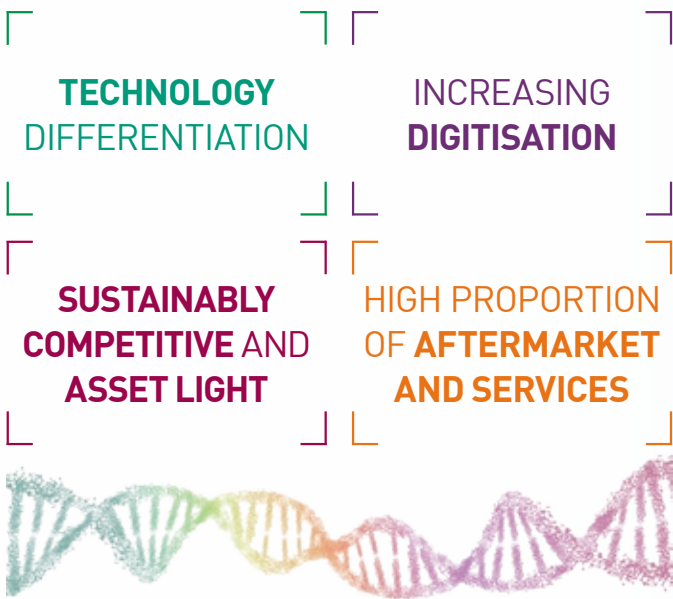


## Our business model – the Smiths Way

Our businesses are defined by four characteristics



We actively manage our portfolio of businesses. They operate in growing markets where we can achieve a sustainable top three leadership position. Our businesses share the same characteristics which shape how we create value.



Underpinned by the Smiths values and our commitment to doing business responsibly and sustainably

Our Smiths values guide how we behave. Our values and our commitment to doing business responsibly are more than just words. They influence every decision and help to make Smiths a place where people want to work, an organisation that is valued, and one that people want to do business with.



Our shared operating model and culture is centred on People, Innovation and Execution

Our operating model is supported and driven by the Smiths Excellence System (SES).



### People

Our people are vital to the success of Smiths. We work to attract, retain, develop, engage and inspire the very best.



### Innovation

Technology and innovation are driving the future of Smiths. Our Group-wide innovation framework fosters a disciplined, future-focused culture aligned with our purpose and strategy. This helps us translate our expertise and insight into transformative new ways of working, products, services and business models.



### Execution

We aim for consistent and flawless execution. Capability, collaboration across internal and external expert networks, and a relentless focus on continuous improvement enable us to move fast and deliver solutions, quality and value for our stakeholders.



## Maximising value for our stakeholders

+ Read more on our stakeholders in the Resources and relationships section on pages 24-51

### People

**BELONGING SCORE**

**70**

My Say engagement survey: I feel a sense of belonging at Smiths

**SAFETY RIR**

**0.30**

Recordable incident rate per 100 colleagues

### Customers and suppliers

**OTIF**

**86%**

On time in full

**COPQ**

**1.4%**

Cost of poor quality

### Society and the environment

**DIRECT ECONOMIC CONTRIBUTION**

**£2.8bn**

Employee costs + supplier costs + tax paid

**GHG REDUCTION**

**(46)%**

Greenhouse gas reduction since FY2007

### Shareholders

**UNDERLYING EPS**

**84.8p**

FY2019: 96.8p

**DIVIDEND**

**35.0p**

FY2019: 45.90p

+ See underlying definition on page 02

Measures above based on Total Group

### Excellence

The Smiths Excellence System is embedded into our operations and functions. Supported by the SES Academy, it has created one language for excellence at Smiths that is advancing skills, best practice and continuous improvement across our SES pillars: Customer, People, Technology, Programme, Production and Supply.

# We are seeing comprehensive benefits from implementing our three key strategic objectives.

+ Read more about our KPIs on pages 22-23

## Outperform our chosen markets

+ Read more on page 16



## Deliver world-class competitiveness

+ Read more on page 17

### 1 Outperform our chosen markets

We actively manage our portfolio of businesses. They operate in growing markets where we can achieve a sustainable top three leadership position.

#### DEFINE OUR BUSINESSES

Our businesses share the same characteristics: technology differentiation; increasing digitisation; sustainably competitive and asset light; and high proportion of aftermarket and services.

#### FOCUS ON ATTRACTIVE MARKETS

We focus the portfolio on attractive markets with strong long-term growth drivers.

#### MAXIMISE GROWTH

We maximise growth through organic investment and a highly disciplined approach to acquisitions, disposals and integration.

