This section of the Annual Report covers our governance arrangements, the operation of the Board and its Committees, and describes how the Board discharged its collective responsibilities over the past year. Corporate governance is defined as “the system by which companies are directed and controlled. Boards of directors are responsible for the governance of their companies. The shareholders’ role in governance is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place”.

Corporate systems and structures across the world were understandably put under strain by the largely unexpected events of the last year. Your Board and its Committees have adapted, as we all did, to rapidly changing circumstances and new challenges and demands. Swiftly changing business outlooks, forecasts, supply chain issues and ensuring employee safety caused the Board to meet much more regularly than usual in the past few months.

This is time and space to manage the business, while being there to offer advice and support when needed. How we did that is explained in the next few pages of this Report. I am grateful to my fellow Directors, Smiths employees and all our stakeholders for their support as we continue to navigate our way through this crisis.

The restrictions on travel and meeting sizes imposed around the world adversely affected plans for increasing our face-to-face stakeholder engagement in the year. But they also accelerated a transition to new ways of working and interactions within the Company and with stakeholders more broadly. The Directors engaged in numerous electronic meetings with investors, employees, customers and stakeholders more generally.

However, it continues to be essential to give management the time and space to manage the business, while being there to offer advice and support when needed. How we did that is explained in the next few pages of this Report. I am grateful to my fellow Directors, Smiths employees and all our stakeholders for their support as we continue to navigate our way through this crisis.

Adapting to rapidly changing circumstances and new challenges and demands.

Naturally, there is greater use of videoconferencing, but we feel there is still no better way of engaging with people than by meeting them face-to-face. Inevitably, some changes in the way we work will be temporary, while others are likely to become more permanent. We use a variety of electronic communications channels now widely available for business meetings and collaboration. However, we still feel these electronic meetings should be used to complement, not entirely replace, visits to sites and stakeholders as these increase the Directors’ knowledge and understanding of the business and its culture, but also importantly their visibility. These visits are especially helpful to Directors who are new to the Group. The Board is regularly refreshed with new members, and this is appropriately balanced by keeping the experience and knowledge of others, and you can see on page 98 that we now have the right balance of recent recruits and seasoned professionals.

Diversity of thought, background, national origin, gender and ethnicity is as vital for an effective Board as it is in other aspects of life, and I am pleased to report that we have made good progress in this area. We have met or exceeded all internal and external guidelines on diversity, and excitingly, some Directors are filling their first such role in a UK public company. This widens the available talent pool for Non-executive Directors and helps development at their parent companies and beyond.

In September we announced that Bruno Angelici and Olivier Bohuon would be retiring from the Board at the conclusion of the 2020 AGM. During his ten years service Bruno has provided an invaluable contribution to the Company and I would like to thank him for his wise counsel and unstinting hard work. While with us for a shorter period of time, Olivier’s deep knowledge of the healthcare field has been very impactful and we are grateful to him for everything he has done for us. On behalf of all the Directors and management I wish them every success in the future. More details on our succession planning are set out in the Nomination & Governance Committee Report.

I hope the following pages provide you with an insight into our work on your behalf. We are always interested to hear your thoughts on all our activities and governance is a key one of those.

Sir George Buckley
CHAIRMAN
UK Corporate Governance Code Compliance

In FY2020 the Company applied the Principles, and at the date of this report, complied with all Provisions of the UK Corporate Governance Code 2018 (the 2018 Code) in full. During the period the Company confirmed its post-employment shareholding policy in accordance with Provision 36. You can read more about this on page 111. Our Board considers that appropriate governance standards were in place throughout the year, as explained throughout this Report and set out below. A copy of the 2018 Code is available from the Financial Reporting Council’s website at frc.org.uk.

<table>
<thead>
<tr>
<th>Board Leadership and Company Purpose</th>
<th>Find out more about the members of our Board on pages 84-87</th>
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<td>Read about our governance framework, stakeholder engagement and Board activity in FY2020 on pages 88-95</td>
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<td>Composition, Succession and Evaluation</td>
<td>Our report from the Nomination &amp; Governance Committee and information about the FY2020 Board evaluation process can be found on pages 96-101</td>
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<td>Audit, risk and internal control</td>
<td>The Audit &amp; Risk Committee report begins on page 102 and the Risk Management section is on pages 67-76</td>
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<td>Remuneration</td>
<td>The Directors’ Remuneration Report begins on page 108</td>
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A MESSAGE FROM BILL SEEGER ON WORKFORCE ENGAGEMENT

The Board recognises the value and importance of workforce engagement in support of delivering the Group’s long-term strategic objectives and is committed to understanding and learning from the views of all our stakeholders. As reported to you last year, the Board agreed that I, as your Senior Independent Director, would be responsible for ensuring that the Board engages effectively with our workforce.

Due to the operational and geographic diversity of the Group, the Board agreed that each Non-executive Director would engage with the workforce on a functional basis, to better leverage their individual expertise and skills. Each Non-executive Director was also allocated a geographic region where they would take the co-lead on workforce engagement. To supplement this it was agreed that each Non-executive Director would also independently visit at least one site in the year.

COVID-19 has had a significant impact on our planned engagement activities including the cancellation of Smiths Day which was earmarked as a key Group-wide opportunity for Directors to meet with the workforce to discuss and understand how our culture and values are embedded.

Prior to travel restrictions being introduced, in FY2020 our Non-executive Directors visited a number of sites and met with employees at Flex-Tek in France, John Crane in the UK and the Digital Forge in the US. The intention was that the majority of site visits would take place in the second half of the year, from March onwards, and although this was not possible the Chairman and Directors have instead used other methods of engagement. These have included webcasts, videoconference meetings with employees from across the Group and two-way Q&A town halls. The videoconference meetings have varied in size from whole functions to three or four employees and sometimes one-on-one meetings. We will continue to use these methods in FY2021 and will resume site visits when travel restrictions are lifted, always bearing in mind that the safety and wellbeing of our workforce is a key priority.

Engagement during these uncertain times has been crucial for ensuring the Board’s decision-making is as well informed as it can be and for ensuring that the workforce knows that we are aware of and appreciate their efforts to keep the business operating effectively. More information on our specific engagement activities with the workforce and other stakeholder groups is set out on pages 90-91.

All of the Board welcome and value feedback and so I thank those members of the workforce who have taken the time to engage with us and would encourage others to do so. We look forward to continuing our activities to further understand the culture in the business.
Our Board

The Board is collectively responsible for the long-term success of Smiths and the delivery of sustainable stakeholder value.

Sir George Buckley
Chairman
Appointed: 1 August 2013

Sir George has extensive experience of large, multi-industry businesses operating in global markets, and has had a long career in engineering and innovation. As Chairman, Sir George ensures effective communication with stakeholders, and that the Board provides leadership and guidance for executive management, especially with regard to the Group’s response to the COVID-19 pandemic. Sir George’s previous roles, including as Chairman and CEO of 3M, a US-based global technology company and Dow Jones 30 component, support his effective chairmanship of the Board. His other previous experience includes Chairman and CEO of Brunswick Corporation. Sir George currently serves as Non-executive Chairman of Stanley Black & Decker, Inc. and Non-executive Director of Hitachi Ltd. He has a PhD in Electrical Engineering.

Andy Reynolds Smith
Chief Executive
Appointed: 25 September 2015

Andy brings in-depth industry knowledge to the Board and spent over a decade at GKN plc, a complex global engineering group, prior to joining Smiths. At GKN plc he was Chief Executive of the Automotive division and a member of the Board from 2007. Earlier in his career, Andy held senior management roles at Ingersoll Rand, Siebe plc (now Schneider Electric) and Delphi Automotive Systems. His previous experience also includes a non-executive directorship at Morgan Advanced Materials, Chairman of the CBI Manufacturing Council and membership of the Government Ministerial Advisory Group for Manufacturing and green economy.

John Shipsey
Chief Financial Officer
Appointed: 1 January 2018

John has valuable experience leading innovative companies, and prior to joining Smiths was Chief Financial Officer for Dyson, a diversified global technology company. At Dyson he was part of the team that led their global growth, particularly in Asia. His previous experience includes 13 years at Diageo plc, a multinational alcoholic beverages company, in a number of senior finance and strategy roles. This included Finance Director for its Iberia region and Chief Financial Officer of Schieffelin & Somerset, a US joint venture between Diageo and LVMH. John is a Chartered Accountant.
Bill Seeger

**Senior Independent Director**
Appointed: 12 May 2014

Bill had a successful career in finance in the engineering sector and was Group Finance Director at GKN plc, a global engineering group, until 2014. As Senior Independent Director Bill has been responsible for ensuring the Board engages effectively with the workforce over the year and as chair of the Remuneration Committee for leading the Committee’s discussions on ensuring that developments in remuneration practices are considered and where appropriate acted upon.

At GKN he also held the roles of CEO of the Propulsion Systems Division, and CFO of the Aerospace Division. Earlier in his career Bill spent 30 years at TRW, a US-based automotive and aerospace group, where he held various senior finance positions. This extensive experience in global engineering businesses supports his participation in robust decision-making by the Board. Bill has a BA in Economics and an MBA.

**Other significant appointments**
- Senior Independent Director, Spectris plc
- Lecturer, UCLA Anderson School of Management

Bruno Angelici

**Non-executive Director**
Appointed: 1 July 2010

Bruno will step down from the Board at the conclusion of the 2020 AGM and will not be standing for re-election.

During his career Bruno has held senior management roles in global pharmaceutical and medical device companies, bringing a deeper understanding of the healthcare environment and industry to the Board. This experience has enabled him to provide invaluable advice to the Group especially in relation to Smiths Medical.

Until his retirement in 2010, Bruno was Executive Vice President, International, at AstraZeneca, where he was responsible for Europe, Asia Pacific, Latin America and MEA. Bruno has a degree in Law from Reims University and an MBA from Kellogg School of Management, Chicago.

**Other significant appointments**
- Non-executive Chairman, Vectura Group plc

Olivier Bohuon

**Non-executive Director**
Appointed: 1 July 2018

Olivier will step down from the Board at the conclusion of the 2020 AGM and will not be standing for re-election.

Olivier has significant executive experience at global pharmaceutical and MedTech companies, enabling different perspectives to be considered during Board discussions.

His knowledge of the MedTech industry has been especially useful regarding the Group’s plans for the separation of Smiths Medical. Prior to joining Smiths, Olivier was Chief Executive at Smith & Nephew plc, a multinational medical equipment manufacturing company. His previous roles include CEO at Pierre Fabre Group and President of Abbott Pharmaceuticals. Olivier is a member of the French Academy of Pharmacy and the French Academy of Technologies. He has an MBA and a doctorate in Pharmacy.

**Other significant appointments**
- Non-executive Chairman, LEO Pharma
- Non-executive Director, Takeda Pharmaceutical Company Limited
- Non-executive Director, Virbac SA
Our Board continued

Pam Cheng
Non-executive Director
Appointed: 1 March 2020

Pam will stand for election by shareholders at the AGM.

Pam is Executive Vice-President, Operations and Information Technology at AstraZeneca plc, a multinational pharmaceutical and biopharmaceutical company. Pam’s experience in manufacturing, supply chain and technology in large global businesses further strengthens the Board’s discussions on embedding world-class operations. In 2020 she provided valuable assistance and advice on supply chain logistics during COVID-19 and supported our celebration of International Women in Engineering Day. Pam’s previous roles include President of MSD (Merck & Co., Inc.) in China and Senior Vice President of Global Supply Chain Management & Logistics for Merck globally. Pam also held various engineering and project management positions at Universal Oil Products, Union Carbide Corporation and GAF Chemicals. Pam holds Bachelor’s and Master’s degrees in chemical engineering and has an MBA.

Dame Ann Dowling
Non-executive Director
Appointed: 19 September 2018

Dame Ann is a Deputy Vice Chancellor and an emeritus professor of Mechanical Engineering at the University of Cambridge. She has had a distinguished academic career, and her contribution to engineering research and the practical application of new technology in industry is internationally recognised. Dame Ann has used her wide experience to inspire Smiths employees, including through her attendance at the John Crane’s Professional Women’s Network and her involvement in our support for International Women in Engineering Day. Dame Ann’s knowledge and background offer a different perspective to Board discussions, and her previous roles include five years as Head of Engineering at the University of Cambridge, and President and Chairman of Trustees of the Royal Academy of Engineering. Dame Ann has a degree in mathematics and a PhD in engineering.

Tanya Fratto
Non-executive Director
Appointed: 1 July 2012

Tanya has had a successful career running businesses over a 20+ year career with General Electric Corporation, a multinational conglomerate. Prior to joining the Smiths Board, she was the CEO of Diamond Innovations Inc, a manufacturer of industrial diamonds. In addition to her experience in manufacturing and operations, she brings insight into product innovation, sales and marketing across a range of sectors and an extensive knowledge of operating in the US, to Board discussions. As one of the longest serving members of the Board she has a deep knowledge of the Group and supported our celebration of International Women in Engineering Day. She is a qualified electrical engineer and has a BSc in Electrical Engineering.

Other significant appointments
- Non-executive Director, Advanced Drainage Systems, Inc.
- Non-executive Director, Ashtead Group plc
- Non-executive Director, Mondi plc

John Mills
Company Secretary
Appointed: 1 June 2018

John has gained corporate governance and legal experience in a wide range of international businesses. He previously held senior roles in a variety of sectors, most recently at Anglo American plc, RSA Insurance Group plc and Cadbury plc. He has an LLB and is a Fellow of the ICSA: Governance Institute and a qualified solicitor.
Karin Hoeing  
**Non-executive Director**  
Appointed: 2 April 2020

Karin will stand for election by shareholders at the AGM.

Karin Hoeing is Group Human Resources Director at BAE Systems plc, bringing current executive experience of defence, security, and aerospace to the Board. Since joining the Board she has provided valuable assistance and advice on people issues during the COVID-19 crisis and joined us in celebrating International Women in Engineering Day. Prior to joining BAE she led one of the major international business divisions at Schlumberger, a multinational oil services company. Karin spent 20 years at Schlumberger, where she held a number of senior HR, marketing, technology and line management leadership positions across Europe, the Middle East and Asia. Karin has a Diploma Geophysics degree.

Mark Seligman  
**Non-executive Director**  
Appointed: 16 May 2016

Mark’s extensive experience in corporate finance and capital markets supports Board discussion of the Group’s portfolio management. In 2020 he has engaged with a cross-divisional range of employees working in Finance and as Chair of the Audit & Risk Committee he led their oversight of the financial impacts of COVID-19 and the Group’s response to it. He is a former senior investment banker and during his executive career he held various roles at Credit Suisse, including Chairman of UK Investment Banking. Mark also brings his non-executive experience to the Board, having served as senior independent director and audit committee chairman at various FTSE 100 companies. Mark is a Chartered Accountant, and has an MA in Philosophy, Politics and Economics.

Noel Tata  
**Non-executive Director**  
Appointed: 1 January 2017

Noel has had a successful career in global business. He has extensive experience of the high-growth economies which are key markets for our growth strategy and has been invaluable in developing key strategic relationships in Asia since joining the Board. He is the Managing Director of Tata International Limited, a global trading and distribution company and a trading arm of the Tata Group, a privately-owned multinational holding company. Noel has a BA in Economics.

**Other significant appointments**

With the exception of Kansai Nerolac Paints Ltd, each of the following companies forms part of the Tata Group.

– Non-independent, Non-executive Chairman, Tata Investment Corporation
– Non-independent, Vice Chairman, Titan Company Ltd
– Non-independent, Non-executive Chairman, Trent Ltd
– Non-independent, Non-executive Chairman, Voltas Ltd
– Non-executive director, Kansai Nerolac Paints Ltd

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**Key**

- **A**: Audit & Risk Committee member  
- **N**: Nomination & Governance Committee member  
- **R**: Remuneration Committee member  
- **I**: Independent Director  
- **C**: Committee Chair  

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**NO OTHER DIRECTORS SERVED DURING FY2020.**
Board governance

The Board is ultimately accountable to our shareholders, and the Directors are responsible for ensuring that management actions are aligned with their and other stakeholders’ interests. The Board has approved a governance framework of systems and controls in order to effectively discharge its collective responsibility. This framework supports our Directors’ compliance with their duty to promote the success of the Company under section 172 of the Companies Act 2006 (the Act). The framework, including the delegation of specific authorities to the Board’s three principal Committees, the Nomination & Governance, Audit & Risk and Remuneration Committees, is subject to ongoing review to ensure that it remains fit for purpose.

GOVERNANCE MODEL

BOARD

CHAIRMAN
Responsible for:
- Ensuring the Board’s continued effectiveness
- Shaping boardroom culture and encouraging individual Director engagement
- Leading the Board and setting the Board agenda
- Leading the annual Board evaluation

CHIEF EXECUTIVE
Responsible for:
- Developing and proposing strategy to the Board
- Setting and communicating the culture, values and behaviours for the Group
- Leading the Executive Committee
- Managing relationships with our key stakeholders

SENIOR INDEPENDENT DIRECTOR
Responsible for:
- Supporting the Chairman in the delivery of the Board’s objectives
- Being available to shareholders if they wish to raise any concerns
- Acting as an intermediary between the other Directors if necessary
- Overseeing workforce engagement

NON-EXECUTIVE DIRECTORS
Responsible for:
- Providing constructive challenge and strategic guidance to Board discussions
- Oversight of management and the business, including culture
- Offering specialist advice
- Assessing the effectiveness of systems of internal control and risk management

COMPANY SECRETARY
Responsible for:
- Advising the Board on governance matters
- Supporting the Chairman in the efficient and effective functioning of the Board and its Committees
- Ensuring the Board receives quality information in a timely manner

BOARD COMMITTEES

NOMINATION & GOVERNANCE COMMITTEE
Reviews and makes recommendations to the Board on the structure, size and composition of the Board and its Committees, and leads the process for Director appointments and Director and senior management succession planning.

AUDIT & RISK COMMITTEE
Ensures the integrity of the Group’s financial reporting and audit processes, and the maintenance of sound internal control and risk management systems.

REMUNERATION COMMITTEE
Responsible for the Group’s remuneration strategy and reviews and oversees the Group’s Remuneration Policy for the Directors and senior management.

EXECUTIVE COMMITTEE
Assists the Chief Executive in discharging his responsibilities and collectively responsible for implementing strategy, ensuring consistent execution and embedding the culture and values.

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

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

ACQUISITIONS & DIVESTMENTS COMMITTEE
Approves mergers, acquisitions, disposals and joint ventures within defined authority limits agreed by the Board.

Read more on pages 96-101

Read more on page 102-107

Read more on pages 108-129
The Board is responsible for approving Group strategy consistent with our purpose and for overseeing its implementation, and, subject to applicable legislation and regulation and the Articles of Association, they may exercise all powers of the Company. The Board ensure that the strategy is in line with our values, while monitoring the internal controls, risk management and viability of the Company and considering the views of stakeholders, including but not limited to shareholders, the workforce, customers, our supply chain and the community. The Chief Executive is responsible for preparing and recommending the strategy and for the day-to-day management of the Company, including leading the Executive Committee. Biographies for our Executive Committee can be found on page 14. Executive management implement the Group’s strategy and provide the Chief Executive, and the Board as a whole, with the information they need to make decisions that will determine the long-term success of the Group.

There is a schedule of matters which are considered significant to Smiths and have therefore been reserved for the decision of the Board. This is due to their strategic, financial or reputational implications or consequences. The formal schedule can be found on our website and includes approval of Group purpose, strategy, values, business plans and budgets and oversight of Group culture. During COVID-19 the Board reviewed its ways of working and rapidly adapted to the changing circumstances, challenges and demands. As a result there are a number of enhancements to the ways in which the Board and its Committees operate which will continue or will be implemented over the coming months.

