SMITHS GROUP PLC – FULL YEAR RESULTS FOR 12 MONTHS ENDED 31 JULY 2024

Pioneers of progress – engineering a better future

Continued good delivery against our strategy; well positioned for ongoing value creation

- Good financial results for the year: +5.4% organic[1] revenue growth, 16.8% headline[2] operating profit margin and +8.3% headline[2] EPS growth
- Headline[2] operating cash conversion of 97%; strong balance sheet 0.3x net debt/EBITDA; proposed final dividend of 30.2p, up +5.2%
- Announcing today two strategic and disciplined acquisitions for up to £110m, enhancing Flex-Tek's HVAC[3] and industrial heating businesses
- Continued focus on high-performance, purpose-based culture and ESG initiatives
- Launching a Group-wide Acceleration Plan to enhance profitability and productivity, for one-off costs totalling £60-65m in the period FY2025-FY2026; £30-35m of annualised benefits in FY2027
- Expect FY2025 organic revenue growth of 4-6%, with continued margin expansion
- Reaffirming medium-term financial targets and strategic focus on growth, people and execution

Roland Carter, Chief Executive Officer, commented:

"I am pleased to report strong organic revenue growth against a record comparator, continued headline operating profit margin expansion and two new acquisitions. I am also pleased to guide to further growth and margin expansion in FY2025 and reaffirm our medium-term financial targets. We are making good strategic, operational and financial progress, and all our businesses are well positioned for compelling value creation.

"We have high-quality teams, an incredible breadth of engineering excellence, and a relentless focus on our customers. Effective strategy execution is enhancing our performance – and we will build on, and out from, this solid foundation, enabling us to grow more profitably to make Smiths even better. This will be delivered through improved prioritisation of investment in R&D and innovation to power organic growth; the Group-wide Acceleration Plan, which is designed to drive productivity and profitability – bringing delivery of our medium-term margin target closer; and disciplined M&A, all of which offer the opportunity to augment overall performance.

"As a team, we focus on solving our customers' toughest problems and are united by our purpose of engineering a better future. Thank you to all my colleagues for a great year. I look forward to achieving even more together, as we continue to accelerate value creation for all our stakeholders."

Headline[2]	FY2024	FY2023	Reported	Organic[1]
Revenue	£3,132m	£3,037m	+3.1%	**+5.4%**
Operating profit	£526m	£501m	+5.0%	**+7.1%**
Operating profit margin[4]	16.8%	16.5%	+30bps	**+34bps**
Basic EPS	105.5p	97.5p	+8.3%	
ROCE[4]	16.4%	15.7%	+70bps	
Operating cash conversion[4]	97%	86%	+11pps	

Statutory	FY2024	FY2023	Reported
Revenue	£3,132m	£3,037m	+3.1%
Operating profit	£415m	£403m	+3.0%
Profit for the year (after tax)	£251m	£232m	+8.2%
Basic EPS	72.3p	65.5p	+10.4%
Dividend per share	43.75p	41.6p	+5.2%

Statutory reporting and definitions

Statutory reporting takes account of all items excluded from headline performance. See accounting policies for an explanation of the presentation of results and note 3 to the financial statements for an analysis of non-headline items. The following definitions are applied throughout the financial report:

[1] Organic is headline adjusted to exclude the effects of foreign exchange and acquisitions.

[2] Headline: In addition to statutory reporting, the Group reports on a headline basis. Definitions of headline metrics, and information about the adjustments to statutory measures, are provided in note 3 to the financial statements.

[3] Heating, ventilation and air conditioning.

[4] Alternative Performance Measures (APMs) and Key Performance Indicators (KPIs) are defined in note 29 to the financial statements.

Presentation

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

Investor enquiries
Siobhán Andrews, Smiths Group
+44 (0)7920 230093
siobhan.andrews@smiths.com

Ana Pita da Veiga, Smiths Group
+44 (0)7386 689442
ana.pitadaveiga@smiths.com

Media enquiries
Tom Steiner, Smiths Group
+44 (0) 7787 415891
tom.steiner@smiths.com

Alex Le May, FTI Consulting
+44 (0)7702 443312
smiths@fticonsulting.com

Our Purpose

We are pioneers of progress – engineering a better future. We are focused on solving the toughest problems for our customers, helping address critical global needs such as safety and security, decarbonisation and the ever-increasing demand for connectivity. At the same time, we are building the long-term strength and resilience of Smiths Group and our global operations. We are united by our purpose. It is what we do, how we think, and how we will continue to use our passion for innovative technology and engineering.

Legal Entity Identifier (LEI): 213800MJL6IPZS3ASA11

UPCOMING EVENTS

Date	Event
17 October 2024	Final Ex-Dividend Date
18 October 2024	Final Dividend Record Date
13 November 2024	Q1 Trading Update and Annual General Meeting
22 November 2024	Final Dividend Payment Date

SUMMARY

I am pleased to report a good performance at my first set of results as CEO. We delivered further progress, with organic revenue growth of +5.4% and a +30bps increase in headline operating profit margin to 16.8%, both in line with guidance, and headline earnings per share growth of 8.3%. We improved headline operating cash conversion to 97% through a focus on working capital. We have announced two highly attractive acquisitions for up to £110m, deploying capital in a disciplined way whilst maintaining our strong balance sheet. We are well set for continued delivery in FY2025, and beyond.

During the last six months, we have been reviewing the Group's current strategy to define our future direction. From my 35-year career at Smiths, I have a deep appreciation of the Group's compelling attributes. Smiths has many strengths, and our businesses are well positioned for the future – leading positions in attractive markets, world-class engineering expertise, differentiated proprietary technology, strong brands and talented people united by a purpose-led, innovative and continuous improvement culture.

Effective execution of our strategy has enhanced our performance, but there is more we can do – and we will build on, and out from, this solid foundation. Our strategic priorities around growth, people and execution will remain, although there are a number of important changes:

- We remain resolutely focused on delivering continued profitable organic growth, but we will work harder to focus our innovation and the commercialisation of our new products. In addition, we will increase the importance of moving into new, higher-growth adjacencies with targeted allocation of our R&D resources. Highly disciplined M&A offers additional opportunities. This is demonstrated by the acquisitions announced for Flex-Tek, and we now have a more active acquisition pipeline to accelerate the pace of strategy execution;
- Our talented people and our purpose-led culture serve us well in delivering value for our customers, but the recent foundational work in values, leadership behaviours and culture must make a real long-term difference to how we operate. We will ensure that talent attraction and leadership development initiatives permeate through the Group, benefiting all. We are also taking a more end-to-end approach to improve business-level processes by implementing a global shared business services model which will provide improved cost-effective support; and
- The Smiths Excellence System (SES) is our way of working, and Lean and continuous improvement activities will be driven at the grass roots level, rather than led 'top-down' from Group. In addition, to deliver our operating margin target faster, we are launching a Group-wide Acceleration Plan which identifies a set of business-led transformational initiatives to enhance margin, improve productivity and build capabilities.

We see significant opportunities within all our businesses to deliver substantial additional value creation from this approach.

STRATEGY UPDATE

Compelling portfolio of leading businesses

Our portfolio position is compelling – with resilient and competitively advantaged businesses. Our businesses have independent products, customers and go-to-market models. Even so, they share similar customer-facing capabilities and common characteristics, an opportunity we can, and will, take better advantage of. For example, deep-seated manufacturing and process knowledge, aftermarket service, digital, automation and material technologies are all mutual characteristics we can better leverage to enhance how we support our customers, how we perform, and to create and sustain Group-wide competitive advantage.

Group functions will continue to provide strong, effective oversight and governance. We will improve these by developing and expanding the remit of our global shared business services – to cover all businesses and key support functions in addition to IT, which it already manages in a cost-effective way. We will continue to deploy SES, an important element of which is Lean – reducing waste and improving efficiency to enhance our operations - with Lean leaders at our major sites, maintaining the pace of continuous improvement. This common Group approach takes operational excellence to another level of maturity, alongside talent development and capital allocation, and will ensure consistent strategy execution, optimal capital allocation and cost-effective portfolio management.

Positioned in secularly attractive markets

We are positioned in attractive markets that we believe offer significant opportunities for profitable growth – energy, safety and security, aerospace and defence, general industrial – where we are helping our customers to make the world safer, more energy efficient and productive, as well as better connected. These markets are exposed to positive megatrends:

- Safety and security – in the context of an increasing prevalence of travel and cross-border trade, alongside increasing threats and greater geopolitical instability;
- Energy efficiency – the requirement for energy diversification as well as reductions in emissions, coupled with the rise in infrastructure development;
- Productivity – within the industrial world, the need to manage the use of resources and raw materials efficiently is critical, and will support the development of the circular economy; and
- Better connectivity – the demand for data is continually increasing as the world becomes more connected and computing power expands, requiring new technologies across many sectors.

We will continue to focus on accessing the growth that these markets offer, with a clear view to capturing market share and expanding our addressable markets.

Participation in attractive new market adjacencies to accelerate growth

As well as driving growth in our existing markets, we will look to build out priority adjacencies to accelerate our growth, for example into new sealing solutions and services at John Crane; next generation threat detection at Smiths Detection; electrical industrial process heat at Flex-Tek; and high-speed satellite communications at Smiths Interconnect. Accessing these adjacent opportunities will be done both organically through dedicated R&D spend, and through disciplined M&A, to augment our organic growth focus.

We have a strong balance sheet and the flexibility to support a range of growth opportunities and will continue to allocate capital in a disciplined way for value creation. The priorities here are unchanged – organic investment (R&D and capex) will remain our primary focus, followed by strategic and disciplined M&A, and then returning excess capital to shareholders through our progressive dividend and, when compelling, share buybacks.

As evidenced by the new acquisitions for Flex-Tek, we have a more active acquisition pipeline than historically, providing us with a greater set of opportunities through which we can grow our businesses, but will maintain our strict value creation discipline.

Investing in proprietary technology, differentiated products and service capability

Innovation takes place on many levels within Smiths: new products and services, new ways of manufacturing and new ways of exploiting technology. Our innovation capability and ongoing investment in developing differentiated, proprietary technologies and solutions ensures that we maintain a robust, value-oriented approach to commercialising new products. Our new product pipeline is focused on responding to emerging customers' needs and bringing next-generation technology to market.

We have a high proportion of recurring revenue through our aftermarket and services in John Crane and Smiths Detection, and we are looking at additional ways to improve customer intimacy and capture greater value here; for example through expanded services, as well as digital and software applications. We will also partner with customers to develop solutions to demanding specifications, again leveraging Group-wide skills and experience to better commercialise these types of growth opportunities.

Launching Acceleration Plan to drive Group-wide productivity and capability enhancements

We continue to drive productivity and process improvements and further embed deployment of SES which has delivered tangible benefits and contributed to recent margin expansion. However, we now need to capture the next level of improvements to accelerate the realisation of our medium-term margin target and deliver process improvements for resilience and scalability over the longer term.

To achieve this, and in addition to our planned SES activity, we are now launching a Group-wide Acceleration Plan. This comprises a number of discrete initiatives focused on delivering the next wave of productivity and capability enhancements across all our businesses.

This proposed programme has identified £30-35m of potential annualised benefits, of which around a quarter are planned to be realised during FY2026, with the full benefit in FY2027. Delivering these ongoing savings will result in one-off costs totalling approximately £60-65m, of which approximately £30-35m will be spent in FY2025 and £30m in FY2026, plus an additional £10m of capex in FY2025. Benefits and savings areas are focused on: process, improving organisational effectiveness through simplifying interaction and processes for our customers and our colleagues, and property, through a footprint optimisation review. Where required, we will consult appropriately with colleagues around the planned changes. It is now the right time to invest in these ambitions, to drive operating margin expansion and competitiveness more rapidly as we continue to grow.

Purpose-based and high-performing culture

Delivering on our growth and execution priorities requires the dedication and commitment of all our colleagues; and we are committed to doing more to inspire and empower them. Safety will continue to be our highest priority and we remain committed to maintaining our top quartile performance by elevating the focus on this around the Group even further. Our purpose-based culture is strong, and we continue to evolve our approach where talent development, engagement and inclusion and sustainability all define how we operate. I have worked with, supported and been supported by many colleagues over the years, and I am excited about what the future holds and what we can deliver together.

Reaffirming medium-term targets, underpinned by our performance framework

This focused strategic and operational plan is the means through which we will realise the medium-term financial targets that we previously set. We have again made solid progress against these targets in FY2024 and continue to believe these are the right metrics and set the right ambition.

We are reaffirming these financial targets. In FY2024, we are already within the target range for three of these metrics and are clear on the key actions needed to achieve them for operating profit margin. Each of our businesses has a clear roadmap to improve profitability. Given our investment in growth, we now believe a cash conversion of around 100% through the cycle is more appropriate than 100%+.

Targets	Medium-Term Target	FY2024
Organic Revenue Growth	**4-6%** *(+ M&A)*	**+5.4%**
Headline EPS Growth	**7-10%** *(+ M&A)*	**+8.3%**
ROCE	**15-17%**	**16.4%**
Headline Operating Profit Margin	**18-20%**	**16.8%**
Headline Operating Cash Conversion	**~100%**	**97%**

FY2025 outlook

For FY2025, we expect organic revenue growth to be within our medium-term target range of 4-6%. A strong demand backdrop and good order book visibility underpin our positive view for John Crane and Smiths Detection, although growth is expected to moderate from the strong performance seen in FY2024. Good demand in aerospace, alongside the pace of market recovery in US construction, will determine the pace of growth in Flex-Tek, and recovery in semiconductor test alongside growth in aerospace and defence-related programmes underpins our expectation for an improving performance in Smiths Interconnect.

We also expect continued margin expansion in FY2025, reflecting operational leverage, continued deployment of SES and Lean initiatives, and our reinvestment to support future sustainable growth. Headline operating cash conversion is expected to be in the low nineties percent given an increase in capex to around £110m. This will be weighted towards the second half of the year, reflecting timing of machining capacity and automation investments, mainly in John Crane.

FY2024 BUSINESS PERFORMANCE

Smiths delivered organic revenue growth of +5.4% in FY2024. We generated £526m of headline operating profit, up +7.1% on an organic basis year-on-year and a +30bps margin improvement as we continue to drive growth, improve execution, and invest in our people.

Revenue grew +3.1% on a reported basis to £3,132m (FY2023: £3,037m). This included a (£119m) negative foreign exchange translation impact and +£57m from the acquisitions of Heating and Cooling Products (HCP) and Plastronics.

£m	FY2023	Foreign exchange	Acquisitions	**Organic movement**	**FY2024**
Revenue	3,037	(119)	57	**157**	**3,132**
Headline operating profit	501	(21)	12	**34**	**526**
Headline operating profit margin	16.5%				**16.8%**

Growth

Accelerating growth is key to value creation for the Group. We have now delivered three years of organic revenue growth, with momentum improving through FY2024. Organic revenue growth of 3.9% in the first half was followed by 6.8% in the second half.

Organic revenue growth (by business)	**H1 2024**	**H2 2024**	**FY2024**
John Crane	+12.7%	+7.1%	**+9.8%**
Smiths Detection	+8.9%	+13.2%	**+11.1%**
Flex-Tek	(4.1)%	+2.6%	**(0.8)%**
Smiths Interconnect	(13.7)%	+0.4%	**(6.5)%**
Smiths Group	**+3.9%**	**+6.8%**	**+5.4%**

Strong growth continued for our two larger businesses, with more challenging end market dynamics in our other two businesses, although both returned to growth in the second half:

- John Crane's growth was led by energy, especially in aftermarket, as it executed on its strong order book;
- Smiths Detection's growth reflected strength in aviation, particularly for computed tomography for airport checkpoints;
- Flex-Tek's performance reflected ongoing US construction market headwinds, which more than offset strength in aerospace; and
- Smiths Interconnect's performance reflected weakness in connectors and the semiconductor test end market.

Our business operates across four major global end markets: General Industrial, Safety & Security, Energy, and Aerospace & Defence.

Organic revenue growth (by end market[1])	% of Smiths revenue	**H1 2024**	**H2 2024**	**FY2024**
General Industrial	39%	(5.5)%	(1.5)%	**(3.5)%**
Safety & Security	27%	+8.9%	+13.2%	**+11.1%**
Energy	23%	+16.6%	+15.3%	**+15.9%**
Aerospace & Defence	11%	+2.9%	+4.8%	**+3.9%**
Smiths Group	**100%**	**+3.9%**	**+6.8%**	**+5.4%**

1 Our end market allocations have been revised such that Smiths Interconnect's revenue related to aerospace and defence has been moved from Safety & Security into Aerospace & Defence. FY2023 has been restated on this new basis. See note 1 to the financial statements for further information.

- In General Industrial, the decline reflected weaker demand in construction for Flex-Tek's heating, ventilation and air conditioning (HVAC) products and Smiths Interconnect semiconductor test and connectors products, with John Crane's industrial performance flat year-on-year;
- Safety & Security growth reflected Smiths Detection's continued strong delivery against its order book;

- Energy growth reflected robust demand at John Crane and execution against its strong order book; and
- In Aerospace & Defence, new aircraft build programmes drove demand at Flex-Tek which was partly offset by phasing in some aerospace and defence-related programmes in Smiths Interconnect.

Organic growth is supported by new product development and commercialisation. In FY2024, 200bps of growth was delivered from high impact new products including John Crane's next-generation diamond coating product, Smiths Detection's iCMORE and the latest generation of high-speed semiconductor test sockets (DaVinci 112) from Smiths Interconnect. Gross vitality, which measures the proportion of revenues coming from products launched in the last five years, was 28.5% (FY2023: 31%), supported by our successful new product commercialisation.

We also augment our organic growth with disciplined M&A and today have announced two acquisitions with a combined value of £95m at an EBITDA multiple of c.8x, enabling expansion in Flex-Tek's HVAC and electrical heating solutions platforms. An additional amount of up to £15m is payable subject to the performance of one of the acquisitions over a three-year period.

- Modular Metal Fabricators, Inc. (Modular Metal) is a US-based metal and flexible ducting manufacturer which expands Flex-Tek's geographical presence in the western US and broadens its product range to include Modular Metal's sealed flexible duct solution. This acquisition builds on our August 2023 acquisition of HCP, which expanded our geographical coverage in North America and added HCP's patented axial and radial seal duct products.
- Through the acquisition of Wattco, Inc. (Wattco), Flex-Tek expands into medium temperature immersion and circulation heating – an attractive market adjacency and highly complementary to our existing open coil electrical heating businesses. This acquisition follows our successful acquisition of SureHeat in 2017. Wattco also brings additional capability in terms of supplying vertically integrated heating solutions and will be integrated into the Flex-Tek heat solutions business.
- The acquisition of Wattco has already completed, while Modular Metal is expected to complete in Q1 FY2025.

Execution

Stronger execution remains a key priority, with an improving financial performance again in FY2024. Headline operating profit rose +7.1% (+£34m) on an organic basis, and +5.0% (+£25m) on a reported basis, to £526m (FY2023: £501m).

£m	FY2023	Foreign exchange	Acquisitions	**Organic movement**	**FY2024**
Headline operating profit	501	(21)	12	**34**	**526**
Headline operating profit margin	16.5%	(10)bps	10bps	**30bp**	**16.8%**

Headline operating profit margin was 16.8%, up +34bps on an organic and +30bps on a reported basis, and in line with guidance of continued margin expansion, reflecting operational leverage and efficiency improvements, alongside reinvestment to support future growth.

Headline operating profit margin (by business)	**FY2023**	**FY2024**
John Crane	22.6%	**23.2%**
Smiths Detection	11.2%	**11.9%**
Flex-Tek	19.4%	**20.5%**
Smiths Interconnect	16.0%	**13.9%**
Smiths Group	**16.5%**	**16.8%**

Three of our businesses delivered margin expansion:

- John Crane had good operating leverage on the higher sales volume, partially offset by mix impacts from higher systems sales and while continuing to reinvest in capacity expansion, sales and service to support current and future growth;

- Smith's Detection delivered a 70bps increase in margin, reflecting higher volumes and improving operational efficiency in the second half;
- Flex-Tek delivered a higher margin, despite the lower organic revenue, reflecting a positive mix impact and good cost control; and
- Smiths Interconnect posted a margin decline reflecting the lower year-on-year volumes, despite cost control initiatives.

And at a Group level, we invested in several growth initiatives which were funded by the benefits from the Smiths Excellence System and other savings projects, and which offset each other.

ROCE increased +70bps to 16.4% (FY2023: 15.7%) reflecting the higher profitability of the Group, which also translated to growth in headline EPS of +8.3% to 105.5p. This reflected a headline tax charge of £122m (FY2023: £121m) which represents an effective rate of 25.0% (FY2023: 26.0%) and also benefited from the share buyback programme, partially offset by foreign exchange impacts.

The focus on execution also enhanced headline operating cash conversion, which improved to 97% (FY2023: 86%), supported by a year-on-year improvement in working capital. Headline operating cashflow was £509m (FY2023: £433m) and free cashflow generation increased +67% to £298m (FY2023: £178m) or 57% of headline operating profit (FY2023: 35%).

SES is one of our key initiatives to enhance execution and support the delivery of our medium-term financial targets. SES projects delivered a £23m benefit to headline operating profit in FY2024 (FY2023: £14m), in line with expectations. SES is the way we work at Smiths and is supported by our cohort of Black Belts (BBs) and Master Black Belts (MBBs). As our first cohort return to leadership roles across the Group, SES learnings are better embedded within the businesses, and to continue this process, new MBBs and BBs have been appointed. In addition, our major sites have Lean leaders in place to continually assess processes and ingrain Lean practices at the local level.

We are also executing well against our ESG framework, with progress against our sustainability metrics, which are now fully incorporated into both our annual and long-term incentives. We continue proactively to manage reductions in the environmental impact of our operations and manufacturing processes.

