

RESOURCES AND RELATIONSHIPS

We regard how we work and interact with our stakeholders as fundamental to our purpose of making a safer, more efficient and better-connected world.

Respecting others and doing things the right way are the essential foundations of being a responsible business and helping ensure the ongoing success of our organisation.

LIVING OUR VALUES IN THE SMITHS WAY

Our values – Respect, Integrity, Customer Focus, Passion and Ownership – underpin the way we operate. They guide how we manage our key resources and relationships, helping ensure we do the right things in the right way as we work to build long-term value for all our stakeholders.

We strive to continuously improve everything we do and here we outline some of our key successes and focus areas.

DIRECT ECONOMIC CONTRIBUTION FY2019

£2.6bn

Calculated as tax paid + employee costs + supplier costs

Figures in this section are for total Group unless otherwise stated

CUSTOMER



Working closely with our customers to predict and fulfil their needs with our innovative products and value-adding support is central to the success of our business.

The Smiths Excellence System (SES) customer pillar introduces common tools, processes and technology to better manage customer relationships and use our resources more efficiently.

CUSTOMER ENGAGEMENT AND SATISFACTION

Our goal is to continuously enhance the experience for our customers and increase the value we create for them. We take time to integrate customer challenges and requirements into our innovation and technology planning and development, and are dedicated to consistently high product quality and delivery responsiveness.

We are continuing to invest in effective customer relationship management (CRM) tools and training. In FY2019, we expanded the use of CRM solutions globally across the Group, enabling us to more effectively manage the customer experience.

We are committed to our Code of Business Ethics, applying our shared values and complying with all applicable international and local rules and regulations. We encourage customers to contact our 'Speak Out' reporting line if they identify any behaviour that's not in line with our Code.

CREATING CUSTOMER VALUE

We drive value by working closely with our customers across the entire product lifecycle, starting with understanding the voice of the customer.

We actively engage with our customers during concept and design stages of our New Product Introduction (NPI) process and provide integrated, full lifecycle support. We deliver value by focusing on five core areas – pricing, deal follow-up, key account management, customer complaint management, and order-to-delivery management – as well as using our futuring process to predict how our customers' needs will evolve.

ON TIME IN FULL (OTIF) FY2019

84%

CUSTOMER

**ANTI-BRIBERY AND
ANTI-CORRUPTION**

We reduce exposure to bribery through regular review of our policies and procedures, which include the giving and receiving of gifts and hospitality, and how we interact with government officials. We have a gift register to help us monitor compliance.

To help ensure that we know who we're dealing with, and that they operate in line with our expectations, in FY2019 we enhanced our distributor and agent due diligence processes and implemented an audit programme. We also use third-party services to supplement our own due diligence, using investigators on the ground in locations where risks of bribery can be higher.

In FY2020 we will continue to monitor activities and educate colleagues through our ethics and compliance training programmes.

ANTITRUST

We are committed to competing fairly within the markets where we operate. In FY2019 we refreshed our Antitrust Policy and supporting materials, including establishing our Trade and Industry Event Register. This identifies employees who attend industry events at which competitors may be present so we can make sure that they understand what they may and may not discuss with competitors. We also continued to provide colleagues whose roles may expose them to competition law risks with regular training.

**HELPING AIR AND
NAVAL TACTICAL
COMMUNICATION**

Smiths Interconnect was selected by a major global Original Equipment Manufacturer (OEM) to supply connectivity solutions for a new air and naval tactical radio, offering faster transmission speeds, enhanced security and extended interoperability.

Designed to deliver high levels of security, the tactical radio can communicate precise information in a highly-secured environment.

Smiths Interconnect's customer needed to integrate more functions into a reduced space. Our high reliability spring probe contact technology was selected due to its small size and high performance which met the customer's demanding technical requirements.

Our spring probe contact technology allows high signal density, in a compact size, to be reached in a hi-tech electronic environment and is expected to be a key component for the space and defence market segments.

**Our people are vital to achieving a sustainable competitive advantage.**

Our People Plan is a multi-year strategy that is focused on building a learning organisation to attract, retain, develop, engage and inspire our people.

SES helps provide a framework for bringing our People Plan to life, with our recently launched SES People Handbook helping our business make the most of aligned best practice guidance and centrally provided tools, resources and initiatives.

**CULTURE, ENGAGEMENT
AND COMMUNICATION**

Our 'Smiths Way' of working and our values align our culture, strategy and operating model to help ensure everything we do is pulling in the same direction.

We celebrated our culture with our second annual Smiths Day global event, where colleagues all over the world get together to mark being part of the Smiths family.

We continue to enhance our internal communication activities, including our weekly Smiths Signal newsletter which sets out all of our top company news and our innovative Smiths Now colleague smartphone app that gives all colleagues a common platform on which to hear about our business.