### 2 Deliver world-class competitiveness

We drive discernible, sustained competitive advantage through focused deployment of innovation and investment; attracting and retaining the best talent; and relentless execution through our shared operating model and the Smiths Excellence System (SES).

#### INNOVATE TO EXCEED CUSTOMER EXPECTATIONS

Our Group innovation framework drives change and helps our businesses to nurture key projects, which deliver meaningful benefits for customers.

#### ENGAGE OUR PEOPLE TO DRIVE THE BEST PERFORMANCE

Our People Plan is focused on building a learning organisation which attracts and retains talent; engages, develops and inspires our people; and embeds our values.

#### EXECUTE CONSISTENTLY

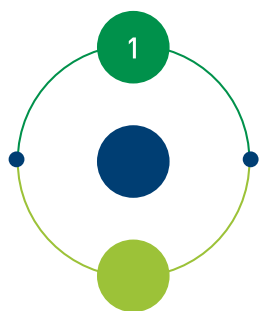
SES ensures that we focus on continuous improvement, speed and efficiency. Our operating model optimises global business services for maximum effectiveness.

### 3 Strong financial framework

We maintain a strong financial framework by:

- Focusing the portfolio on sustainably competitive and asset light businesses
- Delivering profitable growth with sustainable margins
- Maintaining balance sheet strength and investing with strong financial discipline.

## Outperform our chosen markets



### DEFINE OUR BUSINESSES

#### FOCUS ON ATTRACTIVE MARKETS MAXIMISE GROWTH

##### What we said we would do in FY2020

- Continue to invest effectively in R&D to drive market share
- Maintain percentage of the Group that is well positioned in attractive markets via continued focus on the portfolio
- Maintain a disciplined approach to acquisitions that will enhance our capabilities and leadership
- Continue to integrate previous acquisitions successfully
- Further embed new operating model and execute strategy in Asia Pacific
- Seek further growth opportunities in China and India

##### How we did in FY2020

- Organic investment continued to increase with R&D up 20bps to 4.7% of sales. Key new product launches are outlined in the divisional sections
- Completed the operational integration of United Flexible in Flex-Tek
- Completed Smiths Interconnect's acquisition of Reflex Photonics in October 2019 and Smiths Detection's acquisition of PathSensors in August 2020
- Signed multiple new contracts in the Group's higher-growth regions

##### FY2021 priorities

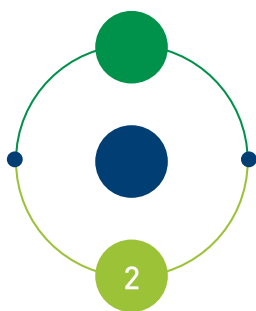
- Strategic intent to separate Smiths Medical unchanged
- Reassess the attraction of each of our end use markets and the position of our businesses within them
- Continue to invest in R&D and targeted capital expenditure<sup>1</sup> to drive organic growth
- Use acquisitions and disposals to continue to shape the portfolio and enhance the position of our businesses in attractive markets
- Seek further growth opportunities in China and India

<sup>1</sup> Defined in Note 30 to the Financial Statements

**THE ACQUISITION OF PATHSENSORS IN AUGUST 2020 ACCELERATES SMITHS DETECTION'S BIOLOGICAL DETECTION CAPABILITIES THROUGH THE ADDITION OF HIGH-SPEED, HIGHLY SENSITIVE BIOTHREAT SOLUTIONS FOR PATHOGEN DETECTION**



# Deliver world-class competitiveness



## INNOVATE TO EXCEED CUSTOMER EXPECTATIONS

### What we said we would do in FY2020

- Drive further improvement in our Vitality Index through expanded capabilities, new revenue streams and product lines
- Execute learnings from future scenario planning to deliver new products and services
- Drive the culture of innovation deeper into the organisation
- Accelerate innovation and commercialisation via expansion of strategic partner network

### How we did in FY2020

- Vitality at 20%, a 700bps increase driven by new products in Smiths Detection (CTiX), Flex-Tek (Flashshield+™) and Smiths Interconnect
- In FY2020, the Forge has delivered technology and minimum viable products for condition-based-monitoring; signal, image and video analytics for security applications; and IoT capabilities for distributed sensors to monitor moisture, methane and other environmental factors
- The acquisition of PathSensors in Smiths Detection broadens its capabilities to detect pathogens for broad end market applications

### FY2021 priorities

- Develop new future scenarios for customer demand and refine product and technology roadmaps
- Accelerate innovation and commercialisation via expansion of strategic partner network
- Continue to drive and build the culture of innovation throughout the organisation

