

## CHAIRMAN'S INTRODUCTION



**A STRONG GOVERNANCE FRAMEWORK IS CRITICAL IF WE ARE TO SUPPORT THE BUSINESS AND ENHANCE THE INTERESTS OF ALL OUR STAKEHOLDERS.”**

I am pleased to introduce our Corporate Governance Report for the year, in which we describe our governance arrangements, the operation of the Board and its Committees, and how the Board discharged its responsibilities.

Central to everything we do is the Group's purpose. Our culture, values, strategy and business model continue to be aligned to make the world safer, more efficient and better connected. If we continue to achieve this through our great people and relentless execution, our performance demonstrates we can produce stronger and more sustainable results.

Having a strong governance framework that supports the Group's long-term strategic development is critical if we are to support the business and enhance the interests of all our stakeholders for the future. The continued development of the Group's strategic opportunities has been our key area of focus during the year. Most notably this has included the decision to separate Smiths Medical. The Board's succession planning has also been key and more information can be found in the Nomination & Governance Committee Report.

This year has seen significant change with regard to corporate governance in the UK as the new UK Corporate Governance Code came into force. New legislation in respect of the governance arrangements of private companies, including major subsidiaries within listed companies, was also published. The audit market and the role of auditors is currently under review, with the UK Government offering broad support for the recommendations of Sir John Kingman's review. This included the establishment of a new regulator with responsibility for governance in the UK to replace the FRC.

The Board continually keeps its governance arrangements under review and, although the above changes have required us to review and enhance our arrangements, we have not had to make fundamental changes to the way we operate and oversee the business.

During the year the Board agreed the framework for how it wishes to engage with stakeholders. It is essential that this framework is dynamic and we are able to respond as our business and our stakeholders evolve, not to mention as it becomes better embedded, and we learn what works best for us as a Board and for our stakeholders.

I would like to thank all my colleagues who served on the Board during the year. I hope the following pages provide you with an insight into our work on your behalf.

**Sir George Buckley**  
CHAIRMAN



The Board met in Minneapolis in July 2019 and visited Smiths Medical's Oakmount facility.

## UK CORPORATE GOVERNANCE CODE

In FY2019 the Company has applied the main Principles and complied with the relevant Provisions of the 2016 UK Corporate Governance Code (the 2016 Code).

As mentioned in our Annual Report FY2018, we welcome the publication of the 2018 UK Corporate Governance Code (the 2018 Code) which applies to the Company for FY2020. The new Code focuses on culture and purpose, stakeholder engagement and succession planning. Although in this Annual Report we are still required to measure ourselves against the 2016 Code, we have been working to ensure we apply the updated Principles of the 2018 Code with effect from 1 August 2019.

This activity has included:

- Structuring this Corporate Governance Report in line with the Provisions of the 2018 Code: Leadership and purpose; Division of responsibilities; Composition, succession and evaluation; Audit, risk and internal control; and Remuneration
- Considering the Provisions of the 2018 Code while completing the annual review of the Matters Reserved for the Board and its Committees' Terms of Reference, and updating them accordingly
- Extending the remit of the Nomination & Governance Committee to cover oversight of the ongoing suitability of the Group's governance framework and diversity & inclusion performance
- Amending the name of the Audit & Risk Committee to reflect its oversight of audit, risk and internal control
- Publishing the responsibilities of the Chairman, Chief Executive and Senior Independent Director on our website
- Developing the framework for Directors to engage with our stakeholders

The Directors receive a Governance Report from the Company Secretary ahead of each Board meeting and, since the publication of the 2018 Code, they have been updated on progress towards compliance with the new requirements. Copies of the 2016 Code and the 2018 Code are available from the FRC's website at [frc.org.uk](http://frc.org.uk).

The table on page 123 contains more information about how we have applied the 2016 Code in FY2019.

## OUR BOARD

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

### SIR GEORGE BUCKLEY



#### Chairman

Appointed: 1 August 2013

**N R I** on appointment

Sir George has had a long career in engineering and innovation, holding the role of Chairman and CEO of 3M, a US-based global technology company and Dow Jones 30 component, prior to joining Smiths. Earlier in his career Sir George was Chairman and CEO of Brunswick Corporation and Chief Technology Officer for appliances, motors and controls at Emerson Electric Company. Sir George has a PhD in Electrical Engineering and his extensive experience of large, multi-industry businesses operating in global markets supports his effective Chairmanship of the Board.

#### Other significant appointments

- Non-executive Chairman, Stanley Black & Decker, Inc.
- Non-executive Director, Hitachi, Ltd.

### ANDY REYNOLDS SMITH



#### Chief Executive

Appointed: 25 September 2015

Before joining Smiths Andy spent over a decade at GKN plc, a complex global engineering group, where he held the role of Chief Executive of the Automotive division and was a member of the Board. His previous experience includes senior management roles at Ingersoll Rand, Siebe plc (now Schneider Electric) and Delphi Automotive Systems. Andy's former appointments as Chairman of the CBI Manufacturing Council and as a member of the Government Ministerial Advisory Group for Manufacturing enhance the in-depth industry knowledge he brings to the Board.

### JOHN SHIPSEY



#### Chief Financial Officer

Appointed: 1 January 2018

John was Chief Financial Officer for Dyson, a diversified global technology company, prior to joining Smiths. He was part of the team leading Dyson's global growth, particularly in Asia. Prior to that, John spent 13 years at Diageo plc in a number of senior finance and strategy roles, including Finance Director for its Iberia region and Chief Financial Officer of Schieffelin & Somerset, a US joint venture between Diageo and LVMH. John is a Chartered Accountant and has valuable experience leading innovative companies with a global presence.

### COMMITTEE

**A** Audit & Risk Committee member

**N** Nomination & Governance Committee member

**R** Remuneration Committee member

## BILL SEEGER



### Senior Independent Director

Appointed: 12 May 2014

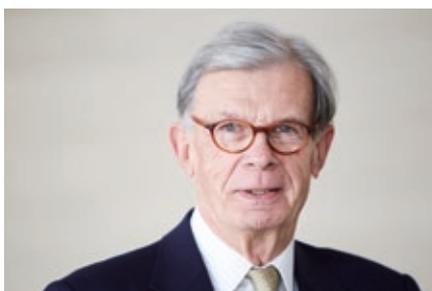


Bill has had a long and successful career in finance in the engineering sector, gaining an in-depth knowledge of global markets. Bill's extensive experience in global engineering businesses supports the Board's robust decision-making. Bill was Group Finance Director at GKN plc, a global engineering group, until his retirement in 2014. At GKN he also held the roles of CEO of the Propulsion Systems Division, and CFO of the Aerospace Division. Prior to that, Bill spent 28 years at TRW, a US-based automotive and aerospace group, where he held various senior finance positions. Bill has a BA in economics and an MBA.

#### Other significant appointments

- Non-executive Director, Spectris plc
- Lecturer, UCLA Anderson School of Management

## BRUNO ANGELICI



### Non-executive Director

Appointed: 1 July 2010



Bruno's career has included senior management roles in pharmaceutical and medical device companies. Bruno retired from AstraZeneca in 2010 as Executive Vice President, International, responsible for Europe, Asia Pacific, Latin America and MEA. Bruno's extensive experience brings a deeper understanding of the healthcare environment and industry to the Board. Bruno has an MBA from the Kellogg School of Management and a degree in law from Reims University.

#### Other significant appointments

- Non-executive Chairman, Vectura Group plc

## OLIVIER BOHUON



### Non-executive Director

Appointed: 1 July 2018



Prior to joining Smiths Olivier was Chief Executive at Smith & Nephew plc, a multinational medical equipment manufacturing company. His significant executive experience at global pharmaceutical and MedTech companies, including as CEO at Pierre Fabre Group and President of Abbott Pharmaceuticals, enables different perspectives to be considered during Board discussions. Olivier is a member of the French Academy of Pharmacy and the French Academy of Technologies, and has extensive business and leadership experience. He also has an MBA and a doctorate in Pharmacy.

#### Other significant appointments

- Non-executive Chairman, LEO Pharma
- Non-executive Director, Takeda Pharmaceutical Company Limited
- Non-executive Director, Virbac SA

In order to operate effectively, the Board and its Committees must be comprised of a diverse balance of skills, experience, knowledge, tenure and independence.

## DAME ANN DOWLING

**Non-executive Director**

Appointed: 19 September 2018



Dame Ann has had a distinguished academic career and is currently a Deputy Vice Chancellor and an Emeritus Professor of Mechanical Engineering at the University of Cambridge, where she served as Head of Engineering for five years until 2014. She served as the President and Chairman of Trustees of the Royal Academy of Engineering from 2014 to 2019. Dame Ann's contribution to engineering research is internationally recognised, and her knowledge and background offer a different perspective to Board discussions. Dame Ann has a degree in mathematics and a PhD in engineering.

**Other significant appointments**

- Non-executive Director, BP plc

## TANYA FRATTO

**Non-executive Director**

Appointed: 1 July 2012



Tanya has valuable experience in product innovation and sales and marketing across a range of sectors. Until 2010 she was CEO of Diamond Innovations Inc., a manufacturer of products for the material removal industry. Prior to this, Tanya held various senior positions during a successful 20-year career with GE, a multinational conglomerate. Tanya has extensive knowledge of operating in the US, a key region for the Group, is a qualified electrical engineer and has a BSc in electrical engineering.

**Other significant appointments**

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

## MARK SELIGMAN

**Non-executive Director**

Appointed: 16 May 2016



Mark is a former senior investment banker and has extensive experience in corporate finance and capital markets which supports Board discussions regarding the Group's portfolio management. He held various roles at Credit Suisse during his executive career, including Chairman of UK Investment Banking. Mark also brings non-executive experience to the Board, having served as senior independent director and audit committee chairman at FTSE100 companies. Mark is a Chartered Accountant, and has an MA in philosophy, politics and economics.

**Other significant appointments**

- Senior Independent Director, Kingfisher plc
- Senior Independent Director, The Royal Bank of Scotland Group plc
- Alternate member, Panel on Takeovers and Mergers for the Association for Financial Markets in Europe

## COMMITTEE

Audit &amp; Risk Committee member

Nomination &amp; Governance Committee member

Remuneration Committee member

## NOEL TATA



### Non-executive Director

Appointed: 1 January 2017



Noel is the Managing Director of Tata International Limited, a global trading and distribution company and a trading arm of the Tata Group, a privately-owned multinational holding company. He has had a long and successful career in global business with extensive experience of high growth economies, including Asia and Africa which are key markets for Smiths' growth strategy. Noel has a BA in economics.

### Other significant appointments

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

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

## PAM CHENG



### Non-executive Director

Pam will join the Board on 1 March 2020 and will stand for election by shareholders at the 2020 AGM.



Pam is Executive Vice-President, Operations and Information Technology at AstraZeneca. She joined AstraZeneca in 2015, following 14 years in Global Manufacturing and Supply Chain roles at Merck/MSD. Prior to joining Merck, she held various engineering and project management positions at Universal Oil Products, Union Carbide Corporation and GAF Chemicals.

Pam's experience in the areas of manufacturing, supply chain and technology gained with large global businesses in strategically important regions for Smiths will further strengthen the Board's discussions on embedding world class operations. Pam holds Bachelor's and Master's degrees in chemical engineering and an MBA in marketing.

### Other significant appointments

- Non-executive Director, Codexis. Inc.

## JOHN MILLS



### Company Secretary

Appointed: 1 June 2018

John has gained corporate governance and legal experience in a wide range of international businesses. He previously held senior roles in a variety of sectors, most recently at Anglo American plc, RSA Insurance Group plc, and Cadbury plc. He has an LLB and is a Fellow of the ICSA: Governance Institute and a qualified Solicitor.

## OTHER DIRECTORS WHO SERVED DURING FY2019

### Sir Kevin Tebbit KCB CMG

Sir Kevin retired from the Board and as Senior Independent Director at the conclusion of the 2018 AGM. Sir Kevin's biography can be found in our Annual Report FY2018.



Committee Chair



Independent Director

## ENGAGING WITH OUR STAKEHOLDERS

Our success in making a safer, more efficient and better connected world depends on effective engagement with all our stakeholders.

Our stakeholders include our shareholders, our people, our suppliers, our customers, regulators, our local communities and the wider society. Our Directors are committed to building and maintaining positive relationships with all of them.

Over the past year we have begun to formally track the Board's interaction with our stakeholders. It is necessary for the Directors to understand their interests and concerns in order for them to factor their views into decision-making.

Board engagement with our shareholders is described on page 82.

This table summarises Director interaction with other key stakeholders in FY2019. Board engagement will continue to develop, and we have disclosed some of our plans for FY2020.

### Smiths Excellence Awards

The annual Smiths Excellence Awards recognise achievement by colleagues across the Group. The award categories are: Customer Excellence, People Excellence, Production Excellence, Technology Excellence, Programme Excellence, Supply Excellence, Health, Safety & Environment, Our Communities, Leadership Excellence, Inspiring Individual, and the Innovation Award. The highest honour is the award of the Smiths Cup.

The awards are hosted by our Chief Executive, and the Non-executive Directors were briefed on the event through regular updates. In FY2019 the number of entries doubled to c.600 from across the Group. At least one Non-executive Director will attend our Excellence Awards in FY2020, to continue to enhance workforce engagement and to gain more insight into the initiatives launched to support our stakeholders.

### OUR PEOPLE

We work to attract, retain, engage, develop and inspire the best people. Our people are critical to our success and the Board must engage with and understand their views.

#### Activity in FY2019

- Non-executive Director activity included:
  - attending the Global Leadership Conference and an executive strategy development programme, meeting senior leaders from across the Group
  - visiting divisional operations and regional offices to learn more about the business and talk to employees
  - supporting the Group's involvement with International Women in Engineering Day
- The Board met in Minneapolis and undertook a site visit of Smiths Medical's Oakmount facility. This allowed them to discuss matters such as R&D plans and the planned separation of Smiths Medical with employees
- The Board received reports from the Ethics and Compliance team on the launch of the new Code of Business Ethics and 'Speak Out' line metrics
- The employee My Say survey results were presented to the Board. Site level results are provided to Board members ahead of visits
- The Executive Directors celebrated Smiths Day with colleagues across the Group. Andy Reynolds Smith hosted two global town halls over the day
- The Chief Executive attended two Smiths European Forum meetings



## OUR CUSTOMERS

We work closely with our customers, one of the pillars of our shared operating model, the Smiths Excellence System (SES), to deliver innovative products and value-adding support.

### Activity in FY2019

- Annual divisional operating reviews included customer profiles and information about how we manage large customer accounts
- Regular divisional reports included customer survey results and reporting on the risks associated with losing large customers
- The Audit & Risk Committee was updated on the implementation of the Code of Business Ethics which encourages customers to contact our 'Speak Out' reporting line if they identify any behaviour that's not in line with our Code

## OUR SUPPLY CHAIN

We build strong, strategic supplier relationships to deliver quality, efficiency and flexibility.

### Activity in FY2019

- An overview of feedback received at our annual Global Supplier Conference was provided to the Board
- Divisional operating reviews contained information on supplier relationships
- The Audit & Risk Committee was updated on the operation of the Supplier Code of Ethics



## OUR COMMUNITIES

Our Directors must consider the impact of the Group's operations on communities and the environment. We build strong relationships and engage our people by getting involved in local communities.

### Activity in FY2019

- Health, Safety and Environment and Security reports are presented at each Board meeting. These include updates on:
  - progress towards environmental goals for greenhouse gas emissions, recycled waste, renewable energy use and water use; and
  - the work of the Executive Environmental Roundtable, a new group formed to help shape the Group's environmental priorities and provide guidance to the Executive Committee and the Board
- Community initiatives were celebrated at the Smiths Excellence Awards which were reported to the Board



## PLANS FOR FY2020

- The Board has agreed that the Senior Independent Director will be responsible for ensuring the Board engages effectively with the workforce
- Each of the Non-executive Directors has been allocated a geographic region where they will take the co-lead on workforce engagement
- To supplement this and to better leverage the expertise and skills of the Directors, it was agreed that they should also engage with the workforce on a functional basis. For example Sir George Buckley and Dame Ann Dowling will meet with the Group's engineers, and Bill Seeger and Mark Seligman with members of the wider finance function
- Non-executive Directors will independently visit at least one site in each division each year in order to further understand the culture in the business. They will report their observations back to the Board
- The Board is scheduled to meet in the UK, USA and the United Arab Emirates over the year
- The stakeholder engagement programme will be embedded in the Board cycle and will seek to include meeting with key customers and suppliers and increased use of data such as net promoter scores
- All members of the Board will be invited to attend the SES Belted and Accelerate programmes, the Global Leadership Conference, our annual Global Supplier Conference and our Excellence Awards

## RELATIONS WITH OUR SHAREHOLDERS

A strong relationship with shareholders is essential for the success of any company.

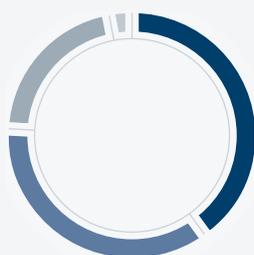
### Institutional investors

The Board is kept informed of investor views through the distribution of analyst and broker briefings, and after meetings with major or prospective shareholders the Chief Executive circulates written updates to the other Directors to ensure that they are all aware of major shareholders' views.