Environmental metrics	FY2023	FY2024	FY2022-2024	FY2022-2024 Target
Energy efficiency[1]	7.9% improvement	**5.9% improvement**	**n/a**	n/a
Normalised Scope 1 & 2 GHG[2] **emissions reductions**[3]	21% reduction	**20% reduction**	**42% reduction 16.4% CAGR**	5% CAGR
Absolute Scope 1 & 2 GHG[2] **emission reductions**	11.8% reduction	**10.7% reduction**	**22% reduction**	n/a
Proportion of electricity from renewable sources	70%	**73%**	**12% increase**	5% increase 3Y
Normalised non-recyclable waste[4]	9.8% reduction	**0.1% increase**	**19% reduction**	5% reduction 3Y
Normalised water use in stressed areas[4,5]	13.3% reduction	**0.6% increase**	**17% reduction**	5% reduction 3Y

1 The energy efficiency ratio is expressed as the MWh energy consumed (excluding renewable electricity produced and consumed onsite), divided by revenue (excluding price growth within the measurement year), and excludes HCP.
2 Scope 1, 2 and 3 GHG emissions calculated in accordance with the WRI/WBCSD Greenhouse Gas Protocol.
3 Normalised for revenue excluding price increases and excluding HCP acquisition.
4 Normalised to reported revenue.
5 Across 10 identified water stressed areas.

We have been tracking our environmental performance since 2007 and set new three-year targets in FY2022. Over the three-year period FY2022-FY2024, our Scope 1 and 2 emissions have reduced by 42% – in line with our net zero Greenhouse Gas (GHG) emission targets which were validated by the Science Based Targets initiative during the year. Also over this period, we improved energy efficiency, around 73% of our electricity now comes from renewable sources and we continue to target additional locations for onsite renewable energy installation.

We have set out new targets for FY2025-FY2027. These include new metrics on supplier engagement in support of our ESG commitments and reporting. In FY2024, we engaged a new third-party supplier management platform – EcoVadis – and launched a supply chain due diligence policy which, together, will help us manage supplier relationships to explicitly support our ESG commitments and reporting.

Environmental Metrics	Target FY2025-2027
Energy reduction[1]	2% in FY2025
Renewable energy	80% by FY2027
Absolute Scope 1 & 2 GHG[2]	17.5% reduction by FY2027
Supplier engagement	40% of supplier spend evaluated on EcoVadis by FY2027
Supplier engagement Scope 3	25% of supplier spend committed to SBTi targets by FY2027

1 Year-on-year reduction in absolute MWh consumed (target depending on revenue).
2 Scope 1 & 2 GHG emissions calculated in accordance with the WRI/WBCSD Greenhouse Gas Protocol.

People

Safety, alongside health and well-being, is an essential foundation of our success. Our FY2024 recordable incident rate was 0.44 (FY2023: 0.41), with the increase primarily reflecting the acquisition of HCP, where its safety culture is being aligned with that of Smiths following its integration. Our key focus is on sustainable preventative action including active promotion of a safety culture and engagement, safety leadership, skills and designing out risk and this is reinforced on a daily basis through safety leading indicator activities, comprising peer-to-peer observations and leadership tours. A key event in the year was our three-day global Health, Safety & Environment (HSE) conference which covered topics including safety culture, the connection between SES and HSE, and hazard perception and risk assessment. To supplement the focus on our physical security, we are developing a mental health and well-being strategy which will be deployed in FY2025.

To support talent development, the rollout of Accelerate, our bespoke training programme for senior leaders continued. It is now present in 15 countries, with 555 participants in FY2024; 50% of our leaders have now been trained under the programme. Our commitment to fostering diversity, equity and inclusion with our initiatives on this are further bolstered by active employee resource groups (ERGs) such as the Black Employee Network, Veterans Network, Pride Coalition, Women@Work and Neurodiversity ERGs.

Our people are enthused about engaging with and caring for our communities and in June this year, our annual Smiths Day celebrated our culture and our communities, with many employees volunteering their support for local causes. At the Group level, The Smiths Group Foundation has now made its first grants, totalling c.£1m, to more than 10 charities around the world supporting STEM, safety and connectedness and environmental sustainability.

In combination, these initiatives help to underpin an engaged workforce and a healthy culture which we track and measure through the annual My Say Survey. This survey is used to surface issues and more precisely understand what we are doing well and where we need to do better, both at a high level and at the grass roots in individual teams. In FY2024, 85% of employees completed the survey and it was pleasing to see our overall engagement score of 75 was up two points on the prior year.

CAPITAL ALLOCATION

Our highest capital priority continues to be organic growth, followed by strategic and disciplined M&A, and we have a strong track record of returning capital to shareholders, via dividends and share buybacks. In FY2024, we invested £109m in R&D (FY2023: £113m), of which £73m (FY2023: £73m) was an income statement charge, £14m was capitalised (FY2023: £21m) (primarily next-generation hold and cabin baggage screening and further advancements in our defence portfolio) and £22m (FY2023: £19m) was funded by customers. Partly accounting for the marginal year-on-year decline was the relocation of certain R&D projects to lower-cost jurisdictions, resulting in more efficient R&D spend. In addition, there was a further £41m spend on customer-specific engineering-related projects taking the total spend for FY2024 from 3.5% to 4.8% of sales.

To support new product launches and the strong demand for our existing solutions, we increased capex +6% to £86m (FY2023: £81m). This equates to 1.7x depreciation and amortisation (FY2023: 1.6x). A key project was investment in machining capacity and automation at John Crane, which will continue into FY2025 resulting in Group capex of around £110m for the year.

We spent £64m on the acquisition of HCP in August 2023, a US-based manufacturer of HVAC solutions and post the FY2024 year-end, in September 2024, we announced the acquisitions of Modular Metal and Wattco for £95 million, with up to an additional £15m subject to the performance of one of the acquisitions over a three-year period.

We completed the final £29m of the Group's £742m share buyback programme in the first quarter. In addition, in March, we announced a new share buyback programme of £100m and initiated buying under the first £50m tranche. As guided, we completed the first £50m during September 2024, including £41m during the fiscal year, and £9m during August and September. We have not yet initiated the second tranche.

In line with our progressive dividend policy, the Board is recommending a final dividend of 30.2p, a year-on-year increase of +5.2%, bringing the total dividend for the year to 43.75p (FY2023: 41.6p). The final dividend will be paid on 22 November 2024 to shareholders on the register at close of business on 18 October 2024. Our dividend policy aims to increase dividends in line with growth in earnings and cashflow, with the objective of maintaining minimum dividend cover of around two times.

The Company offers a Dividend Reinvestment Plan (DRIP) enabling shareholders to use their cash dividend to buy further shares in the Company – see website for details. To participate in the DRIP, shareholders must submit their election notice to be received by 1 November 2024. Elections received after the Election Date will apply to dividends paid after 22 November 2024. Purchases under the DRIP are made on, or as soon as practicable after, the dividend payment date and at prevailing market prices.

Net debt

Net debt at 31 July 2024 was £213m (FY2023: £387m) with a net debt to headline EBITDA ratio of 0.3x (FY2023: 0.7x). Net headline finance costs for the year increased by £3m to £38m (FY2023: £35m) principally due to a reduced level of cash balances over the year generating lower interest income.

As at 31 July 2024, borrowings were £659m (FY2023: £654m) comprising a €650m bond which matures in February 2027 and £123m of lease liabilities. There are no financial covenants associated with these borrowings. Cash and cash equivalents as at 31 July 2024 were £459m (FY2023: £285m). Together with our $800m (£623m at the year-end exchange rate) revolving credit facility, which matures in May 2029, total liquidity was £1.1bn at the end of the period.

Since the sale of Smiths Medical in January 2022, the Group has held a financial asset reflecting our equity ownership in ICU Medical, Inc (ICU). During FY2024, we sold 2,030,000 ICU shares (8.34% of ICU's issued share capital), with net proceeds of $240m (£187m). After the year end, we sold a further 415,771 shares (1.70% of ICU's issued share capital) with net proceeds of $59.8m (£46.2m). We continue to own less than 1% of ICU and will exit over time.

STATUTORY RESULTS

Income statement and cashflow

The £111m difference (FY2023: £98m) between headline operating profit of £526m and statutory operating profit of £415m reflects non-headline items. The largest of these relate to the amortisation of acquired intangible assets of £49m, a £26m net charge for asbestos litigation in John Crane Inc and £13m of fair-value loss on the ICU contingent consideration. The statutory operating profit of £415m was £12m higher than last year (FY2023: £403m), reflecting the higher headline operating profit. Statutory finance costs were £43m, flat year-on-year (FY2023: £43m).

The statutory effective tax rate was 32.5% (FY2023 37%) and includes a non-headline tax credit of £1m (FY2023 £13m expense). Statutory profit after tax for the Group was £251m (FY2023: £232m) and statutory basic EPS was 72.3p (FY2023: 65.5p).

Statutory net cash inflow from operating activities for the total Group was £418m (FY2023: £293m).

Pensions

During the year, £16m of pension contributions (FY2023: £5m) were made, which relate to funded, unfunded and overseas schemes and healthcare arrangements. Of this, £10m related to the US defined benefit pension plan.

As previously announced, no contributions were made in FY2024 and it is not anticipated that any further contributions will be made to the TI Group Pension Scheme (TIGPS), as the liabilities have now been insured via a series of buy-in annuities. The Group and the TIGPS Trustee are working toward final buy-out of the scheme. The Smiths Industries Pension Scheme (SIPS) is in surplus on the Technical Provisions funding basis, and no cash contributions have been made in the year nor are scheduled to be made. The Group and the SIPS Trustee continue to work together to progress towards the long-term funding target of full buy-out funding.

These two UK schemes and the US pension plan are well hedged against changes in interest and inflation rates. Their assets are invested in third-party annuities, government bonds, investment grade credit or cash, with no remaining equity investments. As at 31 July 2024, 60% of the UK liabilities had been de-risked through the purchase of annuities from third party insurers.

Foreign exchange

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

	Average rates		Period-end rates	
	31 Jul 2024 (12 months)	31 Jul 2023 (12 months)	31 Jul 2024	31 Jul 2023
USD	1.26	1.21	1.28	1.29
EUR	1.17	1.15	1.19	1.17

JOHN CRANE

John Crane is a global leader in mission-critical technologies for the energy and process industries and an innovator in rotating equipment, encompassing mechanical seals, couplings, filtration systems and cutting-edge asset management and digital diagnostics solutions. 64% of revenue is derived from the energy sector (downstream and midstream oil & gas and power generation, including renewable and sustainable energy sources). 36% is from other process industries including chemical, life sciences, mining, water treatment and pulp & paper. 72% of John Crane revenue is from aftermarket sales. John Crane represents 36% of Group revenue.

	FY2024 £m	FY2023 £m	Reported growth	Organic growth H1	Organic growth H2	Organic growth FY
Revenue	**1,133**	**1,079**	**+5.0%**	**+12.7%**	**+7.1%**	**+9.8%**
Original Equipment (OE)	176	169	+4.8%	+0.3%	+17.5%	+ 9.0%
Aftermarket	550	487	+12.8%	+22.5%	+14.5%	+18.3%
Energy	**726**	**656**	**+10.7%**	**+16.6%**	**+15.3%**	**+15.9%**
Original Equipment	145	145	(0.4)%	+5.0%	+2.7 %	+3.8%
Aftermarket	262	278	(5.8)%	+7.4%	(9.2)%	(1.6)%
General Industrial	**407**	**423**	**(3.9)%**	**+6.5%**	**(5.3)%**	**+0.3%**
Headline operating profit	263	**244**	**+7.7%**	**+18.3%**	**+7.4 %**	**+12.4%**
Headline operating profit margin	**23.2%**	**22.6%**	**+60bps**	**+110bps**	**+10bps**	**+60bps**
Statutory operating profit	229	217	+5.5%			
Return on capital employed	25.3%	23.8%	+150bps			
R&D cash costs as % of sales	1.6%	1.7%	(10)bps			

Revenue

£m	FY2023 reported	Foreign exchange	**Organic movement**	**FY2024 reported**
Revenue	1,079	(47)	**101**	**1,133**

John Crane delivered organic revenue growth of +9.8% for the year, as it continued executing against a strong order book. Following double-digit organic revenue growth in the first half, growth moderated to +7.1% in the second half, still a healthy level compared to record-high growth in FY2023. Organic revenue growth was driven by a strong performance in Energy. Aftermarket organic revenue grew +11.1% to make up 72% of sales (FY2023: 71%), whilst OE grew +6.6%.

Reported revenue grew +5.0% to £1,133m, having crossed the £1bn mark in FY2023 for the first time, reflecting the organic growth, partially offset by a negative foreign exchange impact.

In Energy, organic revenue grew +15.9% benefiting from a continued focus on energy security and efficiency, as well as emissions reduction solutions. Regionally, there was a strong performance in the Middle East and Latin America for our advanced seals and gas compression products, as well as service contracts, with an +18.3% growth in aftermarket revenue. Notable contract wins in the year included one with Karachaganak Petroleum Operating B.V. for the provision, service and repair of dry gas seals featuring triple seal technology, and another with a major global energy company in Alberta, Canada to provide industrial seal support services at North America's most efficient integrated hydrocarbon processing site.

John Crane also won several notable energy transition contracts – including one to supply dry gas seals for three supercritical CO_2 compressors of a large-scale blue hydrogen project in the USA, and a significant contract to supply wet seals for almost 100 pumps to a zero-emission electric vehicle battery manufacturing facility, also in the USA. The pipeline of opportunities John Crane is pursuing within energy transition in CCUS, hydrogen and biofuels continues to expand.

In the General Industrial segment, organic growth moderated to +0.3%, with a (5.3)% decline in the second half, following a strong FY2023. Growth in OE, largely driven by water treatment, marine and mining, was partly offset by a small decline in aftermarket sales.

Order intake growth in FY2024 supports our positive outlook in FY2025.

Operating profit and ROCE

£m	FY2023 reported	Foreign exchange	Organic movement	FY2024 reported
Headline operating profit	244	(11)	**30**	**263**
Headline operating profit margin	22.6%			**23.2%**

Headline operating profit of £263m grew +12.4% on an organic basis, resulting in +60bps of margin expansion to 23.2%. This was driven by the increased volumes and good operating leverage, pricing above inflation, and the benefits from SES, partly offset by a negative mix impact and higher investment in growth. This investment to increase capacity and efficiency, including marketing and commercial, are both key to service the strong current demand and propel future growth.

On a reported basis, headline operating profit was up +7.7%, including a negative foreign exchange impact. The difference between statutory and headline operating profit includes the net cost in relation to the provision for John Crane, Inc. asbestos litigation.

ROCE was 25.3%, up 150bps, reflecting the headline operating profit growth.

R&D and new product development

Cash R&D expenditure was 1.6% of sales (FY2023: 1.7%), with the decline reflecting the relocation of certain R&D projects to lower cost jurisdictions, resulting in more efficient R&D spend. In addition, the business spent a further 3.6% of sales (FY2023: 3.4%) on customer-specific engineering-related projects for a total investment in new products of 5.2% of sales (FY2023: 5.2%). John Crane's continued investment in R&D is primarily focused on gas compression projects and enhancing the efficiency, performance and sustainability of heavy-duty seals and hydrogen compressors.

John Crane is well placed to support energy transition projects with its extreme temperatures and high-pressure sealing solutions and continues to work with universities and customers to develop and bring to market these innovative solutions.

SMITHS DETECTION

Smiths Detection is a global leader in threat detection and screening technologies for aviation, ports and borders, urban security and defence. Smiths Detection delivers the solutions needed to protect society from the threat and illegal passage of explosives, prohibited weapons, contraband, toxic chemicals, biological agents and narcotics – helping make the world a safer place. 52% of Smiths Detection's sales are derived from the aftermarket. Smiths Detection represents 28% of Group revenue.

	FY2024 £m	FY2023 £m	Reported growth	Organic growth H1	Organic growth H2	Organic growth FY
Revenue	859	**803**	**+7.0%**	**+8.9%**	**+13.2%**	**+11.1%**
Original Equipment	272	226	+20.3%	+5.7%	+42.9%	+24.8%
Aftermarket	323	309	+4.6%	+8.0%	+9.0%	+8.5%
Aviation	**595**	**535**	**+11.2%**	**+7.0%**	**+23.4%**	**+15.4%**
Original Equipment	144	164	(12.3)%	(0.1)%	(15.9)%	(8.4)%
Aftermarket	120	104	+15.8%	+34.1%	+8.2%	+20.0%
Other Security Systems (OSS)	**264**	**268**	**(1.4)%**	**+12.8%**	**(6.3%)**	**+2.6%**
Headline operating profit	**102**	**90**	**+14.1%**	**+10.3%**	**+24.3%**	**+18.0%**
Headline operating profit margin	**11.9%**	**11.2%**	**+70bps**	**+20bps**	**+120bps**	**+70bps**
Statutory operating profit	83	55	+50.9%			
Return on capital employed	9.1%	7.7%	+140bps			
R&D cash costs as % of sales	7.8%	8.4%	(60)bps			

Revenue

£m	FY2023 reported	Foreign exchange	Organic movement	FY2024 reported
Revenue	803	(30)	**86**	**859**

Smiths Detection delivered +11.1% organic revenue growth, converting its strong order book to revenue, with growth across both market segments, and in both OE and aftermarket.

Order intake grew strongly during the year, reflecting the ongoing demand for airport scanner upgrades and the multi-year defence contracts awarded in OSS which will support revenue growth in FY2025 and beyond.

Reported revenue was up +7.0% reflecting the strong organic growth, partially offset by an unfavourable foreign exchange impact.

In Aviation, organic revenue grew +15.4%, with OE growth of 24.8%, reflecting the continued strong demand for Smiths Detection's latest range of 3D-image computed tomography (CT) machines for cabin baggage, CTiX. Smiths Detection continues to achieve a strong win rate globally in aviation, and to date, has now sold c.1,400 CTiX scanners. Notable wins during the year included Australia, Czech Republic, France, Germany, Japan, Saudi Arabia, the UK and the USA. Contracts awarded to date support production through FY2025, and it is expected that airports' upgrade programme will continue for the next three years.

OSS sales grew +2.6% organically, with a decline in the second half after a robust first half, reflecting a strong performance in defence and urban security, partially offset by weaker ports and borders. Order intake in defence was particularly strong with two multi-year chemical detection contracts awarded, one from the UK Ministry of Defence (for an initial £88 million), and another from the US Department of Defense.

In urban security, Smiths Detection mobile solutions were deployed at a number of high-profile events including security screening at COP28, X-ray screening equipment at the NFL Super Bowl and more than 200 items of equipment at the UEFA Euro 2024 football tournament.

Operating profit and ROCE

£m	FY2023 reported	Foreign exchange	**Organic movement**	**FY2024 reported**
Headline operating profit	90	(3)	**15**	**102**
Headline operating profit margin	11.2%			**11.9%**

Headline operating profit increased +18.0% on an organic basis for the year, reflecting the strong organic revenue growth and favourable pricing, as well as the positive benefits of SES and cost actions. This was partly offset by the expansion in field service engineers to support the high installation activity and reflecting the complexity of the CTiX installations, although operational efficiency on this front improved through the second half. Headline operating profit margin of 11.9% was up 70bps on both an organic and reported basis.

Over the medium term, higher margin aftermarket revenue associated with the expanded installed base from new OE sales, continued SES initiatives and a positive mix impact from the new defence contracts are expected to support continued margin expansion.

On a reported basis, headline operating profit was up +14.1%, including a moderate negative foreign exchange translation, with the difference between statutory and headline operating profit reflecting amortisation of acquired intangibles.

ROCE increased by +140bps to 9.1%, driven by the headline operating profit growth.

R&D and new product development

Cash R&D representing 7.8% of sales (FY2023: 8.4%) supports Smiths Detection investment in next-generation detection capabilities and included £20m in customer funded projects (FY2023: £18m).

A notable component of recent R&D spend has been on a pioneering X-ray scanner utilising diffraction technology, which was pre-launched in April. The SDX 10060 XDi inspection technology allows highly accurate material and substance identification based on an object's molecular structure. This scanner can integrate seamlessly with existing baggage handling systems to support airport customs agencies in screening for a range of contraband items, including explosives or narcotics, and can also be deployed in cargo environments. Commercial deployment within aviation requires regulatory certification, which is currently underway. Modest initial sales are first expected in FY2026, at the earliest.

Smiths Detection also benefits from external R&D funding, and during FY2024, was selected for EU funding as part of a consortium to develop new AI-based algorithms for automatic detection of narcotics in passenger baggage, and to develop a maritime customs border control screening system for portable screening technology for shipping containers. It also partnered with the University of Exeter to explore virtual and immersive technology for training people, to enhance its training for X-ray screener personnel, a crucial part of its customer offering.

FLEX-TEK

Flex-Tek is a global provider of engineered components that heat and move liquids and gases for the construction, industrial and aerospace markets. 80% of Flex-Tek's revenue is derived from General Industrial and 20% from the Aerospace sector. Flex-Tek represents 25% of Group revenue.

	FY2024 £m	FY2023 £m	Reported growth	Organic growth H1	H2	FY
Revenue	**786**	**768**	**+2.3%**	**(4.1)%**	**+2.6%**	**(0.8)%**
General Industrial	632	624	+1.2%	(7.6)%	+0.8%	**(3.5)%**
Aerospace	154	144	+7.0%	+12.1%	+9.9%	**+10.9%**
Headline operating profit	**161**	**149**	**+8.1%**	**+2.6%**	**+5.8%**	**+4.2%**
Headline operating profit margin	**20.5%**	**19.4%**	**+110bps**	**+140bps**	**+60bps**	**+100bps**
Statutory operating profit	135	131	+3.1%			
Return on capital employed	26.6%	26.1%	+50bps			
R&D cash costs as % of sales	0.4%	0.4%	0bps			

Revenue

£m	FY2023 reported	Foreign exchange	Acquisitions	Organic movement	FY2024 reported
Revenue	768	(28)	52	**(6)**	**786**

Organic revenue declined (0.8)% in the year, with growth in H2 of +2.6% showing some recovery following a decline of (4.1)% in H1. Revenue on a reported basis grew +2.3%, supported by +£52m from the acquisition of HCP, which was acquired in August 2023, and despite a negative foreign exchange translation.

In General Industrial, organic revenue was down (3.5)% as a result of a tough comparator last year and US construction market headwinds, which started in the second half of last year and continued through FY2024, impacting HVAC sales. The pace of HVAC revenue recovery in FY2025 will be determined by the pace of market recovery, as mortgage rates moderate and given the meaningful housing inventory deficit in the US.

Flex-Tek's energy efficient solutions for industrial applications expand to the partnership with Midrex to deliver heating solutions that enable the production of commercial green steel. The business has grown and is well placed for future energy-efficient industrial heating projects.

