency

Inspiring and empowering our people – an energised and focused team

- A refreshed leadership team with new senior appointments throughout the year
- Introduced Smiths Leadership Behaviours to build on our strong culture
- Driving an even more dynamic and inclusive culture with greater focus on diversity
- Continuing to translate our commitment to ESG leadership into action

Strong balance sheet – well positioned to execute our growth strategy

- £380m reduction in gross debt; leverage of 0.3x net debt/headline EBITDA⁴
- Final buy-in of the TI Group Pension Scheme, delivering certainty for scheme members and shareholders

HEADLINE ²	FY2022	FY2021	Reported	Organic ¹
Revenue	£2,566m	£2,406m	+6.7%	+3.8%
Operating profit	£417m	£372m	+12.0%	+1.7%
Operating profit margin ⁴	16.3%	15.5%	+80bps	(30)bps
Basic earnings per share (EPS)	69.8p	59.3p	+17.8%	
Operating cash conversion ⁴	80%	129%	(49)%	
ROCE ^{4,5}	14.2%	13.9%	+30bps	

STATUTORY	FY2022	FY2021	Reported
Revenue	£2,566m	£2,406m	+6.7%
Operating profit	£117m	£326m	(64.1)%
Profit for the year (after tax)	£1,035m	£285m	263.2%
Basic EPS	267.1p	71.7p	272.5%
Dividend per share	39.6p	37.7p	+5.0%

The following definitions are applied throughout this Report:

- Organic is headline adjusted to exclude the effects of foreign exchange, acquisitions and restructuring
- 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.
- Order growth excludes the effects of foreign exchange and includes John Crane, Smiths Detection and Smiths Interconnect
- Alternative Performance Measures (APMs) and key performance indicators are defined in note 29 to the financial statements.
- Excludes the impact of restructuring charges and spend.

GROSS VITALITY

Percentage of revenue from new products FY2022

31%

FY2021: 25%

GREENHOUSE GAS REDUCTION

GHG reduction normalised to revenue FY2022

(7.2)%

SAFETY

Recordable Incident Rate FY2022

0.54

FY2021: 0.47

DIVERSITY

% of senior leadership positions taken by females FY2022

24%

FY2021: 23%

DIRECT ECONOMIC CONTRIBUTION

Taxes paid + employee costs + supplier costs FY2022

£2.33bn

FY2021: £1.95bn

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Sustainability at Smiths

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OUR PRIORITIES AND TARGETS

Smiths is intrinsically strong with world-class engineering, leading positions in critical markets, and distinctive global capabilities, all underpinned by a strong financial framework.

Our priority is to build on our strengths to unlock value by moving with greater pace and urgency to deliver performance in line with our significant potential.

Our focused plan, which is captured in the Smiths Value Engine, has three top priorities:



Accelerating growth



Strengthening execution



Doing even more to inspire and empower our people

We have set the following medium-term targets:

Organic revenue growth	4-6% (+M&A)
EPS growth	7-10% (+M&A)
ROCE	15-17%
Operating profit margin	18-20%
Operating cash conversion	100%+

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



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READ MORE
Our business model
and Our strategy



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READ MORE
KPIs



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OUR KEY 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 petrochemical, 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 and power generation. Growth is driven by increases in global demand for energy, productivity, and enhanced environmental and safety requirements

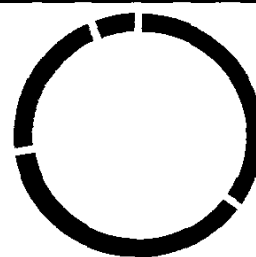


Aerospace

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

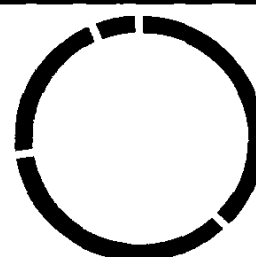
REVENUE BY GLOBAL MARKET

General Industrial	42
Safety & Security	11
Energy	2
Aerospace	45



REVENUE BY DESTINATION

Americas	40
Europe	39
Asia Pacific	16
Rest of the World	5



OUR DIVISIONS

Our four divisions operate in more than 50 countries.

Together, our divisions and Group employ more than 14,700 people.

John Crane

Mission-critical flow control solutions for increased efficiency, reliability, and environmental sustainability.



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CFO review

% OF REVENUE

35%

69% of John Crane revenue is from aftermarket sales



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. pipelines and refineries) of energy multinationals and power generation
- Other process industries – a significant presence in chemical, life sciences, mining, water treatment, 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 digital capability
- Customer intimacy and strategic alignment with end users through a network of ~200 service and support centres, and unique capabilities of field service engineers

Growth drivers

- Near-term global demand for stable 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 eco-system, including hydrogen and renewables, which drive more demanding needs in compression, pumping and filtration
- Long-term customer partnerships and outsourcing

Competitors

Competitors include Flowserve, EagleBurgmann and AES

Smiths Detection

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



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CFO review

% OF REVENUE

26%

54% of Smiths Detection revenue is from aftermarket sales



Smiths Detection is a global leader in threat detection and screening technologies that protect people and assets.

Customers

- Aviation – airports and governments. Regulators are also highly involved and shape market development
- Other Security Systems – a significant presence in high-energy cargo inspection systems (ports and borders), integrated screening systems for a broad range of urban situations (court houses, prisons, offices, shopping malls, rail stations, etc.), long-standing partnerships with governments for detection of chemicals and explosives in national defence

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
- Focus on minimising product energy use
- Customer intimacy and loyalty through equipment cycle and aftermarket offer
- Operating in regulated market segments that require product certification
- Network of ~100 locations

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
- Staffing constraints are driving demand for digital image analysis software such as automated threat recognition
- Equipment replacement cycle, typically 8-10 years

Competitors

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

Flex-Tek

Safe and efficient movement of fluids and gases.



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CFO review

% OF REVENUE

25%



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

Customers

- Construction – heating, ventilation and air-conditioning (HVAC) customers and builders (full range of heating elements, gas piping, flexible and metal ducting)
- Aerospace – aircraft manufacturers and their tier-one suppliers (a full range of rigid and flexible, high-and low-pressure tubing and ducting for fluid conveyance)
- Industrial – Electrical Process Heating (highly engineered, medium-high voltage) and specialist end-use applications such as medical hoses

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
- Long-term increase in commercial and military aircraft production
- Customer focus on efficient performance and environmental safeguarding
- Industrial heat solutions
- Growth in use of medical devices

Competitors

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

Smiths Interconnect

Advancing the world through cutting-edge connectivity.



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CFO review

% OF REVENUE

14%



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

- 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
- Connectors – high-reliability electrical interconnect solutions for specialised applications across a broad range of healthcare, industrial, transport and aerospace customers
- Fibre-optics and radio frequency (RF) components – broad range of devices, 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

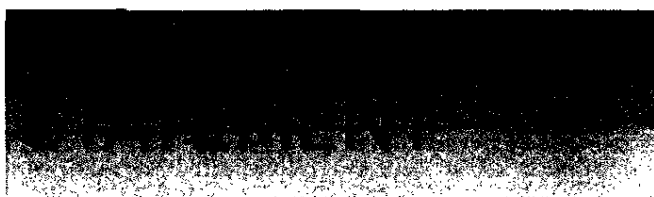
- Broad portfolio of cutting-edge technologies and products
- Strong research and engineering capabilities
- Customer intimacy and product customisation
- Global reach and support

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, Industry 4.0
- Development of healthcare technology

Competitors

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



Over the years, I have tried to make my Chairman's letters interesting and relevant to topical events and describe how we address them at Smiths. Last year, I described why we believed that, by the summer of 2022, the coronavirus's mutations would become less virulent, and COVID-19's impact on society and business would gradually decline and disappear into the background of other infectious diseases we live with in perpetuity, like colds or influenza.

The big issues that have unfolded for Smiths and other companies in 2022 are:

- Supply chain shortages;
- Inflation; and
- The effects of the Ukraine war, particularly its impacts on food and energy supply.

This set of topics is incredibly complex and connects the fiscal and monetary policies of the world's governments, economic growth expectations, energy shortages, social dislocation, food shortages, personal safety, labour shortages, global migration patterns and societal pressures. This is obviously not something I can cover in a short letter. So, I will try to deal with just one or two confusing pieces of this puzzle. So, supply chain shortages and related inflation will be my focus for this year's letter.

In any commodity situation, only three factors impact a commodity's price at any time: supply, demand, and inventory. Price fluctuations occur continuously in globally traded commodities like copper and aluminium, and on any day there can be significant differences in spot and future pricing, depending on expected future demand. Oil prices are especially sensitive to an imbalance in supply and demand because most contracts never result in the actual delivery of oil, only in speculation. But pricing variations like these appear everywhere, even in non-commodity items.

The war in Ukraine has caused energy and food inflation to worsen both locally and globally. But in the longer term, energy is a zero-sum game. Suppose Russia sells more energy to countries such as India or China. In that case, assuming they sell a full allotment, those volume demands are missing from the world marketplace and, given time, that volume will be available to others.

There will be some temporary spikes in oil prices, but they should not last because there is a well-developed shipping network for oil supply worldwide and rebalancing regional supply and demand is possible. There may be incremental costs due to the difference between oil shipped via ocean cargo versus that transported by pipeline, but it is unlikely to last. Natural gas is more problematic because pipeline infrastructure from Russia is more well-developed than LNG shipped by sea. Syngas can also be made from coal and, along with fracking, these might offer a solution if the gas supply does not resume from Russia. Nuclear power generation is also possible in countries where nuclear units have been mothballed for political or environmental reasons. But these issues are as connected to political decisions as to economic or technological ones.

During any economic or secular disturbance, executives face two primary challenges. The first is to predict how long a disturbance will last, and the second is to predict how deep it will get. We saw this in the 9/11 attacks, the '08-'09 debt crisis, and again in the COVID-19 pandemic, plus recent supply chain shortages and inflation. Without a sensible forecasting model, we don't know whether we are falling into a 1m deep ditch or off a 1,000m cliff.

When we speak about a 'supply chain', we refer to the flow of inbound materials to a company and its conversion into finished goods via a *manufacturing process*. There is a complementary outbound flow from the company through various distribution channels until the product eventually reaches the final customer. Every manufacturing company has these building blocks, the inbound flow of raw material, conversion via a manufacturing or assembly process, and then outbound delivery of finished goods to their customers.

Understanding supply chains is a problem in dynamics, not in statics. Just like the vibrating string of a violin, when it is figuratively 'plucked', everything in the supply chain is moving up, down, backwards, and forwards. Perhaps the closest analogy to supply chain dynamics is the pulsating noise we hear when our plumbing at home experiences a 'water hammer'. This is caused by pressure waves oscillating backwards and forward between discontinuities in the plumbing system and is analogous to the waves of demand that ripple up and down dynamically in a supply chain.

On the outbound side of this process, companies sell their products to customers through various forms of distribution. Some go directly to customers to be built into product platforms such as vehicles or electronics, some through distribution channels that hold buffer inventory to smooth out supply and demand imbalances, and others sell their products direct to consumers online. The dynamics are different in detail, but they all suffer varying degrees of transient problems.

What happens to orders when end-market demand falls?

Let's perform a thought experiment on our supply chain. Let's consider a make-to-stock original equipment manufacturer (OEM) and imagine there are three or four inventory storage locations in the outbound supply chain. Let's imagine a reduction in end-market demand by 100bps and examine what happens in our supply chain.

The management at the inventory storage location closest to the end-market sees demand fall by 100 basis points. Local management knows they must cut orders; otherwise, they will have too much inventory. So, to be conservative, they cut their orders by 200 basis points, say. The management at the next location further up the supply chain sees their demand fall by 200 basis points, and they also worry they will have too much inventory, so they cut orders by 300 basis points, and so on. The order reduction numbers chosen here are just illustrative, and the actual numbers will differ depending on a company's risk tolerance, distribution method and the number of inventory storage locations. The greater the number of inventory storage locations in your supply chain, the more likely there will be an overreaction. Even with 'just-in-time' pull system ordering, it's natural that management overreacts to some degree in controlling inventory. So, the net effect is that there's always an amplification in the supply chain of any fluctuation in end-market demand.

Consequently, if you are an OEM in a downturn, you will almost always see your demand temporarily fall by multiples of that seen in the end-market as the supply chain adjusts to new demand conditions. The downstream effect is different for make-to-order manufacturers than for make-to-stock. But we must remember this is a two-sided problem, both on the inbound supply chain and on the outbound one. So, an upstream supply chain's impact can still cause problems, particularly when there is an increase in demand. I've seen this amplification phenomenon happen at every B2B company I have worked at. The same phenomenon also happens when, instead, there is an increase in demand, which I will explain later.

In one case, an industrial manufacturer I'm familiar with sells through extended distribution channels and has an amplification of 2.84. So, if their end-market demand falls by 100 basis points, they see their orders temporarily fall by 284 basis points. In steel distribution, that amplification number is about 400 basis points. The amplification factor in seasonal businesses with lower inventory turns is about 160 basis points. Consumer electronics can be as high as a staggering 2,000 basis points.

How long do these temporary supply chain transients last?

The next question is, how long will this transient reduction in demand last? If the supply chain were 100% efficient, it would clear the excess inventory in one turn. But we know that supply chains are never 100% efficient. When I was making these calculations earlier in my career, because I didn't know the exact supply chain efficiency number, like any typical engineer, I chose 50% as my working hypothesis. Fill rates are a complex function of demand and inventory and weren't always valid in highly disturbed situations.

Let's make the numbers easy in our thought experiment. The 50% efficiency number means that a four inventory turn company would experience a transient fall in demand lasting for six months, in other words, two inventory turns. Although the end market has only fallen by 100 basis points, it feels like your company is selling into an artificially much worse market than it really is. The industrial company I mentioned earlier felt like the end-market – and sales – had temporarily fallen by 284 basis points, not 100 basis points. But correspondingly, when there's an increase in demand, it feels like your company is selling into an artificially much better market than it is. That overshoot in demand is only a temporary illusion, and we'll deal with that case shortly.

Order demand falls until supply and demand come into equilibrium. Meanwhile, the transient reduction in orders has removed the excess inventory from the supply chain and, in my example, demand returns to a new quiescent value, albeit now 100 basis points smaller.

So, in this simple case of falling demand, the sales challenge of this hypothetical make-to-stock company is made worse by ordering undershoot. This has important financial impacts because it artificially reduces a company's reported growth. In public companies, we report to the market periodically and, if a temporary undershoot in demand – one not reflective of the real end-market conditions – lasts six months, it can seriously affect the projected growth rate in the full-year results, depending on which quarter of the fiscal year the disturbance happens.

What happens when there is an increase in demand?

Now let's consider the opposite case, one where there is a sudden increase in demand, which we've seen recently, particularly in electronics. The simple answer to why this is happening is an imbalance in supply and demand. But I will show now that the problem is again mostly artificial and temporary, and so are the associated inflationary tendencies as people over-order to fill an illusory high demand.

The case of increased demand

When there is a sudden increase in demand, manufacturing capacity is limited, so the supply chain cannot fully respond unless there is excess idle capacity. Normally, manufacturers load factories to somewhere between 85% and 90% capacity for fixed cost absorption reasons. So now the efficiency of our supply chain is, de facto, only about 10%. So even if we can increase capacity temporarily, say from 85% to 95% or even 100%, unless we add new capacity, the time for supply and demand to return to equilibrium is extended. Some companies may have extra shifts available, but then they might not have trained workers to staff them, and with labour shortages driven by this excess demand, automation is often the answer, but that is a long-term solution.

In my earlier case of demand reduction, I used 50% as the efficiency number for the supply chain. But now, because of manufacturing capacity limits, that efficiency is effectively only 10%, so the recovery time for equilibrium to be reached is nominally five times as long as it did with 50%. So, a company that once experienced a six-month recovery on falling demand could now experience a 2.5 year transient before complete recovery. This is an extreme case; naturally, companies take every possible corrective action to reduce this timing. But this problem partly explains why we see extended recoveries and shortages in our supply chains.

In practice, the supply chain may take 18 months to recover as we engage in countermeasures. Meantime, a massive amount of new fixed capacity is being added to the supply chain, especially in the semiconductor area, which will also help gradually reduce these disturbance times and inflation along with it.

Companies must control the temptation to over-order

In this increased demand case, our supply chain manager's temptation is to over-order out of fear of experiencing component shortages. After all, you can't ship a car with even one missing door handle. That new demand temporarily increases a company's growth, but it can have serious financial consequences, particularly on our inventory's pricing. We can end up with long-dated orders at much higher-than-normal pricing. This is a problem queuing for an unhappy ending.

There is typically one overshoot, and one undershoot in any dynamic system like the one I describe here. For the mathematically inclined, when simplified, the dominant mode makes the dynamic response look like a second-order system. The precise effect of these temporary increases in demand depends very much on the company's distribution method.

The inevitable outcome is that companies can end up with too much inventory, possibly at higher prices, producing variances against standard manufacturing costs. In an extreme case, companies may face expensive excess and obsolete (E&O) inventory write-offs when the inevitable demand falls later in the transient cycle, with its own overreaction tendencies.

The effects of container shortages

This artificial and synchronised surge in demand has resulted in a shortage of shipping containers on some routes worldwide. Instead of the historical \$2,000 for a container transit from China to Europe or the United States, container costs peaked at \$23,000 in 2021. Today it's around \$13,000. China's zero-COVID policy caused holdups and delays in the major East Coast China ports and factories, with similar inefficiencies in other ports in the US and Europe. So, in part, container pricing is a proxy for supply chain shortages and inflation, making the artificial demand problem even worse.

Synchronised demand

Clearly, the world economy has not suddenly grown by 15% or 20%, so why have companies experienced this sudden increase in demand, particularly for electronics? The cause lies squarely in the synchronised economic 'start up' after the COVID-19 pandemic, plus the transient artificial demand described earlier. Although we have been using videoconferencing tools for many years, COVID-19 forced unpractised staff into the user population and accelerated acceptance of this as a way of working – and a substitute for some face-to-face meetings at the office. That, in part, drove part of the high demand for electronics. Likely, we will not fully return to pre-COVID-19 ways of working ever again.

But there is an additional factor at work here; synchronisation. Although the world's major connected economies have similar periodicity in their economic cycles, they are not normally all in phase. In the same way that demand fell precipitously in late 2008, it did so because of the synchronised collapse in all debt markets. Similarly, here we have a synchronised increase in demand in most markets, made worse by an illusory demand curve. However, global economies will gradually settle into historical phasing patterns, easing some of this synchronisation problem.

So, the '08-'09 downturn occurred because of a debt crisis happening simultaneously across the world, which produced a synchronised economic downturn. Here, we had a similar but opposite problem: a synchronised upturn and, to make it worse, synchronised artificial excess demand.

Inflation

Some economists argue that inflation has been caused by excessive stimulus packages that crashed headlong into supply chain shortages. However, they are two sides of the same coin. But the real problem is much more complex, and the solutions are possibly simpler. Inflation has been made worse by artificial synchronised demand that created shortages, combined with high-cost slow-moving containers and the war in Ukraine, which has driven up food and energy prices. Additionally, zero-COVID-19 policies in China have plugged up or slowed supply chains and attendant labour shortages were caused by all the above. I have described here why we are experiencing some parts of these supply chain difficulties and why they have lasted so long.

It's important to remember the maxim that the solution to high prices is high prices. Similarly, the solution to low prices is low prices. Companies redesign their products, re-source suppliers and use lower-cost substitutes for expensive materials, which is part of the companies' mechanism to control inflation. The size of the US economy is approximately \$21 trillion, and the US uses approximately 6.9 billion barrels of oil a year. So each \$10 increase in the price of a barrel of oil reduces spending power in the US economy by about 30 basis points. A \$60 increase in the price of a barrel of oil, which we saw at its peak, if maintained, reduces spending power in the US economy by 180 basis points. Similarly, increasing interest rates simultaneously increases inflation and later reduces it by cooling demand.

Those companies suffering the greatest near-term challenge are those in process industries that use a lot of energy. Smiths does not have high energy-intensive manufacturing processes.

So how does all of this end?

The Chinese Communist Party Congress will take place in October. It may be when China declares victory over COVID and eliminates its zero-COVID policy. That will gradually free up plugged ports, ease supply chain shortages, reduce container costs, and ease some pressure on component supply from China. Supply chain transients will end naturally with time, though not without some pain, and artificial demand will reduce. A reduction in economic stimulus will also help, though I have reservations that a rapid increase in interest rates may work against policymakers and create recessions in some economies across the Western world. Together, these factors will reduce labour shortages and ease the pressure on pricing and inflation.

Lastly, problems that Western economies have suffered over the past two years will almost certainly create a swathe of manufacturing repatriation initiatives. That is likely to reduce economic growth in China and other parts of the Asian economy. But it will also create new jobs and investments in Western economies and drive efficiency initiatives and automation investments. My grandmother would have said, "it's an ill wind that blows nobody any good".

I hope this letter has helped readers, in some small way, to understand the complexities and effects of this very unusual time.

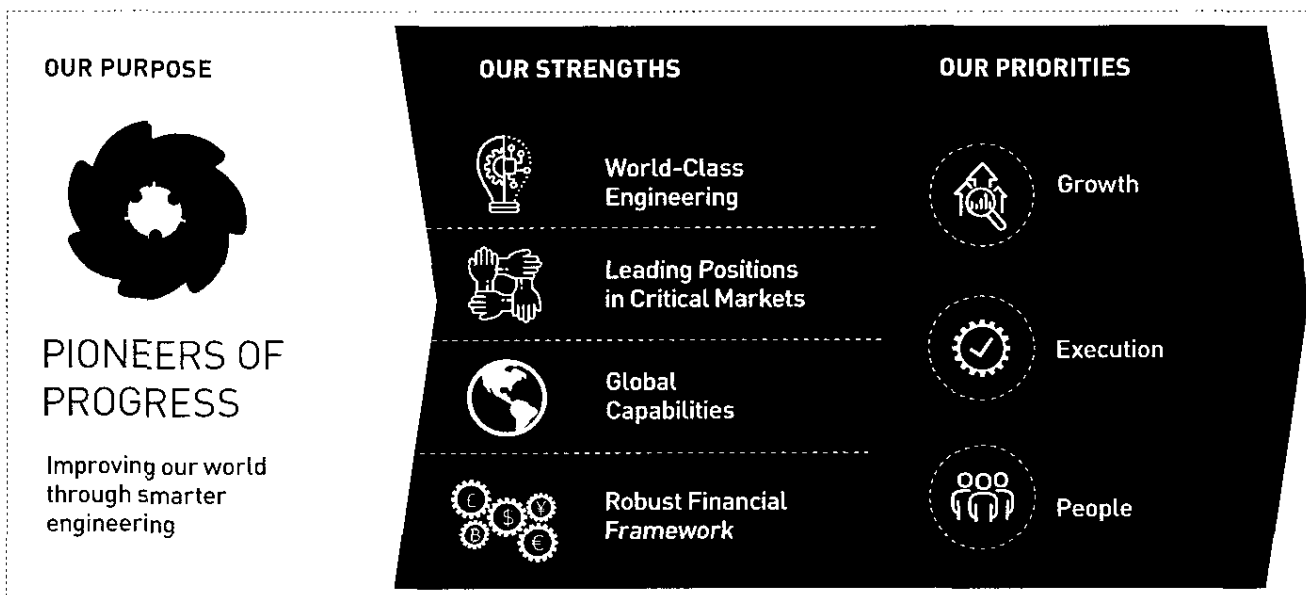
Sir George W. Buckley
CHAIRMAN

CHIEF EXECUTIVE OFFICER'S REVIEW

OUR BUSINESS MODEL

Our compelling business model leverages our world-class engineering, leading positions in critical markets, and global capabilities to help customers solve their toughest problems. The Smiths Value Engine is supported by a robust financial framework characterised by recurring revenues, high margins, and strong cash generation.

SMITHS VALUE ENGINE



OUR CULTURE

Our culture inspires and empowers our people. We live our Values of integrity, respect, customer focus, ownership, and passion every day, in each action and decision that we take. A strong culture grounded in Values is what has enabled Smiths to prosper for more than 170 years.

Our Leadership Behaviours provide a unified description of what leadership means at Smiths and a shared commitment to how we act in service of our stakeholders. Smiths Leadership Behaviours align to our three core priorities of growth, execution and people.

Growth

- Innovates for impact
- Sets vision to inspire

Execution

- Takes accountability and ownership
- Delivers results at pace

People

- Lives Smiths Values
- Develops self and others
- Leads inclusively and empowers

OUR STAKEHOLDERS

People

Our capable, dedicated and passionate colleagues are our greatest asset. 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.

Customers

Strong and enduring customer relationships will sustain Smiths into the future. Meeting customer needs and exceeding their expectations, not just with products, *quality and service, but in the way we conduct business and pay attention to the things that matter to them* – for example, ethics and environmental performance – is a fundamental part of our business model and our Values.

Suppliers

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

Communities and society

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. We 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 engaging directly.

Regulators and governments

We build relationships with governments, policymakers and regulators across the world. We do this so that we can operate effectively, to ensure our interests and those of the industries in which we operate are represented in decision-making, and in order to contribute our expertise on emerging national, regional and global needs.

Investors

We are committed to openness and transparency with all capital providers and the effective management of risk while we unlock value and returns for our investors.

OUR STRATEGY

We are committed to performing to our potential – growing faster to unlock enhanced value creation for the Group. We actively manage our portfolio of businesses and seek to optimise their performance through organic investment and disciplined use of capital for mergers and acquisitions. In FY2022 we made good progress in advancing our strategy.

MEGATRENDS

The strategy for each division is tailored to its individual circumstances and takes account of trends in overall demand, specific customer needs, relative competitor performance, and underlying business models. In addition, we track the evolution of key Group-wide secular themes and trends and their impact on our business.

Our Purpose and commitment to sustainability leadership are reflected in our intent to prioritise ESG performance at Smiths. As a result, whilst each of these themes is important, we place additional emphasis on our response to those megatrends which relate to the energy transition agenda and the overall reduction of waste and energy use. This will allow us to leverage our unique capabilities to enable our customers to meet their sustainability goals while we deliver on our own commitments.

General Industrial

- Efficient, cleaner processes
- Waste reduction, re-use/recycle
- Safe operations
- Equipment reliability
- Asset life maximisation
- Lightweight materials

Safety & Security

- Safe travel
- Secure trade
- Safe people
- Secure places
- Smart cities

Energy

- Environmental urgency
- Energy efficiency
- Lower emissions
- Energy transformation
- Air quality

Aerospace

- Faster/seamless connectivity
- Satellite applications
- Personalised integrated mobility solutions

OUR STRATEGIC PRIORITIES



Growth

- Taking full advantage of strong demand we currently see across most of our markets
- Improving new product development and commercialisation
- Extending our reach by building out priority adjacencies
- Supplementing organic growth with disciplined M&A
- Developing high-value green technology solutions for our customers

FY2022 progress

- Five consecutive quarters of organic revenue growth
- Accelerated organic revenue growth towards target range
- £51m of revenue from new products launched in FY2022
- R&D investment increased +14% to 4.2% of sales (+30bps vs FY2021)
- +1.8% additional growth from targeted M&A



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

FY2022 progress

- Resilient operating profit margins amidst challenging macro environment
- Price offsetting inflation and mitigating other supply chain impacts
- SES fully embedded across the Group, with a well-resourced team and 25 high-impact projects underway
- New sustainability strategy launched
- Solid operating cash conversion achieved



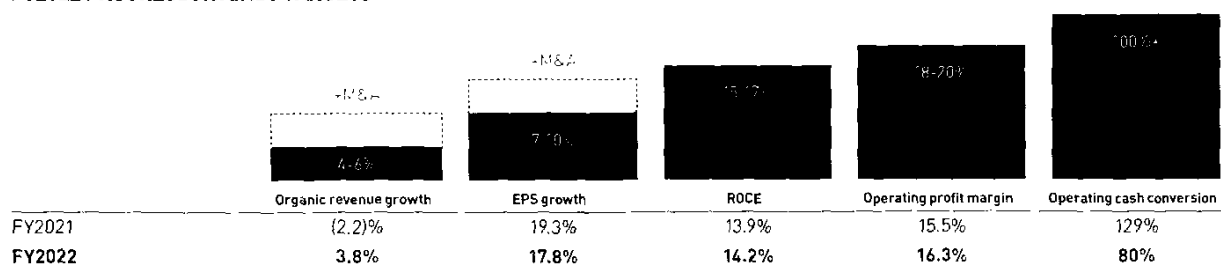
People

- 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

FY2022 progress

- Refreshed senior leadership team leading a faster pace
- Introduced Smiths Leadership Behaviours to accelerate cultural change
- More ambitious diversity goals in place
- >1,000 Lean Six Sigma qualifications through our SES Academy

FY2022 PROGRESS AGAINST TARGETS



REVIEW OF THE YEAR



We continued to demonstrate strong progress in FY2022, executing at pace on our growth strategy. We delivered growth ahead of expectations, our fastest organic growth in nearly a decade. Along with accelerating growth, we further strengthened our company through increased investments in innovation, commercialisation and supply chain. Still more, we returned £661m of cash to our shareholders through dividends and share repurchases.

All of this gives us confidence for continued progress in FY2023. Despite an uncertain macro environment, we expect to deliver 4.0-4.5% organic revenue growth with moderate margin improvement. By focusing on our top priorities of growth, execution, and people, we are creating value for our customers, colleagues, communities and investors. Together, we're building an ever-stronger future for Smiths.

Many thanks to my colleagues around the world for doing what we do best – improving our world through smarter engineering.”

Paul Keel,
CHIEF EXECUTIVE OFFICER

FY2023 outlook

- Expect to deliver 4.0% to 4.5% organic revenue growth with moderate margin improvement
- Strong order books and leading market positions support sustained momentum
- Cost inflation being actively managed through productivity programmes and pricing actions
- Macroeconomic and geopolitical uncertainty as well as supply chain challenges continue

FY2022 business performance

Commentary refers to Smiths Group performance excluding Smiths Medical, which was accounted for as ‘discontinued operations’ before the sale completed on 6 January 2022.

Smiths delivered growth ahead of expectations with organic revenue up +3.8%. Growth accelerated to +4.1% in the second half, which built on the momentum we had achieved in the first half of +3.4%. We executed well in a challenging environment with positive pricing action covering the impact of elevated input costs, and maintained close management of our supply chain to mitigate other impacts.

As we strive to continually inspire and empower our great people, we launched our enhanced sustainability strategy and set out new Smiths Leadership Behaviours. These Behaviours provide a unified description of what leadership means at Smiths and a shared commitment to how we will act as employees.

FY2022 BUSINESS PERFORMANCE

(£m)	FY2021	FY2021 restructuring charges	Foreign exchange	Acquisitions	Organic movement	FY2022
Revenue	2,406	–	26	42	92	2,566
Headline operating profit	372	21	5	11	8	417
Headline operating profit margin	15.5%	+90bps	+0bps	+20bps	(30)bps	16.3%

ORGANIC REVENUE GROWTH (BY BUSINESS)

	H1 2022	H2 2022	FY2022
John Crane	+5.1%	+2.5%	+3.7%
Smiths Detection	(7.2)%	(11.3)%	(9.4)%
Flex-Tek	+10.0%	+20.9%	+16.1%
Smiths Interconnect	+12.9%	+14.8%	+13.9%
Smiths Group	+3.4%	+4.1%	+3.8%

ORGANIC REVENUE GROWTH IN OUR END MARKETS

	% of Smiths revenue	H1 2022	H2 2022	FY2022
General Industrial	42%	+5.7%	+16.5%	+11.4%
Safety & Security	31%	(3.5)%	(8.9)%	(6.4)%
Energy	21%	+7.5%	+0.3%	+3.5%
Aerospace	6%	+16.7%	+14.2%	+15.4%
Smiths Group	100%	+3.4%	+4.1%	+3.8%



Growth

Growing faster is the primary driver of unlocking enhanced value creation for the Group. Through the year we delivered growth in each quarter and FY organic revenue growth of +3.8%, our best performance in nearly a decade.

Growth accelerated in the second half for both Flex-Tek (+20.9%) and Smiths Interconnect (+14.8%). John Crane delivered +2.5% growth in the second half impacted by cessation of sales into Russia and supply chain disruption, which impacted our ability to convert strong order intake into revenue. As expected, Smiths Detection continued to be affected by the softer Aviation original equipment (OE) market through the second half, but good order growth underpins our confidence in the medium-term prospects for this segment.

Revenue grew +6.7% on a reported basis, to £2,566m (FY2021: £2,406m). This included +£26m of favourable foreign exchange translation, and +£42m from the acquisition of Royal Metal Products LLC (Royal Metal) in February 2021. Since February 2022, Royal Metal results have been accounted for as organic growth.

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

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

Smiths organic revenue growth in our largest end market, General Industrial, was +11.4% in FY2022, with growth accelerating in the second half. This was driven by John Crane's growth in segments like chemical processing, water treatment and life sciences, demand for Flex-Tek's construction products and Smiths Interconnect's semiconductor test solutions which remained strong throughout the year. Smiths organic revenue in Safety & Security was (6.4)%, reflecting continued contraction of the Aviation OE market. This was partially offset by growth in Smiths Detection's other segments as well as growth from Smiths Interconnect's defence-related products. The +3.5% growth in the Energy segment reflected strong demand in John Crane. As mentioned above, second half growth was impacted by cessation of sales into Russia and supply chain disruptions. Our fastest growth in FY2022 came in Aerospace +15.4% as increasing aircraft builds drove strong demand for Flex-Tek and Smiths Interconnect's aerospace solutions.

As part of our growth strategy, we have introduced a new approach for our business in China. From the start of FY2023, the Smiths China leadership team now has lead responsibility for our operations in the country (excluding Smiths Interconnect's semiconductor business unit which will continue to report globally). To reflect this, Ted Wan, President of Smiths China, has joined the Smiths Group Executive Committee.

Our second lever for faster growth is **improved new product development and commercialisation**. During FY2022, we launched 21 high-impact new products including Flex-Tek's Python line sets, a flexible, multi-layer pipe used in various heating, ventilation and air conditioning (HVAC) applications; Smiths Detection's iCMORE automated detection algorithms; and Smiths Interconnect's space qualified connectors. Gross Vitality, which measures the contribution of products launched in the last five years increased to 31% (FY2021: 25%), demonstrating our successful commercialisation of new products.

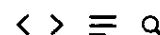
As an industrial technology leader, continuing to invest in R&D ensures we capitalise on the wealth of opportunities in our pipeline, with increasing demand for our sustainability-related products. During FY2022, we invested £92m in R&D (FY2021: £84m), of which £80m (FY2021: £76m) was an income statement charge and £12m capitalised (FY2021: £8m). Our customers and third parties contributed a further £15m (FY2021: £10m).

To support new product launches, and the strong demand for existing solutions, we increased capex +14.5% in FY2022 to £71m (FY2021: £62m). This represents 1.5x depreciation and amortisation (FY2021: 1.2x).

Our third growth lever is **building out priority adjacencies**. Each of our four businesses are executing strategies to expand their growth beyond their existing core market positions. Examples in FY2022 include the launch of Smiths Interconnect's medical cable assemblies, and John Crane's multi-purpose filter; an efficient water-saving solution for the treatment of process water in pulp & paper, mining, power generation plants and refineries.

Our fourth growth lever is using **disciplined M&A** to augment our organic growth focus. Flex-Tek's acquisition of Royal Metal in February 2021 is an excellent example of this. Acquired for \$107m (7.6x trailing EBITDA), FY2022 revenue and profit growth were +48% and +70%. During H1 2022, the acquisition contributed £42m of revenue and £11m of operating profit, adding 1.8% on top of organic revenue growth for FY2022. For H2 2022, contribution from Royal Metal was included in our organic results. Royal Metal brought a complementary HVAC portfolio, distribution synergies, and positive pricing. While driving sustained organic growth remains our priority, we continue to explore value accretive M&A opportunities across the Group.

In January 2022, we successfully completed the sale of Smiths Medical to ICU Medical, Inc. (ICU), several months earlier than expected. This was our largest portfolio move in over a decade and positions the Group even more strongly to access the growth available in our industrial technology core. The sale generated a profit on disposal of £1.0bn, with immediate net cash proceeds of £1.3bn and further value to come from a potential \$0.1bn earnout and our stake in ICU, which is recognised as a £0.4bn asset on our balance sheet. For more information on the divestment, please see note 27 of the financial statements.



Execution

Stronger execution is our second key priority.

In FY2022, headline operating profit grew +1.7% (+£8m) on an organic basis, and +12.0% (+£45m) on a reported basis to £417m (FY2021: £372m).

Headline operating profit benefited from strong profit leverage in Flex-Tek and Smiths Interconnect. This was partially offset by the impact of supply chain disruption on John Crane and Smiths Detection, lower volumes in the Aviation OE segment of Smiths Detection, and our continued investment in growth. On a reported basis, headline operating profit increased given £21m of restructuring costs booked in FY2021, favourable FX translation of £5m and H1 2022 contribution from Royal Metal.

Headline operating profit margin was 16.3%, down (30) bps on an organic basis and up +80bps on a reported basis.

Headline EPS grew +17.8%, driven by headline operating profit growth, a reduction in the effective headline tax rate and the benefit from the ongoing share buyback programme. The headline tax charge for FY2022 of £104m (FY2021: £96m) represents an effective rate of 27.6% (FY2021: 28.9%).

ROCE increased +30bps to 14.2% (FY2021: 13.9%). This reflects the higher profitability of the Group, more than offsetting the temporary increase in working capital. For further detail of the calculation, please refer to note 29 to the financial statements.

Smiths has a strong track record of operating cash conversion, having averaged 100% over the last five years. This year, we delivered solid operating cash conversion of 80% (FY2021: 129%) while navigating supply chain disruption and the associated investment in working capital. Headline operating cash-flow was £332m (FY2021: £510m).

In FY2022, we embedded our Smiths Excellence System across the company. SES is a step change in approach and operating rhythm; executing with greater pace, urgency and consistency in support of our priorities.

SES is well resourced with six full-time Master Black Belts (MBB) and 23 Black Belts (BB) in place and the first high-impact Black Belt projects now underway. Both the MBBs and BBs are dedicated resources leading continuous improvement projects across the organisation. Their current projects are focused on improving lead times, order book conversion, increasing capacity and cost reduction, which are helping to both navigate the immediate short-term disruptions and support more efficient margin expansion as we grow the top line. SES links our actions to our strategy, prioritises for high impact and creates full-time continuous improvement career paths.

We have also identified some targeted savings projects to drive enhanced efficiency and agility in responding to our end markets. In John Crane, the focus is to simplify the organisation to better serve our customers and maximise growth opportunities. In Smiths Detection, we are restructuring the operations to be more resilient and improve efficiency in response to market conditions. The non-headline charge for these savings projects is expected to be £35-40m in FY2023, with annualised benefits of £25-30m, of which approximately 50% is expected to be delivered in FY2023.



People

Inspiring and empowering our people is our third key priority.

Safety and well-being are always foremost of our priorities.

We have a strong and robust safety culture and strive for a zero harm workplace, with safety considerations integrated into all of our activities. Our Recordable Incident Rate for FY2022 was 0.54 and continued to track below the industry average and in the top quartile of industry performance, reflecting the importance of safety in everything we do.

We continue to support our colleagues in the Ukraine/Russia region amidst the ongoing conflict. As communicated at the interim results, we stopped all sales into Russia following the invasion and are in the process of exiting our operations in Russia. An associated non-headline charge of £19m is included in the accounts, further details can be found in note 3 of the financial statements. We made a Group-wide donation to the Red Cross to support the vital work they are doing for the people of Ukraine, and implemented a donation matching scheme for our colleagues.

During FY2022 a number of senior appointments were made to the leadership team including Clare Scherrer as Chief Financial Officer, Bernard Cicut as President of John Crane, Vera Kirikova as Chief People Officer and John Ostergren as Chief Sustainability Officer. All of these individuals bring a wealth of experience which will help accelerate our progress in executing our strategy.

Under this refreshed leadership, as we continue to strengthen our culture, we have introduced a set of behaviours: the Smiths Leadership Behaviours, to bring our Values to life. These seven Behaviours describe how we work with one another and take ownership and accountability for our actions. They apply to everyone at Smiths – from the shop floor to senior executives.

We developed the Smiths Leadership Behaviours through a robust process of focus groups, which gathered the views of colleagues from 21 countries and 72 sites across the organisation. These were followed by workshops with our Executive Committee to create and refine a set of behaviours that would be relevant and compelling for the whole organisation and support future growth.

The Behaviours will become foundational to processes including recruitment, development, career progression and reward. We believe that they will enable the Smiths culture to be even more dynamic and inclusive.

An important step in embedding an inclusive and diverse culture is increasing our gender diversity. We are focused on proactively increasing the number of women in leadership roles at Smiths. We have 45% female representation on the Smiths Board, and we welcomed three new female members to our Executive Committee in FY2022 (31% female). Women make up 28% of our global employee population, but only 24% of our senior leaders are female. We are working to change this with a programme of activities designed to identify, support and advance the careers of women at Smiths.

Our ESG approach

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

During FY2022, we established a Science, Sustainability & Excellence Committee of the Board, chaired by Dame Ann Dowling, to provide guidance and supervision of our sustainability strategy. We put in place the company's first Chief Sustainability Officer who is leading our sustainability strategy and targets throughout the business. This strategy (which will be set out in full in our inaugural Sustainability at Smiths report in October), describes how we are embracing and prioritising ESG performance at Smiths to deliver on our Purpose and create *genuine and significant value for all our stakeholders*. To support the delivery of our strategy, executive compensation is now linked to our sustainability targets, with ESG metrics (GHG reduction and energy usage) included in our annual and our long-term incentive compensation programmes beginning in FY2023.

Delivering sustainable growth means leveraging our unique capabilities to develop and commercialise green technology that will help transform industries and provide our customers with *solutions for their operations, enabling them to meet their own environmental targets across climate risk, energy transition and other environmental needs*. Examples include methane abatement; more energy efficient critical safety infrastructure; electrical heating solutions; transmission and storage of *alternative fuels; carbon capture; and next generation electrical connectors* that will safely and reliably support the digitisation and electrification of infrastructure.

Delivering our ESG commitments, which include targets for reduction in water, waste and packaging, and our Net Zero GHG emissions commitments for Scope 1, 2 and 3, will improve the environmental execution of our operations, our products and our supply chain. In preparation for setting science-based targets aligned to our Net Zero commitments, we made further progress understanding and categorising the underlying data. In FY2022, normalised GHG emissions reduced by (7.2)%, normalised water usage reduced by (4.5)% and normalised non-recyclable waste reduced by (11.5)%. These reductions are on top of significant progress already made since FY2007, when we first implemented environmental targets.

We have set and communicated FY2024 environmental goals, an important step to support the delivery of our commitment to Net Zero GHG emissions for Scope 1 & 2 by 2040. We have a clear roadmap for how we will achieve this, published on our website. It details the path we are taking to achieve Net Zero Scope 1 & 2 emissions by 2040 and, furthermore, our ambition to achieve Net Zero Scope 1, 2 and 3 emissions by 2050.

Our people are a key asset in delivering our ESG commitments. We know that great things happen when we protect, respect, and support our teams. We nurture our people and develop their talents so that they flourish and can help build the Smiths of tomorrow. We are supporting our teams to strengthen our local communities and we are working every day with our unwavering commitment to strong governance and ethical practice.

 **24** [READ MORE](#)
Sustainability at Smiths

REVIEW OF THE YEAR



Smiths simple and effective framework translates business strengths into financial strengths resulting in strong cash generation that in turn fuels reinvestment in organic growth, complementary M&A and shareholder returns."

Clare Scherrer,
CHIEF FINANCIAL OFFICER

Free cash-flow

In FY2022, free cash-flow generation was £130m (FY2021: £284m) or 31% of headline operating profit (FY2021: 76%), reflecting an increased investment in inventory and capital expenditure.

Pensions

Included within free cash-flow was £9m of pension contributions, (FY2021: £30m). The significant reduction in pension contributions reflects no contributions needed to the TI Group Pension Scheme (TIGPS) and £3m to the Smiths Industries Pension Scheme (SIPS), given the well-funded position of both schemes. For FY2023, we expect total cash contributions to be around £(12)m (including a funded US plan, unfunded schemes and post-retirement healthcare plans).

In June 2022, the TIGPS Trustee completed a deal to secure its remaining uninsured pension liabilities, by way of a £640 million bulk annuity buy-in with Rothesay Life plc. This means that all of the Scheme's liabilities are now insured, with a final buy-out of the scheme to be completed as soon as reasonably practical, delivering certainty for the Scheme's 21,000 members and removing future risk for Smiths. As a result of the buy-in a £171m non-headline charge was recognised in the FY2022 accounts and the net accounting pension surplus decreased to £194m (FY2021: £413m).

SIPS is estimated to be in surplus on the Technical Provisions funding basis. Given the funding position, no further cash contributions are currently being made. The Group and the SIPS Trustee continue to work together to progress towards 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 2022, over 60% of the UK liabilities had been de-risked through the purchase of annuities from third-party insurers.

Capital allocation

Net debt at 31 July 2022 was £150m (FY2021: £1,018m), £868m stronger as a result of the proceeds received from the sale of Smiths Medical in January 2022. Net debt to headline EBITDA has improved to 0.3x (FY2021: 1.6x).

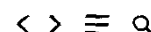
Given our strong balance sheet position and capital allocation approach, we initiated a £742m share buyback in November 2021. As at 16 September 2022, we had completed 76% of the programme. At the current run-rate and share price, we would complete the programme in early CY2023, with an anticipated reduction in shares to ~346m (a 13% reduction).

In line with our progressive dividend policy the Board is recommending a final dividend of 27.3p, bringing the total dividend for the year to 39.6p, a year-on-year increase of +5% (FY2021: 37.7p). The final dividend will be paid on 18 November 2022 to shareholders on the register at close of business on 21 October 2022. 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 two 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 28 October 2022 (the Election Date). Elections received after the Election Date will apply to dividends paid after 18 November 2022. Purchases under the DRIP are made on, or as soon as practicable after, the dividend payment date and at prevailing market prices.

We also applied proceeds from the sale of Smiths Medical to reduce debt by redeeming early a \$400m bond on 17 February 2022 which was due to be repaid in October 2022. This resulted in gross debt of £1,166m (FY2021: £1,546m) as at 31 July 2022. There are no financial covenants associated with the gross debt. As at 31 July 2022 the weighted average maturity was 2.5 years, with the next maturity due in April 2023. Cash increased to £1,056m (FY2021: £405m).

An \$800m (c.£656m at the period-end exchange rate) revolving credit facility (RCF) remains undrawn and matures in November 2024. The only financial covenant relates to interest cover, under which EBITDA must be greater than or equal to 3 times net interest. Taking cash and the RCF together, total liquidity was over £1.7bn at the end of the period.



Statutory results

Income statement

The £300m difference between headline operating profit of £417m and statutory operating profit of £117m is non-headline items as defined in note 3 of the financial statements. The largest constituents relate to the TIGPS buy-in which resulted in an accounting charge of £171m, amortisation of acquired intangible assets of £51m, Russia-related impairment and closure costs of £19m, past service costs for benefit equalisation and improvements of £43m, asbestos litigation in John Crane, Inc. and subrogation claims in Titeflex Corporation. Statutory operating profit of £117m was £209m lower than last year (FY2021: £326m), reflecting higher non-headline charges offsetting the increase in headline operating profit.

Statutory finance costs were £(14)m (FY2021: £(86)m), mainly due to a £22m foreign exchange gain on an intercompany loan with Smiths Medical (FY2021: £(50)m) which was settled on disposal; the matching credit in discontinued operations nets out to zero in total Group earnings.

Non-headline taxation items of £14m 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 87% (FY2021: 35%), driven principally by the non-headline settlement loss from the TIGPS buy-in for which there was no associated deferred tax. Please refer to notes 3 and 6 of the financial statements for further details.

Discontinued operations – Smiths Medical

On 6 January 2022, the Group completed the sale of Smiths Medical to ICU Medical, Inc. (ICU) at an enterprise value of \$2.7bn and an equity value of \$2.4bn after adjustments for debt, liabilities and working capital.

For the five months that Smiths Medical remained in the Group, it delivered headline profit after tax of £49m.

The difference between statutory and headline profit after tax is £973m, which includes £1,036m gain on disposal, £(33)m of regulatory remediation costs, £(14)m from the impairment of investments, £(22)m of foreign exchange losses on the intercompany loan with Smiths Group (continuing operations), and +£6m of tax credit on these non-headline items. Please refer to notes 3 and 27 of the financial statements for further details.

Total Group profit after tax and EPS

Statutory profit after tax for the total Group increased by +263% to £1,035m (FY2021: £285m) which included the profit on sale of Smiths Medical. Statutory basic EPS was up +273% to 267.1p (FY2021: 71.7p).

Statutory cash-flow

Statutory net cash inflow from operating activities for the total Group was £279m (FY2021: £535m). See note 28 to the financial statements for a reconciliation of headline operating cash-flow to statutory cash-flow.

