Our purpose

MAKING A SAFER, MORE EFFICIENT AND BETTER CONNECTED WORLD

Smiths is a world leader in the practical application of advanced technologies, creating transformative products and services that make a safer, more efficient and better connected world.

Our businesses share the same characteristics which shape how we create value. These characteristics are underpinned by the Smiths values, a culture driven by excellence and innovation, and our commitment to doing business responsibly and sustainably for the benefit of society at large and our stakeholders.

It’s the Smiths way.
Strong now and for the future

Understanding and nurturing our resources and relationships

Our performance

FINANCIAL REVIEW

KPIs

DIVISIONAL REVIEW

JOHN CRANE

A VIEW FROM OUR CHAIRMAN

MARKET AND STRATEGIC OVERVIEW FROM OUR CEO

Our communities

Our people

Our customers

Our supply chain

Production and environment

Regulators and governments

Technology and innovation

Our supply chain

Production and environment

Regulators and governments

Technology and innovation

Our communities

Our people

Our customers
**FY2020 financial summary**

The Group delivered a robust performance in uncertain markets, supported by its market-leading positions and flexible business model.

<table>
<thead>
<tr>
<th></th>
<th><strong>Headline</strong></th>
<th><strong>Statutory</strong></th>
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<tbody>
<tr>
<td></td>
<td>FY2020 £m</td>
<td>FY2019 £m</td>
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<tr>
<td><strong>Smiths Continuing Operations</strong>³</td>
<td></td>
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<tr>
<td>Revenue</td>
<td>2,548</td>
<td>2,498</td>
</tr>
<tr>
<td>Operating profit ex. restructuring and write-downs⁴</td>
<td>382</td>
<td>427</td>
</tr>
<tr>
<td>Operating profit</td>
<td>327</td>
<td>427</td>
</tr>
<tr>
<td><strong>Smiths Medical – Discontinued Operations</strong>³</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td>918</td>
<td>874</td>
</tr>
<tr>
<td>Profit after tax</td>
<td>139</td>
<td>112</td>
</tr>
<tr>
<td><strong>Total Group</strong>⁵</td>
<td></td>
<td></td>
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<tr>
<td>Profit for the year</td>
<td>338</td>
<td>385</td>
</tr>
<tr>
<td>Basic EPS</td>
<td>84.8p</td>
<td>96.8p</td>
</tr>
<tr>
<td>Free cash-flow⁶</td>
<td>273</td>
<td>234</td>
</tr>
<tr>
<td>Dividend</td>
<td>35.0p</td>
<td>45.9p</td>
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The following definitions are applied throughout the document and are Alternative Performance Measures (APMs) as defined in note 30 to the financial statements:

1. **Headline**: In addition to statutory reporting, the Group reports on a headline basis. Definitions of headline metrics, and information about the adjustments to statutory measures are provided in note 3 to the financial statements.
2. **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 the depreciation and amortisation of discontinued operations for comparability purposes. Alternative performance measures are defined in note 30 to the financial statements.
3. **Continuing Operations** excludes Smiths Medical which is accounted for as discontinued operations – businesses held for distribution to owners. Discontinued Operations is defined in note 28 to the financial statements.
4. **Restructuring and write-downs** as defined in note 2 to the financial statements. Alternative performance measures are defined in note 30 to the financial statements.
5. **Total Group** comprises Continuing Operations and Discontinued Operations.
6. **Defined in Note 30 to the Financial Statements**.
UNDERLYING REVENUE GROWTH*

FY2019: +3%

(1)%

A resilient performance driven by strong order books and a high proportion of aftermarket revenue.

* Continuing Operations. See page 02 for definition of underlying

HEADLINE UNDERLYING OPERATING MARGIN*

FY2019: 17.1%

15.0%

Margin decline driven by lower volumes combined with temporarily higher costs to ensure business continuity during the pandemic.

* Continuing Operations. See page 02 for definition of underlying

FREE CASH-FLOW1 (TOTAL GROUP)

FY2019: £234m

£273m

Strong cash generation is a key characteristic of the Group, with free cash-flow up 17% and cash conversion1 at 123%, an outstanding performance.

1 Defined in Note 30 to the Financial Statements

NET DEBT1/EBITDA1 (TOTAL GROUP)

FY2019: 1.8x

1.7x

Net debt/EBITDA at 1.7x, 1.9x including restructuring costs and write-downs, reflecting the Group’s robust balance sheet.

1 Defined in Note 30 to the Financial Statements

BASIC HEADLINE EPS (TOTAL GROUP)

FY2019: 96.8p

84.8p

Basic headline EPS down (12)% to 84.8p driven by reduced profitability.

DIVIDEND PER SHARE (TOTAL GROUP)

FY2019: 45.9p

35.0p

Total dividend of 35 pence per share reflecting delayed interim dividend of 11 pence per share and proposed final dividend of 24 pence per share.
We have operations in more than 50 countries

**Serving our target global markets**

**Security and defence**
Our threat detection equipment helps keep people and assets safe. Demand in the security market is mainly driven by persistent and evolving terror threats and changing security regulations. Aftermarket opportunities rise as the installed base grows. The defence market is served by Smiths Detection through imaging and sensing detection products and by Smiths Interconnect through secure connectivity solutions. Growth in this market is primarily driven by defence and security spending.

**General industry**
Customers put their trust in our products and services to support a wide range of general industrial applications in sectors including petrochemical, mining, pulp & paper, water treatment, semiconductor testing, heating elements, automotive and rail transportation. These sectors and others are served by John Crane, Smiths Interconnect and Flex-Tek, with growth generally tracking increases in GDP worldwide.

**Energy**
John Crane’s mechanical seals and systems support energy operations worldwide including downstream and midstream oil & gas and power generation. Growth is driven by long-term increases in global demand for energy, productivity, and enhanced environmental and safety requirements. There is a growing requirement for aftermarket and service contracts.

**Space and aerospace**
Satellite launches, deep space exploration and emerging activities such as asteroid mining are driving demand for high-reliability solutions in the space market. Growth in aerospace is coming from new fuel-efficient aircraft and increasing passenger numbers, freight traffic and military spend. Flex-Tek provides hydraulic hoses and fuel lines for airframes and engines and Smiths Interconnect supplies ultra high-quality connectors, microwave components and antenna systems for aircraft and satellite communications.

**Through our four core divisions**

- **John Crane**
- **Smiths Detection**
- **Flex-Tek**
- **Smiths Interconnect**
- **Smiths Medical**
  Discontinued Operations
**E M P L O Y E E S  B Y  R E G I O N**

- **AMERICAS**: 46%
- **EUROPE**: 33%
- **ASIA PACIFIC**: 18%
- **REST OF THE WORLD**: 3%

*Continuing Operations

**Mission-critical solutions for global energy and process industries**
- A global leader in mission-critical technology for rotating equipment
- Strong proprietary technology and expertise in applied engineering
- Broad installed base in energy and industrials
- Strong aftermarket service offering with more than 200 sales and service centres
- Long-term customer relationships

**Revenue**
- £955m

**Headline Underlying Operating Profit Margin**
- 21.5%

**Detection and screening technologies for the identification of safety and security threats**
- 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 digitisation and aftermarket revenue
- Long-term customer relationships

**Revenue**
- £806m

**Headline Underlying Operating Profit Margin**
- 13.9%

**Innovative components to heat and move fluids and gases**
- 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

**Revenue**
- £478m

**Headline Underlying Operating Profit Margin**
- 17.6%

**Solutions for high-speed, secure connectivity in demanding applications**
- 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

**Revenue**
- £309m

**Headline Underlying Operating Profit Margin**
- 10.1%

**Quality medical devices and consumables that are vital to patient care**
- 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

**Revenue**
- £918m

**Headline Underlying Operating Profit Margin**
- 15.5%

*Read more about our divisions on pages 52-66
Our business model – the Smiths Way

Our businesses are defined by four characteristics

- **Technology Differentiation**
- **Increasing Digitisation**
- **Sustainably Competitive and Asset Light**
- **High Proportion of Aftermarket and Services**

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

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

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

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

**People**

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

**Innovation**

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

**Execution**

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

<table>
<thead>
<tr>
<th>People</th>
<th>SAFETY RIR</th>
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<tbody>
<tr>
<td>BELONGING SCORE</td>
<td>70</td>
</tr>
<tr>
<td>My Say engagement survey: I feel a sense of belonging at Smiths</td>
<td>Recordable incident rate per 100 colleagues</td>
</tr>
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<table>
<thead>
<tr>
<th>Customers and suppliers</th>
<th></th>
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<tbody>
<tr>
<td>OTIF</td>
<td>COPQ</td>
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<tr>
<td>86%</td>
<td>1.4%</td>
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<tr>
<td>On time in full</td>
<td>Cost of poor quality</td>
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<table>
<thead>
<tr>
<th>Society and the environment</th>
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<tbody>
<tr>
<td>DIRECT ECONOMIC CONTRIBUTION</td>
</tr>
<tr>
<td>£2.8bn</td>
</tr>
<tr>
<td>Employee costs + supplier costs + tax paid</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Shareholders</th>
<th></th>
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<tbody>
<tr>
<td>UNDERLYING EPS</td>
<td>DIVIDEND</td>
</tr>
<tr>
<td>84.8p</td>
<td>35.0p</td>
</tr>
<tr>
<td>FY2019: 96.8p</td>
<td>FY2019: 45.90p</td>
</tr>
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</table>

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

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

* See underlying definition on page 82

Measures above based on Total Group
The COVID-19 pandemic has had the most significant economic and social impact on the world since the so-called ‘Lehman’ global financial crisis and economic downturn in 2008-2009. It may yet prove to be the most impactful since the great depression of the 1930s.

During that previous ‘08–’09 recession, I was the Chairman and Chief Executive Officer of 3M Co in Minnesota, USA. It’s helpful to contrast these two difficult periods and translate the lessons learned from the Lehman downturn to the impacts of the COVID-19 pandemic. Something which has probably been forgotten is that we were then suffering another epidemic caused by the Influenza A, subtype H1N1 ‘Swine Flu’ virus. That lasted from March 2009 until April 2010 while we were all busily distracted by the economic downturn. In the United States alone, there were about 60 million people infected by the H1N1 virus, with around 275,000 hospitalisations but, luckily, there were only 12,000 deaths, all tragic of course. Six hundred million people were infected by H1N1 worldwide.

In crises like these, there are always two primary forecasting challenges. The first is to understand how long an economic contraction will last, and the second is to know how deep it will go. In ’08–09, the difficult problem was to calculate the length of the contraction, while the easier part was to figure out how deep it would become. The opposite is the case in the COVID-19 contraction. Because pandemics and epidemics are what engineers and physicists call ‘diffusion phenomena’, the mathematics is well understood and relatively predictable for a single disease outbreak. The curve of disease penetration in the population has the classic elongated ‘ess’ shape over time, and the number of active infections closely approximates a ‘Normal’ distribution (often called a Bell curve), with time on the horizontal axis. A single contained outbreak lasts about four and one-half months.

More difficult to predict is the compounding impact of secondary outbreaks – always likely because they overlap and extend the duration of the pandemic. The rate of infection curve looks like multiple Normal distributions added together, not unlike the shape of the double humps on a Bactrian camel. We know the only way to prevent secondary episodes is to restrict human contact in larger groups or to provide suitable PPE protection. Secondary, tertiary, or even further disease episodes will continue until an effective vaccine is found and a vaccination programme completed. Alternatively, we must wait until a state of ‘herd immunity’ is reached. That requires about 70% of the population to be infected with the disease. Hardly something for us to look forward to at the mortality rates we’ve been seeing. The safety of our employees and communities is paramount in these circumstances, and that has been an enormous focus for Smiths during the current pandemic crisis.

Inventory control and cash collection in downturns

Health conditions apart, the big challenge over the next two to three years will be maintaining or improving a company’s cash position. In typical soft economic downturns, those driven by normal cyclicity, cash generation usually gets better as the economy contracts, and end market demand falls. Why? Cash isn’t needed to grow, inventory can be sold off, and receivables collected. Production line rates are cut to control inventory, so cost absorption decreases and operating income falls. Although EPS falls, cash generation is still strong in mild downturns. However, in severe downturns like the one in ‘08–’09, it’s a very different proposition. Cash generation can be much weaker because demand falls sharply, so liquidating inventory is difficult, and debtors may be unable to pay. It’s why companies must take vigorous countermeasures to these problems early and why it dictates companies do nothing which can upset, temporarily or otherwise, their cash-flow.

Supply chain demand transients

But it can get much worse. These situations are highly dynamic. Depending on the length of the supply chain, demand falls much faster than the end markets as each step in the supply chain overcompensates for falling demand and amplifies its effect. This is sometimes called the Forrester Effect. Demand contraction is much worse than economic forecasts suggest. To give readers an idea of scale, this transient amplification factor is about 3.0–4.0 for typical industrial companies. So, if the end market falls by 10%, this exhibits itself as a 30–40% fall at the OEM level. A staggering loss of demand to deal with. The same phenomenon occurs when markets recover, except demand then overshoots, as new inventory is being built.

The next question is, how long will this amplified fall in demand last? The answer depends on the efficiency of the supply chain. A 100% efficient supply chain will clear excess inventory in one turn. But no supply chain is ever 100% efficient. If it were a more practical 50%, the excess would be removed in two turns etc. For an industrial company with three or four inventory turns annually, these effects might last for six months to one year.
Meanwhile, it feels like the company is selling into a market much worse than the GDP or IPI numbers suggest. Financial planners need to consider these dynamics, not just the GDP or IPI averages. And when cash generation is under pressure, the transients can be the difference between a company’s strength and a company’s struggle. In any real-life structure or system, it’s the point loading that causes failure, not the average. So it will be with a company’s cash management.

What will happen to Smiths individual reporting segments?

As I mentioned a couple of years ago, Niels Bohr once said that “forecasting is difficult, especially when it concerns the future”. Nevertheless, no matter how difficult it is, companies are obliged to give the best advice they can to investors about the future as they see it.

Luckily, Smiths has a wide range of end markets and it is this diversity which helps limit volatility to some degree. Pure-play companies often grow faster than conglomerates in expanding economies, but conglomerates are usually better performers in downturns because their risks are more widely spread. In any real-life structure or system, it’s the point loading that causes failure, not the average. So it will be with a company’s cash management.

In contrast, medical supply increased by 4%, because people can’t choose when they get sick. For completeness, food staples fell by 0.5%. So, you can see the wide variability of end market demand contractions, even inside conglomerates.

Smiths largest markets are in airport and airline security, oil & gas, aerospace and the medical segments. All these markets will contract, except medical, which is still doing well. The aerospace industry, including airlines, will be the worst affected, and by most estimates will take four or more years to recover fully. While holiday and incidental travel are likely to rebuild reasonably quickly, an anticipated fall in business travel is expected to cause a slow recovery for the airline and associated industries because this is where their profits are the largest. There is also worrying evidence that long haul flights are a source of infection clusters via aerosol transmission and this is bound to elicit caution.

This isn’t the complete picture for Smiths by any means, because we service other smaller markets in defence, telecommunications, construction and medical capital equipment, significantly spreading the risk. Moreover, we have invested heavily in innovation and, though progress has been slower than we would like, in time it will enable us to take market share and provide above-market growth. On the other hand, we are not immune to demand perturbations in the markets we serve.

The most significant strategic decision we’ve taken in the last six months is to postpone the separation of our Medical business. The most urgent challenge was to deal with the COVID-19 pandemic and all that it implies, both in end market demand, employee safety, supply chain challenges and cash management, etc. You can imagine the enormous demands on management and Board time as we wrestled with the vicious COVID-19 tiger. The number of Board level meetings tripled, and management meetings quadrupled, all dealt with using the newly emerging video conferencing and collaboration tools. Outside of our factories, most of it done working from home in roughly 20 different time zones across the world.

The challenge a company faces at times like these is to understand whether, figuratively, they are falling off a 4,000-foot cliff or just into a 4-foot ditch. And you don’t know which until you reach the bottom. Prudence, therefore, dictated we postpone the Medical business separation and focus our efforts on managing the impacts of COVID-19. In any event, capital markets were uncertain and cash was tight or unsure. We did this until the effects of the pandemic became more transparent and the economic environment more stable. Unfortunately, COVID-19 and its economic effects are not finished with us yet.

When might stability return?

The ‘main event’ on the pandemic stage is developing an effective vaccine, ramping up manufacturing capacity to meet global demand, and completing a worldwide vaccination programme. Even then, confidence needs time to build before people act more positively at home or work, creating needed demand. Almost certainly, immunity will not be 100% and will need to be boosted periodically, just like winter flu and tetanus shots. Undoubtedly some people will even refuse vaccination on principle. The US Government has placed orders with us for around 80 million hypodermic syringes and has contracted for vast amounts of vaccine doses from pharmaceutical companies. When might all that be in place?
There are reputed to be hundreds of vaccine development programmes underway worldwide for COVID-19 with thirty at an advanced stage. At the time of writing, scores of thousands of people are involved in phase 2/3 clinical trials across the world. The UK Secretary of State for Health has said he does not expect a vaccine to be available until 2021, though other countries are more optimistic. We have already experienced the challenge of COVID-19 testing, so administering billions of vaccination shots will inevitably run into problems. Any delay there will produce delays in economic recovery. An educated guess is the vaccination programme will not be completed until late summer or possibly autumn of 2021. It’s only after this point that we can begin to think about a gradual, and perhaps still extended return to economic normality, whatever ‘normal’ means. GDP cycles are – please forgive the mathematics speak – sinusoidal, so are “soft bottomed”. And IMF forecasts are suggesting a much slower return to normal than had hitherto been thought.

Economics

The IMF forecast for the UK economy in 2020 is a contraction of 10.2% and for the US a fall of 8.0%. These are equivalent year-over-year GDP swings of about 13% and 11% respectively. Recognising that the first calendar quarter of 2020 was unaffected by COVID-19, correcting for the full-year effects would make the year-over-year swing around 16% and 14% respectively. Unemployment rates will lag GDP but will reach similar levels if income support is not renewed, and we should fear this more than anything. These numbers are almost 50% larger than the contraction we saw in 2009, so 2021 and possibly 2022 and beyond are going to be very difficult economically. It’s like having the entire Chinese economy removed from the world economy. This recession is going to hurt – and for some time.

There is a simple rule in economics which states that ‘if there are no buyers, then there will be no sellers’. In other words, it’s all about demand and, therefore, it’s about government stimulus packages, unemployment support and the consequent timing and strength of a recovery. If governments do not act decisively, there is the prospect of high unemployment and potential problems with poverty, hunger, social unrest, and falling prices. Not even rich governments can afford to support significant numbers of their population very long. So, getting the various economies back to work is essential.

In conclusion

2021 will be another challenging year economically, and it will probably take several years to recover to the same economic level as 2019. So, for now, prudence will be the order of the day in managing Smiths. However, we’ve seen that the winners in this COVID-19 downturn are the innovators. It’s been the innovators in health care (AstraZeneca, Pfizer etc.), electronics (ARM) and communications (Teams, Zoom, Vidyo), in delivery systems (Amazon), in grocery supply (Ocado), and in consumer goods (Reckitt Benckiser) who have done well in this pandemic. So it will be in the future. Right now, innovation is the cheapest and fastest way to change the future.

Rapid innovation is straightforward in electronics, software and service. However, in some areas of heavy manufacturing even great engineering companies like Rolls-Royce, through no fault of their own, have been hurt by a narrow focus on air transport and their long-term, high capital development needs. Similarly, so for Boeing and Airbus. Giant oil and gas companies are equally challenged, as are many mining companies. Economics does not treat companies with long development cycles very well.

Finding new profitable growth will be much more challenging for the next few years than it has been previously. But as Smiths innovation programmes begin to bear more fruit – and it is still early days in that regard – we are better positioned than many industrial companies. Prudence remains the immediate order of the day, together with careful cash management and innovation. These are the recipes for survival and success. Innovation is where we need to execute better and faster.

Thank you for maintaining your support of Smiths in this challenging time for all. It is very much appreciated.

George W Buckley
CHAIRMAN

PRUDENCE REMAINS THE IMMEDIATE ORDER OF THE DAY, TOGETHER WITH CAREFUL CASH MANAGEMENT AND INNOVATION. THESE ARE THE RECIPES FOR SURVIVAL AND SUCCESS.
**CHIEF EXECUTIVE’S Q&A**

**Strong now and for the future**

The strength and flexibility we have built into our business, and the benefits of the Group’s strategic positioning, underpinned a robust performance in challenging market conditions.

Our priorities remain the safety of our people and keeping the business running flawlessly to support customers. I’m incredibly grateful to our amazing people for their dedication in difficult times, which ensured we delivered in the year and continue to maximise opportunities for future growth.

We have continued to enhance the Group’s strategic positioning, through execution of the restructuring programme, completion of three further bolt-on acquisitions and our unchanged commitment to separate Smiths Medical.

We are seeing a stabilisation of recent trends; but we are not complacent and are continuing to strengthen the business to deliver sustainable outperformance in the future.

**Q** How has Smiths fared during the COVID-19 pandemic?

**A** Our business has proven itself to be resilient by design during a period of unprecedented global disruption. Our market-leading positions, flexible business model and focused strategy have provided the momentum to support our performance in the short term and the agility to maximise opportunities for future growth. This has not been by chance, but part of the planned and strategic changes we have made to the Group over the last five years.

We have focused Smiths on businesses with the same core characteristics: technologically differentiated with increasing digitisation; a high proportion of aftermarket and services; and sustainably competitive and asset light. All things we do very well and make great business sense. These characteristics have supported our resilience with products and services that are at the forefront of their markets, with recurrent aftermarket revenues and an inherently low fixed cost base to maximise our flexibility.

