

## OUR PURPOSE

### MAKING A SAFER, MORE EFFICIENT AND BETTER CONNECTED WORLD

Smiths is a world leader in the practical application of advanced technologies.

Our businesses share the same characteristics which embody how we create value, underpinned by our culture and values.

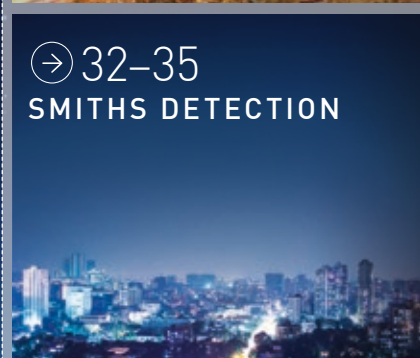
We actively manage our portfolio to target growing markets where we can sustainably achieve top three leadership positions.

We drive excellence and innovation through the Smiths Excellence System, maximising value for all our stakeholders.

→ 28-31  
JOHN CRANE



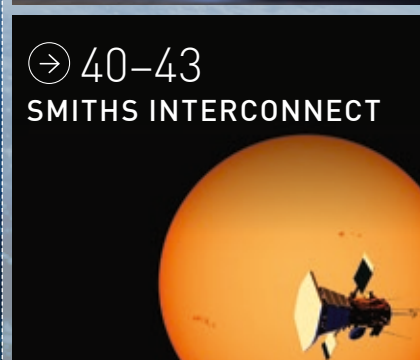
→ 32-35  
SMITHS DETECTION



→ 36-39  
FLEX-TEK



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SMITHS INTERCONNECT



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SMITHS MEDICAL

# FY2019 HIGHLIGHTS

The Group delivered another year of good growth – marking the next important milestone towards outperforming our chosen markets.

## FINANCIAL SUMMARY

	Headline <sup>1</sup>				Statutory		
	FY2019 £m	FY2018 <sup>2</sup> £m	Reported growth	Underlying <sup>3</sup> growth	FY2019 £m	FY2018 <sup>2</sup> £m	Reported growth
<b>Continuing Operations<sup>4</sup></b>							
Revenue	<b>£2,498m</b>	£2,328m	+7%	+3%	<b>£2,498m</b>	£2,328m	+7%
Operating profit	<b>£427m</b>	£388m	+10%	+4%	<b>£326m</b>	£342m	(5)%
Operating margin	<b>17.1%</b>	16.7%	+40bps		<b>13.1%</b>	14.7%	(160)bps
Pre-tax profit	<b>£376m</b>	£333m	+13%		<b>£304m</b>	£287m	+6%
Profit after tax	<b>£273m</b>	£246m	+11%		<b>£142m</b>	£119m	+19%
<b>Discontinued operations<sup>5</sup></b>							
Profit after tax	<b>£112m</b>	£115m	(3)%		<b>£85m</b>	£160m	(47)%
<b>Total Group</b>							
Profit for the year	<b>£385m</b>	£361m	+7%		<b>£227m</b>	£279m	(19)%
Operating cash-flow	<b>£474m</b>	£538m	(12)%				
Operating cash conversion <sup>6</sup>	<b>83%</b>	99%	(1,600)bps				
Free cash-flow	<b>£234m</b>	£302m	(23)%				
Net debt	<b>£1,197m</b>	£893m					
Net debt/EBITDA	<b>1.8x</b>	1.4x					
Return on capital employed	<b>14.4%</b>	14.6%	(20)bps				
Basic EPS	<b>96.8p</b>	90.7p	+7%	+3%	<b>56.8p</b>	70.0p	(19)%
Dividend	<b>45.90p</b>	44.55p	+3%				

1 Headline: In addition to statutory reporting, the Group reports on a headline basis except for balance sheet and cash-flow. Definitions of headline metrics, and information about the adjustments to statutory measures are provided in note 3 to the financial statements.

2 FY2018 has been restated for IFRS 15 and the Smiths Medical re-classification as discontinued operations.

3 Underlying modifies headline performance to adjust prior year to reflect an equivalent period of ownership for divested businesses and excludes the effects of foreign exchange, acquisitions and supplemental sales for divested businesses.

4 Continuing operations exclude Smiths Medical which is accounted for as 'discontinued operations – businesses held for distribution to owners', given the intended separation of Smiths Medical by the end of the first half of CY2020.

5 Discontinued operations is defined in note 27 to the financial statements.

6 Operating cash conversion is the ratio measuring total Group headline operating cash over total Group headline operating profit.

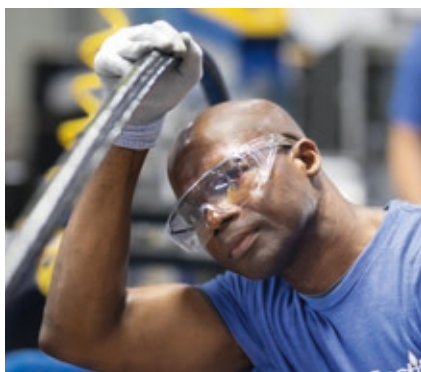
## PORTFOLIO STRENGTH\*

FY2018: ~80%

# >90%

- >90% of the Group is well positioned in attractive markets, up from ~80% last year, driven by increased organic investment and targeted M&A activity
- Flex-Tek completed the acquisition of United Flexible and the integration is progressing well

\* See definition on page 26



## HIGHER-GROWTH REGIONS\*

FY2018: 20%

# 20%

Revenue from higher-growth regions increased by 9% on an underlying<sup>3</sup> basis with strong growth in China, Egypt, Brazil and Mexico.

\* Comprised of territories whose real GDP growth exceeds the G7 average



## TOTAL GROUP RECORDABLE INCIDENT RATE

FY2018: 0.39

# 0.41

 per 100 colleagues

Health and safety remains a top priority and we are working to create safer and more secure workplaces for our people.

## AFTERMARKET\*

FY2018: 48%

# 49%

Aftermarket and services, a core characteristic of a Smiths business, increased by 100bps, taking aftermarket sales as a percentage of Group revenue to 49%, driven by Smiths Detection.

\* Aftermarket relates to maintenance, repairs and digital upgrades

## TOTAL GROUP STOCK TURNS\*

FY2018: 3.7x

# 3.4x

Stock turns measures speed and efficiency across our operations. Underlying progress was offset by the timing of sales and deferred deliveries in Smiths Detection.

\* Average inventory turns during the year



## TOTAL GROUP VITALITY INDEX

FY2018: 13%

# 13%

Vitality measures the effectiveness of our innovation, showing revenue from products launched in the last three years as a percentage of total revenue.

## OUR GLOBAL BUSINESS

We have operations in more than 50 countries and our products and solutions have a global reach.

### REVENUE BY DESTINATION

**50%**

AMERICAS

**22%**

EUROPE

**16%**

ASIA PACIFIC

**12%**

REST OF THE WORLD

**20%**REVENUE FROM  
HIGHER-GROWTH REGIONS**>14,000**EMPLOYEES  
WORLDWIDE



# OUR MARKETS

We target markets with strong long-term growth prospects.

## SECURITY AND DEFENCE

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



## GENERAL INDUSTRY

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



## ENERGY

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

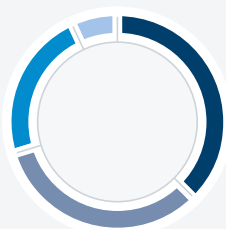


## SPACE AND AEROSPACE

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



## REVENUE BY MARKET



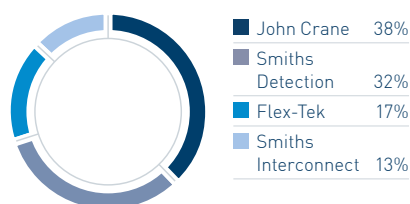
■ Security and defence	38%
■ General industry	33%
■ Energy	23%
■ Space and aerospace	6%

## OUR DIVISIONS

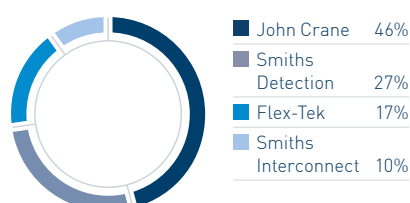
Our divisions are experts in their chosen markets.

### CONTINUING OPERATIONS

#### DIVISIONAL REVENUE



#### DIVISIONAL HEADLINE OPERATING PROFIT



#### MARKETS

-  Security and defence
-  General industry
-  Energy
-  Space and aerospace

#### JOHN CRANE



**Mission-critical solutions for global energy and process industries**

#### REVENUE

**£945m**

#### HEADLINE OPERATING PROFIT MARGIN

**23.3%**

- A global leader in flow control for rotating equipment
- Strong proprietary technology and expertise in applied engineering
- Broad installed base in energy and industrials
- Strong aftermarket service offering with c.200 sales and service centres
- Long-term customer relationships



#### SMITHS DETECTION



**Detection and screening technologies for the identification of security threats and contraband**

#### REVENUE

**£798m**

#### HEADLINE OPERATING PROFIT MARGIN

**16.0%**

- A global market leader with differentiated technologies leveraged across a broad range of markets
- Significant R&D capability
- Operating in regulated markets that require product certification
- Increasing digitisation and aftermarket revenue
- Long-term customer relationships



## DISCONTINUED OPERATIONS

## FLEX-TEK



Innovative components to heat and move fluids and gases

## REVENUE

£436m

## HEADLINE OPERATING PROFIT MARGIN

19.2%

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



## SMITHS INTERCONNECT



Solutions for high-speed, secure connectivity in demanding applications

## REVENUE

£319m

## HEADLINE OPERATING PROFIT MARGIN

14.7%

- Innovative and technically differentiated products
- Ultra-high reliability solutions used in demanding applications
- Strong research and engineering capabilities
- Customer intimacy, responsiveness and product customisation
- Global presence, reach and support



## SMITHS MEDICAL



Quality devices and consumables that are vital to patient care

## REVENUE

£874m

## HEADLINE OPERATING PROFIT MARGIN

16.8%

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





## MEGATRENDS

There are many possible futures for Smiths. We monitor megatrends to inform our strategy, which drives our innovation agenda so we can make a safer, more efficient and better connected world.

### ARTIFICIAL INTELLIGENCE (AI)

AI – the capability of a machine to imitate intelligent human behaviour, learn from past iterations and enhance its capabilities and knowledge – is nascent but evolving rapidly and applications can already be found in many industries.

#### How Smiths is well positioned

- Our Digital Forge centre of excellence is supporting Group-wide progress in the application of AI
- Our Smiths Detection CORSSYS™ software platform leverages AI to enable our customers to make better informed decisions
- Our John Crane Sense™ platform uses sophisticated machine learning algorithms to monitor seal performance



### INCREASED DIGITISATION AND CONNECTIVITY

Converting information into digital formats supports connectivity, making products smarter and able to exchange information with other devices and platforms. This is driving new business models and value creative solutions for our customers.

#### How Smiths is well positioned

- Digital solutions are central to many of our products, e.g. software in Smiths Detection equipment, John Crane's predictive diagnostic sensors and Smiths Interconnect's digital networks for space applications
- We are close to our customers and offer cutting edge technological expertise
- Our Digital Forge is helping to leverage software expertise across the Group

### ENERGY DEMAND AND EFFICIENCIES

Energy demand is increasing worldwide, with estimated growth of 1.2%\* per annum, and a changing mix with gas growing faster than oil. Environmental regulations and the need to reduce harmful emissions are also impacting the energy landscape.

#### How Smiths is well positioned

- We are focusing on technology and new product development that will enable a smarter, greener future, such as John Crane's dry gas seals that help to reduce methane emissions
- Customer intimacy enables us to jointly deliver solutions that meet specific needs

\* BP 2019 Global Energy Outlook

### DEMAND FOR TALENT

Advances in technology, globalisation, demographic trends and competition are increasing the demand for specialised talent. Our People Plan is focused on building a learning organisation to attract, retain, develop, engage and inspire our people.

#### How Smiths is well positioned

- Our people are a sustainable source of competitive advantage and we are committed to enabling them to be the best they can be
- We reward our colleagues for their contributions and enable them to share in our success. We aim to engage them so that they feel valued, supported, and driven to succeed





## MOBILITY AND GLOBALISATION

The growth of infrastructures supporting travel and trade is creating a smaller world for people and goods. With this comes the need for enhanced security and speed of transaction.

### How Smiths is well positioned

- We have a global footprint with operations in over 50 countries
- Growth in air travel, urbanisation and global trade are key demand drivers for Smiths Detection and Flex-Tek
- Applications at Smiths Interconnect support high speed trains and secure connectivity for aircraft and satellite communications



## NEW BUSINESS MODELS

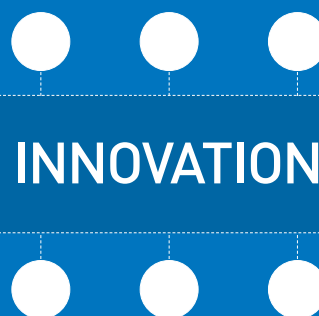
Business models enabled by new technology will emerge and these require agile structures. Trends include customisation, new service models and the sharing economy. We are embracing this evolution to remain competitive and create new value propositions.

### How Smiths is well positioned

- We are asset-light, helping us to be competitive and agile in a sustainable way
- A high proportion of our revenue (49%) comes from aftermarket and services
- Customer intimacy and technological expertise are key elements of the Smiths Excellence System, our shared operating model which drives excellence and innovation

## OUR GROUP-WIDE INNOVATION FRAMEWORK

Our Group-wide innovation framework is used by the divisions to drive the innovation agenda, enabling us to stay at the cutting edge of knowledge and product development.



## OUR BUSINESS MODEL

### OUR BUSINESSES ARE DEFINED BY FOUR CHARACTERISTICS

We actively manage our portfolio of businesses to ensure they are targeted in growing markets where we can sustainably achieve a top three leadership position. Our businesses share the same characteristics which embody how we create value.



**TECHNOLOGY**  
DIFFERENTIATION

**INCREASING**  
**DIGITISATION**

**SUSTAINABLY**  
**COMPETITIVE AND**  
**ASSET LIGHT**

**HIGH PROPORTION**  
**OF AFTERMARKET**  
**AND SERVICES**



### UNDERPINNED BY OUR CULTURE AND VALUES

Our shared culture and values guide how we behave. Our values are more than just words, we use them to guide every decision to make Smiths a place where people want to work and an organisation that people want to do business with.



**PASSION**

**INTEGRITY**

**RESPECT**

**OWNERSHIP**

**CUSTOMER FOCUS**



## MAXIMISING VALUE FOR ALL OUR STAKEHOLDERS

As a globally aligned organisation, we are committed to doing business responsibly, maximising value for all our stakeholders.

Measures below based on total Group

#### PEOPLE

Lean Awareness training

**18,000**

colleagues

Safety RIR

**0.41**

per 100 colleagues

#### CUSTOMERS AND SUPPLIERS

OTIF

**84%**

On time in full

COPQ

**1.4%**

Cost of poor quality

## AND OUR SHARED OPERATING MODEL DRIVES EXCELLENCE AND INNOVATION

The Smiths Excellence System (SES) helps us apply best practice across the Group. We work to ensure consistent execution and a culture of continuous improvement.

### PEOPLE

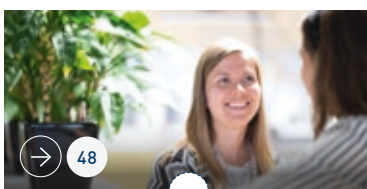
Our people are vital to achieving a sustainable competitive advantage. We work to attract, retain, develop, engage and inspire the best.



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### CUSTOMER

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



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### 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.



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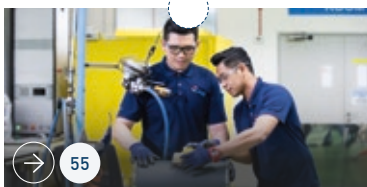
## INNOVATION



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### PROGRAMME

We aim for consistent and flawless execution in everything we do. Collaboration, consistency and best practice drive the development and implementation of products and solutions that delight customers and create value.



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### PRODUCTION

We leverage our years of manufacturing experience to drive for enhanced production efficiency, effectiveness, quality and safety, while minimising our impact on the environment.



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### SUPPLY

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.



### SOCIETY AND THE ENVIRONMENT

#### Direct economic contribution

**£2.6bn**

Tax paid + employee costs + supplier costs

#### GHG reduction

**(12)%**

Greenhouse gas

### OUR SHAREHOLDERS

#### Underlying EPS growth

**+3%**

See underlying definition on page 02

#### Dividend growth

**+3%**



## CHAIRMAN'S STATEMENT

BUILDING A  
SUSTAINABLY  
COMPETITIVE  
COMPANY

In writing these statements each year, I have always tried to make them interesting and informative. Hopefully, I will be successful in continuing that trend in my letter this year.

I think that many of you know my readiness to become the Chairman of Smiths was because I wanted to perform an experiment of sorts. That experiment was to see whether we could use the same approach to revitalising growth in a UK engineering company that had proved so successful in the United States. We believe that achieving above market organic growth is the best way to build a sustainably competitive company. This is clearly our long-term goal.

We all know that if a company participates in a 2% growth market, except with vigorous intervention to alter the outcome, that company will also grow at 2%, or perhaps even a little less as new competitive entrants nibble away at its market share.