- The Forge focus for FY2021 includes physical cybersecurity; embedded technology for wireless sensor networks; and augmented analytics capabilities in the cloud
- Seek sustained improvement in the Vitality Index through expanded capabilities, new revenue streams and product lines

## ENGAGE OUR PEOPLE TO DRIVE THE BEST PERFORMANCE

### What we said we would do in FY2020

- Progress our People Plan and continue to execute our diversity and inclusion strategy
- Build on Leadership@Smiths with the ongoing global roll out of the Accelerate programme and additional modules of e-learning
- Implement finance graduate programme in the UK, US and Asia Pacific

### How we did in FY2020

- Implemented comprehensive employee safety, support and communications programme during the COVID-19 pandemic
- Launched Learning@Smiths, our internal learning portal
- Started global review of benefits
- Broadened the lean six sigma programme to support functional excellence
- Continued to build Accelerate leadership learning programme to a cohort of more than 620 colleagues
- Established cross-divisional Respect, Diversity and Inclusion Council
- Rolled out our finance graduate programme globally and Graduate Development Week

### FY2021 priorities

- Our fundamental priority remains the health, safety and wellbeing of our colleagues and their families
- Complete and implement findings from global benefits review
- Cross-divisional review of leader talent pipeline for succession planning
- Continue to develop SES Academy programme, targeting 1,000 belted colleagues by the end of FY2022
- Continue to focus on colleague communication activities

## EXECUTE CONSISTENTLY

### What we said we would do in FY2020

- Safety and zero-harm remain our top priority
- Continue to focus on expanding Group-wide capability and driving continuous improvement at all levels
- Execute IT roadmaps
- Accelerate business performance using further SES projects to drive best practice

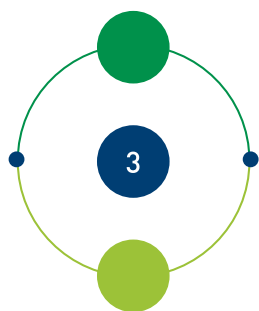
### How we did in FY2020

- FY2020 was a record year for safety with a recordable incident rate (RIR) of 0.30 and a stable lost time incident rate (LTIR) of 0.14
- Delivered £34m of procurement savings
- Creation of supply chain nerve centres to manage the COVID-19 crisis to maximise business continuity and reduce the risk of supply chain disruption

### FY2021 priorities

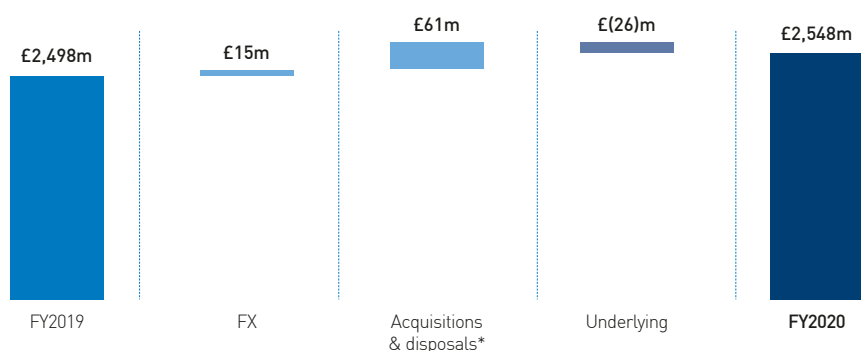
- Safety and zero-harm remain our top priority
- Stress test our supply chains and manufacturing footprint to ensure long-term resilience
- Refine our operating model to optimise the delivery of global business services for maximum effectiveness
- Accelerate business performance using the SES framework across three pillars: customer and commercial; supply chain; and production and aftermarket
  - > Specific business projects/ problem solving
  - > Company-wide improvement projects

## Strong financial framework

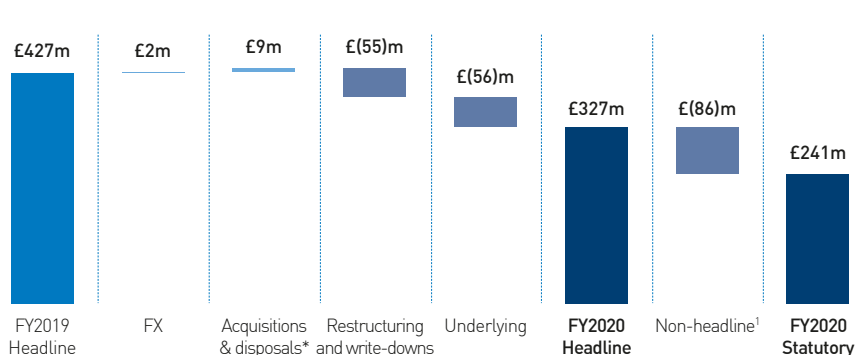


It has been a challenging year and the pandemic continues to disrupt many of our end markets. But we have weathered those challenges well; Smiths is resilient by design and these results demonstrate that.

