

**smiths**

# PIONEERS OF PROGRESS

IMPROVING OUR WORLD  
THROUGH SMARTER ENGINEERING

**SMITHS GROUP PLC**  
Annual Report FY2021

# DOCUMENT USER GUIDE

## WELCOME TO THE SMITHS ANNUAL REPORT 2021

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## A VIEW FROM OUR CHAIRMAN

If executed properly, our capabilities offer tremendous growth opportunities.



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### JOHN CRANE

Mission-critical flow control solutions for increased efficiency, emission reductions and energy transformation.

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### FLEX-TEK

Safe and efficient movement of fluids and gases.

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## CFO FINANCIAL REVIEW AND KPI'S

A robust full year performance and an improving trend.



P 20

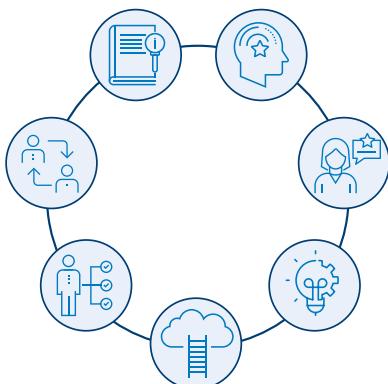
## INTRODUCTION FROM PAUL KEEL, OUR NEW CEO

Pioneering Progress for more than a century, Smiths is pointed in the right direction and moving forward at pace.



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## UNDERSTANDING AND NURTURING OUR RESOURCES AND RELATIONSHIPS



We believe in doing business the right way every day.

P 26

# AT SMITHS WE HAVE NEVER STOOD STILL

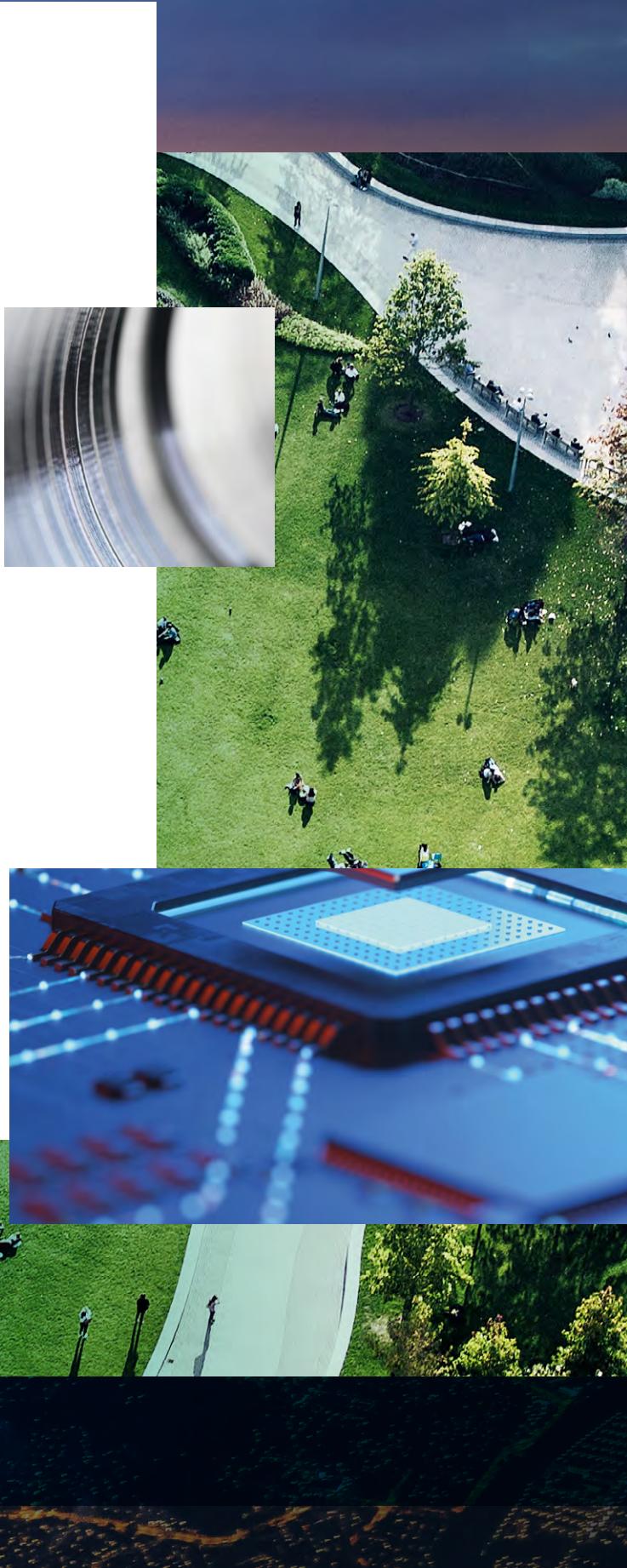
For 170 years, our passion for technology and excellence has moved the world forward; solving problems and creating new opportunities through smarter engineering.

While the modern, global, inclusive business we are today is very different to where we started in 1851, our ethos has remained the same – progress driven by innovation, thinking differently, and a pioneering spirit.

And we are still moving the world forward today. Adapting and positioning the Group to identify, shape and respond to evolving global needs and the key challenge of delivering a sustainable future.

Today Smiths businesses support critical industries from renewable energy to space exploration, with unique technologies that are pioneering progress in safety, efficiency and environmental quality. And we are working with customers to engineer next generation products and services that will enable them to operate, and us all to live, more sustainably in the future.

Addressing the broad societal impact of our products and our operations is ever more embedded in our thinking. We are reducing emissions and water use and increasing renewable energy and recycling throughout our operations. And our products and services are becoming more sustainable by design through a greater focus on raw materials, durability, supply chain, circularity, repairability and end-of-life outcomes.



# PIONEERS OF PROGRESS IMPROVING OUR WORLD THROUGH SMARTER ENGINEERING

This purpose binds our company together. It is what we do, how we think, and how we will be successful in the future. Thinking big, driving innovation and building high performing industrial technology businesses for tomorrow; as we always have done.

## JOHN CRANE

John Crane's long experience in preventing and remediating leaks will enable us to play a leading role in customer decarbonisation through our methane initiative.

<sup>P</sup>52

## FLEX-TEK

SureHeat SFI electric air heaters are supporting research into jet engine design to improve efficiency and reduce the carbon footprint of aircraft in flight.

<sup>P</sup>60

## SMITHS DETECTION

Dissipating excess process heat in hold baggage and air cargo handling systems is a vital part of efficient, safe operation and system longevity.

<sup>P</sup>56

## SMITHS INTERCONNECT

Our 28G optical transceivers support the high data rates of the next generation of satellites connecting our world.

<sup>P</sup>64

## OUR YEAR IN NUMBERS

The Group delivered a robust full year performance with improving top line trends, strong profit conversion and excellent cash generation.

**UNDERLYING REVENUE GROWTH<sup>2</sup>**  
**(2)%** CONTINUING OPERATIONS

**FY2020: (1)%**

Revenue improved throughout the year, returning to growth in Q4.

Headline <sup>1</sup>	FY2021	FY2020	Reported	Underlying <sup>2</sup>
<b>Smiths Continuing Operations<sup>3</sup></b>				
Revenue	<b>£2,406m</b>	£2,548m	(6)%	<b>(2)%</b>
Operating profit	<b>£372m</b>	£327m	+14%	<b>+7%</b>
<b>Total Group<sup>4</sup></b>				
Profit for the year (after tax)	<b>£370m</b>	£338m	+9%	<b>+8%</b>
Basic EPS <sup>5</sup>	<b>93.1p</b>	84.8p	+10%	<b>+8%</b>
Free cash-flow <sup>6</sup>	<b>£383m</b>	£273m	+40%	

**HEADLINE OPERATING PROFIT MARGIN<sup>7</sup>**

**15.5%** CONTINUING OPERATIONS

**FY2020: 12.8%**

Margin improvement across all divisions, accelerating in the second half.

Statutory	FY2021	FY2020	Reported
<b>Smiths Continuing Operations<sup>3</sup></b>			
Revenue	<b>£2,406m</b>	£2,548m	(6)%
Operating profit	<b>£326m</b>	£241m	+35%
<b>Total Group<sup>4</sup></b>			
Profit for the year (after tax)	<b>£285m</b>	£267m	+7%
Basic EPS	<b>71.7p</b>	66.9p	+7%
Dividend per share	<b>37.7p</b>	35.0p	+8%

**FREE CASH-FLOW<sup>6</sup>**

**£383m** TOTAL GROUP

**FY2020: £273m**

Strong cash generation is a key characteristic of the Group, with free cash-flow up 40% and cash conversion<sup>1</sup> at 125%, an outstanding performance.

1 Headline is defined in note 30 to the Financial Statements.

2 Underlying is defined in note 30 to the Financial Statements.

3 Continuing operations exclude Smiths Medical which is accounted for as 'Discontinued operations – businesses held for sale'. Discontinued operations are defined in note 28 to the financial statements.

4 Total Group comprises continuing operations and discontinued operations.

5 Basic headline EPS is defined in note 5 to the Financial Statements.

6 Free cash-flow is defined in note 30 to the Financial Statements

7 Headline operating profit margin is defined in note 30 to the Financial Statements.

## BASIC HEADLINE EPS<sup>1</sup>

**93.1p** TOTAL GROUP

FY2020: 84.8p

Basic headline EPS up 10% driven by the strong operational performance.

1 Basic headline EPS is defined in note 5 to the Financial Statements.

## DIVIDEND PER SHARE

**37.7p**

FY2020: 35.0p

Total dividend of 37.7 pence per share reflecting the Board's confidence in the Group's performance and improving trajectory.

## ENVIRONMENT

Since 2007 we have:

**REDUCED ENERGY USE BY**

**38%**



**REDUCED GHG EMISSIONS BY**

**60%**

**REDUCED WATER USE BY**

**53%**

## EMPLOYEE SUPPORT

By the end of FY2021 every Smiths colleague around the world had access to support through our Employee Assistance Programmes.



## COMMUNITIES

**DIRECT ECONOMIC CONTRIBUTION**

**£2.5bn**

Smiths direct economic contribution to communities around the world through taxes paid, employee costs and supplier costs was £2.5bn in FY2021 (FY2020: £2.8bn).

## EFFECTIVE INNOVATION

**20%**

In FY2021 20% of revenue came from new products, (FY2020: 20%).



All figures above are for Total Group. See Total Group definition on page 4.

## OUR BUSINESS AT A GLANCE

We operate in more than 50 countries and our four divisions serve four key global markets.

### REVENUE BY DESTINATION\*



### EMPLOYEES BY REGION\*



### REVENUE BY KEY GLOBAL MARKETS\*



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### OUR FOUR DIVISIONS\*

#### JOHN CRANE

Mission-critical flow control solutions for increased efficiency, emission reductions and energy transformation

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#### SMITHS DETECTION

Detection and screening technologies for safety, security and freedom of movement

P 56

#### FLEX-TEK

Safe and efficient movement of fluids and gases

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#### SMITHS INTERCONNECT

High-speed, secure connectivity in critical applications

P 64

#### SMITHS MEDICAL

Discontinued Operations

P 68

\* Continuing Operations. See definition on page 4.

# 4

## FOUR KEY GLOBAL MARKETS

John Crane is a global leader in the design, manufacture, installation and support of rotating equipment solutions that drive efficiency, safety, and environmental sustainability in large-scale industrial processes.

- Strong and differentiated proprietary technologies and expertise across industries
- Broad installed base in Energy and Industrials

- Innovation focused, digital capability
- Efficient and agile operating model
- Customer intimacy and strategic alignment through a network of local proximity service and support centres and unique capabilities of field service engineers

### REVENUE

**£865m**

### HEADLINE OPERATING PROFIT MARGIN<sup>1</sup>

**21.6%**



Smiths Detection is a global leader in threat detection and screening technologies that protect people and assets.

- Global reach and market leading brand
- Differentiated proprietary technologies leveraged across a broad range of markets

- Significant R&D and digital capabilities
- Customer intimacy and loyalty through equipment cycle and aftermarket offer
- Operating in regulated market segments that require product certification

### REVENUE

**£721m**

### HEADLINE OPERATING PROFIT MARGIN<sup>1</sup>

**13.7%**



Flex-Tek is a global provider of high-performance engineered components and solutions that support the safe and efficient movement of fluids and gases in a range of industry sectors.

- Leading capability in design, manufacture and cost engineering
- High-performance differentiated products
- Innovation focused
- Strong customer relationships and brand reputation

### REVENUE

**£508m**

### HEADLINE OPERATING PROFIT MARGIN<sup>1</sup>

**19.1%**



Smiths Interconnect is a preferred supplier of advanced, differentiated electronic components, subsystems, microwave and radio frequency products to OEMs requiring reliable, high-speed and secure connectivity and control for demanding applications in harsh environments.

- Broad portfolio of technically differentiated products
- Strong research and engineering capabilities
- Customer intimacy and product customisation
- Global reach and support

### REVENUE

**£312m**

### HEADLINE OPERATING PROFIT MARGIN<sup>1</sup>

**11.2%**



**Leading medical device business, whose purpose is to save and improve the lives of millions of patients globally**

### REVENUE

**£849m**

<sup>1</sup> Headline operating profit margin is defined in note 30 to the Financial Statements.

## CHAIRMAN'S STATEMENT

# RISING TO THE CHALLENGE

FY2021 was one of the most eventful years since World War II for Smiths.

In addition to the normal business challenges, we suffered the ongoing consequences of the advent of the COVID-19 coronavirus crisis, the sale of one of our largest businesses, Smiths Medical and hiring a new CEO. Added to this interesting mix of challenges was further recognition of the vital importance of ESG and social equality.

The COVID-19 coronavirus pandemic got underway across the Western world in March of 2020. It quickly morphed into a full-blown economic crisis as well as a health care crisis right across the world. Many of us previously working in offices were forced to alter our lifestyles dramatically and work from home. The normal three-dimensional world became a two-dimensional one for many of us as we stared at computer screens in meeting after meeting. Changes that might have normally taken ten years to occur seemed to happen in ten weeks. Much of the work in factories, warehouses and logistics etc. cannot be done remotely, but those that could be, switched seemingly overnight. We paid especially close attention to our factory colleagues' safety and fully equipped them with appropriate protective equipment. As a Company, we are very grateful for the adaptability of everyone in these very strange circumstances.

We've yet to see the full effect of this change in our way of working, but I believe that what we gained in efficiency by not travelling, we likely lost in effectiveness and engagement by poorer communications and weaker onboarding of new colleagues. There is also growing evidence that innovation in most companies suffered during the pandemic.

The main beneficiaries of the pandemic were the electronics, logistics and pharmaceutical companies. The penalised entities were the travel industry, bricks and mortar retail, foodservice, healthcare workers and oil & gas. Pure play companies nearly always suffer worst in economic contractions, but a few verticals like pharmaceuticals and local logistics benefited hugely.

Smiths, along with many of its contemporaries, responded to the challenge magnificently. We never accessed our credit lines or took Government help. Our factories delivered reliably, and line workers did Yeoman's work to stay safe and deliver customers' products. Every day presented a new set of challenges driven by rapidly changing circumstances: supply chain disruption, attempted corruption in some parts of the world and shortages of personal protective equipment. There was the inevitable panic buying of food, disinfectants, and other household products.



Likely, COVID-19 will ultimately disappear into the background of infectious diseases, much like the cocktail of different flu viruses we see every year. The bottom line is that there is a good reason for hope, given time.



The ongoing tragedy of illness, death and fear from the coronavirus cast a pall over most people's lives in the Western world. Asia and South America were to see their world affected later in the year, but no less devastatingly. As the proverb says, necessity is the mother of invention and, notwithstanding background worries about side effects, pharmaceutical companies responded swiftly with the invention of vaccines in such compressed periods that could never have been contemplated previously. Innovation and speed of adaptation were again the winners in the pandemic.

Smiths has a relatively large presence in the airline travel industry, particularly that related to airports and aeroplanes. Those industries contracted rapidly as most forms of travel ground to a halt. Demand fell, and the pandemic effect rippled its way through engine manufacturers, airframe producers, airlines, airports, and every service business associated with them. We saw contractions in oil & gas-related businesses too as energy needs fell, with all the natural consequences that it brought with it. But the Company adapted well, and the results we posted were good when set against the background of significant turbulence in the markets we served. The Company also made substantial contributions to the ventilator challenge as one of only two ventilator manufacturers in the United Kingdom.

Perhaps the thing that has surprised society most is the persistence of the disease and its mutations. History has many lessons to teach us on this topic.

Various forms of plague, including pneumonic, bubonic and septicaemic plagues, have occurred throughout recorded history. Though not the first, the most well-known, the bubonic plague, began in Europe in 1340. It reoccurred about every ten years until 1670, with each outbreak lasting for about two years. It killed roughly half the population of Europe at the end of the Middle Ages. Even today, there are around 3,500 cases of bubonic plague recorded annually. Modern antibiotic drugs prevent these outbreaks from growing further.

The 1918 Spanish flu was the first of three flu pandemics in the 20th century, triggered by the Influenza A virus subtype H1N1, which caused up to 80 million deaths, though nobody is sure of the exact number. The virus disappeared until 1957 with a small outbreak in China and reappeared in the so-called Russian flu episode in 1977 that killed about 700,000 people, though it was mild compared to the 1918 outbreak. The most recent Influenza Virus A H1N1 outbreak was the 2009 swine flu pandemic which was also mild and, thankfully, caused few deaths. Sixty seven million Americans were infected with H1N1 in the 2009 outbreak, which caused about 240,000 hospital admissions and approximately 13,000 deaths. Yet this is the same virus that caused such devastation in the early 20th century. This appears to be the pattern of pandemics, initially severe then gradually becoming milder over the years as the broader population becomes more immune or drug treatments emerge. The current pandemic of COVID-19 is caused by the Severe Acute Respiratory Syndrome (SARS) coronavirus 2 and is the deadliest pandemic since the Spanish flu. At today's time of writing, it has caused about 4.5 million deaths globally.

Each of the pandemics in the last 100 years also lasted for about two years. So, if those historical observations are a pattern we can rely on, which we don't know for certain, we still have some time to live with COVID-19, perhaps another six to eight months or so. And we can't accurately predict what might happen with virus mutations over the years, though later mutations seem to be less severe, just as they were with the Virus A H1N1 variant. Likely, COVID-19 will ultimately disappear into the background of infectious diseases, much like the cocktail of different flu viruses we see every year. The bottom line is that there is a good reason for hope, given time.

Because of uncertainty in the financial markets during COVID-19 and our much-needed operational focus, we postponed disposing of our medical business. We restarted that work around the beginning of 2021. The decline in margin and sales in the medical business had continued, and management's attempts to rectify this decline were unsuccessful. This decline in margin and sales naturally led to disappointing financial offers for Medical, though ultimately a successful agreement with ICU Medical, Inc. emerged at much more attractive pricing. This transaction is subject to regulatory approval which is in process. I remain convinced that in the right management hands, Medical is a good business with fine prospects. The challenge now in Smiths, more broadly, is to rebuild.

In the spring of 2021, the Board elected to make a change in CEO. Andy Reynolds Smith stepped down from his position as CEO. The Board wishes to express its gratitude for Andy's contributions to the Company over the past six years. We were fortunate enough to attract a very able and experienced leader in Paul Keel, a former McKinsey, GE and 3M executive, to become Smiths CEO. Paul has brought renewed vibrancy to the CEO position, and his immediate challenges are finishing the sale of the Medical business and outlining a new Company strategy. We are scheduled to conduct a Capital Markets Day in mid-November, where early versions of these ideas will become public.

We are indeed fortunate to have a range of high-quality businesses in the remaining parts of Smiths. However, despite the innate quality of these businesses, historically, their growth has been patchy. The reason is quite simple; as I've mentioned in previous Chairman's letters, the core of every company is dying. The management team's essential job is to replace that core attrition with new products, market penetration, line extensions and geographic expansion. Most companies add acquisitions to this pile to turbocharge growth. Finding the unlock codes to that growth puzzle has been the most stubborn problem we've had to solve at Smiths in the last 20 years. The answer has not changed; it requires dynamic leadership, creativity and imagination in the divisions and, along with it, relentless execution.



**Paul has brought renewed vibrancy to the CEO position, and his immediate challenges are finishing the sale of the Medical business and outlining a new Company strategy.**



## CHAIRMAN'S STATEMENT CONTINUED

The much better news is that the two largest businesses, John Crane and Smiths Detection, have large service components and, so far, the value of this recurring revenue has been undervalued. But it is indeed harder to grow above the market rate when a large percentage of your sales are your own service parts. Additionally, the Flex-Tek business has begun to grow in ways we always believed were possible. The huge increase in construction, particularly in the United States and Western Europe, has driven demand for many of Flex-Tek's products, easily outweighing the contraction in the aero engine components section of their business. It's also been the source of innovation in forced air-conditioning that we expect will lift growth rates and expand the company's reputation for innovation.

The huge expansion in the semiconductor business has led to a great platform for growth in the coming years for Interconnect. Perhaps it is our most advanced technology business; many satellites are launched that contain connectivity components from Smiths Interconnect.

The John Crane business has rightly been seen as a powerful asset but is often described as a company mainly positioned in an industry with dark clouds, i.e. oil & gas. This is an unfortunate and incorrect assumption. In our internal conversations about the opportunities for John Crane, I've used the analogy of the human skin to describe John Crane's core business. The human skin is an organ that has two primary responsibilities, the first is to keep the inside in, and the second is to keep the outside out. The same is true for a seal. Its purpose is the same, to keep the inside in and the outside out. So, in a strange twist of irony, John Crane's seal business is not a participant in one of nature's greatest challenges. Instead, it is one of the primary defenders against pollution in a world increasingly aware of pollution and rightly sensitive to it. The 'inside', in our case, is often high-pressure gases such as methane, a leak of which would cause pollution. John Crane seals are the primary defensive mechanism against pollution, so its main role has been mischaracterised. In the battle to enhance our support of ESG, John Crane is one of the most powerful defence weapons at our disposal. We are blessed in Smiths to have such an able contributor to this global mission.

Moreover, almost 40% of John Crane's business is not in oil & gas but other turbomachinery applications like those we see in pharmaceuticals and energy utilities. We intend to keep on growing that percentage. And, as I mentioned earlier, it has the financial bulwark of high recurring revenues in its service businesses. We have every intention of growing that too.

Smiths Detection is likely to be our biggest near-term market challenge. Although it has significant service businesses, its core platform is explosives and contraband detection in airports and border crossings. The business is largely project-based, driven by airport passenger volume. We have been working for several years on important breakthrough technologies unlike any seen before and aimed not just at explosives, but at contraband detection more generally. We also have several other technologies in development designed to detect viruses in a wide variety of environments. Smiths Detection is rapidly becoming a superb source of technology for the rest of the Smiths portfolio.

We are firmly committed to doing our part to contribute to solutions in each part of E, S and G.



Despite suffering some contraction in its aero engine-related markets, Flex-Tek has grown rapidly off the back of the construction boom around the world. Smiths purchase of Royal Metal in February can also contribute to the ESG-related quest for a cleaner and safer environment inside our homes and offices. Smiths already has available Ion Mobility Spectroscopy (IMS) technologies to detect chemical weapons for the military that can be redirected to 'sniff' for harmful contaminants inside our homes and offices. We have new virus detection technology inside Smiths Detection, and they are a fruitful source of technology applications outside the core explosives detection business.

My final remarks will be on the topic of ESG. We are at the cusp of the greatest change in society and the environment since the Industrial Revolution. Renewable energy, compostable plastics, the electrification of everything, advanced genetics, artificial intelligence, robotics, telematics, clean air, clean water, safe food, advanced telecommunications etc., to name just a few, are vital technologies for the future. Engineering, mathematics, physics, medical science and materials technology are the keys to the door that will increasingly open onto solutions. Our capabilities are firmly planted in several of these areas and offer tremendous growth opportunities. We are firmly committed to doing our part to contribute to solutions in each part of E, S and G.

Thank you very much for your continued support of our Company. It is very much appreciated.

**George W Buckley**  
CHAIRMAN OF THE BOARD

## CHIEF EXECUTIVE'S STATEMENT

# LONGEVITY, RESILIENCE, PASSION, OPPORTUNITY

– an exciting future for Smiths.

To our customers, shareholders, colleagues, suppliers, and the communities in which we operate:

It's an honour for me, as Smiths new CEO, to introduce this year's Annual Report. FY2021 was a year of continued improvement in the face of historic challenges. We delivered improved topline trends throughout the year, returning to growth in Q4.

Three of our four divisions grew in the second half and two divisions, Flex-Tek (+6%) and Interconnect (+7%), posted strong growth across the financial year. We delivered 8% EPS growth at the Group level, supported by strong operational execution. We achieved free cash flow growth of 40% and cash conversion of 125%, demonstrating the efficiency of our low asset intensity model.

Having only joined Smiths in late May, I can applaud but not share credit for this. Indeed, I will leave it to the subsequent pages of this Report to fully chronicle our many achievements across the year. For my part, I'll simply highlight a few things that have caught my eye thus far, as well as what I see in store for us in the months and years to come.

Smiths is a purpose-driven organisation, so it is appropriate that on the cover of this report we highlight that Purpose

**Pioneers of Progress:  
Improving our world through  
smarter engineering**

Pioneers of Progress authentically captures who we are. It honours our heritage and the trails we've blazed. It reminds today's team of the standard that's been set and the expectations of us. And it is a motivating and stretching ambition in charting the course for the many further advances we see ahead.

It speaks to our distinctively rich history – 170 years strong and publicly traded for more than a century. Across time, Smiths has provably pioneered in multiple sectors and played a meaningful role in some of history's most notable advancements – exploring space, ensuring safe passage and, as you read this, playing a frontline role in battling a pandemic that continues to impact far too many. Precious few organisations can match such longevity, and this speaks to a resilience and creativity woven deeply into the fabric of this company.



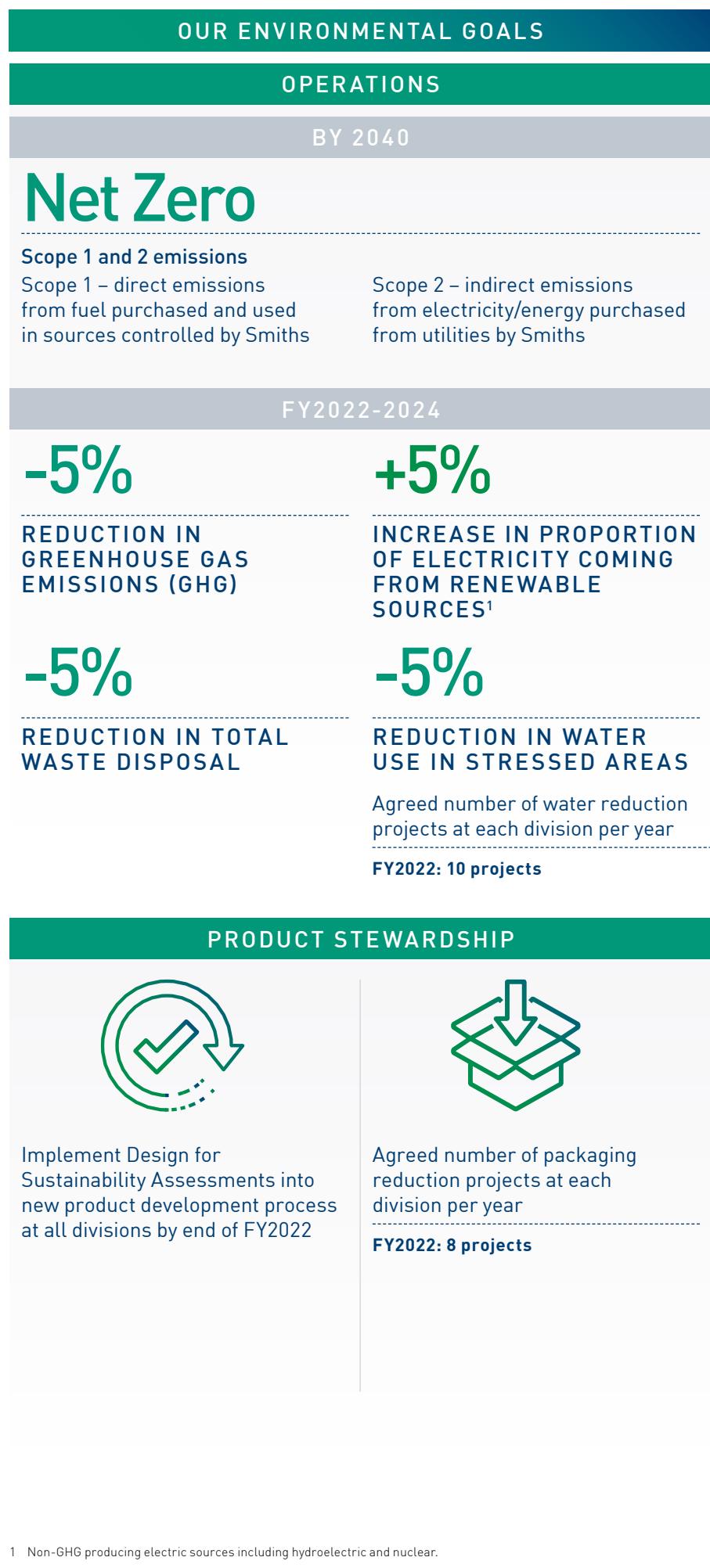
Across time, Smiths has provably pioneered in multiple sectors and played a meaningful role in some of history's most notable advancements.

## CHIEF EXECUTIVE'S STATEMENT CONTINUED

Our Purpose bridges to our bright future, as we continue to pioneer progress through innovations such as highly engineered specialty materials and super-high-speed transceivers. At our core, Smiths is an engineering company, and the essence of engineering is working smarter, not just harder (although as I can now attest, we do this too). Smarter engineering means bending curves for greater efficiency, as demonstrated by our expanded gross and operating margins this year. Smarter engineering means building and leveraging economies of scale and scope, such as doubling the size of our Flex-Tek division in just seven years. Smarter engineering means embracing digital solutions and connectivity to improve product and service performance. Most importantly, smarter engineering means helping to solve the toughest problems for ourselves, our customers, and our communities, many of which concern our environment.



Smarter engineering means helping to solve the toughest problems for ourselves, our customers, and our communities, many of which concern our environment.



<sup>1</sup> Non-GHG producing electric sources including hydroelectric and nuclear.

We first implemented environmental targets in 2007. Over the period since, we have reduced our water usage by 53%, GHG emissions in our operations by 60%, and non-recyclable waste by 63%. Around 60% of the electricity we use now comes from renewable sources and we are currently assessing a promising list of locations for onsite renewable energy installation.

In the time that I've been with the Company, we've swiftly built on this commitment by signing on to the Science Based Targets Initiative and the UN Race for Zero; and we've publicly committed to Net Zero emissions from operations by 2040. Still more, we've added an ESG metric to our long-term compensation programme and have established a new Science, Sustainability and Excellence Committee of the Board.



Our people are at the heart of our journey as it's their passion and expertise that propels us forward.



## LOOKING FORWARD TO FY2022, OUR EFFORTS ARE CENTRED IN THREE AREAS:

### 1 Accelerating Growth

The Accelerating Growth trajectory we established this year will be further boosted by layering on additional high-value revenue streams in FY2022. High-impact new product platforms that have already launched like our pathogen detection and multi-layer tubing systems are scaling quickly.

Several exciting new launches such as next generation refrigeration lines and hydrocarbon management seals are coming soon. We are building out attractive adjacencies like methane detection and urban security. And, in addition to our primary focus on organic growth, we're layering on accretive acquisitions such as Royal Metal, which we acquired in February and is performing well ahead of plan.

### 2 Operational Excellence

Operational Excellence makes Accelerating Growth possible. Over the years, Smiths has established strong foundations in fundamental areas like supply chain, working capital management, and our Smiths Excellence System. All of these will remain core priorities as we access the many opportunities available to us in FY2022.

In addition to these, we'll further intensify our focus on strategic sourcing and customer service. Increased demand buoyed by economies reopening, coupled with continued pandemic-related supply constraints is causing inflationary pressures not felt in many years. By working closely with our suppliers, we were able to ensure continuity of supply to our customers in FY2021 without incurring gross margin compression.

### 3 People & Culture

Underlying everything are our People & Culture. I have 21,500 colleagues around the world working together creatively and collaboratively, as our organisation has been doing for more than 170 years. Our People are wonderful, and our Culture is strong.

Caring for one another and our partners underpins our commitment to safety. Smiths global recordable incident rate was 0.38 in FY2021, world-class amongst industrial players.

We know that the most inclusive organisations are also the highest performing, and I credit our Board for setting the right tone in this regard with equal gender balance amongst Non-executive Directors, and even greater diversity in terms of country of origin. Diversity and inclusion, of course, is not about baking a good-looking pie chart. An inclusive culture is where each and every one of us can enthusiastically strive to be the very best versions of ourselves.

Smiths competes on a global scale, and many of the imbalances in our world have been decades in the making. Just as a body in motion will continue at the same speed and direction unless acted upon to redirect, change requires action. That's why People & Culture will remain a top priority for us in FY2022 and beyond.

#### READ MORE ON OUR DIVISIONS

DIVISIONAL REVIEWS

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#### READ MORE ON OUR ENVIRONMENTAL PERFORMANCE AND GOALS

PRODUCTION AND ENVIRONMENT

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#### READ MORE ON OUR PEOPLE AND CULTURE

OUR PEOPLE

PAGES 28 TO 33

## CHIEF EXECUTIVE'S STATEMENT CONTINUED

We announced the sale of Smiths Medical to ICU Medical, Inc. in September 2021, although the hard work to make this possible was accomplished in FY2021. In making this announcement, we fulfilled a commitment to simplify our portfolio and focus our attention, resources and capital on our strategically-aligned, higher-performing, industrial technology core. Proceeds from the transaction, including capital appreciation to date on the share portion of consideration, and an earnout that is well within reach, total close to \$3 billion (£2.14bn), over 15x EBITDA. Upon completion, we'll return over \$1 billion (£725m) to shareholders and further strengthen our balance sheet in support of future growth investments.

On a personal note, I'd like to thank all of you for the warm welcome I've received since returning to the UK. Your constructive engagement – recognition of commitments met as well as improvements needed – have sped my learning and sharpened our focus. I'm especially grateful for the inspiring commitment of my coworkers. Your energy, skill, and optimism are the seabed of all we do.

This is an exciting time for Smiths. We have entered FY2022 with good momentum and are well positioned for accelerated growth in our industrial technology core. For all that has been achieved over our decorated past, incredibly we're still closer to the beginning than the end of this amazing journey. Pioneering Progress for more than a century, Smiths is pointed in the right direction and moving forward at pace. Our focus now is squarely on acceleration – acceleration of learning, acceleration of growth, and acceleration of value creation. This is who we are. This is what Pioneers do.

Thank you for your partnership and support.

Enjoy the Report.

**Paul Keel**

CEO

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



**Paul Keel**

**Chief Executive**

Joined Smiths in May 2021. Previously worked at 3M Company between 2004 and 2020, within the US and UK. For full biography see page 87.



**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 87.

Our focus now is squarely on acceleration – acceleration of learning, acceleration of growth, and acceleration of value creation.



## OUR EXECUTIVE COMMITTEE CONTINUED



**Roland Carter**

**President, Smiths Detection and Asia Pacific**

Joined Smiths in 1991. Appointed President, Asia Pacific in 2017 and President, Smiths Detection in 2018. Previously President, Smiths Interconnect and Managing Director for Smiths Connectors.



**Julian Fagge**

**President, Smiths Interconnect**

Joined Smiths in 2013 as Group Financial Controller. Appointed Group Strategy and M&A Director in 2017. Appointed CEO, Flex-Tek in 2019 and President, Smiths Interconnect in 2021. Background: Royal Caribbean Cruises; Procter & Gamble; PwC.



**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.



**Pat McCaffrey**

**President, Flex-Tek**

Joined Smiths in October 1996 and appointed President, Flex-Tek in 2019. Joined the Executive Committee in 2021. Previously President of Heat Solutions Group and General Manager/COO of Flexible Technologies.



**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.



**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.



**Sir Kevin Tebbit KCB CMG**

**Senior Vice President,  
Corporate Affairs**

Joined the Smiths Board as Non-executive Director in 2006 and served until 2018. Appointed SVP, Corporate Affairs in 2019 and joined the Executive Committee in 2021. Background: MoD, FCO and NATO.



**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.

▪ More information is available on our website

## THE SMITHS WAY

OUR BUSINESSES  
SHARE THE SAME  
FOUR CHARACTERISTICS  
WHICH SHAPE HOW WE  
CREATE VALUE.



**UNDERPINNED BY THE SMITHS VALUES AND OUR COMMITMENT TO DOING BUSINESS RESPONSIBLY AND SUSTAINABLY.**

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



**INTEGRITY**



**RESPECT**



**CUSTOMER FOCUS**



**OWNERSHIP**



**PASSION**



### SHARED OPERATING MODEL

OUR SHARED OPERATING MODEL IS CENTRED ON PEOPLE, INNOVATION AND EXCELLENCE AND PROVIDES A STRONG BASE TO LEVERAGE OUR STRENGTHS AND MAKE THINGS HAPPEN BETTER, FASTER AND MORE COST-EFFECTIVELY.

### PEOPLE

Our people are vital to the success of Smiths. We work to attract, retain, develop, engage and inspire exceptional people and help them thrive. We keep them safe, nurture their well-being and sense of belonging, and invest to grow their skills to create an agile and capable organisation.



### INNOVATION

Innovation is in our DNA and drives our future success. Our Group-wide innovation framework fosters a disciplined future-focused culture aligned with our purpose and strategy. This helps us translate our expertise and insight into new ways of working, products, services and business models.



### EXCELLENCE

We aim for consistent and flawless execution, collaborating across internal and external networks and leveraging our continuous improvement environment to deliver quality and value. The Smiths Excellence System is embedded into our operations and functions and enables one language for excellence at Smiths that advances capabilities across our six SES pillars: Customer, People, Technology, Programme, Production and Supply.





## STRONG FINANCIAL FRAMEWORK

OUR STRONG FINANCIAL FRAMEWORK ENABLES US TO FUND NEW PURPOSE-LED GROWTH

### INNOVATION IN OUR CORE PRODUCTS AND SERVICES

SOLUTIONS THAT ARE NEW TO THE MARKET OR TO SMITHS AND DESIGNED TO ACCELERATE ORGANIC GROWTH

£0.5bn<sup>1</sup>

Total investment in R&D over the last five years



£0.5bn

Total net investment in M&A over the last five years

TARGETED BOLT-ON ACQUISITIONS TO EXPAND CORE POSITIONS, FILL PORTFOLIO GAPS, EXPLOIT NEW TECHNOLOGY AND ENTER NEW MARKETS OR GEOGRAPHIES



## DRIVES AND SUSTAINS VALUE FOR ALL OUR STAKEHOLDERS

### PEOPLE BELONGING SCORE

69

FY2020: 70  
See page 31

My Say engagement survey: I feel a sense of belonging at Smiths

### SAFETY RIR

0.38

FY2020: 0.30

Recordable incident rate per 100 colleagues



### ENVIRONMENT AND COMMUNITIES

#### GHG REDUCTION

60%

Greenhouse gas reduction since FY2007

#### DIRECT ECONOMIC CONTRIBUTION

£2.5bn

FY2020: £2.8bn

Employee costs + supplier costs + tax paid



### CUSTOMERS AND SHAREHOLDERS

#### VITALITY INDEX<sup>1</sup>

20%

FY2020: 20%

revenue from new products

#### OTIF

73%

FY2020: 86%

On time in full

#### BASIC HEADLINE EPS<sup>2</sup>

93.1p

FY2020: 84.8p

#### DIVIDEND

37.7p

FY2020: 35.0p

Figures above are for Total Group

1 Defined in note 30 to the Financial Statements.

2 Defined in note 5 to the Financial Statements.

<sup>1</sup> Continuing operations.

## OUR STRATEGY

We actively manage our portfolio of businesses, targeting growing markets where we can achieve a sustainable top-three leadership position, and maximising growth and accelerating strategic progress through organic investment and a disciplined approach to acquisitions and disposals.

Our businesses are aligned to key long-term themes and trends in our global markets, and we are taking a collaborative approach to accelerating opportunities in these areas.

We drive competitive advantage through focused deployment of technology, innovation and investment, creating long-term partnerships with customers, attracting and retaining the best talent, and focus performance execution through our shared operating model.

Continued investment in revenue and margin growth is supported by our strong financial framework.

Following the recent appointment of Paul Keel as CEO, the Group's future strategy is under review. The revised strategy and key priorities will be published at a capital markets day in November 2021.

### OUR BUSINESSES ARE ALIGNED TO KEY LONG-TERM THEMES AND TRENDS IN OUR GLOBAL MARKETS

**ENVIRONMENTAL URGENCY**  
**ENERGY EFFICIENCY**  
**LOWER EMISSIONS**  
**ENERGY TRANSFORMATION**  
**AIR QUALITY**  
**WASTE REDUCTION/ RE-USE/RECYCLE**

**SAFE TRAVEL**  
**SECURE TRADE**  
**SAFE PEOPLE**  
**SECURE PLACES**  
**SMART CITIES**

**EFFICIENT, CLEANER PROCESSES**  
**SAFE OPERATIONS**  
**EQUIPMENT RELIABILITY**  
**ASSET LIFE MAXIMISATION**  
**LIGHTWEIGHT MATERIALS**

**FASTER/SEAMLESS CONNECTIVITY**  
**SATELLITE APPLICATIONS**  
**PERSONALISED INTEGRATED MOBILITY SOLUTIONS**

Performance against  
FY2021 strategy

### 1 OUTPERFORM OUR CHOSEN MARKETS

We actively manage our portfolio of businesses. They operate in growing markets where we can achieve a sustainable top-three leadership position.

#### Our objectives

[Define our businesses](#)

[Focus on attractive markets](#)

[Maximise growth](#)

#### What we said we would do in FY2021

- Continue with strategic intention to separate Smiths Medical
- Reassess the attraction of each of our end use markets and the position of our businesses within them
- Continue to invest in R&D and targeted capital expenditure to drive organic growth
- Use acquisitions and disposals to continue to shape the portfolio and enhance the position of our businesses in attractive markets
- Seek further growth opportunities in China and India

#### How we did in FY2021

- On 8 September 2021 we announced the sale of Smiths Medical to ICU Medical, Inc.
- Despite the uncertainty in some of our end use markets we preserved our commitment to organic investment in our businesses with capex of £62m and R&D spend at 3.9% of sales<sup>1</sup>
- We acquired PathSensors in August 2020 and Royal Metal Products in February 2021. PathSensors enables Smiths Detection to re-enter the biological pathogen detection market. Royal Metal allows Flex-Tek to capitalise on the significant growth in the US construction market
- Our businesses in China and India continue to develop well

<sup>1</sup> Continuing Operations. Defined in note 30 to the Financial Statements.

## Performance against FY2021 strategy continued

### 2 DELIVER WORLD-CLASS COMPETITIVENESS

We drive discernible, sustained competitive advantage through focused deployment of innovation and investment; attracting and retaining the best talent; and focus execution through deployment of our shared operating model and the Smiths Excellence System (SES).

#### Our objective

Innovate to exceed customer expectations

#### What we said we would do in FY2021

- Develop new future scenarios for customer demand and refine product and technology roadmaps
- Accelerate innovation and commercialisation via expansion of strategic partner network
- Continue to drive and build the culture of innovation throughout the organisation
- At the Smiths Digital Forge, focus on physical cybersecurity; embedded technology for wireless sensor networks; and augmented analytics capabilities in the cloud (see page 35)
- Seek sustained improvement in the Vitality Index through expanded capabilities

#### How we did in FY2021

- Completed climate risk and opportunity assessments and implemented recommendations throughout the Group
- Our FY2021-24 goals include a requirement for each division to incorporate Design for Sustainability Assessments into all new product development projects by the end of FY2022
- John Crane Sense™ condition-based seal monitoring technology is connected by a digital interface developed by the Smiths Digital Forge. Products being developed under the methane detection programme are also driven by technology developed by the Forge which will enable methane sensors to be deployed anywhere
- Design Thinking and AI training delivered through the SES Academy
- FY2021 Vitality Index<sup>1</sup> was 20% for Total Group, in line with FY2020

#### Our objective

Engage our people to drive the best performance

#### What we said we would do in FY2021

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

#### How we did in FY2021

- Expanded Employee Assistance Programme to support all colleagues worldwide
- COVID-19 safety and support programmes remained in place
- Deployment of additional THRIVE programme well-being resources
- Cross-divisional alignment of core benefits in markets where possible
- Top 100 leader talent review
- Continued development of SES Academy programme

#### Our objective

Execute consistently

#### What we said we would do in FY2021

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

#### How we did in FY2021

- Safety incidents remain significantly below industry averages
- Continued weekly meetings of the Operations and Supply Nerve Centre (OSNC)
- Established SES Steering Committee for Aftermarket Excellence
- Implemented new manufacturing technology across the Group – including robotics and automation; additive manufacturing; visual and connected factory; remote working technology and AI. Many of these technologies are being deployed through Model Value Stream projects
- A globally unified approach to the security of our IT environment supported by global partnerships with external providers such as AT&T, Microsoft, and IBM

### 3 STRONG FINANCIAL FRAMEWORK

#### We maintain a strong financial framework by:

- Focusing the portfolio on sustainably competitive and asset-light businesses
- Delivering profitable growth with sustainable margins
- Maintaining balance sheet strength and investing with strong financial discipline

#### How we did in FY2021

- See Strong Financial Framework from page 20

 [READ MORE ON OUR STRONG FINANCIAL FRAMEWORK](#)

[STRONG FINANCIAL FRAMEWORK](#)

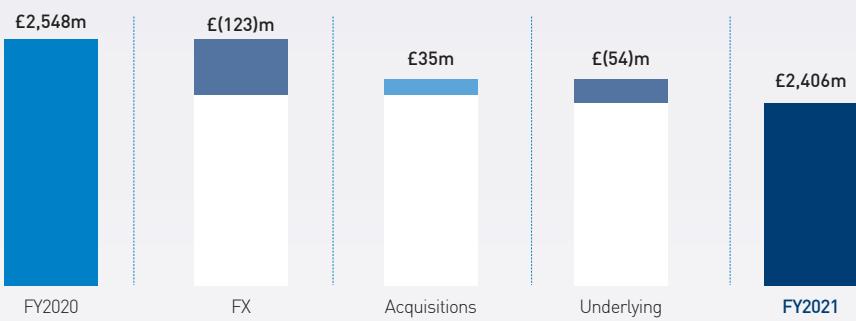
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<sup>1</sup> Defined in note 30 to the Financial Statements.

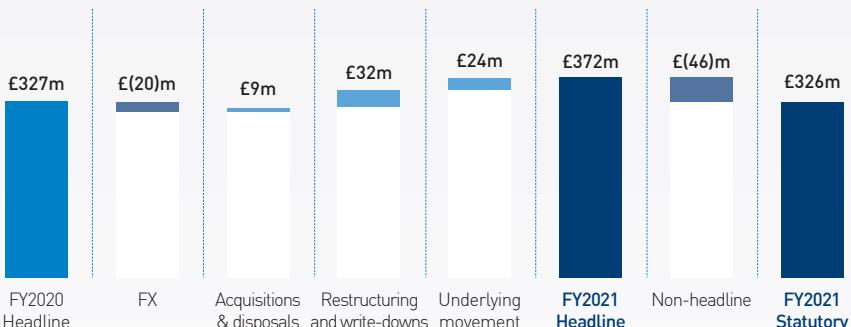
## STRONG FINANCIAL FRAMEWORK

A robust full year performance and an improving trend.

### REVENUE



### OPERATING PROFIT



KPIs and alternative performance metrics (APMs) referred to throughout this section are defined in note 30 to the Financial Statements

### Continuing Operations – excluding Smiths Medical

#### Revenue

Group revenue for continuing operations was down £(54)m or (2)%, on an underlying basis. The trend improved throughout the year, with first half underlying decline of (5)%, flat in the second half, and a return to growth in the final quarter. The Group's performance was underpinned by its market-leading positions and high proportion of revenue derived from aftermarket activities.

Revenue declined (6)% on a reported basis, to £2,406m (FY2020: £2,548m). This included £(123)m of adverse foreign exchange translation, and +£35m from the acquisitions of Royal Metal Products LLC (Royal Metal) by Flex-Tek in February 2021 and PathSensors Inc by Smiths Detection in August 2020.

#### Operating profit and margin

The Group delivered strong profit conversion, with headline operating profit up +£24m or +7% on an underlying basis. Headline operating profit increased +14% on a reported basis, to £372m (FY2020: £327m). This included £(20)m of adverse foreign exchange translation, +£32m from lower year-on-year restructuring costs and write-downs, and +£9m from acquisitions.

Headline operating profit margin increased +140bps on an underlying basis, reflecting the benefits of the Group's strategic restructuring programme and disciplined cost control. Headline operating profit margin increased +270bps on a reported basis to 15.5%.

The £(46)m difference between headline operating profit of £372m and statutory operating profit of £326m is non-headline items as defined in note 3 of the financial statements. The largest constituents relate to amortisation of acquired intangible assets, asbestos litigation in John Crane, Inc and subrogation claims in Titeflex Corporation. Statutory operating profit of £326m was £85m higher than last year (FY2020: £241m), reflecting higher headline profit and lower non-headline charges.



<b>Underlying revenue growth</b>	<b>H1</b>	<b>H2</b>	<b>FY2021</b>
<b>John Crane</b>	(10)%	0%	<b>(5)%</b>
<b>Smiths Detection</b>	(6)%	(8)%	<b>(7)%</b>
<b>Flex-Tek</b>	(1)%	+13%	<b>+6%</b>
<b>Smiths Interconnect</b>	+11%	+3%	<b>+7%</b>
<b>Continuing operations</b>	(5)%	0%	<b>(2)%</b>

<b>Operating margin</b>	<b>H1 Reported</b>	<b>H1 Underlying movement</b>	<b>H2 Reported</b>	<b>H2 Underlying movement</b>	<b>FY Reported</b>	<b>FY Underlying movement</b>
<b>John Crane</b>	19.8%	(130)bps	23.4%	+270bps	<b>21.6%</b>	<b>+80bps</b>
<b>Smiths Detection</b>	12.6%	(240)bps	14.9%	+370bps	<b>13.7%</b>	<b>+70bps</b>
<b>Flex-Tek</b>	18.5%	+20bps	19.7%	+220bps	<b>19.1%</b>	<b>+110bps</b>
<b>Smiths Interconnect</b>	11.2%	+560bps	10.9%	+350bps	<b>11.2%</b>	<b>+450bps</b>
<b>Continuing operations</b>	14.4%	(20)bps	16.4%	+290bps	<b>15.5%</b>	<b>+140bps</b>

## Finance costs

Headline finance costs of £(40)m (FY2020: £(49)m) were £9m lower than last year. This reflects the benefit of lower interest rates. Statutory finance costs were £(86)m (FY2020: £(108)m), mainly due to a £(50)m foreign exchange loss on an intercompany loan with Smiths Medical (FY2020: £(62)m); the matching credit in discontinued operations nets out to zero in Total Group earnings.

## Taxation

The Total Group headline effective tax rate was 27% (FY2020: 26%). The headline tax charge for the full year of £(96)m (FY2020: £(79)m) represents an effective tax rate of 29% for continuing operations (FY2020: 28%). The increase in rate is mainly attributable to profit mix. The equivalent effective tax rate for continuing operations in FY2022 is currently expected to be in the range of 26-28%.

A non-headline tax credit of £13m (FY2020: £13m) on non-headline losses resulted in a statutory effective tax rate of 35% (FY2020: 50%). Please refer to notes 3 and 6 of the Financial Statements for further details.

## Organic investment

Technology and innovation remain at the forefront of Smiths strategy and are key to driving future growth. To support this, the Group continues to invest in R&D and consistently seeks the best value from its investments. The income statement cost of R&D of £(83)m was marginally below prior year (FY2020: £(89)m). The cash cost decreased to £(94)m or 3.9% of sales (FY2020: £(119)m or 4.7%). We are focused on measuring the effectiveness of our investment in innovation and the Vitality Index, which measures the percentage of total revenue derived from products launched in the last three years, remained stable at 20% (FY2020: 20%).

Investment in capex of £(62)m (FY2020: £(67)m) has been protected and represents 1.2x depreciation and amortisation (FY2020: 1.2x).

## Portfolio

The Group continues to enhance its strategic positioning through disciplined M&A. In February 2021, the Group acquired Royal Metal, a leading manufacturer of residential and light commercial HVAC products for \$107m. Royal Metal is being successfully integrated into Flex-Tek. The acquisition complements the organic growth that Flex-Tek is already driving through the development of innovative air distribution products that support improved energy efficiency and indoor air quality. For more information, please see note 27 of the Financial Statements.

## Discontinued Operations – Smiths Medical

On 8 September 2021, the Group announced the sale of Smiths Medical to ICU Medical, Inc. (ICU Medical) at an enterprise value of \$2.7bn and an equity value of \$2.4bn after adjustments for debt, liabilities and working capital.

At closing, the Group expects to receive \$1.85bn in cash proceeds and 2.5m new ICU Medical shares, valued at \$0.5bn at the time of announcement. The Group will receive an additional \$0.1bn in cash, contingent on the future share price performance of ICU Medical.

Completion and receipt of initial cash proceeds is expected in the first half of calendar year 2022, subject to approval by Smiths' shareholders and customary regulatory approvals. The sale of Smiths Medical simplifies and positions Smiths for focused growth in our core industrial technology business and will enable a substantial return of capital to shareholders.

Headline profit after tax of £134m increased +5% on an underlying basis, reflecting restructuring actions and cost discipline. On a reported basis, headline profit after tax was down (4%) due to £(5)m of adverse foreign exchange and £(5)m higher restructuring costs.

Consistent with accounting standards for discontinued operations, depreciation and amortisation are not included in reported results for Smiths Medical. Depreciation and amortisation of £45m (FY2020: £45m) have, however, been included in the calculation of underlying measures.

The difference between statutory and headline profit after tax is £(6)m, which includes £(18)m of separation costs, £(61)m from the impairment of capitalised development costs and related assets, +£50m of foreign exchange gain on the intercompany loan with Smiths continuing group and +£23m of tax credit on these non-headline items.

Further detail on Smiths Medical's performance can be found in the divisional section on page 68.

## STRONG FINANCIAL FRAMEWORK CONTINUED

### Total Group

#### Restructuring costs

The Group announced in FY2020 a strategic restructuring programme in support of its goal to deliver operating margins of 18-20%.

£m	FY2021 restructuring P&L costs	Total restructuring P&L costs	FY2021 cash outflow	Total Cash outflow
John Crane	(4)	(18)	(8)	(12)
Smiths Detection	(6)	(20)	(10)	(12)
Flex-Tek	–	(0)	–	(0)
Smiths Interconnect Centre	(10) (1)	(12) (2)	(5) (1)	(6) (2)
<b>Continuing operations</b>	<b>(21)</b>	<b>(52)</b>	<b>(24)</b>	<b>(32)</b>
Smiths Medical	(9)	(13)	–	(4)
<b>Total Group</b>	<b>(30)</b>	<b>(65)</b>	<b>(24)</b>	<b>(36)</b>

In FY2020 Flex-Tek recorded £(2)m of restructuring for its commercial aerospace business which was accounted for in the non-headline integration costs of the United Flexible acquisition and the Group incurred £24m of write-downs which were included in headline operating profit (FY2021 – nil) in addition to the restructuring charges referenced above.

The total cost of the programme was £(65)m; £(35)m in FY2020 and £(30)m in FY2021, with no further charges expected. The full annualised benefits of the programme are expected to be £70m from FY2022 onwards. These benefits are being delivered ahead of schedule, with £47m delivered in FY2021 for the Group (Continuing Operations: £40m; Smiths Medical: £7m). There are a further £23m of benefits to come in FY2022 (Continuing Operations: £15m; Smiths Medical: £8m).

#### Profit after tax and EPS

Headline profit after tax increased by +9% on a reported basis. Headline basic EPS was up +8% on an underlying basis and +10% on a reported basis, driven by the strong operational performance. Statutory profit after tax increased by +7% to £285m (FY2020: £267m). Statutory basic EPS was also up +7% to 71.7p (FY2020: 66.9p).

#### Cash-flow

The Group delivered another year of impressive cash generation. Headline operating cash-flow was £630m (FY2020: £575m). Operating headline cash conversion was 125% (FY2020: 123%), or 122% excluding restructuring costs (FY2020: 112%).

Free cash-flow of £383m (FY2020: £273m) increased by £110m, underpinned by tight management of both operating and non-operating cash-flows. Free cash-flow as a percentage of operating profit has now been added as a key performance measure to our long-term incentive programmes, to ensure closer alignment with shareholder interests.

Statutory net cash inflow from operating activities was £535m (FY2020: £429m). See note 29 to the financial statements for a reconciliation of headline operating cash-flow to statutory cash-flow.

#### Debt

Net debt at 31 July 2021 was £1,018m, a decrease of £(123)m in the period. Headline EBITDA excluding restructuring costs for Total Group was £665m. Net debt to EBITDA was 1.5x (FY2020: 1.7x), 1.6x including restructuring costs (FY2020: 1.9x).

Gross debt was £1,546m (FY2020: £1,609m). There are no covenants associated with this debt. The weighted average maturity was 3.2 years, with the next maturity due in October 2022. Cash balances increased to £453m (FY2020: £386m).

An \$800m (c.£576m at the period-end exchange rate) revolving credit facility (RCF) remains undrawn and matures in November 2024. The only financial covenant relates to interest cover, under which EBITDA must be greater than or equal to 3 times net interest. Taking cash and the RCF together, total liquidity was over £1bn at the end of the period.

High cash conversion and a conservative balance sheet are the foundations of our strong financial framework, ensuring we are well positioned to deliver sustainable, long-term shareholder value.

#### Pensions

The net accounting pension surplus increased to £413m (FY2020: £372m).

Formal triennial valuations for the two main UK schemes (SIPS and TIGPS) were concluded in 2021. These showed a surplus existed for both on the Technical Provisions basis as at their respective valuation dates (31 March 2020 for SIPS and 5 April 2020 for TIGPS); and the funding on that basis for both has since improved.

Given the strength of the funding positions, cash contributions to these schemes (previously £12m per annum to each scheme) are stopping in the first quarter of FY2022, and the current expectation is that they will not recommence.

The two main UK pension schemes and the US pension plan are well positioned to withstand a volatile market environment. They are well hedged against changes in interest and inflation rates. Approximately 90% of their assets are invested in third-party annuities, government bonds, investment grade credit or cash, with no remaining equity investments. As at 31 July 2021, over 40% of the UK liabilities had been de-risked through the purchase of annuities from third party insurers.

The Group and the UK Trustees continue to work together to achieve full buy-out funding for both schemes.

Pension contributions for the year were £(30)m (FY2020: £(33)m). For FY2022, we expect total cash contributions to halve to around £(15)m (including funded US schemes, unfunded schemes and post-retirement healthcare plans).

## Dividend

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

Reflecting the Group's strong performance and financial position, the Board is recommending a final dividend of 26.0p, bringing the total dividend for the year to 37.7p, a year-on-year increase of 8% (FY2020: 35.0p). The final dividend will be paid on 19 November 2021 to shareholders on the register at close of business on 22 October 2021.

The Company offers a Dividend Reinvestment Plan (DRIP) – see our website for details. To participate in the DRIP, shareholders must submit their election notice to be received by 5 November 2021 (the Election Date). Elections received after the Election Date will apply to dividends paid after 19 November 2021. Purchases under the DRIP are made on, or as soon as practicable after, the dividend payment date and at prevailing market prices.

## Litigation

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

### 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 305,000 claims against JCI have been dismissed before trial over the last 40 years. JCI is currently a defendant in cases involving approximately 22,000 claims. Despite these large numbers of claims, since the inception of asbestos litigation against JCI it has had 149 cases and has had to pay awards amounting to approximately \$175m.

At 31 July 2021, the aggregate provision for JCI asbestos litigation, including for adverse judgements and defence costs, amounted to £212m (FY2020: £231m) 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 damages allegedly caused by its flexible gas piping products being energised by lightning strikes. It has also received a number of product liability claims relating to this product, some in the form of purported class actions. 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.

The continuing progress of claims and the pattern of settlement, together with recent market-place activity, provide sufficient evidence to recognise a liability in the accounts. At 31 July 2021, a provision of £47m (FY2020: £66m) has been made for the costs which the Group expects to incur in respect of these claims.

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

## Return on Capital Employed (ROCE)

ROCE increased +140bps to 13.2% (FY2020: 11.8%). This reflects higher profitability during the period and continued working capital discipline.

## Foreign exchange

The results of overseas operations are translated into sterling at average exchange rates. Net assets are translated at period-end rates. The Group is exposed to foreign exchange movements, mainly the US Dollar and the Euro. The principal exchange rates, expressed in terms of the value of sterling, are shown in the following table.

	31 July 2021 (12 months)	31 July 2020 (12 months)	31 July 2021	31 July 2020
USD	1.36	1.26	1.39	1.31
EUR	1.13	1.14	1.17	1.11

## Outlook

Following a resilient performance in FY2021, the Group has entered FY2022 with good order book momentum. While levels of recovery in our end markets differ and economic uncertainty and supply chain challenges continue, Group underlying revenue growth rates are expected to return, in aggregate, to around pre-COVID levels with further operational efficiency benefits and good cash generation during the year.

We are increasingly confident about Smiths' future prospects and our ability to deliver significant value for all our stakeholders.

### John Shipsey

CHIEF FINANCIAL OFFICER

# KEY PERFORMANCE INDICATORS

Our current KPIs are described below.  
 These are under review and revised  
 KPIs will be published at a capital markets  
 day in November 2021.

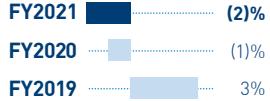
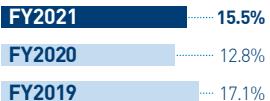
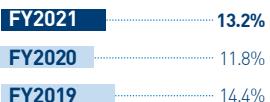
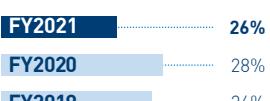
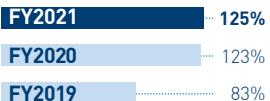
Operational and financial KPIs above the dotted lines are shown on a Continuing Operations basis.  
 Operational and financial KPIs below the dotted lines are shown on a Total Group basis as they are the key measures of the Group's cash and returns performance.

## OPERATIONAL PERFORMANCE

	Ambition
<b>Portfolio strength<sup>1</sup></b> as measured by % revenue from top three positions	<b>FY2021</b> ~90% <b>FY2020</b> 90% <b>FY2019</b> >90%
We continuously review our portfolio of businesses to target top three leadership positions in attractive markets. In FY2021, c.90% of our business continued to be well positioned.	<b>REVENUE FROM TOP THREE POSITIONS IN ATTRACTIVE MARKETS</b> <b>90%+</b>
<b>Aftermarket and services</b> as measured by Aftermarket % of sales <sup>1</sup>	<b>FY2021</b> 50% <b>FY2020</b> 49% <b>FY2019</b> 49%
Aftermarket is a core characteristic of a Smiths business. In FY2021, aftermarket revenues represented 50% of revenue, up slightly year-on-year.	<b>AFTERMARKET REVENUE</b> <b>50%+</b> as a percentage of total revenue
<b>Effective innovation</b> as measured by Vitality Index <sup>1</sup>	<b>FY2021</b> 20% <b>FY2020</b> 20% <b>FY2019</b> 13%
We are focused on measuring the effectiveness of our investment in innovation In FY2021, Vitality Index remained stable at 20%. This included revenues generated from Smiths Detection's CTIX, Flex-Tek's Flashield+™ and some of Smiths Interconnect's space-qualified products.	<b>REVENUE FROM NEW PRODUCTS</b> <b>~20%</b> as a percentage of total revenue
<b>Operational excellence</b> as measured by stock turns <sup>1</sup>	<b>FY2021</b> 3.3x <b>FY2020</b> 3.0x <b>FY2019</b> 3.4x
Stock turns measure speed and efficiency in the business. In FY2021, stock turns increased to 3.3x as we overcame operational disruptions associated with the COVID-19 pandemic that we faced in the prior year.	<b>STOCK TURNS</b> <b>6.0x</b>
<b>Employee engagement</b> as measured by employee engagement score	<b>FY2021</b> 73 <b>FY2020</b> 73 <b>FY2019</b> 73
One focus of our People Plan is colleague engagement, which we measure twice annually in a confidential survey. In FY2021, 84% of colleagues responded and we retained our healthy engagement score of 73.	<b>CREATE A NURTURING AND INCLUSIVE WORKING ENVIRONMENT</b>
<b>Safety</b> as measured by RIR	<b>FY2021</b> 0.38 <b>FY2020</b> 0.30 <b>FY2019</b> 0.41
Health and safety remains our top priority. Our key metric is recordable incident rate (RIR) per 100 colleagues. In FY2021 our RIR was 0.38, up year on year due to an acquired business, but still tracking significantly below comparable industry metrics.	<b>CREATE THE SAFEST WORKING ENVIRONMENT</b>

<sup>1</sup> Defined in note 30 to the Financial Statements.

## FINANCIAL PERFORMANCE

	Ambition
<b>Growth</b> as measured by underlying revenue growth <sup>1</sup>	 <b>FY2021</b> (2%) <b>FY2020</b> (-1%) <b>FY2019</b> 3%
Growth is a top priority for the Group and a key part of management incentives.  The Group delivered a robust full year performance and returned to growth in Q4	<b>OUTPERFORM OUR CHOSEN MARKETS</b>
<b>Performance</b> as measured by headline operating profit margin <sup>1</sup>	 <b>FY2021</b> 15.5% <b>FY2020</b> 12.8% <b>FY2019</b> 17.1%
Growth needs to be delivered with a strong margin.  In FY2021, headline operating profit margin was 15.5%, up 270bps reflecting margin improvement across all divisions.	<b>HEADLINE OPERATING PROFIT MARGIN</b>  <b>18-20%</b>
<b>Returns</b> as measured by ROCE <sup>1</sup>	 <b>FY2021</b> 13.2% <b>FY2020</b> 11.8% <b>FY2019</b> 14.4%
Measuring ROCE ensures we are focused on the efficient use of assets and capital, but can be distorted by M&A activity.  In FY2021, ROCE increased 140bps to 13.2% reflecting the higher profitability during the period and continued working capital discipline.	<b>ROCE THROUGH THE CYCLE</b>  <b>16-18%</b>
<b>Asset light</b> as measured by working capital % sales <sup>1</sup>	 <b>FY2021</b> 26% <b>FY2020</b> 28% <b>FY2019</b> 26%
Working capital measures speed and efficiency in the business from manufacturing to debt collection. Working capital translates into cash.  In FY2021, working capital represented 26% of revenue, a 200bps decrease year-on-year as we overcame operational disruptions associated with the COVID-19 pandemic that we faced in the prior year, most notably in inventory.	<b>WORKING CAPITAL AS A PERCENTAGE OF TOTAL REVENUE</b>  <b>~20%</b>
<b>Strong cash generation</b> as measured by headline cash conversion <sup>1</sup>	 <b>FY2021</b> 125% <b>FY2020</b> 123% <b>FY2019</b> 83%
Our focus on cash demonstrates our focus on efficiency as well as enabling us to fund future growth.  Strong cash generation is a key characteristic of our business. In FY2021, the Group delivered record headline operating cash conversion at 125%.	<b>HEADLINE CASH CONVERSION</b>  <b>100%+</b>
<b>Environmental sustainability</b> as measured by reduction in Greenhouse Gas (GHG) emissions <sup>2</sup>	 <b>FY2021</b> 5% <b>FY2020</b> 0.2% <b>FY2019</b> 2.7%
As a responsible business it is our obligation and duty to protect the planet. We are proactively managing reductions in the environmental impact of our operations and manufacturing processes.  In FY2021 we reduced our GHG emissions by 5%, contributing to the 60% reduction we have achieved since 2007.	<b>NET ZERO SCOPE 1 AND 2 EMISSIONS BY 2040</b>

1 Defined in note 30 to the Financial Statements.

2 Normalised to revenue.

### 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 108 where we show the impact of headline cash conversion<sup>1</sup>, organic revenue growth<sup>1</sup> and ROCE<sup>1</sup> on the FY2021 annual bonus and the LTIP for the three years ending 31 July 2021.

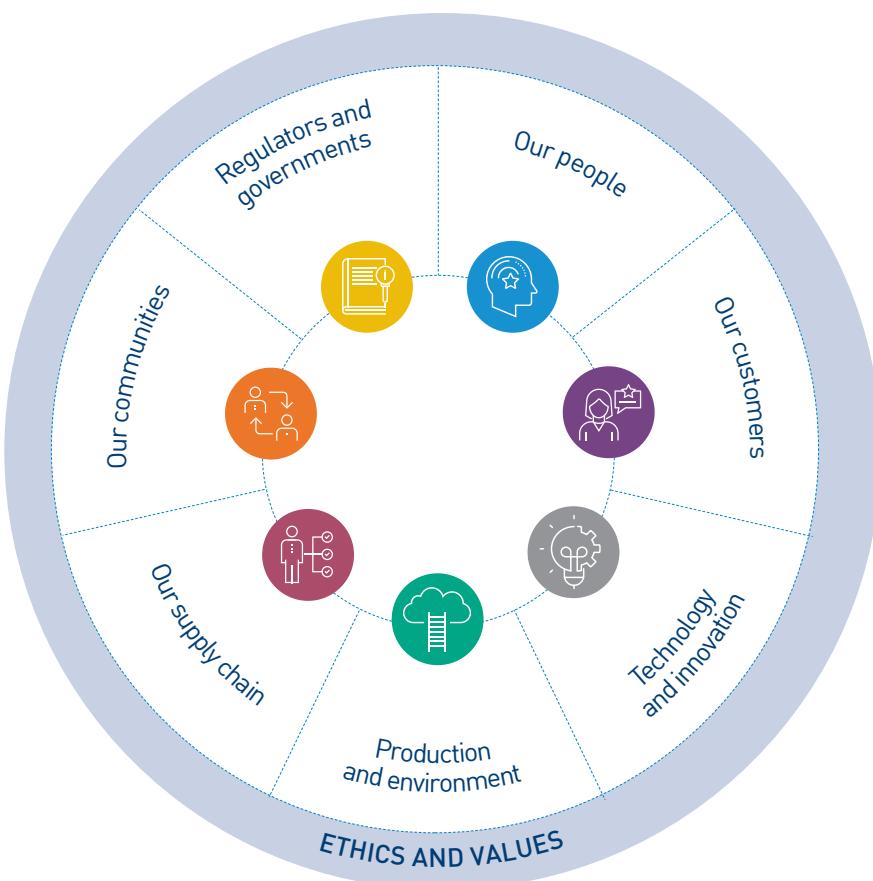
## UNDERSTANDING AND NURTURING OUR RESOURCES AND RELATIONSHIPS

We believe in doing business responsibly, the right way every day. It is energising for our people, a pre-requisite for our customers, and a source of value for everyone connected to Smiths and society at large.

### OUR CRITICAL RESOURCES AND RELATIONSHIPS

Nurturing the resources on which we depend and building strong and positive relationships are fundamental aspects of our purpose, culture and strategy. They set us apart, enabling us to create unique technologies that are improving our world and drive the long-term sustainability and resilience of Smiths.

It's the Smiths Way and it links, guides and inspires everyone across the Group.



### Reporting on sustainability matters

We report on Environment, Social and Governance (ESG)/sustainability matters in a transparent way and aim to meet all relevant external guidance when doing so. We have joined the Task Force on Climate-related Financial Disclosures (TCFD) as a supporter and provide full TCFD disclosures in this report. We are also working to adhere to the Sustainability Accounting Standards Board (SASB) framework (see 43).

### Governance and collaboration

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

During FY2021 Karin Hoeing became the Board sponsor for environmental matters.

### The Smiths Excellence System (SES)

Our efforts are underpinned by SES which is building capabilities and driving excellence and continuous improvement across each of our SES pillars: Customer, People, Technology, Programme, Production and Supply.

### External recognition

We continue to receive favourable external ratings for our ESG performance.

		Score
FTSE4Good	June 2020	Constituent
ISS	March 2021	Governance 2 Environment 3 Social 2 (Scale 1-9; 1 = leader)
CDP	2019 data	B Management – taking co-ordinated action
MSCI	November 2020	AA Leader in the sector
Dow Jones Sustainability Indexes	November 2020	36 points 68th percentile

## ESG focus areas and the United Nations (UN) Sustainable Development Goals (SDGs)

Business has a vital role to play in delivering the UN SDGs. We play our part by driving sustainability in our own business and by providing products and services that support the sustainability of our customers' businesses.

Our environmental targets are proactively aligned with goals 6, 12, 13 and 14 covering responsible production and consumption, greenhouse gas (GHG) emissions and water conservation. The further aspects of sustainability that are most relevant and material to us and to our stakeholders are described here and we are pleased to report progress on each during FY2021. The symbols shown in the square boxes are the UN's adopted icons for its 17 SDGs.

### Our customers

#### Focus areas

- Creating customer value
- Supporting customer goals
- Service and quality

#### UN SDGs



#### Key highlights in FY2021

- Service continuity through COVID-19
- Innovation to support customer environmental goals
- Steering Committee – Aftermarket Excellence

[Read more](#)

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### Our people

#### Focus areas

- Safety and well-being
- Ethical behaviour
- Employee engagement
- Skills and careers
- Diversity & inclusion

#### UN SDGs



[Read more](#)

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### Technology and innovation

#### Focus areas

- Innovation culture
- Capabilities and collaboration
- Enterprise IT

#### UN SDGs



#### Key highlights in FY2021

- 3.9% of revenue invested in R&D
- 20% Vitality Index<sup>1</sup>
- Collaboration on digital and AI development
- Continued improvement in enterprise cyber security

[Read more](#)

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### Production and environment

#### Focus areas

- Quality and efficiency
- Product governance/ sustainability
- Environmental governance
- Environmental performance

#### UN SDGs



#### Key highlights in FY2021

- 40 Model Value Streams
- Achieved FY2019-21 environmental goals
- Net Zero 2040 target and roadmap
- Climate risk and opportunities assessment

[Read more](#)



### Our supply chain

#### Focus areas

- Total value
- Relationships and resilience
- Ethical alignment

#### UN SDGs



#### Key highlights in FY2021

- Supply continuity through COVID-19
- Introduction of Transport Management System
- £32.6m procurement savings

[Read more](#)

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### Our communities

#### Focus areas

- Beneficial impact
- Employee engagement
- Ethical behaviour

#### UN SDGs



#### Key highlights in FY2021

- £2.5bn direct economic contribution
- Support for local communities through COVID-19
- New Charitable Donations Policy

[Read more](#)



### Regulators and governments

#### Focus areas

- Ethical behaviour
- Governance and compliance
- Relationships and corporate reputation

#### UN SDGs



#### Key highlights in FY2021

- New on the ground controls for distributor and agent appointments
- Trade compliance training
- Added corporate affairs representative in India

[Read more](#)

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<sup>1</sup> Defined in note 30 to the Financial Statements

# OUR PEOPLE

## OUR PEOPLE ARE VITAL TO THE SUCCESS OF SMITHS.



Our global family of dedicated and diverse colleagues deliver our business objectives with passion and an innovative and collaborative spirit, underpinned by our relentless focus on continuous improvement, excellence and safety.

We aim to attract, retain, develop, engage and inspire the very best by creating an environment for colleagues based on respect, personal growth, empowerment and a sense of belonging and purpose.

Our culture is a powerful asset. It is supported by our values which guide how we behave, influence every decision, and help make Smiths a place where people want to work, and an organisation that the outside world wants to do business with.

### Ethics

Behaving ethically and with integrity is a fundamental part of our values. Our colleagues, suppliers and other partners are required to understand and uphold our high ethical standards.

### Ethics governance

Our Code of Business Ethics provides guidance for colleagues to recognise and deal appropriately with legal and ethical issues they encounter in the course of their work. This is supplemented by a suite of policies and procedures relating to specific ethics and compliance issues. See page 82 for our key policies.

Our central Ethics and Compliance function oversees our ethics and compliance programmes, determines a common language for ethics across Smiths and focuses work on new and higher risk areas. Our Internal Audit team works in partnership with the Ethics and Compliance function to verify that procedures and responsibilities are understood and functioning correctly. Day-to-day responsibility for ethics and compliance is held by our divisional teams, and the Smiths Board and Executive Committee are engaged through regular reporting and our risk management process. We have an ethics dashboard which is used centrally to track progress and view key information.

The Smiths Business Ethics Council (BEC) has been in place for more than ten years. It comprises senior, cross-functional leaders from across Smiths and acts as an advisory panel for new policies and how best to implement them. In FY2021 we established ethics councils in China and India to broaden regional input into ethical matters. The Chairman of each council participates in the BEC. During FY2021, the BEC recommended strengthening Smiths policies and controls around charitable giving and political donations and third parties working for Smiths.

### Colleague engagement

Engaging and communicating on ethical matters is vitally important, as is trust in our procedures. Colleagues are encouraged to be vigilant and report behaviour inconsistent with our Code of Business Ethics, or our values, through their line manager, HR representative or the Legal team, or through our confidential 'Speak Out' reporting hotline.

This is emphasised in regular communications, with further efforts planned in FY2022.

Our ethics training operates in two tiers – online modules and group training activities covering specific subjects. Our online ethics training modules are available in all our core languages and approximately 42,000 courses were taken by colleagues during FY2021. Additionally, we run regional ethics workshops which are an opportunity to remind middle and senior leaders from across Smiths of the key elements of the ethics and compliance programme and to discuss ethics and compliance challenges specific to their markets and geographies and how to navigate them. During FY2021 we ran workshops for teams in China, India, Australia and New Zealand.

To effectively target our activities, we operate a global Ethics Pulse survey. This delivers rich data on perceptions of colleagues from across Smiths (more than 6,000 in FY2021) on ethical matters, for example 'Do you believe it is safe at Smiths to Speak Out?' and 'Do you know how to access the Speak Out hotline?'. This data is reported to the Audit & Risk Committee along with data from the 'Speak Out' hotline. We have a range of questions on ethical matters in our My Say employee survey and an Ethics Ambassador network which comprises grassroots colleagues from across Smiths. Our Ambassadors provide feedback on plans and assist us in bringing ethics to life and reaching the widest possible audience.