As I have set out in previous Chairman's letters, there are only five general ways to achieve above-market growth and three of these require innovation. So, becoming better at innovation was always going to be a key piece to solving this growth puzzle. Although Smiths had innovated here-and-there in a couple of its reporting divisions, for many years we did not innovate very much in Smiths Medical, Flex-Tek and John Crane. Innovation had not been a Company-wide focus for many years. The faster moving electronics markets that our Smiths Interconnect business competes in, naturally required a greater level of innovation than in some other parts of the Company and the same was true in Smiths Detection, where global security threats have continued to present more challenges every year. But even there, the rate of innovation was still not fast enough to secure consistent above-market growth because the core market was eroding faster than we were replacing it.

In any company, establishing a pathway to deliver sustainable organic growth requires a substantial culture change. If that company has not innovated for many years, putting in place the necessary cultural and technological building blocks can be a longer road than most people realise. The natural sequence of new market familiarisation, technology awareness, ideation, invention, innovation, and then product release is almost always a several year process, depending on how technologically advanced the ultimate new product business process is. I'm happy to report that the cultural change necessary for innovation to thrive appears to have taken root in the Company. I see innovation happening now in almost every corner of Smiths.



**I SEE INNOVATION HAPPENING  
NOW IN ALMOST EVERY  
CORNER OF SMITHS."**

Operational excellence was another abiding need to be able to remake Smiths into the company we dreamed of. Every company has a set of underlying KPIs which, although not necessarily reported GAAP measures, are still strong leading indicators of the underlying health of a company. The important underlying KPIs in Smiths case are the new product Vitality Index (VI), the cost of poor quality (COPQ), on time in full delivery (OTIF), working capital as a percent of sales (WC%) and, finally, the operating leverage ratio (OLR), which is the ratio of earnings growth to sales growth. Consistent execution along these KPI vectors had been challenging for the Company going back many years.

We are now publicly reporting VI, WC%, COPQ and OTIF, all of which are showing improvements. We have more work to do on improving the OLR and on WC%, but this is quite normal when companies are trying to restart innovation and are making the necessary upfront investments which understandably reduces operating leverage.



**AFTER MORE THAN FOUR YEARS OF EFFORT ON THIS REINVENTION TASK, THE COMPANY IS REPORTING ORGANIC GROWTH THIS YEAR IN LINE WITH ITS COMBINED MARKETS AT ABOUT 3%.”**

After more than four years of effort on this reinvention task, the Company is reporting organic growth this year in line with its combined markets at about 3%. We see this as an achievement but not as success; rather purely a stepping stone along the road to reporting consistent above market growth in every line of business. That absolutely is our overall longer-term objective.

Many consultants and bankers who advise companies on which ideas to invest in, often believe there is a linear relationship between money invested in R&D and the resultant new product vitality index and time. Nothing could be further from the truth. I have seen this mistake made many times in my career, with occasionally near tragic results for a company, and sometimes its customers. A company has to have the innate creativity and imagination to even begin the innovation process.

That in itself is a difficult cultural change and the resulting new products and business models that bring better financial output, always take time to deliver. Within a reasonable degree of accuracy, once invented, it is possible to mathematically model the way in which new products penetrate and diffuse into a market. The results are often surprising to the unfamiliar, and they are absolutely not linear. The rate of growth is a double or even a triple exponential or a modified Fibonacci series.

In a company whose sales are spread across many relatively low-volume product groupings, the company is required to invest in innovation everywhere because no one or two product categories are large enough to arithmetically alter the growth outcome. In some senses, that fact makes the innovation choices easier, while it simultaneously makes the broader innovation effort harder and more complex because there's just more of it to do.

If a company has a few key products, say like Apple does with its iPhone, as long as it innovates, it can rely on them to deliver above-market organic growth for the entire company. If not, the company must inevitably encourage innovation across its entire portfolio. That's what Smiths has been doing these past few years.

In these circumstances, a company can't pick winners and losers in the innovation game, if for no other reason than the arithmetic doesn't work. For really innovative products there is, anyway, no data on the future. When people say to me that invention and innovation is risky, so why do it, my response to them is always that the alternative of not doing it is much worse. That approach just leads to average products, lower than average market growth and eventual stagnation.

Innovation, no matter how powerful its effect, is only one of the competitive weapons a company uses. For industrial companies there are six or seven competitive platforms the company needs to be good at to be sustainably competitive.



**INNOVATION, NO MATTER HOW POWERFUL ITS EFFECT, IS ONLY ONE OF THE COMPETITIVE WEAPONS A COMPANY USES.”**

These are cost, technology, people, distribution, customer service, brands and marketing and lastly, industrial design. If you are going to design new products, they may as well look beautiful. Even great products with a large amount of innovation in them still need to pay proper attention to manufactured cost. Ironically, sometimes products with the highest level of technology, can also have the lowest cost. No matter how good a product is, however, without effective distribution and good customer service, it will fail. The entire figurative orchestra of competitive platforms all have to play in tune. For example, a new car cannot be shipped from the factory if it's missing something as simple as a single windscreen wiper blade.

Nevertheless, even with innovative products, low cost is always the ultimate competitive weapon a company has at its disposal. In my former life before Smiths, on one product where we already had the world's leading position, we challenged ourselves to invent a simpler but effective form of that product and reduce the manufactured cost by 95%. We were successful and we shared the bounty with our customers, but it also enabled us to compete better.

Innovation is not always about what features or technology you add, but in how you make a product and what unnecessary things you might take away. In some of our divisions there are big opportunities to be taken with this philosophy.

We have been focusing a lot more this year on the subsurface KPIs and, in particular, a division's OLR. As innovation and growth begins to gather momentum and pay for itself, OLRs should rise, and then operating margins become easier to maintain or improve.

To make sure we do not fall behind on operational excellence, the Company has also placed significant emphasis this year on Lean and Six Sigma training, primarily for use in operations. Five years ago, there were few if any Black Belt or Master Black Belt qualified Six Sigma employees in our operations departments. Companies that are good at Lean and Six Sigma are ultimately better managed companies with lower costs and higher-quality products. These investments in operating efficiency and quality will undoubtedly produce cost reductions and quality improvements going forward. Several hundred of our colleagues have attended Green or Black Belt programmes this year with hundreds more queueing.



**WITH YOUR SUPPORT, WE  
WILL CONTINUE TO INVEST  
IN THE FUTURE OF THIS FINE  
COMPANY VIA INNOVATION,  
OPERATIONS EXCELLENCE  
AND THE COMPANY'S PEOPLE."**

The big news of the year was the decision to separate Smiths Medical from the Company. After such a long association, this was a hard decision to have to take, but it will facilitate our emphasis on industrial technology and create two stronger, standalone companies. Smiths Medical is a leader in infusion technologies and the innovation we have driven into that business will ensure its future success.

We have also continued our programme of portfolio streamlining to bring a more cohesive core to the Group's businesses. The largest of these activities, the acquisition of United Flexible, brings real scale to a number of different areas of technology in Flex-Tek and we are very encouraged by its progress.

Nobody in the Company believes that finally getting the Company back onto a growth footing in any way indicates that we have crossed the finish line. Not at all. What we do believe, however, is that it indicates we have crossed the start line and, with your support, we will continue to invest in the future of this fine Company via innovation, operations excellence and the Company's people.

In closing, I again want to thank all our investors for your continued support and we shall do our level best not to let you down.

Respectfully submitted,

**Sir George Buckley**  
CHAIRMAN





## CHIEF EXECUTIVE'S Q&A

### A SIGNIFICANT YEAR IN THE EVOLUTION OF SMITHS



2

FY2019 was a significant year in the evolution of Smiths. We made further progress on our strategic plan – delivering continued, sustainable growth on the way to outperforming our markets. In this context of progress and confidence in the future, we announced plans to separate Smiths Medical to create two stronger, industry-leading companies with distinct strategies and focus.

In this review of the year I address some of the key questions our stakeholders have been asking us during this important time for the Group, and the exciting value creation potential we have at both Smiths and Smiths Medical.

**Q For those new to the Smiths story, or who haven't followed the Group that closely, can you set this year's results in context?**

**A** Back in 2016 we set out our vision to transform Smiths and, since then, we've been through a programme of extensive change and development. We defined the types of businesses we believe we're good at running and targeted them in attractive markets where we can achieve a top three leadership position. We put in place the building blocks that will support sustainable growth above our markets. We focused on driving relentless execution through our Smiths Excellence System (SES) shared operating model, and sustainable competitiveness through targeted investment in innovation. Through our global People Plan, we are investing the right way in our people – our most valuable resource – to deliver best performance.

Last year, we returned Smiths to growth for the first time in five years. We have built on that return to growth this year with underlying revenue growth of 3%. Our growth is now in line with the markets that we serve which, in aggregate, grow around 3% per year; and we are on our way to outperformance.

Importantly, this growth is coupled with enhanced margins. Our margins have improved by 300bps since 2016 and we strongly believe that, in time, Smiths can deliver margins of between 18 and 20%.

It was against this context of progress, and our confidence in the future, that we announced plans to separate Smiths Medical.

**Q Why have you chosen to separate Smiths Medical now?**

**A** There are three fundamental beliefs driving the separation of Smiths Medical.

Firstly, it will create two stronger, industry-leading companies with distinct strategies, focus, and management teams. Secondly, it will enable us to concentrate on growing the Smiths business as a leading industrial technology group, united by its shared business characteristics and common operating model. And, thirdly it will allow Smiths Medical to capitalise on its leading positions, large programme of new product launches, and value creating opportunities in what is a rapidly changing market.

> Our plan will provide immediate clarity through a separation of the two businesses, with the overriding objective of maximising value for all our stakeholders.

Smiths Medical has some great leading brands, positioned in attractive markets. Approximately 80% of its revenue is recurring; it has gross margins of over 50% in all segments; and it routinely delivers high cash conversion. Its challenge had been underinvestment, but we've been working hard to address that, with average investment in new products up 40% in the last four years.

This targeted innovation spend has driven the launch of 33 new products in the last 24 months, and their increasing contribution is a key factor in Smiths Medical's successful return to growth in the second half of FY2019.



**OUR PLAN WILL PROVIDE IMMEDIATE CLARITY THROUGH A CLEAN SEPARATION OF THE TWO BUSINESSES, WITH THE OVERRIDING OBJECTIVE OF MAXIMISING VALUE FOR ALL OUR STAKEHOLDERS."**

Returning to growth was a key milestone for Smiths Medical, as was the appointment of JehanZeb Noor as CEO. JehanZeb is an impressive leader, with an intimate understanding of the MedTech industry and a strong track record of delivering growth and enhanced performance. I'm sure that he will be a great success as the company builds a strong, sustainable future.

The other significant point of progress achieved by Smiths Medical this year was the submission of its new large volume pump to the US regulators for first phase review. This has been a long-term project that represents a significant opportunity. Global sales of large volume pumps and dedicated consumables are approximately £2bn per year and Smiths Medical currently does not participate in this segment.

I am sure you can see why I have such a strong conviction in Smiths Medical's attractive future as a standalone business.

**What is your strategy for future Smiths?**

Q

A

Our ambition is to count ourselves amongst the world's elite industrial technology companies. Based on the superior quality of our businesses I believe that is eminently achievable.

Over the last four years we've been gradually reshaping the Group, organically and inorganically. Our businesses share the same four characteristics which embody how we create value – differentiated by their technology; with increasing digitisation; that are asset light; have a high proportion of aftermarket and services; and are targeted in growing markets where we can achieve a top three leadership position.

We actively manage our investment decisions with these business characteristics in mind and, over the last three years, we have completed 18 transactions with a total value of £1.4bn, supporting the continued strengthening of the portfolio. As a result of the organic and inorganic actions we have taken, over 90% of the Group is now well positioned.

Having honed the portfolio, we then focus on running our assets as effectively as we can through excellence, innovation and people. Consistent and robust execution is the difference between just a set of good assets and a good set of assets delivering consistently great performance. This is at the heart of SES, which is driving tangible improvements in our working capital, productivity and cost metrics; with significant potential still to come.



**CONSISTENT AND ROBUST EXECUTION IS THE DIFFERENCE BETWEEN JUST A SET OF GOOD ASSETS AND A GOOD SET OF ASSETS DELIVERING CONSISTENTLY GREAT PERFORMANCE."**

> As a technology company, innovation is critical to our sustained success. To support that we've increased Group-wide R&D spend by 25% in the last four years. To be effective and drive higher sales, investment needs to be commercially targeted and quick to market. We use our Vitality Index as a barometer for new product introduction success. The index currently stands at 13% and our ambition is to reach 20% in the medium term.



**I PASSIONATELY BELIEVE THAT PEOPLE AND LEADERSHIP IS OUR SINGLE MOST SUSTAINABLE DIFFERENTIATOR. WE'RE BUILDING A LEARNING ORGANISATION AND ARE FOCUSED ON DIVERSITY AND INCLUSION AT ALL LEVELS TO MAKE SURE WE ATTRACT, RETAIN, DEVELOP, ENGAGE AND INSPIRE THE VERY BEST PEOPLE."**

As I've said before, I passionately believe that people and leadership is our single most sustainable differentiator. We're building a learning organisation and are focused on diversity and inclusion at all levels to make sure we attract, retain, develop, engage and inspire the very best people. At the end of the day, it is Smiths people who drive excellence and innovation. Without the very best, our strategy just isn't achievable.

Our approach is underpinned by a strong financial framework. We're an asset light business, which is highly cash generative, and has a disciplined approach to leverage, and all capital allocation decisions. This supports our ability to generate long-term sustainable growth and superior returns.

**Q What are the capital allocation priorities for the Group going forwards?**

**A** Cash generation and a strong balance sheet are both trademarks of Smiths, but they're not ends in themselves. They go hand in hand with disciplined capital allocation, which we apply to all the investment opportunities we have.

Re-investment in organic growth remains priorities one, two and three. We will then complement organic growth with disciplined M&A to create additional value. Our most recent example was the acquisition of United Flexible, which strengthened Flex-Tek's position in aerospace and industrial markets globally. Acquisitions such as United Flexible can help us to access new technologies or new markets which we may not be able to reach as quickly through organic investment channels.

And we will continue to use our cash generation to pay a secure and progressive dividend.

**Q What could derail your strategy?**

**A** Our biggest challenge remains pace. We're pulling a lot of levers throughout the Group to enact change but seeing the full effect of that change takes time. I'm very pleased with the progress that we've made so far, and I am excited about our continued trajectory of improvement and the huge potential we still have to go; but, as with any Chief Executive, I'm keen to see the full effect of our transformational strategy coming through as fast as it can.

**Q How is the Group positioned for FY2020?**

**A** In FY2020 we expect to make further progress, with year on year growth weighted towards the first half and resulting in a more even balance in overall performance between the first and second halves. At current rates, foreign exchange will provide a tailwind to revenue and profit.

We remain on course to grow faster than our markets over the medium term. Our strategy is to focus the portfolio for growth and deliver world-class competitiveness, within a strong financial framework. The Board remains confident that this will drive long-term sustainable growth and attractive returns.

**Andy Reynolds Smith**  
CHIEF EXECUTIVE



## OUR EXECUTIVE COMMITTEE

Our Executive Committee is responsible for implementing our strategy, ensuring consistent execution and embedding our culture and values.



10 9 7 3 5 2 1 6 8 4

**1. ANDY REYNOLDS SMITH**  
**Chief Executive**

Joined Smiths in 2015. Background: Chief Executive, Automotive, GKN plc; Ingersoll Rand; Siebe plc and Delphi Automotive Systems. For full biography see page 76.

**2. JOHN SHIPSEY**  
**Chief Financial Officer**

Joined Smiths in 2017. Background: CFO at Dyson for 12 years; 13 years in senior finance and strategy roles at Diageo plc. For full biography see page 76.

**3. KAREN BOMBA**  
**President, Smiths Interconnect**

Joined Smiths in 2017. Background: President and CEO of Morpho Detection; CEO of Labinal; COO of Zoltek; CEO of Messier-Bugatti, USA.

**4. ROLAND CARTER**  
**President, Smiths Detection**  
**President, Asia Pacific**

Joined Smiths in 1991. Appointed President of Asia Pacific in 2017 and President of Smiths Detection in 2018; previously President of Smiths Interconnect and Managing Director for Smiths Connectors.

**5. JULIAN FAGGE**  
**Group Strategy and M&A Director**  
**President, Flex-Tek**

Joined Smiths in 2013 as Group Financial Controller. Appointed Group Strategy and M&A Director in 2017. Appointed President of Flex-Tek in 2019. Background: Royal Caribbean Cruises; Procter & Gamble; PwC.

**6. SHEENA MACKAY**  
**Group HR Director**

Joined Smiths in 2016. Background: Group HR Director at Aggreko plc, BBA Aviation plc and SSL International plc, and HR roles at GEC plc.

**7. JEHANZEB NOOR**  
**Chief Executive Officer,**  
**Smiths Medical**

Joined Smiths in 2019. Background: Vice President and General Manager of Healthcare for Amcor Flexibles Americas; Partner at McKinsey & Company.

**8. PHILIPPE ROMAN**  
**Group Operations Director**

Joined Smiths in 2016. Background: Group Purchasing, Supply Chain and IT Director at GKN plc; Global Operations Director at GKN Driveline; Faurecia; Valéo; PSA; Deloitte Consulting.