Having defined the types of business we want to own and run, we have applied a consistent strategy to maximise value creation. The three pillars of our strategy are: outperforming our chosen markets; delivering world-class competitiveness; and maintaining our strong financial framework. We do this through a simple and clear approach to innovation, operational excellence and people.

We’ve actively managed our portfolio of businesses to be targeted in growing markets where we can sustainably achieve a position of top three leadership, with 90% of the Group now well positioned; up from 60% in 2016. It is these leadership positions that provided momentum for the business at the outset of the pandemic and that have helped us continue to win new business. This has resulted in Smiths achieving reported growth of 3%, despite significant global disruption arising from the pandemic in some of our end markets.

I’m incredibly proud of the way Smiths has performed this year, including how we are responding during the unprecedented period of the COVID-19 pandemic. Our priorities throughout the pandemic have been the safety of our people, keeping our business running, and supporting our customers. Thanks to the amazing dedication and professionalism of our people, we have responded with great agility and demonstrated the strength and resilience we have built into our company and our ability to move fast and decisively, taking advantage of the opportunities which presented themselves.

Smiths entered the COVID-19 pandemic from a position of strength operationally, financially and strategically. While we remain vigilant, and are not complacent about the ongoing uncertainty, we are confident that we’re managing today well and taking the right actions to continue enhancing the strength of the Group so that we’re better positioned to deliver consistent market outperformance in the long term.

I convey my sincere and heartfelt thanks to everyone at Smiths, a formidable team. I could not have asked for more from anyone.
We are focused on consistent and flawless execution through our shared operating model (the Smiths Excellence System), and on driving sustainable competitiveness through targeted investment in innovation and disciplined M&A. This focus has enabled us to rapidly adapt our processes and working practices and to maintain exceptional customer service despite difficulties across the world in our supply chains. These adapted processes have come with higher consequential costs, which have temporarily impacted our operating margins, but we are laser-focused on mitigating these and improving operational efficiency as we move forward.

We’ve remained committed to delivering innovative solutions for our customers, driven by our technological differentiation and this, in turn, has led to new business wins, such as Smiths Detection’s automatic baggage tray disinfection system using UVC light which has already been installed at two leading airports in the UK and is being trialled at multiple airports globally. Underpinning our performance this year, and every year, is our strong financial framework. The cash generative nature of our businesses and the highly focused efforts of the team, day in day out, to manage cash during the pandemic drove strong cash conversion of 123% this year. We continue to have a strong balance sheet with more than £1bn of liquidity headroom and net debt to EBITDA of 1.7x at the end of the year.

Our strategy and ambition are unchanged. We continue to execute against our plan, taking the necessary actions and making the required investments to shape the future of Smiths and deliver long-term growth and outperformance.

Q What actions has the business taken in response to COVID-19?
A Led by our Smiths Group Crisis Core team, our response has been focused on keeping our people safe, keeping the business running, and supporting our customers. Infection control measures are in place right across our operations and I’ve seen some amazing examples of collaboration and innovation to support this; for example, colleagues at John Crane 3D printing elbow-operated door handle attachments and the in-house production of face coverings.

Supporting our team practically, nurturing wellbeing, and communicating comprehensively have been another important focus. With alternating shift patterns, no travel, and many people working from home, our strong enterprise IT response and bespoke COVID communication resources have kept our teams connected with universal access to guidance and support materials.

Since the start of the pandemic, we’ve managed our operational response through our Operations and Supply Nerve Centre (OSNC), helping over 90% of our manufacturing sites to remain in production through the pandemic. Our frontline workers have worked safely around the clock to create and distribute products and support our customers. We have continued to drive these new ways of working as the operational disruption has stabilised to ensure the great collaboration and best practice sharing continues globally.

We’re especially proud of the collaborative efforts to produce products to help the fight against COVID-19. These include the significant ramp up in production of Smiths Medical paraPAC plus™ ventilators and other devices, and Smiths Interconnect and Flex-Tek’s production of critical connectors and hoses for ventilators.

Maintaining continuity of service in our aftermarket activities, while keeping our people safe, has also been a vital part of our response. This has included finding new ways to deliver services, for example the introduction of remote inspection of seals at customer sites by John Crane using Augmented Reality.

Q Why was the separation of Smiths Medical postponed and when will it restart?
A The previously announced separation of Smiths Medical, that was on track to be delivered in the first half of calendar year 2020, had to be postponed. It was simply not practicable to complete the separation during such an uncertain time. We needed to focus on navigating the external challenges presented by COVID-19 – including the delivery of ventilators and other critical care devices.

Maintaining this operational focus has been validated by Smiths Medical’s performance this year, with underlying revenue growth of 4%. The intention and rationale to separate remains unchanged and the process will be restarted later this year.

Q Have there been any changes to your strategy for future Smiths?
A Our strategy and ambition are unchanged. We continue to execute against our plan, taking the necessary actions and making the required investments to shape the future of Smiths and deliver long-term growth and outperformance.

We are, however, very focused on ensuring we take advantage of the organic and inorganic opportunities which the crisis presents, including new business models and ideas for the new ways of working which are emerging around the world.

Targeted investment in innovation will remain a key driver of the business as we address new trends and meet the needs of a changing world, making it safer, more efficient and better connected. There have been some great examples of innovation across the Group this year including Smiths Interconnect’s new laboratory with the unique capability to replicate the environmental pressures of deep space for product testing, as well as continued work from our Digital Forge centre of excellence on accelerating the digital transformation of the Group.

This organic capability will continue to be complemented by a parallel path of disciplined M&A to accelerate our progress. A recent example of this was Smiths Detection’s bolt-on technology acquisition of PathSensors Inc...
This acquisition strengthens our biological detection capability, building on our existing expertise. The technology can detect the presence of a virus in an individual and the viral load in the air in confined spaces. It is a great example of externalising R&D investment, where it would have simply taken us too long internally.

In June, we announced an important strategic restructuring programme which brought together initiatives already under development across the Group aimed at increasing our flexibility and speed and helping accelerate progress towards our target margin range of 18-20%. While the programme was not a response to the COVID-19 situation, the resulting improvements will help us to emerge stronger and better positioned for consistent market outperformance in the long term.

The programme spans all of our divisions and includes a number of actions to improve the efficiency of our Group support functions, as well as optimising our global footprint and supply chains. It has led to some very tough decisions and, regrettably, some job losses across the organisation, although this has affected only a small percentage of our workforce overall.

These were difficult but necessary steps to build further resilience and ensure that Smiths is able to continue to deliver long-term growth and outperformance, while providing secure and stable employment to as many colleagues as possible.

Q How important is the Group’s environmental and social impact to your overall strategy?
A We believe that doing business responsibly is the right thing to do for our stakeholders. Through our innovative technology and services and our people, bringing solutions which serve sustainability and efficiency, higher safety and security, and the connectivity of the world in all its forms, is our driving purpose. It underpins our business performance and the long-term sustainability and resilience of Smiths and, rightly, is governed at the highest levels of our organisation.

We have a strong track record on environmental performance. Through an ambitious goal setting process in place since 2007, Smiths is proud to have achieved significant emission reductions from 2007 to present. We also support more transparency on environmental matters as a catalyst for driving change.

Innovation is at the heart of everything we do at Smiths and this is also true of our approach to our environmental and social impact. We have many examples in our portfolio of technologies and new product development that will enable a smarter, greener future, such as John Crane’s dry gas seals that help to reduce methane emissions. We continue to look for ways to reduce our own emissions and use of precious resources such as energy and water, supported by ambitious targets. We are currently discussing our FY2022-FY2024 goals.

We also want to be positive contributors to our local communities, playing a beneficial role by supporting job creation, operating safely and ethically, and engaging directly through fundraising, charitable giving and educational initiatives. After a successful pilot by Smiths Interconnect in 2019, our planned Group-wide adoption of the Beyond Boundaries initiative, where colleagues are empowered to spend a working day supporting good causes in their communities, was unfortunately put on hold due to the pandemic. Strong relationships with our communities are both positive for business and promote a sense of pride in our people as they live our Smiths values.

The safety and security of our people and operations has always been our number one priority and has remained our key focus throughout COVID-19. We have a very robust safety culture and strive for a zero-harm workplace, with safety considerations fully integrated into all our activities. I’m extremely pleased to report that we recorded our best-ever safety performance this year.

I’d like to pay tribute to the amazing dedication, commitment and contribution our colleagues have made to keeping themselves and others safe while helping us to continue to operate and serve our customers. Much effort has gone into understanding, respecting and supporting individual circumstances and balancing these with the needs of the business. Through our actions and words, I believe we’ve truly demonstrated that we’re one Smiths family living the Smiths Way culture and values every day.

Q How is the Group positioned for FY2021?
A Guidance remains withdrawn, given the uncertain depth and duration of the COVID-19 pandemic.

We are seeing a stabilisation of recent trends, with Total Group underlying revenue of (5)% for May-August 2020 (continuing operations (8%)).

The first half of FY2021 will continue to cycle against pre-COVID comparators. The Group’s seasonality normally results in a second-half weighted revenue profile. It is anticipated that the restructuring programme will incur £(30)m of costs spread evenly through the year, whilst the matching savings will be 70% weighted to the second half.

This is all underpinned by the Group’s strong financial framework and robust balance sheet, and supports confidence that we will deliver long-term sustainable outperformance.

Andy Reynolds Smith
CHIEF EXECUTIVE

I’D LIKE TO PAY TRIBUTE TO THE AMAZING DEDICATION, COMMITMENT AND CONTRIBUTION OUR COLLEAGUES HAVE MADE TO KEEPING THEMSELVES AND OTHERS SAFE WHILE HELPING US TO CONTINUE TO OPERATE AND SERVE OUR CUSTOMERS.
Our Executive Committee is responsible for implementing our strategy, ensuring consistent execution, and embedding our culture and values.

More information is available on our website.
We are seeing comprehensive benefits from implementing our three key strategic objectives.

1. Outperform our chosen markets
   - We actively manage our portfolio of businesses. They operate in growing markets where we can achieve a sustainable top three leadership position.
   - Our businesses share the same characteristics: technology differentiation; increasing digitisation; sustainably competitive and asset light; and high proportion of aftermarket and services.

2. Deliver world-class competitiveness
   - We drive discernible, sustained competitive advantage through focused deployment of innovation and investment; attracting and retaining the best talent; and relentless execution through our shared operating model and the Smiths Excellence System (SES).
   - Our Group innovation framework drives change and helps our businesses to nurture key projects, which deliver meaningful benefits for customers.

3. Strong financial framework
   - We maintain a strong financial framework by:
     - Focusing the portfolio on sustainably competitive and asset light businesses
     - Delivering profitable growth with sustainable margins
     - Maintaining balance sheet strength and investing with strong financial discipline.

Outperform our chosen markets

Read more about our KPIs on pages 22-23

Deliver world-class competitiveness

Read more on pages 18-21

Strong financial framework

Read more on pages 18-21
OUTPERFORM OUR CHOSEN MARKETS

DEFINE OUR BUSINESSES
FOCUS ON ATTRACTIVE MARKETS
MAXIMISE GROWTH

What we said we would do in FY2020
- Continue to invest effectively in R&D to drive market share
- Maintain percentage of the Group that is well positioned in attractive markets via continued focus on the portfolio
- Maintain a disciplined approach to acquisitions that will enhance our capabilities and leadership
- Continue to integrate previous acquisitions successfully
- Further embed new operating model and execute strategy in Asia Pacific
- Seek further growth opportunities in China and India

How we did in FY2020
- Organic investment continued to increase with R&D up 20bps to 4.7% of sales. Key new product launches are outlined in the divisional sections
- Completed the operational integration of United Flexible in Flex-Tek
- Completed Smiths Interconnect’s acquisition of Reflex Photonics in October 2019 and Smiths Detection’s acquisition of PathSensors in August 2020
- Signed multiple new contracts in the Group’s higher-growth regions

FY2021 priorities
- Strategic intent to separate Smiths Medical unchanged
- Reassess the attraction of each of our end use markets and the position of our businesses within them
- Continue to invest in R&D and targeted capital expenditure\(^1\) to drive organic growth
- Use acquisitions and disposals to continue to shape the portfolio and enhance the position of our businesses in attractive markets
- Seek further growth opportunities in China and India

\(^1\) Defined in Note 30 to the Financial Statements
Deliver world-class competitiveness

**INNOVATE TO EXCEED CUSTOMER EXPECTATIONS**

What we said we would do in FY2020
- Drive further improvement in our Vitality Index through expanded capabilities, new revenue streams and product lines
- Execute learnings from future scenario planning to deliver new products and services
- Drive the culture of innovation deeper into the organisation
- Accelerate innovation and commercialisation via expansion of strategic partner network

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

FY2021 priorities
- Develop new future scenarios for customer demand and refine product and technology roadmaps
- Accelerate innovation and commercialisation via expansion of strategic partner network
- Continue to drive and build the culture of innovation throughout the organisation
- The Forge focus for FY2021 includes physical cybersecurity; embedded technology for wireless sensor networks; and augmented analytics capabilities in the cloud
- Seek sustained improvement in the Vitality Index through expanded capabilities, new revenue streams and product lines

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

What we said we would do in FY2020
- Progress our People Plan and continue to execute our diversity and inclusion strategy
- Build on Leadership@Smiths with the ongoing global roll out of the Accelerate programme and additional modules of e-learning
- Implement finance graduate programme in the UK, US and Asia Pacific

How we did in FY2020
- Implemented comprehensive employee safety, support and communications programme during the COVID-19 pandemic
- Launched Learning@Smiths, our internal learning portal
- Started global review of benefits
- Broadened the lean six sigma programme to support functional excellence
- Continued to build Accelerate leadership learning programme to a cohort of more than 620 colleagues
- Established cross-divisional Respect, Diversity and Inclusion Council
- Rolled out our finance graduate programme globally and Graduate Development Week

FY2021 priorities
- Our fundamental priority remains the health, safety and wellbeing of our colleagues and their families
- Complete and implement findings from global benefits review
- Cross-divisional review of leader talent pipeline for succession planning
- Continue to develop SES Academy programme, targeting 1,000 belted colleagues by the end of FY2022
- Continue to focus on colleague communication activities

**EXECUTE CONSISTENTLY**

What we said we would do in FY2020
- Safety and zero-harm remain our top priority
- Continue to focus on expanding Group-wide capability and driving continuous improvement at all levels
- Execute IT roadmaps
- Accelerate business performance using further SES projects to drive best practice

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

FY2021 priorities
- Safety and zero-harm remain our top priority
- Stress test our supply chains and manufacturing footprint to ensure long-term resilience
- Refine our operating model to optimise the delivery of global business services for maximum effectiveness
- Accelerate business performance using the SES framework across three pillars: customer and commercial; supply chain; and production and aftermarket
  › Specific business projects/ problem solving
  › Company-wide improvement projects
STRATEGIC REPORT
STRONG FINANCIAL FRAMEWORK

Strong financial framework

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

Revenue

The Group delivered a robust overall performance for the year. Underlying revenue was down (1)% excluding Smiths Medical or (3)% in the second half of FY2020. In a period of unprecedented global disruption, the Group’s performance reflects its resilience founded on its market-leading positions and a high proportion of aftermarket revenues.

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

Operating profit and margin

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

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

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

The £(86)m difference between headline and statutory operating profit is non-headline1 items as defined in note 3 to the financial statements. The largest constituents relate to amortisation of acquisition related intangible assets and provision for asbestos litigation. On a statutory basis, after taking into account all items excluded from headline performance, operating profit of £241m was £(85)m lower than last year (FY2019: £326m), reflecting the lower headline profit.

* Includes disposals and FY2020 performance from acquisitions that do not have comparators for the prior year
1 Defined in Note 30 to the Financial Statements
Finance costs
Headline finance costs of £(49)m (FY2019: £(51)m) were £2m lower than last year. This reflects the impact of early repayment of higher coupon debt in the prior year, which more than offsets the inclusion of lease interest of £(4)m following the adoption of IFRS 16. Statutory finance costs were £(108)m (FY2019: £(22)m) mainly due to a £(62)m foreign exchange loss on an intercompany loan with Smiths Medical, the matching credit in discontinued operations nets out to zero in total Group earnings.

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

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

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

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

Our Vitality Index measures the effectiveness of organic investment, tracking revenue from new products launched in the last three years. Our Total Group Vitality Index was 20% (FY2019: 13%), driven by new products in Smiths Detection (CTiX) and in Flex-Tek (Flashshield+™).

The Group continues to invest in disciplined, complementary acquisitions.

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 ruggedised fibre optics significantly strengthens Smiths Interconnect’s product offering in defence, space, aerospace and industrial market segments. For more information, please see note 27 of the financial statements.

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

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

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

<table>
<thead>
<tr>
<th></th>
<th>Continuing operations</th>
<th>Smiths Medical</th>
<th>Total Group</th>
<th>FY2021</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Restructuring costs</td>
<td>(31)</td>
<td>(4)</td>
<td>(35)</td>
<td>(30)</td>
<td>(65)</td>
</tr>
<tr>
<td>Cash outflow</td>
<td>(8)</td>
<td>(4)</td>
<td>(12)</td>
<td></td>
<td>(65)</td>
</tr>
<tr>
<td>Annualised savings</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>30</td>
<td>(70)</td>
</tr>
</tbody>
</table>

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

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

Net debt at 31 July 2020 was £1,141m, a decrease of £156m in the period, despite the £148m impact of capitalised operating leases under IFRS16. EBITDA from continuing and discontinued operations was £610m. Net debt to EBITDA was 1.7x after inclusion of leases (1.9x including restructuring costs and write-downs).

Gross debt1 was £1,609m (FY2019: £1,512m), including the impact of leases. There are no covenants associated with this debt. The weighted average maturity was 4.2 years and there are no maturities before October 2022. Cash balances were £386m (FY2019: £315m).

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

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

Discontinued Operations – Smiths Medical

As disclosed on 31 March 2020, the Board decided to delay the previously announced separation of Smiths Medical due to the uncertain market conditions. The strategic intent and rationale remain unchanged. Accounting standards require the Group to stop charging depreciation and amortisation within Smiths Medical, since it has been reclassified as discontinued operations. For comparability purposes, depreciation and amortisation of £45m have been included in the calculation of underlying measures.

Smiths Medical continued its return to growth with underlying revenue up +4%. This growth accelerated in the second half to +7%, including +5% from participation in Ventilator Challenge UK. During the year, Smiths Medical signed a c.$20m investment agreement from the U.S Government to expand syringe and needle device production to support COVID-19 vaccine efforts. Reported revenue was up +5% with +£12m of favourable foreign exchange translation and a £13m revenue impact from prior year disposals.

Headline operating profit of £184m was down (3)% on an underlying basis, with increased volumes offset by margin dilution from Ventilator Challenge UK, a one-off legal settlement and COVID-19 costs (including expedited freight, labour incentives and protective equipment). Reported headline operating profit was up +25% thanks to the exclusion of £45m of depreciation and amortisation, and +£2m of favourable foreign exchange, partially offset by £11m from prior year disposals and £4m 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 comprised separation costs.

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

Total Group

Total profit and EPS

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

Cash-flow

Strong cash generation is a key characteristic of our business. Headline operating cash-flow2 was £575m (FY2019: £474m). This strong performance was achieved despite the disruption associated with the COVID-19 pandemic. Operating headline cash conversion was 123% (FY2019: 83%), including a benefit from IFRS 16, restructuring and write-downs.

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

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

Dividend

The Group maintains a progressive dividend policy, aiming to increase dividends in line with long-term underlying growth in earnings and cash-flow. The policy enables us to retain sufficient cash-flow to finance investment in the drivers of growth and meet our financial obligations. In setting the level of dividend payments, the Board considers prevailing economic conditions and future investment plans, along with the objective to maintain minimum dividend cover1 of around 2 times.

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

1 Defined in Note 30 to the Financial Statements
2 Defined in Note 30 to the Financial Statements
Litigation
Smiths Group faces different types of litigation in different jurisdictions. Please see below an update on the two significant litigation provisions. For more information, refer to note 23 of the accounts.

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

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

Titiflex Corporation litigation
Titiflex Corporation, a subsidiary of the Group in the Flex-Tek division, has received a number of claims in recent years from insurance companies seeking recompense on a subrogated basis for the effects of damage allegedly caused by its flexible gas piping products being energised by lightning strikes. It has also received a number of product liability claims relating to this product, some in the form of purported class actions. Titiflex Corporation believes that its products are a safe and effective means of delivering gas when installed in accordance with the manufacturer’s instructions and local and national codes; however some claims have been settled on an individual basis without admission of liability.

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

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

Return on capital employed (ROCE)\(^1\)
ROCE was 11.8% (FY2019: 14.4%). The decrease reflects lower profitability, including restructuring costs and write-downs, recent investments (such as the acquisition of United Flexible, which are expected to generate superior returns over the longer-term) and the adoption of IFRS 16, partially offset by the absence of depreciation and amortisation in discontinued operations. For further detail of its calculation, please refer to note 30 to the financial statements.

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

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

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

John Shipsey
CHIEF FINANCIAL OFFICER

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

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

The two main UK pension schemes are well positioned to withstand a volatile market environment. They are well hedged, so that a movement in liabilities is largely offset by the movement in assets. As at 31 July 2020, approximately 35% of the liabilities had been de-risked through the purchase of annuities from third party insurers. Approximately 90% of assets are invested in third-party annuities, government bonds and investment grade credit. Only around 2% of assets is invested in equities.