## Health, safety, security

Keeping our people and operations safe is in the Smiths DNA. It is our number one priority and something we are passionate about. We have a strong and robust safety culture and strive for a zero-harm workplace, with safety considerations fully integrated into all our activities.

During FY2021 Smiths recorded zero work-related employee fatalities or contractor fatalities. Two contractor recordable incidents were reported. Overall safety performance has marginally declined from the prior year, but remains in line with recent years and remains significantly better than industry benchmarks.

### COVID-19

Safety precautions relating to the COVID-19 pandemic continue to be in place across our operations. We pay tribute to the truly fantastic contribution our colleagues have made in keeping themselves and others safe while continuing to operate and serve our customers and the vital industries we support together.

We are continuing to support colleagues practically during the pandemic with a range of measures including:

- An absolute focus on COVID-safe work environments and events
- Pursuing a consistent approach to core employee benefits including life cover, critical illness, disability and medical insurance
- Implementing a global Employee Assistance Programme (EAP)
- Partnering with ISOS (International SOS) medical staff on safety guidance
- Regular communication and bespoke resource sites on our intranet and our Smiths Now colleague app
- Wellness materials delivered through our global THRIVE well-being programme

Through the pandemic, data suggests that colleague COVID-19 cases have tracked local community cases and thorough contract tracing demonstrated very few instances of transmission at work.

It is a matter of great sadness for the whole of the Smiths team that seventeen colleagues from across Smiths tragically passed away from COVID-19. Our thoughts remain with their families, friends and colleagues.

### Safety governance

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

Smiths colleagues, at all levels, have personal responsibility to take due care of their own safety and to follow our safety rules. They also have a responsibility to warn others of potential hazards and unsafe behaviours. Fulfilling these obligations is a condition of employment. We have a [safety@smiths](mailto:safety@smiths) email address for colleagues to submit questions or raise concerns and an online safety hub.

Smiths has an extensive set of Health and Safety policies and procedures that all operations are required to follow. Performance against these policies is overseen by an audit process that also covers all Smiths production facilities including ISO HSE management systems. Smiths did not receive any significant<sup>1</sup> safety or health fines or penalties in FY2021 from any regulatory agencies.

<sup>1</sup> Over £10,000.

## Safety programmes

Advancing safety and security is an ongoing investment for Smiths as we implement new programmes and training activities to continuously improve performance and reduce risk. Our HSE teams also work regularly with HR colleagues to support health and well-being initiatives which contribute to a safer work environment.

During FY2021, our peer-to-peer observation programme which affirms positive behaviours and addresses at-risk behaviours was successfully rolled out and we upgraded machine guarding on 1,600 pieces of equipment. Hand safety is a key focus at Smiths as we have millions of exposures a day. In FY2022 we will launch new online HSE compliance training which will be used across Smiths and can be adjusted for business needs and local regulations, as well as acting as a platform for specific safety campaign areas.



## LOOKING AFTER OUR COLLEAGUES IN INDIA

Supporting colleagues through the COVID-19 pandemic has been one of our biggest priorities.

In India, we provided funding for Smiths colleagues to take up COVID-19 vaccinations and made it easier to secure vaccination appointments through a more efficient on-call system.

We also launched Practo, an employee medical services app which enables colleagues in India to book up to eight

medical consultations a month, either for themselves or for dependent family members. Consultations were available virtually and without significant delay.

Supporting the national #PehenoSahi – 'wear a mask' campaign became an integral part of local employee communications, alongside the deployment of a number of webinars and an awareness campaign for the Employee Assistance Programme.

## RESOURCES AND RELATIONSHIPS CONTINUED

### Safety measurement and performance

We monitor our Recordable Incident Rate (RIR) – where incidents require medical attention beyond first aid – and Lost Time Incident Rate (LTIR) – where a colleague is unable to work following an incident – per 100 colleagues, per year across Smiths. In FY2021 we achieved an RIR of 0.38 and an LTIR of 0.16. According to Company policy, Smiths reports all injuries globally in accordance with US OSHA guidance.

Our FY2021 RIR increased year-on-year, primarily driven by an acquired business. Our team has embedded our policies and procedures and is working hard to align the local safety culture with our Smiths culture. Our RIR continues to track significantly below comparable industry metrics, as published by the US Bureau of Labor Statistics.

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

### Security

With locations all over the world, and colleagues regularly travelling and/or working remotely, the security of our sites and teams is an important issue. We have physical security plans in place at all locations and risk assessments are undertaken regularly, as are reviews of our business continuity plans. Each site also has a designated site security officer to implement required site security measures.

We closely monitor colleague trips to high and extreme risk locations, with all travel pre-approved per policy, although travel has been significantly curtailed during the COVID-19 pandemic for safety reasons. The ISOS (International SOS) app, free of charge for all colleagues, allows the broad location of our people to be tracked when travelling or working remotely, with 'take cover' and 'check in' alerts issued in the event of local danger. Colleagues can also use the app to access medical advice appropriate to their location and reach Smiths in an emergency.

### RECORDABLE INCIDENT RATE Per 100 colleagues

# 0.38

FY2020: 0.30

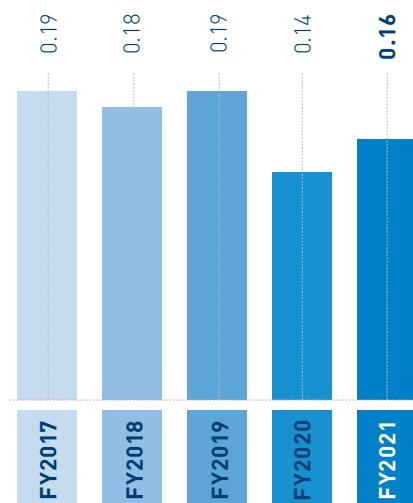


### LOST TIME INCIDENT RATE

Per 100 colleagues

# 0.16

FY2020: 0.14



**BIOFLASH HIGH SPEED PATHOGEN TESTING TECHNOLOGY PROMOTES SAFE ENVIRONMENTS BY DETECTING THE PRESENCE OF AIRBORNE BIOTHREATS, INCLUDING SARS-COV-2.**

### Well-being

Promoting colleague well-being inside and outside of work has been an important focus for Smiths in recent years.

Through our global THRIVE well-being programme we have significantly increased resources available to colleagues, while helping to create an environment where people feel confident talking about matters such as mental health. Our *Reflect, Refresh and Reset* and *How to Build a Healthy Brain* webinars supporting mental well-being reached over 1,500 colleagues. Our SES leaders partnered with THRIVE to deliver three well-being videos focusing on the impact personal energy has on our social connections, decision-making and our day-to-day performance.

For practical assistance, all Smiths colleagues now have access to an Employee Assistance Programme (EAP) which was expanded from six to all markets in FY2021 (see page 31).



### Engagement

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

### My Say Survey

Using our My Say survey, we have been tracking engagement since 2017. Results from the biannual survey drive central programme planning and are provided to managers who are empowered to create action plans for local improvements. Our latest survey conducted in May 2021 had an 84% response rate and we were delighted to see improvement across several key measures.

Our overall engagement measure was stable at 73 (October 2019: 73), despite the challenges of the pandemic, just two points away from the benchmark of 75 provided by the external third party which manages the survey process for us.

## MAY 2021 ENGAGEMENT MEASURE

73

FY2020: 73

### I FEEL A SENSE OF BELONGING AT SMITHS

69

FY2020: 70

### I FEEL COMFORTABLE BEING MYSELF AT WORK

75

FY2020: 75

### OUR CUSTOMERS ARE CENTRAL TO EVERYTHING WE DO

76

FY2020: 77

### SAFETY IS A TOP PRIORITY HERE

84

FY2020: 85

### PEOPLE I WORK WITH BEHAVE ETHICALLY

75

FY2020: 74

#### Communication

Our global communications activities support our strategy and engagement plans, and aim to promote open communication between our colleagues and our leadership teams, and engage colleagues in our various campaigns. Key materials are translated into our ten core languages.

Our Smiths Signal fortnightly e-newsletter shares company news and the Smiths Now app and web portal is an innovative platform for colleagues to get news, and share their own stories and photos via the Social Wall which is always active with grassroots content from colleagues. The majority of our functions and divisions hold regular town hall meetings and we have online hubs holding resources for areas including our SES pillars, safety, COVID-19 and THRIVE.

#### Events and campaigns that matter

We understand that some areas – for example environmental responsibility – really matter to our colleagues. This year, building on the success of the THRIVE well-being programme, we have launched NURTURE, a sustainability platform from which we share learning resources, updates on our journey, campaigns to promote Smiths environmental credentials, our new targets and goals, and harness colleague efforts to deliver them.

Our Smiths Day global celebration of Smiths culture took place online due to COVID-19 in June and was led by our CEO, Paul Keel and HR Director, Sheena Mackay. COVID-secure celebrations took place at many of our sites.

Our annual Smiths Excellence Awards recognise achievement across our six SES pillars; outstanding contributions to Health, Safety and Environment, to our communities, and to innovation; and include our highest honour, the Smiths Cup.

#### Reward and recognition

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

During FY2021 we made cross-divisional alignments to core benefits in markets where possible. From FY2022 we are planning to continue this progress on a regional basis. Our global EAP has been an additional benefit for many of our colleagues in FY2021.

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

We have been an accredited Living Wage employer in the UK since 2018.

We undertook a full Remuneration Policy review in FY2021, and the Directors' Remuneration Policy will be submitted for shareholder approval at the 2021 AGM.



[READ MORE](#)

NURTURE

PROMOTING ENGINEERING AS A CAREER

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### EXPANSION OF THE SMITHS EMPLOYEE ASSISTANCE PROGRAMME

At the start of the COVID-19 pandemic, our Employee Assistance Programme (EAP) was in place across six areas. We recognised very quickly the profound impact of the pandemic on our people and embarked on the rapid expansion and implementation of the EAP to all areas of the business. Every Smiths colleague around the world now has access to the programme.

Available via email or phone 24 hours a day, 365 days per year, the EAP offers colleagues and their immediate family a free and confidential advice service, through which they can access professional counselling and support for a wide range of issues including relationship issues, childcare support, financial well-being, stress and anxiety, and family issues.

### Talent, skills, career

We continue to build a learning organisation, empowering colleagues to build their skills and grow their careers and enhance the capabilities of Smiths.

In FY2021, the SES Academy and Learning@Smiths were combined for a simplified user experience. The SES Academy portal provides access to toolkits and key information around learning opportunities that can be accessed by all colleagues. We also launched new Performance Management Guidelines to support our colleagues in understanding the role their individual contribution has on business performance. Our Smiths Way Values are embedded into the performance management framework to underline the importance of behaviours at Smiths. Training was delivered across each division to build greater understanding of the process and best practice.

COVID-19 has created many challenges for delivering face-to-face training and resulted in difficult decisions to pause programmes such as our Accelerate leadership programme. We have focused instead on supporting colleagues with just-in-time training and resources for relevant topics such as leading and managing through the pandemic and supporting colleague well-being. Our new Spotlight initiative is designed to facilitate deeper understanding of our top talent. This review of our top 100 leaders has enabled a broader understanding of their competencies, strengths and development areas through a lens of current organisational need, but also with a view to supporting future business strategy and talent pipelines.

During FY2021 we continued to hire interns and graduates on to our structured development programmes in APAC, Europe and the US.

Our colleagues have visibility of career opportunities across Smiths through our Careers@Smiths portal, and our ongoing job architecture project for functional and technical roles across the Group will further support career planning and learning needs.

### SES Academy belted programme

Our bespoke Lean Six Sigma belted programme continues to deliver accelerated and tangible change across our operations and functions. The programme combines the best of traditional Lean Six Sigma skills with additional content, for example machine learning, that will drive added value for Smiths. The courses also enable colleagues from across our business worldwide with shared specialisms to meet, collaborate and make everlasting connections.

We currently have more than 750 colleagues with executive yellow, yellow, green or black belt qualifications and are on target for 1,000 qualifications by the end of FY2022. We will also be introducing a master black belt qualification.

As at the end of July, we had a total of 486 continuous improvement projects on record, of which 238 projects are currently active and over 250 projects have been delivered. Substantial return-on-investment has been realised from inception to date in terms of cost savings as well as cost avoidance impact. Our application projects have driven excellence worldwide including safety, people, quality, cost and delivery throughout the business including focus areas of customer, internal and supply chain.

The wider specialist SES Academy offerings include design thinking, artificial intelligence (AI) and accredited project management and procurement and supply chain courses.

### Diversity, equity, inclusion

Our team of colleagues is richly diverse, representing dozens of nations, speaking dozens of languages, and embodying many different perspectives. We embrace difference and promote equity regardless of background. This supports understanding of our customers, our markets and our territories, accelerates new thinking and ideas, and reinforces a sense of belonging for colleagues.

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

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

We are working on increasing tracking of protected characteristics data in our workforce, in compliance with local laws. PwC's respected 'blind spots' unconscious bias training is mandatory for all colleagues with a Smiths or a divisional email address worldwide.

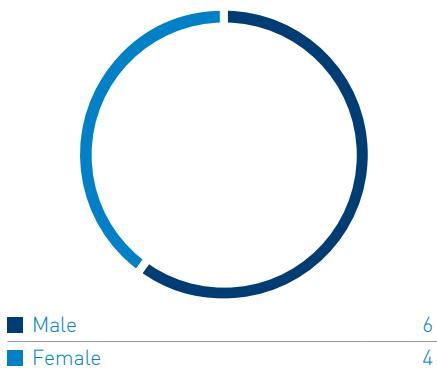
We are particularly focused on being an employer of choice for women, actively promoting International Women's Day and International Women in Engineering Day. During FY2021 we launched Restart@Smiths which encourages career breakers to return to their careers.

We have a number of colleague resource and affinity groups including women's networks and an LGBTQ+ employee network, which was formed during FY2021 to bring together LGBTQ+ colleagues and their allies from across Smiths. The LGBTQ+ network helps define and support delivery of LGBTQ+ and D&I activities to improve awareness and foster inclusion. We are also engaged with Stonewall, a leading international charity which advises institutions on building a fully inclusive workplace.

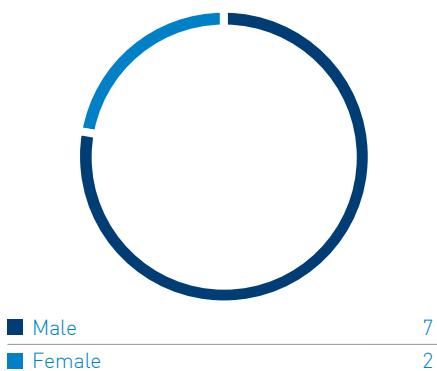
Colleagues are encouraged to use the Smiths Now Social Wall to share local and affinity group celebrations with everyone at Smiths.

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

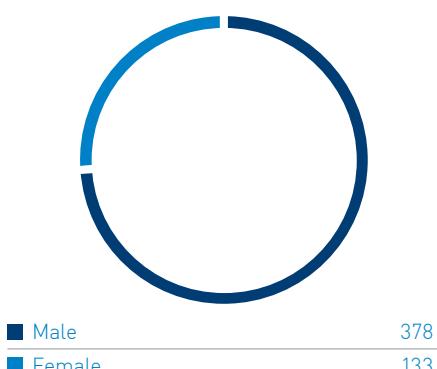
## GENDER DIVERSITY IN THE GROUP BOARD OF DIRECTORS<sup>1</sup>



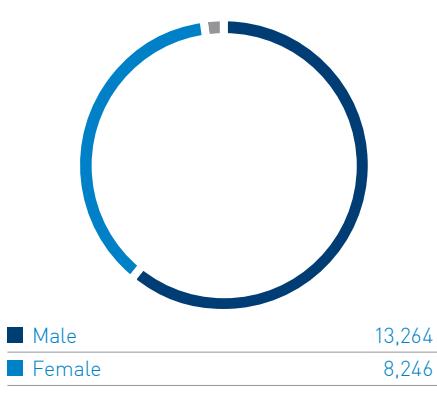
## EXECUTIVE COMMITTEE<sup>1</sup>



## SENIOR MANAGERS<sup>2</sup>



## COLLEAGUES (TOTAL)<sup>3</sup>



# OUR CUSTOMERS

THE VOICE OF THE CUSTOMER  
IS AN INNATE PART OF EVERYTHING  
WE DO AT SMITHS.



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

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

### Response to COVID-19

Many of our customers are in critical industries and customers have been at the centre of our considerations during the COVID-19 pandemic. Managing our operations and our supply chain to ensure continuity of supply has been a key principle and we have brought together skilled workstream groups from across Smiths to enable us to fulfil our obligations and meet the high standards customers have come to expect from Smiths.

Since the start of the pandemic, we have managed our operational response through our Operations and Supply Nerve Centre (OSNC). Despite continuing waves of the pandemic across the world, over 90% of our manufacturing sites remained in production throughout FY2021. Maintaining continuity of service in our aftermarket activities has also been a vital part of our response and we have developed a range of new ways of working to enable us to continue to meet customer needs.

### A responsible business

Our customers expect Smiths to operate responsibly. They have a growing expectation of supplier transparency on ethical matters, as well as ongoing and strict compliance with local and international law and an appropriate approach to cyber security and the protection of information. We encourage customers to contact us should they have any concerns at all on these matters. Customers may also use our confidential 'Speak Out' reporting line.

Customers also look to Smiths to help them reach their own environmental goals through more sustainable products and products and services targeted at climate and other environmental needs. We have many products that play in this area, for example John Crane's dry gas seals and dynamic lift seals and the more energy efficient HI-SCAN 6040 CTiX cabin baggage scanner from Smiths Detection. Working with customers to create next generation technology is a fundamental part of Smiths purpose.

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<sup>1</sup> Paul Keel and John Shipsey are included in both Board of Directors and the Executive Committee.

<sup>2</sup> Senior managers are defined as colleagues who are grade 15 and above plus Directors of subsidiary companies, in line with the definition in the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013. The Board of Directors and Executive Committee are not included in these numbers.

<sup>3</sup> The Executive Committee are included in these numbers.

## Creating customer value

We have many different types of relationships with our customers – from fully integrated partnerships where we co-develop new products and services, and long-term sales and aftermarket contracts, to transactional and built to order arrangements.

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

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

Our SES customer pillar helps our divisions to apply best practices, develop skills and capabilities, and deliver continuous improvement to enhance the overall customer experience. Our Customer Pillar Steering Group unites senior customer leaders from across Smiths to drive improvement opportunities. We have identified the following focus areas for FY2022:

- Developing the customer value proposition across our products and services, to improve customer understanding and engagement
- Deploying best practice frameworks and guidelines for key customer processes, to support continuous improvement activities
- Leveraging our Customer Relationship Management (CRM) capabilities, by exploiting existing functionality and improving our CRM systems landscape

## ON TIME IN FULL (OTIF)

**73%**

FY2020: 86%

## Innovation and product lifecycle/stewardship

We design new products and services by thinking holistically from customer/societal need and problem definition, through product conception and product introduction, to support in service, to end of life. We engage and partner with many customers early in the product lifecycle to identify and leverage opportunities for collaboration and bespoke development to meet specific requirements.

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

## Voice of the customer

We bring the voice of the customer into our business in many different ways, with the aim of using every touchpoint as an opportunity to deepen knowledge.

We use formal feedback activities such as surveys, quarterly business reviews and senior team meetings with key customers, and defined processes for managing and responding to information collected from customer scorecards. We also integrate informal feedback from the conversations our operational and our field service teams are having with our customers every day.

## Service and quality

We aim to deliver a timely and high-quality response to customers interacting with Smiths. We use Key Account Management (KAM) structures across our business. These bring together our operational and functional teams on key accounts to drive ownership of the customer relationship deeper into the business and manage accounts holistically.

We are continuing to leverage our Customer Relationship Management (CRM) capabilities through leading CRM tools and associated training.

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

We measure customer delivery (OTIF) to help us understand and actively manage customer service levels across Smiths. During FY2021, our customer delivery performance fell to 73%. This was driven primarily by disruptions to our supply chains related to the COVID-19 pandemic, resulting in extended supply lead times for raw materials and bought-in parts. Supply disruptions, together with frequent constraints in global logistics capacity, adversely affected our customer lead times. We continue to work with our suppliers to minimise such disruptions and constraints wherever possible.

## Aftermarket excellence

Aftermarket services are a core characteristic of Smiths businesses and represent almost half of Smiths revenue. As well as being a driver of revenue, our aftermarket relationships generate competitive advantage for our divisions by enabling us to engage more deeply and better understand customer needs and build relationships over longer periods of time.

During FY2021, we established a Steering Committee to set a framework for Aftermarket Solutions Excellence at Smiths. The framework comprises the following target areas:

- Customer focus and quality
- Efficiency through the deployment of lean methodology
- Driving capabilities through skills, processes and enabling systems
- Integrating aftermarket solution opportunities at every stage of the product lifecycle for sustainable and profitable growth

Metrics to measure progress have been agreed and we will begin tracking these at Group-level from FY2022.

**OPTICAL  
TECHNOLOGY  
CONNECTING  
OUR WORLD**

Read more

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# TECHNOLOGY AND INNOVATION

WE ARE A WORLD LEADER IN ADVANCED INDUSTRIAL TECHNOLOGY.



Technology and innovation are a fundamental part of our heritage and culture and are driving the future of Smiths.

Our passion and capability for solving problems and responding to evolving customer needs across the world, including the key challenge of delivering a sustainable future, is creating immediate and long-term value for the Group and our customers.

In pursuit of excellence we think differently, work smarter and embrace technology and innovation across the organisation. This includes driving continuous improvement in the way we work and investing behind research into ambitious new projects that will enable our customers to operate, and us all to live, more sustainably and safely in the future.

## Innovation framework

Our Group-wide innovation framework gives us a disciplined approach to the development of new products and services and underpins a culture that supports our ambition and our strategy, from horizon scanning, understanding megatrends and idea generation through to new product introduction (NPI). The framework helps us aim for a balanced investment profile between core, next generation, accelerator and transformational product and service development.

Our Vitality Index is a Group KPI and measures the percentage of total revenue derived from new products.

Each of our divisions establishes a Vitality Index target and our stage-gate NPI process is tailored for each market and product. This helps to ensure that all parts of the value chain are considered so that we are commercially effective and deliver value for customers.

Increasing demand for sustainability through design is leading to a greater focus on raw materials, durability, supply chain, circularity, repairability and end-of-life outcomes. We currently have a new product development Design for Sustainability pilot running at Smiths Detection to inform how we can fully incorporate this into our NPI process. Our FY2021-24 goals include a requirement for each division to incorporate Design for Sustainability Assessments into all new product development projects by the end of FY2022.

## INVESTMENT IN R&D

Continuing Operations

**3.9%** R&D cash costs as a % of sales<sup>1</sup>

FY2020: 4.7%

## VITALITY INDEX<sup>1</sup>

**20%**

FY2020: 20%

<sup>1</sup> Defined in note 30 to the Financial Statements.

## Driving capabilities and collaboration

Driving our innovation capability and collaborating across Smiths is vitally important. We undertake work on megatrends and long-range targeting and forecasting to help us identify opportunities in line with the Smiths purpose and resource them within individual divisions, cross-division or Group-wide, as appropriate.

## Smiths Digital Forge

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

The Forge is predominantly focused on developing interface solutions that digitise products by connecting them to the internet/cloud and enabling the flow of data and relevant analytics with a high degree of cyber security. The Forge is also able to support continuous improvement in processes in our divisions with capabilities in automation, robotics and the use of Artificial Intelligence (AI).

John Crane Sense™ condition-based seal monitoring technology is connected by a digital interface developed by the Forge. Products being developed under the methane detection programme are also driven by technology developed by the Forge, which will enable methane sensors to be deployed anywhere, without the need for a power source or cellular communication link.

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## ENERGY EFFICIENT PRODUCTS

Smiths Detection's HI-SCAN 6040 CTiX cabin baggage scanner has been designed with energy efficiency in mind, reducing customers' energy footprint and overall cost of ownership.

At 2.8 kVA the system has the lowest energy use compared to similar products on the market. It also meets the ECAC EDS CB C3 checkpoint security standard which enables passengers to leave liquids in their bags, helping reduce the need for single use plastic bags and other small plastic containers.

### Building skills

Our innovation culture is also supported through the SES Academy. Our Design Thinking programme grows cognitive skills and creative thinking to bring new products and services to life and our new, bespoke, AI course gives our leaders a grounding in AI and its potential uses to support strategy and product development and our pursuit of excellence.

### Manufacturing technology

Our SES production pillar provides a range of resources that are supporting the implementation of new manufacturing technology across the Group. This includes robotics and automation; additive manufacture; visual and connected factory, remote working technology and AI. Many of these technologies are being deployed through Model Value Stream projects. In FY2022 we will be launching additional best practice guidelines for technology deployment and interactive learning resources.

SUPPORTING  
RESEARCH INTO  
EFFICIENT JET  
ENGINE DESIGN

Read more

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During FY2021, BIS has enabled key capability projects across the divisions and functions, including an enhanced after sales Service Management System at Smiths Detection; supporting additive manufacturing at John Crane; and continuing to support and protect colleagues through remote working during the COVID-19 pandemic.

### HR data and systems

With a workforce of more than 21,000 colleagues in more than 50 countries HR data and systems play an important role in delivering our people strategy. During FY2021 our People Operations and BIS teams have been working on a number of projects that are aligning our HR processes and creating richer data in a usable format – for example diversity information – to guide decision-making.

The GP3 project (Global Policies, Process and Procedures) will bring together all of our legal and policy documents and make them available to colleagues in a range of languages, and our new onboarding tool will interact with joining employees before they start, providing a Smiths cultural induction and job specific information. We are also enhancing our employee self-service portal (MyHR) through migration to an advanced cloud system which will enable a better colleague experience.

### Enterprise IT

Smiths has a resilient IT infrastructure environment with advanced internal capabilities leveraging core external partners to deliver services, systems and applications that support business requirements and enhance productivity.

The Smiths Business Information Services (BIS) team delivers enterprise and business IT transformation and business-as-usual IT services in partnership with our functions and divisions, driving innovation and efficiency and leveraging scale.

The Group-wide IT function enables Smiths to manage in-house the delivery of significant programmes, establishing differentiating competences such as enhanced data and analytics capabilities that are being successfully utilised by the divisions to drive business insight and, in turn, help identify efficiency and growth opportunities.

**SMITHS INTERCONNECT IS PARTICIPATING IN THE DEVELOPMENT OF THE GLOBAL OBSERVING SATELLITE FOR GREENHOUSE GASES AND WATER CYCLE PROGRAM (GOSAT-GW) WHICH WILL ADVANCE SCIENTIFIC AND TECHNOLOGICAL METHODS OF PREDICTING CLIMATE CHANGE AND PREVENTING ASSOCIATED NATURAL DISASTERS.**

## Enterprise and product cyber security

Cyber security is a critical focus area for Smiths. Cyber security is managed as a critical capability from a regulatory, compliance and business continuity perspective to maintain the confidentiality, integrity and availability of our IT systems and the data held on them.

We proactively deploy a globally unified approach to the security of our IT environment, managed by BIS and overseen by the Executive Committee and Board, and supported by global partnerships with external providers such as AT&T, Microsoft, and IBM. Through a Group-wide governance model, we ensure oversight and process alignment on cyber security across the divisions and Group, covering both enterprise and product security.

Enterprise cyber security efforts during FY2021 focused on continuous improvement across all aspects of delivered capabilities, improved processes and controls, and improvements to systems used for privileged access and for the protection of Smiths data. The continued evolution of compliance and regulatory requirements remains a focus across the Group with preparation for the US Cyber security Maturity Model Certification (CMMC) which will replace NIST 800-171 and the European Union Security of Network and Information Systems (NIS2) directive. During FY2021 Smiths gained or renewed ISO/IEC 27001 information security management and Cyber Essentials certification for select operations.

Smiths products are used in many mission-critical applications in highly regulated industries, thus requiring continued focus on ensuring that our products meet the highest standards of cyber security. Meeting product cyber security regulations is the responsibility of our divisions, with governance and risk management residing with the Smiths central team, as described above.

[READ MORE](#)

HOW WE PROTECT OUR BUSINESS  
FROM CYBER ATTACKS

# PRODUCTION AND ENVIRONMENT

## AS A RESPONSIBLE BUSINESS IT IS OUR OBLIGATION AND DUTY TO PROTECT THE PLANET



### We are doing this by:

- Helping our customers meet their environmental goals by putting greater focus on the intrinsic sustainability of Smiths products including considering raw materials, supply chain, durability, repairability, circularity and end-of-life outcomes
- Developing products and services targeted at climate risk, energy transition and other environmental needs
- Proactively managing reductions in the environmental impact of our operations and manufacturing processes by preventing pollution, driving down our use of natural resources, reducing carbon emissions and minimising waste

These endeavours are embedded in our divisional strategies and in our Group and divisional environmental targets which include reaching Net Zero from operations by 2040.

We support transparency in environmental matters so that our stakeholders understand our priorities and our progress. We also recognise the importance of environmental governance and risk management at the highest levels of the organisation and the role our colleagues can play in helping us achieve our goals.

### Production approach

The effectiveness of our production processes is a key contributor to the ongoing success and sustainability of Smiths.

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

We aim to have best-in-class manufacturing processes across Smiths that optimise product and service flow, quality and safety, and improve lead times, cost and working capital requirements. This includes focusing on optimising our production footprint and assets, working closely with our supply chains, using technology to drive speed and flexibility, and reducing our use of environmental resources. Our continuous improvement programmes help us to drive capabilities, including the skills of our people, so that we maintain leadership and competitiveness, and deliver the Smiths strategy.

We use two key high-level metrics to measure the success of our production approach – working capital as a percentage of sales and stock turns. Both are Group KPIs.

## Product quality and safety

Product quality and safety are vital requirements for our customers. Product quality is a principal risk and, during FY2021, the Audit & Risk Committee reviewed product quality deep dives for John Crane, Smiths Detection, Flex-Tek and Smiths Interconnect.

We use robust quality procedures across Smiths to minimise product safety and quality issues, and we monitor performance through quality control processes and systems. During FY2021, we began deploying an electronic Quality Management System (eQMS) at John Crane to help drive continuous improvement in quality and meet customer and regulatory requirements more efficiently and effectively. The system enables a more coordinated and proactive approach to the reporting, management and resolution of key quality occurrences including product or service quality incidents and supplier quality escapes and corrective actions. We will fully evaluate the system during FY2022 before developing a future eQMS strategy.

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

## Continuous improvement (CI)

Our SES production pillar supports innovation and CI in our manufacturing processes. It provides standards, content, training and tools based on acknowledged best practice focused on lean methodology.

Our cross-division Production Steering Group meets regularly to agree priorities and ensure that efforts are aligned with business needs. Work is focused on developing production excellence in three key areas – leveraging best practices, developing capabilities and embedding CI everywhere.

## WORKING CAPITAL % OF SALES<sup>1</sup>

Working capital measures speed and efficiency in the business from manufacturing to debt collection. Working capital translates into cash.

**26%**

FY2020: 28%

## STOCK TURNS<sup>1</sup>

Stock turns measure speed and efficiency in the business.

**3.3x**

FY2020: 3.0x

1 Defined in note 30 to the Financial Statements.

## COST OF POOR QUALITY

COPQ includes the cost of waste, corrective work, warranty claims, returns and penalties, measured as a percentage of revenue.

**1.5%**

FY2020: 1.4%

## DEFECTS PER MILLION PARTS SHIPPED

**655**

FY2020\*: 1,142

\* FY2020 DPPM for Smiths Group was adversely impacted by three independent, non-recurring quality events on Smiths Medical high volume consumable parts.



We are continuing to transform our manufacturing sites through the implementation of Model Value Stream (MVS) projects co-ordinated by the Production Steering Group. We now have 40 MVSs, 29 completed and 11 in progress, across Smiths empowering colleagues and enabling us to test the effectiveness of new technologies and lean manufacturing techniques in a live environment before they are deployed elsewhere. We will be further embedding environmental matters into the MVS framework from FY2022.

## Living lean and SESAME

The Smiths lean toolbox and our SESAME diagnostic tool are deployed throughout Smiths to support CI across SES pillars. Key tools from the toolbox are highlighted through our living lean initiative, which features guidelines, training modules and templates, all in one online portal, supported by an active communications programme. FY2021 also saw increased focus on Business Process Excellence tools, techniques and training.

In FY2022 we will refresh our lean resources to provide a range of practical CI process roadmaps aligned with DMAIC (define, measure, analyse, improve, control) principles and add external benchmarking data to SESAME.

## Environment

### Governance and direction

Environmental governance flows from the Smiths Board to every Smiths site. The Board and Executive Committee oversee planning and target setting and monitor environmental performance and environmental matters via a report that is prepared for every Board and Executive Committee meeting. Karin Hoeing, Non-executive Director, is the Board sponsor for environment.

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

Our divisional strategies are aligned with our purpose and position the Group to shape and respond to evolving global needs, including the key challenge of delivering a sustainable future.

**READ MORE**  
ENVIRONMENTAL GOALS

**READ MORE**  
MANUFACTURING TECHNOLOGY

This represents a significant opportunity for Smiths, through products that help our customers meet their own environmental goals, and through the development of new products and services, for example, John Crane's methane programme, specifically aimed at climate risk and other environmental needs.

We are also focused on making Smiths products more sustainable by design through attention to raw materials, supply chain, durability, repairability, circularity and end-of-life outcomes.

The Smiths Executive Environmental Roundtable (EER) was established in FY2019 to accelerate our environmental agenda. During FY2021 we added an Environment Employee Advisory Committee and a Communication Committee to broaden input from our divisions and front line employees and embed a culture of environmental awareness and action right across the Group. Our globally aligned Green Teams initiative launched at 25 key sites in August 2021.

### Environmental management

We have in place a comprehensive portfolio of environmental policies which include biodiversity protection, emission reductions and product compliance. Performance against these policies is overseen by our internal audit processes and we maintain an external environmental compliance audit programme of approximately 15 sites every year. All of our manufacturing and distribution facilities that operate with more than 50 full-time colleagues are covered by ISO 14001 certifications. We had no environmental compliance penalties or fines in FY2021.

## COMMITTEES AND INFORMATION FLOW

### BOARD

Oversees planning and target setting; risk management; and monitors performance.  
Board environment sponsor is Karin Hoeing.



### GLOBAL HEAD HSE



### EXECUTIVE COMMITTEE

Sets direction, oversees planning and target setting; risk management; and monitors performance.



### EXECUTIVE ENVIRONMENT ROUNDTABLE (EER)

Informs, lobbies and provides guidance on environmental issues such as targets, initiatives and programmes.



### ENVIRONMENT ADVISORY COMMITTEE

Advises EER on matters of concern and provides feedback on focus areas, performance results, and future plans.

### COMMUNICATION COMMITTEE

Works with the HSE Technical Committee to cover local stories, circulate campaigns and embed culture change.

### HSE TECHNICAL COMMITTEE

Collaborative committee comprising representatives from across Smiths divisions



### GREEN TEAMS

Lead site engagement on environmental matters and environmental projects.

### PLANT MANAGERS



### SITE SAFETY COMMITTEE



## EFFICIENCY, SAFETY AND ENVIRONMENTAL SUSTAINABILITY IN LARGE-SCALE INDUSTRIAL PROCESSES

John Crane sealing solutions are designed to keep process fluids within systems and out of the environment.

The dry gas seal, invented by John Crane, has prevented millions of tonnes of greenhouse gases from leaking into the atmosphere since its introduction and the Aura 180 dry gas seal was developed to retrofit wet seals in existing assets, enabling them to benefit from dry gas seal technology.

John Crane's new separation seals result in lower nitrogen consumption and seal gas recovery systems take fugitive compressor gas out of the flare and re-inject it for productive use.

In traditionally water-intensive industries such as pulp & paper and mining, John Crane dynamic lift seals save an average of one million gallons of water per seal per year. Additionally, diamond face seals are designed to reduce friction, lowering energy use and yielding similar water savings and extending life.

## RESOURCES AND RELATIONSHIPS CONTINUED

We closely monitor energy and water use, waste generation, recycling and GHG emissions to identify tailored plans for improvement at site and divisional level and collaborate on action plans and best practice across the Group. From FY2022 we will begin collecting and reviewing data on product packaging.

Smiths has had environmental improvement targets since FY2007. In that time we have reduced energy use by 38% and reduced GHG emissions by 60%. We have also reduced total water use by 53% and non-recyclable waste by 63%. We have achieved this by engaging our people, changing our processes and investing in low-carbon and energy efficient technologies, including significantly increasing our use of renewable electricity.

All divisions participate in a regular forum to share best practices and ensure compliance with global restricted substance regulations including WEEE, RoHS, Prop65, REACH, TSCA and Responsible Minerals. A Restricted Substance Steering Committee has been set up to ensure we are adequately resourced in this area.

We influence our supply chain through our Supplier Code of Conduct which sets out the environmental conditions we require of suppliers, and environmental performance (with a focus on GHG emissions) is reviewed as part of the due diligence process relating to acquisitions. We are also working on a roadmap to identify and measure our Scope 3 emissions, with the long-term aim of reducing and then offsetting residual emissions (see page 42).

### Engaging our people

Many Smiths colleagues are passionate about the environment and how our business can contribute to global goals. During FY2021 we have taken six key steps to engaging our colleagues more deeply in our environmental efforts.

<b>1</b> Our global Nurture environmental initiative aims to inspire and educate everyone at Smiths through resources, campaigns and regular communication on environmental matters	<b>2</b> A global recycling campaign launched on Global Recycling Day to support reaching our FY2021 recycling target
<b>3</b> Refreshed environmental awareness training for all colleagues	<b>4</b> Established Environment Advisory Committee to support the work of the EER
<b>5</b> Established Communication Committee comprising our Group and divisional communications managers and divisional HSE Directors to gather local stories and support campaigns	<b>6</b> Green Team initiative set up to lead local engagement (launched at 25 sites in August 2021)



## PRODUCTS DESIGNED FOR SUSTAINABILITY

Product sustainability and stewardship are important to Smiths and are becoming increasingly relevant for our customers as they manage their own environmental footprints.

We are implementing product stewardship goals from FY2022 which include setting an annual target for packaging reduction projects and implementing Design for Sustainability Assessments into our new

product introduction (NPI) processes at all divisions by the end of the year. Projects moving forward will adhere to sustainable design principles that consider raw material sourcing, supply chain, manufacture, waste, transportation, use by the customer, service and disposal.

This work is being pioneered at Smiths Detection which has implemented and is iterating for Smiths an optimum way to integrate the assessments into our stage-gate NPI process.

## Our short and long-term goals

During FY2021 we set new operational and product stewardship goals for the next three years (FY2022-FY2024) that align with our purpose. We also put in place an ambitious long-term goal and roadmap to achieve Net Zero emissions from operations by 2040.

Reduction targets are compared to the FY2021 baseline year and GHG and water are normalised to FY2021 revenue. Renewable electricity is a % of total and therefore not normalised. Water reduction targets are focused on our 13 locations in stressed areas as defined by UNESCO, as well as certain locations in China, India and Mexico where water is constrained.

## OUR ENVIRONMENT GOALS

### OPERATIONS

BY 2040

# Net Zero

#### Scope 1 and 2 emissions

Scope 1 – direct emissions from fuel purchased and used in sources controlled by Smiths

Scope 2 – indirect emissions from electricity/energy purchased from utilities by Smiths

FY2022-2024

**-5%**

**REDUCTION IN GREENHOUSE GAS EMISSIONS (GHG)**

**+5%**

**INCREASE IN PROPORTION OF ELECTRICITY COMING FROM RENEWABLE SOURCES<sup>1</sup>**

**-5%**

**REDUCTION IN TOTAL WASTE DISPOSAL**

**-5%**

**REDUCTION IN WATER USE IN STRESSED AREAS**

Agreed number of water reduction projects at each division per year

**FY2022: 10 projects**

## PRODUCT STEWARDSHIP



Implement Design for Sustainability Assessments into new product development process at all divisions by end of FY2022

Agreed number of packaging reduction projects at each division per year

**FY2022: 8 projects**

## PLAYING A LEADING ROLE IN CUSTOMER DECARBONISATION

Read more

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<sup>1</sup> Non-GHG producing electric sources including hydroelectric and nuclear.

## Roadmap to Net Zero

Our roadmap to Net Zero is published on our website. It shows the path we will take from the present day to achieve Net Zero Scope 1 and 2 emissions from operations by 2040 and, further, our ambition to achieve Net Zero Scope 1, 2 and 3 emissions by 2050.

Action examples on the roadmap include:

- A review of leadership, roles and responsibilities within Smiths to support our ambitions
- A review of procurement and management systems
- A commitment to pursue science-based targets under the SBT initiative with an intention to have our GHG reduction targets approved by the SBTi
- Establishing an approach, alignment with standards and financial model for carbon offsetting plan
- Zero emissions from all Company vehicles
- 100% electricity in operations from renewable sources (on-site and off-site)
- All waste recycled or disposed of by zero carbon methods

Smiths has also committed to the 1.5 degree C Business Ambition under the UN Race for Zero covering all three scopes of GHG emissions and we have established a Science, Sustainability and Excellence Committee of the Board.

## Onsite renewable electricity

Increasing our use of electricity from renewable sources is a fundamental part of our journey to Net Zero. 60% of the electricity currently used in our operations is from renewable sources and our goal is to increase this to 65% by the end of FY2024 and to 100% by 2040. To support this, we have been evaluating opportunities for investment in onsite renewable electricity generation using a range of technologies including solar, wind, low carbon heating and cooling (LCHC), and combined heat and power (CHP). To date we have evaluated 22 project opportunities and are now moving to phase 2 evaluation of the most promising. An onsite renewable energy system is already installed in Suzhou.

## Scope 3 emissions

Understanding the material sources of indirect GHG emissions in the Smiths value chain is important if we are to map our full GHG impact. During FY2021 we completed an analysis of the categories relevant to Smiths under the GHG Protocol Scope 3 Standard and began a full materiality assessment in order to develop a plan for collecting data and create a baseline from which we can formulate potential future reduction and offsetting initiatives. It is intended that our material Scope 3 emissions will be included in our GHG inventory from August 2022.

**THE MULTI-LAYERED  
STRUCTURE OF THE  
FLEX-TEK FLASHSHIELD+  
CORRUGATED STAINLESS-  
STEEL TUBING HAS  
SIGNIFICANTLY REDUCED  
THE AMOUNT OF POLYMER  
USED IN THE PRODUCT.**

## REDUCING WASTE GOING TO LANDFILL IN COSTA RICA

In line with our global environmental targets, Smiths Interconnect is working to reduce waste going to landfill across all sites. Daniel Ramirez, site leader for health, safety, environment and security, wanted to make an even bigger impact at his location in Costa Rica.

After securing management support, Daniel benchmarked various third parties to identify a waste management supplier who could help. He needed a supplier that was authorised by the government, that was able to work with smaller sites and that would provide the waste management service at low cost. It was also important to find a company aligned with our Smiths Way Values.

Daniel chose a partner organisation which takes organic waste – including food and paper towels from canteens – from industrial premises, supermarkets and the agricultural sector and converts it into organic fertiliser. The company then donates this end product to public institutions and any colleagues who want it, for free!

Daniel added separate organic and general waste bins to his location's indoor recycling areas, along with new signage, and the supplier's sealed container was positioned outside for weekly collections. Daniel also began an awareness campaign to engage colleagues in his vision.

The results were impressive. In FY2021, Daniel's facility diverted nearly three tonnes of waste from landfill into compost production, taking the site's recycling rate up to 79% and its contribution to landfill down by 45%. Colleagues also enthusiastically took up the offer of free, high-quality garden fertiliser for themselves and their families, making it a win win for everyone.

## FY2019-FY2021 environmental goals

We are pleased to report that we successfully achieved all four of our FY2019-FY2021 goals.

	FY2019-FY2021 target	FY2021 outcome vs FY2020	FY2021 outcome vs FY2018	Progress
<b>Use of renewable electricity<sup>1</sup></b>	5% increase to 48%	6%	17%	Achieved in FY2020
<b>Greenhouse gas emissions</b>	5% reduction	-5%	-8%	Achieved in FY2019
<b>Recycling rate</b>	5% increase to 71%	7%	5%	Achieved in FY2021
<b>Water consumption in stressed areas (13 locations)</b>	5% reduction	-8%	-11%	Achieved in FY2021

<sup>1</sup> Non-GHG producing electric sources including hydroelectric and nuclear.

## Energy use and GHG (Scope 1 and 2) emissions

	FY2021	FY2020*	FY2019*	FY2018	FY2017
<b>Global energy use KWh</b>	254,557,230	257,483,020	247,258,350	255,467,620	256,112,390
<b>Emissions</b>					
<b>Absolute values</b>					
Scope 1 (direct emissions)	t CO <sub>2</sub> e	16,818	15,261	14,763	15,670
Scope 2 (indirect emissions)	t CO <sub>2</sub> e	49,594	56,367	51,706	54,489
<b>Total</b>	t CO <sub>2</sub> e	<b>66,412</b>	<b>71,268</b>	<b>66,469</b>	<b>70,158</b>
					<b>77,241</b>
<b>Normalised values</b>					
Scope 1 (direct emissions)	t CO <sub>2</sub> e/£m revenue	4.87	4.32	4.52	4.67
Scope 2 (indirect emissions)	t CO <sub>2</sub> e/£m revenue	14.37	15.97	15.82	16.23
<b>Total</b>	t CO <sub>2</sub> e/£m revenue	<b>19.25</b>	<b>20.29</b>	<b>20.34</b>	<b>20.90</b>
					<b>25.92</b>

\* Previous year (FY2019 and FY2020) emissions data has been restated in accordance with up-to-date emissions factors.

Smiths includes its Streamlined Energy and Carbon Reporting (SECR) above for FY2021 including our emissions and global energy use (multiple years) and intensity metric. For the SECR the GHG Protocol Corporate Standard has been used.

In FY2021, the UK was responsible for 4.4% (11,321,924 KWh) of Group energy usage, 6.2% (1,046 tonnes) of Scope 1 emissions and 0.9% (461 tonnes) of Scope 2 emissions.

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

## Benchmarking and alignment with external reporting frameworks

We recognise that corporate disclosure and transparency are important. We have officially declared our support for the TCFD (see page 46) and are working to comply with the Sustainability Accounting Standards Board (SASB) framework. For the latter, we have identified the relevant three standards and are planning to complete a gap analysis on the metrics/targets required for each to drive compliance.

We also submit information to external parties for benchmarking of our processes and performance against others. In FY2021 we again participated in the CDP (formerly the Carbon Disclosure Project) global environmental reporting initiative in which we received a score of B in 2019 for climate change and water, putting us in the CDP management category indicating that we are taking co-ordinated action on climate and water issues. We recently submitted our latest (2020) CDP submission.

We have also received favourable ratings from other external parties for our Environment, Social and Governance (ESG) performance including FTSE4Good, ISS, MSCI and Dow Jones (see page 26).

**JOHN CRANE'S VARNISH REMOVAL FILTRATION SYSTEMS KEEP THOUSANDS OF GALLONS OF OIL FROM WASTE BY REMOVING DEGENERATED PRODUCT FROM LUBE OIL IN TURBOMACHINERY, SIGNIFICANTLY EXTENDING OIL LIFECYCLE.**

## Climate risk and opportunity assessment and scenario analysis

Over the last two years we have begun to systematically assess the risks and opportunities that climate change presents to our business, following the recommendations from the Task Force on Climate-related Financial Disclosures (TCFD). This ongoing activity is helping us to better understand our potential physical and transition risks from climate change, and to realise future opportunities to develop products and services targeted at climate risk and other environmental needs and help our customers meet their own environmental goals.

During FY2020 we conducted an initial climate-related risk assessment with a five-year time horizon for each of our divisions. This was supplemented by a risk assessment workshop held centrally to review Group climate-related risk on a 20-year time horizon.

This exercise was updated and expanded in FY2021 to consider climate-related physical and transition risks and opportunities under two climate scenarios and time periods, and the actions that could be taken to mitigate risks and capture opportunities in our strategic plans. Climate risk will continue to be part of our overall Enterprise Risk Management process.

Overall, this detailed risk assessment concluded that climate change was unlikely to have a significant negative impact on Smiths in the short term due to our diversified portfolio, resilient supply chain and geographic spread of assets. However, we have and will continue to implement measures which reduce our exposure to climate risk and position the business to take advantage of the opportunities presented by the SDS scenario.

**SMITHS INTERCONNECT HAS INTRODUCED AN INNOVATIVE, LOW-PROFILE TEST SOCKET THAT LEVERAGES ADVANCED 3D PRINTING MANUFACTURING TO REDUCE WASTE METAL AND PLASTIC.**

[READ MORE](#)

DIVISIONS – OPPORTUNITIES AND RISKS FROM CLIMATE CHANGE AND THE NET ZERO AGENDA P52



## KEY TRANSITION AND PHYSICAL RISKS FOR SMITHS INCLUDE

**Increased regulations and pricing on GHG emissions:** Revenue impact of oil & gas customers moving to specialist green technology suppliers. Margin impact from cost of compliance and reporting to new regulations and increased cost of offsetting and renewable energy due to rising demand.

**Reduced demand for flying:** Revenue impact of a reduction in demand for aviation services due to the COVID-19 pandemic and behavioural change as individuals pursue greener lifestyles.

**New and emerging competitors:** New or increased competition in the net-zero/energy efficiency space resulting in a reduced accessible market.

**Changing consumer preferences:** Failure to anticipate and contribute to customer need for products and services supporting energy transition and safer and more efficient processes could result in Smiths losing its position as a trusted partner.

**Storms/hurricanes (particularly US Gulf Coast):** Damage to key assets and supply chains due to storms and hurricanes and associated loss of revenue from disruption.

**Heatwaves (particularly towns and urban locations such as Smiths operations in India, the US and parts of Europe):** Increased operating and capital investment costs associated with temperature regulation, particularly cooling during heatwaves.

**Dry spells/drought (particularly India):** Risks associated with water scarcity in locations with limited water supply which remain vulnerable to drought.

**Compound impacts:** Increased costs and loss of revenue associated with compound impacts such as the simultaneous incidence of pandemics and extreme weather events.

## KEY TRANSITION AND PHYSICAL OPPORTUNITIES FOR SMITHS INCLUDE

**Increased regulation and pricing on GHG emissions:** Revenue uplift through supporting customer transitions to greener alternatives, improving energy efficiency and reducing waste.

**New and emerging low carbon emission technologies:** Increased investment in new and existing technologies due to policy incentives, creating cost savings from efficiencies and increased revenue from exploiting technological gaps. Increased customer demand for Smiths products and services that drive efficiency and reduce or capture customers' emissions.

**Uptake of more efficient transport modes and industrial processes/equipment:** Efficiency improvements create significant cost and emissions reductions due to increased reliability and throughput. Opportunity for Smiths to meet this need.

**Participation in renewable energy programmes and adoption of energy efficiency measures:** Cost savings from increased energy efficiency and reduced energy consumption. Revenue uplift from products becoming less costly to produce and more marketable.

**Extreme weather events:** Damage to industry supply chains and assets could cause disruption and lead to growth opportunities for Smiths.

**Dry spells/drought:** Revenue uplift from technology that cleans, protects and monitors water quality and from the development of sealing technology for water transportation and filtration in water stressed locations.

## ACTIONS TAKEN IN FY2021 TO SUPPORT LONG-TERM CLIMATE RESILIENCE

### 2040 NET ZERO COMMITMENT AND ROADMAP

See page 42

### FY2022-2024 OPERATIONAL AND PRODUCT STEWARDSHIP GOALS

See page 41

### BUSINESS AND STRATEGIC PLANNING

Climate and energy transition risks and opportunities now included in business and strategic planning at Group and divisions

See division strategy sections from page 52

### ONSITE RENEWABLE ELECTRICITY PROJECTS

See page 42

### SCOPE 3 EMISSIONS ROADMAP

See page 42

### NEW SITES/ACQUISITIONS

Current and future climate trends to be considered during evaluation of potential new sites or business/resource components and for potential acquisitions

## Task Force on Climate-related Financial Disclosures

During FY2021 our external partner, Ramboll, confirmed our continued alignment with all 11 TCFD recommended disclosures.



### Governance

Disclose the organisation's governance around climate-related risks and opportunities.

a. Describe the Board's oversight of climate-related risks and opportunities.

- See Committees and Information Flow page 39
- See Enterprise Risk Management (ERM) process and Risk governance page 70
- See Audit & Risk Committee Report page 100
- b. Describe management's role in assessing and managing climate-related risks and opportunities
- See Committees and Information Flow page 39
- See Enterprise Risk Management (ERM) process and Risk Governance page 70
- Climate and energy transition risk and opportunities included in business and strategic planning at Group and divisions
- Currently reviewing leadership, roles and responsibilities within Group to support Net Zero

### Strategy

Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material.

a. Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term.

- See Key transition and physical opportunities and Key transition and physical risks on page 45
- b. Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning.
- See Key transition and physical opportunities and Key transition and physical risks on page 45
- See division sections from page 52
- See environmental goals on page 41
- c. Describe the resilience of the organisation's strategy. Taking into consideration different climate-related scenarios, including a 2°C or lower scenario.
- See Climate risk and opportunity assessment and scenario analysis on page 44
- See Key transition and physical opportunities and Key transition and physical risks on page 45

### Risk management

Disclose how the organisation identifies, assesses, and manages climate-related risks.

a. Describe the organisation's processes for identifying and assessing climate-related risks.

- See Climate risk and opportunity assessment and scenario analysis on page 44
- See Enterprise Risk Management (ERM) process page 70

b. Describe the organisation's processes for managing climate-related risks.

- See Climate risk and opportunity assessment and scenario analysis on page 44

c. Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.

- See Enterprise Risk Management (ERM) process page 70
- Climate and energy transition risk and opportunities included in business and strategic planning at Group and divisions

### Metrics and targets

Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where the information is material.

a. Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management processes.

- Continuing to improve the quantification of impacts of climate-related risks and opportunities over and above the ERM process.

b. Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 GHG emissions, and the related risks.

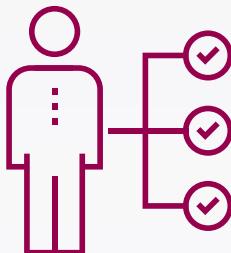
- See Energy use and GHG (Scope 1 and 2) emissions on page 43
- Scope 3 materiality assessments continuing. Disclosure from August 2022

c. Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.

- See environmental goals on page 41

# OUR SUPPLY CHAIN

## WE ARE BUILDING A SUPPLY CHAIN ALIGNED WITH OUR VALUES



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

We operate a total value supply chain approach that considers all aspects of a supplier's contribution to generate and capture value. This includes ethical and environmental matters and alignment with our values, continuous improvement and risk.

### Supplier relationships

Smiths has more than 14,000 suppliers worldwide including strategic partner suppliers with whom we work on R&D and new product development, logistics suppliers, professional service suppliers and equipment, IT and machine suppliers. Supply chain networks to our production facilities are a good balance of local, regional and global.

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

All Smiths suppliers are approved prior to any business award. Key suppliers are allocated a strategic status (strategic, preferred, competitive, transactional) to specify supplier management activities and this status is reviewed periodically. We meet suppliers to review performance, discuss new business opportunities, set goals and work on improvement areas.

For our higher value and/or more complex products we engage with our suppliers at the highest level to partner on R&D, new product introduction, quality and continuous improvement projects, and we aim to be the customer of choice for supplier innovations.

Our Smiths Handbook describes our terms and conditions and general approach to working with suppliers. Contract models and payment terms vary depending on the size and type of relationship. During FY2021 we implemented a supply chain finance programme which will be expanded in FY2022, bringing benefit to our suppliers at the same time as reducing working capital.

We plan to resume our annual Supplier Conference when the COVID-19 pandemic abates.

### Ethics, values and compliance

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

In FY2022 we intend to refresh our Supplier Code of Conduct to increase focus on ESG matters, including environmental policies and performance. We are also working on a new supplier onboarding process which will assess risk of modern slavery prior to engagement.

To support our environmental efforts, we are investigating opportunities to work with external parties to help us gather data and track Scope 3 GHG emissions in our supply chain.

### ENERGY EFFICIENT SOLUTIONS FOR HEAT DISSIPATION

Read more

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## Response to COVID-19

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

Our Operations and Supply Nerve Centre (OSNC) continues to meet weekly. It acts as a forum for problem sharing and solving and covers such matters as:

- Real-time visibility of supply status
- Support for suppliers needing assistance to stay operational
- Switching suppliers where necessary to ensure continuity of supply for key operations
- Addressing COVID-related matters including regulations, PPE supplies and vaccinations

It is intended that the OSNC will stay in place as a weekly forum for our divisional operations teams and supply leaders.

## Procurement and supply chain management

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

Our sales and operational planning (S&OP) processes are continuing to evolve and enable us to plan the material, services and capacity we need to meet customer demand forecasts. Our procurement function manages sourcing and contracting to maintain supply of these material requirements to stringent quality, flow and cost criteria. We use 4Qs demand management and Vendor Managed Inventory (VMI) is in wide use at John Crane and Smiths Interconnect.

Activity to reduce inventory is ongoing and we have achieved the targets set for FY2021.

## Logistics

Logistics continues to be a key area of focus as we look to optimise our inbound, internal and outbound network model. Moving goods efficiently and responsively is as critical to Smiths and to our customers as managing the inbound supply of materials and, in turn, is supporting our environmental goals through fewer vehicle movements and moving from higher emission air freight to sea.

In FY2021 we deployed a Transport Management System to reduce carrier management and support flow optimisation including consolidating routes and maximising use of capacity. These activities are managed by a third-party provider. To date we have consolidated inland logistics in the US and Mexico for John Crane and Flex-Tek, with Smiths Detection to be integrated soon. We will consolidate European inland logistics in the next wave. We are also exploring the appointment of one third-party provider for sea and air which will enable us to optimise freight between sea and air.

## Managing risk

Our integrated supply chain is identified as a principal risk and is managed accordingly through the Smiths risk management process (see page 70). A supplier risk management system which assesses suppliers on the basis of criticality of contribution and likelihood of interruption/collapse covers all sole source suppliers.

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

## Continuous improvement

We aim for continuous improvement in our procurement and supply chain practices by building the capabilities of our people, advancing our data and our systems, and working with our suppliers to improve quality and performance. We have standardised KPIs across the organisation and our SESAME diagnostic tool helps us to generate CI plans to improve performance.

For supplier delivery and quality performance we are currently focused on lead time and increasing the use of VMI.

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

We continued to deliver procurement savings in FY2021, driven by the consolidation of our supplier base and working with suppliers to improve processes, often sharing the benefits of reduced costs.

## PROCUREMENT SAVINGS (GROSS) FY2021\*

# £32.6m

including £12.4m of market inflation

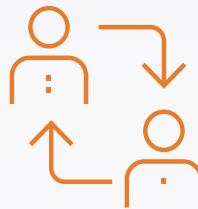
**FY2020\*: £34m including £7.6m of market inflation**

\* Continuing Operations.

**FLEX-TEK'S LATEST FLOATING CORE DUCT USES LESS FIBREGLASS INSULATION AND 40% LESS PACKAGING, MEANING IT TAKES LESS FUEL TO TRANSPORT AND TAKES UP LESS WAREHOUSE STORAGE SPACE.**

# OUR COMMUNITIES

**WE AIM TO CONTRIBUTE POSITIVELY TO OUR COMMUNITIES.**



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

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

Support for local communities has been a real focus for our teams during the COVID-19 pandemic.

## Getting involved in our communities

Community engagement is managed locally, with each division focusing on markets and communities that are important to them. During FY2021 we launched a new Charitable Donations Policy to guide our teams on making appropriate donations in line with our Code of Business Ethics.

Recognising the efforts of colleagues and sharing new ideas is an important part of being a member of the Smiths family. We celebrate the best of our community work through the Smiths Excellence Awards, communicate inspiring stories in the Smiths Signal newsletter, and encourage colleagues to share their activities on Smiths Now.

The pandemic led to the postponement of the planned adoption of the Beyond Boundaries globally aligned community outreach programme across Smiths, which we now hope to begin in FY2022. Instead Smiths teams have typically helped their local communities through the pandemic by fundraising and contributing time, aid and equipment (including ventilators) to local services.

## Promoting engineering as a career

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

## Human rights and tackling modern slavery

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

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

## MARKING INTERNATIONAL WOMEN IN ENGINEERING DAY

With innovation, technology and engineering at the very heart of our business, celebrating engineering and encouraging more women into the sector is important to us.

This International Women in Engineering Day, to celebrate our colleagues and the contribution of engineers around the world, we highlighted a selection of talented female engineers from across Smiths in a series of videos. Participants talked about their careers at Smiths and the key role of engineering to engage and inspire others to follow in their footsteps.

We are committed to upholding all internationally recognised human rights standards, such as the United Nations Guiding Principles on Business and Human Rights and ensuring our operations and supply chains are free of human trafficking and slavery. In FY2022 we plan to review and, as necessary, update our Human Rights Policy and relevant procedures.

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

The COVID-19 pandemic has constrained our ability to audit suppliers on site as we would like. We have, however, conducted desk top audits. Our Ethics and Compliance team has therefore been working with our supply chain and procurement teams to strengthen our new supplier onboarding process which will appropriately assess risk prior to engagement. This work will continue in FY2022.

The Smiths Modern Slavery and Human Trafficking Statement FY2021 and our Human Rights Policy can be found on the Smiths website.

## DIRECT ECONOMIC CONTRIBUTION

Smiths direct economic contribution to communities around the world through taxes paid, employee costs and supplier costs was £2.5 billion in FY2021 (FY2020: £2.8 billion).

**£2.5bn**

**EMPLOYEE COSTS**

**£1,019m**

**SUPPLIER COSTS**

**£1,307m**

**TAX PAID**

**£164m**

## GIVING BACK TO COMMUNITIES DURING THE COVID-19 PANDEMIC

Contributions from Smiths Group also aided two partner NGOs – Goonj and Oxfam – to support numerous underprivileged beneficiaries and frontline healthcare workers across the country with ration and PPE kits. There was also a significant drive to generate community awareness around infection prevention, safety protocols and maintaining proper hygiene.

Early in 2021 our Smiths India businesses partnered with the Give India Foundation to set up an oxygen generation plant for a hospital in Bengaluru providing 250 litres per day and serving approximately 3,600 patients per year.

Goonj worked to provide essential daily ration kits to those in need, reaching 4,259 underprivileged families. Oxfam helped Smiths distribute 1,770 PPE kits to frontline healthcare workers. These workers also helped train additional staff to raise awareness of the pandemic in wider areas of India.

Smiths colleagues were able to directly contribute to these efforts via a specially created donation link.

## SUPPORTING CAREER DAYS FOR DISABLED WOMEN

The aim of each two-day camp was to provide career development training to women living with disability and boost their confidence to enter the workplace. Participants were invited to attend a wide range of sessions covering disability awareness, disability equality, disability

In June 2021 Smiths Group China collaborated with local charity Suzhou Little Red Cap Volunteers Association to host career development training camps for disabled women at our Smiths Interconnect Suzhou and Flex-Tek Changshu sites.

employment laws and regulations, and were also given the opportunity to reflect on self-exploration and growth.

Smiths is exploring the possibility of providing roles for trainees from the groups in the future.

## BEYOND BOUNDARIES IN MEXICO

Activities are co-ordinated by the team's Beyond Boundaries Ambassadors and have included social visits to a local retirement home and collecting aluminium cans and donating them to local support groups who are able to exchange them for money.

Our Smiths Interconnect team in Tijuana, Mexico gives back to the local community in a variety of ways.

The team also regularly collaborates with the local fire brigade, bringing support packages and equipment to areas of the city affected by fire and other incidents causing hardship.

# REGULATORS AND GOVERNMENTS



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

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

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

## Product certification and ongoing regulatory compliance

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

## Trade compliance

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

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

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

## Anti-bribery and anti-corruption

Bribery and corruption matters are covered by our Code of Business Ethics and we also have specific policies/procedures relating to a number of activities that create bribery and corruption risks and an umbrella anti-bribery and corruption policy that provides a single view of our approach. These policies cover, among many other things, the giving and receiving of gifts, meals and hospitality, invitations to government officials, our approach to facilitation payments, and controls around the appointment of distributors and agents (for which new on-the-ground controls have been introduced this year), customs brokers and freight forwarders. Our ethics dashboard enables us to interrogate our register of gifts, meals and entertainment in an effective and useful way.

## Anti-trust

We are committed to competing fairly in the markets we operate and have an Anti-trust Policy and training modules for colleagues whose roles may expose them to competition law risk. Our divisions also use a Trade and Industry Event Register to ensure that colleagues attending events with competitors are made fully aware of what they may and may not discuss. Bespoke anti-trust risk assessment training was provided to the legal function during FY2021.

## Privacy and data protection

Our approach to complying with privacy and data protection regulations has been to establish a common set of principles, policies and processes to ensure that our teams are aware of their responsibilities relating to them. We have a cross-Group network of Data Privacy Champions whose responsibilities include overseeing the implementation of policies and procedures, to discuss best practices, implementation issues and changes to privacy rules and regulations.

## Building relationships

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

The team comprises corporate affairs specialists based in the UK, US, Europe and Asia who guide and support our relationships with key regulators, local policymakers, budget holders and industry groups. As a FTSE 100 Company we have a strong relationship with the UK Government's Department for International Trade which promotes the interests of UK businesses around the world. During FY2021 we strengthened our Corporate Affairs team with a dedicated position in India.

Smiths has also committed to the 1.5 degree C Business Ambition under the UN Race for Zero covering all three scopes of GHG emissions.

Our relationships and the profile of the Group have played an important role in our successful navigation of the COVID-19 pandemic and are supporting us as we seek to accelerate growth through our dynamic portfolio of products and services.

# JOHN CRANE

Mission-critical flow control solutions for increased efficiency, emission reductions and energy transformation

## FY2021 PERFORMANCE

### REVENUE

(5)%<sup>1</sup>

**£865m**

### REVENUE BY SECTOR

#### ENERGY

59%

#### INDUSTRIALS

41%

### REVENUE MIX

#### ORIGINAL EQUIPMENT

32%

#### AFTERMARKET

68%

### HEADLINE OPERATING PROFIT

(1)%<sup>1</sup>

**£187m**

### HEADLINE OPERATING PROFIT MARGIN<sup>2</sup>

+80bps<sup>1</sup>

**21.6%**

1 Underlying movement. Underlying defined in note 30 to the Financial Statements.

2 Defined in note 30 to the Financial Statements.



## PLAYING A LEADING ROLE IN CUSTOMER DECARBONISATION

John Crane's long experience in preventing and remediating leaks will enable us to play a leading role in customer decarbonisation through our methane initiative.

Methane is the most potent current contributor to global warming. With the oil & gas sector set to continue playing a key role in the energy supply chain, reducing methane emissions is a critical step towards Net Zero. Pursuing all mitigation measures now could slow the rate of near-term global warming by as much as 30%, potentially reducing total warming by a half degree by the end of the century.

Systematic measuring, mitigation and monitoring to limit methane emissions will be required by the sector to meet decarbonisation goals.

Working with the Smiths Digital Forge, John Crane is developing technology and services to meet this need, which can be deployed across a range of environments from pipelines and plants to offshore rigs, in order to provide data to customers that will enable them to monitor methane leaks from sources over time and take corrective action. Multiple solutions are being developed to enable affordable technology and the ability to detect methane leaks in remote and hazardous locations.

**WATCH THE CASE STUDY ONLINE:**  
[WWW.SMITHS.COM/WHAT-WE-DO/JOHN-CRANE](http://WWW.SMITHS.COM/WHAT-WE-DO/JOHN-CRANE)

John Crane is a global leader in the design, manufacture, installation and support of rotating equipment solutions that drive efficiency, safety, and environmental sustainability in large-scale industrial processes.

We work with customers in a wide range of industries including oil & gas, pharmaceutical, chemical, petrochemical, power generation, mining, water treatment, pulp & paper and turbomachinery. We have a global network of more than 200 sales and service locations in over 50 countries.

## Competitive strengths

- Strong and differentiated proprietary technologies and expertise across industries
- Broad installed base in Energy and Industrials
- Innovation focused, digital capability
- Efficient and agile operating model
- Customer intimacy and strategic alignment through a network of local proximity service and support centres
- Unique capabilities of field service engineers and close proximity to customer sites to strengthen business support through the pandemic

## Growth drivers

- Long-term growth in energy and primary resource demand, especially in emerging markets, coupled with the requirement to reduce greenhouse gas (GHG) emissions, with particular emphasis on methane
- Increasing demand for enhanced efficiency, environmental safeguarding and cleaner processes, enabled and supported by John Crane solutions
- Energy transition – growth of a more diversified and cleaner low carbon energy eco-system, including hydrogen, carbon capture, usage and storage (CCUS) and renewables, which drive more demanding compression, pumping and filtration, among other needs

- Digital transformation, GHG emissions measurement, remediation and monitoring
- Long-term customer partnerships/outsourcing
- University partnerships
- Partner of choice for customers by adapting product and service offerings to traditional business models while implementing new requirements under the new normal

## Products

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

Our large installed base drives significant aftermarket and upgrade demand, and our global network of sales and service locations enables a rapid response to customer needs. We provide a range of aftermarket services including repair and refurbishment, new technology retrofitting, root cause analysis of incidents and alignment and condition monitoring to continuously improve equipment performance and safety, and reduce operational downtime.

## DIVISIONAL STRATEGY

Our strategy aligns our business to key long-term trends including **efficient, cleaner processes, energy transformation and lower emissions.**

- Leverage unmatched proximity to our customers' footprint globally, with increased penetration in China, India, Africa, and attractive/adjacent industrial segments
- Continue investing in our people to attract and build talent and drive engagement. Ensure we retain key talent and core competencies. Further invest in early-career talent hiring, training and development to help strengthen our global talent pool that will feed our future leadership pipeline
- New product and service introduction at a faster pace to support evolving customer needs core, next-generation, transformational across oil & gas and non-oil & gas customer verticals

- Green technology R&D and partnerships for the energy transition including solar, green hydrogen, clean nuclear and CCUS
- Suite of methane abatement solutions to help customers detect leaks, repair, mitigate and monitor
- Expand and integrate services into full asset lifecycle management offer
- Develop new materials science and engineering capabilities high-performance ceramics, durable coatings, integrated sensors, advanced manufacturing, and fast seal performance simulation
- Instrument physical devices with John Crane Sense™ performance monitoring and analytic capabilities into full product range to provide predictive maintenance and system health checks

- Continue to advance inclusion and diversity and transform our workplaces into more inclusive environments where individuals are valued for their talents and empowered to reach their fullest potential
- Focus on exceeding customer expectations on offer, quality, service response and delivery time
- Leverage Smiths Excellence System to implement global best practices and continuous improvement to Industry 4.0
- Maintain resilient, optimally sourced global supply chain

## Competitors

Competitors range from large multinationals to small, more focused companies across the product portfolio. Examples include Flowserve, EagleBurgmann and smaller/local companies where focus is on cost with large gaps in quality and engineering capabilities.

## Markets where we operate

**Energy:** Following the oil price decline and the COVID-19 crisis, demand in the energy market is gradually recovering. Typically, given the critical nature of our products and services, aftermarket is more resilient than original equipment (OE), which tends to have a lagged impact given the large downstream nature of our portfolio. Increased focus on environmental considerations, efficiency and growing energy demand in developing economies will support growth in the medium to long term and societal and investment pressure from the climate crisis will drive GHG emissions reduction, transition to cleaner energy sources and carbon capture and storage.

**Industrials:** We also have a significant presence in other process industries including pharmaceutical, chemical, mining, water treatment, and pulp & paper. We expect these verticals will continue to grow in the medium term driven by demand for full lifecycle solutions, cleaner processes and emerging market growth.

**Aftermarket:** Our unmatched deployed local support and service offering with best-in-class field service teams enable us to align with customer strategies effectively. Demand for full lifecycle asset management services is expected to grow.

## How we work with customers

The nature of our business enables us to develop longstanding and deep relationships with our customers. To be as efficient as possible, for strategic projects, we often work on frame agreements with our strategic OEM and engineered procurement contractor customers, which deliver benefits not only during the project phase, including commissioning and start up, but also during the operation of facilities by the final end user.

We have contractual KPIs in place with many customers and we make every effort to keep engagement levels high to support business needs. We analyse customer scorecards and use customer satisfaction surveys to ensure we meet and exceed expectations. Quarterly review meetings at the site level through our field teams and at the corporate level enable us to review KPIs in greater detail, propose product and service improvements and discuss longer term plans.

Throughout the COVID-19 pandemic, our sales and service teams have looked for innovative ways to support customers with training, remote inspection and even remote start-up/commissioning.

## Opportunities and risks from climate change and the net zero agenda

Short and long-term physical risks to operations and the supply chain are covered by business continuity and supply chain planning. We have an agile operations system, which enables us to redirect orders and fulfilment from one site to another.

A fundamental aspect of the net zero agenda is energy transition and how the energy industry and other key heavy industries transition to cleaner energy sources to meet expected growth in energy demand while reducing GHG emissions.

Oil & gas will continue to play an important role in the energy supply chain for the foreseeable future, with gas being more significant as a bridge, as long as the sector is able to keep pace with regulations, and methane emissions can be reduced significantly. John Crane technology is well positioned to support increased efficiency in the oil & gas value chain through physical product and digital advances that enable customers to prevent and fix leaks. Our methane initiative is designed to address the issue of methane leaks.

Hydrogen is expected to play a more important role in the energy transition as 'blue' hydrogen (fossil sources with CCUS) and renewable 'green' hydrogen grow at scale and become more cost-competitive as energy sources. John Crane's leading expertise in compression sealing technologies puts us in a unique position to contribute to technology transformation towards a low carbon energy world.

Our pump sealing and filtration solutions are also used extensively across these hydrogen end markets. In the medium to long term, as green and blue hydrogen grow in significance, we are well positioned to leverage our core competencies from existing technology and services and innovate to meet the challenges presented by the scaling of cleaner energy alternatives, across the entire energy value chain.

John Crane's other customer verticals are facing similar challenges to reach Net Zero and we see many opportunities to support customers in these sectors as they transition to cleaner energy sources and more sustainable processes.

## COVID-19

From the onset of the COVID-19 pandemic, John Crane has executed a comprehensive response plan that maximises the safety of our people and minimises disruption of our supply chain to maintain business continuity and serve our customers.

Demand shock and prolonged oil price declines have caused many of our customers to delay new projects. However, we have begun to see aftermarket activity recovering, and growing orders for original equipment.

## FY2021 FINANCIAL PERFORMANCE

	FY2021 £m	FY2020 £m	Reported growth	H1 underlying growth	H2 underlying growth	FY underlying growth
<b>Revenue</b>	<b>865</b>	955	(9)%	(10)%	0%	(5)%
Original Equipment	273	314	(13)%	(14)%	(5)%	(10)%
Aftermarket	592	641	(8)%	(9)%	+3%	(3)%
Energy	510	597	(15)%	(16)%	(4)%	(10)%
Industrials	355	358	(1)%	(1)%	+8%	+3%
<b>Headline operating profit</b>	<b>187</b>	187	0%	(16)%	+13%	(1)%
<b>Headline operating profit margin</b>	<b>21.6%</b>	19.6%	+200bps	(130)bps	+270bps	+80bps
<b>Statutory operating profit</b>	<b>184</b>	154	20%			
<b>Return on capital employed</b>	<b>20.0%</b>	19.0%	+100bps			
R&D cash costs % sales	2.1%	1.9%	+20bps			

### Revenue

(£m)	FY2020 reported	Foreign exchange	Acquisitions & disposals	Underlying movement	FY2021 reported
<b>Revenue</b>	955	(45)	–	(45)	<b>865</b>

John Crane's market-leading position and the strength of its global service network underpinned its performance, despite challenges in the energy market and COVID-19 disruptions. Underlying revenue was down (5)%. There was a strong improvement in H2 revenues, which improved to flat year-on-year, versus (10)% in H1. On a reported basis, full year revenue was down (9)%, as foreign exchange had a £(45)m adverse impact.

Activity levels in both of John Crane's market segments began to strengthen in H2 with good momentum generated in Q4. Underlying revenue from John Crane's Energy segment was (10)% for the year, with early signs of recovery supporting an improvement to (4)% in H2, versus (16)% in H1. Underlying revenue from Industrial activities was up +3% year over year, having returned to +8% growth in H2 versus a (1)% decline in H1.

Aftermarket represents 68% of John Crane's revenue (FY2020: 67%). Underlying aftermarket revenue was (3)% for the year, having returned to growth in the second half, up +3%. This was reflected in the strengthening order book, which was up +5% in the second half. John Crane's large installed base and leading service offering, position

it well to meet pent-up demand for aftermarket repairs, maintenance and upgrades. Customers are increasingly focused on improving the efficiency of their plants and refineries. This is driving further interest in John Crane's unique digital solutions, including John Crane Sense™, which monitors the condition and effectiveness of equipment and helps to minimise downtime.

Underlying revenue from Original Equipment ('OE') was (10)% for the year, with an improved H2 performance down only (5)%, versus (14)% in H1. The rate of new orders continues to improve and the OE order book was back at flat in the second half. John Crane secured multiple new contracts during the period including with Aramco in Saudi Arabia, Petrobras in Brazil, Sempra Costa Azul LNG in Mexico, and Assiut Hydrocracking Complex in Egypt. These contracts draw on John Crane's core capabilities of supporting customers' enhanced efficiency, performance and sustainability in a variety of markets. They are examples of where John Crane's leading technology, asset management capabilities and global footprint drive competitive advantage and ensure it is well positioned to capture growth opportunities as markets recover and evolve.