**9. MEL ROWLANDS**  
**Group General Counsel**

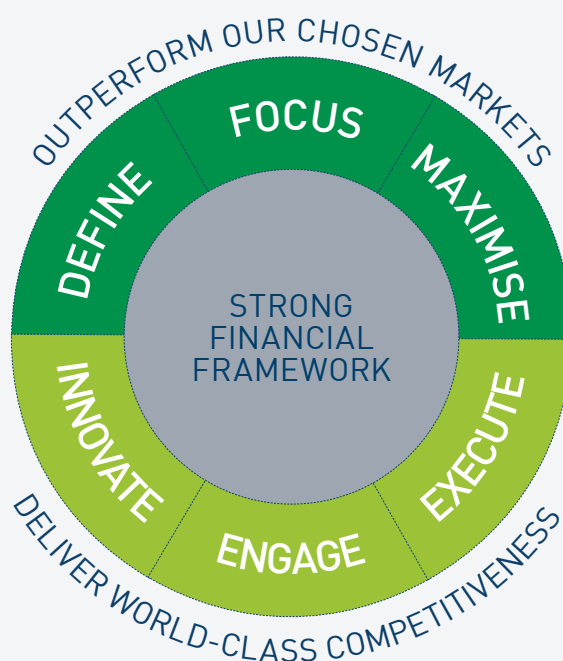
Joined Smiths in 2013. Appointed Group General Counsel in 2018. Previously Company Secretary and Deputy Group General Counsel. Background: BG Group plc; Linde AG; Edwards Group; Centrica plc.

**10. JEAN VERNET**  
**President, John Crane**

Joined Smiths in 2017. Background: CFO of Expro; Grid Net and Formfactor; Director of Risk at Rio Tinto Alcan; Schlumberger.

# OUR STRATEGY

We are seeing comprehensive benefits from implementing our three key strategic objectives.



→ 26 See our KPIs



## OUTPERFORM OUR CHOSEN MARKETS

We actively manage our portfolio of businesses to be targeted in growing markets where we can sustainably achieve a position of top three leadership. Our businesses share the same characteristics, which embody how we create value



### DEFINE OUR BUSINESSES

Our businesses share the same characteristics: technology differentiation; increasing digitisation; high proportion of aftermarket and services; and sustainably competitive and asset light



### FOCUS ON ATTRACTIVE MARKETS

We focus the portfolio on attractive markets with strong long-term growth drivers



### MAXIMISE GROWTH

We maximise growth through organic investment and a highly disciplined approach to acquisitions, disposals and integration



## DELIVER WORLD-CLASS COMPETITIVENESS

We drive sustainable competitiveness through focused innovation and investment; attracting and retaining the best talent; and relentless execution through our shared operating model the Smiths Excellence System (SES)



### INNOVATE TO EXCEED CUSTOMER EXPECTATIONS

Our Group innovation framework drives change and helps our businesses to incubate key projects



### ENGAGE OUR PEOPLE TO DRIVE BEST PERFORMANCE

Our People Plan is focused on building a learning organisation to attract, retain, engage, develop and inspire our people and embed our values



### EXECUTE CONSISTENTLY

SES ensures that we focus on continuous improvement, speed and efficiency



## STRONG FINANCIAL FRAMEWORK

Our financial framework underpins everything we do:

- Focus the portfolio on sustainably competitive and asset light businesses
- Deliver profitable growth with sustainable margins
- Manage the business and invest with strong financial discipline



## OUTPERFORM OUR CHOSEN MARKETS



## DEFINE OUR BUSINESSES

FOCUS ON  
ATTRACTIVE MARKETS

## MAXIMISE GROWTH

## What we said we would do in FY2019

- Drive the market share growth of our businesses in chosen markets through effective R&D investment
- Continue to focus the portfolio and grow the percentage of the Group that is well positioned in attractive markets
- Maintain a disciplined approach to acquisitions that will enhance our capabilities and leadership
- Continue to embed and execute our new operating model and strategy for Asia Pacific
- Look for partnership opportunities in India and China to strengthen our business

## How we did in FY2019

- Organic investment continued to increase with R&D up 40bps to 4.5% of sales. Key launches included: a new CT hand baggage scanner in Smiths Detection and FlashShield+™, next generation gas tubing in Flex-Tek
- Completed Flex-Tek's acquisition of United Flexible in February 2019 and John Crane's acquisition of the industrial division of Advanced Diamond Technologies (ADT) in April 2019, with the integration of previous acquisitions on track
- Completed first orders with our Sichuan Huafeng Chinese JV in Interconnect
- Signed multiple new contracts in the Group's higher-growth regions including John Crane, Smiths Interconnect and Smiths Detection contracts across Asia

## FY2020 priorities

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

The acquisition of the industrial division of Advanced Diamond Technologies (ADT) in John Crane expanded our technology into diamond coatings, improving the performance and reliability of our products.







## DELIVER WORLD-CLASS COMPETITIVENESS

### INNOVATE TO EXCEED CUSTOMER EXPECTATIONS

### ENGAGE OUR PEOPLE TO DRIVE BEST PERFORMANCE

### EXECUTE CONSISTENTLY

#### What we said we would do in FY2019

- |   |  |  |
|---|--|--|
| <ul style="list-style-type: none"> <li>– Increase our Vitality Index with new revenue streams, product lines and capabilities</li> <li>– Translate our future scenario planning into near-term products and services</li> <li>– Drive the culture of innovation deeper into the organisation</li> <li>– Expand our strategic partner network to help accelerate innovation and commercialisation</li> </ul> | <ul style="list-style-type: none"> <li>– Progress our People Plan and diversity &amp; inclusion strategy</li> <li>– Launch our enhanced leadership programme</li> <li>– Globalise our finance graduate programme and launch our engineering programme</li> </ul> | <ul style="list-style-type: none"> <li>– Safety and zero-harm remain our top priority</li> <li>– Continue to drive Group-wide capability development and continuous improvement</li> <li>– Implement IT roadmaps</li> <li>– Expand SES projects to accelerate associated business performance benefits through best practices</li> </ul> |
|---|--|--|

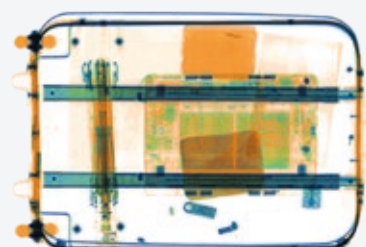
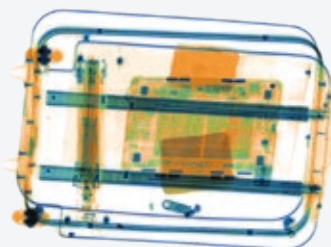
#### How we did in FY2019

- |   |   |   |
|---|---|---|
| <ul style="list-style-type: none"> <li>– Vitality at 13% with successful new product launches</li> <li>– Digital Forge now fully up and running. Key projects progressed during the year include John Crane Sense™</li> <li>– Established innovation partnerships with leading universities across the globe in the areas of AI and key technologies</li> </ul> | <ul style="list-style-type: none"> <li>– Launched the SES Green and Black Belt programme focused on developing Lean leadership across the organisation</li> <li>– Completed the UCLA leadership programme with more than 110 of the Group's senior leaders now trained</li> <li>– Launched Leadership@Smiths, developing leadership capabilities through the Accelerate programme (c.350 delegates) and e-learning modules</li> </ul> | <ul style="list-style-type: none"> <li>– Continued strong LTIR/ RIR performance</li> <li>– Delivered £20m procurement savings in both direct and indirect purchasing</li> <li>– Cost of poor quality dropped by 30bps to 1.4% in FY2019</li> <li>– Expanded the use of robotic assisted manufacturing across the Group driving efficiency and safety</li> </ul> |
|---|---|---|

#### FY2020 priorities

- |  |  |   |
|--|--|---|
| <ul style="list-style-type: none"> <li>– Drive further improvement in our Vitality Index through expanded capabilities, new revenue streams and product lines</li> <li>– Execute learnings from future scenario planning to deliver new products and services</li> <li>– Drive the culture of innovation deeper into the organisation</li> <li>– Accelerate innovation and commercialisation via expansion of strategic partner network</li> </ul> | <ul style="list-style-type: none"> <li>– Progress our People Plan and continue to execute diversity &amp; inclusion strategy</li> <li>– Build on Leadership@Smiths with the ongoing global roll out of the Accelerate programme and additional modules of e-learning</li> <li>– Implement finance graduate programme in the UK, US and Asia Pacific</li> </ul> | <ul style="list-style-type: none"> <li>– Safety and zero-harm remain our top priority</li> <li>– Continue to focus on expanding Group-wide capability and driving continuous improvement at all levels</li> <li>– Execute IT roadmaps</li> <li>– Accelerate business performance using further SES projects to drive best practice</li> </ul> |
|--|--|---|

Smiths Detection developed a new CT hand baggage scanner which enables passengers to keep their liquid and laptops in their bags and enhances security.





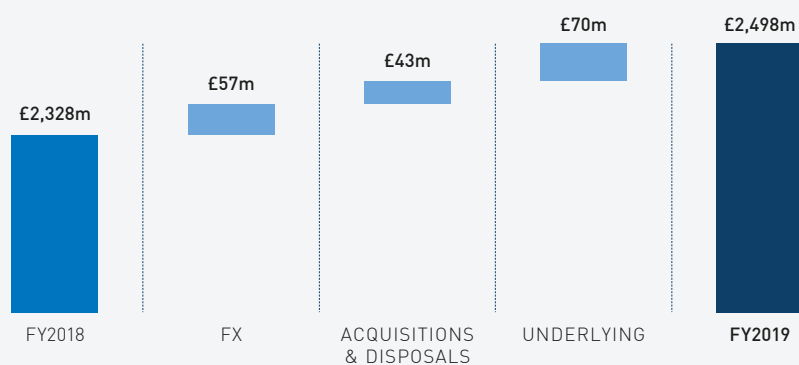
## STRONG FINANCIAL FRAMEWORK



IN FY2019 THE GROUP SUCCESSFULLY BUILT ON ITS RETURN TO GROWTH WITH CONTINUED MARGIN IMPROVEMENT. OUR RIGOROUS CAPITAL ALLOCATION CONTINUES, SUPPORTING A PORTFOLIO THAT IS WELL POSITIONED TO DELIVER SUSTAINABLE GROWTH AHEAD OF ITS MARKETS."



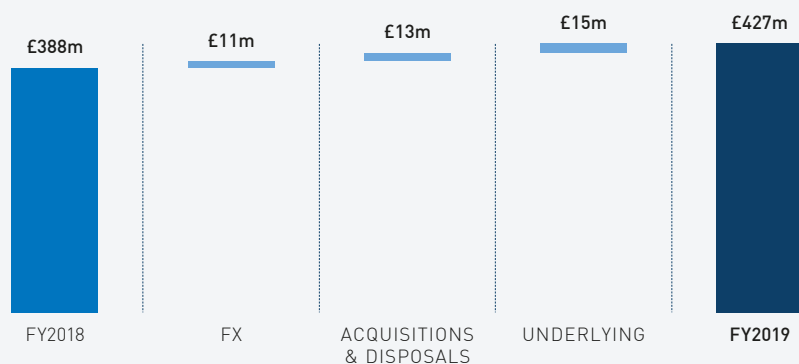
## REVENUE

CONTINUING OPERATIONS  
– EXCLUDING SMITHS  
MEDICAL

## Revenue

In FY2019 the Group successfully built on its return to growth. Underlying revenue growth of 3% was in line with expectations and marks another important milestone on our journey towards sustained outperformance versus our markets. All divisions delivered growth, except for Smiths Detection where some large orders were deferred into the first half of FY2020. The net impact of acquisitions and disposals (£43m), and favourable foreign exchange translation (£57m) each added a further 2% to revenue growth. As a result, reported revenue increased to £2,498m (FY2018: £2,328m), up 7% or £170m. Revenue from higher-growth regions, which now represents 20% of Group sales, grew 9% on an underlying basis.

## HEADLINE OPERATING PROFIT



## Operating profit

The net impact of acquisitions and disposals (£13m), and favourable foreign exchange translation (£11m) each added a further 3% to profit growth. As a result, reported headline operating profit increased to £427m (FY2018: £388m), up 10% or £39m.

Central costs reduced by £6m to £(51)m (FY2018: £(57)m), reflecting continued focus on central cost efficiencies.

The £(101)m difference between headline and statutory operating profit is non-headline items as defined in note 3 to the financial statements. The two largest constituents relate to amortisation of acquired intangibles and GMP equalisation. On a statutory basis, after taking into account all items excluded from headline performance, operating profit of £326m was £(16)m lower than last year (FY2018: £342m).

### Operating margin

Headline operating margin increased 40bps to 17.1% on a reported basis. This improvement was driven by a continued focus on operational excellence, as well as good volume growth, partially offset by mix and pricing in Smiths Detection and re-investment for future growth in John Crane. Since 2016 the Group's operating margin has increased 300bps, evidencing good progress towards our medium-term ambition of achieving Group operating margins of 18-20%.

### Finance costs

Headline finance costs of £(51)m (FY2018: £(55)m) were lower than last year driven by early repayment of higher coupon bonds. Statutory finance costs were £(22)m (FY2018: £(55)m) with the £33m reduction driven by a £39m foreign exchange gain on an intercompany loan with discontinued operations, (which is

neutral on a Group basis), partially offset by hedge ineffectiveness on fair value hedges, which are treated as non-headline.

### R&D and capex

The Group's investment in R&D grew, with income statement costs up by £8m or 9% on a reported basis, to £93m (FY2018: £85m). This translated into cash costs of £111m or 4.5% of sales (FY2018: £96m or 4.1%). Our Vitality Index measures the effectiveness of organic investment, tracking revenue from new products launched in the past three years. Our Total Group Vitality Index was 13% (FY2018: 13%), with an ambition to reach ~20% in the medium-term.

Capex at £(68)m (FY2018: £(60)m) represented 1.3x depreciation and amortisation (FY2018: 1.0x). The increase was driven by planned investment in John Crane to support growth.

### Portfolio

We actively manage our portfolio of businesses and review all options to enhance our leadership positions and maximise value for shareholders. We made further progress on portfolio optimisation through organic and inorganic investment; over 90% of the Group is now well positioned in attractive markets.

In February 2019, Flex-Tek completed the acquisition of United Flexible for an enterprise value of \$345m. This acquisition strengthens Flex-Tek's positions in aerospace and industrial end-markets globally. The integration is progressing

well. In April 2019, John Crane completed the acquisition of the industrial division of Advanced Diamond Technologies (ADT) for an enterprise value of \$8m. ADT is a leader in the development and application of diamond films for industrial, electronic, mechanical and medical applications. The acquisition enhances John Crane's technological leadership. For more information, please read notes 26 and 28 of the financial statements.

## DISCONTINUED OPERATIONS – SMITHS MEDICAL

Smiths Medical returned to growth in the second half with revenue up 2%, delivering flat revenue for the year overall at £874m, in line with expectations. The improved trend reflects an increased contribution from new products and a change in sales channel for our chronic obstructive pulmonary disease (COPD) product, both of which offset the previously announced impact of the transition to a new Notified Body in Europe and associated product re-certifications.

Headline operating profit of £147m was down (6)% on an underlying basis. Operating profit was impacted by the £15m cost associated with re-certification in Europe, as anticipated, and some operational inefficiencies. As a result, headline operating margin reduced (110)bps to 16.8%, with margin showing signs of improvement in the second half at 17.0%. Smiths Medical's

## PENSION

The net accounting pension surplus was £311m (FY2018: £381m), driven by actuarial losses arising from the application of a lower discount rate. The Group continues to de-risk the pension schemes, for example through a £176m buy-in agreement with Canada Life for Smiths Industries Pension Scheme (SIPS) in July 2019.

The Group made contributions for the year of £36m (FY2018: £49m). For FY2020, we expect total cash contributions of around £40m across all schemes.

GMP is a portion of UK pension that was accrued by individuals who were contracted out of the UK State Second Pension prior to 6 April 1997. Historically there was an inequality of benefits between male and female members who have GMP, which is

not unique to Smiths. A total £(29)m past service cost (FY2018: £nil) was recognised in the current period as a non-headline item following the UK High Court ruling that GMP equalisation is required for all such UK schemes.

	Accounting valuation		Cash contribution	
	FY2019	FY2018	Going forward	FY2019
SIPS scheme	£263m	£303m	£12m	£12m
TI scheme	£206m	£223m	£12m	£12m
<b>Total UK schemes</b>	<b>£469m</b>	<b>£526m</b>	<b>£24m</b>	<b>£24m</b>
<b>Total Group</b>	<b>£311m</b>	<b>£381m</b>	<b>c.£40m</b>	<b>£36m</b>



## STRONG FINANCIAL FRAMEWORK

headline profit after tax was £112m, as displayed in the Group income statement. The difference between headline and statutory total profit are non-headline items of £(27)m which include a foreign exchange loss on an intercompany loan with the Group and separation costs, partially offset by profit on disposals of non-core assets and tax credits on non-headline items.

During the year, Smiths Medical completed the disposal of two non-core businesses for a total consideration of c.£30m, further focusing the business on scalable leading positions in its chosen markets.