In Aerospace, organic revenue grew +10.9% in the year supported by a strong order book, with the slight moderation in growth in the second half reflecting a strong comparator last year. Demand was buoyant across the year and is set to continue into FY2025.

Operating profit and ROCE

£m	FY2023 reported	Foreign exchange	Acquisitions	Organic movement	FY2024 reported
Headline operating profit	149	(6)	12	**6**	**161**
Headline operating profit margin	19.4%				**20.5%**

Headline operating profit grew +4.2% on an organic basis. The organic operating margin improved by +100bps to 20.5% despite the decline in revenue reflecting tight cost control, especially materials, in the light of the lower volume in General Industrial and a positive mix impact. On a reported basis, headline operating profit and margin increased +8.1% and +110bps, respectively.

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

ROCE increased +50bps to 26.6%, reflecting the headline operating profit growth.

The integration of HCP is progressing ahead of plan, with increased revenue in the year against the challenging construction market background. The acquisition expanded Flex-Tek's presence in the North American HVAC market by extending its customer base, and broadened its product range, including HCP's patented axial and radial seal duct technology.

In September 2024, we announced two strategic and disciplined acquisitions for Flex-Tek.

Building on the HCP acquisition, Flex-Tek is acquiring Modular Metal, expanding its HVAC presence into the western US market and broadening its product offering to include Modular Metal's sealed flexible duct solution. The transaction is expected to complete in October 2024.

Flex-Tek acquired Wattco, expanding our heating portfolio into a wider range of industrial electric heating products, including medium temperature immersion and circulation heating, which are highly complementary to our existing open coil electrical heating business.

R&D and new product development

Cash R&D expenditure grew in line with sales, remaining at 0.4% of sales (FY2023: 0.4%). R&D is focused on developing new products for the construction and aerospace markets, and new electrification opportunities within industrial markets.

SMITHS INTERCONNECT

Smiths Interconnect is a leading provider of high reliability connectivity products and solutions serving segments of aerospace and defence, medical, semiconductor test and industrial markets. Smiths Interconnect represents 11% of Group revenue.

	FY2024 £m	FY2023 £m	Reported growth	Organic growth H1	Organic growth H2	Organic growth FY
Revenue	**354**	**387**	**(8.4)%**	**(13.7)%**	**+0.4%**	**(6.5)%**
Headline operating profit	**49**	**62**	**(20.9)%**	**(33.3)%**	**(2.1)%**	**(17.8)%**
Headline operating profit margin	**13.9%**	**16.0%**	**(210)bps**	**(370)bps**	**(40)bps**	**(190)bps**
Statutory operating profit	46	50	(8.0)%			
Return on capital employed	10.4%	13.3%	(290)bps			
R&D cash costs as % of sales	6.2%	6.3%	(10)bps			

Revenue

£m	FY2023 reported	Foreign exchange	Acquisitions	Organic movement	FY2024 reported
Revenue	387	(14)	5	**(24)**	**354**

Smiths Interconnect's organic revenue declined (6.5)% in FY2024, reflecting weakness in the semiconductor market and a slower market in connectors, resulting in part from customer destocking. Performance improved incrementally through the year, with a (13.7)% organic decline overall in the first half, improving to marginal growth in the second half.

Reported revenue decreased (8.4)% reflecting a negative foreign exchange impact, partially offset by a £5m contribution from Plastronics which has broadened the semiconductor product portfolio and provided greater exposure to the US and wider industrial end markets.

The performance in connectors reflected a strong base comparator, customer destocking and some weakness with medical and industrial customers. In the semiconductor market, the longer than expected downturn is now reversing, with increased activity levels and growth in orders. This growth, together with good growth in aerospace and defence-related programmes and a robust pipeline of new product introductions underpins our expectation for an improving performance as we progress through FY2025.

Operating profit and ROCE

£m	FY2023 reported	Foreign exchange	Acquisitions	Organic movement	FY2024 reported
Headline operating profit	62	(2)	(0)	**(11)**	**49**
Headline operating profit margin	16.0%				**13.9%**

Headline operating profit declined (17.8)% on an organic basis, resulting in a (190)bps reduction in headline operating profit margin to 13.9%. The decline was primarily driven by the lower volume alongside mix effects, with continued investment in R&D, which more than offset pricing, SES benefits and the impact of cost control initiatives. On a reported basis, headline operating profit declined (20.9)% and statutory operating profit declined (8.0)%.

The difference between statutory and headline operating profit reflects the amortisation of acquired intangibles and acquisition-related costs.

ROCE reduced (290)bps to 10.4%, driven by the lower operating profit.

R&D and new product development

Cash R&D expenditure as a percentage of sales was 6.2% of sales (FY2023: 6.3%). R&D is focused on developing new products that improve connectivity and product integrity in demanding operating environments. A recent success has been the DaVinci 112, the next generation of its high-speed semiconductor test sockets. It is designed for testing some of the most complex functionality of integrated circuits at the highest speeds and is used by leading AI and GPU semiconductor manufacturers.

Product launches during the year included a high-density electrical connector for the medical market and a new series of fixed attenuators and Thermopad® products for use in space, defence and aerospace applications.

Smiths Interconnect also launched the Mini-Lock Connector, the next generation radio-frequency connector which delivers high-reliability performance in mission-critical sectors such as satellite, aerospace and defence.

To address the critical issue of power loss in electric battery systems and solutions, Smiths Interconnect launched its new Hypertac Green Connect™ technology which has improved contact points, creating a more efficient and higher-performing battery.

Space grade products are a key development focus particularly in radio frequency and optical products. During the year, Smiths Interconnect received funding of around £2m from the UK Space Agency to help enhance its Dundee-based Space Qualification Laboratory, which simulates the extreme conditions of space to assure the quality and durability of space components.

Consolidated income statement

	Notes	Year ended 31 July 2024 Headline £m	Year ended 31 July 2024 Non-headline (note 3) £m	Year ended 31 July 2024 Total £m	Year ended 31 July 2023 Headline £m	Year ended 31 July 2023 Non-headline (note 3) £m	Year ended 31 July 2023 Total £m
CONTINUING OPERATIONS							
Revenue	1	3,132	–	3,132	3,037	–	3,037
Operating costs	2	(2,606)	(111)	(2,717)	(2,536)	(98)	(2,634)
Operating profit/(loss)	2	**526**	**(111)**	**415**	**501**	**(98)**	**403**
Interest income	4	26	–	26	36	–	36
Interest expense	4	(64)	–	(64)	(71)	(7)	(78)
Other financing (losses)/gains	4	–	(11)	(11)	–	(8)	(8)
Other finance income – retirement benefits	4	–	6	6	–	7	7
Finance (costs)/income	4	(38)	(5)	(43)	(35)	(8)	(43)
Profit/(loss) before taxation		**488**	**(116)**	**372**	**466**	**(106)**	**360**
Taxation	6	(122)	1	(121)	(121)	(13)	(134)
Profit/(loss) for the year		**366**	**(115)**	**251**	**345**	**(119)**	**226**
DISCONTINUED OPERATIONS							
Profit from discontinued operations	3	–	–	–	–	6	6
PROFIT/(LOSS) FOR THE YEAR		**366**	**(115)**	**251**	**345**	**(113)**	**232**
Profit/(loss) for the year attributable to:							
Smiths Group shareholders – continuing operations		365	(115)	250	344	(119)	225
Smiths Group shareholders – discontinued operations		–	–	–	–	6	6
Non-controlling interests		1	–	1	1	–	1
		366	**(115)**	**251**	**345**	**(113)**	**232**
EARNINGS PER SHARE	5						
Basic				72.3p			65.5p
Basic – continuing				72.3p			63.8p
Diluted				72.0p			65.1p
Diluted – continuing				72.0p			63.4p

Consolidated statement of comprehensive income

	Notes	Year ended 31 July 2024 £m	Year ended 31 July 2023 £m
PROFIT FOR THE YEAR		**251**	**232**
Other comprehensive income (OCI)			
OCI which will not be reclassified to the income statement:			
Re-measurement of retirement benefit assets and obligations	8	(66)	(114)
Taxation on post-retirement benefit movements	6	17	32
Fair value movements on financial assets at fair value through OCI	14	(105)	(18)
		(154)	(100)
OCI which will be reclassified and reclassifications:			
Fair value gains and reclassification adjustments:			
– deferred in the period on cash-flow and net investment hedges		4	12
– reclassified to income statement on cash-flow and net investment hedges		–	2
		4	14
Foreign exchange (FX) movements:			
Exchange (losses)/gains on translation of foreign operations		(33)	(101)
Total other comprehensive income, net of taxation		**(183)**	**(187)**
TOTAL COMPREHENSIVE INCOME		**68**	**45**
Attributable to:			
Smiths Group shareholders		68	46
Non-controlling interests		–	(1)
		68	**45**
Total comprehensive income attributable to Smiths Group shareholders arising from:			
Continuing operations		68	39
Discontinued operations		–	6
		68	**45**

Consolidated balance sheet

	Notes	31 July 2024 £m	31 July 2023 (restated) * £m
NON-CURRENT ASSETS			
Intangible assets	10	1,521	1,521
Property, plant and equipment	12	270	247
Right of use assets	13	110	105
Financial assets – other investments	14	53	371
Retirement benefit assets	8	132	195
Deferred tax assets	6	94	121
Trade and other receivables	16	96	75
		2,276	**2,635**
CURRENT ASSETS			
Inventories	15	643	637
Current tax receivable	6	24	47
Trade and other receivables	16	826	772
Cash and cash equivalents	18	459	285
Financial derivatives	20	4	5
		1,956	**1,746**
TOTAL ASSETS		**4,232**	**4,381**
CURRENT LIABILITIES			
Financial liabilities:			
– borrowings	18	(2)	(3)
– lease liabilities	18	(32)	(26)
– financial derivatives	20	(4)	(2)
Provisions	23	(75)	(70)
Trade and other payables	17	(764)	(723)
Current tax payable	6	(70)	(74)
		(947)	**(898)**
NON-CURRENT LIABILITIES			
Financial liabilities:			
– borrowings	18	(534)	(534)
– lease liabilities	18	(91)	(91)
– financial derivatives	20	(13)	(18)
Provisions	23	(219)	(216)
Retirement benefit obligations	8	(103)	(106)
Corporation tax payable	6	–	(3)
Deferred tax liabilities	6	(32)	(69)
Trade and other payables	17	(41)	(40)
		(1,033)	**(1,077)**
TOTAL LIABILITIES		**(1,980)**	**(1,975)**
NET ASSETS		**2,252**	**2,406**

SHAREHOLDERS' EQUITY			
Share capital	24	130	131
Share premium account		365	365
Capital redemption reserve	26	25	24
Merger reserve	26	235	235
Cumulative translation adjustments		353	386
Retained earnings		1,306	1,431
Hedge reserve	26	(184)	(188)
TOTAL SHAREHOLDER'S EQUITY		**2,230**	**2,384**
Non-controlling interest equity	26	22	22
TOTAL EQUITY		**2,252**	**2,406**

* The comparatives have been restated after adoption of the amendment to IAS12 'Income Taxes', please see note 6 for further information.

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 2023		**496**	**259**	**386**	**1,431**	**(188)**	**2,384**	**22**	**2,406**
Profit for the year		–	–	–	250	–	250	1	251
Other comprehensive income:									
– re-measurement of retirement benefits after tax		–	–	–	(49)	–	(49)	–	(49)
– FX movements net of recycling		–	–	(33)	1	–	(32)	(1)	(33)
– fair value gains and related tax		–	–	–	(105)	4	(101)	–	(101)
Total comprehensive income for the year		**–**	**–**	**(33)**	**97**	**4**	**68**	**–**	**68**
Transactions relating to ownership interests:									
Purchase of shares by Employee Benefit Trust		–	–	–	(20)	–	(20)	–	(20)
Proceeds received on exercise of employee share options		–	–	–	4	–	4	–	4
Share buybacks	24	(1)	1	–	(70)	–	(70)	–	(70)
Dividends:									
– equity shareholders	25	–	–	–	(147)	–	(147)	–	(147)
Share-based payment	9	–	–	–	11	–	11	–	11
At 31 July 2024		**495**	**260**	**353**	**1,306**	**(184)**	**2,230**	**22**	**2,252**

	Notes	Share capital and share premium £m	Other reserves £m	Cumulative translation adjustments £m	Retained earnings £m	Hedge reserve £m	Equity shareholders' funds £m	Non-controlling interest £m	Total equity £m
At 31 July 2022		**501**	**254**	**487**	**1,659**	**(202)**	**2,699**	**22**	**2,721**
Profit for the year		–	–	–	231	–	231	1	232
Other comprehensive income:									
– re-measurement of retirement benefits after tax		–	–	–	(82)	–	(82)	–	(82)
– FX movements net of recycling		–	–	(101)	2	–	(99)	(2)	(101)
– fair value gains and related tax		–	–	–	(18)	14	(4)	–	(4)
Total comprehensive income for the year		**–**	**–**	**(101)**	**133**	**14**	**46**	**(1)**	**45**
Transactions relating to ownership interests:									
Purchase of shares by Employee Benefit Trust		–	–	–	(24)	–	(24)	–	(24)
Share buybacks	24	(5)	5	–	(207)	–	(207)	–	(207)
Receipt of capital from non-controlling interest		–	–	–	–	–	–	1	1
Dividends:									
– equity shareholders	25	–	–	–	(143)	–	(143)	–	(143)
Share-based payment	9	–	–	–	13	–	13	–	13
At 31 July 2023		**496**	**259**	**386**	**1,431**	**(188)**	**2,384**	**22**	**2,406**

Consolidated cash-flow statement

	Notes	Year ended 31 July 2024 £m	Year ended 31 July 2023 £m
Net cash inflow from operating activities	28	**418**	**293**
CASH-FLOWS FROM INVESTING ACTIVITIES			
Expenditure on capitalised development		(14)	(21)
Expenditure on other intangible assets		(4)	(7)
Purchases of property, plant and equipment		(68)	(53)
Disposals of property, plant and equipment		–	2
Income from / (Investment in) financial assets		190	–
Acquisition of businesses		(65)	(22)
(Payments)/proceeds on disposal of subsidiaries, net of cash disposed		–	(7)
Net cash-flow used in investing activities		**39**	**(108)**
CASH-FLOWS FROM FINANCING ACTIVITIES			
Share buybacks	24	(70)	(207)
Purchase of shares by Employee Benefit Trust	26	(20)	(24)
Proceeds received on exercise of employee share options		4	–
Settlement of cash-settled options		(2)	–
Dividends paid to equity shareholders	25	(147)	(143)
Receipt of capital from non-controlling interest		–	1
Lease payments		(39)	(36)
Reduction and repayment of borrowings		–	(527)
Cash (outflow)/inflow from matured derivative financial instruments		5	(9)
Net cash-flow used in financing activities		**(269)**	**(945)**
Net (decrease)/increase in cash and cash equivalents		**188**	**(760)**
Cash and cash equivalents at beginning of year		285	1,055
Foreign exchange rate movements		(14)	(10)
Cash and cash equivalents at end of year	18	**459**	**285**
Cash and cash equivalents at end of year comprise:			
– cash at bank and in hand		123	175
– short-term deposits		336	110
		459	**285**

ACCOUNTING POLICIES

Basis of preparation

The financial information set out above does not constitute the company's statutory accounts for the years ended 31st July 2024 or 2023 but is derived from those accounts. Statutory accounts for 2023 have been delivered to the registrar of companies, and those for 2024 will be delivered in due course.

The auditor has reported on those accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

The Group's statutory financial statements for the year ended 31 July 2024 have been prepared in accordance with UK adopted International Accounting Standards. The statutory 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 have prepared a going concern assessment, covering a period of at least 12 months from the date of approval of the financial statements, which takes into account the current financial projections and the borrowing facilities available to the Group and then applies a severe but plausible downside scenario.

This assessment is consistent with the conclusions of the Group's 'Going concern and viability statement' set out in the Strategic Report within the Annual Report 2024, which has been based on the Group's strategy, balance sheet and financing position, including our undrawn US$800m committed Revolving Credit Facility which matures in May 2029. Having assessed the principal and emerging risks, especially those most relevant during the going concern assessment period, stress testing confirmed that the Group will have adequate headroom over that period.

Consequently, the Directors are satisfied that the Group and Company has sufficient resources for its operational needs and will be able to meet its liabilities as they fall due for a period of at least 12 months from the date of approval of these financial statements. The financial statements therefore been prepared on a going concern basis.

These financial statements cover the financial year from 1 August 2023 to 31 July 2024 (FY2024) with comparative figures from 1 August 2022 to 31 July 2023 (FY2023).

Key estimates and significant judgements

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

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

Sources of estimation uncertainty

Impairment reviews of intangible assets

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

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

Retirement benefits

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

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

Provisions for liabilities and charges

The Group has made provisions for claims and litigations where it has had to defend itself against proceedings brought by other parties. These provisions have been made for the best estimate of the expected expenditure required to settle each obligation, although there can be no guarantee that such provisions (which may be subject to potentially material revision from time to time) will accurately predict the actual costs and liabilities that may be incurred. The most significant of these litigation provisions is 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 £220m (FY2023: £204m) has been made for the future defence costs which the Group is expected to incur and the expected costs of future adverse judgements against JCI. Whilst well-established incidence curves can be used to estimate the likely future pattern of asbestos-related disease, JCI's claims experience is significantly impacted by other factors which influence the US litigation environment. These can include: changing approaches on the part of the plaintiffs' bar; changing attitudes amongst the judiciary at both trial and appellate levels; and legislative and procedural changes in both the state and federal court systems. Because of the significant uncertainty associated with the future level of asbestos claims and of the costs arising out of the related litigation, there can be no guarantee that the assumptions used to estimate the provision will result in an accurate prediction of the actual costs that will be incurred.

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

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

Taxation

Taxation liabilities included provisions of £44m (FY2023: £46m), 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.

Significant judgements made in applying accounting policies

Business combinations

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

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

Retirement benefits

At 31 July 2024 the Group has recognised £132m of retirement benefit assets (FY2023: £195m) and a net pension asset of £29m (FY2023: £89m), 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 a judgement required in determining whether an unconditional right of refund exists based on the provision 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 an unconditional right of refund does exist and therefore the surplus is recoverable by the Company and can be recognised.

Capitalisation of development costs

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

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

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

Taxation

As stated in the previous section 'Sources of estimation uncertainty', the Group has 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.

Other estimates and judgements

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, Smiths Interconnect and Flex-Tek 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 2024, the Group held contracts with a total value of £195m (2023: £109m), of which £131m (2023: £83m) had been delivered and £64m (2023: £26m) remains fully or partially unsatisfied. £39m of the unsatisfied amount is expected to be recognised in the coming year, with the remainder being recognised within two years. A 20% increase in the remaining cost to complete the contracts would have reduced Group revenue and operating profit in the current year by less than £9m (2023: £4m).

Significant accounting policies

Basis of consolidation

The Group's consolidated accounts include the financial statements of Smiths Group plc (the 'Company') and all entities controlled by the Company (its subsidiaries). A list of the subsidiaries of Smiths Group plc is provided within the Annual Report 2024.

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

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

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

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

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

Foreign currencies

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

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

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

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

Revenue

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

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

The Group has identified the following different types of revenue:

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

Generic products are defined as either:

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

For established products with simple installation requirements, revenue is recognised when control of the product is passed to the customer. The point in time that control passes is defined in accordance with the agreed shipping terms and is determined on a case-by-case basis. The time of dispatch or delivery of the goods to the customer is normally the point at which invoicing occurs. However for some generic products, revenue is recognised when the overall performance obligation has been completed, which is often after the customer has completed its acceptance procedures and has assumed control.

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

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

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

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

Customer-specific products are defined as being:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Customer funded R&D

Customer funded R&D relates to specific contracts whereby a third party, e.g. government or commercial customer, has requested for the development of a new product and they will fund the project.

The work carried out for the customer is expensed through cost of sales. Once the performance obligations have been recognised as per IFRS 15, this is classified as revenue.

Contract costs

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

Leases

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

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

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

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

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

Taxation

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

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

The Group operates and is subject to taxation in many countries. Tax legislation is different in each country, is often complex and is subject to interpretation by management and government authorities. These matters of judgement give rise to the need to create provisions for uncertain tax positions which are recognised when it is considered more likely than not that there will be a future outflow of funds to a taxing authority. Provisions are made against individual exposures and take into account the specific circumstances of each case, including the strength of technical arguments, recent case law decisions or rulings on similar issues and relevant external advice.

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

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

Deferred tax is provided in full using the balance sheet liability method. A deferred tax asset is recognised where it is probable that future taxable income will be sufficient to utilise the available relief. 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.

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.

IAS 12 International Tax Reform: Pillar Two Model Rules.

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

Employee benefits

Share-based compensation

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

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

Pension obligations and post-retirement benefits

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

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

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

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

Intangible assets

Goodwill

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

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

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

Research and development

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

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

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

Intangible assets acquired in business combinations

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

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

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

Software, patents and intellectual property

The estimated useful lives are as follows:

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

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

Property, plant and equipment

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

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

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

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

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

Inventories

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

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

Trade and other receivables

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

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

Provisions

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

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

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

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

Discontinued operations

A discontinued operation is either:

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

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

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

Cash and cash equivalents

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

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

Financial assets

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

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

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

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

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

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

Financial liabilities

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

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

Derivative financial instruments and hedging activities

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

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

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

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

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

Fair value hedge

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

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

Cash-flow hedge

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

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

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

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

Net investment hedge

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

Fair value of financial assets and liabilities

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

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

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

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

Dividends

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

New accounting standards effective 2024

The accounting policies adopted in the preparation of these consolidated financial statements are consistent with those followed in the previous financial year, except for the adoption of the following amendment to IAS 12 'Income Taxes' that is applicable for the year ended 31 July 2024.

The International Accounting Standards Board (IASB) issued amendments to IAS 12, which narrow the scope of the initial recognition exemption (IRE). These amendments clarify that the IRE does not apply to transactions that give rise to equal and offsetting temporary differences, such as leased buildings.

As a result of the amendments, we now recognise deferred tax assets and liabilities for temporary differences arising on the initial recognition of all leased buildings.