### REVENUE



### OPERATING PROFIT



\* Includes disposals and FY2020 performance from acquisitions that do not have comparators for the prior year

<sup>1</sup> Defined in Note 30 to the Financial Statements

## Continuing Operations – excluding Smiths Medical

### Revenue

The Group delivered a robust overall performance for the year. Underlying revenue for continuing operations was down (1)%, comprising +3% in the first half and (4)% in the second half. In a period of unprecedented global disruption, the Group's overall performance reflects its resilience founded on its market-leading positions and a high proportion of aftermarket revenues.

Reported revenue increased +2% to £2,548m (FY2019: £2,498m). This included +£15m of favourable foreign exchange translation and +£61m from the acquisition of United Flexible.

### Operating profit and margin

Underlying headline operating profit was down (13)% driven by lower volumes in the second half as well as additional costs to support business continuity and uninterrupted customer service during the pandemic. Central costs were flat year-on-year at £(51)m.

Reported headline operating profit decreased (23)% to £327m (FY2019: £427m). This included +£2m of favourable foreign exchange translation, +£9m contribution from the United Flexible acquisition, £(31)m of restructuring costs and £(24)m of write-downs relating to trade receivables and impairment of capitalised development projects.

Headline operating margin decreased (210)bps to 15.0% on an underlying basis and (430)bps on a reported basis including the impact of restructuring and write-downs.

The £(86)m difference between headline and statutory operating profit is non-headline<sup>1</sup> items as defined in note 3 to the financial statements. The largest constituents relate to amortisation of acquisition related intangible assets and provision for asbestos litigation in John Crane, Inc. On a statutory basis, after taking into account all items excluded from headline performance, operating profit of £241m was £(85)m lower than last year (FY2019: £326m), reflecting the lower headline profit.



## Finance costs

Headline finance costs of £(49)m (FY2019: £(51)m) were £2m lower than last year. This reflects the impact of early repayment of higher coupon debt in the prior year, which more than offset the inclusion of lease interest of £(4)m following the adoption of IFRS 16. Statutory finance costs were £(108)m (FY2019: £(22)m) mainly due to a £(62)m foreign exchange loss on an intercompany loan with Smiths Medical; the matching credit in discontinued operations nets out to zero in total Group earnings.

## Taxation

The principles of the Group's approach to taxation remain unchanged. The Group manages the cost of taxation in a responsible manner to protect its competitive position. The fundamental principle of our approach to managing our tax affairs is to engage with tax authorities around the world transparently, cooperatively and on the basis of legal compliance. Through this responsible management of our tax affairs we aim to enhance long-term shareholder value while contributing to public expenditure and the overall welfare of the communities in which we operate.

The headline tax charge for the year of £(79)m (FY2019: £(103)m) represents an effective rate of 28% (FY2019: 27%). The Total Group headline effective tax rate was 26% (FY2019: 26%).

Non-headline taxation items of £13m (FY2019: £(59)m) related to tax on the non-headline loss. The statutory effective tax rate was 50% (FY2019: 53%) due to the non-headline items. Please refer to notes 3 and 6 of the financial statements for further details.

## R&D and capex

The income statement cost of R&D (excluding restructuring and write-downs) of £(89)m was broadly in line with last year (FY2019: £(93)m), excluding R&D write-downs. The cash cost increased to £(119)m or 4.7% of sales (FY2019: £(111)m or 4.5%), as the Group continues to invest for future growth.

Our Vitality Index measures the effectiveness of organic investment, tracking revenue from new products launched in the last three years.

Our Total Group Vitality Index was 20% (FY2019: 13%), driven by new products in Smiths Detection (CTiX) and in Flex-Tek (Flashshield+™).

Capex of £(67)m (FY2019: £(68)m) represented 1.2x depreciation and amortisation (FY2019: 1.3x), excluding the impact of additional depreciation following the adoption of IFRS 16.

## Portfolio

The Group continues to invest in disciplined, complementary acquisitions.

In October 2019, Smiths Interconnect completed the acquisition of Reflex Photonics ('Reflex') for an enterprise

value of CAD\$40m. Reflex's technological leadership in ruggedised fibre optics significantly strengthens Smiths Interconnect's product offering in defence, space, aerospace and industrial market segments. For more information, please see note 27 of the financial statements.