- In FY2019, our Chief Executive, Chief Financial Officer and Investor Relations Director led analyst briefings, including the bi-annual presentations of the Group's financial results and the planned separation of Smiths Medical, and carried out extensive investor roadshows in the UK, USA and Europe. This ongoing engagement ensures two-way communication with shareholders on business performance and our strategy
- A new Remuneration Policy was approved by shareholders at the 2018 AGM. Ahead of this the Chairman, the Chair of the Remuneration Committee and the HR Director met with institutional investors to seek their views on the Group's proposed approach to executive remuneration
- Our Chairman and Non-executive Directors were available to meet with investors to discuss issues as and when they arose

In FY2019, senior management and the investor relations team had contact with over 125 investors and analysts.

### INVESTOR AND ANALYST MEETINGS IN FY2019



United Kingdom	40%
US and Canada	36%
Rest of Europe	22%
Rest of World	2%

### Investor relations timeline

#### SEPTEMBER 2018

Annual results and investor roadshow

#### DECEMBER 2018

Goldman Sachs Industrials Investor Relations Conference

#### JANUARY 2019

Paris Investor Relations roadshow

#### MARCH 2019

Interim results and investor roadshow

#### MAY 2019

Frankfurt Investor Relations roadshow

#### JUNE 2019

Stifel 2019 Cross Sector Insight Conference

#### JUNE 2019

JPM Capital Goods Conference

#### SEPTEMBER 2019

Annual results and investor roadshow

### Other capital providers

The Chief Financial Officer and the Group Treasury Director meet and communicate proactively with committed lending banks and the rating agencies on a regular basis. Committed banks are invited to the results presentations. This enables them to keep informed of business strategy and to meet senior management. Board members are kept informed of the current credit views of debt investors and the rating agencies through regular commentary and financial metric reporting at Board meetings.

### Our AGM

The Directors consider our AGM an important opportunity to engage with shareholders, who are invited to ask questions during the meeting, and have the opportunity to meet Directors before and after the formal proceedings. It is also an opportunity for shareholders to vote on certain aspects of Group business in person after hearing from the Chairman, Chief Executive and Chief Financial Officer.

All Directors attended the 2018 AGM and all resolutions were passed with at least 90% of votes in favour apart from the approval of the Remuneration Policy (81.61%) and the re-election of Noel Tata as a Director (82.97%). All resolutions are voted on separately and the final voting results are published after the meeting.

The 2019 AGM will be held on Wednesday 13 November. The Notice of AGM can be found in a separate document which is sent out at least 20 working days before the AGM and made available on our website. All Directors are expected to attend. Shareholders who are not able to attend the AGM in person are encouraged to vote by appointing a proxy and issuing voting instructions. This year, for the first time, the AGM will be webcast and can be viewed by registering on our website.

More information about the AGM and Equiniti, the Company's Share Registrar, can be found on the back page of this Annual Report.

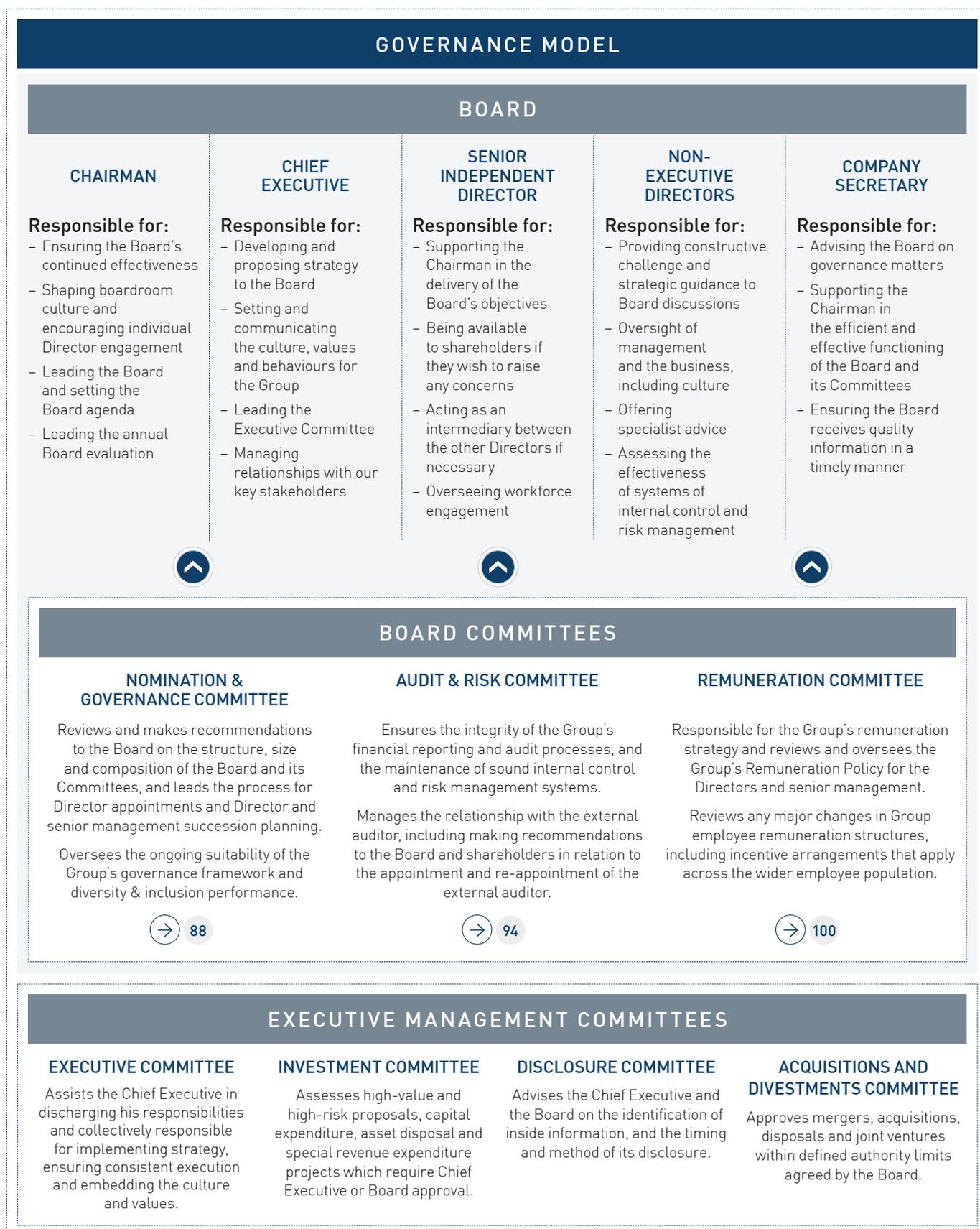
### Major shareholders' interests

At 31 July 2019, the Company had been notified under the Financial Conduct Authority's Disclosure Guidance & Transparency Rules, or had received disclosures pursuant to the Companies Act 2006, of the following holdings of voting rights in its shares:

Number of voting rights	% of total voting rights	Date of notification
<b>BlackRock, Inc.</b>		
23.3m	5.9%	31 May 2018
<b>Ameriprise Financial, Inc.</b>		
20.8m	5.3%	3 October 2018
<b>Harris Associates L.P.</b>		
19.7m	5.0%	22 July 2019
<b>Dodge &amp; Cox</b>		
19.6m	4.9%	27 February 2019
<b>Jupiter Asset Management</b>		
14.8m	3.8%	22 September 2016

No further notifications were received between 1 August and 16 September 2019.

# BOARD GOVERNANCE



## BOARD GOVERNANCE

Our Board is comprised of a majority of independent Directors whose diverse backgrounds and experience enable appropriate challenge at Board and Committee discussions. A biography for each Director can be found on pages 76 to 79.

The Board has approved a governance framework of systems and controls in order to effectively discharge its collective responsibilities. This framework supports our Directors' compliance with their duty to promote the success of the Company under section 172 of the Companies Act 2006 (the Act). Information about how this duty has been performed by our Directors is summarised below. The Board is responsible for creating sustainable value for our shareholders, but in order to ensure the long-term success of the Group the Directors also consider the interests of wider stakeholders.

During the year, in the light of the 2018 Code coming into force, the Board reviewed its governance framework and the delegation of specific authorities to its three principal Committees, the Nomination, Audit and Remuneration Committees. Subsequently the Board determined that the Nomination and Audit Committees should be renamed the Nomination & Governance and the Audit & Risk Committees respectively. The name changes more accurately reflect the remit of those Committees and the Terms of Reference for all Committees, which were reviewed during the year, can be found on our website.

During the year a Transaction Committee was established in order to provide support and oversight of the separation of Smiths Medical in between Board meetings. The members of the Transaction Committee, which is not a formal committee of the Board, are Bill Seeger (Senior Independent Director), Mark Seligman (Chair of the Audit & Risk Committee) and Bruno Angelici. The Committee is supported by the management team responsible for leading the separation process.

## THE ROLE OF THE BOARD

The Board is ultimately accountable to our shareholders, and is responsible for ensuring that management actions are aligned with their interests. The Board supports this by setting the Group's purpose, culture, and our shared values of Passion, Integrity, Respect, Ownership and Customer Focus. The Board is responsible for approving the Group strategy, as recommended by the Chief Executive, and overseeing its implementation, while monitoring the internal controls, risk management and the viability of the Company.

The Chief Executive is responsible for the day-to-day management of the Company and for leading the Executive Committee. Our Executive Committee and brief biographies are shown on page 18. Full biographies can be viewed on our website. Executive management implement the Group's strategy and provide the Chief Executive, and the Board as a whole, with the information they need to make decisions that will determine the long-term success of the Group.

### SECTION 172

A director of a company must act in the way they consider, in good faith, would most likely promote the success of the company for the benefit of its shareholders. In doing so the director must have regard to other matters including:

- likely consequences of any decisions in the long term;
- interests of the company's employees;
- the need to foster the company's business relationships with suppliers, customers and others;
- impact of the company's operations on the community and the environment;
- the company's reputation for high standards of business conduct; and
- the need to act fairly as between members of the company.

The Board's engagement with employees, suppliers and customers in FY2019 is explained in the stakeholder engagement model on pages 80-81.

The Directors receive regular reports on Health, Safety and Environment and Security to support their consideration of the impact of their decisions on our community and the environment. Further information can be found on the Board activities pages 86-87.

Ensuring high standards of business conduct is critical for the success of the Group. The Directors receive reports from the Ethics and Compliance team and our Non-Financial Information Statement (on page 61) identifies policies and guidelines governing our approach to anti-corruption, anti-bribery, social matters and human rights.

Consideration of the long-term impact of decisions is integral to the approval of strategy, and our strategic progress in FY2019 is disclosed with the Board activities over the year.

## MATTERS RESERVED TO THE BOARD

There is a schedule of matters which are considered significant to Smiths and have therefore been reserved for the decision of the Board. This is due to their strategic, financial or reputational implications or consequences. The formal schedule can be found on our website and includes:

- Approval of Group purpose, strategy, values, business plans and budgets
- Oversight of Group culture
- Considering the views of stakeholders, including but not limited to shareholders, the workforce, customers, suppliers and the community
- Approval of half yearly results and the Annual Report and Accounts
- Ensuring maintenance of a sound and effective system of internal control and risk management
- Shareholder engagement and general meetings
- Acquisition or divestment of significant companies or businesses
- Approval of changes to the structure, size and composition of the Board

## BOARD AND COMMITTEE MEETINGS

The Chairman sets the agenda and determines the style and tone of discussions at Board meetings. At each scheduled Board meeting the Chief Executive and Chief Financial Officer present separate progress reports, detailing business performance and progress against strategy. These are supplemented by monthly performance updates from the Chief Executive to the Board.

To ensure that the Board is kept up to date with management priorities and challenges, invitations to Board meetings are extended to divisional presidents, business managers and heads of functions. The attendance of senior executives also supports executive succession planning. External advisors are invited to attend as necessary. Director attendance at Board and Committee meetings in FY2019 is set out below.

In FY2019, Board meetings were held in the London and Minneapolis offices, and the annual two-day strategy offsite meeting took place in France.

Convening Board meetings in different locations allows the Directors to visit our operations and gain a deeper insight into the culture of our divisions, and to discuss the business with employees directly.

To ensure the continued effectiveness of the Board, the Chairman meets the Non-executive Directors without the Executive Directors present after each Board meeting. He also has separate meetings with the Senior Independent Director and the Remuneration Committee and Audit & Risk Committee Chairs. In order to consider the Chairman's performance, at least annually the Senior Independent Director consults with the other Non-executive Directors without the Chairman present.

## DIRECTOR ATTENDANCE

	Board <sup>1</sup>		Nomination & Governance Committee		Audit & Risk Committee		Remuneration Committee	
	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend
<b>Chairman</b>								
Sir George Buckley	6	6	3	3	–	–	4	4
<b>Executive Directors</b>								
Andy Reynolds Smith	6	6	–	–	–	–	–	–
John Shipsey	6	6	–	–	–	–	–	–
<b>Non-executive Directors</b>								
Bruno Angelici	6	6	3	3	4	4	4	4
Olivier Bohuon <sup>2</sup>	5	6	2	3	3	4	3	4
Dame Ann Dowling <sup>3</sup>	6	6	3	3	3	3	3	3
Tanya Fratto	6	6	3	3	4	4	4	4
Bill Seeger	6	6	3	3	4	4	4	4
Mark Seligman	6	6	3	3	4	4	4	4
Noel Tata	6	6	3	3	4	4	4	4
<b>Former Directors</b>								
Sir Kevin Tebbit <sup>4</sup>	2	2	0	0	2	2	1	1

1 In addition to six scheduled Board meetings there were three ad-hoc meetings called at short notice. Tanya Fratto had a pre-existing commitment and was unable to attend one of those meetings.

2 Olivier Bohuon was unable to attend the March Board and Committee meetings due to a prior commitment arranged before he joined the Board.

3 Dame Ann Dowling joined the Board on 19 September 2018.

4 Sir Kevin Tebbit retired from the Board on 14 November 2018.

## BOARD ACTIVITY IN FY2019

Board activity is focused on executing our strategy while ensuring our processes continue to deliver excellence.

### STRATEGIC PROGRESS

#### Matters considered

- M&A oversight and the planned Smiths Medical separation
- A deep dive into the Group's overall strategy at a two-day Board meeting in France. The Group Strategy Director set the format of the meeting, in consultation with the divisions, and each of the Non-executive Directors had the opportunity to discuss the agenda with him in advance. Divisional management prepared their strategy, long-term vision, challenges and priorities for presentation to the Directors. A separate presentation was made on the opportunities available in Asia Pacific as a key strategic growth region for the Group
- A review of the Group's Corporate Relations strategy

#### Outcome

- Board endorsement of the updated strategic plan, including focus on operational execution and performance
- Board reaffirmation of the Group's purpose
- Discussion of the strategic risks that could impact performance, together with the strategies to mitigate them
- Board approval of the overall Group strategy, and individual divisional strategies
- Board support for the reorganisation of the Corporate Relations function to help drive the Group's vision and achieve world class competitiveness

### M&A OVERSIGHT AND SMITHS MEDICAL SEPARATION

#### Matters considered

- The proposal to separate Smiths Medical
- Opportunities for the Group to enhance its leadership positions and maximise value for shareholders
- Regular updates from the Transaction Committee and the advisors on the Smiths Medical separation process and its associated work streams
- The strategy to deliver growth for Smiths Medical, beyond the completion of the separation
- The purpose and path to value creation for Smiths as a focused industrial technology company
- Updates on acquisition and divestiture activities at each scheduled Board meeting

#### Outcome

- Announcement of the Board's intention to pursue a separation of the Smiths Medical business in the first half of 2020
- Establishment of a Transaction Committee to provide Board level oversight and support for the separation of Smiths Medical
- Acquisition of United Flexible by Flex-Tek in February 2019
- Acquisition of the industrial division of Advanced Diamond Technologies by John Crane in April 2019
- Disposal of two non-core businesses by Smiths Medical during the year

### OPERATIONAL ENGAGEMENT

#### Matters considered

- The Group FY2020 Operating Plan including operational excellence metrics and individual divisional operating plans
- The culture of innovation, the Group wide innovation framework and the Digital Forge
- The status of product and enterprise cyber risk within the Group and the current protection and controls in place
- Updates on the Smiths Excellence System (SES) from the Chief Executive, including statistics on colleague completion of the Smiths Lean Six Sigma Belted Programme, Lean Awareness training and Excellence training through the SES Academy

#### Outcome

- Board approval of the Group FY2020 Operating Plan
- Oversight and support of the Group wide innovation framework
- The Board requested external benchmarking on innovation and technology excellence
- Assurance work on product and enterprise cyber governance is now reported to the Board and/or the Audit & Risk Committee on a quarterly basis

## FINANCIAL PERFORMANCE

### Matters considered

- Group and divisional financial and operational performance
- The FY2018 annual results and FY2019 interim results
- The Group's FY2020 budget and future financing needs
- Capital allocation including dividends, pension contributions, and in respect of the Group's growth strategy
- The Group's tax and treasury strategies
- A presentation on the Group's pension strategy
- A financial presentation on the separation of the Smiths Medical business
- The impact of potential trade tariffs between China and the US