The Terms of Reference for the three Board Committees, which were reviewed during the year, can be found on our website. The Transaction Committee, which was established in FY2019 in order to provide support and oversight of the separation of Smiths Medical, continued to meet throughout the year. and reported to the Board on its activities. The Committee is an ad hoc committee of the Board and currently consists of three Non-executive Directors, Bill Seeger (Chair), Bruno Angelici and Mark Seligman. Its role is to provide strategic input to the Executive Team in relation to the separation of Smiths Medical and to act as a conduit for communication with the rest of the Board to ensure that they are apprised of the progress made to date. Other attendees at Committee meetings are the Chairman, Executive Directors and members of the Executive Team and the Group’s financial advisers when appropriate. The Committee met on fourteen occasions during the year.

**Board and Committee meetings**

The Chairman sets the agenda and determines the style and tone of discussions at Board meetings. At each scheduled Board meeting the Chief Executive and the Chief Financial Officer present separate reports, detailing business performance and progress against strategy. These are supplemented by regular performance updates from the Chief Executive to the Directors between meetings. Invitations to Board meetings are extended to divisional presidents, business managers and heads of functions when appropriate, to ensure that the Board is kept up to date with management priorities and challenges. The attendance of senior executives also supports executive succession planning. External advisers are invited to attend as necessary.

**Director attendance**

<table>
<thead>
<tr>
<th>Chairman</th>
<th>Non-executive Directors</th>
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<tr>
<td>Sir George Buckley</td>
<td>Bruno Angelici</td>
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<td>Olivier Bouhon</td>
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<td>Pam Cheng²</td>
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<td>Dame Ann Dowling</td>
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<td>Karin Hoeing³</td>
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<td>Bill Seeger</td>
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<td>Mark Seligman</td>
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<td>Noel Tata</td>
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1. During the year there were six scheduled Board meetings and three ad hoc meetings. All meetings were attended in full.
2. Pam Cheng joined the Board on 1 March 2020. Pam attended the Board and Audit & Risk Committee meetings in September and the Remuneration Committee meeting in November as part of her induction before she joined the Board.
3. Karin Hoeing joined the Board on 2 April 2020. Karin is not a member of the Nomination & Governance Committee or the Audit & Risk Committee.
Stakeholder engagement by the Board

Our key stakeholders at Smiths are our people, our customers, our supply chain, the communities in which we operate, regulators and governments, and our shareholders.

Stakeholder engagement takes place across the Group, both operationally within Smiths and by the Directors themselves.

This engagement is critical to the success of any business, and where the engagement is indirect the Board rely on management reports for assurance that the relationship is being managed effectively. Where a Non-executive Director has had direct stakeholder engagement they will provide feedback to the other Directors at the next Board meeting.

The outcomes of stakeholder discussions, including their needs and any concerns, are reported to the Board and Board Committees on a regular basis as part of their annual calendar of work. This enables the Directors to better understand how the Group’s culture and values are embedded across all aspects of the Group’s activities and supports informed decision-making.

Read Bill Seeger’s report on page 83 for more information about how the Board has engaged with the workforce during the year.
Our stakeholders

Direct Board engagement in FY2020
- Participation at the European Employee Forum which included a presentation on the role of a Non-executive Director
- Attendance at a Smiths Innovation Strategy Board (SISB) meeting
- Attendance at Human Resources team meetings and Q&A sessions
- Participation at a Financial Controllers Club session, a cross-divisional Finance forum

Indirect Board engagement in FY2020
- Formal reports to the Board included:
  - An in-depth review of people strategy, talent management, people risk and workforce engagement
  - The Diversity & Inclusion Plan, including MySay survey results and inclusion dashboards
  - ‘Speak Out’ updates and other reports and statistics related to the Group’s ethical policies and performance
- The Chief Executive’s updates to the Board covered people matters

The Chief Executive had extensive engagement with the UK Government regarding Smiths involvement in the VentilatorChallengeUK Consortium

The Board had intended to meet in the United Arab Emirates in early 2020. The Board’s itinerary included visits to Smiths Detection and John Crane operations and meetings with the employees and customers of these divisions. Unfortunately, due to events in the region earlier in the year, the trip was cancelled

OUR PEOPLE

The Chief Executive had extensive engagement with other companies and key suppliers to the Group to form the consortium which supported the VentilatorChallengeUK

A Non-executive Director provided support and guidance to the Operations and Supply Nerve Centre (OSNC) in respect of our response to COVID-19

OUR CUSTOMERS

The Chief Financial Officer engaged regularly with the Group’s Pension Trustees

The Chief Executive engaged with the UK Government regarding the Group’s involvement in the VentilatorChallengeUK Consortium

As referred to above, a planned visit to the United Arab Emirates in early 2020 was cancelled. The Board were scheduled to meet with local government representatives and locally based UK Government officials

OUR SUPPLY CHAIN

The Board determined that it was important for the Smiths Medical division to be fully focused on responding to the COVID-19 crisis and supporting the communities in which we operate. This was a key part of the decision-making process which culminated in deciding to postpone the separation of Smiths Medical. See our case study on page 93 for more information

The Chief Financial Officer engaged regularly with the Group’s Pension Trustees

The Chief Executive’s updates to the Board covered people matters

OUR SHAREHOLDERS

Feedback from investor roadshows was discussed by the Board

- Director attendance and interaction with shareholders at the 2019 AGM
- Board approval of the FY2019 final dividend and the decision not to declare the FY2020 interim dividend at the half year
- The Chief Executive and the Chief Financial Officer hosted Results presentations and Q&A sessions and met with a broad spread of the Group’s capital providers
- The Chairman met with certain individual shareholders in FY2020

Formal reports to the Board included:
- Health, safety and environment and security updates, including activities in connection with the Task Force on Climate-related Financial Disclosures (TCFD)
- Executive Environmental Roundtable discussions
- Updates from the business on elements of the Group’s operations which impact the wider community, including the Group’s tax strategy

Formal reports to the Board included:
- Reports from the Chief Executive on the Group’s response to COVID-19
- Divisional reports submitted to each scheduled Board meeting included updates on customers, competitors and market challenges. Divisional COVID-19 update reports included information on how customer relationships were being managed

The Audit & Risk Committee undertook a deep-dive on product quality

- The Audit & Risk Committee received reports on Ethics & Compliance, including modern slavery and human rights updates and compliance with our Supplier Code of Conduct
- The Audit & Risk Committee undertook a deep dive on the integrated supply chain principal risk, including how we monitor suppliers’ financial strength, and how we ensured our own actions have not threatened the viability of key suppliers
- Divisional reports to each scheduled Board meeting included updates on supplier matters

Formal reports to the Board included:
- Reports from the Chief Executive on the Group’s response to COVID-19
- Reports from the Chief Financial Officer on the potential implications of Brexit on the individual divisions and the impact of international tariffs on the Group
- Updates on the regulatory process for the approval of new products

Formal reports to the Board, included:
- Share register analysis, including the Group’s ADR Programme
- Financial metric reporting included the views of debt investors and the rating agencies

Feedback from investor roadshows was discussed by the Board

- Analyst and broker briefings, and reports of meetings with major or prospective shareholders, were circulated to Directors outside the formal Board meeting schedule
Board activity in FY2020

Discussion and decision making by the Board takes the views of key stakeholders into account while continuing to promote the Group’s long-term sustainable success.

People and culture

Matters considered
- Updates on workforce matters throughout the COVID-19 crisis
- The strategic restructuring programme
- The continued embedding of the Smiths Way values through the Chief Executive’s updates to the Board. Unfortunately, due to COVID-19, the annual Smiths Day celebration of the Group’s values was cancelled. All Directors had been invited to visit local sites on the day
- The Group HR Director presented the People Plan to the Board, covering talent and succession planning
- Employee engagement through the employee MySay survey results
- Diversity & Inclusion Plan and gender pay gap reporting in the UK

Outcome
- In response to COVID-19 both the Chairman and the Non-executive Directors and the Executive Committee produced “thank you” videos issued to all employees recognising their efforts during the year. The Chief Executive also led global town hall sessions with each of the divisions
- Approved the strategic restructuring programme
- A video was issued to all employees introducing the Directors and explaining their role and responsibilities, followed by a Non-executive Director video on International Women in Engineering Day
- Arranged one-on-one discussions with high-potential individuals in the business to assess our talent and senior management succession planning

Key stakeholders

- Our people

Link to strategy

- Deliver world-class competitiveness

Financial performance

Matters considered
- Regular updates to the Board on the Group’s financial performance including its liquidity, cash management and conversion, profits and costs
- Stress-testing of the Group’s resilience and the allocation of capital and access to external capital were considered in light of COVID-19
- An update on the Group’s Tax strategy from the Chief Financial Officer and the Group Tax Director
- An update on the Group’s Treasury Strategy, liquidity and funding from the Chief Financial Officer and the Group Treasurer
- An update on the Group’s defined benefit pension arrangements from the Chief Financial Officer

Outcome
- Approval of the FY2019 Results and the FY2020 Interim Results
- Approval of the FY2021 financial plan
- Declaration of the FY2019 final dividend and the decision not to declare the FY2020 interim dividend at the half-year
- Enhanced viability and going concern processes adopted in response to COVID-19
- Establishment of a £1bn Euro-commercial paper programme in response to COVID-19

Key stakeholders

- Our shareholders
- Our people
- Our communities

Link to strategy

- Outperform our chosen markets
- Strong financial framework
Strategic progress

Matters considered

- The usual Board meeting dedicated to strategy scheduled for May 2020 was postponed until FY2021 while the Group focused on its response to COVID-19. The Board continued to receive reports on the Group’s strategic progress over the year, in the light of external economic and geopolitical events
- Detailed information on the proposed structure and framework of the Group after the separation of Smiths Medical. The Directors considered potential markets, customers and future investment opportunities and received regular updates from the business, the Transaction Committee and advisers on the Smiths Medical separation process
- Oversight of M&A activity, including updates on acquisition and divestiture activities at each scheduled Board meeting

Outcome

- Agreed to delay the separation of Smiths Medical. Please see the case study below for more information
- Discussions regarding the Smiths Medical separation commenced with the Pension Trustees, however, this was put on hold due to the separation being delayed
- Oversight of M&A activity, including the acquisition of Reflex Photonics by Smiths Interconnect, Access Scientific by Smiths Medical and PathSensors by Smiths Detection
- Approved the strategic restructuring programme

Key stakeholders

- Our people
- Our customers
- Our supply chain
- Our shareholders

Link to strategy

1. Outperform our chosen markets

DECISION-MAKING: DELAY TO THE SEPARATION OF SMITHS MEDICAL

On 31 March we announced that there would be a delay to the separation of Smiths Medical. The separation was on track to complete by the end of the first half of 2020, but COVID-19 was creating increased economic uncertainty and after careful consideration the Board agreed that it would no longer be practicable to deliver value for all stakeholders in that timeframe. The Directors agreed that Smiths and Smiths Medical needed to focus on responding to the external challenges facing both the Group and the communities in which it operates.

During the first half of FY2020, the Board received regular updates on the work to prepare for the separation. The Transaction Committee, established in FY2019 and comprised of Non-executive Directors, met regularly between Board meetings to provide support and oversight of the separation process.

The decision to delay the separation impacted various stakeholders, including people working for Smiths Medical and the remaining Smiths Group, Smiths Group plc shareholders and the wider community. Financial markets and our customers had reacted positively to the proposed separation. However, the Board collectively agreed the proposed timetable would no longer be viable in the circumstances. In addition, there was an increased opportunity to support the wider community in the production of ventilators and other critical care devices. Direct engagement with stakeholders was limited due to the sensitivity of information, and the rapidly evolving external environment.

An additional Board meeting was scheduled for April 2020 in order to discuss, among other things, the stakeholder response to the announcement. The Directors considered the long-term consequences of their decision to delay and it continues to be the Board’s intention to separate Smiths Medical. In the short term it was necessary for Smiths Medical to focus on providing medical equipment, fulfilling this obligation in line with the Smiths culture and values. The Group’s purpose and long-term aim to become the world’s leading technology company was balanced with this, while the Directors considered their duty to promote the success of Smiths for the benefit of our shareholders.
Board activity in FY2020 continued

Operational performance

Matters considered

– An update on the Smiths Excellence System (SES), including strategic priorities and future developments, statistics on colleague completion of the Smiths lean six sigma belted programme, and current focus on site deployment to embed the associated tools
– Cyber Security Risk updates, including threats from the external environment. The reports covered enterprise and any product cyber incidents
– Reports from the Operations and Supply Nerve Centre
– Deep dives into divisional activities

Outcome

– Endorsement of the Group’s response to COVID-19
– Approval of targeted initiatives at improving the Group’s working capital including inventory management

Key stakeholders

Our shareholders

Shareholder engagement

Our Directors engaged with different groups of shareholders directly and indirectly over the year. All Directors attended the 2019 AGM where shareholders were invited to ask questions during the meeting and to meet the Directors after the formal proceedings were concluded. The 2019 AGM was webcast for the first time, allowing more shareholders to participate. All resolutions were voted on separately and passed with at least 90% of votes in favour.

The Directors were kept up to date with the interests of institutional shareholders and other providers of capital and the Chief Financial Officer met and proactively communicated with committed lending banks and the rating agencies. After the FY2020 Interim Results the Chief Executive updated the Board on investor feedback following the decision to delay the separation of Smiths Medical and to not declare the FY2020 interim dividend.

The 2020 AGM will be held as a closed physical meeting on 16 November. The Notice of AGM can be found in a separate document which is sent out at least 20 working days before the AGM and made available on our website. More information about the AGM and Equiniti, the Company’s Share Registrar, can be found on page 229.

Key stakeholders

Our customers
Our suppliers
Our communities

INVESTOR AND ANALYST MEETINGS IN FY2020

United Kingdom 39%
US and Canada 32%
Rest of Europe 17%
Rest of World 12%

BOARD PRIORITIES FOR FY2021

In addition to the Board’s usual calendar of work, specific focus will be applied to the following areas:

– Continue to monitor COVID-19, its impact on global markets and their recovery
– Continue to review Group and divisional strategy in order to enhance their leadership positions
– Continued oversight of the separation of Smiths Medical, ensuring the right outcome for stakeholders
– Address the agreed actions from the Board evaluation process, with a particular focus on talent and succession planning
– Support the business in improving performance against KPIs
– Oversight of the strategic restructuring programme
– Continue to enhance the Board’s governance framework including stakeholder engagement activities
The Board received externally facilitated crisis management training in September 2019 and so were familiar with the Group’s crisis management framework when COVID-19 began to spread and impact the Group’s operations. It was agreed that the Board’s role was to retain a clear focus on the longer-term consequences of decisions, and the maintenance of the Group’s purpose and core values, while the executive management team managed the short-term priorities. In times of crisis Directors need to take on an active oversight role, and effective management reporting is critical to support this. They received regular written updates during the crisis.

Our people
Effective communication channels to and from the workforce are critical. During the crisis the Board balanced keeping the workforce safe, supporting our customers and supply chain, business continuity and ensuring the positioning of the business remained strong for the long term. Updates on workforce communications were provided to the Board, who also had access to the weekly all-employee email updates and Smiths Now articles, the COVID-19 resources available online, including FAQs and site guidance, and the internal #Thankyoufrontline campaign.

At the March Board meeting the Chief Executive advised the other Directors that crisis management procedures had been activated, with the Smiths Group Crisis Core team meeting at least twice weekly with weekly Executive Committee meetings and a number of other meetings being held daily to manage the crisis within the crisis process framework. Regular management reports updated the Board on the detailed position at Smiths, including confirmed cases of COVID-19 amongst our employees and information about closed sites.

The HR Director presented a special report on the divisional critical role cover exercise to the April Board meeting. The Board enquired into government support for employees and the potential impact of COVID-19 on the strategic restructuring programme. Sadly a number of employees have become ill during the pandemic and a very small number have died. The Board ensured it received information about this and that support was given to their families and grieving colleagues.

Our customers, supply chain, communities, regulators and governments
The Chief Executive advised the March Board meeting that Smiths had been selected to lead one of the consortium groups supplying ventilators, as part of the VentilatorChallengeUK. An update on this significant government contract requiring a substantial increase in production was provided to the April Board meeting.

The regular divisional reports included updates on the impact COVID-19 was having on customers and their supply chains.

A special report on three COVID-19 initiatives was presented to the April Board meeting: the OSNC; in-house surgical mask production; and cost containment measures.

The Directors were updated on the impact of COVID-19 on the Group’s cyber capabilities in May, including threats to capacity and access issues due to increased homeworking.

Our shareholders
At shareholder meetings in the second half of the year the Chief Executive and Chief Financial Officer covered the impact of COVID-19 on the Group and the Group’s response to the crisis.

As part of the review of the Group’s half yearly results in March the Directors were presented with a review of the impact of COVID-19 on Group viability. This included the results of liquidity stress testing using negative assumptions based on severe disruption to customer demand, supply chain and operational capacity. This information was used by the Board when considering the payment of the FY2020 interim dividend and has been updated and included in our Viability Assessment (see pages 77-78).

In April the Directors considered access to external capital and subsequently approved the establishment of a £1bn Euro-commercial paper programme.

Consequences of decisions in the long-term
COVID-19 has required the Board to balance the long-term consequences of decisions and the short-term requirements for operational resilience. In March the Directors considered the potential impact of COVID-19 on Smiths and broader markets, and it was considered in the best interests of key stakeholders to not declare the FY2020 interim dividend and to delay the separation of the Smiths Medical division.

The Chief Executive advised the Board that the Executive Committee had held a risk management session to consider the risks of COVID-19 related market disruption, and the long-term implications of a post COVID-19 world. The Board continues to receive regular reports on the impact of COVID-19 and the likelihood, timescale and speed with which the Group’s markets are likely to recover.
Committee activities in FY2020

Succession planning
- Reviewed the Board skills and experience matrix and after consideration of this recommended the appointment of Karin Hoeing as a Non-executive Director to the Board
- Discussed succession planning for Board positions, which included a written Executive Director succession plan, and reviewed the Group’s senior management succession arrangements and talent pipeline with the Human Resources Director
- Discussed Board composition for Smiths and Smiths Medical following the planned separation
- To support their insight into culture and senior management succession planning, the Non-executive Directors met with members of local senior management prior to physical Board meetings and site visits
- The Chairman and other Non-executive Directors had one-on-one discussions with high-potential individuals in the business

Governance
- Considered Director engagement with stakeholders, including the workforce
- Considered the external appointments of Directors and recommended to the Board that approval continues to be provided
- Recommended updated Terms of Reference to the Board for approval
- Considered the Board Committees’ membership and in doing so the independence and performance of the individual Non-executive Directors
- Reflected on suggestions raised through the ongoing review of the Group’s governance framework

Role of the Committee
The Nomination & Governance Committee reviews and makes recommendations to the Board on the structure, size and composition of the Board and its Committees. In fulfilling this role, the Committee considers the balance of skills, knowledge, experience and the diversity of gender, social and ethnic backgrounds, while having regard to the Group’s strategic objectives. The Committee has a formal, rigorous and transparent appointment process involving all Board members, and makes recommendations based on the merit of the individual candidates, having due regard for the need to ensure the effective functioning of the Board at all times. The Committee also considers Director and senior management succession planning and maintains oversight of the Group’s governance framework.

The members of the Committee and their meeting attendance during the year is set out on page 89. The Chief Executive is normally invited to attend Committee meetings and has attended each of the meetings in FY2020. Other members of senior management are invited to attend as necessary.

In order to fulfil its role the Committee:
- Takes account of the Group’s strategy, business performance, current and future leadership needs, challenges and opportunities, and makes recommendations to the Board on its composition and that of its Committees
- Holds at least one meeting a year to review senior management succession plans and the quality of the talent pipeline across the Group
- Conducts on a periodic basis a review of the Board’s governance framework and recommends any changes to the Board

Performance evaluation
In FY2020, the performance of the Committee was considered as part of the internal Board evaluation process. Overall it was confirmed that the Committee continues to operate effectively.

Diversity of thought, background, national origin, gender and ethnicity is as vital for an effective Board as it is in other aspects of life.
Board diversity performance
At the date of this report 67% of our Directors have a birthplace or background outside the UK, and 42% of our Directors meet the combined measure of gender and ethnic diversity. 33% of our Directors are female. The Board therefore meets both of its diversity targets, and the Hampton-Alexander target of 33% representation on FTSE 350 Boards.