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

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

**OPERATIONAL PERFORMANCE**

<table>
<thead>
<tr>
<th>Why we measure</th>
<th>Performance</th>
<th>Ambition</th>
<th>Strategic objective</th>
</tr>
</thead>
</table>
| **Portfolio strength**  
as measured by % revenue from top three positions
We continuously review our portfolio of businesses to target top three leadership positions in attractive markets. In FY2020, 90% of our business continued to be well positioned. | FY2020 | 90% | REVENUE FROM TOP THREE POSITIONS IN ATTRACTIVE MARKETS | 90%+ |
| FY2019 | >90% |
| FY2018 | ~80% |
| **Aftermarket and services**  
as measured by Aftermarket % of sales
Aftermarket is a core characteristic of a Smiths business, part of our DNA. In FY2020, aftermarket revenues represented 49% of total revenue, stable year-on-year. | FY2020 | 49% | AFTERMARKET REVENUE | 50%+ |
| FY2019 | 49% |
| FY2018 | 48% |
| **Effective innovation**  
as measured by Vitality Index
Following a period of accelerated reinvestment into the business, we are focusing on measuring the effectiveness of our investment. In FY2020, Vitality Index increased to 20%. The year-on-year improvement was driven by revenues from Smiths Detection’s CTiX and Flex-Tek’s Flashield+™. | FY2020 | 20% | REVENUE FROM PRODUCTS LAUNCHED IN THE LAST THREE YEARS | ~20% |
| FY2019 | 13% |
| FY2018 | 13% |
| **Operational excellence**  
as measured by stock turns1
Stock turns measure speed and efficiency in the business. In FY2020, stock turns reduced to 3.0x due to the operational disruptions associated with the COVID-19 pandemic. | FY2020 | 3.0x | STOCK TURNS | 6.0x |
| FY2019 | 3.4x |
| FY2018 | 3.7x |
| **Employee engagement**  
as measured by employee engagement score
One focus of our People Plan is colleague engagement, which we measure twice annually in a confidential survey. In FY2020, 87% of colleagues responded and we retained our healthy engagement score of 73. | FY2020 | 73 | CREATE A NURTURING AND INCLUSIVE WORKING ENVIRONMENT |
| FY2019 | 73 |
| FY2018 | 73 |
| **Safety**  
as measured by RIR
Health and safety remains our top priority. Our key metric is recordable incident rate (RIR) per 100 colleagues. In FY2020, RIR reached a record low at 0.30 emphasising our continued work on health and safety. | FY2020 | 0.30 | CREATE THE SAFEST WORKING ENVIRONMENT |
| FY2019 | 0.41 |
| FY2018 | 0.39 |

1 Defined in Note 30 to the Financial Statements
# Financial Performance

## Why we measure

<table>
<thead>
<tr>
<th>Performance</th>
<th>Ambition</th>
<th>Strategic objective</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Growth</strong>&lt;br&gt;as measured by underlying revenue growth</td>
<td>FY2020: 11%&lt;br&gt;FY2019: 3%&lt;br&gt;FY2018: 3%</td>
<td>Outperform our chosen markets</td>
</tr>
<tr>
<td>Growth is a top priority for the Group and a key part of management incentives.</td>
<td>The Group delivered a resilient performance in very challenging conditions.</td>
<td></td>
</tr>
<tr>
<td><strong>Performance</strong>&lt;br&gt;as measured by headline operating margin</td>
<td>FY2020: 15.0%&lt;br&gt;FY2019: 17.1%&lt;br&gt;FY2018: 16.7%</td>
<td>Headline operating profit margin</td>
</tr>
<tr>
<td>Growth needs to be delivered with a strong margin.</td>
<td>In FY2020, headline underlying operating margin was 15.0%, down (210)bps, driven by volume and costs of business continuity.</td>
<td>18-20%</td>
</tr>
<tr>
<td><strong>Returns</strong>&lt;br&gt;as measured by ROCE</td>
<td>FY2020: 11.8%&lt;br&gt;FY2019: 14.4%&lt;br&gt;FY2018: 14.6%</td>
<td>ROCE through the cycle</td>
</tr>
<tr>
<td>Measuring ROCE ensures we are focused on the efficient use of assets and capital, but can be distorted by M&amp;A activity.</td>
<td>In FY2020, ROCE of 11.8% was impacted by lower profitability including the impact of restructuring and write-downs, recent acquisitions such as United Flexible and the impact of IFRS16 partially offset by impact of no depreciation and amortisation in Smiths Medical.</td>
<td>16-18%</td>
</tr>
<tr>
<td><strong>Asset light</strong>&lt;br&gt;as measured by working capital % sales</td>
<td>FY2020: 28%&lt;br&gt;FY2019: 26%&lt;br&gt;FY2018: 26%</td>
<td>Working capital as a percentage of total revenue</td>
</tr>
<tr>
<td>Working capital measures speed and efficiency in the business from manufacturing to debt collection. Working capital translates into cash.</td>
<td>In FY2020, working capital represented 28% of revenue, a 200bps increase year-on-year due to operational disruptions associated with the COVID-19 pandemic notably in inventory which was partially offset by strong receivables collection.</td>
<td>~20%</td>
</tr>
<tr>
<td><strong>Strong cash generation</strong>&lt;br&gt;as measured by headline operating cash conversion</td>
<td>FY2020: 123%&lt;br&gt;FY2019: 83%&lt;br&gt;FY2018: 99%</td>
<td>Headline operating cash conversion</td>
</tr>
<tr>
<td>Our focus on cash demonstrates our focus on efficiency as well as enabling us to fund future growth.</td>
<td>In FY2020, headline operating cash conversion was very strong at 123%, including tailwinds from the impact of IFRS16 and the strategic restructuring programme.</td>
<td>100%+</td>
</tr>
</tbody>
</table>

1. See underlying definition on page 02
2. Calculated as the 12-month rolling average of inventory, trade receivables contract assets, trade payables and contract liabilities as a percentage of total annual sales. Working capital is defined in Note 30 to the Financial Statements

## Link to Remuneration

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

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

We believe in doing business responsibly, to the benefit of society at large and our stakeholders.

Nurturing the resources on which we depend and building strong and positive relationships is in line with our purpose and values. This underpins business performance and the long-term sustainability and resilience of Smiths. It’s the Smiths Way and it connects, guides and inspires everyone at Smiths.

Our critical resources and relationships

External alignment and recognition on sustainability matters

We understand the importance of reporting on sustainability matters in a transparent way and meeting external guidance when doing so. We are generally aligned with the Global Reporting Initiative (GRI) reporting principles for environmental matters and with the Task Force on Climate-related Financial Disclosures (TCFD), for which a recent formal assessment by an external party has indicated that we meet all 11 recommendations. We also continue to receive favourable external ratings for our Environment, Social and Governance (ESG) performance.

External recognition

<table>
<thead>
<tr>
<th>Score</th>
<th>Date</th>
<th>Constituent</th>
<th>Governance</th>
<th>Environment</th>
<th>Social</th>
<th>Management – taking co-ordinated action</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>June 2020</td>
<td>ISS (ESGi)</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>1 (scale 1-9; 1 = leader)</td>
</tr>
<tr>
<td>2</td>
<td>August 2020</td>
<td>CDP</td>
<td>B</td>
<td>2</td>
<td></td>
<td>Management – taking co-ordinated action</td>
</tr>
<tr>
<td>B</td>
<td>2018 Data</td>
<td>MSCI</td>
<td>AA</td>
<td></td>
<td></td>
<td>Leader in the sector</td>
</tr>
</tbody>
</table>

Governance and collaboration

The majority of our resource and relationship strands are managed through strategic oversight and collaboration models that bring together the skills and knowledge of our central teams and our divisional experts to champion critical issues and drive innovation, quality and best practice right across Smiths. Some areas are further supported by senior groups such as the Executive Environmental Roundtable which was set up to advise the Board and Executive Committee on environmental matters.

The Smiths Excellence System (SES)

Our efforts in this area are underpinned by SES which is building capabilities and driving excellence and continuous improvement across each of our SES pillars: Customer, People, Technology, Programme, Production and Supply. Excellence is in our DNA and is a fundamental part of how we do business at Smiths.
Sustainability focus areas and the United Nations (UN) Sustainable Development Goals (SDGs)

We believe that business has a vital role to play in delivering the UN SDGs. For some years our environmental targets have been proactively aligned with goals 6, 12, 13 and 14 covering responsible production and consumption, greenhouse gas (GHG) emissions and water conservation.

The further aspects of sustainability that are most relevant and/or material to us and to our stakeholders are described here and we are pleased to report progress on each during FY2020.

The symbols shown in the square boxes are the UN’s adopted icons for its 17 SDGs.

Our people
Focus areas
- Safety and security
- Employee wellbeing and engagement
- Learning organisation
- Diversity and inclusion

UN SDGs

Key highlights in FY2020
- Record low safety incidents
- Comprehensive colleague support through COVID-19
- Launch of Learning@Smiths
- Respect, Diversity and Inclusion Council

Read more about our people and how we support them on pages 27-33

Our customers
Focus areas
- Voice of the customer
- Quality and service

UN SDGs

Key highlights in FY2020
- Continuity of production and service to customers through COVID-19
- On time in full measure – 86%

Read more about our customers and how we work with them on pages 34–36

Technology and innovation
Focus areas
- Culture, capabilities and collaboration
- Enterprise IT

UN SDGs

Key highlights in FY2020
- Vitality Index 20%
- University partnerships on future-focused technology
- Enterprise IT response to business needs through COVID-19

Read more about our technology capabilities and innovation culture on pages 37-39

Production and environment
Focus areas
- Quality and efficiency
- Environmental governance
- Environmental performance

UN SDGs

Key highlights in FY2020
- Smiths lean toolbox and upgrade to SESAME CI tool
- Progress towards FY2021 environmental goals
- Climate risk assessments

Read more about how we approach production and environmental governance and performance on pages 48-45

Our communities
Focus areas
- Impact on communities

UN SDGs

Key highlights in FY2020
- Community donations during the COVID-19 pandemic
- Internal and external promotion of International Women in Engineering Day
- Participation in UK Ventilator Challenge

Read more about our communities and how we support them on pages 48-50

Our supply chain
Focus areas
- Total value
- Relationships and resilience

UN SDGs

Key highlights in FY2020
- Real-time management of supply chain through COVID-19
- Record level of procurement savings

Read more about our suppliers and how we work with them on pages 46-47

Regulators and governments
Focus areas
- Ethical behaviour, governance and compliance

UN SDGs

Key highlights in FY2020
- Continuing development and implementation of ethics and compliance policies
- Ongoing relationship building to support business objectives

Read more about how we meet the requirements of regulators and governments on page 51
Ethics and our values

Our values guide how we behave.

Our values influence every decision and help to make Smiths a place where people want to work, an organisation that is valued, and one that people want to do business with. Our values are embedded across the Group and are promoted at every opportunity. Behaving ethically and with integrity is a fundamental part of our values. It is the right thing to do and it enhances our reputation with our stakeholders. Our people, suppliers and other partners are required to understand and uphold our high ethical standards.

Ethics governance

Our Code of Business Ethics provides guidance for colleagues to recognise and deal appropriately with legal and ethical issues they encounter in the course of their work. This is supplemented by a suite of policies and procedures relating to specific ethics and compliance issues, and associated training, some of which is mandatory for all colleagues.

Our central ethics and compliance function oversees our ethics and compliance programmes, determines a common language for ethics across Smiths and focuses work on new and/or higher risk areas. Internal Audit verifies that procedures and responsibilities are understood and functioning correctly.

Our central ethics team also works closely with our HR functions on investigations into such matters as labour standards and allegations of employee harassment and discrimination.

The Smiths Business Ethics Council (BEC) has been in place for more than ten years. It comprises senior, cross-functional leaders from across Smiths and acts as an advisory panel for new policies and how best to implement them. The BEC sets annual objectives to aid continuous improvement. For example, in FY2020 the BEC proposed improvements to the process for identifying and reporting potential conflicts of interest, which have been rolled out across Smiths.

The central ethics team also works closely with our divisional operational and Legal teams. The Smiths Board and Executive Committee are engaged through our risk management processes and encourage direct and open discussion should a matter require attention.

Engagement and training

Engaging and communicating on ethical matters is vitally important, as is trust in our procedures. Colleagues are encouraged to report behaviour inconsistent with our Code of Business Ethics, or our values, through their line manager, HR or the Legal team, or through our confidential ‘Speak Out’ reporting line. This is emphasised in regular communications.

Our Ethics Ambassadors network comprises grassroots colleagues from across Smiths. We look to our Ethics Ambassadors to come up with ideas and communications, for example how to promote ethics on our annual Smiths Day, to bring ethics to life and help us reach the widest possible audience. We are looking forward to the role of the Ambassadors evolving over time.

Our ethics training operates in two tiers – online modules developed with our Business Information Services team that are available to colleagues, and face-to-face training activities (now, due to COVID-19, likely to be delivered online) covering specific subjects. Our online ethics training modules are available in all of our core languages and approximately 37,000 courses were taken by colleagues during FY2020.

Additionally, we run ethics workshops which are an opportunity for leaders from across Smiths to discuss ethics and compliance challenges specific to their markets and geographies and how to navigate them. During FY2020 we ran workshops in the Middle East, South Africa, Brazil, Mexico and France.

We achieved a strong score of 72 for ethics/integrity in our most recent My Say engagement survey and the values related questions in the survey have been rising over time.
Our global family of diverse and talented colleagues creates, delivers and supports our products with passion and an innovative and collaborative spirit, underpinned by our relentless focus on continuous improvement and excellence.

We aim to attract, retain, develop, engage and inspire the very best by delivering a people experience based on respect, personal growth, empowerment and a sense of belonging and purpose. Engaging our people in this way is the right thing to do and the most effective way of delivering our business objectives.

The health, safety and security of our people and our operations have always been our number one priority and have been a key focus during the COVID-19 pandemic. We have a strong and robust safety culture and strive for a zero-harm workplace, with safety considerations fully integrated into all of our activities.

Health, safety, security
Keeping our people safe at work is in the Smiths DNA and is something we are passionate about.

Governance and strategy on safety matters flow from the Smiths Board and Executive Committee to every Smiths site via our collaborative HSE (Health, Safety, Environment) Technical Committee which includes representatives from across Smiths. Safety and compliance with our policies are then supported locally by our divisional HSE specialists with responsibility held by our site and divisional leaders. Our safety policies also extend to our suppliers and business partners.

Smiths colleagues, at all levels, also have personal responsibility to take due care of their own safety and to follow our safety rules. They also have a responsibility to warn others of potential hazards and unsafe behaviours. Fulfilling these obligations is a condition of employment.

Smiths has an extensive set of Health and Safety policies and procedures that all operations are required to follow. Performance against these policies is overseen by an audit process that also covers all Smiths production facilities including ISO 18001 management systems. Smiths did not receive any significant safety or health fines or penalties in FY2020 from any regulatory agencies.

We are extremely pleased to report that Smiths has not recorded a serious safety incident, including work-related employee fatalities, or a serious physical security event during FY2020 and that this year Smiths has recorded its best ever safety performance.
Our people continued

Safety programmes
Advancing safety and security is an ongoing investment for Smiths as we implement new programmes and training activities to continuously improve performance and reduce risk. Our HSE teams also work regularly with HR colleagues to support health and wellbeing initiatives.

During FY2020 we relaunched our safety lookout peer to peer observation programme with full roll out being delayed by the COVID-19 pandemic. We also launched a global hand safety campaign focusing on five checks to keep your hands safe. Our new Alert driver safety awareness training for drivers of company vehicles is underway in all divisions apart from Smiths Medical. Over 2,500 Smiths colleagues are registered for the programme.

Safety measurement and performance
We monitor our recordable incident rate (RIR) – where incidents require medical attention beyond first aid – and lost time incident rate (LTIR) – where a colleague is unable to work following an incident – per 100 colleagues, per year across Smiths. In FY2020 we achieved an RIR of 0.30 and an LTIR of 0.14. According to company policy, Smiths reports all injuries globally in accordance with US OSHA guidance.

Each of our divisions is also required to set completion targets for the Safety Leading Indicator (SLI) proactive and preventative safety measures most relevant to their operations, with an expectation of achieving 95% of target annually. SLIs include activities such as safety inspections, training and the safety look out peer to peer observation programme.

Security
With locations all over the world, and colleagues regularly travelling and/or working remotely, the security of our sites and teams is an important issue. We have physical security plans in place at all locations and risk assessments are undertaken regularly, as are reviews of our business continuity plans.

We closely monitor colleague trips to high and extreme risk locations, with all travel pre-approved per policy, albeit travel has been significantly curtailed during the COVID-19 pandemic. The ISOS (International SOS) app, introduced this year, allows colleague locations to be tracked when travelling or working remotely, with ‘take cover’ and ‘check in’ alerts issued in the event of local danger, for example storms, earthquakes, political issues and violence. Colleagues can also use the app to reach Smiths in an emergency.

PROMOTING COLLEAGUE WELLBEING WITH THRIVE
This year we launched our new global wellness initiative THRIVE. Developed originally by Smiths Detection and Smiths Interconnect, the programme has now been rolled out across the whole of Smiths to help educate colleagues on how to practice self-care both at home and at work.

We have focused on seven pillars of wellness:
- **Physical**: Taking care of your body and mind through physical activity, a healthy diet and sleep
- **Social**: Having a supportive and interactive social network breeds success at home and at work
- **Environmental**: Respecting your surroundings and taking care of our planet
- **Emotional**: Looking after yourself to help you live your best life
- **Financial**: Having the tools to manage your money now and for the future
- **Occupational**: Enriching your job experience for personal fulfilment
- **Intellectual**: Exploring new ideas and challenging yourself

We provide hints and tips, interesting facts and links to helpful information, as well as fun activities planned by our site Ambassadors.

Our mission is to do what we can to help empower our colleagues to look after themselves, give them access to information they may not have known about, and create an environment where people feel safe to talk about the things that are important to them.

By taking care of our wellbeing, we can THRIVE both inside and outside of work.
Supporting our people and our leaders through this extraordinary period has been a key responsibility of the Smiths leadership team. We pay tribute to the amazing dedication, commitment and contribution our colleagues have made to keeping themselves and others safe and well while helping us continue to operate and serve our customers.

The response to COVID-19 has been led by a dedicated Crisis Core team, leading a number of sub-groups made up of functional and divisional experts (sites also have local response teams). Our main aim throughout has been to keep our colleagues as safe and well as possible.

Much effort has gone into understanding and respecting individual personal circumstances and balancing these with the needs of the business. This has been coupled with the provision of practical support on the ground to ensure colleague wellbeing and safety.

A regular cadence of internal communications using a variety of mediums has ensured our colleagues have remained well informed and in regular dialogue with our leadership teams, further reinforcing a sense of belonging to Smiths, integral to our culture.

A values-led approach was adopted from the beginning of the crisis ensuring trust, integrity and serving the needs of our customers were at the core of the approach.

The response from our workforce has been outstanding and it is thanks to them that the business remains strong and able to continue to serve the needs of our customers with passion and excellence.

Practical examples of the measures put in place include:

- An absolute focus on providing the safest possible working environments for those needing to be on our premises and those visiting customers and partners including:
  - Group-wide HSE committee ensuring compliance with local requirements and sharing best practices across the Group
  - 24-hour monitored safety at Smiths email

- Enabling and supporting those able to work from home to do so

- Producing face coverings in-house and distributing employee PPE proactively

- Pursuing a consistent approach, in relation to COVID-19, for health benefits, life insurance, sick pay and absence; aligning our divisions and regions as much as possible

- Partnering with ISOS (International SOS) medical staff on safety guidance and promoting use of the ISOS app for local safety information

- Implementing a new colleague emergency contact details tool

- The creation of bespoke COVID-19 resource sites on our intranet and our Smiths Now colleague app for universal access to COVID-19 related guidance and support materials, including a regularly updated FAQ, translated into all our core languages

- Extending our Smiths Now app for desktop use for easy access to news and information

- Regular and two-way communication including:
  - Weekly all-colleague update containing the latest guidance and information from the Crisis Core team. This received an 89% approval rating from colleagues
  - Board, Chief Executive and Executive Committee email and video communications
  - #thankyoufrontline social campaign on Smiths Now

- Resilience webinars and hints and tips for leaders

- Wellness materials delivered through the new cross-Group THRIVE programme

Through our actions and our words, we believe that we have truly demonstrated that we are one Smiths family and that every member of our global team is valued.
Our people continued

People leadership and planning
Our divisional people leaders work collaboratively with our people Centre of Excellence teams to create and deliver HR programmes that support our People Plan and meet common business needs. Many programmes – for example the SES Academy – are rolled out globally, while other needs are met locally with assistance from our central specialists.

Engagement and communication
Strong engagement and a clear understanding of what it means to be Smiths is a powerful combination and drives pride, energy and ownership of our purpose and strategy.

Our annual Smiths Excellence Awards recognise achievement across our six SES pillars; outstanding contributions to HSE, to our communities, and to innovation; and include our highest honour, the Smiths Cup. Making the 2020 Awards was postponed due to the COVID-19 pandemic but a new record total of 604 entries was reached this year.

Our annual Smiths Day global celebration of Smiths culture also did not take place due to the pandemic, along with planned meetings with our Smiths European Forum, a collection of employee representatives we meet with twice yearly in normal circumstances.

My Say Survey
Using our My Say survey we have been tracking engagement since 2017. Results from the biannual survey drive central programme planning and are provided to managers who are empowered to create action plans for local improvements. For example, John Crane Korea organised company team building workshops and provided colleague suggestion boxes to promote ongoing feedback.

Our latest survey conducted in October 2019 (the May 2020 survey did not take place due to the COVID-19 pandemic) delivered a high response rate, with 87% of colleagues taking part and around 36,000 comments submitted.