In August 2020, Smiths Detection completed the acquisition of PathSensors Inc, which complements and accelerates its biological capability to detect pathogens for broad end market applications.

## Strategic restructuring programme and write-downs

The Group announced on 30 June that it is undertaking a strategic restructuring programme which brings together a number of pre-COVID initiatives to ensure that it is better positioned for long-term growth and consistent outperformance. The programme will support the achievement of our goal to deliver operating margins of 18-20%.

It impacts all divisions and is now well underway, with costs of £(35)m and a cash outflow of £(12)m in FY2020. Of the £(35)m charged, £(30)m related to headcount reduction and £(5)m related to footprint optimisation.

Flex-Tek recorded £(2)m of restructuring for its commercial aerospace business which has been accounted for in the non-headline integration costs of the United Flexible acquisition.

The total cost of the programme is anticipated to be c.£(65)m spread across FY2020 and FY2021. Savings are expected to offset costs in FY2021; £(30)m of remaining costs will be spread evenly through the year, whilst the matching savings will be 70% weighted to the second half. We expect to deliver full annualised benefits of approximately £70m from FY2022 onwards.

	FY2020			FY2021	Total
	Continuing operations	Smiths Medical	Total Group		
<b>Restructuring costs</b>	(31)	(4)	(35)	(30)	<b>(65)</b>
<b>Cash outflow</b>	(8)	(4)	(12)		<b>(65)</b>
<b>Annualised savings</b>	-	-	-	30	<b>(70)</b>

The Group recorded £(24)m of write-downs, which are unrelated to restructuring. £(12)m relates to the cancellation of capitalised development projects in Smith Detection that are no longer deemed commercially viable.

The balance of £(12)m of write-downs comprises trade receivables that were written off in John Crane, Smiths Detection and Smiths Interconnect.

	FY2020
Capitalised development projects	(12)
Receivables	(12)
<b>Write-downs</b>	<b>(24)</b>

## Total Group debt

Net debt at 31 July 2020 was £1,141m, a decrease of £(56)m in the period, despite the £148m impact of capitalised operating leases under IFRS16. EBITDA from continuing and discontinued operations was £610m. Net debt to EBITDA was 1.7x after inclusion of leases (1.9x including restructuring costs and write-downs).

Gross debt<sup>1</sup> was £1,609m (FY2019: £1,512m), including the impact of leases. There are no covenants associated with this debt. The weighted average maturity was 4.2 years and there are no maturities before October 2022. Cash balances were £386m (FY2019: £315m).

An \$800m (c.£610m at the period-end exchange rate) revolving credit facility ('RCF') remains undrawn. \$110m of the RCF extends until November 2023 and \$690m until November 2024. The only covenant relates to interest cover which must be greater than or equal to 3 times, compared with 11 times at the year end. Taking cash and the RCF together, total liquidity was approximately £1bn at the year end.

Strong cash conversion and a conservative balance sheet enable us to face the challenges of the present crisis with our eyes firmly fixed on creating sustainable, long-term shareholder value.

## Discontinued Operations – Smiths Medical

As disclosed on 31 March 2020, the Board decided to delay the previously announced separation of Smiths Medical due to the uncertain market conditions. The strategic intent and rationale remain unchanged.

Accounting standards require the Group to stop charging depreciation and amortisation within Smiths Medical, since it has been reclassified as discontinued operations. For comparability purposes, depreciation and amortisation of £(45)m have been included in the calculation of underlying measures.

Smiths Medical continued its return to growth with underlying revenue up +4%. This growth accelerated in the second half to +7%, including +5% from participation in Ventilator Challenge UK. During the year, Smiths Medical signed a c.\$20m investment agreement from the U.S Government to expand syringe and needle device production to support COVID-19 vaccine efforts. Reported revenue was up +5% with +£12m of favourable foreign exchange translation and a £(3)m revenue impact from prior year disposals.

Headline operating profit of £184m was down (3)% on an underlying basis, with increased volumes offset by margin dilution from Ventilator Challenge UK, a one-off legal settlement and COVID-19 costs (including expedited freight, labour incentives and protective equipment). Reported headline operating profit was up +25% thanks to the exclusion of £(45)m of depreciation and amortisation, and +£2m of favourable foreign exchange, partially offset by £(1)m from prior year disposals and £(4)m of restructuring costs. Restructuring costs include layering and decentralisation to increase efficiency and effectiveness. Reported headline operating margin was up +330bps to 20.1%, mainly driven by the exclusion of depreciation and amortisation, but was down (120)bps on an underlying basis.