### Outcome

- Approval of the FY2018 annual results and FY2019 interim results
- Approval of the Group's FY2020 budget
- Declaration of the FY2018 final and FY2019 interim dividend
- Approval of the Group's tax and treasury strategies



## PEOPLE AND CULTURE

### Matters considered

- The continued embedding of the Smiths Way values through the Chief Executive's updates to the Board. These included ways in which the second annual Smiths Day had been celebrated by colleagues and reports on Smiths Excellence Awards submissions
- The Group HR Director presented the People Plan to the Board, covering progress being made in culture, leadership, reward and training across the Group, and the diversity & inclusion strategy

- The Nomination & Governance Committee considered senior management succession plans and the quality of the talent pipeline
- Employee engagement through the employee My Say survey results
- Gender Pay Gap reporting in the UK

### Outcome

- Approval of the Board's stakeholder engagement framework, including the approach to workforce engagement. For more information see pages 80-81

## HEALTH, SAFETY AND THE ENVIRONMENT

### Matters considered

- Updates on Health, Safety, Environment and Security from the Global Head of HSE at each scheduled Board meeting. These included:
  - Statistics on recordable incidents compared to previous years
  - Safety Leading Indicator scores for the divisions
  - Physical and travel security updates
  - Reports from an Executive Environmental Roundtable established to advise the Board and Executive Committee on environmental matters, including goals and targets, strategy, risk and employee involvement

### Outcome

- Approval of short and medium-term targets for Health, Safety and Environment performance
- The planned introduction of a peer-to-peer safety plan in FY2020

## LOOKING FORWARD TO FY2020

- The successful completion of the separation of the Smiths Medical business, ensuring the right outcome for stakeholders
- The continued detailed review of divisional and Group strategy in order to enhance its leadership positions
- The implementation of changes to support compliance with the UK Corporate Governance Code, including embedding and enhancing the Board's stakeholder engagement framework
- The continued monitoring of external geo-political events that may impact individual divisions or the Group as a whole
- Consideration of the Group's Diversity & Inclusion Plan



# NOMINATION & GOVERNANCE COMMITTEE



**SIR GEORGE BUCKLEY**  
CHAIR OF THE NOMINATION  
& GOVERNANCE COMMITTEE



**THE DIVERSITY OF THE BOARD AND THE TALENT PIPELINE ARE CRITICAL FOR THE FUTURE SUCCESS OF THE BUSINESS.”**

## ROLE OF THE COMMITTEE

The Nomination & Governance Committee reviews and makes recommendations to the Board on the structure, size and composition of the Board and its Committees. In fulfilling this role, the Committee considers the balance of skills, knowledge, experience and the diversity of gender, social and ethnic backgrounds, while having regard to the need to ensure the effective functioning of the Board at all times. The Committee also considers Director and senior management succession planning.

In FY2019 the remit of the Committee was extended to cover oversight of the Group's governance framework and performance against the Diversity & Inclusion Plan. The name of the Committee has been updated accordingly to reflect its expanded role.

The members of the Committee and their meeting attendance during the year is set out on page 85. The Chief Executive is normally invited to attend Committee meetings and has attended each of the meetings in FY2019. Other members of senior management are invited to attend as necessary.

## IN ORDER TO FULFIL ITS ROLE THE COMMITTEE

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

## PERFORMANCE EVALUATION

In FY2019, the performance of the Committee was considered as part of the internal Board evaluation process. A number of minor recommendations were made to enhance the Committee's operation, and overall it was confirmed that the Committee continues to operate effectively.

## COMMITTEE ACTIVITIES IN FY2019

### Succession planning

- Agreed the format of the Board skills and experience matrix to be maintained by the Company Secretary and, after consideration of this, the Committee recommended the appointment of Pam Cheng as a Non-executive Director with effect from 1 March 2020
- Considered the desirable skills and experience of future Non-executive Director appointments following the separation of Smiths Medical
- Focused on succession planning for the Chairman, Chief Executive and Chief Financial Officer, which included a written Executive Director succession planning document to ensure continuity at a time of significant change for the Group
- Reviewed senior management succession and the talent pipeline with the Group HR Director
- In FY2019, external search firm Buchanan Harvey & Co. was used to support Director appointments; the firm has no other connection to Smiths. Buchanan Harvey & Co. is a signatory to the Voluntary Code of Conduct for executive search firms

### Governance

- Agreed the new framework for Director engagement with stakeholders
- Reviewed and recommended to the Board for approval role profiles for the Chairman, Chief Executive, Chief Financial Officer and Senior Independent Director
- Considered, and where appropriate approved, the external appointments of Directors
- Reflected on suggestions raised through the ongoing review of the Group's governance framework
- Considered the Board Committees' membership and in doing so the independence and performance of the individual Non-executive Directors

### Board Diversity Policy

Smiths supports the principles of the Hampton-Alexander and Parker reports on gender and ethnic diversity and will work to achieve a diverse Board and, just as importantly, diverse management teams. Members of the Board and senior management should collectively possess a diverse range of skills, expertise, national birthplace, domain knowledge and ethnic and societal backgrounds. These are important ingredients for the effective operation of the Board and oversight of the Group. As a multinational Group with operations in more than 50 countries and over 95% of revenues originating outside the UK, diversity of thought and background is essential and will remain one of the key criteria by which candidates are selected for the Board and the pipeline for senior leadership positions.

In recognition of the value of diversity, the Board seeks to ensure that at least 50% of its members have a birthplace or

background outside the UK and that no less than 40% of the Board is comprised of female plus historically under-represented ethnic groups by 2020. The Board will always seek to appoint the best qualified candidate, but between two candidates of equal merit the Board will, in recognition of the policy, give preference to any gender or background disproportionately under-represented on the Board.

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

The Board Diversity Policy was approved by the Board in September 2018.

### Board diversity performance

At the date of this report 60% of our Directors had a birthplace or background outside the UK, and 30% of our Directors meet the combined measure of gender and ethnic diversity. Pam Cheng will join the Board as a Non-executive Director on 1 March 2020, when birthplace or background will increase to 64% and gender and ethnic diversity will increase to 36%, ensuring good progress towards our 2020 target of 40%. Gender balance will increase to 27% female and 73% male.

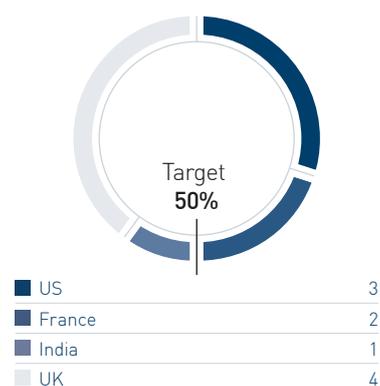
Diversity information for the Board, Executive Committee, senior managers and the Group as a whole can be found on page 51. The Committee will look to extend its work on diversity to senior leadership positions in the business and across the Group through oversight of the Smiths Diversity & Inclusion Plan, which is available on our website and is due to be considered by the Committee in FY2020.

### Independence

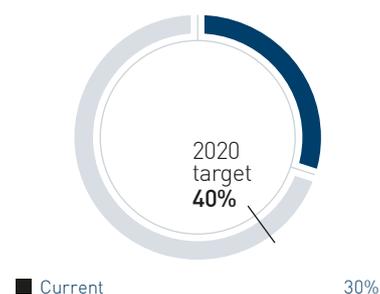
The Board keeps the independence of the Non-executive Directors under continuous review. Following Bill Seeger's appointment as CFO on an interim basis during FY2017, the Board determined him to be independent in May 2018, but he did not re-join the Audit & Risk Committee until after the publication of the FY2018 annual results in September 2018. Sir Kevin Tebbit retired as Senior Independent Director at the 2018 AGM, having served on the Board for 12 years.

In July 2019, the Committee assessed the performance and independence of each of the Non-executive Directors, and concluded that each of them contributed effectively to the operation of the Board. In considering the Directors' independence, the Committee reviewed the guidance contained in the 2018 Code.

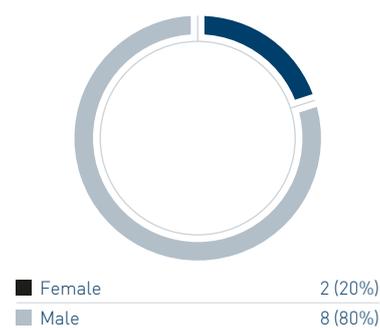
### BIRTHPLACE OR BACKGROUND



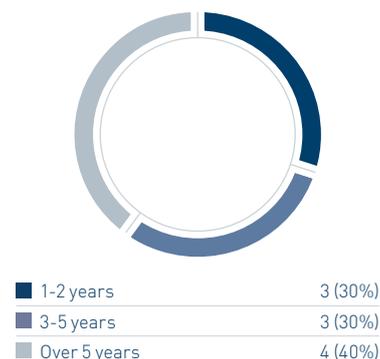
### GENDER AND ETHNICITY



### GENDER BALANCE



### TENURE ON THE BOARD



Bruno Angelici was appointed as a Director on 1 July 2010 and, as he has served on the Board for more than nine years, a particularly rigorous review of his performance and independence was undertaken. The Board concluded that he continued to demonstrate the qualities of objectivity and independence, and contributed to constructive challenge and debate at meetings. It was therefore agreed that his independence had not been impacted by his tenure on the Board and that due to the considerable strategic changes facing the Group, in particular the separation of Smiths Medical, he should continue as an independent Non-executive Director to assist with the successful separation. It is anticipated that Bruno will stand down from the Board at a mutually agreed date when the separation is largely achieved. Tanya Fratto has served on the Board for seven years. As such, her continued objectivity and independence were also subject to rigorous review. It was agreed that she continues to be independent and objective.

#### Time commitment

All Directors must allocate sufficient time to their work in order to discharge their responsibilities effectively, particularly in a time of significant change for the Group. The expected time commitment of 25 days per annum is set out in the letter of appointment issued to Non-executive Directors when they join the Board. This includes time preparing for and attending Board and Committee meetings, attending the AGM and meeting with stakeholders as required, participating in the Board evaluation process and making time to familiarise themselves with business priorities and challenges. Additional time commitment is required during a Director's induction phase. As plans for the separation of Smiths Medical progress, it is likely that the time commitment expected from the Board will be more than usual.

Executive Directors are not permitted to take on more than one non-executive directorship in a FTSE 100 company, or other significant appointment. They are not permitted to take on the chairmanship of a FTSE 100 company.

The Directors' other significant commitments are detailed in their biographies on pages 76-79 and the Board considers these twice a year. In FY2019 the Board concluded that the Chairman and the Non-executive Directors devoted sufficient time to fulfil their commitments to Smiths. Particular consideration was given to Sir George Buckley and Noel Tata's other commitments.

Sir George has several other external appointments. During the year he stepped down from the Board of PepsiCo, Inc. Following due consideration, the other Directors confirmed that he continues to demonstrate commitment to his role as Chairman and as a member of the Board. Sir George attended and fully participated in every scheduled and ad-hoc Board and Committee meeting and is always available for consultation with management when required.

Noel is Managing Director of Tata International Limited, a trading arm of the Tata Group (a privately-owned multinational group of companies). In order to fulfil his executive responsibilities he is also director of various Tata Group companies. The Board believes that these appointments do not prevent him from committing sufficient time to his work as a Director, as evidenced by his full attendance and effective participation at all Board and Committee meetings held in the year. Noel brings valuable and distinct experience to Board discussions, as a current executive with contacts in higher growth countries which are a strategic focus for Smiths.

There was unanimous support from the Board to recommend to shareholders the re-election of Sir George Buckley and Noel Tata.

#### Director induction

All of our Directors participate in an induction programme on joining the Board to ensure that they are able to contribute effectively to discussion and decision-making. Each induction programme is tailored to provide the individual Director with the necessary knowledge and understanding of the Group, based on their personal experience and background. Normally a new Director will meet with the Chairman, the Company Secretary, Non-executive Directors and Executive Committee members, including the divisional presidents, and other senior executives. To provide an insight into the Group's strategy, culture and values, extensive information about the Group is made available to new Directors. This includes access to previous Board papers and minutes.

Dame Ann Dowling joined the Board at the start of FY2019 and her induction programme continued throughout the year. Dame Ann Dowling met the Ethics and Compliance and Government Relations teams in Washington and visited our Smiths Detection site in Hemel Hempstead, the John Crane office in Chicago and the Flex-Tek site in Nashville.

### Information and training

The Board recognises the importance of ongoing training and our Directors are given the opportunity to update their skills and experience on a regular basis. Following his appointment as Senior Independent Director at the 2018 AGM, Bill Seeger received formal training on the role and responsibilities of the position. The training covered his duties relating to the Chairman, shareholders and the other Directors. Particular focus was given to the enhanced role he will have during the Smiths Medical separation, including being available to meet with shareholders to develop an understanding of their views and hear any concerns. Bill will also be a sounding board for the Chairman and the Chief Executive during this time of significant change for the Group.

In order for the Directors to remain aware of business priorities and external developments, the Board is provided with formal reports and updates from the divisions and external advisors. The Company Secretary prepared a Governance Report for each scheduled meeting in FY2019, covering topics such as UK Corporate Governance Reform. At the annual performance evaluation any individual development needs are discussed with Directors. The Directors are all obliged to complete online training on the Code of Business Ethics, information security and anti-bribery and corruption.

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

### Conflicts of interest

Our Directors must avoid situations where they have a direct or indirect interest that conflicts, or may possibly conflict, with the best interests of Smiths. In accordance with the 2018 Code, the Board must now approve any new external appointment before a Director accepts such appointment, whether it amounts to a conflict or not. The Board has the authority to authorise conflicts and potential conflicts in accordance with our Articles of Association and the Act, and as set out in the Matters Reserved to the Board which are available online.

The Company Secretary maintains a Register of Conflicts which forms the record of actual and potential conflicts that exist, and the Board authorisation granted. The Board formally reviews the Register in September and March each year, and retains the power to vary or terminate any authorisation previously provided.

### Advice and insurance

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

During FY2019, and at the date of this report, qualifying third-party indemnity provisions (as defined by section 234 of the Act) have remained in force for the Directors of the Company and certain other employees in respect of their directorships of some subsidiary companies in relation to certain losses and liabilities which they may incur (or may have incurred) to third parties in the course of their professional duties for the Company, or a subsidiary.

### Director re-election

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

As noted above, our Chairman, on behalf of the Board, has confirmed that each Non-executive Director standing for re-election at this year's AGM continues to be an effective member of the Board, and has demonstrated the commitment required.

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

## BOARD EVALUATION

An effective Board is essential to deliver the Group's objectives and long-term sustainable results for all stakeholders.

### PRINCIPLES

Each year an evaluation of the Board, its Committees and each individual Director is conducted to monitor the effectiveness of each and to help identify any improvement opportunities. The Board evaluation is externally facilitated at least every three years.

### FY2018 EVALUATION

The FY2018 evaluation of the Board was conducted by Independent Audit Limited, who were appointed following a competitive tender. Independent Audit has no other connection to the Group, and the objective was to build on the FY2017 process and enhance the Board's support for the delivery of the Group's growth strategy.

The evaluation was focused on Board and Committee dynamics, strategic development, people and culture, and risk. Independent Audit held interviews with the Board, certain members of the Executive Committee, senior managers and external advisors, and presented their final report to the September 2018 Board meeting.

While there is always different colour and preference in the opinions of Board colleagues, Independent Audit felt that the Board and its Committees were operating effectively and demonstrated many strengths. These included a high level of trust and respectful interaction between the Directors, well run Committees, effective assurance and clear reporting, active and constructive contribution to strategy formulation, and proper attention to the necessary Board processes. The findings are set out in more detail on this page, including areas where Independent Audit felt the Board could be improved.

The suggestions and observations made by Independent Audit were discussed by the Directors who then agreed an action plan to address them. The disclosures made in this section of the Annual Report have been agreed with Independent Audit.