### Operating profit

(£m)	FY2020 reported	Foreign exchange	Acquisitions & disposals	Lower restructuring and write- downs	Underlying movement	FY2021 reported
<b>Headline operating profit</b>	187	(10)	–	13	(3)	<b>187</b>
<b>Headline operating margin</b>	19.6%					<b>21.6%</b>

Headline operating profit of £187m decreased by (1)% on an underlying basis, reflecting lower volumes which were partially offset by improved aftermarket activity in the second half. Headline operating profit was flat on a reported basis, with £(10)m of adverse foreign exchange offset by the year-on-year impact of restructuring charges. John Crane's restructuring focused on enhancing its flexibility to withstand the cyclical nature of its end markets and improve efficiency.

Headline operating margin was 21.6%, up +200bps on a reported basis and +80bps on an underlying basis. The difference between statutory and headline operating profit includes the net cost in relation to the provision for John Crane, Inc. asbestos litigation.

### ROCE

ROCE was up +100bps at 20.0%, due to lower restructuring charges and a reduction in working capital.

### R&D

Cash R&D expenditure represented 2.1% of sales, +20bps higher than last year. John Crane's innovation is primarily focused on enhancing efficiency, performance and sustainability by using materials science advancements, coatings and additive manufacturing. John Crane is also leveraging the Group's digital expertise to support the development of predictive diagnostic platforms and other innovative digital technologies.

John Crane sealing solutions are designed to keep process fluids within systems and out of the environment. To support our customers in their environmental sustainability journeys, John Crane introduced multiple new technologies. These include a new dry gas seal that eliminates all methane emissions, seal gas recovery systems that take compressor gas leakage out of the flare and inject it back into productive use, enhanced coatings for LNG applications, and for traditionally water intensive industries such as pulp & paper and mining, dynamic lift seals that save an average of one million gallons of water per year when installed.

KPIs and alternative performance measures (APMs) referred to on this page are defined in note 30 to the Financial Statements.

## SMITHS DETECTION

Detection and screening technologies for safety,  
security and freedom of movement

### FY2021 PERFORMANCE

#### REVENUE

(7)%<sup>1</sup>

£721m

#### HEADLINE OPERATING PROFIT

(2)%<sup>1</sup>

£99m

#### REVENUE BY SECTOR

##### AVIATION

76%

##### OTHER SECURITY SYSTEMS

24%

#### HEADLINE OPERATING PROFIT MARGIN<sup>2</sup>

+70bps<sup>1</sup>

13.7%

#### REVENUE MIX

##### ORIGINAL EQUIPMENT

54%

##### AFTERMARKET

46%

1 Underlying movement. Underlying defined in note 30 to the Financial Statements.

2 Defined in note 30 to the Financial Statements.

## ENERGY EFFICIENT SOLUTIONS FOR HEAT DISSIPATION

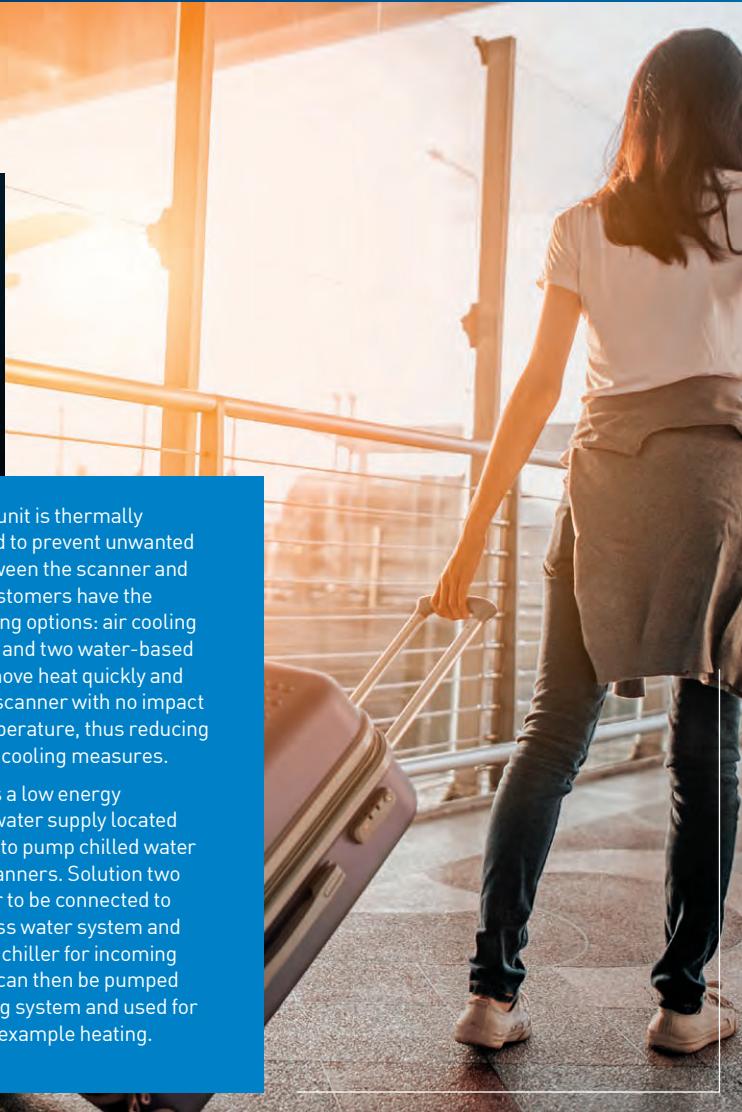
Hold baggage and air cargo handling systems generate significant heat. Managing temperature and dissipating excess process heat is a vital part of efficient, safe operation and system longevity.

Much of the current generation of high throughput CT scanning equipment uses ambient air to cool the system. The air is passed through the scanner to move heat out of the machine and into the immediate environment. This dispersed heat is often then cooled or replaced via air conditioning systems to maintain an acceptable temperature in the setting.

With more than 600 sold around the world, Smiths Detection's HI-SCAN 10080 XCT cargo and baggage scanner is one such

CT system. Its core unit is thermally insulated and sealed to prevent unwanted air interchange between the scanner and its environment. Customers have the choice of three cooling options: air cooling as described above; and two water-based solutions which remove heat quickly and efficiently from the scanner with no impact on the external temperature, thus reducing the need for further cooling measures.

Solution one utilises a low energy centralised chilled water supply located outside the building to pump chilled water between several scanners. Solution two enables the scanner to be connected to the building's process water system and features an internal chiller for incoming water. Warm water can then be pumped back into the building system and used for other purposes, for example heating.



Smiths Detection is a global leader in threat detection and screening technologies that protect people and assets.

We work with customers in a broad range of markets including aviation screening, ports and borders, urban security, and defence, providing high-quality and robust solutions that address customers' security and safety needs and facilitate the efficient movement of people and products.

## Competitive strengths

- Global reach and market-leading brand
- Differentiated proprietary technologies leveraged across a broad range of markets
- Significant R&D and digital capabilities
- Customer intimacy and loyalty through equipment cycle and aftermarket offer
- Operating in regulated market segments that require product certification

## Growth drivers

- Persistent and evolving terror and other threats to public safety and critical infrastructure
- Changing security regulations in the aviation screening segment
- Growing populations and urbanisation
- Growth of global transportation infrastructure
- Global growth of international trade and e-commerce
- Need for integrated digital solutions
- Equipment replacement cycle, typically 8–10 years

## Products

Our comprehensive product portfolio comprises X-ray and computed tomography (CT) scanners for hold baggage and checkpoints, people-screening scanners, tray-handling solutions and trace-detection devices for secondary screening. We produce portable and static devices for chemical, explosive, biohazard (including virus) and narcotic detection and identification and provide stationary and mobile inspection systems for cargo vehicles.

## Competitors

Across the product portfolio, competitors range from large multinationals to smaller, single-product companies. Examples include Rapiscan, Leidos, IDSS, Voti and Nuctech.

## Markets where we operate

Demand for detection and screening equipment and service is forecast to continue to grow over the long term, driven by the need for safety and security in the context of evolving threats and the desire for free and efficient movement of people and products.

**Aviation**, our largest market, has been heavily impacted by the COVID-19 pandemic and commercial aviation remains challenging. As airports and the aviation industry seek to restore passenger confidence and passenger numbers return, next generation technologies that support fast, contactless and hygienic movement through the airport and a safe flying environment will be key, supported by digital connectivity and systems integration. There is a significant variation in technology progress and regulation by country/region.

## DIVISIONAL STRATEGY

Our strategy aligns our business to key long-term trends including **safe travel, secure trade, safe people** and **secure places**.

- Core and next generation OE innovation to support evolving sector and customer needs
- Commercial resilience in aviation sector and expansion of non-aviation and adjacent segments
- Hardware excellence and intuitive, inspiring design
- Build digital capabilities to sell interoperable digital enhancements and secure, integrated solutions and extensions
- Expand scope and quality of customer service offer to drive customer intimacy
- Invest selectively in accelerator opportunities in chemical and biological detection, urban security and screening and fast-moving packages/air cargo
- Consolidate technology platforms for multi-product and multi-industry use and scale and efficiency of service and manufacture
- Increased focus on sustainability through product governance, repair/refurbish/renew/replace/recycle options and manufacturing techniques
- Continue to invest in our people to attract and build talent and drive engagement
- Optimise channels and partners to penetrate high growth regions
- Leverage Smiths Excellence System (SES) to implement global best practices and continuous improvement
- Continue to develop supply chain through improvements to systems, processes and products

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

In ports & borders, the long-term continuing 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 connected hardware are needed to enhance inspection effectiveness without interrupting flow.

In defence, new 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 segment is affected by the nature of procurement cycles.

Urban security is a large, but fragmented and mainly unregulated sector. Critical infrastructure, mass transit, secure facilities and crowded spaces have specific customer needs and challenges. Demand is growing for solutions that allow the public to go about their lives as normal, with the peace of mind that their health, security and welfare are being protected.

Almost half of our customers are government-funded and though often faced with budget constraints, these valued customers provide consistent incoming revenues. Original equipment (OE) drives the programmatic nature of our business but our focus on providing a complete solution to customers and our significant installed base is driving growing aftermarket revenue.

## How we work with customers

Our customers own and operate some of the world's most complex, operationally intensive and critical sites. We are their trusted screening and detection partner, bringing expert advice, proven solutions and ongoing support to ensure their security, safety and operational goals are met. This involves working at the heart of our customers' core operations, making recommendations that help enhance security, improve operational efficiency, and transform customer experience. It can also mean working directly with customers on the research and development of new product technologies. We seek to build enduring relationships based on trust, best-in-class technology, and market-leading customer care that extends throughout the lifetime of our equipment and beyond. Account managers provide a direct route into the wider business to translate requirements into solution options, access specialist expertise, and address customer needs. We continue to make investments in areas such as solution design, technical support and service management to improve customer engagement and experience.

## Opportunities and risks from climate change and the net zero agenda

Short and long-term physical risks to operations or the supply chain are covered by business continuity and supply chain planning.

Risks and opportunities arise from growing pressure on the aviation sector for regulatory change, increased greenhouse gas emissions pricing, and potential changes in consumer behaviour. Aviation is perceived as a major contributor to climate change and can sometimes be a discretionary purchase. While in the short term consumers and businesses may decide to switch to alternative modes of travel or fly less frequently/less far due to ethical and sustainability concerns, in the longer term this may be mitigated by the trend towards green aviation. Certain governments and investors may implement policy incentives tying funding to decarbonisation strategies.

Similar pressures may also be exerted on international air cargo, with a potential shift of trade from air to alternatives such as rail. However, this could equally create opportunities in screening solutions for rail freight.

There are also opportunities and risks around the operational and energy efficiency of equipment. While Smiths is likely to experience more pressure from customers and governments with regard to ESG as they seek to meet their Net Zero and sustainability targets, Smiths Detection is well placed to help customers extend the life of their installed base through repairs, refurbishment and mid-life upgrades whilst also improving design, modes of operation and implementing digital solutions to improve energy efficiency (whether risk-based and selective or using less energy intense technologies).

## COVID-19

Smiths Detection is constantly monitoring and responding to the pandemic, and its associated impacts, as it evolves. We continue to prioritise the well-being and safety of our global workforce, customers and suppliers while managing demand and our supply chains. As anticipated, the pace of recovery continues to be influenced by the impact COVID-19 has had on our markets. Whilst domestic air traffic and air cargo are rebounding in some countries, international travel remains below pre COVID-19 levels. In response to the pandemic, we have adapted the detection capabilities of our BioFlash technology to identify SARS CoV-2, allowing for real-time detection of COVID-19 in the air. UV-C disinfection trays, launched in the weeks following the global lockdown, are in use at airports in Europe, Asia Pacific, and the Middle East.

## FY2021 FINANCIAL PERFORMANCE

	FY2021 £m	FY2020 £m	Reported growth	H1 underlying growth	H2 underlying growth	FY underlying growth
<b>Revenue</b>	<b>721</b>	806	(11)%	(6)%	(8)%	(7)%
Original equipment	390	447	(13)%	(6)%	(13)%	(10)%
Aftermarket	331	359	(8)%	(6)%	(1)%	(4)%
Aviation	546	577	(5)%	+4%	(6)%	(2)%
Other Security Systems	175	229	(24)%	(27)%	(13)%	(21)%
<b>Headline operating profit</b>	<b>99</b>	82	+21%	(21)%	+18%	(2)%
<b>Headline operating profit margin</b>	<b>13.7%</b>	10.2%	+350bps	(240)bps	+370bps	+70bps
<b>Statutory operating profit</b>	<b>77</b>	57	+35%			
<b>Return on capital employed</b>	<b>9.7%</b>	7.2%	+250bps			
R&D cash costs % sales	7.4%	9.2%	(180)bps			

### Revenue

(£m)	FY2020 reported	Foreign exchange	Acquisitions & disposals	Underlying movement	FY2021 reported
Revenue	806	(33)	2	(54)	721

The strength of Smiths Detection's market position and its leading technology drove a resilient performance against the impact of COVID-19 on its end markets, with revenue down (7)% on an underlying basis. Revenue was down (11)% on a reported basis, including £(33)m of adverse foreign exchange translation and +£2m contribution from PathSensors Inc, a leading bio-technology solutions and environmental-testing company acquired in August 2020.

Original Equipment (OE) represented 54% of FY2021 revenues. Smiths Detection entered COVID-19 with a record OE order book. Delivery of these orders has mitigated the impact of subsequently lower tender activity in both Aviation and Other Security Systems. However, underlying OE revenues were still down (10)% for the year and (13)% in the second half. Both Aviation and Other Security Systems derived over 45% of their revenues from aftermarket services. The underlying trend in aftermarket revenues improved throughout the year, from (6)% in the first half to (1)% in the second, resulting in a full year decline of (4)%.

Revenue from Aviation decreased (2)% on an underlying basis. The good growth reported in the first half tapered off following successful completion of some large contracts including the computed tomography (CT) hold baggage systems for AENA in Spain and CT cabin baggage screening systems for the TSA in the US. Revenue from Other Security Systems declined by (21)% on an underlying basis. This performance reflects a sharp slowdown in urban security markets due to the pandemic.

Despite a slower rate of new tenders, Smiths Detection continues to secure new contracts and order intake has stabilised. In Aviation, Smiths Detection won the contract to supply CT cabin baggage systems throughout Heathrow Airport, as well as for Milan Airports Malpensa and Linate, Kuwait International Airport and Hamad International Airport (HIA) in Qatar. Smiths Detection has also been awarded several contracts in hold baggage, including with the TSA, Incheon and Sheremetyevo airports. HIA and Narita Airport placed orders for ultraviolet light kits, capable of destroying up to 99.9% of microorganisms present on baggage trays at the security checkpoint. This new technology supports heightened hygiene standards which will be important as airports seek to restore the confidence of travellers and staff during and after the COVID-19 pandemic.

In Other Security Systems, Smiths Detection secured contracts with the U.S. and French customs agencies and the Hellenic police for mobile x-ray inspection systems. It also won contracts to supply systems to stadiums featuring our digital iCMORE automatic threat detection technology, enhancing arena security and reducing the need for hands-on searches, and contracts for the supply of equipment to the US Department of Defence.

Following the successful integration of PathSensors Inc which brought additional capability in the areas of environment monitoring, food safety and mail screening, Smiths Detection has developed the capability to detect all major airborne COVID-19 variants.

### Operating profit

(£m)	FY2020 reported	Foreign exchange	Acquisitions & disposals	Lower restructuring and write- downs	Underlying movement	FY2021 reported
<b>Headline operating profit</b>	82	(3)	(1)	23	(2)	99
<b>Headline operating margin</b>	10.2%					13.7%

Smiths Detection maintained good profit conversion with headline operating profit down only (2)% on an underlying basis, despite lower volumes. Headline operating profit of £99m was up +21% on a reported basis, including +£23m year-on-year impact of lower restructuring costs and write-downs, and £(3)m adverse foreign exchange translation. Headline operating profit margin was 13.7%, up +350bps on a reported basis and +70bps on an underlying basis. The difference between statutory and headline operating profit primarily reflects amortisation of acquired intangibles.

### ROCE

ROCE increased by +250bps to 9.7%, with lower restructuring and write-down charges this year and a reduction in working capital.

### R&D

Cash R&D expenditure was 7.4% of sales, (180)bps lower than last year following the completion of some customer-funded projects. Smiths Detection continued 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 digital solutions to strengthen our aftermarket proposition to make people and infrastructure safer. Certain programmes are co-funded by strategic customers seeking next-generation solutions to security challenges.

KPIs and alternative performance measures (APMs) referred to on this page are defined in note 30 to the Financial Statements.

## FLEX-TEK

Safe and efficient movement of fluids and gases

### FY2021 PERFORMANCE

#### REVENUE

+6%<sup>1</sup>

£508m

#### REVENUE BY SECTOR

##### AEROSPACE

19%

##### INDUSTRIALS

81%



#### REVENUE MIX

##### ORIGINAL EQUIPMENT

47%

##### AFTERMARKET

53%



#### HEADLINE OPERATING PROFIT

+13%<sup>1</sup>

£97m

#### HEADLINE OPERATING PROFIT MARGIN<sup>2</sup>

+110bps<sup>1</sup>

19.1%

1 Underlying movement. Underlying defined in note 30 to the Financial Statements.

2 Defined in note 30 to the Financial Statements.

### SUPPORTING RESEARCH INTO EFFICIENT JET ENGINE DESIGN

SureHeat SFI electric air heaters are supporting research into jet engine design and the production of components to improve efficiency and reduce the carbon footprint of aircraft in flight.

TUTCO's SureHeat specialty flanged inline (SFI) electric air heaters are used in a range of test and research applications including material and component testing of aviation parts, wind tunnel test facilities, and jet engine simulation. SFI heaters offer superior performance over conventional tubular/immersion style heaters because they are designed specifically for air and inert gas applications.

Proprietary SERPENTINE™ technology facilitates a very high-power watt density, enabling a compact overall heater design up to 12 times smaller than equivalent competitive conventional heaters. And, with a faster heat-up and cool-down ramp time and integrated infrared temperature sensors, SureHeat SFI heaters are more cost effective to operate, offer highly accurate temperature control, and are protected from overheating.

Flex-Tek is a global provider of high-performance engineered components and solutions that support the safe and efficient movement of fluids and gases in a range of industry sectors.

Our flexible hosing and rigid tubing deliver gas and conditioned air in residential and commercial buildings, manage fluid in fuel and hydraulic applications on commercial and military aircraft and support respiratory care in medical applications. Flex-Tek heating elements and thermal systems improve the performance and efficiency of industrial and domestic appliances and medical and diagnostic equipment.

## Competitive strengths

- Leading capability in design, manufacture and cost engineering
- High-performance differentiated products
- Innovation focused
- Strong customer relationships and brand reputation

## Growth drivers

- Through-cycle growth of the US housing construction market
- Expanding international market for construction products
- Long-term increase in commercial and military aircraft production
- Customer focus on efficient performance and environmental safeguarding
- Industrial heat solutions
- Growth of medical devices

## Products

In **Aerospace**, we are a leading provider of specialty tubing assemblies for airframes and turbine engines that provide reliable, efficient delivery of hydraulic fluids and jet fuel.

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

## Competitors

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

## DIVISIONAL STRATEGY

Our strategy aligns our business to key long-term trends including **energy efficiency, air quality** and **safe operations**.

- Innovation to support evolving sector and customer needs – core and next generation
- Grow share in US housing market segment and international construction markets
- Expand HVAC product offer
- Focus on solutions provision in industrials segment – particularly industrial heat capabilities and medical hoses
- Innovation across segments focused on environmental safeguarding – energy efficiency, alternative energy sources and clean air
- Smart/digitally integrated products
- Selectively invest in accelerator opportunities including refrigerant line sets and clean air ducting
- Build strength in military aviation segment, including MRO and secure positions on next generation aircraft through OEM development and preferred supplier partnerships
- Continue to invest in our people to attract and build talent and drive engagement
- Increased focus on sustainability through product governance and manufacturing techniques
- Further develop excellence in customer service
- Leverage SES to implement global best practices and continuous improvement
- Ensure quality and synergies in supply chain

## Markets where we operate

Our business performance generally follows macroeconomic indicators such as US GDP, US housing growth, healthcare spending and capital goods expenditure. The diverse nature of our markets reduces our reliance on any specific technology, although we are currently primarily exposed to the US economy. The need for environmental safeguarding, process efficiency and healthy environments is driving demand for new technology across segments.

In Aerospace, the commercial aircraft market is expected to be challenging for the next two to three years following the COVID-19 pandemic. In the long term, increasing air passenger and freight volumes and investment in next-generation aircraft are expected to drive a rebound in growth. Military demand is unaffected.

In Industrials, growth is driven by the US housing market segment, with opportunities growing in international construction markets due to population increase. We provide an increasing number of specialty heating applications with opportunities for further innovation to grow adjacent revenues. Increasing global healthcare spending, especially post COVID-19, is driving growth in hoses for medical devices.

## How we work with customers

Our relationships with customers are managed through our sales and marketing organisation. We bring the voice of the customer into the business by engaging with customer procurement and management teams at the appropriate level and have frequent contact with customer manufacturing operations and quality teams to ensure that we are consistently meeting expectations and fine tuning our approach.

## Opportunities and risks from climate change and the net zero agenda

We have identified a range of opportunities arising from climate change and the net zero agenda. These include developing existing Flex-Tek technology and capabilities to support energy transition, for example electrical heating of hydrogen gas, high reliability gas piping systems for hydrogen/natural gas blends and use of SureHeat's high temperature/high pressure heating systems to replace gas as a process heat in industrial applications. Lower weight aircraft hoses will support better aircraft fuel efficiency and products that reduce leakage in HVAC systems will increase efficiency and lower environmental impact. There are other potential opportunities to reduce the use of raw materials such as in-wall ducting and packaging projects.

Risks are based primarily on regulatory changes associated with climate change impacting our ability to sell products such as the flexible duct and a move away from natural gas for home heating and high-energy consumption HVAC systems. On a longer time horizon, the development of electric aircraft will change demand for fuel hoses.

## COVID-19

Our utmost priority has been to keep our employees safe whilst maximising business continuity with our suppliers and servicing our customers. The US Housing market has recovered quickly from the effects of the pandemic, while other Industrial segments have been slower to recover. The Aerospace segment saw a significant downturn in volume for this fiscal year, with an improving trend beginning in Q4. Whilst most of our end markets are expected to recover relatively swiftly, commercial aerospace is expected to take two to three years to return to pre-COVID-19 level.

## FY2021 FINANCIAL PERFORMANCE

	FY2021 £m	FY2020 £m	Reported growth	H1 underlying growth	H2 underlying growth	FY underlying growth
<b>Revenue</b>	<b>508</b>	478	+6%	(1)%	+13%	+6%
Industrials	409	345	+19%	+14%	+17%	+15%
Aerospace	99	133	(26)%	(35)%	+2%	(20)%
<b>Headline operating profit</b>	<b>97</b>	83	+17%	–	+28%	+13%
<b>Headline operating profit margin</b>	<b>19.1%</b>	17.3%	+180bps	+20bps	+220bps	+110bps
<b>Statutory operating profit</b>	<b>83</b>	52	+60%			
<b>Return on capital employed</b>	<b>21.6%</b>	17.5%	+410bps			
<b>R&amp;D cash costs % sales</b>	<b>0.5%</b>	0.5%	–			

### Revenue

(£m)	FY2020 reported	Foreign exchange	Acquisitions & disposals	Underlying movement	FY2021 reported
<b>Revenue</b>	478	(29)	33	26	<b>508</b>

Flex-Tek's revenue increased +6% on an underlying basis, as strong revenue growth in Industrials more than offset the downturn in Aerospace. Revenue grew +6% on a reported basis, including £(29)m adverse foreign exchange translation and +£33m from acquisitions.

Revenue from Flex-Tek's Industrial segment was up +15% on an underlying basis. Strong growth throughout the year was driven by demand for its construction related products in the US, particularly

for HVAC applications, where Flex-Tek continued to outperform the underlying market. Other drivers included good growth of its industrial heat applications.

Underlying revenue from Flex-Tek's Aerospace segment was down (20)% for the year, but up +2% in the second half. This was a result of improving market conditions, as well as market share gains and increased content on existing platforms.

### Operating profit

(£m)	FY2020 reported	Foreign exchange	Acquisitions & disposals	Lower restructuring and write- downs	Underlying movement	FY2021 reported
<b>Headline operating profit</b>	83	(5)	10	–	9	<b>97</b>
<b>Headline operating margin</b>	17.3%					<b>19.1%</b>

Headline operating profit increased +13% on an underlying basis, reflecting improved volumes and strengthened margins. Headline operating profit was up +17% at £97m on a reported basis, including £(5)m adverse foreign exchange translation and +£10m from acquisitions. Headline operating profit margin was up +180bps to 19.1%, on a reported basis. The difference between statutory and headline operating profit is due to amortisation of acquired intangible assets and provision for Titeflex Corporation subrogation claims.

In February 2021, the Group acquired Royal Metal, a leading manufacturer of residential and light commercial HVAC products for \$107m. Royal Metal is being successfully integrated into Flex-Tek. The acquisition complements the organic growth that Flex-Tek is already driving through the development of innovative air distribution products that support improved energy efficiency and indoor air quality. For more information, see note 27 of the Financial Statements.

### ROCE

ROCE increased +410bps to 21.6% reflecting the improved profitability.

### R&D

Cash R&D expenditure remained consistent at 0.5% of sales. R&D is focused on developing new products for the construction market, and an expanded product offering in aerospace.

## SMITHS INTERCONNECT

High-speed, secure connectivity in critical applications

### FY2021 PERFORMANCE

#### REVENUE

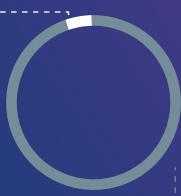
+7%<sup>1</sup>

£312m

#### REVENUE MIX

##### AFTERMARKET

2%



##### ORIGINAL EQUIPMENT

98%

#### HEADLINE OPERATING PROFIT

+54%<sup>1</sup>

£35m

#### HEADLINE OPERATING PROFIT MARGIN<sup>2</sup>

+450bps<sup>1</sup>

11.2%

1 Underlying movement. Underlying defined in note 30 to the Financial Statements.

2 Defined in note 30 to the Financial Statements.

## OPTICAL TECHNOLOGY CONNECTING OUR WORLD

Our 28G optical transceivers support the high data rates of the next generation of satellites connecting our world.

Constellations of satellites in low-earth orbits (LEO) are a growing market segment, providing internet connectivity to underserved and remote regions. Much larger geosynchronous orbit (GEO) satellites provide high-throughput communication services to major population areas, each using many spot beams to cover a large region.

These next generation satellites require reliable optical networking to handle high data rates and, when it comes to getting technology into space, small, light and rugged is critical.

Reflex Photonics optical transceiver technology delivers data rates up to 40 times higher than an average household's bandwidth, is small and light, and is able to operate in the harsh environment of space where temperatures can transition from cold to hot more than ten times a day and where radiation can disrupt the performance of electronic components.

WATCH THE CASE STUDY ONLINE:  
[WWW.SMITHS.COM/WHAT-WE-DO/SMITHS-INTERCONNECT](http://WWW.SMITHS.COM/WHAT-WE-DO/SMITHS-INTERCONNECT)

Smiths Interconnect is a preferred supplier of advanced, differentiated electronic components, subsystems, microwave and radio frequency products to OEMs requiring reliable, high-speed and secure connectivity and control for demanding applications in harsh environments.

We work with customers in the aerospace, space, defence, communications and industrial markets.

### Competitive strengths

- Broad portfolio of technically differentiated products
- Strong research and engineering capabilities
- Customer intimacy and product customisation
- Global reach and support

### Growth drivers

- Increased demand for connectivity in space, defence and communications
- Increasing geopolitical uncertainty
- Growing urban populations requiring transport and infrastructure
- Increased focus on healthcare and ageing populations
- Extension of digitisation and internet connectivity (Internet of Things, Internet of Space, Industry 4.0, increase in fibre-optic transmission) to drive higher data rates and safe and efficient performance
- Big data/AI bandwidth

### Products

We provide technologically differentiated electronic components, subsystems, microwave and radio frequency products that connect, protect and control critical applications in harsh environments.

Our interconnect solutions, technologies and system integration capabilities are used in defence radar, communication and surveillance systems that are mission-critical; our connectivity solutions for engine systems, power distribution and avionics ensure reliability in aviation flight-critical systems. Our microwave components and connectors ensure optimal performance, durability and safety in deep space missions, as well as in 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 products are used in medical surgical and monitoring systems, imaging systems and disposables applications. Our connectors enable the safe operation of train rolling stock and high-speed data transmission in signalling.

## DIVISIONAL STRATEGY

Our strategy aligns our business to key long-term trends including **faster/seamless connectivity** and **satellite applications**.

- Continue to focus on current market sectors
- Launch core and next generation innovation supporting high density/high-integrity connectivity
- Selectively invest in accelerator opportunities including fibre optics, space and micro-electronics
- Consolidate presence in India and China, focusing on defence, satcom, space and rail market segments
- Be the connectivity partner of choice. Focus on customer intimacy, service and lead times
- Continue to invest in our people to attract and build talent and drive engagement
- Strengthen regional manufacturing and supply chains to optimise network, enable flexibility and provide localised solutions
- Increase focus on product sustainability through product governance and manufacturing techniques
- Leverage SES to implement global best practices and continuous improvement

## Competitors

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

## Markets where we operate

Increasing geopolitical uncertainty and the growth of operations in extreme environments provide a platform for growth in the defence segment. The acceleration of demand for communication and data transmission in the digital age is creating a huge requirement for new consumer/commercial electronics that need semiconductor testing, as well as for additional satellites, especially LEO and MEO to ensure ubiquitous connectivity. Commercial aerospace is expected to recover over time with the upgrade of fleets following the disruption of the air transportation market due to the COVID-19 pandemic.

Urbanisation, emerging economies and the demand for sustainable transport are driving capacity expansion and automation in rail and other industrial segments. Technology and Artificial Intelligence are transforming healthcare and will drive demand for home-based, more connected medical devices, accelerated by experience of the COVID-19 pandemic.

The growth in big data, which requires more bandwidth and increased computing power, combined with a high rate of technology refresh with increased functionality and connectivity, creates further opportunities for our products. Technology evolution will also be driven by an increasing desire for carbon neutral and/or more sustainable products/processes and transition to greener energy solutions such as renewable power systems including wind turbines, electricity storage and battery back-up power.

## How we work with customers

Ensuring we bring our expertise to customers in the way that works for them is very important to us. We provide in depth design support through the customer specification process with dedicated field applications engineers assigned to assist customers to choose the right solution for their needs and optimise the launch process. Key Account Sales Teams are appointed to support project deployment and ensure prompt responses to requests and queries. We measure and calibrate our service performance through the use of monthly scorecards for key accounts that review KPIs including revenue, on-time delivery, past-due, DPPM (defective parts per million) and escapes, and we have a global procedure for gathering and analysing data taken from customers' own scorecards.

## Opportunities and risks from climate change and the net zero agenda

Short and long-term physical risks to operations or the supply chain are covered by business continuity and supply chain planning.

Short-term transitional risk centres around customer behaviour, their likely requirement for more environmentally sustainable products, and continuing confidence to invest in new technology platforms. To mitigate this, we maintain a disciplined horizon scanning process and use a value proposition marketing approach to continuously understand the market and customer landscape and customer needs. Our products are also becoming more sustainable by design, for example our new, low profile test socket which is 3D printed, reducing the raw materials required for manufacture.

We see a range of opportunities for Interconnect technology arising from the net zero agenda including the need to manage battery efficiency and temperature performance of new low carbon technologies and demand for low resistance, power efficient and stable connection solutions and transportation related products.

## COVID-19

Throughout the pandemic we've worked collaboratively across our whole business to deliver on three priorities: keeping our people safe, keeping our operations going with colleagues actively working, and ensuring we continue to support our customers, at all times in line with our values. Our approach has been to develop group-wide frameworks, guidance and materials to be applied by each of our businesses considering individual operational needs and local requirements. We have continued to monitor the rigorous application of appropriate precautions at our sites to protect the health and safety of our employees and to consult with external medical experts to gain the latest insights into the situation around the coronavirus, the plans of national governments and the developing availability of vaccines.

This has resulted in minimal numbers of sick employees, minimal disruption to our operations and, consequently, very limited impact on our customers.

## FY2021 FINANCIAL PERFORMANCE

	FY2021 £m	FY2020 £m	Reported growth	H1 underlying growth	H2 underlying growth	FY underlying growth
<b>Revenue</b>	<b>312</b>	309	+1%	+11%	+3%	+7%
<b>Headline operating profit</b>	<b>35</b>	26	+35%	+109%	+30%	+54%
<b>Headline operating profit margin</b>	<b>11.2%</b>	8.4%	+280bps	+560bps	+350bps	+450bps
<b>Statutory operating profit</b>	<b>34</b>	23	+48%			
<b>Return on capital employed</b>	<b>8.8%</b>	6.4%	+240bps			
<b>R&amp;D cash costs % sales</b>	<b>6.3%</b>	7.7%	(140)bps			

### Revenue

(£m)	FY2020 reported	Foreign exchange	Acquisitions & disposals	Underlying movement	FY2021 reported
<b>Revenue</b>	<b>309</b>	(16)	–	19	<b>312</b>

Smiths Interconnect delivered a strong performance with revenue up +7% on an underlying basis, reflecting continued good momentum supported by a growing orderbook. Revenue in the second half was up +3% compared to +11% in the first half, due to the strong Q4 performance in the prior year. Revenue increased by +1% on a reported basis, including £(16)m adverse foreign exchange translation.

This strong performance reflects high growth in the semiconductor test business, as customers increased capacity for the production of graphics chips and other microprocessors to support demand for laptops, data centres and games consoles, as well as new customer wins.

There was also growth in the space and defence market segments from specific projects and satellite programmes. This growth was partly offset by a slight decline in the industrials market, driven in part by the timing of medical orders.

During the year, Smiths Interconnect received significant orders for its space-qualified products for space exploration projects and commercial satellite constellations. Smiths Interconnect is proud that its high-performance connectors are onboard NASA's six-wheeled science rover, Perseverance, which landed safely on Mars to search for traces of microbial life.

### Operating profit

(£m)	FY2020 reported	Foreign exchange	Acquisitions & disposals	Lower restructuring and write- downs	Underlying movement	FY2021 reported
<b>Headline operating profit</b>	<b>26</b>	(2)	–	(5)	16	<b>35</b>
<b>Headline operating margin</b>	<b>8.4%</b>					<b>11.2%</b>

Headline operating profit increased +54% on an underlying basis, reflecting strong volumes and the benefits of restructuring actions. Headline operating profit was up +35% to £35m on a reported basis, including £(5)m of higher year-on-year restructuring costs to optimise the operational footprint.

Headline operating profit margin was 11.2%, up +280bps on a reported basis and +450bps on an underlying basis. The difference between statutory and headline operating profit reflects the amortisation of acquired intangibles.

### ROCE

ROCE increased +240bps to 8.8%, driven by higher profitability.

### R&D

Cash R&D expenditure decreased to 6.3% of sales (FY2020: 7.7%). R&D is focused on bringing to market new products that improve connectivity and product integrity in demanding operating environments. Product launches included the new Joule 20 test socket for semiconductor test customers; new attenuators for space applications; and advanced connectors for the medical market.

## DISCONTINUED OPERATIONS – SMITHS MEDICAL

Leading medical device business, whose purpose is to save and improve the lives of millions of patients globally

### FY2021 PERFORMANCE

#### REVENUE

(3)%<sup>1</sup>

**£849m**

#### REVENUE BY SECTOR

INFUSION SYSTEMS  
36%

VASCULAR ACCESS  
32%

VITAL CARE AND SPECIALTY PRODUCTS  
32%



#### REVENUE MIX

ORIGINAL EQUIPMENT  
19%

CONSUMABLES  
81%



#### HEADLINE OPERATING PROFIT

+4%<sup>1</sup>

**£177m**

#### HEADLINE OPERATING PROFIT MARGIN<sup>2</sup>

+110bps<sup>1</sup>

**20.8%**

1 Underlying movement. Underlying defined in note 30 to the Financial Statements.

2 Defined in note 30 to the Financial Statements.

### Competitive strengths

- A category leader in served segments
- Strong brands and technology
- 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.

### Products

In **Infusion Systems**, Smiths Medical products deliver fluids and medication for pain management and the treatment of acute and chronic diseases for use in both hospital and home settings.

In **Vascular Access**, products allow healthcare workers to deliver fluids and medication to patients or to obtain blood samples from patients.

### Vital Care and Speciality Products

comprises devices to manage patients' airways, and systems to maintain patients' body temperature before, during and after surgery.

### Markets where we operate

The medical device industry has strong growth drivers. The global market served by Smiths Medical is estimated to be over £7bn and growing around 3% annually, with growth drivers such as growing and ageing populations, increasing need for connected systems and data analytics, and growth of alternate site and home-based healthcare and innovation.

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

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

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

## FY2021 FINANCIAL PERFORMANCE

	FY2021 £m	FY2020 £m	Reported growth	H1 underlying growth	H2 underlying growth	FY underlying growth
<b>Revenue</b>	<b>849</b>	918	(8)%	–	(7)%	(3)%
<b>Headline operating profit</b>	<b>177</b>	184	(4)%	+2%	+5%	+4%
<b>Headline operating profit margin</b>	<b>20.8%</b>	20.1%	+70bps	+30bps	+190bps	+110bps
<b>Headline profit after tax</b>	<b>134</b>	139	(4)%	+5%	+5%	+5%
<b>Statutory profit after tax</b>	<b>128</b>	200	(36)%			
<b>Return on capital employed</b>	<b>13.3%</b>	13.8%	(50)bps			
<b>R&amp;D cash costs % sales</b>	<b>5.6%</b>	5.9%	(30)bps			

Consistent with accounting standards for discontinued operations, depreciation and amortisation are not included in reported results for Smiths Medical. Depreciation and amortisation of £45m (FY2020: £45m) have, however, been included in the calculation of underlying measures.

### Agreed sale of Smiths Medical

On 8 September 2021, the Group announced the sale of Smiths Medical to ICU Medical, Inc. (ICU Medical) at an enterprise value of \$2.7bn and an equity value of \$2.4bn after adjustments for debt, liabilities and working capital.

At closing, the Group expects to receive \$1.85bn in cash proceeds and 2.5m new ICU Medical shares, valued at \$0.5bn at the time of announcement. The Group will receive an additional \$0.1bn in cash, contingent on the future share price performance of ICU Medical.

Completion and receipt of initial cash proceeds is expected in the first half calendar year 2022, subject to approval by Smiths' shareholders and customary regulatory approvals. The sale of Smiths Medical simplifies and positions Smiths for focused growth in its core industrial technology business and will enable a significant return of capital to shareholders.

### Revenue

(£m)	FY2020 reported	Foreign exchange	Acquisitions & disposals*	Underlying movement	FY2021 reported
<b>Revenue</b>	918	(39)	–	(30)	<b>849</b>
Smiths Medical delivered revenue of £849m, down (3)% on an underlying basis. Excluding the one-off, nil-margin revenue generated in the second half of FY2020 from participation in the		Ventilator Challenge UK, revenue was flat against the prior year. Revenue was down (8)% on a reported basis, including £(39)m of adverse foreign exchange translation.			

### Operating profit

(£m)	FY2020 reported	Foreign exchange	Acquisitions & disposals	Higher restructuring	Depreciation & amortisation	Underlying movement	FY2021 reported
<b>Operating profit</b>	184	(7)	–	(5)	–	5	<b>177</b>
<b>Operating margin</b>	20.1%						<b>20.8%</b>

Headline operating profit of £177m was up +4% on an underlying basis, reflecting restructuring actions and cost discipline. Headline operating profit was down (4)% on a reported basis, due to £(7)m of adverse foreign exchange and £(5)m of higher year-on-year restructuring costs. Headline operating profit margin of 20.8% was up +110bps on an underlying basis, and +70bps on a reported basis.

Headline profit after tax of £134m increased +5% on an underlying basis, due to growth in operating profit. On a reported basis headline profit after tax was down (4), including the adverse foreign exchange and restructuring costs.

The difference between statutory and headline profit after tax is £(6)m, which includes £(18)m of separation costs, £(61)m of non-cash impairment charges, +£50m of foreign exchange on the intercompany loan with Smiths continuing Group and +£23m of tax credit on these non-headline items. The non-cash impairment charges comprise £52m of capitalised development costs, £5m of specific inventory and £4m of attributable fixed assets, relating mostly to the Intellifuse Large Volume Pump (LVP).

In April 2021, Smiths Medical invested in Ivenix Inc., the owner of an FDA approved LVP and entered into an agreement to be the exclusive distributor of the Ivenix LVP. The investment and distribution agreement meant Smiths Medical prioritised commercialisation of the Ivenix LVP and the development of the Intellifuse LVP was put on hold. This change has given rise to the impairment charges disclosed above, with the entire value of the Intellifuse LVP having been impaired.

In June 2020, Smiths Medical initiated a Class I recall of certain Medfusion® 3500 and 4000 syringe pumps with specific firmware versions, due to a software error. Following the recall, the US Food and Drug Administration (the FDA) undertook an inspection at Smiths Medical's Minneapolis site and issued its observations in April 2021. Smiths Medical is undertaking remediation actions, and is committing significant resources, to address each of the FDA's observations and to strengthen its quality systems. Smiths Medical is aiming to complete the outstanding remediation actions by the end of 2023.

### ROCE

ROCE declined (50)bps to 13.3%.

### R&D

Cash R&D expenditure was 5.6% of sales, down (30)bps year-on-year. Smiths Medical continues to invest in the development of innovative, commercially focused products across the portfolio to support long-term, sustainable growth. Product launches included:

- PharmGuard software enhancements for the CADD™ Solis Infusion Pump
- Comprehensive pain management solutions with new dedicated connectors
- A new endotracheal tube

KPIs and alternative performance measures (APMs) referred to on this page are defined in note 30 to the Financial Statements.

## A PROACTIVE APPROACH TO RISK

We operate across a number of markets and geographies. We manage our risks to our desired level to realise our ambitions.

### KEY CONTENTS

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### THE ENTERPRISE RISK MANAGEMENT (ERM) PROCESS

#### BOARD AND AUDIT & RISK COMMITTEE

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



#### 4TH LINE OF DEFENCE

#### EXECUTIVE COMMITTEE AND SENIOR MANAGEMENT

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

REGULATORS AND EXTERNAL AUDIT



#### 1ST 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



#### 2ND LINE OF DEFENCE

- Monitoring and compliance**
- Risk and compliance functions**
- Developing and managing the ERM process
  - Monitoring risks
  - Developing and managing policies and control frameworks
  - Monitoring controls
  - Ensuring financial, legal and ethical compliance
  - Ensuring security, quality and health and safety



#### 3RD LINE OF DEFENCE

- Independent assurance**
- Internal audit function**
- Providing assurance on internal controls, programmes, systems and risk management processes
- Regulators and external audit**

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

#### Risk governance

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

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

The Executive Committee is responsible for designing the Enterprise Risk Management (ERM) framework and ensuring that it is effectively deployed throughout the Group.

The Executive Committee also ensures that the Board's risk appetite is understood by risk owners and decision-makers, ensures risks are adequately managed, and conducts an annual assessment of strategic risk. Principal risks are owned by members of the Executive Committee.

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

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

Our divisional and functional teams are responsible for day-to-day management and reporting of risks. They identify new and emerging risks, escalate where appropriate, and take action to ensure risks are managed as required. Our divisions also conduct annual assessments of the strategic, financial, compliance and operational risks they face. In FY2021 these were updated to ensure that the latest views were presented and considered.

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

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

During FY2021 the Executive Committee agreed the ERM timetable and the risks selected for ‘deep-dive’ discussions at Executive and Audit & Risk Committee meetings. These were: customers; product cyber security; markets; and contractual obligations. The Group’s list of principal risks was also discussed and recalibrated by the Executive Committee.

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

In addition, a further 40 risk workshops were facilitated at operational sites during the year to support the bottom-up view of risk that has fed into divisional and functional risk assessments.

The Directors consider the risk management process to be effective. The Audit & Risk Committee recognises that this is an ongoing process and work will continue in FY2022.

## Emerging risks

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

An example is climate change and the potential impact this may have on the business strategy. This forms part of risk reporting and risk management in the business. See page 79 for more details.

The UK withdrew from the European Union (EU) at the end of 2020. Due to the nature and structure of the Group’s business model, operations, supply chain and the location of its customers, Brexit has not had a material impact on the Group’s operations or its financial performance. As such Brexit is not in itself deemed to represent a principal risk and the impact of Brexit has not been included in the scenarios developed to assess the Group’s going concern or viability (see pages 80 to 81).

## COVID-19 impact

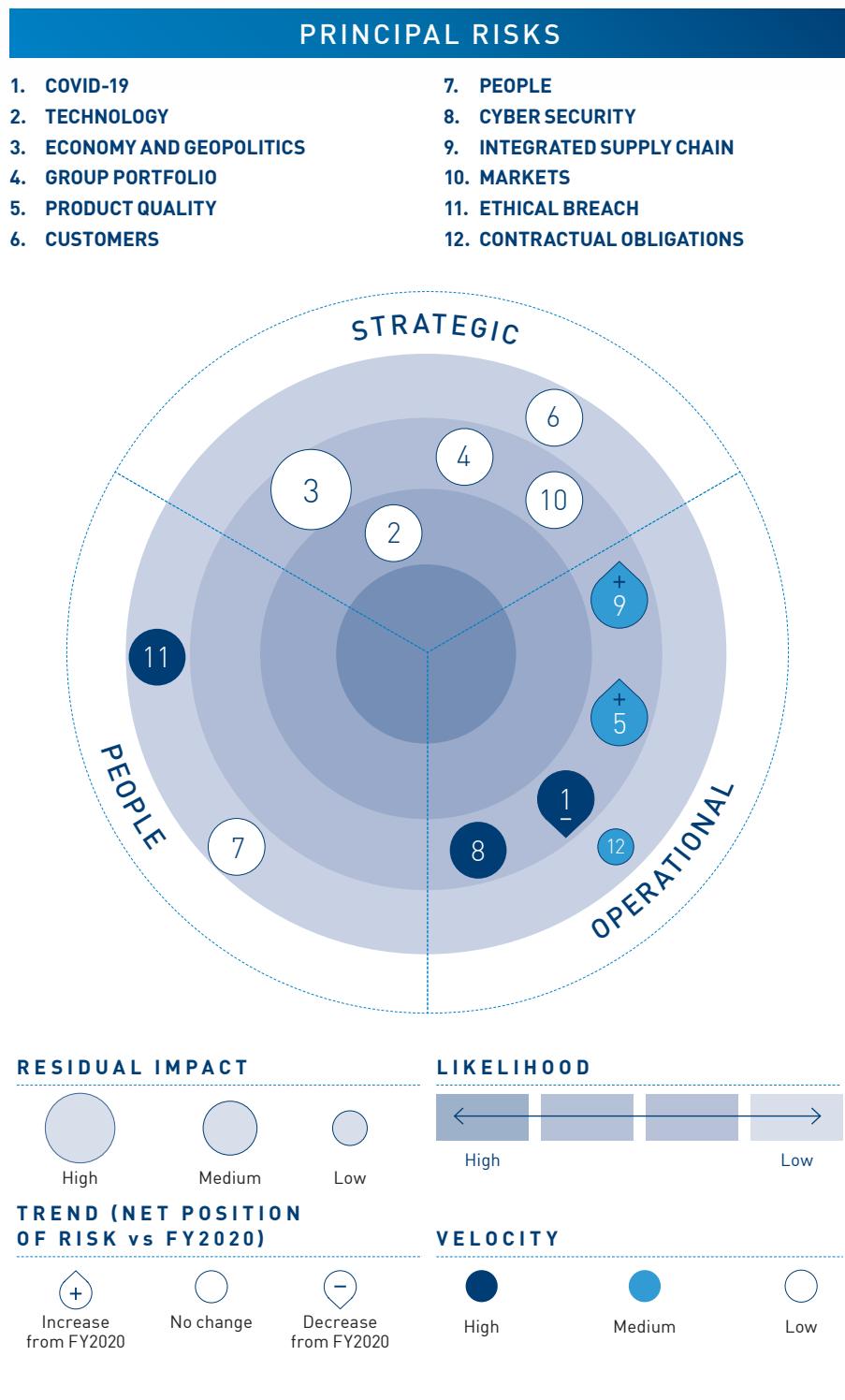
The COVID-19 pandemic is having, and will continue to have, an impact across the business. This is inherently reflected in each risk and mitigating actions.

The Executive Committee, Audit & Risk Committee and Board have spent time considering the impact of COVID-19 on our business and our people including reviewing reports from the various groups established to direct and oversee the Group’s response to the impact of COVID-19.

As part of the ERM process it was agreed that disease pandemic would remain as a stand-alone COVID-19 principal risk, giving an overview of the direct uncertainties, potential impacts on the Group, and our responses. This continues to be closely monitored.

## PRINCIPAL RISKS AND UNCERTAINTIES

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



We review each risk and rate a number of factors: gross impact, applying the hypothetical assumption there are no mitigating controls in place; residual impact and likelihood, taking into account existing mitigating controls; target impact; the reputational impact of a risk; and its velocity, which reflects the expected time we would have to react should a risk materialise. These, in turn, drive mitigation priorities. A trend metric shows the net position of the risk year-on-year. We report on the relationship between risks to help understand the potential for one risk to have an impact on another. This is presented against each risk in the form of 'risk relationship' charts indicating the strength of linkage between each principal risk and others on the list. This has been used as an input to the viability statement assessment and will be used more widely in future risk scenario planning and mitigation work.

We updated our register of principal risks and uncertainties following review by the Executive Committee and approval by the Board. Liquidity has been retired from our principal risks in recognition of our resilient cash performance during COVID-19. Integrated Supply Chain risk has increased due to our reliance on critical sites and sole and single source suppliers. We concluded that our Product Quality risk has increased as a result of changes in the regulatory landscape in the markets in which we operate. The risk of COVID-19 impacting our colleagues, customers and suppliers has decreased following the introduction of global vaccines and stabilisation within the global economy.

Due to the long-term nature of climate change, it is not categorised as a principal risk. However, the Board recognises the importance of considering climate change in its decision-making, both in terms of risk and on longer-term strategic topics. Our climate change risks are managed in the same way as other risks. See page 79 for more details.

While we continue to monitor and manage a wider range of risks, the risk map above and the tables that follow summarise those risks considered to have the greatest potential impact.

## LINK TO RESOURCES AND RELATIONSHIPS

[READ MORE](#)  
RESOURCES AND RELATIONSHIPS P26



## 1. COVID-19



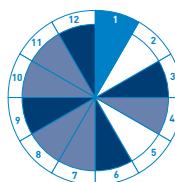
RISK OWNER  
Mel Rowlands

TREND  
Decrease

INCLUDED IN VIABILITY ASSESSMENT:

RELATIONSHIP TO OTHER PRINCIPAL RISKS

- Strong
- Moderate



**COVID-19 is impacting our colleagues, customers, suppliers and operations to varying degrees across different territories and different parts of our business. This includes, but is not limited to:** risks to the well-being of our people, their families and communities; our customers, who have in many cases revised their demand forecasts; our suppliers, whose businesses have had challenges maintaining continuity of supply; and our own operations and our customer service sites in relation to which have had to deal with all the combined challenges of the pandemic. Conversely, the Group is well positioned to identify and grasp opportunities that this change creates whether through organic development or M&A/joint venture/investment opportunities. The pandemic has accelerated major changes such as energy transition, and increased investment in solutions around safety and sustainability and other major societal problems whether clean air, virus free transport or greener oil & gas. All of which are already relevant to our future strategy.

### How this could impact our strategy or business model

- Significant reduction in global demand for our products
- Disruption to our ability to deliver products and services to customers in the event of interruptions to our supply chain and manufacturing operations

### Examples of how we manage this risk

- Smiths Group Crisis process was mobilised overseeing various workstream sub-groups and reporting to the Executive Committee
- Divisional Crisis Teams and Site Emergency Response Teams operationalised
- Smiths support network including partnerships with third parties providing pandemic related advice and support

### Examples of how we know the controls are working effectively

- Pan Smiths operations and supply nerve centre continues to provide real-time updates on status of operations, supply chain and logistics through dashboards
- Fast track issue spotting, escalation and resolution through Group and cross-divisional resources
- Over 90% of our manufacturing facilities operational during the worst stages of the pandemic
- Group HSE monitoring employee health across sites and within countries/regions
- Proactive case management of employee health in relation to COVID-19 regularly reported and acted upon

## 2. TECHNOLOGY



RISK OWNER  
Paul Keel

TREND  
No change

INCLUDED IN VIABILITY ASSESSMENT:  
N/A

RELATIONSHIP TO OTHER PRINCIPAL RISKS

- Strong
- Moderate



**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.**

- Diversified technology portfolio serving a range of sectors and geographies, mitigating exposure to any one sector or area

- Continuing and smarter investment in R&D (FY2021: 3.9% of Continuing Operations revenue, FY2020: 5.0%)

- Focus on building a culture of innovation with a long-range technology roadmap for each division

- Focus on next generation and transformational initiatives

- New Product Introduction (NPI) process operating across divisions to accelerate projects

- Digital Forge works to accelerate digital transformation across the Group

- Vitality Index as a KPI

- Robust IP protection via patents and other protections, and litigation where appropriate

### Examples of how we know the controls are working effectively

- Vitality data is part of the SES dashboard
- Adherence to NPI process is audited and embedded in systems with monthly 'pipeline' overview provided by divisions
- Technology roadmap is part of the Group strategic cycle
- Digital Advisory Committee as a governance mechanism to ensure the Digital Forge is working on the most value-creating projects for the Group

### 3. ECONOMY AND GEOPOLITICS



RISK OWNER	TREND	INCLUDED IN VIABILITY ASSESSMENT:	RELATIONSHIP TO OTHER PRINCIPAL RISKS
John Shipsey	No change	✓	<p>Strong</p> <p>Moderate</p>
<p><b>COVID-19 triggered a highly significant global economic downturn. In many sectors, demand has reduced. There is a likelihood that the impact on demand will be prolonged, especially in commercial aerospace. There may be an increase in bankruptcies of both customers and suppliers. Conversely, the crisis is opening up new opportunities, and inorganic opportunities are likely to arise more frequently and at better values. Geopolitical tensions have risen further, most notably with problems in the US/China relationship, which are now extending to China/UK and EU, and pose threats to the free movement of goods, capital and people. Governments continue to look for ways to improve tax revenues to ease fiscal budget pressures. Fiscal deficits are likely to threaten or delay government spending on programmes (e.g. in defence and security) which rely on Smiths' products. The consequences of Brexit are becoming clearer. Effects, applicable to many businesses, include some economic and operational dislocation.</b></p>			<p><b>How this could impact our strategy or business model</b></p> <ul style="list-style-type: none"> <li>Significant and prolonged reduction in global demand for our products</li> <li>Geopolitical tensions, most notably relating to China, the US, India, the Middle East, South Korea and North Korea, adversely impact trade</li> <li>Adverse impact on business performance due to the imposition of tariffs</li> <li>The consequences of Brexit are clearer, but uncertainty remains. Potential effects include economic and operational uncertainty, volatility of currency exchange, regulatory changes and the imposition of tariffs on trade between the UK and the Eurozone</li> <li>Governments continue to look for ways to improve tax revenues to ease fiscal budget pressures</li> </ul> <p><b>Examples of how we manage this risk</b></p> <ul style="list-style-type: none"> <li>Identification and application of learnings from past downturns through the cycle</li> <li>Diversified portfolio of businesses which mitigates exposure to any one country or sector</li> </ul>
<p><b>Geographic spread which mitigates the impact of trade barriers between regions</b></p> <p><b>Divisions monitor order flows and other leading indicators so that they may respond quickly to deteriorating trading conditions and tariffs/barriers to free trade</b></p> <p><b>Representation of our interests by the Corporate Affairs team</b></p> <p><b>Network of trade compliance officers across the Group who monitor upcoming changes in regulation and oversee import and export activities</b></p> <p><b>Monitoring of the ongoing negotiations between the UK and the EU in order to assess the potential impact of Brexit</b></p> <p><b>Sustainable tax strategy to optimise the Group's position</b></p> <p><b>Examples of how we know the controls are working effectively</b></p> <ul style="list-style-type: none"> <li>Impact of US tariffs to date has been absorbed</li> <li>Order tracking reported and monitored</li> <li>Business indicators reported weekly</li> </ul>			

### 4. GROUP PORTFOLIO



RISK OWNER	TREND	INCLUDED IN VIABILITY ASSESSMENT:	RELATIONSHIP TO OTHER PRINCIPAL RISKS
John Shipsey	No change	N/A	<p>Strong</p> <p>Moderate</p>
<p><b>Our strategy is predicated primarily on organic growth. However, acquisitions/divestments can also play a role in building and/or strengthening competitive positions.</b></p> <p><b>Acquisitions bring risk as well as opportunity. We may invest substantial funds and resources in acquisitions which fail to deliver on expectations. The opposite risk is that we miss out on opportunities to build market-leading positions and growth.</b></p> <p><b>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. The Medical separation is a very significant divestment; there is a risk that it may not be completed or that it will be completed badly.</b></p>			<p><b>How this could impact our strategy or business model</b></p> <ul style="list-style-type: none"> <li>Poor acquisitions/divestments, or poorly managed integrations/separations, lead directly to financial damage and indirectly to loss of shareholder confidence</li> <li>Newly-acquired products and solutions deliver less value, fewer synergies, or require more investment than anticipated</li> <li>Fall in our return on capital employed measure</li> <li>Financial performance suffers from goodwill or other acquisition-related impairment charges or inheritance of material unknown liabilities</li> </ul> <p><b>Examples of how we manage this risk</b></p> <ul style="list-style-type: none"> <li>Investment in greater internal capability for the evaluation and execution of transactions</li> <li>Regular reviews of the acquisition pipeline and a stage-gated M&amp;A process</li> <li>Detailed due diligence and integration work in accordance with our acquisitions and disposals policy</li> </ul>
<p><b>Detailed separation planning, in accordance with our acquisitions and disposals policy</b></p> <p><b>Governance ensures multi-disciplinary sign off</b></p> <p><b>Larger transactions approved by the full Board</b></p> <p><b>Post-transaction reviews with lessons learned incorporated into future projects</b></p> <p><b>Use of external advisers</b></p> <p><b>Technology acquisitions have established a strong track record</b></p> <p><b>Strong internal team</b></p> <p><b>Proper governance and oversight</b></p> <p><b>Learnings from previous acquisitions considered and applied</b></p> <p><b>Ongoing evaluation measured against original business case</b></p>			

## 5. PRODUCT QUALITY



RISK OWNER	TREND	INCLUDED IN VIABILITY ASSESSMENT:	RELATIONSHIP TO OTHER PRINCIPAL RISKS
Divisional Presidents	Increase	✓	<p>Strong</p> <p>Moderate</p>
<b>If a regulatory body identifies a potentially defective product that may cause or has caused a significant failure, Smiths will be subject to violations and possible regulatory action. 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. Internal risks can originate from inadequacies or insufficiencies in change control, manufacturing, internal quality system, adaptation to changing industry regulations, and systems maintenance and compliance. External risks can result from inspections and audits or challenges to product registrations or certifications. An example of this risk materialising includes the Medfusion® 3500 and 4000 syringe pumps recall and subsequent inspection by the US Food and Drug Administration (FDA) in Smiths Medical.</b>			
<p><b>How this could impact our strategy or business model</b></p> <ul style="list-style-type: none"> <li>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</li> <li>Recall of products due to manufacturing flaws, component failures, damage to persons/property, and/or design defects</li> <li>Customers' losses but also losses arising from a potentially large class of third parties</li> </ul> <p><b>Examples of how we manage this risk</b></p> <ul style="list-style-type: none"> <li>Divisional quality risk assessments that address product failures, product compliance, regulatory compliance, product performance, product safety and market authorisation risks</li> <li>Quality assurance processes embedded in manufacturing locations for critical equipment, supporting compliance with industry regulations</li> <li>Quality development and quality integration built into NPI processes</li> </ul>			<ul style="list-style-type: none"> <li>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</li> <li>Insurance cover for product liability</li> <li>Material litigation managed under the oversight of the Group General Counsel</li> </ul> <p><b>Examples of how we know the controls are working effectively</b></p> <ul style="list-style-type: none"> <li>Quality measures (e.g. DPPM, COPQ) are measured and action plans put in place to drive their improvement – these are regularly reported</li> <li>Group and divisional governance frameworks (including Delegation of Authority) ensure a close working relationship between legal and commercial teams (includes quality) to manage risks</li> <li>Fewer quality issues at launch of new products</li> </ul>

## 6. CUSTOMERS



RISK OWNER	TREND	INCLUDED IN VIABILITY ASSESSMENT:	RELATIONSHIP TO OTHER PRINCIPAL RISKS
Julian Fagge	No change	N/A	<p>Strong</p> <p>Moderate</p>
<p>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.</p> <p><b>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.</b></p>			<p><b>How this could impact our strategy or business model</b></p> <ul style="list-style-type: none"> <li>Loss of market share and adverse impact on Group results</li> <li>Material adverse effect on profitable growth</li> <li>Erosion of our reputation as a leader in our markets</li> </ul> <p><b>Examples of how we manage this risk</b></p> <ul style="list-style-type: none"> <li>As part of the Group innovation framework and our approach to potential technology disruption, we include customer disruption as well as competitor and product disruption</li> <li>New product innovation feedback through market research and direct feedback from existing and potential customers</li> </ul>
<p><b>Examples of how we know the controls are working effectively</b></p> <ul style="list-style-type: none"> <li>Megatrend workshops and disruption risks reviewed annually</li> <li>Customer input gathered on a frequent basis</li> <li>Pilot programmes to test products, business models and partnerships</li> <li>Strategic review process; divisional deep dives</li> </ul>			

## 7. PEOPLE



RISK OWNER	TREND	INCLUDED IN VIABILITY ASSESSMENT:	RELATIONSHIP TO OTHER PRINCIPAL RISKS
Sheena Mackay	No change	N/A	<p>Strong</p> <p>Moderate</p>

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

### How this could impact our strategy or business model

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

### Examples of how we manage this risk

- Investment to build a learning organisation with a focus on culture, reward and recognition
- Implementation of the right HR infrastructure
- Delivery of a range of learning and development opportunities at all levels of the organisation
- Talent and succession plan reviews
- Remuneration packages evaluated regularly against market trends
- Chief Executive assessment of the leadership team
- Annual performance management reviews for the majority of employees using best-practice processes such as 360-degree feedback surveys
- Formal career counselling for senior people in the business

- A clearly defined people integration plan for acquisitions
- People Plan oversight by the Board
- Diversity & Inclusion plan and initiatives

### Examples of how we know the controls are working effectively

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

## 8. CYBER SECURITY



RISK OWNER	TREND	INCLUDED IN VIABILITY ASSESSMENT:	RELATIONSHIP TO OTHER PRINCIPAL RISKS
John Shipsey	No change	✓	<p>Strong</p> <p>Moderate</p>

Cyber attacks seeking to compromise the confidentiality, integrity and availability of IT systems and the data held on them are a continuing risk. We operate in markets and product areas which are known to be of interest to criminals. Digitalisation and increased interconnectivity of our products intensify the risk and the number of areas under potential attack.

### How this could impact our strategy or business model

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

### Examples of how we manage this risk

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

### Examples of how we know the controls are working effectively

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

## 9. INTEGRATED SUPPLY CHAIN



RISK OWNER	TREND	INCLUDED IN VIABILITY ASSESSMENT:	RELATIONSHIP TO OTHER PRINCIPAL RISKS
Sheena Mackay	Increase	✓	<p>Strong</p> <p>Moderate</p>

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

### How this could impact our strategy or business model

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

### Examples of how we manage this risk

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

### Examples of how we know the controls are working effectively

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

## 10. MARKETS



RISK OWNER	TREND	INCLUDED IN VIABILITY ASSESSMENT:	RELATIONSHIP TO OTHER PRINCIPAL RISKS
Roland Carter	No change	N/A	<p>Strong</p> <p>Moderate</p>

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 that we do not focus on attractive sectors where we have, or could have, a sustainable position. The Group's growth strategy is expanding our operations in developing/higher growth markets – particularly markets that are under served in Asia Pacific.

### How this could impact our strategy or business model

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

### Examples of how we manage this risk

- A diversified portfolio of businesses mitigates exposure to any one country, sector or customer
- Growth strategy which places emphasis on expanding operations in higher-growth markets and regions which are currently underserved, including Asia
- An Asia Board has been established to oversee the strategy, and the progress we are making in the region

- Strategic process to capture continuing opportunities in current and adjacent markets
- Government relations function which collaborates with colleagues across the Group to advise on developments
- More resilient services and consumable components built into some of our government-related business

### Examples of how we know the controls are working effectively

- Strong and long-term customer relationships provide assurance
- Managing Director councils established in India and China
- Carefully crafted JV and Partnership arrangements in China

## 11. ETHICAL BREACH



RISK OWNER	TREND	INCLUDED IN VIABILITY ASSESSMENT:	RELATIONSHIP TO OTHER PRINCIPAL RISKS
Mel Rowlands	No change	N/A	<p><b>Strong</b></p> <p><b>Moderate</b></p>
<b>We have more than 21,500 employees in more than 50 countries. Individuals may not behave in accordance with our values and ethical standards. We operate in highly regulated markets requiring strict adherence to laws with risk areas including:</b>			<ul style="list-style-type: none"> <li>- US fines and penalties imposed for price fixing, bid rigging and other cartel-type activities can exceed \$100m per violation</li> <li>- Ethics or compliance breach causes harm to our reputation, financial performance, customer relationships and our ability to attract and retain talent</li> </ul>
<b>How this could impact our strategy or business model</b> <ul style="list-style-type: none"> <li>- Failure to comply with export regulations leads to significant fines and a loss of export privileges</li> <li>- Failure to meet strict conditions within government contracts, particularly in the US, could have serious financial and reputational consequences</li> </ul>			<ul style="list-style-type: none"> <li>- US fines and penalties imposed for price fixing, bid rigging and other cartel-type activities can exceed \$100m per violation</li> <li>- Ethics or compliance breach causes harm to our reputation, financial performance, customer relationships and our ability to attract and retain talent</li> </ul> <p><b>Examples of how we manage this risk</b></p> <ul style="list-style-type: none"> <li>- Group-wide ethics framework which includes our values, the Code of Business Ethics and the Supplier Code of Conduct</li> <li>- Policies and procedures to mitigate distributor and agent related risks including due diligence, contractual controls and internal approvals</li> <li>- 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)</li> <li>- Reporting and investigation mechanisms</li> <li>- Anti-trust training programmes and guidance</li> <li>- Network of trade compliance officers across the Group who monitor upcoming changes</li> </ul>
<b>How this could impact our strategy or business model</b> <ul style="list-style-type: none"> <li>- US fines and penalties imposed for price fixing, bid rigging and other cartel-type activities can exceed \$100m per violation</li> <li>- Ethics or compliance breach causes harm to our reputation, financial performance, customer relationships and our ability to attract and retain talent</li> </ul> <p><b>Examples of how we manage this risk</b></p> <ul style="list-style-type: none"> <li>- Group-wide ethics framework which includes our values, the Code of Business Ethics and the Supplier Code of Conduct</li> <li>- Policies and procedures to mitigate distributor and agent related risks including due diligence, contractual controls and internal approvals</li> <li>- 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)</li> <li>- Reporting and investigation mechanisms</li> <li>- Anti-trust training programmes and guidance</li> <li>- Network of trade compliance officers across the Group who monitor upcoming changes</li> </ul>			<ul style="list-style-type: none"> <li>- in regulation and oversee import and export activities</li> <li>- Monitoring and acting on upcoming legislative changes</li> <li>- Modern Slavery and Transparency Statement and procedures to reduce the risk of modern slavery within the Group and our supply chain</li> <li>- Multi-functional programme for data privacy compliance</li> </ul> <p><b>Examples of how we know the controls are working effectively</b></p> <ul style="list-style-type: none"> <li>- Multiple sources to assess culture including My Say results, 'Speak Out' reports, internal audit findings, exit interviews and ethics questions in performance reviews</li> <li>- Monitoring and reporting on compliance with ethics and compliance policies</li> <li>- Tracking of online ethics training and compliance modules</li> <li>- Reporting non-compliance cases to the business, Executive and Audit &amp; Risk Committees</li> </ul>

## 12. CONTRACTUAL OBLIGATIONS



RISK OWNER	TREND	INCLUDED IN VIABILITY ASSESSMENT:	RELATIONSHIP TO OTHER PRINCIPAL RISKS
Mel Rowlands	No change	N/A	<p><b>Strong</b></p> <p><b>Moderate</b></p>
<b>We may fail to deliver contracted products and services, or fail in our contractual execution due to delays or breaches by our suppliers or other counterparties.</b>			<p>counterparty to cancel, modify or terminate unilaterally and seek alternative sources of supply at our expense</p>
<b>How this could impact our strategy or business model</b> <ul style="list-style-type: none"> <li>- Production delays; unexpected increases in costs of labour or materials; freight, quality and warranty issues could all cause unexpected losses/reduced profits resulting from our failure to manage our contracts</li> <li>- Breach of contract resulting in significant expenses due to disputes and claims, loss of customers, damage to our reputation with other customers/prospective customers, and loss of revenue and profit due to higher costs, liquidated damages or other penalties</li> <li>- Contracts, particularly those with governments, may include terms that provide for unlimited liabilities, including for loss of profits, intellectual property (IP) indemnities, extended warranties or allowing the</li> </ul>			<p><b>Examples of how we manage this risk</b></p> <ul style="list-style-type: none"> <li>- Contracts managed and delivered by programme management teams that regularly review risks and take appropriate action</li> <li>- Review and approval process for significant and higher-risk contracts in place at Group and divisional levels</li> <li>- Diversified nature of the Group mitigates exposure to any single contract</li> <li>- Legal teams deliver training to colleagues</li> <li>- Programmes in place across the Group which harmonise the contract review process</li> <li>- Cross-divisional US Government working group determines and shares best practice on government contracting</li> </ul> <p><b>Examples of how we know the controls are working effectively</b></p> <ul style="list-style-type: none"> <li>- Divisional legal teams embedded in the business, working cross-functionally throughout the contract lifecycle</li> <li>- Review and approval process for contracts determined by adherence to the Delegation of Authority matrix</li> <li>- Insurance programme tailored to reflect the risk appetite of the Group</li> <li>- Uniform diligence and contracting process in place for agents and distributors</li> </ul>

## CLIMATE CHANGE



Smiths recognises the complex global challenges presented by climate change and the importance of: (a) understanding the risks and opportunities that it represents for the Group and (b) embedding these considerations into strategic decision-making. As described elsewhere in this Report, Smiths is well positioned to support customers in meeting their own climate and environmental goals as well as developing future products and services targeted at climate risk, energy transition and other environmental needs.

Climate-related risks and their potential impact on the business and its strategy form part of risk reporting and risk management across the Group. Due to its long-term nature, climate change is not considered to be a principal risk, but it is related to other principal risks, for example Technology, Group portfolio, Customers and Integrated supply chain.

In FY2021, the Group undertook an expanded climate risk and opportunity assessment, including scenario analysis to consider climate-related physical and transition risks.

We evaluated two climate change scenarios and identified actions to mitigate risks and capture opportunities in strategic plans.

We have joined the Task Force on Climate-related Financial Disclosures (TCFD) as supporters and we have committed to the 1.5 degree C Business Ambition under the UN Race for Zero covering all three scopes of GHG emissions.

### [READ MORE](#)

CLIMATE RISK ASSESSMENT AND ITS FINDINGS P44

## Physical risk

**Smiths locations and key Smiths customers and suppliers (particularly in India and on the US gulf coast) are exposed to extreme weather events such as storms/hurricanes, heatwaves and drought.**

### How this could impact our strategy or business model

- Damage to key Smiths assets leads to significant disruption and Smiths is unable to meet its obligations to customers (revenue and reputational impact)
- Damage to key supplier assets leads to significant disruption and Smiths is unable to meet its obligations to customers

- Customers in coastal areas relocate their operations to limit their own physical risk leading them to review their supplier portfolio
- Impact on safety and well-being of employees
- Increased operating and capital investment costs to regulate temperatures and/or deal with shortages of resources at operational sites

### Examples of how we manage this risk

- Diversified geographic base mitigates exposure to any one country
- Current and future climate trends considered during evaluation of potential new sites and acquisitions

- Regular evaluation of key sites making critical products, business continuity and disaster recovery plans and dual manufacturing capabilities
- Supplier resilience programme evaluating a range of risk factors, including a review of critical suppliers operating in high-risk environments
- Global Employee Assistance Programme and ISOS app
- Energy reduction projects

### Examples of how we know the controls are working effectively

- No recent business continuity incident from a significant weather event

## Energy transition risk

**The move to a low carbon economy could have a profound effect on some of Smiths traditional customers and reduce demand for Smiths products. Smiths may not take full advantage of the market disruption/increased regulation which provide opportunities to supply new products and services nor support customers on their energy transition. Smiths may be unable to improve the environmental performance of its operations and products.**

### How this could impact our strategy or business model

- New and emerging green technology suppliers taking share in Smiths market sectors or move faster to gain incumbency
- Changing consumer preferences including a permanent reduction in demand for flying and increasing demand for greener products and services
- Margin impact from increased regulation around GHG emissions and cost of offsetting/renewable energy

### Examples of how we manage this risk

- Development of products and services targeted at climate risk, energy transition and other environmental needs
- Supporting customers to use Smiths technology to meet their own environmental goals
- Proactively managing reductions in operational GHG emissions. Increasing use of renewable electricity. Targeting Net Zero by 2040
- Focus on intrinsic sustainability from operations of Smiths products through Design for Sustainability – raw materials, supply chain, durability, repairability, circularity and end-of-life outcomes

### Examples of how we know the controls are working effectively

- New product initiatives such as the John Crane methane programme and products supporting renewable energy systems
- Ongoing achievement of environmental targets
- Onsite renewable energy projects
- Customer interest consolidated by energy efficiency of products/programmes such as Smiths Detection's CTiX scanner

## GOING CONCERN AND VIABILITY STATEMENT

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 08 to 83. The financial position of the Company, its cash-flows, liquidity position and borrowing facilities are described on pages 20 to 23. In addition, the notes to the financial statements include the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

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

At 31 July 2021 the net debt of the Group including net cash/debt held in discontinued operations was £1,018m, a £123m decrease from 31 July 2020. At the end of July, the Group, including £48m of cash in discontinued operations, had available cash and short-term deposits of £453m. 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 3.2 years (from 4.2 years at 31 July 2020). There are no scheduled repayments of debt due until October 2022.

The Group maintains a core US\$800m committed revolving credit facility from these banks which was undrawn at 31 July 2021, and which has not been drawn since its last renewal in November 2017. US\$110m of this committed facility matures in November 2023 and US\$690m in November 2024. This facility has an interest cover financial covenant, however this is not forecast to prevent utilisation at the Group's discretion if required.

The Directors, having made appropriate enquiries, have a reasonable expectation that the Company and the Group have adequate resources to continue in operation for a period of at least 12 months from the date of this Report. Thus, they continue to adopt the going concern basis of accounting in preparing the financial statements of the Company and the Group.

In accordance with the requirements of the 2018 UK Corporate Governance Code, the Directors have assessed the longer-term prospects of the Group, taking into account its current position and a range of internal and external factors, including the principal risks detailed on pages 72 to 78 (the 'viability assessment').

The Directors have determined that a three-year period to 31 July 2024 is an appropriate timeframe for the viability assessment. The selected period is considered to be appropriate as, based on the historical performance of the Group, a three-year outlook represents an optimum balance of long-term projection and acceptable forecasting accuracy. The three-year viability assessment timeframe also takes into account considerations such as the maturity of the Group's borrowing facilities and the cyclicity 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 2022 and forecasts for 2023 and 2024. Against these financial projections, the Directors took into account the principal risks (as outlined on pages 72 to 78) 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 sale of Smiths Medical.

In addition to the scenario specific assumptions (detailed overleaf) the principal assumptions for this three-year viability assessment are as follows:

- FY2022 forecasts are based on the detailed operating plan reflecting the actual FY2021 performance, including the impact of COVID-19
- FY2023 and FY2024 are based on forecast percentage growth rates from the FY2022 forecast
- Smiths Medical has not been included in the assumptions after July 2022. Should Smiths Medical be sold prior to July 2022, the earlier receipt of proceeds will enhance the viability position
- The severe but plausible downside scenario for the recurrence of COVID-19 disruption has been modelled assuming a significant decline in demand and supply chain disruption (as outlined in Scenario 1 on page 81)
- No mitigating activities such as further restructuring or the access to additional financing have been reflected in the forecast estimates

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

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

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

## SCENARIOS MODELLED

### SCENARIOS

#### Scenario 1

A global event, such as COVID-19 disruption, leads to the enforced closure of key production sites for a two-month period with ongoing supply chain disruption, low customer demand and recessionary circumstances extending into the following year

#### Scenario 2

One of John Crane's mechanical seals is identified as faulty and the cause of an explosion at a major refinery causing the deaths of two staff and significant damage to the plant. John Crane is sued for the costs of repair and restoration of the plant in addition to the consequential losses of plant closure

#### Scenario 3

Following a product cyber attack, a terrorism-related incident occurs at a US airport. As a consequence, the US Government revokes Smiths Detection's licence. Sales of Smiths Detection's products to the US military and all other governmental contracts are banned and, due to the reputational damage, the impact of the ban spreads to all other divisions

#### Scenario 4

Smiths Detection is found guilty of bribing government officials in Asian countries in order to land significant contracts. This damages the Group's reputation and leads to worldwide regulators imposing significant sanctions on the Group

#### Scenario 5

A major fire at the John Crane plant in the Czech Republic renders the facility unusable, causing severe disruption to production

#### Scenario 6

Combination of scenarios 2 and 3.

