

SMITHS DETECTION - WATFORD LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2020

THURSDAY



AA7CC61Q

A11

24/06/2021

#140

COMPANIES HOUSE

SMITHS DETECTION - WATFORD LIMITED

COMPANY INFORMATION

Directors	R E Thompson L P King
Registered number	480992
Registered office	Century House Maylands Avenue Hemel Hempstead Hertfordshire HP2 7DE

SMITHS DETECTION - WATFORD LIMITED

CONTENTS

	Page (s)
Strategic Report	1 - 2
Directors' Report	3 - 7
Directors' Responsibilities Statement	8
Independent Auditor Report to the members of Smiths Detection - Watford Limited	9 - 10
Profit and Loss Account	11
Statement of Comprehensive Income	11
Balance Sheet	12 - 13
Statement of Changes in Equity	14
Notes to the Financial Statements	15 - 39

SMITHS DETECTION - WATFORD LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 JULY 2020

Introduction

The directors present their strategic report on Smiths Detection - Watford Limited ("the Company") for the year ended 31 July 2020.

Business review and principal activities

The Company's principal activities in the year were those of the design, manufacture and selling of trace chemical detection products and integrated systems into defence and emergency responders markets, and the distribution and service of X-ray and Computed Tomography detection equipment into critical infrastructure and transportation markets. The Company operates within the Detection Division of Smiths Group plc ("the Group"). There have been no material changes in these activities during the year.

The results for the year show turnover of £80,046k (2019: £89,561k) and operating profit of £5,228k (2019: £1,160k) for the year. Turnover was negatively impacted by the COVID-19 pandemic due to a proportion of its sales being to the aviation sector however this has been partially offset by the full year impact of establishing the Israel branch which became active in January 2019.

Principal risks and uncertainties

The management of the business and the execution of the Company's strategy are subject to a number of risks. The key business risks and uncertainties affecting the Company are: a significant proportion of the Company's revenue is to the aviation sector which continues to be heavily impacted by the COVID-19 pandemic; this economic impact flows down creating short-term risks to the company's service revenue and medium term risks regarding orders for the supply of new equipment. The Company also faces supply chain risks with suppliers impacted by the COVID-19 pandemic and with its ability to deliver programmes to schedule. Additionally, markets served by the Company are particularly influenced by the political landscape, specific events and the perception of the threat of terrorist activity or other security issues. This political landscape and perception is likely to remain variable.

The business mitigates these commercial and operational risks through the continual development of innovative products and market leading technologies in all its key markets and also has been managing the COVID-19 pandemic risks through its Crisis Management Team.

The Company does not anticipate any material impact on its future results following the implementation of Brexit.

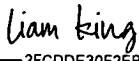
Key performance indicators

The Company's key performance indicators are revenue derived from outside the Smiths Group plc group of companies ("the Group"), operating profit and cash flow. The Company recorded non-Group derived revenue of £56,459k (2019: £62,035k) plus Group-derived revenue of £23,588k (2019: £27,526k) combining to equal the statutory revenue of £80,047k (2019: £89,561k).

SMITHS DETECTION - WATFORD LIMITED

**STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 JULY 2020**

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

DocuSigned by:

2FCDDDE30F2EB4DD.....
L P King
Director

Date: 24 May 2021

SMITHS DETECTION - WATFORD LIMITED

**DIRECTORS' REPORT
FOR THE YEAR ENDED 31 JULY 2020**

The directors present their report and the financial statements for the year ended 31 July 2020.

The profit for the year amounted to £4,276k (2019: loss £177k).

No dividends were paid in the year ended 31 July 2020 (2019: £nil). The directors do not recommend the payment of a final dividend.

Financial risk management

The Company is financed by the wider Smiths group and complies with the Group financial risk management policies. These policies are explained in Note 19 to the Group annual report; Treasury Risk Management (page 182) which does not form part of this report.

Operational credit risk

The Company has implemented policies that require appropriate credit checks on potential customers before credit terms are offered. Customer credit limits are set based on credit ratings, past experience and other factors and subject to regular review.

Concentrations of credit risk with respect to trade debtors are limited due to the Company's diverse customer base.

Foreign exchange risks

The Company makes a proportion of its sales and purchases in foreign currencies, principally US Dollars and Euros. The resulting foreign exchange risks are managed through natural hedging and the use of financial instruments.

Directors

The directors who served during the year were:

R E Thompson
L P King

Directors' statement of compliance with their duty to promote the success of the Company**SECTION 172 STATEMENT**

The directors of the Company have acted in a way they considered, in good faith, to be most likely to promote the success of the Company for the benefit of its members. As part of the Company's deliberations and decision making process, the Board takes into the account the (i) likely consequences of any decision in the long term; (ii) the interests of the Company's employees; (iii) the need to foster the Company's relationship with suppliers, customers and others; (iv) the impact of the Company's operations on the community and the environment; and (v) the desirability of the Company maintaining a reputation for high standards of business conduct.

Board governance

The Company is part of the Smiths Group and is ultimately owned by Smiths Group plc ('Group'), which is responsible for setting the overall strategy of the Group, maintaining oversight of the Group's activities and setting its risk appetite. The Directors fulfil their duties substantially through a governance framework that delegates day-to-day decision making to the senior site management team and other employees of the Company. The Directors believes that governance is best achieved by delegation of their authority subject to defined limits detailed in a clear delegation of authority policy. This policy is consistently embedded across the wider Smiths Detection group of companies. The governance framework delegates authority for local decision-making to the business unit level up to defined levels of cost and impact, which allows the Company to take

SMITHS DETECTION - WATFORD LIMITED

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 JULY 2020

account of the needs of its own stakeholders in decision-making. Reports are made regularly to the board of the parent company and the ultimate parent company.