Around Smiths Day, our Smiths Now app received c.10,000 visits to our social wall, where all colleagues, irrespective of role, can post their stories, images and videos for the whole business to see. We have also implemented a new language tool which translates posts into our core ten languages.

Twice a year we run Smiths European Forum meetings, hosted by the Group HR Director with involvement from the Chief Executive and senior leaders. Colleague representatives from across Europe come together to learn more about our strategy, voice their opinions, provide feedback and ask questions on behalf of

their co-workers. Everything is translated live so attendees can listen and respond in their own languages. This is just one of the ways we are building more open and honest two-way communication between employees and leadership.

Engagement with our annual Smiths Excellence Awards which recognise achievement across our six SES pillars; outstanding contributions to HSE, to our communities, and to innovation; and our highest honour, the Smiths Cup – continues to rise, evidenced by a doubling of entries since last year to a new record total of c.600 from across the business.

MY SAY SURVEY

We track our engagement twice yearly to inform the co-creation of action plans by colleagues and managers to help make Smiths a better place to work. Since launching My Say in 2017, we've improved on all measures.

The latest May 2019 survey maintained a high 87% response rate, with more than 37,000 comments from colleagues; and we maintained an engagement measure of 73.

MAY 2019 SURVEY

37,000

colleague comments
2018: 30,000

ENGAGEMENT MEASURE

73

2018: 73

OUR APPROACH TO HEALTH AND SAFETY

Health and safety remain our top priorities. We work together across the world to create a safe and secure workplace for our people, customers, suppliers and visitors. This is fully integrated into the way we operate and manage all our key resources and relationships, and underpins our SES.

Safety is discussed at Board and Executive levels. Our safety culture is driven by a cross-divisional network of Health, Safety and Environment (HSE) leaders, who share ideas and best practices, and implement initiatives to help improve our safety performance.

Safety is embraced at every level, as evidenced by our My Say colleague survey where safety is consistently our highest ranked and continually improving response.

As part of our journey towards zero harm, we completed a range of Group-wide initiatives in FY2019, including training all Smiths colleagues on our ten safety Cardinal Behaviours (see below), a hand safety campaign, forklift safety assessments and the celebration of innovative safety initiatives through our

Group-wide Excellence Awards. We also continued to use safety leading indicator activities to assess initiatives undertaken by individual sites to improve performance.

We monitor our recordable incident rate (RIR) – where incidents require medical attention beyond first aid – and lost-time incident rate (LTIR) – where a colleague is unable to work following an incident – per 100 colleagues, per year across Smiths. In FY2019 we achieved an RIR of 0.41 and an LTIR of 0.18.

We again experienced no work-related workplace fatalities this year, and with our increasing focus on risk factors for serious injuries, our commitment to send everyone home safely from work is stronger than ever.

For FY2020, we are planning to reinvigorate our peer-to-peer safety observation programme, complete machine guarding reviews and upgrades globally, and develop new tools to better track and communicate to our travellers and our colleagues who work remotely.

We also plan to complete driver safety awareness training for all drivers of company vehicles.

RECORDABLE INCIDENT RATE (per 100 colleagues)

FY2019		0.41
FY2018*		0.39
FY2017		0.38
FY2016		0.47
FY2015		0.57

* FY2018 shows increase vs. FY2018 report due to reclassification of injuries

LOST TIME INCIDENT RATE (per 100 colleagues)

FY2019		0.18
FY2018		0.17
FY2017		0.19
FY2016		0.16
FY2015		0.23

CARDINAL BEHAVIOURS

- Stay fit and focused at work
- Identify and manage safety hazards
- Always use machinery safely
- Stop work if it isn't safe
- Take care when using electrical equipment
- Follow safety protocol in vehicles
- Take care when working at heights
- Always wear protective gear
- Report all safety incidents and near misses
- Minimise our environmental impact

PEOPLE

LEADERSHIP
AND LEARNING

We are building a learning organisation supporting our colleagues to own and drive their careers through formal and informal development programmes.

In FY2019 we launched a new Careers@Smiths portal, in direct response to My Say survey feedback. It allows colleagues more visibility of their potential next career move by pulling all our vacancies together into one place. The system also gives Smiths managers easy control over their vacancies and recruitment and makes it easier for external candidates to see the opportunities available to join us.

In FY2019 we launched the SES Academy – an online training portal open to all colleagues – through which we have already engaged nearly 18,000 colleagues with Lean Awareness training. We also trained over 250 in our Lean Six Sigma belted programme in partnership with Oxford University, and, at the time of this report, we had 35 graduated Black Belts. Our aim is to graduate around 1,000 belted colleagues by the end of calendar year 2021.

In FY2019 we launched Accelerate, our first Group-wide people leadership capability programme, attended by c.350 people leaders so far. Next year we will increase the number of attendees and include programmes in more languages, with the aim of around 50% of our leaders completing Accelerate by the end of FY2020. We also continued our executive development programme at UCLA, enhancing the strategic leadership capabilities of our most senior leaders.