### STRATEGIC DEVELOPMENT

#### FY2018 findings

- The Board handles strategic debate well, devoting significant time to discussions
- The annual strategy Board meetings are well received by the Non-executive Directors and there is a clear alignment of views on the strategy the Group is pursuing

#### Actions in FY2019

- The Board received advice and regular updates from management and the Group's advisors on the planned separation of Smiths Medical and the associated work streams. All potential methods of separation were reviewed before a decision was made as to which to pursue
- The Board formed an ad hoc Transaction Committee to monitor the progress on the separation of Smiths Medical
- The Board reviewed progress against specific elements of the Group's strategy at meetings throughout the year. Each May the Board agree and modify, where necessary, the strategy for future years. The changes in strategy are typically evolutionary but decisive
- The Board continues to work on constantly improving the processes by which it sets and oversees Group strategy, maintaining a consistent quality of debate and ensuring all options are fully considered

### PEOPLE, CULTURE AND BEHAVIOURS

#### FY2018 findings

- The Chief Executive has turned the vision into a clear strategy, and has developed a sense of the values which unify the Group
- The Board, and in particular the Non-executive Directors, recognise the need to focus sufficient time on culture, values and stakeholder engagement and there is an opportunity for the Board to gain more visibility of the Group's culture

#### Actions in FY2019

- The Board has agreed its approach to complying with the new UK Corporate Governance Code requirements in this area, and more detail is provided on pages 80-81. The Board's interaction with stakeholders is now formally tracked and, in the year, Non-executive Directors have, between them, visited at least one of the Group's operations in each division and used other opportunities to engage more fully with the workforce. These engagements will increase in future
- The Board has continued to receive reports on the employee My Say survey, ethics reporting, Group training programmes, HSE, Internal Audit performance and other cultural indicators which track employee engagement and behaviours. The amount of Board time devoted to people issues has increased

## SUCCESSION PLANNING

### FY2018 findings

- The Chairman leads well on succession planning and the current composition of the Board is strong with a good mix of skills and personalities. The Board is collegiate with a strong sense of “being in it together”
- The Non-executive Director recruitment process could be enhanced by expanding the number of current Directors involved in the process
- Succession planning for key positions the Group will have to fill in the medium-term would benefit from more structure

### Actions in FY2019

- The process for recruiting additional Directors has been improved with even more Directors involved in interviewing candidates and regular updates to the Nomination & Governance Committee
- The Nomination & Governance Committee agreed the format of a Board skills and experience matrix to be maintained by the Company Secretary. This, together with a schedule of anticipated retirement dates, will assist with identifying those skills and experiences currently not represented on the Board
- Internal successor candidates have been identified for all Executive Committee positions with the exception of the Chief Executive and Chief Financial Officer. The Nomination & Governance Committee, on behalf of the Board, reviews the plans for the Chairman, the Executive Directors and Non-executive Directors and Executive Committee positions to ensure that succession arrangements are in place. For the Executive Directors and Executive Committee, these include appropriate contingency arrangements for emergencies or otherwise

## BOARD INFORMATION

### FY2018 findings

- Board information generally sets the Board up well for discussions and is appreciated for its structure and content
- The structure and consistency of divisional reporting, and how best to track execution of the agreed strategy in the divisions, could be improved

### Actions in FY2019

- The provision of information to the Board is kept under constant review and improvements have been made this year both to the frequency of reporting and the information which the Board receives, with more of a customer and market focus than was previously the case, together with enhanced tracking of KPIs
- In addition to receiving a report from the Chief Executive at each Board meeting, a monthly report for the Board has been instigated which comments on financial performance, strategy and business development, people, leadership and culture issues

## FY2019 EVALUATION

The FY2019 internal review focused on building upon the findings of the FY2018 external review and reviewing how the Board had handled key issues such as the decision to separate the Smiths Medical division.

The evaluation consisted of an externally facilitated questionnaire provided by Independent Audit which was completed by each of the Directors. The questionnaire sought to assess how well the Board handled the fundamental role it plays, its dynamics, and coverage of strategy and risks. Separate parts of the questionnaire covered each of the Board’s Committees. The results were considered at the July 2019 Board meeting, and overall the Directors believe that the Board and its Committees continue to function effectively, but there were areas where they agreed process could be enhanced. These centred on continuing to embed and develop succession planning processes, the factors taken into consideration when making strategic decisions, and better communication with Non-executive Directors.

Strategic decisions involve the consideration of many of different factors and the Board wanted to ensure that these factors were all raised in a timely manner and in sufficient detail. Ways to ensure this happens on a consistent basis, and that the general flow of information and exchange of ideas between management and the Board improves, are currently under consideration. Succession planning was a recurring theme from the FY2018 external evaluation and will continue to be an area of focus next year. Shortlists for Board appointments are of good quality, but for management succession planning the Board wanted more insight into the talent pipeline within the Group. This has been addressed though increased oversight of the Group’s talent management processes at the Nomination & Governance Committee.

### FY2020

The FY2020 process will be conducted internally and will seek to build on these areas and any other matters the Board may raise during the year.

## AUDIT & RISK COMMITTEE



**MARK SELIGMAN**  
CHAIR OF THE AUDIT & RISK COMMITTEE



### THE DELIVERY OF A HIGH-QUALITY AUDIT IS ESSENTIAL FOR ENSURING TRUST IN A COMPANY'S GOVERNANCE FRAMEWORK."

#### ROLE OF THE COMMITTEE

The principal role of the Committee is to assist the Board in fulfilling its oversight responsibilities in relation to financial reporting, financial controls and audit, risk and internal controls. The Committee also manages the relationship with the external auditor, including making recommendations to the Board and our shareholders in relation to the reappointment of the external auditor.

In addition, the Committee oversees the Group's Ethics and Compliance annual work programme and investigates any material ethics and compliance issues that may arise.

#### PERFORMANCE EVALUATION

The annual evaluation of the performance of the Committee was conducted as part of the overall annual evaluation of the performance of the Board. The findings relating to the Committee were discussed with the Committee. Overall, the Committee is considered to be performing well, and is rigorous and effective in discharging its responsibilities.

#### IN ORDER TO FULFIL ITS ROLE THE COMMITTEE

- Holds meetings scheduled to coincide with key dates within the financial reporting, audit and Enterprise Risk Management (ERM) cycles. The external auditor attends all meetings
- Receives presentations from divisional and functional heads to gain an understanding of the risks and culture present throughout the organisation
- Meets privately with internal and external audit after each Committee meeting
- Conducts an annual review of its performance and its Terms of Reference, and recommends any changes to the Board

I am pleased to present the Committee's report for FY2019. The Committee fulfils an important oversight role, monitoring the integrity of the Group's financial reporting and the effectiveness of its system of internal control and risk management framework.

A key stakeholder supporting this oversight is the external auditor. During the year, in addition to fulfilling its normal programme of work, the Committee focused on concluding the external audit tender described in last year's Annual Report. This resulted in KPMG being selected as the auditor for FY2020. I would like to thank PwC for their professionalism during this period.

The UK audit industry is the subject of considerable reform with a number of independent reviews being undertaken. The delivery of a high-quality audit is essential and so we welcome these reviews and the opportunity to participate in the debate. During the year, we submitted responses to the Competition and Markets Authority's Statutory Audit Services Market Study Update Paper and also the Call for Views for Sir Donald Brydon's review into the quality and effectiveness of audit. Any changes made to the industry will have a bearing on the operation of the Committee and our auditor, and so we continue to monitor the situation keenly.

During the year, the Committee also discharged its responsibility for oversight of the Group's financial and non-financial control environment and the associated risk management framework. More information can be found in this report and the Risk section on pages 62 and 63.

I'd like to thank my colleagues on the Committee for their contribution during the year and I look forward to continuing our work in FY2020.

**Mark Seligman**  
CHAIR OF THE AUDIT  
& RISK COMMITTEE

## COMMITTEE MEMBERSHIP AND MEETINGS

The Committee met four times during FY2019, with three meetings timed to align with the financial reporting and audit cycles of the Group, namely: the approval of the Annual Report and Accounts in September; the approval of the half yearly results in March; and the presentation of the pre-year-end 'early warnings' report from the external auditor, PwC, in July. A meeting was also held in November 2018 at which the Committee undertook, amongst other things, a review of the Group's insurance strategy.

All members of the Committee who served during the year are, in the view of the Board, independent Non-executive Directors and collectively have recent and relevant financial, accounting and sector experience gained from their respective experience. Committee member biographies and attendance at meetings during the year can be found on pages 76-79 and 85. In particular, the Board considers that Mark Seligman, who has a long history in corporate finance and experience of other listed company audit committees, as well as being a qualified accountant, has the recent and relevant financial experience required to Chair the Committee. At the invitation of the Chair of the Committee and in order to maintain effective communications, the Chairman, Chief Executive and Chief Financial Officer and the audit partners of PwC attended all meetings. Other regular attendees included the heads of the finance, internal audit and Ethics & Compliance functions. Divisional senior management were also invited to attend as appropriate. At the conclusion of meetings, PwC and the Director of Internal Audit were each given the opportunity to discuss matters with the Committee without executive management being present.

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

## FINANCIAL AND NARRATIVE REPORTING

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

For the period under review, the Committee has considered information presented on significant matters of judgement, accounting estimates, and the interpretation of reporting standards in the adoption of policies. It has discussed with PwC its audit reports and noted the key accounting matters and significant judgements highlighted in respect of the financial statements. The Committee has examined key points of disclosure and presentation to ensure the adequacy, clarity and completeness of the Annual Report and Accounts for FY2019 and the half yearly results announcement. It has also reviewed various materials to support the statements on risk management and internal control; going concern; and the assessment of the Group's long-term viability – see pages 71 and 72 for more details.

In addition, the Committee assessed the fairness, balance and understandability of the Annual Report, and in doing so considered:

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

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

## SIGNIFICANT JUDGEMENTS AND ISSUES

An important responsibility of the Committee is to review and agree the most significant management judgements and issues which impact the financial statements. The key areas of judgement in the year are set out below. After receiving reports on the significant issues and areas of judgement and after discussion with PwC, the Committee agreed that the judgements made were appropriate and are correctly reflected in the Annual Report. More detailed information on the Group's Accounting Policies can be found on pages 139 to 146.

### Revenue recognition

The Committee reviewed the impact of the adoption of IFRS 15 'Revenue from Contracts with Customers' including the interpretation judgements made in drafting the Group's revenue recognition policies. The Committee also supported simplified presentation of divisional revenue segmentation. See note 1 of the financial statements.

### Acquisitions and divestments

The Committee reviewed the treatment and presentation of a number of transactions including the United Flexible acquisition, an adjustment following completion of the post-acquisition review of Seebach GmbH and the disposal of Smiths Medical's sterile water bottling business. The treatment of Smiths Medical as a discontinued operation held for distribution was also discussed and agreed. The Committee also considered the treatment of acquisition integration costs for Morpho Detection and United Flexible, and disposal and separation costs between headline and non-headline.

### Taxation

The assets and liabilities recognised in income and deferred tax, as well as the treatment of losses in the UK, were assessed. Particular focus was given to the recognition of UK deferred tax assets; deferred tax assets relating to the John Crane, Inc. asbestos provision; and the Titeflex Corporation CSST provision. Following the separation of Smiths Medical the future Smiths UK Group is anticipated to be in a structural loss-making position from a tax perspective. Therefore UK deferred tax assets will be derecognised at the end of F20Y19 save to the extent that accounting rules require them to be recognised. See note 6 of the financial statements.

### Impairment

The intangible assets and the assumptions used to justify their carrying values, including 'value in use' were reviewed. As specifically noted in the Annual Report FY2018, the Smiths Interconnect and Flex-Tek divisions are now considered single cash generating units (CGUs) for impairment testing purposes. The applicable discount rate used for impairment testing purposes was considered particularly where headroom had reduced in the year. This headroom decline was driven by a more conservative impairment model whereby certain forecast cash-flows were removed from future years. The carrying value of capitalised development expenditure was reviewed and the treatment was considered reasonable due to the planned timing of new product launches and projected future cash-flows.

### Provisions for liabilities and charges

The Committee continued to monitor expert assessments on the Group's exposure to the John Crane, Inc. asbestos litigation and to the Titeflex Corporation CSST claims. In particular, the Committee considered the treatment of potential liabilities and the changes to the assumptions made in calculating the provisions, including the time period for the Titeflex Corporation CSST provision and the continued appropriateness of the ten-year time period for John Crane, Inc. asbestos litigation. In the case of the John Crane, Inc. asbestos litigation, the Committee also agreed with the judgement that, whilst large numbers of claims are made against John Crane, Inc. and other defendants every year, trials are extremely rare, such that a sufficiently reliable estimate cannot be made to cover the full period over which it is expected that costs will be incurred. In both these cases, it was determined that the assumptions fairly reflect the position. See note 22 of the financial statements.

### Post-retirement benefits

The Committee reviewed and agreed the methods, assumptions and benchmarks used by the actuaries to calculate the position of the UK and US schemes at 31 July 2019, which have continued to show a net accounting surplus position. The Committee agreed the treatment and the corresponding disclosures on these matters. See note 8 of the financial statements.

### Working capital

Judgements within working capital, including the level of inventory and provisions and overdue receivables were reviewed. Following adoption of IFRS 9: Financial Instruments and the associated necessary accounting policy the Committee also reviewed the impact of introducing an expected credit loss model on the Group's receivables provisioning. See the Accounting Policies section of the financial statements.

### Presentation of headline profits and underlying growth

The Committee considered the policy, presentation and judgements in relation to the Group's performance, in particular the separation of headline and non-headline items and consideration of which items related to the Group's ongoing trading activity or those which should be recorded as non-headline. Due to its scale and the extent of the disclosures required, the presentation of Smiths Medical as a discontinued operation held for distribution was a particular focus. Other items included the amortisation of intangible assets and the impact of integration activity on acquired entities and material one-off items relating to pensions and other legacy provisions. In addition, the Committee also considered those judgements in connection with items to be reflected or adjusted in underlying performance. See note 3 to the financial statements.

## EXTERNAL AUDIT

The Committee places great importance on the quality, effectiveness and independence of the external audit process. PwC or a predecessor firm have been the Company's external auditor since 1997. Andrew Kemp, the current audit partner, has led the engagement for five years. In respect of the period, the Committee approved and monitored PwC's execution of the audit plan. The Committee also considered PwC's report on its review of the FY2019 interim results announcement and its 'early warnings' report on the FY2019 audit. It also discussed any significant issues identified, PwC's final report on the FY2019 audit including the key accounting and audit judgements taken by management and management's responses to any audit findings.

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

### Independence and effectiveness

The Committee is responsible for the implementation and monitoring of the Group's policies on external audit, which are designed to maintain the objectivity and safeguard the independence of the external auditor. These policies are reviewed annually. They cover the engagement of the external auditor for non-audit services and the appointment by the Group of former employees of the external auditor. The policies correspond with the European Commission's recommendations on the auditor's independence and with the Revised Ethical Standard issued by the Financial Reporting Council in the UK.

Notwithstanding developing practice being adopted by audit firms not to provide non-audit services to audit clients, the Committee recognises that certain non-audit services can be completed more efficiently by, and be purchased more cost-effectively from, the incumbent auditor

due to the audit firm's existing knowledge of the Group and its systems. Under the policy approved by the Committee, it has delegated its responsibility for authorising the purchase of non-audit services from the external auditor to the Chair of the Committee and/or the Chief Financial Officer within specific limits.

Details of the fees paid to PwC for the year ended 31 July 2019 can be found in note 2 to the financial statements on page 151. Non-audit fees as a percentage of audit fees totalled 4% (FY2018: 5%). The Group would not expect in the ordinary course of business for non-audit fees to exceed 20% of the average of the previous three years' total Group audit fees unless exceptional circumstances existed. The Committee confirms that the non-audit work performed by PwC during the year was properly assessed and authorised in accordance with the Group Policy.

In addition to monitoring compliance with Group policies, the Committee's review of PwC's independence included examining written confirmation from PwC that they remained independent and objective within the context of applicable

professional standards, and considering the performance and tenure of the audit engagement partner, who is required to rotate every five years in line with ethical standards.

Audit effectiveness is assessed continually using a number of measures including: reviewing the quality and scope of the proposed audit plan and progress against the plan; responsiveness to changes in our businesses; and monitoring the independence and transparency of the audit. The Committee also reviewed the performance of PwC and the effectiveness of the audit process by conducting a survey of the Board, senior management and divisional finance teams. The survey included questions on independence and objectivity, audit strategy and planning, conduct and communication, audit findings and feedback, and expertise and resourcing. The results were positive and the Committee concluded that PwC and its audit process were effective, and that audit teams continued to provide effective and objective challenge.

## AUDIT TENDER

As set out in the Annual Report FY2018 the Committee concluded a tender for the external audit in November 2018. Following evaluation of each firm participating in the tender against agreed evaluation criteria, the Committee recommended its first and second choice firms to the Board for appointment. In making its recommendation the Committee agreed that KPMG was likely to deliver a high-quality audit aligned to the Smiths business model and specific risks, facilitated by the greater use of technology. The Committee further noted KPMG's significant commitment to improve audit effectiveness following regulatory criticism, and was assured that the audit would therefore be carried out to the highest possible standard with appropriate levels of challenge and scepticism. The recommendation was free from third party influence and

no restrictive clauses were imposed on the Committee or the Board. The Board endorsed the Committee's recommendation and a resolution recommending KPMG's appointment will be proposed at the 2019 AGM. During the year the Committee has overseen the activity necessary to transition the audit to KPMG, including establishing independence by exiting pre-existing non-audit services engagements. This allowed KPMG to shadow PwC's audit of the FY2019 results to support an orderly handover. The Committee also discussed the findings of the FRC's 2019 Audit Quality Inspection Report in respect of KPMG with the proposed audit partner, Mike Maloney, and agreed that there was no reason why KPMG's appointment should not be recommended to shareholders.

The Committee also noted the findings in the FRC's 2019 Audit Quality Inspection Report. PwC was provided with an opportunity to describe the activities being undertaken to address the findings.

## RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for ensuring that there are sound risk management and internal control systems in place. The Executive Committee is responsible for designing the risk management and internal control systems and ensuring they are effectively deployed throughout the Group. The internal control system is a framework to manage risks and monitor compliance with procedures. It is designed to meet the Group's particular needs and the risks to which it is exposed. However, it can provide only reasonable, not absolute, assurance against material loss to the Group or material misstatement in the financial statements. More detail can be found on pages 62 and 63.