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 July 2022 (12 months)	31 July 2021 ¹ (12 months)	31 July 2022	31 July 2021 ¹
USD	1.32	1.36	1.22	1.39
EUR	1.18	1.13	1.19	1.17

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 306,000 claims against JCI have been dismissed before trial over the last 40 years. JCI is currently a defendant in cases involving approximately 22,000 claims. Despite these large numbers of claims, since the inception of asbestos litigation against JCI it has had 149 cases and has had to pay awards amounting to approximately \$175m.

At 31 July 2022, the aggregate provision for JCI asbestos litigation, including for adverse judgements and defence costs, amounted to £229m (FY2021: £212m) 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 2022, a provision of £52m (FY2021: £47m) 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.

DIVISIONAL REVIEW

JOHN CRANE



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FY2022 FINANCIAL PERFORMANCE

	FY2022 £m	FY2021 £m	Reported growth	H1 organic growth	H2 organic growth	FY organic growth
Revenue	901	865	+4.2%	+5.1%	+2.5%	+3.7%
Original Equipment	279	273	+2.2%	+1.8%	+2.7%	+2.3%
Aftermarket	622	592	+5.1%	+6.6%	+2.4%	+4.3%
Energy	530	510	+3.9%	+7.5%	+0.3%	+3.5%
Industrials	371	355	+4.5%	+1.7%	+5.8%	+3.9%
Headline operating profit	188	187	+0.2%	+6.3%	(8.9)%	(2.8)%
Headline operating profit margin	20.9%	21.6%	(70)bps	+20bps	(270)bps	(140)bps
Statutory operating profit	167	184	(9.2)%			
Return on capital employed	19.4%	20.0%	(60)bps			
R&D cash costs as % of sales	2.5%	2.1%	+40bps			

REVENUE

(£m)	FY2021 reported	Foreign exchange	Organic movement	FY2022 reported
Revenue	865	4	32	901

OPERATING PROFIT

(£m)	FY2021 reported	FY2021 restructuring costs	Foreign exchange	Organic movement	FY2022 reported
Headline operating profit	187	4	2	(5)	188
Headline operating profit margin	21.6%	+50bps	+10bps	(140)bps	20.9%

John Crane's strong market position, global service network, and collaborative customer relationships underpin its performance. Organic revenue was up +3.7% for the year, with growth across both of John Crane's segments; Energy up +3.5% and Industrial up +3.9%. On a reported basis, revenue was up +4.2%, with a £4m favourable foreign exchange impact.

Activity levels remained high through FY2022 with +10.5% order growth and a record order book. Organic revenue growth in H2 of +2.5% (H1: +5.1%) was tempered by the cessation of sales into Russia from March 2022, a (110)bps impact for H2 and (60)bps for FY2022. Extended lead times on certain materials also impacted order book conversion.

Aftermarket represents 69% of John Crane's revenue (FY2021: 68%). Aftermarket revenue was up +4.3% on an organic basis. John Crane's large installed base and leading service offering positions it well to meet the strong demand for aftermarket repairs, maintenance and upgrades. Organic revenue from Original Equipment (OE) was up +2.3%. The rate of new orders continues to improve, with strong OE order growth in the second half.

Customer demand across both OE and aftermarket is strong, driven by the increasing demand for energy, along with decarbonisation and the transition to clean energy sources. Customers are requiring systems to be more reliable and energy efficient, interconnected and digitally enabled, and use diverse low-carbon energy sources. These trends benefit John Crane as they require significant investment in new infrastructure and retrofits to existing infrastructure, as well as new technology to reduce cost and accelerate the deployment of cleaner energy.

John Crane is well positioned to support customers through the energy transition. John Crane is working closely with customers and stakeholders to accelerate innovation across several decarbonisation themes to reduce methane and other GHG emissions, increase asset efficiency, and enable rapid scaling of low-carbon hydrogen, along with carbon capture, utilisation and storage. As an example, the John Crane Sense® digital platform monitors the condition and effectiveness of equipment and helps customers optimise maintenance schedules and minimise downtime. John Crane's upstream pumping seals, used in water intensive industries, save an average of one million gallons of water per seal per year.

John Crane secured multiple new contracts in sustainability and hydrogen including from NatureWorks, one of the largest producers of biopolymers and the NEOM Green Hydrogen Project, further cementing John Crane's leadership in these major environmental themes.

Headline operating profit of £188m decreased by (2.8)% on an organic basis, as pricing offset cost inflation but was impacted by increased costs associated with supply chain disruption and increased R&D investment for future growth. To further strengthen John Crane's position for these significant growth opportunities and to better serve customers a number of targeted actions have been identified. These actions are focused on simplifying the end-to-end value chain resulting in an even more agile and efficient business.

Headline operating profit was up +0.2% on a reported basis, with +£2m of favourable foreign exchange and £4m of restructuring costs charged in FY2021. The difference between statutory and headline operating profit includes the net cost in relation to the provision for John Crane, Inc. asbestos litigation and Russia-related impairment and closure costs.

ROCE

ROCE was 19.4%, down (60)bps, due to investment in working capital through FY2022.

R&D

Cash R&D expenditure increased to 2.5% of sales (FY2021: 2.1%). John Crane's innovation is primarily focused on enhancing efficiency, performance and sustainability by using materials science advancements to reduce friction in high-duty wet seals or increase maximum rotating speed required in next generation hydrogen compressors. John Crane is also investing in faster modelling to reduce development time and increase seal performance.

John Crane sealing solutions have a significant role in helping our customers in their sustainability journeys through reducing leaks. Examples of such products include a seal for demanding hydrocarbon pipelines with a unique, patented seal technology that significantly extends the mean time between repair, reducing maintenance, improving efficiency and protecting the environment from potentially harmful leaks. We also launched John Crane Sense® Turbo, which includes a first-to-market sensor-enabled dry gas seal. This ground-breaking technology introduces the John Crane Sense® platform, providing real-time monitoring and machine learning diagnostics on equipment, helping customers to prevent leaks and reduce downtime.

SMITHS DETECTION



FY2022 FINANCIAL PERFORMANCE

	FY2022 £m	FY2021 £m	Reported growth	H1 organic growth	H2 organic growth	FY organic growth
Revenue	655	721	(9.1)%	(7.2)%	(11.3)%	(9.4)%
Original Equipment	300	390	(23.1)%	(17.5)%	(26.7)%	(22.6)%
Aftermarket	355	331	+7.3%	+4.0%	+7.7%	+5.9%
Aviation	467	546	(14.5)%	(12.5)%	(16.5)%	(14.7)%
Other Security Systems	188	175	+7.4%	+8.1%	+6.2%	+7.1%
Headline operating profit	73	99	(26.8)%	(13.0)%	(42.0)%	(30.7)%
Headline operating profit margin	11.1%	13.7%	(260)bps	(80)bps	(570)bps	(340)bps
Statutory operating profit	36	77	(53.2)%			
Return on capital employed	7.1%	9.7%	(260)bps			
R&D cash costs as % of sales	9.3%	7.4%	+190bps			

REVENUE

(£m)	FY2021 reported	Foreign exchange	Organic movement	FY2022 reported
Revenue	721	2	(68)	655

OPERATING PROFIT

(£m)	FY2021 reported	FY2021 restructuring cost	Foreign exchange	Organic movement	FY2022 reported
Headline operating profit	99	6	(1)	(31)	73
Headline operating profit margin	13.7%	+90bps	(10)bps	(340)bps	11.1%

Smiths Detection grew in all segments except for Aviation original equipment (OE) which, as anticipated, was impacted by its challenging end market. Organic revenue declined (9.4)% or (9.1)% on a reported basis, including £2m of favourable foreign exchange. The cessation of sales to Russia resulted in a headwind of (70)bps in H2 and (40)bps for the full year.

OE represented 46% of FY2022 revenues. Organic OE revenues were down (22.6)%. Good growth in OE sales for Other Security Systems (OSS) were more than offset by lower Aviation OE sales as customers continue to stabilise operations post the COVID pandemic.

54% of Smiths Detection's sales were derived from the aftermarket. The underlying trend in aftermarket revenues across both Aviation and Other Security Systems continued to improve, accelerating in H2 to deliver +5.9% growth in FY2022, reflecting the benefit of a large installed base and a return to more typical operating patterns.

Organic revenue from Aviation decreased (14.7)% reflecting the slowdown in the Aviation OE market. Although we expect continued market challenges in the near-term, we are increasingly well positioned for recovery when it comes. Tender activity in Aviation has started to increase, and Smiths Detection continues to secure new contracts with order intake growing. Recent wins include contracts for hold baggage in the US; checkpoint security in Italy, Japan and Ireland; and for both hold baggage and checkpoint in Mexico and South Korea.

Organic revenue from OSS grew by +7.1%, driven by demand for Ports & Borders solutions. Expanding the OSS segment is a key tenet of Smiths Detection's strategy to expand into attractive market adjacencies. This is demonstrated by key OSS contract wins in FY2022 including high-energy X-ray systems for customers in Japan and the US; this year's Commonwealth Games where Smiths Detection were the official security provider; radiation solutions to transportation customers in the US; and defence equipment development projects for the US Department of Defense.

Given the new contract wins across Aviation and OSS and the strong order intake through FY2022 we expect a return to growth in FY2023.

Smiths Detection's headline operating profit was down (30.7)% on an organic basis, impacted by lower volumes and supply chain challenges, particularly the scarcity of electronic components and increased logistics costs.

Headline operating profit of £73m was down (26.8)% on a reported basis, including £(1)m adverse foreign exchange translation and £6m of restructuring charges in FY2021.

Headline operating profit margin was 11.1%, down (340)bps on an organic basis and (260)bps on a reported basis. A number of restructuring initiatives are underway that will enable Smiths Detection to be more resilient in responding to changes in its end markets and deliver improved margins.

The difference between statutory and headline operating profit primarily reflects amortisation of acquired intangibles and a charge for write-downs associated with Smiths Detection's exit from Russia.

ROCE

ROCE decreased by (260)bps to 7.1%, due to lower profitability in FY2022.

R&D

Cash R&D expenditure was 9.3% of sales, +190bps higher than last year. This includes an increase in customer funded projects to £14m (FY2021: £9m).

Smiths Detection continued to invest in the development of next generation detection devices for the defence market, new algorithms to improve the detection of dangerous goods, and digital solutions to strengthen our aftermarket proposition to make people and infrastructure safer. Certain programmes are co-funded by strategic customers seeking next-generation solutions to security challenges. During FY2022, we launched a new high-volume air cargo screening technology, as well as an extension of our automated detection algorithm, iCMORE, to enable currency detection, supporting the fight against global money laundering, weapons detection, lithium batteries and dangerous goods.

FLEX-TEK



FY2022 FINANCIAL PERFORMANCE

	FY2022 £m	FY2021 £m	Reported growth	H1 organic growth	H2 organic growth	FY organic growth
Revenue	647	508	+27.4%	+10.0%	+20.9%	+16.1%
Industrials	531	409	+29.8%	+8.5%	+22.6%	+16.3%
Aerospace	116	99	+17.5%	+16.1%	+13.4%	+14.6%
Headline operating profit	133	97	+37.1%	+18.3%	+24.3%	+21.7%
Headline operating profit margin	20.6%	19.1%	+150bps	+150bps	+60bps	+90bps
Statutory operating profit	106	83	+27.7%			
Return on capital employed	25.6%	21.6%	+400bps			
R&D cash costs as % of sales	0.4%	0.5%	(10)bps			

REVENUE

(£m)	FY2021 reported	Foreign exchange	Acquisitions	Organic movement	FY2022 reported
Revenue	508	14	42	83	647

OPERATING PROFIT

(£m)	FY2021 reported	Foreign exchange	Acquisitions	Organic movement	FY2022 reported
Headline operating profit	97	3	11	22	133
Headline operating profit margin	19.1%	+10bps	+50bps	+90bps	20.6%

Flex-Tek's agile operating model and close customer relationships contributed to a record year for the business. Organic revenue increased +16.1%, with record growth in the second half of +20.9%. Revenue grew +27.4% on a reported basis, including +£14m favourable foreign exchange translation and +£42m from acquisitions.

Organic revenue from Flex-Tek's Industrial segment was up +16.3%. Strong growth was driven by demand for its construction-related products in the US, particularly for HVAC applications, where Flex-Tek continued to outperform the underlying market. Other drivers included good growth of its industrial heat applications and active price management. Demand remained strong throughout the second half, and the business remains vigilant of key market indicators.

During the second half, Flex-Tek continued to execute its growth strategy, launching the Python line sets product, a multi-layer pipe used in various HVAC applications, replacing the traditional and more costly copper pipes. It also expanded its metal ducting offering which was introduced to the portfolio as part of the Royal Metals acquisition, with the opening of a dedicated greenfield facility in Texas.

Organic revenue from Flex-Tek's Aerospace segment was up +14.6% as the aerospace market benefits from an increasing number of aircraft builds.

Headline operating profit increased +21.7% on an organic basis, reflecting increased volumes and strong cost management. Headline operating profit was up +37.1% at £133m on a reported basis, including +£3m favourable foreign exchange translation and +£11m from acquisitions. Headline operating profit margin was up +150bps to 20.6%, on a reported basis. The difference between statutory and headline operating profit is due to amortisation of acquired intangible assets and provision for Titeflex Corporation subrogation claims.

In February 2021, the Group acquired Royal Metal, a leading manufacturer of residential and light commercial HVAC products for \$107m. During H1 2022 the acquisition contributed £42m of revenue and £11m of operating profit. Since February 2022, Royal Metal results have been accounted for as organic growth.

Royal Metal complements the organic growth that Flex-Tek is already driving through the development of innovative air distribution products that support improved energy efficiency and indoor air quality. The acquisition provides the benefits of complementary HVAC portfolios, synergies in distribution, and positive pricing, demonstrating the value that we can create through our highly disciplined and selective M&A process.

ROCE

ROCE increased +400bps to 25.6% reflecting the record profit growth in FY2022.

R&D

Cash R&D expenditure remained broadly consistent at 0.4% of sales (FY2021: 0.5%). R&D is focused on developing new products for the construction market, and an expanded product offering in aerospace.

SMITHS INTERCONNECT



FY2022 FINANCIAL PERFORMANCE

	FY2022 £m	FY2021 £m	Reported growth	H1 organic growth	H2 organic growth	FY organic growth
Revenue	363	312	+16.3%	+12.9%	+14.8%	+13.9%
Headline operating profit	65	35	+88.2%	+58.7%	+28.0%	+39.7%
Headline operating profit margin	18.0%	11.2%	+680bps	+490bps	+190bps	+330bps
Statutory operating profit	64	34	+88.2%			
Return on capital employed	16.3%	8.8%	+750bps			
R&D cash costs as % of sales	5.6%	6.3%	(70)bps			

REVENUE

(£m)	FY2021 reported	Foreign exchange	Organic movement	FY2022 reported
Revenue	312	6	45	363

OPERATING PROFIT

(£m)	FY2021 reported	FY2021 restructuring costs	Foreign exchange	Organic movement	FY2022 reported
Headline operating profit	35	10	1	19	65
Headline operating profit margin	11.2%	+330bps	+10bps	+330bps	18.0%

Smiths Interconnect's cutting-edge solutions and strong positions in its market subsegments underpinned a very strong FY2022 performance with organic revenue up +13.9%. Revenue growth in H2 2022 accelerated to +14.8% reflecting ongoing momentum from a growing order book and new product launches. Revenue increased by +16.3% on a reported basis, with +£6m favourable foreign exchange translation.

This strong performance reflects growth across the semiconductor test business with continued high demand, coupled with new product launches and new customer wins. Smiths Interconnect's space and defence products also delivered good growth, in particular coming from the launch of 28G fibre-optic transceivers for satellite communications and from space-qualified connectors. During the second half, Smiths Interconnect progressed its growth into adjacencies with the successful introduction of its first medical cable assembly product.

Smiths Interconnect enters FY2023 with significant orders for its space-qualified products for commercial satellite constellations, next generation chip testing solutions and for medical cable assemblies.

Headline operating profit increased +39.7% on an organic basis, with growth driven by strong revenue performance, positive pricing actions and good supply chain management. Headline operating profit was up +88.2% to £65m on a reported basis, including £10m of restructuring costs in FY2021. Headline operating profit margin was 18.0%, up +680bps on a reported basis and +330bps on an organic basis.

The difference between statutory and headline operating profit reflects the amortisation of acquired intangibles.

ROCE

ROCE increased +750bps to 16.3%, driven by higher profitability.

R&D

Cash R&D expenditure represented 5.6% of sales (FY2021: 6.3%), with the absolute spend year on year remaining the same. R&D is focused on bringing to market new products that improve connectivity and product integrity in demanding operating environments. Product launches included the new space qualified connectors and optical transceivers, which enable high-speed, reliable data processing for communication satellites and GPS navigation systems; medical connectors used in critical care; and upgrades of semi-test products.



Key

Link to strategy

Growth

Execution

People



Financial targets

Our financial targets were set out at our Capital Markets Day in November 2021. Our robust financial framework underpins the Smiths Value Engine powered by recurring revenue growth, high margins, low asset intensity and exceptional cash generation.

All measures exclude Smiths Medical. Alternative Performance Measures (APMs) and key performance indicators are defined in note 29 to the financial statements.

ORGANIC REVENUE GROWTH

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

STRATEGY



MEDIUM-TERM TARGET

+4-6%

PERFORMANCE

FY2022		3.8%
FY2021		(2.2)%
FY2020		(1.0)%
FY2019		3.0%
FY2018		3.4%

LINKED TO REMUNERATION

FY2022 PROGRESS

In FY2022 we delivered organic revenue growth in all four quarters of the year and full year growth of +3.8%. Growth accelerated in H2 vs H1 to +4.1%.

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CEO review of the year

OPERATING PROFIT MARGIN

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

STRATEGY



MEDIUM-TERM TARGET

18-20%

PERFORMANCE

FY2022		16.3%
FY2021		15.5%
FY2020		12.8%
FY2019		17.1%
FY2018		16.6%

LINKED TO REMUNERATION

FY2022 PROGRESS

In FY2022 margin was resilient at 16.3%, amidst a challenging macro environment, while continuing to invest in future growth.

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CEO review of the year

EARNINGS PER SHARE GROWTH

Strong margins will convert revenue growth into earnings growth.

STRATEGY



MEDIUM-TERM TARGET

+7-10%

PERFORMANCE

FY2022		17.8%
FY2021		19.3%
FY2020		(27.4)%
FY2019		11.0%
FY2018		11.7%

LINKED TO REMUNERATION

FY2022 PROGRESS

In FY2022 we delivered strong EPS growth of 17.8%, driven by operating profit growth, a reduction in the effective headline tax rate, and the benefit from the ongoing share buyback programme.

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CEO review of the year

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.

FY2022 PROGRESS

In FY2022 ROCE increased +30bps to 14.2% as high profitability more than offset investment in working capital.

STRATEGY



MEDIUM-TERM TARGET

15-17%

PERFORMANCE

FY2022	██████████	14.2%
FY2021	██████████	13.9%
FY2020	██████████	12.8%
FY2019	██████████	15.7%
FY2018	██████████	15.3%

LINKED TO REMUNERATION

P11

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CEO review of the year

OPERATING CASH CONVERSION

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

FY2022 PROGRESS

In FY2022 we delivered solid operating cash conversion of 80% while navigating supply chain disruption and the associated investment in working capital.

STRATEGY



MEDIUM-TERM TARGET

100%+

PERFORMANCE

FY2022	██████████	80%
FY2021	██████████	129%
FY2020	██████████	112%
FY2019	██████████	74%
FY2018	██████████	104%

LINKED TO REMUNERATION

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CEO review of the year

Operational targets

Our operational targets are also aligned to our three Smiths Value Engine priorities.

Alternative Performance Measures (APMs) and key performance indicators are defined in note 29 to the financial statements.

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.

FY2022 PROGRESS

In FY2022 revenue from new products increased to 31% of total revenue, demonstrating the success of our continued investment in R&D and commercialisation of new products.

STRATEGY



MEDIUM-TERM TARGET

30%+

PERFORMANCE

FY2022	██████████	31%
FY2021	██████████	25%

P11

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CEO review of the year

Gross Vitality is a new KPI in FY2022

GREENHOUSE GAS REDUCTION

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

FY2022 PROGRESS

In FY2022 we achieved a reduction in Scope 1 & 2 emissions of (7.2)% normalised to revenue. Absolute Scope 1 & 2 emissions fell by (1.1)%.

STRATEGY



MEDIUM-TERM TARGET

Net Zero
Scope 1 &
2 emissions
by 2040

PERFORMANCE

FY2022	██████████	(7.2)%
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LINKED TO REMUNERATION

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Sustainability at Smiths

FY2021 data was restated in FY2022 using the basis of preparation described on page 29. Historic Scope 1 & 2 data is therefore not comparable

RECORDABLE INCIDENT RATE

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 Recordable Incident Rate (RIR) per 100 colleagues.

FY2022 PROGRESS

Group RIR in FY2022 was 0.54, 15% above FY2021, but continued to track below the industry average and in the top quartile of industry performance.

STRATEGY

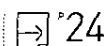


MEDIUM-TERM TARGET

A zero harm workplace

PERFORMANCE

FY2022	0.54
FY2021	0.47
FY2020	0.35
FY2019	0.50
FY2018	0.44



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Sustainability at Smiths

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.

FY2022 PROGRESS

Our overall global engagement score remained stable in FY2022 and we continued to have a very high survey response rate of 82%.

STRATEGY

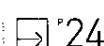


MEDIUM-TERM TARGET

Upper quartile

PERFORMANCE

FY2022	72
FY2021	71
FY2020	73
FY2019	72
FY2018	71



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Sustainability at Smiths

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 taken by females.

FY2022 PROGRESS

We made progress during FY2022 to reach 24% senior leadership positions taken by females.

STRATEGY

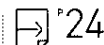


MEDIUM-TERM TARGET

30% by the end of FY2024

PERFORMANCE

FY2022	24%
FY2021	23%



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Sustainability at Smiths

Percentage of senior leadership positions taken by females is a new KPI in FY2022.



Environment, Social and Governance (ESG) performance is at the very centre of our Purpose, and we are committed to sustainability leadership.

We believe in doing business responsibly, the right way every day, and translating our Purpose and Values into practical action that mobilises Smiths strengths to improve our world. We are pioneering progress towards a sustainable future through our products, services, operations, and our people – pursuing excellence in everything we do. We are committing to ambitious targets and taking tangible action to deliver value for all our stakeholders.

See our Sustainability at Smiths Report for further information on our ESG framework, priorities and performance.

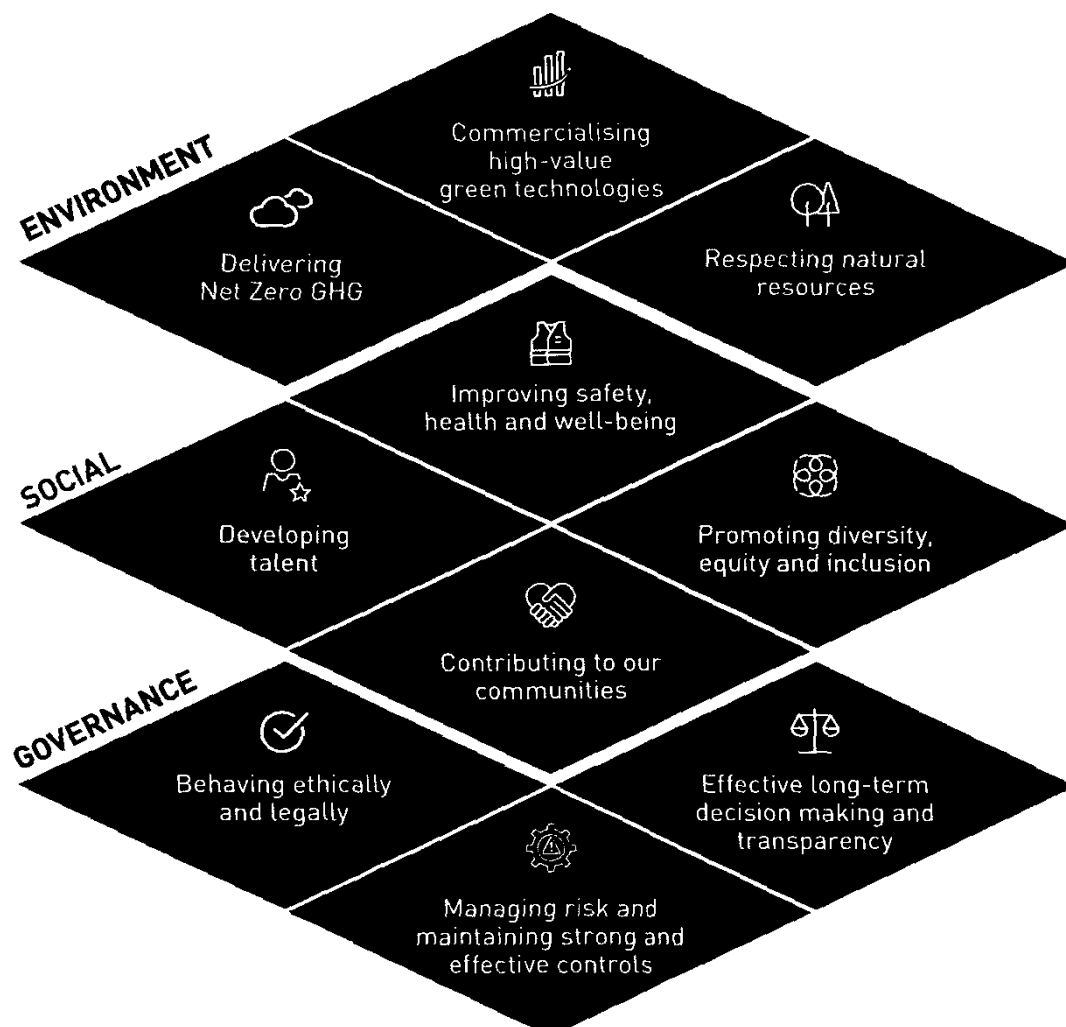


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Sustainability at Smiths Report

Our ESG framework

We distinguish ten foundational ESG elements that are essential to our success.

SUSTAINABILITY AT SMITHS



ENVIRONMENT

COMMERCIALISING HIGH-VALUE GREEN TECHNOLOGIES



Among our biggest opportunities to deliver stakeholder value is running our businesses well and driving growth through delivery of top commercial programmes that enable sustainability performance for and through our customers.

We support customers and industries that are leading the way to a sustainable future by developing and implementing green technology solutions targeting climate risk, energy transition and next generation, efficient infrastructure. Our unique engineering capabilities and technologies position us strongly to support customers on this vital journey and we are targeting new product development opportunities in growth markets where our technology and capabilities offer differentiated value through improved sustainability performance.

Developing and commercialising sustainability-advantaged products and services will enable Smiths to have an even *greater positive impact on global environmental priorities* than we could achieve on our own.



READ MORE
Sustainability at Smiths report

DELIVERING NET ZERO GHG



We have a successful record of delivering reductions in our operational GHG emissions. We are now taking big steps forward.

In FY2022, we committed to ambitious Net Zero targets that align Smiths with the UN's critical global climate objectives: 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.



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Environment

RESPECTING NATURAL RESOURCES



Natural resources are finite, and we believe that all businesses have a responsibility to use them respectfully and safely – minimising consumption and preventing pollution.

Our longstanding commitments to use energy efficiently and minimise waste are increasingly of interest and value to our customers as they also seek to manage their own environmental footprints.



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Environment

SOCIAL

IMPROVING SAFETY, HEALTH AND WELL-BEING



Our commitment to our people starts with keeping us all safe and healthy. This is our essential foundation and number one focus. We strive to always improve and be proactive, including designing for safety; strengthening our safety culture every day; and working to improve our colleagues' lives in the round.

We are thankful for those who came before us and helped establish robust safety cultures at our sites that we work to continuously renew, strengthen and connect. We understand that strong safety culture is fundamentally about keeping safety personal and must reflect, and respect, our diverse and global organisation.



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Safety

DEVELOPING TALENT



Our organisational commitment is to ensure that all our colleagues have opportunities to develop their skills and reach their full potential.

Smiths colleagues have access to training and resources to undertake their roles safely, effectively, and in line with our policies. Colleagues also have access to a developing range of personal and skills growth resources as they progress in their careers including specialist technical and functional and externally accredited programmes. We are currently honing our leadership programmes to better support business needs and so that our leaders can more effectively support their teams.



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Sustainability at Smiths report

SOCIAL continued

PROMOTING DIVERSITY,
EQUITY AND INCLUSION

Our team of colleagues represents dozens of nations, speaking a multiplicity of languages, and embodying many different perspectives. We strive to embrace these differences and promote actions and behaviours that will deliver an inclusive and supportive work environment where every member of the Smiths team 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.



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People

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 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; and operating safely, environmentally responsibly and ethically. We also engage directly through fundraising, charitable giving and education initiatives.



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Sustainability at Smiths report

GOVERNANCE

BEHAVING ETHICALLY
AND LEGALLY

Behaving ethically and with integrity is a fundamental part of our Values. We also operate in some highly regulated markets and sectors which require strict adherence to local and international industry regulations.

We have a mature governance environment with exacting standards, robust diligence processes and a proactive management approach. And we seek to work with partners who support our Values to minimise risk and maximise our positive social and environmental impact.



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Sustainability at Smiths report

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.

Our enterprise risk management (ERM) process supports open communication on risk between the Board and the Audit & Risk Committee, the Executive Committee, our divisions, and sites, and ensures that risk is appropriately managed to deliver our business objectives. ESG matters are fully integrated into the ERM process and are identified and managed in the same way as other Group risks.



READ MORE
Risk management

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.

Our overall governance framework provides the structures and systems through which our strategies and objectives are set and achieved, how risk is monitored and managed via controls, and how our performance is managed and optimised with appropriate oversight from the Board.



READ MORE
Governance

Our ESG strategic priorities

Our sustainability strategy follows our Smiths Value Engine priorities – Growth, Execution and People.

Within this framework, we focus on our highest-impact opportunities to accelerate performance and create value with specific actions that will lead to concrete and measurable results.



Growth

Deliver sustainable growth by targeting high-growth markets where we can leverage our unique capabilities to develop and deliver differentiated technology solutions which help solve some of the world's biggest challenges for our customers and global communities

- Prioritise new product development (NPD) programmes that deliver the sustainability performance our customers need and want. Develop and designate top sustainable growth NPD programmes in each division that contribute significantly to divisional revenue growth and where commercial success will deliver corresponding sustainability performance benefits, such as energy efficiency, GHG reduction, and renewable energy production
- Integrate environmental sustainability metrics into our NPD processes to enable our own Net Zero delivery, and our customers' and the industries we serve



READ MORE
about Growth



Execution

Deliver our commitments to Net Zero Science-Based Targets (SBTs) and further improve the environmental performance of our operations

- Deliver operational targets for renewable energy, waste generation, water use and packaging
- Deliver Net Zero GHG emissions commitments for Scopes 1, 2 and 3 and associated SBTs through energy efficiency and renewable energy, including optimising product design and our supply chains



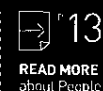
READ MORE
about Execution



People

Deliver for people, ensuring that we grow our business in line with our Values, our Leadership Behaviours, and plan for the long-term future of Smiths

- Sustain and vitalise our safety culture and performance
- Develop and empower Smiths talent for the future
- Embed an inclusive and diverse culture and increase gender diversity



READ MORE
about People

Remuneration

To align decision-making and ownership of our ESG goals, SSE metrics will form part of the Smiths annual and long-term incentive plans for FY2023. A GHG reduction metric formed part of our long-term incentive plan in FY2022.



READ MORE
Remuneration & People Committee Report

Our enabling culture

At Smiths our culture empowers and enables our people to deliver on our Purpose. Living our five Values every day, in each action and decision that we take, makes Smiths a place where we are happy and proud to work. It's what makes us reliable, trustworthy, and valued partners for our customers and suppliers and supports the long-term sustainability and success of our business model.

The Smiths Leadership Behaviours incorporate our Values and apply them to delivering for all stakeholders. The seven Leadership Behaviours describe how we work with one another, demonstrate our Values, and create value through our actions. Importantly, the Leadership Behaviours apply to everyone at Smiths – from the shop floor to senior executives. Whatever role we play, we can all demonstrate and develop our Leadership Behaviours to improve and deliver as a team, developing and sharing our talents to support each other and improve our tomorrow.

Our goal is to use the Leadership Behaviours to inspire and help strengthen and shift the Smiths culture to be even more dynamic, inclusive, and focused on delivering results that create value for our people, customers and other stakeholders.

We have been tracking engagement on a range of important cultural measures including safety, ethics, belonging, inclusivity, leadership, and service since 2017. Our overall global engagement score remained stable for May 2022 and November 2021, just below the benchmark provided by our survey partner. We continued to have a very high survey response rate of 82% in May 2022 with nearly 19,000 comments submitted. See our KPIs on page 23.

We will continue to use 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. We also intend to flex the questions in future surveys to test engagement within focus areas and to ensure that we continue to work and communicate effectively.

Ethics

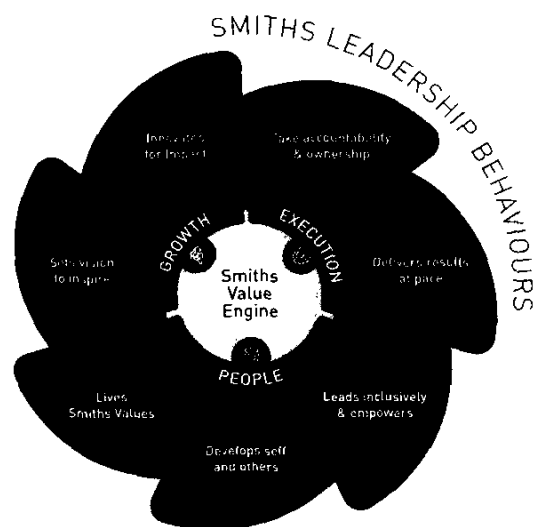
Behaving ethically and with integrity is a fundamental part of our Values. Our Code of Business Ethics guides Smiths colleagues to recognise and deal appropriately with legal and ethical issues that they may encounter in the course of their work. This is supplemented by a suite of policies and procedures relating to specific ethics and compliance matters.

Our colleagues and business partners are expected to report any activity – whether in our business or those of our partners – that they consider may be in breach of our ethics codes and policies. Both our colleagues and partners have access to our confidential 'Speak Out' reporting hotline, which is accessible 24 hours a day, seven days a week. Reports can be made anonymously.

OUR VALUES



SMITHS LEADERSHIP BEHAVIOURS



ESG governance and oversight

The Smiths Board of Directors and Executive Committee have ultimate responsibility for Smiths ESG performance and associated governance and oversight. The Science, Sustainability & Excellence (SSE) Committee of the Board, chaired by Dame Ann Dowling, is responsible for overseeing the Group's approach to science, sustainability, and excellence. The oversight covers R&D, commercialisation and sustainability strategies, including the impact of climate change and related metrics and targets. The Remuneration & People Committee oversees our approach to people and culture matters, and the Audit & Risk Committee oversees our risk management processes and systems of internal control. The Nomination & Governance Committee keeps the Group's high-level governance framework under review to ensure appropriate guidance and oversight is maintained. Sustainability strategy and delivery are led by members of the Smiths Executive Committee: our Chief Sustainability Officer; Chief People Officer; Group General Counsel; and our divisional Presidents.

Our strategic oversight and collaboration model enables us to bring together the skills and knowledge of our Board, our executive team and business and functional leaders to drive effective long-term decision making, ESG innovation and best practices across Smiths. Our Smiths Excellence System supports the whole, driving business-wide results-focused execution. ESG metrics and targets are cascaded through the divisions and embedded in our core operating model.

ESG reporting

We follow established reporting standards and regularly report our performance, transparently sharing our data and engaging with third-party ratings agencies. We use this information to evaluate our own progress and inform the work we are doing in our focus areas.

Environmental data – basis of preparation

Group environmental data in this report excludes Smiths Medical. Smiths Medical energy use and GHG Scope 1 & 2 emissions data is shown separately in the table on page 30.

In preparation for setting Science-Based Targets aligned to our Net Zero commitments, in FY2022 a robust review of our FY2021 Scope 1 & 2 GHG inventory and historic assessments of materiality and classification was undertaken by our external specialist partner, Ramboll. This was undertaken in accordance with ISO standards. This process resulted in the reclassification of certain activities and site data, previously determined to be immaterial and Scope 3. The reclassification meant that such activities and data is now incorporated within our Scope 1 & 2 inventories. In addition, our GHG emissions are calculated using revised regional emissions factors. Based on this work, energy use and emissions data for Smiths Group has been restated from that previously disclosed for FY2021. The same approach has been used for FY2022 emissions data and calculations.

FY2021 restatement:

- Smiths leased ground fleet and small leased offices/sites (previously considered to be Scope 3) re-classified as Scopes 1&2 (added 39,083 MWh)
- Inclusion of our Royal Metal acquisition's site and transportation fleet (added 5,289 MWh)
- Energy use updated for some sites (added less than 500 MWh)
- Regional Scope 2 emission factors updated (reduced emissions by 9,981 t CO₂e)
- Base revenue data has also been updated for all normalised calculations including GHG emissions, water and waste

Stakeholder expectations, standards and third-party assurance practices continue to evolve in this area. Our methods and practices will continue to improve and be reflected in our environmental performance results and associated disclosures.

ESG governance and oversight model



Smiths Excellence System



ENVIRONMENT

Smiths has had environmental improvement targets since FY2007. Since FY2007 we have reduced water use and non-recyclable waste by more than 30% on an absolute basis and we have increased the use of renewable electricity in our operations to 63% of total electricity use (sites reporting utility data under Smiths HSE Reporting Policy, with 20 or more employees). We achieved this by engaging our people, changing our processes, investing in low-carbon and energy efficient technologies, and increasing our use of renewable electricity.

Climate-related risks and their potential impact on the business and its strategy form part of risk reporting and risk management across the Group. Due to its long-term nature, climate change is not considered to be a principal risk, but we recognise the importance of assessing both physical and transition risk from climate change in a formal way. See our TCFD disclosure on page 35.

We have agreed the three standards relevant to our business under the Sustainability Accounting Standards Board (SASB) framework (Aerospace Defence; Electronic and Electric Equipment; and Industrial Machinery and Goods) and we are reviewing the potential applicability of a fourth (Electronic Manufacturing and Original Design Manufacturing). In FY2022, we undertook a gap analysis to identify the reporting areas we need to progress to fully align to the framework and are targeting alignment during FY2023.

In FY2022, we committed to ambitious Net Zero targets that align Smiths with the UN's critical global climate objectives: 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.

We have committed to set Science-Based Targets (SBTs) with the SBT initiative (SBTi) and signed on to the 1.5° C Business Ambition under the UN Race to Zero, covering Scope 1, 2 and 3 GHG emissions. We will submit proposals to the SBTi in 2022 to establish our bespoke plans and interim SBTs.

Based on our review of data materiality, our Scope 3 emissions will likely significantly exceed our operational emissions (Scopes 1 & 2). As is typical and expected for diversified industrial businesses, emissions associated with our supply chain (Category 1 Purchased Goods and Services) and Products in use (Category 11) are anticipated, pending in-process verification, to account for the majority of our Scope 3 emissions. As required by the SBTi, our proposed interim reduction target will cover more than two thirds of our total Scope 3 GHG inventory.

We recognise that delivering our Net Zero targets will require consistent and priority focus across all aspects of our global operations for the next 15-25 years. In FY2023, we will be focused on establishing foundational processes and approaches necessary to define and deliver near- and mid-term targets, including the interim SBTs required under the SBTi framework.

Energy use and GHG (Scope 1 & 2) emissions

Smiths includes its Streamlined Energy and Carbon Reporting (SECR) for FY2022, including our emissions and global energy use and intensity (normalised) metric below. Our GHG emissions calculations and reporting follows the WRI/WBCSD Greenhouse Gas protocol (operational approach) and covers emissions from all sources under our control, grouped under Scope 1 and Scope 2.

Performance in current three-year goal period

	FY2022-2024 target	Progress FY2022
Use of renewable electricity ^{1,2}	+5% increase to 66%	+2% increase to 63%
Normalised greenhouse gas emissions ^{3,4}	5% reduction	7.2% reduction
Normalised non-recyclable waste ^{2,3}	5% reduction	11.5% reduction
Normalised water use in stressed areas (11 locations) ^{2,3}	5% reduction	4.5% reduction
Water reduction projects	10 in FY2022	12 projects
Packaging reduction projects	8 in FY2022	5 projects

1 Non-GHG producing electric sources including hydroelectric and nuclear.

2 Sites reporting utility data under Smiths HSE Reporting Policy, with 20 or more employees

3 Normalised to revenue. Absolute GHG emissions down 1.1%.

4 We have built a more aggressive GHG reduction target trajectory to meet our SBTs and an energy efficiency target into our colleague and executive incentive plans for FY2023

Energy use and GHG (Scope 1 & 2) emissions

		FY2022	FY2021 ¹
Global energy use – absolute values	KWh	224,334,020	224,394,230
UK energy use	KWh	10,445,900	n/a
Smiths Medical ²	KWh	27,463,800	75,006,500
Smiths Medical UK ²	KWh	461,800	n/a
Global emissions – absolute values			
Scope 1 (direct emissions)	t CO ₂ e	19,131	20,378
Scope 2 (indirect emissions)	t CO ₂ e	32,539	31,865
Total	t CO₂e	51,670	52,243
UK Scope 1 & 2 emissions	t CO ₂ e	1,755	n/a
Smiths Medical Scope 1 & 2 emissions ²	t CO ₂ e	6,176	16,740
Smiths Medical UK Scope 1 & 2 emissions ²	t CO ₂ e	7	n/a
Global emissions – normalised values			
Scope 1 (direct emissions)	t CO ₂ e/£m revenue	7.46	8.47
Scope 2 (indirect emissions)	t CO ₂ e/£m revenue	12.68	13.24
Total	t CO₂e/£m revenue	20.14	21.71

1 FY2021 data updated following verification. See basis of preparation paragraph on page 29

2 Smiths Medical FY2021 and FY2022 data is not included in Group data and has not been updated for the changes described above

Energy efficiency and renewable electricity

Accelerating projects that reduce overall energy use and increase our use of electricity from renewable sources will be critical to our success in achieving our Scope 1 & 2 targets.

In FY2022, we established a Group-wide Energy Team to prioritise, coordinate and ensure delivery of the projects necessary to meet our Net Zero and SBT commitments, including energy efficiency, onsite renewable energy (e.g., solar), and procuring renewable energy. The Energy Team will play a critical role in identifying, aggregating, supporting and tracking projects as we move forward.

63% of the electricity currently used in our operations is from renewable sources (sites reporting utility data under Smiths HSE Reporting Policy, with 20 or more employees) and our goal is to increase this to 66% by the end of FY2024 and to 100% by 2040. We undertook a global survey of onsite renewable opportunities in FY2021 and have been evaluating a range of technologies including solar, wind, low-carbon heating and cooling (LCHC), and combined heat and power (CHP). An onsite renewable energy system is already in place in Suzhou, China and we have recently completed a solar installation at Smiths Detection, Johor Bahru, Malaysia.

Environmental management

Performance against our comprehensive portfolio of environmental policies is overseen by our internal audit process and we maintain an external environmental compliance audit programme of approximately 15 sites every year. All Smiths operational sites with over 50 colleagues are required under Group policy to be certified under ISO environmental and safety standards (18001 or 45001 and 14001) – approximately 60 sites – unless they were recently acquired just before or during the COVID-19 pandemic. Those sites were not allowed third party visitors during the pandemic and are now working towards certification as local conditions allow. We had no environmental spills or environmental compliance penalties or fines in FY2022.

Restricted substances

All divisions participate in a regular forum to share best practices and ensure compliance with global restricted substance regulations including WEEE, RoHS, Prop65, REACH, TSCA and Responsible Minerals. We operate a Restricted Substance Steering Committee to ensure that we are adequately resourced in this area.

SOCIAL

Safety

We have an extensive set of health and safety policies and procedures that all operations are required to follow. Performance against these policies is overseen by an audit process that also covers all Smiths production facilities including ISO HSE management systems.

We report all injuries globally in accordance with US OSHA guidance. Our headline safety metrics are Recordable Incident Rate (RIR) – where incidents require medical attention beyond first aid – and Lost Time Incident Rate (LTIR) – where a colleague is unable to work following an incident – per 100 colleagues, per year across Smiths.

In addition to preparing injury reduction plans, each of our divisions is required to set completion targets for the Safety Leading Indicator (SLI) proactive and preventative safety measures most relevant to their operations, with an expectation of achieving 95% of target annually. SLIs include activities such as safety inspections, leadership tours, training, and our safety look out peer-to-peer observation programme.

Our Group Recordable Incident Rate in FY2022 was 0.54; 15% above FY2021 but continued to track below the industry average and in the top quartile of industry performance¹. Our Group Lost Time Incident Rate was 0.24.

While our focus on safety did not waver during FY2022, like many companies, we faced several challenges that likely affected our safety performance. Evidence indicates that these increased injury rates have been broadly experienced across the industrial sector more recently. Staffing and supply chain challenges during and following the COVID-19 pandemic have meant that at some Smiths sites colleagues have had to work irregular or extended hours. Nearly 3,000 colleagues reported having COVID-19 during the year; returning to work and suffering the after-effects of COVID-19 is challenging. We have seen the further impact of limited face to face interaction; safety committees unable to meet; limits on travel; and the general impact of people dealing with the upheaval of COVID-19.

This performance does not reflect the work environment we wish to have, and we intend to improve safety performance consistently year on year by continuing to invest in new programmes, training activities and site-specific injury reduction plans.

During FY2022 Smiths recorded zero work-related colleague or contractor fatalities. Three contractor recordable incidents were reported. We received no significant safety fines or penalties. Including Smiths Medical, we achieved an RIR of 0.50 and an LTIR of 0.21. The nature of work in the Smiths Medical operations meant that the division previously had a positive impact on injury rates.

¹ BLS data – NAICS 339900, https://www.bls.gov/hif/oshsum.htm#20Quartile_Data

RECORDABLE INCIDENT RATE

Per 100 colleagues

0.54

FY2021: 0.47

FY2022	0.54
FY2021	0.47
FY2020	0.35
FY2019	0.50
FY2018	0.44

LOST TIME INCIDENT RATE

Per 100 colleagues

0.24

FY2021: 0.20

FY2022	0.24
FY2021	0.20
FY2020	0.17
FY2019	0.24
FY2018	0.19

COVID-19

Safety precautions relating to COVID-19 have been an important feature of our overall safety efforts over the last 30 months. While many restrictions have now been lifted, we continue to monitor the situation, and each of our locations continues to comply with local requirements as infection rates fluctuate.

Practical measures to support our colleagues across the period have included:

- An unwavering focus on COVID-safe work environments
- Pursuing a consistent approach to core employee benefits including life cover, critical illness, disability, and medical insurance
- Rolling out a global Employee Assistance Programme (EAP)
- Regular communication, bespoke resource sites and wellness materials

As a Group, we are honoured by the incredible efforts made by our teams in supporting their own safety and the safety of others, including in our communities, while continuing to serve our customers across this extended period. Our data indicates that colleague COVID-19 cases have typically tracked local community cases and that there have been very few instances of transmission at work.

Engaging with our colleagues

Our global communications activities are designed to engage colleagues around the world with our Purpose and our 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. Our intranet web portal acts as an online hub for holding resources for many areas including safety, well-being, ethics and compliance, diversity and inclusion, and IT tips.

We undertook our My Say colleague engagement survey in November 2021 and May 2022 and communicated the key outcomes to colleagues.

We undertook a number of engagement projects in FY2022 including:

- Communications around our results announcements and Capital Markets event;
- Communications around our SES Awards and My Say surveys;
- A global Town Hall in May 2022;
- Our Smiths Day celebration of Smiths culture in June 2022. Members of the Executive Committee shared video messages and visited sites around the world to share Smiths Day with colleagues;
- Global leadership summits for our Senior Leadership team in November 2021, February 2022 and July 2022 with the next one planned for November 2022; and
- An online presentation and Q&A about pay and the work of the Remuneration (now the Remuneration & People) Committee hosted by Committee Chair Bill Seeger.

Members of our Executive Committee and Board have also visited a range of Smiths sites during the year. Read more on page 60.

Developing talent

There are many opportunities for people to grow their careers at Smiths. Our more structured and diverse approach to succession planning following the talent reviews this year has enabled us to identify and develop high-potential individuals from a broader pool of diverse colleagues from all geographical regions, specialised skill sets and industry experience. Separately, appointments to our most senior roles are discussed at a monthly Talent Development Committee comprising all members of the Executive Committee. This year also saw the introduction of a new organisational metric to enable meaningful measurement of talent progression through the organisation. We will continue to invest in internal talent mobility as a significant source of value for Smiths.

While our divisions serve different markets, there is much common ground in the qualities and skill sets required in our technical teams as they enable us to deliver efficiently and create new products for the future. We see opportunities to leverage this common ground more effectively by creating formal Group-wide technical communities where groups of specialists can connect, share problems and ideas, and contribute to delivery of our strategy – for example energy reduction projects. We plan to introduce a common technical career ladder across the Group that will provide career visibility for individuals and enhance internal talent mobility.

