John Crane is a global leader in rotating equipment solutions, supplying engineered technologies and services to process industries including oil & gas, pharmaceutical, chemical, petrochemical, power generation, mining, water treatment, pulp & paper, and turbomachinery.

John Crane designs and manufactures a variety of products including mechanical seals and systems, couplings, filtration systems and predictive digital monitoring technologies. John Crane sales and service is accessed through a global network of more than 200 sales and service facilities in over 50 countries.

### Competitive strengths
- A global leader in mission-critical technology for rotating equipment
- Strong proprietary technology and expertise in applied engineering
- Broad installed base in energy and industrial sectors
- Strong aftermarket service offering with more than 200 sales and service centres
- Long-term customer relationships

### Growth drivers
- Long-term underlying energy demand, especially in emerging markets
- Pent-up demand for maintenance and upgrades, including environmental safeguarding, in oil & gas and petrochemical industries

### Divisional strategy
Our strategy is to reinforce our global leadership in technologies and services for rotating equipment, with a competitively differentiated offering that will deliver above-market, long-term growth in the most attractive process industries.

We will maintain differentiation by investing in product development, continuing to diversify into industrial segments and higher-growth regions, furthering deployment of digital solutions, and broadening our aftermarket value proposition. We will also evaluate strategic bolt-on acquisitions to accelerate growth.

We will further drive competitiveness through operational improvements based on safety, quality and improved lead times.

### Link to Group strategy
1. **Outperform our chosen markets**
   - Industrial market penetration such as chemical, mining, pulp & paper, etc.
   - Product development to support end-market diversification, digitisation and environmental considerations
   - Continued focus on higher-growth regions with contract wins in Asia Pacific and the Middle East
   - Strong new product pipeline and constant portfolio review

2. **Deliver world-class competitiveness**
   - Continue to implement the SES framework to drive performance improvements across the whole business
   - Focus on business process standardisation using automated systems
   - Continue to optimise and position our manufacturing and service footprint close to our customers and to continually improve service levels

### FY2020 Performance

<table>
<thead>
<tr>
<th>Revenue</th>
<th>£955m</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Revenue by Sector</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy</td>
<td>63%</td>
</tr>
<tr>
<td>Industrials</td>
<td>37%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Revenue Mix</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Original Equipment</td>
<td>33%</td>
</tr>
<tr>
<td>Aftermarket</td>
<td>67%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Headline Operating Profit</th>
<th>£187m</th>
</tr>
</thead>
</table>

| Headline Operating Margin*   | 21.5%                   |

* Underlying modifies headline performance to: adjust prior year to reflect an equivalent period of ownership for divested businesses; exclude the effects of foreign exchange, acquisitions, restructuring costs and write-downs; and add back depreciation and amortisation of discontinued operations for comparability purposes.
COVID-19
Demand shock and prolonged oil price declines have caused many of our customers to delay new projects. However, we expect our aftermarket business to remain strong.

From the onset of the COVID-19 pandemic, John Crane has executed a comprehensive response plan that maximises the safety of our people and minimises disruption of our supply chain to maintain business continuity and serve our customers.

Products
Our comprehensive product portfolio includes mechanical seals, seal support systems, power transmission couplings, specialised filtration systems and digital monitoring. These engineered solutions drive improvements in reliability and reduced environmental impact in our customers’ operations.

Our large installed base – built over the last century across a number of vertical markets – drives significant aftermarket demand. We have one of the largest networks of global sales and service centres, ensuring proximity and rapid service to customers. These centres provide a range of services, including repair and refurbishment, upgrades and retrofits, root cause analysis of incidents, and alignment and condition monitoring to improve equipment performance and reduce operational downtime.

Markets where we operate
Energy: Following the oil price decline and the COVID-19 crisis, we expect the energy market to enter a period of downturn. Typically, given the critical nature of our products and services, aftermarket is more resilient than original equipment (OE) which tends to have a lagged impact given the large downstream nature of our portfolio. Increased focus on environmental considerations, efficiency, and the need to address energy needs for a growing population will drive the demand in the medium to long term.

Industrials: We also have a significant presence in other process industries, including pharmaceutical, chemical, power generation, mining, water treatment, and pulp & paper. We expect these verticals will continue to grow in the medium term, helped by increasing demand in higher-growth regions.

Original equipment (OE) is cyclical and is linked to new capacity coming onstream, as well as improved efficiency in existing locations where higher-performance seals are installed.

Aftermarket: We continue to expand our footprint through new service centres in selected higher-growth markets, as well as best-in-class field service teams. We continue to support and partner with our customers, delivering long-term solutions and reliability contracts, focusing on operational efficiencies and environmental stewardship.

Trends shaping innovation
Our Group purpose guides our approach to innovation, and we believe that megatrends, such as the global demand for energy and efficiencies and increased digitalisation and connectivity, will continue to generate demand for our products over the longer term.

<table>
<thead>
<tr>
<th>Megatrend</th>
<th>Innovation in FY2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy demand and efficiencies</td>
<td>Environmental Sustainability: Our partnership with Kairos Aerospace, Inc. further adds to our portfolio of solutions to monitor and mitigate greenhouse gases</td>
</tr>
<tr>
<td>Increased digitisation and connectivity</td>
<td>Continued development of John Crane’s Sense™ predictive diagnostics systems</td>
</tr>
</tbody>
</table>

INNOVATING TO SPEED THE SEAL TEST PROCESS

John Crane’s spin test rig in Slough, UK utilises gas flows to spin seal components up to high speeds to validate that they can cope with the significant forces they are likely to experience during service.

To complete a comprehensive test, certain seal components are required to be spun at higher speeds, and these could not be achieved with the existing rig capability. This resulted in components having to be shipped to external sub-contractors for spin testing, adding cost and increasing product lead times.

To enable spin testing to move in-house, the John Crane team designed and manufactured a new 3D-printed casing which improves the air flow around the impeller driving the spinning process, enabling higher speeds to be achieved on the rig. Two design iterations were created, manufactured and tested over just a one-week period.

The internal shape and flow distribution are difficult and expensive to achieve with conventional machining and the single 3D-printed piece replaces an assembly of 22 components and is cheaper to manufacture.