SES ACADEMY

Our new SES Academy provides learning opportunities around the knowledge and skills needed to deliver operational excellence across Smiths. It has been crafted alongside our world-class academic and professional partners, and is designed to help develop professional capabilities at all levels of the organisation. It gives colleagues a stronger understanding of operating processes, enabling individuals to lead and deliver our organisation's overall objectives.

The new SES Academy has seen nearly 18,000 colleagues from across Smiths complete Lean Awareness training and has received a 91.2% favourable feedback rating to date.

Hundreds of colleagues from Asia, Europe, the US and Mexico are also taking part in Smiths Lean Six Sigma Belted programmes, and excellence programmes in procurement and supply chain. Together, this is driving a radical increase in the capabilities and skills we have in the company, which is vital to the future success of our business.

In FY2019, around 120 Smiths leaders attended our Global Leadership Conference 'Innovate>Accelerate' to help drive a culture of innovation and accelerate our rate of change as well as aligning understanding of our business strategy.

In FY2019 finance and engineering graduates came together for a development week and to participate in the Graduate Innovation Challenge, with one team design currently being developed into a viable solution for Smiths Interconnect. We continue to develop our graduate offering with a graduate engineering programme in China.

In FY2020 we will launch Learning@Smiths, a new learning space, to pull together all development programmes available to colleagues across the organisation.

REWARD AND
RECOGNITION

Recognising and rewarding our colleagues in a fair and open way helps them feel valued, supported and driven to succeed. To stay competitive and attract and retain the talented and innovative people we need to drive our growth, it's critical we offer a comprehensive and meaningful approach to reward and recognition.

We have been an accredited living wage employer in the UK since 2018. We are working to build on and increase cross-divisional job movement, align our incentive plans, improve international mobility and make career paths clearer. Creating a shared global job architecture enables greater movement and development opportunities for colleagues to expand and enhance their careers.



DIVERSITY & INCLUSION

Our success depends on the diverse perspectives our people bring to work every day.

Guided by the Smiths Way and our core value of respect, embracing diversity and inclusion is not only the right thing to do, but necessary. It helps us improve our understanding of our diverse markets, territories and stakeholders, unlock new and innovative thinking, outperform our competitors, and help colleagues feel they belong at Smiths.

It is our policy to provide equal employment opportunities. We recruit, select and promote our people on the basis of their qualifications, skills, aptitude and attitude. In employment-related decisions, we comply with all applicable anti-discrimination requirements in the relevant jurisdictions.

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

In FY2019, we conducted 14 visioning workshops with colleagues about the experiences and challenges they encounter. In FY2020 we are extending these to more languages. Feedback is being used to inform where we focus our efforts now and in the future.

We launched a Career Returners programme aimed at attracting prospective colleagues back in to the workplace after a career break, and have partnered with PwC to use their leading edge blind spots (unconscious bias) training materials for colleague education.

We are currently establishing a cross-divisional Diversity & Inclusion Council to help provide strategic direction, guiding principles and tactical initiatives on behalf of each division.

We report every year on our Gender Pay Gap in the UK in line with UK Government regulations, updating on our continuing efforts to close the pay gap as part of our work to build an inclusive and diverse culture across our entire global business. You can read our most recent report on our website.

Information about the Board Diversity Policy can be found on page 89.

INTERNATIONAL WOMEN IN ENGINEERING DAY

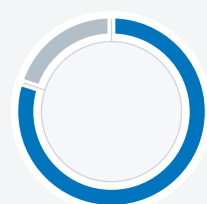
In June, Smiths celebrated International Women in Engineering Day for the second year, an important campaign to raise awareness of the engineering opportunities available to young women and career returners.

Women engineers at Smiths, from all different disciplines and geographies, shared their experiences of working in the industry. Our campaign showcased our colleagues' support for the profession through a collection of stories, videos and photos which were published on our website, social media channels and our Smiths Now internal colleague app. Dame Ann Dowling, one

of our Non-executive Directors and an engineer herself (a world authority on combustion and acoustics), recorded a short video explaining what she enjoys about her work and why a career in engineering is an exciting choice for young people today.

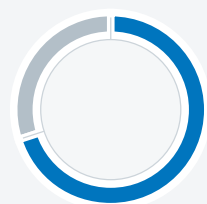


Board of Directors¹



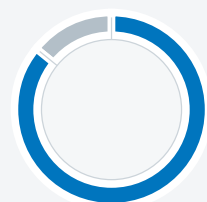
■ Male	8
■ Female	2
Total	10

Executive Committee²



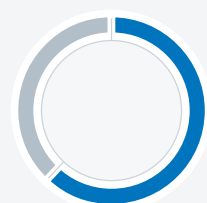
■ Male	7
■ Female	3
Total	10

Senior managers³



■ Male	234
■ Female	39
Total	273

Colleagues (total)



■ Male	14,212
■ Female	8,850
Total	23,062

¹ When Pam Cheng joins the Board on 1 March 2020 female representation will increase to 27%.