Reward and recognition

Recognising and rewarding colleagues in a fair, open and meaningful way is an important underpin to developing talent. We are committed to fair pay practices and ensuring that colleagues participate in our success.

We have been an accredited Living Wage employer in the UK since 2018.

In the UK, we operate an all-employee Sharesave Scheme, which enables colleagues to buy Smiths shares at a discounted rate. We have also been undertaking a process to align employee benefits across markets, so they are the same for colleagues in any of our four divisions or Group. We have completed this work in China, India and Mexico to date.

The Board is conscious of the challenging impact of current inflationary pressures on colleagues and this is reflected in the management decision to focus more of the salary increase budget on those who are more significantly affected in the coming year.

Diversity, equity and inclusion

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 re-training, 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 are focused on proactively increasing the number of women in leadership roles at Smiths, as well as understanding the challenges and barriers that may be impeding them from fulfilling their potential. We have some way to go, which is why it is one of our ESG strategic priorities.

We have five female members of the Smiths Board (45%), and we welcomed three new female members to our Executive Committee in FY2022 (31% women). Women make up 28% of our global colleague population, but only 24% of our 656 senior leaders. We are working to change this with a programme of activities designed to identify, support and advance the careers of the high-potential women we already have at Smiths. Our target is to reach 27% by the end of FY2023 and 30% by the end of FY2024.

The opportunity to improve in the diversity, equity and inclusion area has been recognised and prioritised in our People strategy. Besides clearly articulated diversity metrics and objectives, in FY2023 we will also introduce our revised people leader development programme, which is fully aligned to our Smiths Leadership Behaviours. One entire learning module in the programme will be focused on emotional and cultural intelligence, conscious inclusion, and the role of leaders in setting and leading diverse teams. In addition, every division has introduced its own diversity and inclusion priorities, often supported by dedicated individuals, and including underrepresented group networks, education, communication and other support activities.

Communities

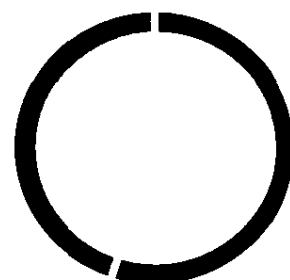
Our direct economic contribution to communities and society was £2.33bn in FY2022.

	FY2022
Employee costs	£823m
Supplier costs	£1,364m
Tax paid	£140m
Total	£2.33bn

GENDER DIVERSITY IN THE GROUP

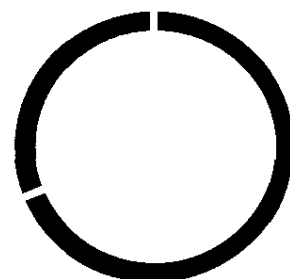
BOARD OF DIRECTORS

■ Male 6 (55%)
■ Female 5 (45%)



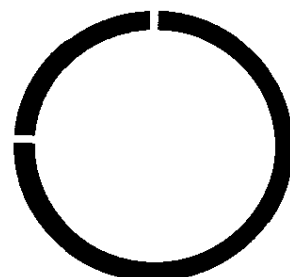
EXECUTIVE COMMITTEE

■ Male 9 (69%)
■ Female 4 (31%)



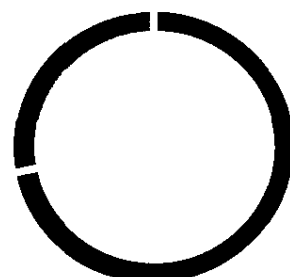
SENIOR LEADERSHIP TEAM¹

■ Male 498 (76%)
■ Female 158 (24%)



TOTAL COLLEAGUES

■ Male 10,631 (72%)
■ Female 4,133 (28%)



¹ 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. Data for Grade 14 and above plus Directors of subsidiary companies, in line with the definition in the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 is Female: 171 and Male: 561.

GOVERNANCE

Human rights

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 enjoy their universal human rights.

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 law 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.

Our Responsible Minerals Sourcing Policy addresses our commitment to the sourcing of minerals in an ethical and sustainable manner that safeguards human rights and aims to ensure that tin, tungsten, tantalum, gold and cobalt are sourced with due respect for human rights and in a manner that does not finance armed groups. To achieve this objective, we take guidance from the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas.

We expect those with whom we have a business relationship – suppliers, contractors, subcontractors, and anyone else in our supply chains, including any recruitment agents or other providers of labour (temporary or otherwise) – to share our commitment to human rights and to be free from practices associated with human rights violations, including forced/involuntary labour or modern slavery. We take very seriously any allegations that human rights are not properly respected.

We have not identified any serious human rights issues in our operations or in those of our suppliers in FY2022.

The Smiths Modern Slavery and Human Trafficking Statement FY2022 can be found on the Smiths corporate website www.smiths.com

Anti-bribery and anti-corruption

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 anti-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.

RELATED FINANCIAL DISCLOSURES

The Task Force on Climate-related Financial Disclosures (TCFD) helps to improve transparency on climate-related risks and opportunities by providing an internationally recognised framework to guide companies in making more effective climate-related financial disclosures.

Over the last three years we have demonstrated our continued commitment to aligning with the recommendations of the TCFD through expanding and updating our assessment of climate-related risks and opportunities. This ongoing systematic assessment has allowed us to identify the potential risks and opportunities that climate change presents to our business, enabling us to better prepare for an uncertain future and ensure that our business strategy is resilient to future changes.

Mitigating our risks and realising our opportunities

Our diversified portfolio, responsiveness to new market requirements and geographic spread of assets mean that our business is well prepared to respond to climate risks in the short term.

However, the future is uncertain, so in FY2022 we have and will continue to take action to strengthen our longer-term climate resilience, implementing measures to reduce our exposure to the potential climate risks we have identified and ensuring that Smiths is best positioned to realise our opportunities. For example:

Climate-resilient assets: John Crane has undertaken analysis to identify facilities vulnerable to the effects of climate change and has put in place monitoring and mitigation measures to account for extreme weather. For example, one site has been relocated as a result of recent insurance claims caused by flooding issues. John Crane has also considered the risk of extreme weather during site selection of new facilities, including consideration of hurricane paths and proximity to flood plains.

Mitigating supply chain risks: Across all the divisions, single source materials are avoided wherever possible and instead, an approach of sourcing from multiples sites in multiple locations across the globe is taken. This increases resilience of the supply chain against regional disruption caused by extreme weather events.

Keeping costs down: To mitigate the risks associated with rising resource costs, the Procurement team has evaluated Smiths Detection's supply chain and transportation processes for efficiency improvements. This included implementing measures such as optimisation of space in freight through reusable stacking solutions and exploring localised business models to reduce product transportation distances.

Strengthening oversight and ownership: Our newly formed Science, Sustainability & Excellence (SSE) Committee of the Board, chaired by Dame Ann Dowling, is responsible for overseeing the Group's approach to science, sustainability, and excellence. The oversight covers R&D, commercialisation and sustainability strategies, including the impact of climate change and related metrics and targets. We also appointed a Chief Sustainability Officer to the Executive Committee.

The SSE oversees the following:

- Prioritising new product development programmes whose commercial success will deliver revenue growth and corresponding sustainability performance benefits to and through our customers. This includes energy efficiency, GHG reductions and renewable energy production and use.
- Delivering Net Zero GHG emission commitments for Scopes 1, 2 and 3 and associated SBTs through energy efficiency, renewable energy, and optimising product design and our supply chains.

TCFD recommended disclosures

At the time of publication of this Annual Report, the Group has made climate-related financial disclosures consistent with the TCFD's recommendations and Recommended Disclosures pursuant to Listing Rule 9.8.6 (R) (8). The following table summarises our disclosures and refers to where further detail on climate-related financial disclosures can be found in this Annual Report.

In completing this work the Group 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.

The Group is continuing to make progress across all four pillars of the recommendations and is working to further align and be more transparent in its disclosures in line with the evolving guidelines to better communicate the work that is being done internally.

In FY2023 we intend to undertake a materiality assessment to demonstrate that Smiths has considered the most important topics in ESG, including climate risk and opportunities.

We are also developing a Group-wide strategic response to energy transition in relation to our own targets, the implications on current customers and end use markets, and opportunities for Smiths.

In FY2023 we intend to prepare and publish a detailed, standalone TCFD document to enhance our disclosures to cover these matters and take account of progress.

GOVERNANCE

Disclose Smiths governance around climate-related risks and opportunities.

a. Describe the Board's oversight of climate-related risks and opportunities.

The Board oversees the Group's approach to sustainability, including climate change. The Board has oversight of our Group and divisional strategies, receiving regular updates on performance and deep dives into divisional strategy on a rotational basis. Climate change opportunities are integrated into our strategic planning processes, including our ESG framework and ESG strategic priorities. The SSE Committee of the Board is responsible for overseeing the Group's approach to science, sustainability and excellence. The oversight covers R&D, commercialisation and sustainability strategy, including the impact of climate change and related metrics and targets. The Audit & Risk Committee of the Board is responsible for reviewing and assessing the effectiveness of risk management, including climate risk in the business. The results of our annual assessment of climate change risks and opportunities are reported to the Audit & Risk Committee.

- See Board governance model page 57
- See ESG governance and oversight model page 29
- See Enterprise Risk Management (ERM) process page 46
- See Board activity page 60
- See SSE Committee Report page 89
- See our ESG framework page 24
- See our ESG strategic priorities page 27
- See Stakeholders and S172 Statement page 41

b. Describe management's role in assessing and managing climate-related risks and opportunities

The Executive Committee is responsible for the Group's approach to sustainability, including climate change. Climate-related risk is reported and managed in the same way as other risks in the business. Over and above this, the results of our annual assessment of climate change risk and opportunities are reported to the Executive Committee and integrated into our strategic planning processes, including our ESG strategic priorities. Our Group and divisional strategic review and planning processes consider and respond to climate-related opportunities as part of our divisional strategic planning processes and our ESG framework and ESG strategic priorities. To align decision-making and ownership of our ESG goals, sustainability metrics form part of the Smiths annual and long-term incentive plans.

- See Enterprise Risk Management (ERM) process page 46
- See ESG governance and oversight model page 29
- See our ESG framework page 24
- See our ESG strategic priorities page 27
- See Our business model page 9
- See Our strategy and megatrends page 10
- See Remuneration & People Committee Report page 75

STRATEGY

Disclose the actual and potential impacts of climate-related risks and opportunities on the Group's business, strategy and financial planning, where such information is material.

a. Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term.

We conduct a systematic assessment on an annual basis to identify physical and transition risks and opportunities over the short, medium and long term. Further, our Purpose and commitment to sustainability leadership are reflected in our intent to prioritise ESG performance at Smiths.

We therefore place additional emphasis on our response to megatrends in our sectors which relate to the energy transition agenda and overall reduction of waste and energy use.

- See this year's reporting on Key transition risks and opportunities and Key physical risks and opportunities page 40
- See Mitigating our risks and realising our opportunities page 35
- See Our business model page 9
- See Our strategy and megatrends page 10

b. Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning.

We incorporate the climate-related risks and opportunities we identify into our business planning and strategy development processes at both the division and Group-level, including our ESG framework and strategic priorities. To align decision-making and ownership of our ESG goals, sustainability metrics form part of the Smiths annual and long-term incentive plans.

- See Mitigating our risks and realising our opportunities on page 35
- See our ESG framework page 24
- See our ESG strategic priorities page 27
- See Environment performance page 30
- See Our strategy and megatrends page 10
- See Chief Executive Officer's review of the year page 11
- See Remuneration & People Committee Report page 75

c. Describe the resilience of the organisation's strategy. Taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

The scenarios we use to assess the resilience of our business always include consideration of a 2°C or lower scenario. This year we have expanded the range of scenarios we assess ourselves against and have disclosed our ratings of the resilience of our business against our identified potential risks. Whilst climate risk is not considered a principal risk for Smiths, failure to meet stakeholder expectations on ESG obligations is considered a principal risk. This is addressed through Group strategy and our ESG strategic priorities.

- See Scenario analysis – building upon previous work on page 39
- See Key transition risks and opportunities and Key physical risks and opportunities page 40
- See Principal risks page 49
- See our ESG strategic priorities page 27

RISK MANAGEMENT

Disclose how Smiths identifies, assesses and manages climate-related risks.

a. Describe the organisation's processes for identifying and assessing climate-related risks.

Climate-related risk is reported and managed in the same way as other risks in the business. Over and above this, we conduct a systematic scenario analysis exercise on an annual basis to identify and assess climate-related risks and opportunities. This uses the following staged process: i. Understand revenue streams as base case; ii. Climate scenario analysis – high-level risk and opportunity mapping conducted over two physical and two transition climate scenarios over two time horizons (medium- and long-term); iii. Integrated financial impact assessments – risks and opportunities identified to uncover the financial drivers that will inform and shape future investment; and iv. Testing and validation – workshops conducted at Group and divisional level to refine the risk and opportunity mapping by reviewing potential materiality over time, identify potential mitigation measures to inform strategy, and refine metrics and targets.

- See ERM process page 46
- See this year's approach in Scenario analysis - building upon previous work on page 39

b. Describe the organisation's processes for managing climate-related risks

Climate-related risk is reported and managed in the same way as other risks in the business. As part of our annual scenario analysis exercise, we also identify key actions to mitigate potential climate-related risks and to realise our identified opportunities. See staged process described above.

- See ERM process on page 46
- See Mitigating our risks and realising our opportunities on page 35

c. Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.

We incorporate the climate-related risks we identify into our ERM process.

- See Mitigating our risks and realising our opportunities on page 35
- See ERM process on page 46

METRICS AND TARGETS

Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities, where such information is material.

a. Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management processes.

We report against our environmental metrics annually. This year we have also undertaken a gap analysis of our metrics and targets to identify key areas where we can improve our monitoring of climate-related performance. We have built a more aggressive GHG reduction target trajectory to meet Science-Based Targets and energy efficiency and new product commercialisation targets into our incentive arrangements for FY2023.

Our climate-related metrics and targets now include:

- Total energy use
- Energy efficiency target, and new product commercialisation revenue target per programme, both linked to remuneration for FY2023 AIP
- Scope 1 & 2 emissions absolute reduction target linked to remuneration for FY2023 LTIP
- Scope 1 & 2 emissions normalised to revenue target linked to remuneration for FY2022 LTIP
- See Environment performance on page 30
- See Remuneration & People Committee Report on page 75

b. Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 GHG emissions, and the related risks.

We disclose our Scope 1 and 2 emissions annually. We have created a baseline inventory of our Scope 3 emissions which will be validated before being submitted to the SBTi in FY2023.

- See Energy use and GHG (Scope 1 & 2) emissions on page 30
- See Scope 3 information on page 30
- See Environment performance on page 30

c. Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.

We report on our progress against our environmental targets annually. This year we have also undertaken a gap analysis to identify key additional metrics and targets which could improve monitoring of our climate-related performance. See metrics and targets described above.

- See Environment performance on page 30



Scenario analysis – building upon previous work

During FY2021, climate-related physical and transition risks and opportunities were assessed under two climate scenarios and time periods, and the actions that could be taken to mitigate risks and capture opportunities were incorporated into our strategic planning processes.

Our most recent scenario analysis exercise, conducted in Q3 FY2022, builds upon the assessment of previous years, and seeks to provide a more in-depth understanding and comparison of physical and transition risks and opportunities. A wider range of scenarios was considered, including two transition scenarios and two physical risk scenarios.

Physical scenarios

For the physical scenarios, the Intergovernmental Panel on Climate Change's (IPCC) Representative Concentration Pathway (RCP) 4.5 and RCP8.5 scenarios were used.

RCP4.5

- RCP4.5 represents an intermediate emissions scenario whereby climate policies are implemented to limit GHG emissions.
- In the 2040s, global mean surface temperature is projected to increase by 1.1°C. By the 2080s, this reaches 1.4°C.

RCP8.5

- RCP8.5 is a high-emissions scenario and represents a future where levels of greenhouse gas (GHG) emissions continue to rise throughout the 21st century with minimal policy intervention. As such, GHG emissions were assumed to continue to increase throughout the century, without significant interventions.
- In the 2040s, global mean surface temperature is projected to increase by 1.8°C. By the 2080s, this reaches 3.7°C.

Across both scenarios:

- Some regions will experience increased annual rainfall, whilst other regions will receive less annual rainfall.
- Regions are likely to experience seasonal differences in temperature and precipitation patterns. For example, annual precipitation in the UK is projected to increase but this is due to projected wetter winters, increasing the risk of flooding; in contrast, summers are projected to become drier, increasing the risk of drought.
- Extreme weather events such as flooding, wildfires and drought are likely to become more severe and more frequent.
- The difference between the two scenarios is particularly evident in the projections towards the end of the century, which are much more extreme under RCP8.5.

Transition scenarios

For the transition scenarios, the International Energy Agency's (IEA) World Energy Outlook Sustainable Development Scenario (SDS) and Stated Policies Scenario (STEPS) were used.

2021 Stated Policies Scenario (STEPS)

- This scenario reflects current policy-setting based on sector-by-sector assessment of the specific policies in place, as well as those that have been announced by governments around the world.
- It aims to provide a benchmark to assess the potential achievements (and limitations) of recent developments in energy and climate policy:
 - Risks to oil security remain
 - Gas markets are changing rapidly
 - Electricity moves to the heart of modern energy security

2021 Sustainable Development Scenario (SDS)

- The assumptions on public health and the economy are the same as in the STEPS
- Full alignment with the Paris Agreement to hold the rise in global average temperature to "well below 2 °C ... and pursuing efforts to limit (rises) to 1.5 °C"
- It works backwards from the achievement of sustainable energy-related goals – universal access to affordable, reliable and modern energy services by 2030, a substantial reduction in air pollution, and effective action to combat climate change – and shows what would be required to meet them
 - Major transformation of the global energy system
 - Net Zero by 2070
 - Surge in clean energy policies (promotion of hydrogen, biogas, biomethane and Carbon Capture, Utilisation and Storage (CCUS) across sectors)
 - Staggered introduction of CO₂ prices
 - Fossil fuel subsidies phased out by 2025 in net-importing countries and by 2035 in net-exporting countries

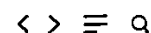
As well as assessing risks and opportunities under a greater number of scenarios, this year's assessment included detailed engagement with each of the four divisions to enable a 'deep dive' into issues specific to each and to better understand the Group-level implications of these risks and opportunities.

In addition, we have assessed the level of each risk and opportunity in more detail to better understand the potential financial impacts of the identified risks and opportunities.

Although a quantitative assessment was not undertaken, risk and opportunity ratings were defined in line with the Group and division level risk registers to allow a better understanding of the scale of identified risks and opportunities, enabling Smiths to prioritise actions for risk mitigation.

These additional activities allow us to better understand the nuanced nature of risks and opportunities posed across our business, at Group and division level, under a wider range of future scenarios. This ultimately enables us to improve our resilience, by addressing risks across our portfolio and ensuring that opportunities are incorporated within our business strategy.

Priority risks and opportunities are summarised in the tables below across the range of scenarios.



Key physical risks and opportunities

Over the medium and longer term, key physical risks relate to the potential effect that projected increases in the frequency and severity of extreme weather events could have on our assets and supply chain. These risks become more severe under the high-emissions RCP8.5 scenario.

However, we have also identified several opportunities where each of our divisions can work to develop innovative solutions to our customers' climate-related challenges.

	RCP4.5 physical scenario		RCP8.5 physical scenario	
	2040s medium term	2080s long term	2040s medium term	2080s long term
Risks	Level of risk categories: Very Low – Low – Moderate – High – Very High			
Damage to Group assets from extreme weather events: Increased costs and resulting revenue losses due to repair and insurance costs.	Low	Moderate	Low	High
Temperature regulation requirements during heatwaves and cold snaps: Health and safety risks from overheating, higher operating costs from increased air conditioning and heating. Capital costs associated with retrofitting assets to provide sufficient temperature controls.	Low	Low	Low	Low
Damage to key supply chain assets from extreme weather events: Loss of revenue due to disruption/delay of manufacturing processes.	Moderate	High	Moderate	High
Disruption to transportation and distribution networks from extreme weather events: Loss of revenue due to delays getting products to market, caused by supply chain disruption.	Moderate	High	Moderate	High
Opportunities				
Growth in remote sensing market: Increased revenue from growth in demand for satellite technology for environmental monitoring and tracking.	Moderate	High	Moderate	Very High
Increased demand for cooling systems: Increased revenue from increased demand for residential and domestic cooling systems, driven by ongoing variation in global temperatures.	Low	Moderate	Moderate	Moderate

Key transition risks and opportunities

Key transition risks identified over the next 30 years primarily result from increasing costs associated with the price and availability of resources and compliance with increased reporting requirements, although increased competition also poses a risk.

New and emerging markets present us with significant opportunities for growth, with demand for energy efficient products and services increasing greatly as we transition to a lower carbon global economy.

	STEPS transition scenario		SDS transition scenario	
	2030 medium term	2050 long term	2030 medium term	2050 long term
Risks				
Increased regulations and pricing on GHG emissions: Greater costs associated with emissions reduction, monitoring and reporting obligations.	Low	Moderate	Moderate	Moderate
Increased transportation costs: Greater fuel costs due to increased pricing on GHG emissions.	Moderate	Moderate	Moderate	High
Cost and availability of resources: Increased price and reduced availability of critical raw materials. Limited supply of materials and components could lead to price volatility and production constraints.	Moderate	Moderate	Moderate	Moderate
New and emerging competitors: Reduced accessible market due to increased competition in Net Zero/energy efficiency spaces, such as methane leakage.	Moderate	Low	High	Low
Opportunities				
Growth in aviation/aerospace energy efficiency market: Increased revenue from development of new products for aviation/aerospace, such as energy efficiency detection products and solutions.	Moderate	High	High	Very High
Growth in energy efficiency products market: Increased revenue from Smiths efficiency products and services, particularly methane detection and remediation. Increased investment for new technologies e.g., carbon capture, utilisation and storage (CCUS) and hydrogen.	High	Moderate	Very High	Moderate
Growth in power industry energy efficiency: Increased revenue from development of emerging low-carbon emission technologies to reduce electricity transmission losses	High	Very High	High	Moderate

STATEMENT

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 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. 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.

During the year ended 31 July 2022, 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 and the outcomes of these discussions are outlined below.

Further examples of how stakeholders views have been brought into the boardroom can be found in our Governance Report on pages 60 and 61.

 **60** **READ MORE**
Governance

 **SEE MORE**
Sustainability at Smiths Report

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 32 for more information
- Non-executive Directors undertake workforce engagement activities, including in-person site visits and attendance at colleague meetings, forums and events. See page 60 for more information
- The Board and Remuneration & People Committee receive regular updates from the Chief People Officer on employee engagement, reward, talent, and diversity and inclusion
- 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
- The Board also receives regular updates on the Group's pension arrangements

OUTCOMES OF ENGAGEMENT IN FY2022

- Given the importance of, and focus on, People in the Smiths Value Engine, the Board approved the evolution of the Remuneration Committee into the Remuneration & People Committee
- Based on feedback from colleagues through the My Say engagement survey, the Board was supportive of the launch of our new Smiths Leadership Behaviours, which are shown on page 28, and the focus on diversity and inclusion, with an enhanced gender diversity measure added as a KPI described on page 23
- The Board supported the de-risking of the TI Group Pension Scheme by way of a £640m bulk annuity buy-in. The Board considered and declined the request from the SI Pension Scheme Trustees to pay enhanced member benefits

CUSTOMERS

OUR APPROACH

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

We recognise that strong and enduring customer relationships will sustain Smiths into the future.

KEY CUSTOMER PRIORITIES

- Product innovation, quality and service
- Environmental performance of products to help customers meet their own environmental goals
- Long-term strategic relationships
- Mutual confidence and respect
- Ethical behaviour and data protection

BOARD AND MANAGEMENT ENGAGEMENT ACTIVITIES

- Management teams engage with customers through formal feedback activities such as surveys, quarterly business 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 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)
- In FY2022 the Audit & Risk Committee was updated on product quality and customers in divisional risk deep dives. See page 73 for more information

OUTCOMES OF ENGAGEMENT IN FY2022

- The Board approved the creation of the Science, Sustainability & Excellence (SSE) Committee. The Committee oversees the Group's approach to sustainability and to new product development, both key priorities for our customers. See page 89 for more information
- The Board approved our divisional strategies, including an increased focus on commercialising high-value green technologies that enable sustainability performance for and through our customers
- As part of the Board evaluation, the Board requested greater visibility of macro conditions, external markets and the impact of opportunities arising from technology
- The SSE Committee requested more oversight on product ideation strength and early-stage new product development to ensure that the Group is appropriately focused on megatrends and new markets
- The Board considered inflation and supply chain pressures and the impact on pricing and margins
- The Board was satisfied that the culture of the Group is appropriately focused on customer needs and that customer risks are being managed appropriately

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
- Return for all partners
- 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 on a quarterly basis and deep dives on divisional performance and strategy are discussed by the Board on a rotational basis
- In FY2022 the Audit & Risk Committee was updated on supply chain risk and ethics and compliance in each division

OUTCOMES OF ENGAGEMENT IN FY2022

- Each division developed and implemented appropriate contingency plans to mitigate the impact of supply chain challenges arising from the COVID-19 pandemic, the Russia/Ukraine conflict, transportation and labour issues, and other challenges
- The Board was supportive of the ongoing project to mitigate the risk from high-dependency sole source suppliers
- Management approved the implementation of a source-to-pay solution with a single portal access for our supplier base which aims to improve procurement efficiency and effectiveness
- The Board was supportive of the refreshing of the Group's Supplier Code of Conduct during the year to increase focus on ESG matters, including environmental policies and performance

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
- At our July Leadership Summit senior leaders took time out to volunteer at five London charities
- Colleagues are regularly involved in and support local community events

OUTCOMES OF ENGAGEMENT IN FY2022

- The Board approved the Group's new ESG strategic priorities which outline our focus on new product development programmes which deliver sustainability performance and on delivering our environmental commitments
- The Group donated to the Red Cross to support the people of Ukraine. Smiths also matched colleague donations
- In FY2022 we began a pilot for a new community engagement programme – Improving Our World – which will include paid volunteering time for colleagues

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. We operate in some highly regulated markets and sectors requiring strict adherence to local and international industry and product regulations, and strong ethical practices.

We have a mature governance environment with exacting standards, robust diligence processes and a proactive management approach to reduce the likelihood of an ethical, legal or regulatory breach impacting our business.

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 level 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. We also contribute our expertise on emerging national, regional and global needs.

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 Group Corporate Affairs 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
- 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 FY2022

- Management approved policy guidelines and an operational framework within which government relations are conducted. The business sustains harmonious relations with the governments in the countries where we manufacture and operate and with the relevant regulatory authorities
- Policy guidance was issued to the business to navigate issues such as the COVID-19 pandemic and the Russia/Ukraine conflict

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

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 and remotely
- The Chief Executive Officer and the Chief Financial Officer host results presentations and Q&A sessions and meet 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 2021
- Analyst and broker briefings, and reports of meetings with major or prospective shareholders, are circulated to Directors outside the formal Board meeting schedule
- In FY2022 the Board sought shareholder feedback on the best course of action on the use of the proceeds following the completion of the sale of Smiths Medical
- In FY2022 the Chair of the Remuneration & People Committee met with our top shareholders to discuss Smiths Remuneration Policy
- The Board considers its dividend policy and the UK Pensions Act 2021, prior to approving the payment of a dividend

OUTCOMES OF ENGAGEMENT IN FY2022

- The Board reaffirmed the Group's strategy including the Smiths Value Engine and focus on our three priorities of Growth, Execution and People
- The Board approved holding a Capital Markets Day in November 2021 to update investors and other stakeholders on the Group's strategy and medium-term targets
- The Board approved the planned creation of a Sustainability at Smiths Report
- The Board considered the Group's capital allocation and dividend policy in light of the cash proceeds received from the sale of Smiths Medical. The Board determined that the proceeds would be split between investment in growth and a significant return of capital to shareholders through a share repurchase programme
- The Board approved the payment of the final dividend for FY2021 and the FY2022 interim dividend



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 culture and Values support our efforts in these areas and are described on page 9.

Environment

We committed to ambitious Net Zero targets: Net Zero emissions from our operations (Scope 1 and 2) by 2040 and Net Zero emissions from our supply chain and products in use (Scope 3) by 2050. We also have longstanding commitments to use energy and other natural resources efficiently and minimise waste. The policies that support our approach include:

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

Employees

Our people are vital to the success of Smiths, and 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. The policies that support our approach include:

- Fair Employment Policy
- Global Mobility Assignment Policy
- Recruitment Policy

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 include:

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

Human rights and anti-bribery and anti-corruption

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. 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 anti-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. The Smiths Modern Slavery and Human Trafficking Statement and our Human Rights Policy can be found on our website.

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.

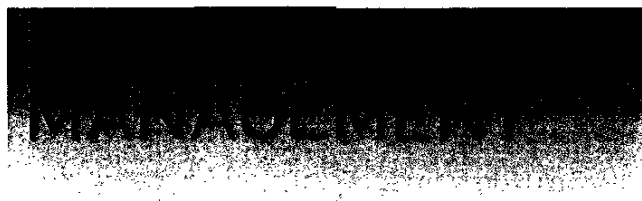
During FY2022 we continued to review the effectiveness of certain of our policies, including:

- Reviewing our ethics dashboard which enables us to interrogate our register of gifts, meals, and entertainment
- Requiring all colleagues to take a modern slavery awareness training module every two years
- Implementing a new Supplier Code of Conduct, including details of how third parties can report concerns to our 'Speak Out' hotline
- Updating the Human Rights Policy, including the commitment to ensure that recruitment agents are free from practices associated with human rights violations
- Creating a working group, comprised of divisional and Group Procurement leadership and the Ethics & Compliance team, to monitor and review procurement related modern slavery and human rights risks and controls
- Introducing micro-awareness videos that enable us to communicate quickly and effectively on issues that arise
- Conducting our third climate risk and opportunities assessment for the divisions and Group

Other information

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

- Business model on page 9
- Principal risks and uncertainties on page 47
- Non-financial KPIs on pages 22 and 23
- Task Force on Climate-related Financial Disclosures on page 35
- Viability Statement on page 54
- Sustainability at Smiths Report which can be found on our website



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 framework and ensuring that it is effectively deployed throughout the Group. The Executive Committee also ensures that the Board's risk appetite is understood by risk owners and decision-makers, ensures 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 (ERM) roles and responsibilities

3rd LINE OF DEFENCE

BOARD AND AUDIT & RISK COMMITTEE

- Approve the strategy and set the culture and risk appetite of the Group
- Review and assess the effectiveness of risk management and internal control systems
- Monitor through Board processes and good governance

INTERNAL AUDIT

- Independent assurance
- Provide 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

RISK AND COMPLIANCE FUNCTIONS

- Ensure risks are adequately managed
- 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's 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 continual assessment and management of risks – it is an integral part of day-to-day operations. Our Enterprise Risk Management (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 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 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 FY2022 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 FY2022 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; product quality; and contractual obligations. The Group's list of principal risks was also discussed and recalibrated by the Executive Committee.

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 49.

In addition, a further 32 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 remains an emerging risk and forms part of reporting and risk management in the business. During FY2022 we undertook 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 35.

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 included two new principal risks: Growth, reflecting our renewed focus on growth in our strategy; and environment, social and governance (ESG), reflecting an increased focus from investors, employees, customers and suppliers. We have removed our Group Portfolio risk with the completion of the sale of Smiths Medical. We have combined a number of risks including COVID-19 and Integrated Supply Chain into a Business Continuity risk; Customers and Markets risks into a Commercial risk; and Ethical Breach and Contractual Obligations into Legal and Compliance 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	  	Very High	Moderate	Possible	Years	*
2. ESG Failure to meet stakeholder expectations on environmental, social and governance obligations	  	High	Low	Possible	Years	*
3. TECHNOLOGY Technology disruption by existing or future competitor	  	Very High	Moderate	Probable	Years	—
4. PEOPLE Ability to attract and retain people		Moderate	Low	Possible	Months	^
5. BUSINESS CONTINUITY Business disruption to supply chain or operations		High	Moderate	Probable	Weeks	^
6. ECONOMY AND GEOPOLITICS Impact of economic and geopolitical environment		High	Moderate	Likely	Months	^
7. COMMERCIAL Loss of focus on customers and not competing in the right markets		High	Low	Possible	Years	—
8. PRODUCT QUALITY Failure of product causes serious harm to people/property		Moderate	Low	Probable	Weeks	—
9. CYBER SECURITY Impact of enterprise or product cyber event		High	Low	Probable	Days	—
10. LEGAL AND COMPLIANCE Significant ethical breach or failing to meet contractual obligations		High	Low	Possible	Days	—

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

	ORGANIC GROWTH	ESG	TECHNOLOGY	PEOPLE	BUSINESS CONTINUITY	ECONOMY AND GEOPOLITICS	COMMERCIAL	PRODUCT QUALITY	CYBER SECURITY	LEGAL AND COMPLIANCE
ORGANIC GROWTH		✓	✓	✓	✓	✓	✓	✓		
ESG	✓		✓	✓	✓		✓			✓
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

RISK OWNER

Divisional Presidents

TREND

✱ NEW RISK

The risk of not growing means we become less relevant and discounted by the market, resulting in erosion of shareholder value. A growth culture is a key component of the Group's strategy. Growth is a framework that drives the operational tasks, projects and initiatives of the Group. The Group's heritage depends on innovation, which presents numerous opportunities for growth that are constantly pursued. Companies that do not grow typically do not attract the most talented team members, as great people seek opportunities for advancement.

How this could impact our strategy or business model

- Material adverse effect on valuation
- Erosion of our reputation as a leader in our markets and of 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
- Securing and retaining the best talent to execute strategy and deliver organic growth
- Annual incentive programme to support profitable growth
- Annual strategic planning, budgeting process and monthly forecasting
- Ongoing investment in research and development to drive innovation and growth
- Smiths Excellence System in place to ensure effective execution

Examples of how we know the controls are working effectively

- Divisional performance and forecast reviews completed monthly
- Performance and KPIs monitored and tracked by the Board
- Functional reviews of Smiths Excellence and People strategies

2. ESG – Failure to meet stakeholder expectations on environmental, social and governance obligations

RISK OWNER

Chief Sustainability Officer

TREND

✱ NEW RISK

Environmental, Social and Governance (ESG) areas are essential matters for all companies and stakeholders. Failure to meet stakeholder expectations on increasing ESG obligations may expose the Group to reputational or financial risk. This includes risks associated with shifting investor sentiment, evolving customer requirements, supply chain trends, social attitudes toward the environmental impact of products, and our ability to attract and retain talent. Failure to act appropriately may well increase the magnitude of the risk over the long term.

How this could impact our strategy or business model

- Loss of key talent committed to working for a socially responsible and sustainable organisation
- Limit the number of debt and equity investors
- Adverse impact on the ability to meet customer expectations on sustainability performance
- Limiting the sustainable growth potential of our key business segments
- Failure to maintain strong controls and corporate governance on ESG-related non-financial metrics could lead to fraud or errors

Examples of how we manage this risk

- Report on ESG in a transparent way with appropriate verification activity, including publication of our first Sustainability at Smiths report in FY2022
- Science, Sustainability & Excellence (SSE) Committee of the Board established to oversee and support delivery of ESG targets and goals
- Sustainability strategy integrated to Group and division strategies, aligning and leveraging the Smiths Value Engine to deliver value for all stakeholders
- Executive management responsible for setting and delivering ESG goals
- ESG targets built into long-term and annual remuneration incentive plans
- Meet Task Force on Climate-related Financial Disclosures (TCFD) reporting requirements
- Committed to setting Science-Based Targets to meet Net Zero Scope 1 & 2 emissions by 2040 and Net Zero Scope 3 emissions by 2050; also set 3-year targets FY2022-24 for GHG, waste, water and renewable electricity

Examples of how we know the controls are working effectively

- SSE Committee meets four times a year to review progress
- Progress on environmental metrics
- All divisions engaged in product areas that support environmental performance of, and through, customers
- Strong scores for safety and ethical matters in the My Say employee survey

3. TECHNOLOGY – Technology disruption by existing or future competitor

RISK OWNER

Divisional Presidents

TREND

Differentiated products and services are critical to our success. We may be unable to maintain technological differentiation; to meet customers' existing needs or anticipate emerging demand trends; and may face disruptive innovation by a competitor. This could affect our strategy or business model through a material adverse effect on revenue, revenue growth or profit margin; erosion of our reputation as a technology leader in our markets; and our ability to attract and retain talent.

How this could impact our strategy or business model

- Material adverse effect on margin and profitable growth
- Erosion of our reputation as a leader in our markets and of our ability to attract and retain talent

Examples of how we manage this risk

- Proactive repositioning of the portfolio around the most attractive markets where we can sustainably hold a top three position based on technology leadership
- Diversified technology portfolio serving a range of sectors and geographies, mitigating exposure to any one sector or area
- Continuing and smarter investment in R&D (FY2022: 4.2% of Group revenue, FY2021: 3.9%)
- Focus on building a culture of innovation with a long-range technology roadmap for each division
- Focus on next generation and transformational initiatives
- New Product Introduction (NPI) process operating across divisions to accelerate projects

- Gross Vitality as a KPI
- Robust intellectual property (IP) protection via patents and other protections, and litigation where appropriate

Examples of how we know the controls are working effectively

- New product development progress is reviewed by the SSE Committee and is part of our internal performance indicator tracking system
- Adherence to NPI process is audited and embedded in systems with monthly 'pipeline' overview provided by divisions
- Technology roadmap is part of the Group strategic cycle

4. PEOPLE – Ability to attract and retain people

RISK OWNER

Chief People Officer

TREND

People are our only truly sustainable source of competitive advantage and competition for key skills is intense, especially around science, technology, engineering and mathematics (STEM) disciplines. We may not be successful in attracting, retaining, developing, engaging and inspiring the right people with the right skills to achieve our growth ambitions.

How this could impact our strategy or business model

- Inability to attract key talent leading to a loss of competitive advantage
- Difficulty in retaining personnel, at all levels of the organisation, leading to a loss of competitive advantage
- In acquisitions, losing key personnel from the newly-acquired business which may significantly impact performance and value

Examples of how we manage this risk

- Remuneration regularly evaluated against market trends
- Focus on Smiths Leadership Behaviours
- Introduction of technical engineering communities, technical career ladder, and early career programme
- Targeted talent and succession planning strategy
- Focus on onboarding and initial experience improvement
- Increase internal talent mobility
- Structured assessment, development, and reward programme
- Diversity and inclusion initiatives

Examples of how we know the controls are working effectively

- Formal and informal measures of culture, for example regular engagement surveys with follow-up action planning
- Remuneration & People Committee tracks key people metrics

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

RISK OWNER

Divisional Presidents

TREND



Major disruption to the Group's operations can result in failure to meet our customer needs. Timely, efficient supply of raw materials and purchased components is critical to our ability to deliver to our customers. Manufacturing and supply chain continuity is exposed to external events that could have significant adverse consequences, including natural catastrophes, civil or political unrest, changes in regulatory conditions, terrorist attacks and disease pandemics – this applies to our own manufacturing sites and those of our key component suppliers.

How this could impact our strategy or business model

- Inability to deliver products/solutions to customers, impacting financial performance and reputation

Examples of how we manage this risk

- Smiths Excellence System operating model delivers increased focus on resilient and cost-effective supply
- Business continuity and disaster recovery plans in place and tested for critical locations
- Regular evaluation of key sites for a range of risk factors using externally benchmarked assessments – risk reduction measures for critical products and dual manufacturing capabilities
- Mitigation plans for sole source suppliers, sub-contractors and service providers developed and deployed by divisions to include qualification of alternative sources of supply where appropriate
- Property damage and business interruption insurance

Examples of how we know the controls are working effectively

- Business continuity plans tested annually
- Risk mitigation plans reviewed and reported by divisions
- Business interruption risk surveys completed by an external provider for key operational sites
- Insurance requirements driven by the risk appetite of the Group and divisions are validated at least annually

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

RISK OWNER

Chief Financial Officer

TREND



The world is experiencing widespread global inflation and severe inflation in energy markets. The Russian invasion of Ukraine has resulted in new trade sanctions and introduced additional supply and pricing uncertainties to tight energy and commodity markets. China's approach to managing COVID-19 is further contributing to rising costs and disrupted supply chains. Central banks globally are raising rates in order to curb inflation. Smiths faces the risk of rising labour, material, and transportation costs which it may not be able to pass on through pricing. In addition, as central banks take action to curtail inflation, there is a risk of a regional or global recession which would pressure our revenue growth and profitability. Geopolitical tensions and trading bloc formation may further impact the free movement of capital, goods, and people and add volatility to our supply chains or constrain our market opportunities.

How this could impact our strategy or business model

- Significant and prolonged reduction in global demand for our products
- Geopolitical tensions relating to Russia, China, India, and the Middle East adversely impact trade
- Adverse impact on business performance due to the imposition of tariffs
- Governments continue to look for ways to improve tax revenues to ease fiscal budget pressures

Examples of how we manage this risk

- Diversified portfolio of businesses which mitigates exposure to any one country or sector
- Geographic spread which mitigates the impact of trade barriers between regions
- Divisions monitor order flows and other leading indicators so that they may respond quickly to deteriorating trading conditions and tariffs/barriers to free trade
- Representation of our interests by the Group Corporate Affairs team
- Network of trade compliance officers across the Group who monitor upcoming changes in regulation and oversee import and export activities

Examples of how we know the controls are working effectively

- Cost and price inflation are tracked and actively managed monthly
- Order tracking reported and monitored
- Business indicators reported weekly

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

RISK OWNER

Divisional Presidents

TREND

Our markets are evolving at a fast pace, creating potential for customers to change their business models as they look to deliver products and services at higher quality, with better service and at lower cost. Failure of the Group to keep pace with customer changes/requirements (innovation, go-to-market strategies) could have a materially adverse impact on Group performance. A significant proportion of our revenue comes from the US and European markets, with a notable proportion coming from governments. In addition to geographical markets, there is a risk that we do not focus on attractive sectors where we have, or could have, a sustainable position. The Group's growth strategy is expanding our operations in developing/higher-growth markets – particularly markets that are underserved in Asia Pacific.

How this could impact our strategy or business model

- Failure to develop other markets and geographies impacts strategic progress and financial performance
- Significant disruption to government budgets results in fewer contracts being awarded to Smiths, impacting financial performance
- Loss of market share and adverse impact on Group results

Examples of how we manage this risk

- New product innovation feedback through market research and direct feedback from existing and potential customers
- A diversified portfolio of businesses mitigates exposure to any one country, sector or customer
- Growth strategy which places emphasis on expanding operations in higher-growth markets and regions which are currently underserved, including Asia

- Strategic process to capture continuing opportunities in current and adjacent markets
- Government relations function which collaborates with colleagues across the Group to advise on developments

Examples of how we know the controls are working effectively

- Strategic review process; divisional deep dives
- Customer input gathered on a frequent basis
- Strong and long-term customer relationships provide assurance
- Managing Director councils established in India and China

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

RISK OWNER

Divisional Presidents

TREND

The mission-critical nature of many of our products, services and solutions makes the potential consequences of failure more serious than for other businesses. In the ordinary course of business, we are potentially subject to material product liability claims and lawsuits, including potential class actions, from customers or third parties. Internal risks can originate from inadequacies or insufficiencies in processes for procurement of materials and components, change control, manufacturing, internal quality systems, adaptation to changing industry regulations, and systems maintenance and compliance. External risks can result from failure to manage product certification and compliance, inspections and audits or challenges to product registrations or certifications, which can lead to inability to bid for business and/or sell products and ultimately regulatory action and fines.

How this could impact our strategy or business model

- One of our businesses or Smiths, as a whole, has its reputation damaged leading to a loss of customers/future business
- Material harm caused to people or property and/or business interruption for customers due to quality issues, design defects, manufacturing failures, component failures, etc results in reputational damage, loss of business and higher costs beyond (costed in) warranty claims
- Contractual claims for penalties, indemnities, and damages and also product liability claims arising from end-users and other affected third parties (potentially large class)

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 partner to ensure contracts (and supplier flow downs) cover insurance issues and claims are notified
- Contracting and litigation managed under the oversight of the Group General Counsel with regular reporting to Executive Committee and Board

Examples of how we know the controls are working effectively

- Quality measures (e.g. defective parts per million (DPPM) and cost of poor quality (COPQ)) are measured and action plans put in place to drive their improvement – these are regularly reported
- Group and divisional governance frameworks (including Delegation of Authority) ensure a close working relationship between legal and commercial teams (including quality) to manage risks
- Fewer quality issues at launch of new products

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

RISK OWNER

Chief Financial Officer

TREND

Cyber attacks seeking 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 intensify the risk and the number of areas under potential attack.

How this could impact our strategy or business model

- Compromised confidentiality, integrity and availability of our assets resulting from a cyber attack, impacting our ability to deliver to customers and, ultimately, financial performance and reputation
- Exposure to significant losses in the event of a cyber security breach, particularly relating to our security products. These 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 approach to mitigating cyber risk
- Proactive focus on information and cyber security risks supported by a strong 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 vulnerability controls
- Mandatory staff training
- Compliance with recognised standards

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

RISK OWNER

Group General Counsel

TREND

We have more than 14,700 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

- Ethics or compliance breach causes harm to our reputation, financial performance, customer relationships and our ability to attract and retain talent
- Failure to comply with trade compliance (import and export) leads to significant fines and/or delays procurement or supplies
- Failure to meet strict conditions within government contracts, particularly in the US, could prevent us 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

- 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 and other mandatory training for all employees on-line and in person training with process for monitoring and reporting compliance
 - Policies and process to mitigate risks including policies and procedures to mitigate distributor and agent-related risks, including due diligence, contractual controls and internal approvals
 - Anti-trust training programmes and guidance and dawn raid processes
 - 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 sources 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 results of the 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



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 5 to 55. The financial position of the Company, its cash-flows, liquidity position and borrowing facilities are described on pages 15 and 16. 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 2022 the net debt of the Group was £150m, a £872m decrease from 31 July 2021. At the end of July, the Group had available cash and short-term deposits of £1,056m. These liquid resources are immediately available with 99% invested with the Group's global banking partners. The Group's debt profile shows an average maturity of 2.5 years (from 3.2 years at 31 July 2021), with the next debt maturity being the €600m Eurobond in April 2023.

The Group maintains a core US\$800m committed revolving credit facility from these banks which matures in November 2024. The facility was undrawn at 31 July 2022 and has not been drawn since its last renewal in November 2017. This facility has an interest cover financial covenant. However, this is not forecast to prevent utilisation at the Group's discretion if required.

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 47 to 53 (the 'viability assessment').

The Directors have determined that a three-year period to 31 July 2025 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 cyclical nature 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 2023 and forecasts for 2024 and 2025. Against these financial projections, the Directors took into account the principal risks (as outlined on pages 48 to 53) 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:

- FY2023 forecasts are based on the detailed operating plan reflecting the actual FY2022 performance
- FY2024 and FY2025 are based on forecast percentage growth rates from the FY2023 forecast
- The severe but plausible downside scenario for the recurrence of COVID-19 disruption has been modelled assuming a significant decline in demand and supply chain disruption (as outlined in Scenario 1 on page 55)
- No mitigating activities such as further restructuring or the access to additional financing have been reflected in the forecast estimates

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.

Based on the robust assessment, the Directors confirm that 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

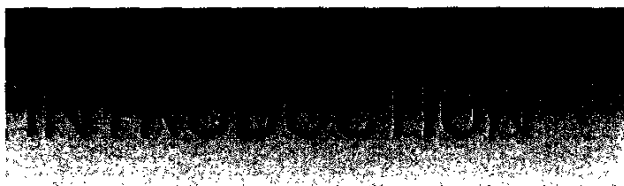
Scenarios	Link to principal risks	Scenario-specific assumptions
Scenario 1 A global event, such as a significant COVID-19 resurgence lockdown, leads to the enforced closure of key production sites for a 2-3 month period with ongoing supply chain disruption, low customer demand and recessionary circumstances extending into the following year.	Business continuity and Economy and geopolitics	<ul style="list-style-type: none"> – 20% fall in revenue across the Group in FY2023 and a 10% fall in FY2024 compared to the base case. – 65% reduction in operating profit in FY2023 due to plant closures, customer and supply chain disruption and a 35% fall in FY2024. – 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	<ul style="list-style-type: none"> – Legal defence costs of £20m per annum plus a one-off payment of £100m in FY2023 in settlement of deceased's 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 3-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 FY2023 in settlement of the losses claim. – Insurance claim rejected.
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 divisions.	Cyber security	<ul style="list-style-type: none"> – Immediate loss of all US based Government contracts within Smiths Detection. – 25% fall in other Smiths Detection revenue over FY2023. – Loss of 50% of Interconnect's North America revenue. – Legal defence costs of £10m per annum. – £100m fine levied by US Government for security breach. – £50m compensation paid to US Government in FY2023 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 are 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	<ul style="list-style-type: none"> – Regulatory fines globally amounting to £100m. – Loss of all future revenue in both China and Japan. – 10% sales erosion in 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	<ul style="list-style-type: none"> – Loss of six months EMEA revenue and margin in FY2023. – 20% reduction in future (FY2024 and FY2025) 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 FY2023. – Refurbishment and repair costs of £50m in Czech Republic (net of insurance claims). – Costs of increasing capacity at 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 22 September 2022.