Our overall engagement measure was stable at 73 (May 2019: 73), one point away from the benchmark of 74 for businesses of our type and scale, as indicated by Glint, the external third party which manages the survey process for us. Other measures where we continue to score highly are safety, customer focus, authenticity, respect and integrity.

We intend to undertake our next survey before the end of the 2020 calendar year.

Communication
Our global communications activities support our strategy and engagement plans and aim to promote open, two-way communication between our colleagues and our leadership teams. Key communication materials, including those during the COVID-19 pandemic period, and many of our Group-wide training materials, are translated into our 11 core languages.

CONTINUOUS IMPROVEMENT IN SMITHS FUNCTIONS
Tereza Njingo’s SES Academy green belt project in our EMEA region demonstrates how continuous improvement techniques are being used to support our functions.

Our Group HR People Operations function provides vital support to our business process infrastructure, by empowering our people managers worldwide with the process and diligence necessary for leading their teams every day.

To optimise our processes across EMEA we chartered a project to develop a new HR policy handbook for the region which consolidated all local HR policies into a single, readily accessible reference document.

The new policy handbook enabled our EMEA HR teams to work more efficiently and garnered recognition across Smiths.
Learning and development

We are building a learning organisation by making learning and development opportunities available to everyone at Smiths so that all colleagues are empowered to build their skills and take ownership of their future. Through this we are sustaining and growing the capabilities of the Group – and driving excellence across our operational disciplines and our functions.

Our new Learning@Smiths portal was launched during the year. It holds all of our online training modules, including both SES Academy and Leadership@Smiths materials, and provides a consistent look and feel to the Smiths learning journey. The portal has supported us as we adopt a change in our learning philosophy to deliver a broader range of shorter and bitesize learning activities that grow capability through practical application rather than large training events.

We have concentrated much of this year’s formal development activities on our middle managers, including continuing to build our Accelerate leadership capability learning programme which has now engaged more than 620 participants since launch. Further extension has been delayed by the COVID-19 pandemic, but we have successfully continued to work with the existing cohort online. We also launched an Inclusive Leadership online module to complement our existing suite of e-learning modules and a People Leader Pulse monthly newsletter with development hints for leaders.

We plan to grow the Accelerate programme in FY2021 as well as launch a new orientation module for new and joining leaders.

Our people have visibility of career opportunities across Smiths through our Careers@Smiths portal and an ongoing project to calibrate and enhance job architecture for functional and technical roles across the Group will further support career path planning and learning needs.

During FY2020 we continued to roll out our finance and engineering graduate programmes, hiring into Asia Pacific, Europe and the US. Supporting our global graduate hires, we ran our Graduate Development Week in May, delivering this virtually due to the COVID-19 pandemic.

SES Academy

The SES Academy and our lean six sigma belted programme were born from the vision of our Chairman and Chief Executive to drive excellence at Smiths by actively building the capabilities of the organisation through our people. Academy materials are widely available to colleagues and range from bitesize modules to focused and practical courses supporting skills development priorities in our SES pillars and areas such as project management and change management.

Our lean awareness e-learning module, created in-house and available in multiple languages, has been promoted widely at Smiths and forms part of our new joiner training. The module has now been completed by more than 19,400 colleagues.

Lean six sigma is a highly regarded and proven approach to process improvement in operations and core business functions. Working with the University of Oxford, we have created a tailored lean six sigma belted programme which offers recognition and is delivering accelerated and tangible change in our business.

The unique programme combines the best of traditional lean six sigma skills with additional content, for example machine learning, that will drive specific value for Smiths.

The courses also enable colleagues with shared specialisms to meet, collaborate and make everlasting connections.

During FY2020 lean six sigma has been extended to drive functional process excellence. We held our first ever green belt training for Group functions in February 2020, with 20 colleagues from HR, communications, insurance and company secretariat taking part.

We currently have more than 500 colleagues with yellow, green or black belt qualifications and are targeting 1,000 qualifications by the end of FY2022. We are also reviewing how we might deliver some of the programme virtually.

For the wider Academy we have identified opportunities to develop courses/qualifications in project management and design thinking.

As at the end of July, we had a total of 317 continuous improvement projects on record, of which 174 projects are currently active and 143 projects have been delivered.

A financial validation process to quantify the total savings from the projects was launched during the year. The benefit of delivered and ongoing projects is estimated to be in the region of £7.5 million to £10 million per annum.

SES Academy Lean Six Sigma Belted Programme

Yellow belt: One-day interactive lecture style presentation covering lean six sigma fundamentals. Colleagues are encouraged to self-nominate for the course which is then approved by the SES pillar lead.

Green belt: One-week course to become a lean six sigma practitioner/change agent. Structured around a hands-on improvement project with participants working collaboratively to fix a business process. Colleagues are nominated for the course by a senior manager.

Black belt: Two-week course split around the implementation of a three-month project. Designed to create change leaders who can inspire, coach and mentor as well as being custodians of excellence. Learning integrates four key disciplines – lean thinking, design thinking, agile thinking and systems thinking. Nominations made by divisional presidents based on business needs, with project quality reviewed at the centre.

- Read more about design thinking on page 38
Our people

Reward and recognition

Recognising and rewarding colleagues in a fair, open and meaningful way drives engagement and helps us to attract and retain the talent we need. Our reward structure must also work effectively to deliver Group strategy.

We are currently conducting a major global benefits review. This has involved reviewing the benefits we have available, understanding the areas that are working effectively, maximising cost efficiency, and benchmarking in sectors and markets. Our aim is to offer a core set of benefits, including Employee Assistance Programmes, consistently across divisions and territories.

Our long-term objective will be to build in greater flexibility so that colleagues have the opportunity to choose what works best for them.

In the UK we operate an all-employee Sharesave Scheme and the annual invitation to eligible employees to participate encourages colleague involvement in our performance.

We have been an accredited living wage employer in the UK since 2018.

We will undertake a full Remuneration Policy review in FY2021, with the Directors’ Remuneration Policy being submitted for shareholder approval at the 2021 AGM.

Restructuring programme

In June we announced a strategic restructuring programme. Information on the programme can be found in the Chief Executive Q&A on pages 11-13 and in the Strong financial framework section on pages 18-21.

Diversity and inclusion

Diversity of thought and perspective, coming from a team with a wide variety of backgrounds, is an important driver of our success. Embracing difference supports our understanding of our stakeholders, our markets and our territories, accelerates new thinking and ideas, and promotes a sense of belonging in our colleagues. It is also in line with our values to promote diversity matters, work to eliminate bias and support equal opportunities.

We have made a great deal of progress, but it is recognised that we can do more. It is our policy to provide equal employment opportunities. We recruit, support and promote our people on the basis of their qualifications, skills, aptitude and attitude. In employment-related decisions, we comply with all applicable anti-discrimination requirements in the relevant jurisdictions. We have zero tolerance for discrimination and harassment.

People with disabilities are given full consideration for employment and subsequent training (including retraining, if needed, for people who have become disabled), career development and promotion on the basis of their aptitude and ability. We endeavour to find roles for those who are unable to continue in their existing job because of disability.

During FY2020 our Respect, Diversity and Inclusion Council was established to provide strategic direction and tactical plans on diversity and inclusion matters, meeting four times a year. The Council is chaired by Karen Bomba, President, Smiths Interconnect and the Executive Sponsor for Diversity and Inclusion at Smiths. It’s important for us to have different perspectives guiding this work and so Council members have been carefully selected to give us a diverse mix of functions, regions, backgrounds and experience.

We also refreshed our internal support materials which are available on a dedicated intranet site and engaged with Stonewall, a leading international charity which advises institutions on building a fully inclusive workplace for LGBT+ colleagues.

We provide PwC’s respected ‘blind spots’ unconscious bias training to all colleagues with a Smiths or a divisional email address worldwide. The course has now been completed by more than 95% of invitees.

We marked World Mental Health Day, International Women’s Day and International Women in Engineering Day across Smiths through internal communication campaigns and activities, posts on our social media channels and content on our website.

Diversity and inclusion

We want our people to feel their contributions are recognised and appreciated. We celebrate colleagues for their work and for embodying our values.

Recognition can and should happen every day, which is why appreciation is embedded in our leadership behavioural commitments. We have a wide range of formal recognition activities, including peer to peer thank you e-cards, long service and on-the-spot recognition, as well as certificates and badges with our Smiths Excellence System programmes and accreditations.

Each year we host our annual Smiths Excellence Awards, showcasing and celebrating the very best colleague achievements and projects across Smiths. This culminates in the award of the Smiths Cup to the project or team which best demonstrates our values in action.

We understand that when our colleagues feel valued, their satisfaction and productivity increases, they are motivated to maintain or improve their good work, and they are more engaged.

In the last two years of our My Say employee feedback survey, recognition has improved by 5 points, demonstrating the success of our programmes.
In recognition of the Black Lives Matter movement our Chief Executive issued a communication to all colleagues reminding them that across Smiths we stand for harmonious relations between all people, and for respect, equality and justice for all without violence. We stand against all actions which threaten or undermine these principles which are inherent in the values we live by.

In FY2021 we intend to launch a Group-wide initiative ‘Inspire to Succeed’ to promote awareness of diversity and inclusion matters and oversee delivery of activities which focus on support for affinity communities in Smiths.

As required by the UK Government, we report every year on our UK gender pay gap. Our most recent report is on the Smiths website.

Information on our Board diversity policy can be found on page 97.

Read more about ethical matters on page 26.
Our customers

The voice of the customer is an innate part of everything we do at Smiths.

Meeting customer needs and exceeding their expectations, not just on products, quality and service, but in the way we conduct business and pay attention to the things that matter to them – for example, ethics and environmental performance – is a fundamental part of our operating model and our values.

We marshall all of our resources and relationships in support of building strong and enduring customer relationships that will sustain Smiths into the future.

We have many different types of relationships with our customers – from fully integrated partnerships where we co-develop new products and services, and long-term sales and aftermarket contracts, to transactional and built to order arrangements. Our drive for innovation and flawless execution is applied to order arrangements. Our drive for innovation and flawless execution is applied to all so that we build our reputation as a supplier of choice.

Many of our customers are in critical industries and customers have been at the centre of our considerations during the COVID-19 pandemic. Our aim has been to prove that we stand by them no matter what, making every effort possible to fulfil our obligations and, through excellent people and processes, meet the high standards they have come to expect from Smiths.

Response to COVID-19

Managing our operations and our supply chain to enable continuity of supply to our customers has been a key principle during the COVID-19 pandemic. This has meant bringing together expert workstream groups from across Smiths, led by the Crisis Core team, and involving all members of our Executive Committee.

Standing with our customers, and with our people, has been the right thing to do, whilst enhancing the reputation of Smiths in the long term.

Since the start of the pandemic we have managed our operational response through our Operations and Supply Nerve Centre (OSNC). Over 90% of our manufacturing sites remained in production throughout the pandemic.

Maintaining continuity of service in our aftermarket activities, while keeping our people as safe as possible, has also been a vital part of our response. This has included finding new ways to deliver services, for example remote inspection activities at John Crane customer sites.

Creating customer value

Our aim is to create innovative and transformative products and services that add value to our customers’ operations and contribute to their goals, supported by consistently high product quality, excellent service, and appropriate pricing.

Our Smiths Excellence System customer pillar brings together our customer excellence processes, tools and materials which our divisions leverage to continuously improve our offer, our performance, and the overall customer experience.

Customer relationships are typically held in our divisions at an appropriate level. We aim to form strong bonds and work in close partnership with many customers so that we better understand their goals and needs, and are able to move fast to respond to opportunities and/or to improve the way we work.

INNOVATING TO SUPPORT CUSTOMERS DURING THE COVID-19 PANDEMIC

Restrictions resulting from the COVID-19 pandemic required John Crane to quickly adapt and develop new ways to support customer needs.

Innovative ways of undertaking critical inspection work have eliminated the need for travel, allowing parties to save on time and cost, while staying safe.

When the need arises for John Crane’s customers to inspect and approve highly-engineered mechanical seals and system components, both parties would typically meet at a John Crane site to monitor and analyse the equipment while it is put through various performance tests.

COVID-19 restrictions made it impossible for these in-person tests to happen.

The team at John Crane Bangalore, India devised a strategy to conduct seal gas panel tests remotely using a live video feed (complete with various camera angles), as well as the display of digital gauges and the ability for customers to ask real-time questions and make requests.

The John Crane Slough, UK team implemented a system where the gas seal static and dynamic test is streamed to the customer with key test information and the opportunity for direct communication with the test technician during the test.

In March 2020, John Crane France had many witness test inspections planned for high-performance couplings to be installed on ships in oil & gas and marine applications. Inspection tests are normally witnessed by the customer and a third-party inspector.

In just one week, the team developed an alternative remote solution, sourcing high-quality cameras to capture the fine details surrounding performance tests, a reliable connection source and a viable software solution.

Inspections were successfully completed remotely, on time and with approval from all sides.
Aftermarket services are a characteristic of Smiths businesses and represent almost half of Smiths revenue. As well as being a driver of revenue, our aftermarket relationships enable us to engage more deeply with our customers, build relationships over longer periods of time, and better understand customer needs and respond to them.

In FY2021 we will establish new customer pillar objectives and deliver these through our Customer Pillar Steering Group, which will formally bring together senior customer leaders from across Smiths to share their experience and identify common opportunities to advance our practices.

**Voice of the customer**

We bring the voice of the customer into our business in many different ways, with the aim of using every touchpoint as an opportunity to deepen knowledge. We use formal feedback activities such as surveys, quarterly business reviews and senior team meetings with key customers, and defined processes for managing and responding to information collected from customer scorecards. We also integrate informal feedback from the conversations our operational and our field service teams are having with our customers every day. And, in addition to research that takes place for new products, we work with focus groups such as the Smiths Medical nursing panel to better understand how end users are using our products and experiencing our service.

**Innovation and product lifecycle**

Our innovation culture is directed to creating new products and services that respond to customer need, or that will meet a future predicted need. We design new products and services by thinking holistically from customer/societal need and problem definition, through product conception and product introduction, to support in service, to end of life. We engage and partner with many customers early in the product lifecycle to identify and leverage opportunities for collaboration and bespoke development to meet specific requirements. This has recently included Smiths Interconnect working with Boeing on bespoke connectors for NASA’s Orion spacecraft and Lunar Gateway.

We aim for flawless product launches. Cross-functional project teams are formed at the beginning of each new product introduction (NPI) project so that all operational workstreams and the supply chain are aligned in support from project initiation.

- Read more about technology and innovation on pages 37-39
- Read more about Smiths Interconnect and the Orion spacecraft and Lunar Gateway on page 62

**CLOSE WORKING SECURES ADDITIONAL VOLUMES FOR FLEX-TEK AND A DISTRIBUTOR CUSTOMER**

When a Texas-based wholesale distributor of residential and commercial construction and industrial supplies and materials was seeking a new supplier of flexible ducting Flex-Tek sought to build a strong relationship. This resulted in the initial securing of distribution contracts in Houston, Dallas, San Antonio and Austin. Through continued close working with the distributor, the team was able to secure additional contractor base volume for both partners, adding Fort Worth to the list of locations, and increasing sales to over $15 million. Flex-Tek is now building the relationship nationally, as the team work to open more locations across the US.
Service and quality

We aim to deliver a timely and high-quality response to customers interacting with Smiths – from account queries to urgent repair requests – and deliver customer orders as agreed.

We use Key Account Management (KAM) structures across our business. These bring together our operational and functional teams on key accounts to drive ownership of the customer relationship deeper into the business and manage accounts holistically.

We are continuing to leverage our Customer Relationship Management (CRM) capabilities through leading CRM tools and associated training. Over time, we have been introducing new technology to support our go-to-market strategies – for example, webinars to introduce new products and online training for customer technicians. This process has accelerated as a result of the COVID-19 pandemic.

Our divisions use robust quality processes to minimise product safety and quality issues during production. We use advanced supply chain management techniques to optimise flow across the value chain, including outbound logistics, so that we are able to supply customers according to demand and respond quickly to any change.

ON TIME IN FULL (OTIF) FY2020

<table>
<thead>
<tr>
<th>FY2020</th>
<th>FY2019</th>
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<tbody>
<tr>
<td>86%</td>
<td>84%</td>
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A responsible business

Our customers expect Smiths to operate responsibly. They have a growing expectation of supplier transparency on ethical and environmental matters, as well as ongoing and strict compliance with local and international law and an appropriate approach to cyber security and the protection of information. This is likely to be reflected in contractual arrangements.

We encourage customers to contact us should they have any concerns at all on these matters. Customers may also use our confidential ‘Speak Out’ reporting line.

Digital transformation of Smiths Detection’s service

During the year Smiths Detection launched a Service Management System (SMS) project to improve the quality of customer care by revolutionising the way the service team operates.

Part of this project is the digitalisation of field service management through a mobile application that provides the service team with a single interface for completing several service administration tasks – including scheduling and dispatch, risk assessment, and reporting – which are then automatically updated onto central systems.

Over the next 12 months Smiths Detection will roll out SMS by region, enabling a smooth transition to go-live. The project, which is one of the division’s largest digital transformation initiatives to date, will not only drive efficiencies around service and maintenance processes globally, but is intended to increase first time fix rates and ensure service delivery matches its industry-leading product lines.
Technology and innovation

Technology and innovation are driving the future of Smiths.

We are a world leader in the practical application of advanced technologies. Our organic capability to identify new trends and create products that meet emerging societal and customer needs delivers value both immediately and for the long term.

In pursuit of excellence we embrace technology and innovation across the organisation – from applications that drive continuous improvement in the way we work to resourcing research into ambitious new projects.

Innovation framework

Our Group-wide innovation framework assists us in delivering a disciplined approach to innovation and a culture that supports our ambition and our strategy from horizon scanning, understanding megatrends and ideas generation through to new product introduction (NPI).

The framework helps us aim for a balanced investment profile between core, next generation and transformational product development.

Our Vitality Index is a Group KPI and measures the percentage of total revenue derived from products launched in the last three years.

Each of our divisions establishes a Vitality Index target and our stage-gate NPI process is tailored for each market and product. This helps to ensure that all parts of the value chain are considered so that we are commercially effective and deliver value for customers. We are also increasingly focused on environmental matters in the NPI process – in relation to both the footprint of products and the production processes used to make them.

Read more about production and environmental matters on pages 40-45

Technology and innovation are driving the future of Smiths.

SMITHS INTERCONNECT LABORATORY REPLICATES DEEP SPACE

In December 2019, Smiths Interconnect celebrated the opening of its new Qualification and Test laboratory in Dundee, Scotland. The new laboratory offers a one-stop shop for critical qualification and testing of Smiths Interconnect’s products in Europe.

The facility has a unique capability to replicate the environmental pressures of deep space with high power amplifiers and vacuum systems and to assess products against the same extreme vacuum and heat pressures they would have to withstand in space.

The facility offers testing which analyses high power radio frequency devices and breakdown phenomena in vacuum or near-vacuum conditions, and utilises radioactive sources to simulate the cosmic radiation that can often trigger the onset of these phenomena. This is an important factor in the reliability or operation of a satellite or other space-based equipment.

The new laboratory facility is also able to replicate the G-force for a rocket launch to assess the effects on products at launch. At maximum shock testing, shock testing equipment generates up to 105dB+ of noise and requires a special soundproof room.

Being able to offer these complex tests is a major benefit and a real point of competitive differentiation for Smiths Interconnect.
Technology and innovation continued

Driving capabilities and collaboration

Driving our innovation capability and collaborating across Smiths is vitally important, helping ensure we make the most of current and future trends.

Smiths Innovation Strategy Board (SISB)

The Smiths Innovation Strategy Board (SISB) connects colleagues from across Smiths in an ecosystem for innovative thinking, research and action in support of new opportunities. The SISB has undertaken work on megatrends and long-range targeting and forecasting, and collaboration plans with key universities – including Imperial College, London – for co-development and investment in future-focused technology and talent acquisition are underway. The SISB has also been working on an ‘adjacencies’ project to identify opportunities in line with the Smiths purpose and values that may not naturally fit into one of the Smiths divisions, or that is creating a new sector. When a project is identified it is resourced as relevant and taken forward under the guidance of the SISB.

Digital Forge

Our Digital Forge centre of excellence opened in 2018 and is accelerating the growth of digital products in our portfolio and driving efficiency and speed through common development and common platforms and tools that can be repurposed across Smiths product lines. The Digital Forge is sponsored by our Chief Executive and the Smiths Digital Advisory Committee (comprising members of the Smiths Executive Committee) determines strategy and governs our digital activities.

The Forge is predominantly focused on developing bespoke interface solutions that digitise products by connecting them to the internet/cloud and enabling the flow of data with a high degree of cyber security. This has included smart products at Smiths Medical and John Crane Sense™ condition-based seal monitoring technology, for which capability has been significantly extended in FY2020 to support large scale, high volume and high-pressure dry gas seals.

Future development includes smart heater interfaces for Flex-Tek and methane monitoring products.

Design Thinking

We are also supporting our innovation culture through the SES Academy and are moving forward with a Design Thinking programme to support cognitive skills and creative thinking to bring new products and services to life. A pilot Design Thinking awareness course (delivered online during the COVID-19 pandemic) has been taken by around 160 colleagues and a formal programme is planned for FY2021.

Digital Forge drives enthusiasm for machine learning

The Digital Forge is helping drive innovation and digital transformation at Smiths. One of its aims is to build core capabilities in artificial intelligence (AI) and machine learning, data analytics, connectivity and data security across the Group.

