

smiths

Smiths Group Tax Strategy



SMITHS GROUP TAX STRATEGY

This Tax Strategy document applies to Smiths Group plc (“Smiths”) and its UK and non-UK subsidiaries (together, the “Smiths Group”) and is published in accordance with Paragraph 16(2) of Schedule 19 of the Finance Act 2016. It sets out the Smiths Group’s strategy, policy and approach to conducting its global tax affairs and dealing with global tax risks. This Tax Strategy has been approved by the Board of Directors of Smiths on an annual basis.

OVERVIEW OF OUR BUSINESS

Smiths Group is a global technology business. We're a world leader in the practical application of advanced technologies, delivering products and services for the medical technology, security & defence, energy, space & commercial aerospace, construction, transportation and general industrial markets worldwide. We're headquartered in London, with Smiths securities listed on the London Stock Exchange (SMIN) alongside a sponsored level one ADR programme (SMGZY).

We have a global presence, with direct operations in more than 50 countries enabling our products and services to reach around 200 countries. During the financial year ending 31 July 2018, we reported sales of £3.2 billion, operating profits of £544m and employed around 22,000 people. Of those total sales, the Americas accounted for 51%, Europe 24% (including the UK of about 7%), Asia Pacific 16% and the rest of the world 9%.

OUR TAX STRATEGY

Smiths Group’s overall strategy is to outperform our chosen markets and deliver world-class competitiveness and innovation, underpinned by our strong financial framework. Our Tax Strategy supports this overall strategy. Smiths Group manages the cost of taxation in a responsible manner to protect its competitive position. 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. We pay and collect significant amounts of tax as a result of our business activities.

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. In doing so, the Smiths Group may make use of legitimate tax rulings, incentives, exemptions and statutory alternatives offered by governments.

In addition, our Tax Strategy is fully aligned with the Smiths Code of Business Ethics, which requires the Smiths Group and its employees and agents to act in compliance with applicable laws and with fairness and integrity in all our business dealings. We have a zero tolerance approach to tax evasion and the facilitation of tax evasion.

GOVERNANCE

The execution of the Tax Strategy is the responsibility of the Chief Financial Officer, who delegates authority to divisional Finance Directors, the Group Financial Controller and the Head of the Global Tax Organisation (the “GTO”). Accountability for tax affairs is clearly defined and decisions are taken at an appropriate level determined by formal corporate approvals or by documented delegation of authority to appropriate individuals. The Audit Committee of Smiths monitors and reviews compliance with the Tax Strategy.

The GTO is responsible for ensuring that the Smiths Group’s corporate income tax compliance and risk management are conducted efficiently and accurately and in compliance with applicable laws. The GTO ensures that tax policies and procedures are adopted and followed consistently across the Smiths Group. Responsibility for managing other taxes, including VAT, sales and employment taxes rests with the Group Financial Controller and the relevant divisional Finance Directors at corporate centre and divisional level (as applicable).

RISK MANAGEMENT

Smiths operates an annual enterprise risk management process to support the identification and effective management of risks across the Smiths Group. A mixture of qualitative and quantitative guidance is used to determine risk boundaries and acceptable levels of risk across the Smiths Group, including tax risks.

The Smiths Group operates in a complex global environment, with numerous specific and frequently changing tax obligations across a range of tax jurisdictions. The requirement to interpret complex and evolving tax legislation presents risks which require diligent professional care and judgement to determine how the risks should be assessed, recorded and managed appropriately.

It is our policy that the tax implications of all material business transactions are investigated so that appropriate judgements on acceptable levels of tax risk are made. Such transactions include, but are not limited to, business acquisitions, business disposals, joint ventures and reorganisations, or changes in the Smiths Group’s corporate structure. These judgements are supported by ensuring that all Smiths Group companies have access to appropriately qualified internal staff or external professional advisers.

Where there is reasonable uncertainty as to the application or interpretation of tax law, appropriate written advice evidencing the facts, risks and conclusions may be taken from third party advisers to support the decision-making process.

OUR TAX POLICY

Our Tax Strategy is underpinned by our Tax Policy. Our Tax Policy applies to all Smiths Group companies and requires that the relevant senior finance officers have appropriate internal controls and procedures to ensure compliance with the Tax Strategy.

Overall compliance with the Tax Policy is overseen by the GTO; and the divisional Finance Directors and the Group Financial Controller are responsible for compliance at divisional and corporate centre level. General requirements of the Tax Policy include:

- Every Smiths Group company must adopt a position of full disclosure to tax authorities and must not knowingly withhold information from them.
- Every Smiths Group company must maintain all necessary tax records for as long as they are legally obliged to do so.
- If any inaccuracies are subsequently noted on any filed tax return, the relevant Smiths Group company should promptly re-file a corrected tax return.
- Financial reporting of tax is made in compliance with applicable local and international accounting standards.
- Transfer pricing of transactions between Smiths Group companies is determined based on the arm's length principle as interpreted in the OECD Transfer Pricing Guidelines.

ATTITUDE TO TAX PLANNING

Smiths Group's Code of Business Ethics requires employees to embed the Smiths Values in their decisions and actions:

- Integrity
- Respect
- Ownership
- Customer focus
- Passion

Smiths Group is committed to acting with integrity in respect of tax laws and regulations. As a result we do not undertake aggressive or artificial tax planning. As part of protecting our competitive position, we engage in responsible tax planning that is aligned with the Smiths Group's business activities.

WORKING WITH TAX AUTHORITIES

We aim to maintain a professional and open working relationship with all relevant tax authorities, including HMRC, by operating in a compliant, cooperative and transparent manner.

We may seek certainty from tax authorities on material business transactions in advance. Where differences of legal interpretation arise between the Smiths Group and a tax authority, we are committed to working collaboratively with the relevant tax authority to agree the facts and the technical position and resolve any differences. If we are unable to reach agreement with a tax authority, we may commence formal legal proceedings where we believe it makes commercial sense and when we have professional advice supporting our position.