By order of the Board

Paul Keel
CHIEF EXECUTIVE OFFICER

Paul Keel



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.

Following the COVID-19 disruption that so many of us suffered, this year we returned to face-to-face Board and Committee meetings and have had the opportunity to engage with and hear from many of our colleagues in person. This included a Board visit to our Flex-Tek operation in Portland, Tennessee. There is no substitute for meeting people to recognise the challenges they face, the aspirations they hold and the culture within which they operate. Understanding key components like these help the Board support a healthy business. It was also good to see, and for me to personally meet with, some of our shareholders at our Capital Markets event and the AGM last November.

The Board took some critical strategic decisions during the year, including the decision to sell Smiths Medical to ICU Medical, Inc. The transaction completed in January, and we wish our former Smiths Medical colleagues every success moving forward. More information can be found on page 61. Board succession planning has also been a key focus this year. The Board made the decision to appoint Clare Scherrer as Chief Financial Officer in April, and to appoint Richard Howes as an independent Non-executive Director in September 2022. The Board now comprises six males and five females, two Directors from historically under-represented ethnic groups and seven with a birthplace or background outside the UK. More information can be found in the Nomination & Governance Committee Report on page 66. 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 58 and 59.

03 Governance

56-92

UK Corporate Governance Code Compliance

In FY2022, 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) in full, as explained throughout this Report. A copy of the Code is available from the Financial Reporting Council's website at frc.org.uk. Further information on compliance with the Code can be found as follows:

Board Leadership and Company Purpose	57
Division of responsibilities	62
Evaluation, composition and succession	64
Audit, risk and internal control	69
Remuneration	75

Having 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. During the year the Board agreed to the formal constitution of three new Committees: the Science, Sustainability & Excellence Committee; the Remuneration & People Committee; and the Finance Committee which each evolved from the previous Remuneration and Transaction Committees respectively.

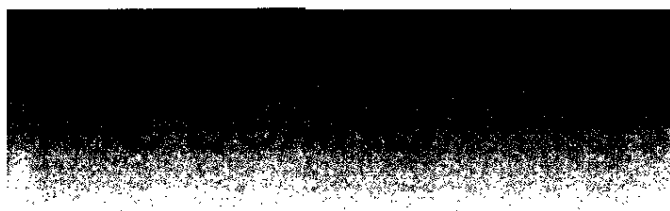
These new Committees allow for greater oversight in the areas of innovation, sustainability, people and financial agility to help better support the Smiths Value Engine, that connects our Purpose, our strengths and our priorities of Growth, Execution and People.

Finally, I would like to thank the Smiths workforce and my fellow Directors for their work on shareholders' behalf this year. In particular, I would like to thank Tanya Fratto who will be retiring from the Board at the conclusion of the 2022 AGM. During her tenure, Tanya has provided an invaluable contribution to the Company and I would like to thank her for her wise counsel and humour along the way. On behalf of the Board, I would also like to thank John Shipsey for his service to Smiths as Chief Financial Officer until April this year.

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

BOARD LEADERSHIP AND COMPANY PURPOSE



The primary role of the Board is to lead Smiths in a way that ensures its long-term 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 our 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 below. The Terms of Reference for these Committees, which were reviewed during the year, can be found on our website www.smiths.com.

Governance model

BOARD

BOARD COMMITTEES

Nomination & Governance 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.

 **P 66** [READ MORE](#)
Committee Report

Audit & Risk Committee

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 re-appointment of the external auditor.

 **P 69** [READ MORE](#)
Committee Report

Remuneration & People Committee

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.

 **P 75** [READ MORE](#)
Committee Report

Science, Sustainability & Excellence Committee

Oversees the Group's culture and approach to science, sustainability and excellence (SSE). This includes reviewing the scientific and technology strategy, innovation, research and development; overseeing the Group's sustainability strategy; overseeing the Smiths Excellence System; and reviewing and determining SSE targets, metrics and KPIs relating to remuneration.

 **P 89** [READ MORE](#)
Committee Report

Finance Committee

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.

This Committee evolved from the Transaction Committee which previously focused on supporting the Smiths Medical sale.

 **SEE MORE**
www.smiths.com

EXECUTIVE MANAGEMENT COMMITTEES

Executive Committee

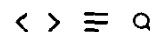
Assists the Chief Executive Officer in discharging his responsibilities and is collectively responsible for implementing strategy, ensuring consistent execution and embedding the culture and Values.

Investment Committee

Assesses high-value and high-risk proposals, capital expenditure, asset disposal and special revenue expenditure projects which require Chief Executive Officer or Board approval.

Disclosure Committee

Advises the Chief Executive Officer and the Board on the identification of inside information, and the timing and method of its disclosure.



BOARD BIOGRAPHIES

Sir George Buckley

Chairman

Appointed: 1 August 2013



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. During the year, Sir George provided invaluable leadership on the sale of Smiths Medical alongside his support of the Finance Committee. 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 delivering results in innovation-led and diversified global industrial technology businesses. His international experience positions him well to allow Smiths to deliver on its significant potential. He is a graduate of Carleton College and Harvard Business School.

Career experience: Prior to joining Smiths Paul worked at 3M Company between 2004 and 2020, within the US and UK. During this period, he led a number of global businesses including the \$5bn revenue Consumer Business Group and several industrial businesses ranging in size from \$400m in revenue to over \$1bn. He also led a number of enterprise functions including Manufacturing and Supply Chain, Marketing and Sales, Strategy and Business Development. In the short period between 3M and Smiths, Paul completed a variety of consulting projects. Paul's other experience includes roles of increasing responsibility at General Electric, McKinsey & Company and General Mills.

Clare Scherrer

Chief Financial Officer

Appointed: 29 April 2022. Clare will stand for election at the 2022 AGM

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.

Pam Cheng

Non-executive Director

Appointed: 1 March 2020



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 Bachelor of Science 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, Operations and Information Technology at AstraZeneca plc, a multinational pharmaceutical and biopharmaceutical company. Prior to joining AstraZeneca in 2015, Pam was President of MSD (Merck & Co., Inc.) in China. Pam has also previously 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



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.

Tanya Fratto

Non-executive Director

Appointed: 1 July 2012. Tanya will retire from the Board at the conclusion of the 2022 AGM



Skills and experience: In addition to her experience in manufacturing and operations, Tanya brings insight into product innovation, sales and marketing across a range of sectors and an extensive knowledge of operating in the US, to Board discussions. As one of the longest serving members of the Board, she has a deep knowledge of the Group. She is a qualified electrical engineer and has a BSc in Electrical Engineering.

Career experience: Tanya has had a successful career running businesses over 20 years with General Electric Corporation, a multinational conglomerate. Prior to joining the Smiths Board, she was the CEO of Diamond Innovations Inc, a manufacturer of industrial diamonds. Tanya also served as a non-executive director on the Board of Mondi plc from 2017 to May 2022.

Other significant appointments: Non-Executive Director of Advanced Drainage Systems, Inc. and Ashtead Group plc.

Key



Audit & Risk Committee



Remuneration & People Committee



Finance Committee



Committee Chair



Nomination & Governance Committee



Science, Sustainability & Excellence Committee



Independent Director or in the Chairman's case independent on appointment



Karin Hoeing

Non-executive Director

Appointed: 2 April 2020



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 has also provided valuable assistance and advice in executive and non-executive succession planning and 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.

Richard Howes

Non-executive Director

Appointed: 1 September 2022. Richard will stand for appointment at the 2022 AGM



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 Chartered 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



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 Chair of the Remuneration & People Committee on 1 July 2018, and as Senior Independent Director at the 2018 AGM. Bill has been Chair 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 shareholders 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: Senior Independent Director at Spectris plc and Lecturer at UCLA Anderson School of Management.

Mark Seligman

Non-executive Director

Appointed: 16 May 2016



Skills and experience: Mark's extensive experience in corporate finance and capital markets supports Board discussion of the Group's portfolio management and strategy. He provided significant counsel during the sale of Smiths Medical through his support of the Transaction and now Finance Committee. Mark also brings non-executive experience to the Board, having served as senior independent director and audit committee chairman at several FTSE100 companies. Mark is a Chartered Accountant and 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. Mark served as a non-executive director on the Board of Kingfisher plc from 2012 to January 2021.

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



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 re-appointed 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.

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 FY2022

John Shipsey stepped down from the Board and as Chief Financial Officer in April 2022. His biography can be found in our FY2021 Annual Report.



READ MORE
The biographies of the Executive Committee members can be found on our website

Key

A Audit & Risk Committee

R Remuneration & People Committee

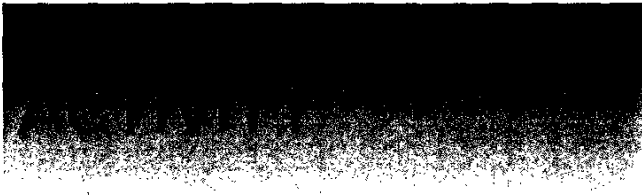
F Finance Committee

○ Committee Chair

N Nomination & Governance Committee

S Science, Sustainability & Excellence Committee

I Independent Director or in the Chairman's case independent on appointment



During FY2022, 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 for the Board during the year are set out below.

Purpose

- Ensured that our focus on strategy and business decisions aligned with our Purpose

Strategy

- Reaffirmed the Group strategy, including the Smiths Value Engine and focus on our three priorities of Growth, Execution and People
- Endorsed the refreshed divisional strategies and implementation of the new in-market operating model for China
- Completed deep-dives on the implementation of each division's strategy providing constructive feedback and guidance
- Ensured stakeholder considerations were embedded in discussions and decision-making through enhanced reporting from each of the divisions
- Approved a new sustainability strategy
- Agreed the sale of Smiths Medical to ICU Medical, Inc (ICU) and the subsequent £742m share buyback programme
- Supported the relaunch of the Smiths Excellence System (SES)
- Discussed and considered opportunities for inorganic growth

People, Values and culture

- Approved a workforce engagement strategy where individual Non-executive Directors have been allocated divisional or functional and geographic areas of responsibility in order to reflect the global nature of our business and international composition of our Board. The Senior Independent Director is the designated Non-executive Director responsible for workforce engagement and oversees this activity
- Received updates from the Non-executive Directors on their workforce engagement activities. This included Dame Ann Dowling's visits to the Smiths Detection Hemel Hempstead site and to a Service Team on-site at a large customer; Pam Cheng's visits to the Flex-Tek Tutco and Gastite operations; Mark Seligman's visit to the Qualification and Test laboratory at Interconnect's Dundee site; and Bill Seeger and Karin Hoeing's attendance at colleague meetings about Ethics and Compliance and ESG
- Conducted one-on-one and group online meetings between Directors and employees during the COVID-19 pandemic. This ensured that Directors stayed in touch with the Group's employees given that many were working from home
- Received a report from the new Chief People Officer on her key observations since joining the Company and priorities for the new People strategy
- Supported the Executive Committee in the launch of the new Smiths Leadership Behaviours to guide how we want our people to act in support of our culture
- Oversight of the Assessment, Develop and Reward Project to align key elements of Smiths HR processes with the three priorities of Growth, Execution and People
- Received regular updates on employee engagement, the Group's pension arrangements and health and safety

Succession and leadership

- Focused on Board succession planning and key roles within the business
- Approved the appointment of a new Chief Financial Officer and Non-executive Director
- Approved changes to the Executive Committee, including the appointment of seven new members
- Reviewed senior management succession plans and the talent pipeline across the Group

Finance

- Considered business performance through a series of divisional deep-dives at Board meetings
- Reviewed and approved the Group's results announcements and the FY2021 Annual Report
- Supported the de-risking of the TI Group Pension Scheme by way of a £640m bulk annuity buy-in. The Board considered and declined the request from the SI Pension Scheme Trustees to pay enhanced member benefits
- Approved the final dividend for FY2021 and the FY2022 interim dividend
- Considered the feedback from stakeholders on the Capital Markets event held in November 2021
- Other key matters considered by the Audit & Risk Committee are set out on pages 71 and 72

Governance and risk

- Received updates on our principal risks
- Ongoing oversight of our internal controls in order to ensure an effective control environment
- Continued monitoring of risk management and internal controls by the Audit & Risk Committee, including deep-dives from the divisions on supply chain and product quality
- Approved and provided oversight of the Ethics and Compliance annual work programme
- 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 64 and 65
- Approved the establishment of the Science, Sustainability & Excellence Committee and the evolution of the Remuneration & People Committee and the Finance Committee
- Established a forward agenda focused on strategy and a deep-dive programme to ensure regular reviews of key areas of focus

Principal decisions

Having an effective and diverse Board has enabled high quality discussions ahead of executing several key decisions during the year. The Board engages with stakeholders where relevant and takes their interests into account when making decisions. Below are examples of the principal decisions taken during the year. Further examples of how stakeholder views have been considered in the boardroom can be found on pages 41 to 44.

Sale of Smiths Medical to ICU

Smiths Medical was sold to ICU on 6 January 2022. However, the separation of Smiths Medical had been a key focus of the Board since 2018. The Board had determined that the separation of Smiths Medical would enable Smiths to concentrate on growing as a leading industrial technology group and enable Smiths Medical to focus on realising its full potential in the medical device market.

Stakeholders were a key consideration during the decision-making process. The Board actively engaged with all options to maximise value for all stakeholders and to provide the Company with an enhanced platform for future growth. This led to the Board approving the sale of Smiths Medical to ICU. Another key Board decision was the use of the proceeds once the sale had completed. The Board sought shareholder feedback on the best course of action and determined that the proceeds would be split between investment in growth and a significant return of capital to shareholders through a share buyback programme.

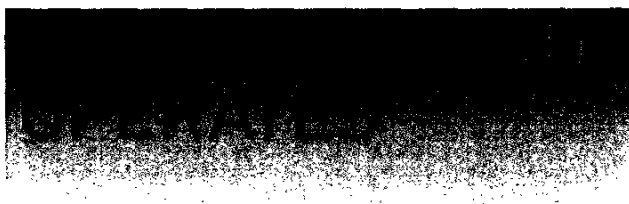
More information can be found on the website.

Reaffirming the Group's strategy

Paul Keel joined the Board in May 2021 as the Group's Chief Executive Officer. His first objective was to review the Group's strategy, what was working well and where opportunities existed. In his first six months, Paul visited more than a dozen of Smiths largest operations around the world. To seek feedback he met with some of the Group's suppliers and customers and Smiths largest investors. Paul reported his findings back to the Board and the new priorities, being accessing growth, improving execution and doing more to inspire and empower our people, were discussed and endorsed by the Board. The Capital Markets event in November 2021 successfully communicated to shareholders and other stakeholders the Group's strategy, including our ESG priorities and how each of the divisions were accelerating growth and value creation. At the Board's strategy meeting in May 2022, the Board had the opportunity to review in detail and challenge the refreshed divisional strategies and the new in-market operating model for China.

The Board also decided to make several governance enhancements to support the strategy. This included the creation of the Science, Sustainability & Excellence Committee to oversee the Group's approach to science, sustainability, and excellence, including R&D, commercialisation, and sustainability strategies. As well as the evolution of the Remuneration & People Committee to support the People priority in the Smiths Value Engine. In addition, it was agreed that the Finance Committee would oversee the Group's sources and uses of cash including its approach to portfolio activity, evolving from the Transaction Committee which focused on supporting the Smiths Medical sale. Finally, to support accelerated growth and deliver on Smiths significant potential, the Board approved a number of changes to the Executive Committee.

DIVISION OF RESPONSIBILITIES



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 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 FY2022 is set out on page 63.

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 consults with the other Non-executive Directors without the Chairman present at least annually, to assess the performance of the Chairman.

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

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 FTSE100 company, or any other significant appointment. Any appointment to other directorships are reviewed in advance by the Board for conflicts and time commitment considerations.

In FY2022 the Board concluded that the Chairman and the Non-executive Directors devoted sufficient time to fulfil their commitments to Smiths. 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 59. 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 FY2022, 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	Nomination & Governance Committee	Audit & Risk Committee	Remuneration & People Committee	Science, Sustainability & Excellence Committee	Finance Committee
Sir George Buckley	10/10	5/5	–	4/4	3/3	7/7
Paul Keel	10/10	–	–	–	–	–
John Shipsey ¹	7/8	–	–	–	–	–
Clare Scherrer ¹	2/2	–	–	–	–	–
Pam Cheng ²	9/10	4/5	3/4	3/4	3/3	–
Dame Ann Dowling	10/10	5/5	4/4	4/4	3/3	–
Tanya Fratto	10/10	5/5	4/4	4/4	–	–
Karin Hoeing	10/10	5/5	–	4/4	3/3	–
Bill Seeger	10/10	5/5	4/4	4/4	–	7/7
Mark Seligman	10/10	5/5	4/4	4/4	–	7/7
Noel Tata	10/10	5/5	4/4	4/4	–	–

1 On 29 April 2022 Clare Scherrer was appointed to the Board and John Shipsey stood down as a Director. John Shipsey did not attend the meeting where his ongoing appointment was discussed.

2 Pam Cheng was unable to attend the March Board and Committee meetings due to personal circumstances. Pam Cheng provided her comments and input on the matters under consideration to the Chairs of the relevant forums prior to the meetings being held.

EVALUATION, COMPOSITION AND SUCCESSION



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.

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

Following the externally facilitated evaluation in FY2021, the FY2022 evaluation was carried out internally. Independent Audit Ltd, who have supported the evaluation process since FY2019, but have no other connection to the Company, assisted with the interpretation of the results of a self-assessment questionnaire issued to the Board. The actions following the FY2022 evaluation have been grouped in four themes: strategic decision making; succession planning; Board communication; and stakeholder engagement and are set out below. Overall, the Board agreed that significant progress had been made since the external evaluation. It is the present intention that the FY2023 evaluation will be internally facilitated.

Board evaluation findings and actions

STRATEGIC DECISION MAKING

FY2021 external evaluation findings

- Seek to reach a clearer consensus on the Group-wide strategic objectives and how the Company will achieve them
- Ensure the Remuneration Committee has a balanced focus on both financial and non-financial considerations

Action taken in FY2022

- Following the appointment of Paul Keel the corporate strategy and communications plan for the Group post the sale of Smiths Medical were re-evaluated by the Board and reaffirmed. The strategy and accompanying KPIs are described on pages 10 and 21 to 23 respectively
- The Company held a Capital Markets event in November 2021
- Enhanced 5 year strategic planning discussions were held with Group and divisional leadership, with a focus on delivering the strategic objectives in line with the Smiths Value Engine
- *Non-financial incentive measures for management* are now part of Executive Director and senior management incentive arrangements

FY2022 evaluation findings and actions for FY2023

- Greatly enhanced strategic discussions were held during the year resulting in clearer alignment on the Group's strategic priorities. Going forward, the areas of focus would be greater visibility of macro conditions, external markets and the impact or opportunities arising from technology. The appointment of a Chief Sustainability Officer and the development and embedding of a sustainability strategy were particular improvements
- When formulating its agendas, the Board will encourage increased time for strategic deep-dives to underscore the Board focus on organic growth

SUCCESSION PLANNING

FY2021 external evaluation findings	Action taken in FY2022	FY2022 evaluation findings and actions for FY2023
<ul style="list-style-type: none"> – Hold regular discussions between the Non-executive Directors and Chief Executive Officer on his own to discuss senior management succession and development – Continue the Board's engagement activities with key talent across the Group – Prepare for the transition of the Chairman and Senior Independent Director roles in the next few years 	<ul style="list-style-type: none"> – Executive and non-executive succession planning was a key focus during the year with the Board approving a number of Executive management changes – The Chief Executive Officer updated the Board on enhanced talent and succession planning for senior leadership roles – Chair succession planning commenced led by the Senior Independent Director – The Board continued its interaction with high-potential employees to improve their understanding of the internal 'bench strength' with virtual and in person one-to-one talent spotlights frequently taking place – Face-to-face exposure at Board and Committee meetings for high-potential talent within the Group was reintroduced once travel restrictions were lifted – The Board visited Flex-Tek's operation in Portland, Tennessee and met with members of the Flex-Tek leadership team 	<ul style="list-style-type: none"> – Board succession planning for non-executive positions was identified to be a key focus for consideration during the year – Changes to the Executive management team were well managed and succession planning oversight had been enhanced significantly – Further focus would be arranged 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

BOARD COMMUNICATION

FY2021 external evaluation findings	Action taken in FY2022	FY2022 evaluation findings and actions for FY2023
<ul style="list-style-type: none"> – More frequent updates for the Board as the Smiths Medical separation transaction progressed were requested – Consider the scheduling of Committee meetings and holding hybrid meetings – Continue to improve the timeliness of Board information – Structure Chief Executive Officer and Chief Financial Officer reports to tie in more closely with progress on strategic priorities of the business 	<ul style="list-style-type: none"> – Regular updates on the Smiths Medical sale were provided through the formation of the Transaction Committee which met eight times during FY2022 prior to its formalisation as the Finance Committee (which met a further seven times) – The Board continued to identify opportunities to improve communication between itself and Group executives. The new ways of working which were adopted during the pandemic were retained with one Board meeting and a number of Committee meetings held remotely or partially remotely to reduce international travel. This promoted good governance through agile and timely decision making – The new processes introduced to facilitate early stage information flows and ensure that the Non-executive Directors (specifically the Chairman and Committee Chairs) had the opportunity for earlier input into Board and Committee papers were further evolved and briefing processes refined 	<ul style="list-style-type: none"> – Significant improvements were evidenced at Board meetings both in the quality and timeliness of Board and Committee materials and also the openness and quality of debate arising therefrom – Meeting dynamics had improved leading to better conversations – The success of the Transaction Committee led to the formalisation of its activities with the establishment of the Finance Committee. This helped to improve information flows and decision-making and guidance in an agile manner – Remote or hybrid meetings will continue and the organisation of Board and Committee meetings works well

STAKEHOLDER ENGAGEMENT

FY2021 external evaluation findings	Action taken in FY2022	FY2022 evaluation findings and actions for FY2023
<ul style="list-style-type: none"> – Restructure the Board's interaction with stakeholders with more focus on ESG, employee engagement and hearing customer and supplier perspectives – Transfer the role of designated Non-executive Director for employee engagement from the Senior Independent Director to another Non-executive Director 	<ul style="list-style-type: none"> – A stakeholder map has been developed – A Director workforce engagement strategy was developed with individual Non-executive Directors being allocated divisional or functional and geographic areas of responsibility. Oversight is provided by the Remuneration & People Committee – The Science, Sustainability & Excellence Committee was established, which provided oversight for many activities connected with the Group's stakeholders 	<ul style="list-style-type: none"> – The Board acknowledged that continued focus on ESG, people, talent, culture and suppliers was critical, and that the ongoing focus on the successful establishment of the Science, Sustainability & Excellence Committee's role were key

GOVERNANCE COMMITTEE REPORT

Chairman's statement

I am pleased to present the Committee's report for FY2022. The Committee has delegated responsibility from the Board to review the structure, size and composition of the Board and its Committees, and to ensure that they are fit for purpose.

The Board wholeheartedly supports the principles of the FTSE Women Leaders Review and the Parker Review on gender and ethnic diversity and we were delighted to recommend the appointment of a new Chief Financial Officer. We were also pleased to recommend a new Non-executive Director to the Board. When making these recommendations, we considered the balance of skills, knowledge and experience on the Board. Diversity of gender, social and ethnic background of the Directors are also important considerations along with country of origin to ensure the continued international diversity of the Board. We also take into account the Group's strategy, business performance, current and future leadership needs, challenges and opportunities.

We oversaw the senior management succession pipeline and planning and during the year we approved the appointment of seven new Executive Committee members. At least once a year we review senior management succession plans and the quality of the talent pipeline across the Group.

Periodically we review the Board's governance framework. This year we recommended establishing the Science, Sustainability & Excellence Committee, and decided to change the terms of reference of the Remuneration Committee to ensure more focus on people. The Finance Committee was formalised and focuses on the sources and use of cash including portfolio activity, changes to capital structure and budgetary planning.

More information about our activities can be found on the following pages. I would like to thank my fellow Committee members for their continued hard work over the period.

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 58, 59 and 63.

The Chief Executive Officer is normally invited to attend Committee meetings and attended all but one of the meetings in FY2022. Other members of senior management are invited to attend as necessary.

Committee performance evaluation

In FY2022, 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.

Committee activities

Board succession

The Board has a duty to keep succession plans under regular review. The Non-executive Directors, without the Chairman present and led by the Senior Independent Director, discussed the succession arrangements for the Chairman who reached his nine-year anniversary since appointment on 1 August 2022. Following the appointment of Paul Keel, the Committee agreed and the Board supported that Sir George Buckley should be invited to remain as Chairman to oversee a period of significant strategic change for the Group. Board succession will continue to be a key focus during FY2023.

Tanya Fratto is stepping down from the Board at the conclusion of the 2022 AGM, and the Chairman led the search for a Non-executive Director to replace her. The Committee recommended the appointment of Richard Howes to the Board, and he joined as a Non-executive Director on 1 September 2022. As with all Board appointments, there was a formal, rigorous and transparent process, involving all Directors and with recommendations based on the merit of the individual candidates. Buchanan Harvey & Co. were used as executive search consultants. The firm has no other connection to Smiths and is a signatory to the Voluntary Code of Conduct on Gender Diversity.

The Chairman and the Chief Executive Officer carried out the search process for the role of Chief Financial Officer without the formal support of an external search firm. Multiple candidates were considered. The Committee was intimately involved in this process and was regularly updated on progress. Clare Scherrer, who was well known to the Company, was identified as being the preferred candidate. Clare previously worked for 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. Clare has extensive experience working with a broad range of industrial companies around the globe, accelerating growth and increasing value. She has particularly relevant experience in the sectors in which Smiths operates.

The Committee considered that it was in the best interests of the Group and its stakeholders to recommend to the Board that Clare Scherrer be appointed as Chief Financial Officer with effect from 29 April 2022. John Shipsey stepped down as Chief Financial Officer and from the Board of Smiths Group with effect from 29 April 2022. His remuneration arrangements were approved by the Remuneration & People Committee.

Diversity

Smiths Board is highly diverse. It supports the principles of the *FTSE Women Leaders Review* and *Parker Review on 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 the 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 uses the services of executive search firms who have signed up to the Voluntary Code of Conduct on Gender Diversity. This applies to management positions, not just to the Board. Executive search firms are also required to ensure non-UK nationals, women and candidates from historically under-represented ethnic groups are represented on the shortlist for all Board positions.

The Board meets all of its diversity targets, the FTSE Women Leaders Review target of 40% representation of women on FTSE 350 Boards, the Parker Review recommendation for FTSE 100 companies to have one director of ethnic diversity, and the Financial Conduct Authority's Listing Rule whereby at least one senior board position is held by a woman.

Diversity information for the Board, Executive Committee, senior managers and the Group as a whole can be found on page 33. The Board extends its work on diversity to senior leadership positions in the business and across the Group. The Board Diversity Policy was reviewed during the year and can be found on our website www.smiths.com.

Governance

The Committee is responsible for keeping the Board's governance framework under review. In FY2022 the Committee recommended the establishment of the Science, Sustainability & Excellence Committee to oversee the Group's approach to science, sustainability and excellence, including R&D, commercialisation, and sustainability strategies. It also reviewed the operation of the Remuneration Committee and its oversight of the Group's wider People-related activities, and recommended its evolution into the Remuneration & People Committee. In addition the Committee recommended the evolution of the Transaction Committee into the Finance Committee, with responsibility for oversight of the Group's sources and uses of cash including portfolio activity, changes to capital structure and budgetary planning.

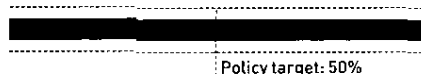
During the year the Committee reviewed the Board skills and experience matrix, Board Diversity Policy and its own Terms of Reference. The Committee also considered Director engagement with stakeholders, including the workforce, before this responsibility moved to the Remuneration & People Committee.

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 plan is tailored to provide the individual Director with the necessary knowledge and understanding of the Group, based on their personal experience and background. Given her already extensive knowledge of Smiths, for Clare Scherrer this included meeting with key stakeholders including investors, advisers, the external auditor KPMG and receiving briefings on the role and responsibilities of being a listed company director. Clare Scherrer has also visited numerous Group operations in the US and Europe. The induction programme for Richard Howes has similarly been tailored to his experience and is currently underway.

Diversity Performance

BIRTHPLACE OR BACKGROUND



Policy target

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

GENDER



Policy target

At least 40% of the Board to be female

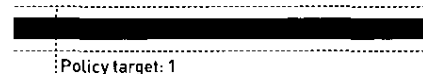
Policy target by 2025

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

Current composition

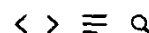
Female Chief Financial Officer

ETHNICITY



Policy target

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



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.

Further to the sale of Smiths Medical to ICU, in which the Group holds a 10% stake, Bill Seeger was provided with specific training in connection with his duties as a US Company Director and potential conflicts of interest between ICU and Smiths.

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.

Independence and objectivity

The Board keeps the independence of the Non-executive Directors under continuous review. In July 2022, the Committee reviewed the guidance contained in the Code and assessed the performance and independence of each of the Non-executive Directors. It concluded that each of them contributed effectively to the operation of the Board and that they should all be considered as independent.

Tanya Fratto was appointed as a Director on 1 July 2012 and as she had served on the Board for more than nine years a particularly rigorous review of her performance was undertaken. The Board concluded that she contributed to constructive challenge and debate at meetings and that she continues to demonstrate the qualities of objectivity and independence. It is anticipated that Tanya Fratto will step down from the Board at the 2022 AGM. Having served on the Board for more than six years, Bill Seeger and Mark Seligman's continued objectivity and independence were also subject to rigorous review. It was agreed that they continue to be independent and objective. Having served on the Board for more than six years, the Board also considered and confirmed that Sir George Buckley continues to be objective.

Conflicts of interest

All of our 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 our Annual General Meeting (AGM). Our 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 Senior Independent Director has confirmed that the Chairman continues to be effective and supports his re-election to the Board at the AGM. 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.

AUDIT, RISK AND INTERNAL CONTROL



Our external auditor, KPMG, continues to provide robust challenge to management and provides its independent view to the Committee on specific financial reporting judgements and the control environment.

I'd like to thank my colleagues on the Committee for their contribution during the year and I look forward to continuing our work in FY2023.

Mark Seligman

CHAIRMAN OF THE AUDIT & RISK COMMITTEE

Chairman's statement

I am pleased to present the Committee's report for FY2022. The Committee fulfils 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.

The membership of the Committee has recently changed. We welcomed Richard Howes to the Committee following his appointment to the Board on 1 September 2022. Tanya Fratto will be stepping down from the Board and therefore the Committee after the AGM in November. I would like to commend Tanya's membership over many years.

The Committee met four times during the year. Each meeting agenda included a range of topics across the Committee's areas of responsibility, including:

- Consideration of financial reporting matters at each meeting. At the March meeting the Committee reviewed the half-year results announcement and at the September meeting we reviewed the Annual Report and accompanying materials, prior to the release of the Group's results. Our work included reviewing the material judgements and issues, including the treatment of the sale of Smiths Medical and the discontinuation of the Group's operations in Russia, the results of impairment testing and the going concern and long-term viability assessments.
- We performed deep-dive reviews on our principal risks including supply chain, product quality, customers and contractual obligations. Divisional Presidents and their teams attended Committee meetings on a rotational basis and presented their risk registers and principal risk deep-dives. This allowed the Committee to gain an understanding of the culture and risks present throughout the organisation.
- Our Finance Excellence Programme, particularly in relation to internal controls, continues to be a focus for the Committee and we are monitoring potential developments in relation to the audit and governance reforms, as well as how we might respond to changes in regulation.
- Behaving ethically and with integrity is a fundamental part of our Values. The Senior Vice President and General Counsel, Ethics and Compliance attended our March and September Committee meetings and provided updates on our Ethics and Compliance (E&C) programme. Our E&C programme focuses on higher risk and critical areas such as bribery and corruption, human rights, international trade and privacy/data protection. We receive a report on data compiled from 'Speak Out', our confidential reporting hotline, and any material investigations.

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 58, 59 and 63. The Board considers that Mark Seligman has 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 Chairman, Chief Executive Officer and 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, the Company Secretary and Deputy Secretary. Divisional Presidents, the Vice President Finance Excellence and senior management were also invited to attend as appropriate. PwC, as the auditor of Smiths Medical, also attended one Committee meeting. At the conclusion of meetings, 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 64 and 65, 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 statements 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 73.

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 on pages 71 and 72. 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 UK Corporate Governance 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;
- the appropriateness of the level of detail in the narrative reporting;
- the correlation between judgements, estimation of uncertainties and issues and the associated disclosures; and
- the 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 2022 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.

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 Annual General Meeting. Michael Maloney, the KPMG audit partner responsible for the Company's audit since 2019 will retire following the completion of the FY2022 audit. Further to an extensive selection process overseen by the Chairman of the Committee, Michael Barradell will be appointed as the lead engagement partner for the next

financial year. 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

At its November 2021 meeting the Committee reviewed and approved KPMG's proposed audit plan. The fee for the FY2022 audit was agreed in July 2022. The Committee continued to monitor KPMG's execution of the 2022 audit plan during the year.

Smiths Medical

Due to PwC's understanding of Smiths Medical's financial reporting and internal control environment and the work necessary to support the separation of that business, PwC continued to act as the auditor for Smiths Medical until the sale of the business on 6 January 2022. PwC provided an update to the Committee at its September 2021 meeting.

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 2022 can be found in note 2 of the financial statements on page 120. Non-audit fees as a percentage of audit fees totalled 11% (FY2021: 13%). Non-audit fees comprise audit related assurance services and fees in connection with the sale of Smiths Medical.

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, which included work in preparation for the separation of Smiths Medical during the year, was properly assessed and authorised in accordance with the Group's policy.

SIGNIFICANT FINANCIAL REPORTING MATTERS

The key areas of judgement for FY2022 are as follows:

Areas of focus

Actions taken

MEDICAL DISPOSAL ACCOUNTING

On 6 January 2022, the Group completed the sale of Smiths Medical to ICU Medical, Inc. (ICU). As part of the sale the Group has incurred and provided for separation expenses, that arise from contractual and commercial obligations due to the separation, and has retained a 10% holding in ICU and received \$100m of deferred contingent consideration, the values of which are dependent on the ICU share price.

The Committee considered the constituent elements of the separation expenses included within the net gain on sale of Smiths Medical and reviewed the appropriateness of the provisions made relating to the sale and the transition services being provided by Smiths Group to Smiths Medical.

The Committee reviewed the financial reporting treatment and the basis for determining the fair value of the deferred contingent consideration, which has been classified as a financial asset at fair value through profit and loss. The 31 July 2022 ICU share price of circa \$177 (6 January 2022: \$231) was 23% down from when the sale completed. This reduction in share price has resulted in Smiths recognising fair value losses through the Income Statement and Other Comprehensive Income. See notes 14 and 27 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 Committee noted that the timing of revenue recognition involves judgements as to when control of an asset passes to the customer or, particularly in 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 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.

The assets and liabilities recognised in income and deferred tax, as well as the treatment of losses in the UK, were assessed. 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 noted the ongoing tax audits that are likely to conclude in the next 12 to 24 months, and the uncertainty associated with their outcome. 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.

IMPAIRMENT – INTANGIBLE ASSETS (INCLUDING GOODWILL) AND RUSSIA

The Group holds a significant amount of goodwill, especially in relation to the Smiths Detection cash generating unit (CGU).

The intangible assets and the assumptions used to justify their carrying values were reviewed, including the applicable discount rate used for impairment testing purposes.

Smiths Detection was the Group's only CGU where the impairment headroom was more limited for FY2022 and where a plausible downside scenario or a reasonable change in key assumptions could cause the carrying value of the CGU to exceed its recoverable value. Smiths Detection's limited impairment headroom is driven by a lower starting point from the FY2022 outturn, reflecting a difficult market subsequent to COVID-19 that has impacted its aviation security customers, an increased discount rate driven by the macroeconomic hurdles in FY2022 and the impact of temporary supply chain issues. Earnings growth within the impairment model is from the lower FY2022 base position and the CGU recoverable amount exceeded its carrying value – therefore no impairment was necessary. The Committee has reviewed the additional disclosures made around this impairment review. See note 11 of the financial statements.

As announced with the HY2022 interim results, the Group suspended sales into Russia. The Committee agreed with the Russia impairment charge and related wind down costs. The Committee has also agreed that these items are material in quantum and should be separately disclosed through the non-headline items within the income statement. See note 3 of the financial statements.

Areas of focus

Actions taken

PROVISIONS FOR LIABILITIES AND CHARGES

The Group holds significant material provisions for John Crane, Inc. asbestos resolution; 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 continued appropriateness of the ten-year time period for John Crane, Inc. asbestos litigation. In the case of the John Crane, Inc. asbestos litigation, the Committee also agreed with the judgement that, 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 reviewed the financial reporting treatment for the final TI Group Pension Scheme (TIGPS) bulk annuity buy-in. This buy-in has been secured with a commitment to fully buy-out the Scheme over the next few years so has been accounted for as a settlement, with the resulting settlement loss and past service cost shown in the Group's income statement in FY2022. A surplus restriction has been applied to the remaining Scheme assets to bring the net surplus to zero.

The Committee has also 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 2022, which have continued to show a net accounting surplus position which has been reduced by £219m in FY2022.

The Committee agreed the treatment and the corresponding disclosures on these matters. See note 8 of the financial statements.

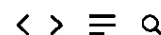
PRESENTATION OF HEADLINE PROFITS AND ORGANIC GROWTH

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 reviewed the appropriate level of disclosure for the impairment charge recognised in FY2022 against the Group's Russian businesses and related wind down costs. The Committee agreed that the combined impairment charge required separate presentation as a non-headline item.

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.



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 FY2021 audit process
- 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)
- the findings of the FRC's 2022 Audit Quality Inspection Report with KPMG to understand the activities being undertaken to address the findings and KPMG's position regarding the various areas of audit reform which are currently under review

As FY2022 was KPMG's third year as the Group's external auditor, the Committee paid particular attention to ensuring that it was satisfied that the Committee's and management's feedback from previous effectiveness reviews had been adequately addressed. This included the close out of previously discussed audit matters. In addition 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.

Prior to the sale of Smiths Medical, the Smiths Medical business continued to be audited by PwC. The Committee also considered the effectiveness of the process whereby KPMG was able to achieve comfort from PwC on its work for that division in respect of the FY2021 financial statements.

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 2022 AGM. A further review of the FY2022 audit will be conducted ahead of the FY2023 half year 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 internal control system is a framework to manage risks and monitor compliance with procedures. It is designed to meet the Group's particular needs and the risks to which it is exposed. However, it 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 46 to 53.

Effectiveness of the Group's risk management and internal controls

In FY2022, 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.

Deep-dives were carried out during the year on the following principal risks. The principal risks have since been updated as detailed on page 47:

- Product quality – John Crane, Smiths Detection and Flex-Tek
- Customers – Smiths Detection and Smiths Interconnect
- Supply chain – John Crane and Flex-Tek
- Contractual obligations

Consideration of the 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 were 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 general IT controls. They also monitored the potential development of audit and governance reforms and how the business might respond to changes in regulation.

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 have refreshed the FY2022 principal risks to reflect the critical risks facing the business and the following changes were made:

- Growth and ESG have been added as principal risks
- Group portfolio risk has been removed with the completion of the sale of Smiths Medical
- A number of risks, including COVID-19 and Integrated supply chain, have been combined into a Business continuity risk
- Ethical breach and Contractual obligations have merged into a Legal and compliance risk
- Customers and markets risks have merged into a Commercial risk

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 47 to 53.

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 FY2022 Internal Audit Plan and discussed any high priority control enhancement opportunities and action plans to address these. The Committee also approved the FY2023 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. The Committee also considered the results of an anonymous survey circulated to the Audit & Risk Committee, senior management and the Group's external auditor on the performance of the function during the year. Overall, Internal Audit is seen as a valued assurance function throughout the Group. It is appropriately resourced and conforms with industry standards in its approach.

In accordance with the International Standards for the Professional Practice of Internal Auditing, the assessment of the Internal Audit function is required to be carried out by an independent third party at least every five years. The last independent third-party assessment was carried out in 2018. The next independent third-party assessment will take place during FY2023.

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 Ethics and Compliance can be found on page 34 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.

COMMITTEE REPORT

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 our key performance indicators (KPIs).

Chairman's statement

I am pleased to present the Remuneration Report for the year to 31 July 2022. This will be my fourth year as Chairman of the Committee. In this time we have adapted our Policy to align with stakeholder expectations and guidelines whilst ensuring it supports business strategy. We have also been mindful of unprecedented sociopolitical pressures.

The Directors' Remuneration Policy was approved at the AGM on 17 November 2021. The Directors' Remuneration Report for FY2022 will be put to an advisory shareholder vote at the 2022 AGM on 16 November 2022. I look forward to your continued support at the upcoming AGM.

Remuneration & People Committee

During FY2022 we took the important step of expanding the responsibilities of the Committee to include overseeing the implementation of the People strategy and, as necessary, make recommendations to the Board regarding changes to or approval of the strategy.

The broader Remuneration & People Committee now oversees the process for the Group's talent strategy and the development of a diverse pipeline of succession below senior management. Responsibility extends to the Group's diversity, equity and inclusion strategy and approach to workforce engagement including reviewing the results of the employee engagement survey and the related action plans.

There is a programme of Board engagement activities to enable the Non-Executive Directors to have regular dialogue with colleagues across the Group to inform their view of employee engagement and ensure well-being policies and programmes are effective.

The Committee remains responsible for the Group's overall remuneration strategy, overseeing the Group's Remuneration Policy for Directors and senior management. The Committee seeks to achieve a strategy that attracts, motivates and retains executive management of the quality required to run the Group successfully. The strategy promotes the long-term success of Smiths, while reflecting the views of all stakeholders.

Business context for FY2022

We have made good progress this year with a renewed focus on technology and new product development. Following the successful sale of Smiths Medical, we have an ambitious growth strategy which will amplify Smiths post the Medical sale. Our Remuneration Policy is strongly aligned to the priorities in the Smiths Value Engine and our AIP and LTIP metrics for FY2023 outlined later in this statement are designed to support this.

We have not been immune to the macroeconomic challenges including the COVID-19 pandemic, but we have shown resilience in the face of these challenges and continue to be agile to maintain the performance of the business and support our people and communities. Organic revenue growth has been ahead of expectations and we have delivered five consecutive quarters of growth. This has been supported by stronger execution and operational resilience. Inspiring and empowering our people has been an important element of building this momentum.

Shareholder consultation

We are conscious of the competitive global environment for executive talent. During the year, we reached out to major shareholders to discuss their views on the introduction of an additional share plan designed to reward superior performance over a five-year period, in line with the strategy announced at the Capital Markets Event in November 2021. Feedback from shareholders was that they were sympathetic to this objective but preferred the simplicity of delivery within the parameters of the current Remuneration Policy. We were delighted to have the opportunity to talk and would like to thank shareholders for the feedback provided.

Board changes

In April 2022 we announced the appointment of Clare Scherrer as Chief Financial Officer, alongside a number of executive leadership appointments, continuing the good progress made over recent years in positioning the Company for the future. Clare was appointed on a salary of £553,750, which will be next reviewed in October 2023, and a pension allowance in line with the rate available to the wider UK workforce. Her incentive arrangements and benefits entitlement are in line with the Remuneration Policy.

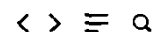
A summary of the remuneration for the outgoing Chief Financial Officer is provided on page 83.

Implementation for FY2023

The Board is conscious of the challenging impact of current inflationary pressures on our colleagues and this is reflected in the management decision to focus more of the salary increase budget on those sectors of the workforce which are more significantly affected. Paul Keel's salary has been increased by 2.5% and is effective from 1 October 2022. The increase is in line with senior management and is below the increment for the wider workforce. Clare Scherrer's salary will remain unchanged for FY2023.

We continue to assess and evolve how our sustainability strategy should be reflected within our remuneration framework. Following careful consideration by the Committee, we will be introducing new objectives within the Annual Incentive Plan (AIP) for FY2023, aligned to our strategy and the commitments made at the November 2021 Capital Markets event.

REMUNERATION & PEOPLE COMMITTEE REPORT



For the FY2023 AIP, we will introduce two new performance metrics based on reductions in energy usage across the business and revenue from new product programmes, including our sustainable products. The new measures will each have a weighting of 10%. This builds on the quantifiable and measurable Scope 1 and 2 Greenhouse gas reduction metrics incorporated in our Long-Term Incentive Plan (LTIP), driving achievement of our commitment to Net Zero emissions from operations by 2040. There will no longer be a personal objectives metric in AIP, reinforcing the focus on team performance.

Other activities of the Committee in FY2022

In addition to those highlighted elsewhere in this statement, the Committee has also undertaken the following activities in FY2022

- 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 FY2023 salary increases for the Executive Committee considering available budget, individual performance rating and position in salary range
- Reviewed the Committee's performance and Terms of Reference
- Approved the Remuneration Report for inclusion in the Annual Report
- Approved the service contracts of the Executive Directors

Committee membership and meetings

The membership of the Committee and their meeting attendance during the year is set out on pages 58, 59 and 60 of this report. I had served on a remuneration committee for at least 12 months prior to my appointment as Remuneration Committee Chairman.

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 64. Overall, the Committee is viewed as effective and performing well and is rigorous in discharging its responsibilities.

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

Looking forward

The Committee will continue its focus on all stakeholder groups and the wider workforce when discussing executive pay strategy. It will also consider the broader impact of non-financial measures such as Smiths Leadership Behaviours and how these should be reflected in remuneration decisions. In particular the Committee will seek to assess how the macroeconomic environment is impacting the market for global talent and the search for talent will continue to be a priority as we grow.

Bill Seeger

CHAIRMAN OF THE REMUNERATION & PEOPLE COMMITTEE

EXECUTIVE REMUNERATION AT A GLANCE

IMPLEMENTATION OF REMUNERATION POLICY IN FY2022

Base salary

Paul Keel received:

£875,000

Clare Scherrer received:

£140,567

John Shipsey (former CFO) received:

£551,496

Pension and benefits

- Pensions contributions of 12% of base salary for Paul Keel and Clare Scherrer, in line with the rate available to the wider UK workforce. John Shipsey received contributions of 20.5%
- Benefits included healthcare, insurance, car benefit and relocation benefits for the CEO.

Annual bonus (AIP)

Total bonus payout (% of maximum):

Paul Keel: 38.8% Clare Scherrer: 38.8% John Shipsey: 37.8%

	Threshold (25% payout)	Maximum (100% payout)	Achievement
Operating profit (40%)	£459m	£502m	12.8%
Organic revenue growth (30%)	£2,784m	£2,926m	13.8%
Headline operating cash conversion (20%) H1 (10%)	90%	110%	3.2%
FY (10%)	95%	115%	0.0%
Personal objectives (10%)*	0%	10%	9.0%

* Personal objectives outturn for John Shipsey was 8% of maximum

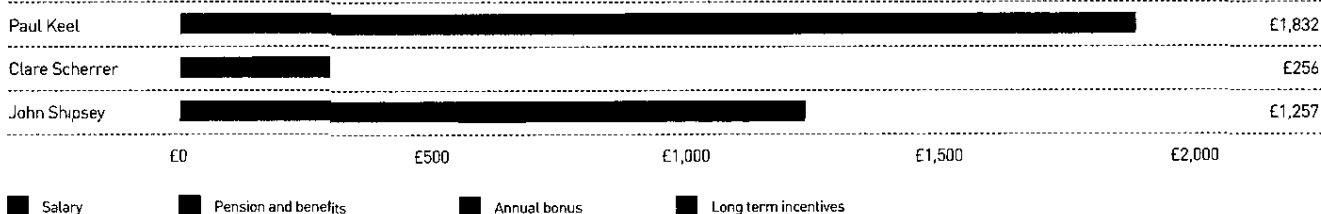
Long term incentive (LTIP)

Total vesting (% of maximum):

Paul Keel: N/A Clare Scherrer: N/A John Shipsey: 14.1%

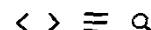
	Threshold (25% payout)	Maximum (100% payout)	Vesting
Organic revenue growth (30%)	0.6%	6%	0%
Group EPS growth after tax (25%)	1.8%	11% p.a.	0%
Average ROCE (20%)	13.7%	18% p.a.	0%
Average headline operating cash conversion (25%)	90%	105%	14.1%
Total			14.1%

SINGLE FIGURE (£000)



	Paul Keel	Clare Scherrer	John Shipsey
Salary	875	141	551
Pension and benefits	279	24	139
Annual bonus	678	91	344
Long term incentives	-	-	223

EXECUTIVE REMUNERATION AT A GLANCE



STATEMENT OF IMPLEMENTATION OF REMUNERATION POLICY IN FY2022

Base salary

Paul Keel:

£896,875

(2.5% increase)

Clare Scherrer:

£553,750

(0% increase)

UK wider workforce increases of 3.0%.