### LINK TO PRINCIPAL RISKS

COVID-19 and Economy and geopolitics

Product quality

Cyber security

Ethical breach

Integrated supply chain

Product quality and Cyber security

### SCENARIO-SPECIFIC ASSUMPTIONS

- 13% fall in revenues and 64% falls in profits in FY2022 against FY2021 performance
- FY2023 26% fall in revenues and 44% reduction in profits against FY2021 from disposal of Smiths Medical and modelled downside scenario
- FY2024 18% fall in revenue and 15% reduction in profits against FY2021
- Inventory build in FY2022 unwinding in FY2023 and customer defaults in FY2022
- No mitigating activities such as restructuring and headcount reductions

- Significant costs plus material one-off settlement payments in FY2023
- Restoration costs spread over the three-year assessment period
- Insurance claim rejected

- Immediate loss of all US-based Government contracts within Smiths Detection
- 25% fall in other Smiths Detection revenue over the three-year assessment period
- Loss of 50% of Smiths Interconnect's North American revenue
- Material legal and settlement costs
- Insurance claim under product liability is not met or delayed outside of the review period

- Material global regulatory fines
- Loss of all future revenue in both China and Japan
- 10% sales erosion in Smiths Detection's US and EMEA markets due to reputational damage
- Severance and recruitment costs amounting to £50million
- 10% fall in revenue within other Smiths businesses due to the reputational impact

- Loss of six months' EMEA revenue and margin in FY2022
- Material refurbishment and repair costs (net of insurance claims)
- Costs of relocating production to UK/US sites
- Capital expenditure on replacement equipment (net of insurance claims)
- Labour costs increase due to UK/US labour market being more expensive

As above

## NON-FINANCIAL INFORMATION STATEMENT

The table below sets out where information relevant to the Non-Financial Reporting Directive can be found in our FY2021 Annual Report.

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

Additional information about the areas covered in this Non-Financial Information Statement can be found in the Resources and Relationships section on pages 26 to 51.

Reporting requirement	Policies and standards which govern our approach	Relevant information	Pages
<b>Environmental matters</b>	Responsible Minerals Sourcing Policy Environmental Emissions Reduction Policy Health, Safety and Environmental Policy HSE Audits Policy HSE Management Systems Policy HSE Reporting Policy HSE Roles and Responsibilities Policy HSE Technical Minimum Standards Policy	Production and environment	37 to 46
<b>Employees</b>	Fair Employment Policy Global Mobility Assignment Policy Recruitment Policy	Our people	28 to 33
<b>Human rights</b>	Human Rights Policy Modern Slavery and Human Trafficking Statement Transparency in the Supply Chain Statement	Our communities	49 to 50
<b>Social matters</b>	Data Protection and Privacy Policy Data Protection Code of Conduct	Government and regulators	51
<b>Anti-corruption and anti-bribery</b>	Agents and Distributors Policy Anti-Corruption Policy Anti-Facilitation of Tax Evasion Policy China Anti-Bribery and Corruption Policy Facilitation Payments Policy Gifts, Meals and Hospitality Policy Invitations to Government Officials Policy Supplier Code of Conduct	Government and regulators Our supply chain	51 47 to 48
<b>Business model</b>		Our business model	16 to 17
<b>Principal risks and impact of business activity</b>		Risk Management	70 to 79
<b>Non-financial key performance indicators</b>		Key performance indicators	24 to 25

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

In FY2021 we reviewed the effectiveness of certain of our policies, including:

- Regularly auditing expenses to check that, where appropriate, they were registered in the Gifts, Meals and Hospitality Register
- Launching a cross-divisional Career Returners Programme in the UK and India, focused on enhancing colleague diversity in specific functions
- Initiating a formal review of our global policies and processes in the area of international global mobility assignment management
- Conducting our second climate risk sensitivity assessment across the divisions and the global business as a whole for both five and 20-year horizons, in support of our Environmental Emissions Reduction Policy

## SECTION 172 STATEMENT

The Board, in line with their duties under section 172 of the Companies Act 2006, must act in the way they consider, in good faith, would most likely promote the success of the Company for the benefit of shareholders. Our Directors must also have regard to the likely long-term consequences of their decisions, and the impact that these may have on the Company's key stakeholders. Further information about how these duties have been applied can be found throughout the FY2021 Annual Report:

Section 172 duties	Key examples	Page
<b>Consequences of decisions in the long term</b>	Our Strategy	18 to 19
	Board activity and stakeholders	91 to 93
	Strong Financial Framework	20 to 23
	Going Concern and Viability Statement	80 to 81
	Principal Risks	72 to 78
<b>Interests of employees</b>	Chief Executive's statement	11 to 13
	Our people	28 to 33
<b>Fostering business relationships with suppliers, customers and others</b>	Our customers	33 to 34
	Our supply chain	47 to 48
	Divisional reviews	52 to 69
<b>Impact of operations on the community and the environment</b>	Technology and innovation	35 to 36
	Production and environment	37 to 46
	Our communities	49 to 50
	Regulators and governments	51
<b>Maintaining high standard of business conduct</b>	Our people – Ethics	28
	Non-Financial Information Statement	82
<b>Acting fairly between members</b>	Board activity and stakeholders	91 to 93

On pages 91 to 93 we set out our key stakeholder groups and how they were engaged with by the Board throughout the year and how their views were considered in decision-making.

The Strategic Report was approved by the Board on 27 September 2021.

By order of the Board

**Paul Keel**  
CHIEF EXECUTIVE



# GOVERNANCE

03

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## UK Corporate Governance Code Compliance

In FY2021 the Company applied the Principles and, at the date of this report, complied with all Provisions of the UK Corporate Governance Code (the Code) in full, as explained throughout this Report. A copy of the Code is available from the Financial Reporting Council's website at [frc.org.uk](http://frc.org.uk).



## CHAIRMAN'S INTRODUCTION

This section of the Annual Report covers our governance arrangements, the operation of the Board and its Committees, and describes how the Directors have discharged their collective responsibilities over the past year.

Nearly 30 years ago, the Cadbury Report famously defined corporate governance as “the system by which companies are directed and controlled”. It also noted that “corporate governance is concerned with holding the balance between economic and social goals and between individual and communal goals” and, while the need for that balance is more emphasised now than it was in 1992, well run companies have always understood their role in society and that their actions have an effect on, and should take account of, a wide stakeholder base. Ideally, the Board would engage with and hear from those stakeholders face-to-face but to a large extent, that has not proved possible this year due to the worldwide restrictions on international travel and face-to-face meetings. The Board have, however, been kept apprised of the views of their stakeholders and have taken those views into account, especially when making key strategic decisions. Once restrictions are eased, we will ensure that our engagement activities are reinvigorated.

The actions which the Board has taken in the year to ensure that it takes the interests of all its stakeholders into account, while promoting the success of the Company for the benefit of its shareholders, are described in the next few pages. Unfortunately, all Board and Committee

meetings, and of course the Annual General Meeting (the ‘AGM’), had to be hybrid meetings this year. That meant a limited number of attendees at the corporate headquarters, with all other attendees joining via video-conference. This was not ideal, especially given some of the decisions which had to be made this year, but the health and safety of all concerned had to be of paramount importance. That of course remains the case, but I look forward to seeing some of you at the AGM later this year either in the room itself or via the webcast which we will arrange.

Three Directors left the Board during the year. Bruno Angelici retired and Olivier Bohuon stepped down as Non-executive Directors in November following the AGM, and I am grateful to them for their support and advice during their tenure. In May, Andy Reynolds Smith stepped down as Chief Executive and was succeeded in that role by Paul Keel. Andy provided solid leadership and made a significant contribution to the Group, its customers and stakeholders during his six years of service with us. On behalf of all the Directors and management I thank him for his service and wish him every success in the future. The process the Board followed to secure Paul’s appointment is described in the Nomination & Governance Committee report on page 95.



The Board now comprises six males and four females, two Directors from historically under-represented ethnic groups and seven with a birthplace or background outside the UK. For a Company such as ours, with a diverse workforce and a wide geographic spread, that diversity is important, but it is equally important that the Directors are capable and suitably experienced individuals who can work well together as a team, providing support and challenge to management. The skills and experience each Director brings to the Board are summarised on pages 87 to 89. One of the purposes of a Board evaluation is to assess how well they put those skills and experiences into effect and the Code recommends that every third year this is externally facilitated. Independent Audit were invited to facilitate this year and the results appear on pages 98 to 99.

The proposed sale of Smiths Medical has been a material consideration for the Board this year. This is reflected in the number of Board and Transaction Committee meetings held during the year. A Company such as ours can only undertake large corporate transactions such as the proposed sale of Smiths Medical if it has a strong and effective Audit & Risk Committee and a good working relationship with its external and internal auditors. The role that the Committee, chaired by Mark Seligman, played during the year is described on pages 100 to 105. There is also a three-year cycle for the approval by shareholders of the Remuneration Policy for the Group, and on pages 112 to 119 my colleague Bill Seeger explains the key elements of the Policy you will be invited to approve later this year at our AGM. The Report from the Remuneration Committee also gives details of the Directors’ remuneration in the last year, how that was calculated, and how it relates to corporate performance.

Finally, and by no means least, I am grateful to my fellow Directors and the Smiths workforce for their efforts on your behalf this year. I am sure we all hope that we never again face a set of circumstances similar to those imposed on us by COVID-19 for the last eighteen months, but we have learnt from them and adopted new ways of working which will benefit the Group in the future. The following pages tell you how those governance arrangements and activities are now fulfilled, and I hope you find this illuminating.

**Sir George Buckley**  
CHAIRMAN

### Board governance

The Board is ultimately accountable to our shareholders, and the Directors are responsible for ensuring that management actions are aligned with their and other stakeholders' interests. The Board has approved a governance framework of systems and controls in order to effectively discharge its collective responsibility. This framework supports our Directors' compliance with their duty to promote the success of the Company under section 172 of the Companies Act 2006 (the Act). The framework, including the delegation of specific authorities to the Board's three principal Committees, the Nomination & Governance, Audit & Risk and Remuneration Committees, is subject to ongoing review to ensure that it remains fit for purpose. The Terms of Reference for the three Board Committees, which were reviewed during the year, can be found on our website. In addition to the three principal Committees the Board was supported on the proposed sale of Smiths Medical by the Transaction Committee. The Board has also agreed to establish a Science, Sustainability and Excellence Committee. For more information see page 90.

GOVERNANCE MODEL				
BOARD				
CHAIRMAN	CHIEF EXECUTIVE	SENIOR INDEPENDENT DIRECTOR	NON-EXECUTIVE DIRECTORS	COMPANY SECRETARY
<b>Responsible for:</b> <ul style="list-style-type: none"> <li>- Ensuring the Board's continued effectiveness</li> <li>- Shaping boardroom culture and encouraging individual Director engagement</li> <li>- Leading the Board and setting the Board agenda</li> <li>- Leading the annual Board evaluation</li> </ul>	<b>Responsible for:</b> <ul style="list-style-type: none"> <li>- Developing and proposing strategy to the Board</li> <li>- Setting and communicating the culture, values and behaviours for the Group</li> <li>- Leading the Executive Committee</li> <li>- Managing relationships with our key stakeholders</li> </ul>	<b>Responsible for:</b> <ul style="list-style-type: none"> <li>- Supporting the Chairman in the delivery of the Board's objectives</li> <li>- Being available to shareholders if they wish to raise any concerns</li> <li>- Acting as an intermediary between the other Directors if necessary</li> <li>- Overseeing workforce engagement</li> </ul>	<b>Responsible for:</b> <ul style="list-style-type: none"> <li>- Providing constructive challenge and strategic guidance to Board discussions</li> <li>- Oversight of management and the business, including culture</li> <li>- Offering specialist advice</li> <li>- Assessing the effectiveness of systems of internal control and risk management</li> </ul>	<b>Responsible for:</b> <ul style="list-style-type: none"> <li>- Advising the Board on governance matters</li> <li>- Supporting the Chairman in the efficient and effective functioning of the Board and its Committees</li> <li>- Ensuring the Board receives quality information in a timely manner</li> </ul>
↗	↗	↗	↗	↗
BOARD COMMITTEES				
NOMINATION & GOVERNANCE COMMITTEE	AUDIT & RISK COMMITTEE	REMUNERATION COMMITTEE		
<p>Reviews and makes recommendations to the Board on the structure, size and composition of the Board and its Committees, and leads the process for Director appointments and Director and senior management succession planning.</p> <p>Oversees the ongoing suitability of the Group's governance framework and diversity &amp; inclusion performance.</p>	<p>Ensures the integrity of the Group's financial reporting and audit processes, and the maintenance of sound internal control and risk management systems.</p> <p>Manages the relationship with the external auditor, including making recommendations to the Board and shareholders in relation to the appointment and re-appointment of the external auditor.</p>	<p>Responsible for the Group's remuneration strategy and reviews and oversees the Group's Remuneration Policy for the Directors and senior management.</p> <p>Reviews any major changes in Group employee remuneration structures, including incentive arrangements that apply across the wider employee population.</p>		
<a href="#">READ MORE</a> NOMINATION & GOVERNANCE COMMITTEE P94-99	<a href="#">READ MORE</a> AUDIT & RISK COMMITTEE P100-105	<a href="#">READ MORE</a> REMUNERATION COMMITTEE P106-129		
EXECUTIVE MANAGEMENT COMMITTEES				
EXECUTIVE COMMITTEE	INVESTMENT COMMITTEE	DISCLOSURE COMMITTEE		
<p>Assists the Chief Executive in discharging his responsibilities and collectively responsible for implementing strategy, ensuring consistent execution and embedding the culture and values.</p>	<p>Assesses high-value and high-risk proposals, capital expenditure, asset disposal and special revenue expenditure projects which require Chief Executive or Board approval.</p>	<p>Advises the Chief Executive and the Board on the identification of inside information, and the timing and method of its disclosure.</p>		

## OUR BOARD

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

### KEY

- N** Nomination & Governance Committee member
- A** Audit & Risk Committee member
- R** Remuneration Committee member
- S** Science, Sustainability and Excellence Committee member
- I** Independent Director
- C** Committee Chair

\*Independent on appointment



**SIR GEORGE BUCKLEY**

#### Chairman

Appointed: 1 August 2013

**N R S I**

Sir George has extensive experience of large, multi-industry businesses operating in global markets, and has had a long career in engineering and innovation. As Chairman, Sir George ensures effective communication with stakeholders, and that the Board provides leadership and guidance for executive management. In particular, Sir George has provided invaluable assistance in the proposed sale of Smiths Medical alongside his support of the Transaction Committee.

His previous roles, including as Chairman and CEO of 3M Company ('3M'), a US-based global technology company and Dow Jones 30 component, support his effective chairmanship of the Board. His other previous experience includes Chairman and CEO of Brunswick Corporation. Sir George currently serves as Non-executive Chairman of Stanley Black & Decker, Inc. and Non-executive Director of Hitachi Ltd. He has a PhD in Electrical Engineering.

#### Other significant appointments

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



**PAUL KEEL**

#### Chief Executive

Appointed: 25 May 2021

Paul Keel previously worked at 3M between 2004 and 2020, within the US and UK. During this period, he led a number of global businesses including the \$5bn revenue Consumer Business Group, as well as several enterprise-wide functions including Strategy & Business Development, Marketing & Sales and Manufacturing & Supply Chain.

Paul's other experience includes senior roles at General Electric, McKinsey & Company and General Mills. He is a graduate of Carleton College and Harvard Business School.



**JOHN SHIPSEY**

#### Chief Financial Officer

Appointed: 1 January 2018

John has valuable experience leading innovative companies and, prior to joining Smiths, was Chief Financial Officer for Dyson, a diversified global technology company. At Dyson he was part of the team that led their global growth, particularly in Asia. His previous experience includes 13 years at Diageo plc, a multinational alcoholic beverages company, in a number of senior finance and strategy roles.

This included Finance Director for its Iberia region and Chief Financial Officer of Schieffelin & Somerset, a US joint venture between Diageo and LVMH. John is a Chartered Accountant and has an MBA from INSEAD.



BILL SEEGER

**Senior Independent Director**

Appointed: 12 May 2014

A N R I

Bill had a successful career in finance in the engineering sector and was Group Finance Director at GKN plc, a global engineering group, until 2014. As Senior Independent Director Bill is responsible for ensuring the Board engages effectively with the workforce and, as chair of the Remuneration Committee, for leading the Committee's discussions on ensuring that developments in remuneration practices are considered and where appropriate acted upon.

At GKN he also held the roles of CEO of the Propulsion Systems Division, and CFO of the Aerospace Division. Earlier in his career Bill spent 30 years at TRW, a US-based automotive and aerospace group, where he held various senior finance positions. This extensive experience in global engineering businesses supports his participation in robust decision-making by the Board. Bill has a BA in economics and an MBA.

**Other significant appointments**

- Senior Independent Director, Spectris plc
- Lecturer, UCLA Anderson School of Management



PAM CHENG

**Non-executive Director**

Appointed: 1 March 2020

A N R S I

Pam is Executive Vice-President, Operations and Information Technology at AstraZeneca plc, a multinational pharmaceutical and biopharmaceutical company. Pam's experience in manufacturing, supply chain and technology in large global businesses further strengthens the Board's discussions on embedding world-class operations. During the period, Pam has supported and spoken at the Group's Health, Safety

and Environment virtual conference. Pam's previous roles include President of MSD (Merck & Co., Inc.) in China and Senior Vice President of Global Supply Chain Management & Logistics for Merck globally. Pam also held various engineering and project management positions at Universal Oil Products, Union Carbide Corporation and GAF Chemicals. Pam holds Bachelor's and Master's degrees in chemical engineering and has an MBA.



DAME ANN DOWLING

**Non-executive Director**

Appointed: 19 September 2018

A N R S I

Dame Ann is a Deputy Vice Chancellor and an emeritus professor of Mechanical Engineering at the University of Cambridge. She has had a distinguished academic career, and her contribution to engineering research and the practical application of new technology in industry is internationally recognised. Dame Ann has used her wide experience to inspire Smiths employees, especially through the 'Meet the Talent' initiative throughout FY2021.

Dame Ann's knowledge and background offer a different perspective to Board discussions. Her previous roles include five years as Head of Engineering at the University of Cambridge, and President and Chairman of Trustees of the Royal Academy of Engineering and Non-executive Director of BP plc from 2012 to May 2021. Dame Ann has a degree in mathematics and a PhD in engineering.



TANYA FRATTO

**Non-executive Director**

Appointed: 1 July 2012

A N R I

Tanya has had a successful career running businesses over 20+ years with General Electric Corporation, a multinational conglomerate. Prior to joining the Smiths Board, she was the CEO of Diamond Innovations Inc, a manufacturer of industrial diamonds. In addition to her experience in manufacturing and operations, she brings insight into product innovation, sales and marketing across

a range of sectors and an extensive knowledge of operating in the US, to Board discussions. As one of the longest serving members of the Board she has a deep knowledge of the Group. She is a qualified electrical engineer and has a BSc in Electrical Engineering.

**Other significant appointments**

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



**KARIN HOEING**

**Non-executive Director**

Appointed: 2 April 2020



Karin Hoeing is Group Human Resources Director at BAE Systems plc, bringing current executive experience of defence, security, and aerospace to the Board. Karin has given valuable assistance and advice in executive succession planning and also made notable contributions to the Executive Environmental Roundtable discussions and the Group's Health, Safety

and Environment virtual conference.

Prior to joining BAE she led one of the major international business divisions at Schlumberger, a multinational oil services company. Karin spent 20 years at Schlumberger, where she held a number of senior HR, marketing, technology and line management leadership positions across Europe, the Middle East and Asia. Karin has a Diploma Geophysics degree.



**MARK SELIGMAN**

**Non-executive Director**

Appointed: 16 May 2016



Mark's extensive experience in corporate finance and capital markets supports Board discussion of the Group's portfolio management. He is a former senior investment banker and during his executive career he held various roles at Credit Suisse, including Chairman of UK Investment Banking. Mark also brings his non-executive experience to the Board, having served as senior independent director and audit committee chairman at various FTSE 100 companies.

He has provided significant counsel in the proposed sale of Smiths Medical through his support of the Transaction Committee, and shown leadership in executive succession planning, especially in the appointment of the current Chief Executive. Mark is a Chartered Accountant, and has an MA in Philosophy, Politics and Economics.

**Other significant appointments**

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



**NOEL TATA**

**Non-executive Director**

Appointed: 1 January 2017



Noel has had a successful career in global business. He has extensive experience of the high-growth economies which are key markets for our growth strategy and has been invaluable in developing key strategic relationships in Asia since joining the Board. He is the Managing Director of Tata International Limited, a global trading and distribution company and a trading arm of the Tata Group, a privately-owned multinational holding company. Noel has a BA in Economics.

**Other significant appointments**

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

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



**MATTHEW WHYTE**

**Company Secretary**

Appointed: 1 August 2021

Matthew joined Smiths in 2017 having previously gained governance and legal experience in senior roles in large multinational listed groups in a variety of sectors, most recently at Schroders plc and Rio Tinto plc. He is a chartered company secretary and a Fellow of The Chartered Governance Institute.

**Other Directors who served during FY2021**

Bruno Angelici retired from the Board and Olivier Bohuon stepped down from the Board at the conclusion of the AGM in November 2020. Andy Reynolds Smith stepped down from the Board and as Chief Executive in May 2021.

The biographies for Bruno Angelici, Olivier Bohuon and Andy Reynolds Smith can be found in our FY2020 Annual Report.

## Board governance

The Board is responsible for approving Group strategy consistent with our purpose and for overseeing its implementation, and, subject to applicable legislation and regulation and the Articles of Association, they may exercise all powers of the Company. The Board ensures that the strategy is in line with our values, while monitoring the internal controls, risk management and viability of the Company and considering the views of stakeholders, including but not limited to shareholders, the workforce, customers, our supply chain and the community. The Chief Executive is responsible for preparing and recommending the strategy and for the day-to-day management of the Company, including leading the Executive Committee. Biographies for our Executive Committee can be found on page 14. Executive management implement the Group's strategy and provide the Chief Executive, and the Board as a whole, with the information they need to make decisions that will determine the long-term success of the Group.

There is a schedule of matters which are considered significant to Smiths and have therefore been reserved for the decision of the Board. This is due to their strategic, financial or reputational implications or consequences. The formal schedule can be found on our website and includes approval of Group purpose, strategy, values, business plans and budgets and oversight of Group culture.

The Transaction Committee, which was established in FY2019 in order to provide support and oversight of the separation of Smiths Medical, continued to meet throughout the year, meeting 14 times in total. The Committee provided oversight of significant transactions, considered the sources and uses of capital and provided strategic input to the Executive Team in relation to such transactions. The Committee reports to the Board on its activities. The Committee is an ad hoc committee of the Board and currently consists of three Non-executive Directors, Bill Seeger (Chair), Sir George Buckley and Mark Seligman. In addition, after the end of the financial period the Board agreed to establish the Science, Sustainability and Excellence Committee. The Committee will be chaired by Dame Ann Dowling with the members being Sir George Buckley, Pam Cheng and Karin Hoeing.

With effect from July 2021 the Acquisition & Divestment Committee was dissolved and the authority previously provided to approve smaller mergers, acquisitions, disposals and joint ventures within defined authority limits agreed by the Board, was delegated instead to the Chief Executive.

## Board and Committee meetings

The Chairman sets the agenda and determines the style and tone of discussions at Board meetings. At each scheduled Board meeting the Chief Executive and the Chief Financial Officer present separate reports, detailing business performance and progress against strategy. These are supplemented by regular performance updates from the Chief Executive to the Directors between meetings. Invitations to Board meetings are extended to divisional presidents, business managers and heads of functions when appropriate, to ensure that the Board is kept up to date with management priorities and challenges. The attendance of senior executives also supports executive succession planning. External advisers are invited to attend as necessary.

A significant number of additional Board and Transaction Committee meetings were held to consider the proposed sale of Smiths Medical and the Group's response to COVID-19.

Director attendance at Board and Committee meetings in FY2021 is set out below. All Board meetings during the year took place in London via videoconference with most attendees joining remotely.

## Director attendance

	Board <sup>1</sup>	Nomination & Governance Committee	Audit & Risk Committee	Remuneration Committee	Transaction Committee
<b>Chairman</b>					
Sir George Buckley	16/16	4/4	–	6/6	14/14
<b>Executive Directors</b>					
Andy Reynolds Smith <sup>2</sup>	13/14	–	–	–	–
Paul Keel <sup>3</sup>	2/2	–	–	–	–
John Shipsey	16/16	–	–	–	–
<b>Non-executive Directors</b>					
Bruno Angelici <sup>4</sup>	5/5	–	1/1	2/2	–
Olivier Bohuon <sup>4</sup>	4/5	–	1/1	2/2	–
Pam Cheng	15/16	3/4	4/4	5/6	–
Dame Ann Dowling	16/16	4/4	4/4	6/6	–
Tanya Fratto	14/16	4/4	4/4	4/6	–
Karin Hoeing	16/16	3/3	–	6/6	–
Bill Seeger	16/16	4/4	4/4	6/6	14/14
Mark Seligman	16/16	4/4	4/4	6/6	13/14
Noel Tata	16/16	4/4	4/4	6/6	–

1 During the year there were six scheduled Board meetings and ten ad hoc meetings.

2 Andy Reynolds Smith stepped down from the Board on 25 May 2021.

3 Paul Keel was appointed to the Board on 25 May 2021.

4 Bruno Angelici retired and Olivier Bohuon stepped down from the Board, Nomination & Governance Committee, Audit & Risk Committee and Remuneration Committee on 16 November 2020.

Throughout the COVID-19 pandemic the use of videoconferencing supported efficient and effective ongoing communication between the Chairman and the Chief Executive, the Executive Directors and executive management, and the entire Board. The Board will continue to use videoconferencing going forward as a cost effective and efficient means of discharging its duties.

To ensure the continued effectiveness of the Board, the Chairman meets the Non-executive Directors without the Executive Directors present after each Board meeting. He also has separate meetings with the Senior Independent Director and the Chairs of the Board Committees on a regular basis and with each of the other Non-executive Directors at least annually. The Senior Independent Director consults with the other Non-executive Directors without the Chairman present at least annually to assess the performance of the Chairman.

## BOARD ACTIVITY AND STAKEHOLDERS

Discussion and decision making by the Board takes the views of key stakeholders into account while continuing to promote the Group's long-term sustainable success.

Stakeholder engagement takes place across the Group, both operationally by management and by the Board.

The outcomes of stakeholder discussions, including any concerns raised by them, are reported to the Board and Board Committees on a regular basis. This enables the Directors to better understand how the Group's culture and values are embedded across all aspects of the Group's activities and supports informed decision-making, but it is important that the Board allow management to manage and only engage directly with stakeholders when this is appropriate.

In a business as diversified as Smiths, with very different divisions, engagement with most stakeholder groups is best handled by management with the Board maintaining oversight and only engaging directly if there are issues which truly warrant their involvement and where this will add value to the process. This is particularly true of engagement with customers and suppliers (most of whom are unique to a specific division) but also true of governments, regulators and communities. The Group has operations in more than fifty countries and sells its products and services in many more, but only rarely has to interact with these stakeholders on behalf of the Group as a whole or on behalf of more than one division.

The key areas of focus considered by the Board during FY2021 are set out below.

## OUR STRATEGY



### Matters considered

- The usual Board meeting dedicated to strategy scheduled for May 2020 was postponed until November 2020 while the Group focused on its response to COVID-19. The Board continued to receive reports on the Group's strategic progress over the year, in the light of external economic and geopolitical events
- Detailed information on the proposed structure and framework of the Group after the proposed sale of Smiths Medical. The Directors considered potential markets, customers and future investment opportunities and received regular updates from the business, the Transaction Committee and advisers on the process of the proposed sale of Smiths Medical
- Oversight of M&A activity, including updates on acquisition and divestiture activities at each scheduled Board meeting

### Outcomes

- Agreed to the proposed sale of Smiths Medical to TA Associates and the subsequent offer from ICU Medical
- Discussions with the Pension Trustees regarding the proposed sale of Smiths Medical
- Oversight of M&A activity, including the acquisition of Royal Metal

## OUR SHAREHOLDERS



### Matters considered

- The Chief Executive and the Chief Financial Officer hosted results presentations and Q&A sessions and met with a broad spread of the Group's capital providers following the results announcements in September and March
- Extensive interaction by the Chairman following the change of CEO in May
- Extensive interaction by Bill Seeger as Chair of the Remuneration Committee in relation to the new Remuneration Policy
- Share register analysis, including the Group's ADR Programme

- Analyst and broker briefings, and reports of meetings with major or prospective shareholders, were circulated to Directors outside the formal Board meeting schedule. This included a consultation with shareholders in respect of the use of proceeds from the Smiths Medical sale.
- Regular updates to the Board on the Group's financial performance including its liquidity, cash management and conversion, profits and costs
- Stress-testing of the Group's resilience and the allocation of capital and access to external capital was considered in the light of COVID-19
- An update on the Group's Tax strategy from the Chief Financial Officer and the Group Tax Director

### Outcomes

- The Board took the decision to make the 2020 AGM a closed meeting due to Government restrictions, but shareholders were still able to submit questions and vote during the meeting. Arrangements are being made for the 2021 AGM to facilitate electronic access to the meeting
- With respect to the Smiths Medical use of proceeds consultation, 60% of shareholders consulted voiced support for 50% of proceeds being returned while 33% recommended a larger percentage. With respect to mechanic, 80% preferred buybacks while 13% preferred another mechanism. Consequently, the Directors agreed to recommend a return of 55% of sale proceeds by way of share buyback
- Approval of the FY2020 Results and the FY2021 Interim Results
- Approval of the FY2022 financial plan
- Declaration of the FY2020 interim and final dividend and FY2021 interim dividend

## OUR PEOPLE



### Matters considered

- Employee engagement through the annual My Say survey results and inclusion dashboards
- THRIVE well-being initiative
- Updates on workforce matters throughout the COVID-19 pandemic
- The continued embedding of the Smiths Way values through the Chief Executive's updates to the Board
- Diversity & Inclusion plan and gender pay gap reporting in the UK
- Speak Out updates and other reports and statistics related to the Group's ethical policies and performance
- An update on the Group's defined benefit pension arrangements

### Outcomes

- All Non-executive Directors held one-on-one discussions with employees in various positions across the business, and also engaged with high-potential individuals in the business to assess our talent and senior management succession planning
- Regular updates for employees on the return to work following the lifting of COVID-19 restrictions and an encouragement to focus on their general well-being and safe home working
- The interests of the workforce were carefully considered in relation to the separation of Smiths Medical and, in particular, the Trustees of the Group's largest pension funds were kept informed of developments
- Bill Seeger is the designated Non-executive Director responsible for workforce engagement and during the year he and his colleagues have attended virtual Town Halls and team meetings held across the organisation.
- Pam Cheng and Karin Hoeing spoke at the Group's online HSE conference in October.
- The Chief Executive reports on key people matters in his monthly reports to the Board and there is an in-depth Board review of people strategy, talent management, people risk and workforce engagement at least annually.

- Sir George Buckley hosted a Group-wide introductory Town Hall with Paul Keel upon Paul Keel's appointment as Chief Executive and answered questions submitted by members of the workforce
- The Chief Executive conducted Smiths Day online this year in celebration of the Group's values and hosted the Smiths Excellence Awards to recognise major achievements across the workforce in various areas including communities, people, supply, customers, HSE, production and innovation.
- Bill Seeger hosted an interactive discussion regarding executive pay, its alignment with employee pay policy and sustainable business performance

## OUR CUSTOMERS



### Matters considered

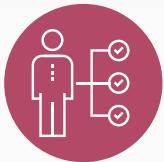
- Reports from the Chief Executive on the Group's response to COVID-19
- Regular reports from each division on customer and market challenges and how customer relationships were being managed through the pandemic
- A report from each division on how they capture customer satisfaction and respond to the issues raised by them
- The Audit & Risk Committee undertook deep dives on product quality in each of the divisions and customers in John Crane and Flex-Tek. Further customer deep-dives are scheduled for Smiths Detection and Smiths Interconnect during FY2022
- An update on the Smiths Excellence System (SES), including strategic priorities and future developments and statistics on colleague completion of the Smiths lean six sigma belted programme.

- Approval of targeted initiatives at improving the Group's working capital including inventory management in support of meeting customer orders and expectations
- Deep dives into divisional activities

### Outcomes

- The impact on customers was a major consideration in the proposed sale of Smiths Medical. A number of initiatives were launched to help customers deal with the pandemic and to help them reduce their impact on the environment
- Endorsement of the Group's response to COVID-19
- The 'Speak Out' hotline is available to our customers should they wish to disclose any concerns
- Formal feedback activities such as quarterly business reviews, surveys and team meetings with key customers

## OUR SUPPLY CHAIN



### Matters considered

- Regular reports from each division on the supply chain impact of the pandemic and supplier matters in general
- The Audit & Risk Committee received reports on ethics and compliance, including modern slavery and human rights updates and compliance with our Supplier Code of Conduct

### Outcomes

- The Chairman attended a meeting of the Operations and Supply Nerve Centre (OSNC) to provide guidance in respect of our response to COVID-19 and supply chain resilience

## OUR COMMUNITIES



### Matters considered

- Health, safety and environment and security updates, including activities in connection with the Task Force on Climate-related Financial Disclosures (TCFD)
- Updates from the business on elements of the Group's operations which impact the wider community, including the Group's Tax strategy
- Discussions with Access Aspiration, a London programme that would give access to 16-18-year olds from disadvantaged backgrounds to placements and career talks from relevant colleagues within Smiths

### Outcomes

- Karin Hoeing attended Executive Environmental Roundtable discussions
- Agreed the establishment of the Science, Sustainability and Excellence Committee
- Established Charitable Donations Policy to enhance the well-being of people through non-profit organisations who aim to improve education, health, welfare, and the environment
- Fundraised and contributed time and equipment to services in local communities throughout the COVID-19 pandemic

## REGULATORS AND GOVERNMENTS



### Means of engagement

- Reports from the Chief Executive on the Group's response to COVID-19
- Updates on the regulatory process for the approval of new products
- Oversight of FDA audit
- Discussions amongst Group-wide Data Privacy Champions regarding best practices implementation issues and changes to privacy rules and regulations

### Outcomes

- Anti-trust training for employees who may be exposed to competition law risks
- Enhanced Corporate Affairs team with a dedicated focus in India

# NOMINATION & GOVERNANCE COMMITTEE REPORT

The Committee seeks to ensure that the Board has the appropriate balance of skills, knowledge, experience and diversity. This includes delivering executive succession plans that will secure the long-term success of the Group.

## Role of the Committee

The Nomination & Governance Committee has delegated responsibility from the Board to review the structure, size and composition of the Board and its Committees and ensure that these are fit for purpose and in accordance with good corporate governance. As well as ensuring that the Board has an appropriate balance of skills, knowledge, experience and diversity of gender, social and ethnic backgrounds, the Committee has oversight of the senior management succession pipeline and planning. For Board appointments there is a formal, rigorous and transparent process involving all Board members with recommendations based on the merit of the individual candidates. The Committee also maintains oversight of the Group's governance framework as a whole.

The members of the Committee and their meeting attendance during the year is set out on page 90. The Chief Executive is normally invited to attend Committee meetings and attended all but one of the meetings in FY2021. Other members of senior management are invited to attend when necessary.

## In order to fulfil its role the Committee

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

## Performance evaluation

In FY2021, the performance of the Committee was considered as part of the external Board evaluation process. Overall, it was confirmed that the Committee continues to operate effectively.

## KEY CONTENTS

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## Committee activities in FY2021

### Succession planning

- Regularly reviewed the Board skills and experience matrix
- Discussed succession planning for Board positions
- Led the process for the selection and appointment of a new Chief Executive
- The Chairman and other Non-executive Directors had one-on-one discussions with high-potential individuals in the business

### Governance

- Considered Director engagement with stakeholders, including the workforce
- Considered the external appointments of Directors and recommended to the Board that approval continues to be provided
- Reviewed the Committee's Terms of Reference and Matters Reserved to the Board, and recommended changes to each for approval by the Board
- Considered the Board Committees' membership and in doing so the independence and performance of the individual Non-executive Directors
- Reflected on suggestions raised through the ongoing review of the Group's governance framework including the greater use of dedicated Board training sessions by webinar



# SELECTION AND APPOINTMENT OF A NEW CHIEF EXECUTIVE, AND PAUL KEEL'S INDUCTION DURING FY2021

The Board has a duty to keep executive succession plans under regular review and an extensive, externally facilitated search process was initiated in November 2020 for the role of Chief Executive. Buchanan Harvey were appointed to facilitate the process and submitted a 'long list' of candidates. This list included candidates from the UK, USA and European job markets and was diverse in terms of both gender and ethnicity. In early 2021, the 'long list' was reduced to a target list of around 20 candidates, also diverse in terms of both gender and ethnicity who were contacted to gauge their interest and suitability, resulting in a shortlist of five candidates. This process was carried out by the Chairman with the Nomination & Governance Committee kept fully informed of progress. Four of these candidates were based in the US and one in the UK; one was female and one was from an historically under-represented ethnic group. A selection committee consisting of Sir George Buckley, Bill Seeger, Karin Hoeing and Mark Seligman then volunteered on behalf of the Nomination & Governance Committee to interview each of the candidates and the final decision was reduced to one of two, with Paul Keel being identified as the preferred candidate. Paul Keel was previously employed by 3M when Sir George Buckley was its Chairman and, although Paul Keel never worked directly for Sir George, he was known to him; for that reason he was not interviewed by Sir George as part of the final selection process.

The Nomination & Governance Committee considered the work carried out by Buchanan Harvey and the selection committee on its behalf and resolved that it was in the best interests of the Group and its stakeholders to recommend to the Board that Paul Keel be appointed as Chief Executive. Terms for the departure of Andy Reynolds Smith and the appointment of Paul Keel were negotiated with each of them with the assistance of the Group's legal and remuneration advisers and approved by the Remuneration Committee. It was mutually agreed with Andy Reynolds Smith that he step down as Chief Executive and as a Director of the Company. The Board considered the recommendation of the Nomination & Governance Committee for the appointment of Paul Keel, resolving to appoint him with effect from 25 May 2021. Paul Keel had extensive discussions with a number of the Directors and the Company Secretary prior to his appointment to deepen his understanding of the Group's operations and culture. Immediately following his appointment he held meetings with senior executives both individually and collectively and also hosted Town Hall meetings with the wider workforce and visited a number of the Group's operations in the US and UK. Meetings were also arranged with the Group's largest shareholders and key advisers once he had joined the Board. All these meetings were held in accordance with local restrictions imposed on such events due to the COVID-19 pandemic.



## Chairman Succession

The Non-executive Directors without the Chairman present and led by the Senior Independent Director discussed the succession arrangements for the Chairman who is due to reach his nine year anniversary since appointment on 1 August 2022. Further to the proposed sale of Smiths Medical and the recent appointment of Paul Keel as Chief Executive, the Committee agreed and the Board supported that Sir George Buckley should be invited to remain as Chairman to oversee a period of significant strategic change for the Group. It is expected that Chairman succession arrangements will commence in FY2022 and the expectation is that Sir George Buckley will step down as Chairman and from the Board at the AGM in 2023.

## Independence

The Board keeps the independence of the Non-executive Directors under continuous review. In July 2021, the Committee reviewed the guidance contained in the Code and assessed the performance and independence of each of the Non-executive Directors. It concluded that each of them contributed effectively to the operation of the Board and that they should all be considered as independent.

Tanya Fratto was appointed as a Director on 1 July 2012 and as she had served on the Board for more than nine years a particularly rigorous review of her performance was undertaken. The Board concluded that she contributed to constructive challenge and debate at meetings and as the Company is going through a period of significant change she should therefore remain on the Board. The Committee also believes that she continues to demonstrate the qualities of objectivity and independence. Notwithstanding that some shareholders will not consider Tanya Fratto to be independent as she has been on the Board for more than nine years, further to the performance review the Board decided to regard her as being independent. It is anticipated that Tanya Fratto will step down from the Board at the 2022 AGM.

Sir George Buckley has served on the Board for eight years and Bill Seeger for seven years. As such, their continued objectivity and independence were also subject to rigorous review. It was agreed that Sir George and Bill continue to be independent and objective.

## NOMINATION & GOVERNANCE COMMITTEE REPORT CONTINUED

### Board Diversity Policy

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

In recognition of the value of diversity, the Board seeks to ensure that at least 50% of its members have a birthplace or background outside the UK and that at least 40% of the Board is comprised of females plus historically under-represented ethnic groups. The Board will always seek to appoint the best qualified candidate, but between two candidates of equal merit the Board will, where there is a disproportionate under-representation of gender diversity on the Board, give preference to a female candidate when making an appointment.

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

The Board Diversity Policy was reapproved by the Board in March 2021.

### Board diversity performance

At the date of this report 70% of our Directors have a birthplace or background outside the UK, and 50% of our Directors meet the combined measure of gender and ethnic diversity. 40% of our Directors are female, and 50% of our Non-executive Directors are female all of whom are engineers. In addition, of our Non-executive Directors, two are from historically under-represented ethnic groups. The Board therefore meets both of its diversity targets; the Hampton-Alexander target of 33% representation of women on FTSE 350 Boards and the Parker Review recommendation for FTSE 100 companies to have one director of ethnic diversity. Diversity information for the Board, Executive Committee, senior managers and the Group as a whole can be found on page 33. The Board extends its work on diversity to senior leadership positions in the business and across the Group through oversight of the Diversity & Inclusion Plan which is available on our website.

In FY2021 external search firm Buchanan Harvey & Co. was used to support Director appointments and other senior level recruitment; the firm has no other connection to Smiths. Buchanan Harvey & Co. is a signatory to the Voluntary Code of Conduct for executive search firms.

### Time commitment

All Directors must allocate sufficient time to their work in order to discharge their responsibilities effectively with an expected time commitment of 25 days per annum set out in their letter of appointment. This includes making time to familiarise themselves with business priorities and challenges and to prepare for and attend Board and Committee meetings. In the normal course of business they are also expected to attend the AGM, engage with stakeholders and participate in the Board

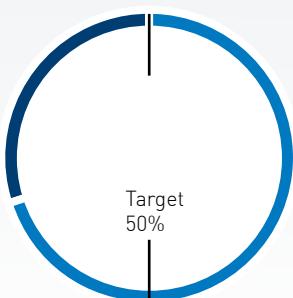
evaluation process. During a Director's induction phase an additional time commitment is required. Executive Directors are not permitted to take on the chairmanship or more than one non-executive directorship in a FTSE 100 company, or any other significant appointment. The time commitment expected from Directors has increased in the last two years with additional work preparing for the proposed sale of Smiths Medical and the Group's global response to COVID-19. There has been a larger number of ad-hoc Board and Committee meetings in the year than has previously been the case and a greater need for Board involvement outside of meetings due to the unusual circumstances which have prevailed in the last two years. Despite this, attendance at meetings was consistently high.

The Directors' other significant commitments are detailed in their biographies on pages 87 to 89 and the Board considers these at least twice a year. In FY2021 the Board concluded that the Chairman and the Non-executive Directors devoted sufficient time to fulfil their commitments to Smiths.

Particular consideration was given to Sir George Buckley and Noel Tata's other commitments as they both hold a number of Board level positions outside the Group. Once again, Sir George has been available for consultation with management when required and was in frequent contact with management throughout the COVID-19 pandemic and the process supporting the proposed sale of Smiths Medical. Following due consideration, the other Directors confirmed that he continues to demonstrate commitment to his role as Chairman.

Noel is Managing Director of Tata International Limited, a trading arm of the Tata Group (a privately-owned multinational group of companies) and in order to fulfil his executive responsibilities he is a director

#### BIRTHPLACE OR BACKGROUND\*



Outside UK	7 (70%)
UK	3 (30%)

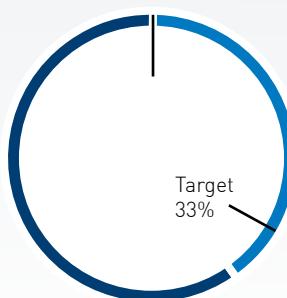
\* As at 27 September 2021.

#### GENDER AND ETHNICITY\*



Female & Ethnically diverse	5/10 (50%)
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#### GENDER BALANCE\*



Female	4 (40%)
Male	6 (60%)

of various Tata companies. He brings valuable and distinct experience to our Board discussions, as a current executive with contacts in higher-growth countries which are a strategic focus for Smiths and has 100% attendance record at meetings. The Board believes that Sir George and Noel's other commitments do not prevent them from committing sufficient time to their work as Directors, as evidenced by their attendance and effective participation at Board and Committee meetings held in the year. There was unanimous support from the Board to recommend to shareholders the re-election of Sir George Buckley and Noel Tata.

### Information and training

The Board recognises the importance of ongoing training and our Directors are given the opportunity to update their skills and experience on a regular basis. Any individual development needs are discussed with the Directors at the annual performance evaluation. In order for the Directors to remain aware of business priorities and external developments, the Board is provided with formal reports and updates from the divisions and external advisers on a regular basis. During the year the Board received various externally facilitated briefing sessions, including on macro-economic conditions, capital markets, the impact of COVID-19 on the aerospace and defence markets, and the future of energy in the age of climate change. They were also given an overview of the specific statutory and regulatory duties and responsibilities applicable to directors of a listed company in relation to the approval of a Class One Shareholder Circular, as this is required for the proposed sale of Smiths Medical.

The Company Secretary prepares a Governance Report for each scheduled Board meeting; over the year these covered changes to the regulatory environment and opportunities for our Non-executive

Directors to attend externally facilitated seminars and roundtable events. The Directors are also obliged to complete annual online training on the Group's Code of Conduct, information security and anti-bribery and corruption.

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

### Director induction

To ensure that they are able to effectively contribute to discussions and decision-making, all of our Directors participate in an induction programme on joining the Board. Each induction programme is tailored to provide the individual Director with the necessary knowledge and understanding of the Group, based on their personal experience and background. Where possible, meetings with our key stakeholders will be built into Director induction schedules in future. Information about Paul Keel's induction can be found on page 95.

### Conflicts of interest

All of our Directors must avoid situations where they have a direct or indirect interest that conflicts, or may possibly conflict, with the best interests of Smiths. The Board has the authority to authorise conflicts and potential conflicts in accordance with our Articles of Association and the Act, and Board approval must be granted

before a Director accepts a new external appointment, whether it amounts to a conflict or not.

The Company Secretary maintains a Register of Conflicts which forms the record of actual and potential conflicts and the Board authorisation granted. The Register is reviewed by the Directors at least twice a year and the Board retains the power to vary or terminate any authorisation previously provided.

### Advice and insurance

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

During FY2021, and at the date of this report, qualifying third-party indemnity provisions (as defined by section 234 of the Act) have remained in force for the Directors of the Company and certain other employees in respect of their directorships of some subsidiary companies in relation to certain losses and liabilities which they may incur (or may have incurred) to third parties in the course of their professional duties for the Company, or a subsidiary.

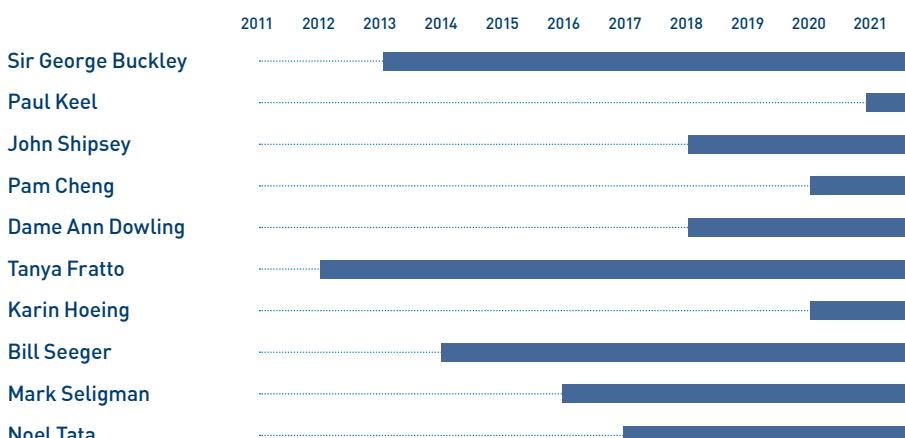
### Director re-election

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

Our Chairman, on behalf of the Board, has confirmed that each Non-executive Director standing for re-election at this year's AGM continues to be an effective member of the Board, and has demonstrated the commitment required. In addition, the Senior Independent Director has confirmed that the Chairman continues to be effective and supports his re-election to the Board at the AGM.

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

### Directors' tenure\*



\* As at 27 September 2021.

## BOARD EVALUATION

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

### Principles

Each year an evaluation of the Board and its Committees is conducted to monitor their effectiveness and to help identify any improvement opportunities with this being conducted independently every three years. The annual evaluation of the performance of the Non-executive Directors and the Chief Executive is led by the Chairman and the evaluation of the Non-executive Directors includes face-to-face meetings with the Chairman for each of them individually. Feedback is given to the Chief Executive by the Chairman after each Board meeting and on an ad hoc basis throughout the year. The Senior Independent Director and the Chief Executive lead the evaluations for the Chairman and the Chief Financial Officer respectively.

### The FY2021 evaluation was externally facilitated

Independent Audit Limited were commissioned to conduct the FY2021 Board evaluation and attended the Board and Committee meetings in March 2021, reporting on their findings to the Board at its meeting in May. Senior representatives of Independent Audit interviewed each Director individually and also sought feedback from senior executives in the Company on the way in which the Board and its Committees operate. Independent Audit supported the internal evaluation processes conducted in FY2019 and FY2020 but otherwise have no other connection with the Company.

The Directors believe that the Board and its Committees were strong in a number of areas, including the Chairman's leadership and the skills and experience of the Non-executive Directors and that of the Committees, but there are always areas where processes can be enhanced. In FY2021 the key areas for attention were agreed to be i) strategic decision-making, ii) stakeholder engagement, and iii) Board and Committee communication and dynamics.

Strategic decisions involve the consideration of many different factors and the Board wanted to seek to reach a clearer consensus on the Group-wide strategic objectives and how the Company will achieve them. The change of Chief Executive Officer and the proposed sale of Smiths Medical (subject to shareholder approval and regulatory approvals) provide an opportunity for the Group to re-focus its strategy and clarify its objectives for the future, and work on this is underway and is explained elsewhere in this Report. Effective stakeholder engagement was difficult to achieve in FY2021 because of the travel restrictions imposed by the COVID-19 pandemic, but there were also opportunities to address engagement in new ways. The activities which were carried out in the year are described on pages 91 to 93 but at the end of the year the Board agreed to restructure its interactions with stakeholders with more focus on ESG, employee engagement and hearing customer/supplier perspectives. These changes will be put into practice during FY2022.

Effective communication between the Board and executive management is vital for a successful, well-run company and was once again an area of focus in FY2021. The unique circumstances of the pandemic created challenges for Board level interactions but they also led to new ways of working being introduced or becoming more acceptable, which can benefit the Company in the long-term and reduce its costs. Communication can always be improved and this will remain an area which the Board will continue to keep under review. Progress against actions from FY2020 and those planned for FY2022 are set out on the opposite page.

### FY2022 evaluation

It is the present intention that the Board evaluation for FY2022 will be internally facilitated and Independent Audit Limited will assist with the interpretation of the results from the questionnaires used to support it.

# STRATEGIC DECISION-MAKING

## Actions from FY2020 evaluation

- The annual strategy discussion was postponed in FY2020 and held instead in November 2020. Prior to the meeting there were four webinars with subject matter experts on macro-economic conditions, capital markets, the impact of COVID-19 on the aerospace and defence markets, and the future of energy in the age of climate change to help inform the discussions
- To allow more time for strategic discussions at the Board meetings themselves, and so that the Board can consider a broader range of topics which affect the strategy, agendas were

re-balanced and items which were not 'time critical' were rescheduled. Papers which were for information only were removed from the Board packs and circulated separately to reduce the volume of the meeting pre-read. Director training took place in scheduled 'stand-alone' sessions rather than during a regularly scheduled Board meeting

## FY2021 evaluation findings

- Seek to reach a clearer consensus on the Group-wide strategic objectives and how the Company will achieve them
- Ensure the Remuneration Committee is focusing sufficiently on non-financial considerations and taking decisions in a timely manner

## Actions planned for FY2022

- The Corporate strategy and communications plan for the Group post the separation of Smiths Medical were re-evaluated by the Board following the appointment of Paul Keel
- The strategy and accompanying KPIs are described elsewhere in this document and the Company will hold a Capital Markets Day in November 2021
- Non-financial incentive measures for management are now part of the new Remuneration Policy submitted to shareholders for adoption at the AGM in November 2021

# SUCCESSION PLANNING

## Actions from FY2020 evaluation

- Increasing the frequency and depth of Board updates in this area started in 2020. Access for the Board to more divisional management employees was significantly increased, including through greater use of videoconferencing facilities to minimise the need for travel

- A total of 40 1:1 'Meet the Talent' discussions took place with Board members in FY2021 to increase Board oversight of high potential talent throughout the Group

## FY2021 evaluation findings

- Hold regular discussions between the Non-executive Directors and Chief Executive Officer on his own to discuss senior management succession and development
- Continue the Board's engagement activities with key talent across the Group
- Prepare for the transition of the Chairman and Senior Independent Director roles in the next few years

## Actions planned for FY2022

- Meetings will be built into the FY2022 calendar
- The Board will also continue to improve its interaction with high potential employees to improve their understanding of the internal 'bench strength'. Face-to-face Board exposure for high-potential talent within the Group will be reintroduced once travel restrictions are lifted
- Succession planning for Board retirements is a key area of focus for the Nomination & Governance Committee in FY2022

# BOARD COMMUNICATION

## Actions from FY2020 evaluation

- Process and procedure improvements around the creation, dissemination and consideration of Board papers were addressed through a 'lean six sigma green belt' programme run internally with identified improvements implemented early in FY2021
- Board and Committee papers were redesigned which also led to an increase in the proportion of papers circulated on time. The saving in management time for these changes is estimated as well into six figures per annum

- Other formal and informal ways of improving information flows to and from the Board outside of the usual routine of meetings were introduced to improve information flows between the Board and management generally

## FY2021 evaluation findings

- More frequent updates for the Board as the Smiths Medical separation transaction progressed were requested and implemented
- Consider the scheduling of Committee meetings and holding hybrid meetings.
- Continue to improve the timeliness of Board information
- Structure CEO and CFO reports to tie in more closely with the strategic priorities of the business

- Continue to enhance meeting dynamics with executives, creating more opportunities to debate early-stage thinking and receive input, challenge and support from Non-executive Directors

## Actions planned for FY2022

- The Board will continue to identify opportunities to improve communication between itself and Group executives. The new ways of working which were adopted during the pandemic will be retained and the improvements implemented in FY2021 will remain in place. This will include greater use of virtual or hybrid meetings to reduce international travel
- New processes have already been introduced to facilitate early stage information flows and ensure that the Non-executive Directors (specifically the Chairman and Committee chairs) have the opportunity for earlier input into Board and Committee papers

# STAKEHOLDER ENGAGEMENT

## Actions from FY2020 evaluation

- There were no specific findings in this area in the FY2020 evaluation

## FY2021 evaluation findings

- Restructure the Board's interaction with stakeholders with more focus on ESG, employee engagement and hearing customer/supplier perspectives
- Transfer the role of designated NED for employee engagement from the SID to another NED

## Actions planned for FY2022

- Review and improve the stakeholder map and formal engagement planning mechanism and incorporate stakeholder engagement within Board / Director site-visits
- Customer and supplier engagement plan to be developed
- Management to re-consider how best to develop and deliver a more structured plan for the Non-executive Directors to engage with the workforce
- Establishment of Science, Sustainability and Excellence Committee

# AUDIT & RISK COMMITTEE REPORT

Focused on the strength of controls, risk and the integrity of reporting

## KEY CONTENTS

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### Role of the Committee

The principal role of the Committee is to assist the Board in fulfilling its oversight responsibilities in relation to financial reporting, financial controls and audit, risk and internal controls. The Committee also manages the relationship with the external auditor, including making recommendations to the Board and our shareholders in relation to the reappointment of the external auditor. In addition, the Committee oversees the Group's Ethics and Compliance annual work programme and any investigations of any material ethics and compliance issues that may arise.

### Performance evaluation

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

### In order to fulfil its role the Committee:

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

### Chairman's Statement

I am pleased to present the Committee's report for FY2021. The Committee fulfils an important oversight role, monitoring the integrity of the Group's financial reporting and the effectiveness of its system of internal control and risk management framework. The delivery of the Committee's responsibilities during a period of considerable uncertainty has been important in helping the Group demonstrate its long-term sustainability and the effectiveness of the Group's strategy.



The Committee is grateful for the support of KPMG as external auditor in promoting the integrity of the Group's financial results. We support clear reporting and communication and have been working with management to see what simplification can be achieved in respect of the complexity of our financial statements. These will to some extent be simplified with the proposed sale of Smiths Medical. In this vein, we welcome the UK Government's consultation on Restoring trust in audit and corporate governance, an area where we continue to engage as the conversation evolves.

During the year the Committee continued to focus on its responsibility for the monitoring and oversight of the Group's control environment and system of internal controls and the Group's management of risk and compliance related activities. In this regard the Committee discussed the Group's response to the FDA's 'for-cause' audit at Smiths Medical and a review of the Group's general IT controls. During the COVID-19 pandemic the safety of our employees has been our priority, but with the benefit of vaccine programmes and an easing of travel restrictions a return to more normal working practices continues. This is welcomed not only so that our businesses can collaborate more effectively, but also so that we benefit from enhanced cultural oversight that comes from face-to-face interactions.

This report contains information on the activities undertaken by the Committee during the year which has enabled it to monitor and assess the effectiveness of the Group's control environment.

I would like to thank the Smiths employees and my colleagues on the Committee for their contribution. I look forward to continuing our work in FY2022.

**Mark Seligman**

CHAIR OF THE AUDIT & RISK COMMITTEE

## Committee membership and meetings

The Committee met formally four times during FY2021 (all of which were virtual meetings), with three meetings timed to align with the financial reporting and audit cycles of the Group, namely: the approval of the FY2020 Annual Report and Accounts in September 2020; the approval of the half yearly results in March 2021; and the presentation of the pre-year-end report from the external auditor, KPMG, in July 2021. A meeting was also held in November 2020 at which the Committee undertook, amongst other things, its annual review of the Group's insurance strategy and its review of KPMG's proposed audit plan for FY2021. The Committee met again in September 2021, to consider the FY2021 Annual Report and Accounts and other matters. In addition, during FY2021 the Committee Chair devoted extra time to consider the Group's response to the consultation on the government's proposals for 'Restoring trust in audit and corporate governance'. The Committee Chair is also a member of the Transaction Committee – see page 90 for more information.

All members of the Committee who served during the year are, in the view of the Board, independent Non-executive Directors and collectively have recent and relevant financial, accounting and sector experience. Committee member biographies and attendance at meetings during the year can be found on pages 88 to 90. In particular, the Board considers that Mark Seligman, who has a long history in corporate finance and knowledge of other listed company audit committees, as well as being a qualified accountant, has the recent and relevant financial experience required to chair the Committee. At the invitation of the Chair of the Committee, and in order to maintain effective communications, the Chairman, Chief Executive and Chief Financial Officer and the audit partners of KPMG attended all meetings. Other regular attendees included the Group Financial Controller, the Director of Internal Audit and the head of the Ethics & Compliance function. Divisional senior management were also invited to attend as appropriate. PwC as the auditor of Smiths Medical also attended two Committee meetings. At the conclusion of meetings, KPMG and the Director of Internal Audit were each given the opportunity to discuss matters with the Committee without executive management being present.

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

## Financial and narrative reporting

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

For the period under review, the Committee has considered information presented on significant matters of judgement, accounting estimates, and the interpretation of reporting standards in the adoption of policies. It has discussed with KPMG its audit report and noted the key accounting matters and significant judgements and issues highlighted in respect of the financial statements and as detailed below. The Committee has examined key points of disclosure and presentation to ensure the adequacy, clarity and completeness of the Annual Report and Accounts and the half yearly results announcements and enhanced going concern and viability assessments in the light of the proposed sale of Smiths Medical and COVID-19.

The Committee also reviewed various materials to support the statements in the Annual Report on risk management and internal control, going concern, and the assessment of the Group's long-term viability – see pages 80 to 81 for more details. In addition, the Committee assessed the fairness, balance and understandability of the Annual Report, and in doing so considered:

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

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

## Significant accounting estimates and judgements

An important responsibility of the Committee is to review and agree the most significant management accounting estimates and judgements which impact the financial statements. The key areas of judgement in the year are set out below. After receiving reports on the significant estimates and areas of judgement and after discussion with KPMG, the Committee agreed that the judgements made were appropriate and correctly reflected and presented in the Annual Report. More detailed information on the Group's Accounting Policies and significant judgements can be found on pages 149 to 156.

### Acquisitions and divestments

The Committee reviewed the treatment and presentation of the acquisition of the Royal Metal business and the investment in Ivenix Inc convertible debt. The Committee also considered the appropriateness of the recognition of business acquisition and disposal costs and post-acquisition integration programme costs between headline and non-headline profits.

The Committee recognised that the investment in the Ivenix Inc., ('Ivenix') convertible debt by Smiths Medical involved a number of significant accounting judgements. Smiths Medical has initially invested in \$19m of convertible debt in Ivenix, the owner of a US approved Large Volume Pump (LVP), with the option to acquire the whole business for a predetermined price – the Committee agreed with management's judgement that, at the FY2021 balance sheet date, the Group did not control or have significant influence over Ivenix. The investment also had implications for the fair value of Smiths Medical's Intellifuse development as the Group decided to prioritise the mobilisation of the Ivenix LVP over continued development of the Intellifuse (Intellifuse) LVP – see the impairment section below.

### Discontinued operation and businesses held for sale

The continued treatment of Smiths Medical as a discontinued operation and a business held for distribution to owners was considered. It was recognised that, as the distribution did not occur in FY2021, further judgement was required to determine whether the Smiths Medical business continued to meet the criteria for classification as a discontinued operation.

The Smiths Medical business was classified as discontinued and held for distribution to owners in the prior year, as the Group was committed to pursue a demerger of Smiths Medical, whilst in parallel continuing to evaluate all opportunities for value maximisation.

Following the Board decision in July 2021 to pursue a sale process, the balance sheet presentation of Smiths Medical has been updated to a business held for sale on the Group's FY2021 balance sheet. The Committee recognised that a key IFRS 5 requirement for classifying a business as held for sale to owners is that the sale must be highly probable, with the expectation that it will be completed within one year from the date of classification.

On 2 August 2021, the Group announced that it had entered into an agreement for the sale of Smiths Medical to TA Associates. Subsequently, on 8 September 2021, the Group announced that it had agreed the sale of Smiths Medical to ICU Medical (the 'ICU Transaction') on terms that are superior to the previously announced transaction with TA Associates.

The Committee concurred with management's conclusion that the ICU Transaction is a non-adjusting post balance sheet event and that it remains highly probable that the transaction will complete within 12 months of the balance sheet date. In support of the judgement, the Committee considered the strong contractual commitments provided by ICU Medical to secure the customary regulatory approvals by 8 March 2022 (the 'Long Stop Date'). However, it is recognised that in certain limited circumstances, the Long Stop Date may be extended to 8 March 2023.

### Revenue recognition

The Committee reviewed management's revenue recognition judgements. The Committee noted that the timing of revenue recognition involves judgements as to when control of an asset passes to the customer or, particularly in Smiths Detection and Smiths Interconnect, as to the stage of completion of contract activity and whether the separate performance obligations have been fulfilled.

The Committee reviewed and concurred with management's conclusions on the significant judgements for complex programmes and contract accounting. See note 1 of the Financial Statements.

### Taxation

The assets and liabilities recognised in income and deferred tax, as well as the treatment of losses in the UK, were assessed. Particular focus was given to the recognition of UK deferred tax assets; deferred tax assets relating to the John Crane, Inc. asbestos provision; and the Titeflex Corporation CSST provision. The Committee noted the ongoing tax audits that are likely to conclude in the next 12 to 24 months, and the uncertainty associated with their outcome. The Committee noted that the final outcome may vary significantly from the amounts currently provided for tax risks. See note 6 of the Financial Statements.

### Impairment

The intangible assets and the assumptions used to justify their carrying values, including 'value in use' and 'fair value less costs to sell' were reviewed, including the applicable discount rate used for impairment testing purposes.

Smiths Detection was the only CGU where the impairment headroom was limited for FY2021 and where a plausible downside scenario or a reasonable change in the key assumptions could have caused the carrying value to exceed its recoverable value. The limited impairment headroom for Smiths Detection was driven by lower forecast cash-flows due to the COVID-19 downturn in the aviation sector. The net impact is that long-term earnings growth projections have improved from the FY2020 model, and that the CGU recoverable amount exceeded its carrying value and therefore no impairment was necessary.

## Significant accounting estimates and judgements continued

The Committee concurred with management's conclusion that additional sensitivity disclosures on the impairment risk of the Smiths Detection CGU were required and reviewed the appropriateness of the disclosures proposed. Further to the prior year position, the Smiths Interconnect CGU had recorded a significant increase in headroom, resulting from improved performance in FY2021, an improved outlook and reduced COVID-19 uncertainty. Therefore, it was agreed that additional disclosures were no longer required.

The carrying value of capitalised development expenditure, notably in respect of Smiths Detection and Smiths Medical was reviewed. The Committee provided significant focus and challenge to management on the progress achieved on Smiths Medical's Intellifuse infusion pump programme, which has been in development for a number of years. The Committee recognised that the FY2021 impairment assessment for Intellifuse identified an impairment risk on the carrying value of the capitalised development costs and associated fixed assets for the LVP element of the programme.

The principal trigger event for an impairment charge, which occurred in the second half of FY2021, was Smiths Medical's investment in and the commercial partnership with Ivenix (see page 199 which was effective from 27 Apr 2021).

The investment and partnership with Ivenix means that Smith Medical will prioritise the commercialisation of the Ivenix LVP. This resulted in a change in strategy for the Group's Intellifuse development and triggered an impairment assessment for the Intellifuse programme.

The fair value model for the Intellifuse programme had previously been supported by the cash-flows driven by commercialising the LVP ahead of the syringe pump revenue stream. The partnership with Ivenix has provided a stronger business case to prioritise the commercialisation of the Intellifuse syringe pump. See note 23 of the Financial Statements.

A revised impairment review cash-flow model was prepared to assess the Intellifuse syringe pump and LVP revenue streams as two separate CGUs. The Committee considered the allocation of development and fixed costs between products such that a reasonable allocation was determined. It considered the proportion of the Intellifuse investment that relates to the LVP such that a £55 million impairment charge has been recognised in the net profit from discontinued operations.

The Committee reviewed and agreed the additional disclosures on Intellifuse within 'Discontinued operations and businesses held for sale'. See note 28 of the financial statements. The Committee also agreed that the carrying value and the treatment of the other capitalised development expenditure was reasonable.

### Provisions for liabilities and charges

The Committee considered the appropriateness of the level of the provisions held against John Crane, Inc. asbestos litigation and the Titeflex Corporation CSST claims. In particular, the Committee considered the treatment of potential liabilities, the changes to the assumptions made in calculating the provisions, sensitivities to changes in assumptions and advice received from the Group's specialist external advisers and agreed the continued appropriateness of the ten-year time period for John Crane, Inc. asbestos litigation.

In the case of the John Crane, Inc. asbestos litigation, the Committee also agreed with the judgement that, whilst large numbers of claims are made against John Crane, Inc. and other defendants every year, due to both known and as yet unknown developments in the US legal system and other events that will impact the asbestos legal environment, a sufficiently reliable estimate cannot be made to cover the full period over which it is expected that costs will be incurred. In both these cases, it was determined that the assumptions fairly reflect the position. See note 23 of the Financial Statements.

### Post-retirement benefits

The Committee reviewed and agreed the methods, assumptions and benchmarks used by the actuaries to calculate the position of the UK and US schemes at 31 July 2021, which have continued to show a net accounting surplus position.

The Committee agreed the treatment and the corresponding disclosures on these matters. See note 8 of the Financial Statements.

### Presentation of headline profits and underlying growth

The Committee considered the policy, presentation and judgements in relation to the Group's performance, in particular the separation of headline and non-headline items including the consideration of which items related to the Group's ongoing trading activity or those which should be recorded as non-headline.

The Committee reviewed the appropriate level of disclosure for the impairment charge recognised in FY2021 against Smiths Medical's capitalised development costs and related assets. The Committee agreed that the combined impairment charge required separate presentation as a non-headline item with additional narrative disclosure to explain the rationale and drivers for the charge.

In terms of the strategic restructuring programme that was first announced in June 2020, the Committee continued to agree with management's conclusion that these restructuring costs should be reported in the headline performance. The Committee also agreed that it was appropriate to continue to disclose an additional alternative performance measure to show operating profit excluding restructuring costs and asset write downs. See note 30 of the Financial Statements.

Other items included the amortisation of intangible assets and the impact of integration activity on acquired entities and material one-off items relating to pensions and other legacy provisions. In addition, the Committee also considered those judgements in connection with items to be reflected or adjusted in underlying performance. See note 3 of the Financial Statements.

## External audit

The Committee places great importance on the quality, effectiveness and independence of the external audit process. Further to the tender process described in the FY2019 Annual Report, KPMG was appointed as the Company's external auditor at the 2019 Annual General Meeting, replacing PwC which had been the Company's auditor since 1997. Michael Maloney, KPMG's audit partner, has led the engagement during the year and since their first appointment at the 2019 AGM. In line with ethical standards it is expected he will rotate off the Smiths audit within five years and no later than the conclusion of the FY2024 audit. In respect of FY2021, the Committee approved and monitored KPMG's execution of the audit plan.

The Committee also considered KPMG's report on its review of the FY2021 half yearly results announcement and its report on the FY2021 audit. It also discussed all significant matters identified in KPMG's final report on the FY2021 audit including the key accounting judgements taken by management and management's responses to any audit findings.

Due to PwC's understanding of Smiths Medical's financial reporting and internal control environment and the work necessary to support the separation of that business, the Committee agreed it was more efficient for PwC to continue to act as the auditor for those companies which comprise the Smiths Medical division and to report to KPMG. During the year PwC attended two Committee meetings.

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

## Independence and effectiveness

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

Notwithstanding developing practice being adopted by audit firms not to provide non-audit services to audit clients, the Committee recognises that certain permissible non-audit services can be completed more efficiently by, and be purchased more cost-effectively from, the incumbent auditor due to the audit firm's existing knowledge of the Group and its systems. Under the policy approved by the Committee, it has delegated its responsibility for authorising the purchase of non-audit services from the external auditor to the Chair of the Committee and/or the Chief Financial Officer within specific limits.

Details of the fees paid to KPMG for the year ended 31 July 2021 can be found in note 2 of the Financial Statements on page 161. Non-audit fees as a percentage of audit fees totalled 13% (FY2020: 9%), the increase in non-audit fees during FY2021 was principally in connection with the proposed sale of Smiths Medical. The Group would not expect in the ordinary course of business for non-audit fees to exceed 20% of the average of the previous three years' total Group audit fees unless exceptional circumstances existed.

The Committee confirms that the non-audit work performed by KPMG, which included work in preparation for the separation of Smiths Medical during the year, was properly assessed and authorised in accordance with the Group's policy.

In addition to monitoring compliance with Group policies, the Committee's review of KPMG's independence included examining written confirmation from KPMG that they remained independent and objective within the context of applicable professional standards, and considering the performance of the audit engagement partner.

During the period the Committee continually assessed the effectiveness of the external auditor through the conclusion of the FY2020 audit process, the review of audit plans, reports and conclusions and through discussions with management (both with and without the external auditor present) and with the external auditor (both with and without management present). The Committee also discussed the findings in the FRC's 2021 Audit Quality Inspection Report with KPMG to understand the activities being undertaken to address the findings and KPMG's position regarding the various areas of audit reform which is currently under review.

As FY2021 was KPMG's second year as the Group's external auditor, the Committee also paid particular attention to ensuring that it was satisfied with the close out of the first year audit matters discussed and all other statutory reporting, audit planning, scope and deliverables, and that KPMG had continued to devote sufficient time and resources to understand and assess the business, its key risks and controls. As Smiths Medical continued to be audited by PwC, the Committee also considered the effectiveness of the process whereby KPMG was able to achieve comfort from PwC on its work for that division. After taking into account the factors above and its general interaction with KPMG throughout the period, the Committee was satisfied that the audit was effective. The Committee therefore agreed that it was appropriate to recommend to the Board that the reappointment of KPMG as the Company's auditor for a further year be proposed to shareholders at the 2021 AGM. A further review of the FY2021 audit will be conducted ahead of the FY2022 half year results with recommendations to be considered as part of the FY2022 audit plan and scoping.

## Risk management and internal control

The Board is responsible for ensuring that sound risk management and internal control systems are in place. The Executive Committee is responsible for designing the risk management and internal control systems and ensuring they are effectively deployed throughout the Group. The internal control system is a framework to manage risks and monitor compliance with procedures. It is designed to meet the Group's particular needs and the risks to which it is exposed. However, it can provide only reasonable, not absolute, assurance against material loss to the Group or material misstatement in the financial statements. More detail can be found on pages 70 to 79.

In FY2021, the Committee, on behalf of the Board and with the assistance of the Internal Audit function, monitored, reviewed and assessed the effectiveness of the Group's risk management and internal control systems in the context of the Group's strategy, business model and risk appetite. The Committee also carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity, notably in the light of the COVID-19 pandemic and the proposed sale of Smiths Medical.

A description of the principal risks facing the Group and how these were reviewed to assess the Group's viability can be found on pages 72 to 78.

In fulfilling its responsibilities, the Committee received reports to enable an evaluation of the control environment and risk assurance framework and processes. No significant failings or weaknesses were identified. The Committee also received reports from the divisions on their risk management processes and a presentation on the risk registers and associated controls. The Committee undertakes deep-dive reviews on a rolling basis of the Group's principal risks. During FY2021, deep-dives were carried out on the following principal risks: Product Quality in each of the divisions and Customer in John Crane and Flex-Tek; and 'Markets' which included geopolitical, product and route to market risks. Further Customer deep-dives are scheduled for Smiths Detection and Smiths Interconnect during FY2022 along with a deep-dive on the principal risk 'Contractual Obligations'. Separately, the full Board considered Cyber security principal risks. The Committee also oversaw the Group's response to the FDA's 'for-cause' audit and a review of the Group's general IT controls. Consideration of the risk registers alongside the principal risk deep dives and other thematic risk areas enables the Committee and full Board to understand the culture, risks and opportunities and assurance processes throughout the business and the potential impact on the Group.

### Internal Audit

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

The Director of Internal Audit is accountable to the Board through the Committee Chair, although administratively the Director of Internal Audit reports to the Chief Financial Officer. During the year the Committee Chairman led a thorough succession process for a new Director of Internal Audit following the resignation of the incumbent role holder.

The Committee approved the appointment of the new Director of Internal Audit and received assurance from the outgoing role holder that there were no matters which needed to be brought to the Committee's attention. In order to carry out the responsibilities, as set out in a charter approved by the Committee, the Internal Audit function has:

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

During the period, the Committee received progress reports on the execution of the FY2021 Internal Audit Plan, notably how the plan would be completed due to site and system access and travel restrictions imposed as a result of COVID-19. This was largely addressed by the continued use of technology and reviews being completed remotely although in person activities are increasing as travel restrictions are lifted.

Review findings and recommendations made by the Internal Audit function were discussed as well as the pace at which control enhancements were addressed by the business. The Committee also considered the remit of Internal Audit, its budget and resources and the nature and extent of any outsourcing to specialist co-source providers. It also approved the FY2022 Internal Audit Plan, including the proposed audit scope, approach, coverage and allocation of resources.

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

### Ethics and compliance

During the year, the Committee reviewed the Ethics and Compliance annual work programme, and provided oversight of investigations into allegations of non-compliance with the Code of Business Ethics. This included matters raised through the Group's ethics reporting procedures including the Group's 'Speak-Out' hotline which allows for anonymous reporting. Smiths 'Speak Out' hotline comprises a number of different channels (including call centres operated by an independent third party across the Group's global operations) for employees and other stakeholders to report concerns. During the year there were no matters raised that required the Committee's direct intervention or investigations which resulted in a material loss to the Group or a detrimental impact on our customers or suppliers. The Committee receives regular reports on the total number and nature of cases by region, the ratio of anonymous vs attributed ethics reports, and the ratio of substantiated to unsubstantiated cases. The anonymous vs attributed metric is used to monitor trust in the Group's non-retaliation policy.

Accordingly, the Committee considered that the Group's processes and arrangements for employees to report concerns, including anonymously and without retaliation, about any improprieties and the arrangements for any subsequent investigation as necessary, were both appropriate and effective.

During the year, the Committee provided oversight of a number of areas targeted by the Ethics and Compliance work programme. More information on the Group's approach to Ethics and Compliance can be found on page 28.

### Assessment of internal control and risk management arrangements

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

## REMUNERATION COMMITTEE REPORT

Our objectives are to create clear alignment between remuneration and sustainable, long-term stakeholder interests. We take account of shareholder views and ensure that performance supports the delivery of business strategy through targeting our key performance indicators (KPIs).