During FY2020, the Forge ran a competition to help colleagues improve their machine learning skills and encourage those not from science or engineering backgrounds to learn more about it. The challenge was to build a self-driving algorithm and teach a remote-controlled model car how to navigate a racecourse by itself, as fast as possible.

The competition was embraced by 35 teams from all over the world. Seven winners from different divisions competed at the Digital Forge, in San Francisco, to race against each other to decide the ultimate Smiths Self-Driving Car Champion.

Some of the model cars achieved speeds of up to 10mph. Our Chief Executive, Chief Financial Officer and JehanZeb Noor, Chief Executive, Smiths Medical all attended the final and awarded the trophy to the winning team.

The competition was a great success, driving enthusiasm for machine learning and highlighting internal collaboration opportunities within the business. It also opened new career paths for some participants as a result of them demonstrating their exceptional software engineering skills.

Expanding the digital team to accelerate digital transformation

In recent years, Smiths Detection has been pursuing digital transformation, developing solutions such as iCMORE and Checkpoint.Evoplus to bring greater screening capabilities and operational advantage to security operations.

To accelerate the development of digital solutions and reduce dependence on external developers, Smiths Detection established a global technology centre of excellence in Singapore and a technology development centre in Bangalore, India. The Bangalore team works collaboratively with experts and product development teams at other centres of excellence in order to develop and improve Smiths Detection’s digital technology capabilities.

Smiths Detection also continues to establish partnerships with universities around the globe to research security projects.

In 2020, the division established a research relationship with Imperial College London to collaborate on a joint PhD project to develop deep learning techniques to improve automated threat detection in airport baggage scanners. The project is funded by the UK Government’s Department for Transport and the Home Office.
Enterprise IT

Smiths has a mature and optimised IT infrastructure environment with an advanced internal capability which leverages core external partners to develop and deliver services and applications that support business priorities and needs. Expertise is held at the centre in the Smiths Business Information Services (BIS) team which collaborates with the Smiths functions and our divisional operational and IT specialists to drive innovation and efficiency and leverage scale.

This structure and capability means that Smiths is able to manage in-house the IT delivery of significant programmes such as the Smiths Excellence System. For SES, our internal team developed and built everything from the SES knowledge portal to supporting applications such as the SESAME tool and, working with HR, our suite of creative training materials for the SES Academy.

Our IT capability supported an accelerated response to the challenges presented by the COVID-19 pandemic. This included the global roll out of secure technology in support of home working, the development of dashboards providing data analysis for the Smiths Group Crisis Core team and the Operations and Supply Nerve Centre (OSNC), and the rapid delivery of a self-service emergency contact details recording system.

FY2021 projects include working with our HR operations team to create a digital HR experience to help us better manage data and produce relevant analysis to aid delivery of our People Plan.

SESAME tool

The SESAME (Smiths Excellence System Assessment Module) diagnostic tool was developed by our BIS applications team to support continuous improvement across our SES pillars. SESAME analyses the performance of every Smiths site on the SES fundamentals using data from 150 questions completed by the site leader and provides management information from site up to division level.

An upgrade to the tool with new questions, a more granular assessment method, and the inclusion of guidance on improvement resolution actions, was launched in February 2020.

Enterprise and product cyber security

Cyber security is a principal risk area for Smiths. It is vital – from both a regulatory and business continuity perspective – that we do everything possible to maintain the confidentiality, integrity and availability of our IT systems and the data held on them. We apply a proactive and globally unified approach to the security of our IT environment, managed by BIS and overseen by the Board, and supported by global partnerships with external providers such as AT&T. This ensures that every part of the organisation is aligned on best practice as it evolves.

Cyber security efforts during FY2020 focused on delivering improved processes and controls, with additional work to deliver enhanced systems for the protection of Smiths data. The introduction of new capabilities, monitoring, and security awareness campaigns during the COVID-19 pandemic has also been an important focus for the team. In addition, we have implemented an enhanced requirement for compliance to industry security standards where we gained or renewed ISO/IEC 27001 information security management and Cyber Essentials certification for select operations. Preparation also began for the US Cyber security Maturity Model Certification (CMMC), which will replace NIST 800-171 in FY2021.

Smiths products are used in many mission-critical applications in highly regulated industries, thus requiring continued focus on ensuring that our products meet the highest standards of cyber security. Meeting product cyber security regulations is the responsibility of our divisions, with governance and risk management residing with the Smiths central team, which hosts systems and performs an advisory role on critical matters such as data privacy.

SMITHS MEDICAL R&D PILOTS COLLABORATION WORKSHOPS

Continuous improvement (CI) is an important part of the culture at Smiths Medical. A key element of CI is seeking ideas and feedback to improve processes and procedures and taking action based on the feedback received.

During the year Smith Medical’s R&D department created three teams to lead workshops focused on developing collaboration, retention and communication skills in support of CI activities.

Their goals were to create an open, ongoing discussion about collaboration; help all colleagues to learn and apply specific strategies and behaviours that contribute to effective collaboration; and build a supportive and professional culture that acknowledges the patience, courage and practice required to collaborate effectively.

The teams ran a series of two-hour, in-person workshops involving more than 200 R&D colleagues at four Smiths Medical sites between October 2019 and January 2020. The interactive workshops were delivered to groups of 15 to 25 colleagues, with a variety of small and large group activities, discussions and collaboration scenario strategy sessions.

Read more about how we protect our business from cyber attacks on page 74.
Production and environment

The effectiveness of our production processes is a key contributor to the ongoing success and sustainability of Smiths. As a responsible business, it is our obligation and duty to help protect the planet.

Supported by the Smiths Excellence System, we are leveraging our manufacturing capability and technology to create an agile, reliable and responsive system, and a competitive cost base, that enables us to consistently serve customer needs while providing a safe environment for our people.

We are contributing to the protection of the planet both through products which help our customers fulfil their own environmental responsibilities and through proactive management of the environmental impact of our operations.

This includes the prevention of pollution, driving down our use of energy and natural resources, reducing carbon emissions and minimising waste. A number of Smiths products also have the potential to help end users reduce their climate impacts.

We support transparency in environmental matters so that our stakeholders, including our colleagues and potential colleagues, understand our priorities and our progress. We also recognise the importance of environmental governance at the highest level of the organisation.

Production approach

We aim to have best-in-class manufacturing processes across Smiths that optimise product and service flow, quality and safety, and improve lead times, cost and working capital requirements. This includes focusing on optimising our production footprint and assets, working closely with our supply chains, and using technology to drive speed and flexibility.

Our continuous improvement programmes help us to drive capabilities, including the skills of our people, so that we maintain leadership and competitiveness, and deliver the Smiths strategy. We use two key high-level metrics to measure the success of our production approach – working capital as a percentage of sales and stock turns. Both are Group KPIs.

Product quality and safety

Product quality and safety are vital requirements of our customers and we are committed to only shipping products that meet our high standards. Product quality is a principal risk and, during FY2020, the Audit & Risk Committee reviewed a product quality deep dive for John Crane. Product quality deep dives for the other divisions are scheduled to be held during FY2021.

We use robust quality procedures across Smiths to minimise product safety and quality issues, and we monitor performance through quality control processes and systems. During FY2021 we will pilot an electronic Quality Management System (eQMS) in John Crane to help manage our activities in meeting customer and regulatory requirements and improve quality effectiveness and efficiency on a continuous basis.

Our efforts are supported by the Smiths Quality Council, a cross-divisional leadership group that guides our approach to quality and helps embed it in our operations through sharing knowledge and ideas. We use two key high-level metrics to monitor quality performance: defects per million parts shipped (DPPM) and cost of poor quality (COPQ).

<table>
<thead>
<tr>
<th>COST OF POOR QUALITY FY2020</th>
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<tr>
<td>1.4%</td>
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<td>FY2019: 1.4%</td>
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COPQ includes the cost of waste, corrective work, warranty claims, returns and penalties, measured as a percentage of revenue.

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<tr>
<th>DEFECTS PER MILLION PARTS SHIPPED FY2020*</th>
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<tr>
<td>1,142</td>
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<td>FY2019: 235</td>
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* FY2020 DPPM for Smiths Group was adversely impacted by three independent, non recurring quality events on Smiths Medical high volume consumable parts

MODEL VALUE STREAMS SUPPORT EFFICIENCY AND QUALITY

Using the Smiths Excellence System Model Value Stream principles, a team at Smiths Interconnect developed an operational improvement project at its facility in Suzhou, China. The team included two green belt colleagues and one black belt colleague who worked to implement lean methods and six sigma tools.

The project delivered an integrated micro-automation solution for semiconductor probe assembly that significantly increased capacity and delivered improvements in production lead times, efficiency, quality and environmental impact. With the help of automation and mechanisation, output per hour increased by ten times and 20% more capacity was added to the site. Lead times to customers were also improved by 30%.
Continuous improvement (CI)
Our SES production pillar supports innovation and CI in our manufacturing processes. It provides standards, content, training and tools based on acknowledged best practice focused on lean methodology. Our Production Steering Group, which comprises director level production representatives from our divisions and the Smiths production pillar lead, meets regularly to agree priorities and ensure that efforts are aligned with business needs. Work is focused on developing production excellence in three key areas – leveraging best practices, developing capabilities and embedding CI everywhere and includes production/lean excellence learning. We will develop a tailored production excellence learning package for plant leaders in FY2021.

We are also continuing to transform our manufacturing sites through the development of Model Value Streams, which aim to push the boundaries of what can be achieved through the use of new technologies, lean manufacturing techniques and other best practices. We have implemented 21 Model Value Streams, empowering our people and enabling us to test the effectiveness of technologies and lean manufacturing techniques in a live environment.

Our CI culture also works to support delivery of our environmental goals.

The lean toolbox and SESAME
The Smiths lean toolbox comprises 26 lean tools and, along with the SESAME diagnostic tool, is helping us embed a CI mindset at every level of Smiths in support of all SES pillars. Key tools from the toolbox are being deployed through our living lean initiative, which features guidelines, training modules and templates, all in one online portal, supported by an active communications programme.

Read more about the SES Academy on page 31

WORKING CAPITAL
% OF SALES FY2020
28%
FY2019: 26%
Working capital measures speed and efficiency in the business from manufacturing to debt collection. Working capital translates into cash.

STOCK TURNS FY2020
3.0x
FY2019: 3.4x
Stock turns measure speed and efficiency in the business.

Environmental governance
Environmental governance flows from the Smiths Board to every Smiths site. The Board and Executive Committee oversee planning and target setting, and monitor environmental performance and environmental matters via a report that is prepared for every Board and Executive Committee meeting. The Smiths Global Head of HSE (Health, Safety, Environment) is invited to present to the Board twice a year and a presentation is made at every Executive Committee meeting. The Board also monitors environmental and climate risk through the Smiths risk management process.

JOHN CRANE PARTNERS ON METHANE EMISSIONS MONITORING

John Crane, along with two other investors – OGCI Climate Investments and Energy Innovation Capital – led a Series C funding round for Kairos Aerospace, Inc., a leading provider of large-scale aerial monitoring of methane emissions, to expand Kairos’ operations and grow its geographic footprint.

Kairos provides actionable data on major sources of methane emissions, supporting global industry need for more visibility on emissions in response to evolving standards.

The company’s environmental technology enables the capture of critical, reliable and archivable data that will facilitate the efficient reduction of global methane emissions across industries.

This partnership further adds to John Crane’s portfolio of solutions to monitor and mitigate greenhouse gases and is a testament to the division’s commitment to be a proactive agent of greenhouse gas emissions reduction and environmental sustainability.
The Smiths Executive Environmental Roundtable (EER) was established by our Chief Executive in FY2019 with the aim of accelerating our environmental efforts and agenda. The EER is chaired by the Smiths Global Head of HSE and reports to the Executive Committee. It has the responsibility for developing environmental strategy, target setting, reporting and risk management and reporting performance, including:

- The governance framework for environmental risk and performance
- Considering if environmental controls are operating effectively
- Oversight of programmes and any emerging critical issues of an environmental nature
- Reviewing the effectiveness of performance reporting procedures
- Reviewing external reporting on environmental matters
- Seeking the views of stakeholders on environmental practices
- Ensuring appropriate training is provided
- Reviewing policies in relation to environmental performance
- Making recommendations to the Executive Committee for action

The work of the EER is supported by our external sustainability partner which collaborates with us on environmental disclosures, benchmarking and alignment with external reporting frameworks.

The EER oversaw the completion of near- and long-term climate sensitivity risk assessments during FY2020 and is currently working on refreshing the Group’s existing environmental policy.

The new Environmental Sustainability Policy will be implemented in FY2021. The EER is also leading a study into onsite electricity generation looking into options for generating renewable power at some Smiths locations. More than 20 high usage sites have been identified for evaluation.

Our Colleagues

Many Smiths colleagues are passionate about the environment and how our business can contribute to global goals. Overseen by the EER, the launch of our refreshed Environmental Sustainability Policy and our next environmental goals will be used as an opportunity to promote further engagement through a communications programme and closer alignment with the SES Academy and other SES materials. We will also launch an environmental awareness training module in FY2021 and increase colleague focus on our FY2021 recycling target.
Alignment with external reporting frameworks
It is recognised that corporate disclosure and transparency are key catalysts for driving change.
Smiths is generally aligned with the Global Reporting Initiative (GRI) reporting principles for environmental matters, and we have in place a comprehensive portfolio of policies which include biodiversity protection, emission reductions and product compliance. Performance against these policies is overseen by audit processes, including all our ISO 14001 production sites with over 50 colleagues.
We are committed to continued alignment with the Task Force on Climate-related Financial Disclosures (TCFD) for our governance, risk management, strategic planning and execution around climate risk/GHG reduction. During FY2020 our external partner conducted a formal review of our position against all 11 recommendations of the TCFD and confirmed our alignment with all.

Aligning with the TCFD

Climate risk assessment
During FY2020 each of our divisions completed a systematic climate-related risk assessment with a five-year time horizon. This was supplemented by a risk assessment workshop held centrally to review Group climate-related risk on a 20-year time horizon. The results of these risk assessments were presented to the Board and Executive Committee.
The assessment did not identify any near-term significant climate-related risks from internal operations. However, the EER intends to further develop this area of work.

Climate risk assessment

We also submit information to external parties for benchmarking of our processes and performance against others. In FY2020 we again participated in the Carbon Disclosure Project (CDP) global environmental reporting initiative in which we received a score of A- in 2017 and B in 2018, putting us in the CDP management category indicating that we are taking co-ordinated action on climate issues. We are currently preparing our latest (2019) CDP submission for both GHG and water.
We have also received favourable ratings from other external parties for our Environment, Social and Governance (ESG) performance including FTSE4Good, ISS, MSCI and Dow Jones.

See our external ratings on page 24

<table>
<thead>
<tr>
<th>FY2020 progress</th>
<th>FY2021 priorities</th>
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<tbody>
<tr>
<td>Governance</td>
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<tr>
<td>Smiths governance around climate-related risk and opportunities.</td>
<td>Continuing work of EER</td>
</tr>
<tr>
<td>Strategy</td>
<td></td>
</tr>
<tr>
<td>The processes used by Smiths to identify, assess and manage climate-related risks.</td>
<td>Assess opportunities for onsite renewable energy generation at key locations</td>
</tr>
<tr>
<td>Risk management</td>
<td></td>
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<tr>
<td>The actual and potential impacts of climate-related risks and opportunities on Smiths businesses, strategy, and financial planning.</td>
<td>5 and 20-year climate risk assessments</td>
</tr>
<tr>
<td>Metrics and targets</td>
<td>The metrics and targets used to assess and manage relevant climate-related risks and opportunities.</td>
</tr>
</tbody>
</table>

THE MAIN ACCOMPLISHMENT IS THAT SMITHS WENT THROUGH THE PROCESS OF SYSTEMATICALLY SCREENING THE PHYSICAL AND TRANSITION RISKS OF CLIMATE CHANGE TO THEIR DIVISIONS.

FOCUSING ON RISKS ACROSS DIFFERENT CATEGORIES, TIME PERIODS AND CLIMATE PARAMETERS IS AN IMPORTANT EXERCISE SO THAT NOTHING IS OVERLOOKED.

Ramboll
Smiths external environmental partner
Production and environment continued

Environmental management

The leaders of our divisions, on behalf of the Chief Executive, have overall responsibility for environmental performance in their businesses. They are supported by divisional HSE experts and the HSE Technical Committee which include representatives from across Smiths.

We closely monitor energy and water use, waste generation, recycling and GHG emissions to identify tailored plans for improvement and collaborate on action plans and best practice.

Our production processes and the way we manage our sites aim to decrease waste and energy consumption and reduce emissions. We are also investing in low-carbon and energy efficient technologies to drive improvement in our performance. We have improved energy efficiency by over 17% and reduced GHG emissions by over 46% since FY2007. In the same period we have also reduced total water use by 44% and non-recyclable waste by 49%.

All divisions also participate in a regular forum to share best practices and ensure compliance with global restricted substance regulations including WEEE, RoHS, Prop65, TSCA and Responsible Minerals.

Our Supplier Code of Conduct sets out the environmental conditions we require of suppliers, and environmental performance (with a focus on GHG emissions) is reviewed as part of the due diligence process relating to acquisitions.

Environmental goals and performance

Smiths aims for continuous improvement in environmental performance and we have had reduction targets for environmental metrics since FY2007.

Our current FY2019 to FY2021 Group environmental improvement targets are to reduce greenhouse gas (GHG) emissions and water consumption in stressed areas by 5% over the period and increase our use of renewable electricity by 5% and our recycling rate by 5%. We also have a long-range target to use more than 75% renewable electricity by 2040.

Reduction targets are compared to the FY2018 baseline year and GHG and water are normalised to FY2018 revenue. Renewable electricity and recycling are rate-based and therefore are not normalised. Water consumption targets are focused on our 13 locations in stressed areas as defined by UNESCO, as well as certain locations in China, India and Mexico where water is constrained.

Performance against FY2019–FY2021 environmental goals

Two years into the current goal period, we have exceeded both our greenhouse gas and renewable electricity goals. We are undertaking energy efficiency projects, including lighting and/or air conditioning upgrades at multiple locations and, during the year, our Smiths Detection Wiesbaden site completed an upgrade to its boiler system.

We are close to our water target with one year remaining to make our 5% reduction goal. Our recycling target will be a key focus over the next year. There are current challenges as global geopolitical matters affect recycling rates.

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<tr>
<td>Use of renewable electricity</td>
<td>5% increase to 48%</td>
<td>12%</td>
<td>12%</td>
</tr>
<tr>
<td>Greenhouse gas emissions</td>
<td>5% reduction</td>
<td>2%</td>
<td>-6%</td>
</tr>
<tr>
<td>Recycling rate</td>
<td>5% increase to 71%</td>
<td>1%</td>
<td>-2%</td>
</tr>
<tr>
<td>Water consumption in stressed areas (13 locations)</td>
<td>5% reduction</td>
<td>6%</td>
<td>-4%</td>
</tr>
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</table>

1 Non GHG producing electric sources including hydroelectric and nuclear

DRIVING SUSTAINABILITY THROUGH PACKAGING CHOICES AT FLEX-TEK

To build sustainability in its supply chain, Flex-Tek’s Thermaflex business has proactively sought environmentally friendly options for packaging.

This has resulted in the use of packaging from supplier Pratt Industries made from 100% recycled paper.

As a result of the partnership Thermaflex was awarded a 2019 Environmental Impact Award by Pratt Industries and made the following environmental savings in 2019:

- 3,983,600 gallons of water
- 16,930 trees
- 293.79 tons of CO2 prevented
- 2,987,700 kWh of power
- 2,490 yd³ diverted from landfill
Energy use and GHG emissions

Energy use and greenhouse gas emissions are up in FY2020 due to the inclusion of the acquired facilities of United Flexible. Normalised GHG emissions are down 6% from FY2018.

Smiths includes its Streamlined Energy and Carbon Reporting (SECR) below for FY2020 including our emissions and global energy use (multiple years) and intensity metric. For the SECR the GHG Protocol Corporate Standard has been used.

In FY2020, the UK was responsible for 22% (59,043,990 KWh) of Group energy usage, 6.1% (1,010 tonnes) of Scope 1 emissions and 0.7% (355 tonnes) of Scope 2 emissions.

Our GHG emissions calculations and reporting follows the Greenhouse Gas protocol (operational approach) and covers emissions from all sources under our control, grouped under: Scope 1 – direct GHG emissions from owned assets; and Scope 2 – GHG emissions from supplied electricity. Our Scope 1 emissions are primarily driven by fossil fuel powered facility heating systems where there are very few reliable and available green alternatives.

<table>
<thead>
<tr>
<th>FY2020</th>
<th>FY2019</th>
<th>FY2018</th>
<th>FY2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global energy use KWh</td>
<td>262,843,580</td>
<td>247,258,350</td>
<td>255,467,620</td>
</tr>
<tr>
<td>Emissions</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Absolute values</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Scope 1 (direct emissions)</td>
<td>t CO₂e</td>
<td>16,640</td>
<td>14,929</td>
</tr>
<tr>
<td>Scope 2 (indirect emissions)</td>
<td>t CO₂e</td>
<td>52,647</td>
<td>47,312</td>
</tr>
<tr>
<td>Total</td>
<td>t CO₂e</td>
<td>69,287</td>
<td>62,241</td>
</tr>
<tr>
<td>Normalised values</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Scope 1 (direct emissions)</td>
<td>t CO₂e/£m revenue</td>
<td>4.71</td>
<td>4.57</td>
</tr>
<tr>
<td>Scope 2 (indirect emissions)</td>
<td>t CO₂e/£m revenue</td>
<td>14.92</td>
<td>14.47</td>
</tr>
<tr>
<td>Total</td>
<td>t CO₂e/£m revenue</td>
<td>19.63</td>
<td>19.04</td>
</tr>
</tbody>
</table>

Previous year emissions data has been restated in accordance with up-to-date emissions factors.