The upgraded rig can now be used for testing all seal components, reducing test costs and lead time for customers compared to contractor spin testing.
**FY2020 Financial performance**

<table>
<thead>
<tr>
<th>FY2020</th>
<th>FY2019</th>
<th>Reported growth</th>
<th>H1 underlying growth</th>
<th>H2 underlying growth</th>
<th>FY underlying growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>£955</td>
<td>£945</td>
<td>+1%</td>
<td>+8%</td>
<td>+2%</td>
</tr>
<tr>
<td>Original Equipment</td>
<td>£314</td>
<td>£313</td>
<td>+8%</td>
<td>(6)%</td>
<td>-</td>
</tr>
<tr>
<td>Aftermarket</td>
<td>£641</td>
<td>£632</td>
<td>+5%</td>
<td>-</td>
<td>+2%</td>
</tr>
<tr>
<td>Headline operating profit</td>
<td>£187</td>
<td>£220</td>
<td>(15)%</td>
<td>+4%</td>
<td>(15)%</td>
</tr>
<tr>
<td>Statutory operating profit</td>
<td>£154</td>
<td>£191</td>
<td>(19)%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Return on capital employed</td>
<td>19.0%</td>
<td>23.4%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>R&amp;D cash costs % sales</td>
<td>1.9%</td>
<td>1.7%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

John Crane’s market-leading positions and the strength of its global service network supported its robust performance, despite the challenges in the energy market and COVID-19 disruptions. Revenue was up +2% on an underlying basis. Reported revenue was up +1% as foreign exchange had a £(6)m adverse impact.

Underlying revenue from John Crane’s Energy segment was up c.4%. After a strong first half with growth of c.11%, underlying revenue from Energy declined c.(2)% in the second half, impacted by the downturn in the energy sector and COVID-19 disruptions. Underlying revenue from Industrial activities was down c.(2)%, throughout the year due to strong comparators and COVID-19 disruptions.

**Operating profit**

<table>
<thead>
<tr>
<th>FY2019 reported</th>
<th>Foreign exchange</th>
<th>Acquisitions &amp; disposals</th>
<th>Restructuring costs</th>
<th>Underlying</th>
<th>FY2020 reported</th>
</tr>
</thead>
<tbody>
<tr>
<td>Headline operating profit</td>
<td>£220</td>
<td>(1)</td>
<td>–</td>
<td>(18)</td>
<td>(14)</td>
</tr>
<tr>
<td>Headline operating margin</td>
<td>23.3%</td>
<td>21.5%</td>
<td></td>
<td></td>
<td>19.6%</td>
</tr>
</tbody>
</table>

Headline operating profit of £187m decreased by (6)% on an underlying basis, with higher volumes being more than offset by the increased costs associated with COVID-19 disruptions. Reported headline operating profit declined (15)% due to £(14)m of restructuring costs and £(4)m of receivables write-downs. The restructuring actions in John Crane are focused on enhancing its flexibility to withstand the cyclicality of its end markets and improve its efficiency.

Reported headline operating margin was 19.6%, down (370)bps on a reported basis but down only (180)bps to 21.5% on an underlying basis, excluding the impact of the restructuring costs and write-downs. The difference between statutory and headline operating profit includes the net cost in relation to the provision for John Crane, Inc. asbestos litigation.

**ROCE**

ROCE was down (440)bps at 19.0%, due to the lower profitability and the adverse impact of IFRS 16 adoption.

**R&D**

Cash R&D expenditure during the year represented 1.9% of sales, +20bps higher than last year. John Crane’s innovation is primarily focused on enhancing efficiency, performance and sustainability by using materials science advancements, coatings and additive manufacturing. John Crane is also leveraging the Group’s digital expertise to support the development of predictive diagnostic platforms and other innovative digital technologies.

During the year, John Crane introduced several new technologies, including a booster and filter to support dry gas seals on turbo compressors and further product developments to reduce the effects of friction and extreme pressure on pipeline applications.
Smiths Detection
Detection and screening technologies for the identification of safety and security threats

Smiths Detection is a global leader in detection and screening technologies that protect people and assets, thereby supporting safety, security and freedom of movement in today’s world.

We work with customers in a broad range of markets including aviation, ports & borders, defence and urban security, providing solutions that address existing and emerging threats. Smiths Detection’s reputation is underpinned by extensive experience, differentiated technology, and a strong track record of success.

Competitive strengths
- A global market leader with differentiated technologies leveraged across a broad range of markets
- Significant R&D capability
- Operating in regulated markets that require product certification
- Increasing aftermarket services
- Enhanced digital capabilities
- Long-term customer relationships

Growth drivers
- Persistent and evolving threat threats
- Changing security regulations in the aviation market
- Evolving threats to public safety and critical infrastructure
- Global growth in e-commerce
- Equipment replacement cycle, typically 8–10 years
- Growth of transportation infrastructure in Asia, Latin America and Africa

Competitors
Across the product portfolio, our competitors range from large multinationals to smaller, single-product companies. Examples include: Rapiscan, Leidos, Nuctech.

Divisional strategy
Our strategy is to maintain our position as a leading technology provider by building high-integrity detection solutions that outperform our chosen markets, that are technologically advanced and – most importantly – that deliver customer intimacy.

We will accelerate growth by working closely with our partners, suppliers and regulatory bodies to deliver a highly agile approach to constantly changing safety and security threats. To achieve this, we will invest selectively in adjacent markets, develop cost-effective solutions and services that will be built on systems and processes that will make it easier for customers to do business with us.

Link to Group strategy
1 Outperform our chosen markets
- At least maintaining our share of the installed base during recapitalisation periods
- Continued product development and certifications to support growth, including innovations to address specific customer needs in response to COVID-19
- Continued focus on higher-growth regions supported by contract wins
- Invest selectively in technology and innovation to expand portfolio in attractive markets close to the core

2 Deliver world-class competitiveness
- Globalise, standardise and streamline our internal processes, utilising continuous improvement initiatives and leveraging global best practices using the Smiths Excellence System (SES)
- Focus on supplier development and the reduction of costs through improvements to systems, processes and products

FY2020 PERFORMANCE

REVENUE
0%*
£806m

HEADLINE OPERATING PROFIT
(12)%*
£82m

HEADLINE OPERATING MARGIN*
(210)bps
13.9%

REVENUE MIX

ORIGINAL EQUIPMENT
55%

AFTERMARKET
45%

REVENUE BY SECTOR

AVIATION
72%

OTHER SECURITY SYSTEMS
28%

* Underlying modifies headline performance to: adjust prior year to reflect an equivalent period of ownership for divested businesses; exclude the effects of foreign exchange, acquisitions, restructuring costs and write-downs; and add back depreciation and amortisation of discontinued operations for comparability purposes.
COVID-19