The amendments are applied retrospectively and comparative figures for the previous period have been restated to conform with the current period's presentation. The adoption of the amendments to IAS 12 have resulted in a £26m increase to both the deferred tax assets and the deferred tax liabilities balances on the 31 July 2023 comparative balance sheet, with no impact on profit or net assets.

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 in the Annual Report 2024. 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 major business segments: John Crane; Smiths Detection; Flex-Tek; and Smiths Interconnect. These business segments design, manufacture and support the following products:

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

The position and performance of each business segment 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 segmental results and operating assets to monitor the segmental position. See note 3 and note 29 for an explanation of which items are excluded from headline measures.

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

Segment trading performance

						Year ended 31 July 2024
	John Crane £m	Smiths Detection £m	Flex-Tek £m	Smiths Interconnect £m	Corporate costs £m	Total £m
Revenue	1,133	859	786	354	–	3,132
Segmental headline operating profit	263	102	161	49	–	575
Corporate headline operating costs	–	–	–	–	(49)	(49)
Headline operating profit/(loss)	**263**	**102**	**161**	**49**	**(49)**	**526**
Items excluded from headline measures (note 3)	(34)	(19)	(26)	(3)	(29)	(111)
Operating profit/(loss)	**229**	**83**	**135**	**46**	**(78)**	**415**
Headline operating margin	23.2%	11.9%	20.5%	13.9%		16.8%

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

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

						Year ended 31 July 2024
	John Crane £m	Smiths Detection £m	Flex-Tek £m	Smiths Interconnect £m	Corporate and non-headline £m	Total £m
Depreciation – property, plant and equipment	17	11	8	9	–	**45**
Depreciation – right of use assets	15	8	3	7	1	**34**
Amortisation of capitalised development costs	–	2	–	–	–	**2**
Amortisation of software, patents and intellectual property	1	1	2	–	1	**5**
Amortisation of acquired intangibles	–	–	–	–	49	**49**
Share-based payment	3	2	2	2	5	**14**

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

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

Segment assets and liabilities

Segment assets

31 July 2024	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	168	153	103	65	61	550
Inventory, trade and other receivables	528	612	254	153	18	1,565
Segment assets	**696**	**765**	**357**	**218**	**79**	**2,115**

31 July 2023	John Crane £m	Smiths Detection £m	Flex-Tek £m	Smiths Interconnect £m	Corporate and non-headline £m	Total £m
Property, plant, equipment, right of use assets, development projects, other intangibles and investments	162	142	84	66	375	829
Inventory, trade and other receivables	489	599	226	160	10	1,484
Segment assets	**651**	**741**	**310**	**226**	**385**	**2,313**

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

Segment liabilities

31 July 2024	John Crane £m	Smiths Detection £m	Flex-Tek £m	Smiths Interconnect £m	Corporate and non-headline £m	Total £m
Segmental liabilities	202	398	99	59	–	758
Corporate and non-headline liabilities	–	–	–	–	341	341
Segment liabilities	**202**	**398**	**99**	**59**	**341**	**1,099**

31 July 2023	John Crane £m	Smiths Detection £m	Flex-Tek £m	Smiths Interconnect £m	Corporate and non-headline £m	Total £m
Segmental liabilities	200	357	91	62	–	710
Corporate and non-headline liabilities	–	–	–	–	339	339
Segment liabilities	**200**	**357**	**91**	**62**	**339**	**1,049**

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 2024 £m	31 July 2023 (restated) £m	**31 July 2024 £m**	31 July 2023 (restated) £m
Segment assets and liabilities	**2,115**	**2,313**	**(1,099)**	**(1,049)**
Goodwill and acquired intangibles	1,404	1,415	–	–
Derivatives	4	5	(17)	(20)
Current and deferred tax	118	168	(102)	(146)
Retirement benefit assets and obligations	132	195	(103)	(106)
Cash and borrowings	459	285	(659)	(654)
Statutory assets and liabilities	**4,232**	**4,381**	**(1,980)**	**(1,975)**

Segment capital expenditure

The capital expenditure on property, plant and equipment, capitalised development and other intangible assets for each business segment 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 2024	34	28	10	11	3	**86**
Capital expenditure year ended 31 July 2023	19	36	10	16	–	**81**

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 (FY2023: £478m) and eliminate retirement benefit assets and obligations and litigation provisions relating to non-headline items, both net of related tax, and net debt. See note 29 for a reconciliation of net assets to capital employed.

The 12-month rolling average capital employed by business segment, which Smiths uses to calculate segmental return on capital employed, is:

					31 July 2024
	John Crane £m	**Smiths Detection £m**	**Flex-Tek £m**	**Smiths Interconnect £m**	**Total £m**
Average segmental capital employed	1,035	1,124	606	472	**3,237**
Average corporate capital employed					**(31)**
Average total capital employed – continuing operations					**3,206**

					31 July 2023
	John Crane £m	Smiths Detection £m	Flex-Tek £m	Smiths Interconnect £m	Total £m
Average segmental capital employed	1,022	1,154	570	466	**3,212**
Average corporate capital employed					**(16)**
Average total capital employed – continuing operations					**3,196**

Analysis of revenue

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

John Crane	Original equipment £m	Aftermarket £m	Total £m
Revenue year ended 31 July 2024	321	812	**1,133**
Revenue year ended 31 July 2023	314	765	**1,079**

Smiths Detection	Aviation £m	Other security systems £m	Total £m
Revenue year ended 31 July 2024	595	264	**859**
Revenue year ended 31 July 2023	535	268	**803**

Flex-Tek	Aerospace £m	Industrials £m	Total £m
Revenue year ended 31 July 2024	154	632	**786**
Revenue year ended 31 July 2023	144	624	**768**

Smiths Interconnect	Components, connectors & subsystems £m
Revenue year ended 31 July 2024	**354**
Revenue year ended 31 July 2023	**387**

Aftermarket sales contributed £1,587m (FY2023: £1,545m) of Group revenue: John Crane aftermarket sales were £812m (FY2023: £765m); Smiths Detection aftermarket sales were £443m (FY2023: £413m); Flex-Tek aftermarket sales were £332m (FY2023: £367m); and Smiths Interconnect aftermarket sales were £nil (FY2023: £nil).

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

	General Industrial £m	Safety & Security £m	Energy £m	Aerospace & Defence £m	Total £m
John Crane revenue					
Revenue year ended 31 July 2024	407	–	726	–	**1,133**
Revenue year ended 31 July 2023	423	–	656	–	**1,079**
Smiths Detection revenue					
Revenue year ended 31 July 2024	–	859	–	–	**859**
Revenue year ended 31 July 2023	–	803	–	–	**803**
Flex-Tek revenue					
Revenue year ended 31 July 2024	632	–	–	154	**786**
Revenue year ended 31 July 2023	624	–	–	144	**768**
Smiths Interconnect revenue					
Revenue year ended 31 July 2024	166	–	–	188	**354**
Revenue year ended 31 July 2023	190	141	–	56	**387**
Total revenue					
Revenue year ended 31 July 2024	1,205	859	726	342	**3,132**
Revenue year ended 31 July 2023	1,237	944	656	200	**3,037**

* Following a review of the Smiths Interconnect segmental revenue reporting, the Group has reanalysed this segment's revenue by key global market. The driver of this reanalysis is to better align Smiths Interconnect's reporting with how the business is run and the revenue reporting of Smiths Interconnect's peer group.
The updated revenue analysis has been applied prospectively for FY2024. The Aerospace key global market has been renamed Aerospace & Defence and £143m of revenue that would have previously been reported as Safety & Security revenue is now reported as Aerospace & Defence revenue.

The Group's statutory revenue is analysed as follows:

	Year ended 31 July 2024 £m	Year ended 31 July 2023 £m
Sale of goods recognised at a point in time	2,275	2,244
Sale of goods recognised over time	45	36
Services recognised over time	812	757
	3,132	**3,037**

Analysis by geographical areas

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

	Revenue		Intangible assets, right of use assets and property, plant and equipment	
	Year ended 31 July 2024 £m	Year ended 31 July 2023 £m	**31 July 2024 £m**	31 July 2023 £m
Americas	1,694	1,641	1,046	1,254
Europe	622	563	461	519
Asia Pacific	475	493	14	71
Rest of World	341	340	–	29
	3,132	**3,037**	**1,521**	**1,873**

Revenue by destination attributable to the United Kingdom was £128m (FY2023: £87m). Other revenue found to be significant included, the United States of America, totalling £1,411m (FY2023: £1,383m), China (excluding Hong Kong) £144m (FY2023: £150m) and Germany £130m (FY2023: £143m). 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 £113m (FY2023: £123m). Significant non-current assets held in the United States of America £1.024m (FY2023: £1,181m) and Germany £330m (FY2023: £345m).

2. Operating costs

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

	Year ended 31 July 2024			Year ended 31 July 2023		
	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	1,964	–	1,964	1,919	–	1,919
Selling costs	219	–	219	221	–	221
Administrative expenses	425	111	536	406	98	504
Research and development tax credits	(2)	–	(2)	–	–	–
Transition services cost reimbursement	–	–	–	(10)	–	(10)
Total	**2,606**	**111**	**2,717**	**2,536**	**98**	**2,634**

Operating profit is stated after charging (crediting):

	Year ended 31 July 2024 £m	Year ended 31 July 2023 £m
Research and development expense	73	73
Depreciation of property, plant and equipment	45	42
Depreciation of right of use assets	34	32
Amortisation of intangible assets	56	61
Transition services cost reimbursement	–	(10)

Research and development (R&D) cash costs were £109m (FY2023: £113m) comprising £73m (FY2023: £73m) of R&D expensed to the income statement, £14m (FY2023: £21m) of capitalised costs and £22m (FY2023: £19m) of customer-funded R&D.

Administrative expenses include £1m (FY2023: £2m) 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 2024.

	Year ended 31 July 2024 £m	Year ended 31 July 2023 (represented) £m
Audit services		
Fees payable to the Company's auditors for the audit of the Company's annual financial statements	2.8	2.7
Fees payable to the Company's auditors and its associates for other services:		
– the audit of the Company's subsidiaries	3.7	5.5
	6.5	**8.2**
All other services	0.5	0.5

Other services comprise audit-related assurance services of £0.5m (FY2023: £0.5m).

Audit-related assurance services include the review of the Interim Report and the limited assurance of the Group's Scope 1-3 Greenhouse Gas emissions metrics. Total fees for non-audit services comprise 8% (FY2023: 6%) of audit fees.

In the current year, the Group has agreed £0.1m of additional fees with the Group auditors relating to the audit of the prior year financial statements.

3. Non-statutory profit measures

Headline profit measures

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

Non-headline operating profit items

i. Continuing operations

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

	Notes	Year ended 31 July 2024 £m	Year ended 31 July 2023 £m
Acquisition and disposal related costs			
Post-acquisition integration costs and fair value adjustment unwind		(3)	–
Fair value loss on contingent consideration		(13)	(6)
Loss on disposal of financial asset		(9)	–
Business acquisition/disposal costs and related expenses		(5)	(1)
Legacy pension scheme arrangements			
Past service costs for benefit equalisation	8	(4)	4
Scheme administration costs	8	(6)	(2)
Retirement benefit scheme settlement loss	8	–	(1)
Non-headline litigation provision movements			
Movement in provision held against Titeflex Corporation subrogation claims	23	5	7
Provision for John Crane, Inc. asbestos litigation	23	(29)	(16)
Cost recovery for John Crane, Inc. asbestos litigation		3	7
Other items			
Amortisation of acquired intangible assets	10	(49)	(52)
Funding of charitable foundation		(1)	–
Restructuring costs		–	(36)
Irrecoverable VAT on chain export transaction		–	(2)
Non-headline items in operating profit – continuing operations		**(111)**	**(98)**

Acquisition and disposal related costs

The £3m (FY2023: £nil) of post-acquisition integration costs and fair value adjustment unwind principally relate to Flex-Tek's acquisitions of HCP and Burns Machine. These include £2m of defined project costs for the integration of these businesses into the existing Flex-Tek business and a £1m expense for the unwinding the acquisition balance sheet fair value adjustments required by IFRS 3 'Business combinations'. These have been recognised as non-headline as the charge did not relate to trading activity.

The £13m fair value loss (FY2023: £6m loss) on contingent consideration represents the full write down of the remaining fair value of the Group's contingent consideration from the sale of Smiths Medical to ICU Medical, Inc. (ICU). Since FY2022 the Group has held a financial asset for 10% of the equity in ICU and a financial asset for the fair value of US$100m additional consideration contingent on the future share performance of ICU. During FY2024 the Group has sold 2,030,000 shares in ICU reducing Smiths' equity investment in ICU to approximately 1.9% of ICU's issued share capital. The Group's reduced investment in ICU has resulted in the contingent consideration no longer being payable. This is considered to be a non-headline item on the basis that these fair value charges do not relate to trading activity.

The £9m loss (FY2023: £nil) on disposal of financial asset relates to the block sale discount on the disposal of 2,030,000 ICU shares. This is considered a non-headline charge as it did not relate to trading activity.

The £5m (FY2023: £1m) of business acquisition/disposal costs and related expenses represent incremental costs related to the Group's Mergers & Acquisitions (M&A) activity. These items do not include the cost of employees working on transactions and are reported as non-headline because they are dependent on the level of M&A activity being undertaken and do not relate to trading activity.

Legacy pension scheme arrangements

The £4m charge (FY2023: £4m credit) for past service costs for benefit equalisation represents the recognition of additional Smith Industries Pension Scheme (SIPS) liabilities following the agreement of new methodologies to achieve Guaranteed Minimum Pension (GMP) equalisation retirement benefits for men and women, see note 8 for further details. These past service (costs)/credits are reported as non-headline as they are non-recurring and relate to legacy pension liabilities.

Scheme administration costs of £6m (FY2023: £2m) relate to the TIGPS legacy pension scheme and SIPS 'path to buy-in' costs. As the Group has no expectation of receiving a refund from the scheme, an economic benefit value of zero has been placed on the TIGPS surplus. These are non-headline charges as the Smiths Group effectively has no economic exposure to these costs and they are paid from cash retained in the scheme.

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 £5m credit (FY2023: £7m credit) recognised by Titeflex Corporation was principally driven by a reduction in the number of expected claims. See note 23 for further details; and
- The £29m charge (FY2023: £16m) in respect of John Crane, Inc. asbestos litigation is driven primarily by adverse judgements impacting the future expected indemnity costs. See note 23 for further details; and
- In FY2024 £3m (FY2023: £7m) of asbestos litigation costs were recovered by John Crane, Inc. via insurer settlements.

Other items

Acquisition related intangible asset amortisation costs of £49m (FY2023: £52m) were recognised in the current period. This is considered to be a non-headline item on the basis that these charges result from acquisition accounting and do not relate to current trading activity.

The £1m funding of charitable foundation charge is the FY2024 funding of the Smiths Group Foundation, charitable giving foundation with a committed initial £10m of funding linked to engineering-related good causes. This is recognised as non-headline as the charge did not relate to trading activity.

Non-headline finance costs items

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

	Notes	**Year ended 31 July 2024 £m**	Year ended 31 July 2023 £m
Unwind of discount on provisions	23	(9)	(7)
Other finance income – retirement benefits	8	6	7
Interest payable on overdue VAT		–	(7)
Other sundry financing losses		(2)	(1)
Non-headline items in finance costs – continuing operations		**(5)**	**(8)**
Continuing operations – non-headline loss before taxation		**(116)**	**(106)**

The financing elements of non-headline legacy liabilities, including the £9m (FY2023: £7m) 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 £6m (FY2023: £7m) of financing credits relating to retirement benefits. These were excluded from headline finance costs because the ongoing costs and credits are a legacy of previous employee pension arrangements.

The prior year £7m of interest payable on overdue VAT related to a historic classification error on chain export transactions.

Non-headline taxation (charge)/credit

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

	Notes	Year ended 31 July 2024 £m	Year ended 31 July 2023 £m
Tax credit on non-headline loss	6	20	18
Increase in unrecognised UK deferred tax asset	6	(19)	(31)
Non-headline taxation (charge)/credit – continuing operations		1	**(13)**
Continuing operations – non-headline loss for the year		**(115)**	**(119)**

Movement in unrecognised UK deferred tax asset

These movements are reported as non-headline because the original credit was reported as non-headline.

ii. Discontinued operations

In the prior year the Group has recognised an additional £6m gain on transactions related to the sale of Smiths Medical. These items are considered to be non-headline as they relate to discontinued former business activities.

4. Net finance costs

	Notes	Year ended 31 July 2024 £m	Year ended 31 July 2023 £m
Interest income		26	36
Interest expense:			
– bank loans and overdrafts, including associated fees		(47)	(50)
– other loans		(12)	(17)
– interest on leases		(5)	(4)
Interest expense		(64)	(71)
Headline net finance costs		**(38)**	**(35)**
Other financing (losses)/gains:			
– valuation movements on fair value hedged debt		5	(9)
– valuation movements on fair value derivatives		(5)	9
– foreign exchange and ineffectiveness on net investment hedges		(2)	(3)
– retranslation of foreign currency bank balances		–	2
– unwind of discount on provisions	3	(9)	(7)
Other financing (losses)/gains		**(11)**	**(8)**
Other non-headline finance cost items:			
Interest expense - interest on overdue VAT		–	(7)
Other finance income - Interest on retirement benefits	8	6	7
Other non-headline finance cost items		6	–
Net finance costs		**(43)**	**(43)**

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 2024 £m	Year ended 31 July 2023 £m
Profit attributable to equity shareholders for the year:		
– continuing	250	225
– discontinued	–	6
Total	**250**	**231**

	Year ended 31 July 2024 Number of shares	Year ended 31 July 2023 Number of shares
Number of shares in issue, net of shares held in Employee Benefit Trust:		
Weighted average number for basic earnings per share	345,901,957	352,891,120
Adjustment for potentially dilutive shares	1,389,223	1,790,699
Weighted average number for diluted earnings per share	**347,291,180**	**354,681,819**

No options (FY2023: nil) were excluded from this calculation because their effect was anti-dilutive.

	Year ended 31 July 2024 pence	Year ended 31 July 2023 pence
Statutory earnings per share total – basic	72.3p	65.5p
Statutory earnings per share total – diluted	72.0p	65.1p
Statutory earnings per share continuing operations – basic	72.3p	63.8p
Statutory earnings per share continuing operations – diluted	72.0p	63.4p

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

	Year ended 31 July 2024			Year ended 31 July 2023		
	£m	Basic EPS (p)	Diluted EPS (p)	£m	Basic EPS (p)	Diluted EPS (p)
Total profit attributable to equity shareholders of the Parent Company	250	72.3p	72.0p	231	65.5	65.1
Exclude: Non-headline items (note 3)	115			113		
Headline earnings per share	**365**	**105.5p**	**105.2p**	**344**	**97.5**	**97.0**
Profit from continuing operations attributable to equity shareholders of the Parent Company	250	72.3p	72.0p	225	63.8	63.4
Exclude: Non-headline items (note 3)	115			119		
Headline earnings per share – continuing operations	**365**	**105.5p**	**105.2p**	**344**	**97.5**	**97.0**

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 2024 £m	Year ended 31 July 2023 £m
The taxation charge in the consolidated income statement for the year comprises:		
Continuing operations		
Current taxation:		
– current income tax charge	114	112
– current tax adjustments in respect of prior periods	1	(7)
Current taxation	**115**	**105**
Deferred taxation	6	29
Total taxation expense – continuing operations	**121**	**134**
Analysed as:		
Headline taxation expense	122	121
Non-headline taxation charge/(credit)	(1)	13
Total taxation expense in the consolidated income statement	**121**	**134**

	Year ended 31 July 2024 £m	Year ended 31 July 2023 £m
Tax on items charged/(credited) to equity		
Deferred tax:		
– retirement benefit schemes	(17)	(32)
Taxation on retirement benefit movements	**(17)**	**(32)**

The £17m credit (FY2023: £32m credit) to equity for retirement benefit schemes principally related to UK retirement schemes.

Current taxation liabilities

	Current tax £m
At 31 July 2022	**(17)**
Charge to income statement	(105)
Tax paid	92
At 31 July 2023	**(30)**
Comprising:	
Current tax receivable	47
Current tax payable within one year	(74)
Corporation tax payable after more than one year	(3)
At 31 July 2023	**(30)**
Charge to income statement	(115)
Tax paid	99
At 31 July 2024	**(46)**
Comprising:	
Current tax receivable	24
Current tax payable within one year	(70)
At 31 July 2024	**(46)**

Provisions for tax liabilities amount to £44m (FY2023: £46m) the majority of which relates to the risk of challenge from tax authorities to the geographic allocation of profits across the Group.

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

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

Reconciliation of the tax charge

The headline tax charge for the year of £122m (FY2023: £121m) represents an effective rate of 25.0% (FY2023: 26.0%).