The separation of Smiths Medical is progressing well; we are on track to complete the demerger by the end of the first half of CY2020, conditional on the approval of Smiths shareholders. The Board of Smiths continues to evaluate all opportunities for value maximisation as the separation process progresses, with the overriding objective of optimising shareholder value. The separation will create two stronger, industry-leading companies with distinct strategies and focus.

Smiths Medical successfully achieved its FY2019 performance milestones supporting the separation process. The division returned to growth in the second half, with the sustainability of this growth underpinned by the ongoing launch of new products. One of the division's most significant new product investments, the large volume pump, has now been submitted to the US regulator for first phase review. The large volume pump market represents a c.£2bn extension to Smiths Medical's addressable market.

In July, JehanZeb Noor joined as Chief Executive Officer of Smiths Medical to oversee the separation and continue building a strong, sustainable future for Smiths Medical. He is focused on accelerating growth and driving enhanced performance to deliver the division's medium-term ambition of growing ahead of its markets, with operating margins in excess of 20% and attractive returns.

### TOTAL GROUP

#### Taxation

The principles of the Group's approach to taxation remain unchanged. The Group manages the cost of taxation in a responsible manner to protect its competitive position. The fundamental principle of our approach to managing our tax affairs is to engage with tax authorities around the world transparently, cooperatively and on the basis of legal compliance. Through this responsible management of our tax affairs we aim to enhance long-term shareholder value while contributing to public expenditure and the overall welfare of the communities in which we operate. The headline tax charge for the year of £(135)m (FY2018: £(126)m) represents an effective rate of 25.9% (FY2018: 25.8%).

Non-headline taxation items of £(52)m included a £(36)m UK deferred tax write-off as a result of the proposed Medical demerger and a £(18)m US deferred tax write-off. Therefore, the statutory tax rate is 45.1%. Please refer to note 3 of the financial statements for further details.

An effective tax rate in the range of 25-27% is expected for the year ending 31 July 2020.

#### Statutory total profit and EPS

Total statutory profit after tax decreased by (19)% to £227m (FY2018: £279m). Statutory basic EPS was also down (19)% to 56.8p (FY2018: 70.0p) due to the non-headline items referred to previously.

### Cash generation

During the year stock turns were 3.4x (FY2018: 3.7x) and average working capital as a percentage of sales was stable at 26% (FY2018: 26%). Headline operating cash-flow was £474m (FY2018: £538m). This reflected an increase in year-end working capital of £(104)m (FY2018: £(16)m), caused by higher current receivables following a strong end to the year and higher inventory associated with order phasing in Smiths Detection and John Crane. As a result, operating cash conversion was 83% (FY2018: 99%). Strong cash generation remains a distinguishing feature of Smiths performance and over the last four years the Group has averaged 100% operating cash conversion.

Statutory net cash inflow from operating activities was £346m (FY2018: £405m). Free cash-flow of £234m (FY2018: £302m) decreased by (23)% reflecting lower operating cash. See note 29 to the financial statements for a reconciliation of headline operating cash to statutory cash-flow measures.

### Dividend

The Board has a progressive dividend policy, aiming to increase dividends in line with long-term underlying growth in earnings and cash-flow. This policy enables us to retain sufficient cash-flow to finance investment in the drivers of growth and meet our financial obligations. In setting the level of dividend payments, the Board considers prevailing economic

### CAPITAL ALLOCATION

We apply disciplined capital allocation to all investment opportunities. Reinvestment in organic growth remains our priority as measured by the R&D % to sales and our Vitality Index which tracks the effectiveness of our innovation. We complement organic growth with disciplined M&A, to create additional value. We use our cash generation to deliver a secure and progressive dividend to our shareholders.

### CASH GENERATION

#### INVESTMENT IN ORGANIC GROWTH

#### VALUE CREATIVE M&A

#### PROGRESSIVE DIVIDEND



conditions and future investment plans, along with the objective to maintain minimum dividend cover of around 2.0x.

The Board is recommending a final dividend of 31.80p per share, bringing the total dividend for the year to 45.90p, a year-on-year increase of 3% (FY2018: 44.55p). The final dividend will be paid on 15 November 2019 to shareholders on the register at close of business on 18 October 2019.

### Litigation

Smiths Group faces different types of litigation in different jurisdictions. Please see below an update on the two litigation provisions. For more information, refer to note 22 of the accounts.

#### John Crane, Inc. litigation

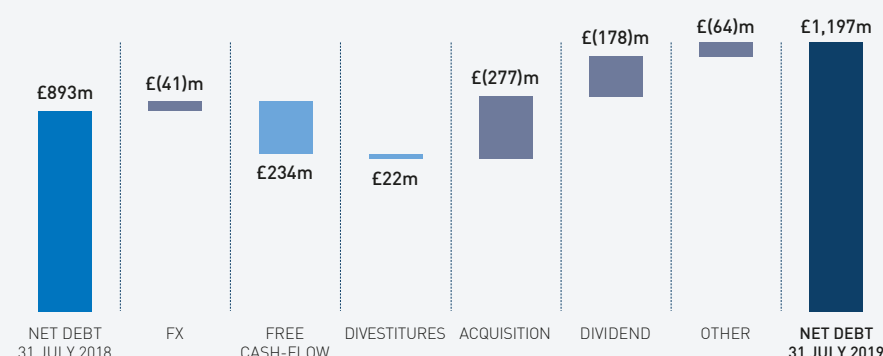
John Crane, Inc. (JCI), a subsidiary of the Group, continues to actively monitor the conduct and effect of its current and expected asbestos litigation, including the effective presentation of its 'safe product' defence, and intends to resist asbestos cases based on this defence. Approximately 285,000 claims against JCI have been dismissed before trial over the last 40 years. JCI is currently a defendant in cases involving approximately 38,000 claims. Despite these large numbers of claims, since the inception of asbestos litigation against JCI it has had final judgments against it in 144 cases, and has had to pay awards amounting to approximately \$168m.

At 31 July 2019, the aggregate provision for JCI asbestos litigation, including for adverse judgments and defence costs, amounted to £237m (FY2018: £223m) expressed at the then current exchange rate. In deciding upon the amount of the provision, JCI has relied on independent expert advice from a specialist.

#### Titeflex Corporation litigation

Titeflex Corporation, a subsidiary of the Group in the Flex-Tek division, has received a number of claims in recent years from insurance companies seeking recompense on a subrogated basis for the effects of damage allegedly caused by its flexible gas piping products being energised by lightning

### NET DEBT TOTAL GROUP



strikes. It has also received a number of product liability claims relating to this product, some in the form of purported class actions. Titeflex Corporation believes that its products are a safe and effective means of delivering gas when installed in accordance with the manufacturer's instructions and local and national codes; however some claims have been settled on an individual basis without admission of liability.

At 31 July 2019, a provision of £74m (FY2018: £78m) has been made for the costs which the Group expects to incur in respect of these claims.

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

### ROCE

ROCE reduced marginally to 14.4% (FY2018: 14.6%). The ROCE movement reflects recent investments, such as the acquisition of United Flexible, which are expected to generate superior returns over the longer-term.

### Debt

Net debt at 31 July 2019 was £(1,197)m, an increase of £(304)m in the period. Net debt to EBITDA increased to 1.8x mainly driven by the acquisition of United Flexible. Gross debt was £(1,512)m (FY2018: £1,610m) and cash reserves

were £315m (FY2018: £717m). Of the gross debt, £nil falls due within one year. Our strong balance sheet continues to allow us to deploy significant further investment capacity to support sustainable growth.

The maturity profile of the major tranches of the debt in issue is as follows:

2022 – £(329)m (\$400m 3.625% bond)  
 2023 – £(564)m (€600m 1.25% bond)  
 2027 – £(607)m (€650m 2.00% bond)

### Foreign exchange

The results of overseas operations are translated into sterling at average exchange rates. The net assets are translated at period-end rates. The principal exchange rates, expressed in terms of the value of sterling, are shown in the following table.

	Average rates		Period-end rates	
	31 July 2019	31 July 2018	31 July 2019	31 July 2018
USD	1.29	1.35	1.22	1.31
EUR	1.13	1.13	1.10	1.12

With over 95% of our revenue originating outside the UK, we are exposed to foreign exchange movements, mainly the US Dollar and the Euro. For each \$0.10 move, the annual operating profit impact is c.£15m. For each €0.10 move, the annual operating profit impact is c.£10m. Current foreign exchange will provide a tailwind to revenue and profit, if current rates prevail.

### John Shipsey

CHIEF FINANCIAL OFFICER





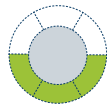
## KEY PERFORMANCE INDICATORS

## OPERATIONAL PERFORMANCE

Why we measure	Performance	Ambition	Strategic objective
<b>PORTFOLIO STRENGTH</b>			
We continuously review our portfolio of businesses to target top three leadership positions in attractive markets.	In FY2019, >90% of our business was well positioned. The improvement was driven by organic improvement as well as M&A activity.	90%+ revenue from top three positions in attractive markets	
	<div>FY2017 ~75%</div> <div>FY2018 ~80%</div> <div>FY2019 &gt;90%</div>		
<b>AFTERMARKET &amp; SERVICES</b> as measured by Aftermarket % of sales			
Aftermarket is a core characteristic of a Smiths business; part of our DNA.	In FY2019, Aftermarket reached 49% of sales, driven by strong growth in Smiths Detection.	50%+ aftermarket revenue sales as a percentage of total revenue	
	<div>FY2017 44%</div> <div>FY2018 48%</div> <div>FY2019 49%</div>		
<b>EFFECTIVE INNOVATION</b> as measured by Vitality Index			
Following a period of accelerated re-investment into the business, we are focusing on measuring the effectiveness of our investment.	In FY2019, Vitality Index was 13%. Key launches in the year included a new CT hand baggage scanner in Smiths Detection and FlashShield+™ in Flex-Tek.	~20% revenue from products launched in the last three years as a percentage of total revenue	
	<div>FY2018 13%</div> <div>FY2019 13%</div>		
<b>OPERATIONAL EXCELLENCE</b> as measured by stock turns			
Stock turns measure speed and efficiency in the business.	In FY2019, our underlying progress was more than offset by timing of sales and delivery delays in Smiths Detection.	6x stock turns	
	<div>FY2017 3.5x</div> <div>FY2018 3.7x</div> <div>FY2019 3.4x</div>		
<b>EMPLOYEE ENGAGEMENT</b>			
One focus of our People Plan is colleague engagement, which we measure twice annually in a confidential survey.	In FY2019, 87% of colleagues responded and we retained our healthy engagement score of 73.		
	<div>FY2017 71</div> <div>FY2018 73</div> <div>FY2019 73</div>		
<b>SAFETY</b> as measured by RIR			
Health and safety remains our top priority. Our key metric is Recordable Incident Rate (RIR) per 100 colleagues.	Group RIR continued its strong performance.		
	<div>FY2017 0.38</div> <div>FY2018 0.39</div> <div>FY2019 0.41</div>		

All operational and financial KPIs above the dotted lines are shown on a continuing operations basis. All operational and financial KPIs below the dotted lines are shown on a total Group basis as they are the key measures of the Group's cash and returns performance.

# FINANCIAL PERFORMANCE

Why we measure	Performance	Ambition	Strategic objective
<b>SUSTAINABLE GROWTH</b> <b>as measured by underlying<sup>1</sup> revenue growth</b> Growth is a top priority for the Group and a key part of management incentives.	The Group delivered further good growth in FY2019. FY2017 0% FY2018 3% FY2019 3%	Outperform our chosen markets	
<b>ENHANCED PERFORMANCE</b> <b>as measured by headline operating margin</b> Growth needs to be delivered with a strong margin.	In FY2019, headline operating margin was 17.1%, up 40bps driven by volume growth and continued focus on operations and costs. FY2017 16.3% FY2018 16.7% FY2019 17.1%	18-20% headline operating margin	
<b>ATTRACTIVE RETURNS</b> <b>as measured by ROCE</b> Measuring ROCE ensures we are focused on the efficient use of assets and capital, but can be distorted by M&A activity.	In FY2019, we delivered a 14.4% ROCE, reflecting recent investments. FY2017 16.2% FY2018 14.6% FY2019 14.4%	16-18% ROCE through the cycle	
<b>ASSET LIGHT</b> <b>as measured by working capital % sales<sup>2</sup></b> Working capital measures speed and efficiency in the business from manufacturing to debt collection. Working capital translates into cash.	In FY2019, working capital represented 26% of sales, flat year on year, with underlying progress being offset by timing of sales. FY2017 27% FY2018 26% FY2019 26%	~20% working capital as a percentage of total revenue	
<b>STRONG CASH GENERATION</b> <b>as measured by operating cash conversion</b> Our focus on cash demonstrates our focus on efficiency as well as enabling us to fund future growth.	In FY2019, cash conversion of 83% fell from 99% in FY2018 driven by working capital as described above. FY2017 118% FY2018 99% FY2019 83%	100%+ operating cash conversion	

1 See underlying definition on page 02

2 Calculated as the 12-month rolling average of inventory, trade receivables and associated provisions, unbilled receivables, trade payables and deferred revenue as a percentage of total annual sales

## LINK TO STRATEGIC OBJECTIVES



## LINK TO REMUNERATION

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

See page 102 where we show the impact of the operating cash conversion, organic revenue growth and ROCE KPIs from total operations on the FY2019 annual bonus and the LTIP for the three years ending 31 July 2019.

## AMENDMENTS TO KPIs

As a result of the planned separation of Smiths Medical, our ambition for Aftermarket has moved from 60%+ to 50%+ as Smiths Medical had over 80% of consumables.

R&D % sales has been removed as a KPI as we are focusing on the effectiveness of R&D using our Vitality Index.

RIR has been added as a measure of safety.



# JOHN CRANE

## MISSION-CRITICAL SOLUTIONS FOR GLOBAL ENERGY AND PROCESS INDUSTRIES

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

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

### FY2019 PERFORMANCE

#### Revenue

**£945m** +8%\*

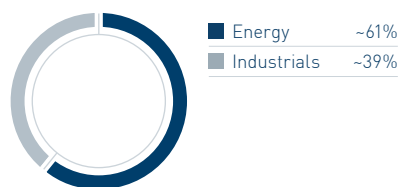
#### Headline operating profit

**£220m** +6%\*

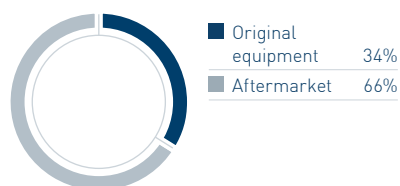
#### Headline operating margin

**23.3%** +40bps

#### Revenue by sector



#### Revenue mix



### COMPETITIVE STRENGTHS

- A global leader in flow control for rotating equipment
- Strong proprietary technology and expertise in applied engineering
- Broad installed base in energy and industrials
- Strong aftermarket service offering with c.200 sales and service centres
- Long-term customer relationships

### GROWTH DRIVERS

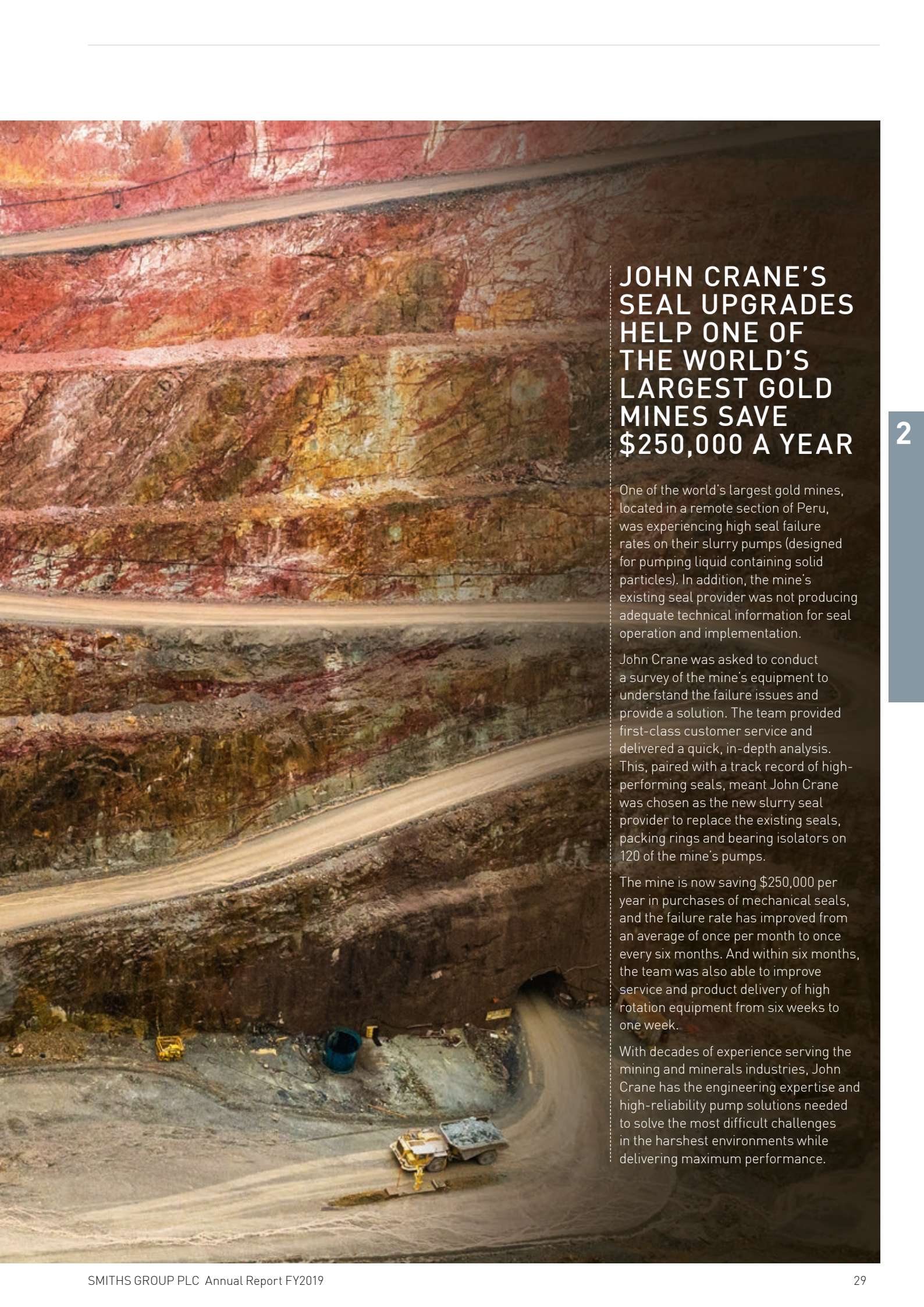
- Underlying energy demand
- Pent-up demand for maintenance and upgrades in oil & gas and petrochemical
- Expansion in higher-growth markets
- Need for operational improvements in industrial process industries
- Disruptive innovations, including materials science advancements and digital transformation

### COMPETITORS

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

\* Underlying change. Underlying modifies headline performance to: adjust prior year to reflect an equivalent period of ownership for divested businesses; and excludes the effects of foreign exchange, acquisitions and supplemental sales for divested businesses.