² Andy Reynolds Smith and John Shipsey are included in the Board of Directors and the Executive Committee.

³ Senior managers as defined by the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013. The Board of Directors and Executive Committee are not included in these numbers.

PEOPLE

ETHICS AND SUPPORT

Our shared values of Passion, Integrity, Respect, Ownership and Customer Focus are at the heart of what it means to be Smiths and guide our approach to ensuring all colleagues at Smiths feel safe, valued and respected.

Our Code of Business Ethics provides guidance, including through real-life scenarios, to help colleagues address challenging and ethical issues they may encounter at work. In FY2019, we updated our online Code of Conduct ethics training module to take account of updates to the Code.

We also ran Ethics and Compliance symposia in Japan, South Korea, India, Germany and Czech Republic. The symposia were an opportunity for leaders from across Smiths to discuss our ethics and compliance challenges and how best to navigate them.

We continued our 'Speak Out' campaign in FY2019 to remind and encourage colleagues to report behaviour inconsistent with the Code of Business Ethics and our values through their line manager, HR and legal teams, or through our confidential 'Speak Out' reporting line.

SECURITY

The safety and security of colleagues all over the world is of paramount importance to us. All our locations maintain security measures that comply with our comprehensive global security standards which were enhanced this year.

Our business travellers benefit from 24/7 advice and assistance provided by our travel security partners, with special arrangements in place for those that travel to high risk locations.

All colleagues are trained in security awareness with every Smiths facility assessed annually to determine the level of adherence to Smiths security standards.

In FY2020, we are planning to further enhance our security operations using GPS tools that will enable us to monitor the exact location of colleagues travelling in high risk locations as well as remote workers, and send them appropriate alerts and notices.

COMMUNITY ENGAGEMENT

We build strong relationships, a sense of pride in our business, and engage our people by getting involved in local communities. This is managed locally, with each business focusing on markets and communities important to them. We celebrate the best of these initiatives at our annual Group-wide Excellence Awards.

We offer Group-level support to charities and organisations that show how a donation will increase wellbeing through improvements to education, health, welfare or environment. In FY2019, the Group made charitable donations of £113,000.

During FY2019, Smiths Interconnect launched a pilot of Smiths Beyond Boundaries that gives colleagues a paid day to volunteer with their local community, donating more than 13,000 hours to good causes and organisations. We plan to adopt Smiths Beyond Boundaries across other divisions in FY2020.

SUPPORTING COMMUNITIES WORLDWIDE

The Smiths Beyond Boundaries outreach programme encourages colleagues to push beyond their work boundaries and better connect with their communities, customers and colleagues. It was piloted by Smiths Interconnect and involved each site organising a community project.

While the scale was global, the impact was intended to be local. The sites could choose any project that was meaningful to them, and volunteers could help however they wanted – donating time, skills, products or money.

This flexible approach optimised the scheme's appeal and it was swiftly adopted around Interconnect, with each site organising at least one activity.

Projects ranged from cleaning up rivers and beaches, constructing veterans' homes and children's play areas to bingo fundraisers and helping at foodbanks.

1,652 employees volunteered more than 13,000 hours to 54 projects around the world and raised funds for community initiatives.

Many projects focused on improving children's lives, particularly through educational activities that encouraged aspiring engineers.

Participants also felt personal benefits such as an increase in confidence because of the skills learnt from planning and leading these projects. Others recorded higher motivation, productivity and creativity on their return to work. Many were so inspired they gave additional personal time, got families and friends involved, and committed to ongoing involvement with their charities.



POLITICAL DONATIONS

As a Group, we made contributions to non-EU political parties totalling \$8,500 (£6,600) during FY2019. The political contributions were made on a bi-partisan basis in the US, in accordance with US state and federal election laws, in order to raise awareness and to promote Smiths interests.

Shareholder approval is sought each year for donations to registered political parties and other political organisations in the EU, but it is not Company policy to make such donations. The authority is sought to avoid inadvertent infringement of the relevant legislation.



TECHNOLOGY

Technology and innovation are what drives Smiths. They help fill our future product pipeline, create new business models, bring value to our customers and drive sustainable growth into the future.

The SES technology pillar provides standard operating mechanisms to support our approach to technology excellence and improve efficiencies throughout the business.

INNOVATION FRAMEWORK

Our Group-wide innovation framework is helping foster a future-focused, customer-centric culture through a disciplined approach to innovation, aligned with our strategy for growth. It's helping us translate our expertise and insight into transformative new products, services and business models.