In FY2019, the Committee, on behalf of the Board and with the assistance of the Internal Audit function, monitored, reviewed and assessed the effectiveness of the Group's risk management and internal control systems in the context of the Group's strategy, business model and risk appetite. The Committee also carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity. A description of the principal risks facing the Group and how these were reviewed to assess the Group's viability can be found on pages 62 to 70 and 71 and 72.

In fulfilling its responsibilities, the Committee received reports to enable an evaluation of the control environment and risk assurance framework and processes. No significant failings or weaknesses were identified. It also received reports from each of the divisions on the risk management process and an analysis of their own risk registers. This enabled the Committee to understand the risks and

opportunities and assurance processes throughout the business and the potential impact on the Group.

The Committee also undertakes deep-dive reviews on a rolling basis of the Group's principal risks. During FY2019, deep-dives were carried out on: not operating in the right markets (with a focus on Asia); supply chain – manufacturing concentration; and supply chain – sole source. The two supply chain risks were subsequently merged to form the new principal risk of 'integrated supply chain'. Separately the full Board considered the people, technology and cyber security principal risks.

## INTERNAL AUDIT

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

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

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

During the period the Committee received progress reports on the execution of the FY2019 Internal Audit Plan and discussed recommendations made by the Internal Auditor. The Committee also considered the remit of Internal Audit, its budget and resources and the nature and extent of any outsourcing to specialist co-source providers. It also approved the FY2020 Internal Audit Plan, including the proposed audit scope, approach, coverage and allocation of resources.

The Committee oversees the performance of the Internal Audit function through the Director of Internal Audit's attendance at Committee meetings and a review of agreed KPIs which are reported to the Committee. In addition, an anonymous survey completed by the Board, management and the external auditor was conducted into the function's effectiveness. As described in the Annual Report FY2018, the Committee also oversaw the implementation of enhancements identified by an independent third party engaged to conduct an effectiveness review of the Internal Audit function. Overall, Internal Audit is deemed to be effective and is seen as a valued assurance function throughout the Group. It is appropriately resourced and conforms with industry standards in its approach.

## ETHICS AND COMPLIANCE

During the year, the Committee reviewed the Ethics and Compliance work programme, and provided oversight of performance in line with, and investigations into, allegations of non-compliance with the Code of Business Ethics. This included any matters raised through the Group's ethics reporting procedures. During the period, the Committee provided oversight for investigations in respect of three unrelated matters, none of which resulted in material loss to the Group or a detrimental impact on our customers or suppliers. No matters were raised that required the Committee's direct intervention. Accordingly, the Committee considered that the Group's processes and arrangements for employees to report concerns, including anonymously, about any improprieties and any subsequent investigation as necessary, were both appropriate and effective. The Committee receives regular reports on the ratio of anonymous v.s attributed ethics reports. This metric is used to monitor trust in the Group's non-retaliation policy.

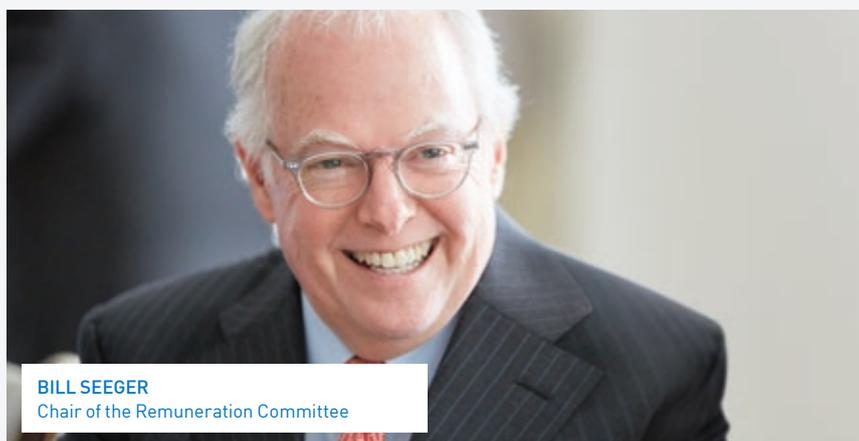
Recognising that culture plays a significant role in determining the strength of ethics and compliance performance, the Committee received a report on the Group's framework designed to help monitor culture down to a site level. In particular the framework focuses on monitoring the value of respect. The approach seeks to evaluate the results of various data sets which, when aggregated, may demonstrate low levels of respect. This may then indicate those sites which are at a higher risk of experiencing a serious ethical failure. The Group is then able to target its ethics audits at those sites which are potentially higher risk.

The Committee was also appraised of the results of a third-party audit over the effectiveness of certain Group policies and processes supporting ethics and compliance. The review covered the Group's approach to antitrust compliance and to labour standards. The report concluded that there has been significant progress in strengthening the overall compliance framework and processes around these policy areas from its previous audit conducted in 2016.

## ASSESSMENT OF INTERNAL CONTROL AND RISK MANAGEMENT ARRANGEMENTS

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

# REMUNERATION COMMITTEE



**BILL SEEGER**  
Chair of the Remuneration Committee



**OUR OBJECTIVES ARE TO CREATE CLEAR ALIGNMENT BETWEEN REMUNERATION AND SUSTAINABLE, LONG-TERM STAKEHOLDER INTERESTS. WE TAKE ACCOUNT OF SHAREHOLDER VIEWS AND ENSURE THAT PERFORMANCE SUPPORTS THE DELIVERY OF BUSINESS STRATEGY THROUGH TARGETING OUR KEY PERFORMANCE INDICATORS (KPIs)."**

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## ROLE OF THE COMMITTEE

The Committee is responsible for the Group's overall remuneration strategy and oversees the Group's remuneration policy for Directors and senior management. The Committee seeks to achieve a strategy that attracts, motivates and retains executive management of the quality required to run the Group successfully and that promotes the long-term success of Smiths, while reflecting the views of all stakeholders.

The Committee also approves the service contracts of all Executive Directors and reviews any major changes in Group employee remuneration structures, including the incentive arrangements that apply across the wider population.

## IN ORDER TO FULFIL ITS ROLE THE COMMITTEE

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

I am pleased to present the remuneration report for the year to 31 July 2019.

In the early part of the year we completed our review of how best to align our remuneration policy to the Smiths strategy.

We took the opportunity to introduce a number of changes to the policy, designed to reinforce the alignment between executive remuneration and stakeholder interests and to ensure that performance measures remained closely linked to business strategy. In making these changes we took account of feedback from major investors and shareholder bodies.

The revised Policy was approved by 82% of shareholders at the AGM held on 14 November 2018.

Subsequent to the AGM a number of institutional shareholders and proxy advisers announced new executive remuneration guidelines. We have therefore amended our practice, where applicable, to take account of certain of these new guidelines and other feedback we received from shareholders. As part of this we reviewed and updated our policy relating to withholding and recovery of incentive payments in appropriate circumstances. We are also committing to full consideration of these new guidelines, following consultation with major shareholders, prior to the next Policy review.

There have been no circumstances arising during the year where the Committee felt the need to apply discretion.

Looking forward, we will need to give careful consideration to how the planned separation of Smiths Medical would affect the unvested share plan awards and the incentive plan performance measures.

**Bill Seeger**  
CHAIR OF THE  
REMUNERATION COMMITTEE

# EXECUTIVE REMUNERATION AT A GLANCE

## ACTIVITIES OF THE COMMITTEE IN FY2019

### POLICY REVIEW:

- Agreed changes to the remuneration policy which was subsequently approved by shareholders in November 2018
- Considered new shareholder guidelines published in late 2018 and the impact of these on our approach to implementation of the policy

### FIXED PAY:

- Approved salary proposals for the Executive Directors and other Executive Committee members and reviewed fees for the Chairman
- Reviewed and agreed pensions policy for new Executive Directors

### PERFORMANCE RELATED PAY:

- Considered and approved annual incentive plan payouts and set targets for the new financial year
- Determined vesting levels for LTIP award vesting in 2018 and agreed performance measures for new LTIP awards

## THE KEY PRINCIPLES OF OUR POLICY

**COMPETITIVE REWARD PACKAGE TO ATTRACT, MOTIVATE AND RETAIN THE BEST TALENT**

**PERFORMANCE MEASURES ALIGNED TO BUSINESS STRATEGY AND BALANCED BETWEEN LONG-TERM AND SHORT-TERM PERFORMANCE**

**ABILITY TO APPLY APPROPRIATE DISCRETION, WITHHOLD PAYMENTS AND RECOVER SUMS ALREADY PAID**

## ELEMENTS OF EXECUTIVE DIRECTORS' PAY

### Target performance



Fixed	42%
Performance related	58%
Short term	64%
Long term	36%
Base salary	32%
Benefits and pension	10%
Annual bonus – Cash	23%
Annual bonus – Shares	11%
LTIP	24%

### Maximum performance



Fixed	21%
Performance related	79%
Short term	41%
Long term	59%
Base salary	16%
Benefits and pension	5%
Annual bonus – Cash	20%
Annual bonus – Shares	10%
LTIP	49%

Note: Figures are based on Chief Executive's remuneration package for FY2019

**PERFORMANCE OUTCOME AND LINKAGE TO STRATEGY**

THE THREE KEY STRATEGIC OBJECTIVES FOR THE BUSINESS ARE:



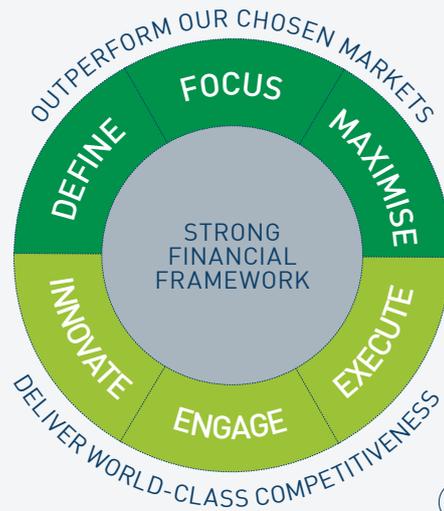
**1**  
OUTPERFORM OUR CHOSEN MARKETS



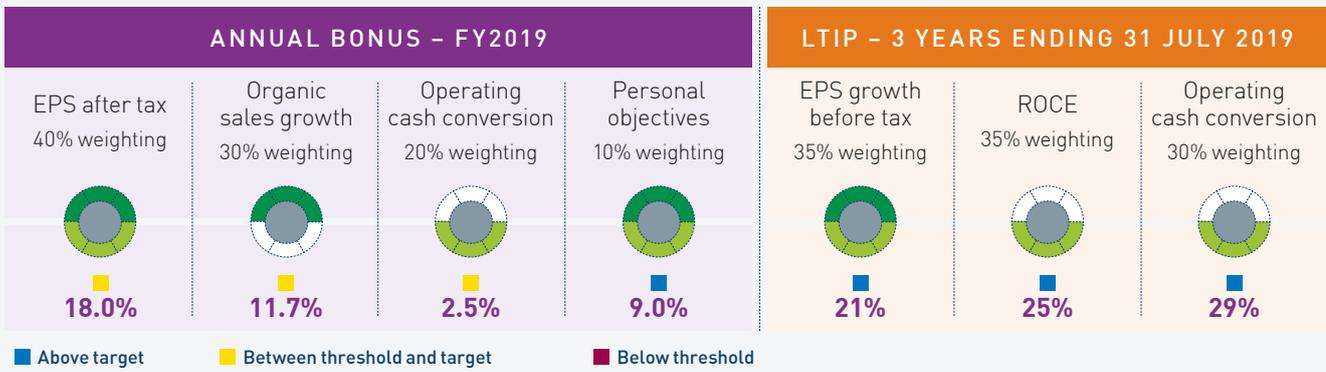
**2**  
DELIVER WORLD-CLASS COMPETITIVENESS



**3**  
STRONG FINANCIAL FRAMEWORK



**PERFORMANCE MEASURES DRIVING REMUNERATION**



**SINGLE TOTAL FIGURE OF REMUNERATION FOR EXECUTIVE DIRECTORS IN FY2019 (£'000)**



## IMPLEMENTATION OF REMUNERATION POLICY IN FY2019

The table below summarises how the remuneration policy has been implemented in FY2019 and highlights any changes from previous reports.

### Basic pay

### Benefits Pension

### Annual bonus

### LTIP

#### Base salary

Fixed remuneration which reflects required skills and expertise to deliver the Group's objectives.

Increases to Executive Director salaries in FY2019 were below or in line with the average increase for UK employees of 2.9%.

#### Benefits

Market competitive benefits package consisting of healthcare, life and disability insurance and car benefit. No change in provision other than change in reporting basis of benefits from previous years to enhance disclosure.

#### Retirement allowance

Previous policy allowed for maximum provision of 30% of base salary. Policy amended so that new Executive Directors will receive same percentage allowance as wider workforce.

The employment contracts of existing Executive Directors provide for allowance of 25% of base salary (see page 105 and page 119 for FY2020 change).

#### Annual bonus

- Maximum bonus opportunity remains unchanged at 180% of base salary for Chief Executive
- Maximum bonus opportunity remains unchanged at 150% of base salary for Chief Financial Officer
- FY2019 outcome of 41.2% of maximum
- 33% of annual bonus deferred into shares for three years
- Withholding and recovery provisions apply

#### Long-term incentive plan

- Maximum award opportunity remains unchanged at 400% of base salary
- FY2019 award of 300% of base salary for Chief Executive (equivalent to fixed number of 179,627 shares)
- FY2019 award of 250% of base salary for Chief Financial Officer (equivalent to fixed number of 95,837 shares)
- 75% vesting level for three year performance period ending 31 July 2019
- Two year post-vesting holding period applies for all awards from FY2019
- Withholding and recovery provisions apply

#### Shareholding guidelines

- Personal shareholdings (including deferred bonus shares and vested but unreleased shares, net of tax) for Chief Executive remain above the 250% of salary minimum guideline. Chief Financial Officer is expected to reach the minimum guideline of 200% of base salary within five years of appointment to the Board (1 January 2023)

## SUMMARY OF EXECUTIVE DIRECTORS' REMUNERATION FY2019

	Chief Executive		Chief Financial Officer	
	FY2019	FY2018	FY2019	FY2018 <sup>1</sup>
Base salary	820	800	525	402
Benefits	54	64	12	9
Retirement allowance	205	200	131	100
Annual bonus – cash	405	408	216	177
Annual bonus – deferred shares	203	204	108	88
Long-term incentives	2,097	1,165	–	–
Performance share award	346	414	–	–
<b>Total</b>	<b>4,130</b>	<b>3,255</b>	<b>992</b>	<b>776</b>

<sup>1</sup> Prorated

# REMUNERATION POLICY REPORT

This section of the report sets out our remuneration policy for Directors, which shareholders approved at the AGM held on 14 November 2018 and which is effective for a period of up to three years from this date. Subsequent to the AGM a number of investors and investor advisers introduced new guidelines for executive remuneration. The policy report below sets out where account of these new guidelines has already been taken and where the policy will be reviewed prior to the next shareholder approval of the policy. The remuneration policy can be viewed in the Corporate Governance section of the Company's website.