Pension

Paul Keel:

12%

of base salary

Clare Scherrer:

12%

of base salary

Benefits

Benefits package consisting of healthcare, insurance, car benefit and relocation benefits.

Benefits package consisting of healthcare, insurance and car allowance.

Annual bonus (maximum opportunity)

Paul Keel:

200%

of base salary

Clare Scherrer:

165%

of base salary

Performance measure	Weighting
Operating Profit	30%
Revenue	30%
Headline Operating Cash Conversion	20%
New Product Commercialisation	10%
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.

Long term incentives (LTIP)

Paul Keel:

189,900

number of shares

Clare Scherrer:

91,342

number of shares

Performance measure (3 year)	Weighting	Threshold (25% vesting)	Maximum (full vesting)
EPS growth after tax	20%	6%	11%
Revenue growth	30%	3.5%	6.5%
Free cash-flow	20%	45%	55%
Average ROCE	15%	14%	17%
Reduction in GHG	15%	15%	20%

- Two-year post-vesting holding period applies.
- The same fixed number of shares as in 2021 will be granted to Paul Keel in October 2022, per the Policy.
- Clare Scherrer's award will be in line with her contract of employment (value of 250% of salary).

PERFORMANCE MEASURES AND LINK TO STRATEGY

	GROWTH					EXECUTION					PEOPLE				
Annual bonus (AIP)	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
OPERATING PROFIT	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓					
REVENUE GROWTH	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓					
OPERATING CASH CONVERSION						✓	✓	✓	✓	✓					
NEW PRODUCT COMMERCIALISATION		✓	✓	✓	✓										
ENERGY EFFICIENCY					✓				✓					✓	✓
Long Term Incentive Plan (LTIP)															
EPS GROWTH AFTER TAX	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓					
REVENUE GROWTH	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓					
FREE CASH-FLOW						✓	✓	✓	✓	✓					
AVERAGE ROCE	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓					
REDUCTION IN GHG EMISSIONS									✓					✓	✓

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. Sustainable Smths

EXECUTION

1. Operational
2. Financial
3. Functional
4. Sustainable Smiths

PEOPLE

1. Safety and wellbeing
2. Inspire and empower talent
3. Diversity, Equity, Inclusion
4. Communities
5. Sustainable Smths

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.

REMUNERATION

Alignment with the UK Corporate Governance Code

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

Clarity	<ul style="list-style-type: none"> The Committee welcomes transparency and regular engagement with shareholders with regard to executive remuneration. During 2022, the Committee Chairman has consulted with shareholders to fully understand their views particularly in relation to share based remuneration
Simplicity	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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 clawback provisions are in place for incentive plans and are clearly communicated
Predictability	<ul style="list-style-type: none"> 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 clawback provisions exist
Proportionality	<ul style="list-style-type: none"> There is a link between strategic business objectives and performance outcome, as outlined on page 78 Our Policy for our incentive plans outlines threshold, target and maximum opportunity levels, with actual outcomes dependent on performance achieved against pre-determined measures Through the design of the Policy and the discretion of the Committee, poor performance is not rewarded
Alignment to culture	<ul style="list-style-type: none"> 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

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 remuneration issues raised by employees through the employee engagement survey and at divisional and functional town hall meetings.

In September 2021 the Committee Chairman discussed executive pay and sustainable business performance at an employee Q&A event. A video was circulated in advance, explaining why we have a Remuneration & People Committee, how wider Company pay policies are aligned with executive pay structures, and how executive pay structures align to our Purpose, Values and culture drive sustainable business performance for the benefit of all our stakeholders. Employees were encouraged to submit questions in advance, and ask questions on the day.

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. Nine events attended by Non-executive Directors specifically relating to workforce engagement took place in FY2022, further details of which are outlined on page 60.

REMUNERATION



Single figure of annual remuneration (audited)

Executive Directors

	Salary		Benefits		Payments in lieu of pension contribution		Total fixed		Annual bonus ²		Long-term incentives		Total performance related		Total	
	FY2022 £000	FY2021 £000	FY2022 £000	FY2021 £000	FY2022 £000	FY2021 £000	FY2022 £000	FY2021 £000	FY2022 £000	FY2021 £000	FY2022 £000	FY2021 £000	FY2022 £000	FY2021 £000	FY2022 £000	FY2021 £000
Paul Keel ¹	875	163	183	54	96	10	1,154	227	678	223	–	–	678	223	1,832	450
Clare Scherrer	141	–	7	–	17	–	165	–	91	–	–	–	91	–	256	–
John Shipsey (former CFO)	551	540	26	11	113	131	690	682	344	567	223 ³	281 ⁴	567	848	1,257	1,530

1 An advance payment of \$87,349 was made to Paul Keel in August 2022 for him to settle US taxes due on benefits which are also taxable in the UK. Upon receipt of the refund relating to this foreign tax credit on his UK tax return, a full refund will be provided to the Company.

2 Executive Directors defer 33% of the bonus into Smiths shares. The total bonus paid during the year, including deferral, is captured under Annual Bonus above. The deferral is for a three-year period and is not subject to any further performance or other conditions.

3 The share price appreciation attributable to the FY2022 Long Term Incentive for John Shipsey was 8.0% (£7,663). For FY2021 it was 11.3% (£20,526). No discretion has been applied to the amounts attributable to share price appreciation.

4 The Long Term Incentive value for FY2021 for John Shipsey has been restated to show the actual amount (rather than the estimated amount in last year's report) and to include dividend accrual payments of £22,461 which was paid on vesting. The total remuneration is also restated accordingly. The estimated Long Term Incentive values for FY2022 are calculated using the vesting percentage of 14.1% and the average share price over the three months to 29 July 2022 of 1,479p, it also includes the dividend accrual payment of £16,791 for John Shipsey, payable on vesting. The average share price for the five days to 29 July 2022 of 1,512p is used to calculate the dividend equivalent value.

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 reflect the remuneration paid from 29 April 2022.

John Shipsey stepped down from the Board as Chief Financial Officer on 29 April 2022 and remained employed by the Group until 31 July 2022 to ensure a smooth transition. The values in the single figure table above reflect the remuneration paid to 31 July 2022.

Benefits

Benefits for Executive Directors include life assurance, disability insurance, private healthcare insurance, car related benefits and relocation benefits (CEO only).

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.

John Shipsey received an allowance in lieu of pension contribution of 20.5% of salary during the year.

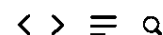
FY2022 annual bonus outcome

The maximum annual bonus opportunities for FY2022 were 200% of salary for Paul Keel, 165% of salary for Clare Scherrer (pro-rated for time since appointment) and 165% of salary for the former CFO, John Shipsey.

For FY2022, financial metrics made up 90% of the annual bonus, with the final 10% based on performance against personal objectives. The table below summarises the financial targets and the Company's actual performance (restated at budget exchange rates) against these for the FY2022 annual bonus.

Measure	Weighting	Performance targets, actual performance and outturn				
		Threshold 25% payout	Target 50% payout	Maximum 100% payout	Actual	Outturn
Operating Profit	40%	£459m	£478m	£502m	£464	12.8%
Revenue Growth	30%	£2,784m	£2,841m	£2,926m	£2,832	13.8%
Headline Operating Cash Conversion						
H1	10%	90%	100%	110%	93%	3.2%
FY	10%	95%	105%	115%	81%	0.0%
Total Financial	90%					29.8%
Personal Objectives	10%				90%	9.0%
Total	100%					38.8%

REMUNERATION



Personal objectives

Challenging personal objectives are set each year for the Executive Directors, to reinforce the Company's operating and strategic priorities. The personal objectives for the Executive Directors for FY2022 comprised a number of strategic long-term enablers, some of which remain commercially sensitive, together with short-term projects aligned to innovation, operational excellence and capability planning. Achievements against personal objectives in the year (which have a 10% weighting) are in the table below. During the process of stepping down, the performance of John Shipsey was considered and assessed by the Committee and an overall rating of 80% was agreed (outturn of 8% of maximum bonus).

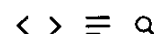
Paul Keel

	Category	Achievement	Outturn
Growth (including financials)	Group Strategy	Developed and communicated a compelling enterprise strategy for the Group including extensive investor engagement, a highlight of which was the November 2021 Capital Markets Event.	
	Environmental, Social & Governance	Established a Board-level sustainability focused Committee - the Science, Sustainability & Excellence (SSE) Committee and appointed Chief Sustainability Officer. Oversaw the development and implementation of a compelling Group-wide sustainability strategy which was incorporated into incentive compensation programmes. Set and communicated environmental goals, to support the delivery of our commitment to Net Zero GHG Emissions from operations by 2040. Mapped our approach, signing on to the Science Based Targets Initiative and the UN Race to Zero pledge.	
	Portfolio	Closed the Smiths Medical transaction with an enterprise value of \$2.7bn and an equity value of \$2.4bn after adjustments for debt, liabilities and working capital.	44.2/50.0
Execution	Smiths Excellence System (SES)	Developed and deployed a Group-wide SES programme, building on the foundations of the SES Academy and embedding lean methodology. Appointment of Master Black Belts and Black Belts in all divisions to ensure delivery of results.	
	Operations	Navigated global supply chain headwinds, including impacts from Ukraine invasion. Delivered productivity and pricing gains to offset raw material inflation. Managed working capital levels to support growth.	
	Customer	Improved On Time in Full (OTIF) and reduced Cost of Poor Quality (COPQ).	23.0/25.0
People	Team	Key Executive Committee appointments including CFO, CPO, CSO, John Crane President and Group SES Director.	
	Inclusion and Diversity	Established an extended leadership team comprised of the top 200 leaders, with improved diversity. In addition, the number of senior leadership positions taken by females is 24%.	
	Talent Development	Developed and launched an assessment, development and reward programme that ensures all critical leadership roles have 'ready now' successor and talent pipeline is constantly reviewed and in development.	22.8/25.0
Total (9% of maximum bonus opportunity)			90.0/100.0

Clare Scherrer (from 29 April 2022)

	Achievement	Outturn
Growth	Clare has made an excellent start in her first quarter with Smiths including: -	Overall rating of 90% was approved by the Committee representing 9% of maximum bonus (pro-rated for service)
Execution	- Concluding the final buy-in for the £1bn legacy TI Group Pension Scheme	
People	- Developing and deploying strong internal controls	
	- Structuring an effective Finance Leadership team with key appointments	
	- Delivering good H2 financial results and fifth consecutive quarter of growth	

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Overall FY2022 annual bonus outturn

The following table sets out the overall FY2022 bonus outturn for Executive Directors:

	Maximum opportunity	Outturn (percentage of maximum)
Paul Keel	200%	38.8%
Clare Scherrer ¹	165%	38.8%
John Shipsey (former CFO)	165%	37.8%

¹ Clare Scherrer joined the Board as Chief Financial Officer on 29 April. The maximum bonus opportunity of 165% of salary has been pro-rated to reflect the time since appointment.

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.

FY2020 long-term incentive plan outcome

John Shipsey received an award under the LTIP in October 2019, subject to the following performance conditions:

Measure	Weighting	Performance period	Threshold (25%)	Maximum (100%)	Actual	Outturn (% of vesting)
Organic sales growth	30%	1 August 2019 to 31 July 2022	3%	6%	0.6%	0.0%
Group EPS growth after tax	25%	1 August 2019 to 31 July 2022	4% p.a.	11% p.a.	1.8%	0.0%
Average ROCE	20%	1 August 2019 to 31 July 2022	15% p.a.	18% p.a.	13.7%	0.0%
Average headline operating cash conversion	25%	1 August 2019 to 31 July 2022	90%	105%	96%	14.1%
Total vesting						14.1%

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 Paul Keel or Clare Scherrer under this award.

Scheme interests awarded in respect of FY2022 (audited)

Scheme interests awarded are outlined below.

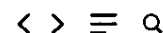
	Scheme	Form of award	Date of grant	Number of shares awarded	Award price	Face value (£000)	% vesting at threshold performance	Performance period end date
Paul Keel	LTIP	Conditional shares	5 November 2021	189,900	1,435p	2,725	25%	31 July 2024
Paul Keel	Deferred bonus	Conditional shares	5 November 2021	5,378	1,435p	77	N/A	N/A
John Shipsey	LTIP	Conditional shares	5 November 2021	100,150	1,435p	1,437	25%	31 July 2024
John Shipsey	Deferred bonus	Conditional shares	5 November 2021	13,680	1,435p	196	N/A	N/A

No awards were granted to Clare Scherrer in FY2022.

The performance measures for the FY2022 LTIP award are as follows:

Measure	Weighting	Threshold (25% vesting)	Maximum
Three-year EPS growth after tax	20%	4% p.a.	11% p.a.
Three-year organic revenue growth	30%	2% p.a.	6% p.a.
Three-year average free cash-flow (as a percentage of operating profit)	20%	45%	55%
Three-year average return on capital employed	15%	13%	17%
Three-year reduction in greenhouse gas emissions (normalised)	15%	5%	10%
Total	100%		

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Payments to past Directors (audited)

Andy Reynolds Smith was paid an amount of £876,451 in lieu of notice for the unserved part of his twelve month notice period which ended on 24 May 2022. In addition, the FY2020 LTIP will vest in 2022, pro-rated for service to 31 July 2021. 179,627 shares, pro-rated for service will vest at 14.1%. This is equivalent to 16,885 shares with an estimated value of £249,729.

Payments for loss of office (audited)

John Shipsey stepped down from the Board on 29 April 2022 but remained an employee of the Company on his existing terms of employment until 31 July 2022.

Mr Shipsey will be paid in lieu of notice for the unserved part of his 12 month notice period. The payment in lieu of notice will be made in monthly instalments to enable a reduction in the payments in the event that Mr Shipsey finds alternative employment prior to 29 April 2023. Further details in relation to the payment in lieu of notice will be provided in the FY2023 Annual Report.

Mr Shipsey remained entitled to receive an annual bonus for FY2022, the full value of which has been included in the single figure table. One third of the annual bonus will be deferred into shares for three years.

Mr Shipsey's share awards under the Company's Long-Term Incentive Plan (LTIP), will be preserved in accordance with the good leaver provisions of the LTIP, subject to a time pro-rating adjustment and normal vesting dates. Information relating to the vesting of shares under the LTIP will be updated in the relevant Directors' Remuneration Reports.

The Company made a contribution towards Mr Shipsey's legal fees of up to £12,000.

Directors' share options and long-term share plans (audited)

Director and Plan	Options and awards held on 31 July 2022		Performance test	Exercise price	Option and award data				Awards vested FY202*			
	Number	Options and awards held on 31 July 2021			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	B	n/a	28/09/21	Nov 2023						
	189,900	0	C		05/11/21	Nov 2024						
Deferred bonus award	5,378	0	-	n/a	05/11/21	05/11/24						
SAYE	1,547	0	-	1163p	17/05/22	01/08/25	01/02/26					
John Shipsey (Former CFO)												
LTIP	0	95,837	A	n/a	31/10/18	Oct 2021		13/10/21	18,209	n/a	1,369p	1,421p
	95,837	95,837	A	n/a	03/10/19	Oct 2022						
	95,837	95,837	B	n/a	04/11/20	Nov 2023						
	100,150	0	C		05/11/21	Nov 2024						
Deferred bonus award	0	6,393	-	n/a	31/10/18	31/10/21		31/10/21	6,393	n/a	1,369p	1,421p
	6,933	6,933	-	n/a	03/10/19	03/10/22						
	3,406	0	-	n/a	04/11/20	04/11/23						
	13,680	0			05/11/21	05/11/24						
SAYE	1,969	1,969	-	914p	20/05/20	01/08/23	01/02/24					

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 2018 and 2019 – 25% subject to EPS growth, 20% subject to ROCE, 25% subject to cash conversion, 30% subject to organic revenue growth

B 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.

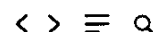
C LTIP awards in 2021 – 20% subject to EPS growth, 15% subject to ROCE, 20% subject to free cash-flow, 30% subject to organic revenue growth, 15% subject to reduction in greenhouse gas emissions.

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

Notes

- The high and low market prices of the ordinary shares during the period 1 August 2021 to 29 July 2022 were 1,629p and 1,356p respectively. The mid-market closing price on 31 July 2021 was 1,555.5p and on 29 July 2022 was 1,543p.
- The mid-market closing price of a Smiths Group share on the date of the awards made to Directors in the FY2022 financial year was 1,435p (5 November 2021).
- The option over 1,547 shares granted to and held by Paul Keel at 31 July 2022 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 options over 1,969 shares granted to and held by John Shipsey at 31 July 2022 were granted at an exercise price below the market price of a Smiths Group share on 20 May 2020 (1,268p). 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 other Directors held any options over the Company's shares during the period 1 August 2021 to 31 July 2022.
- No options or awards have been granted to or exercised by Directors or have lapsed during the period 1 August to 16 September 2022.
- At 31 July 2022, the trustee of the Employee Share Trust held 618,662 shares. The market value of the shares held by the trustee on 31 July 2022 was £9,545,955 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.

REMUNERATION



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 is 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 2022 the headroom available under these limits was 8.28% and 3.79% respectively.

Executive Directors' shareholdings (audited)

The table below shows the shareholding for each Executive Director against their respective shareholding requirement as at 31 July 2022.

Director and Plan	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	330,959	0	5,378	1,547	14.6%	No
Clare Scherrer	91,342 shares	25,000	0	0	0	0	27.4%	No

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.

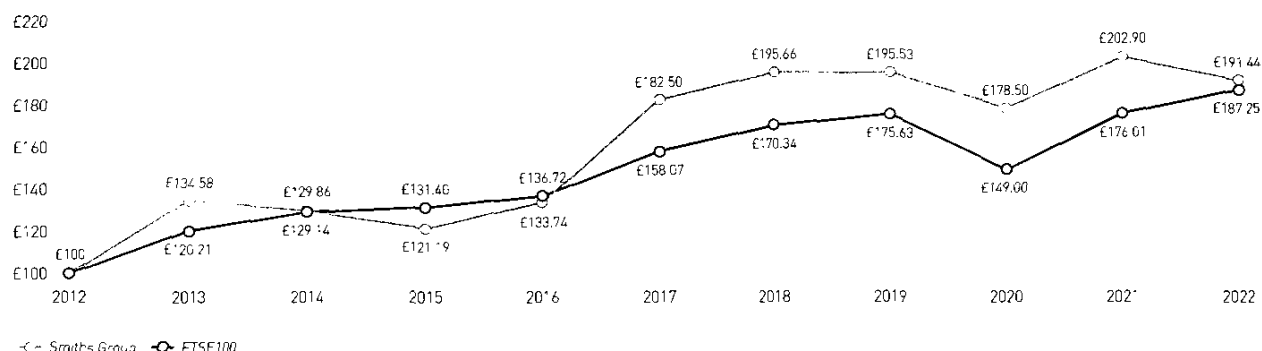
There have been no changes to the Directors' shareholdings between 1 August 2022 and 16 September 2022.

TSR performance

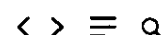
The following graph shows the Company's total shareholder return (TSR) performance over the past ten years compared to the FTSE 100 Index. The FTSE 100 Index, of which the Company has been a member throughout the period, has been selected to reflect the TSR performance of other leading UK-listed companies. The values of hypothetical £100 investments in the FTSE 100 Index and Smiths Group plc shares at 31 July 2022 were £187.25 and £191.44 respectively.

Total Shareholder Return

Value of £100 invested on 31 July 2012



REMUNERATION



Chief Executive's remuneration for the last ten years

	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	FY2013 P Bowman
Total remuneration £000	1,832	450	2,753	2,196	4,130	3,251	2,320	2,964	1,602	4,195	3,912	3,864
Annual bonus outcome (% max)	39%	76%	70%	17%	41%	42%	96%	89%	88%	80%	43%	39%
Common Investment Plan outcome (% max)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	100%	100%	100%	100%
LTIP outcome (% max)	n/a	n/a	19%	31%	75%	32%	n/a	n/a	18%	17%	18%	n/a

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
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
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	875,000	1,832,130
25th percentile employee	31,200	31,375
Median employee	44,000	47,507
75th percentile employee	64,866	69,420

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 2022 and incentive payments payable in respect of FY2022. 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.

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 total remuneration ratios have reduced primarily due to the CEO not currently being in receipt of LTIP payments. The Committee monitors ratios on an annual basis.

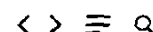
Percentage change in Directors' remuneration

	FY2021 to FY2022			FY2020 to FY2021		
	Salary/Fees	Benefits	Bonus	Salary/Fees	Benefits	Bonus
Chief Executive Officer	0%	239%	204%	n/a	n/a	n/a
Chief Financial Officer	n/a	n/a	n/a	n/a	n/a	n/a
Outgoing Chief Financial Officer	2.5%	100%	-39%	0%	-1.0%	308%
Non-executive Director remuneration	2.5%	100%	n/a%	-4.0%	-100%	n/a
Average of all employees	2.5%	2.5%	-34%	0%	0%	267%

'All employees' is defined as all UK Group employees, 200 and 196 employees at all grades in FY2022 and FY2021 respectively.

Remuneration for the Chief Executive Officer was pro-rated for service from 25 May 2021 - 31 July 2021 for FY2021.

REMUNERATION



Relative importance of spend on pay

The table below shows shareholder distributions (i.e. dividends and share buybacks) and total employee pay expenditure for FY2021 and FY2022, and the percentage change.

	FY2022 £m	FY2021 £m	Change
Shareholder distributions	661	185	257%
Employee costs			
- Continuing operations	823	-	N/A
- Total Group (including Smiths Medical)	930	1,019	-8.73%

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, 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.

Leaving and change-of-control provisions

When determining leaving arrangements for an Executive Director the Committee takes into account any contractual agreements including the provisions of any incentive arrangements, typical market practice and the performance and conduct of the individual. For those individuals regarded as 'bad leavers' (e.g. voluntary resignation or dismissal for cause), annual bonus awards are forfeited, and outstanding awards under the LTIP automatically lapse. Deferred bonus awards are forfeited on dismissal for cause.

A 'good leaver' will typically remain eligible for a pro-rated annual bonus award, normally to be paid after the end of the financial year. The Committee retains discretion to pay the bonus early and not to apply deferral where it would otherwise apply, but would do so only in compassionate circumstances. Deferred bonus awards shall continue in full and vest on the originally anticipated vesting dates. Alternatively, in compassionate circumstances, the Committee may determine that awards should vest when the participant ceases employment. Awards in the form of options may be exercised in accordance with the rules of the applicable scheme.

LTIP awards will typically vest at the normal vesting date to the extent that the associated performance conditions are met, but will normally be pro-rated on the basis of actual service within the performance period. Any holding period will ordinarily continue to apply. The Committee retains discretion to vest the award before the end of the originally anticipated performance period, and to assess performance accordingly, and to waive the continuation of the holding period or to shorten its application, but would do so only in compassionate circumstances.

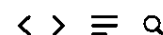
Vested LTIP awards which are subject to a holding period will ordinarily continue to be subject to the holding period, although the Committee retains discretion to waive the continuation of the holding period or to shorten its application but would do so only in compassionate circumstances.

In cases of death or disability, individuals are automatically deemed to be good leavers under the plan rules of the LTIP. All other good leavers will be defined at the discretion of the Committee on a case-by-case basis.

In connection with the termination of an Executive Director's contract, the Company may make a payment on account of accrued but untaken leave. The Company has the power to enter into settlement agreements with Directors and to pay compensation to settle potential legal claims. In addition, and consistent with market practice, in the event of the termination of an Executive Director, the Company may make a contribution towards that individual's legal fees and fees for outplacement services as part of a negotiated settlement. Any such fees will be disclosed as part of the detail of termination arrangements.

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.

REMUNERATION



Non-executive Directors

Single figure of annual remuneration (audited)

	Salary/fees		Benefits ¹		Total	
	FY2022 £000	FY2021 £000	FY2022 £000	FY2021 £000	FY2022 £000	FY2021 £000
Sir George Buckley ²	461	461	47	-	508	461
Bruno Angelici	-	24	-	-	-	24
Olivier Bohuon	-	24	-	-	-	24
Pam Cheng	77	71	-	-	77	71
Dame Ann Dowling ³	87	71	3	-	90	71
Tanya Fratto	81	71	-	-	81	71
Karin Hoeing	73	71	-	-	73	71
Bill Seeger ⁴	146	119	-	-	146	119
Mark Seligman ⁵	100	99	-	-	100	99
Noel Tata	89	71	-	-	89	71

1 Benefits for the Chairman and Non-executive Directors relate to reimbursed travel-related and other expenses (including flight costs 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 Bill Seeger's fees comprised his Non-executive Director's fee, his additional fee for chairing Remuneration & People Committee, his additional fee as Senior Independent Director and a supplementary fee provided to the Chairs of each of the Committees related to the sale of Smiths Medical (payable until 31 January 2022).

5 Mark Seligman's fees comprised his Non-executive Director's fee, his additional fee for chairing the Audit & Risk Committee and a supplementary fee provided to the Chairs of each of the Committees related to the sale of Smiths Medical (payable until 31 January 2022).

Non-executive Director fees

Non-executive Director fees paid during FY2022 and payable during FY2023 are shown below. The Remuneration & People Committee made the decision to focus more of the FY2023 salary increase budget on those sectors of the workforce who are more impacted by current inflationary pressures. It was determined that the NED fee increase should mirror that awarded to senior employees and lower than that of the wider UK workforce. The fee increases of 2.5% will be effective from 1 October 2022.

	FY2022	FY2023
Fee payable to Chairman of the Board for all responsibilities	£461,250	£466,920
Non-executive Director base fee	£73,030	£74,855
Additional fee payable to the Senior Independent Director	£20,000	£20,000
Additional fee for Committee Chairs	£20,000	£20,000
Supplementary fee ¹	£15,000	£N/A
Attendance allowance for each meeting outside the Non-executive Director's home continent	£4,000	£4,000

1 Supplementary fee provided to the Chairs of the Audit & Risk and Remuneration & People Committees in respect of additional workload related to the separation of Smiths Medical from the period 1 February 2021 to 31 January 2022.

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)

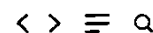
The table below shows the shareholding for each Non-executive Director.

	31 July 2022
Sir George Buckley	26,591
Pam Cheng	6,000
Dame Ann Dowling	5,813
Tanya Fratto	1,500
Karin Hoeing	503
Richard Howes ¹	-
Bill Seeger	10,000
Mark Seligman	6,000
Noel Tata	6,000

1 Richard Howes was appointed as an independent Non-executive Director with effect from 1 September 2022. He was not a member of the Board during FY2022.

Following their quarterly acquisition of Ordinary Shares, under a share purchase agreement using a fixed proportion of the after-tax fees received from the Company (20%), Sir George Buckley acquired 812 shares on 1 August 2022 and Karin Hoeing acquired 211 shares on 1 August 2022. There have been no further changes to the Directors' shareholdings between 1 August 2022 and 16 September 2022.

REMUNERATION



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.

Non-executive Director	Date of appointment
Sir George Buckley	1 August 2013
Pam Cheng	1 March 2020
Dame Ann Dowling	19 September 2018
Tanya Fratto	1 July 2012
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 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	315,633,416	95.86%	13,615,338	4.14%	329,248,754	469,665
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 £167,800 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 FY2022, Deloitte LLP provided the Committee with information on market, compliance support for this year's Directors' Remuneration Report, advice on remuneration of the incoming Chief Financial Officer, the shareholder consultation process 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 they do not have connections with the Group that may impair their 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

22 September 2022

& EXCELLENCE COMMITTEE REPORT

Chair's Statement

I am pleased to present our first Science, Sustainability & Excellence (SSE) Committee Report. SSE are critical elements in the execution of our strategy.

Reflecting the importance and commitment to this topic, this year the Board approved the creation of the SSE Committee to provide the Board with enhanced oversight of SSE matters including the Group's innovation and new product development process, environmental and sustainability performance, and the embedding and delivery of operational excellence through the Smiths Excellence System. When establishing the Committee, the Board ensured that members brought a range of experience on the SSE related topics that fall within the Committee's remit. I have had a keen interest in engineering excellence, innovation and sustainability throughout my career including leadership roles as Head of the Engineering Department at the University of Cambridge and as President of the Royal Academy of Engineering. This interest continues through my current positions as Deputy Vice Chancellor and Emeritus Professor of Mechanical Engineering at Cambridge. I was a member of bp plc's Safety and Sustainability Committee until May 2021.

I am delighted to be joined on the Committee by Sir George Buckley, Pam Cheng and Karin Hoeing. Sir George has extensive experience of leading large innovative multinational groups which has been instrumental in our consideration of matters relating to new product development. Pam brings challenge to operational excellence from her role as Executive Vice-President, Operations and Information Technology at AstraZeneca plc. Finally, Karin's current executive experience as Group ESG, Culture and Business Transformation Director at BAE Systems plc has been invaluable as we have developed our sustainability strategy and priorities. We are also all members of the Remuneration & People Committee and were delighted to be able to recommend the introduction of key and stretching sustainability measures into our incentive arrangements in support of Smiths strategy.

Over the next year, I look forward to the Committee's continued oversight of Smiths SSE agenda, including further presentations from our divisions and Group experts. I am excited by the opportunities presented by the innovation and new products we have in the pipeline to support our growth strategy. I would like to thank my colleagues on the Committee for their contributions during the year and I look forward to continuing our work in FY2023.

Dame Ann Dowling

CHAIR OF THE SCIENCE, SUSTAINABILITY & EXCELLENCE COMMITTEE

Committee membership and meetings

There were three scheduled meetings during the year. The members of the Committee, their biographies and attendance at meetings during the year can be found on page 58, 59 and 63.

The Chief Executive Officer, Chief Sustainability Officer and Group Operational Excellence Director attended every meeting. Other members of senior management were invited to attend as necessary.

Committee performance evaluation

Through the annual Board evaluation process (pages 64 and 65), the Board confirmed the effectiveness of the Committee in its role of supporting the Board in compliance with its remit

Committee activities

The main topics considered at Committee meetings were as follows:

Science

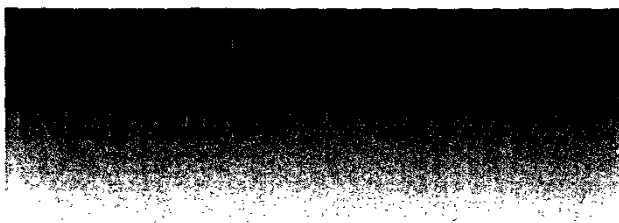
John Crane, Smiths Detection and Flex-Tek updated the Committee on their new product development (NPD) processes and pipelines and how technology, innovation and sustainability were influencing their next generation of products. In July the Committee visited Flex-Tek's operations in Portland, Tennessee, and experienced the new Python line sets at first-hand. Understanding each of the divisions' NPD processes from ideation to commercialisation of new products in support of the Group's Gross Vitality KPI has been important. The Committee are highly engaged in this area and are excited by the product opportunities in the NPD pipeline and by ways in which the development processes can be expedited.

Sustainability

Smiths new Chief Sustainability Officer joined the business in January 2022 and led the development of the new sustainability strategy which was approved by the Board during the year. See page 27 for a summary of the strategy. The Committee received regular updates on the development and implementation of the strategy and how the divisions were driving sustainability in their businesses and embedding it in their new product pipeline. The Committee continued to monitor progress against Smiths sustainability metrics including GHG emissions, renewable electricity, energy efficiency, water use and waste disposal. The Committee monitored progress towards setting Science Based Targets to achieve Net Zero through the SBTi. The Committee approved the new Sustainability at Smiths Report which will provide stakeholders with an enhanced understanding of Smiths approach to ESG. The report can be found on our website www.smiths.com.

Excellence

The Group Operational Excellence Director attended each Committee meeting to report on the Smiths Excellence System (SES). The Committee were updated on the rollout and embedding of phase two of SES and how the business is targeting excellence through results-orientated process improvements and the continuing development of our talented people. SES supports our ability to innovate and deliver new technology for customers. It also supports the execution of our sustainability and Net Zero strategies. The Committee was provided with deep-dives on SES from Flex-Tek which demonstrated how SES was being embedded in the business.



The Strategic Report is a requirement of the Companies Act 2006 (the 'Act') and can be found on pages 5 to 55. 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 5 to 23
Directors' dividend recommendation	Strategic Report page 15
Research and development activities	Strategic Report pages 17 to 20
Employment of disabled persons	Sustainability at Smiths page 33
Engagement with UK employees	Sustainability at Smiths page 32
Engagement with suppliers, customers and others in a business relationship with the company	Sustainability at Smiths pages 41 to 44
Political donations and expenditure	Political donations page 91
Greenhouse gas emissions, energy consumption and energy efficiency	Sustainability at Smiths page 30
Corporate Governance Statement	Governance Report pages 56 to 92
Directors during FY2022	Governance Report pages 58 and 59
Director appointment	Governance Report page 68
Amendment of Articles of Association	Governance Report page 68
Indemnities	Governance Report page 63
Change of control	Remuneration Report page 86
	Borrowings and net debt note page 141
Directors' Responsibility Statement	Statement of Directors' responsibilities page 92
Disclosure of information to the auditor	Statement of Directors' responsibilities page 92
Financial Instruments	Financial risk management note pages 142 to 148
Share capital disclosures	Share capital note page 155
Acquisition of own shares (share buyback programme)	Share capital note page 155
Directors' Powers	Governance Report page 57
	Share capital note page 155
Post Balance Sheet Events	Post Balance Sheet Event note page 163
Overseas branches	Subsidiary undertakings note page 186

Listing Rules Disclosure

Information required by the Financial Conduct Authority'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	Discontinued operations note page 157
9.8.4R(12)(13)	Dividend waiver	Dividend note page 156
9.8.6R(1)	Directors' interests	Remuneration Report pages 84 and 87
9.8.6R(2)	Major shareholders' interests	Table on page 91
9.8.6R(3)(a)(b)	Going Concern and Viability Statement	Strategic Report page 54
9.8.6R(4)(a)	Purchase of own shares	Share capital note page 155
9.8.6R(5)(6)(a) and (b)	UK Corporate Governance Code compliance	Governance Report page 56
9.8.6R(7)	Unexpired term of Service Contract	Remuneration Report page 86
9.8.6R(8)(a)	Statement on inclusion of TCFD	Sustainability at Smiths page 35
9.8.6R(9)	Board diversity targets	Governance Report page 67

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 FY2022 totalled \$8,000 (FY2021: \$30,500).

Major shareholder' interests

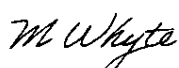
As at 31 July 2022, the Company had been notified under the Financial Conduct Authority's Disclosure Guidance & Transparency Rules, or had received disclosures pursuant to the Companies Act 2006, of the following holdings of voting rights in its shares:

Number of voting rights	Number of voting rights	% of total voting rights	Date of notification
BlackRock, Inc.	23.3m	5.9	31 May 2018
Ameriprise Financial, Inc.	20.8m	5.3	3 October 2018
Artemis Investment Management LLP	19.8m	5.0	14 April 2020
Harris Associates L.P.	19.7m	5.0	22 July 2019
Dodge & Cox	19.2m	5.0	12 March 2022
Jupiter Asset Management	14.8m	3.8	22 September 2016

No further notifications were received between 1 August and 16 September 2022

By order of the Board

Matthew Whyte
COMPANY SECRETARY
22 September 2022



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 international accounting standards in conformity with the requirements of the Companies Act 2006 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 group financial statements;
- 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 Companies Act 2006 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 58 and 59) 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 Group 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
22 September 2022

Paul Keel

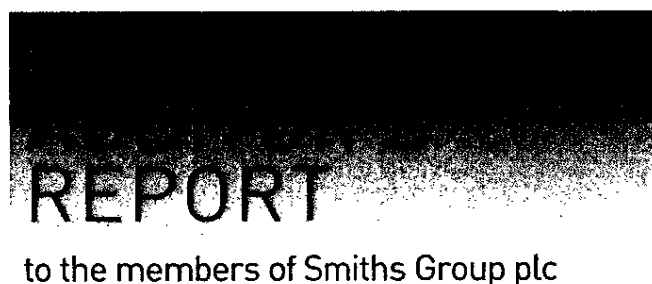
Clare Scherrer
CHIEF FINANCIAL OFFICER

Clare R. Scherrer

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INDEPENDENT AUDITOR'S REPORT



1 Our opinion is unmodified

We have audited the financial statements of Smiths Group plc ("the Company") for the year ended 31 July 2022 which comprise 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, and the related notes, including the accounting policies on pages 108 to 115.

In our opinion:

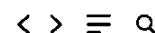
- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 July 2022 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

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 is consistent with our report to the Audit & Risk Committee.

We were first appointed as auditor by the shareholders on 13 November 2019. The period of total uninterrupted engagement is for the three financial years ended 31 July 2022. 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. No non-audit services prohibited by that Standard were provided.

INDEPENDENT AUDITOR'S REPORT



Overview

Materiality: group financial statements as a whole	£16 million (2021: £11.3 million).
	5.1% of Group profit before taxation from continuing operations normalised to exclude the effect of specific items as explained in section 5 of this report.
	(2021: 4.5% of Group profit before taxation from continuing operations normalised to exclude the effect of specific items and by averaging over the last three years).
Coverage:	82% (2021: 70%) of Group profit before taxation from continuing operations.

Key audit matters

vs 2021

Recoverability of Goodwill in respect of the Smiths Detection cash generating unit (CGU) (Group)	▲
Estimation of litigation provisions for asbestos in John Crane, Inc. (Group)	◀ ▶
Valuation of UK defined benefit SIPS's pension scheme liabilities and accounting of settlement loss in TiGPS pension scheme (Parent Company)	▼

2 Changes to Key Audit Matters

As at 31 July 2021, we identified a key audit matter (Group) in relation to the recoverability of capitalised development costs for the Intellifuse programme within assets held for sale in the Smiths Medical division. Following the sale of the Smiths Medical division during the year, this is no longer a relevant risk of material misstatement and therefore no longer a key audit matter.

As at 31 July 2021, we identified a key audit matter (Parent Company) in relation to defined benefit pension liabilities which included both the TiGPS and SIPS pension schemes. Following the execution of a buy-in insurance policy for the TiGPS scheme during the current year, this is no longer a relevant risk of material misstatement and therefore no longer a key audit matter. We continue to recognise UK SIPS pension scheme as a key audit matter (Parent Company) in the current year. In addition, the audit of the buy-in transaction is considered to be an area which had significant effect on our overall audit strategy and allocation of resources in planning and completing the audit and is therefore included as a key audit matter.

3 Key audit matters: our assessment of risks of material misstatement

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 summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Recoverability of goodwill in respect of the Smiths Detection cash generating unit (CGU) (Group) (£644 million (2021: £610 million)) Refer to page 71 (Audit & Risk Committee Report), page 108 (accounting policies) and page 135 (financial disclosures)

Risk vs 2021: increase

The risk – subjective estimate and 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 Smiths Detection 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 rate).

As part of our risk assessment, we determined that the value in use of the 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.

The financial statements (note 11) disclose the sensitivity estimated by management. These disclosures give relevant information about the estimation uncertainty including the risk of a reduction in the headroom or need for an impairment as a result of a reasonably possible change in one or more of the key assumptions used in the value in use calculation for this CGU.

INDEPENDENT AUDITOR'S REPORT



Our response

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 included:

- **Benchmarking assumptions and historical comparison:** Assessing and challenging the key assumptions through retrospective review and comparison to external industry forecasts.
- **Our sector experience:** Using our valuations specialists to challenge the appropriateness of discount rates by deriving our own independent range and used external market data to challenge management assumption of 5-year revenue growth rates.
- **Sensitivity analysis:** Estimating the value in use utilising independent and more conservative forecasts and discount rates and assessing whether this resulted in impairment.
- **Comparing valuations:** Using our valuation specialist, comparing the valuation per the value in use impairment model against expected enterprise valuations per analyst reports and comparable companies' earnings multiple.
- **Assessing transparency:** Assessing the adequacy of 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 the key assumptions.

Our results

We found the carrying amount of goodwill related to the Smiths Detection CGU to be acceptable (2021: acceptable) and we found the sensitivity disclosure made to be acceptable (2021: acceptable).

Estimation of litigation provisions for asbestos in John Crane, Inc. £229 million (2021: £212 million)) Refer to page 72 (Audit & Risk Committee Report), page 108 (accounting policies) and page 151 (financial disclosures)

Risk vs 2021: unchanged

The risk – subjective estimate

There are significant judgements and estimates involved in the assumptions underlying the provisions in respect of John Crane, Inc. asbestos litigation, including the projection period, forecast number of future claims and associated claim and defence costs applied to the forecast and the methodology applied for estimating the provision.

The effect of these matters is that, as part of our risk assessment, we determined that the 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 and possibly many times that amount. The financial statements (note 23) disclose the sensitivity estimated by the Group.

Our response

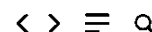
We performed the tests below rather than seeking to rely on any of the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described. Our procedures included:

- **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.
- **Enquiry of lawyers:** Obtaining external independent legal confirmations of historical and ongoing claims and agreeing to the historical and ongoing claims data used by management expert for estimating the future projected cost and claims.
- **Assessed management's expert:** Assessing the competency, knowledge and independence of the expert using our own specialist.
- **Assessing methodology:** Evaluating the methodology applied by management to the estimation to assess that 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 provisions' estimation.

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 (2021: acceptable).

INDEPENDENT AUDITOR'S REPORT



Valuation of UK defined benefit SIPS pension scheme liabilities (£1,603 million (2021: 2,078 million)) and accounting of settlement loss and past service cost in relation to TIGPS pension scheme buy-in (£195 million (2021: Nil)) (Parent Company) Refer to page 72 (Audit & Risk Committee Report), page 108 (accounting policies) and page 128 (financial disclosures)

Risk vs 2021: decrease

The risk - subjective valuation and significant transaction

Significant estimates are made in valuing the Company's post retirement defined benefit plan obligations in particular the discount rates, the inflation rates, mortality and pension increase assumptions. 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, as part of our risk assessment, 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.

In conducting our final audit work, following the buy-in secured during the current year with an intention to fully buy-out the scheme in the near future, we reassessed the degree of estimation uncertainty for TIGPS scheme to be less than that materiality. However, the audit of the buy-in transaction is considered to be an area which had significant effect on our overall audit strategy and allocation of resources in planning and completing the audit with regard to the quantum of the settlement loss and the accounting of the transaction as a settlement rather than an investment decision.

Our response

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 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 against market data.
- **Assessing actuary's credentials:** Assessing the competence, independence and integrity of the scheme's actuary.
- **Inspection of relevant documents:** Inspecting contract documents, trustee minutes, project plan and communications to assess whether the buy-in transaction has been accounted for appropriately in accordance with IAS 19 using our own actuarial specialists and our sector knowledge and expertise.
- **Test of detail:** Confirmed the transfer of assets to the insurer to fund the initial premium for the buy-in. We reconciled the benefit cash flows, administration and other expenses with external evidence obtained.
- **Assessing transparency:** Considering the adequacy of the disclosures in respect of the sensitivity of the obligation to key assumptions and the disclosure in respect of the buy-in transaction.

Our results

We found the valuation of the pension scheme liabilities of SIPS scheme to be acceptable (2021: acceptable) and we found the sensitivity disclosure made to be acceptable (2021: acceptable).

We found the accounting of the settlement loss and past service cost for TIGPS scheme in the period to be acceptable (2021: Nil).

INDEPENDENT AUDITOR'S REPORT



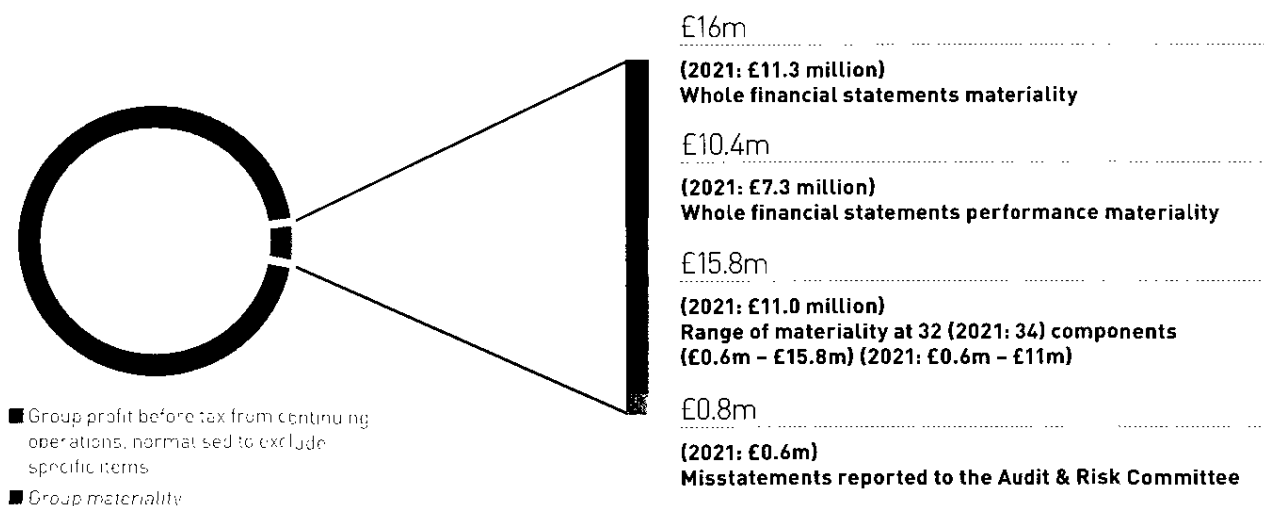
4 The impact of climate change on our audit

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 40, 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 and 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 39, 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 the balances in these financial statements are not at significant risk in relation to climate change. This is because, based on our risk assessment, the long-term growth rate is not identified as a key assumption a reasonably possible change in which could result in an impairment in relation to the estimated value in use of the Smiths Detection CGU. Hence, we assessed that there is not a significant impact on our audit for this financial year. There was no impact of climate change on our key audit matters included in section 3. We have read the Group's disclosure of climate related information in the front half of the Annual Report as set out on pages 35 to 40 and considered consistency with the financial statements and our audit knowledge.

Materiality

Group profit before tax from continuing operations, normalised to exclude specific items - £314 million (2021: Group profit before tax from continuing operations, normalised to exclude specific items and by averaging over the last three years due to the impact of the COVID-19 pandemic - £253 million)



5 Our application of materiality and an overview of the scope of our audit

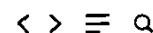
Materiality

Materiality for the Group financial statements as a whole was set at £16 million (2021: £11.3 million), determined with reference to a benchmark of Group profit before tax from continuing operations normalised to exclude foreign exchange gain on intercompany loan with discontinued operations, of £22 million (2021: £50 million loss), retirement benefit scheme settlement loss £171 million (2021: Nil), past service equalisation cost £43 million (2021: Nil) and impairment of assets £19 million (2021: Nil). Materiality for the 2021 Group financial statements as a whole was determined with reference to a benchmark of Group profit before tax from continuing operations normalised as described above and also by averaging over the last three years due to the impact of the COVID-19 pandemic. The Group team performed procedures on the excluded items.

Materiality for the Parent Company financial statements as a whole was set at £15.8 million (2021: £11.0 million), determined with reference to a benchmark of Parent Company total assets, limited to be less than materiality for Group materiality as a whole. It represents 0.4% (2021: 0.5%) of total assets.

In line with our audit methodology, 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. Performance materiality was set at 65% (2021: 65%) of materiality for the financial statements as a whole, which equates to £10.4 million (2021: £7.3 million) for the Group and £10.2 million (2021: £7.2 million) for the Parent company. We applied this percentage in our determination of performance materiality based on the level of identified audit misstatements and control deficiencies during the prior year. We agreed to report to the Audit & Risk Committee any corrected or uncorrected identified misstatements exceeding £0.8 million (2021: £0.6 million), in addition to other identified misstatements that warranted reporting on qualitative grounds.

INDEPENDENT AUDITOR'S REPORT



Scope

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 is a consolidation of over 250 reporting components. Smiths Medical division was sold in current year (discontinued operations). 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 253 (2021: 254) reporting components, we subjected 23 (2021: 24) to full scope audits for Group purposes and 9 (2021:8) 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 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 Group audit performed analytical procedures over the trading results of the discontinued operation (the Smiths Medical division) and substantive test over the disposal accounting and resultant profit on sale recognized in the consolidated financial statements.

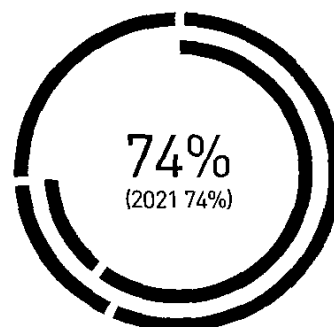
The scope of the audit work performed was predominately substantive as we placed limited reliance upon the Group's internal control over financial reporting.

The components within the scope of our work accounted for the following percentages of the Group's results for continuing operations are shown, right.

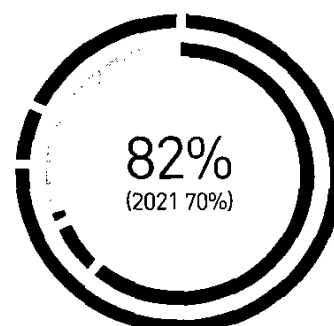
The remaining 26% (2021: 26%) of total Group revenue, 18% (2021: 30%) of Group profit before tax from continuing operations and 25% (2021: 21%) of total Group assets is represented by reporting components which individually did not represent more than 1% (2021: 3%) of any of total Group revenue for continuing operations, Group profit before tax for continuing operations or total Group assets. For these residual components, we performed an analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatement within these components.