### Role of the Committee

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

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

### In order to fulfil its role the Committee:

- Annually, reviews the ongoing appropriateness and positioning of the Remuneration Policy
- Reviews business plans and performance to assess their potential impact on existing and future incentive arrangements
- Reviews remuneration of the wider workforce and related policies to ensure internal alignment of reward

- Considers environmental, social and governance (ESG) risks when determining Remuneration Policy
- Utilises external advisers to understand remuneration trends in the market. Deloitte LLP were appointed in January 2020
- Conducts an annual review of the Committee's performance and Terms of Reference
- Prepares a Remuneration Report for inclusion in the Annual Report
- Meets at least three times annually

### Chairman's statement

I am pleased to present the Remuneration Report for the year to 31 July 2021.

The socio-economic challenges presented by the COVID-19 pandemic continued unabated during FY2021, requiring agility to protect our people and maintain the performance of the business. Throughout the COVID-19 pandemic, the Company, true to its values, has put the safety and well-being of its workforce front and centre, alongside delivering products and services to customers and safeguarding stakeholder interests. As a prudent step, a general salary freeze was applied for FY2021 across the workforce, including Executive Directors and other Executive Committee members.

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Following a global benefits review during FY2020, deployment of market appropriate life cover, critical illness, disability and medical insurance to meet standards set by Smiths has been a priority. Alongside this we have deployed a global Employee Assistance Programme (EAP) in the countries in which we operate, giving all Smiths colleagues the opportunity to access immediate support on matters critical to the well-being of both themselves and their closest family members.

We have spent considerable time in the past year reviewing how to further enhance our Remuneration Policy. At the same time as maintaining the broad design, we have taken the opportunity to introduce a number of changes designed to align with the UK Corporate Governance code. The enhanced Policy continues to reinforce the synchronisation between executive and stakeholder interests and ensure that performance measures remain closely aligned to business strategy (see page 112):

**Executive Pensions** – formalising the alignment of new and incumbent Executive Director pensions with rates available to the wider UK workforce.

**Re-balancing of the Annual Bonus Plan** – the target award will be reduced to 50% of maximum, with the maximum opportunity increased to 200% and 165% of salary for the CEO and CFO respectively (from 180% and 150%).

**Increased shareholding requirements** – shareholding requirements for the CEO and CFO will be aligned to the fixed number of shares awarded under the LTIP, reflecting an increase from the current shareholding requirement of 250% for the CEO and 200% for the CFO.

**Expanded malus and clawback provisions** – recovery provisions have been strengthened to include 'serious reputational damage' and 'corporate failure' for all incentive awards made from FY2022.



Payment of accrued dividends in shares (AIP and LTIP) – dividends that accrue in relation to vested deferred and LTIP shares will be payable in shares rather than cash.

The Committee considered outcomes under the FY2021 annual bonus and FY2019 LTIP awards in the context of the performance of the business and wider stakeholder experience. It was considered appropriate to award a bonus of 76% of maximum opportunity for FY2021, representing an above target achievement against the financial metrics and personal objectives. For the outgoing Chief Executive and the Chief Financial Officer, the Committee determined to apply discretion to reduce the award to 70% of maximum to reflect the impact of the non-headline impairment charges recorded in Smiths Medical, relating mostly to the Intellifuse LVP. One third of the bonus earned will be deferred into shares. The FY2019 LTIP award vested at 19.0% of maximum, reflecting performance over a three-year period which included the time when the business was most significantly impacted by the COVID-19 pandemic.

On 25 May 2021, we announced the appointment of Paul Keel as the new Chief Executive of Smiths. This leadership change marks the beginning of the next chapter for Smiths. Good progress has been made over recent years positioning the Company for the future. Paul was appointed on a salary of £875,000 and a pension allowance in line with the rate available to the wider UK workforce. He will be entitled to benefits in line with the Group's Remuneration Policy and relocation support for a three-year period. His incentive arrangements are aligned with the Remuneration Policy. A summary of the outgoing Chief Executive's remuneration is provided on page 126.

Feedback has been sought from major investors and shareholder bodies through an open and ongoing dialogue as we approach our three-year Remuneration Policy review. The new Remuneration Policy will be put to shareholders for approval at the AGM to be held on 17 November 2021 and we look forward to your support for the proposals.

In the light of the proposed sale of Smiths Medical, and the future Smiths strategy to be outlined at the Capital Markets Day, the Remuneration Committee will continue to consider how the Remuneration Policy for Executive Directors and the wider Group can best drive the next stage of its growth journey, and will consult with shareholders in the event that any changes are proposed.

#### **Bill Seeger**

CHAIR OF THE  
REMUNERATION COMMITTEE

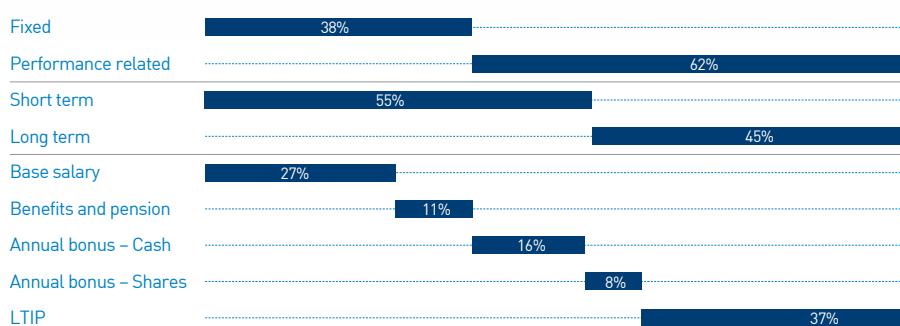
## EXECUTIVE REMUNERATION AT A GLANCE

### THE KEY PRINCIPLES OF OUR POLICY

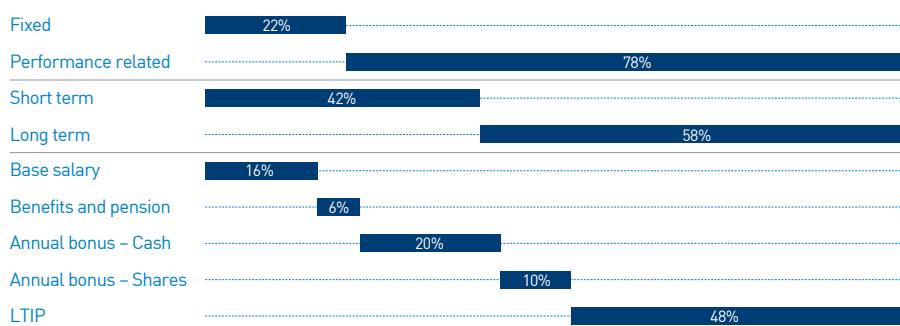
- Competitive reward package to attract, motivate and retain the best talent
- Performance measures aligned to business strategy and balanced between long-term and short-term performance
- Ability to apply appropriate discretion, withhold payments and recover sums already paid

### ELEMENTS OF EXECUTIVE DIRECTORS' PAY

#### TARGET PERFORMANCE



#### MAXIMUM PERFORMANCE



Note: Figures are based on Chief Executive's remuneration package (annualised) for FY2021

## ACTIVITIES OF THE COMMITTEE IN FY2021

#### Policy review

- Considered changes to institutional shareholder guidelines and consequently implemented a number of proposed amendments to the Remuneration Policy
- Approved remuneration package for new Chief Executive and arrangements for outgoing Chief Executive

#### Fixed pay

- Approved FY2022 salary increase of 2.5% for the Chief Financial Officer and other Executive Committee members
- Approved that incremental fees may also be paid to Non-Executive Directors for additional Board Committee responsibilities

#### Performance related pay

- Considered and approved annual incentive plan payouts and set targets for the new financial year
- Determined vesting levels for LTIP awards and agreed basis for FY2022 long-term incentive awards, including the introduction of an ESG metric

## PERFORMANCE OUTCOME AND LINKAGE TO STRATEGY

### THE THREE KEY STRATEGIC OBJECTIVES FOR THE BUSINESS IN FY2021 WERE:

**1** OUTPERFORM OUR CHOSEN MARKETS

**2** DELIVER WORLD-CLASS COMPETITIVENESS

**3** STRONG FINANCIAL FRAMEWORK

#### PERFORMANCE MEASURES DRIVING REMUNERATION

##### ANNUAL BONUS – FY2021

Operating profit  
40% weighting

1 2 3

66.9%

Organic revenue growth  
25% weighting

1 3

65.0%

Headline operating cash conversion  
25% weighting

2 3

100.0%

Personal objectives  
10% weighting

1 2 3

80.0%

##### LTIP – 3 YEARS ENDING 31 JULY 2021

EPS growth after tax  
25% weighting

1 2 3

0%

Return on Capital Employed  
20% weighting

2 3

0%

Headline operating cash conversion  
25% weighting

2 3

75%

Organic revenue growth  
30% weighting

1 3

0%

**1** Outperform our chosen markets

**2** Deliver world-class competitiveness

**3** Strong financial framework

■ Above target

■ Between threshold and target

■ Below threshold

The performance metrics referred to throughout the Remuneration Committee Report are defined in note 30 to the Financial Statements. Vesting is as a percentage of maximum.

#### SINGLE TOTAL FIGURE OF REMUNERATION FOR EXECUTIVE DIRECTORS

##### CHIEF EXECUTIVE<sup>1</sup>

FY2021

£000

Fixed pay	£227
Annual bonus	£223
Long-term incentives	£0
Total	£450

##### CHIEF FINANCIAL OFFICER

FY2021

£000

Fixed pay	£682
Annual bonus	£567
Long-term incentives	£310
Total	£1,559

1 Figures are for new Chief Executive, Paul Keel, who joined the Group with effect from 25 May 2021.

## IMPLEMENTATION OF REMUNERATION POLICY IN FY2021

The table below summarises how the Remuneration Policy has been implemented in FY2021 and highlights any changes from previous reports.

BASE SALARY	ANNUAL BONUS	LONG-TERM INCENTIVE PLAN
BENEFITS		
RETIREMENT ALLOWANCE		
Fixed remuneration which reflects required skills and expertise to deliver the Group's objectives.  Executive Director salaries were frozen in FY2021 in line with UK employees.	<ul style="list-style-type: none"> <li>- Maximum bonus opportunity of 180% of base salary for Chief Executive</li> <li>- Maximum bonus opportunity of 150% of base salary for Chief Financial Officer</li> <li>- FY2021 outcome of 76% of maximum, with application of discretion reducing this to 70% of maximum for outgoing Chief Executive and Chief Financial Officer</li> <li>- 33% of annual bonus deferred into shares for three years</li> </ul> <p>Withholding and recovery provisions apply.</p>	<ul style="list-style-type: none"> <li>- Maximum award opportunity remains unchanged at 400% of base salary</li> <li>- FY2021 award equivalent to 300% of salary, subject to performance, pro-rated for service during vesting period (26/36) for the new Chief Executive</li> <li>- FY2021 award of 179,627 shares for outgoing Chief Executive (same number of shares as FY2019 and FY2020). This award will be pro-rated to 59,876 shares to reflect actual service and original vesting date will apply</li> <li>- FY2021 award of 95,837 shares for Chief Financial Officer (same number of shares as FY2019 and FY2020)</li> <li>- 19.0% vesting level for three-year performance period ending 31 July 2021</li> <li>- Two-year post-vesting holding period applies for all awards from FY2019</li> </ul> <p>Withholding and recovery provisions apply.</p>
SHAREHOLDING GUIDELINES		
		<p>The incoming Chief Executive will be expected to reach the minimum guideline within five years of appointment to the Board (25 May 2026). The Chief Financial Officer is expected to reach the minimum guideline of 200% of base salary within five years of appointment to the Board (1 January 2023). Personal shareholdings (including deferred bonus shares and vested but unreleased shares, net of tax) for the outgoing Chief Executive remained above the 250% of salary minimum guideline. The application of good leaver provisions for Executives is conditional on retaining a number of shares equal to the in-employment shareholding guideline, or actual holding, if lower for a minimum holding period of two years from the date of leaving. The outgoing Chief Executive will be required to retain shares of a value equivalent to £2,109,450 until 31 July 2023. We have further developed our approach to post-employment shareholding requirements in the new Remuneration Policy that will be presented at the AGM on 17 November 2021.</p>

## SUMMARY OF EXECUTIVE DIRECTORS' REMUNERATION FY2021

	Incoming Chief Executive (£000)		Outgoing Chief Executive (£000)		Chief Financial Officer (£000)	
	FY2021	FY2020	FY2021	FY2020	FY2021	FY2020
Base salary	163	–	844	840	540	538
Benefits (including relocation)	54	–	60	61	11	12
Retirement allowance	10	–	205	205	131	131
Annual bonus – cash	149	–	709	173	378	93
Annual bonus – deferred shares	74	–	354	87	189	46
<b>Long-term incentives</b>	–	–	581	702	310	373
<b>Performance share award</b>	–	–	–	128	–	–
<b>Total</b>	<b>450</b>	<b>–</b>	<b>2,753</b>	<b>2,196</b>	<b>1,559</b>	<b>1,193</b>

## SUMMARY OF POLICY CHANGES AND FY2022 IMPLEMENTATION

The table below summarises the key components of the proposed framework of policy changes, illustrating how they differ from current policy and its application, and how we intend to operate the new policy in FY2022. Full details of the new Policy are set out in the Remuneration Policy Report on pages 112 to 119. Subject to shareholder approval at the AGM on 17 November 2021, the Policy will apply for three years from the AGM.

CURRENT ARRANGEMENTS	FY2021	PROPOSED CHANGES TO POLICY	FY2022 IMPLEMENTATION
<b>FIXED PAY</b>			
<b>BASE SALARY</b>			
Fixed remuneration which reflects required skills and expertise to deliver the Group's objectives	CEO: £875,000 CFO: £540,225	No change to policy	Increases for FY2022 within the average increase for UK employees of 3% CEO: £875,000 CFO: £553,750
<b>RETIREMENT ALLOWANCE</b>			
Executive Directors receive an annual cash allowance of 25% of salary  A commitment was made to reduce the allowance for incumbent directors on a phased basis by the end of 2022		Executive Directors receive an annual cash allowance in line with that available to the wider workforce in the relevant country	CEO: aligned to rate available to wider UK workforce CFO: transitional arrangements apply to align by end of Dec 2022
<b>BENEFITS</b>			
Car allowance, healthcare, life assurance and relocation benefits		No change	CFO: receives car allowance of £16,500 p.a. from FY2022

## VARIABLE PAY

### ANNUAL BONUS

Maximum opportunity: 33% of bonus deferred into shares for three years	CEO: 180% of salary CFO: 150% of salary	Target reduced from 60% to 50% of increased maximum opportunity No change to deferral structure	CEO: 200% of salary CFO: 165% of salary
Measures and weightings:	40% Operating profit 20% Operating cash conversion 30% Organic revenue growth 10% Personal	Performance measure weightings realigned with business strategy	Organic revenue growth increased by 5% and operating cash conversion reduced by 5% to reinforce focus on growth

### LONG-TERM INCENTIVE PLAN (LTIP)

LTIP awards	CEO: 300% of salary CFO: 250% of salary	No change in fixed number of shares basis but number of shares will be reset for three years from FY2022 (restricted if share price increases by more than 33% in three-year period)	CEO: shares equal in value to 300% of salary CFO: shares equal in value to 250% of salary
Vesting after three years with two-year post-vesting holding period		No change to policy	Two-year post-vesting holding period applies
Performance measures and weightings	20% EPS growth after tax 15% ROCE 20% Free cash-flow 30% Organic revenue growth 15% ESG	Performance measures realigned with business strategy	Additional metric to support focus on Company ESG strategy. Metric for FY2022 LTIP will relate to reductions in greenhouse gas emissions

### OTHER

### SHAREHOLDING GUIDELINES

	CEO: 250% of salary CFO: 200% of salary	Will be increased to be equivalent to the annual fixed number of shares awarded	CEO: c. 300% of salary CFO: c. 250% of salary
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### NON-EXECUTIVE DIRECTOR FEES

Fees reflect responsibilities and time commitments	Flexibility to pay incremental fees commensurate with other Board Committee responsibilities	Increases to fees for FY2022 within average increase for UK employees of 3%
Benefits	Modest retirement gifts limited to a maximum value of £2,500 Support with UK tax compliance	New limit on value applies if relevant

## REMUNERATION POLICY REPORT

This section of the report sets out our Remuneration Policy for Directors, which shareholders will be asked to approve at the AGM held on 17 November 2021 and which will be effective for a period of up to three years from this date.

### SUMMARY OF DECISION-MAKING PROCESS AND CHANGES TO POLICY

The revised Policy was developed at the end of 2020 and early 2021. The Committee undertook a comprehensive review of arrangements with a particular focus on Smiths' future strategy, changes in the UK Corporate Governance Code and recent developments in best practice. In determining the new Remuneration Policy, the Committee followed a robust process which included consultation with the Company's major shareholders and advice from our independent advisers. The Committee also considered input from Management while ensuring that conflicts of interest were suitably mitigated.

A summary of the key differences between the Company's current Directors' Remuneration Policy and the proposed 2021 Remuneration Policy is set out below:

- The alignment of the pension contribution available to new Executive Directors with the wider workforce in the relevant country has been formalised. The pension available to incumbent Executive Directors will be aligned with the wider workforce rate in the relevant country by 31 December 2022.
- The target annual bonus award has been reduced to 50% of maximum (previously 60%), with the maximum opportunity for outperformance increased from 180% to 200% of salary.

- The fixed number of shares granted under the LTIP has been reset to 300% and 250% of salary for the CEO and CFO respectively.
- The in-employment shareholding requirement has been increased from 250% and 200% of salary for the CEO and CFO respectively to the fixed number of shares awarded each year under the LTIP (see above).
- A post-employment shareholding guideline has been introduced such that Executive Directors will be required to hold shares equivalent to their full in-employment shareholding guideline, or actual holding if lower, for two years post-employment.

- Dividends accrued under the deferred annual bonus and LTIP are now payable in the form of shares, rather than cash.
- Malus and clawback provisions have been strengthened to include serious reputational damage and corporate failure for all incentive awards made from FY2022.
- The provision of modest retirement gifts to Non-executive Directors has been capped at a maximum of £2,500.
- Other minor changes have been made to improve the operation of the Policy.

### REMUNERATION POLICY FOR THE EXECUTIVE DIRECTORS

OPERATION	OPPORTUNITY	PERFORMANCE MEASURES
<h4>BASE SALARY</h4>		
<p><b>To attract, motivate and retain Executive Directors with the required skills and expertise to deliver the Group's objectives</b></p>		
Salaries are reviewed (but not necessarily adjusted) annually and benchmarked against comparable roles at companies of similar market capitalisation, revenues and complexity. The review also takes into account individual performance and experience, the relative performance of the Company and the Remuneration Policy operated across the Group as a whole. The salary increase date (if applicable) is 1 October.	Base salaries are adjusted according to the outcome of the annual review and will be disclosed in the Annual Report on Remuneration. Salary increases for the Executive Directors will normally be in line with those awarded to Smiths wider employee population. Where increases are awarded in excess of this, for example if there is a material change in the responsibility, size or complexity of the role, or a significant change in the market competitiveness of salary, the Committee will provide the rationale in the relevant year's Annual Report on Remuneration.	Not applicable

## REMUNERATION POLICY FOR THE EXECUTIVE DIRECTORS CONTINUED

OPERATION	OPPORTUNITY	PERFORMANCE MEASURES
<b>BENEFITS</b>		
<b>To provide market-competitive benefits to Executive Directors</b>		
Benefits comprise car benefit, driver for business purposes, life assurance and private healthcare insurance, and other such benefits as the Committee may from time to time determine are appropriate. These include, but are not limited to, relocation allowances, as well as any other future benefits made available either to all employees globally or all employees in the region in which the Executive Director is employed.	Benefits vary by role and individual circumstances. Benefits in respect of the year under review are disclosed in the Annual Report on Remuneration. The Committee retains discretion to approve a higher cost in exceptional circumstances (e.g. to facilitate recruitment, relocation, expatriation, etc.) or in circumstances where factors outside the Group's control have changed materially (e.g. market increases in insurance costs).	Not applicable
<b>PENSIONS</b>		
<b>Enables Executive Directors to save for their retirement in a cost-efficient manner</b>		
Executives may choose either to participate in the Company's defined contribution pension plan or to receive a pension allowance in lieu thereof (and thus arrange their own pension provision).  Pension allowances for the employee population are reviewed periodically to ensure market competitiveness.  Base salary is the only element of remuneration that is taken into account when determining pension contributions or allowances.	The maximum level of pension contribution (or allowance in lieu thereof) for new Executive Directors will be aligned to the rates available to the wider UK workforce in the Executive Director's local market.  The retirement allowance for the incumbent Chief Financial Officer is 23.7 % of salary with effect from 1 October 2021. The allowance will reduce to the contribution level available for the wider workforce no later than 31 December 2022	Not applicable
<b>ANNUAL BONUS</b>		
<b>Incentivises short-term priorities in line with the Group's business strategy</b>		
Annual bonus payments are determined based upon performance against measures and targets set by the Committee at the start of each financial year.  After the end of the financial year, to the extent that the performance criteria have been met, up to 67% of the earned annual bonus is paid in cash. The balance is deferred into shares and released after a further period of three years, without further performance or other conditions. Dividends accrue and are normally payable in shares at the end of the deferral period.  The Committee may use its discretion to adjust payout of the annual bonus to Executive Directors, within the range of the minimum to maximum opportunity, including reducing it down to zero. Such discretion will only be used where the Committee believes that performance against the prescribed targets does not accurately reflect the Company's underlying performance.  In addition, cash and deferred share bonuses awarded will be subject to malus and/or clawback for a period of three years from the end of the relevant performance year in case of misconduct, serious reputational damage, corporate failure or material misstatement in the published results of the Group.	The maximum annual bonus opportunity for Executive Directors is up to 200% of salary.  The annual bonus opportunities for the year under review and the coming year are disclosed in the Annual Report on Remuneration.  Under the financial element of the annual bonus, threshold performance must be exceeded before any annual bonus becomes payable. The percentage payout then increases according to the level of achievement against targets. Payment of up to 25% of maximum opportunity occurs on achievement of threshold performance and 50% of maximum opportunity on achievement of on-target performance.	Based on a combination of financial and non-financial performance measures linked to short-term objectives. Financial performance will account for no less than 70% of the bonus opportunity and may include, but is not limited to, profit, organic revenue growth and cash measures.

## **REMUNERATION POLICY REPORT CONTINUED**

<b>OPERATION</b>	<b>OPPORTUNITY</b>	<b>PERFORMANCE MEASURES</b>
<b>LONG-TERM INCENTIVE PLAN (LTIP)</b>		
<b>Incentivises long-term value creation for shareholders, sustainable growth and effective management of the balance sheet</b>		
Awards of conditional shares are granted annually and vest after a performance period of at least three years, subject to the achievement of performance targets set by the Committee at the start of each cycle. Vested shares are subject to a two-year post vesting holding period.  To the extent that the performance targets are not met over the performance period, awards will lapse. No retesting of awards under any performance condition is permitted.  Dividends accrue and are normally paid in shares at the end of the vesting period, on shares that vest.  The Committee may use its discretion to adjust payout of the LTIP to Executive Directors, within the limits of the Plan rules. Such discretion will only be used where the Committee believes that performance against the prescribed targets does not accurately reflect the Company's underlying performance. Awards will be subject to malus over the vesting period and clawback from the vesting date for a period of five years from the date of grant in the case of misconduct, serious reputational damage, corporate failure or material misstatement in the published results of the Group.	The maximum LTIP award opportunity for Executive Directors is up to 400% of salary. Awards of a fixed number of shares will be made in respect of the relevant financial year. For awards made in respect of FY2022 onwards, this fixed number of shares will be equivalent to 300% of salary for the CEO and 250% of salary for the CFO. In future years for which this policy applies it is intended that the Executive Directors will each be awarded the same fixed number of shares as in respect of FY2022. In the event that the Company share price increases by more than 33% during the three-year policy period, the fixed number of shares awarded will be restricted so that the value of the award is no more than 33% greater than the value of the FY2022 award at the date of grant. This will ensure that the maximum LTIP award opportunity is not exceeded.  LTIP award sizes for the year under review and the coming year are disclosed in the Annual Report on Remuneration. At threshold performance against each measure, up to 25% of the award subject to that measure vests, increasing to 100% for achieving stretch targets.	Based on measures of performance that are aligned with the Group's strategy. To ensure continued alignment with the Company's strategic priorities, the Committee may, at its discretion, vary the measures and their weightings from time to time (but will consult shareholders before making significant changes to the performance measures).
<b>SHARESAVE</b>		
<b>Encourages ownership of shares in the Company and alignment with shareholder interests</b>		
All UK employees (including Executive Directors) may save up to a maximum monthly savings limit (as determined by UK legislation, or other such lower limit as the Committee may determine at its discretion) for three years.  At the end of the savings period, participants may use their savings to exercise options to acquire shares, which may be granted at a discount of up to 20% to the market price on grant.		None required
<b>SHAREHOLDING GUIDELINES</b>		
<b>Encourages ownership of shares in the Company and alignment with shareholder interests</b>		
Executive Directors should build a minimum shareholding equivalent to the fixed number of shares awarded in respect of FY2022 under the LTIP within five years. 50% of any net vested share awards (after sales to meet tax liabilities) must be retained until the minimum shareholding requirements are met.  Shareholding guidelines also exist below Executive Director level.  Executive Directors are required to hold shares equivalent to their full in-employment shareholding guideline, or actual holding if lower, for two years post-employment.		Not applicable

## REMUNERATION POLICY FOR THE EXECUTIVE DIRECTORS CONTINUED

### Existing grants or entitlements

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

### Performance measure selection and approach to target setting

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

The measures used in the Long-Term Incentive Plan are selected to reflect Smiths Group strategy and to reinforce the key drivers of value creation and growth highlighted elsewhere in this Annual Report which may include earnings per share, cash measures, organic revenue growth, delivering sustainable return on capital and measures relating to Environmental, Social and Governance matters.

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

The linkage of the performance measures to business strategy is set out in the 'Executive remuneration at a glance' section on page 108.

### Alignment of policy between Executive Directors and other employees

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

### Alignment with the UK Corporate Governance Code

The table below details how the Committee addresses the factors set out within Provision 40 of the UK Corporate Governance Code:

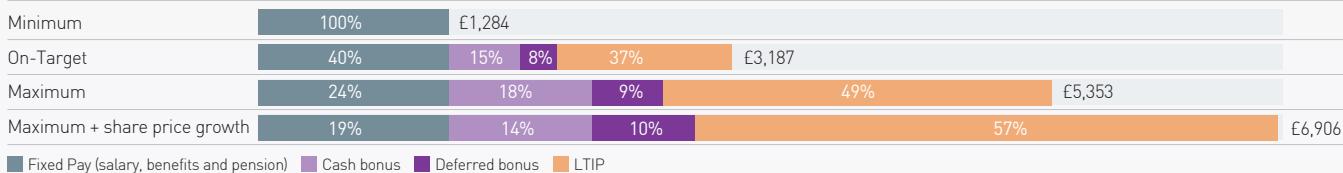
Clarity	<ul style="list-style-type: none"><li>– The Committee welcomes transparency and regular engagement with shareholders with regard to executive remuneration. During the review of Remuneration Policy in 2021, the Committee Chairman has consulted with shareholders to fully understand their views on proposed changes. The Committee Chairman has engaged with the wider workforce via live video conference and online Q&amp;A to offer opportunity for further understanding of the role of the Committee, the principles of executive remuneration and how this cascades through the organisation.</li></ul>
Simplicity	<ul style="list-style-type: none"><li>– Participants in incentive plans receive annual communications to confirm award levels and performance measures. Supporting guidance documents and instructional videos are available online. The Remuneration Policy for Executive Directors underpins that of the wider workforce and during the 2021 Policy review further simplified the arrangements</li></ul>
Risk	<ul style="list-style-type: none"><li>– The Committee considers the effective management of risk throughout the delivery of incentive plans, applying reasonable discretion to override formulaic outcomes if necessary</li><li>– The Committee considers that the structure of incentive arrangements does not encourage unnecessary risk taking</li><li>– For Executive Directors, one third of the annual bonus payment is deferred into shares with an additional three years until vesting</li><li>– Robust malus and clawback provisions are in place for incentive plans and are clearly communicated</li></ul>
Predictability	<ul style="list-style-type: none"><li>– Our Policy clearly outlines the maximum award levels and vesting outcomes applicable to annual bonus and LTIP. As stated above under 'risk', the Committee has the ability to apply discretion to formulaic outcomes and clear malus and clawback provisions exist</li></ul>
Proportionality	<ul style="list-style-type: none"><li>– There is a robust link between strategic business objectives and performance outcome, as outlined on page 113</li><li>– Our Policy for our incentive plans outlines threshold, target and maximum opportunity levels, with actual outcomes dependent on performance achieved against robust, pre-determined measures</li><li>– Through the design of the policy and the discretion of the Committee, poor performance is not rewarded</li></ul>
Alignment to culture	<ul style="list-style-type: none"><li>– Smiths Group values of passion, integrity, respect, ownership and customer focus underpin the design and operation of the incentive programmes. The business strategy is supported by these values which are widely communicated across the Company</li></ul>

## REMUNERATION POLICY REPORT CONTINUED

### Pay scenarios

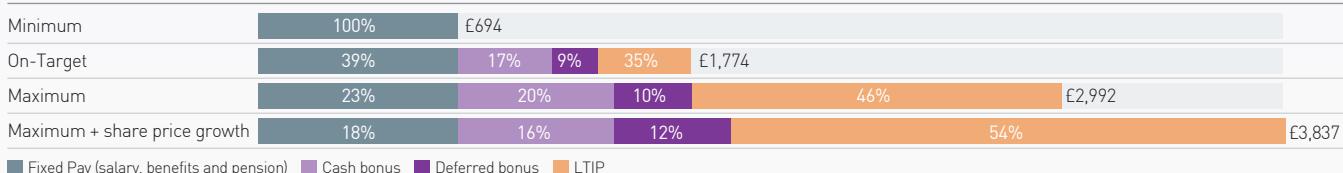
The graphs below provide estimates of the potential future reward opportunity for the Chief Executive and the Chief Financial Officer, and the potential mix between the different elements of remuneration under four different performance scenarios: 'Minimum', 'On-Target', 'Maximum' and 'Maximum + Share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

#### Paul Keel (£000)



■ Fixed Pay (salary, benefits and pension) ■ Cash bonus ■ Deferred bonus ■ LTIP

#### John Shipsey (£000)



■ Fixed Pay (salary, benefits and pension) ■ Cash bonus ■ Deferred bonus ■ LTIP

Potential opportunities illustrated above are based on the Policy, applied to the annualised base salaries in force from 1 October 2021. It should be noted that any awards granted under the LTIP in a year do not normally vest until the third anniversary of the date of grant. This illustration is intended to provide further information to shareholders on the relationship between executive pay and performance. Please note, however, that actual pay delivered will further be influenced by factors such as share price appreciation or depreciation and the value of dividends paid. The following assumptions have been made in compiling the above charts:

	Minimum	On-Target	Maximum
Base salary		Annual base salary	
Pension		Company pension allowance	
Other benefits		Value of annual benefits provided	
Cash bonus	0% of salary	67% (CEO), 55% (CFO) of salary	133% (CEO), 110% (CFO) of salary
Deferred bonus	0% of salary	33% (CEO), 28% (CFO) of salary	67% (CEO), 55% (CFO) of salary
LTIP	0% of salary	135% (CEO), 113% (CFO) of salary	300% (CEO), 250% (CFO) of salary

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

OPERATION	OPPORTUNITY	PERFORMANCE MEASURES
<b>ANNUAL FEE</b>		
<b>To attract, motivate and retain Non-executive Directors with the required skills and expertise.</b>		
Fees may be paid in cash or a combination of cash and shares and are reviewed annually (but not necessarily increased) to ensure they compare appropriately to fees payable at companies of similar size and complexity to Smiths.	Fees are adjusted according to the outcome of the annual reviews.	Not applicable
Additional fees are paid to the Chairs of the Audit & Risk and Remuneration Committees and to the Senior Independent Director to reflect the additional time commitment of these roles. Additional fees may be paid for other responsibilities or time commitments.	The basic fee for Non-executive Directors is subject to the maximum aggregate annual fee of £1,000,000, as approved by shareholders in 2017 in the Company's Articles of Association.	
The fee paid to the Chairman of the Board is determined by the Committee, absent the Chairman, while the fees for all Non-executive Directors are agreed by the Executive Directors.		

## OTHER

The Chairman and Non-executive Directors do not currently receive any benefits and are not eligible for bonuses or participation in share schemes or any pension provision. They may be paid an attendance allowance for each meeting attended outside their home continent in addition to the annual fee. Travel and other reasonable expenses (including fees incurred in obtaining professional advice in the furtherance of their duties) incurred in the course of performing their duties are reimbursed to Non-Executive Directors (including any associated tax liability). The Group may also provide advice and assistance with Board Directors' tax returns where these are impacted by the duties they undertake on behalf of the Group. Modest retirement gifts, with a value of up to a maximum of £2,500 may be provided for Non-executive Directors in appropriate circumstances.

Non-executive Directors are encouraged to build up a shareholding of at least 100% of their annual base fee over the later of five years from their date of appointment or the adoption of this guideline.

## APPROACH TO REMUNERATION ON RECRUITMENT AND LEAVING

### Executive Directors

The Committee approves the remuneration of each Executive Director on their appointment. The package should be market competitive to facilitate the recruitment of an individual of sufficient calibre to lead the business. At the same time, the Committee would intend to pay no more than it believes is necessary to secure the required talent. In setting the remuneration during the recruitment of external appointments, the Committee will apply the following policy:

Pay element	Policy on recruitment
<b>BASE SALARY</b>	Salary on recruitment is determined based on the same principles as the annual salary review, as outlined in the policy table.
<b>BENEFITS</b>	As described in the policy table.
<b>PENSION</b>	As described in the policy table.
<b>ANNUAL BONUS</b>	As described in the policy table and typically pro-rated for the proportion of year served. Maximum annual award opportunity: 200% of salary with mandatory deferral of 33% into shares.
<b>LTIP</b>	May be considered for an award under the LTIP on similar terms to other executives. Maximum annual award opportunity: 400% of salary.
<b>OTHER</b>	<p>The structure of the ongoing remuneration package would normally include the components set out in the policy table for Executive Directors.</p> <p>Circumstances in which other elements of remuneration may be awarded include:</p> <ul style="list-style-type: none"> <li>– an interim appointment being made to fill an Executive Director role on a short term basis;</li> <li>– if exceptional circumstances require that the Chairman or a Non-executive Director takes on an executive function on a short term basis;</li> <li>– if an Executive Director is recruited at a time in the year when it would be inappropriate to provide a bonus or LTIP award for that year as there would not be sufficient time to assess performance; subject to the limit on variable remuneration set out below, the quantum in respect of the months employed during the year may be transferred to the subsequent year so that reward is provided on a fair and appropriate basis.</li> </ul> <p>The Committee may make an award to compensate the prospective employee for remuneration arrangements forfeited on leaving a previous employer. Any such award will take account of relevant factors including the form of any forfeited awards (e.g. cash or shares) including the value of awards forfeited, any performance conditions attached, the likelihood of those conditions being met and the proportion of the vesting period remaining. For the purposes of making such awards, but for no other reason, the Committee may avail itself of Listing Rule 9.4.2R. Such awards or payments are excluded from the maximum level of variable remuneration referred to below; however, the Committee's intention is that the value awarded or paid would be no higher than the expected value of the forfeited arrangements.</p> <p>Recruitment awards will normally be liable to forfeiture or "clawback" on early departure (i.e. within the first 12 months of employment). The maximum level of variable remuneration that may be granted to new Directors (excluding buy-out arrangements) is 600% of base salary. The Committee may also make payments to cover reasonable expenses in recruitment and relocation, and any other miscellaneous expenses including but not limited to housing, tax and immigration support.</p>

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

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

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

### Non-executive Directors

In recruiting a new Non-executive Director, the Committee will use the policy as set out in the table on page 116.

## **REMUNERATION POLICY REPORT CONTINUED**

### **Executive Directors' service contracts**

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

Paul Keel is employed under a service contract with the Company dated and effective from 25 May 2021. He became an Executive Director with effect from 25 May 2021. John Shipsey is employed under a service contract with the Company dated and effective from 18 October 2017. He became an Executive Director on 1 January 2018.

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

### **Chairman's and Non-executive Directors' letters of appointment**

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

Non-executive Director	Date of appointment
Sir George Buckley	1 August 2013
Pam Cheng	1 March 2020
Dame Ann Dowling	19 September 2018
Tanya Fratto	1 July 2012
Karin Hoeing	2 April 2020
Bill Seeger	12 May 2014
Mark Seligman	16 May 2016
Noel Tata	1 January 2017

### **Leaving and change-of-control provisions**

When determining leaving arrangements for an Executive Director the Committee takes into account any contractual agreements including the provisions of any incentive arrangements, typical market practice and the performance and conduct of the individual. For those individuals regarded as 'bad leavers' (e.g. voluntary resignation or dismissal for cause), annual bonus awards are forfeited, and outstanding awards under the LTIP automatically lapse. Deferred bonus awards are forfeited on dismissal for cause.

A 'good leaver' will typically remain eligible for a pro-rated annual bonus award, normally to be paid after the end of the financial year. The Committee retains discretion to pay the bonus early and not to apply deferral where it would otherwise apply, but would do so only in compassionate circumstances. Deferred bonus awards shall continue in full and vest on the originally anticipated vesting dates. Alternatively, in compassionate circumstances, the Committee may determine that awards should vest when the participant ceases employment. Awards in the form of options may be exercised in accordance with the rules of the applicable scheme.

LTIP awards will typically vest at the normal vesting date to the extent that the associated performance conditions are met, but will normally be pro-rated on the basis of actual service within the performance period. Any holding period will ordinarily continue to apply. The Committee retains discretion to vest the award before the end of the originally anticipated performance period, and to assess performance accordingly, and to waive the continuation of the holding period or to shorten its application, but would do so only in compassionate circumstances.

Vested LTIP awards which are subject to a holding period will ordinarily continue to be subject to the holding period, although the Committee retains discretion to waive the continuation of the holding period or to shorten its application but would do so only in compassionate circumstances.

In cases of death or disability, individuals are automatically deemed to be good leavers under the plan rules of the LTIP. All other good leavers will be defined at the discretion of the Committee on a case-by-case basis.

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

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

In connection with the termination of an Executive Director's contract, the Company may make a payment on account of accrued but untaken leave. The Company has the power to enter into settlement agreements with Directors and to pay compensation to settle potential legal claims. In addition, and consistent with market practice, in the event of the termination of an Executive Director, the Company may make a contribution towards that individual's legal fees and fees for outplacement services as part of a negotiated settlement. Any such fees will be disclosed as part of the detail of termination arrangements.

## External appointments

Subject to the overriding requirements of the Company, the Committee allows Executive Directors to accept one external appointment where it considers that such appointment will contribute to the Director's breadth of knowledge and experience. Executive Directors are not permitted to take on the chairmanship of another FTSE 100 company or equivalent organisation. Directors are permitted to retain fees associated with such appointments. Non-executive Directors must obtain the approval of the Board before accepting any additional appointments once they have joined the Board.

## Consideration of employment conditions

The Committee always takes into account pay and employment conditions elsewhere in the Company. When setting remuneration for Executive Directors and the senior management team, the Committee carefully considers wider remuneration across the Group, including salary increases, bonus awards, share plan participation and pay ratios between Executive Directors and other employees. This has been a particular area of focus for the Committee in designing a new policy that is capable of cascade down the organisation.

We are committed to sharing business success across the organisation, with 6,147 employees participating in an annual bonus plan. There is strong alignment of business metrics between the Executive Directors bonus plan and those in which the majority of the workforce participate. In addition, the Group offers an all-employee sharesave plan to eligible employees in the UK.

During the year the Committee has supported the implementation of a global Employee Assistance Programme and the deployment of Smiths standards for core employee benefits in all markets.

Application of the policy will be influenced by the remuneration arrangements for all employees. The Committee Chairman has engaged with the wider workforce via live video conference and online Q&A to offer the opportunity for further understanding the role of the Committee, the principles of executive remuneration and how this cascades through the organisation.

## Consideration of shareholder views

The Committee considers best practice developments and publications from institutional investors and shareholder bodies as well as any shareholder views expressed during dialogue. The Committee is committed to maintaining an open and consultative dialogue with Company shareholders and shareholder bodies. During the year a formal shareholder consultation exercise was undertaken as part of the review of the Policy, to provide the major shareholders with the opportunity to provide feedback and engage on our proposals.

## **ANNUAL REPORT ON REMUNERATION**

This section of the Remuneration Report details how our Policy was implemented in the year ended 31 July 2021.

### **Committee members and meeting attendance in FY2021**

The membership of the Committee and their meeting attendance during the year is set out on page 90 of this Report. Bill Seeger had served on a remuneration committee for at least 12 months prior to his appointment as Remuneration Committee Chair.

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

### **Advisers to the Committee**

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

The Company paid a total fee of £136,050 to Deloitte LLP in relation to remuneration advice to the Committee during the year. Fees were determined on the basis of time and expenses.

During FY2021, Deloitte LLP provided the Committee with information on market trends including the impact of COVID-19, compliance support for this year's Directors' Remuneration Report, advice on remuneration of the incoming Chief Executive, the Remuneration Policy review and shareholder consultation process and the provision of other advice relating to remuneration governance and market practice. Deloitte LLP is a founding member of the Remuneration Consultants Group and a signatory to its Code of Conduct. Deloitte LLP provided additional tax advisory services including global corporation tax compliance and employee mobility advice, as well as company secretarial, internal audit co-source, transaction and sustainability services. The Committee is satisfied that the advice provided by Deloitte LLP is objective and independent and that they do not have connections with the Group that may impair their independence.

### **Summary of shareholder binding vote on Directors' Remuneration Policy (FY2019)**

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

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

### **Summary of shareholder advisory vote on Directors' Remuneration Report (FY2021)**

The voting outcome in November 2020 for the Directors' Remuneration Report was as follows:

Votes for	% of votes cast for	Votes against	% of votes cast against	Total votes cast	Votes withheld (abstentions)
319,572,256	97.58%	7,911.798	2.42%	327,484,054	136,313

## Directors' single figure of annual remuneration (audited)

### Executive Directors

	Salary/fees <sup>1</sup>		Payments in lieu of pension contribution		Total fixed		Annual bonus <sup>4</sup>		Long-term incentives <sup>5</sup>		Performance share award <sup>6</sup>		Total performance related <sup>5</sup>		Total <sup>5</sup>			
	FY2021 £000		FY2020 £000		FY2021 £000		FY2020 £000		FY2021 £000		FY2020 £000		FY2021 £000		FY2020 £000			
Paul Keel	163	–	54	–	10	–	227	–	223	–	–	–	–	223	–	450	–	
Andy Reynolds Smith <sup>2</sup>	844	840	60	61	205	205	1,109	1,106	1,063	260	581	717	–	131	1,644	1,090	2,753	2,196
John Shipsey <sup>2</sup>	540	538	11	12	131	131	682	681	567	139	310	381	–	–	877	512	1,559	1,193

### Chairman and Non-executive Directors

	Salary/fees		Benefits <sup>11</sup>		Total												
	FY2021 £000		FY2020 £000		FY2021 £000		FY2020 £000		FY2021 £000		FY2020 £000		FY2021 £000		FY2020 £000		
Sir George Buckley <sup>7</sup>	461	454	–	92												461	546
Bruno Angelici <sup>8</sup>	24	75	–	4												24	79
Olivier Bohuon <sup>8</sup>	24	75	–	3												24	78
Pam Cheng	71	30	–	–												71	30
Dame Ann Dowling	71	75	–	–												71	75
Tanya Fratto	71	83	–	6												71	89
Karin Hoeing	71	24	–	–												71	24
Bill Seeger <sup>9</sup>	119	123	–	4												119	127
Mark Seligman <sup>10</sup>	99	95	–	1												99	96
Noel Tata	71	87	–	–												71	87

1 Andy Reynolds Smith stepped down from the Board on 25 May 2021, and remained an employee of Smiths Group until 31 July 2021. The values in the single figure table above reflects the remuneration paid up to 31 July 2021.

2 The share price appreciation attributable to the FY2021 Long Term Incentives for Andy Reynolds Smith and John Shipsey was 11.3% or £38,472 and £20,526 respectively (FY2020 no share price appreciation). No discretion has been applied to the amounts attributable to share price appreciation.

3 Benefits for Executive Directors include car/chauffeur benefits, life assurance, disability insurance, private healthcare insurance and relocation benefits.

4 Executive Directors defer 33% of bonuses into Smiths shares. The total bonus paid during the year, including deferral, is captured under 'annual bonus' above. The deferral is for a three-year period and is not subject to any further performance or other conditions.

5 The Long Term Incentive values for FY2020 for Andy Reynolds Smith and John Shipsey have been restated to show the actual amount (rather than the estimated amount in last year's Report) and to include dividend accrual payments of £57,671 and £30,637 respectively which were paid on vesting. The total remuneration is also restated accordingly. The estimated Long Term Incentive values for FY2021 are calculated using the vesting percentage of 19.0% and the average share price over the 3 months to 31 July 2021 of 1,578.16p; they also include dividend accrual payments of £42,049 for Andy Reynolds Smith and £22,423 for John Shipsey, payable on vesting. The average share price for the 5 days to 31 July 2021 of £1,580.20p is used to calculate the dividend equivalent value.

6 Andy Reynolds Smith was awarded 26,602 Performance shares in 2015 which vested in October 2020 (the performance criteria for these shares was the same as set out in the FY2018 LTIP Outcome of 31.3%). The value shown for FY2020 has been restated to show the actual amount (rather than the estimated amount in last year's Report). The figure includes an amount of £16,756 in respect of the estimated value of 1,219 dividend equivalent shares.

7 Sir George Buckley's fee comprised his Non-executive Director's fee; an additional fee for being Chairman, an additional fee for chairing the Nomination & Governance Committee and a supplementary fee provided to the Chairs of each of the Committees related to the proposed sale of Smiths Medical. The fees are being consolidated into a single Chairman's fee from FY2022 onwards.

8 Bruno Angelici and Olivier Bohuon's fees for FY2021 comprised Non-executive Director's fees until the date of resignation.

9 Bill Seeger's fees for FY2021 comprised his Non-executive Director's fee, his additional fee for chairing the Remuneration Committee, his additional fee as Senior Independent Director and a supplementary fee provided to the Chairs of each of the Committees related to the proposed sale of Smiths Medical.

10 Mark Seligman's fees comprised his Non-executive Director's fee, his additional fee for chairing the Audit & Risk Committee and a supplementary fee provided to the Chairs of each of the Committees related to the proposed sale of Smiths Medical.

11 Benefits for the Chairman and Non-executive Directors relate to reimbursed travel-related and other expenses (including flight costs where applicable), which are grossed-up for the UK income tax and National Insurance contributions paid by the Company on their behalf.

### Incentive outcomes for FY2021

FY2021 annual bonus outcome for Paul Keel, Andy Reynolds Smith and John Shipsey:

The table below summarises the structure of the FY2021 annual bonus, our performance and the resulting annual bonus payout for each of the Executive Directors.

Director	Measure	Weighting	Maximum Opportunity (% of salary)		Earned bonus	
			(%) of max. bonus	(% salary)	£000	
Paul Keel <sup>1</sup>	Operating Profit	40%	72%	26.8%	48.2%	79
	Headline Operating Cash Conversion	25%	45%	25.0%	45.0%	73
	Organic Revenue Growth	25%	45%	16.2%	29.2%	48
	Personal Objectives	10%	18%	8.0%	14.4%	23
<b>Total</b>		<b>100%</b>	<b>180%</b>	<b>76.0%</b>	<b>136.8%</b>	<b>223</b>
Andy Reynolds Smith <sup>2</sup>	Operating Profit	40%	72%	26.8%	48.2%	407
	Headline Operating Cash Conversion	25%	45%	25.0%	45.0%	380
	Organic Revenue Growth	25%	45%	16.2%	29.2%	246
	Personal Objectives	10%	18%	8.0%	14.4%	121
	Discretion	n/a	n/a	-6.0%	-10.8%	-91
<b>Total</b>		<b>100%</b>	<b>180%</b>	<b>70.0%</b>	<b>126.8%</b>	<b>1,063</b>
John Shipsey <sup>2</sup>	Operating Profit	40%	60%	26.8%	40.2%	217
	Headline Operating Cash Conversion	25%	37.5%	25.0%	37.5%	203
	Organic Revenue growth	25%	37.5%	16.2%	24.3%	131
	Personal Objectives	10%	15%	8.0%	12.0%	65
	Discretion	n/a	n/a	-6.0%	-9.0%	-49
<b>Total</b>		<b>100%</b>	<b>150%</b>	<b>70.0%</b>	<b>105.0%</b>	<b>567</b>

1 Paul Keel's bonus has been pro-rated to reflect 68 days of employment during FY2021

2 The Committee determined to apply discretion to reduce the award to 70% of maximum for Andy Reynolds Smith and John Shipsey

## ANNUAL REPORT ON REMUNERATION CONTINUED

The table below summarises the financial targets and the Company's actual performance (restated at budget exchange rates) against these for the FY2021 annual bonus.

Measure	Performance targets and actual performance			
	Threshold 25% payout	Target 60% payout	Maximum 100% payout	Actual
Operating Profit <sup>1</sup>	£470m	£549m	£625m	£562m
Headline Operating Cash Conversion <sup>2</sup>	H1	90%	100%	110%
	FY	95%	105%	115%
Organic Revenue Growth <sup>3</sup>	£3,270	£3,395	£3,549	£3,415

1 The Operating Profit result excludes restructuring costs and the acquisition of Royal Metal which was not included in the original targets.

2 50% of the maximum headline operating cash conversion opportunity is available for each of H1 and FY. Figures exclude accrued restructuring costs to avoid overstatement and the acquisition of Royal Metals which was not included in the original targets (reported figures H1 129%, FY 125%).

3 Organic revenue growth is based on revenue (including Smiths Medical) excluding the acquisition of Royal Metal which was not included in the original targets and restated at budget exchange rates (reported figure £3,255m).

### Personal objectives

Challenging personal objectives are set each year for the Executive Directors, to reinforce the Company's operating and strategic priorities. The personal objectives for the Executive Directors for FY2021 comprised a number of strategic long-term enablers, some of which remain commercially sensitive, together with short-term projects aligned to innovation, operational excellence and capability planning.

Achievements against objectives in the year were as follows:

	Objectives	Achievement & bonus outturn (10% weighting)	
<b>Chief Executive (from 25 May 2021)</b>	Development of Smiths Group vision based on achieving sustainable growth (80% weighting)	<p>Paul Keel has made an excellent start in his first few months including:</p> <ul style="list-style-type: none"> <li>- Successful extensive stakeholder engagement exercise throughout the business with multiple site visits liaising with employees, customers and other key stakeholders.</li> <li>- Development of the strategy to be launched at the Capital Markets Day in November 2021, focused on accelerated growth, operational excellence and people &amp; culture.</li> <li>- Progressing ESG strategy including net zero roadmap ambitions and focus on new sustainable products.</li> </ul> <p><b>Rating 70/80</b></p>	Overall rating of 80% was approved by the Committee representing a payout of 8% of maximum bonus opportunity.
	Delivery of a successful separation of Smith Medical that maximises value for shareholders (20% weighting)	<p>Immediate and effective engagement in all aspects of the separation process, enabling the 8 September 2021 announcement of the proposed sale of Smiths Medical to ICU Medical, Inc.</p> <p><b>Rating 10/20</b></p>	
<b>Chief Financial Officer</b>	Managing business performance post COVID-19, including delivery of restructuring savings, material improvements in tax and pensions costs (40% weighting)	<p>Strategic restructuring savings of £47m, delivered early and ahead of plan.</p> <p>Strong performance on tax and pensions costs.</p> <p><b>Rating 35/40</b></p>	Overall rating of 80% was approved by the Committee representing a payout of 8% of maximum bonus opportunity.
	Delivery of a successful separation of Smith Medical that maximises value for shareholders (20% weighting)	<p>Extensive work culminating in the proposed sale of Smiths Medical to ICU Medical, Inc. in a transaction that delivers an enterprise value of \$2.7bn, approximately \$0.4bn higher than under the TA Transaction.</p> <p><b>Rating 10/20</b></p>	
	Delivery of the roadmap for business services transformation (20% weighting)	<p>Successful delivery of business services transformation roadmap including upgraded Consolidation, Treasury Management, Expenses, Supplier Finance, Accounts Payable systems throughout businesses.</p> <p><b>Rating 20/20</b></p>	Overall rating of 80% was approved by the Committee representing a payout of 8% of maximum bonus opportunity.
	Develop and strengthen the Finance Team (20% weighting)	<p>Key finance team appointments made during the year to strengthen core capabilities.</p> <p>Developing roadmap for accelerated development of high potential employees and talent progression.</p> <p><b>Rating 15/20</b></p>	

During the process of stepping down, the performance of the former Chief Executive was assessed and considered by the Committee and an overall rating of 80% was agreed (out-turn of 8% of maximum bonus), taking into account progress against key objectives in areas including:

- Continued delivery of strong leadership and continuity of service for customers through COVID-19 disruption, including safety of employees
- Progress in key separation workstreams in relation to Smiths Medical
- Progress in development of the Group-wide people capability plan
- Ensuring smooth transition and handover to new Chief Executive during Q4.

## FY2019 LTIP outcome (audited)

Awards granted under the LTIP in October 2018 were subject to the following performance conditions:

Measure	Weighting	Performance period	Actual performance			
			Performance	% vesting	Outturn (p.a.)	% vesting
Group EPS growth after tax	25%	1 August 2018 to 31 July 2021	< 4% p.a.	0%	-2%	0.0%
			4% p.a.	6.25%		
			≥ 11% p.a.	25.0%		
Straight-line vesting between these points						
Average ROCE	20%	1 August 2018 to 31 July 2021	< 15% p.a.	0%	14%	0.0%
			15% p.a.	5.0%		
			≥ 18% p.a.	20.0%		
Straight-line vesting between these points						
Average headline operating cash conversion	25%	1 August 2018 to 31 July 2021	< 90%	0%	100%	19.0%
			90%	6.25%		
			≥ 105%	25.0%		
Straight-line vesting between these points						
Organic revenue growth	30%	1 August 2018 to 31 July 2021	<3%	0%	0%	0.0%
			3%	7.5%		
			6%	30%		
Straight-line vesting between these points						
<b>Total</b>						<b>19.0%</b>

## FY2019 LTIP outcome for Executive Directors (audited)

	Interests held	Vesting %	Interests vesting	Date of vesting <sup>1</sup>	Market price <sup>2</sup>	Value £000 <sup>3</sup>
<b>Andy Reynolds Smith</b>	179,627	19.0%	34,129	Oct 2021	1,578.16p	539
<b>John Shipsey</b>	95,837	19.0%	18,209	Oct 2021	1,578.16p	287

1 Vested awards are subject to an additional two-year holding period.

2 Based on the average share price over the three months to 31 July 2021 of 1,578.16p.

3 In addition an estimated accrued dividend of £42,049 is payable to Andy Reynolds Smith and an estimated accrued dividend of £22,423 is payable to John Shipsey at vesting date.

4 Paul Keel did not participate in the FY2019 LTIP.

# ANNUAL REPORT ON REMUNERATION CONTINUED

## Scheme interests awarded in FY2021 (audited)

### FY2021 LTIP

During the year ended 31 July 2021 the Executive Directors were awarded a fixed number of conditional share awards under the LTIP details of which are summarised in the table below. A two-year post vesting holding period will apply to any awards vesting.

Executive <sup>1</sup>	Form of award	Date of grant	Number of shares awarded	Face value			Date of vesting
				Award price <sup>2</sup>	£000	% of salary	
Andy Reynolds Smith <sup>3</sup>	Conditional shares	3 Nov 2020	179,627	1,371p	2,463	292%	Oct 2023
John Shipsey	Conditional shares	3 Nov 2020	95,837	1,371p	1,314	243%	Oct 2023

1 Paul Keel will receive an FY2021 award equivalent to 300% of salary, pro-rated for service during the vesting period (26/36).

2 The closing price on day prior to grant.

3 Award will be prorated to 31 July 2021 (59,876 shares) to reflect termination of employment.

The performance conditions attached to these FY2021 LTIP awards are as follows:

Measure	Weighting	Performance period	Vesting schedule	
			Performance	% vesting
Group EPS growth after tax	25%	1 August 2020 to 31 July 2023	< 5% p.a.	0%
			5% p.a.	6.25%
			≥ 14% p.a.	25.0%
Straight-line vesting between these points				
Organic revenue growth	25%	1 August 2020 to 31 July 2023	< 2% p.a.	0%
			2% p.a.	6.25%
			≥ 6% p.a.	25.0%
Straight-line vesting between these points				
Average free cash-flow (as a percentage of operating profit)	25%	1 August 2020 to 31 July 2023	< 40%	0%
			40%	6.25%
			≥ 55%	25.0%
Straight-line vesting between these points				
Average ROCE	25%	1 August 2020 to 31 July 2023	< 13%	0%
			13%	6.25%
			≥ 16%	25.0%
Straight-line vesting between these points				
<b>Total</b>			100%	

### FY2021 DEFERRED BONUS AWARD

During the year ended 31 July 2021, Andy Reynolds Smith and John Shipsey were awarded conditional shares as deferred bonus awards in relation to the FY2020 annual bonus outcome, details of which are summarised in the table below. There are no performance conditions for these awards.

	Form of award	Date of grant	Number of shares awarded	Face value		
				Award price <sup>1</sup>	£000	Date of vesting
Andy Reynolds Smith	Conditional shares	4 Nov 2020	6,384	1,344p	86	Oct 2023
John Shipsey	Conditional shares	4 Nov 2020	3,406	1,344p	46	Oct 2023

1 The five-day average of the share price to 3 November 2020.

### SAYE

John Shipsey participates in the Smiths Group Sharesave scheme. He has 1,969 share options under the scheme granted in May 2020, effective from August 2020, at the option price of 914p (a discount of 20% to the market price) with a face value of £18,000 and a vesting date of August 2023.

Andy Reynolds Smith participated in the Smiths Group Sharesave scheme until the cessation of his employment on 31 July 2021. The 1,515 share options which were granted in May 2019 lapsed upon leaving and monies saved to date were returned to him.

## Buyout awards

Andy Reynolds Smith was made certain buyout awards to replicate the structure and fair value of incentives forfeited as a consequence of joining Smiths. He received an award of 86,893 restricted shares, the grant value of which was captured in the 2016 single figure. 30,412 shares vested on 30 June 2016 and the remaining 56,481 restricted shares vested on 30 June 2017. Andy Reynolds Smith also received performance related awards of 79,806, 26,602 and 26,602 shares which vested in October 2018, 2019 and 2020 respectively.

## Percentage change in remuneration from FY2020 to FY2021

	Salary/Fees	Benefits	Bonus
Chief Executive remuneration (Paul Keel)	n/a	n/a	n/a
Outgoing Chief Executive remuneration	0%	0%	309%
Chief Financial Officer remuneration	0%	-1%	308%
Non-executive Director remuneration	-4%	-100%	n/a
Average of all employees	0%	0%	267%

'All employees' is defined as all UK Group employees, 196 employees at all grades.

## Chief Executive pay ratios

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

### Total remuneration

Year	Method	25th percentile ratio	Median pay ratio	75th percentile ratio
<b>FY2021</b>	Option B	<b>105:1</b>	<b>75:1</b>	<b>47:1</b>
FY2020	Option B	75:1	53:1	34:1
FY2019	Option B	133:1	97:1	65:1

### Salary

Year	Method	25th percentile ratio	Median pay ratio	75th percentile ratio
<b>FY2021</b>	Option B	<b>35:1</b>	<b>25:1</b>	<b>17:1</b>
FY2020	Option B	31:1	22:1	15:1
FY2019	Option B	36:1	26:1	18:1

	Salary (£)	Total Remuneration (£)
Chief Executive	1,006,440	3,293,193
25th percentile employee	28,379	30,754
Median employee	40,180	42,535
75th percentile employee	59,292	67,845

Pay data for the Chief Executive is taken from the single figure of annual remuneration table on page 108 and reflects the combined remuneration paid to Paul Keel and Andy Reynolds Smith during their respective times as CEO. The pay data for employees in the UK workforce has been calculated using Option B, based on the data used for gender pay reporting, due to the availability of data at the time the Annual Report was published. The gender pay reporting basis comprises salary and benefits as at 15 April 2021 and incentive payments payable in respect of FY2021. The Committee considers that this provides an outcome that is representative of the employees at these pay levels. It is assumed that the value of employee benefits is 7.0% of base salary.

The workforce remuneration figures are those paid to UK employees whose pay is at the 25th, median and 75th percentile of pay for the Group's UK employees. Figures are shown on both the prescribed basis using total pay and also salary only which provides a useful ongoing comparison as it is a less volatile basis. The pay ratio figure on both the salary basis and the total remuneration basis for FY2021 is higher than for FY2020 as it includes an overlap period which included pay for both Paul Keel and Andy Reynolds Smith. In addition, on the total remuneration basis, as the annual bonus payment for FY2021 was higher than the previous year and as the Chief Executive's remuneration is more highly weighted towards performance-based pay, this results in a increase in the ratio from the previous year. The Committee monitors ratios on an annual basis.

## Payments to past Directors (audited)

Chris O'Shea received his final deferred bonus payment on 27 October 2020. This amounted to 12,251 shares at a price of 1,414.5p with a value of £173,290.

## ANNUAL REPORT ON REMUNERATION CONTINUED

### Payments for loss of office (audited)

Andy Reynolds Smith stepped down from the Board on 25 May 2021 but remained an employee of the Company on his existing terms of employment until 31 July 2021.

Mr Reynolds Smith will be paid in lieu of notice for the unserved part of his 12 month notice period. The payment in lieu of notice will be made in monthly instalments to enable a reduction in the payments in the event that Mr Reynolds Smith finds alternative employment prior to 24 May 2022. Further details in relation to the payment in lieu of notice will be provided in the FY2022 Annual Report.

Mr Reynolds Smith remained entitled to receive an annual bonus for FY2021, the full value of which has been included in the single figure table. One third of the annual bonus will be deferred into shares for three years.

Mr Reynolds Smith's share awards under the Company's Long Term Incentive Plan (LTIP), will be preserved in accordance with the good leaver provisions of the LTIP, subject to a time pro-rating adjustment and normal vesting dates. Information relating to the vesting of shares under the LTIP will be updated in the relevant Directors' Remuneration Reports.

The Company made a contribution towards Mr Reynolds Smith's legal fees of £7,500. The Company will also arrange for Mr Reynolds Smith to be provided with executive outplacement services for a period of up to six months.

### Relative importance of spend on pay

The table below shows shareholder distributions (i.e. dividends and share buybacks) and total employee pay expenditure for FY2020 and FY2021, and the percentage change.

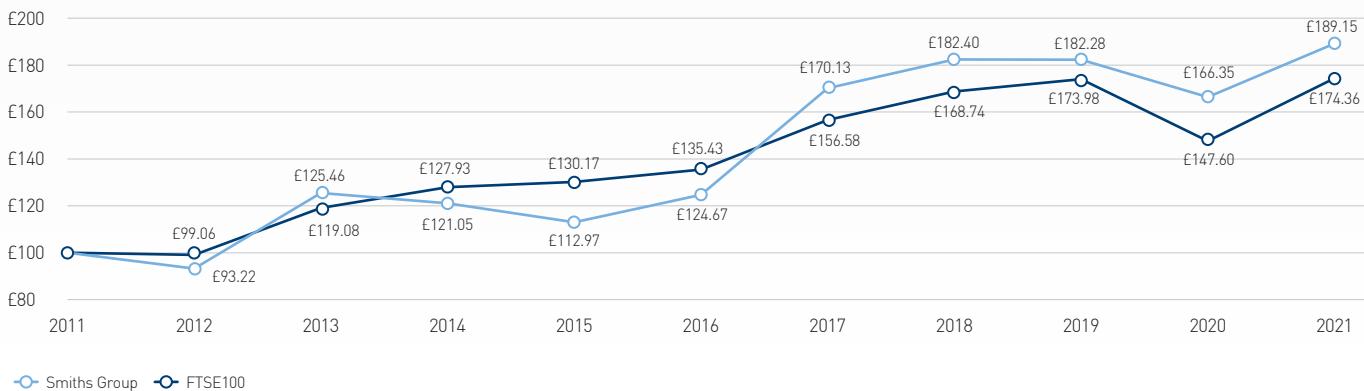
	FY2021 £m	FY2020 £m	Change
Shareholder distributions	185	126	46.83%
Employee costs	1,019	1,112	-8.36%

### TSR performance

The following graph shows the Company's total shareholder return (TSR) performance over the past ten years compared to the FTSE 100 Index. The FTSE 100 Index, of which the Company has been a member throughout the period, has been selected to reflect the TSR performance of other leading UK-listed companies. The values of hypothetical £100 investments in the FTSE 100 Index and Smiths Group plc shares at 31 July 2021 were £174.36 and £189.15 respectively.

### Total Shareholder Return

Value of £100 invested on 31 July 2011



### Chief Executive's remuneration for the last ten years

	FY2021 P Keel	FY2021 A Reynolds Smith	FY2020 A Reynolds Smith	FY2019 A Reynolds Smith	FY2018 A Reynolds Smith	FY2017 A Reynolds Smith	FY2016 A Reynolds Smith	FY2016 P Bowman	FY2015 P Bowman	FY2014 P Bowman	FY2013 P Bowman	FY2012 P Bowman
Total remuneration £000	450	2,753	2,196	4,130	3,251	2,320	2,964	1,602	4,195	3,912	3,864	5,026
Annual bonus outcome (% max)	76%	70%	17%	41%	42%	96%	89%	88%	80%	43%	39%	79%
Common Investment Plan outcome (% max)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	100%	100%	100%	100%	100%
LTIP outcome (% max)	n/a	19%	31%	75%	32%	n/a	n/a	18%	17%	18%	n/a	n/a

## STATEMENT OF IMPLEMENTATION OF REMUNERATION POLICY IN FY2022

### BASE SALARY

Salaries are reviewed annually in October (but not necessarily increased) and benchmarked against comparable roles at other FTSE 100 companies of similar market capitalisation, revenues and complexity.

Having considered a number of important factors including evolving global market conditions and the Remuneration Policy, the Committee has determined to increase the salary of the Chief Financial Officer from £540,225 to £553,750 with effect from 1 October 2021. A similar general salary increase has been applied across Smiths Group in the UK. The salary for the Chief Executive will remain at £875,000 until the next eligible review date of 1 October 2022.

	FY2022	FY2021
Paul Keel	£875,000	£162,660*
John Shipsey	£551,496	£540,225

\* Annual salary of £875,000 pro-rated to reflect service from 25 May to 31 July during FY2021

### PENSION AND BENEFITS

The employment contract of the Chief Executive provides for a cash allowance in lieu of pension provision in line with that available to the wider workforce. This will be 12% of base salary from 1 October 2021.

The employment contract of the CFO provides for a cash allowance of 25% of base salary in lieu of pension provision. Mr Shipsey agreed to freeze the monetary value of the allowance at the FY2019 level resulting in level of benefit at 23.7% of base salary until 31 December 2021. The level of benefit will reduce to 18% of salary with effect from 1 January 2022, reducing further to 12% to be in line with that available to the wider UK workforce from 1 January 2023.

### ANNUAL BONUS

For FY2022, subject to the approval of the revised Remuneration Policy at the 2021 AGM, Paul Keel will have a maximum bonus opportunity of 200% of salary and John Shipsey 165%. 33% of any bonus earned will be deferred into shares for three years.

Specific targets are not disclosed at this time due to the commercially sensitive nature of these objectives, but they will be disclosed at such time as the Committee deems them to no longer affect the commerciality of the Company.

Performance measures for the FY2022 annual bonus are as follows

Performance measure	Weighting
Operating Profit	40%
Organic Revenue Growth	30%
Headline Operating Cash Conversion	20%
Personal Objectives	10%

### LONG-TERM INCENTIVE PLAN (LTIP)

The LTIP is a conventional performance share plan under which an award over a capped number of shares will vest if demanding performance conditions are met. LTIP awards of conditional shares are granted to selected senior executives (including the Executive Directors) with face values of up to 400% of salary. Under the LTIP, for the FY2022 award, a fixed number of shares will be granted in November 2021 in line with Remuneration Policy. This will be equivalent to 300% of salary for the Chief Executive (300% for FY2021 on a pro-rata basis) and 250% of salary for the Chief Financial Officer (243% for FY2021) using the average share price for the 5 days to 29 October 2021.

The LTIP awards granted to Paul Keel and John Shipsey in FY2022 will have the following performance measures.

Performance measure	Weighting	Threshold performance (25% vesting)	Maximum performance (full vesting)
Three-year EPS growth after tax	20%	4% p.a.	11% p.a.
Three-year organic revenue growth	30%	2% p.a.	6% p.a.
Three-year average free cash-flow (as a percentage of operating profit)	20%	45%	55%
Three-year average return on capital employed	15%	13%	17%
Three-year reduction in greenhouse gas emissions	15%	5%	10%

These performance measures will apply to Group performance excluding that of Smiths Medical.

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

## ANNUAL REPORT ON REMUNERATION CONTINUED

The Company is in the process of determining appropriate ESG metrics which reflect both the Smiths Group approach to responsible and sustainable business management and also in the development of new environmentally-friendly sustainable products. These ESG metrics will be reflected in the incentive plans as they are developed. As an initial position, our commitment to reach a carbon net-zero position by 2040 is reflected in the introduction for the FY2022 LTIP of a metric measuring the reduction in greenhouse gas emissions.

### Non-executive Director fees

Non-executive Director fees paid during FY2021 are shown below and there will be an increase to the Non-executive Director base fee for FY2022 in line with the wider UK Group workforce:

	FY2021
Fee payable to Chairman of the Board for all responsibilities	£461,250
Non-executive Director base fee	£71,250
Additional fee payable to the Senior Independent Director	£20,000
Additional fees for Audit & Risk and Remuneration Committee Chairs	£20,000
Supplementary fee <sup>1</sup>	£15,000
Attendance allowance for each meeting outside the Non-executive Director's home continent	£4,000

1 Supplementary fee provided to the Chairs of each of the Committees in respect of additional workload related to the separation of Smiths Medical

### Share ownership requirement for Executive Directors

Executive Directors are required, over time, to build up a shareholding with a value equal to 250% of base salary for the Chief Executive and 200% for the Chief Financial Officer. Under the new Remuneration Policy, this will be increased to a value equivalent to the fixed number of shares awarded each year under the LTIP (300% for the Chief Executive and 250% for the Chief Financial Officer.) Executive Directors are required to retain at least 50% of any net vested share awards (after sales to meet tax liabilities) until those guidelines are achieved. Shares under deferred bonus awards and LTIP awards which have vested but are subject to a further holding period (net of assumed income tax) count towards the requirement. Awards that are still subject to performance conditions do not count towards the requirement.

Executive Directors will be required to hold shares equivalent to their full in-employment shareholding guideline, or actual holding if lower, for two years post-employment, in line with best practice guidance. To enforce this requirement, vested shares are held in a nominee account provided by Smiths' share plan administrator. This policy applies to Andy Reynolds Smith who stepped down from the Group during FY2021. He is required to hold a number of shares in the Company with a value at least equal to £2,109,450 at 31 July 2021. This holding must be maintained until at least 31 July 2023.

### Share ownership requirement for Non-executive Directors

Non-executive Directors are encouraged to hold shares in the Company with a value of one times the annual base fee over a five year period from later of the adoption of this policy or appointment to the Board. In addition, the Non-executive Directors are encouraged to retain a shareholding of one times the annual base fee for at least two years after the Director leaves the Board.

### Directors' shareholdings (audited)

The table below shows the shareholding of each Director and for Executive Directors the shareholding against their respective shareholding requirement as at 31 July 2021.

	Shareholding requirement	Shares owned outright	Shares subject to performance	Vested shares in holding period	Shares arising from bonus deferral	Save As You Earn (SAYE)	Current shareholding (% FY2021 salary) <sup>1</sup>	Shareholding requirement met
Paul Keel <sup>2</sup>	250%	25,000	141,059	0	0		44%	No
John Shipsey	200%	38,428	287,511	0	16,732	1,969	136%	No
Sir George Buckley		23,257						
Pam Cheng		3,000						
Dame Ann Dowling		5,813						
Tanya Fratto		1,500						
Karin Hoeing		0						
Bill Seeger		10,000						
Mark Seligman		5,000						
Noel Tata		4,000						

1 Shares owned outright (including vested shares in holding period), and the net of income tax value of shares arising from bonus deferral are taken into account for the shareholding requirement. Executive Directors have five years from the date of appointment to meet the required personal shareholding; Paul Keel has until 25 May 2025 and John Shipsey has until 31 December 2022 to meet the requirement.

2 The LTIP award for Paul Keel has been pro-rated (26/36) in respect of FY2021 and was awarded in the first open dealing period for shares after the announcement of FY2021 results.

In accordance with a binding commitment entered into on 19 July 2017, pursuant to which the Chairman purchases ordinary shares on a quarterly basis using a fixed proportion (20%) of the after-tax fees he receives from the Company, Sir George Buckley acquired 796 shares on 2 August 2021. Paul Keel purchased 25,000 ordinary shares on 4 August 2021. There have been no further changes to the Directors' shareholdings between 1 August 2021 and 27 September 2021.

## Directors' share options and long-term share plans (audited)

Director and Plan	Option and award data								Awards vested FY2020			
	Options and awards held on 31 July 2021 Number	Options and awards held on 31 July 2020 Number	Performance test	Exercise price	Grant date	Vesting date+	Expiry date++	Date vested	Number	Exercise price	Market price at date of grant	Market price at date of vesting
Paul Keel <sup>1</sup>	141,059	0	C	n/a	28/09/21	Oct 2023						
Andy Reynolds Smith												
Performance Share Award	0	26,602	A	n/a	26/11/15	Oct 2020		13/10/20	9,545 (inc. 1,219 dividend equivalent)	n/a	1,033p	1,375p
LTIP	0	153,354	A	n/a	27/10/17	Oct 2020		13/10/20	47,999	n/a	1,565p	1,375p
	179,627	179,627	B	n/a	31/10/18	Oct 2021						
	179,627	179,627	B	n/a	03/10/19	Oct 2022						
	179,627	0	C	n/a	04/11/20	Oct 2023						
Deferred bonus award	0	28,618	-	n/a	27/10/17	27/10/20		27/10/20	28,618	n/a	1,565p	1,415p
	14,746	14,746	-	n/a	31/10/18	31/10/21						
	12,997	12,997	-	n/a	03/10/19	03/10/22						
	6,384	0	-	n/a	04/11/20	04/11/23						
SAYE	1,515	1,515	-	1,188p	10/05/19	01/08/22	01/02/23					
John Shipsey												
LTIP	0	81,469	A	n/a	27/10/17	Oct 2020		13/10/20	25,499	n/a	1,565p	1,375p
	95,837	95,837	B	n/a	31/10/18	Oct 2021						
	95,837	95,837	B	n/a	03/10/19	Oct 2022						
	95,837	0	C	n/a	04/11/20	Oct 2023						
Deferred bonus award	6,393	6,393	-	n/a	31/10/18	31/10/21						
	6,933	6,933	-	n/a	03/10/19	03/10/22						
	3,406	0	-	n/a	04/11/20	04/11/23						
SAYE	1,969	1,969	-	914p	20/05/20	01/08/23	01/02/24					

1. The pro-rated FY2021 LTIP share award for Paul Keel was delayed and granted at the first open period for share dealing after the FY2021 results announcement

### Key Performance Share Award

Under the terms of his contract of employment on joining the Company, Andy Reynolds Smith was granted a buy-out conditional award over 133,010 shares of which the first tranche of up to 60% (subject to the performance tests applicable to awards granted under LTIP 2015 in 2015) vested in October 2018; a further 20% vested in October 2019 (subject to performance tests applicable to awards granted under long-term incentive plans in 2016); and the final 20% vested in October 2020 (subject to the performance tests applicable to awards granted under long-term incentive plans in 2017). The terms of the award provide that additional shares are awarded on vesting to a value equivalent to the notional dividends that would have been earned on the number of shares that vest.

**LTIP** The Smiths Group Long-Term Incentive Plan 2015.

**SAYE** The Smiths Group Sharesave Scheme.

+ The vesting dates shown above in respect of awards made under the LTIP are subject to the relevant performance test(s) being passed.

++ The expiry dates shown above apply in normal circumstances.

### Performance tests

A LTIP awards in 2017 – 35% subject to EPS growth; 35% subject to ROCE; 30% subject to cash conversion.

B LTIP awards in 2018 and 2019 – 25% subject to EPS growth; 20% subject to ROCE; 25% subject to cash conversion; 30% subject to organic revenue growth.

C LTIP awards in 2020 – 25% subject to EPS growth; 25% subject to ROCE; 25% subject to free cash-flow; 25% subject to organic revenue growth.

- There are no performance criteria for the Deferred Bonus Shares awards or SAYE.

### Notes

- The high and low market prices of the ordinary shares during the period 1 August 2020 to 31 July 2021 were 1,669.5p and 1,287.5p respectively. The mid-market closing price on 31 July 2020 was 1,355p and on 31 July 2021 was 1,555.5p.
- The mid-market closing price of a Smiths Group share on the date of the awards made to Directors in the FY2021 financial year was 1,396.5p (4 November 2020).
- The SAYE options over the 1,515 shares granted to and held by Andy Reynolds Smith at 31 July 2020 were granted at an exercise price below the market price of a Smiths Group share on 9 April 2019 (1,485p). The options over 1,969 shares granted to and held by the Chief Financial Officer at 31 July 2020 were granted at an exercise price below the market price of a Smiths Group share on 20 May 2020 (1,268p). Shares are granted in May but the savings period commences in August.
- None of the options or awards listed above was subject to any payment on grant.
- No other Directors held any options over the Company's shares during the period 1 August 2020 to 31 July 2021.
- No options or awards have been granted to or exercised by Directors or have lapsed during the period 1 August to 27 September 2021 with the exception of 1,515 SAYE options for Andy Reynolds Smith which lapsed on 1 August 2021.
- At 31 July 2021, the trustee of the Employee Share Trust held 326,364 shares. The market value of the shares held by the trustee on 31 July 2021 was £5,076,592 and all dividends were waived in the year in respect of the shares held by the trustee.
- Special provisions permit early exercise of options and vesting of awards in the event of retirement, redundancy, and death.