The Company's purpose is underpinned by principles and values of integrity, respect, ownership, customer focus and passion. These values are adopted from the Company's ultimate parent, Smiths Group plc.

The Board will sometimes engage directly with certain stakeholders on specific issues, but the size and distribution of our stakeholders and of the Group means that stakeholder engagement often takes place at an operational level. In these instances, the Board is informed of stakeholder views through management reports and presentations. Most decisions made by the Board during the year are deemed to be routine in nature and are taken on regular basis in line with the delegation of authority policy mentioned above.

Engaging with Stakeholders

The Company acknowledges that the success of the Company is dependent on the support of various stakeholders. The Board considers its stakeholders to be our shareholders, customers, employees and wider workforce, suppliers, local communities and governments, lenders and the environment. The Company also took account the views and interests of a wider set of stakeholders including our regulators, the government, and non-government organisations. The Board recognises that building strong relationships with our stakeholders will help deliver the Company's strategy in line with its long-term values and will operate the business in a sustainable way.

The Company does not engage directly with shareholders of its ultimate parent company; however the Company has regard to the creation of long-term value for the group's shareholders in local decision making. Management of risk is a fundamental part of the business model and systems are in place to identify risk, report and mitigate risk in the activities of the Company.

The Company maintains an open dialogue with its workforce. The Company engaged with the workforce through a number of methods in the financial reporting year including town-hall style meetings at site and divisional level, weekly news bulletins, employee "My Say" surveys, the employee forum and employee engagement network. The employee forum meets to review issues affecting the site. The Employee Engagement Network arranges social events for employees to voluntarily attend and generally fosters social interaction between colleagues to promote wellbeing.

The Company engages with the local community through learning initiatives in local schools and also supports charitable organisations through local fundraising activities. Apprenticeships are offered by the Company, particularly in engineering fields.

In respect of maintaining a reputation for high standards of business conduct, the Company recognises that culture, values and standards are key to the Company's creation and sustainment of value in the longer term. High standards of conduct guide and assist decision-making within the Company. The Company adopts the policies and practices set at the Smiths Group level, including the Code of Ethics and Group compliance policies. All employees of the Company engage in regular training on ethics matters and are encouraged to report any ethics concerns through a confidential "Speak Out" helpline.

Case Study

We set out an example below of a principal decision demonstrating how the Directors have considered the interests of their stakeholders in decision making.

Payment Practices

In consideration of maintaining a reputation for high standards of business conduct in the long-term, the Company undertook during FY20 to improve the average time taken to pay supplier invoices. A demonstrable improvement can be seen in the Company's statutory reporting on payment practices.

SMITHS DETECTION - WATFORD LIMITED

**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 JULY 2020**

The board introduced detailed monthly monitoring and internal metrics on supplier payment practices. The Board considered a range of factors including:

- Customers – the Company's reputation and the expectations of customers in relation to prompt payment of suppliers;
- Employees - the workload of relevant employees, including rebalancing work between internal teams and improving internal processes;
- Suppliers – keeping commitments made to suppliers in line with the Company's values;
- Government – requires the publication of metrics on payment practices where a company is qualifying under the relevant regulations.

Further explanations of how the Group board has considered matters set out in section 172 (for the Group and for the Company) can be found on pages 90 to 95 of the Group Annual Report and Accounts for the year ended 31 July 2020, which does not form part of this report.

Political contributions

The Company made no political donations or incurred any political expenditure during the year (2019: nil).

Future developments

It is not envisaged that the Company will initiate any plans to restructure its principal activity in the forthcoming year. The current level of performance is expected to be maintained subject to the risks presented by the COVID-19 pandemic.

Going concern

The Company continued to trade through the period of national 'lockdown' measures from the COVID-19 pandemic albeit at slightly reduced levels, given the reduction in requested service levels from a number of customers in the aviation sector. The Directors have undertaken a rigorous assessment of financial forecasts, mitigating actions the Company can take and performed sensitivity analysis in order to assess the impact of the Company's liquidity position. The forecast represents a severe but plausible downside scenario including assumptions relating to the impact of further waves of the COVID-19 pandemic and its associated reduction in revenue and earnings.

The directors have prepared cash flow forecasts for a period of at least 12 months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides, the Company will have sufficient funding from its ultimate parent company, Smiths Group plc, to meet its liabilities as they fall due for that period.

Those forecasts are dependent on its immediate parent company, Smiths Detection Group Limited, not seeking repayment of the amounts currently due to the group, which at 31 July 2020 amounted to £25,676k, and providing additional financial support during that period. Smiths Detection Group Limited has indicated its intention to continue to make available such funds as are needed by the Company, and that it does not intend to seek repayment of the amounts due at the balance sheet date, for the period covered by the forecasts. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Consequently, the directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

SMITHS DETECTION - WATFORD LIMITED

**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 JULY 2020**

Research and development

Products are being continually upgraded to provide greater levels of threat detection and to meet the customers' most demanding requirements. The total research and development spend for the year was £10,547k (2019: £5,994k). The Company is investing mainly in new chemical and explosive detection products.

The Company carries out research and development projects for governments and commercial customers.