In order to help achieve these aspirations the Nomination & Governance Committee endeavours to only use the services of executive search firms who have signed up to the Voluntary Code of Conduct on Gender Diversity. Executive search firms will also be required to ensure non-UK nationals, women and candidates from historically under-represented ethnic groups are represented on the shortlist for all Board positions.

The Board Diversity Policy was reapproved by the Board in March 2020.

Independence
The Board keeps the independence of the Non-executive Directors under continuous review. In July 2020, the Committee assessed the performance and independence of each of the Non-executive Directors and concluded that each of them contributed effectively to the operation of the Board. In considering the Directors’ independence the Committee reviewed the guidance contained in the 2018 Code.

Bruno Angelici was appointed as a Director on 1 July 2010 and as he had served on the Board for more than nine years a particularly rigorous review of his performance was undertaken. The Board concluded that he continued to demonstrate the qualities of objectivity and independence and contributed to constructive challenge and debate at meetings. It was therefore agreed that he should continue as an independent Non-executive Director until his retirement at the 2020 AGM. Olivier Bohuon will also step-down from the Board at the conclusion of the 2020 AGM.
Tanya Fratto has served on the Board for eight years, Sir George Buckley for seven years and Bill Seeger for six years. As such, their continued objectivity and independence were also subject to rigorous review. It was agreed that Tanya, Sir George and Bill continue to be independent and objective.

Time commitment
All Directors must allocate sufficient time to their work in order to discharge their responsibilities effectively. This has been particularly important in FY2020 as the Board prepared for the separation of Smiths Medical and then oversaw the Group’s global response to COVID-19. When Non-executive Directors join the Board the expected time commitment of 25 days per annum is set out in their letter of appointment. This includes making time to familiarise themselves with business priorities and challenges and to prepare for and attend Board and Committee meetings. In the normal course of business they are also expected to attend the AGM, engage with stakeholders and participate in the Board evaluation process. During a Director’s induction phase an additional time commitment is required. Executive Directors are not permitted to take on the chairmanship or more than one non-executive directorship in a FTSE 100 company, or any other significant appointment.

The Directors’ other significant commitments are detailed in their biographies on pages 84-87 and the Board considers these at least once a year. In FY2020 the Board concluded that the Chairman and the Non-executive Directors devoted sufficient time to fulfil their commitments to Smiths. Particular consideration was given to Sir George Buckley and Noel Tata’s other commitments. Sir George is always available for consultation with management when required and was in frequent contact with management throughout the COVID-19 crisis. Following due consideration, the other Directors confirmed that he continues to demonstrate commitment to his role as Chairman. Noel is Managing Director of Tata International Limited, a trading arm of the Tata Group (a privately-owned multinational group of companies). He brings valuable and distinct experience to Board discussions, as a current executive with contacts in higher-growth countries which are a strategic focus for Smiths.

In order to operate effectively our Directors must receive accurate, timely and high-quality information. This supports their ability to make sound decisions and provide appropriate advice and challenge. The Company Secretary and his team assist the Chairman and Chief Executive in ensuring effective information flows and that the Board is provided with all relevant information. There are procedures in place to ensure that information the Board receives is presented in an appropriate format and contains the level of detail required for Directors to fulfilling their responsibilities effectively.

Information and training
The Board recognises the importance of ongoing training and our Directors are given the opportunity to update their skills and experience on a regular basis. Any individual development needs are discussed with the Directors at the annual performance evaluation. In order for the Directors to remain aware of business priorities and external developments, the Board is provided with formal reports and updates from the divisions and external advisers on a regular basis. During the year the Board received various externally facilitated training sessions, including on crisis management where the Directors were updated on the Group’s preparation for a crisis and received a presentation on good crisis discipline. They were also given an overview of the specific statutory and regulatory duties and responsibilities applicable to directors of a listed company.

The Company Secretary prepares a Governance Report for each scheduled Board meeting; over the year these covered changes to the regulatory environment and opportunities for our Non-executive Directors to attend externally facilitated seminars and roundtable events. The Directors are also obliged to complete annual online training on the Group’s Code of Conduct, information security and anti-bribery and corruption.

In order to operate effectively our Directors must receive accurate, timely and high-quality information. This supports their ability to make sound decisions and provide appropriate advice and challenge. The Company Secretary and his team assist the Chairman and Chief Executive in ensuring effective information flows and that the Board is provided with all relevant information. There are procedures in place to ensure that information the Board receives is presented in an appropriate format and contains the level of detail required for Directors to fulfill their responsibilities effectively.

Directors’ tenure*

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* as at 21 September 2020. Bruno Angelici and Olivier Bohuon will step-down from the Board at the conclusion of the 2020 AGM.
Director induction
To ensure that they are able to effectively contribute to discussion and decision-making, all of our Directors participate in an induction programme on joining the Board. Each induction programme is tailored to provide the individual Director with the necessary knowledge and understanding of the Group, based on their personal experience and background. Where possible, meetings with our key stakeholders will be built into Director induction schedules in future. Information about the Director inductions completed during the year can be found below.

Conflicts of interest
All of our Directors must avoid situations where they have a direct or indirect interest that conflicts, or may possibly conflict, with the best interests of Smiths. The Board has the authority to authorise conflicts and potential conflicts in accordance with our Articles of Association and the Act, and Board approval must be granted before a Director accepts a new external appointment, whether it amounts to a conflict or not.

The Company Secretary maintains a Register of Conflicts which forms the record of actual and potential conflicts and the Board authorisation granted. The Register is reviewed by the Directors at least twice a year and the Board retains the power to vary or terminate any authorisation previously provided.

Advice and insurance
Our Directors have access to the advice and services of the Company Secretary and are able to seek independent professional advice at the expense of Smiths to enable them to fulfil their obligations as members of the Board. In addition, the Directors and Officers of Smiths and its subsidiaries have the benefit of a Directors’ and Officers’ liability insurance policy.

During FY2020, and at the date of this report, qualifying third-party indemnity provisions (as defined by section 234 of the Act) have remained in force for the Directors of the Company and certain other employees in respect of their directorships of some subsidiary companies in relation to certain losses and liabilities which they may incur (or may have incurred) to third parties in the course of their professional duties for the Company, or a subsidiary.

Director re-election
Each year our Directors are subject to election or re-election by shareholders at our AGM. Non-executive Directors are appointed for a specified term of three years, subject to annual re-election at the AGM. Re-appointment for a second three-year term is not automatic, and any term for a Non-executive Director beyond six years is subject to a particularly rigorous review.

Our Chairman, on behalf of the Board, has confirmed that each Non-executive Director standing for re-election at this year’s AGM continues to be an effective member of the Board, and has demonstrated the commitment required. In addition, the Senior Independent Director has confirmed that the Chairman continues to be effective and supports his re-election to the Board at the AGM.

The rules regarding the appointment and replacement of Directors are determined by our Articles of Association and the Act. The Articles of Association can be found on our website and can only be amended by a special resolution of shareholders.

DIRECTOR INDUCTIONS DURING COVID-19
Pam Cheng and Karin Hoeing joined the Board in March and April 2020 respectively. Normal practice is for a new Director to meet with the Chairman, the Company Secretary, Non-executive Directors and Executive Committee members, including the divisional presidents, and other senior executives. They may also meet with the external auditors and the Group’s key external advisers.

Ordinarily, a majority of these meetings would be in person, but due to restrictions arising from COVID-19 this was not always possible for Pam and Karin, so most meetings have been held via videoconference instead. Briefing documents are circulated in advance of induction meetings. Induction programmes would normally include visits to Smiths sites, which have also not been possible due to COVID-19.

To provide an insight into the Group’s strategy, culture and values, extensive information about the Group is made available to new Directors. Before formally joining the Board, in order to familiarise herself with its workings, Pam joined the Board and Audit & Risk Committee meetings in September and the Remuneration Committee meeting in November as an attendee.
Board evaluation

An effective Board is essential to deliver the Group’s objectives and long-term sustainable value for stakeholders.

Principles

Each year an evaluation of the Board and its Committees is conducted to monitor their effectiveness and to help identify any improvement opportunities. The annual evaluation of the performance of the Non-executive Directors and the Chief Executive is led by the Chairman. Feedback is given to the Chief Executive by the Chairman after each Board meeting and on an ad hoc basis throughout the year. The evaluation of the Non-executive Directors includes face-to-face meetings with the Chairman for each of them individually. The Senior Independent Director and the Chief Executive lead the evaluations for the Chairman and the Chief Financial Officer respectively. Additionally, the Board evaluation is independently facilitated every three years. Independent Audit Limited facilitated the FY2018 Board evaluation and assisted with the interpretation of the results from the questionnaires used to support the FY2019 and FY2020 internal evaluations. Independent Audit Limited have no other connection with the Company.

Building on the FY2019 evaluation

As reported in last year’s Annual Report, the Directors believed that the Board and its Committees continued to function very effectively, but there were areas where they agreed processes could still be enhanced. These centred on i) continuing to embed and develop executive succession planning processes, ii) the factors taken into consideration when making strategic decisions, and iii) better communication with Non-executive Directors by the Executive Directors.

Strategic decisions involve the consideration of many different factors and the Board wanted to ensure that these factors were all raised in a timely manner and in sufficient detail. Ways to ensure this happens on a consistent basis, and that the general flow of information and exchange of ideas between management and the Board improves, were considered. The Nomination & Governance Committee had enhanced its effectiveness in the year but succession planning was a recurring theme from the FY2018 evaluation.

Shortlists for Board appointments were deemed to be of good quality, but the Board wanted greater insight into the quality of the management talent pipeline within the Group.

The objective this year was to build on the findings of the FY2019 evaluation and assess through the answers to a series of questions (FY2019: 46; FY2020: 43) how well the Board discharged the fundamental role it plays, its dynamics, its coverage of strategy and risks, and how each of the Committees performed the roles delegated to them by the Board.

Using similar questionnaires year on year allowed comparison with the results from the FY2019 evaluation for many areas, with additional questions on some of the key topics considered by the Board during the year. For example, in FY2020, the questionnaire contained a specific section on the operation of the Transaction Committee which had been formed to monitor and advise on the separation process for Smiths Medical. The answers to the questionnaire are compiled on a non-attributable basis and reviewed in detail by the Nomination & Governance Committee.

The process did not include a section on the Remuneration Committee as that had separately been internally evaluated earlier in the year. This was ahead of the appointment of new advisers to the Remuneration Committee to obtain feedback from Directors and senior management on the current remuneration consultancy arrangements, performance measures and Committee governance.

Each Director and member of senior management was independently interviewed by members of the Human Resources function, with the findings and performance of the Remuneration Committee considered by the Board as part of the overall evaluation process.

FY2020 evaluation assessment

The results from the FY2020 evaluation showed encouraging improvements from those of the previous year, with nearly all questions achieving better scores than the already high ones in FY2019. There is a good cross-set of skills on the Board with a balance of expertise and experiences and diversity of background. The Board have open and engaged but robust discussions. The areas which the Board felt were most in need of attention were again in relation to strategic decision-making, executive succession planning and communication where although these areas had improved overall, there is still more which could be done. Progress against actions from FY2019 and those planned for FY2021 are set out on the opposite page.

The Audit & Risk and Nomination & Governance Committees both improved their scores from FY2019. As the evaluation of the Remuneration Committee was carried out separately using a different process there were no comparators for this Committee. It was agreed that the feedback from Committee members regarding the current Remuneration Policy would be used to identify priorities and inform work on the next Policy review for submission to shareholders.

To assist in progressing matters between Remuneration Committee meetings, a working group consisting of three or more Directors assisted by management was established and in operation from May 2020, chaired by Bill Seeger and submitting matters to the Committee as a whole for approval.

FY2021 evaluation

It is the present intention that the Board evaluation will be independently facilitated in FY2021 as part of the three-year cycle.
Strategic decision-making

Actions from FY2019 evaluation
- A particular focus in the evaluation had been on reviewing how the Board had handled key issues such as the decision to separate the Smiths Medical division. In FY2020 the Board used the newly-established Transaction Committee to provide a regular interface between management and the Board and give oversight of the separation process. The separation process was delayed in early 2020 to allow employees to focus on responding to the COVID-19 pandemic but also because of the challenging circumstances in some segments of the economy. The use of the Committee is felt to have significantly improved strategic decision-making, the flow of information and exchange of ideas between management and the Board and communication in general. The Committee has broadened its role to oversight of other acquisitions and disposals at least for the duration of the COVID-19 pandemic.
- Ensuring that the Board has access to all relevant information for its strategic discussions is an area for constant improvement. Not all the improvements planned for FY2020 were implemented due to the COVID-19 pandemic but these remain in place for implementation in FY2021. These include greater interactions with customers, suppliers and subject matter experts as part of the increase in direct stakeholder engagement and to understand how big trends and technology influence the markets in which we do or can operate.

FY2020 evaluation findings
- More factors to be taken into consideration when making strategic decisions, including identifying the skills, characteristics and diversity the Group needs to underpin our strategy; and increasing the understanding of the strategic opportunities and risks from current and emerging technology, climate change and big shifts in behaviours and markets such as those experienced in the last year.

Actions planned for FY2021
- The annual strategy discussion was postponed in FY2020 and will now take place later this year by videoconference. We had hoped that an easing of the pandemic would allow the normal face-to-face meeting of the Board for this session, albeit delayed, but that turned out not to be possible. The interactions between the Board and divisional management have been extended and improved ahead of that meeting to give the Board more time to address the areas identified. As noted above, a few of the improvements identified in FY2019 which could not be implemented in FY2020, due to the restrictions and additional time constraints resulting from the COVID-19 pandemic, will now be introduced in FY2021.
- To allow more time for strategic discussions at the Board meetings themselves, and so that the Board can consider a broader range of topics which affect the strategy, agendas will be re-balanced and items which are not ‘time critical’ will be re-scheduled. Director training now takes place in scheduled ‘stand-alone’ sessions rather than during a regularly scheduled Board meeting with a number of excellent sessions having already taken place.
- In addition to the now embedded Chief Executive monthly report, other formal and informal ways of improving information flows to and from the Board outside of the usual routine of meetings are being considered.

Executive succession planning

Actions from FY2019 evaluation
- To provide the Board with the desired insight into the talent pipeline within the Group for succession planning, more frequent updates from the Human Resources Director are now provided to the Nomination & Governance Committee with the most recent of these provided in July 2020. As noted below, this remains an area of focus for FY2021.
- As part of the evaluation feedback provided in July 2019, the Board asked for more information regarding the Group’s preparedness and processes in the event of a crisis. This was provided to them in September 2019 and the Group’s processes and ability to respond to a crisis were then utilised during the pandemic.

FY2020 evaluation findings
- Greater involvement with divisional management would improve their visibility to the Board for executive succession planning purposes and allow the Directors to assess the ‘bench strength’ of the senior management team. We have already implemented this action.

Actions planned for FY2021
- Increasing the frequency and depth of Board updates in this area started in 2020. Access for the Board to more divisional management employees is being significantly increased, including through greater use of videoconferencing facilities to minimise the need for travel. More face-to-face Board exposure for high-potential talent within the Group is being arranged once travel restrictions are lifted. This will also improve the Board’s knowledge and oversight of the corporate culture.

Board communication

Actions from FY2019 evaluation
- Communication between management and the Non-executive Directors outside of the formal Board meetings has improved with the embedding into our reporting processes of a regular, formal written report from the Chief Executive to them each month. Any matters needing more immediate communication continue to be dealt with by the most appropriate methods of interface on an ad hoc basis. There were more Board and Transaction Committee meetings in the second half of the year to keep the Board apprised of the response to the COVID-19 pandemic and to seek their counsel on the economy, forecasting, government relations and employee safety.

FY2020 evaluation findings
- Well-structured and more timely delivery of Board papers will improve discussions during meetings.
- Continued development of communications from management between Board meetings to further improve Board oversight.

Actions planned for FY2021
- Process and procedure improvements around the creation, dissemination and consideration of Board papers are being addressed through a ‘lean six sigma green belt’ programme run internally. This will report to the Board later this year and the improvements will be implemented shortly thereafter.
- In addition to the now embedded Chief Executive monthly report, other formal and informal ways of improving information flows to and from the Board outside of the usual routine of meetings are being considered.
I am pleased to present the Committee’s report for FY2020. The Committee fulfils an important oversight role, monitoring the integrity of the Group’s financial reporting and the effectiveness of its system of internal control and risk management framework. The delivery of the Committee’s responsibilities during a period of considerable uncertainty has been critical in helping the Group demonstrate to our stakeholders and society at large the long-term sustainability and effectiveness of the Board’s strategy.

As mentioned elsewhere in this Annual Report, the undoubted challenge for Smiths and the Committee this year has been the impact of, and response to, the COVID-19 pandemic. This necessitated new ways of working, reporting and assurance activities in respect of the Group’s financial reporting, financial and non-financial control environment and the associated risk management framework.

Culture can be critical to galvanising an organisation during difficult times and it is the view of the Committee that the Group’s culture helped the business to respond to COVID-19 in a timely and agile way, in line with our values.

As outlined in my report last year, KPMG was selected as the Group’s external auditor for FY2020 following a formal tender exercise. The external auditor plays a key role in supporting the Committee’s oversight of controls and the level of engagement and appropriately sceptical challenge displayed by KPMG since their appointment, during a transition period complicated by COVID-19, has been well received by the Committee and management alike. This report contains information on the activities undertaken by the Committee during the year which has enabled it to monitor and assess the effectiveness of the Group’s control environment.

I would like to thank the Smiths employees and my colleagues on the Committee for their contribution. I look forward to continuing our work in FY2021.

Mark Seligman
CHAIR OF THE AUDIT & RISK COMMITTEE
Committee membership and meetings

The Committee met formally four times during FY2020, (two of which were virtual meetings) with three meetings timed to align with the financial reporting and audit cycles of the Group, namely: the approval of the FY2019 Annual Report and Accounts in September 2019; the approval of the half yearly results in March 2020; and the presentation of the pre-year-end report from the external auditor, KPMG, in July 2020. A meeting was also held in November 2019 at which the Committee undertook, amongst other things, its annual review of the Group’s insurance strategy. The Committee met again in September 2020, to consider the FY2020 Annual Report and Accounts and other matters. In addition, during FY2020 the Committee Chair devoted extra time to discuss the FRC’s support for the Financial Conduct Authority’s moratorium on corporate reporting issued in March 2020 and the Group’s reaction to COVID-19 with executive management and the external auditor. The Committee Chair is also a member of the Transaction Committee – see page 89 for more information.

All members of the Committee who served during the year are, in the view of the Board, independent Non-executive Directors and collectively have recent and relevant financial, accounting and sector experience. Committee member biographies and attendance at meetings during the year can be found on pages 84-87 and 89. In particular, the Board considers that Mark Seligman, who has a long history in corporate finance and knowledge of other listed company audit committees, as well as being a qualified accountant, has the recent and relevant financial experience required to chair the Committee. At the invitation of the Chair of the Committee, and in order to maintain effective communications, the Chairman, Chief Executive and Chief Financial Officer and the audit partners of KPMG attended all meetings. Other regular attendees included the Group Financial Controller, the Director of Internal Audit and the head of the Ethics & Compliance function. Divisional senior management were also invited to attend as appropriate. At the conclusion of meetings, KPMG and the Director of Internal Audit were each given the opportunity to discuss matters with the Committee without executive management being present.

The heads of Internal Audit and Ethics & Compliance, together with KPMG, have direct access to the Committee should they wish to raise any concerns outside formal Committee meetings. The Chair of the Committee reports formally to the Board on the Committee’s activities after each meeting.

Financial and narrative reporting

The Committee is responsible for reviewing the half yearly results announcements and the Annual Report and Accounts before recommending them to the Board for approval. During the year, the Group has had internal control and risk management arrangements in place to support the financial reporting process and provide reasonable assurance that the financial statements are prepared in accordance with applicable standards. These arrangements include seeking divisional confirmation that their reported information gives a true and fair view of the results for the period, and ensuring that record keeping allows an accurate and fair reflection of transactions.