## Share scheme dilution limits

The Company complies with the guidelines laid down by the Investment Association. These restrict the issue of new shares under all the Company's share schemes in any ten-year period to 10% of the issued ordinary share capital and under the Company's discretionary schemes to 5% in any ten-year period. As at 31 July 2021 the headroom available under these limits was 8.38% and 3.94% respectively.

## Performance evaluation

The annual evaluation of the Committee was conducted as part of the externally facilitated evaluation process of the Board and its Committees. The findings relating to the Committee were discussed with the Committee Chair. More information can be found on page 98-99. Overall, the Committee is viewed as effective and performing well and is rigorous in discharging its responsibilities.

The Directors' Remuneration Report has been approved by the Board and signed on its behalf by:

**Bill Seeger**

CHAIR OF THE REMUNERATION COMMITTEE

27 September 2021

# DIRECTORS' REPORT

The Strategic Report is a requirement of the Companies Act 2006 (the 'Act') and can be found on pages 8 to 83. The Company has chosen, in accordance with section 414 C(11) of the Act, to include certain matters in its Strategic Report that would otherwise be disclosed in this Directors' Report. The Strategic Report and the Directors' Report together are the management report for the purposes of Rule 4.1.8R of the Disclosure Guidance and Transparency Rules. Other information that is relevant to the Directors' Report, and is incorporated by reference, can be found as follows:

<b>Disclosure</b>	<b>Location</b>
Likely future developments	Strategic Report pages 8 to 25 and 52 to 69
Directors' dividend recommendation	Strategic Report page 23
Research and development activities	Strategic Report pages 52 to 69
Employment of disabled persons	Resources and relationships page 32
Employee engagement	Resources and relationships pages 30 to 31 Governance Report page 92
Engagement with suppliers, customers and others in a business relationship with the Company	Resources and relationships pages 33 to 34 and 47 to 48 Governance Report page 93
Political donations and expenditure	Political donations page 131
Greenhouse gas emissions, energy consumption and energy efficiency	Resources and relationships pages 38 to 43
Corporate governance statement	Governance Report pages 84-132
Directors during FY2021	Governance Report pages 87-89
Director appointment	Governance Report page 97
Amendment of Articles of Association	Governance Report page 97
Indemnities	Governance Report page 97
Change of control	Remuneration Report page 118 Borrowings and net debt note page 181
Directors' responsibility statement	Statement of Directors' responsibilities page 132
Disclosure of information to auditor	Statement of Directors' responsibilities page 132
Financial instruments	Financial risk management note pages 182-189
Share capital disclosures	Share capital note page 195
Powers of the Directors	Governance Report page 90 Share capital note page 195
Post-balance sheet events	Post-balance sheet event note page 204
Overseas branches	Subsidiary undertakings note page 228

## **Listing Rules disclosure**

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

<b>Listing Rule</b>	<b>Disclosure</b>	<b>Location</b>
9.8.4(1)	Capitalised interest	Discontinued operations note page 197
9.8.4(12)(13)	Dividend waivers	Dividend note page 196
9.8.6(1)	Directors' interests	Remuneration Report page 128
9.8.6(2)	Major shareholders' interests	Table on page 131
9.8.6(3)(a)(b)	Going Concern and Viability Statement	Strategic Report pages 80 to 81
9.8.6(4)(a)	Purchase of own shares	Share capital note page 195
9.8.6(5)(6)	UK Corporate Governance Code compliance	Governance Report page 84
9.8.6(7)	Unexpired term of service contract	Remuneration Report page 118

## **Political donations**

The Group did not give any money for political purposes in the UK, the rest of the EU or outside of the EU, nor did it make any political donations to political parties or other political organisations, or to any independent election candidates, or incur any political expenditure during the year.

In accordance with the US Federal Election Campaign Act, Smiths provides administrative support to a federal Political Action Committee (PAC) in the US funded by the voluntary political contributions of eligible employees. The PAC is not controlled by the Company and all decisions regarding the amounts and recipients of contributions are directed by a steering committee comprising Government Relations employees and reported to all eligible to contribute to the PAC. Contributions to political organisations reported by the PAC during FY2021 totalled \$30,500 (FY2020: \$41,000).

## **Major shareholders' interests**

At 31 July 2021, the Company had been notified under the Financial Conduct Authority's Disclosure Guidance & Transparency Rules, or had received disclosures pursuant to the Companies Act 2006, of the following holdings of voting rights in its shares:

<b>Number of voting rights</b>	<b>Number of voting rights</b>	<b>% of total voting rights</b>	<b>Date of notification</b>
BlackRock, Inc.	23.3m	5.9	31 May 2018
Ameriprise Financial, Inc.	20.8m	5.3	3 October 2018
Artemis Investment Management LLP	19.8m	5.0	14 April 2020
Harris Associates L.P.	19.7m	5.0	22 July 2019
Dodge & Cox	19.8m	4.9	2 February 2021
Jupiter Asset Management	14.8m	3.8	22 September 2016

No further notifications were received between 1 August and 27 September 2021.

By order of the Board

**Matthew Whyte**  
COMPANY SECRETARY

27 September 2021

# **STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND THE FINANCIAL STATEMENTS**

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

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. Under that law they have elected to prepare the Group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and applicable law and have elected to prepare the Parent Company financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

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

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable, relevant, reliable and prudent;
- For the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;

- For the Parent Company financial statements, state whether applicable United Kingdom Accounting Standards have been followed subject to any material departures disclosed and explained in the Parent Company financial statements;
- Assess the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- Use the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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

## **Directors' responsibility statement**

Each of the Directors (who are listed on pages 87 to 89) confirms that to the best of his or her knowledge:

- The financial statements prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- The Group Directors' Report and Strategic Report include a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- As at the date of this report there is no relevant audit information of which the Company's auditor is unaware. Each Director has taken all the steps he or she should have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

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

Signed on behalf of the Board of Directors:

**Paul Keel**  
CHIEF EXECUTIVE  
27 September 2021

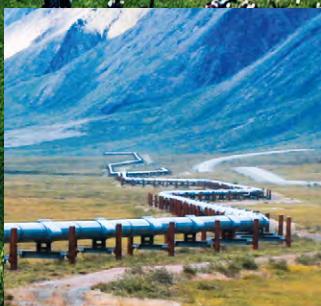
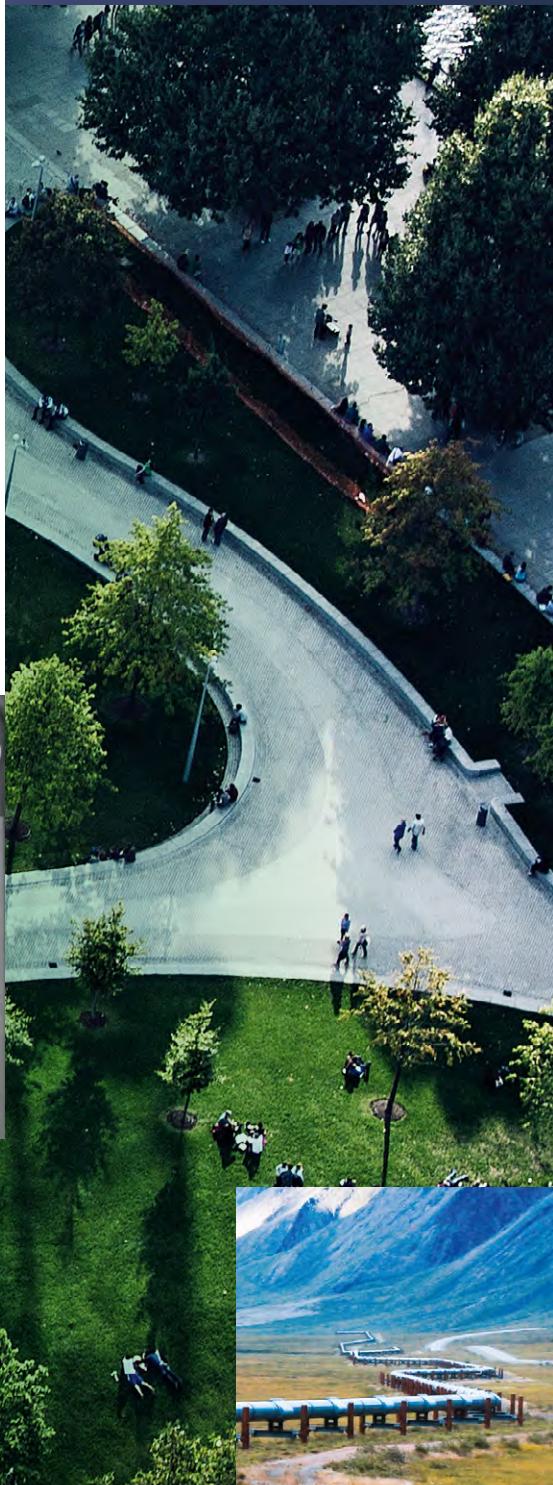
**John Shipsey**  
CHIEF FINANCIAL OFFICER

# FINANCIAL STATEMENTS

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# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SMITHS GROUP PLC

## 1 Our opinion is unmodified

We have audited the financial statements of Smiths Group plc ("the Company") for the year ended 31 July 2021 which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in equity, consolidated cash-flow statement, Company balance sheet, Company statement of changes in equity, and the related notes, including the accounting policies on pages 149–156.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 July 2021 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the Parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation to the extent applicable.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Audit & Risk Committee.

We were first appointed as auditor by the shareholders on 13 November 2019. The period of total uninterrupted engagement is for the two financial years ended 31 July 2021. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

## Overview

<b>Materiality:</b> group financial statements as a whole	£11.3 million (2020: £12.2 million) 4.5% of Group profit before taxation from continuing operations normalised to exclude the effect of specific items and by averaging over the last three years as explained in section 3 of this report. (2020: 4.5% of Group profit before taxation from continuing operations normalised to exclude the effect of specific items and by averaging over the last three years).
<b>Coverage:</b>	70% (2020: 72% of Group profit before taxation from continuing operations) of Group profit before taxation from continuing operations

## Key audit matters

Estimation of litigation provisions for asbestos in John Crane, Inc. (Group)
Recoverability of Goodwill in respect of the Smiths Detection cash generating unit (CGU) (Group)
Recoverability of capitalised development costs in regard to the Intellifuse programme (Group)
Valuation of pension scheme liabilities (Parent Company)

## 2 Changes to Key Audit Matters

We continue to perform procedures over the presentation of Smiths Medical as discontinued operations and as assets held for sale (previously assets held for distribution to owners). This is no longer a key audit matter as, following the commitment of Smiths Group plc to dispose of Smiths Medical as at 31 July 2021 and the subsequent public announcements of a sale agreement, we did not assess this as one of the most significant risks in the current year and, therefore, it is not separately identified in our report this year.

We continue to perform procedures over the carrying amount of goodwill in respect of the Smiths Interconnect CGU. This is no longer a key audit matter due to improved performance of the CGU and reduced COVID-19 related uncertainty. We have not assessed this as one of the most significant risks in the current year and, therefore, it is not separately identified in our report this year.

We continue to perform procedures over revenue recognition in relation to multi-year contractual arrangements in Smiths Detection and Smiths Interconnect. In the case of Smiths Detection multi-year contract revenue recognition (programme revenue), particularly in respect of Smiths Detection Inc and Smiths Detection Germany GmbH, we continue to identify a fraud risk resulting from the risk of revenue being overstated during the year end closing period through the manipulation of the timing of recording of the sale transaction. We have not assessed this as one of the most significant risks in the current year and, therefore, it is not separately identified in our report this year. Further, based on our understanding and risk assessment, we note that there are no significant estimates or judgements underpinning the programme revenue recognition and therefore the risk of material misstatement due to inherent risk of error is considered not to be significant. In the case of Smiths Interconnect, we have downgraded our risk assessment as, based on the amount of revenue recognised on multi- year contractual arrangement, the risk of material misstatement due to inherent risk of error is considered not to be significant.

We continue to perform procedures over the estimation of litigation provisions for flexible gas piping product in Titeflex Corporation (CSST). We have downgraded our risk assessment due to lower estimation uncertainty risk relating to future estimated claims and settlements assumptions underpinning the estimate. Therefore, the risk of material misstatement due to inherent risk of error is considered not to be significant.

We continue to perform procedures over the recoverability of deferred tax assets. We have downgraded our risk assessment due to less significant estimation uncertainty risk relating to the availability of future taxable income assumption which underpins the deferred tax asset recognition. Therefore, the risk of material misstatement due to inherent risk of error is considered not to be significant.

## 3 Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

### Estimation of litigation provisions for asbestos in John Crane, Inc. (£212 million (2020: £231 million))

Refer to page 103 (Audit & Risk Committee report), page 149 (accounting policies) and page 191 (financial disclosures)

### Risk vs 2020: increase

#### The risk – Subjective estimate

There are significant judgements and estimates involved in the assumptions underlying the provisions in respect of John Crane, Inc. asbestos litigation, including the projection period, the forecast number of future claims and associated claim and defence costs applied to the forecast. The effect of these matters is that, as part of our risk assessment, we determined that the litigation provision has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole and possibly many times that amount. The financial statements (note 23) disclose the sensitivity estimated by the Group.

## **Our response – Our procedures included:**

- **Our actuarial expertise:** Challenging the key judgement of the ten-year projection period and the impact of COVID-19 on significant assumptions using our own actuarial specialist and our sector knowledge and expertise.
- **Benchmarking assumptions:** Using our own actuarial specialists, we derived our own independent range of the estimated provision.
- **Enquiry of lawyers:** Obtaining external legal confirmations of historical and ongoing claims.
- **Assessed management's expert:** Assessing the competency, knowledge and independence of the expert using our own specialist.
- **Assessing methodology:** Evaluating the methodology applied by management to the estimation to assess that the methodology utilised is in line with industry practice.
- **Historical comparison:** Obtaining historical claim settlements to assess the accuracy of the provision.
- **Assessing transparency:** Assessing whether the disclosures of the effect of reasonably possible changes in key judgements and assumptions reflects the risks inherent in the provisions' estimation.

## **Our results**

We found the level of litigation provisioning and related disclosures in the financial statements in respect of John Crane Inc. asbestos litigation to be acceptable (2020: acceptable).

## **Recoverability of goodwill in respect of the Smiths Detection cash generating units (CGU) (Group)** (£610 million (2020: £642 million))

Refer to page 102 (Audit & Risk Committee report), page 154 (accounting policies) and page 176 (financial disclosures)

## **Risk vs 2020: unchanged**

## **The risk – Subjective estimate and forecast based assessment**

The Group holds a significant amount of goodwill, especially in relation to the Smiths Detection cash generating unit (CGU). The value in use calculation for the CGU, which represents the estimated recoverable amount, is subjective due to the inherent uncertainty involved in forecasting and discounting estimated future cash flows (specifically the key assumptions such as discount rate and 5 year revenue growth rate).

As part of our risk assessment, we determined that the value in use of the CGU has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount.

The financial statements (note 11) disclose the sensitivity estimated by management. These disclosures give relevant information about the estimation uncertainty including the risk of a reduction in the headroom or need for an impairment as a result of a reasonably possible change in one or more of the key assumptions used in the value in use calculation for this CGU.

## **Our response – Our procedures included:**

- **Benchmarking assumptions and historical comparison:** Assessing and challenging the 5 year revenue growth rate through retrospective review and comparison to external industry forecasts.
- **Our sector experience:** Using our valuations specialists to challenge the appropriateness of discount rates by deriving our own independent range and comparing revenue growth rates to external market data.
- **Sensitivity analysis:** Estimating the value in use utilising independent and more conservative forecasts and discount rates and assessing whether this resulted in impairment.
- **Comparing valuations:** Using our valuation specialist, comparing the valuation per the value in use impairment model against expected enterprise valuations per analyst reports and comparable companies' earnings multiple.
- **Assessing transparency:** Assessing the adequacy of the Group's disclosures in respect of the judgement and estimates around goodwill recoverability for the Smiths Detection CGU, including disclosures of the sensitivity in the value in use calculations to changes in the key assumptions.

## **Our results**

We found the carrying amount of goodwill related to the Smiths Detection CGU and the related disclosures, including the indication that other reasonably possible assumptions may reduce headroom, to be acceptable (2020: acceptable).

## Recoverability of capitalised development costs for the Intellifuse programme (Group)

(£32 million (2020: £80 million))

Refer to page 103 (Audit & Risk Committee report), page 151 (accounting policies) and page 198 (financial disclosures)

### Risk vs 2020: increase

#### The risk – Subjective estimate and forecast based assessment

The Group holds a material amount of capitalised development costs in relation to the Intellifuse programme within assets held for sale in the Smiths Medical division. The Intellifuse development cost includes investment in Large Volume Pump (LVP) and Syringe Pump which require approval from the US Food and Drug Administration (FDA) prior to commercialisation. In the current year, the Smiths Medical division entered into investment and commercial agreements with Ivenix, the owner of an FDA approved LVP and as a result have paused activity on the LVP element of the Intellifuse programme. Following the decision to pause this element of the programme an impairment of associated capitalised development costs was recognised £48m.

Judgement is required to determine whether regulatory approval can be obtained from the FDA in order to achieve technical feasibility and commercialise the resulting product. Estimation is required to develop forecasts, including costs to complete the development, the size of the future market and to determine the appropriate discount rate. Furthermore, there is judgement in determining whether the Intellifuse capitalised development costs continue to be commercially and technically feasible considering the agreements reached with Ivenix in the year.

We therefore determine that the assumptions used to estimate recoverable amount have a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole and possibly multiples of that amount. The financial statements (note 28) disclose the sensitivity estimated by the Group.

#### Our response – Our procedures included:

- **Assessing methodology:** Evaluating the methodology applied by the Directors in preparing the impairment model used for testing the recoverability of the amount of capitalised development costs, to assess whether the methodology is in line with applicable accounting standards and industry practice.
- **Assessing the apportionment of the cost:** Assessing the reasonableness of the basis of apportionment used by management in the allocation of the capitalised development cost between the Intellifuse LVP and Syringe Pumps.
- **Challenging technical and commercial feasibility:** Assessing and challenging the business case supporting commercial viability. This included considering management's assumptions against third party evidence, use of management experts and benchmarking against comparable products data, including looking for disconfirming evidence. Assessing and challenging the technical feasibility of the product at various degrees of flow rate to achieve FDA approval. The assessment involved examination of the impact of the Ivenix investment and commercial agreements on the capitalised development cost.

- **Sensitivity analysis:** Performing sensitivity analysis on underlying key assumptions in respect of commercial feasibility.
- **Assessing disclosures:** Assessing whether the disclosures of the effect of reasonably possible changes in key assumptions on the outcome of the impairment assessment reflect the risks inherent in the recoverable amount of the capitalised development costs in regard to the Intellifuse programme.

#### Our results

We found the estimate of the carrying amount of capitalised development costs in respect of the Intellifuse Syringe pump programme to be acceptable (2020: acceptable).

## Valuation of pension scheme liabilities (Parent

**Company) (£3,558 million (2020: 3,724 million))**

Refer to page 103 (Audit & Risk Committee report), page 149 (accounting policies) and page 169 (financial disclosures)

### Risk vs 2020: unchanged

#### The risk - Subjective valuation

Significant estimates are made in valuing the Company's post retirement defined benefit plan obligations in particular the discount rates, the inflation rates, mortality and pension increase assumptions.

Small changes in the assumptions used to determine the liabilities, in particular those relating to discount rates, inflation and mortality can have a significant impact on the valuation of the liabilities.

The effect of these matters is that we determined that the pension assumptions have a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount.

#### Our response – Our procedures included:

- **Benchmarking assumptions:** Challenging the key assumptions applied in the calculation of the liability, including the discount rates, inflation rates, mortality and pension increases with the support of our own actuarial specialists by comparing against market data, including assessing the impact of COVID-19 on these key assumptions.
- **Assessing actuary's credentials:** Assessing the competence, independence and integrity of the scheme's actuary.
- **Assessing transparency:** Considering the adequacy of the disclosures in respect of the sensitivity of the obligation to these assumptions.

#### Our results

We found the valuation of the pension scheme liabilities to be acceptable (2020: acceptable).

## 4 Our application of materiality and an overview of the scope of our audit

### Materiality

Materiality for the Group financial statements as a whole was set at £11.3 million (2020: £12.2 million), determined with reference to a benchmark of Group profit before tax from continuing operations, normalised to exclude the specific items listed below and by averaging over the last three years due to the impact of the COVID-19 pandemic, of £253 million (2020: £272 million):

- Restructuring costs
- Foreign exchange loss on intercompany loan with discontinued operations
- Guaranteed Minimum Pension (GMP) equalisation

For this year's restructuring costs and foreign exchange loss excluded from normalised group profit before tax, the component teams performed procedures on items relating to their components. The Group team performed procedures on the remaining excluded items.

Materiality for the Parent Company financial statements as a whole was set at £11.0 million (2020: £12.0 million), determined with reference to a benchmark of Parent Company total assets, limited to be less than materiality for group materiality as a whole. It represents 0.5% (2020: 0.3%) of total assets.

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.

Performance materiality was set at 65% (2020: 65%) of materiality for the financial statements as a whole, which equates to £7.3 million (2020: £8.0 million) for the Group and £7.2 million (2020: £7.8 million) for the Parent company.

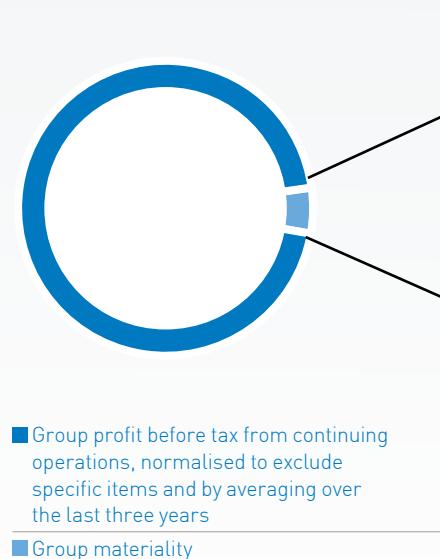
We applied this percentage in our determination of performance materiality based on the level of identified audit misstatements and control deficiencies during the prior year.

We agreed to report to the Audit & Risk Committee any corrected or uncorrected identified misstatements exceeding £0.6 million (2020: £0.6 million), in addition to other identified misstatements that warranted reporting on qualitative grounds.

### GROUP PROFIT BEFORE TAX FROM CONTINUING OPERATIONS, NORMALISED TO EXCLUDE SPECIFIC ITEMS AND BY AVERAGING OVER THE LAST THREE YEARS

£253m

(2020: £272 million)



### GROUP MATERIALITY

£11.3m

(2020: £12.2 million)

£11.3m

(2020: £12.2 million)

**Whole financial statements materiality**

£11m

(2020: £12.0 million)

**Range of materiality at 34 components (£0.6m – £11m)**  
(2020: £0.2m – £12.0m)

£0.6m

(2020: £0.6m)

**Misstatements reported to the Audit & Risk Committee**

## Scope

The Group operates in more than 50 countries across six continents with the largest footprints being in the US, Europe and Asia. The Group is organised into five divisions: John Crane, Smiths Detection, Smiths Interconnect, Flex-Tek and Smiths Medical (discontinued operations) and is a consolidation of over 250 reporting components. We scoped the audit by obtaining an understanding of the Group and its environment and assessing the risk of material misstatement at the Group level. We have considered components on the basis of their contribution to Group revenue and Group profit before tax for continuing operations (therefore excluding Smiths Medical which was included separately as a full scope component) including whether we had sufficient coverage over each division and the specific risks in the components.

Of the Group's 254 (2020: 232) reporting components, we subjected 22 (2020: 21) to full scope audits for Group purposes and 12 (2020:13) to specified risk-focused audit procedures or audit of specific account balances. The components for which we performed audit of specific account balances were not individually financially significant enough to require a full scope audit for Group purposes but were included in the scope of our Group reporting work in order to provide further coverage over the Group's results. The components for which we performed specified risk-focused audit procedures were not individually financially significant enough to require an audit for Group reporting purposes but did present specific individual risks that needed to be addressed. Specified risk-focused audit procedures were performed over a number of areas, including litigation provisions and defined benefit pension assets and liabilities.

We also subjected the Smiths Medical division (not included in the 22 full scope audits above), which is presented as discontinued operations and business held for sale as at 31 July 2021, to a full scope audit in order to obtain coverage of profit from discontinued operations and assets held for sale, including the information presented in note 28.

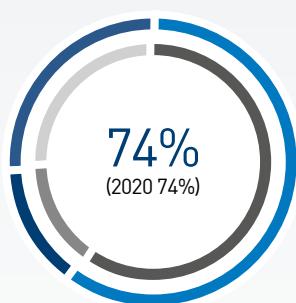
The components within the scope of our work accounted for the following percentages of the Group's results for continuing operations:

The remaining 26% (2020: 26%) of total Group revenue, 30% (2020: 28%) of Group profit before tax from continuing operations and 21% (2020: 24%) of total Group assets is represented by reporting components which individually did not represent more than 3% of any of total Group revenue for continuing operations, Group profit before tax for continuing operations or total Group assets. For these residual components, we performed an analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatement within these components.

The Group audit team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group audit team set the component materiality which ranged from £0.6 million to £11.0 million (2020: £0.2 million to £12.0 million), having regard to the mix of size and risk profile of the Group across the components. The work on 33 of the 34 (2020: 33 of the 34) components was performed by component auditors and the audit of the Parent Company was performed by the Group team. The work on Smiths Medical was also performed by component auditors.

As a result of the global pandemic and the related travel restrictions, we were unable to perform physical site visits to components in scope. To replace these, senior members of the Group audit team held regular video conference meetings with all in-scope components. These meetings involved explanation of Group audit instructions, involvement in planning audit procedures, discussing progress updates and emerging findings, reviewing outcomes of testing performed and involvement in discussing audit findings with component management. The Group audit team routinely reviewed the audit documentation of all component audits through various stages of their audits. Due to travel restrictions, we were unable to visit one China component (not financially significant) and remote access to audit documentation is prohibited by local law. As a result of this restriction we extended our oversight of this component's audit through extended discussion.

### GROUP REVENUE



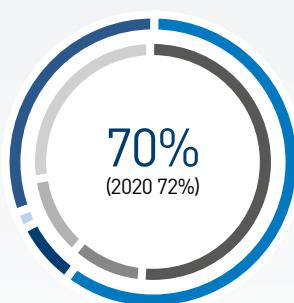
2021

■ Full scope for group audit purposes	60%
■ Audit of account balances	14%
■ Residual component	26%

2020

■ Full scope for group audit purposes	59%
■ Audit of account balances	15%
■ Residual component	26%

### GROUP PROFIT BEFORE TAX



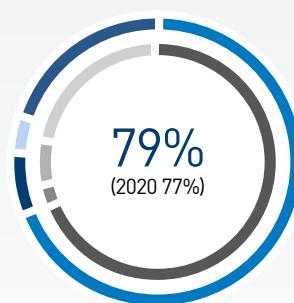
2021

■ Full scope for group audit purposes	59%
■ Audit of account balances	7%
■ Specified risk-focused audit procedures	2%
■ Residual component	30%

2020

■ Full scope for group audit purposes	51%
■ Audit of account balances	10%
■ Specified risk-focused audit procedures	11%
■ Residual component	28%

### GROUP TOTAL ASSETS



2021

■ Full scope for group audit purposes	69%
■ Audit of account balances	7%
■ Specified risk-focused audit procedures	3%
■ Residual component	21%

2020

■ Full scope for group audit purposes	70%
■ Audit of account balances	1%
■ Specified risk-focused audit procedures	5%
■ Residual component	24%

## 5 Going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Company or to cease their operations, and as they have concluded that the Group's and the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We used our knowledge of the Group, its industries and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group's and Company's available financial resources and metrics relevant to debt covenants over this period were:

- Adverse trading conditions and impact on the Group's operations or that of its suppliers and customers, such as delays and cancellations of orders and deliveries, as a result of additional lockdowns, resulting in a significant deterioration in the Group's liquidity position.
- Product quality failure which would result in reputational damage amongst customers and therefore reduction in orders and customer loss as well as potential significant liability claims raised against the Group.

We considered whether these risks could plausibly affect the liquidity or covenant compliance in the going concern period by comparing severe but plausible downside scenarios that could arise from these risks individually and collectively against the level of available financial resources and covenant thresholds indicated by the Group's financial forecasts. We also assessed the completeness of the going concern disclosure.

Our conclusions based on this work:

- we consider that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the Directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's or Company's ability to continue as a going concern for the going concern period;
- we have nothing material to add or draw attention to in relation to the Directors' statement in the Accounting Policies, page 149 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for the going concern period, and we found the going concern disclosure on page 149 to be acceptable; and
- the related statement under the Listing Rules set out on page 131 is materially consistent with the financial statements and our audit knowledge.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Group or the Company will continue in operation.

## 6 Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of Directors, the Audit & Risk committee, internal audit and inspection of policy documentation as to the Group's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Group's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board, Audit & Risk, Disclosure, Transactions, Nomination, Remuneration, Investments and Executive Committee minutes.
- Considering remuneration incentive schemes and performance targets for management and Directors including the EPS target for management remuneration.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit. This included communication from the Group to full scope and audit of specific account balances scope component audit teams of relevant fraud risks identified at the Group level and request the full scope and audit account balance scope component audit teams to report to the Group audit team any instances of fraud that could give rise to a material misstatement at Group.

As required by auditing standards and taking into account possible pressures to meet profit targets, recent revisions to guidance and our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular in the Smiths Detection division a significant portion of multi- year contracts (programme revenue) revenue is normally recognised in the last quarter of the year. Therefore, there is a risk of revenue being overstated during the year end closing period through the manipulation of the timing of recording of the sale transaction from such pressure. We did not identify any additional fraud risks.

We performed procedures including:

- Identifying journal entries to test for all components within full scope and audit of specific account balances scope based on risk criteria and comparing the identified entries to supporting documentation. These included unusual entries in revenue accounts, cash and cash equivalents or borrowings accounts and entries posted by senior finance management.
- Testing consolidation adjustment entries posted and comparing the identified entries to supporting documentation.

## **Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations**

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the Directors and other management (as required by auditing standards), and from inspection of the Group's regulatory and legal correspondence and discussed with the Directors and other management the policies and procedures regarding compliance with laws and regulations.

As the Group is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the group to full-scope component audit teams of relevant laws and regulations identified at the Group level, and a request for full scope component auditors to report to the Group team any instances of non-compliance with laws and regulations that could give rise to a material misstatement at Group.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, taxation legislation and pensions legislation, and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: health and safety, anti-bribery and corruption, considering dealings with government customers, employment law, and certain aspects of company legislation recognising the regulated nature of the Medical division activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

## **Context of the ability of the audit to detect fraud or breaches of law or regulation**

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

## **7 We have nothing to report on the other information in the Annual Report**

The Directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

## **Strategic Report and Directors' Report**

Based solely on our work on the other information:

- we have not identified material misstatements in the Strategic Report and the Directors' Report;
- in our opinion the information given in those Reports for the financial year is consistent with the financial statements; and
- in our opinion those Reports have been prepared in accordance with the Companies Act 2006.

## **Directors' remuneration report**

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

## **Disclosures of emerging and principal risks and longer-term viability**

We are required to perform procedures to identify whether there is a material inconsistency between the Directors' disclosures in respect of emerging and principal risks and the viability statement, and the financial statements and our audit knowledge.

Based on those procedures, we have nothing material to add or draw attention to in relation to:

- the Directors' confirmation within the Viability Statement page 80 that they have carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal Risks disclosures describing these risks and how emerging risks are identified, and explaining how they are being managed and mitigated; and
- the Directors' explanation in the Viability Statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to review the Viability Statement set out on page 80 under the Listing Rules. Based on the above procedures, we have concluded that the above disclosures are materially consistent with the financial statements and our audit knowledge.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Company's longer-term viability.

### **Corporate governance disclosures**

We are required to perform procedures to identify whether there is a material inconsistency between the Directors' corporate governance disclosures and the financial statements and our audit knowledge.

Based on those procedures, we have concluded that each of the following is materially consistent with the financial statements and our audit knowledge:

- the Directors' statement that they consider that the Annual Report and financial statements taken as a whole is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy;
- the section of the Annual Report describing the work of the Audit & Risk Committee, including the significant issues that the Audit & Risk Committee considered in relation to the financial statements, and how these issues were addressed; and
- the section of the Annual Report that describes the review of the effectiveness of the Group's risk management and internal control systems.

We are required to review the part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review. We have nothing to report in this respect.

### **8 We have nothing to report on the other matters on which we are required to report by exception**

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

## **9 Respective responsibilities**

### **Directors' responsibilities**

As explained more fully in their statement set out on page 132, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

### **Auditor's responsibilities**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

## **10 The purpose of our audit work and to whom we owe our responsibilities**

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

**Michael Maloney (Senior Statutory Auditor)**

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada Square

London E14 5GL

27 September 2021

# CONSOLIDATED INCOME STATEMENT

	Notes	Year ended 31 July 2021			Year ended 31 July 2020 – represented*		
		Headline £m	Non-headline (note 3) £m	Total £m	Headline £m	Non-headline (note 3) £m	Total £m
<b>CONTINUING OPERATIONS</b>							
Revenue	1	2,406	–	2,406	2,548	–	2,548
Operating costs		(2,034)	(46)	(2,080)	(2,221)	(86)	(2,307)
<b>OPERATING PROFIT/(LOSS)</b>	2	<b>372</b>	<b>(46)</b>	<b>326</b>	<b>327</b>	<b>(86)</b>	<b>241</b>
Interest receivable	4	9	–	9	6	–	6
Interest payable	4	(49)	–	(49)	(55)	–	(55)
Other financing gains/(losses)	4	–	(52)	(52)	–	(66)	(66)
Other finance income – retirement benefits	4	–	6	6	–	7	7
Finance costs	4	(40)	(46)	(86)	(49)	(59)	(108)
<b>Continuing operations – profit/(loss) before taxation</b>		<b>332</b>	<b>(92)</b>	<b>240</b>	<b>278</b>	<b>(145)</b>	<b>133</b>
Taxation	6	(96)	13	(83)	(79)	13	(66)
<b>Continuing operations – profit/(loss) for the year</b>		<b>236</b>	<b>(79)</b>	<b>157</b>	<b>199</b>	<b>(132)</b>	<b>67</b>
<b>Discontinued operations</b>							
Profit from discontinued operations	28	134	(6)	128	139	61	200
<b>PROFIT/(LOSS) FOR THE YEAR</b>		<b>370</b>	<b>(85)</b>	<b>285</b>	<b>338</b>	<b>(71)</b>	<b>267</b>
<b>Profit/(loss) for the year attributable to:</b>							
Smiths Group shareholders – continuing operations		235	(79)	156	197	(132)	65
Smiths Group shareholders – discontinued operations		134	(6)	128	139	61	200
Non-controlling interests		1	–	1	2	–	2
		<b>370</b>	<b>(85)</b>	<b>285</b>	<b>338</b>	<b>(71)</b>	<b>267</b>
<b>EARNINGS PER SHARE</b>							
Basic				5	71.7p		66.9p
Basic – continuing					39.4p		16.4p
Diluted					71.3p		66.4p
Diluted – continuing					39.1p		16.3p

\* Results in the comparatives for the period ended 31 July 2020 have been represented to show operating costs on the face of the income statement; see note 2 'Operating costs' for further details.

References in the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in equity and consolidated cash-flow statement relate to notes on pages 158 to 204, which form an integral part of the consolidated accounts.

**CONSOLIDATED STATEMENT  
OF COMPREHENSIVE INCOME**

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

	Notes	Year ended 31 July 2021 £m	Year ended 31 July 2020 £m
<b>PROFIT FOR THE YEAR</b>		<b>285</b>	<b>267</b>
<b>Other comprehensive income:</b>			
Re-measurement of retirement benefits assets and obligations	8	13	19
Taxation thereon	6	(6)	(2)
<b>Other comprehensive income and expenditure which will not be reclassified to the consolidated income statement</b>		<b>7</b>	<b>17</b>
<b>Other comprehensive income which will be reclassified and reclassifications:</b>			
Exchange losses		(166)	(205)
Fair value gains and reclassification adjustments:			
– on financial asset at fair value through other comprehensive income		4	2
– deferred in the period on cash-flow and net investment hedges		82	73
– reclassified to income statement on cash-flow and net investment hedges		2	(2)
<b>Total other comprehensive income</b>		<b>(71)</b>	<b>(115)</b>
<b>Total comprehensive income</b>		<b>214</b>	<b>152</b>
<b>Attributable to:</b>			
Smiths Group shareholders		214	151
Non-controlling interests		–	1
		<b>214</b>	<b>152</b>
<b>Total comprehensive income attributable to Smiths Group shareholders arising from:</b>			
Continuing operations		152	59
Discontinued operations		62	92
		<b>214</b>	<b>151</b>

**CONSOLIDATED BALANCE  
SHEET**

**CONSOLIDATED BALANCE SHEET**

	Notes	31 July 2021 £m	31 July 2020 £m
<b>NON-CURRENT ASSETS</b>			
Intangible assets	10	1,498	1,564
Property, plant and equipment	12	212	218
Right of use assets	13	108	94
Financial assets – other investments	17	11	19
Retirement benefit assets	8	546	516
Deferred tax assets	6	92	102
Trade and other receivables	15	59	52
Financial derivatives	20	75	82
		<b>2,601</b>	<b>2,647</b>
<b>CURRENT ASSETS</b>			
Inventories	14	381	446
Current tax receivable	6	75	46
Trade and other receivables	15	630	627
Cash and cash equivalents	18	405	366
Financial derivatives	20	2	2
Assets held for sale*	28	1,243	1,279
		<b>2,736</b>	<b>2,766</b>
<b>TOTAL ASSETS</b>		<b>5,337</b>	<b>5,413</b>
<b>CURRENT LIABILITIES</b>			
Financial liabilities:			
– borrowings	18	(9)	(10)
– lease liabilities	18	(27)	(31)
– financial derivatives	20	(3)	(4)
Provisions	23	(46)	(55)
Trade and other payables	16	(530)	(527)
Current tax payable	6	(89)	(79)
Liabilities held for sale*	28	(283)	(295)
		<b>(987)</b>	<b>(1,001)</b>
<b>NON-CURRENT LIABILITIES</b>			
Financial liabilities:			
– borrowings	18	(1,372)	(1,455)
– lease liabilities	18	(94)	(65)
Provisions	23	(241)	(276)
Retirement benefit obligations	8	(128)	(139)
Corporation tax payable	6	(5)	(5)
Deferred tax liabilities	6	(28)	(27)
Trade and other payables	16	(59)	(51)
		<b>(1,927)</b>	<b>(2,018)</b>
<b>TOTAL LIABILITIES</b>		<b>(2,914)</b>	<b>(3,019)</b>
<b>NET ASSETS</b>		<b>2,423</b>	<b>2,394</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	24	149	149
Share premium account		363	361
Capital redemption reserve	26	6	6
Revaluation reserve	26	1	1
Merger reserve	26	235	235
Cumulative translation adjustments		509	674
Retained earnings		1,367	1,259
Hedge reserve	26	(228)	(312)
Total shareholders' equity		<b>2,402</b>	<b>2,373</b>
Non-controlling interest equity	26	21	21
<b>TOTAL EQUITY</b>		<b>2,423</b>	<b>2,394</b>

\* Assets and liabilities held for sale were previously classified as held for distribution to owners, see note 28 for further details.

The accounts on pages 144 to 204 were approved by the Board of Directors on 27 September 2021 and were signed on its behalf by:

**Paul Keel**  
CHIEF EXECUTIVE OFFICER

**John Shipsey**  
CHIEF FINANCIAL OFFICER

**CONSOLIDATED STATEMENT  
OF CHANGES IN EQUITY**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

Notes	Share capital and share premium £m	Other reserves £m	Cumulative translation adjustments £m	Retained earnings £m	Hedge reserve £m	Equity shareholders' funds £m	Non- controlling interest £m	Total equity £m
At 31 July 2020	<b>510</b>	<b>242</b>	<b>674</b>	<b>1,259</b>	<b>(312)</b>	<b>2,373</b>	<b>21</b>	<b>2,394</b>
Profit for the year	–	–	–	284	–	284	1	285
Other comprehensive income:								
– re-measurement of retirement benefits after tax	–	–	–	7	–	7	–	7
– exchange losses net of recycling	–	–	(165)	–	–	(165)	(1)	(166)
– fair value gains and related tax	–	–	–	4	84	88	–	88
<b>Total comprehensive income for the year</b>	<b>–</b>	<b>–</b>	<b>(165)</b>	<b>295</b>	<b>84</b>	<b>214</b>	<b>–</b>	<b>214</b>
<b>Transactions relating to ownership interests:</b>								
Exercises of share options	24	2	–	–	–	2	–	2
Receipt of capital from non-controlling interest		–	–	–	–	–	1	1
Purchase of own shares	26	–	–	–	(16)	–	(16)	–
Dividends:								
– equity shareholders	25	–	–	–	(185)	–	(185)	–
– non-controlling interest	–	–	–	–	–	–	(1)	(1)
Share-based payment	9	–	–	–	14	–	14	–
<b>At 31 July 2021</b>	<b>512</b>	<b>242</b>	<b>509</b>	<b>1,367</b>	<b>(228)</b>	<b>2,402</b>	<b>21</b>	<b>2,423</b>

Notes	Share capital and share premium £m	Other reserves £m	Cumulative translation adjustments £m	Retained earnings £m	Hedge reserve £m	Equity shareholders' funds £m	Non- controlling interest £m	Total equity £m
At 31 July 2019	<b>508</b>	<b>242</b>	<b>878</b>	<b>1,115</b>	<b>(383)</b>	<b>2,360</b>	<b>21</b>	<b>2,381</b>
Impact of adopting IFRS 16	–	–	–	(1)	–	(1)	–	(1)
Impact of adopting IFRIC 23	–	–	–	(4)	–	(4)	–	(4)
Profit for the year	–	–	–	265	–	265	2	267
Other comprehensive income:								
– re-measurement of retirement benefits after tax	–	–	–	17	–	17	–	17
– exchange losses net of recycling	–	–	(204)	–	–	(204)	(1)	(205)
– fair value gains and related tax	–	–	–	2	71	73	–	73
<b>Total comprehensive income for the year</b>	<b>–</b>	<b>–</b>	<b>(204)</b>	<b>284</b>	<b>71</b>	<b>151</b>	<b>1</b>	<b>152</b>
<b>Transactions relating to ownership interests:</b>								
Exercises of share options	24	2	–	–	–	2	–	2
Purchase of own shares	26	–	–	–	(18)	–	(18)	–
Dividends:								
– equity shareholders	25	–	–	–	(126)	–	(126)	–
– non-controlling interest	–	–	–	–	–	–	(1)	(1)
Share-based payment	9	–	–	–	9	–	9	–
<b>At 31 July 2020</b>	<b>510</b>	<b>242</b>	<b>674</b>	<b>1,259</b>	<b>(312)</b>	<b>2,373</b>	<b>21</b>	<b>2,394</b>

**CONSOLIDATED CASH-FLOW STATEMENT**

**CONSOLIDATED CASH-FLOW STATEMENT**

	Notes	Year ended 31 July 2021 £m	Year ended 31 July 2020 £m
<b>Net cash inflow from operating activities</b>	29	<b>535</b>	<b>429</b>
<b>Cash-flows from investing activities</b>			
Expenditure on capitalised development		(27)	(35)
Expenditure on other intangible assets		(12)	(14)
Purchases of property, plant and equipment		(78)	(61)
Disposals of property, plant and equipment		2	1
Capital returned by other investments		7	–
Acquisition of businesses	27	(83)	(24)
Acquisition of businesses – discontinued operations		–	(12)
Investment in financial asset – discontinued operations		(14)	–
Disposal of businesses – discontinued operations		–	1
<b>Net cash-flow used in investing activities</b>		<b>(205)</b>	<b>(144)</b>
<b>Cash-flows from financing activities</b>			
Proceeds from exercise of share options	24	2	2
Purchase of own shares	26	(16)	(18)
Dividends paid to equity shareholders	25	(185)	(126)
Payment of lease liabilities		(44)	(47)
Cash inflow from matured derivative financial instruments		4	1
<b>Net cash-flow used in financing activities</b>		<b>(239)</b>	<b>(188)</b>
<b>Net increase in cash and cash equivalents</b>		<b>91</b>	<b>97</b>
Cash and cash equivalents at beginning of year		366	289
Movement in net cash held in disposal group		(28)	6
Foreign exchange rate movements		(24)	(26)
<b>Cash and cash equivalents at end of year</b>	18	<b>405</b>	<b>366</b>
Cash and cash equivalents at end of year comprise:			
– cash at bank and in hand		219	173
– short-term deposits		186	193
		<b>405</b>	<b>366</b>

# ACCOUNTING POLICIES

## Basis of preparation

The accounts have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006.

The consolidated financial statements have been prepared under the historical cost convention modified to include revaluation of certain financial instruments, share options and pension assets and liabilities, held at fair value as described below.

## Going concern

The Directors are satisfied that the Group has adequate resources to continue to operate for a period not less than 12 months from the date of approval of the financial statements and that there are no material uncertainties around their assessment. Accordingly, the Directors continue to adopt the going concern basis of accounting.

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 08 to 83. The Group's financial position, cash flows, liquidity and borrowing facilities are described in the Strong Financial Framework section on pages 20 to 23.

In concluding that the going concern basis is appropriate, the Directors have modelled the impact of a severe but plausible downside scenario based on another significant global wave of COVID-19 in the winter of FY2022, whereby the Group experiences:

### (i) Demand decline:

- a significant revenue decline in FY2022 due to a series of full country lockdowns, resulting in a 17% year-on-year fall in revenue for FY2022. The revenue decline and assumed customer defaults result in a -74% year-on-year reduction in headline operating profit. The assumed revenue decline is driven by a drop in demand in John Crane and Detection due to customer circumstances, weak demand in Flex-Tek and a reduction in Interconnect revenues due to a market slowdown and supply disruptions; and
- a further period of continued dampened demand for 12 months with a slow recovery beginning towards the end of FY2022 and into the first half of FY2023.

### (ii) Supply chain disruption and deterioration in working capital:

- supply chain disruptions with plant closures across most sites for a full two months (November and December 2021);
- with ongoing supply chain disruption due to both ability of suppliers to continue to service and availability of freight forwarding to ship supplies; and
- a deterioration in working capital from an inventory build up during the shutdown period, delays in customer receipts and an increase in customer defaults.

This scenario assumes no mitigating actions and no further restructuring. The downside case is deemed to be very cautious, given that trading has been resilient throughout the pandemic. The Group has also demonstrated the ability to continue operations with government approvals during the pandemic; in the few instances where they did occur, plant closures were short-lived (days not weeks).

Throughout this severe but plausible downside scenario, the Group continues to have significant liquidity headroom on existing facilities and against the RCF financial covenant.

Other factors considered by the Board as part of their going concern assessment included the inherent uncertainties in cash flow forecasts. Based on the above, the Directors have concluded that the Group is well placed to manage its financing and other business risks satisfactorily, and they have a reasonable expectation that the Group will have adequate resources to continue in operation for at least 12 months from the signing date of these financial statements. They therefore consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements.

## Key estimates and significant judgements

The preparation of the accounts in conformity with generally accepted accounting principles requires management to make estimates and judgements that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the accounts and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates.

The key sources of estimation uncertainty together with the significant judgements and assumptions used for these consolidated financial statements are set out below.

## Sources of estimation uncertainty

### Impairment reviews of intangible assets

In carrying out impairment reviews of intangible assets, a number of significant assumptions have to be made when preparing cash-flow projections to determine the value in use of the asset or cash generating unit (CGU). These include the future rate of market growth, discount rates, the market demand for the products acquired, the future profitability of acquired businesses or products, levels of reimbursement, and success in obtaining regulatory approvals. If actual results differ or changes in expectations arise, impairment charges may be required which would adversely impact operating results.

Critical estimates, and the effect of variances in these estimates, are disclosed in note 11 and note 28.

### Retirement benefits

Determining the value of the future defined benefit obligation involves significant estimates in respect of the assumptions used to calculate present values. These include future mortality, discount rate and inflation. The Group uses previous experience and independent actuarial advice to select the values for critical estimates. A portion of UK pension liabilities are insured via bulk annuity policies which broadly match the scheme obligation to identified groups of pensioners. These assets are valued by an external qualified actuary at the actuarial valuation of the corresponding liability, reflecting this matching relationship.

The Group's principal defined benefit pension plans are in the UK and the US and these have been closed so that no future benefits are accrued. Critical estimates for these plans, and the effect of variances in these estimates, are disclosed in note 8.

### Provisions for liabilities and charges

John Crane, Inc. (JCI), a subsidiary of the Group, is one of many co-defendants in litigation relating to products previously manufactured which contained asbestos. Provision of £212m (FY2020: £231m) has been made for the future defence costs which the Group is expected to incur and the expected costs of future adverse judgements against JCI. Whilst well-established incidence curves can be used to estimate the likely future pattern of asbestos-related disease, JCI's claims experience is significantly impacted by other factors which influence the US litigation environment. These can include: changing approaches on the part of the plaintiffs' bar; changing attitudes amongst the judiciary at both trial and appellate levels; and legislative and procedural changes in both the state and federal court systems. Because of the significant uncertainty associated with the future level of asbestos claims and of

## ACCOUNTING POLICIES CONTINUED

the costs arising out of the related litigation, there can be no guarantee that the assumptions used to estimate the provision will result in an accurate prediction of the actual costs that will be incurred.

In quantifying the expected costs JCI takes account of the advice of an expert in asbestos liability estimation. The following estimates were made in preparing the provision calculation:

- the period over which the expenditure can be reliably estimated is judged to be ten years, based on past experience regarding significant changes in the litigation environment that have occurred every few years and on the amount of time taken in the past for some of those changes to impact the broader asbestos litigation environment. See note 23 for a sensitivity showing the impact on the provision of reducing or increasing this time horizon;
- the future trend of legal costs, the rate of future claims filed, the rate of successful resolution of claims, and the average amount of judgements awarded have been projected based on the past history of JCI claims and well-established tables of asbestos incidence projections, since this is the best available evidence. Claims history from other defendants is not used to calculate the provision because JCI's defence strategy generates a significantly different pattern of legal costs and settlement expenses. See note 23 for a sensitivity showing the range of expected future spend.

Titeflex Corporation, a subsidiary of the Group in the Flex-Tek division, has received a number of claims from insurance companies seeking recompense on a subrogated basis for the effects of damage allegedly caused by lightning strikes in relation to its flexible gas piping product. It has also received a number of product liability claims regarding 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. Provision of £47m (FY2020: £66m) has been made for the costs which the Group is expected to incur in respect of these claims. In preparing the provision calculation, key estimates have been made about the impact of safe installation initiatives on the level of future claims. See note 23 for a sensitivity showing the impact on the provision of reducing or increasing the expected impact. However, because of the significant uncertainty associated with the future level of claims, there can be no guarantee that the assumptions used to estimate the provision will result in an accurate prediction of the actual costs that may be incurred.

All provisions may be subject to potentially material revisions from time to time if new information becomes available as a result of future events.

### Taxation

The Group has recognised deferred tax assets of £144m (FY2020: £128m) relating to losses and £65m (FY2020: £75m) relating to the John Crane, Inc. and Titeflex Corporation litigation provisions. The recognition of assets pertaining to these items requires management to make significant estimates as to the likelihood of realisation of these deferred tax assets and the phasing and attribution of future taxable profits. This is based on a number of factors, which management use to assess the expectation that the benefit of these assets will be realised, including expected future levels of operating profit, expenditure on litigation, pension contributions and the timing of the unwind of other tax positions.

### Revenue recognition

Revenue is recognised as the performance obligations to deliver products or services are satisfied and revenue is recorded based on the amount of consideration expected to be received in exchange for satisfying the performance obligations.

Smiths Detection and Smiths Interconnect have multi-year contractual arrangements for the sale of goods and services. Where these contracts have separately identifiable components with distinct patterns of delivery and customer acceptance, revenue is accounted for separately for each identifiable component.

The Group enters into certain contracts for agreed fees that are performed across more than one accounting period and revenue is recognised over time. Estimates are required at the balance sheet date when determining the stage of completion of the contract activity. This assessment requires the expected total costs of the contract and the remaining costs to complete the contract to be estimated.

At 31 July 2021, the Group held contracts with a total value of £166m (2020: £153m), of which £99m (2020: £101m) had been delivered and £67m (2020: £52m) remains fully or partially unsatisfied. £43m of the unsatisfied amount is expected to be recognised in the coming year, with the remainder being recognised within 3 years. A 5% increase in the remaining cost to complete the contracts would have reduced Group operating profit in the current year by less than £2m (2020: less than £2m).

### Significant judgements made in applying accounting policies

#### Business combinations

On the acquisition of a business, the Group has to make judgements on the identification of specific intangible assets which are recognised separately from goodwill and then amortised over their estimated useful lives. These include items such as brand names and customer lists, to which value is first attributed at the time of acquisition. The capitalisation of these assets and the related amortisation charges are based on judgements about the value and economic life of such items.

Where acquisitions are significant, appropriate advice is sought from professional advisers before making such allocations.

Where the Group has a contractual option to acquire a business in the future, management have applied judgement in determining whether it has substantive voting rights in the business and whether the business should be accounted for as a subsidiary or associate. In applying these judgements, management have reviewed whether the option and any related legal / commercial agreements provide the Group with power or significant influence over the business and have assessed whether there are any barriers that prevent the Group from exercising these rights.

#### Retirement benefits

At 31 July 2021 the Group has recognised a retirement benefit asset of £546m (FY2020: £516m), principally relating to UK schemes, which arises from the rights of the employers to recover the surplus at the end of the life of the scheme.

The recognition of this surplus is a significant judgement. There is judgement required in determining whether an unconditional right of refund exists based on the provisions of the relevant trust deed and rules. Having taken legal advice with regards to the rights of the Group under the relevant Trust deed and rules, it has been determined that the surplus is recoverable by the Group and therefore can be recognised. In particular, in the ordinary course of business, the Trustees of the UK schemes do not have a unilateral power to terminate and wind-up the schemes or augment benefits. If the pension schemes were wound up while they still had members, the schemes would need to buy out the benefits of all members. The buyouts would cost significantly more than the carrying value of the scheme liabilities within these financial statements which are calculated in accordance with IAS 19: Employee benefits.

## **Capitalisation of development costs**

Expenditure incurred in the development of major new products is capitalised as internally generated intangible assets only when it has been judged that strict criteria are met, specifically in relation to the products' technical feasibility and commercial viability (the ability to generate probable future economic benefits).

The assessment of technical feasibility and future commercial viability of development projects requires significant judgement and the use of assumptions. Key judgements made in the assessment of future commercial viability include:

- Scope of work to achieve regulatory clearance (where required) – including the level of testing evidence and documentation;
- Competitor activity – including the impact of potential competitor product launches on the market place and customer demand; and
- Launch timeline – including time and resource required to establish and support the commercial launch of a new product.

## **Taxation**

As stated in the previous section 'Sources of estimation uncertainty', the Group has recognised deferred tax assets of £144m (FY2020: £128m) relating to losses and £65m (FY2020: £75m) relating to the John Crane, Inc. and Titeflex Corporation litigation provisions. The decision to recognise deferred tax assets requires judgement in determining whether the Group will be able to utilise historical tax losses in future periods. It has been concluded that there are sufficient taxable profits in future periods to support recognition.

The Group has also applied judgement in the decisions made to recognise provisions against uncertain tax positions; please see note 6 for further details.

## **Presentation of the Smiths Medical demerger/sale**

Previously in the Group's FY2019 and FY2020 Annual Reports, the Smiths Medical business was classified as discontinued and held for distribution to owners, as the Group was committed to pursue a demerger of Smiths Medical, whilst in parallel continuing to evaluate all opportunities for value maximisation.

Following the Board decision in July 2021 to sell Smiths Medical rather than continue with a demerger, judgement is required to determine the most appropriate financial reporting presentation of the division and its performance.

In FY2021 the results of Smiths Medical have been presented as profit from discontinued operations and the Smiths Medical assets and liabilities reported as assets and liabilities held for sale. The key judgement for this classification is that the following conditions were met at the balance sheet date:

- Management is committed to the plan to sell the business and an active programme to locate a buyer and complete the plan must have been initiated;
- The disposal group must be actively marketed for sale at a price that is reasonable in relation to its current fair value;
- Shareholder and regulatory approval is highly probable and the plan is unlikely to be significantly changed or withdrawn; and
- Sale is expected to be completed within 12 months from the date of classification.

On 8 September 2021, the Group announced the sale of Smiths Medical to ICU Medical, Inc. ("ICU Medical"); see note 31 for further details. The sale is conditional upon the approval of Smiths shareholders and the receipt of customary regulatory approvals.

The IFRS 5 requirement above for the expected completion of the transaction within 12 months of the date of classification was not achieved in FY2021. ICU Medical has provided Smiths with strong contractual commitments to secure the customary regulatory approvals by 8 March 2022 (the "Long Stop Date"). However, it is recognised that in certain limited circumstances, the Long Stop Date may be extended to 8 March 2023.

Smiths management have determined that the realistic expectation is that it will take six to nine months to complete the customary regulatory approvals for the sale to ICU Medical. Therefore management believe that the criteria for classification of Smiths Medical as discontinued and held for sale continue to be met.

## **Presentation of headline profits and underlying growth**

In order to provide users of the accounts with a clear and consistent presentation of the performance of the Group's ongoing trading activity, the income statement is presented in a three column format with 'headline' profits shown separately from non-headline items. In addition, the Group reports underlying growth rates for sales and profit measures.

See note 1 for disclosures of headline operating profit and note 30 for more information about the alternative performance measures ('APMs') used by the Group.

Judgement is required in determining which items should be included as non-headline. The amortisation/impairment of acquired intangibles, legacy liabilities, material one-off items and certain re-measurements are included in a separate column of the income statement. See note 3 for a breakdown of the items excluded from headline profit.

Calculating underlying growth also requires judgement. Underlying growth excludes the effects of: foreign exchange; acquisitions and disposals; restructuring charges; impairment of capitalised development costs; and COVID related balance sheet write-downs in the prior year.

## **Significant accounting policies**

### **Basis of consolidation**

The Group's consolidated accounts include the financial statements of Smiths Group plc (the 'Company'), all entities controlled by the Company (its subsidiaries) and the Group's share of the results of its associates. A list of the subsidiaries of Smiths Group plc is provided on pages 220 to 228.

The Company controls an entity when it (i) has power over the entity; (ii) is exposed or has rights to variable returns from its involvement with the entity; and (iii) has the ability to affect those returns through its power over the entity. The Group reassesses whether or not it controls a subsidiary if facts and circumstances indicate that there are changes to one or more of these three elements of control. Subsidiaries are fully consolidated from the date on which control is obtained by the Company to the date that control ceases.

Where the Group loses control of a subsidiary, the assets and liabilities are derecognised along with any related non-controlling interest and other components of equity. Any resulting gain or loss is recognised in the income statement. Any interest retained in the former subsidiary is measured at fair value when control is lost.

The non-controlling interests in the Group balance sheet represent the share of net assets of subsidiary undertakings held outside the Group. The movement in the year comprises the profit attributable to such interests together with any dividends paid, movements in respect of corporate transactions and related exchange differences.

## ACCOUNTING POLICIES

### CONTINUED

Interests in associates are accounted for using the equity method. They are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the Group financial statements include the Group's share of the profit or loss and other comprehensive income of equity-accounted investees, until the date on which significant influence ceases.

All intercompany transactions, balances, and gains and losses on transactions between Group companies are eliminated on consolidation.

#### Foreign currencies

The Company's presentational currency and functional currency is sterling. The financial position of all subsidiaries and associates that have a functional currency different from sterling are translated into sterling at the rate of exchange at the date of that balance sheet, and the income and expenses are translated at average exchange rates for the period. All resulting foreign exchange rate movements are recognised as a separate component of equity.

On consolidation, foreign exchange rate movements arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, the cumulative amount of such foreign exchange rate movements is recognised in the income statement as part of the gain or loss on sale.

Foreign exchange rate movements arising on transactions are recognised in the income statement. Those arising on trading are taken to operating profit; those arising on borrowings are classified as finance income or cost.

#### Revenue

Revenue is measured at the fair value of the consideration received, net of trade discounts (including distributor rebates) and sales taxes. Revenue is discounted only where the impact of discounting is material.

When the Group enters into complex contracts with multiple, separately identifiable components, the terms of the contract are reviewed to determine whether or not the elements of the contract should be accounted for separately. If a contract is being split into multiple components, the contract revenue is allocated to the different components at the start of the contract. The basis of allocation depends on the substance of the contract. The Group considers relative stand-alone selling prices, contractual prices and relative cost when allocating revenue.

The Group has identified the following different types of revenue:

##### (i) Sale of goods recognised at a point in time – generic products manufactured by Smiths

Generic products are defined as either:

- Products that are not specific to any particular customer;
- Products that may initially be specific to a customer but can be reconfigured at minimal cost, i.e. retaining a margin, for sale to an alternative customer; or
- Products that are specific to a customer but are manufactured at Smiths' risk, i.e. we have no right to payment of costs plus margin if the customer refuses to take control of the goods.

For established products with simple installation requirements, revenue is recognised when control of the product is passed to the customer. The point in time that control passes is defined in accordance with the agreed shipping terms and is determined on a case by case basis. The time of despatch or delivery of the goods to the customer is normally the point at which invoicing occurs.

However for some generic products, revenue is recognised when the overall performance obligation has been completed, which is often after the customer has completed its acceptance procedures and has assumed control.

Products that are sold under multiple element arrangements, i.e. contracts involving a combination of products and services, are bundled into a single performance obligation unless the customer can benefit from the goods or services either on their own, or together with other resources that are readily available to the customer and are distinct within the context of the contract.

For contracts that pass control of the product to the customer only on completion of installation services, revenue is recognised upon completion of the installation.

An obligation to replace or repair faulty products under the standard warranty terms is recognised as a provision. If the contract includes terms that either extend the warranty beyond the standard term or imply that maintenance is provided to keep the product working, these are service warranties and revenue is deferred to cover the performance obligation in an amount equivalent to the stand-alone selling price of that service.

##### (ii) Sale of goods recognised over time - customer-specific products where the contractual terms include rights to payment for work performed to date

Customer-specific products are defined as being:

- Products that cannot be reconfigured economically such that it remains profitable to sell to another customer;
- Products that cannot be sold to another customer due to contractual restrictions; and
- Products that allow Smiths to charge for the work performed to date in an amount that represents the costs incurred to date plus a margin, should the customer refuse to take control of the goods.

For contracts that meet the terms listed above, revenue is recognised over the period that the Group is engaged in the manufacture of the product, calculated using the input method based on the amount of costs incurred to date compared to the overall costs of the contract. The time of despatch or delivery of the goods to the customer is normally the point at which invoicing occurs.

An obligation to provide a refund for faulty products under the standard warranty terms is recognised as a provision. If the contract includes terms that either extend the warranty beyond the standard term or imply that maintenance is provided to keep the product working, these are service warranties and revenue is deferred to cover the performance obligation in an amount equivalent to the stand-alone selling price of that service.

##### (iii) Services recognised over time - services relating to the installation, repair and ongoing maintenance of equipment

Services include installation, commissioning, testing, training, software hosting & maintenance, product repairs and contracts undertaking extended warranty services.

For complex installations where the supply of services cannot be separated from the supply of product, revenue is recognised upon acceptance of the combined performance obligation (see Sale of goods (i) above).

For services that can be accounted for as a separate performance obligation, revenue is recognised over time, assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Depending on the nature of the contract, revenue is recognised as follows:

- Installation, commissioning and testing services (when neither linked to the supply of product nor subject to acceptance) are recognised rateably as the services are provided;
- Training services are recognised on completion of the training course;
- Software hosting & maintenance services are recognised rateably over the life of the contract;

- Product repair services, where the product is returned to Smiths premises for remedial action, are recognised when the product is returned to the customer and they regain control of the asset;
- On-site ad hoc product repair services are recognised rateably as the services are performed;
- Long-term product repair and maintenance contracts are recognised rateably over the contract term; and
- Extended service warranties are recognised rateably over the contract term.

Invoicing for services depends on the nature of the service provided with some services charged in advance and others in arrears.

Where contracts are accounted for under the revenue recognised over time basis, the proportion of costs incurred is used to determine the percentage of contract completion.

Contracts for the construction of substantial assets, which normally last in excess of one year, are accounted for under the revenue recognised over time basis, using an input method.

For fixed-price contracts, revenue is recognised based upon an assessment of the amount of cost incurred under the contract, compared to the total expected costs that will be incurred under the contract. This calculation is applied cumulatively with any over/under recognition being adjusted in the current period.

For cost-plus contracts, revenue is recognised based upon costs incurred to date plus any agreed margin.

For both fixed-price and cost-plus contracts, invoicing is normally based on a schedule with milestone payments.

### **Contract costs**

The Group has taken the practical expedient of not capitalising contract costs as they are expected to be expensed within one year from the date of signing.

### **Leases**

The Group recognises right of use assets at the commencement date of the lease. Right of use assets are measured at cost including the amount of lease liabilities recognised and initial direct costs incurred, less any incentives granted by the lessor. Right of use assets are depreciated over the shorter of the lease term and the useful life of the right of use assets, unless there is a transfer of ownership or purchase option which is reasonably certain to be exercised at the end of the lease term, in which case depreciation is charged over the useful life of the underlying asset. Right of use assets are subject to impairment.

Leases of buildings typically have lease terms between 1 and 6 years, while plant and machinery generally have lease terms between 1 and 3 years. The Group also has certain leases of machinery with lease terms of 12 months or less and leases of office equipment with low value (typically below £5,000). The Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases and recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

### **Taxation**

The charge for taxation is based on profits for the year and takes into account taxation deferred because of temporary differences between the treatment of certain items for taxation and accounting purposes.

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to taxation authorities. Tax benefits are not recognised unless it is likely that the tax positions are sustainable. Tax positions taken are then reviewed to assess whether a provision should be made based on prevailing circumstances. Tax provisions are included in current tax liabilities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income.

The Group operates and is subject to taxation in many countries. Tax legislation is different in each country, is often complex and is subject to interpretation by management and government authorities. These matters of judgement give rise to the need to create provisions for uncertain tax positions which are recognised when it is considered more likely than not that there will be a future outflow of funds to a taxing authority. Provisions are made against individual exposures and take into account the specific circumstances of each case, including the strength of technical arguments, recent case law decisions or rulings on similar issues and relevant external advice.

The amounts are measured using one of the following methods, depending on which of the methods the Directors expect will better reflect the amount the Group will pay to the tax authority:

- The single best estimate method is used where there is a single outcome that is more likely than not to occur. This will happen, for example, where the tax outcome is binary or the range of possible outcomes is very limited;
- Alternatively, a probability weighted expected value is used where, on the balance of probabilities, there will be a payment to the tax authority but there are a number of possible outcomes. In this case, a probability is assigned to each of the outcomes and the amount provided is the sum of these risk-weighted amounts. In assessing provisions against uncertain tax positions, management uses in-house tax experts, professional firms and previous experience of the taxing authority to evaluate the risk.

Deferred tax is provided in full using the balance sheet liability method. A deferred tax asset is recognised where it is probable that future taxable income will be sufficient to utilise the available relief. Tax is charged or credited to the income statement except when it relates to items charged or credited directly to equity, in which case the tax is also dealt with in equity.

Deferred tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary differences is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax liabilities and assets are not discounted.

### **Employee benefits**

#### **Share-based compensation**

The fair value of the shares or share options granted is recognised as an expense over the vesting period to reflect the value of the employee services received. The fair value of options granted, excluding the impact of any non-market vesting conditions, is calculated using established option pricing models, principally binomial models. The probability of meeting non-market vesting conditions, which include profitability targets, is used to estimate the number of share options which are likely to vest.

For cash-settled share-based payment, a liability is recognised based on the fair value of the payment earned by the balance sheet date. For equity-settled share-based payment, the corresponding credit is recognised directly in reserves.

## ACCOUNTING POLICIES CONTINUED

### Pension obligations and post-retirement benefits

Pensions and similar benefits (principally healthcare) are accounted for under IAS 19. The retirement benefit obligation in respect of the defined benefit plans is the liability (the present value of all expected future obligations) less the fair value of the plan assets.

The income statement expense is allocated between current service costs, reflecting the increase in liability due to any benefit accrued by employees in the current period, any past service costs/credits and settlement losses or gains which are recognised immediately, and the scheme administration costs.

Actuarial gains and losses are recognised in the statement of comprehensive income in the year in which they arise. These comprise the impact on the liabilities of changes in demographic and financial assumptions compared with the start of the year, actual experience being different to assumptions and the return on plan assets being above or below the amount included in the net pension interest cost.

Payments to defined contribution schemes are charged as an income statement expense as they fall due.

### Intangible assets

#### Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary at the date of acquisition.

The goodwill arising from acquisitions of subsidiaries after 1 August 1998 is included in intangible assets, tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. The goodwill arising from acquisitions of subsidiaries before 1 August 1998 was set against reserves in the year of acquisition.

Goodwill is tested for impairment at least annually. Any impairment is recognised immediately in the income statement.

Subsequent reversals of impairment losses for goodwill are not recognised.

#### Research and development

Expenditure on research and development is charged to the income statement in the year in which it is incurred with the exception of:

- Amounts recoverable from third parties; and
- Expenditure incurred in respect of the development of major new products where the outcome of those projects is assessed as being reasonably certain as regards viability and technical feasibility. Such expenditure is capitalised and amortised over the estimated period of sale for each product, commencing in the year that the product is ready for sale. Amortisation is charged straight line or based on the units produced, depending on the nature of the product and the availability of reliable estimates of production volumes.

The cost of development projects which are expected to take a substantial period of time to complete includes attributable borrowing costs.

#### Intangible assets acquired in business combinations

The identifiable net assets acquired as a result of a business combination may include intangible assets other than goodwill. Any such intangible assets are amortised straight line over their expected useful lives as follows:

Patents, licences and trademarks	up to 20 years
Technology	up to 13 years
Customer relationships	up to 11 years

The assets' useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

### Software, patents and intellectual property

The estimated useful lives are as follows:

Software	up to 7 years
Patents and intellectual property	shorter of the economic life and the period the right is legally enforceable

The assets' useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

### Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and any recognised impairment losses.

Land is not depreciated. Depreciation is provided on other assets estimated to write off the depreciable amount of relevant assets by equal annual instalments over their estimated useful lives.

In general, the rates used are:

Freehold and long leasehold buildings	2% per annum
Short leasehold property	over the period of the lease
Plant, machinery, etc.	10% to 20% per annum
Fixtures, fittings, tools and other equipment	10% to 33% per annum

The cost of any assets which are expected to take a substantial period of time to complete includes attributable borrowing costs.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method.

The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). The cost of items of inventory which take a substantial period of time to complete includes attributable borrowing costs.

The net realisable value of inventories is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Provisions are made for any slow-moving, obsolete or defective inventories.

### Trade and other receivables

Trade receivables and contract assets are initially recognised at fair value and subsequently measured at amortised cost, less any appropriate provision for expected credit losses.

A provision for expected credit losses is established when there is objective evidence that it will not be possible to collect all amounts due according to the original payment terms. Expected credit losses are determined using historical write-offs as a basis, with a default risk multiplier applied to reflect country risk premium. The Group applies the IFRS 9 simplified lifetime expected credit loss approach for trade receivables and contract assets which do not contain a significant financing component.

## Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Provisions for warranties and product liability, disposal indemnities, restructuring costs, property dilapidations and legal claims are recognised when: the Company has a legal or constructive obligation as a result of a past event; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are discounted where the time value of money is material.

Where there is a number of similar obligations, for example where a warranty has been given, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

## Businesses held for sale

Businesses classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Impairment losses on initial classification as held for sale and gains or losses on subsequent remeasurements are included in the income statement. No depreciation is charged on assets and businesses classified as held for sale.

Businesses are classified as held for sale if their carrying amount will be settled principally through a sale rather than through continuing use and the following criteria are met:

- The business must be a separate major line of business, available for immediate sale in its present condition;
- Management is committed to the plan to sell the business and an active programme to locate a buyer and complete the plan must have been initiated;
- The disposal group must be actively marketed for sale at a price that is reasonable in relation to its current fair value;
- Shareholder and regulatory approval is highly probable and the plan is unlikely to be significantly changed or withdrawn; and
- Sale is expected to be completed within 12 months of the balance sheet date.

The assets and liabilities of businesses held for sale are presented as separate lines on the balance sheet.

## Discontinued operations

A discontinued operation is either:

- A component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of, has been abandoned or meets the criteria to be classified as held for sale; or
- A business acquired solely for the purpose of selling it.

Discontinued operations are presented on the income statement as a separate line and are shown net of tax.

In accordance with IAS 21, gains and losses on intragroup monetary assets and liabilities are not eliminated. Therefore foreign exchange rate movements on intercompany loans with discontinued operations are presented on the income statement as non-headline finance cost items.

## Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand and highly liquid interest-bearing securities with maturities of three months or less.

In the cash-flow statement, cash and cash equivalents are shown net of bank overdrafts, which are included as current borrowings in liabilities on the balance sheet.

## Financial assets

The classification of financial assets depends on the purpose for which the assets were acquired. Management determines the classification of an asset at initial recognition and re-evaluates the designation at each reporting date. Financial assets are classified as: measured at amortised cost, fair value through other comprehensive income or fair value through profit and loss.

Financial assets primarily include trade receivables, cash and cash equivalents (comprising cash at bank, money market funds, and short term deposits), short term investments, derivatives (foreign exchange contracts and interest rate derivatives) and unlisted investments.

- Trade receivables are classified either as 'held to collect' and measured at amortised cost or as 'held to collect and sell' and measured at fair value through other comprehensive income (FVOCI). The Group may sell trade receivables due from certain customers before the due date. Any trade receivables from such customers that are not sold at the reporting date are classified as 'held to collect and sell'.
- Cash and cash equivalents (consisting of balances with banks and other financial institutions, money-market funds and short-term deposits) and short-term investments are subject to low market risk. Cash balances and short-term investments are measured at amortised cost. Money market funds and short-term deposits are measured at fair value through profit and loss (FVPL).
- Derivatives are measured at FVPL.
- Unlisted investments are measured at FVOCI.

Financial assets are derecognised when the right to receive cash-flows from the assets has expired, or has been transferred, and the Group has transferred substantially all of the risks and rewards of ownership. When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments previously taken to reserves are included in the income statement.

Financial assets are classified as current if they are expected to be realised within 12 months of the balance sheet date.

## Financial liabilities

Borrowings are initially recognised at the fair value of the proceeds, net of related transaction costs. These transaction costs, and any discount or premium on issue, are subsequently amortised under the effective interest rate method through the income statement as interest over the life of the loan and added to the liability disclosed in the balance sheet. Related accrued interest is included in the borrowings figure.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least one year after the balance sheet date.

## Derivative financial instruments and hedging activities

The Group uses derivative financial instruments to hedge its exposures to foreign exchange and interest rates arising from its operating and financing activities.

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising any resulting gain or loss depends on whether the derivative financial instrument is designated as a hedging instrument and, if so, the nature of the item being hedged.

## ACCOUNTING POLICIES CONTINUED

Where derivative financial instruments are designated into hedging relationships, the Group formally documents the following:

- the risk management objective and strategy for entering the hedge;
- the nature of the risks being hedged and the economic relationship between the hedged item and the hedging instrument; and
- whether the change in cash-flows of the hedged item and hedging instrument are expected to offset each other.

Changes in the fair value of any derivative financial instruments that do not qualify for hedge accounting are recognised immediately in the income statement.

### Fair value hedge

The Group uses derivative financial instruments to convert part of its fixed rate debt to floating rate in order to hedge the risks arising from its external borrowings.

The Group designates these as fair value hedges of interest rate risk. Changes in the hedging instrument are recorded in the income statement, together with any changes in the fair values of the hedged assets or liabilities that are attributable to the hedged risk to the extent that the hedge is effective. Gains or losses relating to any ineffectiveness are immediately recognised in the income statement.

### Cash-flow hedge

Cash-flow hedging is used by the Group to hedge certain exposures to variability in future cash-flows.

The effective portions of changes in the fair values of derivatives that are designated and qualify as cash-flow hedges are recognised in equity. The gain or loss relating to any ineffective portion is recognised immediately in the income statement. Amounts accumulated in the hedge reserve are recycled in the income statement in the periods when the hedged items will affect profit or loss (for example, when the forecast sale that is hedged takes place).

If a forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a liability, the gains and losses previously deferred in the hedge reserve are transferred from the reserve and included in the initial measurement of the cost of the asset or liability. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in the hedge reserve at that time remains in the reserve and is recognised when the forecast transaction is ultimately recognised in the income statement.

When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the income statement.

### Net investment hedge

Hedges of net investments in foreign operations are accounted for similarly to cash-flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income; the gain or loss relating to any ineffective portion is recognised immediately in the income statement. When a foreign operation is disposed of, gains and losses accumulated in equity related to that operation are included in the income statement for that period.

### Fair value of financial assets and liabilities

The fair values of financial assets and financial liabilities are the amounts at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

'IFRS 13: Fair value measurement' requires fair value measurements to be classified according to the following hierarchy:

- level 1 – quoted prices in active markets for identical assets or liabilities;
- level 2 – valuations in which all inputs are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- level 3 – valuations in which one or more inputs that are significant to the resulting value are not based on observable market data.

See note 21 for information on the methods which the Group uses to estimate the fair values of its financial instruments.

### Dividends

Dividends are recognised as a liability in the period in which they are authorised. The interim dividend is recognised when it is paid and the final dividend is recognised when it has been approved by shareholders at the Annual General Meeting.