Our Digital Forge centre of excellence in the San Francisco Bay area, opened in 2018, is accelerating digital projects and providing a co-innovation space for us, our customers and other partners. John Crane Sense™ is one example of the collaboration between the Digital Forge and John Crane.

Sense is a platform utilising sensors and software that allow customers to optimise performance and improve reliability. Working with John Crane experts, the Digital Forge has developed sophisticated machine learning algorithms that monitor seal performance, diagnose root causes of equipment issues, and predict and prevent potential failures.

John Crane experts build sensors into seals and integrate sensors with the surrounding equipment to capture critical data. The Digital Forge developed the technical infrastructure to move this data to a highly secure cloud-based server where it is processed using the latest algorithms and then stored for visualisation and continuous analysis over the life of the asset. Customers can

also access all of their own unique information and gain valuable insights via this secure web browser-based solution.

Our innovation framework is enabling increased collaboration such as this across Smiths and extends to external partnerships. In FY2019 we entered into new partnerships with leading universities to help share ideas and create innovations for the future.

RESEARCH AND DEVELOPMENT

We continue to refine our innovation investment profile and establish targets for R&D spend and our Vitality Index, which measures our percentage of total revenue derived from products launched in the last three years. The tools used to measure Vitality give us a holistic view of the organic pipeline, improving insight and decision-making. This helps to ensure we're investing in the biggest and best ideas that will bring the most value today and for the future.

INVESTMENT IN R&D FY2019*

4.5%

FY2018: 4.1%

FY2017: 3.8%

Cash costs as % of sales

* continuing operations

PROGRAMME



ADAPTING TECHNOLOGY FOR THE CUSTOMER NEED

Smiths Detection is collaborating with the US Department of Defence to develop an adaptor for the Joint Chemical Agent Detector (JCAD) product that significantly enhances detection capability. The Solid Liquid Adapter will allow JCADs to detect a broader library of explosives, chemicals and narcotics in solid, liquid and vapour phases.

The JCAD is based on Smiths Detection's Lightweight Chemical Detector (LCD) product line of advanced, easy-to-use and lightweight threat detection devices. The LCD protects military personnel, police and hazmat responders by alerting operators to toxic substances and dangerous chemicals detected.

JCAD is a widely-used chemical warfare agent detector and a flagship product for Smiths Detection, having sold over 99,000 units in its lifetime. Expanding its capabilities will provide additional protection for service personnel in the field.

We aim for consistent and flawless execution across all we do.

Our products and solutions are used in some of the most highly-regulated markets in the world, requiring compliance with strict regulatory requirements.

Our SES programme pillar brings consistency and best practice to bear on how we develop, implement and validate the success of programmes across the business.

PRODUCT LIFECYCLE MANAGEMENT

We design new products by thinking holistically, from customer need and problem definition, through product conception to introduction, and from end use to end of life. This approach is collaborative and cross-functional to create solutions that delight customers, create value and make the world safer and more productive.

NEW PRODUCT INTRODUCTION

We have a standard, flexible New Product Introduction (NPI) process across the Group. This scalable methodology is tailored to market and product, ensuring investment is proportionate, and helps maintain our crucial new product innovation pipeline. The methodology is based on a stage-gate approach with regular internal audits to ensure commercial effectiveness and improve our speed and effectiveness of bringing new products to market.

PRODUCT CYBER SECURITY

Our products are used in many mission-critical applications in highly-regulated industries. As our focus on digital transformation continues, we remain committed to ensuring the highest standards of cyber security for our products, and within the enterprise environment. We apply a unified, Group-wide approach to cyber security which leverages our scale.

In FY2019 we continued to execute against our cyber security plans with a focus on compliance, controls, product vulnerability and incident management. As part of these efforts, we updated guidance for security and privacy by design throughout the product lifecycle, and introduced new vulnerability and incident reporting standards and procedures. We also gained ISO/IEC 27001 information security management certification for select operations.

PRODUCT SAFETY

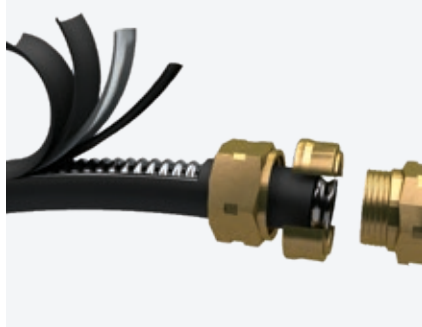
Our approach to product lifecycle management includes active consideration of safety at every step – including how the product is designed, manufactured, used and disposed of. We use common quality procedures to minimise product safety and quality issues, and monitor performance through robust quality control processes and systems. Our capabilities in this area will be enhanced in FY2020 through the introduction of a common Electronic Quality Management System (EQMS).