The tax charge on the profit for the year for continuing operations is different from the standard rate of corporation tax in the UK, with a rate for FY2024 of 25.0% (FY2023: 21.0%). The differences are reconciled as follows:

	Year ended 31 July 2024 £m	Year ended 31 July 2023 £m
Profit before taxation	**372**	**366**
Notional taxation expense at UK corporate rate of 25% (FY2023: 21%)	93	77
Different tax rates on non-UK profits and losses	(4)	13
Non-deductible expenses and other charges	20	24
Tax credits and non-taxable income	(7)	(10)
Non-headline UK deferred tax asset recognition adjustment	19	31
Other adjustments to unrecognised deferred tax	(3)	2
Prior year true-up	3	(3)
Total taxation expense in the consolidated income statement	**121**	**134**
Comprising:		
Taxation on headline profit	122	121
Non-headline taxation items:		
– Tax credit on non-headline loss	(20)	(18)
– UK deferred tax asset recognition adjustment	19	31
Taxation on non-headline items	(1)	13
Total taxation expense in the consolidated income statement	**121**	**134**

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

Deferred taxation assets/(liabilities)

	Property, plant, equipment and intangible assets £m	Employment benefits £m	Losses carried forward £m	Provisions £m	Other £m	Total £m
At 31 July 2022	**(76)**	**(51)**	**103**	**79**	**(4)**	**51**
Reallocations	–	(2)	6	(4)	–	–
Charge to income statement – continuing operations	13	(3)	(32)	(5)	(2)	(29)
Credit to equity	–	32	–	–	–	32
Foreign exchange rate movements	3	(1)	(2)	(4)	2	(2)
At 31 July 2023	**(60)**	**(25)**	**75**	**66**	**(4)**	**52**
IAS 12 amendment - Initial recognition exemption	(26)	–	–	–	26	–
At 31 July 2023 (restated)	**(86)**	**(25)**	**75**	**66**	**22**	**52**
Comprising:						
Deferred tax assets	(2)	(27)	50	60	40	121
Deferred tax liabilities	(84)	2	25	6	(18)	(69)
At 31 July 2023	**(86)**	**(25)**	**75**	**66**	**22**	**52**
Reallocations	(9)	(1)	5	–	5	–
Charge to income statement – continuing operations	16	(2)	(15)	4	(9)	(6)
Credit to equity	–	17	–	–	–	17
Foreign exchange rate movements	–	(1)	–	1	(1)	(1)
At 31 July 2024	**(79)**	**(12)**	**65**	**71**	**17**	**62**
Comprising:						
Deferred tax assets	(9)	(15)	31	63	24	94
Deferred tax liabilities	(70)	3	34	8	(7)	(32)
At 31 July 2024	**(79)**	**(12)**	**65**	**71**	**17**	**62**

Of the amounts included within 'Other', shown in the above table, as at 31 July 2024, amounts relating to tax on unremitted earnings were £22 m (FY2023: £19m). The aggregate amount of temporary differences associated with investments in subsidiaries for which deferred tax liabilities have not been recognised is immaterial.

The deferred tax asset relating to losses has been recognised on the basis of strong evidence of future taxable profits against which the unutilised tax losses can be relieved or it is probable that they will be recovered against the reversal of deferred tax liabilities. The closing net deferred tax asset balance attributable to UK activities and included in the balance at 31 July 2024 amounted to £nil (FY2023: £nil). Deferred tax attributable to provisions includes £54m (FY2023: £51m) relating to John Crane Inc litigation provision, and £9m (FY2023: £9m) relating to Titeflex Corporation. See note 23 for additional information on provisions.

The International Accounting Standards Board issued amendments to IAS 12, which narrow the scope of the initial recognition exemption (IRE). These amendments clarify that the IRE does not apply to transactions that give rise to equal and offsetting temporary differences, such as leases. As a result of the amendments, we now recognise deferred tax assets and liabilities for temporary differences arising on the initial recognition of all leases. The amendments are applied retrospectively, and comparative figures for previous periods have been restated to conform with the current period's presentation.

Losses with unrecognised deferred tax

The Group does not recognise deferred tax on losses of £603m (FY2023: £521m).

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

	2024 £m	**Expiry of losses**	2023 £m	Expiry of losses
Unrestricted losses – operating losses	603	No expiry	521	No expiry

Losses with deferred tax unrecognised have increased by £82m (FY2023: £186m increase). This is mainly due to an increase in unrecognised UK losses of £63m. This movement is explained by the reduction in the related UK deferred tax asset as offset by the deferred tax liability on the UK pension scheme surplus.

Developments in the Group tax position

Pillar Two legislation has been enacted or substantively enacted in certain jurisdictions in which the Group operates and the legislation will be effective for the Group's financial year beginning 1 August 2024. On 11 July 2023, the UK enacted the BEPS Pillar Two global minimum taxes legislation for accounting periods beginning on or after 1 January 2024 (Year Ended 31 July 2025 for Smiths).

We carried out a Pillar Two impact assessment on 2023 financial data for the constituent entities within Smiths Group. We consider that implementation of qualified domestic minimum top-up taxes and the income inclusion rule in the UK will not have a material impact on the Group's FY2025 ETR.

The Group is continuing to assess the impact of the Pillar Two income taxes legislation on future financial performance.

7. Employees

	Year ended 31 July 2024 £m	Year ended 31 July 2023 £m
Staff costs during the period		
Wages and salaries	844	802
Social security	99	92
Share-based payment (note 9)	14	14
Pension costs (including defined contribution schemes) (note 8)	35	31
Total	**992**	**939**

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

	Year ended 31 July 2024	Year ended 31 July 2023
John Crane	6,200	6,050
Smiths Detection	3,400	3,250
Flex-Tek	4,050	3,750
Smiths Interconnect	2,600	2,800
Corporate (including central/shared IT services)	300	300
Total	**16,550**	**16,150**

Key management

The key management of the Group comprises Smiths Group plc Board Directors and Executive Committee members. Their aggregate compensation is shown below. Further information for the Executive Directors is available in the single figure renumeration table within the Annual Report 2024. Further information for the Non-executive Directors is available in the single figure remuneration table in the report of Renumeration & People Committee within the Annual Report 2024.

	Year ended 31 July 2024 £m	Year ended 31 July 2023 £m
Key management compensation		
Salaries and short-term employee benefits	12.6	12.0
Cost of retirement benefits	0.7	0.7
Cost of share-based incentive plans	3.4	4.9

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 2024		Year ended 31 July 2023	
	Number of instruments '000	Weighted average exercise price	Number of instruments '000	Weighted average exercise price
LTIP	1,389		1,580	
SAYE	11	£13.06	16	£11.45

Related party transactions

The only related party transactions in FY2024 were key management compensation (FY2023: key management compensation).

8. Retirement benefits

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

Defined contribution plans

The Group operates defined contribution plans across many countries. In the UK a defined contribution plan has been offered since the closure of the UK defined benefit pension plans. In the US a 401(k) defined contribution plan operates. The total expense recognised in the consolidated income statement in respect of all these plans was £31m (FY2023: £31m).

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 2024. 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 2024 £m	Year ended 31 July 2023 £m
At beginning of period	**89**	**194**
Foreign exchange rate movements	1	1
Current service cost	(4)	(2)
Headline scheme administration costs	(3)	(4)
Non-headline scheme administration costs	(6)	(2)
Past service cost, curtailments, settlements – continuing operations	(4)	4
Finance income – retirement benefits	6	7
Contributions by employer	16	5
Actuarial (losses)/gains	(66)	(114)
Net retirement benefit asset	**29**	**89**

UK pension schemes

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

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

Smiths Industries Pension Scheme (SIPS)

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

The most recent actuarial valuation of this scheme has been performed using the Projected Unit Method as at 31 March 2023. The valuation showed a surplus of £26m 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 contributions will not recommence. The next actuarial valuation is due as at 31 March 2026.

The duration of SIPS liabilities is around 20 years (FY2023: 18 years) for active deferred members, 17 years (FY2023: 19 years) for deferred members and 10 years (FY2023: 10 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, a wider review is being carried out to determine if the method used in the early 1990s to equalise retirement ages between men and women was implemented correctly. In FY2022, an additional liability of £19m was recognised as a past service cost to reflect the expected impact of correcting this issue for certain sections of the scheme. In FY2023, a further liability of £12m was recognised and £16m of liabilities recognised in previous years was released following the identification of additional evidence of the obligation for equalisation, resulting in a net credit to the income statement of £4m. In the current year, a further liability of £3m has been recognised as a past service cost, to reflect the expected impact of correcting this issue for the remaining sections of the scheme of £0.4m, as well as an updated cost estimate for the impact of GMP equalisation of £2.6m. Prior to the current year, additional costs of £29m in FY2019 and £6m FY2021 were recognised in respect of GMP equalisation. Whilst the wider review of scheme data remains on-going, no further liabilities are expected in respect of retirement age equalisation or GMP equalisation.

SIPS uses a Liability Driven Investment (LDI) strategy to hedge against interest and inflation rate changes. During the significant volatility that followed the UK Government's mini budget in September 2022, like most other pension schemes with LDI assets, this hedging policy meant that SIPS asset values fell, as did the value of its obligations, although the funding position quickly recovered. All of SIPS's collateral requirements in respect of the LDI assets were met, with no support required from the Group. The SIPS trustee, in consultation with the Group, has since reduced the leverage in the LDI portfolio, strengthened its ongoing monitoring and shock tests and moved significant non-LDI assets into more liquid alternatives. As a result, the scheme is in a stronger position to withstand any further shocks to gilt yields.

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 three Company-nominated trustees and four member-nominated trustees, with an independent trustee director selected by the trustee. The trustee is responsible for the management, administration, funding and investment strategy of the scheme.

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

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

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

The most recent actuarial valuation of this scheme has been performed using the Projected Unit Method as at 5 April 2023. The valuation showed a surplus of £44m on the Technical Provisions funding basis at the valuation date and the funding position remains in surplus. Given TIGPS's circumstances, the Group's current expectation is that no further contributions to TIGPS will be required. The next actuarial valuation is due as at 5 April 2026.

The duration of the TIGPS liabilities is around 18 years (FY2023: 20 years) for active deferred members, 16 years (FY2023: 18 years) for deferred members and 9 years (FY2023: 10 years) for pensioners and dependants.

US pension plans

The valuations of the principal US pension and post-retirement healthcare plans were performed using census data at 1 January 2024.

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

The duration of the liabilities for the largest US plan is around 15 years (FY2023: 15 years) for active deferred members, 14 years (FY2023: 14 years) for deferred members and 9 years (FY2023: 10 years) for pensioners and dependants.

Risk management

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

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

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

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

TIGPS

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

SIPS

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

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

	2024 UK	**2024 US**	**2024 Other**	2023 UK	2023 US	2023 Other
Rate of increase in salaries	n/a	n/a	2.8%	n/a	n/a	2.5%
Rate of increase for active deferred members	4.0%	n/a	n/a	4.0%	n/a	n/a
Rate of increase in pensions in payment	3.3%	n/a	0.5%	3.3%	n/a	1.6%
Rate of increase in deferred pensions	3.3%	n/a	n/a	3.3%	n/a	n/a
Discount rate	5.0%	5.2%	2.8%	5.1%	5.2%	2.8%
Inflation rate	3.3%	n/a	2.1%	3.3%	n/a	0.4%

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 the US, assumptions are disclosed as a weighted average.

Inflation rate assumptions

The RPI inflation assumption of 3.3% has been derived using the Aon UK Government Gilt Prices Only Curve with an Inflation Risk Premium of 0.1% p.a. (FY2023: 0.2%). The impact of changing the Inflation Risk Premium was to increase the UK liabilities by £16m.

The Government's response to its consultation on RPI reform was published on 25 November 2020, and strongly implied that RPI will become aligned with CPI-H from 2030. No specific allowance (beyond anything already priced into markets) has been factored into the RPI assumptions for potential changes. The assumption for the long-term gap between RPI and CPI is 0.5% p.a. (FY2023: 0.5%)

reflecting the Group's view on the market pricing of this gap over the lifetime of the UK schemes' liabilities, i.e., 0.9% p.a. (FY2023: 0.9%) pre-2030 and 0.1% p.a. post-2030 (FY2023: 0.1%).

Short-term inflation has reduced from its peak in FY2023 following the Bank of England's measures to combat high inflation. Consequently, the long-term inflation assumptions are similar to the prior year. The full impact of high inflation is mitigated to an extent by the caps in place on index-linked increases. The Board considered and declined a request from the Trustee of SIPS to recommend an additional discretionary increase to pensions in payment. However, there is no change in the Group's constructive obligations and allowance for the possibility for certain discretionary increases in future continues to be included in the defined benefit obligations shown below, as well as being included in the Trustee's ongoing approach to funding SIPS. Furthermore, all of the annuity policies that currently back part of the SIPS obligations include allowance for the possibility of these discretionary increases to be paid in future, where applicable.

Discount rate assumptions

The UK schemes use a discount rate based on the annualised yield on the Aon GBP Single Agency Select AA Curve, using the expected cash-flows from a notional scheme with obligations of the same duration as that of the UK schemes. This is the same approach as was adopted for FY2023.

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

The discount rate assumptions are similar to the prior year.

Mortality assumptions

The mortality assumptions used in the principal UK schemes are based on the latest 'SAPS S3' birth year tables with relevant scaling factors based on the recent experience of the schemes. The assumption allows for future improvements in life expectancy in line with the latest 2023 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 1.5%. The latest CMI projections incorporate allowance for the impact of COVID-19 by placing a weighting of 0% on 2020 and 2021 mortality data and a weighting of 15% on 2022 and 2023 mortality data.

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

				UK schemes
Expected further years of life	**Male 31 July 2024**	**Female 31 July 2024**	Male 31 July 2023	Female 31 July 2023
Member who retires next year at age 65	22	24	21	23
Member, currently 45, when they retire in 20 years' time	23	25	20	24

				US schemes
Expected further years of life	**Male 31 July 2024**	**Female 31 July 2024**	Male 31 July 2023	Female 31 July 2023
Member who retires next year at age 65	21	22	21	22
Member, currently 45, when they retire in 20 years' time	22	24	22	24

Sensitivity

Sensitivities in respect of the key assumptions used to measure the principal pension schemes as at 31 July 2024 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 2024 £m	**Increase/ (decrease) in scheme assets 31 July 2024 £m**	**(Increase)/ decrease in scheme liabilities 31 July 2024 £m**	Profit before tax for year ended 31 July 2023 £m	Increase/ (decrease) in scheme assets 31 July 2023 £m	(Increase)/ decrease in scheme liabilities 31 July 2023 £m
Rate of mortality – one year increase in life expectancy	(2)	66	(108)	(2)	60	(88)
Rate of mortality – one year decrease in life expectancy	2	(67)	110	2	(62)	89
Rate of inflation – 0.25% increase	(1)	21	(39)	(1)	23	(43)
Discount rate – 0.25% increase	2	(33)	65	2	(36)	60
Market value of scheme assets – 2.5% increase	2	30	–	2	30	–

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

Asset valuation

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

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

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

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

The insurance policies are treated as qualifying insurance policies as none of the insurers are related parties of the 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 the Group's creditors and cannot be paid to the Group.

Retirement benefit plan assets

				31 July 2024 – £m
	UK schemes	US schemes	Other countries	Total
Cash and cash equivalents	63	8	1	72
Pooled funds:				
– Pooled equity	–	–	5	5
– Pooled Diversified Growth	–	–	12	12
– Pooled credit	337	–	–	337
Corporate bonds	208	141	–	349
Government bonds/LDI	427	41	3	471
Insured liabilities	1,337	–	–	1,337
Total market value	**2,372**	**190**	**21**	**2,583**

				31 July 2023 – £m
	UK schemes	US schemes	Other countries	Total
Cash and cash equivalents	93	1	1	95
Pooled funds:				
– Pooled equity	–	–	3	3
– Pooled Diversified Growth	–	–	13	13
– Pooled credit	320	–	–	320
Corporate bonds	203	141	–	344
Government bonds/LDI	421	44	3	468
Insured liabilities	1,323	–	–	1,323
Property	7	–	–	7
Total market value	**2,367**	**186**	**20**	**2,573**

The UK Government bonds/LDI portfolios contain £691m (FY2023: £717m) of UK Government bonds (gilts), £270m (FY2023: £276m) of gilt repurchase obligations and £5m of interest and inflation swap obligations (FY2023: £18m assets) and forward FX contracts with a net obligation of £nil (FY2023: £2m asset). These are held to hedge against foreign currency risk. The pooled funds, insured liabilities and property assets are unquoted. The scheme assets do not include any property occupied by, or other assets used by, the Group.

The asset valuations are effective as at the end of the period, consistent with the calculations determining the obligations, except for a small legacy commercial property investment which was sold in the current year. This investment was only valued at the end of each calendar quarter, so no valuation was available as at FY2023. The Group considered taking the most recent available valuation to be appropriate given the size of the commercial property investment relative to the overall value of invested assets and wider commercial property market returns since the most recent valuation.

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

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

31 July 2024 – £m	SIPS	TIGPS	US schemes
Present value of funded scheme liabilities:			
– Active deferred members	(13)	(9)	(28)
– Deferred members	(379)	(304)	(80)
– Pensioners	(915)	(609)	(93)
Present value of funded scheme liabilities	**(1,307)**	**(922)**	**(201)**
Market value of scheme assets	1,439	933	190
Surplus restriction	–	(11)	–
Surplus/(deficit)	**132**	**–**	**(11)**

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

Net retirement benefit obligations

31 July 2024 – £m	UK schemes	US schemes	Other countries	Total
Market value of scheme assets	2,372	190	21	2,583
Present value of funded scheme liabilities	(2,229)	(201)	(26)	(2,456)
Surplus restriction	(11)	–	–	(11)
Surplus/(deficit)	**132**	**(11)**	**(5)**	**116**
Unfunded pension plans	(37)	(6)	(38)	(81)
Post-retirement healthcare	(2)	(1)	(3)	(6)
Present value of unfunded obligations	(39)	(7)	(41)	(87)
Net pension asset/(liability)	**93**	**(18)**	**(46)**	**29**
Comprising:				
Retirement benefit assets	132	–	–	132
Retirement benefit liabilities	(39)	(18)	(46)	(103)
Net pension asset/(liability)	**93**	**(18)**	**(46)**	**29**

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

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

Amounts recognised in the consolidated income statement

	Year ended 31 July 2024 £m	Year ended 31 July 2023 £m
Amounts charged to operating profit		
Current service cost	4	2
Past service costs – benefit equalisations	4	(5)
Settlement loss	–	1
Headline scheme administration costs	3	4
Non-headline scheme administration costs	6	2
	17	**4**
The operating cost is charged as follows:		
Headline administrative expenses	7	6
Non-headline settlement loss	–	1
Non-headline administrative expenses	10	(3)
	17	**4**
Amounts credited to finance costs		
Non-headline other finance income – retirement benefits	**(6)**	**(7)**

Amounts recognised directly in the consolidated statement of comprehensive income

	Year ended 31 July 2024 £m	Year ended 31 July 2023 £m
Re-measurements of retirement defined benefit assets and liabilities		
Difference between interest credit and return on assets	54	(660)
Experience gains/(losses) on scheme liabilities	(103)	(54)
Actuarial gains arising from changes in demographic assumptions	4	48
Actuarial gains/(losses) arising from changes in financial assumptions	(26)	548
Movement in surplus restriction	5	4
	(66)	**(114)**

Changes in present value of funded scheme assets

	31 July 2024 – £m			
	UK schemes	US schemes	Other countries	Total
At beginning of period	**2,367**	**186**	**20**	**2,573**
Interest on assets	117	9	1	127
Actuarial movement on scheme assets	54	(1)	1	54
Employer contributions	–	10	–	10
Scheme administration costs	(7)	(2)	–	(9)
Benefits paid	(159)	(12)	(1)	(172)
At end of period	**2,372**	**190**	**21**	**2,583**

	31 July 2023 – £m			
	UK schemes	US schemes	Other countries	Total
At beginning of period	**3,067**	**225**	**22**	**3,314**
Interest on assets	105	10	1	116
Actuarial movement on scheme assets	(638)	(21)	(1)	(660)
Scheme administration costs	(5)	(1)	–	(6)
Foreign exchange rate movements	–	(10)	–	(10)
Assets distributed on settlements	–	(4)	–	(4)
Benefits paid	(162)	(13)	(2)	(177)
At end of period	**2,367**	**186**	**20**	**2,573**

Changes in present value of funded defined benefit obligations

	31 July 2024 – £m			
	UK schemes	US schemes	Other countries	Total
At beginning of period	**(2,156)**	**(202)**	**(25)**	**(2,383)**
Past service costs	(3)	–	(1)	(4)
Interest on obligations	(106)	(11)	(1)	(118)
Actuarial movement on liabilities	(123)	–	(1)	(124)
Foreign exchange rate movements	–	–	1	1
Benefits paid	159	12	1	172
At end of period	**(2,229)**	**(201)**	**(26)**	**(2,456)**

	31 July 2023 – £m			
	UK schemes	US schemes	Other countries	Total
At beginning of period	**(2,738)**	**(238)**	**(27)**	**(3,003)**
Past service costs	4	–	–	4
Interest on obligations	(94)	(10)	(1)	(105)
Actuarial movement on liabilities	510	19	1	530
Foreign exchange rate movements	–	11	–	11
Liabilities extinguished on settlements	–	3	–	3
Benefits paid	162	13	2	177
At end of period	**(2,156)**	**(202)**	**(25)**	**(2,383)**

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

	Assets		Obligations	
	Year ended 31 July 2024 £m	Year ended 31 July 2023 £m	Year ended 31 July 2024 £m	Year ended 31 July 2023 £m
At beginning of period	**–**	**–**	**(85)**	**(98)**
Current service cost	–	–	(4)	(1)
Interest on obligations	–	–	(3)	(3)
Actuarial movement	–	–	(1)	12
Employer contributions	6	5	–	–
Benefits paid	(6)	(5)	6	5
At end of period	**–**	**–**	**(87)**	**(85)**

Changes in the effect of the asset ceiling over the year

	Year ended 31 July 2024 £m	Year ended 31 July 2023 £m
Irrecoverable asset at beginning of period	**(16)**	**(20)**
Actuarial movement on scheme assets	5	4
At end of period	**(11)**	**(16)**

Cash contributions

Company contributions to the defined benefit pension plans and post-retirement healthcare plans totalled £16m (FY2023: £5m). This comprised a planned £5m contribution plus a one-off additional £5m contribution to the US funded scheme (FY2023: £nil) and £6m (FY2023: £5m) on providing benefits under unfunded defined benefit pension and post-retirement healthcare plans.

In FY2025, cash contributions to the Group's schemes are expected to be up to £11m in total.

Recent legal rulings

In July 2024, the UK Court of Appeal upheld the High Court's ruling in the Virgin Media v NTL Pension Trustees II court case relating to section 37 of the pension Schemes Act 1993 and amendments to benefits for contracted-out defined benefit schemes, such as SIPS and TIGPS. The ruling confirmed the need for an actuarial certificate where such schemes made changes to benefits between 6 April 1997 and 5 April 2016, and any amendments that affected relevant benefits were void without the appropriate certificate.

The Trustees of SIPS and TIGPS are currently seeking additional legal advice on what actions, if any, should be taken, which is unlikely to be progressed until later in 2024. In the meantime, SIPS and TIGPS will continue to be administered on the current basis until the legal position has been clarified.

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.