FY2022–FY2024 goals

The EER has begun discussing short and long-term goals for the next goal period from FY2022 and alignment between them. This has included benchmarking our targets against comparable businesses.

It is probable that the next goal period will include some focus on suppliers, and packaging and product stewardship, as well as continued focus on emissions.
Our supply chain

We build mutually beneficial relationships and resilience, quality and efficiency across our supply chain.

Developing mutually beneficial relationships with our suppliers and building resilience, quality and efficiency across our supply chain is a fundamental contributor to our customer offer and the long-term competitiveness and sustainability of Smiths.

Response to COVID-19

Working closely with our suppliers and managing in detail all aspects of our supply chain has been a vital part of maintaining continuity of supply to our customers and enabling Smiths to operate successfully during the COVID-19 pandemic.

Our Smiths Group Crisis Core team initiated a specific supply chain workstream called the Operations and Supply Nerve Centre (OSNC) to oversee and manage in real-time our network as our territories became affected.

On the supply side this included:
- Visibility of supply status
- Managing global freight capacity
- Optimising air vs sea freight logistics
- Support for suppliers needing assistance to open as essential businesses
- Switching suppliers where necessary to ensure continuity of supply for key operations
- Reactivating sources where supply was likely to be interrupted
- Coordinating the supply of hygiene products across Smiths

As a result of our actions we have seen very limited disruption to our operations arising from issues in our supply chain during the pandemic.

Procurement and supply chain management

Our Smiths Excellence System (SES) supply pillar supports innovation and continuous improvement in both our procurement and supply chain activities. Both disciplines are developed centrally with strategy and best practice ways of working aligned across the divisions to leverage Smiths size, build capability, and efficiently manage the resources we need, as well as the cost to Smiths.

Our sales and operational planning (S&OP) processes enable us to plan the material, services and capacity we need to meet customer demand forecasts. Our procurement function manages sourcing and contracting to maintain supply of these material requirements to stringent quality, flow and cost criteria.

We aim to source right first time by identifying the best supply solution for each operation in terms of technical capability, process, cost and risk, and ensuring that our ethical requirements are met. We also want to work with suppliers that can support us flexibly and help us generate ongoing improvement in productivity.

We are reducing our total number of suppliers over time as we look to deepen relationships, pursue more efficient solutions and align procurement activities globally.

Inventory levels have seen an overall increase as a result of the COVID-19 pandemic. Targeted activity to reduce inventory is ongoing, supported by the OSNC and well established inventory optimisation processes.

Supplier relationships

We aim to build supplier relationships based on mutual confidence and respect, balanced and appropriate risk apportionment, and a return for all partners.

All Smiths suppliers are approved prior to any business award. Key suppliers are allocated a strategic status (strategic, preferred, competitive, transactional) to specify supplier management activities and this status is reviewed periodically. We meet suppliers to review performance, discuss new business opportunities, set goals and work on improvement areas.
For our higher value and/or more complex products we engage with our suppliers at the highest level to partner on R&D, new product introduction, quality and continuous improvement projects, and we aim to be the customer of choice for supplier innovations.

An example CI process is Smiths Detection Hemel Hempstead’s collaborative work with key vendors supplying components for the IONSCAN 600 portable trace detector for narcotics and explosives. Utilising Value Analysis and Value Engineering (VA/VE) principles - including design simplification and design for service - incoming supply chains have been shortened, total cost of components has been lowered, and COPQ has been reduced.

Supplier contract models and payment terms vary depending on the size and type of relationship. Our Smiths terms and conditions describe our general approach to working with suppliers. We are currently exploring options for a supplier finance initiative which will bring benefit to our suppliers at the same time as reducing working capital.

Our planned FY2020 supplier conference did not take place due to the COVID-19 pandemic.

Logistics

Logistics has been a key area of focus in recent years as we look to optimise our inbound, internal and outbound network model. Moving goods efficiently and responsively is as critical to Smiths and to our customers as managing the inbound supply of materials. We are currently working on logistics optimisation projects to consolidate flows/providers where practical to enhance responsiveness and maximise use of capacity, with the added benefit of the positive environmental impact of fewer vehicle movements.

During FY2020 we initiated a process to put in place a logistics agreement with one third party logistics provider to manage inland logistics flows and forward orders across all divisions in the US.

Managing risk

Our integrated supply chain is identified as a principal risk and is managed accordingly through the Smiths risk management process. We have accelerated the deployment of a supplier risk management system following the COVID-19 pandemic. This will assess suppliers on the basis of criticality of contribution and likelihood of interruption/collapse and is an extension of the work already undertaken for sole source suppliers.

The requirement to comply with our Supplier Code of Conduct (see right) aims to limit the risk of damage to our reputation or customer service from an ethical breach on the part of a supplier.

Continuous improvement

We aim for continuous improvement in our procurement and supply chain practices by building the capabilities of our people, advancing our data and our systems, and working with our suppliers to improve quality and performance.

We offer APICS and CIPS accredited procurement and supply chain professional development programmes, as well as discipline-specific learning through the SES Academy and SES materials in our supply knowledge portal.

We have continued with the development of our S&OP process and its deployment to our divisions to improve visibility on the upstream supply chain.

We have standardised KPIs across the organisation and our relaunched SESAME diagnostic tool is assisting us to generate CI plans to improve our key KPIs. We have also developed a new 9 Box tool which provides a structured method to deploy inventory optimisation techniques at site and divisional levels. A 9 Box diagnostic and heatmap tool is under development.

For supplier delivery and quality performance we are currently focused on lead time and involving our suppliers further in the management of upstream inventory.

In FY2020 we broke our annual record for procurement savings during the year. This has been driven by consolidating our supply base and working with suppliers to improve processes, often sharing the benefits of reduced costs.

Ethics and compliance

Responsible procurement and supply chain transparency is part of the Smiths ethical framework. Our Supplier Code of Conduct makes clear our expectations of suppliers and sub-suppliers when it comes to ethical behaviour and compliance with the law, treatment of personnel, and materials from socially and environmentally responsible sources.

For the last three years we have been auditing tier 1 suppliers across the world for modern slavery.

APAC LOGISTICS SUPPLIER CONSOLIDATION

Danli Shen’s lean six sigma black belt project in our Asia-Pacific (APAC) region is a testament to how change leaders are transforming our operations.

Danli, in partnership with our APAC China Council, led a data-driven initiative that consolidated multiple freight suppliers covering various divisional operations in the region into an aligned and complementary group of supply entities.

This business process innovation resulted in substantial cost savings, contractual leverage, and synergies across our APAC business.

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Our communities

We aim to contribute positively to local communities in every area that we operate.

This involves playing a beneficial role in local economies through job creation and procurement, operating safely, environmentally responsibly and ethically, and engaging directly through fundraising, charitable giving and education initiatives.

Healthy and prosperous communities and strong relationships are aligned with our Smiths values, are positive for business, and inspire and promote a sense of pride and ownership in our people.

Direct economic contribution

Smiths direct economic contribution to communities around the world through taxes paid, employee costs and supplier costs was £2.8 billion in FY2020 (FY2019: £2.6 billion).

£2.8bn

**EMPLOYEE COSTS**

£1,112m

**SUPPLIER COSTS**

£1,544m

**TAX PAID**

£186m

Getting involved in our communities

Community engagement is managed locally, with each division focussing on markets and communities that are important to them. We celebrate the best of these initiatives through the Smiths Excellence Awards and communicate inspiring ideas and stories in the Smiths Signal e-newsletter and on our Smiths Now colleague smartphone app.

Recognising the efforts of colleagues and sharing new ideas is an important part of being a member of the Smiths family.

During the COVID-19 pandemic many of our efforts have been directed towards supporting local communities through the disease, including contributing aid and equipment to local services. The pandemic led to the postponement of the planned adoption of the Beyond Boundaries globally aligned community outreach programme across Smiths, which we now hope to run next year.

Promoting engineering as a career

Smiths is committed to encouraging the engineers of tomorrow and to promoting engineering as an exciting and fulfilling career that is open to all. We have a number of specialist programmes, including our graduate engineering programme, to attract young people and women to the sector and position Smiths as an employer of choice. We support members of our team that wish to engage with external programmes and organisations with similar aims. We also highlight and contribute to events such as International Women in Engineering Day.

TENNESSEE TORNADO RESPONSE

On 3 March 2020, a powerful tornado moved across Cookeville, Tennessee, home to Flex-Tek’s TUTCO facility.

The tornado destroyed hundreds of homes and took the lives of 18 people, including five children, in the Putnam County community.

This was the strongest tornado recorded in the US over the past three years. Several TUTC0 employees and their families were personally affected, with their homes completely destroyed or damaged.

The TUTC0 team rallied together to support affected team members as well as the wider community. Their first task was to locate and ensure all team members were safe and accounted for.

Those affected were contacted to assess their individual needs such as food, shelter or clothing. The team prepared meals and collected donations for the families, whilst others searched the area for personal items, cut trees and moved debris.

Temporary accommodation and storage were arranged for colleagues in need.

A fundraising account was also established, with all proceeds going to colleagues affected by the tornado.

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To mark this year’s International Women in Engineering Day and celebrate the achievements of leading women in the field, we asked our four female Non-executive Directors to share their views on what it means to be a woman in engineering.

Board members Karin Hoeing, Tanya Fratto, Pam Cheng and Dame Ann Dowling recorded a video message, which was shared with colleagues worldwide, and externally, in which they reflected on their own careers and the reasons why more women should pursue engineering.

Engineering is at the very core of what we do at Smiths and we hope videos like this will help inspire the next generation of women engineers who can help #ShapeTheWorld.

I’m very proud to be making a difference in an industry that saves lives and improves human health while being able to raise a family. My message to all young girls and teenagers out there – you’ve got this, you can do it, so please go for it!

Pam Cheng,
Smiths Non-executive Director.

Dr Selina Kolokytha, Physicist Engineer, Smiths Detection – winner of our International Women in Engineering Day #ShapeTheWorld competition.
Our communities continued

Human rights and tackling modern slavery

Guided by the Smiths Code of Business Ethics, we are committed to upholding high ethical standards wherever we operate around the world and we require our suppliers and other business partners to do the same.

We consider violations of human rights to be appalling crimes. Conduct that exploits workers or denies them the rights and benefits to which they are legally entitled is wholly inconsistent with our values.

We are committed to upholding all internationally recognised human rights standards, such as the United Nations Guiding Principles on Business and Human Rights, and ensuring our operations and supply chains are free of human trafficking and slavery.

This applies whether we are acting through our colleagues or third parties and we require any individual or entity acting on behalf of Smiths to know, understand and abide by the laws and regulations applicable to their conduct. This includes colleagues, suppliers, recruitment agencies, trade agents, distributors, and any other third-party representatives.

We will take immediate proactive action should we need to.

During FY2020 we continued to focus on auditing and due diligence for Tier 1 suppliers through a self-assessed standardised questionnaire with some work being delayed by the COVID-19 pandemic.

The Smiths Modern Slavery and Human Trafficking Statement FY2020 and our Human Rights Policy can be found on the Smiths website.

SUPPORTING OUR COMMUNITIES DURING THE COVID-19 PANDEMIC

During the COVID-19 pandemic our aim has been to do what we can to serve and provide support that has a direct impact on our communities.

A selection of activities is described here:

Smiths Group India made a collective grant of more than £100,000 to Give India for two charities – Goonj and Oxfam – to provide essential welfare kits to families of 5-6 people for a month, including dry rations and hygiene supplies, and supply hand-wash stations and safety kits at hospitals and health centres.

This donation had a direct impact on the regions of India most impacted by the virus, where our business operates, including Delhi, Maharashtra, Karnataka and Kerala.

A donation page was also set up to allow Smiths colleagues to contribute to the fund.

In China, Smiths Medical donated approximately £700,000 of medical equipment and supplies to more than 29 hospitals in the Hubei Province, including 610 syringe pumps, 24,000 needles and 24,000 Arterial Blood Sampling syringes and 80,300 PIVC (PerIPHERAL INTRAVENOUS CANNULA) products. The first donation – to Tongji hospital, part of the Huazhong University of Science and Technology – included 400 syringe pumps.

Smiths Medical also donated paraPAC plus™ ventilators, ventilator kits, PIVC products and masks to hospitals in Mexico, in the regions where it operates.

In the UK, John Crane colleagues undertook 3D printing of face visor components and parts for CPAP devices for local assemblers supplying the NHS. John Crane also provided operational assistance to a company making soap and other hygiene products, to switch their usual production to hand sanitisers to meet growing demand from the NHS.

In the UK, Smiths also played a central role in the VentilatorChallengeUK consortium which called on teams from across the Group and other manufacturers and suppliers to help with the production of Smiths Medical paraPAC plus™ ventilators to support the UK Government and the NHS to help save lives during the pandemic and beyond.
Regulators and governments

We operate in highly regulated markets and sectors requiring strict adherence to local and international laws and regulations, and strong ethical practices.

We have in place expert teams to manage these matters and we operate robust due diligence and compliance processes to reduce the likelihood of an ethical, legal or regulatory breach impacting our business.

In the normal course of business, we build relationships with governments, policymakers and regulators across the world. We do this at both Group and at divisional level so that we are able to operate effectively, our interests and those of the industries in which we operate are represented in decision making, and in order to contribute our expertise when appropriate. In some cases, governments are our customer and we engage with them as we would any other customer.

Read more our Code of Business Ethics on page 26

Product certification and ongoing regulatory compliance

Many of our products require certification/approval prior to launch and ongoing monitoring to ensure continued compliance with regulations. Certifications are handled by our divisional teams who have direct relationships with the relevant regulatory bodies and, with our legal teams, track new legislation and standards to ensure that we comply.

Trade compliance

We operate a global trade compliance policy that covers export controls, import law, financial and trade sanctions, and anti-boycott law compliance. The policy sets out a specific prior-review process for authorised transactions that involve certain sanctioned countries, which provides corporate oversight of such transactions.

We have a network of trade compliance officers (TCOs) across Smiths who are responsible for overseeing and ensuring the compliance of Smiths activities with applicable trade regulations, laws, and Smiths policy. The TCOs also monitor upcoming changes in regulation.

We provide in-person and online training to our TCOs and other relevant colleagues, and our TCOs meet or otherwise communicate regularly with each other to share best practices and discuss emerging issues. We also regularly assess trade activities at site level to identify risks and review controls.

Anti-bribery and anti-corruption

Bribery and corruption matters are covered by our Code of Business Ethics and we also have specific policies/procedures relating to a number of activities that create bribery and corruption risks. These are included in a new umbrella anti-bribery and corruption policy that has recently been implemented to provide a single view of our approach to bribery and corruption. These policies cover, among many other things, the giving and receiving of gifts, meals and hospitality, invitations to government officials, our approach to facilitation payments, and matters in relation to the appointment of distributors and agents. We have a gift register to monitor compliance. During FY2020 our teams in China developed a country specific anti-bribery and anti-corruption policy to align with local cultural expectations, particularly around gifts.

Anti-trust

We are committed to competing fairly in the markets we operate and have an Anti-trust Policy and training modules for colleagues whose roles may expose them to competition law risk. Our divisions also use a Trade and Industry Event Register to ensure that colleagues attending events with competitors are made fully aware of what they may and may not discuss. During FY2020 we worked with our external advisers to develop bespoke anti-trust training which will be rolled out during FY2021.

GDPR and privacy

Our approach to complying with GDPR and privacy regulations has been to establish a common set of principles, policies and processes to ensure that our teams are aware of their responsibilities relating to them. This will continue as new regulations emerge. We have a network of Data Privacy Champions whose role is to cascade into their respective division any new process requirements. Training around GDPR and privacy is provided through our online training platform as well as face to face (for specific functions).

Building relationships

Our Group Corporate Affairs team leads our outreach and relationship programme with the aim of promoting a deeper understanding of the Smiths business and culture; our capabilities and critical products; and developing long-term relationships with decision-making groups to support our business objectives and facilitate specific opportunities.

The team comprises corporate affairs specialists based in the UK, US, Europe and Asia who guide and support our relationships with key regulators, local policymakers, budget holders and industry groups. As a FTSE 100 Company we have a strong relationship with the UK Government’s Department for International Trade which promotes the interests of UK businesses around the world.

These relationships and the profile of the Group have played an important role in supporting the business during the COVID-19 pandemic, for example by helping our sites to gain essential status and stay open. They also helped Smiths Medical to secure its biggest ever order for needles and syringes to aid vaccination plans in the US.
John Crane

Mission-critical solutions for global energy and process industries

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 industrials
- 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
- Expansion in higher-growth markets
- Need for operational improvements in industrial process industries
- Disruptive innovations, including materials science advancements and digital transformation
- Unique footprint which allows John Crane to support and service customers as well as meet local content requirements and align with customer strategies

**Competitors**
Competitors range from large multinationals to small, more focused companies across the product portfolio. Examples include Flowserve, EagleBurgmann, AES, Danaher, Hydac, Rexnord.

**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**

**Revenue**
+2%*  
£955m

**Revenue by Sector**

<table>
<thead>
<tr>
<th>Sector</th>
<th>Original Equipment</th>
<th>Energy</th>
<th>Industrials</th>
</tr>
</thead>
<tbody>
<tr>
<td>Original</td>
<td>33%</td>
<td>63%</td>
<td>37%</td>
</tr>
<tr>
<td>Aftermarket</td>
<td>67%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Headline Operating Profit**
(6)%*  
£187m

**Headline Operating Margin**
(180)bps  
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.

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

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.
<table>
<thead>
<tr>
<th></th>
<th>FY2020 £m</th>
<th>FY2019 £m</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>+6%</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>1%</td>
</tr>
<tr>
<td>Return on capital employed</td>
<td>19.0%</td>
<td>23.4%</td>
<td>(440)bps</td>
<td>–</td>
<td>1%</td>
</tr>
<tr>
<td>R&amp;D cash costs % sales</td>
<td>1.9%</td>
<td>1.7%</td>
<td>+20bps</td>
<td>–</td>
<td></td>
</tr>
</tbody>
</table>

**Revenue**

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

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 £14m 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 cyclicalty of its end markets and improve its efficiency.

**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.

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.

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

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 terror 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.

FY2020 PERFORMANCE

<table>
<thead>
<tr>
<th>Revenue</th>
<th>Revenue by Sector</th>
<th>Revenue Mix</th>
</tr>
</thead>
<tbody>
<tr>
<td>£806m</td>
<td>Aviation 72%</td>
<td>55%</td>
</tr>
<tr>
<td></td>
<td>Other Security Systems 28%</td>
<td>45%</td>
</tr>
</tbody>
</table>

HEADLINE OPERATING PROFIT

<table>
<thead>
<tr>
<th>Revenue</th>
<th>Margin*</th>
</tr>
</thead>
<tbody>
<tr>
<td>£82m</td>
<td>13.9%</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.
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 and connectivity</td>
<td>Data-integration and cognitive-analytics platform, delivering shared threat and anomaly detection capabilities.</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 (‘CBRNE’) 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.

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.
FY2020 Financial performance

<table>
<thead>
<tr>
<th>FY2020 (£m)</th>
<th>FY2019 (£m)</th>
<th>Reported growth</th>
<th>Underlying growth</th>
<th>H1</th>
<th>H2</th>
<th>FY2020 growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>806</td>
<td>798</td>
<td>+1%</td>
<td>+4%</td>
<td>(3)%</td>
<td>–</td>
</tr>
<tr>
<td>Aviation</td>
<td>577</td>
<td>522</td>
<td>+5%</td>
<td>+8%</td>
<td>+6%</td>
<td>–</td>
</tr>
<tr>
<td>Other Security Systems</td>
<td>229</td>
<td>276</td>
<td>+3%</td>
<td>(26)%</td>
<td>(13)%</td>
<td>–</td>
</tr>
<tr>
<td>Headline operating profit</td>
<td>82</td>
<td>127 (36)%</td>
<td>+4%</td>
<td>(24)%</td>
<td>(12)%</td>
<td>–</td>
</tr>
<tr>
<td>Statutory operating profit</td>
<td>57</td>
<td>91 (37)%</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Return on capital employed</td>
<td>7.2%</td>
<td>11.5% (430)bps</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>R&amp;D cash costs % sales</td>
<td>9.2%</td>
<td>8.4% (+80bps)</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
</tbody>
</table>

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.

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>Underlying</th>
<th>FY2020 reported</th>
</tr>
</thead>
<tbody>
<tr>
<td>Headline operating profit</td>
<td>127</td>
<td>1</td>
<td>–</td>
<td>(30)</td>
<td>(15)</td>
<td>82</td>
</tr>
<tr>
<td>Headline operating margin</td>
<td>16.0%</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>10.2%</td>
</tr>
</tbody>
</table>

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.

Portfolio

In August 2020, Smiths Detection completed the bolt-on acquisition of PathSensors Inc, which enhances its biological capability to detect pathogens for broad end market applications.