### New accounting standards effective 2021

The accounting policies adopted in the preparation of these consolidated financial statements are consistent with those followed in the previous financial year, except for the adoption of the following amendments to the accounting standards issued by the International Accounting Standards Board:

### Amendments to IFRS 9, IAS 39 and IFRS 7 - Interest rate benchmark reform (phase 1)

The amendment provides temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by interbank offered rate (IBOR) reform. The reliefs have the effect that IBOR reform should not generally cause hedge accounting to terminate. The expectations are that the cash flows in relation to hedging relationships will not be altered by the reform and the derivative instruments used in hedge accounting will still provide a close approximation to the extent of the managed risk exposures.

### New standards and interpretations not yet adopted

No other new standards, new interpretations or amendments to standards or interpretations have been published which are expected to have a significant impact on the Group's financial statements.

### Parent Company

The ultimate Parent Company of the Group is Smiths Group plc, a company incorporated in England and Wales and listed on the London Stock Exchange.

The accounts of the Parent Company, Smiths Group plc, have been prepared in accordance with the Companies Act 2006 and Financial Reporting Standard 101, "Reduced Disclosure Framework".

The Company accounts are presented in separate financial statements on pages 212 to 219. The principal subsidiaries of the Parent Company are listed in the above accounts.

# NOTES TO THE ACCOUNTS

## 1 Segment information

### Analysis by operating segment

The Group is organised into five divisions: John Crane, Smiths Detection, Flex-Tek, Smiths Interconnect and Smiths Medical. These divisions design, manufacture and support the following products:

- **John Crane** – mechanical seals, seal support systems, power transmission couplings and specialised filtration systems;
- **Smiths Detection** – sensors and systems that detect and identify explosives, narcotics, weapons, chemical agents, biohazards and contraband;
- **Flex-Tek** – engineered components, flexible hosing and rigid tubing that heat and move fluids and gases;
- **Smiths Interconnect** – specialised electronic and radio frequency board-level and waveguide devices, connectors, cables, test sockets and sub-systems used in high-speed, high reliability, secure connectivity applications; and
- **Smiths Medical** – infusion systems, vascular access products, patient airway and temperature management equipment and specialised devices in areas of diagnostic and emergency patient transport.

The position and performance of each division are reported at each Board meeting to the Board of Directors. This information is prepared using the same accounting policies as the consolidated financial information except that the Group uses headline operating profit to monitor the divisional results and operating assets to monitor the divisional position. See note 3 and note 30 for an explanation of which items are excluded from headline measures.

The Smiths Medical business is classified as a discontinued operation and the segmental information of the Smiths Medical division is disclosed in note 28.

Intersegment sales and transfers are charged at arm's length prices.

### Segment trading performance

	Year ended 31 July 2021					
	John Crane £m	Smiths Detection £m	Flex-Tek £m	Smiths Interconnect £m	Corporate costs £m	
					Total £m	
Revenue	865	721	508	312	–	2,406
Divisional headline operating profit	187	99	97	35	–	418
Corporate headline operating costs	–	–	–	–	(46)	(46)
<b>Headline operating profit/(loss)</b>	<b>187</b>	<b>99</b>	<b>97</b>	<b>35</b>	<b>(46)</b>	<b>372</b>
Items excluded from headline measures (note 3)	(3)	(22)	(14)	(1)	(6)	(46)
<b>Operating profit/(loss)</b>	<b>184</b>	<b>77</b>	<b>83</b>	<b>34</b>	<b>(52)</b>	<b>326</b>

	Year ended 31 July 2020					
	John Crane £m	Smiths Detection £m	Flex-Tek £m	Smiths Interconnect £m	Corporate costs £m	
					Total £m	
Revenue	955	806	478	309	–	2,548
Divisional headline operating profit	187	82	83	26	–	378
Corporate headline operating costs	–	–	–	–	(51)	(51)
<b>Headline operating profit/(loss)</b>	<b>187</b>	<b>82</b>	<b>83</b>	<b>26</b>	<b>(51)</b>	<b>327</b>
Items excluded from headline measures (note 3)	(33)	(25)	(31)	(3)	6	(86)
<b>Operating profit/(loss)</b>	<b>154</b>	<b>57</b>	<b>52</b>	<b>23</b>	<b>(45)</b>	<b>241</b>

Operating profit is stated after charging the following items:

	Year ended 31 July 2021					
	John Crane £m	Smiths Detection £m	Flex-Tek £m	Smiths Interconnect £m	Corporate and non-headline £m	
					Total £m	
Depreciation – property, plant and equipment	15	12	6	6	1	40
Depreciation – right of use assets	14	7	4	5	2	32
Amortisation of capitalised development costs	–	7	–	–	–	7
Amortisation of software, patents and intellectual property	3	1	–	2	1	7
Amortisation of acquired intangibles	–	–	–	–	53	53
Share-based payment	3	2	1	1	6	13
Strategic restructuring costs	4	6	–	10	1	21

**NOTES TO THE ACCOUNTS**  
CONTINUED

**1 Segment information continued**  
**Analysis by operating segment continued**

	Year ended 31 July 2020					
	John Crane £m	Smiths Detection £m	Flex-Tek £m	Smiths Interconnect £m	Corporate and non-headline £m	Total £m
Depreciation – property, plant and equipment	15	12	7	6	1	41
Depreciation – right of use assets	15	7	4	5	2	33
Amortisation of capitalised development costs	–	6	–	–	–	6
Amortisation of software, patents and intellectual property	4	–	–	2	1	7
Amortisation of acquired intangibles	–	–	–	–	57	57
Share-based payment	3	2	1	1	3	10
Strategic restructuring costs	14	14	–	2	1	31
Impairment of capitalised development costs	–	12	–	–	–	12
Balance sheet write-downs – trade receivables	4	5	–	3	–	12

The corporate and non-headline column comprises central information technology, human resources and headquarters costs and non-headline expenses (see note 3).

**Segment assets and liabilities**

**Segment assets**

	31 July 2021					
	John Crane £m	Smiths Detection £m	Flex-Tek £m	Smiths Interconnect £m	Corporate and non-headline £m	Total £m
Property, plant, equipment, right of use assets, development projects, other intangibles and investments	152	117	75	44	18	406
Inventory, trade and other receivables	356	417	160	127	10	1,070
<b>Segment assets</b>	<b>508</b>	<b>534</b>	<b>235</b>	<b>171</b>	<b>28</b>	<b>1,476</b>

	31 July 2020					
	John Crane £m	Smiths Detection £m	Flex-Tek £m	Smiths Interconnect £m	Corporate and non-headline £m	Total £m
Property, plant, equipment, development projects, other intangibles and investments	143	125	64	49	26	407
Inventory, trade and other receivables	395	438	144	136	11	1,124
<b>Segment assets</b>	<b>538</b>	<b>563</b>	<b>208</b>	<b>185</b>	<b>37</b>	<b>1,531</b>

Non-headline assets comprise receivables relating to non-headline items, acquisitions and disposals. Further details of the assets held for sale are disclosed in note 28.

**Segment liabilities**

	31 July 2021					
	John Crane £m	Smiths Detection £m	Flex-Tek £m	Smiths Interconnect £m	Corporate and non-headline £m	Total £m
Divisional liabilities	(137)	(276)	(66)	(61)	–	(540)
Corporate and non-headline liabilities	–	–	–	–	(336)	(336)
<b>Segment liabilities</b>	<b>(137)</b>	<b>(276)</b>	<b>(66)</b>	<b>(61)</b>	<b>(336)</b>	<b>(876)</b>

	31 July 2020					
	John Crane £m	Smiths Detection £m	Flex-Tek £m	Smiths Interconnect £m	Corporate and non-headline £m	Total £m
Divisional liabilities	(142)	(288)	(60)	(55)	–	(545)
Corporate and non-headline liabilities	–	–	–	–	(364)	(364)
<b>Segment liabilities</b>	<b>(142)</b>	<b>(288)</b>	<b>(60)</b>	<b>(55)</b>	<b>(364)</b>	<b>(909)</b>

Non-headline liabilities comprise provisions and accruals relating to non-headline items, acquisitions and disposals. Further details of the liabilities held for sale are disclosed in note 28.

## Reconciliation of segment assets and liabilities to statutory assets and liabilities

	Assets			Liabilities
	31 July 2021 £m	31 July 2020 £m	31 July 2021 £m	31 July 2020 £m
<b>Segment assets and liabilities</b>	<b>1,476</b>	1,531	(876)	(909)
Goodwill and acquired intangibles	1,423	1,489	–	–
Derivatives	77	84	(3)	(4)
Current and deferred tax	167	148	(122)	(111)
Retirement benefit assets and obligations	546	516	(128)	(139)
Cash and borrowings	405	366	(1,502)	(1,561)
Assets and liabilities held for sale	1,243	1,279	(283)	(295)
<b>Statutory assets and liabilities</b>	<b>5,337</b>	5,413	(2,914)	(3,019)

## Segment capital expenditure

The capital expenditure on property, plant and equipment, capitalised development and other intangible assets for each division is:

	John Crane £m	Smiths Detection £m	Flex-Tek £m	Smiths Interconnect £m	Corporate and non-headline £m	Total £m
Capital expenditure year ended 31 July 2021	19	23	9	9	2	62
Capital expenditure year ended 31 July 2020	18	29	8	8	3	66

## Segment capital employed

Capital employed is a non-statutory measure of invested resources. It comprises statutory net assets adjusted to add goodwill recognised directly in reserves in respect of subsidiaries acquired before 1 August 1998 of £787m (FY2020: £787m) and eliminate retirement benefit assets and obligations and litigation provisions relating to non-headline items, both net of related tax, and net debt. See note 30 for a reconciliation of net assets to capital employed.

The 12-month rolling average capital employed by division, which Smiths uses to calculate divisional return on capital employed, is:

	31 July 2021				
	John Crane £m	Smiths Detection £m	Flex-Tek £m	Smiths Interconnect £m	Total £m
Average divisional capital employed	937	1,018	449	395	2,799
Average capital employed – business held for sale					1,335
Average corporate capital employed					31
<b>Average total capital employed</b>					<b>4,165</b>
	31 July 2020				
	John Crane £m	Smiths Detection £m	Flex-Tek £m	Smiths Interconnect £m	Total £m
Average divisional capital employed	989	1,144	474	405	3,012
Average capital employed – business held for sale					1,335
Average corporate capital employed					(32)
<b>Average total capital employed</b>					<b>4,315</b>

The Smiths Medical division has been accounted for as a business held for sale. Further details of the segmental assets and liabilities of the Smiths Medical division are disclosed in note 28.

## Analysis of revenue

The revenue for the main product and service lines for each division is:

	Original equipment £m	Aftermarket £m	Total £m
<b>John Crane</b>			
Revenue year ended 31 July 2021	273	592	<b>865</b>
Revenue year ended 31 July 2020	314	641	<b>955</b>
<b>Smiths Detection</b>			
Revenue year ended 31 July 2021	546	175	<b>721</b>
Revenue year ended 31 July 2020	577	229	<b>806</b>
<b>Flex-Tek</b>			
Revenue year ended 31 July 2021	99	409	<b>508</b>
Revenue year ended 31 July 2020	133	345	<b>478</b>

## NOTES TO THE ACCOUNTS CONTINUED

### 1 Segment information continued

Smiths Interconnect	Components, Connectors & Subsystems £m
Revenue year ended 31 July 2021	312
Revenue year ended 31 July 2020	309

Aftermarket sales contributed £1,198m (FY2020: £1,250m) of Group revenue: John Crane aftermarket sales were £592m (FY2020: £641m); Smiths Detection aftermarket sales were £331m (FY2020: £359m); Flex-Tek aftermarket sales were £270m (FY2020: £244m); and Smiths Interconnect aftermarket sales were £5m (FY2020: £6m).

The Group's statutory revenue is analysed as follows:

	Year ended 31 July 2021 £m	Year ended 31 July 2020 Restated* £m
Sale of goods recognised at a point in time	1,723	1,865
Sale of goods recognised over time	94	52
Services recognised over time	589	631
	<b>2,406</b>	<b>2,548</b>

\* Following a review of the Group's revenue disclosures, the comparative period ended 31 July 2020 has been adjusted to reclassify £162m of repairs revenue from 'Sale of goods recognised at a point in time' to 'Services recognised over time'. This reclassification has no impact on total revenue, profit or net assets recorded in the comparative period ended 31 July 2020.

### Analysis by geographical areas

The Group's revenue by destination and non-current operating assets by location are shown below:

	Revenue		Intangible assets, right of use assets and property, plant and equipment	
	Year ended 31 July 2021 £m	Year ended 31 July 2020 £m	31 July 2021 £m	31 July 2020 £m
Americas	1,244	1,263	1,195	1,231
Europe	522	580	512	553
Asia-Pacific	390	460	70	72
Rest of the World	250	245	41	20
	<b>2,406</b>	<b>2,548</b>	<b>1,818</b>	<b>1,876</b>

Revenue by destination attributable to the United Kingdom was £69m (FY2020: £85m). Revenue earned in the United States of America was material, totalling £1,047m (FY2020: £1,068m). Revenue by destination has been selected as the basis for attributing revenue to geographical areas as this was the geographic attribution of revenue used by management to review business performance.

Non-current assets located in the United Kingdom total £110m (FY2020: £88m). Significant non-current assets were held in the United States of America £1,138m (FY2020: £1,177m) and Germany £350m (FY2020: £383m).

### 2 Operating costs

The Group's operating costs for continuing operations are analysed as follows:

	Year ended 31 July 2021			Year ended 31 July 2020		
	Headline £m	Non-headline (note 3) £m	Total £m	Headline £m	Non-headline (note 3) £m	Total £m
Cost of sales - direct materials, labour, production and distribution overheads	1,491	–	1,491	1,598	–	1,598
Selling costs	188	–	188	231	–	231
Administrative expenses	355	46	401	392	86	478
<b>Headline operating costs</b>	<b>2,034</b>	<b>46</b>	<b>2,080</b>	<b>2,221</b>	<b>86</b>	<b>2,307</b>

#### Income statement representation

Following a review of the Group's external and internal reporting requirements, management have decided to present the consolidated income statement in a revised format disclosing operating costs on the face of the income statement instead of cost of sales, sales and distribution costs and administrative expenses separately.

The results in the comparatives for the period ended 31 July 2020 have been represented accordingly. Management consider that the revised income statement presentation provides users of the financial statements with more accessible, reliable and relevant information about the Group's financial performance.

**Operating profit is stated after charging:**

	<b>Year ended 31 July 2021 £m</b>	Year ended 31 July 2020 £m
Research and development expense	76	83
Depreciation of property, plant and equipment	40	41
Depreciation of right of use assets	32	33
Amortisation of intangible assets	67	70
Strategic restructuring programme and write-downs	21	55

Research and development (R&D) cash costs were £94m (FY2020: £119m) comprising £76m (FY2020: £83m) of R&D expensed to the income statement, £8m (FY2020: £16m) of capitalised costs and £10m (FY2020: £20m) of customer funded R&D.

Administrative expenses include £1m (FY2020: £1m) in respect of lease payments for short term and low value leases which were not included within right of use assets and lease liabilities.

**Strategic restructuring programme and write-downs**

The Group has continued to incur restructuring costs for the strategic restructuring programme announced in FY2020. The table below shows the analysis of the costs recognised in continuing operations for the restructuring programme and asset write-downs and the calculation basis for headline operating profit excluding restructuring and write-downs:

	<b>Year ended 31 July 2021 £m</b>	Year ended 31 July 2020 £m
Restructuring costs – severance costs and footprint rationalisation	21	31
Impairment of capitalised development costs	–	12
Balance sheet write-downs – trade receivables	–	12
<b>Total strategic restructuring costs and write-downs</b>	<b>21</b>	<b>55</b>
Operating profit – see note 30 for definition	326	241
Non-headline operating profit items – see note 3	46	86
Strategic restructuring costs and write-downs – see above	21	55
<b>Headline operating profit excluding restructuring and write-downs</b>	<b>393</b>	<b>382</b>

**Auditors' remuneration**

The following fees were paid or are payable to the company's auditors, KPMG LLP and other firms in the KPMG network, for the year ended 31 July 2021.

	<b>Year ended 31 July 2021 £m</b>	Year ended 31 July 2020 £m
Audit services		
Fees payable to the Company's auditors for the audit of the Company's annual financial statements	2.3	2.3
Fees payable to the Company's auditors and its associates for other services:		
– the audit of the Company's subsidiaries	4.2	3.6
	<b>6.5</b>	<b>5.9</b>
All other services	0.9	0.5

Other services comprise audit-related assurance services £0.4m (FY2020: £0.3m) and fees for reporting accountant services in connection with a class 1 disposal £0.5m (FY2020: £0.2m). Total fees for non audit services comprise 13% (FY2020: 9%) of audit fees. Audit-related assurance services include the review of the Interim Report.

In the current year, the Group has additionally agreed £1.6m of additional fees with the Group auditors relating to the audit of the prior year financial statements.

### 3 Non-statutory profit measures

#### Headline profit measures

The Group has identified and defined a 'headline' measure of performance which is not impacted by material non-recurring items or items considered non-operational/trading in nature. This non-GAAP measure of profit is not intended to be a substitute for any IFRS measures of performance, but is a key measure used by management to understand and manage performance. See the disclosures on presentation of results in accounting policies for an explanation of the adjustments. The items excluded from 'headline' are referred to as 'non-headline' items.

#### Non-headline operating profit items

The non-headline items included in statutory operating profit for continuing operations were as follows:

	Notes	Year ended 31 July 2021 £m	Year ended 31 July 2020 £m
<b>Post-acquisition integration costs and fair value adjustment unwind</b>			
Integration programme costs		(1)	(4)
Unwind of acquisition balance sheet fair value uplift		(1)	-
<b>Acquisition and disposal related transaction costs and provision releases</b>			
Business acquisition/disposal costs		(1)	(3)
<b>Legacy pension scheme arrangements</b>			
Guaranteed Minimum Pension (GMP) equalisation	8	(6)	-
Settlement gain on retirement benefit schemes	8	-	7
<b>Non-headline litigation provision movements</b>			
Movement in provision held against Titeflex Corporation subrogation claims	23	13	(1)
Provision for John Crane, Inc. asbestos litigation	23	(6)	(31)
Cost recovery for John Crane, Inc. asbestos litigation		9	3
<b>Other items</b>			
Amortisation of acquired intangible assets	10	(53)	(57)
<b>Non-headline items in operating profit – continuing operations</b>			
		<b>(46)</b>	<b>(86)</b>

#### Post-acquisition integration costs and fair value adjustment unwind

The £1m (FY2020: £4m) of integration programme costs principally related to defined projects for the integration of United Flexible into the existing Flex-Tek business. Integration programme costs included the direct costs of organisational change, site rationalisation and entity closure costs. The United Flexible integration programme concluded in the current year. Integration costs were recognised as non-headline items because they were considered material and bear no relation to the ongoing performance of the acquired businesses.

The impact of unwinding the acquisition balance sheet fair value adjustments required by IFRS 3 'Business combinations' was recognised as non-headline as the charge did not relate to trading activity. The £1m (FY2020: £nil) charge was due to the unwind of fair value uplifts on the acquisition of Royal Metal Products.

#### Acquisition and disposal related transaction costs and provision releases

The £1m of business acquisition/disposal costs (FY2020: £3m) represented incremental transaction costs primarily on the acquisition of Royal Metal Products. These costs did not include the cost of employees working on transactions and were reported as non-headline because they were dependent on the level of acquisition and disposal activity in the year. In the prior year these costs represented incremental transaction costs on the acquisition of Reflex Photonics and additional payments due on the acquisition of United Flexible following COVID-19 related changes to the US tax code.

#### Legacy pension scheme arrangements

In the current year past service costs of £6m (FY2020: £nil) were recognised following a further ruling from the UK High Court on GMP equalisation. The prior period settlement gain of £7m was principally due to changes to the Group's US post-retirement healthcare plans as a result of the US Patient Protection and Affordable Care Act. These items were reported as non-headline as they were non-recurring and related to legacy pension liabilities.

#### Non-headline litigation provision movements

The following litigation costs and recoveries have been treated as non-headline items because the provisions were treated as non-headline when originally recognised and the subrogation claims and litigation relate to products that the Group no longer sells in these markets:

- The £13m credit (FY2020: £1m charge) recognised by Titeflex Corporation in respect of changes to the estimated cost of future claims was principally due to a reduction in the estimate of the number of future claims and a movement in the discount rate following an increase in US treasury bond yields. See note 22 for further details; and
- The £6m charge (FY2020: £31m charge) recognised for John Crane, Inc. asbestos litigation provision was principally due to an increased provision for legal defence costs, partially offset by discount rate movements following an increase in US treasury bond yields. The costs recovered via insurer settlements in the current year were £9m (FY2020: £3m). See note 22 for further details.

#### Other items

Acquired intangible asset amortisation costs of £53m (FY2020: £57m) were recognised in the current year. This was considered to be a non-headline item on the basis that these charges resulted from acquisition accounting and were non-operational in nature.

### Non-headline finance costs items

The non-headline items included in finance costs for continuing operations were as follows:

	Notes	Year ended 31 July 2021 £m	Year ended 31 July 2020 £m
Unwind of discount on provisions	23	(2)	(5)
Other finance income – retirement benefits	8	6	7
Foreign exchange loss on intercompany loan with discontinued operations		(50)	(62)
Other financing gains		–	1
<b>Non-headline items in finance costs – continuing operations</b>		<b>(46)</b>	<b>(59)</b>
<b>Continuing operations – non-headline loss before taxation</b>		<b>(92)</b>	<b>(145)</b>

The financing elements of non-headline legacy liabilities, including the £2m (FY2020: £5m) unwind of discount on provisions, were excluded from headline finance costs because these provisions were originally recognised as non-headline and this treatment has been maintained for ongoing costs and credits.

Other finance income comprises £6m (FY2020: £7m) of financing credits relating to retirement benefits. These were excluded from headline finance costs because the ongoing costs and credits are a legacy of previous employee pension arrangements.

Foreign exchange gains or losses on intercompany financing between Smiths Medical and the continuing group were recognised on the face of the income statement as a non-headline item due to the classification of the Smiths Medical division as a discontinued operation. The £50m foreign exchange loss in continuing operations (FY2020: £62m) matches the foreign exchange gain in discontinued operations. This was excluded from headline net finance costs as these fair value movements were non-operational in nature and were purely a consequence of the presentational requirements for discontinued operations.

Other financing gains in the current year was £nil (FY2020: £1m); note 4 provides a further breakdown of this balance. Other financing gains represent fair value movements on financial instruments, foreign exchange movements on borrowings and other financing activities which the Group excluded from headline net finance costs. These fair value movements are excluded from headline net finance costs when the following requirements are met:

- Fair value gains and losses on the interest element of derivative financial instruments hedging the Group's net debt exposures are excluded from headline as they will either reverse over time or be matched in future periods by interest charges.
- Fair value gains and losses on the currency element of derivative financial instruments hedging the Group's net debt and exposures, and exchange gains and losses on borrowings are excluded as the relevant foreign exchange gains and losses on the commercially hedged items are recognised as a separate component of other comprehensive income in accordance with the Group's foreign currencies accounting policy.

### Non-headline taxation items

The non-headline items included in taxation for continuing operations were as follows:

	Notes	Year ended 31 July 2021 £m	Year ended 31 July 2020 £m
Tax on non-headline loss	6	9	15
US deferred tax asset derecognition	6	–	(5)
UK deferred tax asset re-recognition	6	4	3
<b>Non-headline items in taxation – continuing operations</b>		<b>13</b>	<b>13</b>
<b>Continuing operations – non-headline loss for the year</b>		<b>(79)</b>	<b>(132)</b>

#### US deferred tax asset derecognition

In FY2020 £5m of tax losses were derecognised following changes in US tax legislation which affected the Group's ability to utilise the losses. The losses equated to non-headline amortisation of intangibles and their derecognition was therefore treated as non-headline. No further derecognition adjustments were made in FY2021.

#### UK deferred tax asset re-recognition

In FY2019 £36m of deferred tax was derecognised following the decision to separate Smiths Medical which reduces the Group's profitability in the UK. In FY2021 £4m (FY2020: £3m) of deferred tax was re-recognised due to movements in UK pension schemes and deferred tax thereon, including the change in future UK tax rate (from 19% to 25%) applied thereon. These movements were reported as non-headline because the prior year charge was reported as non-headline. The £4m was offset by a £6m deferred tax charge in equity.

## NOTES TO THE ACCOUNTS CONTINUED

### 3 Non-statutory profit measures continued

#### Non-headline items for discontinued operations

The non-headline items for discontinued operations were as follows:

	Notes	Year ended 31 July 2021 £m	Year ended 31 July 2020 £m
<b>Acquisition and disposal related transaction costs and provision releases</b>			
Medical separation costs		(18)	(23)
<b>Other items</b>			
Impairment of capitalised development costs and related assets		(61)	-
<b>Non-headline finance costs items</b>			
Foreign exchange gain on intercompany loan with parent		50	62
<b>Non-headline taxation items</b>			
Tax on non-headline loss	28	23	22
<b>Non-headline items in profit from discontinued operations</b>		(6)	61
<b>Profit for the year – non-headline items for continuing and discontinued operations</b>		(85)	(71)

Medical separation costs amounted to £18m (FY2020: £23m); this represents the incremental costs incurred by the Group to demerge/sell the Smiths Medical business. These costs have been reported as non-headline as they were both material and non-recurring.

The intangible asset impairment assessments performed for FY2021 have identified a non-cash impairment charge of £61m (FY2020: £nil) for capitalised development costs and related programme assets; see note 28 for further details. The quantum of this impairment charge was material; therefore it has been separately disclosed as a non-headline item.

The £50m foreign exchange gain on intercompany loan with parent (FY2020: £62m) matches the foreign exchange loss in continuing operations. This was excluded from headline net finance costs as these fair value movements were non-operational in nature and were purely a consequence of the presentational requirements for discontinued operations.

### 4 Net finance costs

	Notes	Year ended 31 July 2021 £m	Year ended 31 July 2020 £m
<b>Interest receivable</b>		9	6
Interest payable:			
– bank loans and overdrafts, including associated fees		(7)	(8)
– other loans		(39)	(43)
– interest on leases		(3)	(4)
<b>Interest payable</b>		(49)	(55)
<b>Headline net finance costs</b>		(40)	(49)
Other financing gains/(losses):			
– valuation movements on fair value hedged debt		22	10
– valuation movements on fair value derivatives		(25)	(4)
– foreign exchange and ineffectiveness on net investment hedges		3	(1)
– retranslation of foreign currency bank balances		(3)	(3)
– other items including counterparty credit risk adjustments and non-hedge accounted derivatives		3	(1)
<b>Other financing gains</b>	3	–	1
Foreign exchange gain on intercompany loan with discontinued operations	3	(50)	(62)
Unwind of discount on provisions	3	(2)	(5)
Net interest income on retirement benefit obligations	8	6	7
<b>Non-headline finance cost items</b>		(46)	(59)
<b>Net finance costs</b>		(86)	(108)

## 5 Earnings per share

Basic earnings per share are calculated by dividing the profit for the year attributable to equity shareholders of the Company by the average number of ordinary shares in issue during the year.

	Year ended 31 July 2021 £m	Year ended 31 July 2020 £m
Profit attributable to equity shareholders for the year:		
- continuing	156	65
- discontinued	128	200
Total	284	265
Average number of shares in issue during the year (note 24)	396,350,586	396,193,310
Statutory earnings per share total – basic	71.7p	66.9p
Statutory earnings per share total – diluted	71.3p	66.4p
Statutory earnings per share continuing operations – basic	39.4p	16.4p
Statutory earnings per share continuing operations – diluted	39.1p	16.3p

Diluted earnings per share are calculated by dividing the profit attributable to ordinary shareholders by 398,576,502 (FY2020: 398,814,030) ordinary shares, being the average number of ordinary shares in issue during the year adjusted by the dilutive effect of employee share schemes. Zero options (FY2020: zero) were excluded from this calculation because their effect was anti-dilutive.

A reconciliation of statutory and headline earnings per share is as follows:

	Year ended 31 July 2021			Year ended 31 July 2020		
	£m	Basic EPS (p)	Diluted EPS (p)	£m	Basic EPS (p)	Diluted EPS (p)
Total profit attributable to equity shareholders of the Parent Company	284	71.7	71.3	265	66.9	66.4
Exclude: Non-headline items (note 3)	85			71		
Headline earnings per share	369	93.1	92.6	336	84.8	84.2
Profit from continuing operations attributable to equity shareholders of the Parent Company	156	39.4	39.1	65	16.4	16.3
Exclude: Non-headline items (note 3)	79			132		
Headline earnings per share – continuing operations	235	59.3	59.0	197	49.7	49.4

## 6 Taxation

This note only provides information about corporate income taxes under IFRS. Smiths companies operate in over 50 countries across the world. They pay and collect many different taxes in addition to corporate income taxes including: payroll taxes; value added and sales taxes; property taxes; product-specific taxes; and environmental taxes. The costs associated with these other taxes are included in profit before tax.

	Year ended 31 July 2021 £m	Year ended 31 July 2020 £m
The taxation charge in the consolidated income statement for the year comprises:		
<b>Continuing operations</b>		
- current income tax charge	71	77
- current tax adjustments in respect of prior periods	7	2
<b>Current taxation</b>	<b>78</b>	<b>79</b>
Deferred taxation	5	(13)
<b>Total taxation expense – continuing operations</b>	<b>83</b>	<b>66</b>
<b>Discontinued operations</b>		
- current income tax charge	17	11
- deferred taxation	2	8
<b>Total taxation expense – discontinued operations</b>	<b>19</b>	<b>19</b>
<b>Total taxation expense in the consolidated income statement</b>	<b>102</b>	<b>85</b>

	Year ended 31 July 2021 £m	Year ended 31 July 2020 £m
<b>Tax on items charged/(credited) to equity</b>		
Deferred tax:		
- retirement benefit schemes	6	2
- foreign exchange	(5)	(3)
- share-based payment	(1)	1
	-	-

Of the net £6m (FY2020: £2m) charge to equity for retirement benefits, a £6m (FY2020: £3m) charge related to UK retirement schemes.

## NOTES TO THE ACCOUNTS CONTINUED

### 6 Taxation continued

#### Current taxation liabilities

	Current tax £m
<b>At 31 July 2019</b>	<b>(51)</b>
Charge to income statement	(79)
Business acquired (note 27)	(3)
Tax paid	95
<b>At 31 July 2020</b>	<b>(38)</b>
Current tax receivable	46
Current tax payable within one year	(79)
Corporation tax payable after more than one year	(5)
<b>At 31 July 2020</b>	<b>(38)</b>
Foreign exchange gain	1
Charge to income statement	(78)
Tax paid	96
<b>At 31 July 2021</b>	<b>(19)</b>
Current tax receivable	75
Current tax payable within one year	(89)
Corporation tax payable after more than one year	(5)
<b>At 31 July 2021</b>	<b>(19)</b>

Taxation liabilities included provisions of £34m (FY2020: £29m), the majority of which related to the risk of challenge to the geographic allocation of profits by tax authorities.

In addition to the risks provided for, the Group faces a variety of other tax risks, which result from operating in a complex global environment, including the ongoing reform of both international and domestic tax rules, new and ongoing tax audits in the Group's larger markets and the challenge to fulfil ongoing tax compliance filing and transfer pricing obligations given the scale and diversity of the Group's global operations.

The Group anticipates that a number of tax audits are likely to conclude in the next 12 to 24 months. Due to the uncertainty associated with such tax items, it is possible that the conclusion of open tax matters may result in a final outcome that varies significantly from the amounts noted above.

#### Reconciliation of the tax charge

The headline tax charge for the year of £96m (FY2020: £79m) represented an effective rate of 28.9% (FY2020: 28.3%). The headline effective tax rate for the Total Group including discontinued operations was 27.1% (FY2020: 26.2%). The tax charge on the profit for the year for continuing operations was different from the standard rate of corporation tax in the UK of 19.0% (FY2020: 19.0%). The difference is reconciled as follows:

	Year ended 31 July 2021 £m	Year ended 31 July 2020 £m
<b>Profit before taxation</b>	<b>240</b>	<b>133</b>
Notional taxation expense at UK corporate rate of 19.0% (FY2020: 19.0%)	46	25
Different tax rates on non-UK profits and losses	16	10
Non-deductible expenses and other charges	30	16
Tax credits and non-taxable income	(8)	7
Non-headline re-recognition of UK deferred tax asset	(4)	(3)
Other adjustments to unrecognised deferred tax	(4)	(6)
Non-headline derecognition of US deferred tax asset	–	5
Tax on Smiths Medical consolidation adjustments	8	11
Prior year true-up	(1)	1
Tax on continuing operations	83	66
Tax on discontinued operations	19	19
<b>Total taxation expense in the consolidated income statement</b>	<b>102</b>	<b>85</b>
Comprising:		
Taxation on headline profit	96	79
Non-headline taxation items:		
– Tax on non-headline loss	(9)	(15)
– Re-recognition of UK deferred tax asset	(4)	(3)
– Derecognition of US deferred tax asset	–	5
Taxation on non-headline items	(13)	(13)
Taxation on discontinued operations	19	19
<b>Total taxation expense in the consolidated income statement</b>	<b>102</b>	<b>85</b>

The head office of Smiths Group is domiciled in the UK; so the tax charge has been reconciled to UK tax rates.

## Deferred taxation assets/(liabilities)

	Property, plant, equipment and intangible assets £m	Employment benefits £m	Losses carried forward £m	Provisions £m	Other £m	Total £m
<b>At 31 July 2019</b>	<b>(84)</b>	<b>(48)</b>	<b>106</b>	<b>91</b>	<b>5</b>	<b>70</b>
Charge to income statement – continuing operations	6	(12)	21	–	(2)	13
Credit to equity	–	(3)	3	–	–	–
Foreign exchange rate movements	4	(3)	(2)	(5)	(2)	(8)
<b>At 31 July 2020</b>	<b>(74)</b>	<b>(66)</b>	<b>128</b>	<b>86</b>	<b>1</b>	<b>75</b>
Deferred tax assets	(5)	(75)	106	63	13	102
Deferred tax liabilities	(69)	9	22	23	(12)	(27)
<b>At 31 July 2020</b>	<b>(74)</b>	<b>(66)</b>	<b>128</b>	<b>86</b>	<b>1</b>	<b>75</b>
Reallocations	11	(1)	(14)	2	2	–
Charge to income statement – continuing operations	4	(31)	27	(5)	–	(5)
Credit to equity	–	(6)	5	–	–	(1)
Foreign exchange rate movements	3	(1)	(2)	(5)	–	(5)
<b>At 31 July 2021</b>	<b>(56)</b>	<b>(105)</b>	<b>144</b>	<b>78</b>	<b>3</b>	<b>64</b>
Deferred tax assets	2	(113)	126	62	15	92
Deferred tax liabilities	(58)	8	18	16	(12)	(28)
<b>At 31 July 2021</b>	<b>(56)</b>	<b>(105)</b>	<b>144</b>	<b>78</b>	<b>3</b>	<b>64</b>

Businesses held for sale had net deferred tax liabilities of £39m at 31 July 2021 (FY2020: £39m).

Of the amounts included within "Other" in the table above as at 31 July 2021, liabilities relating to tax on unremitted earnings were £14m (FY2020: £11m). The aggregate amount of temporary differences associated with investments in subsidiaries for which deferred tax liabilities have not been recognised was immaterial.

The deferred tax asset relating to losses has been recognised on the basis of strong evidence of future taxable profits against which the unutilised tax losses can be relieved or because it is probable that they will be recovered against the reversal of deferred tax liabilities.

Deferred tax relating to provisions includes £54m (FY2020: £59m) relating to John Crane Inc. litigation provision, and £11m (FY2020: £16m) relating to Titeflex Corporation litigation provision. See note 23 for additional information on provisions.

Included in other deferred tax balances above was a deferred tax asset related to inventory of Enil (FY2020: £5m) and deferred revenue of Enil (FY2020: £1m).

## Unrecognised Deferred Tax

The Group, including Smiths Medical, had unrecognised deferred tax relating to losses amounting to £107m (FY2020: £94m).

The expiry date of operating losses carried forward is dependent upon the law of the various territories in which the losses arise. A summary of expiry dates for the unrecognised deferred tax on losses is set out below:

	2021 £m	Expiry of losses	2020 £m	Expiry of losses
Restricted losses – Asia	30	2022-2027	27	2021-2026
Restricted losses – Americas	–	–	1	2021-2022
Unrestricted losses – operating losses	77	No expiry	66	No expiry
<b>Total unrecognised deferred tax on losses</b>	<b>107</b>		<b>94</b>	

## Ranked Investment Income Group Litigation Order (FII GLO)

The Group joined the FII GLO litigation against HM Revenue & Customs (HMRC) in 2009. The court actions were first filed in 2003 and the Group joined the GLO shortly before the then understood latest date by which it was "in time" to make a claim. Since then there have been about 12 years of litigation in both the EU and English Courts. In November 2020 the Supreme Court, in allowing HMRC's appeal, decided that the time limit for claims should be determined as 6 years from when the claimants (including the Group) knew, or by undertaking reasonable diligence could have known, that they had a valid claim. The case has now returned to the High Court to determine the actual date on the facts of the matter. This is expected to add at least three years to the litigation.

In the light of this decision, management's view of the likelihood of a successful outcome in the Courts has changed. So rather than incurring the costs and management time in continuing with litigation, with a worst case involving an outflow of cash of around £2m, the Group has chosen to settle with HMRC. The settlement amount of £1m was paid to the Group on 11 February 2021. This amount is in addition to £2m which the Group received in FY2018. The Group has now withdrawn from the FII GLO.

## EU Commission Investigation re Claims for Partial (75%) Exemption for Profits from qualifying loan relationships

At 31 July 2020, the Group disclosed a contingent liability of £15m, in relation to the EU Commission decision that the UK's tax rules constituted illegal State Aid. In June 2019 the UK government appealed to the General Court of the European Union against the decision. Many UK based international companies also appealed the decision, including Smiths in October 2019. Nonetheless, the UK Government is required to commence recovery from beneficiaries of the alleged aid in line with the European Commission's decision.

The recovery process by the UK tax authorities is underway and HMRC has begun issuing charging notices.

In May 2021, Smiths received confirmation from HMRC that Smiths is not viewed as a beneficiary of State Aid and, subject to any new information coming to light, the matter is regarded as closed. On this basis there is no longer a contingent liability and Smiths is considering whether to withdraw its appeal to the European Court made in October 2019.

## NOTES TO THE ACCOUNTS CONTINUED

### 7 Employees

	Year ended 31 July 2021			Year ended 31 July 2020		
	Continuing operations £m	Discontinued operations £m	Total £m	Continuing operations £m	Discontinued operations £m	Total £m
<b>Staff costs during the period</b>						
Wages and salaries	627	234	861	695	257	952
Social security	85	22	107	84	25	109
Share-based payment (note 9)	13	1	14	10	1	11
Pension costs (including defined contribution schemes) (note 8)	26	11	37	28	12	40
	<b>751</b>	<b>268</b>	<b>1,019</b>	<b>817</b>	<b>295</b>	<b>1,112</b>

The average number of persons employed, rounded to the nearest 50 employees, was:

	Year ended 31 July 2021	Year ended 31 July 2020
John Crane	5,950	6,450
Smiths Detection	3,000	3,000
Flex-Tek	3,000	2,850
Smiths Interconnect	2,300	2,450
Corporate (including central/shared IT services)	300	300
<b>Continuing operations</b>	<b>14,550</b>	<b>15,050</b>
Discontinued operations – Smiths Medical	7,500	8,050
<b>Total</b>	<b>22,050</b>	<b>23,100</b>

### Key management

The key management of the Group comprises Smiths Group plc Board Directors and Executive Committee members. Their aggregate compensation is shown below. Details of Directors' remuneration are contained in the report of the Remuneration Committee on pages 106 to 129.

	Year ended 31 July 2021	Year ended 31 July 2020
<b>Key management compensation</b>		
Salaries and short-term employee benefits	12.8	10.3
Cost of retirement benefits	0.9	0.8
Cost of share-based incentive plans	3.9	3.0

No member of key management had any material interest during the period in a contract of significance (other than a service contract or a qualifying third-party indemnity provision) with the Company or any of its subsidiaries.

Options and awards held at the end of the period by key management in respect of the Company's share-based incentive plans were:

	Year ended 31 July 2021		Year ended 31 July 2020	
	Number of instruments '000	Weighted average exercise price	Number of instruments '000	Weighted average exercise price
SEP	169		270	
LTIP	1,645		1,494	
Restricted stock	82		96	
SAYE	11	£10.11	13	£10.58

### Related party transactions

The only related party transactions in FY2021 were key management compensation (FY2020: key management compensation).

## 8 Retirement benefits

Smiths provides retirement benefits to employees in a number of countries. This includes defined benefit and defined contribution plans and, mainly in the United Kingdom (UK) and United States of America (US), post-retirement healthcare.

### Defined contribution plans

The Group operates defined contribution plans across many countries. In the UK a defined contribution plan has been offered since the closure of the UK defined benefit pension plans. In the US a 401(k) defined contribution plan operates. The total expense recognised in the consolidated income statement in respect of all these plans was £36m (FY2020: £38m).

### Defined benefit and post-retirement healthcare plans

The principal defined benefit pension plans are in the UK and in the US and these have been closed so that no future benefits are accrued.

For all schemes, pension costs are assessed in accordance with the advice of independent, professionally qualified actuaries.

These valuations have been updated by independent qualified actuaries in order to assess the liabilities of the schemes as at 31 July 2021.

Contributions to the schemes are made on the advice of the actuaries, in accordance with local funding requirements.

**The changes in the present value of the net pension asset in the period were:**

	<b>Year ended 31 July 2021 £m</b>	Year ended 31 July 2020 £m
At beginning of period	372	311
Foreign exchange rate movements	5	2
Current service cost	(2)	(3)
Scheme administration costs	(5)	(5)
Past service cost, curtailments, settlements	(6)	8
Finance income – retirement benefits	6	7
Contributions by employer	30	33
Actuarial gain	13	19
<b>Net retirement benefit asset</b>	<b>413</b>	<b>372</b>

The £413m net retirement benefit asset includes £5m (FY2020: £5m) of pension obligations disclosed as liabilities held for sale.

### UK pension schemes

Smiths' funded UK pension schemes are subject to a statutory funding objective, as set out in UK pension legislation. Scheme trustees need to obtain regular actuarial valuations to assess the scheme against this funding objective. The trustees and sponsoring companies need to agree funding plans to improve the position of a scheme when it is below the acceptable funding level.

The UK Pensions Regulator has extensive powers to protect the benefits of members, promote good administration and reduce the risk of situations arising which may require compensation to be paid from the Pension Protection Fund. These include imposing a schedule of contributions or the calculation of the technical provisions, where a trustee and company fail to agree appropriate calculations.

### Smiths Industries Pension Scheme ('SIPS')

This scheme was closed to future accrual effective 1 November 2009. SIPS provides index-linked pension benefits based on final earnings at date of closure. SIPS is governed by a corporate trustee (S.I. Pension Trustees Limited, a wholly owned subsidiary of Smiths Group plc). The board of trustee directors currently comprises four company-nominated trustees and four member-nominated trustees, with an independent chairman selected by Smiths Group plc. Trustee Directors are responsible for the management, administration, funding and investment strategy of the scheme.

The most recent actuarial valuation of this scheme has been performed using the Projected Unit Method as at 31 March 2020. The valuation showed a surplus of £34m on the Technical Provisions funding basis at the valuation date and the funding position has improved since then. As part of the valuation agreement, the contributions of £1m per month previously payable to SIPS are stopping after October 2021. The Group's current expectation is that these contributions will not recommence (although the agreement with the Trustee means that there are circumstances relating to the Scheme's funding level in which they could).

The duration of SIPS liabilities is around 23 years (FY2020: 23 years) for active deferred members, 22 years (FY2020: 22 years) for deferred members and 12 years (FY2020: 12 years) for pensioners and dependants.

In SIPS, an issue has been raised relating to the method used in the early 1990s to equalise retirement ages between men and women in one of its smaller benefits sections. Legal investigation is ongoing to determine if equalisation was undertaken correctly. Should this not be the case, the current high level estimate of the impact of this issue is that it would increase liabilities by an amount between £nil and £20m. Any additional liability is expected to be accounted for at the point the legal investigations are completed and there is clarity on the legally effective date that equalisation of retirement ages was implemented by the scheme.

In October 2020 SIPS purchased a buy-in annuity policy with Canada Life for a premium of approximately £146m. An actuarial loss of £17m was recognised in the period as a result of this buy-in agreement.

## 8 Retirement benefits continued

### TI Group Pension Scheme ('TIGPS')

This scheme was closed to future accrual effective 1 November 2009. TIGPS provides index-linked pension benefits based on final earnings at the date of closure. TIGPS is governed by a corporate trustee (TI Pension Trustee Limited, an independent company). The board of trustee directors comprises four company-nominated trustees and four member-nominated trustees, with an independent trustee director selected by the Trustee. The Trustee is responsible for the management, administration, funding and investment strategy of the scheme.

The most recent actuarial valuation of this scheme has been performed using the Projected Unit Method as at 5 April 2020. The valuation showed a surplus of £22m on the Technical Provisions funding basis at the valuation date and the funding position has improved since then. As part of the valuation agreement, the contributions of £1m per month payable to TIGPS stopped with effect from April 2021. The Group's current expectation is that these contributions will not recommence (although the agreement with the Trustee means that there are circumstances relating to the Scheme's funding level in which they could). Under the governing documentation of TIGPS, any future surplus would be returnable to Smiths Group plc by refund, assuming gradual settlement of the liabilities over the lifetime of the scheme.

The duration of the TIGPS liabilities is around 23 years (FY2020: 25 years) for active deferred members, 21 years (FY2020: 22 years) for deferred members and 11 years (FY2020: 11 years) for pensioners and dependants.

In September 2020 TIGPS purchased a buy-in annuity policy with Aviva for a premium of approximately £141m. An actuarial loss of £23m was recognised in the period as a result of this buy-in agreement.

### US pension plans

The valuations of the principal US pension and post-retirement healthcare plans were performed using census data at 1 January 2018.

The pension plans were closed with effect from 30 April 2009 and benefits were calculated as at that date and are not revalued.

Governance of the US pension plans is overseen by a Settlor Committee appointed by Smiths Group Services Corp, a wholly-owned subsidiary of the Group.

The duration of the liabilities for the largest US plan is around 18 years (FY2020: 19 years) for active deferred members, 18 years (FY2020: 19 years) for deferred members and 12 years (FY2020: 12 years) for pensioners and dependants.

### Risk management

The pensions schemes are exposed to risks that:

- investment returns are below expectations, leaving the schemes with insufficient assets in future to pay all their pension obligations;
- members and dependants live longer than expected, increasing the value of the pensions which the schemes have to pay;
- inflation rates are higher than expected, causing amounts payable under index-linked pensions to be higher than expected; and
- increased contributions are required to meet funding targets if lower interest rates increase the current value of liabilities.

These risks are managed separately for each pension scheme. However the Group has adopted a common approach of closing defined benefit schemes to cap members' entitlements and of supporting trustees in adopting investment strategies which aim to hedge the value of assets against changes in the value of liabilities caused by changes in interest and inflation rates.

Across SIPS and TIGPS, approximately 71% of pensioner liabilities are now de-risked through 10 bulk annuities.

### TIGPS

TIGPS has covered roughly 55% of liabilities with matching annuities, eliminating investment return, longevity, inflation and funding risks in respect of those liabilities. It has also adopted a Liability Driven Investment strategy to hedge interest and inflation risks of the scheme's uninsured liabilities by investment in gilts together with the use of gilt repurchase arrangements. The strategy also takes into account the scheme's corporate bond investments.

### SIPS

SIPS has covered roughly 30% of liabilities with matching annuities, eliminating investment return, longevity, inflation and funding risks in respect of those liabilities. It has also adopted a Liability Driven Investment (LDI) strategy to hedge interest and inflation risks of the scheme's uninsured liabilities by investment in gilts together with the use of gilt repurchase arrangements, total return swaps, inflation swaps and interest rate swaps. The strategy also takes into account the scheme's corporate bond investments.

**The principal assumptions used in updating the valuations are set out below:**

	2021 UK	2021 US	2021 Other	2020 UK	2020 US	2020 Other
Rate of increase in salaries	n/a	n/a	2.5%	n/a	n/a	3.7%
Rate of increase for active deferred members	4.2%	n/a	n/a	3.8%	n/a	n/a
Rate of increase in pensions in payment	3.3%	n/a	1.5%	2.9%	n/a	3.2%
Rate of increase in deferred pensions	3.3%	n/a	n/a	2.9%	n/a	n/a
Discount rate	1.7%	2.7%	0.7%	1.4%	2.4%	3.0%
Inflation rate	3.3%	n/a	1.5%	2.9%	n/a	2.9%
Healthcare cost increases	4.4%	n/a	n/a	4.4%	n/a	n/a

The assumptions used in calculating the costs and obligations of the Group's defined benefit pension plans are set by the Group after consultation with independent professionally qualified actuaries. The assumptions used are estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily occur in practice. For countries outside the UK and USA, assumptions are disclosed as a weighted average.

### Inflation rate assumptions

The RPI inflation assumption of 3.3% has been derived using the Aon UK Government RPI Curve with an Inflation Risk Premium (IRP) of 0.2% p.a.. The Government's response to its consultation on RPI reform was published on 25 November 2020, and strongly implied that RPI will become aligned with CPI-H from 2030. No specific allowance (beyond anything already priced into markets) has been factored into the RPI assumptions for potential changes. The assumption for the long-term gap between RPI and CPI has been reduced by 0.1% p.a. (from 0.7% p.a. last year to 0.6% p.a.) to reflect the Group's view on the market pricing of this gap over the lifetime of the UK schemes' liabilities, i.e. 1.0% p.a. pre-2030 and 0.1% p.a. post-2030.

### Discount rate assumptions

The UK schemes use a discount rate based on the annualised yield on the Aon GBP Select AA Curve, using the expected cash-flows from a notional scheme with obligations of the same duration as that of the UK schemes. The US Plan uses a discount rate based on the annualised yield derived from Willis Towers Watson's RATE:Link (10th – 90th) model using the Plan's expected cash-flows.

### Mortality assumptions

The mortality assumptions used in the principal UK schemes are based on the "SAPS S3" birth year tables with relevant scaling factors based on the recent experience of the schemes. The assumption allows for future improvements in life expectancy in line with the 2020 CMI projections, with a smoothing factor of 7.0 and 'A' parameter of 0.5%/0.25% (SIPS/TIGPS) and blended to a long-term rate of 1.25%. The mortality assumptions used in the principal US schemes are based on generational mortality using Pri-2012 sex-distinct, employee/non-disabled annuitant table, with a 2012 base year, projected forward generationally with the MP-2020 mortality scale. While COVID-19 has had an impact on mortality in FY2021, the impact on future mortality trends is currently unknown and consequently no adjustment has been made to mortality assumptions in this regard.

Expected further years of life	UK schemes				US schemes			
	Male 31 July 2021	Female 31 July 2021	Male 31 July 2020	Female 31 July 2020	Male 31 July 2021	Female 31 July 2021	Male 31 July 2020	Female 31 July 2020
Member who retires next year at age 65	22	24	22	23	20	22	21	22
Member, currently 45, when they retire in 20 years' time	23	25	23	24	22	24	22	24

### Sensitivity

Sensitivities in respect of the key assumptions used to measure the principal pension schemes as at 31 July 2021 are set out below. These sensitivities show the hypothetical impact of a change in each of the listed assumptions in isolation, with the exception of the sensitivity to inflation which incorporates the impact of certain correlating assumptions. In practice, such assumptions rarely change in isolation.

	Profit before tax for year ended 31 July 2021 £m	Increase/(decrease) in scheme assets 31 July 2021 £m	(Increase)/decrease in scheme liabilities 31 July 2021 £m	Profit before tax for year ended 31 July 2020 £m	Increase/(decrease) in scheme assets 31 July 2020 £m	(Increase)/decrease in scheme liabilities 31 July 2020 £m
Rate of mortality – 1 year increase in life expectancy	(2)	99	(209)	(2)	85	(216)
Rate of mortality – 1 year decrease in life expectancy	2	(97)	206	2	(84)	212
Rate of inflation – 0.25% increase	(1)	30	(98)	(1)	26	(107)
Discount rate – 0.25% increase	3	(38)	146	4	(33)	156
Market value of scheme assets – 2.5% increase	1	73	–	1	81	–

The effect on profit before tax reflects the impact of current service cost and net interest cost. The value of the scheme assets is affected by changes in mortality rates, inflation and discounting because they affect the carrying value of the insurance assets.

### Asset valuation

The pension schemes hold assets in a variety of pooled funds, in which the underlying assets typically are invested in credit and cash assets. These funds are valued. The price of the funds is set by administrators/custodians employed by the investment managers and based on the value of the underlying assets held in the funds. Details of pricing methodology are set out within internal control reports provided for each fund. Prices are updated daily, weekly or monthly depending upon the frequency of the fund's dealing.

Bonds are valued using observable broker quotes. Gilt repurchase obligations are valued by the relevant manager, which derives the value using an industry recognised model with observable inputs.

Property is valued by specialists applying recognised property valuation methods incorporating current market data on rental yields and transaction prices.

Total return, interest and inflation swaps and forward FX contracts are bilateral agreements between counterparties and do not have observable market prices. These derivative contracts are valued using observable inputs.

Insured liabilities comprise annuity policies broadly matching the scheme obligation to identified groups of pensioners. These assets are valued by an external qualified actuary at the actuarial valuation of the corresponding liability, reflecting this matching relationship. The insurance policies are treated as qualifying insurance policies as none of the insurers are related parties of Smiths Group, and the proceeds of the policies can only be used to pay or fund employee benefits for the respective schemes, are not available to Smiths Group's creditors and cannot be paid to Smiths Group.

**NOTES TO THE ACCOUNTS**  
CONTINUED

## 8 Retirement benefits continued

### Retirement benefit plan assets

	31 July 2021 – £m				31 July 2020 – £m			
	UK schemes	US schemes	Other countries	Total	UK schemes	US schemes	Other countries	Total
Cash and cash equivalents	71	1	–	72	106	1	1	108
Pooled funds:								
– Pooled equity	–	–	3	3	38	–	2	40
– Pooled Diversified Growth	–	–	19	19	48	–	–	48
– Pooled credit	420	–	–	420	607	–	–	607
Corporate bonds	791	192	–	983	797	212	–	1,009
Government bonds/LDI	1,298	79	3	1,380	1,257	98	3	1,358
Insured liabilities	1,462	–	–	1,462	1,300	–	1	1,301
Property	62	–	–	62	78	–	–	78
Other	–	–	5	5	9	–	24	33
<b>Total market value</b>	<b>4,104</b>	<b>272</b>	<b>30</b>	<b>4,406</b>	<b>4,240</b>	<b>311</b>	<b>31</b>	<b>4,582</b>

The assets are unquoted. Government bonds/LDI portfolios contain £1,929m (FY2020: £2,343m) of UK Government bonds (Gilts), £626m (FY2020: £1,063m) of Gilt repurchase obligations and £5m (FY2020: £23m) of interest and inflation swap obligations.

The UK bond portfolios include forward FX contracts with a net value of £1m (FY2020: £11m). These are held to hedge against foreign currency risk in respect of overseas bonds.

The scheme assets do not include any property occupied by, or other assets used by, the Group.

### Present value of funded scheme liabilities and assets for the main UK and US schemes

	31 July 2021 – £m			31 July 2020 – £m		
	SIPS	TIGPS	US schemes	SIPS	TIGPS	US schemes
<b>Present value of funded scheme liabilities:</b>						
– Active deferred members	(42)	(29)	(73)	(44)	(61)	(95)
– Deferred members	(810)	(632)	(119)	(961)	(593)	(138)
– Pensioners	(1,226)	(809)	(81)	(1,178)	(866)	(81)
<b>Present value of funded scheme liabilities</b>	<b>(2,078)</b>	<b>(1,470)</b>	<b>(273)</b>	<b>(2,183)</b>	<b>(1,520)</b>	<b>(314)</b>
Market value of scheme assets	2,410	1,684	272	2,466	1,754	311
<b>Surplus/(deficit)</b>	<b>332</b>	<b>214</b>	<b>(1)</b>	<b>283</b>	<b>234</b>	<b>(3)</b>

### Net retirement benefit obligations

	31 July 2021 – £m				31 July 2020 – £m			
	UK schemes	US schemes	Other countries	Total	UK schemes	US schemes	Other countries	Total
Market value of scheme assets	4,104	272	30	4,406	4,240	311	31	4,582
Present value of funded scheme liabilities	(3,558)	(273)	(38)	(3,869)	(3,724)	(314)	(40)	(4,078)
<b>Surplus/(deficit)</b>	<b>546</b>	<b>(1)</b>	<b>(8)</b>	<b>537</b>	<b>516</b>	<b>(3)</b>	<b>(9)</b>	<b>504</b>
Unfunded pension plans	(54)	(7)	(55)	(116)	(55)	(8)	(60)	(123)
Post-retirement healthcare	(4)	(1)	(3)	(8)	(5)	(1)	(3)	(9)
Present value of unfunded obligations	(58)	(8)	(58)	(124)	(60)	(9)	(63)	(132)
<b>Net pension asset/(liability)</b>	<b>488</b>	<b>(9)</b>	<b>(66)</b>	<b>413</b>	<b>456</b>	<b>(12)</b>	<b>(72)</b>	<b>372</b>
Retirement benefit assets	546	–	–	546	516	–	–	516
Retirement benefit liabilities	(58)	(9)	(61)	(128)	(60)	(12)	(67)	(139)
Liabilities held for sale	–	–	(5)	(5)	–	–	(5)	(5)
<b>Net pension asset/(liability)</b>	<b>488</b>	<b>(9)</b>	<b>(66)</b>	<b>413</b>	<b>456</b>	<b>(12)</b>	<b>(72)</b>	<b>372</b>

Liabilities held for sale comprise £4m (FY2020: £4m) of unfunded pension plans and £1m (FY2020: £1m) deficit on defined benefit schemes within the Smiths Medical division.

Where any individual scheme shows a recoverable surplus under IAS 19, this is disclosed on the balance sheet as a retirement benefit asset. The IAS 19 surplus of any one scheme is not available to fund the IAS 19 deficit of another scheme. The retirement benefit asset disclosed arises from the rights of the employers to recover the surplus at the end of the life of the scheme i.e. when the last beneficiary's obligation has been met.

Amounts recognised in the consolidated income statement

	Year ended 31 July 2021 £m	Year ended 31 July 2020 £m
<b>Amounts charged to operating profit</b>		
Current service cost	2	3
Past service costs – Guaranteed Minimum Pension (GMP) equalisation	6	–
Settlement gain	–	(8)
Scheme administration costs	5	5
	<b>13</b>	<b>–</b>
<b>The operating cost is charged as follows:</b>		
Cost of sales	–	1
Sales and distribution costs	–	–
Headline administrative expenses	7	6
Non-headline settlement gain	–	(7)
Non-headline administrative expenses	6	–
	<b>13</b>	<b>–</b>
<b>Amounts credited to finance costs</b>		
Non-headline other finance income – retirement benefits	<b>(6)</b>	<b>(7)</b>

Amounts recognised directly in the consolidated statement of comprehensive income

	Year ended 31 July 2021 £m	Year ended 31 July 2020 £m
<b>Re-measurements of retirement defined benefit assets and liabilities</b>		
Difference between interest credit and return on assets	(57)	274
Experience gains on scheme liabilities	44	28
Actuarial gains arising from changes in demographic assumptions	10	22
Actuarial gains/(losses) arising from changes in financial assumptions	16	(305)
	<b>13</b>	<b>19</b>

Changes in present value of funded scheme assets

	31 July 2021 – £m				31 July 2020 – £m			
	UK schemes	US schemes	Other countries	Total	UK schemes	US schemes	Other countries	Total
At beginning of period	4,240	311	31	4,582	4,106	282	36	4,424
Interest on assets	58	7	1	66	86	9	1	96
Actuarial movement on scheme assets	(40)	(17)	–	(57)	222	54	(2)	274
Employer contributions	20	4	1	25	24	–	2	26
Scheme administration costs	(4)	(1)	–	(5)	(4)	(1)	–	(5)
Foreign exchange rate movements	–	(17)	–	(17)	–	(21)	(3)	(24)
Benefits paid	(170)	(15)	(3)	(188)	(194)	(12)	(3)	(209)
<b>At end of period</b>	<b>4,104</b>	<b>272</b>	<b>30</b>	<b>4,406</b>	<b>4,240</b>	<b>311</b>	<b>31</b>	<b>4,582</b>

Changes in present value of funded defined benefit obligations

	31 July 2021 – £m				31 July 2020 – £m			
	UK schemes	US schemes	Other countries	Total	UK schemes	US schemes	Other countries	Total
At beginning of period	(3,724)	(314)	(40)	(4,078)	(3,637)	(291)	(45)	(3,973)
Current service cost	–	–	(1)	(1)	–	–	(1)	(1)
Past service costs	(6)	–	–	(6)	–	–	–	–
Interest on obligations	(51)	(7)	(2)	(60)	(75)	(10)	(1)	(86)
Actuarial movement on liabilities	53	16	–	69	(206)	(47)	2	(251)
Foreign exchange rate movements	–	17	2	19	–	22	2	24
Benefits paid	170	15	3	188	194	12	3	209
<b>At end of period</b>	<b>(3,558)</b>	<b>(273)</b>	<b>(38)</b>	<b>(3,869)</b>	<b>(3,724)</b>	<b>(314)</b>	<b>(40)</b>	<b>(4,078)</b>

## NOTES TO THE ACCOUNTS CONTINUED

### 8 Retirement benefits continued

Changes in present value of unfunded defined benefit pensions and post-retirement healthcare plans

	Assets	Obligations		
	<b>Year ended 31 July 2021 £m</b>	<b>Year ended 31 July 2020 £m</b>	<b>Year ended 31 July 2021 £m</b>	<b>Year ended 31 July 2020 £m</b>
At beginning of period	–	–	(132)	(140)
Current service cost	–	–	(1)	(2)
Interest on obligations	–	–	(1)	(3)
Actuarial movement	–	–	2	(4)
Employer contributions	5	7	–	–
Foreign exchange rate movements	–	–	3	2
Liabilities extinguished on settlements	–	–	–	8
Benefits paid	(5)	(7)	5	7
<b>At end of period</b>	<b>–</b>	<b>–</b>	<b>(124)</b>	<b>(132)</b>

#### Cash contributions

Company contributions to the defined benefit pension plans and post-retirement healthcare plans totalled £30m (FY2020: £33m). This comprised regular contributions to funded schemes of £12m (FY2020: £12m) to SIPS, £8m (FY2020: £12m) to TIGPS, £4m (FY2020: £nil) to funded US schemes and contributions to other schemes of £1m (FY2020: £2m). In addition, £5m (FY2020: £7m) was spent on providing benefits under unfunded defined benefit pension and post-retirement healthcare plans.

In FY2022, cash contributions to the Group's schemes are expected to total up to £15m, including £3m to SIPS, with the balance relating to other schemes and post-retirement healthcare.

### 9 Employee share schemes

The Group operates share schemes and plans for the benefit of employees. The nature of the principal schemes and plans, including general conditions, is set out below:

#### Long-Term Incentive Plan (LTIP)

The LTIP is a share plan under which an award over a capped number of shares will vest after the end of a three-year performance period if performance conditions are met. LTIP awards are made to selected senior executives, including the Executive Directors.

#### LTIP performance conditions

Each performance condition has a threshold below which no shares vest and a maximum performance target at or above which the award vests in full. For performance between 'threshold' and 'maximum', awards vest on a straight-line sliding scale. The performance conditions are assessed separately; so performance on one condition does not affect the vesting of the other elements of the award. To the extent that the performance targets are not met over the three-year performance period, awards lapse. There is no re-testing of the performance conditions.

LTIP awards have performance conditions relating to underlying revenue growth, growth in headline EPS, ROCE, cash conversion, and free cash-flow.

#### Smiths Excellence Plan (SEP)

The last Smiths Excellence plan (SEP) grant was issued in October 2019 and vested on 31 July 2021, no further SEP awards have been made. The SEP was designed to reinforce value creation over the medium term by focusing on specific objectives in key areas of operational performance. Awards vested after two years, depending on performance on the operational objectives during the first year and continued employment with the Group. There was no re-testing of performance. However, the Remuneration Committee had discretion to adjust vesting rates if material misstatements in reported performance were subsequently identified and awards were subject to clawback provisions in the event of misconduct.

Directors were not eligible to participate in the SEP.

#### Restricted stock

Restricted stock is used by the Remuneration Committee, as a part of recruitment strategy, to make awards in recognition of incentive arrangements forfeited on leaving a previous employer. If an award is considered appropriate, the award will take account of relevant factors including the fair value of awards forfeited, any performance conditions attached, the likelihood of those conditions being met and the proportion of the vesting period remaining.

#### Save as you earn (SAYE)

The SAYE scheme is an HM Revenue & Customs approved all employee savings related share option scheme which is open to all UK employees. Participants enter into a contract to save a fixed amount per month of up to £500 in aggregate for three or five years and are granted an option over shares at a fixed option price, set at a discount to market price at the date of invitation to participate. The number of shares is determined by the monthly amount saved and the bonus paid on maturity of the savings contract. Options granted under the SAYE scheme are not subject to any performance conditions.

	Long-term incentive plans	SEP	Restricted stock	Save as you earn scheme	Total	Weighted average exercise price £
Ordinary shares under option/award ('000)						
31 July 2019	3,892	1,287	192	1,012	6,383	£1.77
Granted	1,379	924	48	695	3,046	£2.08
Exercised	(785)	(406)	(95)	(254)	(1,540)	£1.48
Lapsed	(549)	(510)	(14)	(246)	(1,319)	£2.22
<b>31 July 2020</b>	<b>3,937</b>	<b>1,295</b>	<b>131</b>	<b>1,207</b>	<b>6,570</b>	<b>£1.89</b>
Granted	2,143	358	11	139	2,651	£0.68
Exercised	(346)	(411)	(60)	(165)	(982)	£2.03
Lapsed	(819)	(391)	(18)	(96)	(1,324)	£0.75
<b>31 July 2021</b>	<b>4,915</b>	<b>851</b>	<b>64</b>	<b>1,085</b>	<b>6,915</b>	<b>£1.63</b>

Options and awards were exercised on an irregular basis during the period. The average closing share price over the financial year was 1,508.63p (FY2020: 1,490.92p). There has been no change to the effective option price of any of the outstanding options during the period. The number of exercisable share options at 31 July 2021 was nil (31 July 2020: nil).

Range of exercise prices	Total shares under options/awards at 31 July 2021 ('000)	Weighted average remaining contractual life at 31 July 2021 (months)	Total shares under options/awards at 31 July 2020 ('000)	Weighted average remaining contractual life at 31 July 2020 (months)
£0.00 – £2.00	5,830	15	5,363	14
£6.01 – £10.00	655	30	744	40
£10.01 – £12.00	430	24	463	22

For the purposes of valuing options to arrive at the share-based payment charge, the binomial option pricing model has been used. The key assumptions used in the model were volatility of 25% to 20% (FY2020: 25% to 20%) and dividend yield of 2.8% (FY2020: 2.8%), based on historical data, for the period corresponding with the vesting period of the option. These generated a weighted average fair value for SEP of £14.73 (FY2020: £14.39), LTIP of £14.10 (FY2020: £14.60), and restricted stock of £14.63 (FY2020: £14.04). Staff costs included £14m (FY2020: £11m) for share-based payments, of which £13m (FY2020: £10m) related to equity-settled share-based payments.

## 10 Intangible assets

	Goodwill £m	Development costs £m	Acquired intangibles (see table below) £m	Software, patents and intellectual property £m	Total £m
<b>Cost</b>					
<b>At 31 July 2019</b>	<b>1,312</b>	<b>144</b>	<b>565</b>	<b>171</b>	<b>2,192</b>
Foreign exchange rate movements	(69)	(5)	(34)	(6)	(114)
Business combinations (note 27)	11	–	15	–	26
Additions	–	16	–	10	26
Disposals	–	–	–	(1)	(1)
<b>At 31 July 2020</b>	<b>1,254</b>	<b>155</b>	<b>546</b>	<b>174</b>	<b>2,129</b>
Foreign exchange rate movements	(68)	(7)	(30)	(6)	(111)
Business combinations (note 27)	21	–	46	–	67
Additions	–	8	–	10	18
Disposals	–	–	–	(1)	(1)
<b>At 31 July 2021</b>	<b>1,207</b>	<b>156</b>	<b>562</b>	<b>177</b>	<b>2,102</b>
<b>Amortisation and impairments</b>					
<b>At 31 July 2019</b>	<b>66</b>	<b>99</b>	<b>205</b>	<b>138</b>	<b>508</b>
Foreign exchange rate movements	(4)	(5)	(13)	(2)	(24)
Amortisation charge for the year	–	6	57	7	70
Impairment charge for the year	–	12	–	–	12
Disposals	–	–	–	(1)	(1)
<b>At 31 July 2020</b>	<b>62</b>	<b>112</b>	<b>249</b>	<b>142</b>	<b>565</b>
Foreign exchange rate movements	(3)	(5)	(15)	(4)	(27)
Amortisation charge for the year	–	7	53	7	67
Disposals	–	–	–	(1)	(1)
<b>At 31 July 2021</b>	<b>59</b>	<b>114</b>	<b>287</b>	<b>144</b>	<b>604</b>
<b>Net book value at 31 July 2021</b>	<b>1,148</b>	<b>42</b>	<b>275</b>	<b>33</b>	<b>1,498</b>
Net book value at 31 July 2020	1,192	43	297	32	1,564
Net book value at 31 July 2019	1,246	45	360	33	1,684

## NOTES TO THE ACCOUNTS CONTINUED

### 10 Intangible assets continued

In addition to goodwill, acquired intangible assets comprise:

	Patents, licences and trademarks £m	Technology £m	Customer relationships £m	Total acquired intangibles £m
<b>Cost</b>				
<b>At 31 July 2019</b>	<b>15</b>	<b>140</b>	<b>410</b>	<b>565</b>
Foreign exchange rate movements	(1)	(9)	(24)	(34)
Business combinations (note 27)	1	8	6	15
<b>At 31 July 2020</b>	<b>15</b>	<b>139</b>	<b>392</b>	<b>546</b>
Foreign exchange rate movements	(1)	(7)	(22)	(30)
Business combinations (note 27)	3	2	41	46
<b>At 31 July 2021</b>	<b>17</b>	<b>134</b>	<b>411</b>	<b>562</b>
<b>Amortisation</b>				
<b>At 31 July 2019</b>	<b>3</b>	<b>53</b>	<b>149</b>	<b>205</b>
Foreign exchange rate movements	–	(4)	(9)	(13)
Charge for the year	1	11	45	57
<b>At 31 July 2020</b>	<b>4</b>	<b>60</b>	<b>185</b>	<b>249</b>
Foreign exchange rate movements	–	(3)	(12)	(15)
Charge for the year	1	10	42	53
<b>At 31 July 2021</b>	<b>5</b>	<b>67</b>	<b>215</b>	<b>287</b>
<b>Net book value at 31 July 2021</b>	<b>12</b>	<b>67</b>	<b>196</b>	<b>275</b>
Net book value at 31 July 2020	11	79	207	297
Net book value at 31 July 2019	12	87	261	360

Individually material intangible assets comprise £76m of customer related intangibles attributable to United Flexible (remaining amortisation period: 5 years), £66m of customer relationship intangibles attributable to Morpho Detection (remaining amortisation period: 7 years), £37m of customer related intangibles attributable to Royal Metal (remaining amortisation period: 7 years), and £14m of development cost intangibles attributable to a computed tomography programme in Detection that is currently under development.

The charge associated with the amortisation of intangible assets is included in operating costs on the consolidated income statement.

### 11 Impairment testing

#### Goodwill

Goodwill is tested for impairment at least annually or whenever there is an indication that the carrying value may not be recoverable.

Further details of the impairment review process and judgements are included in the "Significant judgements made in applying accounting policies" section of the "Basis of preparation" for the consolidated financial statements.

For the purpose of impairment testing, assets are grouped at the lowest levels for which there are separately identifiable cash-flows, known as cash generating units (CGUs), taking into consideration the commonality of reporting, policies, leadership and intra-divisional trading relationships. Goodwill acquired through business combinations is allocated to groups of CGUs at a divisional (or operating segment) level, being the lowest level at which management monitors performance separately.

The carrying value of goodwill at 31 July is allocated by division as follows:

	2021 £m	2021 Number of CGUs	2020 £m	2020 Number of CGUs
John Crane	129	1	136	1
Smiths Detection	610	1	642	1
Flex-Tek	169	1	161	1
Smiths Interconnect	240	1	253	1
Smiths Medical – classified as an asset held for sale (see note 28)	–	1	–	1
	<b>1,148</b>	<b>5</b>	<b>1,192</b>	<b>5</b>

#### Principal assumptions used in impairment testing

The recoverable amount for impairment testing is determined from the higher of fair value less costs of disposal and value in use of the CGU. In assessing value in use, the estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money, from which pre-tax discount rates are determined.

Fair value less costs of disposal is calculated using available information on past and expected future profitability, valuation multiples for comparable quoted companies and similar transactions (adjusted as required for significant differences) and information on costs of similar transactions. Fair value less costs to sell models are used when trading projections in the strategic plan cannot be adjusted to eliminate the impact of a major restructuring.

The value in use of CGUs is calculated as the net present value of the projected risk-adjusted cash-flows of each CGU. These cash-flow forecasts are based on the FY2022 business plan (as approved by the Board) and the five year detailed divisional strategic projections which have been prepared by divisional management and approved by the Chief Financial Officer.

The key assumptions used in determining the value in use were:

- **Sales:** Projected sales were built up with reference to markets and product categories. They incorporated past performance, historical growth rates and projections of developments in key markets;
- **Margins:** Projected margins reflect historical performance and the impact of all completed projects to improve operational efficiency and leverage scale. The projections did not include the impact of future restructuring projects to which the Group was not yet committed;
- **Projected capital expenditure:** The cash-flow forecasts for capital expenditure were based on past experience and included committed ongoing capital expenditure consistent with the FY2022 budget and the divisional strategic projections. The forecast did not include any future capital expenditure that improved/enhanced the operation/asset in excess of its current standard of performance;
- **Discount rate:** The discount rates have been calculated based on the Group's weighted average cost of capital and risks specific to the CGU being tested. In determining the risk adjusted discount rate, management considered the systematic risk to each of the Group's CGUs and applied an average of discount rates used by other companies for the industries in which Smiths' divisions operate. Pre-tax rates of 9.9% to 13.2% (FY2020: 9.4% to 12.3%) have been used for the impairment testing;
- **Long-term growth rates:** For the purposes of the Group's value in use calculations, a long-term growth rate into perpetuity was applied immediately at the end of the five year forecast period. Growth rates for the period after the detailed forecasts were based on the long-term GDP projections of the primary market for each CGU. The average growth rate used in the testing was 2.1% (FY2020: 1.9%). These rates did not reflect the long-term assumptions used by the Group for investment planning; and
- **COVID-19:** The COVID-19 pandemic has evolved during FY2021, with some countries continuing to require businesses to limit or suspend operations whilst implementing travel restrictions and quarantine measures. These virus containment measures have had a significant adverse impact on global economic activity. It remains challenging to predict the full extent and duration of the pandemic impact on Smiths' businesses and the countries where Smiths operates. Based on information available as at 31 July 2021, management has made adjustments to the five year forecasts used in the Group's impairment testing in order to reflect the estimated impact.

The assumptions used in the impairment testing of CGUs with significant goodwill balances were as follows:

	Year ended 31 July 2021				
	John Crane	Smiths Detection	Flex-Tek	Smiths Interconnect	Smiths Medical
Net book value of goodwill (£m)	129	610	169	240	535
<b>Basis of valuation</b>					
Discount rate	- pre-tax	13.2%	10.3%	11.4%	11.1%
	- post-tax	9.5%	8.2%	9.1%	9.0%
Period covered by management projections		5 years	5 years	5 years	5 years
Revenue – average annual growth rate over projection period		6.4%	2.8%	5.0%	5.9%
Average earnings before interest and tax margin		25.4%	13.4%	20.0%	19.0%
Long-term growth rates		2.1%	1.8%	1.9%	2.4%
	Year ended 31 July 2020				
	John Crane	Smiths Detection	Flex-Tek	Smiths Interconnect	Smiths Medical
Net book value of goodwill (£m)	136	642	161	253	563
<b>Basis of valuation</b>					
Discount rate	- pre-tax	12.3%	10.8%	11.3%	10.7%
	- post-tax	9.3%	8.0%	8.7%	8.5%
Period covered by management projections		5 years	5 years	5 years	5 years
Revenue – average annual growth rate over projection period		4.3%	2.1%	3.2%	4.2%
Average earnings before interest and tax margin		24.1%	13.5%	17.5%	17.0%
Long-term growth rates		2.0%	1.7%	1.8%	2.1%

Forecast earnings before interest and tax have been projected using:

- expected future sales based on the strategic plan, which was constructed at a market level with input from key account managers, product line managers, business development and sales teams. An assessment of the market and existing contracts/programmes was made to produce the sales forecast; and
- current cost structure and production capacity. The projections did not include the impact of future restructuring projects to which the Group was not yet committed.

## NOTES TO THE ACCOUNTS CONTINUED

### 11 Impairment testing continued

#### Sensitivity analysis

With the exception of the Smiths Detection CGU, the recoverable amount of all CGUs exceeded their carrying value, on the basis of the assumptions set out in the table above and any reasonably possible changes thereof.

The estimated recoverable amount of the Smiths Detection CGU exceeded the carrying value by £334m. Any decline in estimated value-in-use in excess of this amount would result in the recognition of impairment charges. If the assumptions used in the impairment review were changed to a greater extent than as presented in the following table, the changes would, in isolation, lead to impairment losses being recognised for the year ended 31 July 2021:

Change required for carrying value to equal recoverable amount - FY2021	Smiths Detection	
Revenue - compound annual growth rate (CAGR) over 5 year projection period	-560 bps decrease	
Post-tax discount rate	+220 bps increase	
Change required for carrying value to equal recoverable amount - FY2020	Smiths Interconnect	Smiths Detection
Forecast earnings before interest and tax	-3,800 bps decrease	-1,500 bps decrease
Post-tax discount rate	+400 bps increase	+110 bps increase
Long-term growth rate	-740 bps decrease	-180 bps decrease

#### Property, plant and equipment, right of use assets and finite-life intangible assets

At each reporting period date, the Group reviews the carrying amounts of its property, plant, equipment, right of use assets and finite-life intangible assets to determine whether there is any indication that those assets have suffered an impairment loss.