Restricted stock

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

Save as you earn (SAYE)

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

Ordinary shares under option/award ('000)	Long-term incentive plans	Restricted stock	Save as you earn scheme	Total	Weighted average exercise price
31 July 2022	**5,310**	**83**	**885**	**6,278**	**£1.45**
Granted	2,023	24	253	2,300	£1.47
Exercised	(309)	(20)	(109)	(438)	£2.88
Lapsed	(2,196)	–	(71)	(2,267)	£0.33
31 July 2023	4,828	87	958	5,873	£1.78
Granted	1,919	45	243	2,207	£1.34
Exercised	(1,140)	(10)	(437)	(1,587)	£2.54
Lapsed	(1,218)	(8)	(79)	(1,305)	£0.73
31 July 2024	**4,389**	**114**	**685**	**5,188**	**£1.62**

Options and awards were exercised on an irregular basis during the period. The average closing share price over the financial year was 1,656.2p (FY2023: 1,629.8p). 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 2024 was nil (31 July 2023: nil).

Range of exercise prices	**Total shares under options/awards at 31 July 2024 ('000)**	**Weighted average remaining contractual life at 31 July 2024 (months)**	Total shares under options/awards at 31 July 2023 ('000)	Weighted average remaining contractual life at 31 July 2023 (months)
£0.00 – £2.00	4,503	17	4,915	17
£6.01 – £10.00	2	–	444	6
£10.01 – £12.00	683	29	514	33

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% (FY2023: 25% to 20%) and dividend yield of 2.6% (FY2023: 2.4%), based on historical data, for the period corresponding with the vesting period of the option. These generated a weighted average fair value for LTIP of £15.73 (FY2023: £15.03), and restricted stock of £15.29 (FY2023: £14.60). Staff costs included £14m (FY2023: £14m) for share-based payments, of which £11m (FY2023: £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 2022	**1,311**	**174**	**630**	**193**	**2,308**
Foreign exchange rate movements	(45)	(2)	(31)	(3)	(81)
Business combinations	7	–	13	–	20
Additions	–	21	–	7	28
Disposals	–	–	–	(38)	(38)
At 31 July 2023	**1,273**	**193**	**612**	**159**	**2,237**
Foreign exchange rate movements	(7)	(2)	(1)	–	(10)
Business combinations	10	–	34	–	44
Additions	–	14	–	4	18
Disposals	–	–	–	(1)	(1)
At 31 July 2024	**1,276**	**205**	**645**	**162**	**2,288**
Amortisation and impairments					
At 31 July 2022	**67**	**123**	**373**	**157**	**720**
Foreign exchange rate movements	(3)	(1)	(19)	(4)	(27)
Amortisation charge for the year	–	2	52	7	61
Disposals	–	–	–	(38)	(38)
At 31 July 2023	**64**	**124**	**406**	**122**	**716**
Foreign exchange rate movements	–	(2)	(2)	–	(4)
Amortisation charge for the year	–	2	49	5	56
Disposals	–	–	–	(1)	(1)
At 31 July 2024	**64**	**124**	**453**	**126**	**767**
Net book value at 31 July 2024	**1,212**	**81**	**192**	**36**	**1,521**
Net book value at 31 July 2023	1,209	69	206	37	1,521
Net book value at 31 July 2022	1,244	51	257	36	1,588

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

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 2022	**19**	**152**	**459**	**630**
Foreign exchange rate movements	–	(9)	(22)	(31)
Business combinations	1	2	10	13
At 31 July 2023	**20**	**145**	**447**	**612**
Foreign exchange rate movements	–	–	(1)	(1)
Business combinations	3	–	31	34
At 31 July 2024	**23**	**145**	**477**	**645**
Amortisation				
At 31 July 2022	**8**	**87**	**278**	**373**
Foreign exchange rate movements	–	(6)	(13)	(19)
Charge for the year	1	11	40	52
At 31 July 2023	**9**	**92**	**305**	**406**
Foreign exchange rate movements	–	–	(2)	(2)
Charge for the year	2	10	37	49
At July 2024	**11**	**102**	**340**	**453**
Net book value at 31 July 2024	**12**	**43**	**137**	**192**
Net book value at 31 July 2023	11	53	142	206
Net book value at 31 July 2022	11	65	181	257

Individually material intangible assets comprise:

- £38m of customer-related intangibles attributable to United Flexible (remaining amortisation period: 3 years);
- £38m of customer-related intangibles attributable to Morpho Detection (remaining amortisation period: 4 years);
- £28m of customer-related intangibles attributable to Heating & Cooling Products (remaining amortisation period: 9 years);
- £21m of customer-related intangibles attributable to Royal Metal (remaining amortisation period: 4 years);

- £30m of development cost intangibles attributable to a computed tomography programme in Detection that is currently under development; and
- £24m of development cost intangibles attributable to an X-ray diffraction programme in Detection that is currently under development.

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-segmental trading relationships. Goodwill acquired through business combinations is allocated to groups of CGUs at a segmental (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 business segment as follows:

	2024 £m	2024 Number of CGUs	2023 £m	2023 Number of CGUs
John Crane	130	1	131	1
Smiths Detection	625	1	630	1
Flex-Tek	193	1	183	1
Smiths Interconnect	264	1	265	1
	1,212	**4**	**1,209**	**4**

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 FY2025 business plan and the five-year detailed segmental strategic plan projections which have been prepared by segmental management and approved by the Board.

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

- Revenue: Projected sales were built up with reference to markets and product categories. They incorporated past performance, historical growth rates and projections of developments in key markets;
- Average earnings before interest and tax margin: Projected margins reflect historical performance, our expectations for future cost inflation and the impact of all completed projects to improve operational efficiency and leverage scale. The projections did not include the impact of future restructuring projects to which the Group was not yet committed;
- Projected capital expenditure: The cash-flow forecasts for capital expenditure were based on past experience and included committed ongoing capital expenditure consistent with the FY2025 budget and the segmental strategic projections. The forecast did not include any future capital expenditure that improved/enhanced the operation/asset in excess of its current standard of performance;
- Discount rate: The discount rates have been determined with reference to illustrative weighted average cost of capital (WACC) for each CGU. In determining these discount rates, management have considered systematic risks specific to each of the Group's CGUs. These risk-adjusted discount rates have then been validated against the Group's WACC, the WACCs of the CGU's peer group and an average of discount rates used by other companies for the industries in which Smiths business segments operate. Pre-tax rates of 11.9% to 12.8% (FY2023: 11.4% to 13.0%) have been used for the impairment testing; and
- Long-term growth rates: For the purposes of the Group's value in use calculations, a long-term growth rate into perpetuity was applied immediately at the end of the five-year detailed forecast period. CGU-specific long-term growth rates have been calculated by revenue weighting the long-term GDP growth rates of the markets that each CGU operates in. The long-term growth rates used in the testing ranged from 2.1% to 2.6% (FY2023: 2.2% to 2.7%). These rates do not reflect the long-term assumptions used by the Group for investment planning.

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

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

As at 31 May 2024		John Crane	Smiths Detection	Flex-Tek	Smiths Interconnect
Net book value of goodwill (£m)		135	649	191	279
Basis of valuation		Value in use	Value in use	Value in use	Value in use
Discount rate	– pre-tax	11.9%	12.8%	12.6%	12.5%
	– post-tax	9.4%	9.5%	10.0%	10.1%
Period covered by management projections		5 years	5 years	5 years	5 years
Capital expenditure – annual average over projection period (£m)		31	19	10	12
Revenue – compound annual growth rate over projection period		6.1%	3.8%	3.6%	4.4%
Average earnings before interest and tax margin		22.2%	12.9%	20.5%	15.8%
Long-term growth rates		2.6%	2.3%	2.1%	2.5%

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

Forecast earnings before interest and tax have been projected using:

– Expected future sales based on the strategic plan, which was constructed at a market level with input from key account managers, product line managers, business development and sales teams. An assessment of the market and existing contracts/programmes was made to produce the sales forecast; and

– Current cost structure and production capacity, which include our expectations for future cost inflation. The projections did not include the impact of future restructuring projects to which the Group was not yet committed.

Sensitivity analysis

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

The estimated recoverable amount of the Smiths Detection CGU exceeded its 31 July 2024 carrying value by £254m. Any decline in estimated value in use in excess of this amount would result in the recognition of impairment charges.

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

The Smiths Detection financial model assumes that EBIT margins grow from 11.9% in FY2024 to an average of 13.6% over the five-year financial model period. This increase in EBIT margin is principally driven by a change in revenue and profit mix, with proportion of higher margin aftermarket revenue growing over the five-year projection period.

Management considers that it is plausible that this margin growth may not be fully captured by the business. For the CGU to be impaired, the average EBIT margin over the five-year financial model would have to be less than 11.5%; management does not believe this to be a reasonably plausible scenario.

If the assumptions used in the impairment review were changed to a greater extent than as presented in the following table, the changes would, in isolation, lead to impairment losses being recognised for the year ended 31 July 2024:

Change required for carrying value to equal recoverable amount – FY2024	Smiths Detection
Revenue – compound annual growth rate (CAGR) over five-year projection period	-470 bps decrease
Average earnings before interest and tax margin	-220 bps decrease
Post-tax discount rate	+150 bps increase

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

Note: The information in the sensitivity table above has been provided voluntarily to aid the users of the accounts. Projected capital expenditure and long-term growth rates are not included in the table above as management consider that there is no reasonably possible change in the projected capital expenditure or long-term growth rate that would result in an impairment.

The Smiths Interconnect CGU's revenue and headline operating profit for FY2024 declined versus the prior year, reflecting weaknesses in the semiconductor market and a slower market in connectors. This underperformance has driven a reduction in the CGU's impairment headroom, as its strategic plan growth is now projected off a new lower base. The detailed assumptions and calculation basis of Interconnect's strategic plan and impairment model have been stress tested and management have concluded that there are no reasonably possible changes in the key impairment testing assumptions that could result an impairment.

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

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

12. Property, plant and equipment

	Land and buildings £m	Plant and machinery £m	Fixtures, fittings, tools and equipment £m	Total £m
Cost or valuation				
At 31 July 2022	**176**	**457**	**129**	**762**
Foreign exchange rate movements	(6)	(14)	(2)	(22)
Business combinations	–	2	–	2
Additions	10	33	10	53
Disposals	(2)	(15)	(17)	(34)
At 31 July 2023	**178**	**463**	**120**	**761**
Foreign exchange rate movements	(3)	(7)	(2)	(12)
Business combinations	–	7	–	7
Additions	10	50	8	68
Disposals	(4)	(17)	(12)	(33)
At 31 July 2024	**181**	**496**	**114**	**791**
Depreciation				
At 31 July 2022	**108**	**299**	**112**	**519**
Foreign exchange rate movements	(4)	(8)	(2)	(14)
Charge for the year	8	25	9	42
Disposals	(2)	(14)	(17)	(33)
At 31 July 2023	**110**	**302**	**102**	**514**
Foreign exchange rate movements	(1)	(3)	(1)	(5)
Charge for the year	8	32	5	45
Disposals	(4)	(17)	(12)	(33)
At July 2024	**113**	**314**	**94**	**521**
Net book value at 31 July 2024	**68**	**182**	**20**	**270**
Net book value at 31 July 2023	68	161	18	247
Net book value at 31 July 2022	68	158	17	243

13. Right of use assets

	Properties £m	Vehicles £m	Equipment £m	Total £m
Cost or valuation				
At 31 July 2022	**174**	**21**	**1**	**196**
Foreign exchange rate movements	(6)	(1)	–	(7)
Recognition of right of use asset	27	7	1	35
Derecognition of right of use asset	(5)	–	–	(5)
At 31 July 2023	**190**	**27**	**2**	**219**
Foreign exchange rate movements	(3)	(1)	–	(4)
Business combinations	12	–	–	12
Recognition of right of use asset	18	10	–	28
Derecognition of right of use asset	(5)	–	–	(5)
At 31 July 2024	**212**	**36**	**2**	**250**
Depreciation				
At 31 July 2022	**75**	**15**	**–**	**90**
Foreign exchange rate movements	(4)	–	–	(4)
Charge for the year	27	4	1	32
Derecognition of right of use asset	(4)	–	–	(4)
At 31 July 2023	**94**	**19**	**1**	**114**
Foreign exchange rate movements	(2)	(1)	–	(3)
Charge for the year	29	5	–	34
Derecognition of right of use asset	(5)	–	–	(5)
At 31 July 2024	**116**	**23**	**1**	**140**
Net book value at 31 July 2024	**96**	**13**	**1**	**110**
Net book value at 31 July 2023	96	8	1	105
Net book value at 31 July 2022	99	6	1	106

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 2022	**364**	**19**	**8**	**4**	**395**
Fair value change through profit and loss	–	(6)	–	–	(6)
Fair value change through other comprehensive income	(17)	–	(1)	–	(18)
At 31 July 2023	**347**	**13**	**7**	**4**	**371**
Fair value change through profit and loss	–	(13)	–	–	(13)
Fair value change through other comprehensive income	(103)	–	(2)	–	(105)
Disposals	(197)	–	–	(3)	(200)
At 31 July 2024	**47**	**–**	**5**	**1**	**53**

Following the sale of Smiths Medical the Group has held a financial asset for its investment in ICU Medical, Inc (ICU) equity and a financial asset for the fair value of US$100m additional sales consideration that is contingent on the future share price performance of ICU. During FY2024 the Group has sold 2,030,000 shares in ICU reducing Smiths' equity investment in ICU to approximately 1.9% of ICU's issued share capital. The Group's reduced investment in ICU has resulted in the contingent consideration no longer being payable.

Since the year end during August 2024 the Group disposed of 415,771 ICU shares, which further reduced the Group's equity stake in ICU to approximately 0.2% of ICU's issued share capital.

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 2024 £m	31 July 2023 £m
Raw materials and consumables	192	201
Work in progress	148	130
Finished goods	303	306
Total inventories	**643**	**637**

In FY2024, operating costs included £1,629m (FY2023: £1,622m) of inventory consumed, £13m (FY2023: £26m) was charged for the write-down of inventory and £11m (FY2023: £16m) was released from provisions no longer required.

Inventory provisioning

	31 July 2024 £m	31 July 2023 £m
Gross inventory carried at full value	560	545
Gross value of inventory partly or fully provided for	146	158
	706	703
Inventory provision	(63)	(66)
Inventory after provisions	**643**	**637**

16. Trade and other receivables

	31 July 2024 £m	31 July 2023 £m
Non-current		
Trade receivables	–	2
Prepayments	1	–
Contract assets	86	65
Other receivables	9	8
	96	**75**
Current		
Trade receivables	544	493
Prepayments	58	40
Contract assets	123	121
Other receivables	101	118
	826	**772**

Trade receivables do not carry interest. Management considers that the carrying value of trade and other receivables approximates to the fair value. Trade and other receivables, including accrued income and other receivables qualifying as financial instruments, are accounted for at amortised cost. The maximum credit exposure arising from these financial assets was £788m (FY2023: £744m).

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 £23m (FY2023: £19m) principally within John Crane and Smiths Detection, offset by a £1m (FY2023: £7m) decrease due to foreign currency translation losses.

A number of Flex-Tek's and Interconnect's customers provide supplier finance schemes which allow their suppliers to sell trade receivables, without recourse, to banks. This is commonly known as invoice discounting or factoring. During FY2024 the Group collected £146m of receivables through these schemes (FY2023: £128m). The impact of invoice discounting on the FY2024 balance sheet was that trade receivables were reduced by £23m (2023: £26m). Costs of discounting were £2m (FY2023: £2m), charged to the income statement within financing costs. The cash received via these schemes was classified as an operating cash inflow as it had arisen from operating activities.

Trade receivables are disclosed net of provisions for expected credit loss, with historical write-offs used as a basis, adjusted for factors that are specific to the debtor, general economic conditions of the industry in which the debtor operates and a default risk multiplier applied to reflect country risk premium. Credit risk is managed separately for each customer and, where appropriate, a credit limit is set for the customer based on previous experience of the customer and third-party credit ratings. The Group has no significant concentration of credit risk, with exposure spread over a large number of customers. The largest single customer was the US Federal Government, representing 8% (FY2023: 7%) of Group revenue.

Ageing of trade receivables

	31 July 2024 £m	31 July 2023 £m
Trade receivables which are not yet due	436	389
Trade receivables which are between 1-30 days overdue	56	52
Trade receivables which are between 31-60 days overdue	17	19
Trade receivables which are between 61-90 days overdue	13	12
Trade receivables which are between 91-120 days overdue	5	8
Trade receivables which are more than 120 days overdue	46	45
	573	**525**
Expected credit loss allowance provision	(29)	(30)
Trade receivables	**544**	**495**

Movement in expected credit loss allowance

	31 July 2024 £m	31 July 2023 £m
Brought forward loss allowance at the start of the period	30	36
Exchange adjustments	1	(1)
Increase in allowance recognised in the income statement	4	4
Amounts written off or recovered during the year	(6)	(9)
Carried forward loss allowance at the end of the year	**29**	**30**

17. Trade and other payables

	31 July 2024 £m	31 July 2023 £m
Non-current		
Other payables	15	13
Contract liabilities	26	27
	41	**40**
Current		
Trade payables	274	247
Other payables	35	51
Other taxation and social security costs	60	66
Accruals	204	200
Contract liabilities	191	159
	764	**723**

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 £217m (FY2023: £186m) 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 business segment where invoicing under milestones precedes the delivery of the programme performance obligations. Revenue recognised in the year includes £166m (FY2023: £97m) 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 2024 £m	31 July 2023 £m
Cash and cash equivalents		
Net cash and deposits	**459**	**285**
Short-term borrowings		
Lease liabilities	(32)	(26)
Interest accrual	(2)	(3)
	(34)	**(29)**
Long-term borrowings		
€650m 2.00% Eurobond 2027	(534)	(534)
Lease liabilities	(91)	(91)
	(625)	**(625)**
Borrowings/gross debt	**(659)**	**(654)**
Derivatives managing interest rate risk and currency profile of the debt	(13)	(18)
Net debt	**(213)**	**(387)**

Cash and cash equivalents

	31 July 2024 £m	31 July 2023 £m
Cash at bank and in hand	123	175
Short-term deposits	336	110
Cash and cash equivalents	**459**	**285**

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 £12m (FY2023: £17m) was charged to the consolidated income statement in the period in respect of public bonds.

Analysis of financial derivatives on balance sheet

	Non-current assets £m	Current assets £m	Current liabilities £m	Non-current liabilities £m	Net balance £m
Derivatives managing interest rate risk and currency profile of the debt	–	–	–	(13)	(13)
Foreign exchange forward contracts	–	4	(4)	–	–
At 31 July 2024	**–**	**4**	**(4)**	**(13)**	**(13)**
Derivatives managing interest rate risk and currency profile of the debt	–	–	–	(18)	(18)
Foreign exchange forward contracts	–	5	(2)	–	3
At 31 July 2023	**–**	**5**	**(2)**	**(18)**	**(15)**

Movements in assets/(liabilities) arising from financing activities

	Changes in net debt						
	Cash and cash equivalents £m	Other short-term borrowings £m	Long-term borrowings £m	Interest rate and cross-currency swaps £m	Net debt £m	Changes in other financing items: FX contracts £m	Total liabilities from financing activities £m
At 31 July 2023	**285**	**(29)**	**(625)**	**(18)**	**(387)**	**3**	**(384)**
Foreign exchange gains/(losses)	(14)	1	10	–	(3)	–	(3)
Net cash inflow from continuing operations	188	–	–	–	188	–	188
Lease payments	–	39	–	–	39	–	39
Interest paid	–	57	–	–	57	–	57
Interest expense*	–	(63)	–	–	(63)	–	(63)
Cash inflow from matured derivative contracts	–	–	–	–	–	5	5
Fair value movements	–	–	(9)	5	(4)	(8)	(12)
Lease liabilities acquired	–	–	(12)	–	(12)	–	(12)
Net movement from new leases and modifications	–	(28)	–	–	(28)	–	(28)
Reclassifications	–	(11)	11	–	–	–	–
At 31 July 2024	**459**	**(34)**	**(625)**	**(13)**	**(213)**	**–**	**(213)**

* Interest expense presented in note 4 also includes a £1m accrual movement that does not form part of net debt.

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

* These amounts relate to the cash settlement of foreign exchange contracts. In the current year, these are with the same financial institution therefore have not been shown gross.

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 2024 the total value of overdrafts on accounts in interest compensation cash pooling systems was £nil (FY2023: £nil). The balances held in zero balancing cash pooling arrangements have daily settlement of balances. Therefore netting is not relevant.

Change of control

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

Lease liabilities

Lease liabilities have been measured at the present value of the remaining lease payments. The weighted average incremental borrowing rate applied to lease liabilities in FY2024 was 4.42% (FY2023: 4.01%).

19. Financial risk management

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

Treasury Risk Management Policy

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

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

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

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

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

1) Credit quality

The Group's strategy is to maintain a solid investment-grade rating to ensure access to the widest possible sources of financing at the right time and to optimise the resulting cost of debt capital. The credit ratings at the end of July 2024 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, the average maturity profile of gross debt is to be at or greater than three years, and between 40-60% of gross debt (excluding leases) is at fixed rates. At 31 July 2024 these measures were 100% (FY2023: 100%), 2.6 years (FY2023: 3.6 years) and 54% (FY2023: 54%).

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

3) Liquidity management

The Group's objective is to ensure that at any time undrawn committed facilities, net of short-term overdraft financing, are at least £300m and that committed facilities have at least 12 months to run until maturity. At 31 July 2024, these measures were £623m (FY2023: £622m) and 57 months (FY2023: 57 months) until maturity. At 31 July 2024, net cash resources were £459m (FY2023: £285m). Liquidity risk management is discussed in note 19(d).