The difference between statutory and headline operating profit comprised separation costs.

In May 2020, Smiths Medical acquired the business of Access Scientific LLC. The acquisition extends Smiths Medical's vascular access portfolio and enhances its infection prevention capabilities.

## Total Group

### Total profit and EPS

Total headline profit after tax decreased by (12)% on a reported basis. Headline basic EPS was down (12)% on an underlying basis and reported basis. Total statutory profit after tax increased by +18% to £267m (FY2019: £227m), driven by lower non-headline items. Statutory basic EPS was also up +18% to 66.9p (FY2019: 56.8p).

### Cash-flow

Strong cash generation is a key characteristic of our business. Headline operating cash-flow<sup>1</sup> was £575m (FY2019: £474m). This strong performance was achieved despite the disruption associated with the COVID-19 pandemic. Operating headline cash conversion was 123% (FY2019: 83%), including a benefit from IFRS 16, restructuring and write-downs.

Free cash-flow of £273m (FY2019: £234m) increased by £39m, underpinned by the strong operating cash-flow. Tax payments have increased to £113m in the year due to timing differences and the repatriation of foreign dividends.

Statutory net cash inflow from operating activities was £429m (FY2019: £346m). See note 29 to the financial statements for a reconciliation of headline operating cash-flow to statutory cash-flow.

### Dividend

The Group maintains a progressive dividend policy, aiming to increase dividends in line with long-term underlying growth in earnings and cash-flow. The policy enables us to retain sufficient cash-flow to finance investment in the drivers of growth and meet our financial obligations. In setting the level of dividend payments, the Board considers prevailing economic conditions and future investment plans, along with the objective to maintain minimum dividend cover<sup>1</sup> of around 2 times.

In March the Board considered it prudent not to declare an interim dividend for HY2020 until such time as trading conditions became clearer and there was less uncertainty. Reflecting the Group's strong performance and financial position, the Board is now recommending a total dividend of 35.0p per share for the year. This reflects a delayed interim dividend of 11.0p and a proposed final dividend of 24.0p.

<sup>1</sup> Defined in Note 30 to the Financial Statements



## Litigation

Smiths Group faces different types of litigation in different jurisdictions. Please see below an update on the two significant litigation provisions. For more information, refer to note 23 of the accounts.

### John Crane, Inc. litigation

John Crane, Inc. (JCI), a subsidiary of the Group, continues to actively monitor the conduct and effect of its current and expected asbestos litigation, including the effective presentation of its 'safe product' defence, and intends to resist asbestos cases based on this defence. Approximately 297,000 claims against JCI have been dismissed before trial over the last 40 years. JCI is currently a defendant in cases involving approximately 25,000 claims. Despite these large numbers of claims, since the inception of asbestos litigation against JCI it has had final judgments against it in 149 cases, and has had to pay awards amounting to approximately \$175m.

At 31 July 2020, the aggregate provision for JCI asbestos litigation, including for adverse judgments and defence costs, amounted to £231m (FY2019: £237m) expressed at the then current exchange rate. In deciding upon the amount of the provision, JCI has relied on independent expert advice from a specialist.

### Titeflex Corporation litigation

Titeflex Corporation, a subsidiary of the Group in the Flex-Tek division, has received a number of claims in recent years from insurance companies seeking recompense on a subrogated basis for

the effects of damage allegedly caused by its flexible gas piping products being energised by lightning strikes. It has also received a number of product liability claims relating to this product, some in the form of purported class actions. Titeflex Corporation believes that its products are a safe and effective means of delivering gas when installed in accordance with the manufacturer's instructions and local and national codes; however some claims have been settled on an individual basis without admission of liability.

At 31 July 2020, a provision of £66m (FY2019: £74m) has been made for the costs which the Group expects to incur in respect of these claims.

For the Group's litigation provisions, because of the significant uncertainty associated with the future level of claims and of the costs arising out of the related litigation, there is no guarantee that the assumptions used to estimate the provision will result in an accurate prediction of the actual costs that may be incurred.

### Return on capital employed (ROCE)<sup>1</sup>

ROCE was 11.8% (FY2019: 14.4%). The decrease reflects lower profitability, including restructuring costs and write-downs, recent investments (such as the acquisition of United Flexible, which are expected to generate superior returns over the longer-term) and the adoption of IFRS 16, partially offset by the absence of depreciation and amortisation in discontinued operations. For further detail of its calculation, please refer to note 30 to the financial statements.