## JOHN CRANE'S SEAL UPGRADES HELP ONE OF THE WORLD'S LARGEST GOLD MINES SAVE \$250,000 A YEAR

One of the world's largest gold mines, located in a remote section of Peru, was experiencing high seal failure rates on their slurry pumps (designed for pumping liquid containing solid particles). In addition, the mine's existing seal provider was not producing adequate technical information for seal operation and implementation.

John Crane was asked to conduct a survey of the mine's equipment to understand the failure issues and provide a solution. The team provided first-class customer service and delivered a quick, in-depth analysis. This, paired with a track record of high-performing seals, meant John Crane was chosen as the new slurry seal provider to replace the existing seals, packing rings and bearing isolators on 120 of the mine's pumps.

The mine is now saving \$250,000 per year in purchases of mechanical seals, and the failure rate has improved from an average of once per month to once every six months. And within six months, the team was also able to improve service and product delivery of high rotation equipment from six weeks to one week.

With decades of experience serving the mining and minerals industries, John Crane has the engineering expertise and high-reliability pump solutions needed to solve the most difficult challenges in the harshest environments while delivering maximum performance.



## DIVISIONAL STRATEGY

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

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

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

## LINK TO GROUP STRATEGY



### OUTPERFORMING OUR CHOSEN MARKETS

- Industrial market penetration
- Product development to support end-market diversification and digitisation
- Continued focus on higher-growth regions with contract wins in China, Thailand, Singapore and Korea
- Strong new product pipeline and constant portfolio review



### DELIVER WORLD-CLASS COMPETITIVENESS

- Continue to implement SES pillars focusing on lean and continuous improvement
- Focus on business process standardisation using automated systems
- Develop strategic manufacturing and supply strategy

## PRODUCTS

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

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

## MARKETS WHERE WE OPERATE

**Energy:** Following a period of significant downturn, the oil & gas markets continue to recover, driven by underlying energy demand. Customers are investing in growing areas such as liquefied natural gas and pipelines, and we have recently seen increased aftermarket activity in the form of demand for ongoing maintenance and upgrades.

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

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

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

## TRENDS SHAPING OUR INNOVATIONS

We believe megatrends, such as the global demand for energy and efficiencies and increased digitalisation and connectivity, will continue to generate demand for our products over the longer term.

### Megatrend

### Innovation in FY2019

#### Energy demand and efficiencies

A new dry gas seal in the Aura™ range which reduces methane emissions

An advanced seal for light hydrocarbon pipeline pumps which supports pump efficiency and tolerance of harsh operating environments

An innovative smaller footprint filtration system to enhance performance

#### Increased digitisation and connectivity

Continued development of John Crane's Sense™ predictive diagnostics systems

## FY2019 FINANCIAL PERFORMANCE

	FY2019 £m	FY2018 £m	Reported growth	Underlying <sup>1</sup> growth
<b>Revenue</b>	<b>945</b>	881	+7%	+8%
Original Equipment	313	292		+13%
Aftermarket	632	589		+5%
<b>Headline<sup>2</sup> operating profit</b>	<b>220</b>	202	+9%	+6%
<b>Headline<sup>2</sup> operating margin</b>	<b>23.3%</b>	22.9%	+40bps	
<b>Statutory operating profit</b>	<b>191</b>	199	(4)%	
<b>Return on capital employed</b>	<b>23.4%</b>	22.9%	+50bps	
<b>R&amp;D cash costs % sales</b>	<b>1.7%</b>	1.3%	+40bps	

### Revenue

John Crane delivered a continued good performance, with revenue up 8% on an underlying basis. Reported revenue was up 7%, including £(13)m net impact from the disposal of the Bearings business and the acquisition of Seebach GmbH in the prior year and £10m favourable foreign exchange translation.

Underlying revenue from John Crane's Energy and Industrial activities was up c.10% and c.4% respectively, reflecting the improved trend in global energy markets and continued growth in John Crane's industrial sales. These market conditions also drove improved underlying sales of Original Equipment (OE), up 13%. Investment in OE projects and the expansion of the installed base continued during the period. Multiple new project agreements were secured, including oil & gas expansion projects in the Middle East, United States, APAC and Europe, an oil field development project in Brazil, as well as new power, petrochemical, pulp and paper, and chemical contracts across all regions. John Crane's large installed base and leading service offering position it well to satisfy strong aftermarket demand for repairs, maintenance and upgrades; underlying aftermarket revenue grew 5% during the year and now represents 66% of John Crane's revenue.

### Operating profit

Headline operating profit of £220m increased 6% on an underlying basis, mainly driven by strong volumes. Headline operating profit margin was 23.3%, up 40bps, with the positive impact of volume growth and the disposal of a lower margin business partially held back by the higher mix of OE, the costs of restarting capacity and increased investment in R&D. The difference between statutory and headline operating profit includes the net cost in relation to the provision for John Crane, Inc. asbestos litigation.

### Portfolio

In April 2019, John Crane completed the acquisition of the industrial division of Advanced Diamond Technologies (ADT) for an enterprise value of \$8m. ADT is a leader in the development and application of diamond films for industrial, electronic, mechanical and medical applications. The acquisition enhances John Crane's technological leadership.

### ROCE

ROCE was up 50bps at 23.4% driven by the impact of disposals and increased profitability, partially offset by acquisitions and investments in capex.

### R&D

Cash R&D expenditure during the period increased by 33% or £(4)m to 1.7% of sales (FY2018: 1.3%). John Crane's innovation is primarily focused on using materials science advancements and coatings to enhance seal performance and efficiency, as well as leveraging the Group's digital expertise to support the development of predictive diagnostic platforms and other innovative digital technologies. During the year John Crane launched a simplified cartridge seal design for process industries, supporting faster and easier installation. The advanced seal for crude oil pipeline pumps, launched last year, saw rapid adoption by some of the world's leading pipeline companies.

### Outlook

John Crane continues to see strong order intake for both OE and aftermarket. This supports our expectations of good growth in FY2020, albeit against a strong comparator.

<sup>1</sup> **Underlying:** modifies headline performance to adjust prior year to reflect an equivalent period of ownership for divested businesses and excludes the effects of foreign exchange, acquisitions and supplemental sales for divested businesses

<sup>2</sup> **Headline:** In addition to statutory reporting, the Group reports on a headline basis except for balance sheet and cash-flow. Definitions of headline metrics, and information about the adjustments to statutory measures are provided in note 3 to the financial statements

# SMITHS DETECTION

## DETECTION AND SCREENING TECHNOLOGIES FOR THE IDENTIFICATION OF SECURITY THREATS AND CONTRABAND

Smiths Detection is a global leader in detection and screening technologies for the protection of people and assets, supporting safety, security and freedom of movement in today's world. We work with customers in a broad range of markets including aviation, ports & borders, defence and urban security, providing complete solutions that address existing and emerging threats. Smiths Detection's reputation is underpinned by extensive experience, differentiated technology, and a strong track record of success.

### FY2019 PERFORMANCE

#### Revenue

**£798m** (2)%\*

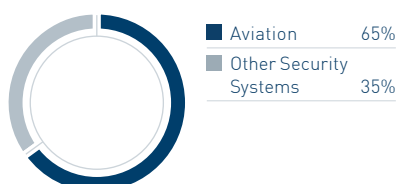
#### Headline operating profit

**£127m** (7)%\*

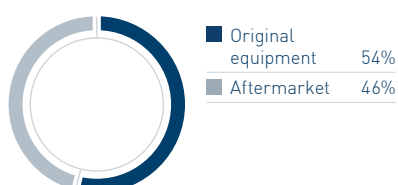
#### Headline operating margin

**16.0%** (90)bps

#### Revenue by sector



#### Revenue mix



\* Underlying change.

### COMPETITIVE STRENGTHS

- A global market leader with differentiated technologies leveraged across a broad range of markets
- Significant R&D capability
- Operating in regulated markets that require product certification
- Increasing digitisation and aftermarket revenue
- Long-term customer relationships

### GROWTH DRIVERS

- Persistent and evolving terror threats
- Changing security regulations in the aviation market
- Growing urbanisation and the need to protect people and assets in these environments
- Global growth in e-commerce and passenger numbers
- Equipment replacement cycle, typically 7-10 years
- Growth of transportation infrastructure in Asia, Latin America and Africa

### COMPETITORS

Across the product portfolio, our competitors range from large multinationals through to smaller, single product companies. Examples include: Rapiscan, L-3 SDS, Nuctech







## EXPANDING IN INDIA

India is projected to be the world's fastest-growing economy for the rest of the decade and will soon become the world's fifth largest economy.

Smiths Detection has continued to expand into India's aviation sector, which is witnessing unprecedented growth. This means it is more important than ever that airports in the country are well equipped and prepared to handle safety and security challenges for the future.

Smiths Detection is presently installing screening and detection solutions in many airports across the country so that they stay ahead of evolving threats. Within the ports & borders market, Smiths Detection is installing a High-Energy X-ray container scanner-portal for Adani, India's largest port operator in Northern Chennai. Additionally, Smiths Detection is supplying 120 chemical warfare agent identifiers, which will be deployed by the Indian armed forces.

Smiths Detection has recently opened a state-of-the-art Service, Training and Experience Centre in Gurugram, India to support its customers across airports, ports and borders, hospitality industries, critical infrastructure, logistics providers and e-commerce platforms in the region.

Smiths Detection's reputation as a trusted, best-in-class partner alongside our ground-breaking detection technologies is helping drive further customer wins in all major markets across the Asia Pacific region.

## DIVISIONAL STRATEGY

Our strategy is to maintain our position as a leading technology provider by building high-integrity detection solutions that support our customers' evolving security needs.

We will accelerate growth by working closely with our partners, suppliers and regulatory bodies to deliver a highly agile approach to changing security threats. We will create value by continually improving our hardware and digital solutions, making it easier for customers to engage with us and by becoming more efficient.

## LINK TO GROUP STRATEGY



### OUTPERFORMING OUR CHOSEN MARKETS

- At least maintaining our share of the installed base during recapitalisation periods
- Continued product development and certifications to support growth
- Continued focus on higher-growth regions supported by contract wins



### DELIVER WORLD-CLASS COMPETITIVENESS

- Globalise, standardise and streamline our internal processes utilising continuous improvement initiatives and leveraging global best practices
- Focus on supplier development and reduction of COPQ

## PRODUCTS

Our comprehensive product portfolio comprises x-ray and computed tomography (CT) scanners for hold baggage and checkpoint, people screening scanners, tray handling solutions and trace detection devices for checkpoint secondary screening, as well as digital solutions.

We produce portable devices for chemical, explosive and narcotic detection and identification. Our product portfolio also includes stationary and mobile heavy cargo vehicle inspection systems. CORSSYS™, our digital analytics platform, is an integrated security screening management solution that hosts purpose built applications.

## MARKETS WHERE WE OPERATE

Demand for trace and detection equipment and service is forecast to continue to grow over the long term. As ongoing geopolitical unrest and terrorist and criminal threats evolve, so do security measures – but there is variation by geography within our markets.

**Aviation**, our largest market, has strong, long-term growth drivers. Regulatory changes, combined with growing passenger numbers and increasing global e-commerce, are driving demand for integrated solutions that improve efficiencies and movement, while enhancing the security of people and infrastructure. Digital technological advances will see the continued evolution of this industry.

In **Other Security Systems** we have three sub-segments:

In ports & borders, the growth of worldwide trade volumes is expected to increase demand for security screening equipment and digital solutions that drive inspection processing speeds. Powerful digital technologies and next-generation connected hardware are needed to tackle escalating cross-border smuggling, limit illegal activities and minimise threats – without affecting trade.

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

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

Almost half of our customers are government funded and, consequently, budget constraints affect market revenues. Original equipment (OE) drives the programmatic nature of our business. The lifecycle of OE is typically 7-10 years. Aftermarket as a percentage of revenue is increasingly driven by our growing installed base, advances in our digital capability, and our focus on providing a complete solution to our customers.

## TRENDS SHAPING OUR INNOVATIONS

Megatrends, such as increasing digitisation and connectivity, artificial intelligence, and mobility and globalisation are likely to continue to generate demand for our products over the longer term.

Megatrend	Innovation in FY2019
<b>Increasing digitisation and connectivity</b>	<b>CORSSYS™</b> – a digital platform for advanced security screening management
<b>Artificial intelligence</b>	<b>iCMORE™</b> – automated threat/target identification digital applications
<b>Mobility and globalisation</b>	<b>HCVM LORRY</b> – next generation mobile high energy inspection system

## FY2019 FINANCIAL PERFORMANCE

	FY2019 £m	FY2018 £m	Reported growth	Underlying <sup>1</sup> growth
<b>Revenue</b>	<b>798</b>	793	+1%	(2)%
Aviation	522	540		(6)%
Other Security Systems	276	253		+6%
<b>Headline<sup>2</sup> operating profit</b>	<b>127</b>	134	(5)%	(7)%
<b>Headline<sup>2</sup> operating margin</b>	<b>16.0%</b>	16.9%	(90)bps	
<b>Statutory operating profit</b>	<b>91</b>	93	(2)%	
<b>Return on capital employed</b>	<b>11.5%</b>	12.1%	(60)bps	
<b>R&amp;D cash costs % sales</b>	<b>8.4%</b>	7.4%	+100bps	

### Revenue

Smiths Detection's underlying revenue decreased by (2)%. This reflects an improved second half performance but the customer deferral of some large deliveries in to the first half of FY2020. Aftermarket revenue grew 2% on an underlying basis and now accounts for 46% of the division's revenue (FY2018: 44%). Reported revenue was up 1%, including £22m favourable impact from foreign exchange translation.

Revenue from Aviation activities decreased (6)% on an underlying basis against a strong comparator. The compound annual growth rate of Aviation revenue over the past two years is c.6%. Aviation is Smiths Detection's largest segment, representing 65% of total revenue. We continued to see strong demand for hold baggage screening (HBS) systems in EMEA, associated with the ECAC Standard 3 Regulation, and globally as airports upgrade their HBS fleets. Some significant HBS contracts signed recently include a £128m order by Aena in Spain due for delivery through FY2020-2023. Smiths Detection's Computed Tomography (CT) based screening systems for cabin baggage are being successfully trialled globally. The new scanners enable more efficient detection of threats and eliminate the need to take liquids and laptops out of bags. The CT cabin baggage scanners have already

been purchased by airports in Korea, Japan, Australia and the TSA has recently placed a \$96.8m order for installations, some of which were originally anticipated in FY2019.

Revenues from Other Security Systems grew by 6%, reflecting an improved focus in Smiths Detection's other core vertical markets, particularly ports and borders. Major deliveries during the year included Egypt, India and Azerbaijan. Further wins included a contract with Meridian Port Services Limited (MPS) to provide scanning portals for the major Tema Port Expansion project in Ghana.

### Operating profit

Headline operating profit decreased (7)% on an underlying basis, reflecting pricing pressure in the latter stages of the European hold baggage recapitalisation cycle and the mix of programmes delivered. This is partially offset by a higher proportion of aftermarket revenues, which typically have higher margins than original equipment sales. Headline reported operating margin decreased (90)bps to 16.0%. The difference between statutory and headline operating profit primarily reflects amortisation of acquired intangibles.

### ROCE

ROCE decreased by (60)bps to 11.5% reflecting the division's lower profitability and higher working capital during the period.

### R&D

Cash R&D expenditure during the period was 8.4% of sales, or 6.6% excluding customer funded R&D (FY2018: 7.4% and 6.3% respectively).