Smiths Detection continues to shape its response to the pandemic, ensuring that the company reacts quickly to the evolving situation, prioritising the safety and wellbeing of our colleagues, customers and suppliers while managing demand. The pace and shape of recovery is likely to be gradual because of the impact that COVID-19 has had on our key markets, notably aviation. We respond to the pandemic by driving digital products and by investing selectively in chemical and biological detection technologies to support our customers with their changing requirements and operational priorities. To illustrate, we are already supporting our aviation customers to build resilience in their checkpoints by utilising Smiths Detection technologies to improve efficiencies, enable social distancing and reduce contact between passengers and between passengers and staff. We also rapidly introduced a UV-C solution for passenger checkpoints, which uses ultraviolet-C light to disinfect trays in tray-handling systems (see below).

Products

Our comprehensive product portfolio comprises x-ray and computed tomography (CT) scanners for hold baggage and checkpoint, people-screening scanners, tray-handling solutions and trace-detection devices for secondary screening at checkpoints. We produce portable devices for chemical, explosive and narcotic detection and identification. Our product portfolio also includes stationary and mobile inspection systems for heavy-cargo vehicles. Our growing range of digital solutions includes an integration and analytics platform that hosts a range of purpose-built digital applications to connect assets, analyse systems, detect threats and manage incidents through to resolution.

Markets where we operate

Demand for trace and detection equipment and service is forecast to continue to grow over the long term. In the context of continuing geopolitical unrest and evolving terrorist and criminal threats – and with the growing advancement of biological, chemical and cyber threats – our security measures continue to evolve to keep ahead of these threats. But there is a geographical variation within our markets.

Aviation, our largest market, has been heavily impacted by the COVID-19 pandemic and seen an almost complete halt in passenger travel so far in 2020. As airports and the aviation industry seek to restore passenger confidence, they will be driven to improve hygiene standards and create a contactless passenger experience at checkpoints and to adopt technologies that help to create operational efficiencies and reduce operational costs without compromising security. In Other Security Systems we have three sub-segments:

- In ports & borders, the growth of worldwide trade volumes is expected to increase demand for security screening equipment and digital solutions that drive inspection processing speeds. Powerful digital technologies and next generation connected hardware are needed to enhance inspection effectiveness and detect more in less time in order to minimise threats, without affecting global trade.

Trends shaping innovation

Our Group purpose drives our approach to innovation, and we believe that megatrends – such as increasing digitisation and connectivity, artificial intelligence, cyber security and mobility and globalisation – are likely to continue to generate demand for our products over the longer term.

<table>
<thead>
<tr>
<th>Megatrend</th>
<th>Innovation in FY2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increasing digitisation</td>
<td>Data-integration and cognitive-analytics platform, delivering shared threat and anomaly detection capabilities.</td>
</tr>
<tr>
<td>and connectivity</td>
<td></td>
</tr>
<tr>
<td>Artificial intelligence</td>
<td>iCMORE portfolio, delivering automatic detection of an ever-expanding list of dangerous, prohibited and contraband goods.</td>
</tr>
<tr>
<td>Mobility and globalisation</td>
<td>Advances in threat-detection capability with expansion into chemical, biological, radiological and nuclear (&quot;CBRNE&quot;) and adjacent markets.</td>
</tr>
</tbody>
</table>

IMPROVING SAFETY AT AVIATION SECURITY WITH ULTRAVIOLET LIGHT

A study showed that baggage trays at security checkpoints have the highest levels of pathogens of any other surface in an airport.

In response to the COVID-19 pandemic and to support hygiene improvements at airport security screening, Smiths Detection developed a proprietary ultraviolet (UV-C) light tray disinfection kit capable of killing up to 99.9% of bacteria and virus-carrying micro-organisms, including coronavirus. The kits can be installed into any tray return system, regardless of vendor.

In defence, emerging threats are generating global demand for mobile and adaptable detection equipment for chemical warfare agents and other threat specific sensors in key NATO-orientated markets. This market is affected by the nature of its associated procurement cycles.

Urban security is a large but fragmented and mainly unregulated sector. Critical infrastructure, mass transit and crowded spaces have specific customer needs and challenges. Demand is growing – driven by an increase in criminal activity towards traditionally more vulnerable targets and by the response of both the public and the private sectors to an ever-growing range of threats – for solutions that allow the public to go about their lives as normal, with the peace of mind that their security and welfare are being protected.

Almost half of our customers are government-funded and, consequently, budget constraints affect revenues. Original equipment (OE) drives the programmatic nature of our business. The lifecycle of OE is typically 8 to 10 years. Aftermarket as a percentage of revenue is increasingly driven by our growing installed base, advances in our digital capability, and our focus on providing a complete solution to our customers.

Trials are underway in Asia Pacific and Europe and results have proven the solution’s ability to destroy micro-organisms. A specially designed casing and other safety measures mean the UV-C lights pose no exposure risk to staff or passengers and can be installed quickly and easily into existing systems. Demonstrating greater hygiene standards will be important as airports seek to restore the confidence of travellers and staff during and in the aftermath of the COVID-19 pandemic.
The strength of Smiths Detection’s market position and its leading technology supported its resilient performance with underlying revenue flat year-on-year.

The delivery of previously announced contract wins drove Original Equipment (‘OE’) up +2% on an underlying basis, with strong first half growth of +8% moderating to (2)% in the second half. Aftermarket revenue declined (2)% on an underlying basis, with first half growth of +1% being offset by (5)% in the second half as service and maintenance levels reduced during the COVID-19 pandemic. Reported revenue was up +1%, including +£8m of favourable foreign exchange translation.

Revenue from Aviation activities increased +6% on an underlying basis. Aviation is Smiths Detection’s largest segment, representing 72% of total revenue. We continued to see demand for hold baggage systems (‘HBS’) across Europe, as a result of the ECAC standard-3 regulation, and globally, as airports upgrade their fleets. Demand is also driven by Computed Tomography (‘CT’) based screening systems for cabin baggage, which allow laptops and liquids to remain in bags. Deliveries included part of the previously announced contracts with Aena in Spain, Airports Authority India (AAI) and with the TSA in the US. Despite a slower rate of new tenders, Smiths Detection continues to secure contract wins, including for Kuwait International Airport and Singapore Changi Airport.