For the period under review, the Committee has considered information presented on significant matters of judgement, accounting estimates, and the interpretation of reporting standards in the adoption of policies. It has discussed with KPMG its audit reports and noted the key accounting matters and significant judgements and issues highlighted in respect of the financial statements and as detailed below. The Committee has examined key points of disclosure and presentation to ensure the adequacy, clarity and completeness of the Annual Report and Accounts and the half yearly results announcement and enhanced going concern and viability assessments in the light of COVID-19. The Committee also considered the delay to the release of the half yearly results in line with guidance issued by the FRC and the release of a trading statement in March to ensure investors were kept informed of developments within the business.

As part of the FRC’s regular oversight role on company reporting, in July 2020 the Company received a letter from the FRC whereby the FRC raised a limited number of queries in connection with disclosures contained in the FY2019 Annual Report. These queries were in relation to foreign exchange rate movements recognised in ‘other comprehensive income’ and ‘accumulated in equity’, the presentation of discontinued operations and the foreign exchange gains and losses on intercompany loans between continuing and discontinued operations; and revenue recognition and the revenue recognised in respect of variable consideration.

The Group’s response was overseen by the Committee Chair and discussed with PwC as the Group’s auditor for FY2019 and KPMG as the Group’s incumbent auditor. The FRC subsequently closed their enquiry in August 2020. We have taken the FRC’s constructive feedback into consideration by enhancing the FY2020 disclosures. The FRC notes that its review was based on the Group’s FY2019 Annual Report only and does not benefit from detailed knowledge of the Group’s business or an understanding of the underlying transaction.

The Committee also reviewed various materials to support the statements in the Annual Report on risk management and internal control, going concern, and the assessment of the Group’s long-term viability – see pages 77-78 for more details. In addition, the Committee assessed the fairness, balance and understandability of the Annual Report, and in doing so considered:

- the accuracy, integrity and consistency of the messages conveyed in the Annual Report;
- the appropriateness of the level of detail in the narrative reporting;
- the correlation between judgements, estimation of uncertainties and issues and the associated disclosures; and
- the explanations of the differences between statutory and headline reported results.

Following its review, the Committee agreed that the Annual Report is representative of the year and presents a fair, balanced and understandable overview, providing the necessary information for shareholders to assess the Group’s position, performance, business model and strategy.
Presentation of headline profits and underlying growth

The Committee considered the policy, presentation and judgements in relation to the Group’s performance, in particular the separation of headline and non-headline items including the treatment of the strategic restructuring programme costs and consideration of which items related to the Group’s ongoing trading activity or those which should be recorded as non-headline.

In terms of the strategic restructuring programme, the Committee concurred with management’s conclusion that costs did not meet the criteria under the Group’s non-headline items policy which requires that non-headline items should only relate to either M&A activity or provisions for legacy issues. Restructuring costs are therefore reported in the headline performance. The Committee also agreed that it was appropriate to disclose an additional alternative performance measure to show operating profit excluding restructuring costs and asset write downs. See note 30 of the financial statements.

Other items included the amortisation of intangible assets and the impact of integration activity on acquired entities and material one-off items relating to pensions and other legacy provisions. In addition, the Committee also considered those judgements in connection with items to be reflected or adjusted in underlying performance. See note 3 of the financial statements.

Acquisitions and divestments

The Committee reviewed the treatment and presentation of the acquisition of Reflex Photonics. The Committee also considered the appropriateness of the recognition of business acquisition and disposal costs and post-acquisition integration programme costs between headline and non-headline profits.

Discontinued operation held for distribution

The continued treatment of Smiths Medical as a discontinued operation and a business held for distribution to owners was also considered and agreed.

The Committee recognised that a key IFRS 5 requirement for classifying a business as held for distribution to owners is that the distribution must be highly probable, with the expectation that it will be completed within one year from the date of classification.

It is recognised that unforeseen circumstances during FY2020 did not allow the distribution to occur; therefore further judgement was required to determine whether the Smiths Medical business continues to meet the criteria for classification as a discontinued operation given the delay in the demerger.

The Committee agreed that the separation was not completed in FY2020 due to exceptional external circumstances as stated in our trading update on 31 March 2020, that the Group remains committed to completing the separation within FY2021 and the recognition criteria of IFRS 5 continue to be fully met.

However, the Committee and the Board will give consideration to any exceptional external circumstances arising, including significant adverse consequences arising from the evolving pandemic and associated economic dislocation which may impact the separation of Smiths Medical.

Revenue recognition

The Committee reviewed management’s revenue recognition judgements. The Committee noted that the timing of revenue recognition involves judgements as to when control of an asset passes to the customer or, particularly in Smiths Detection and Smiths Interconnect, as to the stage of completion of contract activity and whether the separate performance obligations have been fulfilled.

The Committee reviewed and concurred with management’s conclusions on the significant judgements for complex programmes and contract accounting. See note 1 of the financial statements.

Impairment

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TAXATION

The Committee reviewed the treatment of losses in the UK, were assessed. Particular focus was given to the recognition of UK deferred tax assets; deferred tax assets relating to the John Crane, Inc. asbestos provision; and the Titeflex Corporation CSST provision.

The Committee noted the ongoing tax audits that are likely to conclude in the next 12 to 24 months, and the uncertainty associated with their outcome. The Committee noted that the final outcome may vary significantly from the amounts currently provided for tax risks. See note 6 of the financial statements.
Significant accounting estimates and judgements continued

The Committee concurred with management’s conclusion that additional sensitivity disclosures on the impairment risk of the Smiths Detection CGU and the Smiths Interconnect CGU were required and reviewed the appropriateness of the disclosures proposed.

The Committee provided significant focus and challenge to management on the progress achieved on Smiths Medical’s Intellifuse infusion pump(s) (Intellifuse) programme, which has been in development for a number of years.

The Committee recognised that during FY2020 Smiths Medical experienced delays in achieving regulatory clearance for Intellifuse from the US Food and Drug Administration (FDA). The Committee agreed with management’s view that the delay in FDA approval, together with impact of expected competitor product launches, were indicators of potential impairment.

The Committee challenged management’s impairment review of Intellifuse before agreeing that the fair value less costs to sell of Intellifuse is in excess of the carrying value so no impairment remains appropriate.

The Committee reviewed and agreed the additional disclosures on Intellifuse within ‘Discontinued operations and businesses held for distribution to owners’. See note 11 of the financial statements.

New accounting standards – IFRS 16

The Committee received updates on the adoption of IFRS 16 ‘Leases’ in the current year and in particular considered the impact of IFRS 16 on the Group’s cash conversion Alternative Performance Metric. The Committee approved the Group’s accounting policy and the proposed disclosures under the new standard.

Provisions for liabilities and charges

The Committee considered the appropriateness of the level of the provisions held against John Crane, Inc. asbestos litigation and the Titiflex Corporation CSST claims. In particular, the Committee considered the treatment of potential liabilities, the changes to the assumptions made in calculating the provisions, sensitivities to changes in assumptions and met with the Group’s specialist external advisers and agreed the continued appropriateness of the ten-year time period for John Crane, Inc. asbestos litigation.

In the case of the John Crane, Inc. asbestos litigation, the Committee also agreed with the judgement that, whilst large numbers of claims are made against John Crane, Inc. and other defendants every year, due to both known and as yet unknown developments in the US legal system and other events that will impact the asbestos legal environment, a sufficiently reliable estimate cannot be made to cover the full period over which it is expected that costs will be incurred. In both these cases, it was determined that the assumptions fairly reflect the position. See note 22 of the financial statements.

Post-retirement benefits

The Committee reviewed and agreed the methods, assumptions and benchmarks used by the actuaries to calculate the position of the UK and US schemes at 31 July 2020, which have continued to show a net accounting surplus position.

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

External audit

The Committee places great importance on the quality, effectiveness and independence of the external audit process. Further to a tender process described in last year’s Annual Report, KPMG was appointed as the Company’s external auditor at the 2019 Annual General Meeting, replacing PwC which had been the Company’s auditor since 1997. Michael Maloney, KPMG’s audit partner, has led the engagement during the year and since their first appointment at the 2019 AGM. In line with ethical standards it is expected he will rotate off the Smiths audit within five years and no later than the conclusion of the FY2024 audit. In respect of the period, the Committee approved and monitored KPMG’s execution of the audit plan.

The Committee also considered KPMG’s report on its review of the FY2020 half yearly results announcement and its report on the FY2020 audit. It also discussed all significant matters identified in KPMG’s final report on the FY2020 audit including the key accounting judgements taken by management and management’s responses to any audit findings.

Due to PwC’s understanding of Smiths Medical’s financial reporting and internal control environment and the work necessary to support the separation of that business, the Committee agreed it was more efficient for PwC to continue to act as the auditor for those companies which comprise the Smiths Medical division and to report to KPMG.

The Committee confirms that the Company has complied with the provisions of the Statutory Audit Services Order 2014 relating to the UK audit market for large companies throughout the year under review and as at the date of this report.

Independence and effectiveness

The Committee is responsible for the implementation and monitoring of the Group’s policies on external audit, which are designed to maintain the objectivity and safeguard the independence of the external auditor. These policies are reviewed annually. They cover the engagement of the external auditor for non-audit services and the appointment by the Group of former employees of the external auditor. The policies correspond with the European Commission’s recommendations on the auditor’s independence and with the Revised Ethical Standard issued by the FRC in the UK.
Notwithstanding developing practice being adopted by audit firms not to provide non-audit services to audit clients, the Committee recognises that certain permissible non-audit services can be completed more efficiently by, and be purchased more cost-effectively from, the incumbent auditor due to the audit firm’s existing knowledge of the Group and its systems. Under the policy approved by the Committee, it has delegated its responsibility for authorising the purchase of non-audit services from the external auditor to the Chair of the Committee and/or the Chief Financial Officer within specific limits.

Details of the fees paid to KPMG for the year ended 31 July 2020 can be found in note 2 of the financial statements on page 162. Non-audit fees as a percentage of audit fees totalled 9% (FY2019: 4% – this was in respect of fees paid to the Group’s previous external auditor PwC). The Group would not expect in the ordinary course of business for non-audit fees to exceed 20% of the average of the previous three years’ total Group audit fees unless exceptional circumstances existed. The Committee confirms that the non-audit work performed by KPMG, which included some supplementary audit work and work in preparation for the separation of Smiths Medical during the year, was properly assessed and authorised in accordance with the Group’s policy.

In addition to monitoring compliance with Group policies, the Committee’s review of KPMG’s independence included examining written confirmation from KPMG that they remained independent and objective within the context of applicable professional standards, and considering the performance of the audit engagement partner.

Audit effectiveness is assessed continually using a number of measures including: reviewing the quality and scope of the proposed audit plan and progress against the plan; responsiveness to changes in our businesses; appropriate scepticism and challenge of management; and monitoring the independence, professionalism and transparency of the audit. In addition, the Committee discussed the findings in the FRC’s 2020 Audit Quality Inspection Report with KPMG to understand those activities being undertaken to address the findings; and KPMG’s position regarding the various areas of audit reform which is currently under review. The processes whereby KPMG sought assurance on the audit work completed by PwC in respect of those companies forming the Smiths Medical division was also reviewed. The Committee concluded that KPMG and its audit process were effective, and that audit teams had provided effective and objective challenge. The Committee therefore agreed that it was appropriate to recommend to the Board that the reappointment of KPMG as the Company’s auditor for a further year be proposed to shareholders at the 2020 AGM. As this was KPMG’s first year as auditor a further in-depth review of their performance will be conducted ahead of their review of the FY2021 half year results.

Risk management and internal control

The Board is responsible for ensuring that sound risk management and internal control systems are in place. The Executive Committee is responsible for designing the risk management and internal control systems and ensuring they are effectively deployed throughout the Group. The internal control system is a framework to manage risks and monitor compliance with procedures. It is designed to meet the Group’s particular needs and the risks to which it is exposed. However, it can provide only reasonable, not absolute, assurance against material loss to the Group or material misstatement in the financial statements. More detail can be found on pages 67-76.

In FY2020, the Committee, on behalf of the Board and with the assistance of the Internal Audit function, monitored, reviewed and assessed the effectiveness of the Group’s risk management and internal control systems in the context of the Group’s strategy, business model and risk appetite. The Committee also carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity, notably in the light of COVID-19. A description of the principal risks facing the Group and how these were reviewed to assess the Group’s viability can be found on pages 69-76 and 77-78.

In fulfilling its responsibilities, the Committee received reports to enable an evaluation of the control environment and risk assurance framework and processes. No significant failings or weaknesses were identified. The Committee also received reports from the divisions on their risk management processes and a presentation on the risk registers and associated controls. The Committee undertakes deep-dive reviews on a rolling basis of the Group’s principal risks. During FY2020, deep-dives were carried out on: Integrated supply chain with a focus on the potential impact of COVID-19 and Product quality within John Crane. Product quality deep dives for the other divisions are scheduled to be held during FY2021. Separately, the full Board considered the People and Cyber security principal risks and due to COVID-19 a report on financial controls in respect of those risks deemed heightened during the pandemic. Consideration of the risk registers alongside the principal risk deep dives enables the Committee and full Board to understand the culture, risks and opportunities and assurance processes throughout the business and the potential impact on the Group.
Internal Audit

Internal Audit is independent of the business, and as such has no responsibility for operational business management. This ensures the integrity and objectivity of its annual Audit Plan, which is approved by the Committee. The authority of the Internal Audit function is derived from the Committee.

The Director of Internal Audit is accountable to the Board through the Committee Chair, although administratively the Director of Internal Audit reports to the Chief Financial Officer. In order to carry out the responsibilities, as set out in a charter approved by the Committee, the Internal Audit function has:

- full and unrestricted access to all records, property and personnel;
- independent access to the Committee Chair and members of the Committee;
- the right to request meetings with the Committee; and
- the authority and obligation to report significant findings or other concerns to the Committee.

During the period the Committee received progress reports on the execution of the FY2020 Internal Audit Plan, notably how the plan would be completed due to site and system access and travel restrictions imposed as a result of COVID-19. This was largely addressed by the increased use of technology and reviews being completed remotely.

Review findings and recommendations made by the Internal Audit function were discussed as well as the pace at which control enhancements were addressed by the business. The Committee also considered the remit of Internal Audit, its budget and resources and the nature and extent of any outsourcing to specialist co-source providers. It also approved the FY2021 Internal Audit Plan, including the proposed audit scope, approach, coverage and allocation of resources.

Ethics and compliance

During the year, the Committee reviewed the Ethics and Compliance annual work programme, and provided oversight in line with, and investigations into, allegations of non-compliance with the Code of Business Ethics. This included matters raised through the Group’s ethics reporting procedures including the Group’s ‘Speak-Out’ line which allows for anonymous reporting. Smiths ‘Speak Out’ system comprises a number of different channels (including call centres operated by an independent third party across the Group’s global operations) for employees and other stakeholders to report concerns. The Committee also provides oversight for any significant investigations.

During the year there were no matters raised that required the Committee’s direct intervention or investigations which resulted in a material loss to the Group or a detrimental impact on our customers or suppliers. The Committee receives regular reports on the total number and nature of cases by region, the ratio of anonymous vs attributed ethics reports, and the ratio of substantiated to unsubstantiated cases. The anonymous vs attributed metric is used to monitor trust in the Group’s non-retaliation policy.

Accordingly, the Committee considered that the Group’s processes and arrangements for employees to report concerns, including anonymously and without retaliation, about any improprieties and the arrangements for any subsequent investigation as necessary, were both appropriate and effective.

During the year, the Committee provided oversight of a number of areas targeted by the Ethics and Compliance work programme. More information on the Group’s approach to Ethics & Compliance can be found on page 26.

Assessment of internal control and risk management arrangements

The Committee was satisfied that the Group’s processes governing financial reporting and controls, its culture, ethical standards and its relationships with stakeholders continued to be effective. The Committee was also satisfied with the appropriateness and adequacy of the Group’s risk management arrangements, internal control framework and four lines of defence model.
Remuneration Committee

Our objectives are to create clear alignment between remuneration and sustainable, long-term stakeholder interests. We take account of shareholder views and ensure that performance supports the delivery of business strategy through targeting our key performance indicators (KPIs).

Role of the Committee
The Committee is responsible for the Group’s overall remuneration strategy and oversees the Group’s Remuneration Policy for Directors and senior management. The Committee seeks to achieve a strategy that attracts, motivates and retains executive management of the quality required to run the Group successfully. The strategy promotes the long-term success of Smiths, while reflecting the views of all stakeholders. The Committee also approves the service contracts of the Executive Directors and reviews any major changes in Group employee remuneration structures, including the incentive arrangements that apply across the wider workforce.

In order to fulfil its role

- Annually reviews the ongoing appropriateness and relevance of the Remuneration Policy
- Reviews business plans and performance to assess their potential impact on existing and future incentive arrangements
- Reviews remuneration of the wider workforce and related policies to ensure internal alignment of reward
- Considers environmental, social and governance (ESG) risks when determining remuneration policy
- Utilises external advisers to understand remuneration trends in the market. Deloitte LLP were appointed in January 2020 through a competitive tender process
- Conducts an annual review of the Committee’s performance and Terms of Reference
- Prepares a Remuneration Report annually for inclusion in the Annual Report
- Meets at least three times a year

I am pleased to present the Remuneration Report for the year to 31 July 2020.

We find ourselves living through extraordinary times. Our reward framework and related workforce policies have helped to keep our people safe and supported through the COVID-19 crisis. Our people and our business have demonstrated resilience in continuing to deliver for our customers and support vital industries, whilst carefully planning resources in the right way to ensure that the business is well placed for sustainable improvement.

Taking into consideration the evolving global market conditions, the strategic restructuring programme announced in the June trading statement and the impact on employees, a general salary freeze will apply for FY2021. This is a prudent step and will apply across all of Smiths Group, including Executive Directors and other Executive Committee members.

The Committee considered outcomes under the FY2020 annual bonus and FY2018 LTIP awards in the context of the wider external environment and stakeholder experience. In the light of the decision to pay a dividend this year, the positive share price reaction over the last few months and the Company’s early decision not to apply for UK furlough payments, the Committee considered it appropriate to award a bonus of 17.2% of maximum for FY2020 to the Executive Directors reflecting achievements against the performance targets set at the beginning of the financial year. One third of the bonus earned will be deferred into shares. The FY2018 LTIP award vested at 31.3% of maximum, reflecting performance over a three-year period. No discretion was exercised in respect of Executive Director incentive outcomes for the year.
The steps we have previously taken to grant long-term incentive plan awards based on a fixed number of shares continue to deliver alignment with shareholder interests. We have made a commitment to further reduce incumbent Executive Director pension provisions. As announced in 2019, both Executive Directors agreed to freeze the monetary value of their pensions at the FY2019 level. Executive Director pension levels will be further reduced on a phased basis to be aligned with rates available to the wider workforce by the end of 2022, in line with investor guidelines.

During the year we reconfirmed our policy relating to post-employment shareholding requirements, further details of which are set out on page 111. As part of the 2021 Remuneration Policy review, we are also committed to further developing our approach to post-employment shareholding requirements.

During FY2020 we initiated a detailed review of our global benefits to ensure that by the end of FY2021 we have a coherent and fully aligned employee benefit offering protecting and supporting colleagues across Smiths.

Looking forward, we will undertake a thorough review of the Remuneration Policy and intend to consult with shareholders on any proposed changes, prior to presenting the revised Policy for approval at the 2021 AGM.