Employment policies

It is the Company's policy to provide equal opportunities for employment. The Company continues to be actively involved in all aspects of the training and development of young persons, including initiatives designed to ease the transition from school to work. Disabled people are given full consideration for employment and subsequent training (including re-training, if needed, for people who have become disabled), career development and promotion on the basis of their aptitudes and abilities.

Employees are regularly provided with a wide range of information concerning the performance and prospects of the business in which they are involved by means of Employee Councils; Information and Consultation forums; and other consultative bodies that allow the views of personnel to be taken into account. This includes communicating key aspects of the strategic plan and where appropriate consultations on specific change programs.

The Group offers all employees of its subsidiary companies in the US and UK share schemes that enable employees to acquire an interest in Smiths Group plc shares and to align their interests more closely with those of shareholders of Smiths Group plc. The employees of the Company have an opportunity to participate in the UK scheme.

Greenhouse gas emissions, energy consumption and energy efficiency action

The Company's greenhouse gas emissions and energy consumption for the year are included in the Streamlined Energy & Carbon Reporting within the Smiths Group plc annual report.

Disclosure of information to the auditor

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

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

Post balance sheet events

There have been no significant events affecting the Company since the year end.

Independent auditor

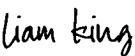
During the year, PricewaterhouseCoopers LLP, stepped down as the Company's auditor and was replaced by KPMG LLP.

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

SMITHS DETECTION - WATFORD LIMITED

**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 JULY 2020**

This report was approved by the board on 24 May 2021 and signed on its behalf.

DocuSigned by:

2FC0DE30F2EB4DD...

.....
L P King
Director

SMITHS DETECTION - WATFORD LIMITED

**DIRECTORS' RESPONSIBILITIES STATEMENT
FOR THE YEAR ENDED 31 JULY 2020**

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

INDEPENDENT AUDITOR REPORT TO THE MEMBERS OF SMITHS DETECTION - WATFORD LIMITED

Opinion

We have audited the financial statements of Smiths Detection - Watford Limited ("the Company") for the year ended 31 July 2020 which comprise the profit and loss account, the statement of comprehensive income, the balance sheet, statement of changes in equity and related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31st July 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the Company's business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Company will continue in operation.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

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

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

INDEPENDENT AUDITOR REPORT TO THE MEMBERS OF SMITHS DETECTION - WATFORD LIMITED

- we have not received all the information and explanations we require for our audit.; or
- the directors were not entitled to take advantage of the small companies exemption from the requirement to prepare a strategic report.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 8, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Andrew Bradshaw (Senior statutory auditor)

for and on behalf of

KPMG LLP, Statutory Auditor
Chartered Accountants

15 Canada Square
London E14 5GL

25 May 2021

SMITHS DETECTION - WATFORD LIMITED

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 JULY 2020**

	Note	2020 £000	2019 £000
Turnover	4	80,046	89,561
Cost of sales		(59,205)	(70,105)
Gross profit		20,841	19,456
Distribution costs		(4,836)	(4,865)
Administrative expenses		(10,777)	(13,431)
Operating profit	5	5,228	1,160
Interest payable and similar expenses	9	(1,340)	(1,404)
Other finance income		-	35
Profit/(loss) before Taxation		3,888	(209)
Tax on profit/(loss)	10	388	32
Profit/(loss) for the financial year		4,276	(177)

The notes on pages 15 to 39 form part of these financial statements.

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 JULY 2020**

	2020 £000	2019 £000
Profit/(loss) for the financial year	4,276	(177)
Other comprehensive income/(expense)		
Currency translation differences	(9)	-
Fair value gains/(losses) on cashflow hedges	846	(16)
	837	(16)
Total comprehensive expense for the year	5,113	(193)

The notes on pages 15 to 39 form part of these financial statements.

SMITHS DETECTION - WATFORD LIMITED
REGISTERED NUMBER:480992

BALANCE SHEET
AS AT 31 JULY 2020

	Note	2020 £000	2020 £000	2019 £000	2019 £000
Fixed assets					
Intangible assets	11		4,070		1,510
Tangible assets	12		11,332		9,412
Investments	13		8		8
			<u>15,410</u>		<u>10,930</u>
Current assets					
Stocks	14	12,587		12,102	
Debtors: amounts falling due after more than one year	15	1,553		2,044	
Debtors: amounts falling due within one year	15	27,881		32,275	
Cash at bank and in hand	16	3,255		2,319	
		<u>45,276</u>		<u>48,740</u>	
Creditors: amounts falling due within one year	17	(49,879)		(78,208)	
Net current liabilities			<u>(4,603)</u>		<u>(29,468)</u>
Total assets less current liabilities			<u>10,807</u>		<u>(18,538)</u>
Creditors: amounts falling due after more than one year	18		(24,104)		(428)
			<u>(13,297)</u>		<u>(18,966)</u>
Provisions for liabilities					
Other provisions	20	(2,390)		(2,125)	
			<u>(2,390)</u>		<u>(2,125)</u>
Net liabilities			<u><u>(15,687)</u></u>		<u><u>(21,091)</u></u>

SMITHS DETECTION - WATFORD LIMITED
REGISTERED NUMBER: 480992

BALANCE SHEET (CONTINUED)
AS AT 31 JULY 2020

	Note	2020 £000	2019 £000
Capital and reserves			
Called up share capital	21	77	77
Share premium account		631	631
Foreign exchange reserve		830	(16)
Other reserves		2,473	2,182
Profit and loss account		(19,698)	(23,965)
		<u>(15,687)</u>	<u>(21,091)</u>

The financial statements on pages 11 to 39 were approved and authorised for issue by the board and were signed on its behalf by:

DocuSigned by:

Liam King
 2FCDDDE30F2EB4DD...