Underlying revenue from Other Security Systems declined by (13)%. This performance reflects both the strong comparator and the impact of COVID-19. Smiths Detection continues to respond to the pandemic by driving its digital portfolio and investing selectively in chemical and biological detection capabilities that will support a safer post COVID-19 world.

New contract wins include an order from U.S Customs and Border Protection for high-energy X-ray inspection scanners used to screen moving rail carriages for dangerous or illegal cargo, and with the US Department of Defence (US DoD) for Solid Liquid Adaptors which add new capabilities to Joint Chemical Agent Detectors (JCADs), securing Smiths Detection as a global supplier of JCADs to the US DoD for several more years to come.

Headline operating profit decreased (12)% on an underlying basis, reflecting a higher proportion of OE – at competitive pricing and COVID-19 related costs including reduced aftermarket services. Reported headline operating profit of £82m was down (36)% year-on-year, including £(14)m of restructuring and £(17)m of R&D and receivables write-down costs. Restructuring costs consist of headcount reduction combined with footprint optimisation. Reported headline operating margin was 10.2%, down (580)bps on a reported basis but only down (210)bps to 13.9% on an underlying basis, excluding the impact of the restructuring costs and write-downs. The difference between statutory and headline operating profit primarily reflects amortisation of acquired intangibles.

ROCE
ROCE decreased by (430)bps to 7.2%, impacted by reduced profitability.

R&D
Cash R&D expenditure during the year was 9.2% of sales, +80bps higher than last year. R&D excluding customer funding was 6.9% for FY2020 (FY2019: 6.6%). Our new checkpoint scanner (CTiX) contributed positively to the Group’s Vitality Index.

We continue to invest in the development of the next generation of detection devices for the defence market, new algorithms to improve the detection of dangerous goods for cargo applications and operational efficiency, and digital solutions to strengthen our aftermarket proposition to make people and infrastructure safer.

Certain programmes are co-funded by strategic customers seeking next-generation solutions to security challenges. In the year, Smiths Detection launched its new ultraviolet (UV-C) light kits, capable of destroying up to 99.9% of microorganisms present on baggage trays at the security checkpoint. Demonstrating heightened hygiene standards will be important, as airports seek to restore the confidence of travellers and staff during and after the COVID-19 pandemic.
Flex-Tek
Innovative components to heat and move fluids and gases

Flex-Tek is a global provider of engineered components that heat and move fluids and gases for the aerospace, medical, industrial, construction and domestic appliance markets.

Our flexible hosing and rigid tubing provide safe fluid management for fuel and hydraulic applications on commercial and military aircraft, deliver gas and conditioned air in residential and commercial buildings, and enable respiratory care in medical applications. Flex-Tek heating elements and thermal systems improve the performance and efficiency of medical and diagnostic equipment as well as that of domestic appliances such as clothing tumble dryers and HVAC equipment.

Divisional strategy
Our strategy is to outperform our chosen markets through technological differentiation, with the need for safer, more energy-efficient and smart/digital solutions providing opportunities for us to establish leadership positions across our segments.

We aim to do this by developing our product portfolio through strong customer intimacy, expanding in our target regions, growing existing market share and driving operational excellence to increase competitiveness. We also consider aligned strategic bolt-on acquisitions to support growth.

Specific focus areas include growing our share in the US housing market segment, expanding our international markets for gas tubing and securing positions on next generation aircraft.

We drive competitiveness through operational improvements.

Link to Group strategy
1 Outperform our chosen markets
   – Continue to launch new innovative products
   – Progress in international expansion

2 Deliver world-class competitiveness
   – Continue the lean transformation of all sites, including the newly acquired United Flexible sites using the Smiths Excellence System site development guide
   – Focus on quality by adopting a formal supplier quality methodology and optimise supply base

Competitive strengths
– High performance products
– Leading capability in design and manufacture
– A leader in residential gas tubing products
– High performance flexible tubing for aerospace
– Strong customer relationships

Growth drivers
– Through-cycle growth of the US housing construction market segment
– Expanding international market for corrugated stainless steel tubing for housing
– Long-term increase in commercial and defence aircraft production
– Growth of medical devices, especially for the treatment of sleep apnoea and respiratory conditions
– Expansion in higher-growth markets
– Expanding innovation in heat industrial solutions

Competitors
Competitors range from large multinationals through to small, more focused companies across the product portfolio. Examples include: Parker-Hannifin, Eaton, Omega Flex, Nibe.

FY2020 PERFORMANCE

Revenue
(6)%
£478m

Headline operating profit
(14)%
£83m

Revenue by sector
Aerospace
28%

Headline operating margin*
(160)bps
17.6%

Revenue mix
Original equipment
49%

Aftermarket
51%

* Underlying modifies headline performance to adjust prior year to reflect an equivalent period of ownership for divested businesses; exclude the effects of foreign exchange, acquisitions, restructuring costs and write-downs; and add back depreciation and amortisation of discontinued operations for comparability purposes
COVID-19
Our utmost priority has been to keep our employees safe whilst maximising business continuity with our suppliers and servicing our customers. The pandemic has slowed most of our end markets, with the exception of medical where we supply hoses for ventilators. In order to respond to the high demand, we have converted lines. Whilst most of our end markets are expected to recover relatively swiftly, commercial aerospace is expected to take two to three years to return to pre-COVID-19 level.

Products
In Aerospace, we are a leading provider of specialty tubing assemblies that provide reliable, efficient delivery of hydraulic fluids and jet fuel for commercial and military aircraft globally.

In Industrials, we are one of the world’s largest manufacturers of open coil heating elements, supplying electric resistance heating and controls for a broad range of applications, including compressors, clothes dryers, duct heaters, heat pumps, window air conditioners, and vending machines. We also provide flexible ducting for commercial and residential HVAC applications, hoses for medical applications including ventilators, hoses for the automotive market to deliver fuel and brake fluid, as well as corrugated stainless steel tubing that supplies natural gas or low-pressure gas to appliances.

Markets where we operate
Key market segments include US residential and commercial construction, global aerospace tubing and hoses, and electrical heating elements.