FLASHSHIELD+™

Flex-Tek's recently launched FlashShield+™ is a next generation corrugated stainless steel tubing system, used to supply natural gas and propane in residential and commercial structures. It features a four-layered design that makes installation fast and easy. The new jacketing system means it is the only product in its category to have the highest levels of safety against both lightning and household fault current.

The new product has been developed from customer feedback which said that customers wanted to reduce the time taken for installation. This new product offers superior performance advantages while being easier and more robust to install, and reduces labour costs.

Manufacturing costs have also been reduced by using innovation in material, and by improving our manufacturing processes so that we're able to selectively compete with less expensive products, enabling us to gain market share and remain a market leader in flexible gas piping.



PRODUCTION



We leverage our years of manufacturing experience and constantly drive for enhanced production efficiency, effectiveness and quality.

We are committed to ensuring every one of our products is manufactured efficiently, to the highest standard of quality and safety, while minimising our impact on the environment.

Our SES production pillar supports the continuous improvement of Smiths global manufacturing operations by providing standards, guidelines, templates and toolkits based on acknowledged best practice and Lean production. SES Model Value Stream application projects also support the focused implementation of manufacturing technologies across our divisions, to improve safety, quality and productivity.

WORKING CAPITAL % OF SALES FY2019

26%

FY2018: 26%
FY2017: 27%

PRODUCT QUALITY

Our cross-divisional quality council drives our approach to quality through standardised policies, processes and guidelines, to help our divisions embed quality in their work, supported by a culture of sharing knowledge and continuous improvement.

We focus our broad performance monitoring on two quality metrics – defects per million parts shipped (DPPM) and cost of poor quality (COPQ). COPQ includes the costs of waste, corrective work, warranty claims, returns and penalties, measured as a percentage of annual revenue.

DEFECTS PER MILLION PARTS SHIPPED FY2019

235

FY2018: 424
FY2017: 459

COST OF POOR QUALITY FY2019

1.4%

FY2018: 1.7%
FY2017: 2.1%

LEAN AND CONTINUOUS IMPROVEMENT

We incorporate continuous improvement and lean methodology to improve safety, quality, cycle time, delivery performance and productivity. We have certified continuous improvement leaders in all of our divisions that collaborate to standardise our Group-wide approach to Operational Excellence (OPEX) deployment through the Smiths Excellence System.

We continue to transform our manufacturing lines through development of Model Value Streams across our business. This allows us to test the effectiveness of new manufacturing technologies and lean approaches in a live environment. We are already recording significant improvements in HSE, quality, efficiency and lead times.

STOCK TURNS FY2019

3.4x

FY2018: 3.7x
FY2017: 3.5x

PRODUCTION

ENVIRONMENTAL
MANAGEMENT

We believe that operating responsibly regarding the environment is simply the right thing to do, and have had annual reduction targets for environmental metrics since 2007.

Environmental performance is reported regularly to the Board and the Executive Committee. In FY2019 we launched an Executive Environmental Roundtable to advise the Board and Executive Committee on environmental matters including goals and targets, strategy, risk, and employee involvement.

We are committed to using energy and natural resources efficiently through advanced production processes that decrease waste and energy consumption, and reduce our greenhouse gas (GHG) emissions, in alignment with science-based targets. This is to help minimise the risk of a two degrees centigrade raise in global temperature and the associated potential impacts of global climate change.

We are also investing in low-carbon technologies and environmental management systems that drive improvement in our performance. We have set a long-range target to use more than 75% renewable energy (non-GHG) for all our electrical needs by 2040.

Our Health, Safety and Environment (HSE) and Environmental Emissions Reduction (EER) Policies are used by each division to develop tailored strategies, supported by a cross-divisional network of HSE professionals. We closely monitor energy and water use, waste generation and GHG emissions to identify potential improvements, sharing mitigating action plans and best practice across the Group.

In FY2019 we again participated in the Carbon Disclosure Project (CDP) Climate and Water conservation modules, in which we earned a GHG score of A-, putting us in the CDP leadership category for our overall performance, management systems and robust reporting.

Our Supplier Code of Conduct sets out the environmental conditions we require of suppliers. Locally we measure and monitor energy consumption using tracking software that also provides a consolidated view of overall Group performance.

We align our environmental targets with United Nations Sustainable Development Goals 6, 13 and 14 for water conservation and protection, and greenhouse gas targets. We also have targets relating to recycling.

Smiths is aligned with the Task Force on Climate-related Financial Disclosures (TCFD) for our strategic planning and execution around GHG reduction and climate change targets including work on all four elements: Governance, Strategy, Risk Management and Metrics and Targets. In FY2020 we plan to conduct a sensitivity risk analysis around climate change impacts, the results of which will be reported to the Executive Committee and the Board.

JOHN CRANE'S ADVANCED PRODUCTION SYSTEM

In today's data-driven and connected world, it's imperative for businesses to adopt smart management and production systems for optimal operational performance.