## REMUNERATION POLICY FOR THE EXECUTIVE DIRECTORS

Operation	Opportunity	Performance measures	Response to shareholder feedback and subsequent policy guideline updates
<b>Base salary</b>			
<b>To attract, motivate and retain Executive Directors with the required skills and expertise to deliver the Group's objectives.</b>			
<p>Salaries are reviewed (but not necessarily adjusted) annually and benchmarked against comparable roles at companies of similar market capitalisation, revenues and complexity.</p> <p>The review also takes into account individual performance and experience, the relative performance of the Company and the remuneration policy operated across the Group as a whole.</p> <p>The salary increase date (if applicable) has been changed to 1 October as part of a Group-wide consolidation.</p>	<p>Base salaries are adjusted according to the outcome of the annual review and will be disclosed in the Annual Report on Remuneration.</p> <p>Salary increases for the Executive Directors will normally be in line with those awarded to Smiths wider employee population. Where increases are awarded in excess of this, for example if there is a material change in the responsibility, size or complexity of the role, or a significant change in the market competitiveness of salary, the Committee will provide the rationale in the relevant year's Annual Report on Remuneration.</p>	Not applicable	None required
<b>Benefits</b>			
<b>To provide market-competitive benefits to Executive Directors.</b>			
<p>Benefits comprise car benefit, life assurance and private healthcare insurance, and other such benefits as the Committee may from time to time determine are appropriate. These include, but are not limited to, relocation allowances, as well as any other future benefits made available either to all employees globally or all employees in the region in which the Executive Director is employed.</p>	<p>Benefits vary by role and individual circumstances.</p> <p>Benefits in respect of the year under review are disclosed in the Annual Report on Remuneration.</p> <p>It is not anticipated that the costs of benefits provided will increase significantly in the financial years over which this policy will apply, although the Committee retains discretion to approve a higher cost in exceptional circumstances (e.g. to facilitate recruitment, relocation, expatriation, etc.) or in circumstances where factors outside the Group's control have changed materially (e.g. market increases in insurance costs).</p>	Not applicable	None required

Operation	Opportunity	Performance measures	Response to shareholder feedback and subsequent policy guideline updates
<b>Pensions</b>			
<b>Enables Executive Directors to save for their retirement in a cost-efficient manner.</b>			
<p>Executives may choose either to participate in the Company's defined contribution pension plan or to receive a pension allowance in lieu thereof (and thus arrange their own pension provision).</p> <p>Pension allowances are reviewed periodically to ensure market competitiveness.</p> <p>Base salary is the only element of remuneration that is taken into account when determining pension contributions or allowances.</p>	<p>Pension contributions (or cash allowances in lieu thereof) are set at a level that the Committee considers appropriate having regard to prevailing market practice at other FTSE 100 companies of similar market capitalisation, revenues and complexity.</p> <p>Pension arrangements for current Executive Directors are set out in the Annual Report on Remuneration.</p> <p>The maximum level of pension contribution (or allowance in lieu thereof) for new Executive Directors will be in line with the contribution level for the wider workforce in the relevant country.</p>	Not applicable	<p>New maximum level of contribution introduced for any new Executive Directors, in line with general workforce.</p> <p>The employment contracts of the two Executive Directors provide for a cash allowance of 25% of base salary in lieu of pension provision. Both Executive Directors have agreed, for FY2020, to freeze the monetary value of the allowance at the FY2019 level, reducing the level of benefit to 24.4% of base salary for FY2020.</p>
<b>Annual bonus</b>			
<b>Incentivises short-term priorities in line with the Group's business strategy.</b>			
<p>Annual bonus payments are determined based upon performance against measures and targets set by the Committee at the start of each financial year.</p> <p>After the end of the financial year, to the extent that the performance criteria have been met, up to 67% of the earned annual bonus is paid in cash. The balance is deferred into shares and released after a further period of three years, without further performance or other conditions. Dividends accrue and are payable in cash at the end of the deferral period.</p> <p>The Committee may use its discretion to adjust payout of the annual bonus to Executive Directors, within the range of the minimum to maximum opportunity, including reducing it down to zero. Such discretion will only be used where the Committee believes that performance against the prescribed targets does not accurately reflect the Company's underlying performance.</p> <p>Cash payments will be subject to clawback and deferred share bonuses awarded will be subject to malus for a period of three years from the end of the relevant performance year, in case of misconduct or material misstatement in the published results of the Group.</p>	<p>The maximum annual bonus opportunity for Executive Directors is up to 180% of salary.</p> <p>The annual bonus opportunities for the year under review and the coming year are disclosed in the Annual Report on Remuneration.</p> <p>Under the financial element of the annual bonus, threshold performance must be exceeded before any annual bonus becomes payable. The percentage payout then increases according to the level of achievement against targets. Payment of 25% of maximum opportunity occurs on achievement of threshold performance and 60% of maximum opportunity on achievement of on-target performance.</p>	<p>Based on a combination of financial and non-financial performance measures linked to short-term objectives. Financial performance will account for no less than 70% of the bonus opportunity and may include, but is not limited to, profit, organic sales growth and cash measures.</p>	<p>Performance against annual bonus targets will now be reported in the report relating to the fiscal year (previously performance was reported the following year).</p> <p>A review of how dividends accrued on deferred bonus awards are payable (shares or cash) will be undertaken as part of the next Policy review.</p> <p>Withholding and recovery provisions have been reviewed and updated to provide a consistent policy across all share plans.</p>

Operation	Opportunity	Performance measures	Response to shareholder feedback and subsequent policy guideline updates
<b>Long-Term Incentive Plan (LTIP)</b>			
<b>Incentivises long-term value creation for shareholders, sustainable growth and effective management of the balance sheet.</b>			
<p>Awards of conditional shares are granted annually and vest after a performance period of at least three years, subject to the achievement of performance targets set by the Committee at the start of each cycle. For awards made in FY2019 onwards, vested shares will be subject to a two year post vesting holding period. Details of such holding period will be disclosed in the Annual Report on Remuneration for the year in which the relevant award is made.</p> <p>To the extent that the performance targets are not met over the performance period, awards will lapse. No retesting of awards under any performance condition is permitted.</p> <p>Dividends accrue and are paid in cash at the end of the vesting period, on shares that vest.</p> <p>The Committee may use its discretion to adjust payout of the LTIP to Executive Directors, within the limits of the Plan rules. Such discretion will only be used where the Committee believes that performance against the prescribed targets does not accurately reflect the Company's underlying performance.</p> <p>Awards will be subject to malus over the vesting period and clawback from the vesting date for a period of five years from the date of grant, in case of misconduct or material misstatement in the published results of the Group.</p>	<p>The maximum LTIP award opportunity for Executive Directors is up to 400% of salary.</p> <p>For awards made from FY2019 onwards, the award will be a fixed number of shares. In FY2019 this fixed number of shares was equivalent to 300% of salary for the Chief Executive and 250% of salary for the Chief Financial Officer. In future years for which this policy applies it is intended that the Executive Directors will each be awarded the same fixed number of shares as in FY2019. In the event that the Company share price increases by more than 33% during the three year policy period, the fixed number of shares awarded will be restricted so that the value of the award is no more than 33% greater than the value of the FY2019 award at the date of grant. This will ensure that the maximum LTIP award opportunity is not exceeded.</p> <p>LTIP award sizes for the year under review and the coming year are disclosed in the Annual Report on Remuneration.</p> <p>At threshold performance against each measure, up to 25% of the award subject to that measure vests, increasing on a straight-line basis to 100% for achieving stretch targets.</p>	<p>Based on measures of performance that are aligned with the Group's strategy.</p> <p>To ensure continued alignment with the Company's strategic priorities, the Committee may, at its discretion, vary the measures and their weightings from time to time (but will consult shareholders before making significant changes to the performance measures).</p>	<p>A review of how dividends accrued on LTIP awards are payable (shares or cash) will be undertaken as part of the next Policy review.</p> <p>Withholding and recovery provisions have been reviewed and updated to provide a consistent policy across all share plans.</p>

Operation	Performance measures	Response to shareholder feedback and subsequent policy guideline updates
<b>Sharesave</b>		
<b>Encourages ownership of shares in the Company and alignment with shareholder interests.</b>		
All UK employees (including Executive Directors) may save up to a maximum monthly savings limit (as determined by UK legislation, or other such lower limit as the Committee may determine at its discretion) for three or five years.  At the end of the savings period, participants may use their savings to exercise options to acquire shares, which may be granted at a discount of up to 20% to the market price on grant.	Not applicable	None required
<b>Shareholding guidelines</b>		
<b>Encourages ownership of shares in the Company and alignment with shareholder interests.</b>		
Executive Directors must build a minimum shareholding of 250% (for the Chief Executive) or 200% (for other Executive Directors) of base salary within five years of appointment to the Board. 50% of any net vested share awards (after sales to meet tax liabilities) must be retained until the minimum shareholding requirements are met.  Shareholding guidelines also exist below Executive Director level.	Not applicable	Position on post-employment shareholding guidelines to be kept under review over the life of this Policy.

## EXISTING GRANTS OR ENTITLEMENTS

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

## PERFORMANCE MEASURE SELECTION AND APPROACH TO TARGET SETTING

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

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

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

The linkage of the performance measures to business strategy is set out in the At A Glance section on page 102.

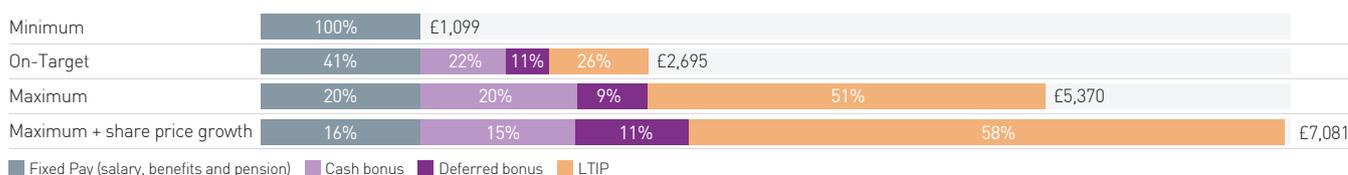
## ALIGNMENT OF POLICY BETWEEN EXECUTIVE DIRECTORS AND OTHER EMPLOYEES

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

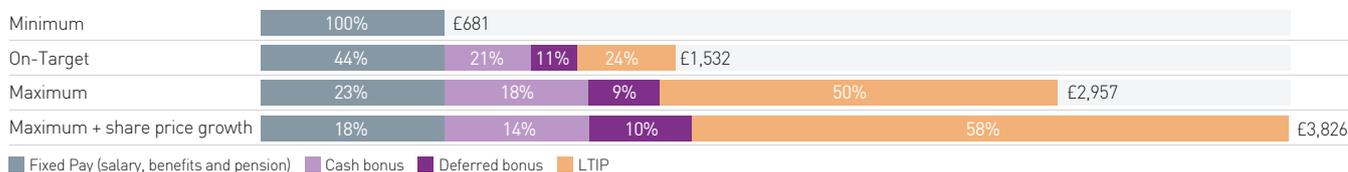
## PAY SCENARIOS

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

### ANDY REYNOLDS SMITH (£000)



### JOHN SHIPSEY (£000)



Potential opportunities illustrated above are based on the Policy, applied to the annualised base salaries in force from 1 October 2019. It should be noted that any awards granted under the LTIP in a year do not normally vest until at least the third anniversary of the date of grant. This illustration is intended to provide further information to shareholders on the relationship between executive pay and performance. Please note, however, that actual pay delivered will further be influenced by factors such as share price appreciation or depreciation and the value of dividends paid. The following assumptions have been made in compiling the above charts:

	Minimum	On-Target	Maximum
Base salary	Annual base salary		
Pension	Company pension allowance		
Other benefits	Taxable value of annual benefits provided		
Cash bonus	0% of salary	72% (CEO), 60% (CFO) of salary	120% (CEO), 100% (CFO) of salary
Deferred bonus	0% of salary	36% (CEO), 30% (CFO) of salary	60% (CEO), 50% (CFO) of salary
LTIP	0% of salary	82% (CEO), 68% (CFO) of salary	327% (CEO), 272% (CFO) of salary

## REMUNERATION POLICY FOR THE CHAIRMAN AND NON-EXECUTIVE DIRECTORS

Operation	Opportunity	Performance measures
<b>Annual fee</b>		
<b>To attract, motivate and retain Non-executive Directors with the required skills and expertise.</b>		
<p>Fees may be paid in cash or a combination of cash and shares and are reviewed annually (but not necessarily increased) to ensure they compare appropriately to fees payable at companies of similar size and complexity to Smiths.</p> <p>Additional fees are paid to the Chairs of the Nomination &amp; Governance, Audit &amp; Risk, and Remuneration Committees and to the Senior Independent Director to reflect the additional time commitment of these roles. Additional fees may also be paid to members of the Nomination &amp; Governance, Audit &amp; Risk, and Remuneration Committees.</p> <p>The additional fee paid to the Chairman of the Board is determined by the Committee, absent the Chairman, while the fees for all Non-executive Directors are agreed by the Executive Directors.</p>	<p>Fees are adjusted according to the outcome of the annual reviews.</p> <p>The basic fee for Non-executive Directors is subject to the maximum aggregate annual fee of £1,000,000, as approved by shareholders in 2017 in the Company's Articles of Association.</p>	Not applicable
<b>Other</b>		
<p>The Chairman and Non-executive Directors are not eligible for benefits or any pension provision, nor are they eligible for bonuses or participation in share schemes. To reflect the greater time commitments expected of the Non-executive Directors when attending overseas Board meetings, an additional fee is paid to them for each such meeting, and they are reimbursed for actual expenses incurred (transportation, hotels etc.). Modest retirement gifts may be provided for Non-executive Directors in appropriate circumstances.</p>		

## APPROACH TO REMUNERATION ON RECRUITMENT AND LEAVING

### EXECUTIVE DIRECTORS

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

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

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

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

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

## NON-EXECUTIVE DIRECTORS

In recruiting a new Non-executive Director, the Committee will use the policy as set out in the table on page 109.

## EXECUTIVE DIRECTORS' SERVICE CONTRACTS

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

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

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

## CHAIRMAN'S AND NON-EXECUTIVE DIRECTORS' LETTERS OF APPOINTMENT

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

Non-executive Director	Date of appointment
Sir George Buckley	1 August 2013
Bruno Angelici	1 July 2010
Olivier Bohuon	1 July 2018
Dame Ann Dowling	19 September 2018
Tanya Fratto	1 July 2012
Bill Seeger	12 May 2014
Mark Seligman	16 May 2016
Noel Tata	1 January 2017
Sir Kevin Tebbit (until 14 November 2018)	14 June 2006

## LEAVING AND CHANGE-OF-CONTROL PROVISIONS

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

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

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

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

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

## EXTERNAL APPOINTMENTS

Subject to the overriding requirements of the Company, the Committee allows Executive Directors to accept one external appointment where it considers that such appointment will contribute to the Director's breadth of knowledge and experience. Directors are permitted to retain fees associated with such appointments. Non-executive Directors must obtain the approval of the Board before accepting any additional appointments once they have joined the Board.

## CONSIDERATION OF EMPLOYMENT CONDITIONS

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

## CONSIDERATION OF SHAREHOLDER VIEWS

The Committee has taken account of the views expressed by shareholders, both from feedback from the 2018 Policy review and from regular meetings with major shareholders. A number of changes have been implemented in FY2019 and the Committee will keep the Policy and its approach to implementation under review in the context of evolving market practice and investor expectations.

# ANNUAL REPORT ON REMUNERATION

This section of the remuneration report details how our Policy was implemented in the year ended 31 July 2019.

## COMMITTEE MEMBERS AND MEETING ATTENDANCE IN FY2019

The membership of the Committee and their meeting attendance during the year is set out on page 85 of this report. Bill Seeger had served on a remuneration committee for at least 12 months prior to his appointment as Remuneration Committee Chair.

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

## ADVISERS TO THE COMMITTEE

During the year, the Committee received material assistance and advice from the Chief Executive, the Group HR Director, the Executive Reward Director, Mercer | Kepler (the Committee's appointed independent remuneration adviser) and Freshfields Bruckhaus Deringer LLP. The Company Secretary is secretary to the Committee.

The Company paid a total annual fee of £66,850 to Mercer | Kepler in relation to remuneration advice to the Committee during the year. Fees were determined on the basis of time and expenses.

During FY2019, Mercer | Kepler provided the Committee with benchmarking analysis of Executive and Non-executive Directors' pay, information on market trends, drafting support for this and last year's Directors' Remuneration Report, and other relevant assistance on determining Directors' remuneration. Mercer | Kepler is a founding member of the Remuneration Consultants Group and a signatory to its Code of Conduct. Kepler's parent company, Mercer, provides unrelated services to the Group in the areas of all-employee reward and retirement benefits. However, the Committee is satisfied that the advice provided by Mercer | Kepler is objective and independent and that they do not have connections with the Group that may impair their independence.

Mercer | Kepler was re-appointed by the Committee via competitive tender in 2013. A new competitive tender for the role of independent remuneration adviser is planned in autumn 2019.

Freshfields Bruckhaus Deringer LLP was appointed by the Company to advise the Group on various legal matters during the year.