<sup>1</sup> Defined in Note 30 to the Financial Statements

## IFRS 16 – Leases

The Group has adopted IFRS 16 from 1 August 2019 and elected to apply the modified retrospective transition approach, requiring no restatement of the comparative period. The main changes include recognition of right of use assets and lease liabilities with a value of £144m (of which £48m relates to discontinued operations), and a marginal increase in operating profit due to reclassification of the financing charges inherent in operating lease costs to finance costs.

## Foreign exchange

The results of overseas operations are translated into sterling at average exchange rates. The net assets are translated at period-end rates. The Group is exposed to foreign exchange movements, mainly the US Dollar and the Euro.

## Brexit

With over 95% of revenue originating outside the UK, the Group expects limited impact from Brexit but monitors the ongoing negotiations between the UK and the EU as part of its risk management process. Preparations have been made and mitigation measures have been put in place to meet potential scenarios.

## John Shipsey

CHIEF FINANCIAL OFFICER

## Pension

The net accounting pension surplus increased to £372m (FY2019: £311m), principally driven by higher returns on assets and life expectancy decreases, partially offset by a lower discount rate. Taken together, the two UK schemes were fully funded on a technical provisions basis as at their last formal updates.

Pension contributions for the year were £(33)m (FY2019: £(36)m). For FY2021, we expect total cash contributions of up to £(38)m across all schemes.

The two main UK pension schemes are well positioned to withstand a volatile market environment. They are well hedged, so that a movement in liabilities is largely offset by the movement in assets. As at 31 July 2020, approximately 35% of the liabilities had been de-risked through the purchase of annuities from third party insurers. Approximately 90% of assets are invested in third-party annuities, government bonds and

investment grade credit. Only around 2% of assets is invested in equities.

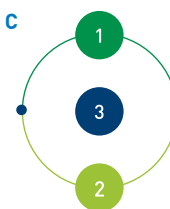
On 10 September 2020, the TIGPS Trustee secured a further bulk annuity, which has insured the benefits of a further 1,200 pensioners. Across the two UK schemes, approximately 65% of pensioner liability (37% of total liabilities) is now de-risked through bulk annuities.

## Key performance indicators

Performance against our key performance indicators (KPIs) reflects the Group's strength and resilience in very challenging market conditions.

### LINK TO STRATEGIC OBJECTIVES

Read more about our strategy on pages 15-21



Operational and financial KPIs above the dotted lines are shown on a Continuing Operations basis. Operational and financial KPIs below the dotted lines are shown on a Total Group basis as they are the key measures of the Group's cash and returns performance.

## OPERATIONAL PERFORMANCE

Why we measure	Performance	Ambition	Strategic objective
<p><b>Portfolio strength</b> as measured by % revenue from top three positions</p> <p>We continuously review our portfolio of businesses to target top three leadership positions in attractive markets.</p>	<p>In FY2020, 90% of our business continued to be well positioned.</p>	<p><b>REVENUE FROM TOP THREE POSITIONS IN ATTRACTIVE MARKETS</b></p> <p>90%+</p>	<p>1</p> <p>3</p>
<p><b>Aftermarket and services</b> as measured by Aftermarket % of sales</p> <p>Aftermarket is a core characteristic of a Smiths business; part of our DNA.</p>	<p>In FY2020, aftermarket revenues represented 49% of total revenue, stable year-on-year.</p>	<p><b>AFTERMARKET REVENUE</b></p> <p>50%+</p> <p>as a percentage of total revenue</p>	<p>1</p>
<p><b>Effective innovation</b> as measured by Vitality Index</p> <p>Following a period of accelerated reinvestment into the business, we are focusing on measuring the effectiveness of our investment.</p>	<p>In FY2020, Vitality Index increased to 20%. The year-on-year improvement was driven by revenues from Smiths Detection's CTiX and Flex-Tek's Flashield+™.</p>	<p><b>REVENUE FROM PRODUCTS LAUNCHED IN THE LAST THREE YEARS</b></p> <p>~20%</p> <p>as a percentage of total revenue</p>	<p>1</p> <p>2</p> <p>3</p>
<p><b>Operational excellence</b> as measured by stock turns<sup>1</sup></p> <p>Stock turns measure speed and efficiency in the business.</p>	<p>In FY2020, stock turns reduced to 3.0x due to the operational disruptions associated with the COVID-19 pandemic.</p>	<p><b>STOCK TURNS</b></p> <p>6.0x</p>	<p>2</p> <p>3</p>
<p><sup>1</sup> Defined in Note 30 to the Financial Statements</p>			
<p><b>Employee engagement</b> as measured by employee engagement score</p> <p>One focus of our People Plan is colleague engagement, which we measure twice annually in a confidential survey.</p>	<p>In FY2020, 87% of colleagues responded and we retained our healthy engagement score of 73.</p>	<p><b>CREATE A NURTURING AND INCLUSIVE WORKING ENVIRONMENT</b></p>	<p>2</p>
<p><b>Safety</b> as measured by RIR</p> <p>Health and safety remains our top priority. Our key metric is recordable incident rate (RIR) per 100 colleagues.</p>	<p>In FY2020, RIR reached a record low at 0.30 emphasising our continued work on health and safety.</p>	<p><b>CREATE THE SAFEST WORKING ENVIRONMENT</b></p>	<p>2</p>

