Strategic Report
For the Year Ended 31 July 2020

Introduction

Smiths Group Finance US Limited (the "Company") is governed under the applicable laws and regulations in England and Wales. The Company is a wholly owned subsidiary of Smiths Group International Holdings Limited which is itself wholly owned by Smiths Group plc (the "Group").

The principal operating activity of the Company is the provision of intercompany funding and accepting short term deposits of cash surpluses from Smiths Group subsidiaries.

The Company's primary assets are loans receivable from group companies, from which it received interest income, and its primary liabilities are loans payable to group companies, to which it paid interest in the period. The Company is expected to generate net interest income in the forthcoming year.

Business review

The Company has intra group loans receivable of $1,065.4m (2019: $1,064.2m) and intra group loans payable of $952m (2019: $956m).

The Company generated a profit for the year of $12.7m (2019: $9.4m) from its financing activities, comprising of $39.9m (2019: $41.8m) loan interest receivable less $26.3m (2019: $31.9m) loan interest payable and administrative expenses. The profit is also stated after the impact of a net loss of $0.9m (2019: net loss $0.4m) from the retranslation of its intra-group loan portfolio and hedging transactions.

No changes in the activities of the Company are expected in the coming financial year.

Principal risks and uncertainties

Financial risk foreign exchange

Risk and potential impact:

Exchange rate volatility could have a material impact on the reported results. The Company is exposed to two types of currency risks: transaction and translation. The transaction risk is that the Company's reported results will fluctuate as average exchange rates fluctuate. The translation risk is that the Company's reported net assets will reduce in value as a result of unfavourable fluctuations in the year-end exchange rates.

Mitigation:

Majority of intercompany loans are denominated in USD, the Company's functional currency. Loans in currencies other than USD with balances over equivalent to $3m are hedged with currency swaps in order to mitigate the foreign exchange risk. Foreign exchange exposure resulting from these loans is reviewed on a quarterly basis and maturing hedges adjusted to create equal and opposite effect to mitigate foreign exchange losses.

Interest Rate Risk

Risk and potential impact:

The risk that increase in interest rates will negatively impact the Company financial performance.

Mitigation:

Interest rates on loans the Company made to other counterparties calculated using LIBOR rate plus margin. Interest rates on loans received from other counterparties is calculated using 3 months LIBID rate or LIBID rate plus margin. LIBOR rate is always higher than LIBID due to risk engrained in issuing loans to other parties.

Withholding Tax Risk

Risk and potential impact:

The risk that the Company fails to accurately account for and to make the payment in respect of Withholding Tax to HMRC before due date.

Mitigation:

On inception of setting up each individual intercompany loan the Company reviews Withholding Tax rules applicable in the country of counterparty origin. The rate is examined by the Smiths Internal Tax department and if still in doubt, the Company seeks confirmation from the external tax adviser Deloitte.

Counterparty default risk

Risk and potential impact:

The risk to the Company that a counterparty borrower may default on their contractual obligations.

Mitigation:

The credit rating of each counterparty borrower is assessed on an individual basis at inception, factoring in the business and financial risks profiles of the borrower. Furthermore, the performance of each counterparty is reviewed on a rollover of maturity date for any changes in the borrower's credit rating and the new revised rate plus a suitable margin are applied to the loan to reflect counterpary risk and the current market conditions.

Laws and regulations

Risk and potential impact:

Failure to comply with legal or regulatory requirements, relating to the Company’s activities, may result in financial penalties and reputational damage.

Mitigation:

The management of the Company monitors statutory and direct and indirect tax changes constantly to ensure compliance with procedures and deadlines at all times.

People

Risk and potential impact:

The loss of key management personnel, or the failure to plan for succession, could result in disruption of business operations.

Mitigation:

Written operational policies and procedures are in place to ensure business continuation. In addition, the performance, skills and competencies of the management are reviewed and developed on a constant basis.

Financial key performance indicators

The directors of Smiths Group plc manage the Group's operations on a consolidated basis using divisional KPIs. For this reason the Company's directors believe that analysis using key performance indicators for the Company is not necessary or appropriate. The development, performance and position of Smiths Group plc is discussed in the Strategic Report of the Group's Annual Report which does not form part of this report.

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The company acts as a finance company within Smiths Group and therefore, Smiths Group Finance US does not have direct relationship with its employees, and other stakeholders (suppliers and customers). The Company holds financial loans with other Smiths Group Companies. The Company has considered its activities and decisions, however as a finance Company its main transactions were related to movement on financial loans, interest and currency swaps to hedge exposure on these loans, and therefore there has been limited business activity during the year. The Company approved its financial statements which give its stakeholders a view of financial position of the Company.

We consider that no other business activity that would impact our stakeholders took place within the Company during the 12 months to 31 July 2020.

Group Directors acts in a way they consider would most likely promote the success of the Group for the benefit of the stakeholders. Directors must also have regard to the likely long term consequences of their decisions, and the impact these may have on the Company's stakeholders. Further information can be found in the page 80 in the Smiths Group plc 2020 annual report.

The report was approved and authorised for issue by the board and was signed on its behalf on 26 April 2021

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A S S Kenny
Director