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

### Outlook

In Smiths Detection, we expect low single digit revenue growth for the year supported by a robust order book, with deliveries weighted towards the first half.

<sup>1</sup> **Underlying:** modifies headline performance to adjust prior year to reflect an equivalent period of ownership for divested businesses and excludes the effects of foreign exchange, acquisitions and supplemental sales for divested businesses

<sup>2</sup> **Headline:** In addition to statutory reporting, the Group reports on a headline basis except for balance sheet and cash-flow. Definitions of headline metrics, and information about the adjustments to statutory measures are provided in note 3 to the financial statements



# FLEX-TEK

## INNOVATIVE COMPONENTS TO HEAT AND MOVE FLUIDS AND GASES

Flex-Tek is a global provider of engineered components that heat and move fluids and gases for the aerospace, medical, industrial, construction and domestic appliance markets. Our flexible hosing and rigid tubing provide fluid management for fuel and hydraulic applications on commercial and military aircraft, deliver gas and conditioned air in residential and commercial buildings, and provide respiratory care for medical applications. Flex-Tek heating elements and thermal systems improve the performance of medical and diagnostic equipment as well as that of domestic appliances such as clothes tumble dryers and HVAC equipment.

### FY2019 PERFORMANCE

#### Revenue

**£436m** +3%\*

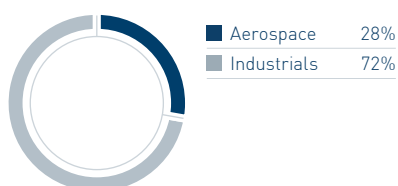
#### Headline operating profit

**£84m** +4%\*

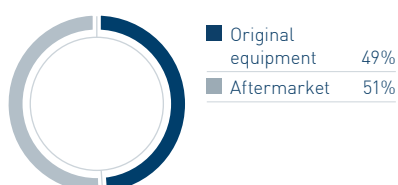
#### Headline operating margin

**19.2%** +30bps

#### Revenue by sector



#### Revenue mix



\* Underlying change.

### COMPETITIVE STRENGTHS

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

### GROWTH DRIVERS

- Through cycle growth of the US housing construction market
- Expanding international market for corrugated stainless steel tubing for residential housing
- Continued increase in large commercial aircraft production
- Growth of medical devices, especially for the treatment of sleep apnoea
- Expansion in higher-growth markets

### COMPETITORS

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





## INTEGRATING UNITED FLEXIBLE

The integration of United Flexible into Flex-Tek is progressing to plan. The rebranding and re-organisation of the United Flexible companies is now complete and cross business and cross-functional teams are in place, focused on delivering the acquisition synergies and implementing the Smiths Excellence System across the business.

In Aerospace, the combination will help penetrate new markets and expand the existing customer base. Shared capabilities will open up new product opportunities, for example applying United Flexible's capability in hydroforming technologies for the manufacture of larger diameter, complex ducts with greater quality and efficiency than other forming methods.

In the Industrial business there will be benefits from new product capabilities, for example, in the metal bellows and thermal actuator platforms, as well as the opportunity to leverage United Flexible's footprint in Europe to help accelerate Flex-Tek's growth in new geographies.

DIVISIONAL STRATEGY

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

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

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

We drive competitiveness through operational improvements.

LINK TO GROUP STRATEGY



OUTPERFORMING OUR CHOSEN MARKETS

- Integration of United Flexible progressing to plan
- Launched new innovative products including FlashShield+™
- Progress in international expansion



DELIVER WORLD-CLASS COMPETITIVENESS

- Continue the lean transformation of all sites, including the newly acquired United Flexible sites using the SES site development guide
- Focus on quality by adopting a formal supplier quality methodology and optimise supply base

PRODUCTS

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

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

MARKETS WHERE WE OPERATE

Key markets include US residential and commercial construction, global aerospace tubing and hoses, and electrical heating elements.

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

In **Aerospace**, the market for commercial aircraft remains strong, with a current strong Original Equipment Manufacturer (OEM) order book.

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

TRENDS SHAPING OUR INNOVATIONS

We believe megatrends, such as energy demand and efficiencies, and mobility and globalisation, will continue to generate demand for our products over the longer term.

Megatrend	Innovation in FY2019
Energy demand and efficiencies	Energy efficient heating, lower weight aerospace products and more sustainable building practices
Mobility and globalisation	Expanding in Europe with Gastite and leveraging the United Flexible European footprint
	Expanding product breadth in China to support industrial applications

## FY2019 FINANCIAL PERFORMANCE

	FY2019 £m	FY2018 £m	Reported growth	Underlying <sup>1</sup> growth
<b>Revenue</b>	<b>436</b>	354	+23%	+3%
Aerospace	121	87		+3%
Industrials	315	267		+3%
<b>Headline<sup>2</sup> operating profit</b>	<b>84</b>	67	+25%	+4%
<b>Headline<sup>2</sup> operating margin</b>	<b>19.2%</b>	18.9%	+30bps	
<b>Statutory operating profit</b>	<b>68</b>	68	–	
<b>Return on capital employed</b>	<b>23.3%</b>	35.0%	(1,170)bps	
<b>R&amp;D cash costs % sales</b>	<b>0.6%</b>	0.6%	–	

### Revenue

Flex-Tek delivered a good performance with revenue up 3% on an underlying basis, driven by growth in both the Industrial and Aerospace segments. On a reported basis, revenue increased 23%, including £56m incremental revenue associated with the acquisition of United Flexible and £14m favourable foreign exchange translation.

Aerospace revenue was up 3% on an underlying basis, driven by growth in new engine and airframe platforms including the Joint Strike Fighter, the GE GENx engine and Airbus A320 models as well as growth in the aftermarket business. Industrial revenue was up 3% driven by growth in specialty products for process heating solutions and US housing construction, and Gastite penetration in Europe.

### Operating profit

On an underlying basis headline operating profit increased 4% to £84m, driven by revenue growth and a £3m credit from a litigation settlement offset by a £(3)m one-off cost relating to a facility closure in Asia. Headline operating margin increased 30bps to 19.2%. The difference between statutory and headline operating profit is primarily due to a reduction in the provision for Titeflex Corporation for subrogation claims, and acquisition costs.

### Portfolio

In February 2019, Flex-Tek completed the acquisition of United Flexible for an enterprise value of \$345m. This acquisition strengthens Flex-Tek's positions in aerospace and industrial end markets globally. The integration is progressing well.

### ROCE

ROCE decreased (1,170)bps to 23.3%, driven by the acquisitions of Osram's heating element business in the prior year and United Flexible this year.

### R&D

Cash R&D expenditure remained consistent at 0.6% of sales (FY2018: 0.6%), focused on market-leading innovative solutions to meet specific customer needs. The most significant product launch was Gastite Flashshield+ which provides easier installation for contractors while maintaining best in class safety performance.

### Outlook

In Flex-Tek, we expect to deliver a similar rate of growth in FY2020 bolstered by the impact of the acquisition of United Flexible. Strong demand for aerospace and heating solution components, as well as increased penetration into the European construction markets, is expected to be partially offset by some signs of softening in the US housing construction market.

<sup>1</sup> **Underlying:** modifies headline performance to adjust prior year to reflect an equivalent period of ownership for divested businesses and excludes the effects of foreign exchange, acquisitions and supplemental sales for divested businesses

<sup>2</sup> **Headline:** In addition to statutory reporting, the Group reports on a headline basis except for balance sheet and cash-flow. Definitions of headline metrics, and information about the adjustments to statutory measures are provided in note 3 to the financial statements

# SMITHS INTERCONNECT

## SOLUTIONS FOR HIGH SPEED, SECURE CONNECTIVITY IN DEMANDING APPLICATIONS

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

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

### FY2019 PERFORMANCE

#### Revenue

**£319m** +3%\*

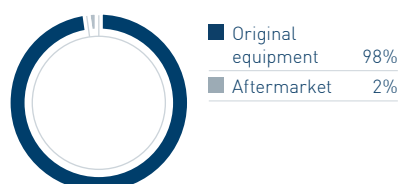
#### Headline operating profit

**£47m** +6%\*

#### Headline operating margin

**14.7%** +60bps

#### Revenue mix



### COMPETITIVE STRENGTHS

- Innovative and technically differentiated products
- Ultra-high reliability solutions used in demanding applications
- Strong research and engineering capabilities
- Customer intimacy, responsiveness and product customisation
- Global presence, reach and support

### GROWTH DRIVERS

- Increased connectivity in space and aerospace
- Growing urbanised population requiring transport and infrastructure
- Increasing geopolitical uncertainty
- Extension of internet connectivity to improve efficiency and data accuracy (Internet of Things, Industry 4.0)

### COMPETITORS

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

\* Underlying change.





## SPACE CONNECTORS GET TOUGH FOR NASA'S ROBOTIC SPACECRAFT

The most mission-critical of aerospace systems are the ones that journey into space, where they encounter the toughest environments. When they leave the Earth's surface they must contend with huge radiation levels, vibration, shock and temperature extremes, making durability and reliability critical features of our connectivity components.

Smiths Interconnect's microwave RF (radio frequency) components, delivering high-reliability and connectivity performance, are used in the data and control transmission systems of the Parker Solar Probe, a NASA robotic spacecraft. It was launched in 2018, with the mission of repeatedly probing and making observations of the outer most part of the sun's atmosphere. In 2024, it is expected to approach to within 3.83 million miles of the centre of the sun, achieving a top speed of about 430,000 miles (700,000km) per hour. That's fast enough to get from Washington D.C. to Tokyo in under a minute.

The Parker Solar Probe has just successfully completed its second close approach to the sun, the closest any other spacecraft has been before. For projects of such significance, Smiths Interconnect's engineering expertise, superior technology and customer service enable our customers to push the limitations of what's possible and help bring the boundaries of the universe a little closer.

DIVISIONAL STRATEGY

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

We will continue to focus on specific market segments including defence and aerospace, communications and industrial applications. We will drive competitiveness through R&D and we will fund our investments through manufacturing efficiency.

LINK TO GROUP STRATEGY



OUTPERFORMING OUR  
CHOSEN MARKETS

- Continued emphasis on key account management to develop customer intimacy
- Increased focused R&D investment of over 7% of sales to drive growth in our Vitality Index
- Build presence in India, focusing on defence, satcom, space and rail market segments
- Continued focus on higher-growth regions with our Sichuan Huafeng JV in China



DELIVER WORLD-CLASS  
COMPETITIVENESS

- Continuous improvement and lean manufacturing through Six Sigma process improvement, deployment of mechanised/automated processes, and use of disruptive technologies to enable new manufacturing methods
- Simplified global operational structure through single enterprise resource planning (ERP) implementation, legal entity simplification and network optimisation (regional end-to-end supply chain)

PRODUCTS

We provide technically differentiated electronic components, subsystems, microwave and radio frequency products that connect, protect and control critical applications in harsh environments in a number of focus market segments.

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

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

MARKETS WHERE  
WE OPERATE

Increasing geopolitical uncertainty and operations in extreme environments create a platform for growth for defence applications. Increased demand for communication and data transmission requires additional satellites, especially LEO and MEO. Increasing passenger numbers and freight demand, as well as upgrades to aircraft fleets to more efficient models, generate growth for our aerospace business.

The growth in big data, which requires more bandwidth and increased computing power, combined with a high rate of technology refresh with increased functionality and connectivity, creates further opportunities for the growth of Smiths Interconnect products. An ageing population and the rise of chronic diseases continues to drive growth for our products in medical applications. Sophisticated digital train systems that improve safety, security and high data-rate connectivity for passengers drives growth in our rail market segment.

TRENDS SHAPING OUR INNOVATIONS

Megatrends, such as increased digitisation and connectivity and mobility and globalisation are likely to continue to generate demand for our products over the longer term.

Megatrend	Innovation in FY2019
Increased digitisation and connectivity	High speed data, smaller packaging and increased power needs  Smart devices, intelligent systems, device to device
Mobility and globalisation	Space constellations, increased bandwidth, big data and 5G

## FY2019 FINANCIAL PERFORMANCE

	FY2019 £m	FY2018 £m	Reported growth	Underlying <sup>1</sup> growth
Revenue	319	300	+6%	+3%
Headline <sup>2</sup> operating profit	47	42	+10%	+6%
Headline <sup>2</sup> operating margin	14.7%	14.1%	+60bps	
Statutory operating profit	45	37	+22%	
Return on capital employed	12.8%	11.9%	+90bps	
R&D cash costs % sales	7.2%	7.0%	+20bps	

### Revenue

Smiths Interconnect built on its return to growth with underlying revenue up 3%, reflecting good growth in Asia and North America. On a reported basis, revenue increased by 6% including £11m favourable foreign exchange translation.

Revenue growth was driven by sales associated with large defence and aerospace programmes in the US – notably the Joint Strike Fighter, Next Generation Jammer and B-21 programs, as well as successes in the semiconductor segment in Asia. We are beginning to see benefits from investments we have made in capacity and capabilities in the region, including the joint venture with Sichuan Huafeng Enterprise Group Co. Ltd established in 2018. The joint venture is supporting our growth in the commercial aerospace and high-speed rail segments in Asia.

### Operating profit

Headline operating profit increased 6% on an underlying basis to £47m, reflecting the division's sales growth as well as procurement and restructuring savings. Headline operating margin of 14.7% increased 60bps. The difference between statutory and headline operating profit reflects adjustments for amortisation of acquired intangibles.

### ROCE

ROCE increased 90bps to 12.8%, driven by increased profitability.

### R&D

Cash R&D expenditure was 7.2% of sales (FY2018: 7.0%) (6.4% excluding customer funded R&D, FY2018: 6.0%). Product launches included connectors from our SpaceNXT range for space applications, board level components, cable assemblies and high-speed contact technology for defence and space applications as well as next generation power connectors for rail applications.

### Outlook

Smiths Interconnect is expected to make further progress, with continued growth in our key end markets, partially offset by softening in the semiconductor market.

<sup>1</sup> **Underlying:** modifies headline performance to adjust prior year to reflect an equivalent period of ownership for divested businesses and excludes the effects of foreign exchange, acquisitions and supplemental sales for divested businesses

<sup>2</sup> **Headline:** In addition to statutory reporting, the Group reports on a headline basis except for balance sheet and cash-flow. Definitions of headline metrics, and information about the adjustments to statutory measures are provided in note 3 to the financial statements

## DISCONTINUED OPERATIONS

SMITHS  
MEDICAL

Quality medical devices and consumables that are vital to patient care

## FY2019 PERFORMANCE

## Revenue

£874m =\*

## Headline operating profit

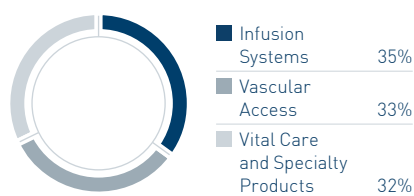
£147m (6)%\*

## Headline operating margin

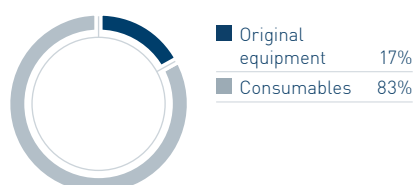
16.8% (110)bps

FY2018 performance has been restated for IFRS 15

## Revenue by sector



## Revenue mix



\* Underlying change.

## COMPETITIVE STRENGTHS

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

## GROWTH DRIVERS

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

## COMPETITORS

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

## DIVISIONAL STRATEGY

Our strategy is to achieve category leadership in the infusion segment and selected vascular access and vital care segments. We will achieve this with commercially focused innovations, differentiation in our customer support model, and delivery of complete solutions that optimise patient outcomes. We will continue to enhance both our own R&D and our external partnerships to execute our strategy in line with healthcare megatrends.

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

We will also continue to improve our capabilities in growing markets outside of North America and Western Europe, enhancing our current global footprint and sales reach. In addition, we will continue to pursue channel optimisation and access to care outside of hospitals.

## LINK TO GROUP STRATEGY

OUTPERFORMING OUR  
CHOSEN MARKETS

Launched 12 new products in the past year including:

- The CADD®-Solis VIP multi-therapy ambulatory infusion pump
- Acapella® choice vibratory positive expiratory pressure therapy system
- HOTLINE® blood and fluid warmer

DELIVER WORLD-CLASS  
COMPETITIVENESS

- Continuous improvement and lean manufacturing
- Sales focused on: customer retention and top line growth; implementation of cloud based sales technology; expanding market reach with an increased emphasis on commercial partnerships



## PRODUCTS

In **Infusion Systems**, our products deliver medication treatment for conditions including acute and chronic pain, cancer, pulmonary hypertension and Parkinson's disease. Smiths Medical products are used in acute settings, surgery centres, oncology centres, and home settings. We have strong positions in ambulatory infusion and in the syringe market.

In **Vascular Access**, our products cover a range of venous access methods including drawing blood, peripheral intra-venous catheters, ports and needles for the infusion of fluids and medication, and invasive blood pressure monitoring.

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

## MARKETS WHERE WE OPERATE

The medical device industry remains attractive, with strong growth drivers. The global market we serve is estimated to be c.£7.5bn and growing at 3-4% annually, with growth drivers such as expansion of developing markets, ageing populations, increasing need for connected systems and data analytics, and growth of alternate site and home-based healthcare and innovation.