An advanced production system (APS) is based on mutual interaction between people, machines and computer networks. Through real-time information and visualisation, an APS helps reduce business waste such as time spent waiting, machine performance and over processing, and facilitates shop floor production management.

John Crane's Lutín site in the Czech Republic installed each of its production machines with touch-screen PCs which allow access to numerical control programme databases, the site's internal network, and machine data collection interfaces.

Paper forms containing standard operation procedures, instructions, guidelines and other manufacturing-related documents were also replaced by electronic documents making them easy to access and update.

Large monitor screens were also installed in manufacturing halls displaying operators' states, which helps support visual management during shifts. Additional smaller screens were placed in offices to notify shop floor management if a problem were to arise during the production process.

The integration of Lutín's new APS supports on-time delivery, while also reducing production lead time and unplanned downtime, increases efficiency of machinery, and promotes higher production efficiency and quality. Since implementation of the system,

average machine utilisation has grown by more than 25%, with numbers continuing to increase.





We're also aligned with the Global Reporting Initiative (GRI) reporting principles for environmental matters and have developed a comprehensive portfolio of policies including biodiversity protection, emissions reductions and product compliances. Performance against these policies is overseen through various auditing means with third parties, including using certified auditors for all our ISO14001 certified production sites with over 50 colleagues.

All divisions participate in a regular Restricted Substance forum to ensure compliance, share best practices and drive alignment for product compliance and adherence to conflict minerals requirements.

Our divisions are responsible for their products and continued efforts to reduce any lifecycle impacts on the environment.

CORE ELEMENTS OF RECOMMENDED CLIMATE-RELATED FINANCIAL DISCLOSURES



Governance

The organisation's governance around climate-related risk and opportunities

Strategy

The actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning

Risk Management

The processes used by the organisation to identify, assess and manage climate-related risks

Metrics and Targets

The metrics and targets used to assess and manage relevant climate-related risks and opportunities

JOHN CRANE DYNAMIC LIFT USP SEALS REDUCE WATER CONSUMPTION

As demand for fresh water grows around the world, and natural resources become increasingly limited, the need for companies to conserve both water and energy is extremely important.

An international pulp & paper packaging producer discovered that high volumes of treated water were being used in its bleaching process. In addition, the mechanical seal mean time between repair (MTBR) on its chlorine dioxide transfer pumps (used to lighten the colour of wood pulp) was far shorter than expected. Engineers needed a quick solution to reduce their water consumption and maintenance costs.

Familiar with the chlorine dioxide bleaching process, John Crane conducted an analysis on four transfer pumps to determine seal performance and discovered seal MTBR was only 14 to 18 months, much less than the two to three years expected by the mill. To help combat this, John Crane installed its Dynamic Lift Up-stream Pumping (USP) seals to achieve dramatic pump performance improvements.



PRODUCTION

ENVIRONMENTAL PERFORMANCE

We are on track to meet the new three-year goals we set in FY2018. We are decreasing our GHG emissions and water consumption, increasing our use of renewable energy, and holding flat on recycling. Markets for recycled materials are down due to geopolitical issues and we continue to investigate alternative recycling options.

Performance against environmental targets

	FY2019-FY2021 target	FY2019 outcome
Use of renewable energy	5% increase	0%
Greenhouse gas emissions	5% reduction	(12)%
Recycling rate	5% increase	(2)%
Water consumption in stressed areas	5% reduction	(9)%

Reduction targets are compared to the FY2018 baseline year and GHG and water are normalised to FY2018 revenue. Renewable energy and recycling are rate-based and therefore are not normalised. Water consumption targets are focused on stressed areas in alignment with the UN Sustainable Development Goals. Renewable energy includes all non-GHG producing sources and covers our electricity demand.

Energy and GHG emissions

Our GHG emissions calculations and reporting follows the Greenhouse Gas protocol (operational approach) and covers emissions from all sources under our control, grouped under: Scope 1 – direct GHG emissions from owned assets; and Scope 2 – GHG emissions from supplied electricity.

Emissions from company vehicles, production processes and fugitive sources are small and not deemed to be material, and so are not in our reported totals.

Emissions		FY2019	FY2018	FY2017	FY2016
Absolute values					
Scope 1 (direct emissions)	t CO ₂ e	10,963	12,241	11,143	12,088
Scope 2 (indirect emissions)	t CO ₂ e	47,312	55,841	62,072	81,092
Total	t CO₂e	58,275	68,082	73,215	93,180
Normalised values					
Scope 1 (direct emissions)	t CO ₂ e/£m revenue	3.35	3.65	3.74	3.95
Scope 2 (indirect emissions)	t CO ₂ e/£m revenue	14.47	16.63	20.83	22.56
Total	t CO₂e/£m revenue	17.83	20.28	24.57	26.51

ENVIRONMENTAL GOALS

We set new three-year environmental improvement targets for the period FY2019 to FY2021 in accordance with our Environmental Emissions Reduction Policy and the 2016 UN Sustainable Development Goals.