## FINANCIAL PERFORMANCE

Why we measure	Performance	Ambition	Strategic objective
<p><b>Growth</b> as measured by underlying<sup>1</sup> revenue growth</p> <p>Growth is a top priority for the Group and a key part of management incentives.</p>	<p>The Group delivered a resilient performance in very challenging conditions.</p>	<p><b>FY2020</b> (1)%</p> <p><b>FY2019</b> 3%</p> <p><b>FY2018</b> 3%</p>	<p><b>OUTPERFORM OUR CHOSEN MARKETS</b></p> <p>1</p> <p>3</p>
<p><b>Performance</b> as measured by headline operating margin</p> <p>Growth needs to be delivered with a strong margin.</p>	<p>In FY2020, headline underlying operating margin was 15.0%, down (210)bps, driven by volume and costs of business continuity.</p>	<p><b>FY2020</b> 15.0%</p> <p><b>FY2019</b> 17.1%</p> <p><b>FY2018</b> 16.7%</p>	<p><b>HEADLINE OPERATING PROFIT MARGIN<sup>1</sup></b></p> <p>18-20%</p> <p>2</p> <p>3</p>
<p><b>Returns</b> as measured by ROCE</p> <p>Measuring ROCE ensures we are focused on the efficient use of assets and capital, but can be distorted by M&amp;A activity.</p>	<p>In FY2020, ROCE of 11.8% was impacted by lower profitability including the impact of restructuring and write-downs, recent acquisitions such as United Flexible and the impact of IFRS16 partially offset by impact of no depreciation and amortisation in Smiths Medical.</p>	<p><b>FY2020</b> 11.8%</p> <p><b>FY2019</b> 14.4%</p> <p><b>FY2018</b> 14.6%</p>	<p><b>ROCE THROUGH THE CYCLE</b></p> <p>16-18%</p> <p>2</p> <p>3</p>
<p><b>Asset light</b> as measured by working capital % sales<sup>2</sup></p> <p>Working capital measures speed and efficiency in the business from manufacturing to debt collection. Working capital translates into cash.</p>	<p>In FY2020, working capital represented 28% of revenue, a 200bps increase year-on-year due to operational disruptions associated with the COVID-19 pandemic notably in inventory which was partially offset by strong receivables collection.</p>	<p><b>FY2020</b> 28%</p> <p><b>FY2019</b> 26%</p> <p><b>FY2018</b> 26%</p>	<p><b>WORKING CAPITAL AS A PERCENTAGE OF TOTAL REVENUE</b></p> <p>~20%</p> <p>2</p> <p>3</p>
<p><b>Strong cash generation</b> as measured by headline operating cash conversion</p> <p>Our focus on cash demonstrates our focus on efficiency as well as enabling us to fund future growth.</p>	<p>In FY2020, headline operating cash conversion was very strong at 123%, including tailwinds from the impact of IFRS16 and the strategic restructuring programme.</p>	<p><b>FY2020</b> 123%</p> <p><b>FY2019</b> 83%</p> <p><b>FY2018</b> 99%</p>	<p><b>HEADLINE OPERATING CASH CONVERSION</b></p> <p>100%+</p> <p>2</p> <p>3</p>

<sup>1</sup> See underlying definition on page 02

<sup>2</sup> Calculated as the 12-month rolling average of inventory, trade receivables contract assets, trade payables and contract liabilities as a percentage of total annual sales. Working capital is defined in Note 30 to the Financial Statements

### LINK TO REMUNERATION

Our KPIs are aligned with our strategic objectives. Progress against them is monitored by our management processes and they drive our executive Remuneration Policy.

See page 110 where we show the impact of the headline operating cash conversion, organic revenue growth and ROCE KPIs from total operations on the FY2020 annual bonus and the LTIP for the three years ending 31 July 2020.