4) Currency management

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

(a) Foreign exchange risk

Transactional currency exposure

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

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

					At 31 July 2024
	Sterling £m	**US$ £m**	**Euro £m**	**Other £m**	**Total £m**
Financial assets and liabilities					
Financial instruments included in trade and other receivables	38	417	147	195	797
Financial instruments included in trade and other payables	(45)	(222)	(117)	(111)	(495)
Cash and cash equivalents	139	222	19	79	459
Borrowings not designated as net investment hedges	(26)	(61)	(14)	(22)	(123)
	106	356	35	141	638
Exclude balances held in operations with the same functional currency.	(108)	(305)	(38)	(153)	(604)
Exposure arising from intra-Group loans	–	65	37	(71)	31
Future forward foreign exchange contract cash-flows	13	(93)	6	74	–
	11	**23**	**40**	**(9)**	**65**

					At 31 July 2023
	Sterling £m	US$ £m	Euro £m	Other £m	Total £m
Financial assets and liabilities					
Financial instruments included in trade and other receivables	43	372	127	184	726
Financial instruments included in trade and other payables	(64)	(216)	(93)	(103)	(476)
Cash and cash equivalents	50	115	29	91	285
Borrowings not designated as net investment hedges	(27)	(54)	(12)	(24)	(117)
	2	217	51	148	418
Exclude balances held in operations with the same functional currency.	(7)	(287)	(57)	(153)	(504)
Exposure arising from intra-Group loans	–	127	28	(73)	82
Future forward foreign exchange contract cash-flows	(63)	(23)	(48)	133	(1)
	(68)	**34**	**(26)**	**55**	**(5)**

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 FY2024 £m	Gain/(loss) recognised in reserves FY2024 £m	Impact on profit for the year FY2023 £m	Gain/(loss) recognised in reserves FY2023 £m
US dollar	1	2	–	1
Euro	(1)	(3)	1	–
Sterling	(2)	–	–	(1)

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 2024, contracts with a nominal value of £178m (FY2023: £123m) were designated as hedging instruments. In addition, the Group had outstanding foreign currency contracts with a nominal value of £315m (FY2023: £252m) which were being used to manage transactional foreign exchange exposures, but were not accounted for as cash-flow hedges. The fair value of the contracts is disclosed in note 20.

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

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

The main sources of hedge ineffectiveness in these hedging relationships are the effect of the Group's and the counterparty credit risks on the fair value of the foreign exchange forward contracts, which is not reflected in the fair value of the hedged item and the risk of over-hedging where the hedge relationship requires re-balancing. No other sources of ineffectiveness emerged from these hedging relationships. Any hedge ineffectiveness is recognised immediately in the income statement in the period that it occurs. Of the foreign exchange contracts designated as hedging instruments, 100% are for periods of 12 months or less (FY2023: 98%).

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

		Year ended 31 July 2024 £m	Year ended 31 July 2023 £m
Brought forward cash-flow hedge reserve at start of year		–	(3)
Foreign exchange forward contracts:	Net fair value gains on effective hedges	–	1
	Amount reclassified to income statement – finance costs	–	2
Carried forward cash-flow hedge reserve at end of year		**–**	**–**

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	FY2024	–	–	–
			FY2023	1	(1)	1

Cash-flow hedges generated £nil of ineffectiveness in FY2024 (FY2023: £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 2024			At 31 July 2023		
	US$ £m	Euro £m	Total £m	US$ £m	Euro £m	Total £m
Loans designated as net investment hedges	–	(288)	(288)	–	(293)	(293)
Cross-currency swap	(248)	–	(248)	(247)	–	(247)
	(248)	**(288)**	**(536)**	**(247)**	**(293)**	**(540)**

At 31 July 2024, cross-currency swaps hedged the Group's exposure to US dollars and euros (FY2023: US dollars and euros). All the cross-currency swaps designated as net investment hedges were non-current (FY2023: non-current). Swaps generating £248m of the US dollar exposure (FY2023: £247m) will mature in February 2027.

In addition, non-swapped borrowings were also used to hedge the Group's exposure to euros (FY2023: euros). Borrowings generating £288m of the euro exposure (FY2023: £293m) will mature in February 2027.

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

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

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

		Year ended 31 July 2024 £m	Year ended 31 July 2023 £m
Brought forward net investment hedge reserve at start of year		(196)	(207)
Cross-currency swaps	Net fair value gains on effective hedges	–	40
Bonds	Net fair value gains on effective hedges	5	(29)
Carried forward net investment hedge reserve at end of year		**(191)**	**(196)**

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 2024 and 31 July 2023:

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	Bonds	FY2024	**(5)**	**5**	**–**
Overseas operation	Foreign currency risk	Cross-currency swaps	FY2023	(40)	40	40
		Bonds	FY2023	29	(29)	(29)
				(11)	**11**	**11**

Net investment hedges generated £nil of ineffectiveness in FY2024 (FY2023: £1m) which was recognised in the income statement through finance costs.

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

	Loss recognised in hedge reserve 31 July 2024 £m	Loss recognised in hedge reserve 31 July 2023 £m
US dollar	28	27
Euro	32	33

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

(b) Interest rate risk

The Group operates an interest rate policy designed to optimise interest cost and reduce volatility in reported earnings. The Group's current policy is to require interest rates to be fixed within a band of between 40% and 60 % of the level of gross debt (excluding leases). This is achieved through fixed rate borrowings and interest rate swaps. At 31 July 2024 54% (FY2023: 54%) of the Group's gross borrowings (excluding leases) were at fixed interest rates, after adjusting for interest rate swaps and the impact of short maturity derivatives designated as net investment hedges.

The Group monitors its fixed rate risk profile against both gross and net debt. For medium-term planning, it focuses on gross debt to eliminate the fluctuations of variable cash levels over the cycle. The weighted average interest rate on borrowings and cross-currency swaps at 31 July 2024, after interest rate swaps, was 4.60% (FY2023: 4.53%).

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 2024
	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	–	–	(34)	(34)
Between one and five years	–	–	(351)	(343)
Greater than five years	–	–	(33)	(33)
Total fixed interest financial liabilities	–	–	**(418)**	**(410)**
Floating rate interest financial assets/(liabilities)	1	393	(241)	(244)
Total interest-bearing financial assets/(liabilities)	**1**	**393**	**(659)**	**(654)**
Non-interest-bearing assets in the same category	–	66	–	–
Total	**1**	**459**	**(659)**	**(654)**

				As at 31 July 2023
	At fair value through profit or loss £m	Cash and cash equivalents £m	Borrowings £m	Fair value of borrowings £m
Fixed interest				
Less than one year	–	–	(29)	(29)
Between one and five years	–	–	(365)	(347)
Greater than five years	–	–	(24)	(24)
Total fixed interest financial liabilities	**–**	**–**	**(418)**	**(400)**
Floating rate interest financial assets/(liabilities)	4	215	(236)	(240)
Total interest-bearing financial assets/(liabilities)	**4**	**215**	**(654)**	**(640)**
Non-interest-bearing assets in the same category	–	70	–	–
Total	**4**	**285**	**(654)**	**(640)**

Interest rate hedging

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

At 31 July 2024, the Group had designated the following hedge against variability on the fair value of borrowings arising from fluctuations in base rates:

– €300m of the fixed/floating and € exchange exposure of EUR/USD interest rate swaps maturing on 23 February 2027 partially hedging the € 2027 Eurobond.

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

– €300m of the fixed/floating and € exchange exposure of EUR/USD interest rate swaps maturing on 23 February 2027 partially hedging the € 2027 Eurobond; and

– €400m of the fixed/floating element of the EUR/USD interest rate swaps that partially hedged the € 2023 Eurobond was repaid on 28 April 2023.

The fair values of the hedging instruments are disclosed in note 20. The effect of the swaps was to convert £253m (FY2023: £257m) debt from fixed rate to floating rate. The swaps have similar critical terms to the hedged items, such as the reference rate, reset dates, notional amounts, payment dates and maturities. Therefore, there is an economic relationship and the hedge ratio is established as 1:1. Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedging instrument.

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

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

Hedged item	Hedged exposure	Financial year	Changes in value of hedged item for calculating ineffectiveness £m	Changes in value of the hedging instrument for calculating ineffectiveness £m	Carrying amount Assets £m	Carrying amount Liabilities £m	Accumulated fair value adjustments on hedged item Assets £m	Accumulated fair value adjustments on hedged item Liabilities £m
Fixed rate bonds (a)	Interest rate and currency rate risk	FY2024	**(9)**	**9**	**–**	**253**	**–**	**(12)**
Fixed rate bonds (a)	Interest rate risk	FY2023	(2)	2	–	–	–	–
	Interest rate and currency rate risk	FY2023	16	(16)	–	233	–	(21)
			14	**(14)**	**–**	**233**	**–**	**(21)**

(a)Classified as borrowings.

Fair value hedges generated a £nil ineffectiveness in FY2024 (FY2023: £nil) which was recognised in the income statement through finance costs.

Sensitivity of interest charges to interest rate movements

The Group has exposure to sterling, US dollar and euro interest rates. However, the Group does not have a significant exposure to interest rate movements for any individual currency. Based on the composition of net debt and investments at 31 July 2024, 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 (FY2023: £2m impact) on the Group's profit before tax.

(c) Financial credit risk

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

The maximum credit risk exposure in the event of other parties failing to perform their obligations under financial assets, excluding trade and other receivables and derivatives, totals £465m at 31 July 2024 (FY2023: £296m).

	31 July 2024 £m	31 July 2023 £m
Cash in AAA liquidity funds	196	78
Cash at banks with at least a AA- credit rating	26	31
Cash at banks with all other A credit ratings	185	170
Cash at other banks	52	6
Investments in bank deposits	1	4
Other investments	5	7
	465	**296**

At 31 July 2024, the maximum exposure with a single bank for deposits and cash was £128m (FY2023: £65m). The bank has a credit rating of A+. The maximum mark to market exposure with a single bank for derivatives was out of the money in both the current and prior year and does not represent a credit risk.

(d) Liquidity risk

Borrowing facility

Board policy specifies the maintenance of an unused committed credit facility of at least £300m at all times to ensure that the Group has sufficient available funds for operations and planned development. The Group has a Revolving Credit Facility of US$800m maturing 5 May 2029. At the balance sheet date, the Group had the following undrawn credit facility:

	31 July 2024 £m	31 July 2023 £m
Expiring after more than four years (FY2023: four years)	**623**	622

Cash deposits

As at 31 July 2024, £336m (FY2023: £110m) of cash and cash equivalents was on deposit with various banks of which £196m (FY2023: £78m) was in liquidity funds. £1m (FY2023: £4m) of investments comprised bank deposits held to secure liabilities and letters of credit.

Gross contractual cash-flows for borrowings

As at 31 July 2024	Borrowings £m	Fair value adjustments £m	Contractual interest payments £m	Total contractual cash-flows £m
Less than one year	(34)	–	(11)	(45)
Between one and two years	(21)	–	(11)	(32)
Between two and three years	(18)	–	(11)	(29)
Between three and four years	(11)	–	–	(11)
Between four and five years	(554)	12	–	(542)
Greater than five years	(33)	–	–	(33)
Total	**(671)**	**12**	**(33)**	**(692)**

As at 31 July 2023	Borrowings £m	Fair value adjustments £m	Contractual interest payments £m	Total contractual cash-flows £m
Less than one year	(29)	–	(11)	(40)
Between one and two years	(27)	–	(11)	(38)
Between two and three years	(20)	–	(11)	(31)
Between three and four years	(13)	–	(11)	(24)
Between four and five years	(561)	21	–	(540)
Greater than five years	(24)	–	–	(24)
Total	**(674)**	**21**	**(44)**	**(697)**

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

Gross contractual cash-flows for derivative financial instruments

As at 31 July 2024	Receipts £m	Payments £m	Net cash-flow £m
Assets			
Less than one year	260	(256)	4
Greater than one year	4	(4)	–
Liabilities			
Less than one year	223	(227)	(4)
Greater than one year	254	(267)	(13)
Total	**741**	**(754)**	**(13)**

As at 31 July 2023	Receipts £m	Payments £m	Net cash-flow £m
Assets			
Less than one year	209	(204)	5
Greater than one year	6	(6)	–
Liabilities			
Less than one year	159	(161)	(2)
Greater than one year	252	(270)	(18)
Total	**626**	**(641)**	**(15)**

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 £481m (FY2023: £463m) due in less than one year, £14m (FY2023: £13m) due between one and five years.

20. Derivative financial instruments

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

				At 31 July 2024
	Contract or underlying nominal amount £m	**Fair value**		
		Assets £m	**Liabilities £m**	**Net £m**
Foreign exchange contracts (cash-flow hedges)	178	2	(2)	–
Foreign exchange contracts (not hedge accounted)	315	2	(2)	–
Total foreign exchange contracts	**493**	**4**	**(4)**	**–**
Cross-currency swaps (fair value and net investment hedges)	248	–	(13)	(13)
Total financial derivatives	**741**	**4**	**(17)**	**(13)**
Balance sheet entries:				
Non-current	255	–	(13)	(13)
Current	486	4	(4)	–
Total financial derivatives	**741**	**4**	**(17)**	**(13)**

				At 31 July 2023
	Contract or underlying nominal amount £m	Fair value		
		Assets £m	Liabilities £m	Net £m
Foreign exchange contracts (cash-flow hedges)	123	1	(1)	–
Foreign exchange contracts (not hedge accounted)	252	4	(1)	3
Total foreign exchange contracts	**375**	**5**	**(2)**	**3**
Cross-currency swaps (fair value and net investment hedges)	247	–	(18)	(18)
Total financial derivatives	**622**	**5**	**(20)**	**(15)**
Balance sheet entries:				
Non-current	256	–	(18)	(18)
Current	366	5	(2)	3
Total financial derivatives	**622**	**5**	**(20)**	**(15)**

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 2024 £m	**Liabilities 31 July 2024 £m**	Assets 31 July 2023 £m	Liabilities 31 July 2023 £m
Gross value of assets and liabilities	4	(17)	5	(20)
Related assets and liabilities subject to master netting agreements	(4)	4	(5)	5
Net exposure	**–**	**(13)**	**–**	**(15)**

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 2024 Up to one year	One to five years	More than five years	Maturity at 31 July 2023 Up to one year	One to five years	More than five years
Fair value hedges								
Interest rate/ foreign currency risk	Cross-currency swaps (EUR:GBP)	– Notional amount (£m)	–	254	–	–	254	–
		– Average exchange rate	–	0.845	–	–	0.845	–
		– Average spread over three-month GBP SONIA	–	1.860%	–	–	1.860%	–
Net investment hedges								
Foreign currency risk	Cross-currency swaps (GBP:USD)	– Notional amount (£m)	–	248	–	–	247	–
		– Average exchange rate	–	1.2534	–	–	1.2534	–
Cash-flow hedges								
Foreign currency risk	Foreign exchange contracts (EUR:GBP)	– Notional amount (£m)	66	–	–	41	8	–
		– Average exchange rate	0.8588	–	–	0.7842	0.8893	–
	Foreign exchange contracts (USD:GBP)	– Notional amount (£m)	41	–	–	18	–	–
		– Average exchange rate	1.2593	–	–	1.2269	–	–
	Foreign exchange contracts (EUR:USD)	– Notional amount (£m)	24	–	–	30	–	–
		– Average exchange rate	0.9277	–	–	1.0939	–	–
	Foreign exchange contracts (GBP:CZK)	– Notional amount (£m)	25	–	–	10	–	–
		– Average exchange rate	28.6952	–	–	27.7919	–	–
	Foreign exchange contracts (EUR:AUD)	– Notional amount (£m)	9	–	–	7	–	–
		– Average exchange rate	1.6564	–	–	1.6603	–	–

At 31 July 2024, the Group had forward foreign exchange contracts with a nominal value of £178m (FY2023: £123m) 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 28 July 2025. The largest single currency pairs are disclosed above and make up 93% of the notional hedged exposure. The notional and fair values of these foreign exchange forward derivatives are shown in the nominal amount and fair value of derivative contracts table above.

21. Fair value of financial instruments

As at 31 July 2024	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	–	1	47	48	48
Other investments	14	F	–	–	5	5	5
Cash and cash equivalents	18	B	459	–	–	459	459
Trade and other financial receivables		B/C	797	–	–	797	797
Derivative financial instruments	20	C	–	4	–	4	4
Total financial assets			**1,256**	**5**	**52**	**1,313**	**1,313**
Financial liabilities							
Trade and other financial payables		B	(495)	–	–	(495)	(495)
Short-term borrowings	18	B/D	(2)	–	–	(2)	(2)
Long-term borrowings	18	D	(534)	–	–	(534)	(529)
Lease liabilities	18	E	(123)	–	–	(123)	(123)
Derivative financial instruments	20	C	–	(17)	–	(17)	(17)
Total financial liabilities			**(1,154)**	**(17)**	–	**(1,171)**	**(1,166)**

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

A Carrying value is assumed to be a reasonable approximation to fair value for all of these assets and liabilities (Level 1 as defined by IFRS 13).

B Carrying value is assumed to be a reasonable approximation to fair value for all of these assets and liabilities (Level 2 as defined by IFRS 13).

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

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

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

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

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

IFRS 13 defines a three-level valuation hierarchy:

Level 1 – quoted prices for similar instruments
Level 2 – directly observable market inputs other than Level 1 inputs
Level 3 – inputs not based on observable market data

22. Commitments

At 31 July 2024, commitments, comprising bonds and guarantees arising in the normal course of business, amounted to £187m (FY2023: £207m), including pension commitments of £44m (FY2023: £56m) and charitable funding commitments for the Smiths Group Foundation of £9m (FY2023: £10m). In addition, the Group has committed expenditure on capital projects amounting to £14m (FY2023: £13m).

23. Provisions and contingent liabilities

	Trading	Non-headline and legacy			Total
	£m	John Crane, Inc. litigation £m	Titeflex Corporation litigation £m	Other £m	£m
At 31 July 2022	**11**	**229**	**52**	**43**	**335**
Foreign exchange rate movements	–	(12)	(3)	–	(15)
Provision charged	5	13	–	18	36
Provision released	(4)	–	(7)	(14)	(25)
Unwind of provision discount	–	6	1	–	7
Utilisation	(4)	(32)	(2)	(14)	(52)
At 31 July 2023	**8**	**204**	**41**	**33**	**286**
Comprising:					
Current liabilities	6	27	13	24	70
Non-current liabilities	2	177	28	9	216
At 31 July 2023	**8**	**204**	**41**	**33**	**286**
Business combinations	1	–	–	–	1
Provision charged	12	29	–	5	46
Provision released	(2)	–	(5)	(5)	(12)
Unwind of provision discount	–	8	1	–	9
Utilisation	(6)	(21)	(1)	(8)	(36)
At 31 July 2024	**13**	**220**	**36**	**25**	**294**
Comprising:					
Current liabilities	10	32	13	20	75
Non-current liabilities	3	188	23	5	219
At 31 July 2024	**13**	**220**	**36**	**25**	**294**

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 2024, the Group had warranty and product liability provisions of £9m (FY2023: £6m). Warranties over the Group's products typically cover periods of between one and three years. Provision is made for the likely cost of after-sales support based on the recent past experience of individual businesses.

Commercial disputes and litigation in respect of ongoing business activities

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

Contingent liabilities

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

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

Non-headline and legacy

John Crane, Inc.

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

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

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

	Year ended 31 July 2024	Year ended 31 July 2023	Year ended 31 July 2022	Year ended 31 July 2021	Year ended 31 July 2020
JCI claims experience					
Claims against JCI that have been dismissed	312,000	310,000	306,000	305,000	297,000
Claims JCI is currently a defendant in	20,000	20,000	22,000	22,000	25,000
Cumulative final judgements, after appeals, against JCI since 1979	156	154	149	149	149
Cumulative value of awards (US$m) since 1979	191	190	175	175	175

The number of claims outstanding at 31 July 2024 reflected the benefit of 2,000 (FY2023: 4,000) 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. Trial delays arising from the COVID-19 pandemic have largely abated and trial activity has returned to pre-pandemic levels.

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

The projections use a limited time horizon on the basis that Bates White LLC consider that there is substantial uncertainty in the asbestos litigation environment. So probable expenditures are not reasonably estimable beyond this time horizon. Asbestos is the longest-running mass tort litigation in American history and is constantly evolving in ways that cannot be anticipated. JCI's defence strategy also generates a significantly different pattern of legal costs and settlement expenses from other defendants. Thus JCI is in an extremely rare position, and evidence from other litigation cannot be used to improve the reliability of the projections. A ten-year (FY2023: 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 strategy of defending all claims.

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

John Crane, Inc. litigation insurance recoveries

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

John Crane, Inc. litigation provision sensitivities

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

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

In order to evaluate the statistical reliability of the projections, a population of outcomes is modelled using randomised verdict outcomes. This generated a distribution of outcomes with future spend at the 5th percentile of £200m and future spend at the 95th percentile of £258m (FY2023: £180m and £245m, respectively). Statistical analysis of the distribution of these outcomes indicates that there is a 50% probability that the total future spend will fall between £245m and £271m (FY2023: between £228m and £257m), compared to the gross provision value of £261m (FY2023: £246m).

John Crane, Inc. litigation provision history

The JCI asbestos litigation provision of £220m (FY2023: £204m) 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 2024 £m	Year ended 31 July 2023 £m	Year ended 31 July 2022 £m	Year ended 31 July 2021 £m	Year ended 31 July 2020 £m
John Crane, Inc. litigation provision					
Gross provision	261	246	258	220	235
Discount	(41)	(42)	(29)	(8)	(4)
Discounted pre-tax provision	**220**	**204**	**229**	**212**	**231**
Deferred tax	(54)	(51)	(57)	(54)	(59)
Discounted post-tax provision	**166**	**153**	**172**	**158**	**172**
Operating profit charge/(credit)					
Increased provisions for adverse judgements and legal defence costs	28	28	24	10	14
Change in US risk-free rates	1	(15)	(18)	(5)	16
Subtotal – items charged to the provision	29	13	6	5	30
Litigation management, legal fees in connection with litigation against insurers and defence strategy	–	2	1	1	1
Recoveries from insurers	(3)	(7)	–	(9)	(3)
Total operating profit charge/(credit)	**26**	**8**	**7**	**(3)**	**28**
Cash-flow					
Provision utilisation – legal defence costs and adverse judgements	(21)	(32)	(21)	(13)	(23)
Litigation management expense	–	(2)	(1)	–	(1)
Recoveries from insurers	3	7	–	9	3
Net cash outflow	**(18)**	**(27)**	**(22)**	**(4)**	**(21)**

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

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

The projections use a ten-year time horizon. Reducing the time horizon by one year would reduce the provision by £16m (FY2023: £16m) and reducing it by five years would reduce the provision by £87m (FY2023: £87m).