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

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

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

## TRENDS SHAPING OUR INNOVATIONS

We believe megatrends, such as ageing populations and healthcare demand and increased digitisation and connectivity will continue to generate demand for our products over the longer term.

Megatrend	Innovation
<b>Ageing populations and healthcare demand</b>	<ul style="list-style-type: none"> <li>– Focus on alternate site and home-based healthcare in developing markets</li> <li>– Developing focused technologies targeting chronic conditions</li> </ul>
<b>Increased digitisation and connectivity</b>	<ul style="list-style-type: none"> <li>– Smart pump programming with electronic medical record system integration</li> <li>– Launched software subscription and service model</li> </ul>

## FY2019 FINANCIAL PERFORMANCE

	FY2019 £m	FY2018 <sup>3</sup> £m	Reported growth	Underlying <sup>1</sup> growth
Revenue	874	869	+1%	-
Headline <sup>2</sup> operating profit	147	156	(6)%	(6)%
Headline <sup>2</sup> operating margin	16.8%	17.9%	(110)bps	
Statutory operating profit	151	152	(1)%	
Return on capital employed	11.7%	13.1%	(140)bps	
R&D cash costs % sales	6.0%	5.9%		

## Revenue

Smiths Medical's underlying revenue was flat year-on-year. The division returned to growth in the second half with revenue up 2%. The improved trend reflects the increased contribution from new products and a change in sales channel for our chronic obstructive pulmonary disease (COPD) product, both of which offset the previously announced impact of the transition to a new Notified Body in Europe. Reported revenue was up 1% including £(16)m impact of divestments and £23m favourable foreign exchange translation.

The costs associated with the Notified Body transition and implementation of the new EU Medical Device Regulation were £15m, as anticipated. For FY2020 we continue to expect costs of £10-15m.

Underlying revenue was flat year-on-year in Infusion Systems, with good growth in ambulatory pumps offset by the delayed release of the new Medfusion syringe pump as a result of component supply issues. Vascular Access underlying revenue declined by (3)% as a result of lower peripheral intravenous catheter (PIVC) sales but showed 1% growth in the second half due to strong performance of ViaValve in the blood control space. Underlying revenue from Vital Care and Specialty Products grew 3%, with strong growth in the COPD product line, which is now being sold directly, offsetting lower volumes in tracheostomy, general anaesthesia and respiratory products.

## Operating profit

Headline operating profit declined (6)% on an underlying basis. Operating profit during the year was impacted by the costs associated with the new EU Medical Device Regulation and operational inefficiencies in the first half which are being addressed. Headline operating margin was (110)bps lower than the prior year at 16.8%, with margin showing signs of improvement in the second half at 17.0%. The difference between statutory and headline operating profit included £17m profit on disposals and separation costs.

## ROCE

ROCE decreased (140)bps to 11.7%, reflecting lower profitability during the period.

## Portfolio

During the year, Smiths Medical completed the disposal of two non-core businesses for a total consideration of c.£30m.

## R&amp;D

Cash R&D expenditure was 6.0% of sales (FY2018: 5.9%). Smiths Medical continues to invest in the development of innovative, commercially focused products across the portfolio to support long-term, sustainable growth. In the last 24 months, 33 products have been launched, including 12 in this year.

## Update on separation

In March 2019 we announced plans to separate Smiths Medical, to create two stronger, industry-leading companies with distinct strategies and focus. We are on track to complete the demerger of Smiths Medical in the first half of CY2020, conditional on the approval of Smiths shareholders.

Smiths Medical successfully achieved its FY2019 performance milestones supporting the separation process. The division returned to growth in the second half, with the sustainability of this growth underpinned by the ongoing launch of new products. One of the division's most significant new product investments, the large volume pump, has now been submitted to the US regulator for first phase review. The large volume pump market represents a c.£2bn extension to Smiths Medical's addressable market.

In July, JehanZeb Noor joined as Chief Executive Officer of Smiths Medical to oversee the separation and continue building a strong, sustainable future for Smiths Medical. He is focused on accelerating growth and driving enhanced performance to deliver the division's medium-term ambition of growing ahead of its markets, with operating margins in excess of 20% and attractive returns.

## Outlook

The increasing contribution from new products, and the actions being taken by the reinvigorated management team to accelerate growth and enhance margins, support our confidence in Smiths Medical's improving performance in FY2020.

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<sup>3</sup> **FY2018:** has been restated for IFRS 15

# 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



## PEOPLE



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

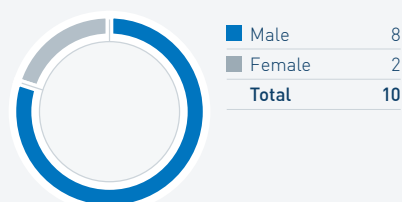
In June, Smiths celebrated International Women in Engineering Day for the second year, an important campaign to raise awareness of the engineering opportunities available to young women and career returners.

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

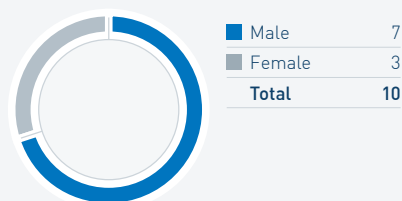
of our Non-executive Directors and an engineer herself (a world authority on combustion and acoustics), recorded a short video explaining what she enjoys about her work and why a career in engineering is an exciting choice for young people today.



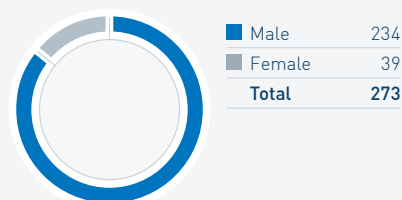
### Board of Directors<sup>1</sup>



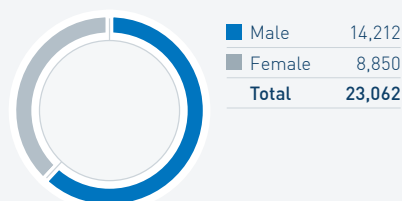
### Executive Committee<sup>2</sup>



### Senior managers<sup>3</sup>



### Colleagues (total)



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

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

<sup>3</sup> 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

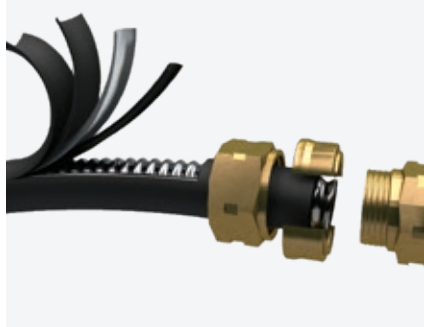
Our approach to product lifecycle management includes active consideration of safety at every step – including how the product is designed, manufactured, used and disposed of. We use common quality procedures to minimise product safety and quality issues, and monitor performance through robust quality 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
<b>Absolute values</b>					
Scope 1 (direct emissions)	t CO <sub>2</sub> e	10,963	12,241	11,143	12,088
Scope 2 (indirect emissions)	t CO <sub>2</sub> e	47,312	55,841	62,072	81,092
<b>Total</b>	t CO <sub>2</sub> e	<b>58,275</b>	<b>68,082</b>	<b>73,215</b>	<b>93,180</b>
<b>Normalised values</b>					
Scope 1 (direct emissions)	t CO <sub>2</sub> e/£m revenue	3.35	3.65	3.74	3.95
Scope 2 (indirect emissions)	t CO <sub>2</sub> e/£m revenue	14.47	16.63	20.83	22.56
<b>Total</b>	t CO <sub>2</sub> e/£m revenue	<b>17.83</b>	<b>20.28</b>	<b>24.57</b>	<b>26.51</b>

## 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.



# NON-FINANCIAL INFORMATION STATEMENT

The disclosure below, and the information in this Annual Report which it refers to, is intended to assist our stakeholders in understanding our position on the following key non-financial areas: environmental, employee, society, human rights and anti-corruption and anti-bribery.

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

**The following policies and guidelines govern our approach to the non-financial matters listed above. They are designed to help colleagues recognise and manage risks**

- Health, Safety and Environment Policy
- Environmental Emissions Reduction Policy
- Environmental Health and Safety Technical Minimum Standards Policy
- Environmental Health and Safety Audits Policy
- Human Rights Policy
- Modern Slavery and Transparency Statement
- Fair Employment Policy
- Recruitment Policy
- Global Mobility Assignment Policy
- Data Protection Code of Conduct
- Data Protection and Privacy Policy
- Supplier Code of Conduct
- Supplier Terms & Conditions
- Anti-Facilitation of Tax Evasion Policy
- Antitrust Policy
- Conflict Minerals Policy
- Policy on Agreements with Agents and other Intermediaries
- Invitations to Government Officials Policy
- Prohibition on facilitation payments Policy
- Gifts, Meals and Hospitality Policy

## **Due diligence, outcomes and additional information**

- Additional information about the areas covered in this Non-financial Information Statement can be found in the Resources and Relationships section on pages 47-60. This section details how we work and interact with our stakeholders, and provides additional information about our shared operating model, the Smiths Excellence System (SES), in practice. There is also information about how we monitor the effectiveness of key policies.
- In FY2019, we updated our online Code of Conduct ethics training module to take account of updates to the Code. All employees are required to undergo this training.
- The Human Rights Policy and the Policy on Agreements with Agents and other Intermediaries require due diligence to be conducted on new suppliers and other intermediaries in order to get a clear understanding of who we are dealing with and to avoid transacting with people who have demonstrated poor business conduct.
- The Gifts, Meals and Hospitality Policy sets out parameters for colleagues on what is and is not permitted. It also establishes a gifts register requiring gifts, meals and entertainment with third parties which exceed certain thresholds to be recorded. This register is regularly reviewed, and it provides additional transparency.

## **Further information**

- Our business model, principal risks and key performance indicators can be found on pages 10, 64 and 26.

## A PROACTIVE APPROACH TO RISK

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

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

### RISK GOVERNANCE

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

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

The Executive Committee is responsible for designing the Enterprise Risk Management (ERM) framework and ensuring that it is effectively deployed throughout the Group. The Executive Committee also ensures that the Board's risk appetite is understood by risk owners and decision-makers, ensures risks are adequately managed, and conducts an annual assessment of strategic risk. All principal risks are owned by a member of the Executive Committee.

### THE ENTERPRISE RISK MANAGEMENT (ERM) PROCESS

#### BOARD AND AUDIT & RISK COMMITTEE

- Setting the strategy and determining the culture of the Group
- Reviewing and assessing the effectiveness of risk management and internal control systems
- Monitoring through Board processes and good governance

#### EXECUTIVE COMMITTEE AND SENIOR MANAGEMENT

- Designing and establishing the risk management system and internal controls
- Ensuring that the risk appetite of the Board is understood by risk owners and decision-makers
- Ensuring risks are adequately managed

#### 1<sup>ST</sup> LINE OF DEFENCE

##### Risk ownership and mitigation

##### Operational teams

- Understanding roles and responsibilities
- Establishing and applying internal control systems
- Complying with policies
- Following risk management processes

#### 2<sup>ND</sup> LINE OF DEFENCE

##### Monitoring and compliance

##### Risk and compliance functions

- Maintaining financial, legal and ethical compliance
- Maintaining operational controls
- Monitoring risks
- Managing the ERM process
- Ensuring security, quality and health and safety

#### 3<sup>RD</sup> LINE OF DEFENCE

##### Independent assurance

##### Internal audit function

- Auditing and providing assurance on internal controls, programme controls, system controls and risk management processes

Regulators and external audit

Figures in this section are for total Group unless otherwise stated

Running a business involves constant risk management – it is an integral part of day-to-day operations. Our ERM process supports open communication on risk between the Board and Audit & Risk Committee, the Executive Committee, our divisions, functions and sites. It enables us to manage and monitor the risks which threaten successful execution of our Group strategy and ensures our strategic, financial, compliance and operational risks are appropriately considered by the Executive Committee and by the Board.

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

Our divisional and functional teams are responsible for day-to-day management and reporting of risks. They identify new and emerging risks, escalate where appropriate, and take action to manage risks as required. Our divisions also conduct an annual assessment of the strategic, financial, compliance and operational risks they face and make formal presentations to the Audit & Risk Committee each year.

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

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

During FY2019, ERM was discussed at the Executive Committee in order to agree the ERM timetable and the risks selected for 'deep dive' discussions at the Executive Committee and Audit & Risk Committee. These were: technology; cyber security; people; manufacturing concentration; and sole source of supply. The Group's list of principal risks was also discussed and recalibrated by the Executive Committee.

The risk management process was further enhanced through the requirement for risk owners to demonstrate how they get assurance that controls are working effectively. Examples are provided in the following tables of principal risks.

In addition, a further 47 risk workshops were facilitated at operational sites during the year to gather a bottom-up view of risk which fed into divisional and functional risk assessments.

The Directors consider the risk management process to be effective. The Audit & Risk Committee recognises that this is an ongoing process and work will continue in FY2020.

## PRINCIPAL RISKS AND UNCERTAINTIES

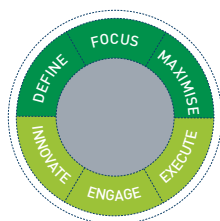
We maintain a register of principal risks and uncertainties covering the strategic, financial, compliance and operational risks faced by the Group.

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

We updated our register of principal risks and uncertainties following review by the Executive Committee and approval by the Board. Two risks reported in FY2018 have been merged to form the integrated supply chain risk. Customer has been added as a new principal risk.

While we continue to monitor and manage a wider range of risks, the risk map (right) and the tables that follow summarise those risks considered to have the greatest potential impact if they were to materialise.

### OUR STRATEGIC OBJECTIVES



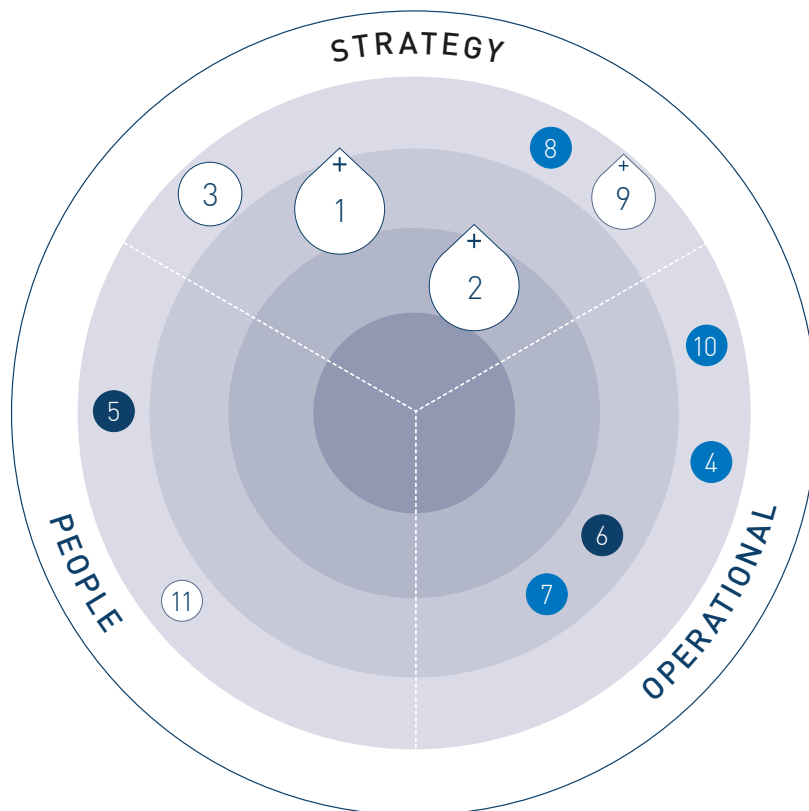
**OUTPERFORM OUR CHOSEN MARKETS**



**DELIVER WORLD-CLASS COMPETITIVENESS**



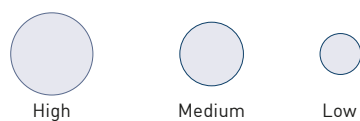
**STRONG FINANCIAL FRAMEWORK**



### Principal risks

1 Technology	6 Cyber security
2 Economy and geopolitics	7 Integrated supply chain
3 Acquisition/integration and divestment/separation	8 Markets
	9 Customers
4 Product quality	10 Contractual obligations
5 Ethical breach	11 People

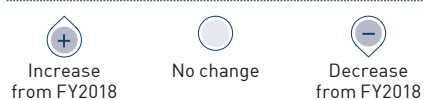
### Residual impact



### Likelihood



### Trend (net position of risk vs FY2018)



### Velocity





## TECHNOLOGY

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

**Risk owner** Andy Reynolds Smith

**Trend** 

**Link to SES**

**TECHNOLOGY  
CUSTOMER  
PROGRAMME**

**Included in viability  
assessment:**

N/A

**Link to strategic  
objectives**



### Potential impact

- Material adverse effect on margin and profitable growth
- Erosion of our reputation as a leader in our markets and of our ability to attract and retain talent
- Need for higher R&D spend to maintain sales growth

### Key mitigating controls

- Proactive repositioning of the portfolio around the most attractive markets where we can sustainably hold a top three position based on technology leadership
- Diversified technology portfolio serving a range of sectors and geographies, mitigating exposure to any one sector or area
- Increased and smarter investment in R&D (FY2019: 4.5% of continuing operations revenue, FY2018: 4.1%)
- Focus on building a culture of innovation with a long-range Technology Roadmap for each division

- Targets to increase the proportion of spend on next generation and transformational initiatives
- New Product Introduction (NPI) process established across divisions to accelerate projects
- Vitality Index as KPI
- Robust IP protection via patents and other protections, and litigation where appropriate

### Assurance

- Vitality data is reviewed and is part of the SES dashboard
- Adherence to NPI process is audited and embedded in systems
- Technology Roadmap is part of the Group strategic cycle

## ECONOMY AND GEOPOLITICS

There are external indicators that we are in the late stage of the economic cycle. Threats to free trade are increasing.