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**Bill Seeger**  
CHAIR OF THE REMUNERATION COMMITTEE

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### Executive remuneration at a glance

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<thead>
<tr>
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<th>Fixed</th>
<th>Performance related</th>
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<tbody>
<tr>
<td><strong>Target Performance</strong></td>
<td></td>
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</tr>
<tr>
<td>Base salary</td>
<td>41%</td>
<td>59%</td>
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<tr>
<td>Benefits and pension</td>
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<tr>
<td>Annual bonus – Cash</td>
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<td>Annual bonus – Shares</td>
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<td>LTIP</td>
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<tr>
<td><strong>Maximum Performance</strong></td>
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<tr>
<td>Base salary</td>
<td>20%</td>
<td>80%</td>
</tr>
<tr>
<td>Benefits and pension</td>
<td>41%</td>
<td>59%</td>
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<tr>
<td>Annual bonus – Cash</td>
<td>15%</td>
<td>85%</td>
</tr>
<tr>
<td>Annual bonus – Shares</td>
<td>11%</td>
<td>89%</td>
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<tr>
<td>LTIP</td>
<td>47%</td>
<td>53%</td>
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Note: Figures are based on Chief Executive’s remuneration package for FY2020

### The key principles of our Policy

- Competitive reward package to attract, motivate and retain the best talent
- Performance measures aligned to business strategy and balanced between long-term and short-term performance
- Ability to apply appropriate discretion, withhold payments and recover sums already paid

### Elements of Executive Directors’ pay

#### Target Performance

<table>
<thead>
<tr>
<th>Base salary</th>
<th>Benefits and pension</th>
<th>Annual bonus – Cash</th>
<th>Annual bonus – Shares</th>
<th>LTIP</th>
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</thead>
<tbody>
<tr>
<td>41%</td>
<td>61%</td>
<td>59%</td>
<td>63%</td>
<td>27%</td>
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</tbody>
</table>

#### Maximum Performance

<table>
<thead>
<tr>
<th>Base salary</th>
<th>Benefits and pension</th>
<th>Annual bonus – Cash</th>
<th>Annual bonus – Shares</th>
<th>LTIP</th>
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<td>59%</td>
<td>63%</td>
<td>27%</td>
</tr>
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### Activities of the Committee in FY2020

**Policy review**

- Implemented a number of amendments to the application of the Remuneration Policy including review of performance measures to remove duplication
- Considered changes to institutional shareholder guidelines and the impact of these on our approach to implementation of the Policy including retirement benefit provision

**Fixed pay**

- Approved FY2021 salary freeze for the Executive Directors and other Executive Committee members and no increase in fees for the Chairman
- Reviewed and agreed a new retirement benefit policy for incumbent Executive Directors

**Performance related pay**

- Considered and approved annual incentive plan payouts and set targets for the new financial year
- Determined vesting levels for LTIP awards and agreed basis for FY2021 long-term incentive awards
Performance outcome and linkage to strategy

**THE THREE KEY STRATEGIC OBJECTIVES FOR THE BUSINESS ARE:**

1. **Outperform our chosen markets**
   - Read more on page 16

2. **Deliver world-class competitiveness**
   - Read more on page 17

3. **Strong financial framework**
   - Read more on pages 18-21

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**Performance measures driving remuneration**

**Annual bonus – FY2020**

<table>
<thead>
<tr>
<th>Objective</th>
<th>Weighting</th>
<th>Performance</th>
<th>Above target</th>
<th>Between threshold and target</th>
<th>Below threshold</th>
</tr>
</thead>
<tbody>
<tr>
<td>EPS after tax</td>
<td>40%</td>
<td>3</td>
<td>0%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Organic sales growth</td>
<td>30%</td>
<td>1</td>
<td>0%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Headline operating cash conversion</td>
<td>20%</td>
<td>2</td>
<td>9.2%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personal objectives</td>
<td>10%</td>
<td>2</td>
<td>8%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**LTIP – 3 years ending 31 July 2020**

<table>
<thead>
<tr>
<th>Objective</th>
<th>Weighting</th>
<th>Performance</th>
<th>Above target</th>
<th>Between threshold and target</th>
<th>Below threshold</th>
</tr>
</thead>
<tbody>
<tr>
<td>EPS growth before tax</td>
<td>35%</td>
<td>1</td>
<td>0%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Return on Capital Employed</td>
<td>35%</td>
<td>2</td>
<td>11.9%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Headline operating cash conversion</td>
<td>30%</td>
<td>3</td>
<td>19.4%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Single total figure of remuneration for Executive Directors**

**Chief Executive**

FY2020

| Component                        | £000 | Fixed pay | £1,106 | Annual bonus | £260 | Long-term incentives | £830 | Total | £2,196 |

**Chief Financial Officer**

FY2020

| Component                        | £000 | Fixed pay | £681  | Annual bonus | £139 | Long-term incentives | £373 | Total | £1,193 |
The table below summarises how the Remuneration Policy has been implemented in FY2020 and highlights any changes from previous reports.

### Base salary
Fixed remuneration which reflects required skills and expertise to deliver the Group’s objectives.
Increases to Executive Director salaries in FY2020 were below or in line with the average increase for UK employees of 2.7%.

### Annual bonus
- Maximum bonus opportunity remains unchanged at 180% of base salary for Chief Executive
- Maximum bonus opportunity remains unchanged at 150% of base salary for Chief Financial Officer
- FY2020 outcome of 17.2% of maximum
- 33% of annual bonus deferred into shares for three years
Withholding and recovery provisions apply.

### Long-term incentive plan
- Maximum award opportunity remains unchanged at 400% of base salary
- FY2020 award of 179,627 shares for Chief Executive (same number of shares as FY2019)
- FY2020 award of 95,837 shares for Chief Financial Officer (same number of shares as FY2019)
- 31.3% vesting level for three year performance period ending 31 July 2020
- Two year post-vesting holding period applies for all awards from FY2019
Withholding and recovery provisions apply.

### Benefits
Market competitive benefits package consisting of healthcare, life and disability insurance and car benefit. No change in provision.

### Retirement allowance
Policy is for new Executive Directors to receive same percentage allowance as wider workforce.
Executive Director pension levels were frozen at FY2019 monetary value. Pension levels will be further reduced to be aligned with rates available to the wider workforce on an phased basis by the end of 2022, in line with investor guidelines.

### Shareholding guidelines
Personal shareholdings (including deferred bonus shares and vested but unrelased shares, net of tax) for Chief Executive remain above the 250% of salary minimum guideline. Chief Financial Officer is expected to reach the minimum guideline of 200% of base salary within five years of appointment to the Board (1 January 2023).
During the year the Committee clarified its policy on post-employment shareholding requirements (Provision 36 in the UK Corporate Governance Code). The application of good leaver provisions for Executives will be conditional on retaining a number of shares equal to the in-employment shareholding guideline, or actual holding, if lower for a minimum holding period of two years from the date of leaving. No Executives to whom this policy would apply left the Group during the year. We will further develop our approach to post-employment shareholding requirements as part of our wider 2021 policy review.

### Summary of Executive Directors’ remuneration FY2020

<table>
<thead>
<tr>
<th></th>
<th>Chief Executive (£000)</th>
<th>Chief Financial Officer (£000)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>FY2020</td>
<td>FY2019</td>
</tr>
<tr>
<td>Base salary</td>
<td>840</td>
<td>820</td>
</tr>
<tr>
<td>Benefits</td>
<td>61</td>
<td>54</td>
</tr>
<tr>
<td>Retirement allowance</td>
<td>205</td>
<td>205</td>
</tr>
<tr>
<td>Annual bonus – cash</td>
<td>173</td>
<td>405</td>
</tr>
<tr>
<td>Annual bonus – deferred shares</td>
<td>87</td>
<td>203</td>
</tr>
<tr>
<td>Long-term incentives</td>
<td>702</td>
<td>2,100</td>
</tr>
<tr>
<td>Performance share award</td>
<td>128</td>
<td>346</td>
</tr>
<tr>
<td>Total</td>
<td>2,196</td>
<td>4,133</td>
</tr>
</tbody>
</table>
## Remuneration Policy for the Executive Directors

**Base salary**

**To attract, motivate and retain Executive Directors with the required skills and expertise to deliver the Group’s objectives.**

<table>
<thead>
<tr>
<th>Operation</th>
<th>Opportunity</th>
<th>Performance measures</th>
<th>Policy guideline updates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries are reviewed (but not necessarily adjusted) annually and benchmarked against comparable roles at companies of similar market capitalisation, revenues and complexity. The review also takes into account individual performance and experience, the relative performance of the Company and the Remuneration Policy operated across the Group as a whole. The salary increase date (if applicable) is 1 October.</td>
<td>Base salaries are adjusted according to the outcome of the annual review and will be disclosed in the Annual Report on Remuneration. Salary increases for the Executive Directors will normally be in line with those awarded to Smiths wider employee population. Where increases are awarded in excess of this, for example if there is a material change in the responsibility, size or complexity of the role, or a significant change in the market competitiveness of salary, the Committee will provide the rationale in the relevant year’s Annual Report on Remuneration.</td>
<td>Not applicable</td>
<td>None required</td>
</tr>
</tbody>
</table>

**Benefits**

**To provide market-competitive benefits to Executive Directors.**

| Benefits comprise car benefit, life assurance and private healthcare insurance, and other such benefits as the Committee may from time to time determine are appropriate. These include, but are not limited to, relocation allowances, as well as any other future benefits made available either to all employees globally or all employees in the region in which the Executive Director is employed. | Benefits vary by role and individual circumstances. Benefits in respect of the year under review are disclosed in the Annual Report on Remuneration. It is not anticipated that the costs of benefits provided will increase significantly in the financial years over which this Policy will apply, although the Committee retains discretion to approve a higher cost in exceptional circumstances (e.g. to facilitate recruitment, relocation, expatriation, etc.) or in circumstances where factors outside the Group’s control have changed materially (e.g. market increases in insurance costs). | Not applicable | None required |
Pensions

Enables Executive Directors to save for their retirement in a cost-efficient manner.

Executives may choose either to participate in the Company’s defined contribution pension plan or to receive a pension allowance in lieu thereof (and thus arrange their own pension provision).

Pension allowances for the all employee population are reviewed periodically to ensure market competitiveness.

Base salary is the only element of remuneration that is taken into account when determining pension contributions or allowances.

The maximum level of pension contribution (or allowance in lieu thereof) for new Executive Directors will be in line with the contribution level for the wider workforce in the relevant country.

Commitment to freeze monetary value or retirement allowance of incumbent Executive Directors and reduce to the same allowance as wider workforce no later than 31 December 2022, on a phased basis.

Not applicable

The employment contracts of the two Executive Directors currently provide for a cash allowance of 25% of base salary in lieu of pension provision. Both Executive Directors have agreed to freeze the monetary value of the allowance at the FY2019 level, reducing the level of benefit to 24.4% of base salary for FY2020 and FY2021. The allowance will reduce to the contribution level for the wider workforce no later than 31 December 2022, on a phased basis.

Annual bonus

Incentivises short-term priorities in line with the Group’s business strategy.

Annual bonus payments are determined based upon performance against measures and targets set by the Committee at the start of each financial year.

After the end of the financial year, to the extent that the performance criteria have been met, up to 67% of the earned annual bonus is paid in cash. The balance is deferred into shares and released after a further period of three years, without further performance or other conditions. Dividends accrue and are payable in cash at the end of the deferral period.

The Committee may use its discretion to adjust payout of the annual bonus to Executive Directors, within the range of the minimum to maximum opportunity, including reducing it down to zero. Such discretion will only be used where the Committee believes that performance against the prescribed targets does not accurately reflect the Company’s underlying performance.

Cash payments will be subject to clawback and deferred share bonuses awarded will be subject to malus for a period of three years from the end of the relevant performance year, in case of misconduct or material misstatement in the published results of the Group.

The maximum annual bonus opportunity for Executive Directors is up to 180% of salary.

The annual bonus opportunities for the year under review and the coming year are disclosed in the Annual Report on Remuneration.

Under the financial element of the annual bonus, threshold performance must be exceeded before any annual bonus becomes payable. The percentage payout then increases according to the level of achievement against targets. Payment of 25% of maximum opportunity occurs on achievement of threshold performance and 60% of maximum opportunity on achievement of on-target performance.

Based on a combination of financial and non-financial performance measures linked to short-term objectives. Financial performance will account for no less than 70% of the bonus opportunity and may include, but is not limited to, profit, organic sales growth and cash measures.

A review of how dividends accrued on deferred bonus awards are payable (shares or cash) will be undertaken as part of the next Policy review. For awards in FY2021 a minor change has been made to the performance measures to avoid duplication of short and long-term metrics (see page 126).
### Long-Term Incentive Plan (LTIP)

**Incentivises long-term value creation for shareholders, sustainable growth and effective management of the balance sheet.**

Awards of conditional shares are granted annually and vest after a performance period of at least three years, subject to the achievement of performance targets set by the Committee at the start of each cycle. For awards made in FY2019 onwards, vested shares will be subject to a two year post vesting holding period. Details of such holding period will be disclosed in the Annual Report on Remuneration for the year in which the relevant award is made.

To the extent that the performance targets are not met over the performance period, awards will lapse. No retesting of awards under any performance condition is permitted.

Dividends accrue and are paid in cash at the end of the vesting period, on shares that vest.

The Committee may use its discretion to adjust payout of the LTIP to Executive Directors, within the limits of the Plan rules. Such discretion will only be used where the Committee believes that performance against the prescribed targets does not accurately reflect the Company’s underlying performance.

Awards will be subject to malus over the vesting period and clawback from the vesting date for a period of five years from the date of grant, in case of misconduct or material misstatement in the published results of the Group.

The maximum LTIP award opportunity for Executive Directors is up to 400% of salary. For awards made from FY2019 onwards, the award will be a fixed number of shares. In FY2019 this fixed number of shares was equivalent to 300% of salary for the Chief Executive and 250% of salary for the Chief Financial Officer. In subsequent years the Executive Directors will each be awarded the same fixed number of shares as in FY2019. In the event that the Company share price increases by more than 33% during the three year policy period, the fixed number of shares awarded will be restricted so that the value of the award is no more than 33% greater than the value of the FY2019 award at the date of grant. This will ensure that the maximum LTIP award opportunity is not exceeded.

LTIP award sizes for the year under review and the coming year are disclosed in the Annual Report on Remuneration. At threshold performance against each measure, up to 25% of the award subject to that measure vests, increasing on a straight-line basis to 100% for achieving stretch targets.

Based on measures of performance that are aligned with the Group’s strategy. To ensure continued alignment with the Company’s strategic priorities, the Committee may, at its discretion, vary the measures and their weightings from time to time (but will consult shareholders before making significant changes to the performance measures).

A review of how dividends accrued on LTIP awards are payable (shares or cash) will be undertaken as part of the next Policy review. For awards in FY2021 a minor change has been made to the performance measures to avoid duplication of short and long-term metrics (see page 126).

#### Sharesave

**Encourages ownership of shares in the Company and alignment with shareholder interests.**

All UK employees (including Executive Directors) may save up to a maximum monthly savings limit (as determined by UK legislation, or other such lower limit as the Committee may determine at its discretion) for three years.

At the end of the savings period, participants may use their savings to exercise options to acquire shares, which may be granted at a discount of up to 20% to the market price on grant.

<table>
<thead>
<tr>
<th>Sharesave</th>
<th>Not applicable</th>
<th>None required</th>
</tr>
</thead>
</table>

#### Shareholding guidelines

**Encourages ownership of shares in the Company and alignment with shareholder interests.**

Executive Directors must build a minimum shareholding of 250% (for the Chief Executive) or 200% (for other Executive Directors) of base salary within five years of appointment to the Board. 50% of any net vested share awards (after sales to meet tax liabilities) must be retained until the minimum shareholding requirements are met.

Shareholding guidelines also exist below Executive Director level.

Existing good leaver provisions in our share plan rules underpin a post-employment shareholding requirement in line with the above.

<table>
<thead>
<tr>
<th>Shareholding guidelines</th>
<th>Not applicable</th>
<th>Position on post-employment shareholding guidelines to be reconsidered as part of 2021 Policy review</th>
</tr>
</thead>
</table>
Existing grants or entitlements

It is the Company’s intention to honour all pre-existing commitments at the date of this Report and to honour all future obligations entered into, consistent with the approved Remuneration Policy in force at that time. In the case of internal promotion to the Board, the Committee intends to honour any pre-existing commitments made prior to becoming a member of the Board, including where these differ from the approved Remuneration Policy.

Performance measure selection and approach to target setting

Annual bonus measures are selected to reflect the Company’s short-term financial and non-financial priorities. At its discretion, the Committee may vary these measures at the start of each financial year to maintain close alignment between executive incentives and the annual operating plan.

The measures used in the Long-Term Incentive Plan are selected to reflect Smiths Group strategy and to reinforce the key drivers of value creation and growth highlighted elsewhere in this Annual Report: earnings per share, cash measures, organic sales growth and delivering sustainable return on capital.

Annual bonus and LTIP targets are reviewed annually, and take into account the Company’s strategic plan, analyst forecasts for Smiths and its sector comparators and external expectations for Smiths Group key markets. The Committee sets targets that it considers to be challenging but attainable and aligned to the Company’s business objectives over the short term, as reflected in the annual operating plan, and longer term, consistent with the strategic plan. On top of aligning incentives with strategy, targets are designed to ensure that participants’ interests are aligned with the interests of shareholders.

The linkage of the performance measures to business strategy is set out in the ‘Executive remuneration at a glance’ section on page 110.

Alignment of policy between Executive Directors and other employees

The reward policy for other senior employees is broadly consistent with that for Executive Directors, and the Company does not currently operate any incentive plans in which only Executive Directors participate. The Committee reviews each year the all-employee pay and incentive trends and takes these into account in setting Executive Director remuneration levels. The principles of remuneration packages being market related, performance sensitive and driven by business needs are applied at all levels and geographies in the Group and the performance measures used in incentive plans apply generally across all levels of the business.

Alignment with the UK Corporate Governance Code

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

| Clarity | - The Committee welcomes transparency and regular engagement with shareholders with regard to executive remuneration. During the upcoming review of Remuneration Policy in 2021, the Committee Chairman will consult with shareholders to fully understand their views on proposed changes
| Simplicity | - The Committee Chairman has engaged with the workforce across multiple levels of the organisation via live video conferencing and joined the wider Smiths Board on pre-recorded video communications cascaded to all colleagues
| Risk | - The Committee considers the effective management of risk throughout the delivery of incentive plans, applying reasonable discretion to override formulaic outcomes if necessary
| Predictability | - The Committee considers that the structure of incentive arrangements does not encourage unnecessary risk taking
| Proportionality | - For Executive Directors, one third of the annual bonus payment is deferred into shares with an additional three years until vesting
| Alignment to culture | - Malus and clawback provisions are in place for incentive plans and are clearly communicated
| - Our Policy clearly outlines the maximum award levels and vesting outcomes applicable to annual bonus and LTIP. As stated above under ‘risk’, the Committee has the ability to apply discretion to formulaic outcomes and clear malus and clawback provisions exist
| - There is a robust link between strategic business objectives and performance outcome, as outlined on page 110.
| - Our Policy for annual bonus and LTIP outlines threshold, target and maximum opportunity levels, with actual outcomes dependent on performance achieved against robust, pre-determined measures.
| - Through the design of the policy and the discretion of the Committee, poor performance is not rewarded.

Smiths Group values of passion, integrity, respect, ownership and customer focus underpin the design and operation of the incentive programmes. The clear business strategy that is shown in the diagram on page 110 is supported by these values which are widely communicated across the Company.
Remuneration Policy Report continued

Pay scenarios

The graphs below provide estimates of the potential future reward opportunity for the Chief Executive and the Chief Financial Officer, and the potential mix between the different elements of remuneration under four different performance scenarios; ‘Minimum’, ‘On-Target’, ‘Maximum’ and ‘Maximum + Share Price growth’ (which assumes a 50% increase in share price over the LTIP vesting period and bonus deferral period).