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

HEADLINE OPERATING MARGIN*
(160)bps
17.6%

REVENUE MIX
ORIGINAL EQUIPMENT
49%
AFTERMARKET
51%

REVNSUE BY SECTOR
AEROSPACE
28%
INDUSTRIALS
72%

* 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</td>
</tr>
<tr>
<td></td>
<td>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%</td>
<td>(13)%</td>
<td>(6)%</td>
</tr>
<tr>
<td>Industrials</td>
<td>345</td>
<td>315</td>
<td>+2%</td>
<td>(5)%</td>
<td>(2)%</td>
<td></td>
</tr>
<tr>
<td>Aerospace</td>
<td>133</td>
<td>121</td>
<td>+5%</td>
<td>(31)%</td>
<td>(18)%</td>
<td></td>
</tr>
<tr>
<td>Headline operating profit</td>
<td>83</td>
<td>84</td>
<td>(1)%</td>
<td>+9%</td>
<td>(29)%</td>
<td>(14)%</td>
</tr>
<tr>
<td>Statutory operating profit</td>
<td>52</td>
<td>68</td>
<td>(24)%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Return on capital employed</td>
<td>17.5%</td>
<td>23.3%</td>
<td>(580)bps</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>R&amp;D cash costs % sales</td>
<td>0.5%</td>
<td>0.6%</td>
<td>(10)bps</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### 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>436</td>
<td>8</td>
<td>61</td>
<td>(27)</td>
<td>478</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>(£m)</th>
<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>84</td>
<td>2</td>
<td>9</td>
<td>(12)</td>
<td>83</td>
<td></td>
</tr>
<tr>
<td>Headline operating margin</td>
<td>19.2%</td>
<td></td>
<td></td>
<td></td>
<td>17.3%</td>
<td></td>
</tr>
</tbody>
</table>

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 (19)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>(5)%*</th>
<th>£309m</th>
</tr>
</thead>
<tbody>
<tr>
<td>REVENUE MIX</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ORIGINAL EQUIPMENT</td>
<td>98%</td>
<td></td>
</tr>
<tr>
<td>AFTERMARKET</td>
<td>2%</td>
<td></td>
</tr>
</tbody>
</table>

| HEADLINE OPERATING PROFIT | (35)%* | £26m |
| HEADLINE OPERATING MARGIN*| (460)bps| 10.1% |

* 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 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).

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.

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.
**FY2020 Financial performance**

<table>
<thead>
<tr>
<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><strong>Revenue</strong></td>
<td>309</td>
<td>319</td>
<td>(3)%</td>
<td>(7)%</td>
<td>(3)%</td>
</tr>
<tr>
<td><strong>Headline operating profit</strong></td>
<td>26</td>
<td>47</td>
<td>(45)%</td>
<td>(50)%</td>
<td>(25)%</td>
</tr>
<tr>
<td><strong>Statutory operating profit</strong></td>
<td>23</td>
<td>45</td>
<td>(49)%</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Return on capital employed</strong></td>
<td>6.4%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>R&amp;D cash costs % sales</strong></td>
<td>7.7%</td>
<td></td>
<td></td>
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</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)% 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**

<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><strong>Headline operating profit</strong></td>
<td>47</td>
<td>1</td>
<td>-</td>
<td>(15)</td>
<td>26</td>
</tr>
<tr>
<td><strong>Headline operating margin</strong></td>
<td>14.7%</td>
<td></td>
<td></td>
<td>10.1%</td>
<td>8.4%</td>
</tr>
</tbody>
</table>

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.

**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.

The commercial aerospace and general industrial market segments were particularly badly impacted by the COVID-19 pandemic. Sales in the defence and space market segments also declined due to programme delays. Partly offsetting these declines was cyclical growth in semiconductor test as customers increased production of graphics cards for games consoles, and one-off orders for ventilator components in the medical segment.

During the year, Smiths Interconnect received significant orders for its space applications including for NASA projects and commercial satellite constellations.
Discontinued operations

Smiths Medical

Quality medical devices and consumables that are vital to patient care

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%
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 c.£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 £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>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>

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

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

Revenue

<table>
<thead>
<tr>
<th>(£m)</th>
<th>FY2019 reported</th>
<th>Foreign exchange</th>
<th>Acquisitions &amp; disposals*</th>
<th>Underlying</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>874</td>
<td>12</td>
<td>(3)</td>
<td>35</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 £3m 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>15.5%</td>
<td>20.1%</td>
<td></td>
<td></td>
<td></td>
<td></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.

* Includes disposals and FY2020 performance from acquisitions that do not have comparators for the prior year
A proactive approach to risk

We operate across a number of markets and geographies. We are prepared to accept certain levels of risk to realise our ambitions, and our purpose to make a safer, more efficient and better connected world.

We understand the risks we face and take a proactive approach to risk management in order to maximise opportunities, drive better commercial decision-making, and protect our people and our businesses.

Risk governance

The Board and its Committees set the culture and approve the strategy of the Group. The Board ensures appropriate oversight and monitoring through a number of mechanisms, including strategy reviews, Committee meetings, management reports and focused reviews of selected risk areas.

On behalf of the Board, the Audit & Risk Committee is responsible for reviewing and assessing the effectiveness of the Group’s risk management and internal control systems. The review process covers the Group’s principal risks, as well as financial, operational and compliance controls.

The Executive Committee is responsible for designing the Enterprise Risk Management (ERM) framework and ensuring that it is effectively deployed throughout the Group. The Executive Committee also ensures that the Board’s risk appetite is understood by risk owners and decision-makers, and conducts an annual assessment of strategic risk. Principal risks are owned by members of the Executive Committee.
Running a business involves continual assessment and management of risks – it is an integral part of day-to-day operations. Our ERM process supports open communication on risk between the Board and Audit & Risk Committee, the Executive Committee, our divisions, functions and sites. It enables us to manage and monitor the risks which threaten successful execution of our Group strategy and ensures our strategic, financial, compliance and operational risks are appropriately considered by the Executive Committee and by the Board.

Within the ERM framework, we operate a ‘four lines of defence approach’. This ensures that the four lines – risk ownership and mitigation, monitoring and compliance, independent assurance, and oversight – are clearly defined and work effectively.

Our divisional and functional teams are responsible for day-to-day management and reporting of risks. They identify new and emerging risks, escalate where appropriate, and take action to ensure risks are managed as required. Our divisions also conduct annual assessments of the strategic, financial, compliance and operational risks they face. In FY2020 these were updated to ensure that the latest views of COVID-19 risks were presented and considered.

Internal audit provides independent and objective assurance to both the Audit & Risk and Executive Committees on the adequacy and effectiveness of our risk management and internal control processes. It facilitates the ERM process and provides site-based controls and assurance reviews of key programmes, processes and systems.

The Audit & Risk Committee, on behalf of the Board, reviews the effectiveness of the risk management process: considering emerging risks; the principal risks and uncertainties; actions taken by management to manage those risks; and the Board’s risk appetite in respect of each risk.

During FY2020 the Executive Committee agreed the ERM timetable and the risks selected for ‘deep-dive’ discussions at Executive and Audit & Risk Committee meetings. These were: product quality; cyber security; customers; and integrated supply chain. The Group’s list of principal risks was also discussed and recalibrated by the Executive Committee.

The requirement for risk owners to demonstrate how they get assurance that controls are working effectively was maintained following its introduction last year. Examples are provided in the following tables of principal risks.

In addition, a further 42 risk workshops were facilitated at operational sites during the year to support the bottom-up view of risk that has fed into divisional and functional risk assessments.

The Directors consider the risk management process to be effective. The Audit & Risk Committee recognises that this is an ongoing process and work will continue in FY2021.

Emerging risks
Emerging risks and horizon scanning are integrated into the ERM process. Functions in the business often take the lead in identifying and promoting risk awareness and mitigation activities.

An example is climate change and the potential impact this may have on the business strategy. This is championed by the HSE function and now forms part of risk reporting and risk management in the business. See page 43 for more details.

The UK is expected to withdraw from the European Union (EU) at the end of 2020. The Group continues to monitor the ongoing negotiations between the UK and the EU. Preparations have been made and mitigation measures have been put in place to meet potential scenarios. However, due to the nature and structure of the Group’s business model, operations, supply chain and the location of our customers, Brexit on a ‘hard’ or ‘soft’ basis is not anticipated to have a material impact on the Group’s operations or its financial performance. As such Brexit is not in itself deemed to represent a principal risk and the impact of Brexit has not been included in the scenarios developed to assess the Group’s going concern or viability (see pages 77-78).

COVID-19 IMPACT

The COVID-19 pandemic is having, and will continue to have, an impact across the business. This is inherently reflected in each risk and mitigating actions.

Separately, its emergence resulted in process changes, with the Audit & Risk Committee’s Customer risk ‘deep dive’ being incorporated into the Board’s strategic business reviews, and the divisional Product Quality ‘deep-dives’ being limited to a focus on John Crane.

The Audit & Risk Committee will consider Product Quality deep-dives for the other divisions during FY2021.

Time was spent at all Executive Committee, Audit & Risk Committee and Board meetings from January 2020 onward considering the impact of COVID-19 on our business and our people. In addition, the Executive Committee met on a weekly basis to review reports from: the business, and the Smiths Group Crisis Core team and its sub-groups established to direct and oversee the Group’s response to the impact of COVID-19. Regular updates were provided to the Board.

As part of the ERM process it was agreed that disease pandemic would move from being an element of the integrated supply chain risk where it had formerly been included, to being a stand-alone COVID-19 principal risk, giving an overview of the direct uncertainties, potential impacts on the Group, and our responses. This continues to be closely monitored.
Principal risks and uncertainties

We maintain a register of principal risks and uncertainties covering the strategic, financial, operational and compliance risks faced by the Group.

We review each risk and rate a number of factors: gross impact, applying the hypothetical assumption there are no mitigating controls in place; residual impact and likelihood, taking into account existing mitigating controls; target impact; the reputational impact of a risk; and its velocity, which reflects the expected time we would have to react should a risk materialise. These, in turn, drive mitigation priorities. A trend metric shows the net position of the risk year-on-year.

In FY2020 we formalised consideration of the relationship between risks to help understand the potential for one risk to have an impact on another. This is presented against each risk in the form of ‘risk relationship’ charts indicating the strength of linkage between each principal risk and others on the list. This has been used as an input to the viability statement assessment and will be used more widely in future risk scenario planning and mitigation work.

We updated our register of principal risks and uncertainties following review by the Executive Committee and approval by the Board. As stated earlier, COVID-19 was added as a new principal risk, disease pandemic having previously been reported as part of the integrated supply chain risk. Additionally, in the light of the impact of COVID-19, liquidity has been promoted to the list in recognition of the large gross impact this might have. Mitigating actions result in this risk being considered low likelihood. Due to the long-term nature of climate change this is not considered a principal risk. However, the Board recognises the importance of considering climate change in its decision-making, notably on longer-term strategic topics. See page 43 for more details.

While we continue to monitor and manage a wider range of risks, the risk map above and the tables that follow summarise those risks considered to have the greatest potential impact if they were to materialise.
COVID-19 is impacting our colleagues, customers, suppliers and operations to varying degrees across different territories and different parts of our business. This includes, but is not limited to: risks to the wellbeing of our people, their families and communities; our customers, who have in many cases revised their demand forecasts; our suppliers, whose businesses have had challenges maintaining continuity of supply; and our own operations which have had to deal with all the combined challenges of the pandemic.

How this could impact our strategy or business model
- Exceptional external circumstances arising, including significant adverse consequences arising from the evolving pandemic and associated economic dislocation may impact the separation of Smith Medical

Examples of how we manage this risk
- Smiths Group Crisis Core team was mobilised during the first six months of the crisis overseeing various workstream sub-groups and reporting to the Executive Committee
- Workstreams comprise: Divisions, HSE, HR, Communications, Operations and Supply Chain (OSNC), Legal, Finance, Systems/Infrastructure and Government Relations
- Divisional Crisis Teams and Site Emergency Response Teams operationalised
- Smiths support network including partnerships with third parties providing pandemic related advice and support e.g. engaged an expert medic

Examples of how we know the controls are working effectively
- OSNC continues to provide real-time updates on status of operations, supply chain and logistics through dashboards
- Fast track issue spotting, escalation and resolution through Group and cross-divisional resources
- Over 90% of manufacturing facilities operational throughout early stages of crisis (January through to June)
- Group HSE monitoring employee health across sites and within countries/regions. Proactive case management of employee health in relation to COVID-19 regularly reported and acted upon

2. TECHNOLOGY

Differentiated new products and services are critical to our success. We may be unable to maintain technological differentiation or to meet customers’ needs and may face disruptive innovation by a competitor.

How this could impact our strategy or business model
- Material adverse effect on margin and profitable growth
- Erosion of our reputation as a leader in our markets and of our ability to attract and retain talent

Examples of how we manage this risk
- Proactive repositioning of the portfolio around the most attractive markets where we can sustainably hold a top three position based on technology leadership

Examples of how we know the controls are working effectively
- Vitality data is reviewed by the Smiths Innovation Strategy Board (SISB) and is part of the SES dashboard
- Adherence to NPI process is audited and embedded in systems with monthly ‘pipeline’ overview provided by divisions
- Technology roadmap is part of the Group strategic cycle
- Digital Advisory Committee as a governance mechanism to ensure the Digital Forge is working on the most value-creating projects for the Group

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- Digital Advisory Committee as a governance mechanism to ensure the Digital Forge is working on the most value-creating projects for the Group
COVID-19 has triggered a highly significant global economic downturn. In many sectors, demand has reduced. There is a likelihood that the impact on demand will be prolonged, especially in commercial aerospace. The collapse in both the oil price and oil consumption may trigger a downturn in demand (particularly OE) for John Crane. A global recession may also lead to an increase in bankruptcies of both customers and suppliers. Conversely, the crisis is opening up new opportunities, most obviously in Smiths Medical and Smiths Detection; and inorganic opportunities are likely to arise more frequently and at better values. Geopolitical tensions continue to rise, most notably between China and the US, but also affecting other Governments, which pose threats to the free movement of goods, capital and people.

How this could impact our strategy or business model
- Significant and prolonged reduction in global demand for our products
- Geopolitical tensions, most notably relating to China, the US, India, the Middle East, South Korea and North Korea, adversely impact trade
- Adverse impact on business performance due to the imposition of tariffs
- The consequences of Brexit are uncertain. Potential effects, applicable to many businesses, include economic and operational uncertainty, volatility of currency exchange, regulatory changes and the imposition of tariffs on trade between the UK and the Eurozone
- Governments continue to look for ways to improve tax revenues to ease fiscal budget pressures

Examples of how we manage this risk
- Identification and application of learnings from past downturns through the cycle
- Diversified portfolio of businesses which mitigates exposure to any one country or sector
- Geographic spread which mitigates the impact of trade barriers between regions
- Divisions monitor order flows and other leading indicators so that they may respond quickly to deteriorating trading conditions and tariffs/barriers to free trade
- Representation of our interests by the Corporate Affairs team
- Network of trade compliance officers across the Group who monitor upcoming changes in regulation and oversee import and export activities
- Monitoring of the ongoing negotiations between the UK and the EU in order to assess the potential impact of Brexit
- Sustainable tax strategy to optimise the Group’s position

Examples of how we know the controls are working effectively
- Impact of US tariffs to date has been absorbed
- Order tracking reported and monitored
- Business indicators reported weekly
- Brexit coordination group working effectively, Group has relatively little exposure to Brexit

Our strategy is predicated primarily on organic growth. However, acquisitions/divestments can also play a role in building and/or strengthening competitive positions.

Acquisitions bring risk as well as opportunity. We may invest substantial funds and resources in acquisitions which fail to deliver on expectations – due to incorrect appraisal of the target and/or poor execution. The opposite risk is that (perhaps through an excess of caution) we miss out on opportunities to build market-leading positions and growth.

Divestments also carry risk. We may divest an asset at the wrong time, or may not realise appropriate value for the asset. Separation may be complex and, if poorly executed, may impact the wider business.

How this could impact our strategy or business model
- Poor acquisitions/divestments, or poorly managed integrations/separations, lead directly to financial damage and indirectly to loss of shareholder confidence
- Newly-acquired products and solutions deliver less value, fewer synergies, or require more investment than anticipated
- Fall in our return on capital employed measure
- Financial performance suffers from goodwill or other acquisition-related impairment charges or inheritance of material unknown liabilities

Examples of how we manage this risk
- Investment in greater internal capability for the evaluation and execution of transactions
- Regular reviews of the acquisition pipeline and a stage-gated M&A process
- Detailed due diligence and integration work in accordance with our acquisitions and disposals policy
- Detailed separation planning, in accordance with our acquisitions and disposals policy
- Governance ensures multi-disciplinary sign off
- Larger transactions approved by the full Board
- Post-transaction reviews with lessons learned incorporated into future projects
- Use of external advisers

Examples of how we know the controls are working effectively
- Technology acquisitions have established a strong track record
- Strong internal team
- Proper governance and oversight
- Learnings from previous acquisitions considered and applied
- Ongoing evaluation measured against original business case
5. LIQUIDITY (New)

**RISK OWNER**
John Shipsey

**TREND**
New

**INCLUDED IN VIABILITY ASSESSMENT:**
✓

**RELATIONSHIP TO OTHER PRINCIPAL RISKS**

- Strong and diversified lending group – strong loan documentation with only one interest cover covenant on the revolving credit facility
- Ability to flex cost base in the face of reduced revenues with 60% of Cost Of Goods Sold being variable

How this could impact our strategy or business model
- Inability to fund our operations
- Inability to invest in medium to longer-term drivers of growth
- Reduced competitiveness of our businesses

Examples of how we manage this risk
- Diversified portfolio of businesses that mitigates exposure to any one country or sector
- Strongly cash generative businesses
- Capital expenditure and working capital are embedded in performance management and reward
- Conservative financing policy with a self-imposed limit of 2x net debt to EBITDA and significant liquidity headroom

COVID-19 has triggered a highly significant global economic downturn. In many sectors, demand has reduced, in some cases close to zero. We, along with our customers and suppliers, have also faced disruption to operations and higher costs. If disruption were to be deep and sustained over many months, our financial position could be eroded by lower revenues, higher costs and cash write-offs (e.g. non-payment by customers). We might not be able to rely on access to committed facilities, either through breach of our financial covenant or because lenders were unable to meet their obligations.

6. PRODUCT QUALITY

**RISK OWNER**
Divisional Presidents

**TREND**
Decrease

**INCLUDED IN VIABILITY ASSESSMENT:**
✓

**RELATIONSHIP TO OTHER PRINCIPAL RISKS**

- Rating
- Moderate

In the ordinary course of business we are potentially subject to product liability claims and lawsuits, including potential class actions. The mission-critical nature of many of our solutions makes the potential consequences of failure more serious than may otherwise be the case.

How this could impact our strategy or business model
- Damage to our reputation amongst customers and reduction in market acceptance of, and demand for, our products from an adverse event involving one of our products
- Recall of products due to manufacturing flaws, component failures, damage to persons/property, and/or design defects
- Exposure to losses in the event of a cyber security breach relating to our products
- Customers’ losses but also losses arising from a potentially large class of third parties

Examples of how we manage this risk
- Divisional quality risk assessments that address product failures, product compliance, regulatory compliance, product performance, product safety and market authorisation risks
- Quality assurance processes embedded in manufacturing locations for critical equipment, supporting compliance with industry regulations
- Quality development and quality integration built into NPI processes
- Risk analysis and mitigation processes relating to product cyber resilience embedded in the product lifecycle process. Proactive steps taken to ensure product cyber related risks are continually monitored and managed
- Insurance cover for product liability
- Material litigation managed under the oversight of the Group General Counsel

Examples of how we know the controls are working effectively
- Quality measures (e.g. DPPM, COPQ) are measured and action plans put in place to drive their improvement – these are regularly reported
- Group and divisional governance frameworks (including Delegation of Authority) ensure a close working relationship between legal and commercial teams (includes quality) to manage risks
- Fewer quality issues at launch of new products
## 7. Customers

**Risk Owner:** Julian Fagge  
**Trend:** No change  
** Included in Viability Assessment:** N/A  
**Relationship to Other Principal Risks:**  
- Strong  
- Moderate

Our markets are evolving at a fast pace, creating potential for customers to change their business models as they look to deliver products and services at higher quality, with better service and at lower cost. Failure of the Group to keep pace with customer changes/requirements (innovation, go-to-market strategies) could have a materially adverse impact on Group performance.

**How this could impact our strategy or business model:**  
- Loss of market share and adverse impact on Group results  
- Material adverse effect on profitable growth  
- Erosion of our reputation as a leader in our markets

**Examples of how we manage this risk:**  
- As part of the Group innovation framework and our approach to potential technology disruption, we include customer disruption as well as competitor and product disruption

**Examples of how we know the controls are working effectively:**  
- Megatrend workshops and disruption risks reviewed annually  
- Customer input gathered on a frequent basis  
- Pilot programmes to test products, business models and partnerships  
- Strategic review process; divisional deep dives

## 8. People

**Risk Owner:** Sheena Mackay  
**Trend:** No change  
** Included in Viability Assessment:** N/A  
**Relationship to Other Principal Risks:**  
- Strong  
- Moderate

People are our only truly sustainable source of competitive advantage and competition for key skills is intense, especially around science, technology, engineering and mathematics (STEM) disciplines. We may not be successful in attracting, retaining, developing, engaging and inspiring the right people with the right skills to achieve our growth ambitions.