Our business performance generally follows macroeconomic indicators such as US GDP, US housing growth, healthcare spending and capital goods expenditure. Population growth drives residential construction and domestic appliance demand in the US. In the long term, increasing air passenger and freight volumes and investment in next-generation aircraft are expected to drive the growth in commercial aerospace. The diverse nature of our markets reduces our reliance on any specific technology, although we are primarily exposed to the US economy.

In Aerospace, the market for commercial aircraft following the COVID-19 pandemic is expected to be challenging for the next two to three years.

In Industrials, growth is driven by the US housing market segment, along with an increasing number of specialty heating applications and flexible gas piping and HVAC ducting in North America and Asia. Our products are also used in the manufacture of medical devices such as sleep apnoea devices and devices for respiratory conditions (including ventilators), where increasing global healthcare spend is driving growth.

Trends shaping innovation
Our Group purpose guides our approach to innovation and we believe that megatrends, such as energy demand and efficiencies, and mobility and globalisation, will continue to generate demand for our products over the longer term.

<table>
<thead>
<tr>
<th>Megatrend</th>
<th>Innovation in FY2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy demand and efficiencies</td>
<td>Energy efficient heating, lower weight aerospace products and more sustainable building practices</td>
</tr>
<tr>
<td>Mobility and globalisation</td>
<td>Expanding in Europe with Gastite and leveraging the United Flexible European footprint Expanding product breadth in China to support industrial applications</td>
</tr>
</tbody>
</table>

BUILDING THE MARKET FOR SAFER GAS TUBING
The further development of Flashshield+, including investments in new machinery and technology, and a full range of sizes, has led to successful contracts with new distributors, contractors and large-scale construction projects. Transition to Flashshield+ has been high due to the range of features incorporated into the product.

The FlashShield+ system for supplying natural gas and propane in residential and commercial structures was designed after extensive voice of customer and engineering research, utilising innovation from the food industry.

The corrugated stainless steel tubing (CSST) has four layers of protection that are bonded together using specially engineered adhesives. Each layer has a specific function to address multiple safety points and protect the CSST. The product has a simplified installation process through further innovation around earthing connections, a key output from the voice of customer research, as well as being better performing.

FlashShield+ is also the only product of its kind to have industry-leading lightning protection as well as household fault current protection.
FY2020 Financial performance

<table>
<thead>
<tr>
<th></th>
<th>FY2020 £m</th>
<th>FY2019 £m</th>
<th>Reported growth</th>
<th>H1 underlying growth</th>
<th>H2 underlying growth</th>
<th>FY underlying growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>478</td>
<td>436</td>
<td>+10%</td>
<td>+3% (13)%</td>
<td>(6)%</td>
<td></td>
</tr>
<tr>
<td>Industrials</td>
<td>345</td>
<td>315</td>
<td>+2% (5)%</td>
<td>+5% (31)%</td>
<td>(18)%</td>
<td></td>
</tr>
<tr>
<td>Aerospace</td>
<td>133</td>
<td>121</td>
<td>+5% (31)%</td>
<td>+9% (29)%</td>
<td>(14)%</td>
<td></td>
</tr>
<tr>
<td>Headline operating profit</td>
<td>83</td>
<td>84</td>
<td>(1)%</td>
<td>(9)% (29)%</td>
<td>(14)%</td>
<td></td>
</tr>
<tr>
<td>Statutory operating profit</td>
<td>52</td>
<td>68</td>
<td>(24)%</td>
<td>(580)bps</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Return on capital employed</td>
<td>17.5 %</td>
<td>23.3%</td>
<td>(570)bps</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>R&amp;D cash costs % sales</td>
<td>0.5%</td>
<td>0.4%</td>
<td>(10)bps</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Revenue

- Flex-Tek’s underlying revenue decreased (6%). After a good first half, underlying revenue declined (13)% in the second half, reflecting the downturn in commercial aerospace as well as a temporary disruption to US construction – which has since recovered. On a reported basis, revenue increased +10%, including +£61m incremental revenue associated with the acquisition of United Flexible, and +£8m favourable foreign exchange translation.
- Industrials revenue was down (2)% despite increased sales of medical hoses and strong customer conversions to Flashshield™, an innovative new flexible gas tubing product, which contributed positively to the Group’s Vitality Index.
- Aerospace revenue was down (18)% on an underlying basis for the year, driven by the downturn in commercial aerospace in the second half. However, defence aerospace was more resilient.

Operating profit

- Headline operating profit decreased (14)% on an underlying basis, impacted by lower volumes partially offset by strong cost controls. Reported headline operating profit was down (1)% at £83m, benefiting from +£2m favourable foreign exchange and +£7m from the United Flexible acquisition.
- Reported headline operating margin was 17.3%, down (190)bps. The difference between statutory and headline operating profit is due to amortisation of acquired intangible assets, provision for Titeflex Corporation subrogation claims, and integration costs for the United Flexible acquisition.

ROCE

ROCE decreased (580)bps to 17.5%, mainly driven by the impact of lower volumes on profit and the acquisition of United Flexible in the prior year.

R&D

Cash R&D expenditure remained broadly consistent at 0.5% of sales. R&D is focused on new products for HVAC line sets, duct innovation in Thermaflex, and an expanded product offering in aerospace.
Smiths Interconnect

Solutions for high-speed, secure connectivity in demanding applications

Smiths Interconnect is a leading provider of technically differentiated electronic components, subsystems, microwave and radio frequency products that provide secure connectivity of critical applications in the defence, aerospace, communications and industrial markets.

Our advanced, high-quality solutions ensure high-speed connectivity, reliability and safety for demanding applications operating in harsh environments.

Competitive strengths
- Innovative and technically differentiated products
- High-reliability solutions used in demanding applications
- Strong research and engineering capabilities
- Customer intimacy and product customisation
- Global reach and support

Growth drivers
- Increased connectivity in space
- Growing urbanised population requiring transport and infrastructure

- Increasing geopolitical uncertainty
- Extension of internet connectivity to improve efficiency and data accuracy (Internet of Things, Industry 4.0)
- Increased focus on healthcare and ageing populations

Competitors
Competitors range from large multinationals through to small, more focused companies across the product portfolio. Examples include: Amphenol, TE Connectivity, Molex, WinWay, Cobham, Honeywell, Leeno.