The Group's results

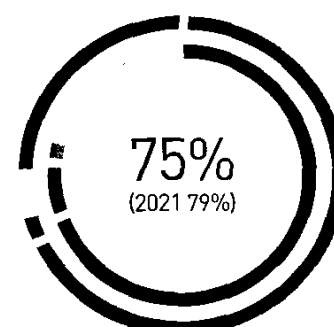
GROUP REVENUE



GROUP PROFIT BEFORE TAX



GROUP TOTAL ASSETS



	Group revenue	Group profit before tax	Group total assets
2022			
■ Full scope for group audit purposes	37%	76%	58%
■ Audit of Account Balance	17%	6%	31%
■ Specified risk-focused audit procedures	-	-	4%
■ Residual components	26%	18%	21%
2021			
■ Full scope for group audit purposes	60%	61%	69%
■ Audit of Account Balance	14%	7%	7%
■ Specified risk-focused audit procedures	-	2%	3%
■ Residual components	24%	30%	21%

INDEPENDENT AUDITOR'S REPORT



The Group audit 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 audit team set the component materiality which ranged from £0.6 million to £15.8 million (2021: £0.6 million to £11.0 million), having regard to the mix of size and risk profile of the Group across the components. The work on 30 of the 32 (2021: 33 of the 34) components was performed by component auditors and the audit of the Parent Company was performed by the Group team. The work on Smiths Medical including disposal accounting was performed by the Group team.

Regular video conference meetings were held with all in-scope components attended by senior group audit team members. These meetings involved explanation of Group audit instructions, involvement in planning audit procedures, discussing progress updates and emerging findings, reviewing outcomes of testing performed and involvement in discussing audit findings with component management. The Group audit team routinely reviewed the audit documentation of all component audits through various stages of their audits. We were unable to visit one China component (not financially significant) and remote access to audit documentation is prohibited by local law. As a result of this restriction, we extended our oversight of this component's audit through extended discussion with component audit team.

6 Going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Company or to cease their operations, and as they have concluded that the Group's and the 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").

We used our knowledge of the Group, its industries 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 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 Company's available financial resources and metrics relevant to debt covenants 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, as a result of recurrence of COVID 19 disruption, 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.

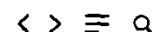
We considered whether these risks could plausibly affect the liquidity or covenant compliance in the going concern period by comparing severe but plausible downside scenarios that could arise from these risks individually and collectively against the level of available financial resources and covenant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

Our conclusions based on this work:

- 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 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 92 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for the going concern period, and we found the going concern disclosure on page 54 to be acceptable; and
- the related statement under the Listing Rules set out on page 91 is materially consistent with the financial statements and our audit knowledge.

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 Company will continue in operation.

INDEPENDENT AUDITOR'S REPORT



7 Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

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, Investments and Executive Committee minutes.
- Considering remuneration incentive schemes and performance targets for management and Directors including the EPS target for management remuneration.
- Using analytical procedures to identify any unusual or unexpected relationships.

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.

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 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 the sale transaction from such pressure. We did not identify any additional 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.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

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.

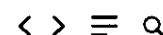
We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the group to full-scope component audit teams of relevant laws and regulations identified at the Group level, and a request 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.

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.

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 recognising the regulated nature of the Medical division activities and its legal form. 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.

INDEPENDENT AUDITOR'S REPORT



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 these 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.

8 We have nothing to report on the 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.

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

Strategic Report and Directors' Report

Based solely on our work on the other information:

- 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

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

Disclosures of emerging and principal risks and longer-term viability

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.

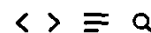
Based on those procedures, we have nothing material to add or draw attention to in relation to:

- the Directors' confirmation within the viability statement page 54 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;
- the Principal Risks 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 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 54 under the Listing Rules. Based on the above procedures, we have concluded that the above disclosures are materially consistent with the financial statements and our audit knowledge.

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 Company's longer-term viability.

INDEPENDENT AUDITOR'S REPORT



Corporate governance disclosures

We are required to perform procedures to identify whether there is a material inconsistency between the Directors' corporate governance disclosures and the financial statements and our audit knowledge.

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

- 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.

We are 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.

9 We have nothing to report on the other matters on which we are required to report by exception

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.

We have nothing to report in these respects.

10 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 90, 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.

11 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.

Michael Maloney
SENIOR STATUTORY AUDITOR

for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London E14 5GL

Date: 22 September 2022

M Maloney



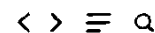
CONSOLIDATED PRIMARY STATEMENTS

Consolidated income statement

		Year ended 31 July 2022			Year ended 31 July 2021		
	Notes	Headline £m	Non-headline (note 3) £m	Total £m	Headline £m	Non-headline (note 3) £m	Total £m
CONTINUING OPERATIONS							
Revenue	1	2,566	–	2,566	2,406	–	2,406
Operating costs	2	(2,149)	(300)	(2,449)	(2,034)	(46)	(2,080)
Operating profit/(loss)	2	417	(300)	117	372	(46)	326
Interest receivable	4	14	–	14	9	–	9
Interest payable	4	(55)	–	(55)	(49)	–	(49)
Other financing gains/(losses)	4	–	20	20	–	(52)	(52)
Other finance income – retirement benefits	4	–	7	7	–	6	6
Finance (costs)/income	4	(41)	27	(14)	(40)	(46)	(86)
Profit/(loss) before taxation		376	(273)	103	332	(92)	240
Taxation	6	(104)	14	(90)	(96)	13	(83)
Profit/(loss) for the year		272	(259)	13	236	(79)	157
DISCONTINUED OPERATIONS							
Profit/(loss) from discontinued operations	27	49	973	1,022	134	(6)	128
PROFIT/(LOSS) FOR THE YEAR		321	714	1,035	370	(85)	285
Profit/(loss) for the year attributable to:							
Smiths Group shareholders – continuing operations		270	(259)	11	235	(79)	156
Smiths Group shareholders – discontinued operations		49	973	1,022	134	(6)	128
Non-controlling interests		2	–	2	1	–	1
		321	714	1,035	370	(85)	285
EARNINGS PER SHARE							
	5						
Basic				267.1p			71.7p
Basic – continuing				2.8p			39.4p
Diluted				266.0p			71.3p
Diluted – continuing				2.8p			39.1p

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 116 to 163, which form an integral part of the consolidated accounts.

CONSOLIDATED PRIMARY STATEMENTS

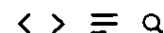


Consolidated statement of comprehensive income

	Notes	Year ended 31 July 2022 £m	Year ended 31 July 2021 represented* £m
PROFIT FOR THE YEAR		1,035	285
Other comprehensive income (OCI)			
OCI which will not be reclassified to the income statement:			
Re-measurement of retirement benefits assets and obligations	8	(17)	13
Taxation on post-retirement benefits movements	6	-	(6)
Fair value movements on financial assets at fair value through OCI	14	(63)	4
		(80)	11
OCI which will be reclassified and reclassifications:			
Fair value gains and reclassification adjustments:			
- deferred in the period on cash-flow and net investment hedges		(82)	82
- reclassified to income statement on cash-flow and net investment hedges		5	2
		(77)	84
Foreign exchange (FX) movements net of recycling:			
Exchange gains/(losses) on translation of foreign operations		276	(166)
Exchange gains recycled to the income statement on disposal of business		(196)	-
		80	(166)
Total other comprehensive income, net of taxation		(77)	(71)
Total comprehensive income		958	214
Attributable to:			
Smiths Group shareholders		957	214
Non-controlling interests		1	-
		958	214
Total comprehensive income attributable to Smiths Group shareholders arising from:			
Continuing operations		13*	152
Discontinued operations		827	62
		958	214

* The comparative year has been represented to include 'Fair value movements on financial assets at fair value through OCI' within the 'OCI which will not be reclassified to the income statement' subtotal rather than within the 'OCI which will be reclassified and reclassifications' subtotal. This reclassification has no impact on total other comprehensive income in the comparative year ended 31 July 2021.

CONSOLIDATED PRIMARY STATEMENTS



Consolidated balance sheet

	Notes	31 July 2022 €m	31 July 2021 €m
NON-CURRENT ASSETS			
Intangible assets	10	1,588	1,498
Property, plant and equipment	12	243	212
Right of use assets	13	106	108
Financial assets – other investments	14	395	11
Retirement benefit assets	8	309	546
Deferred tax assets	6	95	92
Trade and other receivables	16	69	59
Financial derivatives	20	–	75
		2,805	2,601
CURRENT ASSETS			
Inventories	15	570	381
Current tax receivable	6	50	75
Trade and other receivables	16	738	630
Cash and cash equivalents	18	1,056	405
Financial derivatives	20	4	2
Assets held for sale	27	–	1,243
		2,418	2,736
TOTAL ASSETS		5,223	5,337
CURRENT LIABILITIES			
Financial liabilities:			
– borrowings	18	(509)	(9)
– lease liabilities	18	(29)	(27)
– financial derivatives	20	(27)	(3)
Provisions	23	(88)	(46)
Trade and other payables	17	(682)	(530)
Current tax payable	6	(64)	(89)
Liabilities held for sale	27	–	(283)
		(1,399)	(987)
NON-CURRENT LIABILITIES			
Financial liabilities:			
– borrowings	18	(538)	(1,372)
– lease liabilities	18	(90)	(94)
– financial derivatives	20	(20)	–
Provisions	23	(247)	(241)
Retirement benefit obligations	8	(115)	(128)
Corporation tax payable	6	(3)	(5)
Deferred tax liabilities	6	(44)	(28)
Trade and other payables	17	(46)	(59)
		(1,103)	(1,927)
TOTAL LIABILITIES		(2,502)	(2,914)
NET ASSETS		2,721	2,423
SHAREHOLDERS' EQUITY			
Share capital	24	136	149
Share premium account		365	363
Capital redemption reserve	26	19	6
Revaluation reserve	26	–	1
Merger reserve	26	235	235
Cumulative translation adjustments		487	509
Retained earnings		1,659	1,367
Hedge reserve	26	(202)	(228)
Total shareholders' equity		2,699	2,402
Non-controlling interest equity	26	22	21
TOTAL EQUITY		2,721	2,423

The accounts on pages 103 to 163 were approved by the Board of Directors on 22 September 2022 and were signed on its behalf by:

Paul Keel

CHIEF EXECUTIVE OFFICER

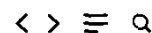
Paul Keel

Clare Scherrer

CHIEF FINANCIAL OFFICER

Clare R. Scherrer

CONSOLIDATED PRIMARY STATEMENTS

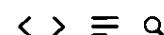


Consolidated statement of changes in equity

	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 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
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

	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 2020		510	242	674	1,259	(312)	2,373	21	2,394
Profit for the year		-	-	-	284	-	284	1	285
Other comprehensive income:									
- re-measurement of retirement benefits after tax		-	-	-	7	-	7	-	7
- FX movements net of recycling		-	-	(165)	-	-	(165)	(1)	(166)
- fair value gains and related tax		-	-	-	4	84	88	-	88
Total comprehensive income for the year		-	-	(165)	295	84	214	-	214
Transactions relating to ownership interests:									
Exercises of share options	24	2	-	-	-	-	2	-	2
Receipt of capital from non-controlling interest		-	-	-	-	-	-	1	1
Purchase of own shares	24	-	-	-	(16)	-	(16)	-	(16)
Dividends:									
- equity shareholders	25	-	-	-	(185)	-	(185)	-	(185)
- non-controlling interest		-	-	-	-	-	-	(1)	(1)
Share-based payment	9	-	-	-	14	-	14	-	14
At 31 July 2021		512	242	509	1,367	(228)	2,402	21	2,423

CONSOLIDATED PRIMARY STATEMENTS



Consolidated cash-flow statement

	Notes	Year ended 31 July 2022 £m	Year ended 31 July 2021 £m
Net cash inflow from operating activities	28	279	535
Cash-flows from investing activities			
Expenditure on capitalised development		(22)	(27)
Expenditure on other intangible assets		(8)	(12)
Purchases of property, plant and equipment		(58)	(78)
Disposals of property, plant and equipment		3	2
Capital returned by other investments		–	7
Acquisition of businesses		–	(83)
Investment in financial asset – discontinued operations		–	(14)
Proceeds on disposal of subsidiaries, net of cash disposed		1,331	–
Net cash-flow used in investing activities		1,246	(205)
Cash-flows from financing activities			
Proceeds from exercise of share options	24	2	2
Share buybacks	24	(511)	–
Purchase of shares by Employee Benefit Trust	26	(16)	(16)
Proceeds received on exercise of employee share options		1	–
Settlement of cash-settled options		(1)	–
Dividends paid to equity shareholders	25	(150)	(185)
Lease payments		(38)	(44)
Reduction and repayment of borrowings		(295)	–
Cash inflow from matured derivative financial instruments		23	4
Net cash-flow used in financing activities		(985)	(239)
Net increase in cash and cash equivalents		540	91
Cash and cash equivalents at beginning of year		405	366
Movement in net cash held in disposal group		48	(28)
Foreign exchange rate movements		62	(24)
Cash and cash equivalents at end of year	18	1,055	405
Cash and cash equivalents at end of year comprise:			
– cash at bank and in hand		242	219
– short-term deposits		814	186
		1,056	405
– bank overdrafts		(1)	–
		1,055	405

ACCOUNTING POLICIES

Basis of preparation

The accounts have been prepared in accordance with 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 5 to 55. The Group's financial position, cash-flows, liquidity and borrowing facilities are described in the CFO review section on pages 15 to 16.

Other factors considered by the Board as part of their 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 which broadly match 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.

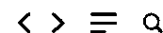
John Crane, Inc. (JCI), a subsidiary of the Group, is one of many co-defendants in litigation relating to products previously manufactured which contained asbestos. Provision of £229m (FY2021: £212m) has been made for the future defence costs which the Group is expected to incur and the expected costs 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 showing the impact on the provision of reducing or increasing this time horizon;
- 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 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 £52m (FY2021: £47m) 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

ACCOUNTING POLICIES



have been made about the impact of safe installation initiatives on the level of future claims. See note 23 for a sensitivity 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 £103m (FY2021: £144m) relating to losses and £69m (FY2021: £65m) 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 £38m (FY2021: £34m), 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 2022, the Group held contracts with a total value of £181m (2021: £166m), of which £135m (2021: £99m) had been delivered and £47m (2021: £67m) remains fully or partially unsatisfied. £37m 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 £2m (2021: 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 \$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 1.25m ICU shares and for the ICU share price to average \$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 \$300. These valuation simulations have determined a fair value of £19m (US\$23m).

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.

Where the Group has a contractual option to acquire a business in the future, management have applied judgement in determining whether it has substantive voting rights in the business and whether the business should be accounted for as a subsidiary or associate. In applying these judgements, management have reviewed whether the option and any related legal/commercial agreements provide the Group with power or significant influence over the business and have assessed whether there are any barriers that prevent the Group from exercising these rights.

Retirement benefits

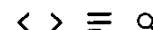
At 31 July 2022 the Group has recognised £309m of retirement benefit assets (FY2021: £546m) and a net pension asset of £194m (FY2021: £413m), principally relating to the Smiths Industries Pension Scheme ('SIPS'), which arises from the rights of the employers to recover the surplus at the end of the life 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).

ACCOUNTING POLICIES



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 market place 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 £103m (FY2021: £144m) relating to losses and £69m (FY2021: £65m) 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. This definition of organic growth is the same as that used for underlying growth in previous accounting periods.

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 180 to 186.

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.

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.

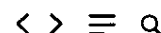
The Group has identified the following different types of revenue:

(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

ACCOUNTING POLICIES



- 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 despatch 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 despatch 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;
- On-site 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.

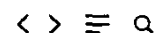
For cost-plus contracts, revenue is recognised based upon costs incurred to date plus any agreed margin.

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.

ACCOUNTING POLICIES



Leases

The Group 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 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.

Leases of buildings typically have lease terms between 1 and 6 years, while plant and machinery generally have lease terms between 1 and 3 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.

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;
- 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.

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.

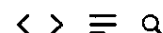
Intangible assets

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.

ACCOUNTING POLICIES



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 11 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 7 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 (FIFO) 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 initially recognised at fair value and subsequently measured at amortised cost, less any appropriate provision for expected credit losses.

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, 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

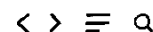
Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. 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.

ACCOUNTING POLICIES



Businesses held for sale

Businesses classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Impairment losses on initial classification as held for sale and gains or losses on subsequent remeasurements are included in the income statement. No depreciation is charged on assets and businesses classified as held for sale.

Businesses are classified as held for sale if their carrying amount will be settled principally through a sale rather than through continuing use and the following criteria are met:

- The business must be a separate major line of business, available for immediate sale in its present condition;
- Management is committed to the plan to sell the business and an active programme to locate a buyer and complete the plan must have been initiated;
- The disposal group must be actively marketed for sale at a price that is reasonable in relation to its current fair value;
- Shareholder and regulatory approval is highly probable and the plan is unlikely to be significantly changed or withdrawn; and
- Sale is expected to be completed within 12 months of the balance sheet date.

The assets and liabilities of businesses held for sale are presented as separate lines on the balance sheet.

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 and short-term investments are measured at amortised cost. Money market funds and short-term deposits are measured at fair value through profit and loss (FVPL);
- Derivatives are measured at FVPL;
- Listed and unlisted investments are measured at FVOCI; and
- 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. When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments previously taken to reserves are included in the income statement.

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.

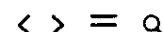
Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising any resulting gain or loss depends on whether the derivative financial instrument is designated as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

ACCOUNTING POLICIES

**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 2022

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 171 to 179. The principal subsidiaries of the Parent Company are listed in the above accounts.

NOTES TO THE ACCOUNTS

1 Segment information

Analysis by operating segment

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

- **John Crane** – mechanical seals, seal support systems, power transmission couplings and specialised filtration systems;
- **Smiths Detection** – sensors and systems that detect and identify explosives, narcotics, weapons, chemical agents, biohazards and contraband;
- **Flex-Tek** – engineered components, flexible hoses 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.

The sale of the Group's Smiths Medical business was completed on 6 January 2022 and the results of Smiths Medical are disclosed as a discontinued operation in note 27. Intersegment sales and transfers are charged at arm's length prices.

Segment trading performance

	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

	Year ended 31 July 2021					
	John Crane £m	Smiths Detection £m	Flex-Tek £m	Smiths Interconnect £m	Corporate costs £m	Total £m
Revenue	865	721	508	312	–	2,406
Divisional headline operating profit	187	99	97	35	–	418
Corporate headline operating costs	–	–	–	–	(46)	(46)
Headline operating profit/(loss)	187	99	97	35	(46)	372
Items excluded from headline measures (note 3)	(3)	(22)	(14)	(1)	(6)	(46)
Operating profit/(loss)	184	77	83	34	(52)	326

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

	Year ended 31 July 2022					
	John Crane £m	Smiths Detection £m	Flex-Tek £m	Smiths Interconnect £m	Corporate and non-headline £m	Total £m
Depreciation – property, plant and equipment	15	10	7	5	1	38
Depreciation – right of use assets	15	7	5	2	1	30
Amortisation of capitalised development costs	–	3	–	–	–	3
Amortisation of software, patents and intellectual property	3	1	–	2	1	7
Amortisation of acquired intangibles	–	–	–	–	51	51
Share-based payment	3	2	2	1	4	12
Russia impairment charges and related closure costs	9	10	–	–	–	19
Transition services cost reimbursement	–	–	–	–	(7)	(7)

	Year ended 31 July 2021					
	John Crane £m	Smiths Detection £m	Flex-Tek £m	Smiths Interconnect £m	Corporate and non-headline £m	Total £m
Depreciation – property, plant and equipment	15	12	6	6	1	40
Depreciation – right of use assets	14	7	4	5	2	32
Amortisation of capitalised development costs	–	7	–	–	–	7
Amortisation of software, patents and intellectual property	3	1	–	2	1	7
Amortisation of acquired intangibles	–	–	–	–	53	53
Share-based payment	3	2	1	1	6	13
Strategic restructuring costs	4	6	–	10	1	21

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

NOTES TO THE ACCOUNTS



Segment assets and liabilities

Segment assets

	31 July 2022					
	John Crane £m	Smiths Detection £m	Flex-Tek £m	Smiths Interconnect £m	Corporate and non-headline £m	Total £m
Property, plant, equipment, right of use assets, development projects, other intangibles and investments	167	127	84	54	399	831
Inventory, trade and other receivables	429	524	244	167	13	1,377
Segment assets	596	651	328	221	412	2,208

	31 July 2021					
	John Crane £m	Smiths Detection £m	Flex-Tek £m	Smiths Interconnect £m	Corporate and non-headline £m	Total £m
Property, plant, equipment, right of use assets, development projects, other intangibles and investments	152	117	75	44	18	406
Inventory, trade and other receivables	356	417	160	127	10	1,070
Segment assets	508	534	235	171	28	1,476

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

Segment liabilities

	31 July 2022					
	John Crane £m	Smiths Detection £m	Flex-Tek £m	Smiths Interconnect £m	Corporate and non-headline £m	Total £m
Divisional liabilities	(155)	(347)	(91)	(85)	–	(678)
Corporate and non-headline liabilities	–	–	–	–	(385)	(385)
Segment liabilities	(155)	(347)	(91)	(85)	(385)	(1,063)

	31 July 2021					
	John Crane £m	Smiths Detection £m	Flex-Tek £m	Smiths Interconnect £m	Corporate and non-headline £m	Total £m
Divisional liabilities	(137)	(276)	(66)	(61)	–	(540)
Corporate and non-headline liabilities	–	–	–	–	(336)	(336)
Segment liabilities	(137)	(276)	(66)	(61)	(336)	(876)

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

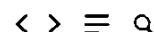
	Assets		Liabilities	
	31 July 2022 £m	31 July 2021 £m	31 July 2022 £m	31 July 2021 £m
Segment assets and liabilities	2,208	1,476	(1,063)	(876)
Goodwill and acquired intangibles	1,501	1,423	–	–
Derivatives	4	77	(47)	(3)
Current and deferred tax	145	167	(111)	(122)
Retirement benefit assets and obligations	309	546	(115)	(128)
Cash and borrowings	1,056	405	(1,166)	(1,502)
Assets and liabilities held for sale	–	1,243	–	(283)
Statutory assets and liabilities	5,223	5,337	(2,502)	(2,914)

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 2022	74	23	11	12	1	71
Capital expenditure year ended 31 July 2021	19	23	9	9	2	62

NOTES TO THE ACCOUNTS

**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 (FY2021: £787m) 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 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
	31 July 2021				
	John Crane £m	Smiths Detection £m	Flex-Tek £m	Smiths Interconnect £m	Total £m
Average divisional capital employed	937	1,018	449	395	2,799
Average corporate capital employed					31
Average total capital employed – continuing operations					2,830

Analysis of revenue

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

	Original Equipment £m	Aftermarket £m	Total £m
John Crane			
Revenue year ended 31 July 2022	279	622	901
Revenue year ended 31 July 2021	273	592	865
	Aviation £m	Other security systems £m	Total £m
Smiths Detection			
Revenue year ended 31 July 2022	467	188	655
Revenue year ended 31 July 2021	546	175	721
	Aerospace £m	Industrials £m	Total £m
Flex-Tek			
Revenue year ended 31 July 2022	116	531	647
Revenue year ended 31 July 2021	99	409	508
			Components, connectors & subsystems £m
Smiths Interconnect			
Revenue year ended 31 July 2022			363
Revenue year ended 31 July 2021			312

Aftermarket sales contributed £1,238m (FY2021: £1,198m) of Group revenue: John Crane aftermarket sales were £622m (FY2021: £592m); Smiths Detection aftermarket sales were £355m (FY2021: £331m); Flex-Tek aftermarket sales were £261m (FY2021: £270m); and Smiths Interconnect aftermarket sales were £nil (FY2021: £5m).

NOTES TO THE ACCOUNTS



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 2022	371	–	530	–	901
Revenue year ended 31 July 2021	355	–	510	–	865
Smiths Detection					
Revenue year ended 31 July 2022	–	655	–	–	655
Revenue year ended 31 July 2021	–	721	–	–	721
Flex Tek					
Revenue year ended 31 July 2022	531	–	–	116	647
Revenue year ended 31 July 2021	409	–	–	99	508
Smiths Interconnect					
Revenue year ended 31 July 2022	166	144	–	53	363
Revenue year ended 31 July 2021	139	128	–	45	312
Total					
Revenue year ended 31 July 2022	1,068	799	530	169	2,566
Revenue year ended 31 July 2021	903	849	510	144	2,406

The Group's statutory revenue is analysed as follows:

	Year ended 31 July 2022 £m	Year ended 31 July 2021 £m
Sale of goods recognised at a point in time	1,849	1,723
Sale of goods recognised over time	99	94
Services recognised over time	618	589
	2,566	2,406

Analysis by geographical areas

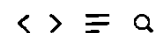
The Group's revenue by destination and non-current operating assets by location are shown below:

	Year ended 31 July 2022 £m	Revenue Year ended 31 July 2021 £m	Intangible assets, right of use assets and property, plant and equipment 31 July 2022 £m	31 July 2021 £m
Americas	1,423	1,244	1,324	1,195
Europe	480	522	498	512
Asia-Pacific	421	390	76	70
Rest of the World	242	250	39	41
	2,566	2,406	1,937	1,818

Revenue by destination attributable to the United Kingdom was £75m (FY2021: £69m). Other revenue found to be significant included, the United States of America, totalling £1,206m (FY2021: £1,047m), China (excluding Hong Kong) £132m (FY2021: £123m) and Germany £123m (FY2021: £130m). 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 £108m (FY2021: £110m). Significant non-current assets held in the United States of America £1,260m (FY2021: £1,138m) and Germany £340m (FY2021: £350m).

NOTES TO THE ACCOUNTS



2 Operating costs

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

	Year ended 31 July 2022			Year ended 31 July 2021		
	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	1,605	–	1,605	1,491	–	1,491
Selling costs	200	–	200	188	–	188
Administrative expenses	351	300	651	355	46	401
Transition services cost reimbursement	(7)	–	(7)	–	–	–
Total	2,149	300	2,449	2,034	46	2,080

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 2022 £m	Year ended 31 July 2021 £m
Research and development expense	80	76
Depreciation of property, plant and equipment	38	40
Depreciation of right of use assets	30	32
Amortisation of intangible assets	61	67
Strategic restructuring programme and write-downs	–	21
Russia impairment and related closure costs (see note 11)	19	–
Transition services cost reimbursement	(7)	–

Research and development (R&D) cash costs were £107m (FY2021: £94m) comprising £80m (FY2021: £76m) of R&D expensed to the income statement, £12m (FY2021: £8m) of capitalised costs and £15m (FY2021: £10m) of customer funded R&D.

Administrative expenses include £3m (FY2021: £1m) 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

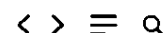
The following fees were paid or are payable to the Company's auditors, KPMG LLP and other firms in the KPMG network, for the year ended 31 July 2022.

	Year ended 31 July 2022 £m	Year ended 31 July 2021 £m
Audit services		
Fees payable to the Company's auditors for the audit of the Company's annual financial statements	2.5	2.3
Fees payable to the Company's auditors and its associates for other services:		
– the audit of the Company's subsidiaries	4.5	4.2
	7.4	6.5
All other services	0.8	0.9

Other services comprise audit-related assurance services £0.5m (FY2021: £0.4m) and fees for reporting accountant services in connection with a class 1 disposal £0.3m (FY2021: £0.5m). Audit-related assurance services include the review of the Interim Report. Total fees for non audit services comprise 11% (FY2021: 13%) of audit fees.

In the current year, the Group has additionally agreed £0.5m of additional fees with the Group auditors relating to the audit of the prior year financial statements.

NOTES TO THE ACCOUNTS



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 2022 €m	Year ended 31 July 2021 €m
Post-acquisition integration costs and fair value adjustment unwind			
Unwind of acquisition balance sheet fair value uplift		(2)	(1)
Integration programme costs		-	(1)
Acquisition and disposal related transaction costs and provision releases			
Business acquisition/disposal costs		(5)	(1)
Legacy pension scheme arrangements			
Past service costs for benefit equalisation and improvements	8	(43)	(6)
Retirement benefit scheme settlement loss	8	(171)	-
Non-headline litigation provision movements			
Movement in provision held against Titeflex Corporation subrogation claims	23	(2)	13
Provision for John Crane, Inc. asbestos litigation	23	(7)	(6)
Cost recovery for John Crane, Inc. asbestos litigation		-	9
Other items			
Russia impairment charges and related closure costs	11	(19)	-
Amortisation of acquired intangible assets	10	(51)	(53)
Non-headline items in operating profit – continuing operations		(300)	(46)

Post-acquisition integration costs and fair value adjustment unwind

The impact of unwinding the acquisition balance sheet fair value adjustments required by IFRS 3 'Business combinations' was recognised as non-headline as the charge did not relate to trading activity. The £2m (FY2021: £1m) charge was due to the unwind of fair value uplifts on the acquisition of Royal Metal Products.

The £1m of integration programme costs in FY2021 principally related to defined projects for the integration of United Flexible into the existing Flex-Tek business. Integration programme costs included the direct costs of organisational change, site rationalisation and entity closure costs. The United Flexible integration programme concluded in the current year. Integration costs were recognised as non-headline items because they were considered material and bear no relation to the ongoing performance of the acquired businesses.

Acquisition and disposal related transaction costs and provision releases

The £5m of business acquisition/disposal costs (FY2021: £1m) principally relate to a provision for potential litigation expenses relating to an acquired business that were unknown at the time of the acquisition. These costs are recognised as non-headline items because they entirely relate to an acquisition transaction and are considered to be non-trading in nature.

Legacy pension scheme arrangements

The current year past service costs of £43m (FY2021: £6m) comprises the following:

- £19m of costs (FY2021: £6m) that were recognised in respect of the historic equalisation of retirement benefits for men and women (see note 8 for further details); and
- £24m of costs (FY2021: £nil) that were recognised following the TI Group Pension Scheme (TIGPS) executing an insurance buy-in policy. This reflects the expectation that the TIGPS trustee will use any surplus, remaining after the costs of buying-out and winding-up the scheme have been met, to improve member benefits (see note 8 for further details).

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

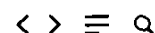
A £171m retirement benefit scheme settlement loss has been recognised in the current year (FY2021: £nil) following TIGPS executing an insurance buy-in policy for its remaining uninsured liabilities (see note 8 for further details). This item is reported as non-headline as it is non-recurring and relates to legacy pension liabilities.

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 £2m charge (FY2021: £13m credit) recognised by Titeflex Corporation is principally in respect of an increase in the estimated cost of future claims. See note 23 for further details; and
- The £7m charge (FY2021: £6m charge) recognised for John Crane, Inc. asbestos litigation provision was principally due to an increased provision for adverse judgements and legal defence costs. The costs recovered via insurer settlements in FY2021 were £9m. See note 23 for further details.

NOTES TO THE ACCOUNTS



Other items

Following the decision in March 2022 to suspend sales into Russia the Group has recognised £19m (FY2021: £nil) of Russia impairment charges and related closure costs (see note 11 for further details). These expenses are recognised as non-headline items as they are both non-recurring and material in size.

Acquired intangible asset amortisation costs of £51m (FY2021: £53m) were recognised in the current year. This was considered to be a non-headline item on the basis that these charges resulted from acquisition accounting and were non-operational in nature.

Non-headline finance costs items

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

	Notes	Year ended 31 July 2022 £m	Year ended 31 July 2021 £m
Unwind of discount on provisions	23	(3)	(2)
Other finance income – retirement benefits	8	7	6
Fair value gain on investment in early stage business	14	1	–
Foreign exchange gain (loss) on intercompany loan with discontinued operations		22	(50)
Non-headline items in finance costs – continuing operations		27	(46)
Continuing operations – non-headline loss before taxation		(273)	(92)

The financing elements of non-headline legacy liabilities, including the £3m (FY2021: £2m) 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 (FY2021: £6m) 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.

Foreign exchange gains or losses on intercompany financing between Smiths Medical and the continuing Group were recognised on the face of the income statement as a non-headline item due to the classification of the Smiths Medical division as a discontinued operation. The £22m foreign exchange gain in continuing operations (FY2021: £50m loss) matches the foreign exchange loss in discontinued operations. This was excluded from headline net finance costs as these fair value movements were non-operational in nature and were purely a consequence of the presentational requirements for discontinued operations.

Non-headline taxation items

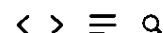
The non-headline items included in taxation for continuing operations were as follows:

	Notes	Year ended 31 July 2022 £m	Year ended 31 July 2021 £m
Tax credit on non-headline loss	6	19	9
(Increase)/decrease in unrecognised UK deferred tax asset	6	(5)	4
Non-headline items in taxation – continuing operations		14	13
Continuing operations – non-headline loss for the year		(259)	(79)

Movement in unrecognised UK deferred tax asset

These movements are reported as non-headline because the prior year charge was reported as non-headline. In FY2019 £36m of deferred tax was derecognised following the decision to separate Smiths Medical which reduces the Group's profitability in the UK. This year, following sale of Medical there is an additional non-headline charge for UK losses.

NOTES TO THE ACCOUNTS



ii. DISCONTINUED OPERATIONS

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

	Notes	Year ended 31 July 2022 £m	Year ended 31 July 2021 £m
Non-headline operating profit items			
Medfusion documentation remediation costs		(33)	-
Impairment of investment in Ivenix, Inc convertible debt		(14)	-
Medical separation costs		-	(18)
Impairment of capitalised development costs and related assets		-	(61)
Non-headline finance costs items			
Foreign exchange (loss)/gain on intercompany loan with parent		(22)	50
Gain on sale of discontinued operation			
Gain on the sale of Smiths Medical to ICU Medical, Inc.	27	1,036	-
Non-headline taxation items			
Tax on non-headline loss	27	6	23
Non-headline items in profit from discontinued operations		973	(6)
Profit for the year – non-headline items for continuing and discontinued operations		714	(85)

In the current year Smiths Medical recognised a provision of £33m against the expected costs of the remediation actions required to address each of the observations and discussion items contained in the US Food and Drug Administration (FDA) 'for-cause' audit findings on the Medfusion product range.

In the current period a decision was taken by Smiths Medical to exit their commercial agreement with Ivenix, Inc. These circumstances have resulted in a change in strategy and have triggered an indicator of impairment to the carrying value of the Smiths Medical investment in Ivenix, Inc. As this change in circumstances indicates that it is not currently probable that the investment will realise economic benefits, management have impaired the entire £14m value of Smiths Medical's Ivenix, Inc. investment.

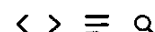
In the prior year the £18m of Medical separation costs represented incremental costs incurred by the Group to separate Smiths Medical. This cost has been reported as non-headline as the full year effect of the transaction on the Group's financial statements is both material and non-recurring. In the current year separation and transaction costs incurred on the sale of the Smiths Medical business to ICU Medical, Inc have been included within the 'Gain on sale of discontinued operation' calculation (see note 27).

The £22m foreign exchange loss on intercompany loan with parent (FY2021: £50m gain) directly offsets the foreign exchange gain in continuing operations. This is excluded from headline net finance costs as these fair value movements are non-operational in nature and are purely a consequence of the presentational requirements for discontinued operations.

4 Net finance costs

	Notes	Year ended 31 July 2022 £m	Year ended 31 July 2021 £m
Interest receivable		14	9
Interest payable:			
– bank loans and overdrafts, including associated fees		(12)	(7)
– other loans		(40)	(39)
– interest on leases		(3)	(3)
Interest payable		(55)	(49)
Headline net finance costs		(41)	(40)
Other financing gains/(losses):			
– valuation movements on fair value hedged debt		(32)	22
– valuation movements on fair value derivatives		33	(25)
– foreign exchange and ineffectiveness on net investment hedges		(2)	3
– retranslation of foreign currency bank balances		(1)	(3)
– other items including counterparty credit risk adjustments and non-hedge accounted derivatives		2	3
Other financing gains/(losses)		-	-
Non-headline finance cost items:			
Foreign exchange gain on intercompany loan with discontinued operations	3	22	(50)
Unwind of discount on provisions	3	(3)	(2)
Fair value gain on investment in early stage business	14	1	-
Net interest income on retirement benefit obligations	8	7	6
Non-headline finance cost items		27	(46)
Net finance costs		(14)	(86)

NOTES TO THE ACCOUNTS



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 2022 £m	Year ended 31 July 2021 £m
Profit attributable to equity shareholders for the year:		
– continuing	11	156
– discontinued	1,022	128
Total	1,033	284
Average number of shares in issue during the year (note 24)	386,678,211	396,350,586
Statutory earnings per share total – basic	2671p	71.7p
Statutory earnings per share total – diluted	266.0p	71.3p
Statutory earnings per share continuing operations – basic	2.8p	39.4p
Statutory earnings per share continuing operations – diluted	2.8p	39.1p

Diluted earnings per share are calculated by dividing the profit attributable to ordinary shareholders by 388,349,758 (FY2021: 398,576,502) 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 (FY2021: 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 2022			Year ended 31 July 2021		
	£m	Basic EPS (p)	Diluted EPS (p)	£m	Basic EPS (p)	Diluted EPS (p)
Total profit attributable to equity shareholders of the Parent Company	1,033	2671	266.0	284	71.7	71.3
Exclude: Non-headline items (note 3)	(714)			85		
Headline earnings per share	319	82.5	82.1	369	93.1	92.6
Profit from continuing operations attributable to equity shareholders of the Parent Company	11	2.8	2.8	156	39.4	39.1
Exclude: Non-headline items (note 3)	259			79		
Headline earnings per share – continuing operations	270	69.8	69.5	235	59.3	59.0

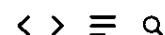
6 Taxation

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 2022 £m	Year ended 31 July 2021 £m
The taxation charge in the consolidated income statement for the year comprises:		
Continuing operations		
– current income tax charge	68	71
– current tax adjustments in respect of prior periods	5	7
Current taxation	73	78
Deferred taxation	17	5
Total taxation expense – continuing operations	90	83
Analysed as:		
Headline taxation expense	104	96
Non-headline taxation credit	(14)	(13)
Total taxation expense in the consolidated income statement	90	83
Tax on items charged/(credited) to equity		
Deferred tax:		
– retirement benefit schemes	–	6
– foreign exchange	–	(5)
– share-based payment	(1)	(1)
	(1)	–

The £nil (FY2021: £6m) charge to equity for retirement benefits related to UK retirement schemes.

NOTES TO THE ACCOUNTS



Current taxation liabilities

	Current tax £m
At 31 July 2020	(38)
Foreign exchange gain	1
Charge to income statement	(78)
Tax paid	96
At 31 July 2021	(19)
Current tax receivable	75
Current tax payable within one year	(89)
Corporation tax payable after more than one year	(5)
At 31 July 2021	(19)
Foreign exchange gain	(4)
Charge to income statement	(73)
Tax paid	79
At 31 July 2022	(17)
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)

Taxation liabilities included provisions of £38m (FY2021: £34m), 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.

Reconciliation of the tax charge

The headline tax charge for the year of £104m (FY2021: £96m) represented an effective rate of 27.6% (FY2021: 28.9%). The headline effective tax rate for the total Group including discontinued operations was 27.2% (FY2021: 27.1%). The tax charge on the profit for the year for continuing operations was different from the standard rate of corporation tax in the UK of 19% (FY2021: 19.0%). The difference is reconciled as follows:

	Year ended 31 July 2022 £m	Year ended 31 July 2021 £m
Profit before taxation	103	240
Notional taxation expense at UK corporate rate of 19.0% (FY2021: 19.0%)	20	46
Different tax rates on non-UK profits and losses	13	16
Non-deductible expenses and other charges	11	30
Tax credits and non-taxable income	(6)	(8)
Non-headline UK deferred tax asset recognition adjustment	5	(4)
Other adjustments to unrecognised deferred tax	10	(4)
Non-tax relievable loss on UK pensions schemes	41	-
Tax on Smiths Medical consolidation adjustments	2	8
Prior year true-up	(6)	(1)
Total taxation expense in the consolidated income statement	90	83
Comprising:		
Taxation on headline profit	104	96
Non-headline taxation items:		
- Tax on non-headline loss	(19)	(9)
- UK deferred tax asset recognition adjustment	5	(4)
Taxation on non-headline items	(4)	(13)
Total taxation expense in the consolidated income statement	90	83

The head office of Smiths Group is domiciled in the UK; so the tax charge has been reconciled to UK tax rates.

NOTES TO THE ACCOUNTS



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 2020	(74)	(66)	128	86	1	75
Reallocations	11	(1)	(14)	2	2	-
Charge to income statement – continuing operations	4	(31)	27	(5)	-	(5)
Credit to equity	-	(6)	5	-	-	(1)
Foreign exchange rate movements	3	(1)	(2)	(5)	-	(5)
At 31 July 2021	(56)	(105)	144	78	3	64
Deferred tax assets	2	(113)	126	62	15	92
Deferred tax liabilities	(58)	8	18	16	(12)	(28)
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
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 in FY2022 include £10m where attributes used to shelter PDCF assessments have been reallocated from losses to capital allowances, following the conclusion of the Group's PDCF audit with UK HMRC covering FY2015 to FY2020.

Of the amounts included within 'Other' in the table above as at 31 July 2022, liabilities relating to tax on unremitted earnings were £19m (FY2021: £14m). The aggregate amount of temporary differences associated with investments in subsidiaries for which deferred tax liabilities have not been recognised was 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 because it is probable that they will be recovered against the reversal of deferred tax liabilities. Deferred tax relating to provisions includes £57m (FY2021: £54m) relating to John Crane Inc. litigation provision, and £12m (FY2021: £11m) relating to Titeflex Corporation litigation provision. See note 23 for additional information on provisions.

Unrecognised deferred tax

The Group has unrecognised deferred tax relating to losses amounting to £335m (FY2021: £107m).

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 for the unrecognised deferred tax on losses is set out below:

	2022 £m	Expiry of losses	2021 £m	Expiry of losses
Restricted losses – Asia	-	n/a	30	2022-2027
Unrestricted losses – operating losses	335	No expiry	77	No expiry
Total unrecognised deferred tax on losses	335		107	

Unrecognised deferred tax relating to losses has increased by £228m (FY2021: increased by £13m). Changes to unrecognised losses include an increase of £226m, mainly related to UK deferred tax on losses that were being recognised to offset the deferred tax liability related to the TI Pension surplus, now written off following the bulk annuity buy-in with Rothesay Life plc, other increases of £39m and a reduction of £37m related to the sale of Smiths Medical.

Sale of Smiths Medical

The sale of 100% of the share capital of the UK Smiths Medical holding company completed on the 6 January 2022. The profit on sale was exempt from tax under the Substantial Shareholding Exemption.

Developments in the Group tax position

In December 2021, the Organisation for Economic Co-operation and Development ('OECD') published rules relating to global minimum taxation – the so-called Pillar 2 rules, scheduled to apply from 2023, regarding the future taxation of large multinationals such as Smiths. The Group will continue to monitor the development and future implementation of these rules. However, at this time and as currently drafted, they are not expected to have a material impact on the Group.

NOTES TO THE ACCOUNTS



7 Employees

	Year ended 31 July 2022			Year ended 31 July 2021		
	Continuing operations £m	Discontinued operations £m	Total £m	Continuing operations £m	Discontinued operations £m	Total £m
Staff costs during the period						
Wages and salaries	700	91	791	627	234	861
Social security	81	9	90	85	22	107
Share-based payment (note 9)	13	2	15	13	1	14
Pension costs (including defined contribution schemes) (note 8)	29	5	34	26	11	37
	823	107	930	751	268	1,019

The average number of persons employed, rounded to the nearest 50 employees, was:

	Year ended 31 July 2022	Year ended 31 July 2021
John Crane	6,050	5,950
Smiths Detection	3,100	3,000
Flex-Tek	3,300	3,000
Smiths Interconnect	2,500	2,300
Corporate (including central/shared IT services)	300	300
Continuing operations	15,250	14,550
Discontinued operations – Smiths Medical (in period to 6 January 2022)	6,700	7,500
Total	21,950	22,050

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 75 to 88.

	Year ended 31 July 2022 £m	Year ended 31 July 2021 £m
Key management compensation		
Salaries and short-term employee benefits	10.3	12.8
Cost of retirement benefits	0.7	0.9
Cost of share-based incentive plans	4.7	3.9

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 2022		Year ended 31 July 2021	
	Number of instruments '000	Weighted average exercise price	Number of instruments '000	Weighted average exercise price
SEP	–		169	
LTIP	1,411		1,645	
Restricted stock	8		82	
SAYE	16	£11.43	11	£10.11

Related party transactions

The only related party transactions in FY2022 were key management compensation (FY2021: key management compensation).

NOTES TO THE ACCOUNTS



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 £34m (FY2021: £36m).

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 2022.

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 2022 £m	Year ended 31 July 2021 £m
At beginning of period	413	372
Foreign exchange rate movements	-	5
Current service cost	(2)	(2)
Scheme administration costs	(4)	(5)
Past service cost, curtailments, settlements – continuing operations	(214)	(6)
Settlements – discontinued operations	(3)	-
Finance income – retirement benefits	7	6
Contributions by employer	9	30
Actuarial gain	3	13
Retirement benefit obligations disposed of with Smiths Medical (note 27)	5	-
Unrecognised assets due to surplus restriction	(20)	-
Net retirement benefit asset	194	413

The £413m net retirement benefit asset for FY2021 included £5m of pension obligations disclosed within liabilities held for sale.

UK pension schemes

Smiths 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 duration of SIPS liabilities is around 20 years (FY2021: 23 years) for active deferred members, 20 years (FY2021: 22 years) for deferred members and 11 years (FY2021: 12 years) for pensioners and dependants.

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, it has been discovered that the method used in the early 1990s to equalise retirement ages between men and women in two of its smaller benefits sections was incorrect. An additional liability of £19m has been recognised as a past service cost to reflect the correction of this issue. A wider review is being undertaken to determine if equalisation was undertaken correctly in other sections of the Scheme. Should any issues arise from this review, any additional liability is expected to be accounted for at the point the legal investigations are completed and there is clarity on the legally effective dates that equalisation of retirement ages was implemented in respective sections.

NOTES TO THE ACCOUNTS



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. Consequently, the income statement recognises 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. A past service cost of £24m has been recognised for this in the income statement. 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 de-recognised 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 duration of the TIGPS liabilities is around 21 years (FY2021: 23 years) for active deferred members, 19 years (FY2021: 21 years) for deferred members and 10 years (FY2021: 11 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 2022.

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 16 years (FY2021: 18 years) for active deferred members, 15 years (FY2021: 18 years) for deferred members and 10 years (FY2021: 12 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

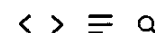
SIPS has covered roughly 30% of liabilities with matching annuities, eliminating investment return, longevity, inflation and funding risks in respect of those liabilities. It has also adopted a Liability Driven Investment (LDI) strategy to hedge interest and inflation risks of the scheme's uninsured 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:

	2022 UK	2022 US	2022 Other	2021 UK	2021 US	2021 Other
Rate of increase in salaries	n/a	n/a	2.2%	n/a	n/a	2.5%
Rate of increase for active deferred members	4.0%	n/a	n/a	4.2%	n/a	n/a
Rate of increase in pensions in payment	3.4%	n/a	1.2%	3.3%	n/a	1.5%
Rate of increase in deferred pensions	3.4%	n/a	n/a	3.3%	n/a	n/a
Discount rate	3.5%	4.5%	1.1%	1.7%	2.7%	0.7%
Inflation rate	3.4%	n/a	1.3%	3.3%	n/a	1.5%
Healthcare cost increases	4.4%	n/a	n/a	4.4%	n/a	n/a

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.

NOTES TO THE ACCOUNTS



Inflation rate assumptions

The RPI inflation assumption of 3.4% has been derived using the Aon UK Government Gilt Prices Only Curve with an Inflation Risk Premium (IRP) of 0.2% p.a., whereas in previous years the Aon UK Government RPI Curve was used. It is estimated that the impact of this change in RPI methodology is to increase the RPI assumption by 0.1% at 31 July 2022 and this is expected to increase the balance sheet liabilities, for both SIPS and TIGPS, by 1.0% of DBO at 31 July 2022.

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 0.6% p.a. (FY2021: 0.6%) reflecting the Group's view on the market pricing of this gap over the lifetime of the UK schemes' liabilities, i.e. 1.0% p.a. (FY2021: 1.0%) pre-2030 and 0.2% p.a. post-2030 (FY2021: 0.1%).

Discount rate assumptions

The UK schemes use a discount rate based on the annualised yield on the Aon GBP Select AA Curve, using the expected cash-flows from a notional scheme with obligations of the same duration as that of the UK schemes. 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.

Mortality assumptions

The mortality assumptions used in the principal UK schemes are based on the '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 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 mortality assumptions used in the principal US schemes are based on generational mortality using Pri-2012 sex-distinct, employee/non-disabled annuitant table, with a 2012 base year, projected forward generationally with the MP-2021 mortality scale. No explicit adjustment has been made to mortality assumptions in respect of COVID-19.