## SUMMARY OF SHAREHOLDER BINDING VOTE ON DIRECTORS' REMUNERATION POLICY (FY2019)

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

Votes for	% of votes cast for	Votes against	% of votes cast against	Total votes cast	Votes withheld (abstentions)
230,167,925	81.61%	51,868,709	18.39%	282,036,634	24,949,627

## SUMMARY OF SHAREHOLDER ADVISORY VOTE ON DIRECTORS' REMUNERATION REPORT (FY2019)

The voting outcome in November 2018 for the Directors' Remuneration Report was as follows:

Votes for	% of votes cast for	Votes against	% of votes cast against	Total votes cast	Votes withheld (abstentions)
259,479,657	93.93%	16,764,455	6.07%	276,244,112	30,742,150

## DIRECTORS' SINGLE FIGURE OF ANNUAL REMUNERATION (AUDITABLE)

### Executive Directors

	Salary/fees		Benefits <sup>9</sup>		Payments in lieu of pension contribution		Total fixed		Annual bonus <sup>11</sup>		Long-term incentives <sup>12</sup>		Performance share award <sup>13</sup>		Total performance related		Total	
	FY2019	FY2018	FY2019	FY2018	FY2019	FY2018	FY2019	FY2018	FY2019	FY2018	FY2019	FY2018	FY2019	FY2018	FY2019	FY2018	FY2019	FY2018
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Andy Reynolds Smith <sup>1</sup>	820	800	54	60	205	200	1,079	1,060	608	612	2,097	1,165	346	414	3,051	2,191	4,130	3,251
John Shipsey <sup>1,2</sup>	525	402	12	9	131	100	668	511	324	265	-	-	-	-	324	265	992	776
Bill Seeger <sup>3</sup>	-	498	-	112	-	-	-	610	-	-	-	-	-	-	-	-	-	610

### Chairman and Non-executive Directors

	Salary/fees		Benefits <sup>10</sup>		Total	
	FY2019	FY2018	FY2019	FY2018	FY2019	FY2018
	£000	£000	£000	£000	£000	£000
Sir George Buckley <sup>4</sup>	443	433	46	65	489	498
Bruno Angelici	74	76	14	9	88	85
Olivier Bohuon	74	6	-	-	74	6
Dame Ann Dowling	60	-	-	-	60	-
Tanya Fratton	90	84	49	57	139	141
Anne Quinn <sup>5</sup>	-	96	-	5	-	111
Bill Seeger <sup>6</sup>	124	48	89	26	213	74
Mark Seligman <sup>7</sup>	94	96	-	-	94	96
Noel Tata	94	92	49	27	143	119
Sir Kevin Tebbit <sup>8</sup>	33	96	5	-	38	96

- It is estimated that 9.2% of the FY2019 Long Term Incentives amount for Andy Reynolds Smith is attributable to share price appreciation (FY2018 27.4%). No Long Term Incentives vested for John Shipsey in respect of FY2019 or FY2018. No discretion has been applied to the amounts attributable to share price appreciation.
- John Shipsey commenced employment on 18 October 2017 and was appointed as a Director and Chief Financial Officer from 1 January 2018.
- Bill Seeger served as Chief Financial Officer on an interim basis from 19 May 2017 to 31 December 2017 for which he received a fixed fee, having served as a Non-executive Director and chairing the Audit & Risk Committee prior to that date. He did not receive any further fees from Smiths during this period. He resumed his non-executive role from 1 January 2018. Throughout 2017 Bill Seeger was a Non-executive Director of Spectris plc and during the period he served as Chief Financial Officer for Smiths in FY2018 he retained his Non-executive Director fees from Spectris of £37,500.
- Sir George Buckley's fee comprised his Non-executive Director's fee; an additional fee for being Chairman and his additional fee for chairing the Nomination & Governance Committee.
- Anne Quinn's fees comprised her Non-executive Director's fee and her additional fee for chairing the Remuneration Committee until 1 July 2018 and benefits include a retirement gift to recognise her contribution to the Board.
- Bill Seeger's fees for FY2019 comprised his Non-executive Director's fee, his additional fee for chairing the Remuneration Committee from 1 July 2018 and his additional fee as Senior Independent Director since 14 November 2018.
- Mark Seligman's fees comprised his Non-executive Director's fee and his additional fee for chairing the Audit & Risk Committee.
- Sir Kevin Tebbit's fees comprised his Non-executive Director's fee and his additional fee as Senior Independent Director until 14 November 2018 and benefits include a retirement gift to recognise his contribution to the Board.
- Benefits for Executive Directors include car/chauffeur benefits, life assurance, disability insurance and private healthcare insurance. For comparison purposes these figures have been restated for FY2018 to provide greater disclosure of the car/chauffeur benefit, which previously had not been included in the FY2018 figures.
- Benefits for the Chairman and Non-executive Directors relates to reimbursed travel-related expenses (including flight costs), which is grossed-up for the UK income tax and National Insurance contributions paid by the Company on their behalf.
- Andy Reynolds Smith has deferred 33% of his bonuses earned since FY2016 into Smiths shares. John Shipsey deferred 33% of his FY2018 bonus earned into Smiths shares. The total bonus paid during the year, including deferral, is captured under 'annual bonus' above. The deferral is for a three-year period and is not subject to any further performance or other conditions.
- The Long Term Incentive value for FY2018 for Andy Reynolds Smith has been restated to show the actual amount (rather than the estimated amount in last year's report) and to include a dividend accrual payment of £94,585 which was paid on vesting. The total remuneration is also restated accordingly. The estimated Long Term Incentive value for FY2019 is calculated using the vesting percentage of 75% and the average share price over the 3 months to 31 July 2019 of 1,536.46p; it also a dividend accrual payment of £164,364 payable on vesting.
- Andy Reynolds Smith was awarded 79,806 Performance Shares in 2015 which vested in October 2018. The value shown for FY2018 is the value on the vesting date of 9 October 2018 and also includes the value of 2,472 dividend equivalent shares (restated from estimated figure in FY2018 report). He was also awarded 26,602 Performance shares which vest in 2019 (the performance criteria for these shares is the same as set out in the FY2017 LTIP Outcome section on page 115). The estimated value shown for FY2019 is calculated using the vesting percentage of 75% and the average share price over the 3 months to 31 July 2019 of 1,536.46p. The FY2019 figure also includes an amount of £39,041 in respect of the value of 2,541 dividend equivalent shares.

**INCENTIVE OUTCOMES FOR FY2019 (AUDITABLE)**

FY2019 annual bonus outcome for Andy Reynolds Smith and John Shipsey:

The table below summarises the structure of the FY2019 annual bonus, our performance and the resulting annual bonus payout for each of the Executive Directors.

Director	Measure	Weighting	Maximum Opportunity (% of salary)	Earned bonus		£000
				(% of max. bonus)	(% salary)	
Andy Reynolds Smith	EPS after tax	40%	72%	18.0%	32.4%	265
	Op. Cash Conversion	20%	36%	2.5%	4.5%	37
	Organic Sales Growth	30%	54%	11.7%	21.1%	173
	Personal Objectives	10%	18%	9.0%	16.2%	133
<b>Total</b>		<b>100%</b>	<b>180%</b>	<b>41.2%</b>	<b>74.2%</b>	<b>608</b>
John Shipsey	EPS after tax	40%	60%	18.0%	27.0%	141
	Op. Cash Conversion	20%	30%	2.5%	3.8%	20
	Organic Sales growth	30%	45%	11.7%	17.6%	92
	Personal Objectives	10%	15%	9.0%	13.5%	71
<b>Total</b>		<b>100%</b>	<b>150%</b>	<b>41.2%</b>	<b>61.9%</b>	<b>324</b>

The table below summarises the financial targets and the Company's actual performance (including relevant Medical performance and re-expressed at budget exchange rates) against these for the FY2019 annual bonus.

Measure		Performance targets and actual performance			Actual
		Threshold 25% payout	Target 60% payout	Maximum 100% payout	
EPS after tax <sup>1</sup>		89.6p	96.4p	102.3p	93.5p
Operating Cash Conversion <sup>2</sup>	H1	74%	84%	94%	74%
	FY	90%	100%	105%	82%
Organic Sales Growth <sup>3</sup>		2%	3%	5%	2.4%

1 An adjustment to the EPS target was agreed by the Remuneration Committee to reflect the effect of business divestments, in line with normal practice. This had the effect of reducing the EPS target from 97.3p to 96.4p. Minor adjustments to the EPS performance achievement in respect of unbudgeted tax impact were agreed by the Remuneration Committee, in line with normal practice. This had the effect of increasing the reported EPS figure at budget exchange rates from 92.5p to 93.5p.

2 50% of the maximum opportunity is available for each of H1 and FY.

3 The 2.4% organic sales growth is based on revenue (including Medical) of £3,372m retranslated at budget exchange rates (£103m) and the removal of impact of FY2019 acquisitions (£54m).

**PERSONAL OBJECTIVES (AUDITABLE)**

Challenging personal objectives were set for each Executive Director to reinforce the Company's operating and strategic priorities. The weighting applied to personal objectives has been reduced from 30% in previous years to 10% in FY2019.

Overall, Andy Reynolds Smith's performance against his personal objectives for FY2019 was rated at 90%. This reflects the continued delivery of growth for the Group and improvement of the acquisitions pipeline; strong progress in developing Smiths Group vision and future strategy together with the development of a strategic plan to deliver organic growth; positive results in development of the digital forge in support of divisional projects; and significant progress in developing organisational capability and succession planning at leadership level.

Overall, John Shipsey's performance against his personal objectives for FY2019 was rated at 90%. This reflects successful achievement of the development and execution of an agreed revitalised tax strategy; implementation of a process for improving capital allocation in relation to organic and inorganic investments, including qualitative and quantitative criteria to improve targeting of right opportunities; introduction of a next-generation working model for the Group and delivery of a cost-effective result; excellent progress in delivering a strategic solution for the Medical division which realises value for shareholders; and steady progress in development of the Finance function including upgrading talent, improvement of the operating model and execution of technology to demonstrate improvement in cash metrics.

## INCENTIVE OUTCOMES FOR FY2018 (AUDITABLE)

The table below summarises the financial targets and the Company's actual performance, expressed at budgeted exchange rates, against these for the FY2018 annual bonus, which was reported in last year's remuneration report.

Measure		Weighting	Threshold (25% payment)	Target (60% payment)	Maximum (100% payment)	Actual	Earned bonus (% of max bonus)
EPS after tax <sup>1</sup>		50%	93.3p	98.2p	103.1p	94.1p	15.5%
Operating cash conversion <sup>2</sup>	Q1	3%		84%		91%	3.0%
	Q2	3%		117%		106%	0.0%
	Q3	3%		103%		89%	0.0%
	Q4	3%		120%		108%	0.0%
	H1	4%	102%		107%	97%	0.0%
	H2	4%	112%		117%	97%	0.0%

1 The Committee applied discretion to take account of US tax rate changes which provided a beneficial impact on profit during the year. This resulted in a reduction in the actual level of EPS of 98.3p (at budget exchange rates) to an effective level of 94.1p, leading to a reduction in the bonus payment (bonus for Chief Executive was reduced from £828,000 to £612,000 and for CFO from £355,000 to £265,000).

2 Payment was dependent on exceeding target cash conversion for each relevant quarter (each quarter delivering 15% of total). Achievement for each half year performance between threshold (25% payout) and maximum (100% payout) delivered a further payout of up to 20% of total for each half year. The payout was only achieved in Q1 resulting in payout of 15% of the maximum amount under this measure.

Performance against FY2018 personal objectives for each of the Executive Directors was reported in last year's report. When these are added to the above earned bonus percentages, the resulting bonus payments are as reported in last year's remuneration report (Chief Executive 42.5% of maximum bonus, 76.5% of salary, £612,000 and CFO 44.0% of maximum bonus, 66.0% of salary, £265,000).

## FY2017 LTIP OUTCOME (AUDITABLE)

Awards granted under the LTIP in October 2016 were subject to the following performance conditions:

Measure	Weighting	Performance period	Vesting schedule		Actual performance	
			Performance	% vesting	Outturn	% vesting
Group EPS growth before tax	35%	1 August 2016 to 31 July 2019	< 3% p.a.	0%	7.2% p.a.	21%
			3% p.a.	8.75%		
			≥ 12% p.a.	35.0%		
			Straight-line vesting between these points			
Average ROCE	35%	1 August 2016 to 31 July 2019	< 15% p.a.	0%	16.8% p.a.	25%
			15% p.a.	8.75%		
			≥ 18% p.a.	35.0%		
			Straight-line vesting between these points			
Average operating cash conversion	30%	1 August 2016 to 31 July 2019	< 85%	0%	99.5% p.a.	29%
			85%	7.5%		
			≥ 100%	30.0%		
			Straight-line vesting between these points			
<b>Total</b>						<b>75%</b>

## FY2017 LTIP OUTCOME FOR EXECUTIVE DIRECTORS (AUDITABLE)

	Interests held	Vesting %	Interests vesting	Date of vesting	Market price <sup>1</sup>	Value £000 <sup>2</sup>
Andy Reynolds Smith	167,741	75%	125,805	Oct 2019	£15.3646	1,933

John Shipsey and Bill Seeger did not participate in the FY2017 LTIP.

1 Based on the average share price over the three months to 31 July 2019 of 1,536.46p.

2 In addition an accrued dividend payment of £164,364 is payable at vesting date

## FY2017 LTIP OUTCOME FOR PAST DIRECTORS (AUDITABLE)

	Interests held	Vesting %	Interests vesting	Date of vesting	Market price <sup>1</sup>	Value £000 <sup>2</sup>
Chris O'Shea <sup>3</sup>	37,886	75%	28,414	Oct 2019	£15.3646	£437

1 Based on the average share price over the three months to 31 July 2019 of 1,536.46p.

2 In addition an accrued dividend payment of £37,123 is payable at vesting date.

3 Chris O'Shea was formerly the Chief Financial Officer and an Executive Director of the Company. He ceased to be an employee on 18 November 2017 and his original share award of 90,927 shares was pro-rated as per his termination agreement.

## SCHEME INTERESTS AWARDED IN FY2019 (AUDITABLE)

## FY2019 LTIP

During the year ended 31 July 2019, the Executive Directors were awarded a fixed number of conditional share awards under the LTIP details of which are summarised in the table below. These awards were equivalent to 300% of base salary for Chief Executive and 250% for Chief Financial Officer.

Executive	Form of award	Date of grant	Number of shares awarded	Face value		% of salary	Date of vesting
				Award price <sup>1</sup>	£000		
Andy Reynolds Smith	Conditional shares	31 Oct 2018	179,627	£13.695	2,460	300%	Oct 2021
John Shipsey	Conditional shares	31 Oct 2018	95,837	£13.695	1,312	250%	Oct 2021

<sup>1</sup> The closing price on 30 October 2018.

The performance conditions attached to these FY2019 LTIP awards are as follows:

Measure	Weighting	Performance period	Vesting schedule	
			Performance	% vesting
Group EPS growth after tax	25%	1 August 2018 to 31 July 2021	< 4% p.a.	0%
			4% p.a.	6.25%
			≥ 11% p.a.	25.0%
			Straight-line vesting between these points	
Average ROCE	20%	1 August 2018 to 31 July 2021	< 15% p.a.	0%
			15% p.a.	5.0%
			≥ 18% p.a.	20.0%
			Straight-line vesting between these points	
Average operating cash conversion	25%	1 August 2018 to 31 July 2021	< 90%	0%
			90%	6.25%
			≥ 105%	25.0%
			Straight-line vesting between these points	
Organic sales growth	30%	1 August 2018 to 31 July 2021	< 3%	0%
			3%	7.5%
			≥ 6%	30.0%
			Straight-line vesting between these points	

## FY2019 Deferred bonus award

During the year ended 31 July 2019, Andy Reynolds Smith and John Shipsey were awarded conditional shares as deferred bonus awards in relation to the FY2018 annual bonus outcome, details of which are summarised in the table below. There are no further performance conditions or other conditions for these awards.

Executive	Form of award	Date of grant	Number of shares awarded	Face value		Date of vesting
				Award price <sup>1</sup>	£000	
Andy Reynolds Smith	Conditional shares	31 Oct 2018	14,746	£13.695	202	Oct 2021
John Shipsey	Conditional shares	31 Oct 2018	6,393	£13.695	88	Oct 2021

<sup>1</sup> The closing price on 30 October 2018.

## SAYE

Andy Reynolds Smith became a participant in the Smiths Group Sharesave Scheme in the year ending 31 July 2016. 2,078 share options under this scheme vested on 1 August 2019 at the option price of 866p. As he had chosen to participate at the maximum level he did not participate in the scheme in the years ending 31 July 2017 and 31 July 2018. A further 1,515 share options were granted in May 2019, effective from August 2019, at the option price of 1188p (a discount of 20% to the market price) with a face value of £18,000 and a vesting date of August 2022.

John Shipsey became a participant in the Smiths Group Sharesave Scheme in the year ending 31 July 2019. He has 1,515 share options under the scheme granted in May 2019, effective from August 2019, at the option price of 1188p (a discount of 20% to the market price) with a face value of £18,000 and a vesting date of August 2022.

## BUYOUT AWARDS

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

He received an award of 86,893 restricted shares, the grant value of which was captured in the 2016 single figure. 30,412 shares vested on the 30 June 2016 and the remaining 56,481 restricted shares vested on 30 June 2017 (at a share price of 1,597p). Andy Reynolds Smith also received awards of 79,806, 26,602 and 26,602 conditional shares which vest, subject to performance conditions, in October 2018, 2019 and 2020 respectively. The estimated value of the award vesting in October 2019 is included in this year's single figure of remuneration table for Andy Reynolds Smith (see note 13 on page 113). To the extent the final award vests, its value will be reflected in the FY2020 single figure of remuneration.

## PERCENTAGE CHANGE IN REMUNERATION FROM FY2018 TO FY2019

	Salary/Fees	Benefits	Bonus
Chief Executive remuneration	2.5%	(10)%	(1)%
Chief Financial Officer remuneration	2.9%	0%	(4)%
Non-executive Director remuneration	2.5%	33%	0%
Average of all employees	2.9%	2.9%	12%

'All employees' is defined as all UK Group employees, 483 employees at all grades.

## CHIEF EXECUTIVE PAY RATIOS

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

Year	Method	Pay element	25th percentile ratio	Median pay ratio	75th percentile ratio
FY2019	B	Total pay	133:1	97:1	65:1
FY2018	B	Total pay	107:1	77:1	52:1
FY2019	B	Fixed pay	36:1	26:1	18:1
FY2018	B	Fixed pay	36:1	26:1	18:1

Pay data for the Chief Executive is taken from the total single figure of remuneration table on page 113. The pay data for employees in the UK workforce is based on the data used for gender pay reporting as the equivalent figures to the single figure table are not available at the time of producing this report. The gender pay reporting basis comprises payments received during FY2019 (FY2019 base salary and benefits, FY2018 incentive payments) and it is assumed that the value of employee benefits is 7.0% of base salary. The workforce remuneration figures are those paid to UK employees whose pay is at the 25th, median and 75th percentile of pay for the Group's UK employees. Figures are shown on both the prescribed basis using total pay and also using fixed pay excluding incentives, which provides a useful ongoing comparison as it is a less volatile basis. The increase in the ratios on a total pay basis is as a result of the increase in the Chief Executive's long-term incentive payments in FY2019 compared to FY2018. The ratios on a fixed pay basis are consistent for FY2019 and FY2018. The Committee will monitor the ratios on an annual basis.