Divisional strategy
Our strategy is to outperform our chosen market segments through customer focus, new technology, operational excellence and targeted geographical investment. We aim to be a partner of choice to customers that value our broad portfolio of innovative and technically differentiated connectivity solutions by having strong key account partnerships and efficient channels to market.

We will continue to focus on specific market segments including defence and space, communications and industrial applications. We will drive competitiveness through research and development (R&D), and we will fund our investments through improved efficiency.

Link to Group strategy
1 Outperform our chosen markets
- Continued emphasis on key account management to develop customer focus and intimacy
- Increased focused R&D investment of over 7.7% of sales to drive growth in our Vitality Index
- Build presence in India, focusing on defence, satcom, space and rail market segments
- Continued focus on higher-growth regions and market segments

2 Deliver world-class competitiveness
- Continuous improvement and lean manufacturing through six sigma process improvement, deployment of mechanised/automated processes, and use of disruptive technologies to enable new manufacturing methods
- Simplified global operational structure through unified enterprise resource planning (ERP) implementation, legal entity simplification and network optimisation (regional end-to-end supply chain)

FY2020 PERFORMANCE

<table>
<thead>
<tr>
<th>REVENUE</th>
<th>REVENUE MIX</th>
<th>HEADLINE OPERATING PROFIT</th>
<th>HEADLINE OPERATING MARGIN</th>
</tr>
</thead>
<tbody>
<tr>
<td>(5)%*</td>
<td></td>
<td>£26m</td>
<td>10.1%</td>
</tr>
<tr>
<td>£309m</td>
<td>ORIGINAL EQUIPMENT</td>
<td>98%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>AFTERMARKET</td>
<td>2%</td>
<td></td>
</tr>
</tbody>
</table>

* Underlying modifies headline performance to: adjust prior year to reflect an equivalent period of ownership for divested businesses; exclude the effects of foreign exchange, acquisitions, restructuring costs and write-downs; and add back depreciation and amortisation of discontinued operations for comparability purposes.

SMITHS GROUP PLC ANNUAL REPORT FY2020
COVID-19
Our primary concern being always the safety of our people and of all those we work with, each of our sites supported employees in taking appropriate precautions to protect their health. As our products and services are instrumental to the continued operation of essential industries such as medical/healthcare, aerospace, defence, rail, communications and digital infrastructure, our sites have remained open during the COVID-19 pandemic, whilst taking appropriate precautions to protect the health of site workers.

We have closely monitored the potential impact that this unprecedented situation could have on our supply chain and taken the appropriate measures to minimise any effect on product manufacture and delivery to customers. This has resulted in minimal disruption of our operations and consequently very limited impact on our customer base.

Products
We provide technologically differentiated electronic components, subsystems, microwave and radio frequency products that connect, protect and control critical applications in harsh environments in our focus market segments.

Our products are used in radar, communication and surveillance systems that are mission-critical and operate in extreme environments in aerospace and defence. Our solutions in engine systems, power distribution and avionics ensure reliability in flight-critical systems. Our microwave components and connectors ensure optimal performance, durability and safety in space, including LEO, MEO and GEO (Low, Medium and Geostationary Earth Orbit) satellites.

Our semi-conductor test products are used to test highly sophisticated semi-conductors and electronic circuits in use in communication systems, gaming products and computing devices. Our in-flight antenna systems give passengers internet connectivity gate-to-gate on planes around the world. Our connectivity solutions are used in surgical and monitoring systems, imaging systems and disposables applications. Our products control the reliable operation of train rolling stock (driver cabin braking systems) and ensure the integrity and speed of data transmission in signalling (train monitoring by satellites).

Markets where we operate
Increasing geopolitical uncertainty and operations in extreme environments create a platform for growth for defence applications. Increased demand for communication and data transmission requires additional satellites, especially LEO and MEO. Air transportation is impacted by COVID-19, which will result in delays to the upgrade of fleets.

The growth in big data, which requires more bandwidth and increased computing power, combined with a high rate of technology refresh with increased functionality and connectivity, creates further opportunities for our products.

Technology and Artificial Intelligence are transforming healthcare and will drive the demand for home-based, more connected medical devices.

Sustainable development in industrial applications will be a big driver of Internet of Things ("IoT") and micro-electronics, driven by the need for productivity improvements.

Increasing focus on sustainable energy will result in increased needs for electricity storage and battery back-up power.

Trends shaping innovation
Our Group purpose guides our approach to innovation and we believe that megatrends, such as increased digitisation and connectivity and mobility and globalisation, are likely to continue to generate demand for our products over the longer term.

<table>
<thead>
<tr>
<th>Megatrend</th>
<th>Innovation in FY2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increased digitisation and connectivity</td>
<td>High-speed data, smaller packaging, increased power needs, smart devices, intelligent systems</td>
</tr>
<tr>
<td>Mobility and globalisation</td>
<td>Space constellations, telemedicine, increased bandwidth, big data and 5G</td>
</tr>
</tbody>
</table>

CONNECTORS SUPPORTING THE EXPLORATION OF SPACE
Smiths Interconnect was recently awarded a contract by Boeing to design, manufacture and supply bespoke connectors to transfer power, signal and communications to different modules aboard NASA’s Orion spacecraft and Lunar Gateway for the Artemis crewed spaceflight programme.

The Orion spacecraft will take up to four astronauts to the Lunar Gateway where they will board a human landing system for exploration missions to the surface of the Moon. The Lunar Gateway is an in-development spaceship which is intended to orbit around the Moon. It will be a solar-powered communication hub, with living quarters for astronauts, a lab for science and research, ports for visiting spacecraft, and a holding area for rovers and other robots.

The spaceship will be a temporary home and office for astronauts, a five-day, 250,000-mile commute from Earth. It will provide NASA and its partners access to more of the lunar surface than ever before, supporting both human and robotic missions on the Moon and, eventually, to Mars.