Expected further years of life	UK schemes				US schemes			
	Male 31 July 2022	Female 31 July 2022	Male 31 July 2021	Female 31 July 2021	Male 31 July 2022	Female 31 July 2022	Male 31 July 2021	Female 31 July 2021
Member who retires next year at age 65	22	24	22	24	21	22	20	22
Member, currently 45, when they retire in 20 years' time	23	25	23	25	22	24	22	24

Sensitivity

Sensitivities in respect of the key assumptions used to measure the principal pension schemes as at 31 July 2022 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 2022 £m	Increase/ (decrease) in scheme assets 31 July 2022 £m	(Increase)/ decrease in scheme liabilities 31 July 2022 £m	Profit before tax for year ended 31 July 2021 £m	Increase/ (decrease) in scheme assets 31 July 2021 £m	(Increase)/ decrease in scheme liabilities 31 July 2021 £m
Rate of mortality – 1 year increase in life expectancy	(2)	84	(135)	(2)	99	(209)
Rate of mortality – 1 year decrease in life expectancy	2	(84)	135	2	(97)	206
Rate of inflation – 0.25% increase	(1)	34	(69)	(1)	30	(98)
Discount rate – 0.25% increase	2	(49)	97	3	(38)	146
Market value of scheme assets – 2.5% increase	1	40	–	1	73	–

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. Details of pricing methodology are set out within internal control reports provided for each fund. Prices are updated daily, weekly or monthly 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.

Property is valued by specialists applying recognised property valuation methods incorporating current market data on rental yields and transaction prices.

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 broadly matching 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.

NOTES TO THE ACCOUNTS



Retirement benefit plan assets

	31 July 2022 – £m				31 July 2021 – £m			
	UK schemes	US schemes	Other countries	Total	UK schemes	US schemes	Other countries	Total
Cash and cash equivalents	90	1	1	92	71	1	–	72
Pooled funds:								
– Pooled equity	–	–	3	3	–	–	3	3
– Pooled Diversified Growth	–	–	15	15	–	–	19	19
– Pooled credit	379	–	–	379	420	–	–	420
Corporate bonds	412	167	–	579	791	192	–	983
Government bonds/LDI	498	57	3	558	1,298	79	3	1,380
Insured liabilities	1,649	–	–	1,649	1,462	–	–	1,462
Property	39	–	–	39	62	–	–	62
Other	–	–	–	–	–	–	5	5
Total market value	3,067	225	22	3,314	4,104	272	30	4,406

The assets are unquoted. Government bonds/LDI portfolios contain £960m (FY2021: £1,929m) of UK Government bonds (gilts), £476m (FY2021: £626m) of gilt repurchase obligations and £9m of interest and inflation swap assets (FY2021: £5m obligations).

The UK bond portfolios include forward FX contracts with a net value of £5m (FY2021: £1m). These are held to hedge against foreign currency risk in respect of overseas bonds.

The scheme assets do not include any property occupied by, or other assets used by, the Group.

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

	31 July 2022 – £m			31 July 2021 – £m		
	SIPS	TIGPS	US schemes	SIPS	TIGPS	US schemes
Present value of funded scheme liabilities:						
– Active deferred members	(32)	(23)	(41)	(42)	(29)	(73)
– Deferred members	(561)	(442)	(109)	(810)	(632)	(119)
– Pensioners	(1,010)	(670)	(88)	(1,226)	(809)	(81)
Present value of funded scheme liabilities	(1,603)	(1,135)	(238)	(2,078)	(1,470)	(273)
Market value of scheme assets	1,912	1,155	225	2,410	1,684	272
Surplus restriction	–	(20)	–	–	–	–
Surplus/(deficit)	309	–	(13)	332	214	(1)

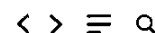
Net retirement benefit obligations

	31 July 2022 – £m				31 July 2021 – £m			
	UK schemes	US schemes	Other countries	Total	UK schemes	US schemes	Other countries	Total
Market value of scheme assets	3,067	225	22	3,314	4,104	272	30	4,406
Present value of funded scheme liabilities	(2,738)	(238)	(27)	(3,003)	(3,558)	(273)	(38)	(3,869)
Surplus restriction	(20)	–	–	(20)	–	–	–	–
Surplus/(deficit)	309	(13)	(5)	291	546	(1)	(8)	537
Unfunded pension plans	(43)	(7)	(40)	(90)	(54)	(7)	(55)	(116)
Post-retirement healthcare	(4)	(1)	(2)	(7)	(4)	(1)	(3)	(8)
Present value of unfunded obligations	(47)	(8)	(42)	(97)	(58)	(8)	(58)	(124)
Net pension asset/(liability)	262	(21)	(47)	194	488	(9)	(66)	413
Retirement benefit assets	309	–	–	309	546	–	–	546
Retirement benefit liabilities	(47)	(21)	(47)	(115)	(58)	(9)	(61)	(128)
Liabilities held for sale	–	–	–	–	–	–	(5)	(5)
Net pension asset/(liability)	262	(21)	(47)	194	488	(9)	(66)	413

Liabilities held for sale in FY2021 comprise £4m of unfunded pension plans and £1m deficit on defined benefit schemes within the Smiths Medical division.

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.

NOTES TO THE ACCOUNTS

**Amounts recognised in the consolidated income statement**

	Year ended 31 July 2022 £m	Year ended 31 July 2021 £m
Amounts charged to operating profit		
Current service cost	2	2
Past service costs – benefit equalisations	43	6
Settlement loss	171	-
Scheme administration costs	4	5
	220	13
The operating cost is charged as follows:		
Headline administrative expenses	6	7
Non-headline settlement loss	171	-
Non-headline administrative expenses	43	6
	220	13
Amounts credited to finance costs		
Non-headline other finance income – retirement benefits	(7)	(6)

Amounts recognised directly in the consolidated statement of comprehensive income

	Year ended 31 July 2022 £m	Year ended 31 July 2021 £m
Re-measurements of retirement defined benefit assets and liabilities		
Difference between interest credit and return on assets	(835)	(57)
Experience gains on scheme liabilities	(31)	44
Actuarial gains arising from changes in demographic assumptions	1	10
Actuarial gains/(losses) arising from changes in financial assumptions	868	16
Movement in surplus restriction	(20)	-
	(17)	13

Changes in present value of funded scheme assets

	31 July 2022 – £m				31 July 2021 – £m			
	UK schemes	US schemes	Other countries	Total	UK schemes	US schemes	Other countries	Total
At beginning of period	4,104	272	30	4,406	4,240	311	31	4,582
Interest on assets	70	8	1	79	58	7	1	66
Actuarial movement on scheme assets	(773)	(62)	-	(835)	(40)	(17)	-	(57)
Employer contributions	3	-	-	4	20	4	1	25
Scheme administration costs	(3)	(1)	-	(4)	(4)	(1)	-	(5)
Foreign exchange rate movements	-	33	-	33	-	(17)	-	(17)
Assets transferred on business disposal	-	-	(5)	(5)	-	-	-	-
Assets distributed on settlements	(180)	-	-	(180)	-	-	-	-
Curtailment gains/(losses)	-	(9)	-	(9)	-	-	-	-
Benefits paid	(154)	(16)	(5)	(175)	(170)	(15)	(3)	(188)
At end of period	3,067	225	22	3,314	4,104	272	30	4,406

Changes in present value of funded defined benefit obligations

	31 July 2022 – £m				31 July 2021 – £m			
	UK schemes	US schemes	Other countries	Total	UK schemes	US schemes	Other countries	Total
At beginning of period	(3,558)	(273)	(38)	(3,869)	(3,724)	(314)	(40)	(4,078)
Current service cost	-	-	-	-	-	-	(1)	(1)
Past service costs	(43)	-	-	(43)	(6)	-	-	(6)
Interest on obligations	(61)	(18)	(1)	(70)	(51)	(7)	(2)	(60)
Actuarial movement on liabilities	761	54	2	817	53	16	-	69
Foreign exchange rate movements	-	(33)	-	(33)	-	17	2	19
Liabilities transferred on business disposal	-	-	5	5	-	-	-	-
Curtailment gains/(losses)	-	6	-	6	-	-	-	-
Liabilities extinguished on settlements	9	-	-	9	-	-	-	-
Benefits paid	(154)	(16)	(5)	(175)	(170)	(15)	(3)	(188)
At end of period	(2,738)	(238)	(27)	(3,003)	(3,558)	(273)	(38)	(3,869)

NOTES TO THE ACCOUNTS



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

	Assets		Liabilities	
	Year ended 31 July 2022 £m	Year ended 31 July 2021 £m	Year ended 31 July 2022 £m	Year ended 31 July 2021 £m
At beginning of period	–	–	(124)	(132)
Current service cost	–	–	(1)	(1)
Interest on obligations	–	–	(2)	(1)
Actuarial movement	–	–	21	2
Employer contributions	5	5	–	–
Foreign exchange rate movements	–	–	–	3
Liabilities transferred on business disposal	–	–	4	–
Benefits paid	(5)	(5)	5	5
At end of period	–	–	(97)	(124)

Changes in the effect of the asset ceiling over the year

	Year ended 31 July 2022 £m	Year ended 31 July 2021 £m
Irrecoverable asset at beginning of period	–	–
Actuarial movement on scheme assets	(20)	–
At end of period	(20)	–

Cash contributions

Company contributions to the defined benefit pension plans and post-retirement healthcare plans totalled £9m (FY2021: £30m). This comprised regular contributions to funded schemes of £3m (FY2021: £12m) to SIPs, £nil (FY2021: £8m) to TIGPS, £nil (FY2021: £4m) to funded US schemes and contributions to other schemes of £1m (FY2021: £1m). In addition, £5m (FY2021: £5m) was spent on providing benefits under unfunded defined benefit pension and post-retirement healthcare plans.

In FY2023, cash contributions to the Group's schemes are expected to be up to £12m 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.

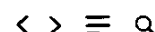
Restricted stock

Restricted stock is used by the Remuneration and 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.

NOTES TO THE ACCOUNTS



	Long-term incentive plans	SEP	Restricted stock	Save as you earn scheme	Total	Weighted average exercise price
Ordinary shares under option/award ('000)						
31 July 2020	3,937	1,295	131	1,207	6,570	£1.89
Granted	2,143	358	11	139	2,651	£0.68
Exercised	(346)	(411)	(60)	(165)	(982)	£2.03
Lapsed	(819)	(391)	(18)	(96)	(1,324)	£0.75
31 July 2021	4,915	851	64	1,085	6,915	£1.63
Reclassification	348	(348)	-	-	-	-
Granted	2,255	-	212	167	2,634	£0.77
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

Options and awards were exercised on an irregular basis during the period. The average closing share price over the financial year was 1,476.3p (FY2021: 1,508.6p). 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 2022 was nil (31 July 2021: nil).

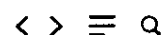
Range of exercise prices	Total shares under options/awards at 31 July 2022 ('000)	Weighted average remaining contractual life at 31 July 2022 (months)	Total shares under options/awards at 31 July 2021 ('000)	Weighted average remaining contractual life at 31 July 2021 (months)
£0.00 – £2.00	5,393	19	5,830	15
£6.01 – £10.00	490	18	655	30
£10.01 – £12.00	395	29	430	24

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% (FY2021: 25% to 20%) and dividend yield of 2.6% (FY2021: 2.8%), 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 £14.81 (FY2021: £14.10), and restricted stock of £14.59 (FY2021: £14.63). Staff costs included £15m (FY2021: £14m) for share-based payments, of which £14m (FY2021: £13m) 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 2020	1,254	155	546	174	2,129
Foreign exchange rate movements	(68)	(7)	(30)	(6)	(111)
Business combinations	21	-	46	-	67
Additions	-	8	-	10	18
Disposals	-	-	-	(1)	(1)
At 31 July 2021	1,207	156	562	177	2,102
Foreign exchange rate movements	(64)	6	68	10	18
Additions	-	12	-	6	18
At 31 July 2022	1,311	174	630	193	2,308
Amortisation and impairments					
At 31 July 2020	62	112	249	142	565
Foreign exchange rate movements	(3)	(5)	(15)	(4)	(27)
Amortisation charge for the year	-	7	53	7	67
Disposals	-	-	-	(1)	(1)
At 31 July 2021	59	114	287	144	604
Foreign exchange rate movements	4	6	35	6	51
Amortisation charge for the year	-	6	57	7	70
Impairment charge for the year	4	-	-	-	4
At 31 July 2022	67	123	373	157	720
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
Net book value at 31 July 2020	1,192	43	297	32	1,564

NOTES TO THE ACCOUNTS



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 2020	15	139	392	546
Foreign exchange rate movements	(1)	(7)	(22)	(30)
Business combinations	3	2	41	46
At 31 July 2021	17	134	411	562
Foreign exchange rate movements	2	18	48	68
At 31 July 2022	19	152	459	630
Amortisation				
At 31 July 2020	4	60	185	249
Foreign exchange rate movements	-	(3)	(12)	(15)
Charge for the year	1	10	42	53
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
Net book value at 31 July 2022	11	65	181	257
Net book value at 31 July 2021	12	67	196	275
Net book value at 31 July 2020	11	79	207	297

Individually material intangible assets comprise £71m of customer related intangibles attributable to United Flexible (remaining amortisation period: 4 years), £61m of customer relationship intangibles attributable to Morpho Detection (remaining amortisation period: 6 years), £35m of customer-related intangibles attributable to Royal Metal (remaining amortisation period: 6 years), and £19m of development cost intangibles attributable to a computed tomography 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:

	2022 £m	2022 Number of CGUs	2021 £m	2021 Number of CGUs
John Crane	132	1	129	1
Smiths Detection*	644	2	610	1
Flex-Tek	194	1	169	1
Smiths Interconnect	274	1	240	1
Smiths Medical	-	-	-	1
	1,244	5	1,148	5

* In FY2022 the Smiths Detection CGU has been restructured and the Detection Russia business split into a separate CGU, see the 'Russia impairment charges and related closure costs' section below for further details

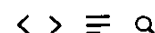
Critical estimates used in impairment testing

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 FY2023 business plan (as approved by the Board) and the five-year detailed divisional strategic projections which have been prepared by divisional management and approved by the Chief Financial Officer.

NOTES TO THE ACCOUNTS



The key 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 FY2023 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 calculated based on the Group's weighted average cost of capital and risks specific to the CGU being tested. In determining the risk adjusted discount rate, management considered the systematic risk to each of the Group's CGUs and applied an average of discount rates used by other companies for the industries in which Smiths divisions operate. Pre-tax rates of 11.3% to 12.3% (FY2021: 9.9% to 13.2%) 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 forecast period. Growth rates for the period after the detailed forecasts were based on the long-term GDP projections of the primary market for each CGU. The average growth rate used in the testing was 2.0% (FY2021: 2.1%). These rates did not reflect the long-term assumptions used by the Group for investment planning.

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

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

					As at 31 July 2021
	John Crane	Smiths Detection	Flex-Tek	Smiths Interconnect	Smiths Medical
Net book value of goodwill (£m)	129	610	169	240	535
Basis of valuation	Value in use	Value in use	Value in use	Value in use	Value in use
Discount rate – pre-tax	13.2%	10.3%	11.4%	11.1%	9.9%
– post-tax	9.5%	8.2%	9.1%	9.0%	8.0%
Period covered by management projections	5 years	5 years	5 years	5 years	5 years
Revenue – compound annual growth rate over projection period	6.4%	2.8%	5.0%	5.9%	5.9%
Average earnings before interest and tax margin	25.4%	13.4%	20.0%	19.0%	18.8%
Long-term growth rates	2.1%	1.8%	1.9%	2.4%	2.2%

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

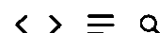
With the exception of the Smiths Detection CGU, the recoverable amount of all CGUs exceeded their carrying value, on the basis of the assumptions set out in the table above and any reasonably possible changes thereof.

The estimated recoverable amount of the Smiths Detection CGU exceeded the carrying value by £110m. Any decline in estimated value in use in excess of this amount would result in the recognition of impairment charges. 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 2022:

Change required for carrying value to equal recoverable amount – FY2022	Smiths Detection
Revenue – compound annual growth rate (CAGR) over 5-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 table above as management consider that there is no reasonably possible change in long-term growth rate that would result in an impairment.

NOTES TO THE ACCOUNTS



Change required for carrying value to equal recoverable amount – FY2021

Revenue – compound annual growth rate (CAGR) over 5-year projection period

Post-tax discount rate

Smiths Detection

–560 bps decrease

+220 bps increase

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.

In the current year the Group has recognised £17m of impairment charges against its Russia related net balance sheet exposure (FY2021: £nil), see below.

Russia impairment charges and related closure costs

As announced in March 2022, in the current year the Group suspended sales into Russia. Following this decision the Smiths Detection reporting structure has been restructured and the Detection Russia business split into a separate CGU, £4m of the Detection CGU has been apportioned to the Detection Russia CGU and fully impaired.

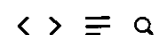
Management has assessed all Group operations for their exposure to Russia and the value of these Russia related net assets has been fully impaired in FY2022. The Group has recognised £19m of Russia related impairment charges and closure costs through non-headline operating expenses in FY2022 (see note 3), which are analysed as follows:

	John Crane £m	Smiths Detection £m	Total £m
Goodwill	–	4	4
Working capital balances	9	4	13
Net impairment charge	9	8	17
Related closure costs	–	2	2
Russian impairment and related closure costs	9	10	19

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 2020	175	383	133	691
Foreign exchange rate movements	(6)	(21)	(6)	(33)
Business combinations	–	2	–	2
Additions	6	38	–	44
Disposals	(3)	(14)	(5)	(22)
At 31 July 2021	172	388	122	682
Foreign exchange rate movements	14	37	6	57
Additions	4	42	–	46
Disposals	(14)	(10)	(5)	(29)
At 31 July 2022	176	457	129	762
Depreciation				
At 31 July 2020	102	261	110	473
Foreign exchange rate movements	(3)	(15)	(6)	(24)
Charge for the year	10	26	4	40
Disposals	(3)	(12)	(4)	(19)
At 31 July 2021	106	260	104	470
Foreign exchange rate movements	9	2–	5	39
Charge for the year	7	24	7	38
Disposals	(14)	(10)	(4)	(28)
At 31 July 2022	108	299	112	519
Net book value at 31 July 2022	68	158	17	243
Net book value at 31 July 2021	66	128	18	212
Net book value at 31 July 2020	73	122	23	218

NOTES TO THE ACCOUNTS



13 Right of use assets

	Properties £m	Vehicles £m	Equipment £m	Total £m
Cost or valuation				
At 31 July 2020	110	14	1	125
Foreign exchange rate movements	(5)	(1)	–	(6)
Business combinations	9	1	–	10
Recognition of right of use asset	44	3	–	47
Derecognition of right of use asset	(12)	–	–	(12)
At 31 July 2021	146	17	1	164
Foreign exchange rate movements	(2)	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
Depreciation				
At 31 July 2020	26	5	–	31
Foreign exchange rate movements	(2)	–	–	(2)
Charge for the year	27	5	–	32
Derecognition of right of use asset	(5)	–	–	(5)
At 31 July 2021	46	10	–	56
Foreign exchange rate movements	5	–	–	6
Charge for the year	25	5	–	30
Derecognition of right of use asset	(1)	(1)	–	(2)
At 31 July 2022	75	15	–	90
Net book value at 31 July 2022	99	6	1	106
Net book value at 31 July 2021	100	7	1	108
Net book value at 31 July 2020	84	9	1	94

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 2020	–	–	8	11	19
Disposals	–	–	–	(7)	(7)
Fair value change through Other Comprehensive Income	–	–	(1)	–	(1)
At 31 July 2021	–	–	7	4	11
Foreign exchange rate movements	–	–	1	–	1
Additions	424	30	4	–	460
Disposal	–	–	(4)	–	(4)
Fair value change through Profit and Loss	–	(11)	1	–	(10)
Fair value change through Other Comprehensive Income	(52)	–	(1)	–	(53)
At 31 July 2022	364	19	8	4	395

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 \$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.

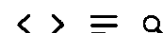
15 Inventories

	31 July 2022 £m	31 July 2021 £m
Raw materials and consumables	187	117
Work in progress	106	81
Finished goods	277	183
Total inventories	570	381

In FY2022, operating costs for continuing operations included £1,323m (FY2021: £1,233m) of inventory consumed, £12m (FY2021: £8m) was charged for the write-down of inventory and £12m (FY2021: £4m) was released from provisions no longer required.

Discontinued operations consumed £95m (FY2021: £218m) of inventory, £nil (FY2021: £4m) was charged for the write-down of inventory and £nil (FY2021: £1m) was released from provisions no longer required. Further details of discontinued operations are disclosed in note 27.

NOTES TO THE ACCOUNTS



Inventory provisioning

	31 July 2022 £m	31 July 2021 £m
Gross inventory carried at full value	492	324
Gross value of inventory partly or fully provided for	131	104
	623	428
Inventory provision	(53)	(47)
Inventory after provisions	570	381

16 Trade and other receivables

	31 July 2022 £m	31 July 2021 £m
Non-current		
Trade receivables	1	
Contract assets	58	49
Other receivables	10	10
	69	59
Current		
Trade receivables	506	431
Prepayments	33	26
Contract assets	127	131
Other receivables	72	42
	738	630

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 prepayments, 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 £726m (FY2021: £629m).

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 (FY2021: £18m) principally within Smiths Detection, offset by £15m of foreign currency translation losses (FY2021: £6m loss).

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 FY2022 the Group collected £92m of receivables through these schemes (FY2021: £90m). The impact of invoice discounting on the FY2022 balance sheet was that trade receivables were reduced by £19m (2021: £14m). 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 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% (FY2021: 7%) of Group revenue.

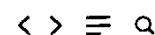
Ageing of trade receivables

	31 July 2022 £m	31 July 2021 £m
Trade receivables which are not yet due	396	338
Trade receivables which are between 1-30 days overdue	51	45
Trade receivables which are between 31-60 days overdue	24	15
Trade receivables which are between 61-90 days overdue	11	8
Trade receivables which are between 91-120 days overdue	7	5
Trade receivables which are more than 120 days overdue	54	52
	543	463
Expected credit loss allowance provision	(36)	(32)
Trade receivables	507	431

Movement in expected credit loss allowance

	31 July 2022 £m	31 July 2021 £m
Brought forward loss allowance at the start of the period	32	35
Exchange adjustments	4	(2)
Increase in allowance recognised in the income statement	8	6
Amounts written off or recovered during the year	(8)	(7)
Carried forward loss allowance at the end of the year	36	32

NOTES TO THE ACCOUNTS



17 Trade and other payables

	31 July 2022 £m	31 July 2021 £m
Non-current		
Other payables	13	13
Contract liabilities	33	46
	46	59
Current		
Trade payables	282	188
Other payables	57	39
Other taxation and social security costs	30	28
Accruals	183	188
Contract liabilities	130	87
	682	530

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 £163m (FY2021: £133m) 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 £113m (FY2021: £94m) 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 2022 £m	31 July 2021 £m
Cash and cash equivalents		
Net cash and deposits	1,056	405
Short-term borrowings		
€600m 1.25% Eurobond 2023	(502)	-
Overdrafts	(1)	-
Lease liabilities	(29)	(27)
Interest accrual	(6)	(9)
	(538)	(36)
Long-term borrowings		
\$400m 3.625% US\$ Guaranteed notes 2022	-	(289)
€600m 1.25% Eurobond 2023	-	(516)
€650m 2.00% Eurobond 2027	(538)	(567)
Lease liabilities	(90)	(94)
	(628)	(1,466)
Borrowings / Gross debt	(1,166)	(1,502)
Derivatives managing interest rate risk and currency profile of the debt	(40)	75
Net cash/(debt) (31 July 2021 comparative excludes £4m of net cash in businesses held for sale)	(150)	(1,022)

Cash and cash equivalents

	31 July 2022 £m	31 July 2021 £m
Cash at bank and in hand	242	219
Short-term deposits	814	186
Cash and cash equivalents	1,056	405

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 £30m (FY2021: £30m) was charged to the consolidated income statement in the period in respect of public bonds.

NOTES TO THE ACCOUNTS



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	-	-	(20)	(20)	(40)
Foreign exchange forward contracts	-	4	(7)	-	(3)
At 31 July 2022	-	4	(27)	(20)	(43)
Derivatives managing interest rate risk and currency profile of the debt	75	-	-	-	75
Foreign exchange forward contracts	-	2	(3)	-	(1)
At 31 July 2021	75	2	(3)	-	74

Movements in assets/(liabilities) arising from financing activities

	Changes in net debt					Changes in other financing items: FX contracts £m	Total liabilities from financing activities £m
	Cash and cash equivalents £m	Other short-term borrowings £m	Long-term borrowings £m	Interest rate & cross-currency swaps £m	Net debt £m		
At 31 July 2020	366	(41)	(1,520)	82	(1,113)	(2)	(1,115)
Foreign exchange gains/(losses)	(24)	2	79	-	57	(3,200)	(3,143)
Net cash inflow from continuing operations *	63	33	-	-	96	3,200	3,296
Lease liabilities acquired	-	(1)	(10)	-	(11)	-	(11)
Net movement from lease modifications	-	(46)	-	-	(46)	-	(46)
Fair value movement from interest rate hedging	-	-	8	-	8	-	8
Revaluation of derivative contracts	-	-	-	(7)	(7)	3	(4)
Interest expense taken to income statement**	-	(4)	(31)	-	(35)	-	(35)
Interest paid	-	-	29	-	29	-	29
Reclassification to short-term borrowings	-	21	(21)	-	-	-	-
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)
Fair value movement from interest rate hedging	-	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
Reclassification to short-term borrowings	-	(478)	478	-	-	-	-
At 31 July 2022	1,056	(538)	(628)	(40)	(150)	(3)	(153)

* In FY21, the net cash inflow for the total Group including discontinued operations was £91m. £63m from continuing operations and £28m from discontinued operations. In FY22, the net cash inflow for the total Group including discontinued operations was £589m, £57m of which related to the cash held by the Smiths Medical at the time of disposal.

** The Group has also incurred £8m (FY2021: £9m) 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 2022 the total value of overdrafts on accounts in interest compensation cash pooling systems was £nil (FY2021: £nil). The balances held in zero balancing cash pooling arrangements have daily settlement of balances. Therefore netting is not relevant.

Secured loans

Loans amounting to £nil (FY2021: £nil) were secured on plant and equipment with a book value of £nil (FY2021: £nil).

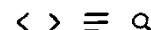
Change of control

The Company has in place credit facility agreements under which a change in control would trigger prepayment clauses. The Company also has bonds 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 FY2022 was 3.63% (FY2021: 3.3%).

NOTES TO THE ACCOUNTS



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 and 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 2022 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 is at fixed rates. At 31 July 2022 these measures were 100% (FY2021: 100%), 2.7 years (FY2021: 3.2 years) and 50% (FY2021: 54%). The average maturity profile of gross debt is below the target of three years because the net cash resources of £1,055m are sufficient to cover the short-term borrowings of £538m.

The Group remains in full compliance with all covenants within its external debt agreements. Interest rate risk management is discussed in note 19(b).

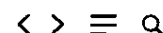
3) Liquidity management

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 2022, these measures were £657m (FY2021: £575m) and 27 months (FY2021: 39 months). At 31 July 2022, net cash resources were £1,055m (FY2021: £405m). 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 18(a) below.

NOTES TO THE ACCOUNTS



(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 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)

	At 31 July 2021				
	Sterling £m	US\$ £m	Euro £m	Other £m	Total £m
Financial assets and liabilities					
Financial instruments included in trade and other receivables	28	326	113	177	644
Financial instruments included in trade and other payables	(49)	(167)	(79)	(64)	(359)
Cash and cash equivalents	46	187	80	92	405
Borrowings not designated as net investment hedges	(31)	(55)	(12)	(21)	(119)
	(6)	291	102	184	571
Exclude balances held in operations with the same functional currency	7	(110)	(80)	(183)	(366)
Exposure arising from intra-Group loans	-	(182)	(19)	(75)	(276)
Future forward foreign exchange contract cash-flows	(51)	(67)	22	96	-
	(50)	(68)	25	22	(71)

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 FY2022 £m	Gain/(loss) recognised in reserves FY2022 £m	Impact on profit for the year FY2021 £m	Gain/(loss) recognised in reserves FY2021 £m
US dollar	(3)	1	3	2
Euro	8	(1)	2	(5)
Sterling	4	-	(1)	2

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

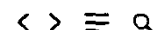
Cash-flow hedging

The Group uses forward foreign exchange contracts to hedge future foreign currency sales and purchases. At 31 July 2022, contracts with a nominal value of £141m (FY2021: £107m) were designated as hedging instruments. In addition, the Group had outstanding foreign currency contracts with a nominal value of £226m (FY2021: £251m) 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.

NOTES TO THE ACCOUNTS



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 (FY2021: 89%).

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 2022 £m	Year ended 31 July 2021 £m
Brought forward cash-flow hedge reserve at start of year		2	-
Foreign exchange forward contracts:	Net fair value gains on effective hedges	(6)	1
	Amount reclassified to income statement – cost of sales	-	1
	Amount reclassified to income statement – finance costs	1	-
Carried forward cash-flow hedge reserve at end of year		(3)	2

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	FY2022	(6)	6	(6)
			FY2021	1	(1)	1

Cash-flow hedges generated £nil of ineffectiveness in FY2022 (FY2021: £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 2022			At 31 July 2021		
	US\$ £m	Euro £m	Total £m	US\$ £m	Euro £m	Total £m
Loans designated as net investment hedges	-	(451)	(451)	(285)	(459)	(744)
Cross-currency swap	(615)	-	(615)	(539)	-	(539)
	(615)	(451)	(1,066)	(824)	(459)	(1,283)

At 31 July 2022, cross-currency swaps hedged the Group's exposure to US dollars and euros (31 July 2021: US dollars and euros). All the cross-currency swaps designated as net investment hedges were current and non-current (FY2021: non-current).

Swaps generating £354m of the US dollar exposure (FY2021: £310m) will mature in April 2023 and swaps generating £261m of the US dollar exposure (FY2021: £229m) will mature in February 2027.

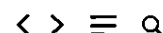
In addition, non-swapped borrowings were also used to hedge the Group's exposure to US dollars and euros (31 July 2021 US dollars and euros). Borrowings generating £285m of the US dollar exposure (FY2021: £285m) have been prepaid in February 2022.

Borrowings generating £500m of the euro exposure (FY2021: £508m) will mature in April 2023 and borrowings generating £287m of the euro exposure (FY2021: £292m) 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 is 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.

NOTES TO THE ACCOUNTS



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 2022 £m	Year ended 31 July 2021 £m
Brought forward net investment hedge reserve at start of year		(238)	(314)
Cross-currency swaps	Net fair value gains on effective hedges	(82)	14
Bonds	Net fair value gains on effective hedges	5	62
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		(212)	(238)

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	FY2022	82	(82)	(82)
		Bonds	FY2022	(5)	5	5
				77	(77)	(77)
Overseas operation	Foreign currency risk	Cross-currency swaps	FY2021	(14)	17	14
		Bonds	FY2021	(62)	62	62
				(76)	79	76

Net investment hedges generated £1m of ineffectiveness in FY2022 (FY2021: £3m) 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 2022 £m	Loss recognised in hedge reserve 31 July 2021 £m
US dollar	68	92
Euro	50	51

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. This is achieved through fixed rate borrowings and interest rate swaps. At 31 July 2022, 50% (FY2021: 54%) of the Group's gross borrowings 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 2022, after interest rate swaps, was 3.06% (FY2021: 2.06%).

NOTES TO THE ACCOUNTS



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 2022				As at 31 July 2021			
	At fair value through profit or loss £m	Cash and cash equivalents £m	Borrowings £m	Fair value of borrowings £m	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)	-	-	(36)	(36)
Between one and five years	-	-	(357)	(359)	-	-	(418)	(434)
Greater than five years	-	-	(24)	(24)	-	-	(321)	(353)
Total fixed interest financial liabilities	-	-	(584)	(586)	-	-	(775)	(823)
Floating rate interest financial assets/(liabilities)*	390	970	(584)	(586)	4	333	(727)	(736)
Total interest-bearing financial assets/(liabilities)	390	970	(1,166)	(1,172)	4	333	(1,502)	(1,559)
Non-interest-bearing assets in the same category	4	86	-	-	7	72	-	-
Total	394	1,056	(1,166)	(1,172)	11	405	(1,502)	(1,559)

* Fair value gains and losses in this category of assets are recognised in other comprehensive income.

Interest rate hedging

The Group also has exposures to the fair values of non-derivative financial instruments such as EUR and USD 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 2022 and 31 July 2021, the Group had designated the following hedges against variability in the fair value of borrowings arising from fluctuations in base rates:

- €400m of the fixed/floating element of the EUR/USD interest rate swaps that mature on 28 April 2023 partially hedging the € 2023 Eurobond;
- €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
- The \$150m interest rate swap which matures on 12 October 2022, partially hedging the USD 2022 Guaranteed notes, was early redeemed in February 2022.

The fair values of the hedging instruments are disclosed in note 20. The effect of the swaps was to convert £588m (FY2021: £705m) 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 sources of hedge ineffectiveness in these hedging relationships is the effect of the currency basis risk on cross-currency interest rate swaps which are not reflected in the fair value of the hedged item. No other sources of ineffectiveness emerged from these hedging relationships. Any hedge ineffectiveness was recognised immediately in the income statement in the period in which it occurred.

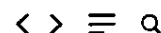
The following table sets out the details of the hedged exposures covered by the Group's fair value hedges:

Hedged item	Hedged exposure	Financial year	Changes in value of hedged item for calculating ineffectiveness £m	Changes in value of the hedging instrument for calculating ineffectiveness £m	Carrying amount		Accumulated fair value adjustments on hedged item	
					Assets £m	Liabilities £m	Assets £m	Liabilities £m
Fixed rate bonds (a)	Interest rate risk	FY2022	8	(8)	-	336	-	(2)
	Interest rate & currency rate risk	FY2022	21	(20)	-	252	-	(5)
			29	(28)	-	588	-	(7)
Fixed rate bonds (a)	Interest rate risk	FY2021	5	(5)	-	449	-	6
	Interest rate & currency rate risk	FY2021	4	(7)	-	256	-	16
			9	(12)	-	705	-	22

(a) Classified as borrowings

Fair value hedges generated a £1m ineffectiveness in FY2022 (FY2021: £3m) which was recognised in the income statement through finance costs.

NOTES TO THE ACCOUNTS

**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 2022, 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 (FY2021: £5m impact) on the Group's profit before tax.

Impact of LIBOR transition

The UK Financial Conduct Authority announced on 5 March 2021 that LIBOR benchmark rates will be discontinued after 31 December 2021 except the majority of US dollar settings which will be discontinued after 30 June 2023. The Group is exposed to interest rate benchmark reform on its interest rate swaps and cross-currency interest rate swaps which reference 3-month and 6-month USD LIBOR, have an aggregate nominal value of USD 749m, and mature between April 2023 and February 2027. In April 2021 the Group confirmed adherence to the ISDA 2020 IBOR Fallbacks Protocol as published by the International Swaps and Derivatives Association, Inc. (ISDA) on 23 October 2021 (the Protocol), ensuring that appropriate fallbacks can apply to these derivatives in the event of LIBOR discontinuation.

(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 £1,067m at 31 July 2022 (FY2021: £416m).

	31 July 2022 £m	31 July 2021 £m
Cash in AAA liquidity funds	551	116
Cash at banks with at least a AA- credit rating	104	46
Cash at banks with all other A credit ratings	397	237
Cash at other banks	4	6
Investments in bank deposits	4	4
Other investments	7	7
	1,067	416

At 31 July 2022, the maximum exposure with a single bank for deposits and cash was £339m (FY2021: £79m), whilst the maximum mark to market exposure with a single bank for derivatives was £15m (FY2021: £26m). These banks have AAA and AA- credit ratings respectively (FY2021: Both AAA and AA-).

(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 \$800m maturing 1 November 2024. At the balance sheet date, the Group had the following undrawn credit facilities:

	31 July 2022 £m	31 July 2021 £m
Expiring after more than two years	657	575

Cash deposits

As at 31 July 2022, £814m (FY2021: £186m) of cash and cash equivalents was on deposit with various banks of which £558m (FY2021: £116m) was in liquidity funds. £4m (FY2021: £4m) of investments comprised bank deposits held to secure liabilities and letters of credit.

Gross contractual cash-flows for borrowings

	As at 31 July 2022				As at 31 July 2021			
	Borrowings (note 18) £m	Fair value adjustments £m	Contractual interest payments £m	Total contractual cash-flows £m	Borrowings (note 18) £m	Fair value adjustments £m	Contractual interest payments £m	Total contractual cash-flows £m
Less than one year	(539)	2	(17)	(554)	(36)	-	(28)	(64)
Between one and two years	(23)	-	(1)	(34)	(823)	(6)	(23)	(852)
Between two and three years	(20)	-	(11)	(31)	(20)	-	(11)	(31)
Between three and four years	(14)	-	(1)	(25)	(14)	-	(11)	(25)
Between four and five years	(552)	5	(11)	(558)	(10)	-	(11)	(21)
Greater than five years	(24)	-	-	(24)	(577)	(16)	(11)	(604)
Total	(1,172)	7	(61)	(1,226)	(1,480)	(22)	(95)	(1,597)

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.

NOTES TO THE ACCOUNTS



Gross contractual cash-flows for derivative financial instruments

	As at 31 July 2022			As at 31 July 2021		
	Receipts £m	Payments £m	Net cash-flow £m	Receipts £m	Payments £m	Net cash-flow £m
Assets						
Less than one year	495	(521)	(26)	142	(144)	(2)
Greater than one year	270	(290)	(20)	642	(568)	74
Liabilities						
Less than one year	212	(209)	3	220	(219)	1
Greater than one year	8	(8)	–	3	(2)	1
Total	985	(1,028)	(43)	1,007	(933)	74

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 £474m (FY2021: £351m) due in less than one year and £13m (FY2021: £8m) 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:

	Contract or underlying nominal amount £m	At 31 July 2022		
		Assets £m	Liabilities £m	Net £m
Foreign exchange contracts (cash-flow hedges)	141	3	(5)	(2)
Foreign exchange contracts (not hedge accounted)	226	1	(2)	(1)
Total foreign exchange contracts	367	4	(7)	(3)
Cross-currency swaps (fair value and net investment hedges)	615	–	(40)	(40)
Total financial derivatives	982	4	(47)	(43)
Balance sheet entries:				
Non-current	269	–	(20)	(20)
Current	713	4	(27)	(23)
Total financial derivatives	982	4	(47)	(43)

	Contract or underlying nominal amount £m	At 31 July 2021		
		Assets £m	Liabilities £m	Net £m
Foreign exchange contracts (cash-flow hedges)	107	1	(2)	(1)
Foreign exchange contracts (not hedge accounted)	251	1	(1)	–
Total foreign exchange contracts	358	2	(3)	(1)
Cross-currency swaps (fair value and net investment hedges)	539	72	–	72
Interest rate swaps (fair value hedges)	108	3	–	3
Total financial derivatives	1,005	77	(3)	74
Balance sheet entries:				
Non-current	655	75	–	75
Current	350	2	(3)	(1)
Total financial derivatives	1,005	77	(3)	74

NOTES TO THE ACCOUNTS



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 2022			Maturity at 31 July 2021		
			Up to one year	One to five years	More than five years	Up to one year	One to five years	More than five years
Fair value hedges								
Interest rate risk	Interest rate swaps – USD	– Notional amount (£m)	–	–	–	–	108	–
		– Average spread over 6 month USD LIBOR	–	–	–	–	1.797%	–
	Interest rate swaps – EUR	– Notional amount (£m)	336	–	–	–	341	–
		– Average spread over 3 month EUR LIBOR	1.015%	–	–	–	1.015%	–
Interest rate risk/ Foreign currency risk	Cross-currency swaps (EUR:GBP)	– Notional amount (£m)	–	254	–	–	–	254
		– Average exchange rate	–	0.845	–	–	–	0.845
		– Average spread over 3 month GBP LIBOR	–	1.750%	–	–	–	1.750%
Net investment hedges								
Foreign currency risk	Cross-currency swaps (EUR:USD)	– Notional amount (£m)	354	–	–	–	310	–
		– Average exchange rate	1.0773	–	–	–	1.0773	–
	Cross-currency swaps (GBP:USD)	– Notional amount (£m)	–	261	–	–	–	229
		– Average exchange rate	–	1.2534	–	–	–	1.2534
Cash-flow hedges								
Foreign currency risk	Foreign exchange contracts (EUR:USD)	– Notional amount (£m)	77	–	–	47	5	–
		– Average exchange rate	4.1785	–	–	1.1915	1.2205	–
	Foreign exchange contracts (EUR:GBP)	– Notional amount (£m)	28	8	–	31	3	–
		– Average exchange rate	0.8323	1.1676	–	0.8996	0.9094	–
	Foreign exchange contracts (EUR:AUD)	– Notional amount (£m)	6	–	–	7	–	–
		– Average exchange rate	1.5226	–	–	1.5832	–	–
	Foreign exchange contracts (USD:GBP)	– Notional amount (£m)	16	–	–	8	–	–
		– Average exchange rate	1.3273	–	–	1.3577	–	–
	Foreign exchange contracts (GBP:CZK)	– Notional amount (£m)	6	–	–	6	–	–
		– Average exchange rate	30.2988	–	–	29.7028	–	–

At 31 July 2022, the Group had forward foreign exchange contracts with a nominal value of €141m (FY2021: €107m) 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 20 July 2023. 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 148.

Accounting for other derivative contracts

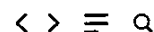
Any foreign exchange contracts which are not formally designated as hedges and tested are classified as 'held for trading' and not hedge accounted.

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 2022 £m	Liabilities 31 July 2022 £m	Assets 31 July 2021 £m	Liabilities 31 July 2021 £m
Gross value of assets and liabilities	4	(47)	77	(3)
Related assets and liabilities subject to master netting agreements	(4)	4	(1)	1
Net exposure	–	(43)	76	(2)

NOTES TO THE ACCOUNTS



21 Fair value of financial instruments

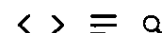
As at 31 July 2022	Notes	Basis for determining fair value	At amortised cost £m	At fair value through profit or loss £m	At fair value through OCI £m	Total carrying value £m	Total fair value £m
Financial assets							
Other investments	14	A	–	4	364	368	368
Other investments	14	F	–	19	8	27	27
Cash and cash 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)

As at 31 July 2021	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	–	4	4
Other investments	14	F	–	–	7	7	7
Cash and cash equivalents	18	A	289	116	–	405	405
Trade and other financial receivables	16	B/C	689	–	–	689	689
Derivative financial instruments	20	C	–	77	–	77	77
Total financial assets			978	197	7	1,182	1,182
Financial liabilities							
Trade and other financial payables	17	B	(589)	–	–	(589)	(589)
Short-term borrowings	18	D	(9)	–	–	(9)	(9)
Long-term borrowings	18	D	(1,372)	–	–	(1,372)	(1,429)
Lease liabilities	18	E	(121)	–	–	(121)	(121)
Derivative financial instruments	20	C	–	(3)	–	(3)	(3)
Total financial liabilities			(2,091)	(3)	–	(2,094)	(2,151)

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 Fair Value Measurement).
 - 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 Fair Value Measurement).
 - 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 Fair Value Measurement).
 - 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

NOTES TO THE ACCOUNTS



22 Commitments

At 31 July 2022, commitments, comprising bonds and guarantees arising in the normal course of business, amounted to £234m (FY2021: £210m), including pension commitments of £56m (FY2021: £54m). In addition, the Group has committed expenditure on capital projects amounting to £15m (FY2021: £4m).

23 Provisions and contingent liabilities

	Trading	John Crane, Inc. litigation	Non-headline and legacy Titeflex Corporation litigation	Other	Total
	£m	£m	£m	£m	£m
At 31 July 2020	14	231	66	20	331
Foreign exchange rate movements	(1)	(12)	(4)	(1)	(18)
Provision charged	7	5	–	–	12
Provision released	(4)	–	(13)	–	(17)
Unwind of provision discount	–	1	1	–	2
Utilisation	(6)	(13)	(3)	(2)	(24)
Business combinations	1	–	–	–	1
At 31 July 2021	11	212	47	17	287
Current liabilities	10	26	8	2	46
Non-current liabilities	1	186	39	15	241
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
Current liabilities	10	34	14	30	88
Non-current liabilities	1	195	38	13	247
At 31 July 2022	11	229	52	43	335

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 2022, the Group had warranty and product liability provisions of £7m (FY2021: £9m). 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 Alertline', 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.

NOTES TO THE ACCOUNTS



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 product, primarily packing and gaskets. The asbestos was encapsulated within these products in such a manner that causes JCI to believe, 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 2022	Year ended 31 July 2021	Year ended 31 July 2020	Year ended 31 July 2019	Year ended 31 July 2018
JCI claims experience					
Claims against JCI that have been dismissed	306,000	305,000	297,000	285,000	277,000
Claims JCI is currently a defendant in	22,000	22,000	25,000	38,000	43,000
Cumulative final judgements, after appeals, against JCI since 1979	149	149	149	144	140
Cumulative value of awards (\$'m) since 1979	175	175	175	168	164

The number of claims outstanding at 31 July 2022 reflected the benefit of 1,000 (FY2021: 8,000) 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 lower than previous periods, principally due to court closures and trial delays arising from the COVID-19 pandemic. Management believes this reduction in utilisation is temporary until after the effects of the pandemic subside and trial activity returns 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 (FY2021: 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.

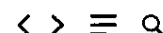
The rate of successful resolution of claims and the average amount of any judgements awarded are projected based on the past history of JCI claims, since this is the best available evidence, given JCI's unusual strategy of defending all claims.

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.

NOTES TO THE ACCOUNTS

**John Crane, Inc. litigation provision history**

The JCI asbestos litigation provision of £229m (FY2021: £212m) 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 2022 £m	Year ended 31 July 2021 £m	Year ended 31 July 2020 £m	Year ended 31 July 2019 £m	Year ended 31 July 2018 £m
John Crane, Inc. litigation provision					
Gross provision	258	220	235	257	251
Discount	(29)	(8)	(4)	(20)	(28)
Discounted pre-tax provision	229	212	231	237	223
Deferred tax	(57)	(54)	(59)	(50)	(48)
Discounted post-tax provision	172	158	172	187	175
Operating profit charge/(credit)					
Increased provisions for adverse judgements and legal defence costs	24	10	14	7	13
Change in US risk-free rates	(18)	(5)	16	8	(6)
Subtotal – items charged to the provision	6	5	30	15	7
Litigation management, legal fees in connection with litigation against insurers and defence strategy	1	1	1	2	3
Recoveries from insurers	–	(9)	(3)	(11)	–
Total operating profit charge/(credit)	7	(3)	28	6	10
Cash-flow					
Provision utilisation – legal defence costs and adverse judgements	(21)	(13)	(23)	(24)	(27)
Litigation management expense	(1)	–	(1)	(2)	(3)
Recoveries from insurers	–	9	3	11	–
Net cash outflow	(22)	(4)	(21)	(15)	(30)

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.

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 £203m and future spend at the 95th percentile of £268m (FY2021: £191m and £246m, respectively). Statistical analysis of the distribution of these outcomes indicates that there is a 50% probability that the total future spend will fall between £239m and £263m (FY2021: between £209m and £230m), compared to the gross provision value of £258m (FY2021: £220m).

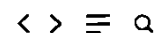
John Crane, Inc. sensitivity of the projections to changes in the time horizon used

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 £18m (FY2021: £17m) and reducing it by five years would reduce the provision by £97m (FY2021: £93m).

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 £15m (FY2021: £14m) and extending it by five years would increase the pre-tax provision by £56m (FY2021: £58m). 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.

NOTES TO THE ACCOUNTS

**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 market-place face similar challenges.

Titeflex Corporation litigation provision

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. 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 £52m (FY2021: £47m) 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 2022 £m	31 July 2021 £m
Gross provision	87	69
Discount	(35)	(22)
Discounted pre-tax provision	52	47
Deferred tax	(12)	(11)
Discounted post-tax provision	40	36

Titeflex Corporation litigation provision history

A charge of £2m (FY2021: £13m credit) 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 higher gross provision value has been driven by foreign exchange rate movements and an increase in the average cost per claim. The increase in the discount factor derives 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 £3m (FY2021: £4m) lower, and if the benefit were 0.5% lower, the provision would be £4m (FY2021: £4m) higher.

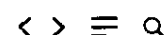
The projections use assumptions of future claims that are based on both the number of future settlements and the average amount of those settlements. If the assumed average number of future settlements increased 10%, the provision would rise by £5m (FY2021: £4m), with an equivalent fall for a reduction of 10%. If the assumed amount of those settlements increased 10%, the provision would rise by £4m (FY2021: £3m), 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 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.

NOTES TO THE ACCOUNTS

**Reorganisation**

At 31 July 2022, there were reorganisation provisions of £1m (FY2021: £2m) relating to the various restructuring programmes that are expected to be utilised in the next 18 months.