.....
 L P King
 Director

Date: 24 May 2021

The notes on pages 15 to 39 form part of these financial statements.

SMITHS DETECTION - WATFORD LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 JULY 2020

	Called up share capital £000	Share premium account £000	Foreign exchange reserve £000	Other reserves £000	Profit and loss account £000	Total equity £000
At 1 August 2018	77	631	-	1,965	(23,788)	(21,115)
Loss for the financial year	-	-	-	-	(177)	(177)
Other comprehensive expense for the year	-	-	(16)	-	-	(16)
Share based payments	-	-	-	217	-	217
At 31 July 2019	77	631	(16)	2,182	(23,965)	(21,091)
Profit for the financial year	-	-	-	-	4,276	4,276
Currency translation differences	-	-	-	-	(9)	(9)
Other comprehensive expense for the year	-	-	846	-	-	846
Share based payments	-	-	-	291	-	291
At 31 July 2020	77	631	830	2,473	(19,698)	(15,687)

The notes on pages 15 to 39 form part of these financial statements.

SMITHS DETECTION - WATFORD LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2020**

1. General information

Smiths Detection - Watford Limited, the "Company", is a private company incorporated, domiciled and registered in England, in the UK. The registered number is 480992 and the registered address is Century House, Maylands Avenue, Hemel Hempstead, Hertfordshire, UK, HP2 7DE.

2. Accounting policies

2.1 Basis of preparation of financial statements

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of international accounting standards in conformity with the requirements of the Companies Act 2006 ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken. The following policies have been consistently applied. The financial statements have been prepared under the historical cost convention unless otherwise stated.

SMITHS DETECTION - WATFORD LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2020**

2. Accounting policies (continued)**2.2 Financial reporting standard 101 - reduced disclosure exemptions**

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

- the requirements of paragraphs 45(b) and 46-52 of IFRS 2 Share based payment
- the requirements of IFRS 7 Financial Instruments: Disclosures
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement
- the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers
- the requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 Leases. The requirements of paragraph 58 of IFRS 16, provided that the disclosure of details in indebtedness relating to amounts payable after 5 years required by company law is presented separately for lease liabilities and other liabilities, and in total
- the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
 - paragraph 79(a)(iv) of IAS 1;
 - paragraph 73(e) of IAS 16 Property, Plant and Equipment;
 - paragraph 118(e) of IAS 38 Intangible Assets;
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134-136 of IAS 1 Presentation of Financial Statements
- the requirements of IAS 7 Statement of Cash Flows
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- the requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member
- the requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets.

SMITHS DETECTION - WATFORD LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2020**

2. Accounting policies (continued)**2.3 Going concern**

Notwithstanding net current liabilities of £4,603k as at 31 July 2020, the financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

The Company continued to trade through the period of national 'lockdown' measures from the COVID-19 pandemic albeit at slightly reduced levels, given the reduction in requested service levels from a number of customers in the aviation sector. The Directors have undertaken a rigorous assessment of financial forecasts, mitigating actions the Company can take and performed sensitivity analysis in order to assess the impact of the Company's liquidity position. The forecast represents a severe but plausible downside scenario including assumptions relating to the impact of future waves of the COVID-19 pandemic and its associated reduction in revenue and earnings.

The directors have prepared cash flow forecasts for a period of at least 12 months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides, the Company will have sufficient funds from its ultimate parent company, Smiths Group plc, to meet its liabilities as they fall due for that period.

Those forecasts are dependent on its immediate parent company, Smiths Detection Group Limited, not seeking repayment of the amounts currently due to the group, which at 31 July 2020 amounted to £25,676k, and providing additional financial support during that period. Smiths Detection Group Limited has indicated its intention to continue to make available such funds as are needed by the Company, and that it does not intend to seek repayment of the amounts due at the balance sheet date, for the period covered by the forecasts. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Consequently, the directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

2.4 Impact of new international reporting standards, amendments and interpretations**IFRS 16 Leases**

The Company has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 August 2019.

On transition to IFRS 16, the Company elected to apply the following practical expedients for leases previously classified as operating leases under IAS17:

- the Company has applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of remaining lease term at the date of application.
- the Company has excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- the Company has used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

SMITHS DETECTION - WATFORD LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2020**

2. Accounting policies (continued)**2.5 Foreign currency translation**

The Company's presentational currency is sterling. The results and financial position of the Company are translated into sterling as follows:

- assets and liabilities are translated at the rate of exchange at the balance sheet date; and
- income and expenses are translated at average exchange rates for the year.

Exchange differences arising on transactions are recognised in the profit and loss account. Those arising on trading are taken to operating profit; those arising on borrowings are classified as finance income or cost.

2.6 Turnover

Turnover is recognised when it is probable that economic benefits will flow to the Company and when they can be measured reliably. Turnover is measured at the fair value of consideration received or receivable.

IFRS 15 sets out the five-step approach for revenue recognition. This requires (i) identifying the contract with a customer; (ii) identifying the performance obligations in the contract; (iii) determining the transaction price; (iv) allocating the transaction price to the performance obligations in the contract; and (v) recognising the revenue when (or as) the entity satisfies a performance obligation at a point in time or over time.