We consider, after obtaining advice from Bates White LLC, that to forecast beyond ten years requires that the litigation environment remains largely unchanged with respect to the historical experience used for estimating future asbestos expenditures. Historically, the asbestos litigation environment has undergone significant changes more often than every ten years. If one assumed that the asbestos litigation environment would remain unchanged for longer and extended the time horizon by one year, it would increase the pre-tax provision by £13m (FY2023: £13m) and extending it by five years would increase the pre-tax provision by £47m (FY2023: £48m). However, there are also reasonable scenarios that, given certain recent events in the US asbestos litigation environment, would result in no additional asbestos litigation for JCI beyond ten years. At this time, how the asbestos litigation environment will evolve beyond ten years is not reasonably estimable.

John Crane, Inc. contingent liabilities

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

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

Titeflex Corporation

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

Titeflex Corporation litigation provision

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

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

The provision of £36m (FY2023: £41m) 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 2024 £m	31 July 2023 £m
Gross provision	69	78
Discount	(33)	(37)
Discounted pre-tax provision	**36**	**41**
Deferred tax	(9)	(9)
Discounted post-tax provision	**27**	**32**

Titeflex Corporation litigation provision history

A credit of £5m (FY2023: £8m 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 lower gross provision value has been principally driven by a reduction in the number of claims.

Titeflex Corporation litigation provision sensitivities

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

The projections incorporate a long-term assumption regarding the impact of safe installation initiatives on the level of future claims. If the assumed annual benefit of bonding and grounding initiatives were 0.5% higher, the provision would be £2m (FY2023: £2m) lower, and if the benefit were 0.5% lower, the provision would be £2m (FY2023: £2m) 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 £2m (FY2023: £3m), with an equivalent fall for a reduction of 10%. If the assumed amount of those settlements increased 10%, the provision would rise by £2m (FY2023: £2m), 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. Provision is made for the best estimate of the expected expenditure related to the defence and/or resolution of such matters. There is an inherent risk in legal proceedings that the outcome may be unfavourable to the Group, and as such there can be no guarantee that such provisions (which may be subject to potentially material revision from time to time) will be sufficient.

Reorganisation

At 31 July 2024, there were reorganisation provisions of £1m (FY2023: £7m) relating to the various restructuring programmes that are expected to be utilised in the next 18 months.

Property

At 31 July 2024, there were provisions of £6m (FY2023: £10m) related to actual and potential environmental issues for sites currently or previously occupied by Smiths operations.

24. Share capital

	Number of shares	Issued capital £m	Consideration £m
Ordinary shares of 37.5p each			
Total share capital at 31 July 2022	**362,356,159**	**136**	
Share buybacks	(13,053,169)	(5)	(207)
Total share capital at 31 July 2023	**349,302,990**	**131**	
Share buybacks	(4,205,196)	(1)	(70)
Total share capital at 31 July 2024	**345,097,794**	**130**	

Share capital structure

As at 31 July 2024, the Company's issued share capital was 345,097,794 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 2024, 3,020,289 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 2023 Annual General Meeting. At the 2024 AGM, it will be proposed that the Directors be granted new authorities to allot and buy back shares.

Share buybacks

As at 12 September 2024 (the latest practicable date for inclusion in this report), the Company had an unexpired authority to repurchase ordinary shares up to a maximum of 31.8 million ordinary shares (FY2023: 10.7 million). As at 12 September 2024, the Company did not hold any shares in treasury. Any ordinary shares purchased may be cancelled or held in treasury.

As previously reported, the Company undertook a share buyback programme in November 2021 that completed in September 2023, under which a total of 48,970,726 shares were purchased for a consideration of £742m. During the current period, the Company purchased 1,764,660 shares for a consideration of £29m under this scheme.

On 26 March 2024, the Company announced a £100m share buyback programme to purchase ordinary shares in the capital of the Company. The first £50m tranche completed on 6 September 2024. The timing for initiating the second £50m tranche has not been determined. The ordinary shares purchased under the programme will be cancelled. Under this new scheme, 2,478,536 ordinary shares of 37.5p each were repurchased during the period, for a total consideration of £41,551,369, of which 38,000 shares with a value of £678,713 were yet to settle and be cancelled.

A further 496,006 ordinary shares have been repurchased during the period of 1 August 2024 to 6 September 2024. In total since the start of the Programme, 2,974,542 shares have been repurchased, for a total consideration of £50m, representing 1% of the called-up ordinary share capital outstanding at the start of the Programme.

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 2024, the Trust held 1,388,730 (FY2023: 1,742,929) ordinary shares in the Company. The Trust waived its dividend entitlement on its holding during the year, and the Trust abstains from voting any shares held at General Meetings.

25. Dividends

The following dividends were declared and paid in the period:

	Year ended 31 July 2024 £m	Year ended 31 July 2023 £m
Ordinary final dividend of 28.70p (FY2023: 27.3p) paid 24 November 2023	100	97
Ordinary interim dividend of 13.55p (FY2023: 12.9p) paid 13 May 2024	47	46
	147	**143**

In the current year a final dividend of 28.7p was paid in respect of FY2023 and an interim dividend of 13.55p was paid in respect of FY2024. In the prior year a total dividend of 40.2p was paid, comprising a final dividend of 27.3p paid in respect of FY2022 and an interim dividend of 12.9p paid in respect of FY2023.

The final dividend for the year ended 31 July 2024 of 30.2p per share was recommended by the Board on 23 September 2024 and will be paid to shareholders on 22 November 2024, subject to approval by the shareholders. This dividend is payable to all shareholders on the register of members at 6.00pm on 18 October 2024 (the record date).

Waiver of dividends

Winterflood Client Nominees Limited (Buck Trustees Dividend Waived Ltd) waived all dividends payable in the year, and all future dividends, on their shareholdings in the Company.

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 (FY2023: nil) shares to the Trust, the Trust purchased 1,251,530 shares (FY2023: 1,553,558 shares) in the market for a consideration of £20m (FY2023: £25m) and redeemed 1,605,729 shares (FY2023: 429,291) to employees for a cumulative option cost of £4m (FY2023: £1m). At 31 July 2024, the Trust held 1,388,730 (FY2023: 1,742,929) 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 FY2024 ROCE was 16.4% (FY2023: 15.7%); 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 FY2024 ratio of net debt to headline EBITDA of 0.3 (FY2023: 0.7) 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 2024, the Group had a credit rating of BBB+/Baa2 (FY2023: BBB+/Baa2) with Standard & Poor's and Moody's respectively.

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

Hedge reserve

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

	31 July 2024 £m	31 July 2023 £m
Net investment hedge reserve (net of £7m of deferred tax (FY2023: £8m))	(184)	(188)
Hedge reserve total	**(184)**	**(188)**

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 (FY2023: £22m), of which the most significant balance is in John Crane Japan Inc., which represented £20m (FY2023: £19m) 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 £4m in the period (FY2023: £5m), and cash inflows from operating activities of £4m (FY2023: £2m). It paid dividends of £1m (FY2023: £1m) and tax of £1m (FY2023: £2m). At 31 July 2024, the company contributed £53m (FY2023: £53m) of net assets to the Group.

27. Acquisitions

On 30 August 2023, the Group acquired 100% of the share capital of Heating & Cooling Products (HCP), for consideration of £64m, financed using the Group's own cash resources. HCP is a US-based manufacturer of Heating, Ventilation & Air Conditioning (HVAC) solutions. This acquisition will further expand the Flex-Tek business segment's presence in the North American HVAC market, enabling Smiths to serve customers with an even broader product range.

The intangible assets recognised on acquisition comprise customer relationships, intellectual property and technology. Goodwill represents the expected synergies from the strategic fit of the acquisition and the value of the expertise in the assembled workforce. From the date of acquisition to 31 July 2024, HCP contributed £52m to revenue and £11m to profit before taxation and amortisation. If the Group had acquired this business at the beginning of the financial year, the acquisition would have contributed an additional £4m to revenue and £1m to profit before taxation.

On 27 October 2023, the Group's Flex-Tek business segment acquired 100% of the share capital of Burns Machine (Burns) for consideration of approximately £1m, financed using the Group's own cash resources.

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

		HCP £m	Burns £m	**Total £m**
Non-current assets	– acquired intangible assets	34	–	34
	– plant and machinery	6	1	7
	– right of use assets	12	–	12
Current assets	– inventory	10	–	10
	– trade and other receivables	7	–	7
Current liabilities	– trade and other payables	(3)	–	(3)
Non-current liabilities	– lease liability	(12)	–	(12)
Net assets acquired		**54**	**1**	**55**
Goodwill on current period acquisitions		10	–	10
Total consideration		**64**	**1**	**65**

Post balance sheet date acquisitions

During September 2024, the Group acquired 100% of the share capital of Wattco, Inc. (19th September 2024) and exchanged on the acquisition of 100% of the share capital of Modular Metal Fabricators, Inc. (10th September 2024), with completion anticipated for Q1 FY2025.

Wattco is a manufacturer of industrial heating solutions and control panels which will expand Flex-Tek's industrial heat business, and Modular Metal Fabricators is a manufacturer of metal and flexible duct which will expand Flex-Tek's HVAC business.

Total cash consideration for these acquisitions was £95m, with deferred consideration being up to circa £15m. Due to the short time between completion of the acquisition and the announcement date, it has not been possible to determine the fair value of the deferred consideration. Payment of the deferred consideration is contingent on future business performance.

In the last twelve months these businesses have delivered £38m of revenue and £7m of net earnings (twelve months to 31 March 2024 for Modular Metal Fabricators and twelve months to 30 June 2024 for Wattco). These acquisitions have been financed using the Group's own cash resources. Due to the short time between the completion of the acquisition and the announcement date, it has not been possible to complete the determination of the fair values of the acquired balance sheet.

28. Cash-flow

Cash-flow from operating activities

	Year ended 31 July 2024 Headline £m	Year ended 31 July 2024 Non-headline £m	Year ended 31 July 2024 Total £m	Year ended 31 July 2023 Headline £m	Year ended 31 July 2023 Non-headline £m	Year ended 31 July 2023 Total £m
Operating profit:						
– continuing operations	526	(111)	415	501	(98)	403
– discontinued operations	–	–	–	–	6	6
Amortisation of intangible assets	7	49	56	9	52	61
Depreciation of property, plant and equipment	44	1	45	42	–	42
Depreciation of right of use assets	34	–	34	32	–	32
(Gain)/loss on disposal of property, plant and equipment	1	–	1	–	–	–
(Gain)/loss on fair value of contingent consideration	–	13	13	–	6	6
Share-based payment expense	13	–	13	13	–	13
Retirement benefits*	7	(8)	(1)	5	(7)	(2)
Loss on disposal of financial asset	–	9	9	–	–	–
Decrease/(increase) in inventories	(4)	–	(4)	(88)	(1)	(89)
Decrease/(increase) in trade and other receivables	(107)	26	(81)	(10)	(53)	(63)
Increase/(decrease) in trade and other payables	71	(21)	50	10	39	49
Increase/(decrease) in provisions	3	(5)	(2)	(2)	(32)	(34)
Cash generated from operations	**595**	**(47)**	**548**	**512**	**(88)**	**424**
Interest paid	(57)	–	(57)	(73)	(2)	(75)
Interest received	26	–	26	36	–	36
Tax paid	(99)	–	(99)	(92)	–	(92)
Net cash inflow from operating activities	**465**	**(47)**	**418**	**383**	**(90)**	**293**

* The retirement benefits within 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 2024 Headline £m	Year ended 31 July 2024 Non-headline £m	Year ended 31 July 2024 Total £m	Year ended 31 July 2023 Headline £m	Year ended 31 July 2023 Non-headline £m	Year ended 31 July 2023 Total £m
Net cash inflow from operating activities	**465**	**(47)**	**418**	**383**	**(90)**	**293**
Include:						
Expenditure on capitalised development, other intangible assets and property, plant and equipment	(86)	–	(86)	(81)	–	(81)
Repayment of lease liabilities	(39)	–	(39)	(36)	–	(36)
Disposals of property, plant and equipment	–	–	–	2	–	2
Funding of charitable foundation	–	1	1			
Movement in cash collateral	4	–	4	–	–	–
Free cash-flow			**298**			**178**
Exclude:						
Repayment of lease liabilities	39	–	39	36	–	36
Interest paid	57	–	57	73	–	73
Interest received	(26)	–	(26)	(36)	–	(36)
Tax paid	99	–	99	92	–	92
Funding of charitable foundation	–	(1)	(1)	–	–	–
Movement in cash collateral	(4)	–	(4)	–	–	–
Operating cash-flow	**509**	**(47)**	**462**	**433**	**(90)**	**343**

Headline cash conversion

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

	Year ended 31 July 2024 £m	Year ended 31 July 2023 £m
Headline operating profit	526	501
Headline operating cash-flow	509	433
Headline operating cash conversion	**97%**	**86%**

Reconciliation of free cash-flow to net movement in cash and cash equivalents:

	Year ended 31 July 2024 £m	Year ended 31 July 2023 £m
Free cash-flow	**298**	**178**
Disposal of/(investment in) financial assets	186	(22)
Disposal of businesses and discontinued operations	–	(7)
Acquisition of businesses	(65)	–
Funding of charitable foundation	(1)	–
Other net cash-flows used in financing activities (note: repayment of lease liabilities is included in free cash-flow)	(230)	(909)
Net increase/(decrease) in cash and cash equivalents	**188**	**(760)**

29. Alternative performance measures and key performance indicators

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

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

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

APM term	Definition and purpose
Capital employed	Capital employed is a non-statutory measure of invested resources. It comprises statutory net assets and is adjusted as follows: – To add goodwill recognised directly in reserves in respect of subsidiaries acquired before 1 August 1998; – To eliminate the Group's investment in ICU Medical, Inc. equity and deferred consideration contingent on the future share price performance of ICU Medical, Inc; and – To eliminate post-retirement benefit assets and liabilities and non-headline litigation provisions related to John Crane, Inc. and Titeflex Corporation, both net of deferred tax, and net debt. It is used to monitor capital allocation within the Group. See below for a reconciliation from net assets to capital employed.
Capital expenditure	Comprises additions to property, plant and equipment, capitalised development and other intangible assets, excluding assets acquired through business combinations: see note 1 for an analysis of capital expenditure. This measure quantifies the level of capital investment into ongoing operations.
Divisional headline operating profit (DHOP)	DHOP comprises divisional earnings before central costs, finance costs and taxation. DHOP is used to monitor divisional performance. A reconciliation of DHOP to operating profit is shown in note 1.
Free cash-flow	Free cash-flow is calculated by adjusting the net cash inflow from operating activities to include capital expenditure, the repayment of lease liabilities, the proceeds from the disposal of property, plant and equipment and the investment in financial assets relating to operating activities and pensions financing outstanding at the balance sheet date. The measure shows cash generated by the Group before discretionary expenditure on acquisitions and returns to shareholders. A reconciliation of free cash-flow is shown in note 28.
Gross debt	Gross debt is total borrowings (bank, bonds and lease liabilities). It is used to provide an indication of the Group's overall level of indebtedness. See note 18 for an analysis of gross debt.
Headline	The Group has defined a 'headline' measure of performance that excludes material non-recurring items or items considered non-operational/trading in nature. Items excluded from headline are referred to as non-headline items. This measure is used by the Group to measure and monitor performance excluding material non-recurring items or items considered non-operational. See note 3 for an analysis of non-headline items.
Headline EBITDA	EBITDA is a widely used profit measure, not defined by IFRS, being earnings before interest, taxation, depreciation and amortisation. A reconciliation of headline operating profit to headline EBITDA is shown in the note below.

APM term	Definition and purpose
Net debt	Net debt is total borrowings (bank, bonds and lease liabilities) less cash balances and derivatives used to manage the interest rate risk and currency profile of the debt. This measure is used to provide an indication of the Group's overall level of indebtedness and is widely used by investors and credit rating agencies. See note 18 for an analysis of net cash/(debt).
Non-headline	The Group has defined a 'headline' measure of performance that excludes material non-recurring items or items considered non-operational/trading in nature. Items excluded from headline are referred to as non-headline items. This is used by the Group to measure and monitor material non-recurring items or items considered non-operational. See note 3 for an analysis of non-headline items.
Operating cash-flow	Comprises free cash-flow and excludes cash-flows relating to the repayment of lease liabilities, interest and taxation. The measure shows how cash is generated from operations in the Group. A reconciliation of operating cash-flow is shown in note 28.
Operating profit	Operating profit is earnings before finance costs and tax. A reconciliation of operating profit to profit before tax is shown on the income statement. This common measure is used by the Group to measure and monitor performance.
Return on capital employed (ROCE)	Smiths ROCE is calculated over a rolling 12-month period and is the percentage that headline operating profit represents of the monthly average capital employed on a rolling 12-month basis. This measure of return on invested resources is used to monitor performance and capital allocation within the Group. See below for Group ROCE and note 1 for divisional headline operating profit and divisional capital employed.

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

KPI term	Definition and purpose
Dividend cover – headline	Dividend cover is the ratio of headline earnings per share (see note 5) to dividend per share (see note 25). This commonly used measure indicates the number of times the dividend in a financial year is covered by headline earnings.
Earnings per share (EPS) growth	EPS growth is the growth in headline basic EPS (see note 5), on a reported basis. EPS growth is used to measure and monitor performance.
Free cash-flow (as a % of operating profit)	This measure is defined as free cash-flow divided by headline operating profit averaged over a three-year performance period. This cash generation measure is used by the Group as a performance measure for remuneration purposes.
Greenhouse gas (GHG) emissions reduction	GHG reduction is calculated as the percentage change in normalised Scope 1 & 2 GHG emissions. Normalised is calculated as tCO2e per £m of revenue. This measure is used to monitor environmental performance.
Gross vitality	Gross vitality is calculated as the percentage of revenue derived from new products and services launched in the last five years. This measure is used to monitor the effectiveness of the Group's new product development and commercialisation.
My Say engagement score	The overall score in our My Say employee engagement survey. The biannual survey is undertaken Group-wide. This measure is used by the Group to monitor employee engagement.
Operating cash conversion	Comprises headline operating cash-flow, excluding restructuring costs, as a percentage of headline operating profit. This measure is used to show the proportion of headline operating profit converted into cash-flow from operations before investment, finance costs, non-headline items and taxation. The calculation is shown in note 28.
Operating profit margin	Operating profit margin is calculated by dividing headline operating profit by revenue. This measure is used to monitor the Group's ability to drive profitable growth and control costs.
Organic growth	Organic growth adjusts the movement in headline performance to exclude the impact of foreign exchange and acquisitions. Organic growth is used by the Group to aid comparability when monitoring performance.
Organic revenue growth (remuneration)	Organic revenue growth (remuneration) is compounded annualised growth in revenue after excluding the impact of foreign exchange and acquisitions. The measure used for remuneration differs from organic revenue growth in that it is calculated on a compounded annualised basis. This measure has historically been used by the Group for aligning remuneration with business performance.
Percentage of senior leadership positions taken by females	Percentage of senior leadership positions taken by females is calculated as the percentage of senior leadership roles (G14+ group) held by females. This measure is used by the Group to monitor diversity performance.

R&D cash costs as a % of sales	This measure is defined as the cash cost of research and development activities (including capitalised R&D, R&D directly charged to the P&L and customer-funded projects) as a percentage of revenue. Innovation is an important driver of sustainable growth for the Group and this measures our investment in research and development to drive innovation.
Recordable Incident Rate (RIR)	Recordable Incident Rate is calculated as the number of recordable incidents – where an incident requires medical attention beyond first aid – per 100 colleagues, per year across Smiths. This measure is used by the Group to monitor health and safety performance.

Capital employed

Capital employed is a non-statutory measure of invested resources. It comprises statutory net assets adjusted to add goodwill recognised directly in reserves in respect of subsidiaries acquired before 1 August 1998 of £478m (FY2023: £478m), to eliminate the Group's investment in ICU Medical, Inc. equity and deferred consideration contingent on the future share price performance of ICU Medical, Inc. and to eliminate post-retirement benefit assets and liabilities and non-headline litigation provisions related to John Crane, Inc. and Titeflex Corporation, both net of related tax, and net debt.

	Notes	31 July 2024 £m	31 July 2023 £m
Net assets		**2,252**	**2,406**
Adjust for:			
Goodwill recognised directly in reserves		478	478
Retirement benefit assets and obligations	8	(29)	(89)
Tax related to retirement benefit assets and obligations		17	31
John Crane, Inc. litigation provisions and related tax	23	166	153
Titeflex Corporation litigation provisions and related tax	23	27	32
Investment in ICU Medical, Inc. equity	14	(47)	(347)
Deferred contingent consideration	14	–	(13)
Net debt	18	213	387
Capital employed		**3,077**	**3,038**

Return on capital employed (ROCE)

	Notes	Year ended 31 July 2024 £m	Year ended 31 July 2023 £m
Headline operating profit for previous 12 months – continuing operations		526	501
Average capital employed – continuing operations (excluding investment in ICU Medical, Inc. equity)	1	3,206	3,196
ROCE		**16.4%**	**15.7%**

Credit metrics

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

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

	Notes	Year ended 31 July 2024 £m	Year ended 31 July 2023 £m
Headline operating profit		526	501
Exclude:			
– depreciation of property, plant and equipment	12	44	42
– depreciation of right of use assets	13	34	32
– amortisation and impairment of development costs	10	2	2
– amortisation of software, patents and intellectual property	10	5	7
Headline EBITDA		**611**	**584**

Ratio of net debt to headline EBITDA

	Notes	Year ended 31 July 2024 £m	Year ended 31 July 2023 £m
Headline EBITDA		611	584
Net debt	18	213	387
Ratio of net debt to headline EBITDA		**0.3**	**0.7**

30. Post balance sheet events

Details of the proposed final dividend announced since the end of the reporting period are given in note 25. Details of post balance sheet date acquisitions are given in note 27.

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 FY2024.

Company name	Company number
EIS Group Plc	61407
Flexibox International Limited	394688
Flex-Tek Group Limited	11545405
Graseby Limited	894638
SI Properties Limited	160881
SITI 1 Limited	4257042
Smiths Detection Group Limited	5138140
Smiths Detection Investments Limited	5146644
Smiths Finance Limited	7888063
Smiths Group Finance EU Limited	10440573
Smiths Group Finance US Limited	10440608
Smiths Group Innovation Limited	10953689
Smiths Interconnect Group Limited	6641403
Smiths Pensions Limited	2197444