**Risk owner** John Shipsey

**Trend** 

**Link to SES**

**PRODUCTION**

**Included in viability  
assessment:**

N/A

**Link to strategic  
objectives**



### Potential impact

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

### Key mitigating controls

- Diversified portfolio of businesses which mitigates exposure to any one country or sector and geographic spread which mitigates the impact of trade barriers between regions
- Divisions monitor order flows and other leading indicators so that they may respond quickly to deteriorating trading conditions and tariffs/barriers to free trade

- Identification and application of learnings from past downturns through the cycle
- Sustainable tax strategy to optimise the Group's position
- Representation of our interests by the corporate affairs team
- Network of trade compliance officers across the Group who monitor upcoming changes in regulation and oversee import and export activities
- Monitoring of the ongoing negotiations between the UK and the EU in order to assess the potential impact of Brexit and any transitional arrangements which may be agreed

### Assurance

- Impact of US sanctions to date has been absorbed
- Order tracking reported and monitored
- Brexit coordination group working effectively

## ACQUISITION/INTEGRATION AND DIVESTMENT/SEPARATION

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

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

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

**Risk owner** John Shipsey

**Trend** =

**Link to SES** PROGRAMME

**Included in viability assessment:** N/A

[Link to strategic objectives](#)

**Potential impact**

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

**Key mitigating controls**

- Investment in greater internal capability for the evaluation and execution of transactions
- Regular reviews of the acquisition pipeline and a stage-gated M&A process
- Detailed due diligence and integration work in accordance with our acquisitions and disposals policy

- Detailed separation planning, in accordance with our acquisitions and disposals policy
- Governance ensures multi-disciplinary sign off
- Larger transactions approved by the full Board
- Post-transaction reviews with lessons learned incorporated into future projects
- Use of external advisors

**Assurance**

- Strong internal team
- Proper governance and oversight
- Learnings from previous acquisitions (Morpho Detection, Seebach GmbH, United Flexible) and divestments (PDI, Microwave, Wallace, Bearings)
- Ongoing evaluation measured against original business case

## PRODUCT QUALITY

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

**Risk owner** Divisional Presidents

**Trend** =

**Link to SES** TECHNOLOGY  
PROGRAMME  
PRODUCTION

**Included in viability assessment:** ✓

[Link to strategic objectives](#)

**Potential impact**

- Recall of products due to manufacturing flaws, component failures, damage to persons/property, and/or design defects, in order to avoid serious, or potentially catastrophic, failure
- Damage to our reputation amongst customers and reduction in market acceptance of, and demand for, our products from an adverse event involving one of our products
- Exposure to losses in the event of a cyber security breach relating to our products
- These include not only customer losses, but also those of a potentially large class of third parties

**Key mitigating controls**

- Divisional quality risk assessments which address product failures, product compliance, regulatory compliance, product performance, product safety and market authorisation risks
- Quality assurance processes embedded in manufacturing locations for critical equipment, supporting compliance with industry regulations (e.g. FAA, FDA, API, etc.)

- Quality development and quality integration built into NPI processes
- Risk analysis and mitigation processes relating to product cyber resilience embedded in the product lifecycle process. Proactive steps taken to ensure product cyber related risks are continually monitored and managed
- Group-wide Quality Council drives standard definitions, identifies and shares best practice, and reduces the cost of poor quality
- Insurance cover for product liability
- Material litigation managed under the oversight of the Group General Counsel

**Assurance**


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

## ETHICAL BREACH


We have more than 22,000 employees in more than 50 countries. Individuals may not all behave in accordance with the Group's values and ethical standards. We operate in highly regulated markets requiring strict adherence to laws with risk areas including:

- bribery and corruption;
- anti-trust matters;
- international trade laws and sanctions;
- human rights, modern slavery and international labour standards;
- General Data Protection Regulation (GDPR); and
- government contracting regulations

**Risk owner** **Mel Rowlands**

**Trend** 

**Link to SES** **PEOPLE  
CUSTOMER  
SUPPLY**

**Included in viability assessment:** 

**Link to strategic objectives**



### Potential impact

- Failure to comply with export regulations leads to significant fines and a loss of export privileges
- Failure to meet strict conditions within government contracts, particularly in the US, could have serious financial and reputational consequences
- Increased risk of illegal anti-competitive activity such as collusion with competitors as a result of operating in relatively consolidated markets
- US fines and penalties imposed for price fixing, bid rigging and other cartel-type activities can exceed \$100m per violation
- Ethics or compliance breach causes harm to our reputation, financial performance, customer relationships and our ability to attract and retain talent

### Key mitigating controls

- Group-wide ethics framework which includes the Smiths Way, the Code of Business Ethics and the Supplier Code of Conduct
- Policies and procedures to mitigate distributor and agent related risks including due diligence, contractual controls and internal approvals
- Anti-bribery and corruption training for all employees supported by the 'Speak Out' line encouraging the reporting of ethics violations (includes ability to report anonymously and a non-retaliation policy)

- Reporting and investigation mechanisms
- Antitrust training programmes and guidance
- Network of trade compliance officers across the Group that monitor upcoming changes in regulation and oversee import and export activities
- Legal function monitors legislative changes and reports and monitors actions as necessary
- Modern Slavery and Transparency Statement and procedures to reduce the risk of modern slavery within the Group and our supply chain
- Multi-functional programme for GDPR compliance


### Assurance

- Multiple sources to assess culture including My Say results, 'Speak Out' reports, internal audit findings, exit interviews and ethics questions in performance reviews
- Monitoring and reporting on compliance with ethics and compliance policies
- Tracking of on-line ethics training and compliance modules
- Reporting non-compliance cases to business, Executive and Audit & Risk Committees


## CYBER SECURITY

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

**Risk owner** Philippe Roman

**Trend** 

**Link to SES** TECHNOLOGY PROGRAMME

**Included in viability assessment:** 

**Link to strategic objectives**

**Potential impact**

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

**Key mitigating controls**

- Board oversight of the approach to mitigating cyber risk
- Proactive focus on information and cyber security risks supported by a strong governance framework
- Group-wide assessment of critical information assets and protection to enhance security

- Information Security Awareness programme
- Security monitoring to provide early detection of hostile activity on Smiths networks and an incident management process
- Partnership and monitoring arrangements in place with critical third parties, including communications service providers
- Cyber risk analysis and mitigation processes embedded in the product lifecycle process to increase resilience

**Assurance**


- Formal reviews with Executive Committee and the Board
- Vulnerability scanning/event reporting embedded
- External reviews of vulnerability controls
- Mandatory staff training
- Compliance with recognised standards
- Cyber leads at divisions

## INTEGRATED SUPPLY CHAIN


Timely, efficient supply of raw materials and purchased components is critical to our ability to deliver to our customers. Manufacturing continues to be exposed to external events which could have significant adverse consequences, including natural catastrophes, disease pandemics and terrorist attacks.

We are also affected by the social, economic, regulatory and political conditions where we operate. This applies to our own manufacturing sites and those of our key component suppliers.

**Risk owner** Philippe Roman

**Trend** 

**Link to SES** SUPPLY

**Included in viability assessment:** 

**Link to strategic objectives**

**Potential impact**

- Inability to deliver products/solutions to customers, impacting financial performance and reputation

**Key mitigating controls**

- Supply excellence pillar of our SES operating model delivers increased focus on efficient, resilient and cost-effective supply
- Business continuity and disaster recovery plans in place and tested for critical locations
- Regular evaluation of key sites for a range of risk factors using externally benchmarked assessments
- Mitigation plans for sole source suppliers, sub-contractors and service providers are developed and deployed by divisions to include qualification of alternative sources of suppliers where appropriate
- Business interruption and property damage insurance

**Assurance**

- Externally provided business interruption risk surveys of operational sites
- Business continuity planning (BCP) testing and results
- Insurance requirements driven by the Group's/divisions' risk appetite is validated at least annually
- Mitigation plans reviewed at divisional procurement leadership team meetings and reported in the procurement scorecard



## MARKETS

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

**Risk owner** Roland Carter

**Trend** 

**Link to SES** TECHNOLOGY CUSTOMER

**Included in viability assessment:** N/A

[Link to strategic objectives](#)



### Potential impact

- Failure to develop other markets and geographies impacts strategic progress and financial performance
- Significant disruption to government budgets results in fewer contracts being awarded to Smiths, impacting financial performance

### Key mitigating controls

- A diversified portfolio of businesses mitigates exposure to any one country, sector or customer
- Growth strategy which places emphasis on expanding operations in higher-growth markets and regions which are currently underserved, including Asia
- Strategic process to capture continuing opportunities in current and adjacent markets

- Corporate affairs function which collaborates with colleagues across the Group to advise on developments
- More resilient services and consumable components built into some of our government-related business

### Assurance

- Increased rate of growth provides assurance that actions are working
- Managing Director councils established in India and China
- Joint venture and partnership arrangement in China
- Digital Forge established

## CUSTOMERS

Our markets are evolving at a fast pace, creating potential for customers to change their business models as they look to deliver products and services at higher quality, with better service and at lower cost.

Failure of the Group to keep pace with customer changes/requirements (innovation, go to market, strategies) could have a materially adverse impact on Group performance.

**Risk owner** Julian Fagge

**Trend** 

**Link to SES** CUSTOMER PROGRAMME

**Included in viability assessment:** N/A

[Link to strategic objectives](#)



### Potential impact

- Loss of market share and adverse impact on Group results
- Material adverse effect on profitable growth
- Erosion of our reputation as a leader in our markets

### Key mitigating controls

- As part of the Group innovation framework and our approach to potential technology disruption, we include customer disruption as well as competitor and product
- New product innovation feedback through market research and direct feedback from existing and potential customers
- Developing business models is a core component of the Group-wide training agenda


### Assurance

- Megatrend workshops and disruption risks reviewed annually
- Customer input gathered on a frequent basis
- Pilot programmes to test products, business models and partnerships
- Strategic review process; divisional deep dives

## CONTRACTUAL OBLIGATIONS

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

**Risk owner** Mel Rowlands

**Trend** 

[Link to SES](#)

**CUSTOMER  
SUPPLY  
PROGRAMME  
PRODUCTION**

**Included in viability  
assessment:** N/A

[Link to strategic  
objectives](#)



### Potential impact

- Production delays, unexpected increases in costs of materials, freight, quality and warranty issues resulting from differences between estimated and actual costs in our medium and long-term contracts
- Breach of contract resulting in significant expenses due to disputes and claims, loss of customers, damage to Smiths reputation with other customers/prospective customers, and loss of revenue and profit due to higher costs, liquidated damages or other penalties
- Contracts, particularly those with governments, may include terms that provide for unlimited liabilities, including for loss of profits, IP indemnities, perpetual warranties or allowing the counterparty to cancel modify or terminate unilaterally and seek alternative sources of supply at Smiths expense

### Key mitigating controls

- Contracts managed and delivered by programme management teams that regularly review risks and take appropriate action

- Review and approval process for significant and higher-risk contracts in place at Group and divisional levels
- Diversified nature of the Group mitigates exposure to any single contract
- Programmes in place across the Group which harmonise the contract review process
- Cross-divisional US Government working group determines and shares best practice on government contracting

### Assurance

- Divisional legal teams embedded in the business, working cross-functionally throughout the contract lifecycle
- Review and approval process for contracts determined by adherence to the Delegation of Authority matrix
- Insurance programme tailored to reflect the risk appetite of the Group
- Uniform diligence and contracting process in place for agents and distributors

## PEOPLE

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

**Risk owner** Sheena Mackay

**Trend** 

[Link to SES](#) PEOPLE

**Included in viability  
assessment:** N/A

[Link to strategic  
objectives](#)



### Potential impact

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

### Key mitigating controls

- Investment to build a learning organisation with a focus on culture, reward and recognition
- Implementation of the right HR infrastructure
- Delivery of a range of learning and development opportunities at all levels of the organisation
- Talent and succession plan reviews
- Remuneration packages evaluated regularly against market trends
- Chief Executive assessment of the leadership team

- Annual performance management reviews for the majority of employees using best practice processes such as 360-degree feedback surveys
- Formal career counselling for senior people in the business
- A clearly defined people integration plan for acquisitions
- People Plan oversight by the Board
- Diversity & Inclusion Plan and initiatives

### Assurance

- Participation rates in the Smiths learning and development programmes measured. Capability and performance of alumni are tracked
- Benchmarking ratio of hires into senior roles from internal and external sources
- Formal and informal measures of culture, for example regular engagement surveys with follow up action planning
- Measurement of the effectiveness of the Executive education programme through post completion evaluation tests
- Post-acquisition review meetings

# GOING CONCERN AND VIABILITY STATEMENT

## GOING CONCERN

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 04 to 72. The financial position of the Company, its cash-flows, liquidity position and borrowing facilities are described on pages 22 to 25. In addition, the notes to the accounts include the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

At 31 July 2019 the net debt of the Group was £1,197m, a £304m increase from 31 July 2018. At the end of July the Group had available cash and short-term deposits of £315m. These liquid resources are immediately available with 93% invested with the Group's global banking partners. The Group's debt profile shows an average maturity of 5.2 years (from 5.5 years at 31 July 2018). There are no scheduled repayments of debt due until 2022.

The Group maintains a core US\$800m committed revolving credit facility from these banks which was undrawn at 31 July 2019. This committed facility matures in November 2023. This facility has certain financial covenants however these are not expected to prevent utilisation at the Group's discretion if required.

This financial position and debt maturity profile provides confidence that the Group has sufficient financial resources for the foreseeable future. As a consequence, the Directors believe that the Company is well placed to manage its business and its liabilities as they fall due. In coming to this conclusion, the Directors have taken account of the Group's risk management process described on pages 62 to 63, and have paid particular attention to the financial and pension funding risks and their mitigation (see page 23).

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

## VIABILITY STATEMENT

In accordance with the requirements of the 2016 UK Corporate Governance Code, the Directors have assessed the longer-term prospects of the Group, taking into account its current position and a range of internal and external factors, including the principal risks detailed on pages 64 to 70 (the 'viability assessment').

The Directors have determined that a three-year period to 31 July 2022 is an appropriate time frame for the viability assessment. The selected period is considered to be appropriate as, based on the historical performance of the Group, a three-year outlook represents an optimum balance of long-term projection and acceptable forecasting accuracy.

This time period also takes into account considerations such as the maturity of the Group's borrowing facilities and the cyclical nature of the performance of the Group's underlying markets. In making this viability assessment, the Directors have considered the current financial position and prospects of the Group, including the current year business performance, the detailed Operating Plan for 2020 and the Strategic Plan. Against these financial projections, the Directors took into account the principal risks (as outlined on pages 64 to 70) to develop a set of plausible scenarios as set out overleaf with potentially high-impact outcomes, and where relevant included the loss of revenue arising from the separation of Smiths Medical.

Consideration was then given to the magnitude of the gross risks and their potential impact, directly or indirectly, on the Group's future performance and liquidity. The assessment included stress testing of the Group's financial capacity to absorb the impact of such adverse events, either individually or in combination, and what mitigating actions the Group could take to respond to them in order to protect its business. The Directors also considered the Group's ability to raise additional liquidity. In performing this assessment the Directors have taken comfort from the diversity of the Group's businesses across different markets, industries, geographies, products and customers.

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

→ 72 See scenarios modelled overleaf

## SCENARIOS MODELLED

## SCENARIOS

LINK TO  
PRINCIPAL RISKS**Scenario 1:**

A natural or other disaster destroys key manufacturing facilities resulting in severe disruption to approximately one-quarter of Smiths Medical's production.

**Integrated Supply Chain****Scenario 2:**

A fault in a critical product within Smiths Medical causes the product range to be suspended by global regulatory authorities pending further investigation. Trade licences are subsequently revoked until the products are tested to be safe.

**Product Quality****Scenario 3:**

A corruption scandal leads to global regulatory penalties and damage to the Group's reputation. The corruption scandal also leads to heavy penalties against the Group in its main markets.

**Ethics and Compliance****Scenario 4:**

A major incident at a refinery is judged to be the result of a fault in one of John Crane's mechanical seals. John Crane is held liable for the costs of repair and restoration of the plant in addition to the consequential losses of plant closure.

**Product Quality****Scenario 5:**

A product cyber-attack at a major global hub airport located in North America. Subsequently civil, military and governmental licences are revoked.

**Cyber Security****Scenario 6:**

Combination of scenarios 1 & 4.

**Integrated Supply  
Chain & Product  
Quality****Scenario 7:**

Combination of scenarios 2 & 5.

**Product Quality &  
Cyber Security****Scenario 8:**

Combination of scenarios 4 & 5.

**Product Quality &  
Cyber Security**

The Strategic Report was approved by the Board on 19 September 2019.

By order of the Board

**Andy Reynolds Smith**  
CHIEF EXECUTIVE