Turnover from contracts with customers is recognised by reference to each distinct performance obligation in the contract with the customer. Turnover from contracts with customers is measured at its transaction price, being the amount of consideration which the Company expects to be entitled to in exchange for transferring promised goods or services to a customer, net of goods and service tax, returns, rebates and discounts. Transaction price is allocated to each performance obligation on the basis of the relative standalone selling prices of each distinct good or services promised in the contract. Depending on the substance of the contract, turnover is recognised when the performance obligation is satisfied. Equipment revenue is generally recorded at a point in time on delivery or installation whereas Service revenue is recognised over time.

2.7 Research and development

Expenditure on research and development is charged to the profit and loss account 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 sales of the product are first made. 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.

SMITHS DETECTION - WATFORD LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2020**

2. Accounting policies (continued)**2.8 Pensions****Defined contribution pension plan**

The Company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the Company has no further payment obligations.

The contributions are recognised as an expense in the profit and loss account when they fall due. Amounts not paid are shown in accruals as a liability in the balance sheet. The assets of the plan are held separately from the Company in independently administered funds.

2.9 Share based payments

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

Smiths Group share option schemesLong-Term Incentive Plan (LTIP)

The LTIP is a share plan under which an award over a capped number of shares will vest after the end of the three-year performance period if performance conditions are met. LTIP awards are made to selected senior executives, including the executive directors. Awards made prior to 2016 were made with different targets for corporate executives and divisional executives. From 2016 onwards, all LTIP awards will have one set of targets.

Divisional LTIP awards have performance conditions relating to divisional performance against headline KPIs, including underlying revenue and operating profit growth, operating margins, ROCE, operating cash conversion, employee engagement and quality metrics.

Smiths Group Sharesave Scheme (SAYE)

The SAYE scheme is an HM Revenue & Customs-approved all-employee savings-related share option scheme which is open to all UK employees, including Directors, with 12 months' service or more. Participants enter into a contract to save a fixed amount per month of up to £500 in aggregate for three or five years and are granted an option over shares at a fixed option price, set at a discount to market price at the date of invitation to participate. Until 2012 participants in five-year savings contracts could elect to delay maturity of the contract until its seventh anniversary. The number of shares are determined by the monthly amount saved and the bonus paid on maturity of the savings contract. Options granted under the SAYE scheme are not subject to any performance conditions.

SMITHS DETECTION - WATFORD LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2020**

2. Accounting policies (continued)**2.10 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. The charge for taxation does not include any payments for group relief from companies in the UK tax group as entities transfer tax losses between themselves for no payment. The group relief received is presented as a reconciling item in the tax rate reconciliation, note 10.

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. Once considered to be likely, tax benefits are reviewed to assess whether a provision should be made based on prevailing circumstances. Tax provisions are included in current tax liabilities, including any anticipated interest & penalties. 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 Company operates and generates taxable income.

2.11 Intangible assets

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

The estimated useful lives range as follows:

Development expenditure	- up to 7 years
Computer software	- up to 7 years

The assets' useful lives are reviewed, and adjusted if appropriate, at each year end.

2.12 Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

SMITHS DETECTION - WATFORD LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2020**

2. Accounting policies (continued)**2.12 Tangible fixed assets (continued)**

Depreciation is provided on the following basis:

Leasehold improvements	- 4% to 10%
Plant and machinery	- 10% to 20%
Fixtures and fittings	- 10% to 33%

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the profit and loss account.

Assets under construction are not depreciated until such time as they are available for use.

2.13 Stock

Stock is stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realisable value 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.

2.14 Debtors

Trade debtors are initially recognised at fair value and subsequently measured at amortised cost, less any appropriate provision for estimated irrecoverable amounts. A provision is established for irrecoverable amounts when there is objective evidence that amounts due under the original payment terms will not be collected. Expected credit losses are determined using historical write-offs as a basis with a default risk multiplier applied to reflect country risk premium. The Company applies the IFRS 9 simplified lifetime expected credit loss approach for trade receivables and contract assets which do not contain a significant financing component.

2.15 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.

2.16 Creditors

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

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

SMITHS DETECTION - WATFORD LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2020

2. Accounting policies (continued)

2.17 Provisions for liabilities

Provisions for warranties and product liability, disposal indemnities, restructuring costs 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.

Where there are 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.

2.18 Financial instruments

Classification

The Company classifies its financial assets as those to be measured at amortised cost. The classification depends on the Company's business model for managing the financial assets and the contractual terms of the cash flows. The Company reclassifies debt investments when and only when its business model for managing those assets changes.

Recognition and derecognition

Regular purchases and sales of financial assets are recognised on trade-date, the date on which the Company commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

Measurement

At initial recognition, the Company measures a financial asset at its fair value plus, except in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in the statement of comprehensive income.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Impairment

The Company assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables, contract assets and other financial assets at amortised cost. The impact of change in impairment methodology on the Company's financial assets is immaterial. While cash and cash equivalents are also subject to the impairment requirement of IFRS 9, the identified impairment loss was immaterial.

SMITHS DETECTION - WATFORD LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2020**

2. Accounting policies (continued)
2.19 Changes in accounting policy and disclosures

The following new standard became applicable for the current reporting period and the Company changed its accounting policy and made appropriate adjustments as a result of adopting this standard effective 1 August 2019:

IFRS 16: Leases

The Company has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17.

At the inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise,
- lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and
- penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, to the extent that the right-of-use asset is reduced to nil, with any further adjustment required from the remeasurement being recorded in profit or loss.

The Company presents right-of-use assets that do not meet the definition of investment property in

SMITHS DETECTION - WATFORD LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2020**

2. Accounting policies (continued)

'property, plant and equipment' and lease liabilities in 'loans and borrowings' in the balance sheet.