### Andy Reynolds Smith (£000)

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Minimum</th>
<th>On-Target</th>
<th>Maximum</th>
<th>Maximum + Share Price Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed Pay (salary, benefits and pension)</td>
<td>€1,110</td>
<td>€1,500</td>
<td>€2,604</td>
<td>€6,497</td>
</tr>
<tr>
<td>Cash bonus</td>
<td>100%</td>
<td>42%</td>
<td>22%</td>
<td>17%</td>
</tr>
<tr>
<td>Deferred bonus</td>
<td></td>
<td>12%</td>
<td>18%</td>
<td>16%</td>
</tr>
<tr>
<td>LTIP</td>
<td></td>
<td></td>
<td>56%</td>
<td>56%</td>
</tr>
</tbody>
</table>

### John Shipsey (£000)

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Minimum</th>
<th>On-Target</th>
<th>Maximum</th>
<th>Maximum + Share Price Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed Pay (salary, benefits and pension)</td>
<td>€683</td>
<td>€1,490</td>
<td>€2,779</td>
<td>€3,557</td>
</tr>
<tr>
<td>Cash bonus</td>
<td>100%</td>
<td>46%</td>
<td>25%</td>
<td>19%</td>
</tr>
<tr>
<td>Deferred bonus</td>
<td></td>
<td>11%</td>
<td>15%</td>
<td>15%</td>
</tr>
<tr>
<td>LTIP</td>
<td></td>
<td></td>
<td>54%</td>
<td>54%</td>
</tr>
</tbody>
</table>

Potential opportunities illustrated above are based on the Policy, applied to the annualised base salaries in force from 1 October 2020. It should be noted that any awards granted under the LTIP in a year do not normally vest until the third anniversary of the date of grant. This illustration is intended to provide further information to shareholders on the relationship between executive pay and performance. Please note, however, that actual pay delivered will further be influenced by factors such as share price appreciation or depreciation and the value of dividends paid. The following assumptions have been made in compiling the above charts:

- **Base salary**
- **Pension**
  - Company pension allowance
- **Other benefits**
- **Cash bonus**
- **Deferred bonus**
- **LTIP**

### Remuneration policy for the Chairman and Non-executive Directors

<table>
<thead>
<tr>
<th>Operation</th>
<th>Opportunity</th>
<th>Performance measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual fee</td>
<td>To attract, motivate and retain Non-executive Directors with the required skills and expertise.</td>
<td>Fees are adjusted according to the outcome of the annual reviews. Not applicable</td>
</tr>
</tbody>
</table>

Fees may be paid in cash or a combination of cash and shares and are reviewed annually (but not necessarily increased) to ensure they compare appropriately to fees payable at companies of similar size and complexity to Smiths. Additional fees are paid to the Chairs of the Nomination & Governance, Audit & Risk, and Remuneration Committees and to the Senior Independent Director to reflect the additional time commitment of these roles. Additional fees may also be paid to members of the Nomination & Governance, Audit & Risk, and Remuneration Committees but not members of other committees such as the Transaction Committee.

The additional fee paid to the Chairman of the Board is determined by the Committee, absent the Chairman, while the fees for all Non-executive Directors are agreed by the Executive Directors.

### Other

The Chairman and Non-executive Directors are not eligible for benefits or any pension provision, nor are they eligible for bonuses or participation in share schemes. To reflect the greater time commitments expected of the Non-executive Directors when attending overseas Board meetings, an additional fee is paid to them for each such meeting, and they are reimbursed for actual expenses incurred (transportation, hotels etc.). Modest retirement gifts may be provided for Non-executive Directors in appropriate circumstances.
Approach to remuneration on recruitment and leaving

Executive Directors

The Committee approves the remuneration of each Executive Director on their appointment. In setting the remuneration during the recruitment of external appointments, the Committee will apply the following policy:

<table>
<thead>
<tr>
<th>Pay element</th>
<th>Policy on recruitment</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Salary</strong></td>
<td>Salary on recruitment is determined based on the same principles as the annual salary review, as outlined in the policy table.</td>
</tr>
<tr>
<td><strong>Pension</strong></td>
<td>As described in the policy table.</td>
</tr>
<tr>
<td><strong>Benefits</strong></td>
<td>As described in the policy table.</td>
</tr>
<tr>
<td><strong>Annual Bonus</strong></td>
<td>As described in the policy table and typically pro-rated for the proportion of year served. Maximum annual award opportunity: 180% of salary with mandatory deferral of 33% into shares.</td>
</tr>
<tr>
<td><strong>LTIP</strong></td>
<td>May be considered for an award under the LTIP on similar terms to other executives. Maximum annual award opportunity: 400% of salary.</td>
</tr>
<tr>
<td><strong>Other</strong></td>
<td>The Committee may make an award in recognition of incentive arrangements forfeited on leaving a previous employer. Any such award will take account of relevant factors including the fair value of awards forfeited, any performance conditions attached, the likelihood of those conditions being met and the proportion of the vesting period remaining. For the purposes of making such awards, but for no other reason, the Committee may avail itself of Listing Rule 9.4.2R. The Committee may also make payments to cover reasonable expenses in recruitment and relocation, and any other miscellaneous expenses including but not limited to housing, tax and immigration support.</td>
</tr>
</tbody>
</table>

In cases of appointing a new Executive Director by way of internal promotion, the policy will be consistent with that for external appointees, as detailed above. Any commitments made prior to an individual’s promotion will continue to be honoured even if they would not otherwise be consistent with the policy prevailing when the commitment is fulfilled, although the Company may, where appropriate, seek to revise an individual’s existing service contract on promotion to ensure it aligns with other Executive Directors and prevailing market best practice.

Disclosure on the remuneration structure of any new Executive Director (external or internal), including details of any exceptional payments, will be disclosed in the RNS notification made at the time of appointment and in the Annual Report on Remuneration for the year in which the recruitment occurred.

Respecting diversity is woven into everything we do. We ensure that equal opportunities are inherent when interviewing, recruiting and promoting employees with decisions made based on skills and expertise first and foremost.

Non-executive Directors

In recruiting a new Non-executive Director, the Committee will use the policy as set out in the table on page 116.

Executive Directors’ service contracts

The Company’s policy is that Executive Directors are normally employed on terms which include a one-year rolling period of notice from the Company and six months’ notice from the individual. The contract includes provision for the payment of a predetermined sum in the event of termination of employment in certain circumstances (but excluding circumstances where the Company is entitled to dismiss without compensation). In addition to payment of basic salary, pension allowance and benefits in respect of the unexpired portion of the one-year notice period, the predetermined sum would include annual bonus and share awards only in respect of the period they have served, payable following the end of the relevant performance period and subject to the normal performance conditions.

Andy Reynolds Smith is employed under a service contract with the Company dated 6 July 2015 and effective from 25 September 2015. John Shipsey is employed under a service contract with the Company dated and effective from 18 October 2017. He became an Executive Director on 1 January 2018.

The service contracts for both Executive Directors may be terminated by 12 months’ notice given by the Company or six months’ notice given by the Director. The Company may elect to terminate the contract by making a payment in lieu of notice equal to the Director’s base salary and benefits (including pension allowance) in respect of any unserved period of notice. The service contracts contain specific provisions enabling a reduction in any phased payments in lieu of notice, in the event that the Director finds alternative employment during the notice period. The service contracts are available for viewing at the Company’s Registered Office.
Remuneration Policy Report continued

Chairman’s and Non-executive Directors’ letters of appointment

The Chairman and the Non-executive Directors serve the Company under letters of appointment and do not have contracts of service or contracts for services. Except where appointed at a general meeting, Directors stand for election by shareholders at the first AGM following appointment. The Board has resolved that all Directors who are willing to continue in office will stand for re-election by the shareholders each year at the AGM. Either party can terminate the appointment on one month’s written notice and no compensation is payable in the event of an appointment being terminated early. The letters of appointment or other applicable agreements are available for viewing at the Company’s Registered Office.

<table>
<thead>
<tr>
<th>Non-executive Director</th>
<th>Date of appointment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sir George Buckley</td>
<td>1 August 2013</td>
</tr>
<tr>
<td>Bruno Angelici</td>
<td>1 July 2010</td>
</tr>
<tr>
<td>Olivier Bohuon</td>
<td>1 July 2018</td>
</tr>
<tr>
<td>Pam Cheng</td>
<td>1 March 2020</td>
</tr>
<tr>
<td>Dame Ann Dowling</td>
<td>19 September 2018</td>
</tr>
<tr>
<td>Tanya Fratto</td>
<td>1 July 2012</td>
</tr>
<tr>
<td>Karin Hoeing</td>
<td>2 April 2020</td>
</tr>
<tr>
<td>Bill Seeger</td>
<td>12 May 2014</td>
</tr>
<tr>
<td>Mark Seligman</td>
<td>16 May 2016</td>
</tr>
<tr>
<td>Noel Tata</td>
<td>1 January 2017</td>
</tr>
</tbody>
</table>

Leaving and change-of-control provisions

For those individuals regarded as ‘bad leavers’ (e.g. voluntary resignation or dismissal for cause), annual bonus awards are forfeited, and outstanding awards under the LTIP automatically lapse. Deferred bonus awards are forfeited on dismissal for cause.

A ‘good leaver’ will typically remain eligible for a pro-rated annual bonus award to be paid after the end of the financial year and deferred bonus awards will be paid out at the normal vesting date. LTIP awards will typically vest at the normal vesting date to the extent that the associated performance conditions are met, but will normally be pro-rated on the basis of actual service within the performance period. In cases of death or disability, individuals are automatically deemed to be good leavers under the plan rules of the LTIP. All other good leavers will be defined at the discretion of the Committee on a case-by-case basis.

In the event of a change of control, LTIP awards will vest to the extent that each of the performance conditions is met based on the Committee’s assessment of performance over the performance period to the date of change of control. For internal performance measures, the Committee may exercise its judgement in determining the outcome based on its assessment of whether or not the performance conditions would have been met to a greater or lesser extent at the end of the full performance period. Awards will also normally be pro-rated to reflect the time that has elapsed between the grant of the award and the date of change of control.

The Committee retains discretion to vary these provisions on a case-by-case basis.

In connection with the termination of an Executive Director’s contract, the Company may make a payment on account of accrued but untaken leave and may pay outplacement and legal fees for support provided to the individual.

External appointments

Subject to the overriding requirements of the Company, the Committee allows Executive Directors to accept one external appointment where it considers that such appointment will contribute to the Director’s breadth of knowledge and experience. Executive Directors are not permitted to take on the chairmanship of another FTSE 100 company or equivalent organisation. Directors are permitted to retain fees associated with such appointments. Non-executive Directors must obtain the approval of the Board before accepting any additional appointments once they have joined the Board.

Consideration of employment conditions

The Committee always takes into account pay and employment conditions elsewhere in the Company. We do not consult directly with employees regarding Executive Director pay. However, the Committee is regularly, and at least annually, provided with information on pay trends and ratios of the wider employee population across the Group.

Consideration of shareholder views

The Committee has taken account of the views expressed by shareholders, both from feedback from the 2018 Policy review and from regular meetings with major shareholders. A number of changes have been implemented in FY2020 and the Committee will keep the Policy and its approach to implementation under review in the context of evolving market practice and investor expectations.
Committee members and meeting attendance in FY2020

The membership of the Committee and their meeting attendance during the year is set out on page 89 of this Report. Bill Seeger had served on a remuneration committee for at least 12 months prior to his appointment as Remuneration Committee Chair.

Sir George Buckley is absent when his own remuneration as Chairman of the Board is under consideration. The Chief Executive attends meetings of the Committee by invitation but he is not involved in the determination of his own remuneration, or present during consideration of any changes to it.

Advisers to the Committee

During the year, the Committee received material assistance and advice from the Chief Executive, the Group HR Director, the Global Reward Director, Mercer | Kepler, Deloitte LLP and Freshfields Bruckhaus Deringer LLP. The Committee’s appointed independent remuneration adviser changed from Mercer | Kepler to Deloitte LLP, following a competitive tender in 2019, with effect from 1 January 2020. The Company Secretary is secretary to the Committee.

The Company paid a total fee of £4,823 to Mercer | Kepler and £78,050 to Deloitte LLP in relation to remuneration advice to the Committee during the year. Fees were determined on the basis of time and expenses.

During FY2020, Deloitte LLP provided the Committee with information on market trends including the impact of COVID-19, compliance support for this year’s Directors’ Remuneration Report and the provision of other advice relating to remuneration governance and market practice. Deloitte LLP is a founding member of the Remuneration Consultants Group and a signatory to its Code of Conduct. Deloitte LLP provided additional tax advisory services including global corporation tax compliance and employee mobility advice, as well as company secretarial, transaction advisory and internal audit co-source services. The Committee is satisfied that the advice provided by Deloitte LLP is objective and independent and that they do not have connections with the Group that may impair their independence.

Summary of shareholder binding vote on Directors’ Remuneration Policy (FY2019)

The voting outcome in November 2018 for the Directors’ Remuneration Policy was as follows:

<table>
<thead>
<tr>
<th>Votes for</th>
<th>% of votes cast for</th>
<th>Votes against</th>
<th>% of votes cast against</th>
<th>Total votes cast</th>
<th>Votes withheld (abstentions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>230,167,925</td>
<td>81.61%</td>
<td>51,868,709</td>
<td>18.39%</td>
<td>282,036,634</td>
<td>24,949,627</td>
</tr>
</tbody>
</table>

Summary of shareholder advisory vote on Directors’ Remuneration Report (FY2020)

The voting outcome in November 2019 for the Directors’ Remuneration Report was as follows:

<table>
<thead>
<tr>
<th>Votes for</th>
<th>% of votes cast for</th>
<th>Votes against</th>
<th>% of votes cast against</th>
<th>Total votes cast</th>
<th>Votes withheld (abstentions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>294,243,250</td>
<td>98.11%</td>
<td>5,671,458</td>
<td>1.89%</td>
<td>299,914,708</td>
<td>13,080,429</td>
</tr>
</tbody>
</table>
### Directors’ single figure of annual remuneration (audited)

#### Executive Directors

<table>
<thead>
<tr>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Andy Reynolds Smith</td>
<td>840</td>
<td>820</td>
<td>61</td>
<td>54</td>
<td>205</td>
<td>205</td>
<td>1,186</td>
<td>1,079</td>
<td>260</td>
<td>608</td>
<td>702</td>
<td>2,100</td>
<td>128</td>
<td>346</td>
<td>1,090</td>
<td>3,054</td>
<td>2,196</td>
</tr>
<tr>
<td>John Shipsey</td>
<td>538</td>
<td>525</td>
<td>12</td>
<td>12</td>
<td>131</td>
<td>131</td>
<td>681</td>
<td>668</td>
<td>139</td>
<td>324</td>
<td>373</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>512</td>
<td>324</td>
<td>1,193</td>
</tr>
</tbody>
</table>

#### Chairman and Non-executive Directors

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Sir George Buckley</td>
<td>454</td>
<td>443</td>
<td>92</td>
<td>138</td>
<td>454</td>
<td>581</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Bruno Angelici</td>
<td>75</td>
<td>74</td>
<td>4</td>
<td>13</td>
<td>75</td>
<td>79</td>
<td></td>
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<tr>
<td>Olivier Bohuon</td>
<td>75</td>
<td>74</td>
<td>3</td>
<td>2</td>
<td>75</td>
<td>78</td>
<td></td>
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<tr>
<td>Pam Cheng</td>
<td>30</td>
<td></td>
<td>–</td>
<td>–</td>
<td>30</td>
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<tr>
<td>Dame Ann Dowling</td>
<td>75</td>
<td>60</td>
<td>–</td>
<td>2</td>
<td>75</td>
<td>75</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tanya Fratto</td>
<td>83</td>
<td>90</td>
<td>6</td>
<td>12</td>
<td>83</td>
<td>89</td>
<td></td>
<td></td>
<td></td>
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<td></td>
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<td></td>
</tr>
<tr>
<td>Karin Hoeing</td>
<td>24</td>
<td></td>
<td>–</td>
<td>–</td>
<td>24</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bill Seeger</td>
<td>123</td>
<td>124</td>
<td>4</td>
<td>18</td>
<td>123</td>
<td>127</td>
<td></td>
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<td></td>
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<tr>
<td>Mark Seligman</td>
<td>95</td>
<td>94</td>
<td>1</td>
<td>1</td>
<td>95</td>
<td>96</td>
<td></td>
<td></td>
<td></td>
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<td></td>
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<td></td>
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</tr>
<tr>
<td>Noel Tata</td>
<td>87</td>
<td>94</td>
<td>–</td>
<td>–</td>
<td>87</td>
<td>94</td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sir Kevin Tebbit</td>
<td>–</td>
<td>33</td>
<td>–</td>
<td>5</td>
<td>–</td>
<td>38</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

1. There was no share price appreciation attributable to the FY2020 Long Term Incentives for Andy Reynolds Smith and John Shipsey (FY2019 9.2% for Andy Reynolds Smith, no award vested for John Shipsey). No discretion has been applied to the amounts attributable to share price appreciation.
2. Benefits for Executive Directors include car/chauffeur benefits, life assurance, disability insurance and private healthcare insurance.
3. Andy Reynolds Smith has deferred 33% of his bonuses earned since FY2016 into Smiths shares. John Shipsey has deferred 33% of his bonuses earned since FY2018 into Smiths shares. The total bonus paid during the year, including deferral, is captured under ‘annual bonus’ above. The deferral is for a three-year period and is not subject to any further performance or other conditions.
4. The Long Term Incentive value for FY2019 for Andy Reynolds Smith has been restated to show the actual amount (other than the estimated amount in last year’s Report) and to include a dividend accrual payment of £164,364 which was paid on vesting. The total remuneration is also restated accordingly. The estimated Long Term Incentive values for FY2020 are calculated using the vesting percentage of 31.3% and the average share price over the 3 months to 31 July 2020 of 1,341.68p; they also include dividend accrual payments of £57,671 for Andy Reynolds Smith and £30,637 for John Shipsey, payable on vesting.
5. Andy Reynolds Smith was awarded 26,602 Performance shares in 2015 which vested in 2019 (the performance criteria for these shares was the same as the FY2017 LTIP Outcome of 75.0%). He was also awarded 26,602 Performance shares which vest in October 2020. The estimated value shown for FY2020 is calculated using the vesting percentage of 31.3% and the average share price over the 3 months to 31 July 2020 of 1,341.68p. The FY2020 figure also includes an amount of £16,355 in respect of the estimated value of 1,219 dividend equivalent shares.
6. Sir George Buckley’s fee comprised his Non-executive Director’s fee; an additional fee for being Chairman and his additional fee for chairing the Nomination & Governance Committee.
7. Pam Cheng and Karin Hoeing’s fees for FY2020 comprised Non-executive Director’s fees from the date of their respective appointments.
8. Bill Seeger’s fees for FY2020 comprised his Non-executive Director’s fee, his additional fee for chairing the Remuneration Committee and his additional fee as Senior Independent Director.
9. Mark Seligman’s fees comprised his Non-executive Director’s fee and his additional fee for chairing the Audit & Risk Committee.
10. Sir Kevin Tebbit’s fees for FY2020 comprised his Non-executive Director’s fee and his additional fee as Senior Independent Director until 14 November 2018 and benefits include a retirement gift to recognise his contribution to the Board.
11. Benefits for the Chairman and Non-executive Directors relate to reimbursed travel-related and other expenses (including flight costs where applicable), which are grossed-up for the UK income tax and National Insurance contributions paid by the Company on their behalf. Figures for FY2019 have been restated to be on a consistent basis.
Incentive outcomes for FY2020

FY2020 annual bonus outcome for Andy Reynolds Smith and John Shipsey:

The table below summarises the structure of the FY2020 annual bonus, our performance and the resulting annual bonus payout for each of the Executive Directors.