By the end of FY2021, we aim to reduce our GHG emissions by a further 5%, normalised to revenue, and increase renewable energy use by an additional 5%. Renewable energy currently accounts for over 43% of our electricity use, with our ambition to achieve 50% by the end of FY2021 by using more energy efficient equipment and green energy contracts.

We will continue to focus on reducing water usage in regions defined as 'stressed' by UNESCO, as well as certain locations in China, India and Mexico where water is constrained. Our goal is an additional 5% reduction in these areas by the end of FY2021, normalised to revenue, through water reduction efforts as well as water reuse programmes in certain locations.

We've also agreed to increase the amount we recycle by 5% to 69% including waste and other materials within our operations and local sites.

With the pending separation of Smiths Medical, we will be establishing adjusted baselines and reviewing targets.



SUPPLY



2

We build strong strategic supplier relationships to ensure quality, efficiency and flexibility. We apply our shared values to everything we do, and ask our suppliers to do the same.

Our SES supply pillar focuses on procurement and supply chain management, drawing on best practices to provide expected standards and operating guidelines in support of our continuous improvement journey. Application projects in supplier development and operational planning help to embed best practice and accelerate process improvements. The professional development of our supply colleagues is supported by the SES Academy, which offers APICS and CIPS accredited procurement and supply chain education programmes.

SUPPLIER ENGAGEMENT AND CONDUCT

Our Supplier Code of Conduct, which was updated in FY2019, makes clear our expectations of suppliers when it comes to ethical behaviour, the supply of minerals from socially and environmentally responsible sources, and the environment. Questionnaires covering modern slavery have been sent to more than 120 suppliers located in higher-risk territories.

To grow sustainably, we need strong, smart partnerships to generate and capture value. In FY2019 we held a supplier conference with more than 50 of our key vendors, to ensure they were familiar and in line with our Supplier Code of Conduct and to explain our strategy.

We continue to measure and develop supplier delivery and quality performance. In FY2020 we will increase focus on supplier delivery lead-time, involving our supply base further in the management of upstream inventory.

While supplier contracts and payment terms vary across the Group, our recently refreshed terms and conditions clarify how we want to work with our partners.

DELIVERING SUPPLY EXCELLENCE AT SMITHS DETECTION

Smiths Excellence methodologies have been adopted by Smiths Detection to help deliver supply excellence across the world.

Looking at the six elements of supply, Smiths Detection has been able to break down the supply chain process step-by-step and identify areas for improvement. The division has optimised supply chain processes across five manufacturing sites and 36 suppliers, leading to a 25% reduction of inventory associated with these suppliers; equating to a value of £1.3m.

Working alongside suppliers to develop more effective production processes, Smiths Detection has also been able to improve competitiveness and performance.

In addition to these benefits, the division has developed a more agile supply chain to the benefit of our customers.



SUPPLY

**SUPPLY CHAIN
MANAGEMENT**

We continue to deploy best practices across our business, with emphasis on a total value approach to supply chain management; a key component of our SES Supply Chain Handbook.

In FY2019, we developed more robust sales and operation planning (S&OP) processes, with the aim of optimising business revenue and profitability, while improving customer delivery performance. In FY2020 we will pilot the use of advanced planning tools and continue supply chain capability development via the SES Academy.

**PROCUREMENT SAVINGS (GROSS)
FY2019***

£20m

FY2018: £21m

FY2017: £30m

* continuing operations

TRADE COMPLIANCE

Doing business the right way means respecting applicable laws wherever we operate.

Our trade compliance policies and procedures set out the necessary controls and provide corporate oversight of transactions. We provide in-person and online training to our trade compliance officers and other relevant colleagues. Our cross-divisional trade compliance working group meets regularly to share best practices and address emerging issues. We also regularly assess trade activities at site level to identify risks and review controls.

**HUMAN RIGHTS AND
TACKLING MODERN
SLAVERY**

We are committed to upholding all internationally recognised human rights standards wherever we do business, and to addressing modern slavery risks in our own operations and our supply chain.

During FY2019, we asked a second wave of Tier 1 suppliers to self-assess using a standardised questionnaire, selected based on a variety of factors, including their Global Slavery Index risk rating in relation to their countries of manufacturing.

We also audited some of our own sites and validated their compliance with our Code of Business Ethics, our Human Rights Policy and local labour laws. During our on-site audits we visited a sample of high-risk local suppliers to assess their compliance with our Supplier Code of Conduct. Any issues identified were investigated and remedial action taken.

We released new mandatory on-line training for our colleagues covering modern slavery. You can read our latest modern slavery statement on our website.

In FY2020, we will continue our due diligence drive with a focus on Tier 1 suppliers and enhance our monitoring capabilities and supplier controls.