Short-term leases and leases of low-value assets

The Company has elected not to recognise right-of-use assets and lease liabilities for lease of low-value assets and short-term leases. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

IFRIC 23: Uncertainty over income tax treatments

The Company adopted IFRIC 23 – Uncertainty over Income Tax treatments on 1 August 2019. This interpretation is to be applied to the determination of taxable profit, tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12.

The interpretation specifically addresses the following:

- whether an entity considers uncertain tax treatments separately;
- the assumptions an entity makes about the examination of tax treatments by taxation authorities;
- how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- how an entity considers changes in facts and circumstances.

Following an assessment of the new standard the Company concluded that a provision was not necessary.

SMITHS DETECTION - WATFORD LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2020**

3. Significant judgements, key assumptions and estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of turnover and expenses during the reporting period. Actual results may differ from these estimates. The key estimates and assumptions used in these financial statements are set out below.

Useful economic lives of tangible and intangible assets

The annual depreciation charge for tangible assets and amortisation charge for intangible assets are sensitive to changes in the estimated useful economic lives and residual values of the assets. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets (note 2.12).

In respect of capitalised development costs, the estimated Net Present Value of future cash flows is calculated at least annually to assess whether any assets are impaired.

Stock provisions

The calculation of stock provisions requires management to estimate the expected value of future sales. If the carrying value of stock is higher than the expected recoverable value, the Company makes provisions writing stock down to its net recoverable value. Stock is initially assessed for impairment by comparing stock levels to recent utilisation rates and carrying values to recent purchase price or manufacturing cost. A detailed review is completed for stock lines identified in the initial assessment considering sales activity, order flow, customer contracts and current selling prices.

Warranty provisions

The Company recalculates warranty provisions on a quarterly basis. The warranty provision covers assurance warranties, which represent the manufacturer's guarantee that the goods provided are fit for use.

The warranty provision is based on actual historical data. The actual repair costs incurred over the life of the product is compared to the number of warranted units passing through the service window. When sufficient historical information is not available, estimates are based on objective financial analysis and / or references gathered from other similar product lines supported by historical information.

The warranty provision is reviewed and approved by the appropriate responsible member of the local finance team on a regular basis, with detailed checks carried out for the half year and year end.

Debtors provisions

If the carrying value of any debtor is higher than the estimated fair value, the Company makes provisions writing down the balance to its fair value. The fair value of debtors is considered individually for each customer and incorporates past experience and progress with collecting debt.

SMITHS DETECTION - WATFORD LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2020**

4. Turnover

Analysis of turnover by country of destination:

	2020 £000	2019 £000
United Kingdom	39,423	43,263
Rest of Europe	7,278	8,846
Rest of the world	33,345	37,452
	<u>80,046</u>	<u>89,561</u>

5. Operating profit

The operating profit is stated after charging/(crediting)

	2020 £000	2019 £000
Research & development charged as an expense	6,419	5,994
Depreciation of tangible fixed assets	2,304	1,526
Loss on disposal of tangible fixed assets	132	-
Amortisation of intangible assets	648	862
Loss on disposal of intangible assets	800	-
Exchange (gains)/losses	(82)	(14)
Share based payments	291	217

6. Auditor remuneration

	2020 £000	2019 £000
Fees payable to the Company's auditor for the audit of the Company's annual financial statements	<u>115</u>	<u>97</u>

During the year PricewaterhouseCoopers LLP stepped down as the Company's auditor and was replaced by KPMG LLP. The disclosed 2019 fee relates to audit work undertaken by PricewaterhouseCoopers LLP and the 2020 fee relates to audit work undertaken by KPMG LLP. There were no non-audit fees in financial years 2019 or 2020.

SMITHS DETECTION - WATFORD LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2020**

7. Employees

Staff costs, including directors' remuneration, were as follows:

	2020 £000	2019 £000
Wages and salaries	16,320	14,579
Social security costs	1,601	1,386
Other pension costs	798	617
	<u>18,719</u>	<u>16,582</u>

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

	2020 No.	2019 No.
Engineering	84	70
Production	181	157
Selling and distribution	22	25
Administration	15	14
	<u>302</u>	<u>266</u>

8. Directors' remuneration

	2020 £000	2019 £000
Directors' emoluments	73	180
Company contributions to defined contribution pension schemes	2	8
	<u>75</u>	<u>188</u>

The directors provide services both to the Company and a number of other related Smiths Group plc entities. Aggregate emoluments represent the remuneration which is paid directly from the Company to the directors.

To the extent that a director is paid by the parent company for services to the Company, a portion of the remuneration is disclosed to reflect the value of services recharged to the Company.

SMITHS DETECTION - WATFORD LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2020**

9. Interest payable and similar expenses

	2020 £000	2019 £000
Interest on obligations under finance leases	82	-
Interest payable on loans from group undertakings	1,242	1,404
Other	16	-
	1,340	1,404

10. Tax on profit

	2020 £000	2019 £000
Current tax		
UK corporation tax credit for the year	(299)	(150)
Adjustments in respect of prior periods	(317)	98
Foreign tax on income for the year	228	20
Total tax credit	(388)	(32)

SMITHS DETECTION - WATFORD LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2020

10. Tax on profit (continued)

Factors affecting tax charge for the year

The tax assessed for the year is lower than (2019 - *lower than*) the standard rate of corporation tax in the UK of 19% (2019 - 19%). The differences are explained below:

	2020 £000	2019 £000
Profit/(loss) before taxation	3,888	(209)
Profit/(loss) before taxation multiplied by the standard rate of corporation tax in the UK of 19% (2019: 19%)	739	(40)
Effects of:		
Expenses not deductible for tax purposes, other than goodwill amortisation and impairment	164	189
Adjustments in respect of prior periods	(317)	98
Non-taxable income	-	(56)
Foreign tax	228	20
Research and development tax credit	(300)	(150)
Group relief received from other group companies for nil consideration	(1,272)	(93)
Unrecognised temporary differences	370	-
Total tax credit for the year	(388)	(32)

Factors that may affect future tax charges

The Company is part of a UK tax group including all the UK subsidiaries of Smiths Group plc.