With many phases of the Artemis programme still to come, it is hoped that Interconnect’s partnership with Boeing will extend to many decades as humans explore Mars and the wonders that the planet has to offer.
**FY2020 Financial performance**

<table>
<thead>
<tr>
<th></th>
<th>FY2020 (£m)</th>
<th>FY2019 (£m)</th>
<th>Reported growth</th>
<th>H1 underlying growth</th>
<th>H2 underlying growth</th>
<th>FY underlying growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>309</td>
<td>319</td>
<td>(3)%</td>
<td>(7)%</td>
<td>(3)%</td>
<td>(5)%</td>
</tr>
<tr>
<td>Headline operating profit</td>
<td>26</td>
<td>47</td>
<td>(45)%</td>
<td>(50)%</td>
<td>(25)%</td>
<td>(35)%</td>
</tr>
<tr>
<td>Statutory operating profit</td>
<td>23</td>
<td>45</td>
<td>(49)%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Return on capital employed</td>
<td>6.4%</td>
<td>12.8%</td>
<td>(640)bps</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>R&amp;D cash costs % sales</td>
<td>7.7%</td>
<td>7.2%</td>
<td>+50bps</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Revenue**

Smiths Interconnect revenue declined (5)% on an underlying basis, primarily reflecting the pre-COVID slowdown in its end markets. After a challenging first half with underlying revenue down (7)% , the trajectory improved in the second half with underlying revenue of (3)% and an increase in orders supporting the division’s return to growth in the fourth quarter. On a reported basis, revenue decreased by (3)% , including +£5m favourable foreign exchange translation.

The volume decline reflects a general slowdown in Interconnect’s markets, which were impacted by the China-US trade dispute from the start of the financial year.

**Operating profit**

Headline operating profit decreased (35)% on an underlying basis, reflecting lower volumes and the cost of relocating and rationalising production capacity. Reported headline operating profit was down (45)% in the year to £26m, including +£1m favourable foreign exchange and £(2)m of restructuring costs to optimise the operational footprint, and £(3)m of receivables write-downs.

Reported headline operating margin was 8.4%, down (630)bps on a reported basis and (460)bps to 10.1% on an underlying basis, excluding the impact of the restructuring costs. The difference between statutory and headline operating profit reflects adjustments for amortisation of acquired intangibles and acquisition costs.

**Portfolio**

In October 2019, Smiths Interconnect completed the acquisition of Reflex Photonics ("Reflex") for an enterprise value of CAD$40m. Reflex’s technological leadership in shock-resistant fibre optics significantly strengthens Smiths Interconnect’s product offering in the defence, space, aerospace and industrial market segments.

**ROCE**

ROCE decreased (640)bps to 6.4%, driven by lower profitability.

**R&D**

Cash R&D expenditure increased to 7.7% of sales (7.0% excluding customer funded R&D, FY2019: 6.4%), as we continued to invest in technology-led growth. R&D is focused on bringing to market new products that improve connectivity in difficult operating environments. Product launches included connectors for power transmission in harsh environments and efficient probe heads for the semiconductor packaging industry. Smiths Interconnect opened a new Qualification and Test laboratory in Dundee, offering a one-stop shop for critical qualification and testing for space applications.
Discontinued operations

Smiths Medical

Quality medical devices and consumables that are vital to patient care

Divisional strategy

Smiths Medical’s strategy is to become a leading medication management solutions company with a complementary vital care offering. We believe we will achieve this with commercially focused innovation, differentiation in our customer support model, and delivery of complete solutions that optimise patient outcomes. We will continue to enhance both our own R&D and our external partnerships to execute our strategy in line with healthcare megatrends.

In order to invest in our future, we will continue to improve efficiency and operational excellence. Part of this investment, besides customer solutions, will include further developing our people.

We will drive growth in developed markets through investments in premium product segments. We will also continue to improve our capabilities in emerging markets outside of North America and Western Europe, enhancing our current global footprint and sales reach. In addition, we will continue to pursue channel optimisation in hospitals and alternate sites of care.

Competitive strengths
- A category leader in served segments
- Trusted brands with a reputation for safety
- Strong, defensible intellectual property
- c.80% of revenue from single-use devices and proprietary consumables
- Strong customer relationships and extensive global sales network

Growth drivers
- Ageing populations with increasing personalised healthcare and patient expectation/quality of life
- Increasing incidence of chronic diseases
- Increasing need for connected systems and data analytics
- Growth of alternate site and home-based healthcare
- Growing healthcare spend in developing markets

Competitors
Competitors range from large multinationals through to small, more focused companies across the product portfolio. Examples include: Becton Dickinson, Baxter, B-Braun, Medtronic.

FY2020 Performance

Revenue
+4%
£918m

Headline Operating Profit
(3)%
£184m

Headline Operating Margin*
(130)bps
15.5%

Revenue Mix

Original Equipment
20%
Consumables
80%

Revenue by Sector

Infusion Systems
35%
Vascular Access
30%
Vital Care and Specialty Products
35%

* Underlying modifies headline performance to adjust prior year to reflect an equivalent period of ownership for divested businesses; exclude the effects of foreign exchange, acquisitions, restructuring costs and write-downs; and add back depreciation and amortisation of discontinued operations for comparability purposes.
COVID-19

The global COVID-19 pandemic has and is driving unprecedented impacts on the Smiths Medical business. Demand for items such as ventilators and supporting accessories, other airway management products and infusion pumps and accessories, which are used to treat and care for impacted patients, saw substantial demand increases. At the same time, elective procedures have been restricted, if not altogether cancelled, resulting in worldwide decreasing demand on other segments of the business, also impacting inventory. We believe we are well positioned to support our customers and their patients for subsequent waves of the pandemic.

Products

In Infusion Systems, Smiths Medical products deliver medication treatment for conditions including acute and chronic pain, cancer, pulmonary hypertension and Parkinson’s disease. Products are used in acute settings, surgery centres, oncology centres, and home settings and we have strong positions in ambulatory infusion and in the syringe pump segment.

In Vascular Access, products cover a range of venous access methods including blood draw, as well as catheters, ports, and needles for the infusion of fluids and blood. In May 2020, Smiths Medical acquired the business of Access Scientific LLC in order to further strengthen its vascular access portfolio.

Vital Care and Specialty Products cover a wide range of critical-care and chronic disease management products including tracheostomy, temperature management, general anaesthesia, respiratory and bronchial hygiene.

Markets where we operate

The medical device industry remains attractive, with strong growth drivers. The global market served by Smiths Medical is estimated to be circa £7.3bn and growing around 3% annually, with growth drivers such as expansion of developing markets, ageing populations, increasing need for connected systems and data analytics, and growth of alternate site and home-based healthcare and innovation.