<table>
<thead>
<tr>
<th>Earned bonus</th>
<th>Director</th>
<th>Measure</th>
<th>Weighting</th>
<th>Maximum Opportunity (% of salary)</th>
<th>(% of max. bonus)</th>
<th>(% salary)</th>
<th>£000</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Andy Reynolds Smith</td>
<td>EPS after tax</td>
<td>40%</td>
<td>72%</td>
<td>0%</td>
<td>0%</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Headline Operating Cash Conversion</td>
<td>20%</td>
<td>36%</td>
<td>9.2%</td>
<td>16.6%</td>
<td>139</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Organic Sales Growth</td>
<td>30%</td>
<td>54%</td>
<td>0%</td>
<td>0%</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Personal Objectives</td>
<td>10%</td>
<td>18%</td>
<td>8.0%</td>
<td>14.4%</td>
<td>121</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td></td>
<td>100%</td>
<td>180%</td>
<td>17.2%</td>
<td>31.0%</td>
<td>260</td>
</tr>
<tr>
<td></td>
<td>John Shipsey</td>
<td>EPS after tax</td>
<td>40%</td>
<td>60%</td>
<td>0%</td>
<td>0%</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Headline Operating Cash Conversion</td>
<td>20%</td>
<td>30%</td>
<td>9.2%</td>
<td>13.8%</td>
<td>74</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Organic Sales growth</td>
<td>30%</td>
<td>45%</td>
<td>0%</td>
<td>0%</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Personal Objectives</td>
<td>10%</td>
<td>15%</td>
<td>8.0%</td>
<td>12.0%</td>
<td>65</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td></td>
<td>100%</td>
<td>150%</td>
<td>17.2%</td>
<td>25.8%</td>
<td>139</td>
</tr>
</tbody>
</table>

The table below summarises the financial targets and the Company’s actual performance (restated at budget exchange rates) against these for the FY2020 annual bonus.

<table>
<thead>
<tr>
<th>Measure</th>
<th>Threshold</th>
<th>Target</th>
<th>Maximum</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>EPS after tax 1</td>
<td>103.7p</td>
<td>106.1p</td>
<td>108.7p</td>
<td>77.9p</td>
</tr>
<tr>
<td>Headline Operating Cash Conversion 2</td>
<td>H1 90%</td>
<td>100%</td>
<td>105%</td>
<td>90%</td>
</tr>
<tr>
<td></td>
<td>FY 90%</td>
<td>100%</td>
<td>105%</td>
<td>101%</td>
</tr>
<tr>
<td>Organic Sales 3</td>
<td>£3,571m</td>
<td>£3,610m</td>
<td>£3,692</td>
<td>£3,523m</td>
</tr>
</tbody>
</table>

1 The EPS result includes restructuring charges and balance sheet write downs (reported figure 84.8p)
2 50% of the maximum headline operating cash conversion opportunity is available for each of H1 and FY. Figures exclude accrued restructuring costs to avoid overstatement and are adjusted for the impact of IFRS16 which was not included in the original targets (reported figures H1 98%, FY 123%)
3 Organic sales is based on revenue (including Smiths Medical) restated at budget exchange rates (reported figure £3,466m)

Personal objectives

Challenging personal objectives are set each year for the Executive Directors, to reinforce the Company’s operating and strategic priorities. The personal objectives for the Executive Directors for FY2020 comprised a number of strategic long-term enablers, some of which remain commercially sensitive, together with short term projects aligned to innovation, operational excellence and capability planning.

Achievements against objectives in the year were as follows:

<table>
<thead>
<tr>
<th>Achievements</th>
<th>Bonus out-turn (10% weighting)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chief Executive</td>
<td>The extraordinary events of the past few months have affected progress on some objectives, especially in the area of growth and the delayed separation of the Medical business. However the Committee has taken account of the strong leadership of the Group through this period of crisis by the Executive Directors, helping to support the future sustainability of the business and developing strong cash generation. This leadership enabled continuity of service to our customers, particularly in the supply of vitally needed medical equipment, and also focused on ensuring the provision of safe working conditions for our employees. As a result the Committee determined that an overall out-turn of 80% of maximum was appropriate for personal performance during the year for both Andy Reynolds Smith and John Shipsey (8.0% of maximum overall bonus).</td>
</tr>
<tr>
<td>- Development of Smiths Group Vision based on achieving sustainable growth with strong returns through purpose, attractive market positions and the foundation elements of execution – People, Excellence and Innovation</td>
<td></td>
</tr>
<tr>
<td>- Continued implementation of the Group operating model and corporate structure</td>
<td></td>
</tr>
<tr>
<td>- Progression of Smiths Innovation and Strategy Board framework plan and actions for FY2020</td>
<td></td>
</tr>
<tr>
<td>- Continued development of the Group wide people capability plan with a focus on progression and succession</td>
<td></td>
</tr>
<tr>
<td>Chief Financial Officer</td>
<td></td>
</tr>
<tr>
<td>- Advancement of internal operating model improvements and upgraded Group consolidation system</td>
<td></td>
</tr>
<tr>
<td>- Development of Group roadmap for improved efficiency in key identified areas</td>
<td></td>
</tr>
<tr>
<td>- Progress in addressing underlying risks to financial control in key identified areas</td>
<td></td>
</tr>
<tr>
<td>- Support development of new internal Information Systems &amp; Technology model</td>
<td></td>
</tr>
</tbody>
</table>
### FY2018 LTIP outcome (audited)

Awards granted under the LTIP in October 2017 were subject to the following performance conditions:

<table>
<thead>
<tr>
<th>Measure</th>
<th>Weighting</th>
<th>Performance period</th>
<th>Performance</th>
<th>% vesting</th>
<th>Outturn (p.a.)</th>
<th>% vesting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group EPS growth before tax</td>
<td>35%</td>
<td>1 August 2017 to 31 July 2020</td>
<td>&lt; 3% p.a.</td>
<td>0%</td>
<td>-5.4%</td>
<td>0%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>3% p.a.</td>
<td>8.75%</td>
<td></td>
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</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>≥ 12% p.a.</td>
<td>35.0%</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Straight-line vesting between these points</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average ROCE</td>
<td>35%</td>
<td>1 August 2017 to 31 July 2020</td>
<td>&lt; 15% p.a.</td>
<td>0%</td>
<td>15.4%</td>
<td>11.9%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>15% p.a.</td>
<td>8.75%</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>≥ 18% p.a.</td>
<td>35.0%</td>
<td></td>
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</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Straight-line vesting between these points</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average headline operating cash conversion</td>
<td>30%</td>
<td>1 August 2017 to 31 July 2020</td>
<td>&lt; 85%</td>
<td>0%</td>
<td>98.0%</td>
<td>19.4%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>85%</td>
<td>7.5%</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>≥ 100%</td>
<td>30.0%</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Straight-line vesting between these points</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td><strong>31.3%</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### FY2018 LTIP outcome for Executive Directors (audited)

<table>
<thead>
<tr>
<th>Executive Director</th>
<th>Interests held</th>
<th>Vesting %</th>
<th>Interests vesting</th>
<th>Date of vesting</th>
<th>Market price1</th>
<th>Value £0002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Andy Reynolds Smith</td>
<td>153,354</td>
<td>31.3%</td>
<td>47,999</td>
<td>Oct 2020</td>
<td>1,341.68p</td>
<td>702</td>
</tr>
<tr>
<td>John Shipsey</td>
<td>81,469</td>
<td>31.3%</td>
<td>25,499</td>
<td>Oct 2020</td>
<td>1,341.68p</td>
<td>373</td>
</tr>
</tbody>
</table>

1 Based on the average share price over the three months to 31 July 2020 of 1,341.68p.
2 In addition an accrued dividend of £57,671 is payable to Andy Reynolds Smith and an accrued dividend of £30,637 is payable to John Shipsey at vesting date.
Scheme interests awarded in FY2020 (audited)

**FY2020 LTIP**

During the year ended 31 July 2020, the Executive Directors were awarded a fixed number of conditional share awards under the LTIP details of which are summarised in the table below.

<table>
<thead>
<tr>
<th>Executive</th>
<th>Form of award</th>
<th>Date of grant</th>
<th>Number of shares awarded</th>
<th>Award price1 £000</th>
<th>% of salary</th>
<th>Date of vesting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Andy Reynolds Smith</td>
<td>Conditional shares</td>
<td>3 Oct 2019</td>
<td>179,627</td>
<td>1,524.5p</td>
<td>2,738</td>
<td>326%</td>
</tr>
<tr>
<td>John Shipsey</td>
<td>Conditional shares</td>
<td>3 Oct 2019</td>
<td>95,837</td>
<td>1,524.5p</td>
<td>1,461</td>
<td>272%</td>
</tr>
</tbody>
</table>

1 The closing price on 3 October 2019.

The performance conditions attached to these FY2020 LTIP awards are as follows:

<table>
<thead>
<tr>
<th>Measure</th>
<th>Weighting</th>
<th>Performance period</th>
<th>Performance</th>
<th>% vesting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group EPS growth after tax</td>
<td>25%</td>
<td>1 August 2019 to 31 July 2022</td>
<td>&lt; 4% p.a.</td>
<td>0%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>4% p.a.</td>
<td>6.25%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>≥ 11% p.a.</td>
<td>25.0%</td>
</tr>
<tr>
<td>Average ROCE</td>
<td>20%</td>
<td>1 August 2019 to 31 July 2022</td>
<td>&lt; 15% p.a.</td>
<td>0%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>15% p.a.</td>
<td>5.0%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>≥ 18% p.a.</td>
<td>20.0%</td>
</tr>
<tr>
<td>Average headline operating cash conversion</td>
<td>25%</td>
<td>1 August 2019 to 31 July 2022</td>
<td>&lt; 90%</td>
<td>0%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>90%</td>
<td>6.25%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>≥ 105%</td>
<td>25.0%</td>
</tr>
<tr>
<td>Organic sales growth</td>
<td>30%</td>
<td>1 August 2019 to 31 July 2022</td>
<td>&lt; 3%</td>
<td>0%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>3%</td>
<td>7.5%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>≥ 6%</td>
<td>30.0%</td>
</tr>
</tbody>
</table>

Total

**FY2020 Deferred bonus award**

During the year ended 31 July 2020, Andy Reynolds Smith and John Shipsey were awarded conditional shares as deferred bonus awards in relation to the FY2019 annual bonus outcome, details of which are summarised in the table below. There are no performance conditions for these awards.

<table>
<thead>
<tr>
<th>Executive</th>
<th>Form of award</th>
<th>Date of grant</th>
<th>Number of shares awarded</th>
<th>Award price1 £000</th>
<th>Date of vesting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Andy Reynolds Smith</td>
<td>Conditional shares</td>
<td>3 Oct 2019</td>
<td>12,997</td>
<td>1,559.8p</td>
<td>203</td>
</tr>
<tr>
<td>John Shipsey</td>
<td>Conditional shares</td>
<td>3 Oct 2019</td>
<td>6,933</td>
<td>1,559.8p</td>
<td>108</td>
</tr>
</tbody>
</table>

1 The five day average of the share price to 2 October 2019.
Annual Report on Remuneration continued

SAYE

Both Executive Directors participate in the Smiths Group Sharesave scheme. For Andy Reynolds Smith, 2,078 share options under this scheme vested on 1 August 2019 at the option price of 866p. A further 1,515 share options were granted in May 2019, effective from August 2019, at the option price of 1,188p (a discount of 20% to the market price) with a face value of £18,000 and a vesting date of August 2022.

John Shipsey has 1,969 share options under the scheme granted in May 2020, effective from August 2020, at the option price of 914p (a discount of 20% to the market price) with a face value of £18,000 and a vesting date of August 2023, after cancelling the previous award granted in May 2019.

Buyout awards

Andy Reynolds Smith was made certain buyout awards to replicate the structure and fair value of incentives forfeited as a consequence of joining Smiths.

He received an award of 86,893 restricted shares, the grant value of which was captured in the 2016 single figure. 30,412 shares vested on 30 June 2016 and the remaining 56,481 restricted shares vested on 30 June 2017 (at a share price of 1,597p). Andy Reynolds Smith also received awards of 79,806 and 26,602 which vested in October 2018 and 2019 respectively. He also received 26,602 conditional shares which vest, subject to performance conditions, in October 2020. The estimated value of the award vesting in October 2020 is included in this year’s single figure of remuneration table for Andy Reynolds Smith (see note 5 on page 120)

Percentage change in remuneration from FY2019 to FY2020

<table>
<thead>
<tr>
<th></th>
<th>Salary/Fees</th>
<th>Benefits</th>
<th>Bonus</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chief Executive remuneration</td>
<td>2.4%</td>
<td>13.0%</td>
<td>-57%</td>
</tr>
<tr>
<td>Chief Financial Officer remuneration</td>
<td>2.5%</td>
<td>0%</td>
<td>-57%</td>
</tr>
<tr>
<td>Non-executive Director remuneration</td>
<td>2.5%</td>
<td>-43%</td>
<td>0%</td>
</tr>
<tr>
<td>Average of all employees</td>
<td>2.9%</td>
<td>2.9%</td>
<td>-43%</td>
</tr>
</tbody>
</table>

“All employees” is defined as all UK Group employees, 206 employees at all grades.

Chief Executive pay ratios

These ratios set out the comparison between the Chief Executive’s remuneration and that for employees in the UK workforce.

<table>
<thead>
<tr>
<th>Year</th>
<th>Method</th>
<th>25th percentile ratio</th>
<th>Median pay ratio</th>
<th>75th percentile ratio</th>
<th>25th percentile ratio</th>
<th>Median pay ratio</th>
<th>75th percentile ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total remuneration</td>
<td>B</td>
<td>75:1</td>
<td>53:1</td>
<td>34:1</td>
<td>133:1</td>
<td>97:1</td>
</tr>
<tr>
<td></td>
<td>Salary</td>
<td>B</td>
<td>31:1</td>
<td>22:1</td>
<td>15:1</td>
<td>36:1</td>
<td>26:1</td>
</tr>
</tbody>
</table>

Pay data for the Chief Executive is taken from the single figure of annual remuneration table on page 120. The pay data for employees in the UK workforce is based on the data used for gender pay reporting. The gender pay reporting basis comprises salary and benefits as at 15 April 2020 and incentive payments payable in respect of FY2020. It is assumed that the value of employee benefits is 7.0% of base salary.

The workforce remuneration figures are those paid to UK employees whose pay is at the 25th, median and 75th percentile of pay for the Group’s UK employees. Figures are shown on both the prescribed basis using total pay and also salary only which provides a useful ongoing comparison as it is a less volatile basis. The decrease in the ratios on a total pay basis is as a result of the reduction in the Chief Executive’s long-term incentive payments in FY2020 compared to FY2019. The Committee will monitor the ratios on an annual basis.
Payments to past Directors (audited)
There are no payments to past Directors attributable to FY2020.

Payments for loss of office (audited)
There were no payments made for loss of office during the year.

Relative importance of spend on pay
The table below shows shareholder distributions (i.e. dividends and share buybacks) and total employee pay expenditure for FY2019 and FY2020, and the percentage change.

<table>
<thead>
<tr>
<th></th>
<th>FY2020 £m</th>
<th>FY2019 £m</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shareholder distributions</td>
<td>126</td>
<td>178</td>
<td>-29.2%</td>
</tr>
<tr>
<td>Employee costs</td>
<td>1,112</td>
<td>1,050</td>
<td>5.9%</td>
</tr>
</tbody>
</table>

TSR performance
The following graph shows the Company’s total shareholder return (TSR) performance over the past ten years compared to the FTSE 100 Index. The FTSE 100 Index, of which the Company has been a member throughout the period, has been selected to reflect the TSR performance of other leading UK-listed companies. The values of hypothetical £100 investments in the FTSE 100 Index and Smiths Group plc shares at 31 July 2020 were £174.69 and £181.92 respectively.

Total Shareholder Return
Value of £100 invested on 31 July 2010

Chief Executive’s remuneration for the last ten years

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total remuneration £000</td>
<td>2,196</td>
<td>4,130</td>
<td>3,251</td>
<td>2,320</td>
<td>2,964</td>
<td>1,602</td>
<td>4,195</td>
<td>3,912</td>
<td>5,026</td>
<td>4,776</td>
</tr>
<tr>
<td>Annual bonus outcome</td>
<td>17%</td>
<td>41%</td>
<td>42%</td>
<td>96%</td>
<td>89%</td>
<td>88%</td>
<td>80%</td>
<td>43%</td>
<td>39%</td>
<td>79%</td>
</tr>
<tr>
<td>Common Investment Plan outcome (% max)</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>2007 Performance Share Plan outcome (% max)</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>33%</td>
</tr>
<tr>
<td>LTIP outcome (% max)</td>
<td>31%</td>
<td>75%</td>
<td>32%</td>
<td>n/a</td>
<td>n/a</td>
<td>18%</td>
<td>17%</td>
<td>18%</td>
<td>n/a</td>
<td>n/a</td>
</tr>
</tbody>
</table>
GOVERNANCE

REMUNERATION COMMITTEE REPORT CONTINUED

Statement of implementation of Remuneration Policy in FY2021

Base salary

Salaries are reviewed annually in October (but not necessarily increased) and benchmarked against comparable roles at other FTSE 100 companies of similar market capitalisation, revenues and complexity.

Having considered a number of important factors including evolving global market conditions and the Remuneration Policy, the Committee has determined to freeze the salaries of the Chief Executive at £843,780 and of the Chief Financial Officer at £540,225 which have been in effect since 1 October 2019. A similar general salary freeze has been applied at all levels across Smiths Group.

<table>
<thead>
<tr>
<th></th>
<th>FY2020</th>
<th>FY2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Andy Reynolds Smith</td>
<td>£839,817</td>
<td>£843,780</td>
</tr>
<tr>
<td>John Shipsey</td>
<td>£537,688</td>
<td>£540,225</td>
</tr>
</tbody>
</table>

Pension and benefits

The employment contracts of the two Executive Directors provide for a cash allowance of 25% of base salary in lieu of pension provision. Both Executive Directors have agreed to freeze the monetary value of the allowance at the FY2019 level maintaining the level of benefit at 24.4% of base salary for FY2021. The level of benefit will reduce to be in line with that of the wider UK workforce no later than 31 December 2022, on a phased basis.

Annual bonus

For FY2021, Andy Reynolds Smith will continue to have a maximum bonus opportunity of 180% of salary and John Shipsey 150%. 33% of any bonus earned will be deferred into shares for three years. Specific targets are not disclosed at this time due to the commercially sensitive nature of these objectives, but they will be disclosed at such time as the Committee deems them no longer affect the commerciality of the Company.

Performance measures for the FY2021 annual bonus are as follows

<table>
<thead>
<tr>
<th>Performance measure</th>
<th>Weighting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Profit1</td>
<td>40%</td>
</tr>
<tr>
<td>Revenue</td>
<td>25%</td>
</tr>
<tr>
<td>Headline Operating Cash Conversion</td>
<td>25%</td>
</tr>
<tr>
<td>Personal Objectives</td>
<td>10%</td>
</tr>
</tbody>
</table>

1 The operating profit measure replaces the EPS measure used in FY2020

Long-Term Incentive Plan (LTIP)

The LTIP is a conventional performance share plan under which an award over a capped number of shares will vest if demanding performance conditions are met. LTIP awards of conditional shares are granted to selected senior executives (including the Executive Directors) with face values of up to 400% of salary. Under the LTIP, for the FY2021 award, a fixed number of shares will be granted at the same level as in FY2019 and FY2020. This would be equivalent to 286% (327% for FY2019) of salary for the Chief Executive and 238% (272% for FY2019) of salary for the Chief Financial Officer, based on the average share price for the three months to 31 July 2020 of 1,341.68p.

The LTIP awards granted to Andy Reynolds Smith and John Shipsey in FY2021 will have the following performance measures. In the light of current market uncertainties, targets for threshold and maximum performance will be agreed before the end of 2020. These targets will be disclosed on the Company website.

<table>
<thead>
<tr>
<th>Performance measure</th>
<th>Weighting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Three-year EPS growth after tax</td>
<td>25%</td>
</tr>
<tr>
<td>Three-year average return on capital employed</td>
<td>25%</td>
</tr>
<tr>
<td>Three-year average free cash flow</td>
<td>25%</td>
</tr>
<tr>
<td>Three-year average organic revenue sales growth</td>
<td>25%</td>
</tr>
</tbody>
</table>

1 The free cash flow measure replaces the headline operating cash conversion measure used in the FY2020 LTIP award as it provides a better measure of long term cash performance
These performance measures apply to Group performance. In recognition of the delay in the planned separation of the Smiths Medical business, the Committee has also determined to include Smiths Medical performance within the FY2020 LTIP performance measures.

The Committee believes that the proposed structure provides an appropriate balance between earnings growth, returns, cash and sales growth. The Committee recognises that this balance of Group performance measures remains very important for many of our largest shareholders. The performance measures will be reviewed at the start of each future LTIP cycle to ensure they continue to reflect the Group’s strategic priorities.