Current tax debtor £767k (2019: £376k) relates to research and development tax credit.

SMITHS DETECTION - WATFORD LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2020

11. Intangible assets

	Development expenditure £000	Computer software £000	Total £000
Cost			
At 1 August 2019	13,007	395	13,402
Additions - internal	4,008	-	4,008
Disposals	(4,000)	(130)	(4,130)
At 31 July 2020	13,015	265	13,280
Amortisation			
At 1 August 2019	11,508	384	11,892
Charge for the year on owned assets	640	8	648
On disposals	(3,200)	(130)	(3,330)
At 31 July 2020	8,948	262	9,210
Net book value			
At 31 July 2020	4,067	3	4,070
At 31 July 2019	1,499	11	1,510

Intangible asset amortisation of £640k (2019: £854k) and loss on disposal of £800k (2019: £nil) is included in the cost of sales and £8k (2019: £8k) amortisation is included in administrative expenses in the profit and loss account.

SMITHS DETECTION - WATFORD LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2020

12. Tangible fixed assets

	Leasehold property and improvements £000	Plant and machinery £000	Motor vehicles £000	Fixtures and fittings £000	Total £000
Cost or valuation					
At 1 August 2019	10,252	5,068	-	4,816	20,136
Adoption of a new accounting standard	2,591	-	418	-	3,009
At 1 August 2019 (adjusted balance)	12,843	5,068	418	4,816	23,145
Additions	173	547	546	81	1,347
Disposals	-	(1,093)	-	(2,023)	(3,116)
At 31 July 2020	13,016	4,522	964	2,874	21,376
Depreciation					
At 1 August 2019	2,855	3,562	-	4,307	10,724
Charge for the year on owned assets	1,027	438	-	99	1,564
Charge for the year on right- of-use assets	451	-	289	-	740
Disposals	-	(961)	-	(2,023)	(2,984)
At 31 July 2020	4,333	3,039	289	2,383	10,044
Net book value					
At 31 July 2020	8,683	1,483	675	491	11,332
At 31 July 2019	7,397	1,506	-	509	9,412

SMITHS DETECTION - WATFORD LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2020**

12. Tangible fixed assets (continued)

The net book value of owned and leased assets included as "Tangible fixed assets" in the Balance Sheet is as follows:

	2020 £000
Tangible fixed assets owned	8,345
Right-of-use tangible fixed assets	2,988
	<u>11,333</u>

Information about right-of-use assets is summarised below:

Net book value

	2020 £000
Leasehold property	2,313
Motor vehicles	675
	<u>2,988</u>

Depreciation charge for the year ended

	2020 £000
Leasehold property	(451)
Motor vehicles	(289)
	<u>(740)</u>

Additions to right-of-use assets

	2020 £000
Leasehold property	173
Motor vehicles	546
	<u>719</u>

SMITHS DETECTION - WATFORD LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2020

13. Investments

	Investments in subsidiary companies £000
Cost or valuation	
At 1 August 2019	8
At 31 July 2020	8
Net book value	
At 31 July 2020	8
At 31 July 2019	8

Subsidiary undertakings

The following were subsidiary undertakings of the Company:

Name	Registered office	Principal activity	Class of shares	Holding
Smiths Detection Saudi Arabia LLC	PO Box 59490, Postal Code 11525, Riyadh, Saudi Arabia, Registration number 1010334748	Servicing and maintenance of equipment	Ordinary	5%
Detection Technologies Egypt LLC	Cairo, Cornich El Nil, Ramlet Beaulac Nile City Building, North Tower, 22nd Floor, Arab Republic of Egypt	Servicing and maintenance of equipment	Ordinary	1%

5% of the total share capital of Smiths Detection Saudi Arabia LLC is held by the Company. The remaining 95% of share capital is held by Smiths Detection Group Limited.

1% of the total share capital of Smiths Detection Technologies Egypt LLC is held by the Company. The remaining 99% of share capital is held by Smiths Detection Group Limited.

In the opinion of the directors the value of the investments are not less than the aggregate amount at which they are shown in the Company's balance sheet.

SMITHS DETECTION - WATFORD LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2020**14. Stock**

	2020 £000	2019 £000
Raw materials and consumables	2,479	3,311
Work in progress (goods to be sold)	4,397	4,756
Finished goods and goods for resale	5,711	4,035
	<u>12,587</u>	<u>12,102</u>

The Company consumed £47,602k (2019: £59,706k) of stock during the year. In the year to 31 July 2020 £982k (2019: £703k) was charged for the write down of stock and £803k (2019: £667k) was released from stock provisions no longer required.

At 31 July 2020, there were provisions of £1,903k (2019: £1,740k) against gross stock of £14,490k (2019: £13,842k).