In Infusion Systems, an increasing rate of chronic conditions and outpatient treatment favour ambulatory infusion solutions. Healthcare providers are advancing digital integration between infusion devices and their respective hospital information systems.

In Vascular Access, continued growth is expected due to safety regulations driving to prevent needlestick injuries, blood exposure, and hospital-acquired infections.

In Vital Care and Specialty Products, key growth drivers include the expansion of enhanced recovery after surgery and the prevalence of chronic obstructive pulmonary disease (COPD).

Trends shaping innovation

Megatrends, such as ageing populations and healthcare demand and increased digitisation and connectivity are expected to continue to generate demand for Smiths Medical products over the longer term.

<table>
<thead>
<tr>
<th>Megatrend</th>
<th>Innovation in FY2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ageing populations and healthcare demand</td>
<td>– Focus on alternate site and home-based healthcare in developed markets</td>
</tr>
<tr>
<td></td>
<td>– Developing focused technologies targeting chronic conditions through patient-friendly design</td>
</tr>
<tr>
<td>Increased digitisation and connectivity</td>
<td>– Smart pump programming with electronic medical record system integration</td>
</tr>
<tr>
<td></td>
<td>– Evolving data access and connectivity models</td>
</tr>
</tbody>
</table>

RESPONDING EFFECTIVELY TO THE DEMANDS OF THE COVID-19 PANDEMIC

The Smiths Medical COVID-19 SWAT team was formed at the beginning of the COVID-19 pandemic to facilitate and drive an accelerated response to customer needs and demand for medical products and devices including ventilators across the world. The five-strong team met daily with Smiths Medical CEO, JehanZeb Noor, to share information and discuss priorities, and were empowered to execute decisions on all aspects of the response, including strategy, resourcing and investment, supply and building external partnerships.

Weekly leadership meetings were held with the SWAT team to monitor the spread of the pandemic and align the global team on strategy and messaging. Cross-functional teams were supported to respond operationally to changes in demand and prepare forward plans. The SWAT team co-ordinated efforts to enlist new suppliers and facilitated capital investment at locations across the Smiths Medical network to support increased output. They also set up a workstream to deliver online and interactive customer training materials for ventilator use.

The SWAT team played a role in securing an order for 78.6 million syringes to support the US Government’s vaccination plans and in the UK Ventilator Challenge consortium.
STRATEGIC REPORT
DIVISIONAL REVIEW CONTINUED

FY2020 Financial performance

<table>
<thead>
<tr>
<th></th>
<th>FY2020</th>
<th>FY2019</th>
<th>Reported growth</th>
<th>H1 underlying growth</th>
<th>H2 underlying growth</th>
<th>FY underlying growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>£918</td>
<td>874</td>
<td>+5%</td>
<td>+1%</td>
<td>+7%</td>
<td>+4%</td>
</tr>
<tr>
<td>Headline operating profit</td>
<td>£184</td>
<td>147</td>
<td>+25%</td>
<td>+1%</td>
<td>(7)%</td>
<td>(3)%</td>
</tr>
<tr>
<td>Statutory operating profit</td>
<td>£161</td>
<td>151</td>
<td>+7%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Return on capital employed</td>
<td>13.8%</td>
<td>11.7%</td>
<td>+210bps</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>R&amp;D cash costs % sales</td>
<td>5.9%</td>
<td>6.0%</td>
<td>(10)bps</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

For comparability purposes, depreciation and amortisation of £(45)m have been included in the calculation of underlying measures.

Revenue

<table>
<thead>
<tr>
<th>(£m)</th>
<th>FY2019 reported</th>
<th>Foreign exchange</th>
<th>Acquisitions &amp; disposals</th>
<th>Underlying</th>
<th>FY2020 reported</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>874</td>
<td>12</td>
<td>(3)</td>
<td>35</td>
<td>918</td>
</tr>
</tbody>
</table>

Smiths Medical continued its return to growth with underlying revenue up +4%. This growth accelerated in the second half to +7%, including +5% from participation in Ventilator Challenge UK. Reported revenue was up +5% with +£12m favourable foreign exchange translation and a £(3)m revenue impact from prior year disposals.

Revenue from Infusion Systems was up +4% on an underlying basis driven by COVID-19 related demand. Vascular Access underlying revenue decreased by (5)% driven by the reduction of elective procedures as a result of COVID-19. During the year, Smiths Medical signed a c.$20m investment agreement from the U.S Government to expand syringe and needle device production to support COVID-19 vaccine efforts. Underlying revenue from Vital Care and Specialty Products grew +13%, with exceptional growth in ventilators and tracheostomy tubes due to the pandemic, and good growth in the COPD product line, which is now being sold directly to customers.

Operating profit

<table>
<thead>
<tr>
<th>(£m)</th>
<th>FY2019 reported</th>
<th>Foreign exchange</th>
<th>Acquisitions &amp; disposals</th>
<th>Restructuring costs</th>
<th>Depreciation &amp; amortisation</th>
<th>Underlying</th>
<th>FY2020 reported</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating profit</td>
<td>147</td>
<td>2</td>
<td>(1)</td>
<td>(4)</td>
<td>45</td>
<td>(5)</td>
<td>184</td>
</tr>
<tr>
<td>Operating margin</td>
<td>16.8%</td>
<td></td>
<td></td>
<td></td>
<td>15.5%</td>
<td></td>
<td>20.1%</td>
</tr>
</tbody>
</table>

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

Restructuring costs include delayering and decentralisation to increase efficiency and effectiveness. Reported headline operating margin was up +330bps to 20.1%, mainly driven by the exclusion of depreciation and amortisation, but was down (120)bps on an underlying basis.

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

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

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

ROCE
ROCE increased by +210bps to 13.8% due to the absence of depreciation and amortisation, partially offset by the adoption of IFRS 16.

R&D
Cash R&D expenditure was 5.9% of sales, down (10)bps year on year. Smiths Medical continues to invest in the development of innovative, commercially focused products across the portfolio to support long-term, sustainable growth. Product launches in the year included: a pain management connection system designed to promote patient safety; anaesthesia breathing masks designed to better fit senior patients; a needle and catheter system that allows full visualisation under ultrasound to provide certainty of placement, and a non-invasive ventilation product for the Indian market.

Accounting standards require the Group to stop charging depreciation and amortisation within Smiths Medical, since it has been reclassified as discontinued operations.

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