## RELATIVE IMPORTANCE OF SPEND ON PAY

The table below shows shareholder distributions (i.e. dividends and share buybacks) and total employee pay expenditure for the financial years ended 31 July 2018 and 31 July 2019, and the percentage change.

	FY2019 £m	FY2018 £m	Change
Shareholder distributions	178	172	3.5%
Employee costs	1,050	989	6.2%

## PAYMENTS TO PAST DIRECTORS (AUDITABLE)

Other than the FY2017 LTIP award for Chris O'Shea vesting in October 2019, disclosed on page 115, and the gifts to retiring Non-executive Directors disclosed on page 113, there were no payments to past Directors attributable to FY2019.

## PAYMENTS FOR LOSS OF OFFICE (AUDITABLE)

There were no payments made for loss of office during the year.

## TSR PERFORMANCE

The following graph shows the Company's total shareholder return (TSR) performance over the past ten years compared to the FTSE 100 Index. The FTSE 100 Index, of which the Company has been a member throughout the period, has been selected to reflect the TSR performance of other leading UK-listed companies. The values of hypothetical £100 investments in the FTSE 100 Index and Smiths Group plc shares at 31 July 2019 were £251.90 and £318.13 respectively.

### Total Shareholder Return

Value of £100 invested on 31 July 2009



## CHIEF EXECUTIVE'S REMUNERATION FOR THE LAST TEN YEARS

	FY2010 P Bowman	FY2011 P Bowman	FY2012 P Bowman	FY2013 P Bowman	FY2014 P Bowman	FY2015 P Bowman	FY2016 P Bowman	FY2016 A Reynolds Smith	FY2017 A Reynolds Smith	FY2018 A Reynolds Smith	FY2019 A Reynolds Smith
Total remuneration £000	3,399	4,776	5,026	3,864	3,912	4,195	1,602	2,964	2,320	3,251	<b>4,130</b>
Annual bonus outcome (% max)	95%	64%	79%	39%	43%	80%	88%	89%	96%	42%	<b>41%</b>
CIP outcome (% max)	n/a	100%	100%	100%	100%	100%	100%	n/a	n/a	n/a	<b>n/a</b>
2007 Performance Share Plan outcome (% max)	46%	33%	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	<b>n/a</b>
LTIP outcome (% max)					18%	17%	18%	n/a	n/a	32%	<b>75%</b>

## STATEMENT OF IMPLEMENTATION OF REMUNERATION POLICY IN FY2020

### Base salary

Salaries are reviewed (but not necessarily increased) annually and benchmarked against comparable roles at other FTSE 100 companies of similar market capitalisation, revenues and complexity. The salary review date has been moved from 1 August to 1 October in 2019 as part of a Group-wide exercise.

Having considered a number of important factors including individuals' performance and experience, the relative performance of the Company and the Remuneration Policy within the Company, the Committee has determined to increase the salary of the Chief Executive to £843,780 and of the Chief Financial Officer to £540,225. This represents an annual review of 2.5%, which is in line with the average increase for UK employees, plus an adjustment of 0.4% in respect of the later review date. This results in the following annualised salaries for Executive Directors:

	FY2019	FY2020
Andy Reynolds Smith	£820,000	£839,817
John Shipsey	£525,000	£537,688

### Pension and benefits

The employment contracts of the two Executive Directors provide for a cash allowance of 25% of base salary in lieu of pension provision. Both Executive Directors have agreed, for FY2020, to freeze the monetary value of the allowance at the FY2019 level, reducing the level of benefit to 24.4% of base salary for FY2020.

### Annual bonus

For FY2020, Andy Reynolds Smith will continue to have a maximum bonus opportunity of 180% of salary and John Shipsey 150%. 33% of any bonus earned will be deferred into shares for three years. Specific targets are not disclosed at this time due to the commercially sensitive nature of these objectives, but they will be disclosed at such a time as the Committee deems them to no longer affect the commerciality of the Company.

### Long-Term Incentive Plan (LTIP)

The LTIP is a conventional share plan under which an award over a capped number of shares will vest if demanding performance conditions are met. LTIP awards of conditional shares are granted to selected senior executives (including the Executive Directors) with face values of up to 400% of salary. Under the LTIP, for the FY2020 award, a fixed number of shares will be granted at the same level as in FY2019. This would be equivalent to 327% of salary for the Chief Executive and 272% of salary for the Chief Financial Officer, based on the average share price for the three months to 31 July 2019 (1536.46p).

The LTIP awards granted to Andy Reynolds Smith and John Shipsey in FY2020 will vest on the achievement of the following performance conditions:

Performance measure	Weighting	Threshold performance target	Maximum performance target (full vesting of element)
Three-year EPS growth after tax	25%	4% p.a.	11% p.a.
Three-year average return on capital employed	20%	15%	18% p.a.
Three-year average annual operating cash conversion	25%	90%	105%
Three-year average organic sales growth	30%	3%	6% p.a.

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

For performance between 'threshold' and 'maximum', awards vest on a straight-line sliding scale.

**NON-EXECUTIVE DIRECTOR FEES**

Non-executive Director fees paid during FY2019 are shown below:

	FY2019
Non-executive Director base fee	£69,500
Additional fee payable to the Chairman of the Board	£353,675
Additional fee payable to the Senior Independent Director	£20,000
Additional fees for Audit & Risk, Nomination & Governance and Remuneration Committee Chairs	£20,000
Attendance allowance for meetings outside the Non-executive Director's home continent	£4,000 per meeting

**SHARE OWNERSHIP REQUIREMENT (AUDITABLE)**

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

There is no shareholding policy for Non-executive Directors.

**DIRECTORS' SHAREHOLDINGS (AUDITABLE)**

The table below shows the shareholding of each Director and for Executive Directors the shareholding against their respective shareholding requirement as at 31 July 2019.

	Shareholding requirement (% FY2019 salary)	Shares owned outright	Shares subject to performance	Vested shares in holding period	Shares arising from bonus deferral	Save As You Earn (SAYE)	Current shareholding (% FY2019 salary)	Shareholding requirement met <sup>1</sup>
Andy Reynolds Smith	250%	201,922	553,126	0	67,910	3,593	479%	Yes
John Shipsey	200%	25,048	177,306	0	6,393	1,515	89%	No
Sir George Buckley		16,461						
Bruno Angelici		2,000						
Olivier Bohuon		2,972						
Dame Ann Dowling		5,813						
Tanya Fratto		1,500						
Bill Seeger		10,000						
Mark Seligman		5,000						
Noel Tata		2,000						

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

In accordance with a binding commitment entered into on 19 July 2017, pursuant to which the Chairman purchases ordinary shares on a quarterly basis using a fixed proportion (20%) of the after-tax fees he receives from the Company, Sir George Buckley acquired 763 ordinary shares on 1 August 2019. There have been no other changes in the interests of the Directors and their connected persons between 31 July 2019 and the date of this report except that 2,078 of the SAYE share options reported above for Andy Reynolds Smith matured on 1 August 2019 (as detailed on p116) and are now shares owned outright.

## DIRECTORS' SHARE OPTIONS AND LONG-TERM SHARE PLANS (AUDITABLE)

Director and Plans	Options and awards held on 31 July 2019 Number	Options and awards held on 31 July 2018 Number	Option and award data							Awards vested FY2019		
			Performance test	Exercise price	Grant date	Vesting date*	Expiry date**	Date vested	Number	Exercise price	Market price at date of grant	Market price at date of vesting
<b>Andy Reynolds Smith</b>												
Performance Share Award	0	79,806	A	n/a	26/11/15	Oct 2018		9/10/18	28,073 (inc. 2,472 dividend equivalent)	n/a	1033p	1473p
	26,602	26,602	B	n/a	26/11/15	Oct 2019						
	26,602	26,602	B	n/a	26/11/15	Oct 2020						
LTIP 2015	0	226,524	A	n/a	26/11/15	Oct 2018		9/10/18	72,668	n/a	1033p	1473p
	167,741	167,741	B	n/a	8/11/16	Oct 2019						
	153,354	153,354	B	n/a	27/10/17	Oct 2020						
	179,627	0	C	n/a	31/10/18	Oct 2021						
Deferred bonus award	24,546	24,546	-	n/a	8/11/16	8/11/19						
	28,618	28,618	-	n/a	27/10/17	27/10/20						
	14,746	0	-	n/a	31/10/18	31/10/21						
SAYE	2,078	2,078	-	866p	11/05/16	01/08/19	01/02/20					
	1,515	0	-	1188p	10/05/19	01/08/22	01/02/23					
<b>John Shipsey</b>												
LTIP 2015	81,469	81,469	B	n/a	27/10/17	Oct 2020						
	95,837	0	C	n/a	31/10/18	Oct 2021						
Deferred bonus award	6,393	0	-	n/a	31/10/18	31/10/21						
SAYE	1,515	0	-	1188p	10/05/19	01/08/22	01/02/23					

### Key

Performance Share Award	Under the terms of his contract of employment on joining the Company, Andy Reynolds Smith was granted a buy-out conditional award over 133,010 shares of which the first tranche of up to 60% (subject to the performance tests applicable to awards granted under LTIP 2015 in 2015) vested in October 2018; up to 20% are expected to vest in October 2019 (subject to performance tests applicable to awards granted under long-term incentive plans in 2016); and up to 20% are expected to vest in October 2020 (subject to the performance tests applicable to awards granted under long-term incentive plans in 2017). The terms of the award provide that additional shares are awarded on vesting to a value equivalent to the notional dividends that would have been earned on the number of shares that vest.
LTIP 2015	The Smiths Group Long-Term Incentive Plan 2015.
SAYE	The Smiths Group Sharesave Scheme.
+	The vesting dates shown above in respect of awards made under the LTIP are subject to the relevant performance test(s) being passed.
++	The expiry dates shown above apply in normal circumstances.

### Performance tests

- A LTIP awards in 2015 - 30% subject to revenue growth; 30% subject to EPS element; 20% subject to cash conversion; 20% subject to return on capital employed
- B LTIP awards in 2016 and 2017 - 35% subject to EPS element; 35% subject to ROCE; 30% subject to cash conversion.
- C LTIP awards in 2018 - 25% subject to EPS element; 20% subject to ROCE; 25% subject to cash conversion; 30% subject to organic sales growth.
- There are no performance criteria for the Deferred Bonus Shares awards or SAYE.

### Notes

- The high and low market prices of the ordinary shares during the period 1 August 2018 to 31 July 2019 were 1676.5p and 1256.74p respectively. The mid-market closing price on 31 July 2018 was 1614p and on 31 July 2019 was 1642p.
- The mid-market closing price of a Smiths Group share on the date of the awards made to Directors in the FY2019 financial year was 1369.5p (31 October 2018).
- The options over the 2,078 maturing shares granted to and held by the Chief Executive at 31 July 2019 were granted at an exercise price below the market price of a Smiths Group share on 8 April 2016 (1082p). The options over 1,515 shares and 1,515 new shares granted to and held by the Chief Executive and Chief Financial Officer respectively under SAYE at 31 July 2019 were granted at exercise prices below the market price of a Smiths Group share on 9 April 2019 (1,485p). Shares are granted in May but the savings period commences in August.
- None of the options or awards listed above was subject to any payment on grant.
- No other Directors held any options over the Company's shares during the period 1 August 2018 to 31 July 2019.
- No options or awards have been granted to or exercised by Directors or have lapsed during the period 1 August to 16 September 2019, other than for Andy Reynolds Smith for whom 2,078 SAYE share options matured on 1 August 2019 as reported on page 116.
- At 31 July 2019, the trustee of the Employee Share Trust held 53,058 shares (none of the Directors had an interest in these shares at 31 July 2019). The market value of the shares held by the trustee on 31 July 2019 was £871,212 and dividends of approximately £23,797 were waived in the year in respect of the shares held by the trustee during the year.
- Special provisions permit early exercise of options and vesting of awards in the event of retirement, redundancy, and death.

## SHARE SCHEME DILUTION LIMITS

The Company complies with the guidelines laid down by the Investment Association. These restrict the issue of new shares under all the Company's share schemes in any ten year period to 10% of the issued ordinary share capital and under the Company's discretionary schemes to 5% in any ten year period. As at 31 July 2019, the headroom available under these limits was 8.56% and 4.03%, respectively.

## PERFORMANCE EVALUATION

The annual evaluation of the performance of the Committee was conducted as part of the overall annual evaluation of the performance of the Board facilitated by Independent Audit. The findings relating to the Committee were discussed with the Committee Chair. Overall, the Committee is viewed as effective and performing well and is rigorous in discharging its responsibilities.

The Directors' remuneration report has been approved by the Board and signed on its behalf by:

**Bill Seeger**

CHAIR OF THE REMUNERATION COMMITTEE

19 September 2019

# DIRECTORS' REPORT

The Strategic Report is a requirement of the Companies Act 2006 (the 'Act') and can be found on pages 04 to 72. The Company has chosen, in accordance with section 414 C(11) of the Act, to include certain matters in its Strategic Report that would otherwise be disclosed in this Directors' Report. The Strategic Report and the Directors' Report together are the management report for the purposes of Rule 4.1.8R of the Disclosure Guidance and Transparency Rules. Other information that is relevant to the Directors' Report, and is incorporated by reference, can be found as follows:

Disclosure	Location
Likely future developments	Strategic Report pages 10-46
Directors' dividend recommendation	Strategic Report page 24
Research and development activities	Strategic Report pages 28-46
Employment of disabled persons	Resources and Relationships page 51
Employee involvement	Resources and Relationships pages 48-52
Political donations and expenditure	Resources and Relationships page 53
Greenhouse gas emissions	Resources and Relationships page 58
Corporate governance statement	Corporate Governance Report pages 74-124
Directors during FY2019	Corporate Governance Report pages 76-79
Director appointment and replacement	Corporate Governance Report page 91
Amendment of Articles of Association	Corporate Governance Report page 91
Indemnities	Corporate Governance Report page 91
Change of control	Remuneration Report page 111 and Borrowings and net debt note page 173
Directors' responsibility statement	Statement of Directors' responsibilities page 124
Disclosure of information to auditor	Statement of Directors' responsibilities page 124
Financial instruments	Financial risk management note pages 173-179
Share capital disclosures	Share capital note page 187
Powers of the Directors	Share capital note page 187
Post-balance sheet events	Post-balance sheet event note page 207
Overseas branches	Subsidiary undertakings note page 216

## LISTING RULES DISCLOSURE

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

Listing Rule	Disclosure	Location
9.8.4(1)	Capitalised interest	Discontinued operations note page 189
9.8.4(12)(13)	Dividend waivers	Dividend note page 187
9.8.6(1)	Directors' interests	Remuneration Report page 120
9.8.6(2)	Major shareholders' interests	Corporate Governance Report page 82
9.8.6(3)(a)(b)	Going concern and viability statements	Strategic Report pages 71-72
9.8.6(4)(a)	Purchase of own shares	Share capital note page 187
9.8.6(5)(6)	UK Corporate Governance Code compliance	Corporate Governance Report page 75 and table below
9.8.6(7)	Unexpired term of service contract	Remuneration Report page 110

## 2016 UK CORPORATE GOVERNANCE CODE COMPLIANCE

Principle	Disclosure	Location
Leadership	The Board and the Board governance structure	Pages 76-79 and 83-85
Effectiveness	Activities of the Board and its Committees and Board evaluation	Pages 86-87 and 92-93
Accountability	The Audit & Risk Committee Report describes the role of the Board in this area. The Strategic Report contains detail on the principal risks to the business.	Pages 94-99 Pages 62-70
Remuneration	The Remuneration Committee report, Remuneration Policy and Remuneration Report	Pages 100-122
Relations with shareholders	Relations with our shareholders	Page 82

By order of the Board

**John Mills**

COMPANY SECRETARY

19 September 2019

# STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 101, have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the accounts and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

## DIRECTORS' RESPONSIBILITY STATEMENT

The Directors consider that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

Each of the Directors (who are listed on pages 76 to 79) confirms that to the best of his or her knowledge:

- the Group's financial statements have been prepared in accordance with IFRS as adopted by the European Union and give a true and fair view of the Group's assets, liabilities and financial position as at 31 July 2019 and of its profit for the financial year then ended;
- the Group Directors' Report and Strategic Report include a fair review of the development and performance of the business and the position and performance of the Group, together with a description of the principal risks and uncertainties that the Group faces;
- the Company financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law), give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- as at the date of this report there is no relevant audit information of which the Company's auditor is unaware. Each Director has taken all the steps he or she should have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Signed on behalf of the Board of Directors:

**Andy Reynolds Smith**  
CHIEF EXECUTIVE

**John Shipsey**  
CHIEF FINANCIAL OFFICER

19 September 2019