Property

At 31 July 2022, there were provisions of £10m (FY2021: £11m) 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 2020	396,211,180	396,193,310	149	
Issue of new equity shares – exercise of share options	165,934	157,276	–	2
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)	(51)
Total share capital at 31 July 2022	362,356,159	386,678,211	136	

Share capital structure

As at 31 July 2022, the Company's issued share capital was 362,356,159 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 2022, 4,274,704 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 2021 Annual General Meeting and the buy back authority was superseded by the shareholder authority provided at the General Meeting held in November 2021. At the 2022 AGM, it will be proposed that the Directors be granted new authorities to allot and buy back shares.

Share buybacks

As at 16 September 2022 (the latest practicable date for inclusion in this report), the Company had an unexpired authority to repurchase ordinary shares up to a maximum of 59m ordinary shares (FY2021: 40m). As at 16 September 2022, the Company did not hold any shares in treasury. Any ordinary shares purchased may be cancelled or held in treasury.

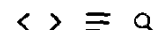
In connection with the sale of Smiths Medical to ICU Medical, Inc. (see note 27 for details), and in the light of our strong balance sheet and cash-flows, the Group announced that it intended to return an amount representing 55% of the initial cash proceeds (equating to an aggregate purchase price of up to \$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 34,281,929 ordinary shares of 37.5 pence each were repurchased during the period, for a total consideration of £512,796,999, of which 129,032 shares with a value of £1,972,602 were yet to settle and be cancelled. These 34,281,929 shares represented 9.46% of the called up ordinary share capital as at 31 July 2022. A further 3,361,599 ordinary shares have been repurchased during the period of 1 August 2022 to 16 September 2022. All repurchased shares have been cancelled with the exception of 128,919 shares that were yet to settle and be cancelled as at 16 September 2022. Since 1 August 2022, the number of shares in issue has reduced by 3,361,712 as at 16 September 2022.

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 2022, the trust held 618,662 (FY2021: 326,364) 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.

NOTES TO THE ACCOUNTS



25 Dividends

The following dividends were declared and paid in the period:

	Year ended 31 July 2022 £m	Year ended 31 July 2021 £m
Ordinary final dividend of 26.0p (FY2021: 24.0p) paid 19 November 2021	103	94
Ordinary delayed interim dividend of nil (FY2021: 11.0p) paid 19 November 2021	–	44
Ordinary interim dividend of 12.3p (FY2021: 11.7p) paid 13 May 2022	47	47
	150	185

In the current year a total dividend of 38.3p has been 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. In the prior year a total dividend of 46.7p was paid, comprising a delayed interim dividend of 11.0p and a final dividend of 24.0p paid in respect of FY2020 and an interim dividend of 11.7p paid in respect of FY2021.

The final dividend for the year ended 31 July 2022 of 27.3p per share was recommended by the Board on 22 September 2022 and will be paid to shareholders on 18 November 2022, subject to approval by the shareholders. This dividend is payable to all shareholders on the register of members at 6.00pm on 21 October 2022 (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:

- Numis Nominees Limited (Smiths Industries Employee Share Trust)

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 (FY2021: 800,606) shares to the Trust, and the Trust purchased 1,069,998 shares (FY2021: 1,126,970 shares) in the market for a consideration of £16m (FY2021: £16m). At 31 July 2022, the Trust held 618,662 (FY2021: 326,364) 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 FY2022 ROCE was 14.2% (FY2021: 13.2%); 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 FY2022 ratio of net debt to headline EBITDA of 0.3 (FY2021: 1.6) 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 2022, the Group had a credit rating of BBB+/Baa2 (FY2021: BBB+/Baa2) with Standard & Poor's and Moody's respectively.

The Board has a progressive dividend policy for future pay-outs, 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 2022 £m	31 July 2021 £m
Net investment hedge reserve (net of £8m of deferred tax (FY2021: £8m))	(205)	(230)
Cash-flow hedge reserve	3	2
	(202)	(228)

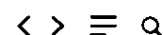
See transactional currency exposure risk management disclosures in note 19 for additional details of cash-flow hedges, and translational currency exposure risk management disclosure also in note 19 for additional details of net investment hedges.

Non-controlling interest

The Group has recorded non-controlling interests of £22m (FY2021: £21m), of which the most significant balance is in John Crane Japan Inc., which represented £20m (FY2021: £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 (FY2021: £5m), and cash inflows from operating activities of £5m (FY2021: £6m). It paid dividends of £1m (FY2021: £2m) and tax of £1m (FY2021: £3m). At 31 July 2022, the company contributed £57m (FY2021: £57m) of net assets to the Group.

NOTES TO THE ACCOUNTS



27 Discontinued operations and businesses held for sale

Following the Board decision in July 2021 to pursue a sale process, the Smiths Medical business was classified as a discontinued operation and a business held for sale. On 8 September 2021, the Group announced that it had agreed the sale of Smiths Medical to ICU Medical, Inc., and the approval of Smiths shareholders was received at the General Meeting on 17 November 2021.

The sale was completed on 6 January 2022 and the results of the discontinued operation and the effect of the disposal on the financial position of the Group were as follows:

Discontinued operations

The financial performance of the Smiths Medical business in the current and prior years is presented below:

	Year ended 31 July 2022			Year ended 31 July 2021		
	Headline £m	Non-headline (note 3) £m	Total £m	Headline £m	Non-headline (note 3) £m	Total £m
Revenue	356	–	356	849	–	849
Direct materials, labour, production and distribution overheads	(193)	–	(193)	(385)	–	(385)
Selling costs	(46)	–	(46)	(117)	–	(117)
Administrative expenses	(51)	(47)	(98)	(170)	(79)	(249)
Operating costs	(290)	(47)	(337)	(672)	(79)	(751)
Operating profit	66	(47)	19	177	(79)	98
Finance costs	(1)	(22)	(23)	(1)	50	49
Gain on sale of discontinued operation	–	1,036	1,036	–	–	–
Taxation	(16)	6	(10)	(42)	23	(19)
Profit from discontinued operations	49	973	1,022	134	(6)	128

Interest capitalised as part of the costs of Smiths Medical development projects amounted to £1m (FY2021: £3m). Enil (FY2021: £1m) of tax relief has been recognised as current tax relief in the period. The gain on sale of the Smiths Medical discontinued operations qualified for the Substantial Shareholding Exemption and consequently was not subject to corporation tax.

Additional segmental information for discontinued operations

Headline operating profit for discontinued operations was stated after charging share-based payments £2m (FY2021: £1m).

Revenue for the Smiths Medical discontinued operation is analysed by the following product lines: Infusion Systems £116m (FY2021: £303m), Vascular Access £134m (FY2021: £272m) and Vital Care/Other £106m (FY2021: £274m).

Revenue by destination for the Smiths Medical for discontinued operations is analysed as follows: Americas £176m (FY2021: £456m), Europe, Middle East & Africa £91m (FY2021: £228m), and Asia-Pacific £89m (FY2021: £165m). Revenue by destination has been selected as the basis for attributing revenue to geographical areas as this is the attribution used by management to review the performance of the business.

Revenue by destination attributable to the United Kingdom was £12m (FY2021: £26m). Revenue earned in the United States of America was material totalling £161m (FY2021: £411m).

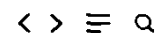
Cash-flow from discontinued operations

Cash-flows from discontinued operations included in the consolidated cash-flow statement are as follows:

	31 July 2022 £m	31 July 2021 represented* £m
Net cash inflow from operating activities	47	163
Net cash-flow used in investing activities	(17)	(67)
Net cash-flow used in financing activities	(14)	(68)
Net increase in cash and cash equivalents	16	28
Opening cash and cash equivalents in disposal group	48	20
Foreign exchange movements	(7)	–
Cash and cash equivalents disposed of	(57)	–
Cash and cash equivalents at close of period	–	48

* £15m of intra-group royalty charges paid by discontinued operations to continuing operations in FY2021, that were previously netted down, have been represented on a gross up basis within net cash inflow from operating activities and net cash-flow used in financing activities, as this represents a complete view of the operating cash flows attributable to Smiths Medical.

NOTES TO THE ACCOUNTS



Effect of disposal on the financial position of the Group

	Year ended 31 July 2022 £m
Intangible assets	695
Property, plant and equipment	170
Right of use assets	64
Inventories	166
Deferred tax assets	20
Current tax receivable	3
Trade and other receivables	110
Cash and cash equivalents	57
Financial derivatives	4
Lease liabilities	(41)
Trade and other payables	(167)
Current tax payable	(13)
Deferred tax liabilities	(56)
Retirement benefit obligations	(5)
Provisions	(39)
Net assets disposed of	968
Consideration received:	
Cash and cash equivalents	1,421
Transaction costs	(31)
Cash and cash equivalents, net of transaction costs	1,390
ICU Medical, Inc shares	426
Deferred contingent consideration – contingent on ICU Medical, Inc future share price:	
– Fair value at date of disposal	30
– Movement in fair value to 31 July 2022	(11)
	19
Separation expenses – arising from contractual and commercial obligations due to the separation recognised in year	(32)
Gain on sale before reclassification of foreign currency translation reserve	835
Exchange movements recycled to the income statement	196
Cash-flow hedge reserve recycled to the income statement	5
Gain on sale of discontinued operation	1,036
Net cash inflow arising on disposal:	
Consideration received in cash and cash equivalents	1,421
Transaction costs and separation expenses paid in period	(33)
Less cash and cash equivalents disposed of	(157)
	1,331

NOTES TO THE ACCOUNTS



28 Cash-flow

Cash-flow from operating activities

	Year ended 31 July 2022			Year ended 31 July 2021 represented*		
	Headline £m	Non-headline £m	Total £m	Headline £m	Non-headline £m	Total £m
Operating profit – continuing operations	417	(300)	117	372	(46)	326
– discontinued operations	66	(47)	19	177	(79)	98
Amortisation of intangible assets	10	51	61	14	53	67
Impairment of intangible assets	–	4	4	1	52	53
Impairment of tangible assets	–	–	–	–	6	6
Impairment of investment within discontinued operations	–	14	14	–	–	–
Depreciation of property, plant and equipment	38	–	38	39	1	40
Depreciation of right of use assets	30	–	30	32	–	32
(Gain)/loss on disposal of property, plant and equipment	(2)	–	(2)	1	–	1
Share-based payment expense	13	–	13	13	–	13
Retirement benefits**	5	207	212	6	(23)	(17)
Distribution from trading investment	–	–	–	5	–	5
Recycling of cash-flow hedge reserve	–	–	–	(5)	–	(5)
Decrease/(increase) in inventories	(173)	4	(169)	62	4	66
Decrease/(increase) in trade and other receivables	(87)	4	(83)	(14)	4	(10)
Increase/(decrease) in trade and other payables	131	(2)	129	46	(10)	36
Increase/(decrease) in provisions	(1)	22	21	(4)	(26)	(30)
Cash generated from operations	447	(43)	404	745	(64)	681
Interest paid	(51)	–	(51)	(40)	–	(40)
Interest received	13	1	14	2	1	3
Tax paid	(88)	–	(88)	(109)	–	(109)
Net cash inflow from operating activities	321	(42)	279	598	(63)	535
– continuing operations*	274	(42)	232	430	(58)	372
– discontinued operations*	47	–	47	168	(5)	163

* £15m of intra-group royalty charges paid by discontinued operations to continuing operations in FY2021 have been represented as cash inflows from discontinued operations, as this represents a complete view of the operating cash flows attributable to Smiths Medical.

** 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.

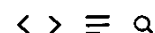
The Group uses operating cash-flow for the calculation of cash conversion and free cash-flow for management of capital purposes.

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 2022			Year ended 31 July 2021		
	Headline £m	Non-headline £m	Total £m	Headline £m	Non-headline £m	Total £m
Net cash inflow from operating activities	274	(42)	232	430	(58)	372
Include:						
Expenditure on capitalised development, other intangible assets and property, plant and equipment	(71)	–	(71)	(62)	–	(62)
Repayment of lease liabilities	(34)	–	(34)	(33)	–	(33)
Disposals of property, plant and equipment	3	–	3	–	–	–
Investment in financial assets relating to operating activities and pensions financing outstanding at the balance sheet date	–	–	–	7	–	7
Free cash-flow			130			284
Exclude:						
Investment in financial assets relating to operating activities and pensions financing outstanding at the balance sheet date	–	–	–	(7)	–	(7)
Repayment of lease liabilities	34	–	34	33	–	33
Interest paid	46	–	46	24	–	24
Interest received	(13)	–	(13)	(2)	–	(2)
Tax paid	79	–	79	96	–	96
Operating cash-flow	318	(42)	276	486	(58)	428

NOTES TO THE ACCOUNTS



Headline cash conversion

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

	Year ended 31 July 2022			Year ended 31 July 2021		
	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	417	–	417	372	21	393
Headline operating cash-flow	318	14	332	486	24	510
Headline operating cash conversion	76%		80%	130%		129%

Reconciliation of free cash-flow to net movement in cash and cash equivalents:

	Year ended 31 July 2022 £m	Year ended 31 July 2021 £m
Free cash-flow	130	284
Investment in financial assets and acquisition of businesses	–	(83)
Disposal of businesses and discontinued operations	1,331	–
Other net cash-flows used in financing activities (note: repayment of lease liabilities is included in free cash-flow)	(937)	(138)
Net decrease in cash and cash equivalents for discontinued operations	16	28
Net increase/(decrease) in cash and cash equivalents	540	91

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: <ul style="list-style-type: none"> - to add goodwill recognised directly in reserves in respect of subsidiaries acquired before 1 August 1998; - to eliminate the Group's investment in ICU Medical, Inc equity and deferred consideration contingent on the future share price performance of ICU Medical, Inc; and - to eliminate post-retirement benefit assets and liabilities and non-headline litigation provisions related to John Crane, Inc. and Titeflex Corporation, both net of deferred tax, and net debt. 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. Following the completion of the sale of Smiths Medical, headline EBITDA for FY2022 has been presented on a continuing operations basis. A reconciliation of headline operating profit to headline EBITDA is shown in the note below.
Headline EBITDA before restructuring costs	Headline EBITDA, as defined above, is adjusted to exclude restructuring costs from the Group's strategic restructuring programme which commenced in FY2020. Following the completion of the sale of Smiths Medical, headline EBITDA before restructuring costs for FY2022 has been presented on a continuing operations basis. A reconciliation of headline EBITDA to headline EBITDA before restructuring costs and write-downs is shown in the note below.

NOTES TO THE ACCOUNTS

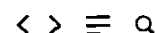


Headline operating profit excluding restructuring	Headline operating profit is adjusted for strategic restructuring programme costs and write-downs. See note 2 for a reconciliation. This measure of profitability is used by the Group to measure and monitor performance.
Net debt	Net debt is total borrowings (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 103. 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 Emissions (GHG) reduction	GHG reduction is calculated as the percentage change in normalised Scope 1 & 2 GHG emissions. Normalised is calculated as tCO ₂ e per £million of revenue. This measure is used to monitor environmental performance.
Gross Vitality	Gross Vitality is calculated as the percentage of revenue derived from new products and services launched in the last five years. This measure is used to monitor the effectiveness of the Group's new product development and commercialisation.
My Say engagement score	The overall score in our My Say employee engagement survey. The bi-annual 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, restructuring costs 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 calculated on an underlying basis. 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 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.
Ratio of capital expenditure to depreciation and amortisation	Represents the amount of capital expenditure as a proportion of the depreciation and amortisation charge for the period. This measure shows the level of reinvestment into operations.
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.

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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 (FY2021: £787m), 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 2022 £m	31 July 2021 £m
Net assets		2,721	2,423
Adjust for:			
Goodwill recognised directly in reserves		478	787
Retirement benefit assets and obligations	8	(194)	(413)
Tax related to retirement benefit assets and obligations		57	108
John Crane, Inc. litigation provisions and related tax	23	172	158
Titeflex Corporation litigation provisions and related tax	23	40	36
Investment in ICU Medical, Inc equity	14	(364)	-
Deferred contingent consideration	14	(19)	-
Net debt (FY2021: includes £4m of net cash in discontinued operations)	18	150	1,018
Capital employed		3,041	4,117

Return on capital employed ('ROCE')

	Notes	Year ended 31 July 2022 £m	Year ended 31 July 2021 represented* £m
Headline operating profit for previous 12 months – continuing operations		417	372
Restructuring costs		-	21
Headline operating profit before restructuring costs – continuing operations		417	393
Average capital employed – continuing operations (excluding investment in ICU Medical, Inc equity)	1	2,940	2,830
ROCE		14.2%	13.9%

* Following the completion of the sale of Smiths Medical, ROCE for 31 July 2021 has been represented to exclude restructuring costs and discontinued operations from headline operating profit and average capital employed. The 31 July 2021 figures have been represented to aid the period on period comparability for this forward-looking measure.

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 presented for the whole Group, including discontinued operations, and is calculated as follows:

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

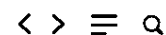
	Notes	Year ended 31 July 2022 Continuing operations £m	Year ended 31 July 2021 Total operations* £m
Headline operating profit		417	372
Headline operating profit of discontinued operations	27	-	177
Exclude:			
- depreciation of property, plant and equipment	12	38	40
- depreciation of right of use assets	13	30	32
- amortisation and impairment of development costs	10	3	7
- amortisation of software, patents and intellectual property	10	7	7
Headline EBITDA		495	635
Add back: restructuring costs and write-downs (FY2021 comparative includes £9m in discontinued operations)	2	-	30
Headline EBITDA before restructuring costs and write-downs		495	665

Ratio of net debt to headline EBITDA – total Group including discontinued operations

	Notes	Year ended 31 July 2022 Continuing operations £m	Year ended 31 July 2021 Total operations* £m
Headline EBITDA		495	635
Net debt (FY2021 comparative includes £4m of net cash in discontinued operations)	18	150	1,018
Ratio of net debt to headline EBITDA		0.3	1.6

* The figures for the comparative period in the credit metrics tables above include discontinued operations

NOTES TO THE ACCOUNTS



30 Post Balance Sheet Events

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

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 FY2022.

Company name	Company number	Company name	Company number
EIS Group Plc	61407	Smiths Detection Investments Limited	5146644
Flexibox International Limited	394688	Smiths Finance Limited	7888063
Flex-Tek Group Limited	11545405	Smiths Group Finance EU Limited	10440573
Graseby Limited	894638	Smiths Group Finance US Limited	10440608
SI Properties Limited	160881	Smiths Group Innovation Limited	10953689
SITI 1 Limited	4257042	Smiths Interconnect Group Limited	6641403
Smiths Detection Group Limited	5138140	Smiths Pensions Limited	2197444

UNAUDITED GROUP FINANCIAL RECORD 2018-2022

Unaudited Group financial record 2018-2022

The headline income statement metrics shown below for the year ended 31 July 2018 has been represented to show the results of Smiths Medical as a discontinued operation.

		Year ended 31 July 2022 £m	Year ended 31 July 2021 £m	Year ended 31 July 2020 £m	Year ended 31 July 2019 £m	Year ended 31 July 2018 £m
Income statement metrics – headline*						
Continuing operations	Revenue	2,566	2,406	2,548	2,498	2,328
	Headline operating profit	417	372	327	427	388
	Headline profit before tax	376	332	278	376	333
Discontinued operations	Revenue	356	849	918	874	869
	Headline operating profit	66	177	184	147	156
	Headline profit before tax	65	176	180	144	154
Income statement metrics – statutory**						
	Revenue	2,566	2,406	2,548	2,498	2,328
	Operating profit	117	326	241	326	342
	Profit before taxation	103	240	133	304	287
	Profit for the year	1,035	285	267	227	279
Balance sheet metrics***						
	Net debt	(150)	(1,018)	(1,141)	(1,197)	(893)
	Shareholders' equity	2,699	2,402	2,373	2,360	2,272
	Average capital employed	2,940	4,165	4,315	3,972	3,735
Ratios***						
	Headline operating profit: revenue (%)	16.5	16.9	14.7	17.0	17.0
	Headline effective tax rate (%)	27.2	27.1	26.2	25.9	25.8
	Return on capital employed (%)	14.2	13.2	11.8	14.4	14.6
	Return on shareholders' funds (%)	10.0	11.6	10.8	12.3	12.1
Cash-flow metrics***						
	Headline operating cash	318	630	575	474	538
	Headline operating cash conversion (%)	76	125	123	83	99
	Free cash-flow	130	383	273	234	302
	Free cash-flow per share (p)	35.9	96.6	68.9	59.1	76.3
Earnings per share***						
	Headline earnings per share (p)	82.5	93.1	84.8	96.8	90.7
Dividends and dividend cover***						
	Pence per share	39.60	37.70	35.00	45.90	44.55
	Headline dividend cover	2.1	2.5	2.4	2.1	2.0

* 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 discontinued operations comparatives for the year ended 31 July 2018 have also been restated for the adoption of IFRS 15.

** 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 US DOLLAR PRIMARY STATEMENTS

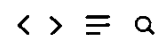


Unaudited supplementary consolidated income statement – US dollar translation

	Year ended 31 July 2022			Year ended 31 July 2021		
	Headline \$m	Non-headline (note 3) \$m	Total \$m	Headline \$m	Non-headline (note 3) \$m	Total \$m
CONTINUING OPERATIONS						
Revenue	3,377	–	3,377	3,264	–	3,264
Operating costs	(2,828)	(395)	(3,223)	(2,760)	(62)	(2,822)
Operating profit/(loss)	549	(395)	154	504	(62)	442
Interest receivable	18	–	18	12	–	12
Interest payable	(72)	–	(72)	(66)	–	(66)
Other financing gains/(losses)	–	26	26	–	(71)	(71)
Other finance charges – retirement benefits	–	9	9	–	8	8
Finance costs	(54)	35	(19)	(54)	(63)	(117)
Profit/(loss) before taxation	495	(360)	135	450	(125)	325
Taxation	(137)	18	(119)	(130)	18	(112)
Profit/(loss) for the year	358	(342)	16	320	(107)	213
DISCONTINUED OPERATIONS						
Profit on discontinued operations	64	1,280	1,344	182	(8)	174
PROFIT/(LOSS) FOR THE YEAR	422	938	1,360	502	(115)	387
Profit/(loss) for the year attributable to:						
Smiths Group shareholders – continuing operations	355	(342)	13	319	(107)	212
Smiths Group shareholders – discontinued operations	64	1,280	1,344	182	(8)	174
Non-controlling interests	3	–	3	1	–	1
				502	(115)	387
EARNINGS PER SHARE						
Basic			351.5c			97.2c
Basic – continuing			3.7c			53.4c
Diluted			350.0c			96.7c
Diluted – continuing			3.7c			53.1c

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 US DOLLAR PRIMARY STATEMENTS

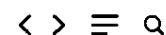


Unaudited supplementary consolidated statement of comprehensive income – US dollar translation

	Year ended 31 July 2022 \$m	Year ended 31 July 2021 represented* \$m
PROFIT FOR THE YEAR	1,360	387
Other comprehensive income (OCI):		
OCI which will not be reclassified to the income statement:		
Re-measurement of post-retirement benefits assets and obligations	(22)	18
Taxation on post-retirement benefits movements	-	(8)
Fair value movements on financial assets at fair value through OCI	(83)	5
	(105)	15
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	(108)	111
- reclassified to income statement on cash-flow and net investment hedges	7	3
	(101)	114
Foreign exchange (FX) movements net of recycling:		
Exchange losses/(gains) on translation of foreign operations	363	(32)
Exchange gains recycled to the income statement on disposal on business	(258)	-
	105	(32)
Total other comprehensive income, net of taxation	(101)	97
Total comprehensive income	1,259	484
Attributable to:		
Smiths Group shareholders	1,258	484
Non-controlling interests	-	-
	1,259	484

* The comparative year has been represented to include 'Fair value movements on financial assets at fair value through OCI' within the 'OCI which will not be reclassified to the income statement' subtotal rather than within the 'OCI which will be reclassified and reclassifications' subtotal. This reclassification has no impact on total other comprehensive income in the comparative year ended 31 July 2021.

UNAUDITED US DOLLAR PRIMARY STATEMENTS



Unaudited supplementary consolidated balance sheet – US dollar translation

	31 July 2022 \$m	31 July 2021 \$m
NON-CURRENT ASSETS		
Intangible assets	1,933	2,082
Property, plant and equipment	296	295
Right of use assets	129	150
Financial assets – other investments	481	15
Retirement benefit assets	376	759
Deferred tax assets	116	128
Trade and other receivables	84	82
Financial derivatives	–	104
	3,415	3,615
CURRENT ASSETS		
Inventories	694	530
Current tax receivable	61	105
Trade and other receivables	897	876
Cash and cash equivalents	1,286	563
Financial derivatives	5	3
Assets held for sale	–	1,728
	2,943	3,805
TOTAL ASSETS	6,358	7,420
CURRENT LIABILITIES		
Financial liabilities		
– borrowings	(620)	(13)
– lease liabilities	(35)	(38)
– financial derivatives	(33)	(4)
Provisions for liabilities and charges	(107)	(64)
Trade and other payables	(829)	(737)
Current tax payable	(78)	(124)
Liabilities held for sale	–	(393)
	(1,702)	(1,373)
NON-CURRENT LIABILITIES		
Financial liabilities		
– borrowings	(655)	(1,907)
– lease liabilities	(110)	(131)
– financial derivatives	(24)	–
Provisions for liabilities and charges	(301)	(335)
Retirement benefit obligations	(140)	(178)
Current tax payable	(4)	(7)
Deferred tax liabilities	(54)	(39)
Trade and other payables	(56)	(82)
	(1,344)	(2,679)
TOTAL LIABILITIES	(3,046)	(4,052)
NET ASSETS	3,312	3,368
SHAREHOLDERS' EQUITY		
Share capital	166	207
Share premium account	444	505
Capital redemption reserve	23	8
Revaluation reserve	–	1
Merger reserve	286	327
Retained earnings	2,612	2,608
Hedge reserve	(246)	(317)
Total shareholders' equity	3,285	3,339
Non-controlling interest equity	27	29
TOTAL EQUITY	3,312	3,368

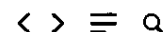
UNAUDITED US DOLLAR PRIMARY STATEMENTS



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 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)	7	(672)	-	(682)	-	(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
	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 2020	667	319	2,534	(413)	3,107	29	3,136
Profit for the year	-	-	386	-	386	1	387
Other comprehensive income:							
- re-measurement of retirement benefits after tax	-	-	10	-	10	-	10
- FX movements net of recycling	42	17	(72)	(18)	(31)	(1)	(32)
- fair value gains/(losses) and related tax	-	-	5	114	119	-	119
Total comprehensive income for the year	42	17	329	96	484	-	484
Transactions relating to ownership interests:							
Exercises of share options	3	-	-	-	3	-	3
Receipt of capital from non-controlling interest	-	-	-	-	-	1	1
Purchase of own shares	-	-	(22)	-	(22)	-	(22)
Dividends:							
- equity shareholders	-	-	(252)	-	(252)	-	(252)
- non-controlling interests	-	-	-	-	-	(1)	(1)
Share-based payment	-	-	19	-	19	-	19
At 31 July 2021	712	336	2,608	(317)	3,339	29	3,368

UNAUDITED US DOLLAR PRIMARY STATEMENTS



Unaudited supplementary consolidated cash-flow statement – US dollar translation

	Year ended 31 July 2022 \$m	Year ended 31 July 2021 \$m
Net cash inflow from operating activities	367	726
Cash-flows from investing activities		
Expenditure on capitalised development	(29)	(37)
Expenditure on other intangible assets	(11)	(16)
Purchases of property, plant and equipment	(76)	(106)
Disposals of property, plant and equipment	4	3
Capital returned by/(investment in) financial assets	–	9
Acquisition of businesses	–	(113)
Investment in financial asset – discontinued operations	–	(19)
Proceeds on disposal of subsidiaries, net of cash disposed	1,751	–
Net cash-flow used in investing activities	1,639	(279)
Cash-flows from financing activities		
Proceeds from exercise of share options	3	3
Share buybacks	(672)	–
Purchase of shares by Employee Benefit Trust	(21)	(22)
Proceeds received on exercise of employee share options	1	–
Settlement of cash-settled options	(1)	–
Dividends paid to equity shareholders	(197)	(251)
Lease payments	(50)	(60)
Reduction and repayment of borrowings	(388)	–
Cash inflow from matured derivative financial instruments	30	5
Net cash-flow used in financing activities	(1,295)	(325)
Net decrease in cash and cash equivalents	711	122
Cash and cash equivalents at beginning of year	563	480
Cash held in disposal group	63	(38)
Exchange differences	(52)	(1)
Cash and cash equivalents at end of year	1,285	563
Cash and cash equivalents at end of year comprise:		
– cash at bank and in hand	295	304
– short-term deposits	991	259
	1,286	563
– bank overdrafts	(1)	–
	1,285	563

UNAUDITED US DOLLAR PRIMARY STATEMENTS



Unaudited Group US dollar financial record 2018-2022

The headline income statement metrics shown below for the year ended 31 July 2018 have been represented to show the results of Smiths Medical as a discontinued operation.

		Year ended 31 July 2022 \$m	Year ended 31 July 2021 \$m	Year ended 31 July 2020 \$m	Year ended 31 July 2019 \$m	Year ended 31 July 2018 \$m
Income statement metrics – headline*						
Continuing operations	Revenue	3,377	3,264	3,216	3,218	3,139
	Headline operating profit	549	504	412	550	523
	Headline profit before tax	495	450	351	484	449
Discontinued operations	Revenue	468	1,152	1,159	1,126	1,172
	Headline operating profit	87	240	232	189	210
	Headline profit before tax	86	239	227	185	208
Income statement metrics – statutory**						
	Revenue	3,377	3,264	3,216	3,218	3,139
	Operating profit	154	442	304	420	461
	Profit before taxation	135	325	169	391	386
	Profit for the year	1,362	387	337	291	375
Balance sheet metrics***						
	Net debt	(183)	(1,415)	(1,495)	(1,462)	(1,172)
	Shareholders' equity	3,285	3,339	3,107	2,882	2,982
	Average capital employed	3,578	5,790	5,652	4,852	4,903
Ratios***						
	Headline operating profit: revenue (%)	16.5	16.9	14.7	17.0	17.0
	Headline effective tax rate (%)	27.2	27.1	26.2	25.9	25.8
	Return on capital employed (%)	14.2	13.2	11.8	14.4	14.6
	Return on shareholders' funds (%)	9.9	12.2	10.6	12.1	12.5
Cash-flow metrics***						
	Headline operating cash	829	855	726	611	725
	Headline operating cash conversion (%)	76	125	123	83	99
	Free cash-flow	171	520	345	301	407
	Free cash-flow per share (c)	47.2	131.1	68.9	76.1	102.9
Earnings per share***						
	Headline earnings per share (c)	108.6	126.3	107.0	124.7	122.3
Dividends and dividend cover***						
	Cents per share (c)	52.1	51.1	44.2	59.1	60.1
	Headline dividend cover	2.1	2.5	2.4	2.1	2.0

* 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 discontinued operations comparatives for the year ended 31 July 2018 have also been restated for the adoption of IFRS 15.

** 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 2022 £m	31 July 2021 £m
NON-CURRENT ASSETS			
Right of use assets	2	5	6
Investments	3	2,422	2,414
Loans due from subsidiaries	3	561	611
Retirement benefit assets	10	309	546
Financial derivatives	8	–	75
		3,297	3,652
CURRENT ASSETS			
Trade and other receivables	5	62	52
Current tax receivable		5	5
Cash and cash equivalents	7	770	158
Financial derivatives	8	9	2
		846	217
TOTAL ASSETS		4,143	3,869
CURRENT LIABILITIES			
Trade and other payables	6	(588)	(91)
Lease liabilities	7	(1)	(1)
Financial derivatives	8	(29)	(2)
		(618)	(94)
NON-CURRENT LIABILITIES			
Borrowings	7	(545)	(1,354)
Lease liabilities	7	(5)	(6)
Provisions for liabilities and charges	9	(2)	(2)
Retirement benefit liabilities	10	(47)	(58)
Financial derivatives	8	(20)	–
Deferred tax liabilities	4	–	(28)
		(619)	(1,448)
TOTAL LIABILITIES		(1,237)	(1,542)
NET ASSETS		2,906	2,327
SHAREHOLDERS' EQUITY			
Called up share capital	11	136	149
Share premium account	11	365	363
Capital redemption reserve	11	19	6
Other reserves	11	181	181
Profit and loss account	11	2,205	1,628
TOTAL EQUITY		2,906	2,327

The Company's profit for the period was £1,257m (FY2021: £2m loss).

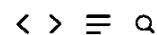
The accounts on pages 171 to 179 were approved by the Board of Directors on 22 September 2022 and were signed on its behalf by:

Paul Keel
CHIEF EXECUTIVE OFFICER

Clare Scherrer
CHIEF FINANCIAL OFFICER

Smiths Group plc – registered number 137013

SMITHS GROUP PLC COMPANY ACCOUNTS

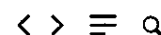


Company statement of changes in equity

	Share capital £m	Share premium £m	Capital redemption reserve £m	Other reserves £m	Retained profit £m	Shareholders' equity £m
At 31 July 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	-	(51)	(51)
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

	Share capital £m	Share premium £m	Capital redemption reserve £m	Other reserves £m	Retained profit £m	Shareholders' equity £m
At 31 July 2020	149	361	6	181	1,812	2,509
Profit for the year	-	-	-	-	(2)	(2)
Other comprehensive income:						
- re-measurement of retirement benefits	-	-	-	-	12	12
- taxation recognised on retirement benefits	-	-	-	-	(6)	(6)
Total comprehensive income for the year					4	4
Transactions with owners:						
Issue of new equity shares	-	2	-	-	-	2
Purchase of shares by Employee Benefit Trust	-	-	-	-	(16)	(16)
Dividends paid to equity shareholders	-	-	-	-	(185)	(185)
Share-based payment	-	-	-	-	13	13
Total transactions with owners recognised in equity	-	2	-	-	(188)	(186)
At 31 July 2021	149	363	6	181	1,628	2,327

SMITHS GROUP PLC COMPANY ACCOUNTS



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

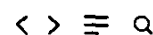
The Directors are satisfied that the Group, (of which the Company is the holding company) has adequate resources to continue to operate for a period not less than 12 months from the date of approval of the financial statements and that there are no material uncertainties around their assessment. Accordingly, 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

SMITHS GROUP PLC COMPANY ACCOUNTS



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 £66m (FY2021: £89m) 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 which broadly match 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 £66m (FY2021: £89m) 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 2022 the Company has recognised £309m of retirement benefit assets (FY2021: £546m), 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 term of seven years. 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.

SMITHS GROUP PLC COMPANY ACCOUNTS



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 108 to 115 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 108 to 115 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.

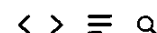
The fair value of options granted, excluding the impact of any non-market vesting conditions, is calculated using established option pricing models, principally binomial models. The probability of meeting non-market vesting conditions, which include profitability targets, is used to estimate the number 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.

SMITHS GROUP PLC COMPANY ACCOUNTS



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 (FY2021: £0.1m).

Directors' emoluments in the year amounted to £4m (FY2021: £5m). Further information is in the Remuneration & People Committee Report on pages 75 to 88.

2 Right of use assets

	Properties £m
Cost or valuation	
At 31 July 2020	8
At 31 July 2021	8
At 31 July 2022	8
Depreciation	
At 31 July 2020	1
Charge for the year	1
At 31 July 2021	2
Charge for the year	1
At 31 July 2022	3
Net book value at 31 July 2022	5
Net book value at 31 July 2021	6
Net book value at 31 July 2020	7

3 Investments and loans due from subsidiaries

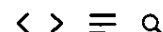
	Shares in subsidiary undertakings £m	Loans due from subsidiaries £m	Total £m
Cost or valuation			
At 31 July 2020	2,410	869	3,279
Foreign exchange rate movements	-	(74)	(74)
Contribution through share options	9	-	9
Decrease in advances due from subsidiaries	-	(183)	(183)
At 31 July 2021	2,419	612	3,031
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
Provision for impairment			
At 31 July 2020, 31 July 2021 and 31 July 2022	5	1	6
Net book value at 31 July 2022	2,422	561	2,983
Net book value at 31 July 2021	2,414	611	3,025
Net book value at 31 July 2020	2,405	868	3,273

Loans due to subsidiaries are offset against loans due from subsidiaries to the extent that there is a legal right of set off and an intention to settle the balances net. At 31 July 2022 £1,664m of loans payable are offset against loans receivable (FY2021: £2,790m). 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

SMITHS GROUP PLC COMPANY ACCOUNTS



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
Kreidler 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 180 to 188 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 2020	3	(88)	72	2	(11)
(Charge)/credit to income statement	–	(29)	17	1	(11)
Charge to equity	–	(6)	–	–	(6)
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	–	–

The Company is part of a UK tax group including all its UK-based subsidiaries. The Company has recognised deferred tax assets of £66m (FY2021: £89m) relating to revenue losses brought forward. The recognition of these assets is dependent on the ability to recover them against the unwind of other tax positions and forecast UK taxable profits of the tax group. The treatment of these assets is reviewed at each reporting date.

As at 31 July 2022 the Company has unrecognised deferred tax assets relating to losses of £142m (FY2021: £nil).

In June 2021, it was announced that from 1 April 2023, there would be an increase in the rate of UK corporation tax from 19% to 25%. Deferred tax, as at 31 July 2022 has been calculated at the 25% rate.

5 Trade and other receivables

	31 July 2022 £m	31 July 2021 £m
Amounts owed by subsidiaries	61	51
Other receivables	1	1
	62	52

6 Trade and other payables

	31 July 2022 £m	31 July 2021 £m
Amounts owed to subsidiaries	58	56
Term loans due within one year	504	–
Other creditors	15	21
Accruals and deferred income	11	14
	588	91

SMITHS GROUP PLC COMPANY ACCOUNTS



7 Borrowings and net debt

	31 July 2022 £m	31 July 2021 £m
Cash at bank	10	20
Short-term deposits	760	138
Cash and cash equivalents	770	158
Lease liabilities falling due within one year	(1)	(1)
Lease liabilities falling due after one year	(5)	(6)
Term loans falling due within one year	(504)	(23)
Term loans falling due after one year	(545)	(1,354)
Borrowings	(1,055)	(1,384)
Net debt	(285)	(1,226)

Term loans and lease liabilities

The currency and coupons for the term loans are disclosed in note 18 of the Group accounts.

	31 July 2022 £m	31 July 2021 £m
Less than one year	505	24
Between one and two years	1	290
Between two and five years	548	516
Greater than five years	1	554
Smiths Group plc term loans and lease liabilities	1,055	1,384

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 \$800m maturing on 1 November 2024.

8 Derivatives

The tables below set out the nominal amount and fair value of derivative contracts held by the Company:

At 31 July 2022				
	Contract or underlying nominal amount £m	Assets £m	Liabilities £m	Fair value Net £m
Foreign exchange contracts (not hedge accounted)	593	9	(9)	-
Cross-currency swaps (fair value and net investment hedges)	615	-	(40)	(40)
Interest rate swaps (fair value hedges)	-	-	-	-
Total financial derivatives	1,208	9	(49)	(40)
Balance sheet entries				
Non-current	-	-	(20)	(20)
Current	-	9	(29)	(20)
Total financial derivatives		9	(49)	(40)

At 31 July 2021				
	Contract or underlying nominal amount £m	Assets £m	Liabilities £m	Fair value Net £m
Foreign exchange contracts (not hedge accounted)	325	2	(2)	-
Currency swaps (fair value and net investment hedges)	539	72	-	72
Interest rate swaps (fair value hedges)	108	3	-	3
Total financial derivatives	972	77	(2)	75
Balance sheet entries				
Non-current	-	75	-	75
Current	-	2	(2)	-
Total financial derivatives		77	(2)	75

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).

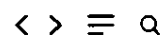
The debit to the income statement arising from change in fair value in the year was £28m (FY2021: £5m).

9 Provisions for liabilities and charges

	At 31 July 2021 £m	Charged against profit £m	Utilisation £m	At 31 July 2022 £m
Disposals	2	-	-	2

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.

SMITHS GROUP PLC COMPANY ACCOUNTS



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 2022 £m	31 July 2021 £m
Market value of scheme assets	3,067	4,104
Present value of funded scheme liabilities	(2,738)	(3,558)
Surplus restriction	(20)	–
Surplus	309	546
Unfunded pension plans	(43)	(54)
Post-retirement healthcare	(4)	(4)
Present value of unfunded obligations	(47)	(58)
Net pension asset	262	488
Retirement benefit assets	309	546
Retirement benefit liabilities	(47)	(58)
Net pension asset	262	488

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 2020	396,211,180	149	
Issue of new equity shares – exercise of share options	165,934	–	2
Total share capital at 31 July 2021	396,377,114	149	
Shares purchased under a buyback programme	(34,152,897)	(13)	
Issue of new equity shares – exercise of share options	131,942	–	2
Total share capital at 31 July 2022	362,356,159	136	

At 31 July 2022, 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 £3m (FY2021: £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 £16m (FY2021: £16m) and £3m (FY2021: £2m) was received, £2m from the issue of new shares (FY2021: £2m) and £1m (FY2021: £nil) directly to the Employee Benefit Trust. At 31 July 2022 the Trust held 618,662 (FY2021: 326,364) ordinary shares.

Distributable profits

The Company's profit and loss reserve of £2,205m (FY2021: £1,628m) includes £1,328m (FY2021: £638m) of distributable profits. See note 26 in the Group accounts for a discussion of capital management and the factors which the Board considers when proposing dividends.

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

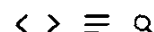
The Group's consolidated balance sheet shows net assets that are £185m lower (FY2021: £96m higher) than the net assets shown on the Parent Company's balance sheet. This deficit principally arose in 2007 when the Group returned £2.1bn of capital to shareholders, creating a net asset deficit of £1.9bn. Earnings retained within the Group have subsequently reduced this deficit. The current year reversal has arisen from the dividend paid to the Company by Smiths Group International Holdings Ltd following the sale of the Medical business.

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 (FY2021: £54m). 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.

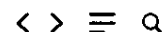


SUBSIDIARY UNDERTAKINGS

A full list of the Group's related undertakings as at 31 July 2022 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.

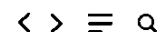
Name	Security	Direct (%)	Total (%)
UNITED KINGDOM			
11-12 St James's Square, London, SW1Y 4LB			
Air Log Limited	Ordinary		100
EIS Group Plc	Ordinary	100	100
Flex-Tek Group Limited	Ordinary		100
Flightspares Limited	Ordinary	100	100
Francis Shaw And Company (Manchester) Limited	Ordinary		100
Francis 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 Wolverhampton Limited	Ordinary		100
Sovos Limited	Ordinary		100
TI Corporate Services Limited	Ordinary	100	100
TI Group Limited	Ordinary	100	100
Tigrap No. 7 Limited	Ordinary	100	100
Tigrap No. 14 Limited	Ordinary		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
54 Hagley Road, Edgbaston, Birmingham, B16 8PE			
CVE Trustee Limited	Ordinary	100	100
Smiths Pensions Limited	Ordinary	99	100
TI Pension Trustee Limited	Limited By Guarantee		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 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

SUBSIDIARY UNDERTAKINGS



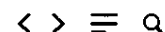
Name	Security	Direct (%)	Total (%)
Unit 130 Centennial Park, Elstree, Hertfordshire, WD6 3TJ			
Hypertac Limited	Ordinary		100
Smiths Industries Industrial Group Limited	Ordinary		100
Smiths Interconnect Group Limited	Ordinary		100
ANGOLA			
Rue Kwamme Nkrumah, Torres Impor-Africa, 3 Andar, Apt A, Luanda			
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		100
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			
Rua Tabapoã, 422, 10th floor, conj. 101, Itaim Bibi, 04533-001			
Smiths Detection Brasil Comérico De Equipamentos Ltda	Common		100
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
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

SUBSIDIARY UNDERTAKINGS



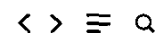
Name	Security	Direct (%)	Total (%)
COLOMBIA			
Calle 46A No 82-54 Int 14, Parque Empresarial San Cayetano, Bogota			
John Crane Colombia SA	Ordinary		100
COSTA RICA			
33rd St. Number 777 Barrio Francisco Peralta, Central Avenue & 8th, San Jose			
Smiths Interconnect Sociedad Anonima	Ordinary		100
CZECH REPUBLIC			
Jana Sigmunda 78, Lutín, 78349			
John Crane A.S.	Ordinary		100
DOMINICAN REPUBLIC			
Calle El Recodo, #2 Bella Vista, Santa Domingo			
John Crane Dominicana SA	Ordinary		100
EGYPT			
139, Mogamaa El Masanea Street, El Amireya, Cairo			
John Crane Egypt Llc	Ordinary		100
John Crane Egypt Sealing Systems Llc	Ordinary		99
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
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

SUBSIDIARY UNDERTAKINGS



Name	Security	Direct (%)	Total (%)
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 Dehli, 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, Bangalor, 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			
Riverside One, Sir John Rogerson's Quay, Dublin, D02X576			
John Crane Pension Trustee (Ireland) Ltd	Ordinary		100
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
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

SUBSIDIARY UNDERTAKINGS



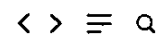
Name	Security	Direct (%)	Total (%)
MEXICO			
679, Poniente 152, Vallejo Delegacion Azcapotzalco, Mexico City, 2300			
Industrias John Crane Mexico S.A. de C.V.	Series A; Series B		100
Av. Primero De Mayo Lote 3 Edificio 1B, Prologis Park, Reynosa, 88780			
Tutco De Mexico SRL de CV	Ordinary		100
Carretera Ciudad Victoria Matamoros, Km.173+600, Solonia San Fernando Centro, Tamaulipas, San Fernando, CP 87600			
John Crane Sociedad De Responsabilidad Limitada De Capital Variable	Ordinary		100
Carretera Libre Antiguo Camino Tijuana 20221-B, Fideicomiso el Florido, Tijuana, Baja California, 22234			
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			
Indufit 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 Buczowski			
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 Ocityabrskaya 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
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
SLOVAKIA			
Dvorakovo nabrezie 10, Bratislava-mestska cast Stare Mesto, 811 02			
John Crane Slovakia SRO	Ordinary		100

SUBSIDIARY UNDERTAKINGS



Name	Security	Direct (%)	Total (%)
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
TUNISIA			
Zone Industrielle Route De Khniss, Monastir, 5000			
Smiths Connectors Tunisia SARL	Ordinary		100
TURKEY			
Istanbul Sariyer, Huzur Mahallesi, Ahmet Bayman Caddesi, Dis, Reklamcilik Apt No:17-19/1			
John Crane Endustriyel Sızdırmazlık 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			
Kreister Industrial Corp	Common Stock		100
Kreister Manufacturing Corp	Common Stock		100
208 S. Lasalle Street, Suite 814, Chicago, IL, 60604			
John Crane International Inc.	Common Shares		100
815 Forestwood Drive, Romeoville, IL 60446			
United Flexible, Inc.	Common Stock		100
US Hose Corp	Common Stock		100
2801 Red Dog Lane, Knoxville, TN 37914			
Fulton Bellows LLC	Limited Liability Company Interests		100
Corporation Service Company, 251 Little Falls Drive, Wilmington, DE, 19808			
United Flexible Technologies, Inc.	Common Stock		100

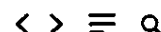
SUBSIDIARY UNDERTAKINGS



Name	Security	Direct (%)	Total (%)
The Corporation Trust Company, 1209 Orange Street, Wilmington, DE, 19801			
Asset And Intelligence Management Services, LLC	Ordinary Stock		100
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
Powercam-Houdaille, Inc.	Common Shares		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	Limited Liability Company Interests		100
Smiths Detection US, Llc	Ordinary		100
Smiths Group Services Corp.	Common Stock		100
Smiths Interconnect Americas, Inc.	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.



SHAREHOLDER INFORMATION

Financial calendar

	2022	2023 (provisional)
Announcement of FY2022 Results	23 September	
Dividend Ex-Dividend Date	20 October	
Dividend Record Date	21 October	
Last DRIP Election Date	28 October	
Annual General Meeting	16 November	
Dividend Payment Date	18 November	
Announcement of FY2023 Interim Results		24 March
Interim Dividend Ex-Dividend Date		6 April
Interim Dividend Record Date		11 April
Last DRIP Election Date		25 April
Interim Dividend Payment Date		17 May
FY2023 Financial Year End		31 July
Announcement of FY2023 Results		September

Registered Office

Smiths Group plc
4th Floor
11-12 St James's Square
London SW1Y 4LB, UK
+44 (0)20 7004 1600
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 at: www.shareview.co.uk.

Telephone:

T: + 44 (0)371 384 2943 (in the UK)
Textel: 0870 384 2255
Lines open 8:30am to 5:30pm (UK time),
Monday to Friday (excluding public holidays in England and Wales)

Write to: Equiniti Limited, Aspect House
Spencer Road, Lancing, West Sussex, BN99 6DA

Equiniti offer 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 2022 Smiths Group plc AGM will be held at 11.00am on Wednesday 16 November 2022 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 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.

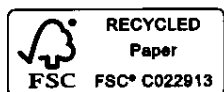
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