**Non-executive Director fees**

Non-executive Director fees paid during FY2020 are shown below and there will be no change in fees for FY2021:

<table>
<thead>
<tr>
<th>FY2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-executive Director base fee</td>
</tr>
<tr>
<td>£71,250</td>
</tr>
<tr>
<td>Additional fee payable to the Chairman</td>
</tr>
<tr>
<td>of the Board</td>
</tr>
<tr>
<td>£362,500</td>
</tr>
<tr>
<td>Additional fee payable to the Senior</td>
</tr>
<tr>
<td>Independent Director</td>
</tr>
<tr>
<td>£20,000</td>
</tr>
<tr>
<td>Additional fees for Audit &amp; Risk,</td>
</tr>
<tr>
<td>Nomination &amp; Governance and Remuneration</td>
</tr>
<tr>
<td>Committee Chairs</td>
</tr>
<tr>
<td>£20,000</td>
</tr>
<tr>
<td>Attendance allowance for meetings outside</td>
</tr>
<tr>
<td>the Non-executive Director’s home continent</td>
</tr>
<tr>
<td>£4,000 per meeting</td>
</tr>
</tbody>
</table>

**Share ownership requirement**

Executive Directors are required, over time, to build up a shareholding with a value equal to at least 250% of base salary for the Chief Executive and 200% for the Chief Financial Officer. Executive Directors are required to retain at least 50% of any net vested share awards (after sales to meet tax liabilities) until those guidelines are achieved. Shares under deferred bonus awards and LTIP awards which have vested but are subject to a further holding period (net of assumed income tax) count towards the requirement. Awards that are still subject to performance conditions do not count towards the requirement.

During the year the Committee clarified its policy on post-employment shareholding requirements (Provision 36 in the UK Corporate Governance Code). The application of good leaver provisions for Executives will be conditional on retaining a number of shares equal to the in-employment shareholding guideline, or actual holding, if lower for a minimum holding period of two years from the date of leaving. No Executives to whom this policy would apply left the Group during the year. We will further develop our approach to post-employment shareholding requirements as part of our wider 2021 policy review.

There is no shareholding policy for Non-executive Directors.

**Directors’ shareholdings (audited)**

The table below shows the shareholding of each Director and for Executive Directors the shareholding against their respective shareholding requirement as at 31 July 2020.

<table>
<thead>
<tr>
<th>Shareholding requirement (% FY2020 salary)</th>
<th>Shares owned outright</th>
<th>Shares subject to performance</th>
<th>Shares vested in holding period</th>
<th>Shares arising from bonus deferral</th>
<th>Save As You Earn (SAYE)</th>
<th>Current shareholding (% FY2020 salary)</th>
<th>Shareholding requirement met</th>
</tr>
</thead>
<tbody>
<tr>
<td>Andy Reynolds Smith</td>
<td>250%</td>
<td>295,402</td>
<td>539,210</td>
<td>0</td>
<td>56,361</td>
<td>1,515</td>
<td>521%</td>
</tr>
<tr>
<td>John Shipsey</td>
<td>200%</td>
<td>25,048</td>
<td>273,143</td>
<td>0</td>
<td>13,326</td>
<td>1,969</td>
<td>81%</td>
</tr>
<tr>
<td>Sir George Buckley</td>
<td>19,760</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bruno Angelici</td>
<td>2,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Olivier Bohuon</td>
<td>2,972</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pam Cheng</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dame Ann Dowling</td>
<td>5,813</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tanya Fratto</td>
<td>1,500</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Karin Hoeing</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bill Seeger</td>
<td>10,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mark Seligman</td>
<td>5,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Noel Tata</td>
<td>2,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1 Shares owned outright (including vested shares in holding period), and the net of income tax value of shares arising from bonus deferral are taken into account for the shareholding requirement. Executive Directors have five years from the date of appointment to meet the required personal shareholding. John Shipsey therefore has until 31 December 2022 to meet the requirement.

In accordance with a binding commitment entered into on 19 July 2017, pursuant to which the Chairman purchases ordinary shares on a quarterly basis using a fixed proportion (20%) of the after-tax fees he receives from the Company, Sir George Buckley acquired 919 ordinary shares on 1 August 2020. Noel Tata acquired 2,000 ordinary shares on 4 August 2020. There have been no further changes to the Directors’ shareholdings between 1 August and 21 September 2020.
### Directors’ share options and long-term share plans (audited)

<table>
<thead>
<tr>
<th>Director and Plan</th>
<th>Options and awards held on 31 July 2020</th>
<th>Options and awards held on 31 July 2019</th>
<th>Performance test</th>
<th>Exercise price</th>
<th>Grant date</th>
<th>Vesting date</th>
<th>Expiry date</th>
<th>Number</th>
<th>Exercise price</th>
<th>Market price at date of grant</th>
<th>Market price at date of vesting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Andy Reynolds Smith</td>
<td>0</td>
<td>26,602</td>
<td>A</td>
<td>n/a</td>
<td>26/11/15</td>
<td>Oct 2019</td>
<td>8/10/19</td>
<td>22,492</td>
<td>(inc. 2,541 dividend equivalent)</td>
<td>1,033p</td>
<td>1,531p</td>
</tr>
<tr>
<td></td>
<td>26,602</td>
<td>26,602</td>
<td>A</td>
<td>n/a</td>
<td>26/11/15</td>
<td>Oct 2020</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LTIP</td>
<td>0</td>
<td>167,741</td>
<td>A</td>
<td>n/a</td>
<td>8/11/16</td>
<td>Oct 2019</td>
<td>8/10/19</td>
<td>125,805</td>
<td>n/a</td>
<td>1,395p</td>
<td>1,531p</td>
</tr>
<tr>
<td></td>
<td>153,354</td>
<td>153,354</td>
<td>A</td>
<td>n/a</td>
<td>27/10/17</td>
<td>Oct 2020</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>179,627</td>
<td>179,627</td>
<td>B</td>
<td>n/a</td>
<td>31/10/18</td>
<td>Oct 2021</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>179,627</td>
<td>0</td>
<td>B</td>
<td>n/a</td>
<td>03/10/19</td>
<td>Oct 2022</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Deferred bonus award</td>
<td>0</td>
<td>24,546</td>
<td>–</td>
<td>n/a</td>
<td>8/11/16</td>
<td>8/11/19</td>
<td>8/11/19</td>
<td>24,546</td>
<td>n/a</td>
<td>1,395p</td>
<td>1,658p</td>
</tr>
<tr>
<td></td>
<td>28,618</td>
<td>28,618</td>
<td>–</td>
<td>n/a</td>
<td>27/10/17</td>
<td>27/10/20</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>14,746</td>
<td>14,746</td>
<td>–</td>
<td>n/a</td>
<td>31/10/18</td>
<td>31/10/21</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>12,997</td>
<td>0</td>
<td>–</td>
<td>n/a</td>
<td>03/10/19</td>
<td>03/10/22</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>SAYE</td>
<td>0</td>
<td>2,078</td>
<td>–</td>
<td>866p</td>
<td>11/05/16</td>
<td>01/08/19</td>
<td>01/02/20</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1,515</td>
<td>1,515</td>
<td>–</td>
<td>1,188p</td>
<td>10/05/19</td>
<td>01/08/22</td>
<td>01/02/23</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>John Shipsey</td>
<td>LTIP</td>
<td>81,469</td>
<td>81,469</td>
<td>A</td>
<td>n/a</td>
<td>27/10/17</td>
<td>Oct 2020</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>95,837</td>
<td>95,837</td>
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<td>n/a</td>
<td>31/10/18</td>
<td>Oct 2021</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td></td>
<td>95,837</td>
<td>0</td>
<td>B</td>
<td>n/a</td>
<td>03/10/19</td>
<td>Oct 2022</td>
<td></td>
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</tr>
<tr>
<td>Deferred bonus award</td>
<td>6,393</td>
<td>6,393</td>
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<td>31/10/18</td>
<td>31/10/21</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>6,933</td>
<td>6,933</td>
<td>–</td>
<td>n/a</td>
<td>03/10/19</td>
<td>03/10/22</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SAYE</td>
<td>0</td>
<td>1,515</td>
<td>–</td>
<td>1,188p</td>
<td>10/05/19</td>
<td>01/08/22</td>
<td>01/02/23</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1,969</td>
<td>0</td>
<td>–</td>
<td>914p</td>
<td>20/05/20</td>
<td>01/08/23</td>
<td>01/02/24</td>
<td></td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

**Key**

**Performance Share Award**

Under the terms of his contract of employment on joining the Company, Andy Reynolds Smith was granted a buy-out conditional award over 133,010 shares of which the first tranche of up to 60% (subject to the performance tests applicable to awards granted under LTIP 2015 in 2015) vested in October 2018; a further 20% vested in October 2019 (subject to performance tests applicable to awards granted under long-term incentive plans in 2016); and up to 20% are expected to vest in October 2020 (subject to the performance tests applicable to awards granted under long-term incentive plans in 2017). The terms of the award provide that additional shares are awarded on vesting to a value equivalent to the notional dividends that would have been earned on the number of shares that vest.

**LTIP** The Smiths Group Long-Term Incentive Plan. **SAYE** The Smiths Group Sharesave Scheme.

* The vesting dates shown above in respect of awards made under the LTIP are subject to the relevant performance test(s) being passed.

++ The expiry dates shown above apply in normal circumstances.

**Performance tests**

A LTIP awards in 2016 and 2017 – 35% subject to EPS element; 25% subject to ROCE; 30% subject to cash conversion.

B LTIP awards in 2018 and 2019 – 25% subject to EPS element; 20% subject to ROCE; 25% subject to cash conversion; 30% subject to organic sales growth.

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

**Notes**

- The high and low market prices of the ordinary shares during the period 1 August 2019 to 31 July 2020 were 1,778.5p and 790p respectively. The mid-market closing price on 31 July 2019 was 1,642p and on 31 July 2020 was 1,355p.

- The mid-market closing price of a Smiths Group share on the date of the awards made to Directors in the FY2020 financial year was 1,613.5p (3 October 2019).

- The SAYE options over the 1,515 shares granted to and held by the Chief Executive at 31 July 2020 were granted at an exercise price below the market price of a Smiths Group share on 9 April 2019 (1,485p). The options over 1,515 shares granted to and held by the Chief Financial Officer at 31 July 2019 were cancelled at his request. The options over 1,969 shares granted to and held by the Chief Financial Officer at 31 July 2020 were granted at an exercise price below the market price of a Smiths Group share on 20 May 2020 (1,268p). Shares are granted in May but the savings period commences in August.

- None of the options or awards listed above was subject to any payment on grant.

- No other Directors held any options over the Company’s shares during the period 1 August 2019 to 31 July 2020.

- No options or awards have been granted to or exercised by Directors or have lapsed during the period 1 August 2020 to 24 September 2020.

- At 31 July 2020, the trustee of the Employee Share Trust held nil shares. The market value of the shares held by the trustee on 31 July 2020 was £0 and dividends of approximately £13,160 were waived in the year in respect of the shares held by the trustee during the year.

- Special provisions permit early exercise of options and vesting of awards in the event of retirement, redundancy, and death.
Share scheme dilution limits
The Company complies with the guidelines laid down by the Investment Association. These restrict the issue of new shares under all the Company’s share schemes in any ten year period to 10% of the issued ordinary share capital and under the Company’s discretionary schemes to 5% in any ten year period. As at 31 July 2020 the headroom available under these limits was 8.53% and 4.09% respectively.

Performance evaluation
The annual evaluation of the Committee was conducted as part of the overall evaluation process of the Board and its Committees. However, the process by which the Committee’s performance was assessed was conducted separately to the main Board process ahead of the appointment of Deloitte LLP as the Committee’s adviser. More information can be found on page 100. The findings relating to the Committee were discussed with the Committee Chair. Overall, the Committee is viewed as effective and performing well and is rigorous in discharging its responsibilities.

The Directors’ Remuneration Report has been approved by the Board and signed on its behalf by:

Bill Seeger
CHAIR OF THE REMUNERATION COMMITTEE
23 September 2020
Directors’ Report

The Strategic Report is a requirement of the Companies Act 2006 (the ‘Act’) and can be found on pages 6-80. The Company has chosen, in accordance with section 414 C(11) of the Act, to include certain matters in its Strategic Report that would otherwise be disclosed in this Directors’ Report. The Strategic Report and the Directors’ Report together are the management report for the purposes of Rule 4.1.8R of the Disclosure Guidance and Transparency Rules. Other information that is relevant to the Directors’ Report, and is incorporated by reference, can be found as follows:

<table>
<thead>
<tr>
<th>Disclosure</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>Likely future developments</td>
<td>Strategic Report pages 6-23 and 52-66</td>
</tr>
<tr>
<td>Directors’ dividend recommendation</td>
<td>Strategic Report page 20</td>
</tr>
<tr>
<td>Research and development activities</td>
<td>Strategic Report pages 52-66</td>
</tr>
<tr>
<td>Employment of disabled persons</td>
<td>Resources and relationships page 32</td>
</tr>
<tr>
<td>Employee engagement</td>
<td>Resources and relationships pages 27-33</td>
</tr>
<tr>
<td></td>
<td>Governance Report pages 83 and 91</td>
</tr>
<tr>
<td>Engagement with suppliers, customers and others in a business relationship with the company</td>
<td>Resources and relationships pages 34-36 and 46-51</td>
</tr>
<tr>
<td></td>
<td>Governance Report page 91</td>
</tr>
<tr>
<td>Political donations and expenditure</td>
<td>Table on page 131</td>
</tr>
<tr>
<td>Greenhouse gas emissions, energy consumption and energy efficiency</td>
<td>Resources and relationships pages 40-45</td>
</tr>
<tr>
<td>Corporate governance statement</td>
<td>Governance Report pages 82-132</td>
</tr>
<tr>
<td>Directors during FY2020</td>
<td>Governance Report pages 84-87</td>
</tr>
<tr>
<td>Director appointment</td>
<td>Governance Report page 99</td>
</tr>
<tr>
<td>Amendment of Articles of Association</td>
<td>Governance Report page 99</td>
</tr>
<tr>
<td>Indemnities</td>
<td>Governance Report page 99</td>
</tr>
<tr>
<td>Change of control</td>
<td>Remuneration Report page 118</td>
</tr>
<tr>
<td></td>
<td>Borrowings and net debt note page 182</td>
</tr>
<tr>
<td>Directors’ responsibility statement</td>
<td>Statement of Directors’ responsibilities page 132</td>
</tr>
<tr>
<td>Disclosure of information to auditor</td>
<td>Statement of Directors’ responsibilities page 132</td>
</tr>
<tr>
<td>Financial instruments</td>
<td>Financial risk management note pages 181-188</td>
</tr>
<tr>
<td>Share capital disclosures</td>
<td>Share capital note page 195</td>
</tr>
<tr>
<td>Powers of the Directors</td>
<td>Governance Report page 89</td>
</tr>
<tr>
<td></td>
<td>Share capital note page 195</td>
</tr>
<tr>
<td>Post-balance sheet events</td>
<td>Post-balance sheet event note page 219</td>
</tr>
<tr>
<td>Overseas branches</td>
<td>Subsidiary undertakings note page 228</td>
</tr>
</tbody>
</table>
Listing Rules disclosure

Information required by the Financial Conduct Authority’s Listing Rules can be found as set out below. There are no further disclosures required in accordance with Listing Rule 9.8.

<table>
<thead>
<tr>
<th>Listing Rule</th>
<th>Disclosure</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>9.8.4(1)</td>
<td>Capitalised interest</td>
<td>Discontinued operations note page 197</td>
</tr>
<tr>
<td>9.8.4(12)(13)</td>
<td>Dividend waivers</td>
<td>Dividend note page 196</td>
</tr>
<tr>
<td>9.8.6(1)</td>
<td>Directors’ interests</td>
<td>Remuneration Report page 127</td>
</tr>
<tr>
<td>9.8.6(2)</td>
<td>Major shareholders’ interests</td>
<td>Table on page 131</td>
</tr>
<tr>
<td>9.8.6(3)(a)(b)</td>
<td>Going Concern and Viability Statements</td>
<td>Strategic Report pages 77-78</td>
</tr>
<tr>
<td>9.8.6(4)(a)</td>
<td>Purchase of own shares</td>
<td>Share capital note page 195</td>
</tr>
<tr>
<td>9.8.6(5)(6)</td>
<td>UK Corporate Governance Code compliance</td>
<td>Governance Report page 83</td>
</tr>
<tr>
<td>9.8.6(7)</td>
<td>Unexpired term of service contract</td>
<td>Remuneration Report page 117</td>
</tr>
</tbody>
</table>

Political donations

The Group did not give any money for political purposes in the UK, the rest of the EU or outside of the EU, nor did it make any political donations to political parties or other political organisations, or to any independent election candidates, or incur any political expenditure during the year.

In accordance with the US Federal Election Campaign Act, Smiths provides administrative support to a federal Political Action Committee (PAC) in the US funded by the voluntary political contributions of eligible employees. The PAC is not controlled by the Company and all decisions regarding the amounts and recipients of contributions are directed by a steering committee comprising Government Relations employees and reported to all eligible to contribute to the PAC. Contributions to political organisations reported by the PAC during FY2020 totalled $41,000 (FY2019: $50,534).

Major shareholders’ interests

At 31 July 2020, the Company had been notified under the Financial Conduct Authority’s Disclosure Guidance & Transparency Rules, or had received disclosures pursuant to the Companies Act 2006, of the following holdings of voting rights in its shares:

<table>
<thead>
<tr>
<th>Number of voting rights</th>
<th>Number of voting rights</th>
<th>% of total voting rights</th>
<th>Date of notification</th>
</tr>
</thead>
<tbody>
<tr>
<td>BlackRock, Inc.</td>
<td>23.3m</td>
<td>5.9</td>
<td>31 May 2018</td>
</tr>
<tr>
<td>Ameriprise Financial, Inc.</td>
<td>20.8m</td>
<td>5.3</td>
<td>3 October 2018</td>
</tr>
<tr>
<td>Artemis Investment Management LLP</td>
<td>19.8m</td>
<td>5.0</td>
<td>14 April 2020</td>
</tr>
<tr>
<td>Harris Associates L.P.</td>
<td>19.7m</td>
<td>5.0</td>
<td>22 July 2019</td>
</tr>
<tr>
<td>Dodge &amp; Cox</td>
<td>19.6m</td>
<td>4.9</td>
<td>27 February 2019</td>
</tr>
<tr>
<td>Jupiter Asset Management</td>
<td>14.8m</td>
<td>3.8</td>
<td>22 September 2016</td>
</tr>
</tbody>
</table>

No further notifications were received between 1 August and 21 September 2020.

By order of the Board

John Mills
COMPANY SECRETARY
23 September 2020
Statement of Directors’ responsibilities in respect of the Annual Report and the financial statements

The Directors are responsible for preparing the Annual Report and the Group and Parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and have elected to prepare the Parent Company financial statements in accordance with UK accounting standards, including IFRS 101 Reduced Disclosure Framework.

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

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable, relevant, reliable and prudent;
- For the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU

For the Parent Company financial statements, state whether applicable United Kingdom Accounting Standards have been followed subject to any material departures disclosed and explained in the Parent Company financial statements;

- Assess the Group and parent Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- Use the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company’s transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. 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 Group and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate governance and financial information included on the Company’s website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Signed on behalf of the Board of Directors:

Andy Reynolds Smith
CHIEF EXECUTIVE
23 September 2020

John Shipsey
CHIEF FINANCIAL OFFICER

Directors’ responsibility statement

Each of the Directors (who are listed on pages 84-87) confirms that to the best of his or her knowledge:

- The financial statements prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- The Group Directors’ Report and Strategic Report include a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- As at the date of this report there is no relevant audit information of which the Company’s auditor is unaware.

Each Director has taken all the steps he or she should have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company’s auditor are aware of that information.

We consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the group’s position and performance, business model and strategy.