**How this could impact our strategy or business model:**  
- Inability to attract key talent leading to a loss of competitive advantage  
- Difficulty in retaining personnel, at all levels of the organisation, leading to a loss of competitive advantage  
- In acquisitions, losing key personnel from the newly-acquired business which may significantly impact performance and value

**Examples of how we manage this risk:**  
- Investment to build a learning organisation with a focus on culture, reward and recognition  
- Implementation of the right HR infrastructure  
- Delivery of a range of learning and development opportunities at all levels of the organisation  
- Talent and succession plan reviews  
- Remuneration packages evaluated regularly against market trends  
- Chief Executive assessment of the leadership team  
- Annual performance management reviews for the majority of employees using best-practice processes such as 360-degree feedback surveys  
- Formal career counselling for senior people in the business  
- A clearly defined people integration plan for acquisitions  
- People Plan oversight by the Board  
- Diversity and Inclusion plan and initiatives

**Examples of how we know the controls are working effectively:**  
- Participation rates in the Smiths learning and development programmes measured. Capability and performance of alumni are tracked  
- Benchmarking ratio of hires into senior roles from internal and external sources  
- Formal and informal measures of culture, for example regular engagement surveys with follow-up action planning  
- Measurement of the effectiveness of the Executive education programme through post-completion evaluation tests  
- Post-acquisition and lessons learned reviews
Principal risks and uncertainties continued

9. CYBER SECURITY

RISK OWNER
John Shipsey

TREND
No change

INCLUDED IN VIABILITY ASSESSMENT:
✓

RELATIONSHIP TO OTHER PRINCIPAL RISKS

Examples of how we manage this risk
- Board oversight of the approach to mitigating cyber risk
- Proactive focus on information and cyber security risks supported by a strong governance framework
- Group-wide assessment of critical information assets and protection to enhance security
- Information Security Awareness programme
- Security monitoring to provide early detection of hostile activity on Smiths networks and an incident management process
- Partnership and monitoring arrangements in place with critical third parties, including communications service providers
- Cyber risk analysis and mitigation processes embedded in the product lifecycle process to increase resilience

Examples of how we know the controls are working effectively
- Formal reviews with the Executive Committee and the Board
- Vulnerability scanning/event reporting
- External reviews of vulnerability controls
- Mandatory staff training
- Compliance with recognised standards
- Cyber leads at divisions

Cyber attacks seeking to compromise the confidentiality, integrity and availability of IT systems and the data held on them are a continuing risk. We operate in markets and product areas which are known to be of interest to criminals.

How this could impact our strategy or business model
- Compromised confidentiality, integrity and availability of our assets resulting from a cyber attack, impacting our ability to deliver to customers and, ultimately, financial performance and reputation
- Exposure to significant losses in the event of a cyber security breach relating to our security or medical products. These include not only customer losses, but also those of a potentially large class of third parties

How this could impact our strategy or business model
- Mitigation plans for sole source suppliers, sub-contractors and service providers developed and deployed by divisions to include qualification of alternative sources of suppliers where appropriate
- Property damage and business interruption insurance

Examples of how we know the controls are working effectively
- Business continuity planning (BCP) testing and results
- Mitigation plans reviewed and reported by divisions
- Externally provided business interruption risk surveys of operational sites
- Insurance requirements driven by the risk appetite of the Group and divisions is validated at least annually

10. INTEGRATED SUPPLY CHAIN

RISK OWNER
Sheena Mackay

TREND
No change

INCLUDED IN VIABILITY ASSESSMENT:
✓

RELATIONSHIP TO OTHER PRINCIPAL RISKS

How this could impact our strategy or business model
- Inability to deliver products/solutions to customers, impacting financial performance and reputation

Examples of how we manage this risk
- Supply excellence pillar of our SES operating model delivers increased focus on efficient, resilient and cost-effective supply
- Business continuity and disaster recovery plans in place and tested for critical locations
- Regular evaluation of key sites for a range of risk factors using externally benchmarked assessments – risk reduction measures for critical products and dual manufacturing capabilities

Examples of how we know the controls are working effectively
- Timely, efficient supply of raw materials and purchased components is critical to our ability to deliver to our customers. Manufacturing and supply chain continuity are exposed to external events that could have significant adverse consequences, including natural catastrophes, civil or political unrest, changes in regulatory conditions, terrorist attacks and disease pandemics – this applies to our own manufacturing sites and those of our key component suppliers.

Disease pandemics were highlighted as a key component of this risk in FY2019 and in prior reports. Following the COVID-19 pandemic, a new principal risk was added capturing not only the supply chain impacts of the risk, but other consequences and our responses. See risk 1.
11. MARKETS

RISK OWNER
Roland Carter

TREND
No change

INCLUDED IN VIABILITY ASSESSMENT:
N/A

RELATIONSHIP TO OTHER PRINCIPAL RISKS

Strong
Moderate

A significant proportion of our revenue comes from the US and European markets, with a notable proportion coming from governments. In addition to geographical markets, there is a risk we do not focus on attractive sectors where we have, or could have, a sustainable position.

How this could impact our strategy or business model
- Failure to develop other markets and geographies impacts strategic progress and financial performance
- Significant disruption to government budgets results in fewer contracts being awarded to Smiths, impacting financial performance

Examples of how we manage this risk
- A diversified portfolio of businesses mitigates exposure to any one country, sector or customer
- Growth strategy which places emphasis on expanding operations in higher-growth markets and regions which are currently underserved, including Asia
- Strategic process to capture continuing opportunities in current and adjacent markets
- Government relations function which collaborates with colleagues across the Group to advise on developments
- More resilient services and consumable components built into some of our government-related business

Examples of how we know the controls are working effectively
- Strong and long-term customer relationships provide assurance
- Managing Director councils established in India and China
- Carefully crafted JV and Partnership arrangements in China

12. ETHICAL BREACH

RISK OWNER
Mel Rowlands

TREND
No change

INCLUDED IN VIABILITY ASSESSMENT:

RELATIONSHIP TO OTHER PRINCIPAL RISKS

Strong
Moderate

We have more than 22,000 employees in more than 50 countries. Individuals may not all behave in accordance with the Group’s values and ethical standards. We operate in highly regulated markets requiring strict adherence to laws with risk areas including:
- Bribery and corruption;
- Anti-trust matters;
- International trade laws and sanctions;
- Human rights, modern slavery and international labour standards;
- General Data Protection Regulation (GDPR); and
- Government contracting regulations.

How this could impact our strategy or business model
- Failure to comply with export regulations leads to significant fines and a loss of export privileges
- Failure to meet strict conditions within government contracts, particularly in the US, could have serious financial and reputational consequences

Examples of how we manage this risk
- Increased risk of illegal anti-competitive activity such as collusion with competitors
- US fines and penalties imposed for price fixing, bid rigging and other cartel-type activities can exceed $100m per violation
- Ethics or compliance breach causes harm to our reputation, financial performance, customer relationships and our ability to attract and retain talent

Examples of how we know the controls are working effectively
- Network of trade compliance officers across the Group who monitor upcoming changes in regulation and oversee import and export activities
- Monitoring and acting on upcoming legislative changes
- Modern Slavery and Transparency Statement and procedures to reduce the risk of modern slavery within the Group and our supply chain
- Multi-functional programme for GDPR compliance

Examples of how the controls are working effectively
- Multiple sources to assess culture including My Say results, ‘Speak Out’ reports, internal audit findings, exit interviews and ethics questions in performance reviews
- Monitoring and reporting on compliance with ethics and compliance policies
- Tracking of online ethics training and compliance modules
- Reporting non-compliance cases to business, Executive and Audit & Risk Committees
13. CONTRACTUAL OBLIGATIONS

**RISK OWNER**
Mel Rowlands

**TREND**
No change

**INCLUDED IN VIABILITY ASSESSMENT:**
N/A

**RELATIONSHIP TO OTHER PRINCIPAL RISKS**

We may fail to deliver the products and services, or fail in our contractual execution due to delays or breaches by our suppliers or other counterparties.

**How this could impact our strategy or business model**
- Production delays, unexpected increases in costs of materials, freight, quality and warranty issues resulting from differences between estimated and actual costs in our medium and long-term contracts
- Breach of contract resulting in significant expenses due to disputes and claims, loss of customers, damage to our reputation with other customers/prospective customers, and loss of revenue and profit due to higher costs, liquidated damages or other penalties

**Examples of how we manage this risk**
- Contracts, particularly those with governments, may include terms that provide for unlimited liabilities, including for loss of profits, IP indemnities, perpetual warranties or allowing the counterparty to cancel, modify or terminate unilaterally and seek alternative sources of supply at our expense
- Programmes in place across the Group which harmonise the contract review process
- Cross-divisional US Government working group determines and shares best practice on government contracting

**Examples of how we know the controls are working effectively**
- Divisional legal teams embedded in the business, working cross-functionally throughout the contract lifecycle
- Review and approval process for contracts determined by adherence to the Delegation of Authority matrix
- Insurance programme tailored to reflect the risk appetite of the Group
- Uniform diligence and contracting process in place for agents and distributors
The Group’s business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 06-80. The financial position of the Company, its cash-flows, liquidity position and borrowing facilities are described on pages 18-21. In addition, the notes to the financial statements include the Company’s objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The Group has undertaken a detailed going concern review with a severe but plausible downside scenario taking into account everything that has been learnt since March 2020.

At 31 July 2020 the net debt of the Group was £1,141m, a £56m decrease from 31 July 2019. At the end of July the Group had available cash and short-term deposits of £386m. These liquid resources are immediately available with 91% invested with the Group’s global banking partners. The Group’s debt profile shows an average maturity of 4.2 years (from 5.2 years at 31 July 2019). There are no scheduled repayments of debt due until October 2022.

The Group maintains a core US$800m committed revolving credit facility from these banks which was undrawn at 31 July 2020 and which has not been drawn since its last renewal in November 2017. US$110m of this committed facility matures in November 2023 and US$690m in November 2024. This facility has an interest cover financial covenant, however this is not forecast to prevent utilisation at the Group’s discretion if required.

The Directors, having made appropriate enquiries, have a reasonable expectation that the Company and the Group have adequate resources to continue in operation for a period of at least twelve months from the date of this report. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements of the Company and the Group.

In accordance with the requirements of the 2018 UK Corporate Governance Code, the Directors have assessed the longer-term prospects of the Group, taking into account its current position and a range of internal and external factors, including the principal risks detailed on pages 69 to 76 (the ‘viability assessment’).

The Directors have determined that a three-year period to 31 July 2023 is an appropriate timeframe for the viability assessment. The selected period is considered to be appropriate as, based on the historical performance of the Group, a three-year outlook represents an optimum balance of long-term projection and acceptable forecasting accuracy. The three-year viability assessment timeframe also takes into account considerations such as the maturity of the Group’s borrowing facilities and the cyclical performance of the Group’s underlying markets. In making this viability assessment, the Directors have considered the current financial position and prospects of the Group, including the current year business performance, the detailed operating plan for 2021 and forecasts for 2022 and 2023. Against these financial projections, the Directors took into account the principal risks (as outlined on pages 69 to 76) to develop a set of plausible scenarios (as set out overleaf) with potentially high-impact outcomes, and where relevant included the loss of revenue arising from the separation of Smiths Medical.

In addition to the scenario specific assumptions (detailed overleaf) the principal assumptions for this three-year viability assessment are as follows:
- FY2021 forecasts are based on the detailed operating plan reflecting the actual FY2020 performance, including the impact of COVID-19;
- FY2022 & FY2023 are based on forecast percentage growth rates from the FY2021 forecast;
- Smiths Medical has not been included in the assumptions after January 2021;
- The severe but plausible downside scenario for the recurrence of COVID-19 disruption has been modelled assuming a significant decline in demand and supply chain disruption (as outlined in the going concern section on page 149); and
- No mitigating activities such as further restructuring or the access to additional financing have been reflected in the forecast estimates.

Consideration was then given to the magnitude of the gross risks and their potential impact, directly or indirectly, on the Group’s future performance and liquidity. The assessment included stress testing of the Group’s financial capacity to absorb the impact of such adverse events, either individually or in combination, and what mitigating actions the Group could take to respond to them in order to protect its business.

The Directors also considered the Group’s ability to raise additional liquidity. In performing this assessment the Directors have taken comfort from the diversity of the Group’s businesses across different markets, industries, geographies, products and customers and its performance in the recent six-month period when COVID-19 was impacting Group operations. In order to ensure consistency, the base case used for the three-year viability assessment has also been reconciled against divisional impairment review models.

With over 95% of revenue originating outside the UK, Brexit is not anticipated to have a significant impact on the Group’s operations or its financial position, therefore its impact on the going concern or viability assessments has been immaterial. See page 68 for more information.

Based on the robust assessment, the Directors confirm that they have a reasonable expectation the Group will remain viable for the period being assessed and will continue to operate and meet its liabilities as they fall due. The Directors have no reason to doubt that the Group will continue in business beyond the period under assessment.
### Scenarios modelled

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Scenarios described</th>
<th>Link to principal risks</th>
<th>Scenario-specific assumptions</th>
</tr>
</thead>
</table>
| Scenario 1 | A global event, such as COVID-19 disruption, leads to the enforced closure of key production sites for a two month period with ongoing supply chain disruption, low customer demand and recessionary circumstances extending into the following year. | COVID-19, Economy and geopolitics | – 25% fall in revenue across all divisions in FY2021 – against FY2020 performance  
– Marginal FY2022 revenue increase over FY2021 but still amounting to 10% reduction from FY2020  
– FY2023 revenue equal to FY2022 revenue at budgeted growth rates  
– Days of Sales Outstanding (DSO) extended by 30 days over historical rolling average  
– No mitigating activities such as restructuring and headcount reductions |
| Scenario 2 | One of John Crane’s mechanical seals is identified as faulty and the cause of an explosion at a major refinery causing the deaths of two staff and significant damage to the plant. John Crane is sued for the costs of repair and restoration of the plant in addition to the consequential losses of plant closure. | Product quality | – Significant costs plus material one-off settlement payments in FY2022  
– Restoration costs spread over the three-year assessment period  
– Insurance claim rejected |
| Scenario 3 | Following a product cyber-attack, a terrorism-related incident occurs at a US airport. As a consequence, the US Government revokes Smiths Detection’s licence. Sales of Smiths Detection’s products to the US military and all other governmental contracts are banned and due to the reputational damage, the impact of the ban spreads to all other divisions. | Cyber security | – Immediate loss of all US based Government contracts within Smiths Detection  
– 25% fall in other Smiths Detection revenue over the three-year assessment period  
– Loss of 50% of Smiths Interconnect’s North American revenue  
– Material legal and settlement costs  
– Insurance claim under product liability is not met or delayed outside of the review period |
| Scenario 4 | Smiths Detection is found guilty of bribing government officials in Asian countries in order to land significant contracts. This damages the Group’s reputation and leads to worldwide regulators imposing significant sanctions on the Group. | Ethical breach | – Material global regulatory fines  
– Loss of all future revenue in both China and Japan  
– 10% sales erosion in Smiths Detection’s US and EMEA markets due to reputational damage  
– Severance and recruitment costs amounting to 20% of annual labour costs  
– 10% fall in revenue within other Smiths businesses due to the reputational impact |
| Scenario 5 | An earthquake in Tijuana, Mexico renders Smiths Medical’s manufacturing facility unusable, causing severe disruption to production. Production temporarily relocated to US. | Integrated supply chain | – Loss of six months’ US revenue and margin in FY2021  
– Material refurbishment and repair costs in Mexico (net of insurance claims)  
– Costs of relocating production to US  
– Capital expenditure on replacement equipment in Mexico (net of insurance claims)  
– Labour costs increase due to US labour market being more expensive |
| Scenario 6 | Combination of scenarios 2 and 3. | Product quality and Cyber security | As above |
Non-Financial Information Statement

The table below sets out where information relevant to the Non-Financial Reporting Directive can be found in our FY2020 Annual Report.

Our Code of Business Ethics (the Code) underpins everything we do at Smiths. It applies our shared values and ensures we comply with all applicable international and local rules and regulations. It provides guidance, including through real-life scenarios, to help colleagues address challenging and ethical issues they may encounter at work. The Code is available on our website, and our Group policies support and enhance our behaviour in line with the principles set out in the Code.

Additional information about the areas covered in this Non-Financial Information Statement can be found in the Resources and relationships section on pages 24-51.

<table>
<thead>
<tr>
<th>Reporting requirement</th>
<th>Policies and standards which govern our approach</th>
<th>Relevant information</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental matters</td>
<td>Conflict Minerals Policy</td>
<td>Production and environment</td>
<td>40-45</td>
</tr>
<tr>
<td></td>
<td>Environmental Emissions Reduction Policy</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Health, Safety and Environmental Policy</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>HSE Audits Policy</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>HSE Management Systems Policy</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>HSE Reporting Policy</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>HSE Roles and Responsibilities Policy</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>HSE Technical Minimum Standards Policy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employees</td>
<td>Fair Employment Policy</td>
<td>Our people</td>
<td>27-33</td>
</tr>
<tr>
<td></td>
<td>Global Mobility Assignment Policy</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Recruitment Policy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Human rights</td>
<td>Human Rights Policy</td>
<td>Our communities</td>
<td>48-50</td>
</tr>
<tr>
<td></td>
<td>Modern Slavery and Human Trafficking Statement</td>
<td>Ethics and our values</td>
<td>26</td>
</tr>
<tr>
<td>Social matters</td>
<td>Data Protection and Privacy Policy</td>
<td>Government and regulators</td>
<td>51</td>
</tr>
<tr>
<td>Anti-corruption and anti-bribery</td>
<td>Agreements with Agents and Distributors Policy</td>
<td>Government and regulators</td>
<td>51</td>
</tr>
<tr>
<td></td>
<td>Anti-Corruption Policy</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Anti-Facilitation of Tax Evasion Policy</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>China Anti-Bribery and Corruption Policy</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Facilitation Payments Policy</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Gifts, Meals and Hospitality Policy</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Invitations to Government Officials Policy</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Supplier Code of Conduct</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business model</td>
<td></td>
<td>Our business model</td>
<td>6-7</td>
</tr>
<tr>
<td>Principal risks and impact of business activity</td>
<td></td>
<td>Risk Management</td>
<td>67-78</td>
</tr>
<tr>
<td>Non-financial key performance indicators</td>
<td></td>
<td>Key performance indicators</td>
<td>22-23</td>
</tr>
</tbody>
</table>

Smiths operates an effective ‘Speak Out’ line and encourages its employees and other stakeholders to use it (anonymously if required) to report any ethics issues or concerns. This is critical to assessing the effectiveness of its policies. All reports to the ‘Speak Out’ line are investigated, and metrics associated with reporting monitored.

In FY2020 we reviewed the effectiveness of certain of our policies, including:

- Regularly auditing expenses to check that, where appropriate, they were registered in the Gifts, Meals and Hospitality Register
- Providing PwC’s ‘blind spots’ unconscious bias training to all colleagues with a Smiths or a divisional email address worldwide, in support of our Diversity & Inclusion commitment
- Launching an information resource accessible to all colleagues to raise awareness of the requirement to conduct due diligence on new recruitment suppliers
- Launching a cross-divisional Career Returners Programme in the UK, focused on enhancing colleague diversity in specific functions
- Initiating a formal review of our global policies and processes in the area of international global mobility assignment management
- Conducting our first climate risk sensitivity assessment across the divisions and the global business as a whole for both five and 20 year horizons, in support of our Environmental Emissions Reduction Policy
Section 172 Statement

The Board, in line with their duties under section 172 of the Companies Act 2006, must act in the way they consider, in good faith, would most likely promote the success of the Company for the benefit of the shareholders. Our Directors must also have regard to the likely long-term consequences of their decisions, and the impact that these may have on the Company’s key stakeholders. Further information about how these duties have been applied can be found throughout the FY2020 Annual Report:

<table>
<thead>
<tr>
<th>Section 172 duties</th>
<th>Key examples</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consequences of decisions in the long term</td>
<td>Our Strategy</td>
<td>15-21</td>
</tr>
<tr>
<td></td>
<td>Case study: Decision-making: Delay to the separation of Smiths Medical</td>
<td>93</td>
</tr>
<tr>
<td></td>
<td>Case study: Stakeholder engagement: Response to COVID-19</td>
<td>95</td>
</tr>
<tr>
<td></td>
<td>Board activity in FY2020</td>
<td>92-95</td>
</tr>
<tr>
<td></td>
<td>Strong Financial Framework</td>
<td>18-21</td>
</tr>
<tr>
<td></td>
<td>Going Concern and Viability Statement</td>
<td>77-78</td>
</tr>
<tr>
<td></td>
<td>Principal Risks</td>
<td>69-76</td>
</tr>
<tr>
<td>Interests of employees</td>
<td>Chief Executive Q&amp;A</td>
<td>11-13</td>
</tr>
<tr>
<td></td>
<td>Our people</td>
<td>27-33</td>
</tr>
<tr>
<td>Fostering business relationships with suppliers, customers and others</td>
<td>Our customers</td>
<td>34-36</td>
</tr>
<tr>
<td></td>
<td>Our supply chain</td>
<td>46-47</td>
</tr>
<tr>
<td></td>
<td>Divisional reviews</td>
<td>52-66</td>
</tr>
<tr>
<td>Impact of operations on the community and the environment</td>
<td>Technology and innovation</td>
<td>37-39</td>
</tr>
<tr>
<td></td>
<td>Production and environment</td>
<td>40-45</td>
</tr>
<tr>
<td></td>
<td>Our communities</td>
<td>48-50</td>
</tr>
<tr>
<td></td>
<td>Governments and regulators</td>
<td>51</td>
</tr>
<tr>
<td>Maintaining high standard of business conduct</td>
<td>Ethics and our values</td>
<td>26</td>
</tr>
<tr>
<td></td>
<td>Non-Financial Information Statement</td>
<td>79</td>
</tr>
<tr>
<td>Acting fairly between members</td>
<td>Shareholder engagement</td>
<td>94</td>
</tr>
</tbody>
</table>

The table on pages 90-91 sets out our key stakeholder groups and how they were engaged with directly and indirectly by the Board throughout the year. The Board activity report on pages 92-95 details how the Board considered the views of our key stakeholders in their decision-making.

The Strategic Report was approved by the Board on 23 September 2020.

By order of the Board

Andy Reynolds Smith
CHIEF EXECUTIVE