15. Debtors

	2020 £000	2019 £000
Due after more than one year		
Contract assets	973	2,044
Financial instruments	580	-
	<u>1,553</u>	<u>2,044</u>
	2020 £000	2019 £000
Due within one year		
Trade debtors	14,279	24,208
Amounts owed by group undertakings	11,878	7,062
Other debtors	1,154	398
Prepayments and contract assets	310	607
Financial instruments	260	-
	<u>27,881</u>	<u>32,275</u>

At 31 July 2020 the gross value of debtors partly provided for or more than three months overdue was £nil (2019: £nil) and there were provisions of £nil (2019: £nil) against these debtors. Consequently, these debtors were carried at a net value of £nil (2019: £nil).

All amounts owed by group undertakings are currently unsecured, interest free and repayable on demand.

SMITHS DETECTION - WATFORD LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2020**16. Cash at bank and in hand**

	2020	2019
	£000	£000
Cash at bank and in hand	3,255	2,319
	3,255	2,319

17. Creditors: Amounts falling due within one year

	2020	2019
	£000	£000
Trade creditors	2,370	5,204
Amounts owed to group undertakings	33,547	58,744
Taxation and social security	715	982
Lease liabilities	727	-
Other creditors	66	23
Accruals and contract liabilities	12,446	13,239
Financial instruments	8	16
	49,879	78,208

Amounts owed to group undertakings includes a loan of £25,676k (2019: £36,412k) owed to the immediate parent company, Smiths Detection Group Limited, which is repayable on demand or by 31 July 2022 at the latest. Interest is charged at LIBOR plus 3.0%. All other amounts owed to group undertakings are interest free and repayable on demand.

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

	2020	2019
	£000	£000
Lease liabilities	2,229	-
Accruals and contract liabilities	21,875	428
	24,104	428

SMITHS DETECTION - WATFORD LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2020

19. Financial instruments

	2020 £000	2019 £000
Financial assets		
Financial assets measured at fair value through profit or loss	4,095	2,319
Financial assets that are debt instruments measured at amortised cost	27,516	33,314
	<u>31,611</u>	<u>35,633</u>
Financial liabilities		
Derivative financial instruments measured at fair value through profit or loss held as part of a trading portfolio	(8)	(16)
Financial liabilities measured at amortised cost	(40,516)	(68,837)
	<u>(40,524)</u>	<u>(68,853)</u>

20. Other provisions

	Warranty provision and product liability £000	Business restructure £000	Total £000
At 1 August 2019	2,125	-	2,125
Charged to profit and loss	1,038	134	1,172
Utilised in year	(907)	-	(907)
At 31 July 2020	<u>2,256</u>	<u>134</u>	<u>2,390</u>

Warranty provisions are made to cover the anticipated cost of repair or replacement of goods returned within the contractual warranty period which is generally one year.

SMITHS DETECTION - WATFORD LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2020

21. Called up share capital

	2020	2019
	£000	£000
Allotted, called up and fully paid		
76,771 (2019 - 76,771) Ordinary shares of £1.00 each	77	77
	<hr/>	<hr/>

22. Employee share scheme

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

Cost of share based payment arrangements

Included within administrative expenses is an expense arising from share-based payment transactions of £291k (2019: £217k).

23. Contingent liabilities

Guarantees and performance bonds given by banks to third parties on behalf of the Company amounted to £29,740k (2019: £4,628k).

The Company has a contingent liability under a composite banking arrangement with other companies in the group, limited to the amount standing to the credit of the Company's own bank account.

The Company is registered with H.M. Revenue and Customs as a member of the Smiths Group plc for VAT group purposes and as a result is jointly and severally liable on a continuing basis for amounts owing by the group for unpaid VAT.

24. Capital commitments

Contracts of £nil (2019: £nil) were placed for future capital expenditure

SMITHS DETECTION - WATFORD LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2020**

25. Pension commitments

The total expense recognised in the profit and loss account in respect of defined contribution pensions was £798k (2019: £617k) and at the end of the year £32k was outstanding (2019: £nil).

Historically, staff of the Company participated in the Smiths Industries Pension Scheme, which is a defined benefit pension plan based in the UK. With effect from 1st January 2006, employees of the Company who were members of this scheme became employees of the ultimate parent company, Smiths Group plc, and now perform their services under contract from that Company. The pension schemes were closed with effect from 31 October 2009.

The assets of the Smiths Industries Pension Scheme are held in a separate trustee-administered fund and the pensions costs are assessed in accordance with the advice of independent, professionally-qualified actuaries. Further details of these pension plans, the actuarial assumptions used and the latest actuarial valuations can be found in the consolidated financial statements of Smiths Group plc for the year ended 31 July 2020.

The pension contribution made by the Company in respect of the defined benefit pension plan was £nil (2019: £nil). In 2021 the Company does not expect to make any payments in respect of the defined benefit pension plan.

26. Commitments under operating leases

At 31 July the Company had future minimum lease payments due under non-cancellable operating leases for each of the following periods:

	2020 £000	2019 £000
Land and buildings		
Not later than 1 year	-	482
Less than 1 year and not later than 5 years	-	1,859
Later than 5 years	-	581
	<u>-</u>	<u>2,922</u>
	2020 £000	2019 £000
Other operating leases		
Not later than 1 year	-	265
Less than 1 year and not later than 5 years	-	338
	<u>-</u>	<u>603</u>

SMITHS DETECTION - WATFORD LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2020**

27. Controlling party

For the year ended 31 July 2020, the Company was a wholly owned subsidiary of Smiths Detection Group Limited.

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

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