The Group has no indefinite life intangible assets other than goodwill. During the year, impairment tests were carried out for capitalised development costs that have not yet started to be amortised and acquired intangibles where there were indications of impairment. Value in use calculations were used to determine the recoverable values of these assets.

In FY2021 Smiths Medical conducted detailed impairment assessments on its capitalised development costs and related assets.

This impairment assessment identified a non-cash impairment charge of £61 million that has been recognised as a non-headline item in discontinued operations. The most significant element related to the Intellifuse Large Volume Pump (LVP); a summary of the basis for and conclusion of this assessment has been included in note 28 'Discontinued operations and businesses held for sale'.

No impairment charges have been recognised in FY2021 for continuing operations. In the prior year £12m of impairment charges were recognised against capitalised development costs in Smiths Detection; see note 2 for further details.

### 12 Property, plant and equipment

	Land and buildings £m	Plant and machinery £m	Fixtures, fittings, tools and equipment £m	Total £m
<b>Cost or valuation</b>				
At 31 July 2019	186	396	138	720
Foreign exchange rate movements	(10)	(25)	(5)	(40)
Business combinations (see note 27)	–	2	–	2
Additions	5	27	8	40
Disposals	(6)	(17)	(8)	(31)
<b>At 31 July 2020</b>	<b>175</b>	<b>383</b>	<b>133</b>	<b>691</b>
Foreign exchange rate movements	(6)	(21)	(6)	(33)
Business combinations (note 27)	–	2	–	2
Additions	6	38	–	44
Disposals	(3)	(14)	(5)	(22)
<b>At 31 July 2021</b>	<b>172</b>	<b>388</b>	<b>122</b>	<b>682</b>
<b>Depreciation</b>				
At 31 July 2019	104	271	113	488
Foreign exchange rate movements	(6)	(17)	(4)	(27)
Charge for the year	10	23	8	41
Disposals	(6)	(16)	(7)	(29)
<b>At 31 July 2020</b>	<b>102</b>	<b>261</b>	<b>110</b>	<b>473</b>
Foreign exchange rate movements	(3)	(15)	(6)	(24)
Charge for the year	10	26	4	40
Disposals	(3)	(12)	(4)	(19)
<b>At 31 July 2021</b>	<b>106</b>	<b>260</b>	<b>104</b>	<b>470</b>
<b>Net book value at 31 July 2021</b>	<b>66</b>	<b>128</b>	<b>18</b>	<b>212</b>
Net book value at 31 July 2020	73	122	23	218
Net book value at 31 July 2019	82	125	25	232

## 13 Right of use assets

	Properties £m	Vehicles £m	Equipment £m	Total £m
<b>Cost or valuation</b>				
Right of use assets on transition on 1 August 2019	95	10	1	106
Foreign exchange rate movements	(6)	(1)	–	(7)
Business combinations (note 27)	1	–	–	1
Recognition of right of use asset	21	5	–	26
Derecognition of right of use asset	(1)	–	–	(1)
<b>At 31 July 2020</b>	<b>110</b>	<b>14</b>	<b>1</b>	<b>125</b>
Foreign exchange rate movements	(5)	(1)	–	(6)
Business combinations (note 27)	9	1	–	10
Recognition of right of use asset	44	3	–	47
Derecognition of right of use asset	(12)	–	–	(12)
<b>At 31 July 2021</b>	<b>146</b>	<b>17</b>	<b>1</b>	<b>164</b>
<b>Depreciation</b>				
Foreign exchange rate movements	(2)	–	–	(2)
Charge for the year	28	5	–	33
<b>At 31 July 2020</b>	<b>26</b>	<b>5</b>	<b>–</b>	<b>31</b>
Foreign exchange rate movements	(2)	–	–	(2)
Charge for the year	27	5	–	32
Derecognition of right of use asset	(5)	–	–	(5)
<b>At 31 July 2021</b>	<b>46</b>	<b>10</b>	<b>–</b>	<b>56</b>
<b>Net book value at 31 July 2021</b>	<b>100</b>	<b>7</b>	<b>1</b>	<b>108</b>
Net book value at 31 July 2020	84	9	1	94

## 14 Inventories

	31 July 2021 £m	31 July 2020 £m
Raw materials and consumables	117	122
Work in progress	81	119
Finished goods	183	205
<b>Total inventories</b>	<b>381</b>	<b>446</b>

In FY2021 continuing operations consumed £1,233m (FY2020: £1,244m) of inventory, £8m (FY2020: £20m) was charged for the write-down of inventory and £4m (FY2020: £9m) was released from provisions no longer required.

Discontinued operations consumed £218m (FY2020: £299m) of inventory, £4m (FY2020: £4m) was charged for the write-down of inventory and £1m (FY2020: £nil) was released from provisions no longer required. Further details of discontinued operations are disclosed in note 28.

## Inventory provisioning

	31 July 2021 £m	31 July 2020 £m
Gross inventory carried at full value	324	368
Gross value of inventory partly or fully provided for	104	132
Inventory provision	428	500
<b>Inventory after provisions</b>	<b>(47)</b>	<b>(54)</b>
<b>381</b>	<b>446</b>	

## 15 Trade and other receivables

	31 July 2021 £m	31 July 2020 £m
<b>Non-current</b>		
Contract assets	49	46
Other receivables	10	6
	<b>59</b>	<b>52</b>
<b>Current</b>		
Trade receivables	431	448
Prepayments	26	23
Contract assets	131	123
Other receivables	42	33
	<b>630</b>	<b>627</b>

Trade receivables do not carry interest. Management considers that the carrying value of trade and other receivables approximates to the fair value. Trade and other receivables, including prepayments, accrued income and other receivables qualifying as financial instruments are accounted for at amortised cost. The maximum credit exposure arising from these financial assets was £629m (FY2020: £580m).

## NOTES TO THE ACCOUNTS CONTINUED

### 15 Trade and other receivables continued

Contract assets comprise unbilled balances not yet due on contracts, where revenue recognition does not align with the agreed payment schedule. The main movements in the year arose from increases in contract asset balances of £18m (FY2020: £6m) principally within Smiths Detection, offset by £6m of foreign currency translation losses (FY2020: £7m loss).

A number of Flex-Tek's customers provide supplier finance schemes which allow their suppliers to sell trade receivables, without recourse, to banks. This is commonly known as invoice discounting or factoring. During FY2021 Flex-Tek collected £81m of receivables through these schemes (FY2020: £68m). The impact of invoice discounting on the FY2021 balance sheet was that trade receivables were reduced by £14m (2020: £11m). The cash received via these schemes was classified as an operating cash inflow as it had arisen from operating activities.

Trade receivables are disclosed net of provisions for expected credit loss, with historical write-offs used as a basis and a default risk multiplier applied to reflect country risk premium. Credit risk is managed separately for each customer and, where appropriate, a credit limit is set for the customer based on previous experience of the customer and third party credit ratings. The Group has no significant concentration of credit risk, with exposure spread over a large number of customers. The largest single customer was the US Federal Government, representing 7% (FY2020: 7%) of Group revenue.

#### Ageing of trade receivables

	31 July 2021 £m	31 July 2020 £m
Trade receivables which are not yet due	338	342
Trade receivables which are between 1-30 days overdue	45	51
Trade receivables which are between 31-60 days overdue	15	18
Trade receivables which are between 61-90 days overdue	8	9
Trade receivables which are between 91-120 days overdue	5	12
Trade receivables which are more than 120 days overdue	52	51
	<b>463</b>	<b>483</b>
Expected credit loss allowance provision	(32)	(35)
<b>Trade receivables</b>	<b>431</b>	<b>448</b>
Movement in expected credit loss allowance		
	31 July 2021 £m	31 July 2020 £m
Brought forward loss allowance at the start of the period	35	24
Exchange adjustments	(2)	(2)
Increase in allowance recognised in the income statement	6	18
Amounts written off or recovered during the year	(7)	(5)
<b>Carried forward loss allowance at the end of the year</b>	<b>32</b>	<b>35</b>

### 16 Trade and other payables

	31 July 2021 £m	31 July 2020 £m
<b>Non-current</b>		
Other payables	13	15
Contract liabilities	46	36
	<b>59</b>	<b>51</b>
<b>Current</b>		
Trade payables	188	178
Other payables	39	12
Other taxation and social security costs	28	25
Accruals	188	194
Contract liabilities	87	118
	<b>530</b>	<b>527</b>

Trade and other payables, including accrued expenses and other payables qualifying as financial instruments, are accounted for at amortised cost and are categorised as Trade and other financial payables in note 21.

Contract liabilities comprise deferred income balances of £133m (FY2020: £154m) in respect of payments being made in advance of revenue recognition. The movement in the year arises primarily from the long term contracts of the Smiths Detection division where invoicing under milestones precedes the delivery of the programme performance obligations. Revenue recognised in the year includes £94m (FY2020: £126m) that was included in the opening contract liabilities balance. This revenue primarily relates to the delivery of performance obligations in the Smiths Detection business.

### 17 Financial assets - other investments

At 31 July 2021, £4m (FY2020: £11m) was held on deposit with banks as security for liabilities or letters of credit.

The remaining balance of financial assets relates to the Group's investments in early stage businesses that are developing or commercialising related technology.

## 18 Borrowings and net debt

This note sets out the calculation of net debt, an important measure in explaining our financing position. Net debt includes accrued interest and fair value adjustments relating to hedge accounting.

	31 July 2021 £m	31 July 2020 £m
<b>Cash and cash equivalents</b>		
Net cash and deposits	<b>405</b>	<b>366</b>
<b>Short-term borrowings</b>		
Lease liabilities	(27)	(31)
Interest accrual	(9)	(10)
	<b>(36)</b>	<b>(41)</b>
<b>Long-term borrowings</b>		
\$400m 3.625% US\$ Guaranteed notes 2022	(289)	(308)
€600m 1.25% Eurobond 2023	(516)	(546)
€650m 2.00% Eurobond 2027	(567)	(601)
Lease liabilities	(94)	(65)
	<b>(1,466)</b>	<b>(1,520)</b>
<b>Borrowings</b>		
Derivatives managing interest rate risk and currency profile of the debt	75	82
<b>Net debt (excludes net cash of £4m in discontinued operations (FY2020: net debt of £28m))</b>	<b>(1,022)</b>	<b>(1,113)</b>

Net debt including net cash/debt held in discontinued operations was £1,018m (FY2020: £1,141m).

## Cash and cash equivalents

	31 July 2021 £m	31 July 2020 £m
Cash at bank and in hand	219	173
Short-term deposits	186	193
<b>Cash and cash equivalents</b>	<b>405</b>	<b>366</b>

Cash and cash equivalents include highly liquid investments with maturities of three months or less. Borrowings are accounted for at amortised cost and are categorised as other financial liabilities. See note 18 for a maturity analysis of borrowings. Interest of £30m (FY2020: £31m) was charged to the consolidated income statement in the period in respect of public bonds.

## Movements in assets/(liabilities) arising from financing activities

	Changes in net debt						<b>Total liabilities from financing activities £m</b>
	Cash and cash equivalents £m	Other short-term borrowings £m	Long-term borrowings £m	Interest rate & cross-currency swaps £m	<b>Net debt £m</b>	Changes in other financing items: FX contracts £m	
At 31 July 2019	<b>289</b>	(9)	(1,500)	45	(1,175)	(1)	(1,176)
Adoption of IFRS 16	–	(26)	(79)	–	(105)	–	(105)
<b>Sub-total</b>	<b>289</b>	<b>(35)</b>	<b>(1,579)</b>	<b>45</b>	<b>(1,280)</b>	<b>(1)</b>	<b>(1,281)</b>
Foreign exchange gains/(losses)	(26)	1	40	–	15	(3,780)	(3,765)
Net cash inflow from continuing operations *	103	–	–	–	103	3,780	3,883
Lease liabilities acquired	–	–	(1)	–	(1)	–	(1)
Net movement from lease modifications	–	(6)	(20)	–	(26)	–	(26)
Fair value movement from interest rate hedging	–	–	10	–	10	–	10
Revaluation of derivative contracts	–	–	–	37	37	(1)	36
Interest expense taken to income statement**	–	(4)	(30)	(13)	(47)	–	(47)
Interest paid	–	–	29	13	42	–	42
Payment of lease liabilities	–	34	–	–	34	–	34
Reclassification to short-term borrowings	–	(31)	31	–	–	–	–
<b>At 31 July 2020</b>	<b>366</b>	<b>(41)</b>	<b>(1,520)</b>	<b>82</b>	<b>(1,113)</b>	<b>(2)</b>	<b>(1,115)</b>
Foreign exchange gains/(losses)	(24)	2	79	–	57	(3,200)	(3,143)
Net cash inflow from continuing operations *	63	33	–	–	96	3,200	3,296
Lease liabilities acquired	–	(1)	(10)	–	(11)	–	(11)
Net movement from lease modifications	–	(46)	–	–	(46)	–	(46)
Fair value movement from interest rate hedging	–	–	8	–	8	–	8
Revaluation of derivative contracts	–	–	–	(7)	(7)	3	(4)
Interest expense taken to income statement**	–	(4)	(31)	–	(35)	–	(35)
Interest paid	–	–	29	–	29	–	29
Reclassification to short-term borrowings	–	21	(21)	–	–	–	–
<b>At 31 July 2021</b>	<b>405</b>	<b>(36)</b>	<b>(1,466)</b>	<b>75</b>	<b>(1,022)</b>	<b>1</b>	<b>(1,021)</b>

\* The £63m (FY2020: £103m) of net cash inflow from continuing operations excluded £28m (FY2020: £6m outflow) of net cash inflow from discontinued operations. Net cash inflow for the total Group including discontinued operations was £91m (FY2020: £97m).

\*\* The Group has also incurred £9m (FY2020: £8m) of bank charges that were expensed when paid and were not included in net debt.

## 18 Borrowings and net debt continued

### Cash pooling

Cash and overdraft balances in interest compensation cash pooling systems are reported gross on the balance sheet. The cash pooling agreements incorporate a legally enforceable right of net settlement. However, as there is no intention to settle the balances net, these arrangements do not qualify for net presentation. At 31 July 2021 the total value of overdrafts on accounts in interest compensation cash pooling systems was £nil (FY2020: £nil). The balances held in zero balancing cash pooling arrangements have daily settlement of balances. Therefore netting is not relevant.

### Secured loans

Loans amounting to £nil (FY2020: £nil) were secured on plant and equipment with a book value of £nil (FY2020: nil).

### Change of control

The Company has in place credit facility agreements under which a change in control would trigger prepayment clauses. The Company also has bonds in issue, the terms of which would allow bondholders to exercise put options and require the Company to buy back the bonds at their principal amount plus interest if a rating downgrade occurs at the same time as a change of control takes effect.

### Lease liabilities

Lease liabilities have been measured at the present value of the remaining lease payments. The weighted average incremental borrowing rate applied to lease liabilities in FY2021 was 3.3% (FY2020: 4.0%).

## 19 Financial risk management

The Group's international operations and debt financing expose it to financial risks which include the effects of changes in foreign exchange rates, debt market prices, interest rates, credit risks and liquidity risks. The management of operational credit risk is discussed in note 15.

### Treasury Risk Management Policy

The Board maintains a Treasury Risk Management Policy, which governs the treasury operations of the Group and its subsidiary companies and the consolidated financial risk profile to be maintained. A report on treasury activities, financial metrics and compliance with the Policy is circulated to the Chief Financial Officer each month and key elements to the Audit and Risk Committee on a semi-annual basis.

The Policy maintains a treasury control framework within which counterparty risk, financing and debt strategy, cash and liquidity, interest rate risk and currency translation management are reserved for Group Treasury, while currency transaction management is devolved to operating divisions.

Centrally directed cash management systems exist globally to manage overall liquid resources efficiently across the divisions. The Group uses financial instruments to raise financing for its global operations, to manage related interest rate and currency financial risk, and to hedge transaction risk within subsidiary companies.

The Group does not speculate in financial instruments. All financial instruments hedge existing business exposures and all are recognised on the balance sheet.

The Policy defines four treasury risk components and for each component a set of financial metrics to be measured and reported monthly against pre-agreed objectives.

#### 1) Credit quality

The Group's strategy is to maintain a solid investment-grade rating to ensure access to the widest possible sources of financing at the right time and to optimise the resulting cost of debt capital. The credit ratings at the end of July 2021 were BBB+ / Baa2 (both stable) from Standard & Poor's and Moody's respectively. An essential element of an investment-grade rating is consistent and robust cash-flow metrics. The Group's objective is to maintain a net debt/headline EBITDA ratio of two times or lower over the medium term. Capital management is discussed in more detail in note 26.

#### 2) Debt and interest rate

The Group's risk management objectives are to ensure that the majority of funding is drawn from the public debt markets. The average maturity profile of gross debt is at or greater than three years, and between 40-60% of gross debt is at fixed rates. At 31 July 2021 these measures were 100% (FY2020: 100%), 3.2 years (FY2020: 4.2 years) and 54% (FY2020: 53%).

The Group remains in full compliance with all covenants within its external debt agreements. Interest rate risk management is discussed in note 19(b).

#### 3) Liquidity management

The Group's objective is to ensure that at any time undrawn committed facilities, net of short-term overdraft financing, are at least £300m and that committed facilities have at least 12 months to run until maturity. At 31 July 2021, these measures were £575m (FY2020: £611m) and 39 months (FY2020: 51 months). At 31 July 2021, net cash resources were £405m (FY2020: £366m). Liquidity risk management is discussed in note 19(d).

#### 4) Currency management

The Group is an international business with the majority of its net assets denominated in foreign currency. It protects the balance sheet and reserves from adverse foreign exchange movements by financing foreign currency assets where appropriate in the same currency. The Group's objective for managing transaction currency exposure is to reduce medium-term volatility to cash-flow, margins and earnings. Foreign exchange risk management is discussed in note 18(a) below.

## (a) Foreign exchange risk

### Transactional currency exposure

The Group is exposed to foreign currency risks arising from sales or purchases by businesses in currencies other than their functional currency. It is Group policy that, when the net foreign exchange exposure to known future sales and purchases is material, this exposure is hedged using forward foreign exchange contracts. The net exposure is calculated by adjusting the expected cash-flow for payments or receipts in the same currency linked to the sale or purchase. This policy minimises the risk that the profits generated from the transaction will be affected by foreign exchange movements which occur after the price has been determined. Hedge accounting documentation and effectiveness testing are only undertaken if it is cost effective.

The following table shows the currency of financial instruments. It excludes loans and derivatives designated as net investment hedges.

	At 31 July 2021				
	Sterling £m	US\$ £m	Euro £m	Other £m	Total £m
<b>Financial assets and liabilities</b>					
Financial instruments included in trade and other receivables	28	326	113	177	644
Financial instruments included in trade and other payables	(49)	(167)	(79)	(64)	(359)
Cash and cash equivalents	46	187	80	92	405
Borrowings not designated as net investment hedges	(31)	(55)	(12)	(21)	(119)
	(6)	291	102	184	571
Exclude balances held in operations with the same functional currency.	7	(110)	(80)	(183)	(366)
Exposure arising from intra-group loans	–	(182)	(19)	(75)	(276)
Future forward foreign exchange contract cash flows	(51)	(67)	22	96	–
	(50)	(68)	25	22	(71)
	Sterling £m	US\$ £m	Euro £m	Other £m	Total £m
<b>Financial assets and liabilities</b>					
Financial instruments included in trade and other receivables	26	293	116	145	580
Financial instruments included in trade and other payables	(37)	(176)	(62)	(65)	(340)
Cash and cash equivalents	50	194	38	84	366
Borrowings not designated as net investment hedges	(21)	(41)	(31)	(14)	(107)
	18	270	61	150	499
Exclude balances held in operations with the same functional currency	(16)	(84)	(60)	(146)	(306)
Exposure arising from intra-group loans	–	(87)	23	(100)	(164)
Future forward foreign exchange contract cash flows	32	(161)	26	103	–
	34	(62)	50	7	29

Financial instruments included in trade and other receivables comprise trade receivables, accrued income and other receivables which qualify as financial instruments. Similarly, financial instruments included in trade and other payables comprise trade payables, accrued expenses and other payables that qualify as financial instruments.

Based on the assets and liabilities held at the year-end, if the specified currencies were to strengthen 10% while all other market rates remained constant, the change in the fair value of financial instruments not designated as net investment hedges would have the following effect:

	Impact on profit for the year FY2021 £m	Gain/(loss) recognised in reserves FY2021 £m	Impact on profit for the year FY2020 £m	Gain/(loss) recognised in reserves FY2020 £m
US dollar	3	2	(8)	(2)
Euro	2	(5)	(3)	2
Sterling	(1)	2	3	(2)

These sensitivities were calculated before adjusting for tax and exclude the effect of quasi-equity intra-group loans.

## 19 Financial risk management continued

### Cash-flow hedging

The Group uses forward foreign exchange contracts to hedge future foreign currency sales and purchases. At 31 July 2021, contracts with a nominal value of £107m (FY2020: £110m) were designated as hedging instruments. In addition, the Group had outstanding foreign currency contracts with a nominal value of £251m (FY2020: £203m) which were being used to manage transactional foreign exchange exposures, but were not accounted for as cash-flow hedges. The fair value of the contracts is disclosed in note 20.

The majority of hedged transactions will be recognised in the consolidated income statement in the same period that the cash-flows are expected to occur, with the only differences arising because of normal commercial credit terms on sales and purchases. It is the Group's policy to hedge 80% of certain exposures for the next two years and 50% of highly probable exposures for the next 12 months.

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedging instrument. The foreign exchange forward contracts have similar critical terms to the hedged items, such as the notional amounts and maturities. Therefore, there is an economic relationship and the hedge ratio is established as 1:1.

The main sources of hedge ineffectiveness in these hedging relationships are the effect of the Group's and the counterparty credit risks on the fair value of the foreign exchange forward contracts, which is not reflected in the fair value of the hedged item and the risk of over-hedging where the hedge relationship requires re-balancing. No other sources of ineffectiveness emerged from these hedging relationships. Any hedge ineffectiveness is recognised immediately in the income statement in the period that it occurs. Of the foreign exchange contracts designated as hedging instruments, 89% are for periods of 12 months or less (FY2020: 98%).

The following table presents a reconciliation by risk category of the cash-flow hedge reserve and analysis of other comprehensive income in relation to hedge accounting:

	Year ended 31 July 2021 £m	Year ended 31 July 2020 £m
Brought forward cash-flow hedge reserve at start of year	—	—
Foreign exchange forward contracts:		
Net fair value gains on effective hedges	1	1
Amount reclassified to income statement – revenue	—	(2)
Amount reclassified to income statement – cost of sales	1	1
<b>Carried forward cash-flow hedge reserve at end of year</b>	<b>2</b>	—

The following tables set out information regarding the change in value of the hedged item used in calculating hedge ineffectiveness as well as the impacts on the cash-flow hedge reserve:

Hedged item	Hedged exposure	Hedging instrument	Financial year	Changes in value of the hedged item for calculating ineffectiveness £m	Changes in value of the hedging instrument for calculating ineffectiveness £m	Cash-flow hedge reserve £m
				£m	£m	
Sales and purchases	Foreign currency risk	Foreign exchange contracts	FY2021	1	(1)	1
			FY2020	1	(1)	1

Cash-flow hedges generated £nil of ineffectiveness in FY2021 (FY2020: £nil) which was recognised in the income statement through finance costs.

### Translational currency exposure

The Group has significant investments in overseas operations, particularly in the US and Europe. As a result, the sterling value of the Group's balance sheet can be significantly affected by movements in exchange rates. The Group seeks to mitigate the effect of these translational currency exposures by matching the net investment in overseas operations with borrowings denominated in their functional currencies, except where significant adverse interest differentials or other factors would render the cost of such hedging activity uneconomic. This is achieved by borrowing primarily in the relevant currency or in some cases indirectly using cross-currency swaps.

### Net investment hedges

The table below sets out the currency of loans and swap contracts designated as net investment hedges:

	At 31 July 2021			At 31 July 2020		
	US\$ £m	Euro £m	Total £m	US\$ £m	Euro £m	Total £m
Loans designated as net investment hedges	(285)	(459)	(744)	(303)	(484)	(787)
Cross-currency swap	(539)	—	(539)	(572)	—	(572)
	<b>(824)</b>	<b>(459)</b>	<b>(1,283)</b>	<b>(875)</b>	<b>(484)</b>	<b>(1,359)</b>

At 31 July 2021, cross-currency swaps hedged the Group's exposure to US Dollars and Euros (31 July 2020: US Dollars and Euros). All the cross-currency swaps designated as net investment hedges were non-current (FY2020: non-current).

Swaps generating £310m of the US Dollar exposure (FY2020: £329m) will mature in April 2023 and swaps generating £229m of the US Dollar exposure (FY2020: £243m) will mature in February 2027.

In addition, non-swapped borrowings were also used to hedge the Group's exposure to US Dollars and Euros (31 July 2020 US Dollars and Euros). Borrowings generating £285m of the US Dollar exposure (FY2020: £303m) will mature in October 2022. Borrowings generating £508m of the Euro exposure (FY2020: £536m) will mature in April 2023 and borrowings generating £292m of the Euro exposure (FY2020: £308m) will mature in February 2027.

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedging instrument. The swaps and borrowings have the same notional amount as the hedged items and therefore, there is an economic relationship with the hedge ratio established as 1:1.

The main sources of hedge ineffectiveness in these hedging relationships is the effect of the counterparty and the Group's own credit risk on the fair value of the foreign exchange forward contracts which is not reflected in the fair value of the hedged item and the risk of over-hedging where the hedge relationship requires re-balancing. No other sources of ineffectiveness emerged from these hedging relationships. Any hedge ineffectiveness is recognised immediately in the income statement in the period that it occurs.

The following table presents a reconciliation by risk category of the net investment hedge reserve and analysis of other comprehensive income in relation to hedge accounting:

	Year ended 31 July 2021 £m	Year ended 31 July 2020 £m
Brought forward net investment hedge reserve at start of year	(314)	(383)
Cross-currency swaps	14	37
Bonds	62	32
<b>Carried forward net investment hedge reserve at end of year</b>	<b>(238)</b>	<b>(314)</b>

The following table sets out information regarding the change in value of the hedged item used in calculating hedge ineffectiveness as well as the impacts on the net investment hedge reserve as at 31 July 2021 and 31 July 2020:

Hedged item	Hedged exposure	Hedging instrument	Financial year	Changes in value of the hedged item for calculating ineffectiveness	Changes in value of the hedging instrument for calculating ineffectiveness	Net investment hedge reserve £m
				£m	£m	
Overseas operation	Foreign currency risk	Cross-currency swaps	FY2021	(14)	17	14
		Bonds	FY2021	(62)	62	62
				<b>(76)</b>	<b>79</b>	<b>76</b>
Overseas operation	Foreign currency risk	Cross-currency swaps	FY2020	(37)	40	37
		Bonds	FY2020	(32)	32	32
				<b>(69)</b>	<b>72</b>	<b>69</b>

Net investment hedges generated £3m of ineffectiveness in FY2021 (FY2020: £3m) which was recognised in the income statement through finance costs.

The fair values of these net investment hedges are subject to exchange rate movements. Based on the hedging instruments in place at the year-end, if the specified currencies were to strengthen 10% while all other market rates remained constant, it would have the following effect:

	Loss recognised in hedge reserve	Loss recognised in hedge reserve
	31 July 2021 £m	31 July 2020 £m
US dollar	92	97
Euro	51	54

These movements would be fully offset by an opposite movement on the retranslation of the net assets of the overseas subsidiaries. These sensitivities were calculated before adjusting for tax.

### **(b) Interest rate risk**

The Group operates an interest rate policy designed to optimise interest cost and reduce volatility in reported earnings. The Group's current policy is to require interest rates to be fixed within a band of between 40% and 60 % of the level of gross debt. This is achieved through fixed rate borrowings and interest rate swaps. At 31 July 2021, 54% (FY2020: 53%) of the Group's gross borrowings were at fixed interest rates, after adjusting for interest rate swaps and the impact of short maturity derivatives designated as net investment hedges.

The Group monitors its fixed rate risk profile against both gross and net debt. For medium-term planning, it focuses on gross debt to eliminate the fluctuations of variable cash levels over the cycle. The weighted average interest rate on borrowings and cross-currency swaps at 31 July 2021, after interest rate swaps, was 2.06% (FY2020: 2.20%).

## 19 Financial risk management continued

### Interest rate profile of financial assets and liabilities and the fair value of borrowings

The following table shows the interest rate risk exposure of investments, cash and borrowings, with the borrowings adjusted for the impact of interest rate hedging. Other financial assets and liabilities do not earn or bear interest, and for all financial instruments except borrowings, the carrying value is not materially different from their fair value.

	As at 31 July 2021				As at 31 July 2020			
	At fair value through profit or loss £m	Cash and cash equivalents £m	Borrowings £m	Fair value of borrowings £m	At fair value through profit or loss £m	Cash and cash equivalents £m	Borrowings £m	Fair value of borrowings £m
<b>Fixed interest</b>								
Less than one year	–	–	(36)	(36)	–	–	(41)	(41)
Between one and five years	–	–	(418)	(434)	–	–	(423)	(429)
Greater than five years	–	–	(321)	(353)	–	–	(322)	(334)
<b>Total fixed interest financial liabilities</b>	<b>–</b>	<b>–</b>	<b>(775)</b>	<b>(823)</b>	<b>–</b>	<b>–</b>	<b>(786)</b>	<b>(804)</b>
Floating rate interest financial assets/(liabilities)*	4	333	(727)	(736)	8	305	(775)	(775)
<b>Total interest-bearing financial assets/(liabilities)</b>	<b>4</b>	<b>333</b>	<b>(1,502)</b>	<b>(1,559)</b>	<b>8</b>	<b>305</b>	<b>(1,561)</b>	<b>(1,579)</b>
Non-interest-bearing assets in the same category	7	72	–	–	11	61	–	–
<b>Total</b>	<b>11</b>	<b>405</b>	<b>(1,502)</b>	<b>(1,559)</b>	<b>19</b>	<b>366</b>	<b>(1,561)</b>	<b>(1,579)</b>

\* Fair value gains and losses in this category of assets are recognised in other comprehensive income.

### Interest rate hedging

The Group also has exposures to the fair values of non-derivative financial instruments such as EUR and USD fixed rate borrowings.

To manage the risk of changes in these fair values, the Group has entered into fixed-to-floating interest rate swaps and cross-currency interest rate swaps which for accounting purposes are designated as fair value hedges.

At 31 July 2021 and 31 July 2020, the Group had designated the following hedges against variability in the fair value of borrowings arising from fluctuations in base rates:

- \$150m interest rate swap which matures on 12 October 2022 partially hedging the USD 2022 Guaranteed notes;
- €400m of the fixed/floating element of the EUR/USD interest rate swaps that mature on 28 April 2023 partially hedging the € 2023 Eurobond; and
- €300m of the fixed/floating and € exchange exposure of EUR/USD interest rate swaps maturing on 23 February 2027 partially hedging the € 2027 Eurobond.

The fair values of the hedging instruments are disclosed in note 20. The effect of the swaps was to convert £705m (FY2020: £745m) debt from fixed rate to floating rate. The swaps have similar critical terms to the hedged items, such as the reference rate, reset dates, notional amounts, payment dates and maturities. Therefore, there is an economic relationship and the hedge ratio is established as 1:1. Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedging instrument.

The main sources of hedge ineffectiveness in these hedging relationships is the effect of the currency basis risk on cross-currency interest rate swaps which are not reflected in the fair value of the hedged item. No other sources of ineffectiveness emerged from these hedging relationships. Any hedge ineffectiveness was recognised immediately in the income statement in the period in which it occurred.

The following table sets out the details of the hedged exposures covered by the Group's fair value hedges:

Hedged item	Hedged exposure	Financial year	Changes in value of hedged item for calculating ineffectiveness £m	Changes in value of the hedging instrument for calculating ineffectiveness £m	Carrying amount		Accumulated fair value adjustments on hedged item	
			Assets £m	Liabilities £m	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Fixed rate bonds (a)	Interest rate risk	FY2021	5	(5)	–	449	–	6
	Interest rate & currency rate risk	FY2021	4	(7)	–	256	–	16
Fixed rate bonds (a)	Interest rate risk	FY2020	10	1	–	475	–	11
	Interest rate & currency rate risk	FY2020	–	(5)	–	270	–	20
			10	(4)	–	745	–	31

(a) Classified as borrowings

Fair value hedges generated a £3m ineffectiveness in FY2021 (FY2020: £6m) which was recognised in the income statement through finance costs.

### Sensitivity of interest charges to interest rate movements

The Group has exposure to sterling, US dollar and euro interest rates. However, the Group does not have a significant exposure to interest rate movements for any individual currency. Based on the composition of net debt and investments at 31 July 2021, and taking into consideration all fixed rate borrowings and interest rate swaps in place, a one percentage point (100 basis points) change in average floating interest rates for all three currencies would have less than £5m impact (FY2020: £5m impact) on the Group's profit before tax.

### Impact of LIBOR transition

The UK Financial Conduct Authority announced on 5 March 2021 that LIBOR benchmark rates will be discontinued after 31 December 2021 except the majority of US dollar settings which will be discontinued after 30 June 2023. The Group is exposed to interest rate benchmark reform on its interest rate swaps and cross-currency interest rate swaps which reference 3 month and 6 month USD LIBOR, have an aggregate nominal value of USD 899m, and mature between October 2022 and February 2027. In April 2021 the Group confirmed adherence to the ISDA 2020 IBOR Fallbacks Protocol as published by the International Swaps and Derivatives Association, Inc. (ISDA) on 23 October 2021 (the Protocol), ensuring that appropriate fallbacks can apply to these derivatives in the event of LIBOR discontinuation.

The Group believes that any outstanding contracts on 1 January 2022 with interest rates based on LIBOR benchmarks will adequately provide for alternate calculations of interest in the event they are unavailable.

### (c) Financial credit risk

The Group is exposed to credit-related losses in the event of non-performance by counterparties to financial instruments, but does not currently expect any counterparties to fail to meet their obligations. Credit risk is mitigated by the Board-approved policy of only placing cash deposits with highly rated relationship bank counterparties within counterparty limits established by reference to their Standard & Poor's long-term debt rating. In the normal course of business, the Group operates cash pooling systems, where a legal right of set-off applies.

The maximum credit risk exposure in the event of other parties failing to perform their obligations under financial assets, excluding trade and other receivables and derivatives, totals £416m at 31 July 2021 (FY2020: £385m).

	31 July 2021 £m	31 July 2020 £m
Cash in AAA liquidity funds	116	160
Cash at banks with at least a AA- credit rating	46	28
Cash at banks with all other A credit ratings	237	164
Cash at other banks	6	14
Investments in bank deposits	4	11
Other investments	7	8
	<b>416</b>	<b>385</b>

At 31 July 2021, the maximum exposure with a single bank for deposits and cash was £79m (FY2020: £124m), whilst the maximum mark to market exposure with a single bank for derivatives was £26m (FY2020: £29m). These banks have AAA and AA- credit ratings respectively (FY2020: Both AAA and AA-).

### (d) Liquidity risk

#### Borrowing facilities

Board policy specifies the maintenance of unused committed credit facilities of at least £300m at all times to ensure that the Group has sufficient available funds for operations and planned development. The Group has Revolving Credit Facilities of \$110m maturing on 1 November 2023 and \$690m maturing 1 November 2024. At the balance sheet date, the Group had the following undrawn credit facilities:

	31 July 2021 £m	31 July 2020 £m
Expiring after more than two years	<b>575</b>	<b>611</b>

#### Cash deposits

As at 31 July 2021, £186m (FY2020: £192m) of cash and cash equivalents was on deposit with various banks of which £nil (FY2020: £12m) was on deposit with UK banks, and £116m (FY2020: £160m) was in liquidity funds. £4m (FY2020: £11m) of investments comprised bank deposits held to secure liabilities and letters of credit.

#### Gross contractual cash-flows for borrowings

	As at 31 July 2021				As at 31 July 2020			
	Borrowings (note 18) £m	Fair value adjustments £m	Contractual interest payments £m	Total contractual cash-flows £m	Borrowings (note 18) £m	Fair value adjustments £m	Contractual interest payments £m	Total contractual cash-flows £m
Less than one year	(36)	–	(28)	(64)	(41)	–	(30)	(71)
Between one and two years	(823)	(6)	(23)	(852)	(20)	–	(30)	(50)
Between two and three years	(20)	–	(11)	(31)	(870)	22	(24)	(872)
Between three and four years	(14)	–	(11)	(25)	(10)	–	(12)	(22)
Between four and five years	(10)	–	(11)	(21)	(8)	–	(12)	(20)
Greater than five years	(577)	(16)	(11)	(604)	(612)	9	(24)	(627)
<b>Total</b>	<b>(1,480)</b>	<b>(22)</b>	<b>(95)</b>	<b>(1,597)</b>	<b>(1,561)</b>	<b>31</b>	<b>(132)</b>	<b>(1,662)</b>

The figures presented in the borrowings column include the non-cash adjustments which are highlighted in the adjacent column. The contractual interest reported for borrowings is before the effect of interest rate swaps.

## NOTES TO THE ACCOUNTS CONTINUED

### 19 Financial risk management continued

#### Gross contractual cash-flows for derivative financial instruments

	As at 31 July 2021			As at 31 July 2020		
	Receipts £m	Payments £m	Net cash-flow £m	Receipts £m	Payments £m	Net cash-flow £m
<b>Assets</b>						
Less than one year	142	(144)	(2)	174	(175)	(1)
Greater than one year	642	(568)	74	674	(595)	79
<b>Liabilities</b>						
Less than one year	220	(219)	1	144	(144)	–
Greater than one year	3	(2)	1	–	3	3
<b>Total</b>	<b>1,007</b>	<b>(933)</b>	<b>74</b>	<b>992</b>	<b>(911)</b>	<b>81</b>

This table above presents the undiscounted future contractual cash-flows for all derivative financial instruments. For this disclosure, cash-flows in foreign currencies are translated using the spot rates at the balance sheet date. The fair values of these financial instruments are presented in note 20.

#### Gross contractual cash-flows for other financial liabilities

The contractual cash-flows for financial liabilities included in trade and other payables were £351m (FY2020: £331m) due in less than one year, £8m (FY2020: £6m) due between one and five years, and £nil (FY2020: £3m) due after more than five years.

### 20 Derivative financial instruments

The tables below set out the nominal amount and fair value of derivative contracts held by the Group, identifying the derivative contracts which qualify for hedge accounting treatment:

	Contract or underlying nominal amount £m	At 31 July 2021		
		Assets £m	Liabilities £m	Fair value £m
<b>Foreign exchange contracts</b>				
Foreign exchange contracts (cash-flow hedges)	107	1	(2)	(1)
Foreign exchange contracts (not hedge accounted)	251	1	(1)	–
<b>Total foreign exchange contracts</b>	<b>358</b>	<b>2</b>	<b>(3)</b>	<b>(1)</b>
Cross-currency swaps (fair value and net investment hedges)	539	72	–	72
Interest rate swaps (fair value hedges)	108	3	–	3
<b>Total financial derivatives</b>	<b>1,005</b>	<b>77</b>	<b>(3)</b>	<b>74</b>
Balance sheet entries:				
Non-current	655	75	–	75
Current	350	2	(3)	(1)
<b>Total financial derivatives</b>	<b>1,005</b>	<b>77</b>	<b>(3)</b>	<b>74</b>

	Contract or underlying nominal amount £m	At 31 July 2020		
		Assets £m	Liabilities £m	Fair value £m
<b>Foreign exchange contracts</b>				
Foreign exchange contracts (cash-flow hedges)	110	1	(1)	–
Foreign exchange contracts (not hedge accounted)	203	1	(3)	(2)
<b>Total foreign exchange contracts</b>	<b>313</b>	<b>2</b>	<b>(4)</b>	<b>(2)</b>
Cross-currency swaps (fair value and net investment hedges)	572	78	–	78
Interest rate swaps (fair value hedges)	114	4	–	4
<b>Total financial derivatives</b>	<b>999</b>	<b>84</b>	<b>(4)</b>	<b>80</b>
Balance sheet entries:				
Non-current	690	82	–	82
Current	309	2	(4)	(2)
<b>Total financial derivatives</b>	<b>999</b>	<b>84</b>	<b>(4)</b>	<b>80</b>

The maturity profile, average interest and foreign currency exchange rates of the hedging instruments used in the Group's hedging strategies are as follows:

Hedged exposure	Hedging instrument	Maturity at 31 July 2021			Maturity at 31 July 2020		
		Up to one year	One to five years	More than five years	Up to one year	One to five years	More than five years
<b>Fair value hedges</b>							
Interest rate risk	Interest rate swaps	– Notional amount (£m)	–	108	–	–	114
	– USD	– Average spread over 6 month USD LIBOR	–	1.797%	–	–	1.797%
	Interest rate swaps	– Notional amount (£m)	–	341	–	–	360
	– EUR	– Average spread over 3 month EUR LIBOR	–	1.015%	–	–	1.015%
Interest rate risk/ Foreign currency risk	Cross-currency swaps (EUR:GBP)	– Notional amount (£m)	–	254	–	–	254
		– Average exchange rate	–	0.845	–	–	0.845
		– Average spread over 3 month GBP LIBOR	–	1.750%	–	–	1.750%
<b>Net investment hedges</b>							
Foreign currency risk	Cross-currency swaps (EUR:USD)	– Notional amount (£m)	–	310	–	–	329
		– Average exchange rate	–	1.0773	–	–	1.0773
	Cross-currency swaps (GBP:USD)	– Notional amount (£m)	–	229	–	–	243
		– Average exchange rate	–	1.2534	–	–	1.2534
<b>Cash-flow hedges</b>							
Foreign currency risk	Foreign exchange contracts (EUR:USD)	– Notional amount (£m)	47	5	–	59	3
		– Average exchange rate	1.1915	1.2205	–	1.0744	1.1731
	Foreign exchange contracts (EUR:GBP)	– Notional amount (£m)	31	3	–	19	–
		– Average exchange rate	0.8996	0.9094	–	0.9483	–
	Foreign exchange contracts (EUR:AUD)	– Notional amount (£m)	7	–	–	8	–
		– Average exchange rate	1.5832	–	–	1.6544	–
	Foreign exchange contracts (USD:GBP)	– Notional amount (£m)	8	–	–	10	–
		– Average exchange rate	1.3577	–	–	1.2589	–
	Foreign exchange contracts (GBP:CZK)	– Notional amount (£m)	6	–	–	6	–
		– Average exchange rate	29.7028	–	–	29.7191	–
	Foreign exchange contracts (USD:JPY)	– Notional amount (£m)	–	–	–	4	1
		– Average exchange rate	–	–	–	103.0538	100.6200

At 31 July 2021, the Group had forward foreign exchange contracts with a nominal value of £107m (FY2020: £110m) designated as cash-flow hedges. These forward foreign exchange contracts are in relation to sale and purchase of multiple currencies with varying maturities up to 20 July 2023. The largest single currency pairs are disclosed above and make up 100% of the notional hedged exposure. The notional and fair values of these foreign exchange forward derivatives are shown in the nominal amount and fair value of derivative contracts table on page 188.

### Accounting for other derivative contracts

Any foreign exchange contracts which are not formally designated as hedges and tested are classified as 'held for trading' and not hedge accounted.

### Netting

International Swaps and Derivatives Association (ISDA) master netting agreements are in place with derivative counterparties except for contracts traded on a dedicated international electronic trading platform used for operational foreign exchange hedging. Under these agreements if a credit event occurs, all outstanding transactions under the ISDA are terminated and only a single net amount per counterparty is payable in settlement of all transactions. The ISDA agreements do not meet the criteria for offsetting, since the offsetting is enforceable only if specific events occur in the future, and there is no intention to settle the contracts on a net basis.

	Assets 31 July 2021 £m	Liabilities 31 July 2021 £m	Assets 31 July 2020 £m	Liabilities 31 July 2020 £m
Gross value of assets and liabilities	77	(3)	84	(4)
Related assets and liabilities subject to master netting agreements	(1)	1	(2)	2
<b>Net exposure</b>	<b>76</b>	<b>(2)</b>	<b>82</b>	<b>(2)</b>

**NOTES TO THE ACCOUNTS**  
CONTINUED

## 21 Fair value of financial instruments

As at 31 July 2021	Notes	Basis for determining fair value	At amortised cost £m	At fair value through profit or loss £m	At fair value through OCI £m	Total carrying value £m	Total fair value £m
<b>Financial assets</b>							
Other investments	17	A	–	4	–	4	4
Other investments	17	E	–	–	7	7	7
Cash and cash equivalents	18	A	289	116	–	405	405
Trade and other financial receivables	15	A/B	689	–	–	689	689
Derivative financial instruments	20	B	–	77	–	77	77
<b>Total financial assets</b>			<b>978</b>	<b>197</b>	<b>7</b>	<b>1,182</b>	<b>1,182</b>
<b>Financial liabilities</b>							
Trade and other financial payables	16	A	(589)	–	–	(589)	(589)
Short-term borrowings	18	C	(9)	–	–	(9)	(9)
Long-term borrowings	18	C	(1,372)	–	–	(1,372)	(1,429)
Lease liabilities	18	D	(121)	–	–	(121)	(121)
Derivative financial instruments	20	B	–	(3)	–	(3)	(3)
<b>Total financial liabilities</b>			<b>(2,091)</b>	<b>(3)</b>	<b>–</b>	<b>(2,094)</b>	<b>(2,151)</b>
As at 31 July 2020	Notes	Basis for determining fair value	At amortised cost £m	At fair value through profit or loss £m	At fair value through OCI £m	Total carrying value £m	Total fair value £m
<b>Financial assets</b>							
Other investments	17	A	–	11	–	11	11
Other investments	17	E	–	–	8	8	8
Cash and cash equivalents	18	A	206	160	–	366	366
Trade and other financial receivables	15	A/B	679	–	–	679	679
Derivative financial instruments	20	B	–	84	–	84	84
<b>Total financial assets</b>			<b>885</b>	<b>255</b>	<b>8</b>	<b>1,148</b>	<b>1,148</b>
<b>Financial liabilities</b>							
Trade and other financial payables	16	A	(578)	–	–	(578)	(578)
Short-term borrowings	18	C	(10)	–	–	(10)	(10)
Long-term borrowings	18	C	(1,455)	–	–	(1,455)	(1,473)
Lease liabilities	18	D	(96)	–	–	(96)	(96)
Derivative financial instruments	20	B	–	(4)	–	(4)	(4)
<b>Total financial liabilities</b>			<b>(2,139)</b>	<b>(4)</b>	<b>–</b>	<b>(2,143)</b>	<b>(2,161)</b>

The fair value of a financial instrument is the price at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction. Fair values have been determined with reference to available market information at the balance sheet date, using the methodologies described below:

- A Carrying value is assumed to be a reasonable approximation to fair value for all of these assets and liabilities (Level 2 as defined by IFRS 13 Fair Value Measurement).
  - B Fair values of derivative financial assets and liabilities and trade receivables held to collect or sell are estimated by discounting expected future contractual cash-flows using prevailing interest rate curves. Amounts denominated in foreign currencies are valued at the exchange rate prevailing at the balance sheet date. These financial instruments are included on the balance sheet at fair value, derived from observable market prices (Level 2 as defined by IFRS 13 Fair Value Measurement).
  - C Borrowings are carried at amortised cost. Amounts denominated in foreign currencies are valued at the exchange rate prevailing at the balance sheet date. The fair value of borrowings is estimated using quoted prices (Level 1 as defined by IFRS 13).
  - D Leases are carried at amortised cost. Amounts denominated in foreign currencies are valued at the exchange rate prevailing at the balance sheet date. The fair value of the lease contract is estimated by discounting contractual future cash-flows (Level 2 as defined by IFRS 13).
  - E The fair value of investments is estimated as Level 3 as defined by IFRS 13.
- IFRS 13 defines a three level valuation hierarchy:
- Level 1 – quoted prices for similar instruments
  - Level 2 – directly observable market inputs other than Level 1 inputs
  - Level 3 – inputs not based on observable market data

## 22 Commitments

At 31 July 2021, commitments, comprising bonds and guarantees arising in the normal course of business, amounted to £210m (FY2020: £240m), including pension commitments of £54m (FY2020: £54m). In addition, the Group has committed expenditure on capital projects amounting to £4m (2020: £6m).

## 23 Provisions and contingent liabilities

	Trading £m	Non-headline and legacy			Total £m
		John Crane, Inc. litigation £m	Titeflex Corporation litigation £m	Other £m	
<b>At 31 July 2019</b>	<b>18</b>	<b>237</b>	<b>74</b>	<b>22</b>	<b>351</b>
Foreign exchange rate movements	(1)	(17)	(5)	(1)	(24)
Provision charged	9	30	1	3	43
Provision released	(4)	–	–	(1)	(5)
Unwind of provision discount	–	4	1	–	5
Utilisation	(8)	(23)	(5)	(3)	(39)
<b>At 31 July 2020</b>	<b>14</b>	<b>231</b>	<b>66</b>	<b>20</b>	<b>331</b>
Current liabilities	12	26	13	4	55
Non-current liabilities	2	205	53	16	276
<b>At 31 July 2020</b>	<b>14</b>	<b>231</b>	<b>66</b>	<b>20</b>	<b>331</b>
Foreign exchange rate movements	(1)	(12)	(4)	(1)	(18)
Provision charged	7	5	–	–	12
Provision released	(4)	–	(13)	–	(17)
Unwind of provision discount	–	1	1	–	2
Utilisation	(6)	(13)	(3)	(2)	(24)
Business combinations (note 27)	1	–	–	–	1
<b>At 31 July 2021</b>	<b>11</b>	<b>212</b>	<b>47</b>	<b>17</b>	<b>287</b>
Current liabilities	10	26	8	2	46
Non-current liabilities	1	186	39	15	241
<b>At 31 July 2021</b>	<b>11</b>	<b>212</b>	<b>47</b>	<b>17</b>	<b>287</b>

The John Crane, Inc. and Titeflex Corporation litigation provisions were the only provisions that were discounted; other provisions have not been discounted as the impact would be immaterial.

### Trading

The provisions included as trading represent amounts provided for in the ordinary course of business. Trading provisions are charged and released through headline profit.

### Warranty provision and product liability

At 31 July 2021, the Group had warranty and product liability provisions of £9m (FY2020: £13m). Warranties over the Group's products typically cover periods of between one and three years. Provision is made for the likely cost of after-sales support based on the recent past experience of individual businesses.

### Commercial disputes and litigation in respect of ongoing business activities

The Group has on occasion been required to take legal action to protect its intellectual property and other rights against infringement. It has also had to defend itself against proceedings brought by other parties, including product liability and insurance subrogation claims. Provision is made for any expected costs and liabilities in relation to these proceedings where appropriate, although there can be no guarantee that such provisions (which may be subject to potentially material revision from time to time) will accurately predict the actual costs and liabilities that may be incurred.

## 23 Provisions and contingent liabilities continued

### Contingent liabilities

In the ordinary course of its business, the Group is subject to commercial disputes and litigation such as government price audits, product liability claims, employee disputes and other kinds of lawsuits, and faces different types of legal issues in different jurisdictions. The high level of activity in the US, for example, exposes the Group to the likelihood of various types of litigation commonplace in that country, such as 'mass tort' and 'class action' litigation, legal challenges to the scope and validity of patents, and product liability and insurance subrogation claims. These types of proceedings (or the threat of them) are also used to create pressure to encourage negotiated settlement of disputes. Any claim brought against the Group (with or without merit) could be costly to defend. These matters are inherently difficult to quantify. In appropriate cases a provision is recognised based on best estimates and management judgement but there can be no guarantee that these provisions (which may be subject to potentially material revision from time to time) will result in an accurate prediction of the actual costs and liabilities that may be incurred. There are also contingent liabilities in respect of litigation for which no provisions are made.

The Group operates in some markets where the risk of unethical or corrupt behaviour is material and has procedures, including an employee 'Ethics Alertline', to help it identify potential issues. Such procedures will, from time to time, give rise to internal investigations, sometimes conducted with external support, to ensure that the Group properly understands risks and concerns and can take steps both to manage immediate issues and to improve its practices and procedures for the future. The Group is not aware of any issues which are expected to generate material financial exposures.

### Non-headline and legacy

#### John Crane, Inc.

John Crane, Inc. (JCI) is one of many co-defendants in numerous lawsuits pending in the United States in which plaintiffs are claiming damages arising from alleged exposure to, or use of, products previously manufactured which contained asbestos. Until 2006, the awards, the related interest and all material defence costs were met directly by insurers. In 2007, JCI secured the commutation of certain insurance policies in respect of product liability. Provision is made in respect of the expected costs of defending known and predicted future claims and of adverse judgements in relation thereto, to the extent that such costs can be reliably estimated.

The JCI products generally referred to in these cases consist of industrial sealing product, primarily packing and gaskets. The asbestos was encapsulated within these products in such a manner that causes JCI to believe, based on tests conducted on its behalf, that the products were safe. JCI ceased manufacturing products containing asbestos in 1985.

JCI continues to actively monitor the conduct and effect of its current and expected asbestos litigation, including the most efficacious presentation of its 'safe product' defence, and intends to continue to resist these asbestos claims based upon this defence. The table below summarises the JCI claims experience over the last 40 years since the start of this litigation:

	Year ended 31 July 2021	Year ended 31 July 2020	Year ended 31 July 2019	Year ended 31 July 2018	Year ended 31 July 2017
<b>JCI claims experience</b>					
Claims against JCI that have been dismissed	305,000	297,000	285,000	277,000	273,000
Claims JCI is currently a defendant in	22,000	25,000	38,000	43,000	50,000
Cumulative final judgements, after appeals, against JCI since 1979	149	149	144	140	138
Cumulative value of awards (\$'m) since 1979	175	175	168	164	160

The number of claims outstanding at 31 July 2021 reflected the benefit of 8,000 (FY2020: 12,000) claims being dismissed in the year.

JCI has also incurred significant additional defence costs. The litigation involves claims for a number of allegedly asbestos-related diseases, with awards, when made, for mesothelioma tending to be larger than those for the other diseases. JCI's ability to defend mesothelioma cases successfully is, therefore, likely to have a significant impact on its annual aggregate adverse judgement and defence costs.

#### John Crane, Inc. litigation provision

The provision is based on past history of JCI claims and well-established tables of asbestos-related disease incidence projections. The provision is determined using advice from asbestos valuation experts, Bates White LLC. The assumptions made in assessing the appropriate level of provision include: the period over which the expenditure can be reliably estimated; the future trend of legal costs; the rate of future claims filed; the rate of successful resolution of claims; and the average amount of judgements awarded. The provision utilised in the period is lower than previous periods, principally due to court closures and trial delays arising from the COVID-19 pandemic. Management believes this reduction in utilisation is temporary until after the effects of the pandemic subside and trial activity returns to pre-pandemic levels.

Established incidence curves can be used to estimate the likely future pattern of asbestos-related disease. However, JCI's claims experience is also significantly impacted by other factors which influence the US litigation environment. These can include: changing approaches on the part of the plaintiffs' bar; changing attitudes amongst the judiciary at both trial and appellate levels in specific jurisdictions which move the balance of risk and opportunity for claimants; and legislative and procedural changes in both the state and federal court systems.

The projections use a limited time horizon on the basis that Bates White LLC consider that there is substantial uncertainty in the asbestos litigation environment. So probable expenditures are not reasonably estimable beyond this time horizon. Asbestos is the longest running mass tort litigation in American history and is constantly evolving in ways that cannot be anticipated. JCI's defence strategy also generates a significantly different pattern of legal costs and settlement expenses from other defendants. Thus JCI is in an extremely rare position, and evidence from other litigation cannot be used to improve the reliability of the projections. A ten year (FY2020: ten year) time horizon has been used based on past experience regarding significant changes in the litigation environment that have occurred every few years and on the amount of time taken in the past for some of those changes to impact the broader asbestos litigation environment.

The rate of future claims filed has been estimated using well-established tables of asbestos incidence projections to determine the likely population of potential claimants, and JCI's past experience to determine what proportion of this population will make a claim against JCI. The JCI products generally referred to in claims had industrial and marine applications. As a result, the incidence curve used for JCI projections excludes construction workers, and is a composite of the curves that predict asbestos exposure-related disease from shipyards and other occupations. This is consistent with JCI's litigation history.

The rate of successful resolution of claims and the average amount of any judgements awarded are projected based on the past history of JCI claims, since this is the best available evidence, given JCI's unusual strategy of defending all claims.

The future trend of legal costs is estimated based on JCI's past experience, adjusted to reflect the assumed levels of claims and trial activity, since the number of trials is a key driver of legal costs.

#### **John Crane, Inc. litigation insurance recoveries**

While JCI has certain excess liability insurance, JCI has met defence costs directly. The calculation of the provision does not take account of any potential recoveries from insurers.

#### **John Crane, Inc. litigation provision history**

The JCI asbestos litigation provision of £212m (FY2020: £231m) is a discounted pre-tax provision using discount rates, being the risk-free rate on US debt instruments for the appropriate period. The deferred tax asset related to this provision is shown within the deferred tax balance (note 6).

The JCI asbestos litigation provision has developed over the last five years as follows:

	<b>Year ended 31 July 2021 £m</b>	Year ended 31 July 2020 £m	Year ended 31 July 2019 £m	Year ended 31 July 2018 £m	Year ended 31 July 2017 £m
<b>John Crane, Inc. litigation provision</b>					
Gross provision	220	235	257	251	260
Discount	(8)	(4)	(20)	(28)	(23)
Discounted pre-tax provision	<b>212</b>	<b>231</b>	<b>237</b>	<b>223</b>	<b>237</b>
Deferred tax	(54)	(59)	(50)	(48)	(79)
Discounted post-tax provision	<b>158</b>	<b>172</b>	<b>187</b>	<b>175</b>	<b>158</b>
<b>Operating profit charge/(credit)</b>					
Increased provisions for adverse judgements and legal defence costs	10	14	7	13	17
Change in US risk-free rates	(5)	16	8	(6)	(13)
Subtotal – items charged to the provision	5	30	15	7	4
Litigation management, legal fees in connection with litigation against insurers and defence strategy	1	1	2	3	11
Recoveries from insurers	(9)	(3)	(11)	–	(6)
Total operating profit charge/(credit)	<b>(3)</b>	<b>28</b>	<b>6</b>	<b>10</b>	<b>9</b>
<b>Cash-flow</b>					
Provision utilisation – legal defence costs and adverse judgements	(13)	(23)	(24)	(27)	(24)
Litigation management expense	–	(1)	(2)	(3)	(11)
Recoveries from insurers	9	3	11	–	6
Net cash outflow	<b>(4)</b>	<b>(21)</b>	<b>(15)</b>	<b>(30)</b>	<b>(29)</b>

#### **John Crane, Inc. litigation provision sensitivities**

The provision may be subject to potentially material revision from time to time if new information becomes available as a result of future events. There can be no guarantee that the assumptions used to estimate the provision will result in an accurate prediction of the actual costs that will be incurred because of the significant uncertainty associated with the future level of asbestos claims and of the costs arising out of related litigation.

#### **John Crane, Inc. statistical reliability of projections over the ten year time horizon**

In order to evaluate the statistical reliability of the projections, a population of outcomes is modelled using randomised verdict outcomes. This generated a distribution of outcomes with future spend at the 5th percentile of £191m and future spend at the 95th percentile of £246m (FY2020: £214m and £271m, respectively). Statistical analysis of the distribution of these outcomes indicates that there is a 50% probability that the total future spend will fall between £209m and £230m (FY2020: between £222m and £244m), compared to the gross provision value of £220m (FY2020: £235m).

## 23 Provisions and contingent liabilities continued

### Non-headline and legacy continued

#### John Crane, Inc. continued

##### John Crane, Inc. sensitivity of the projections to changes in the time horizon used

If the asbestos litigation environment becomes more volatile and uncertain, the time horizon over which the provision can be calculated may reduce. Conversely, if the environment became more stable, or JCI changed approach and committed to long-term settlement arrangements, the time period covered by the provision might be extended.

The projections use a ten year time horizon. Reducing the time horizon by one year would reduce the provision by £17m (FY2020: £20m) and reducing it by five years would reduce the provision by £93m (FY2020: £106m).

We consider, after obtaining advice from Bates White LLC, that to forecast beyond ten years requires that the litigation environment remains largely unchanged with respect to the historical experience used for estimating future asbestos expenditures. Historically, the asbestos litigation environment has undergone significant changes more often than every ten years. If one assumed that the asbestos litigation environment would remain unchanged for longer and extended the time horizon by one year, it would increase the pre-tax provision by £14m (FY2020: £17m) and extending it by five years would increase the pre-tax provision by £58m (FY2020: £69m). However, there are also reasonable scenarios that, given certain recent events in the US asbestos litigation environment, would result in no additional asbestos litigation for JCI beyond ten years. At this time, how the asbestos litigation environment will evolve beyond ten years is not reasonably estimable.

#### John Crane, Inc. contingent liabilities

Provision has been made for future defence costs and the cost of adverse judgements expected to occur. JCI's claims experience is significantly impacted by other factors which influence the US litigation environment. These can include: changing approaches on the part of the plaintiffs' bar; changing attitudes amongst the judiciary at both trial and appellate levels; and legislative and procedural changes in both the state and federal court systems. As a result, whilst the Group anticipates that asbestos litigation will continue beyond the period covered by the provision, the uncertainty surrounding the US litigation environment beyond this point is such that the costs cannot be reliably estimated.

Although the methodology used to calculate the JCI litigation provision can in theory be applied to show claims and costs for longer periods, the Directors consider, based on advice from Bates White LLC, that the level of uncertainty regarding the factors used in estimating future costs is too great to provide for reasonable estimation of the numbers of future claims, the nature of such claims or the cost to resolve them for years beyond the ten year time horizon.

#### Titeflex Corporation

Titeflex Corporation, a subsidiary of the Group in the Flex-Tek division, has received a number of claims in the US from insurance companies seeking recompense on a subrogated basis for the effects of damage allegedly caused by lightning strikes in relation to its flexible gas piping product. It has also received product liability claims regarding this product in the US, 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. Equivalent third-party products in the US market-place face similar challenges.

#### Titeflex Corporation litigation provision

The continuing progress of claims and the pattern of settlement, together with recent market-place activity, provide sufficient evidence to recognise a liability in the accounts. Therefore provision has been made for the costs which the Group is expected to incur in respect of future claims to the extent that such costs can be reliably estimated. Titeflex Corporation sells flexible gas piping with extensive installation and safety guidance designed to assure the safety of the product and minimise the risk of damage associated with lightning strikes.

The assumptions made in assessing the appropriate level of provision, which are based on past experience, include: the period over which expenditure can be reliably estimated; the number of future settlements; the average amount of settlements; and the impact of statutes of repose and safe installation initiatives on the expected number of future claims. The assumptions relating to the number of future settlements exclude the use of recent claims history due to the uncertain impact that the COVID-19 lockdown has had on the number of claims.

The provision of £47m (FY2020: £66m) is a discounted pre-tax provision using discount rates, being the risk-free rate on US debt instruments for the appropriate period. The deferred tax asset related to this provision is shown within the deferred tax balance (note 6).

	31 July 2021 £m	31 July 2020 £m
Gross provision	69	86
Discount	(22)	(20)
Discounted pre-tax provision	<b>47</b>	<b>66</b>
Deferred tax	(11)	(16)
Discounted post-tax provision	<b>36</b>	<b>50</b>

#### Titeflex Corporation litigation provision history

A credit of £13m (FY2020: £1m charge) has been recognised by Titeflex Corporation in respect of changes to the estimated cost of future claims from insurance companies seeking recompense for damage allegedly caused by lightning strikes. The lower gross provision value has been driven by foreign exchange rate movements, a reduction in the average number of claims per year and by decreasing US dollar discount rates.

### Titeflex Corporation litigation provision sensitivities

The significant uncertainty associated with the future level of claims and of the costs arising out of related litigation means that there can be no guarantee that the assumptions used to estimate the provision will result in an accurate prediction of the actual costs that will be incurred. Therefore the provision may be subject to potentially material revision from time to time, if new information becomes available as a result of future events.

The projections incorporate a long-term assumption regarding the impact of safe installation initiatives on the level of future claims. If the assumed annual benefit of bonding and grounding initiatives were 0.5% higher, the provision would be £4m (FY2020: £6m) lower, and if the benefit were 0.5% lower, the provision would be £4m (FY2020: £7m) higher.

The projections use assumptions of future claims that are based on both the number of future settlements and the average amount of those settlements. If the assumed average number of future settlements increased 10%, the provision would rise by £4m (FY2020: £5m), with an equivalent fall for a reduction of 10%. If the assumed amount of those settlements increased 10%, the provision would rise by £3m (FY2020: £3m), also with an equivalent fall for a reduction of 10%.

### Other non-headline and legacy

Legacy provisions comprise provisions relating to former business activities and properties no longer used by Smiths.

Non-headline provisions comprise all provisions that were disclosed as non-headline items when they were charged to the consolidated income statement. These provisions include non-headline reorganisation, disposal indemnities and litigation in respect of old products, and discontinued business activities.

### Reorganisation

At 31 July 2021, there were reorganisation provisions of £2m (FY2020: £3m) relating to the various restructuring programmes that are expected to be utilised in the next 18 months.

### Property

At 31 July 2021, there were provisions of £11m (FY2020: £12m) related to actual and potential environmental issues for sites currently or previously occupied by Smiths operations and Enil (FY2020: £1m) of dilapidations provisions.

## 24 Share capital

	Number of shares	Average number of shares	Issued capital £m	Consideration £m
<b>Ordinary shares of 37.5p each</b>				
Total share capital at 31 July 2019	395,956,781	395,936,520	148	
Exercise of share options	254,399	256,790	1	2
<b>Total share capital at 31 July 2020</b>	<b>396,211,180</b>	<b>396,193,310</b>	<b>149</b>	
Exercise of share options	165,934	157,276	–	2
<b>Total share capital at 31 July 2021</b>	<b>396,377,114</b>	<b>396,350,586</b>	<b>149</b>	

### Share capital structure

As at 31 July 2021, the Company's issued share capital was 396,377,114 ordinary shares with a nominal value of 37.5p per share. All of the issued share capital was in free issue and all issued shares are fully paid.

The Company's ordinary shares are listed and admitted to trading on the Main Market of the London Stock Exchange. The Company has an American Depository Receipt (ADR) programme and one ADR equates to one ordinary share. As at 31 July 2021, 4,892,064 ordinary shares were held by the nominee of the programme in respect of the same number of ADRs in issue.

The holders of ordinary shares are entitled to receive the Company's Reports and Accounts, to attend and speak at general meetings of the Company, to appoint proxies and to exercise voting rights. None of the ordinary shares carry any special rights with regards to control of the Company or distributions made by the Company.

There are no known agreements relating to, or restrictions on, voting rights attached to the ordinary shares (other than the 48 hour cut-off for casting proxy votes prior to a general meeting). There are no restrictions on the transfer of shares, and there is no requirement to obtain approval for a share transfer. There are no known arrangements under which financial rights are held by a person other than the holder of the ordinary shares. There are no known limitations on the holding of shares.

### Powers of Directors

The Directors are authorised to issue and allot shares and to buy back shares subject to annual shareholder approval at the AGM. Such authorities were granted by shareholders at the 2020 AGM, and at the 2021 AGM it will be proposed that the Directors be granted new authorities to allot and buy back shares.

### Repurchase of shares

The Company did not purchase any of its own shares in its own name during the financial year ended 31 July 2021. All share purchases have been made by an Employee Benefit Trust, with the shares acquired used to satisfy Company share plan commitments. As at 24 September 2021 (the latest practicable date for inclusion in this report), the Company had an unexpired authority to repurchase ordinary shares up to a maximum of 40m ordinary shares (FY2020: 40m). As at 24 September 2021, the Company did not hold any shares in treasury. Any ordinary shares purchased may be cancelled or held in treasury.

### Employment share schemes

Shares acquired through Company share schemes and plans rank pari passu with the shares in issue and have no special rights.

The Company operates an Employee Benefit Trust, with an independent trustee, to hold shares pending employees becoming entitled to them under the Company's share schemes and plans. On 31 July 2021, the trust held 326,364 (FY2020: nil) ordinary shares in the Company. The trust waived its dividend entitlement on its holding during the year, and the trust abstains from voting any shares held at general meetings.

## 25 Dividends

The following dividends were declared and paid in the period:

	<b>Year ended 31 July 2021 £m</b>	Year ended 31 July 2020 £m
Ordinary final dividend of 24.0p (FY2020: 31.8p) paid 20 November 2020	94	126
Ordinary delayed interim dividend of 11.0p (FY2020: nil) paid 20 November 2020	44	–
Ordinary interim dividend of 11.7p (FY2020: nil) paid 14 May 2021	47	–
	<b>185</b>	<b>126</b>

In the current year a total dividend of 46.7p has been paid, comprising a delayed interim dividend of 11.0p and a final dividend of 24.0p paid in respect of FY2020 and an interim dividend of 11.7p paid in respect of FY2021. In the comparative year an ordinary final dividend of 31.8p was paid in respect of FY2019.

The final dividend for the year ended 31 July 2021 of 26.0p per share was recommended by the Board on 24 September 2021 and will be paid to shareholders on 19 November 2021, subject to approval by the shareholders. This dividend is payable to all shareholders on the register of members at 6.00pm on 22 October 2021 (the record date).

## Waiver of dividends

The following waived all dividends payable in the year, and all future dividends, on their shareholdings in the Company:

- Wealth Nominees Limited (Smiths Industries Employee Share Trust)

## 26 Reserves

Retained earnings include the value of Smiths Group plc shares held by the Smiths Industries Employee Benefit Trust. In the year the Company issued 800,606 (FY2020: 1,234,907) shares to the Trust, and the Trust purchased 1,126,970 shares (FY2020: 1,181,849 shares) in the market for a consideration of £16m (FY2020: £18m). At 31 July 2021, the Trust held 326,364 (FY2020: nil) ordinary shares.

The capital redemption reserve, revaluation reserve and merger reserve arose from share repurchases, revaluations of property, plant and equipment, and merger accounting for business combinations before the adoption of IFRS, respectively.

## Capital management

Capital employed comprises total equity adjusted for goodwill recognised directly in reserves, net retirement benefit related assets and liabilities, net litigation provisions relating to non-headline items and net debt. The efficiency of the allocation of capital to the divisions is monitored through the return on capital employed (ROCE). This ratio is calculated over a rolling 12-month period and is the percentage that headline operating profit comprises of monthly average capital employed. In FY2021 ROCE was 13.2% (FY2020: 11.8%); see note 30.

Capital structure is based on the Directors' judgement of the balance required to maintain flexibility, whilst achieving an efficient cost of capital.

The FY2021 ratio of net debt to headline EBITDA of 1.6 (FY2020: 1.9) is within the Group's stated policy of 2.0 or less over the medium term. The Group's robust balance sheet and record of strong cash generation are more than able to fund immediate investment needs and legacy obligations. See note 30 for the definition of headline EBITDA and the calculation of this ratio.

As part of its capital management, the Group maintains a solid investment grade credit rating to ensure access to the widest possible sources of financing and to optimise the resulting cost of capital. At 31 July 2021, the Group had a credit rating of BBB+/Baa2 (FY2020: BBB+/Baa2) with Standard & Poor's and Moody's respectively.

The Board has a progressive dividend policy for future pay-outs, with the aim of increasing dividends in line with the long-term underlying growth in earnings. In setting the level of dividend payments, the Board will take into account prevailing economic conditions and future investment plans, along with the objective to maintain a minimum dividend cover of at least 2 times.

## Hedge reserve

The hedge reserve on the balance sheet comprises:

	<b>31 July 2021 £m</b>	31 July 2020 £m
Net investment hedge reserve from continuing operations (net of £8m of deferred tax (FY2020: £3m))	(230)	(311)
Cash-flow hedge reserve from discontinued operations	2	–
Net investment hedge reserve from discontinued operations	–	(1)
	<b>(228)</b>	<b>(312)</b>

See transactional currency exposure risk management disclosures in note 19 for additional details of cash-flow hedges, and translational currency exposure risk management disclosure also in note 19 for additional details of net investment hedges.

## Non-controlling interest

The Group has recorded non-controlling interests of £21m (FY2020: £21m), of which the most significant balance is in John Crane Japan Inc., which represented £20m (FY2020: £21m) of the total non-controlling interests.

The non-controlling interest in John Crane Japan Inc. represents a 30% interest. John Crane Japan Inc. generated operating profits of £5m in the period (FY2020: £9m), and cash inflows from operating activities of £6m (FY2020: £11m). It paid dividends of £2m (FY2020: £2m) and tax of £3m (FY2020: £3m). At 31 July 2021, the company contributed £57m (FY2020: £60m) of net assets to the Group.

## 27 Acquisitions

On 2 August 2020, Smiths Detection completed the acquisition of 100% of the share capital of PathSensors Inc for consideration of £5m. PathSensors Inc is a leading biotechnology solutions and environmental testing company providing, high-speed, high-sensitivity pathogen detection and biothreat prevention. This acquisition brings new technology to Smiths Detection to strengthen its position in the markets in which it operates.

Goodwill represents the expected synergies from the strategic fit of the acquisition and the value of the expertise in the workforce. From the date of acquisition to 31 July 2021, PathSensors Inc contributed £2m to revenue and a £1m loss before taxation. If the Group had acquired this business at the beginning of the financial year, the acquisition would have contributed the same value to revenue and profit.

On 16 February 2021, the Group's Flex-Tek division completed the acquisition of 100% of the share capital of Royal Metal Products, LLC (Royal Metal) for consideration of £78m. Consideration paid to acquire the business includes £4m paid to the previous owner to settle a bank loan to which the owner had previously issued guarantees.

Royal Metal is a manufacturer of metal duct products and flexible ducting used in commercial and residential construction, mainly in the South Eastern states of the US. This acquisition will complement the organic growth that Flex-Tek is already driving through the development of innovative air distribution products that support improved energy efficiency and indoor air quality.

Goodwill represents the expected synergies from the strategic fit of the acquisition and the value of the expertise in the assembled workforce. From the date of acquisition to 31 July 2021, Royal Metal contributed £33 million to revenue and £10 million to profit before taxation. If the Group had acquired this business at the beginning of the financial year, the acquisition would have contributed £64 million to revenue and £15 million to profit before taxation.

		PathSensors Inc £m	Royal Metal Products, LLC £m	Total £m
<b>Provisional fair values at acquisition date</b>				
Non-current assets	- acquired intangible assets	2	44	46
	- property, plant and machinery	-	2	2
	- right of use assets	-	10	10
Current assets	- inventories	-	10	10
	- trade and other receivables	-	8	8
Current liabilities	- lease liabilities	-	(1)	(1)
	- trade and other payables	-	(2)	(2)
	- provisions for liabilities and charges	-	(1)	(1)
Non-current liabilities	- lease liabilities	-	(10)	(10)
Total identifiable net assets		2	60	62
Goodwill		3	18	21
<b>Total</b>		<b>5</b>	<b>78</b>	<b>83</b>
Satisfied by:				
Cash paid during the year		5	78	83
<b>Total consideration</b>		<b>5</b>	<b>78</b>	<b>83</b>

## 28 Discontinued operations and businesses held for sale

In the prior year the Smiths Medical business was classified as discontinued and held for distribution to owners, as the Group was committed to pursue a demerger of Smiths Medical, whilst in parallel continuing to evaluate all opportunities for value maximisation. Following the Board decision in July 2021 to pursue a sale process, the balance sheet presentation of Smiths Medical has been updated to a business held for sale.

On 8 September 2021, the Group announced that it had agreed the sale of Smiths Medical to ICU Medical; see note 31 for further details of this Post Balance Sheet Event.

### Discontinued operations

The financial performance of the Smiths Medical business in the current and prior years is presented below:

	Year ended 31 July 2021			Year ended 31 July 2020		
	Headline £m	Non-headline (note 3) £m	Total £m	Headline £m	Non-headline (note 3) £m	Total £m
Revenue	849	-	849	918	-	918
Direct materials, labour, production and distribution overheads	(385)	-	(385)	(418)	-	(418)
Selling costs	(117)	-	(117)	(124)	-	(124)
Administrative expenses	(170)	(79)	(249)	(192)	(23)	(215)
Operating costs	(672)	(79)	(751)	(734)	(23)	(757)
<b>Operating profit</b>	<b>177</b>	<b>(79)</b>	<b>98</b>	<b>184</b>	<b>(23)</b>	<b>161</b>
Finance costs	(1)	50	49	(4)	62	58
Taxation	(42)	23	(19)	(41)	22	(19)
<b>Profit from discontinued operations</b>	<b>134</b>	<b>(6)</b>	<b>128</b>	<b>139</b>	<b>61</b>	<b>200</b>

Interest capitalised as part of the costs of Smiths Medical development projects amounted to £3m (FY2020: £3m). £1m (FY2020: £1m) of tax relief has been recognised as current tax relief in the period. The sale of the Medical division is not anticipated to give rise to material tax charges. However, it is noted that the relevant regulatory filings and clearances are still in progress.

## NOTES TO THE ACCOUNTS CONTINUED

### 28 Discontinued operations and businesses held for sale continued

#### **Businesses held for sale**

The carrying value of the assets and liabilities of the Smiths Medical business as at 31 July 2021 and 31 July 2020 was as follows:

	31 July 2021 £m	31 July 2020 £m
Assets classified as held for sale:		
Intangible assets	669	734
Property, plant and equipment	162	141
Right of use assets	63	54
Financial assets - other investments	14	-
Inventories	145	164
Deferred tax assets	12	14
Current tax receivable	3	3
Trade and other receivables	123	148
Cash and cash equivalents	48	20
Financial derivatives	4	1
<b>Assets classified as held for sale</b>	<b>1,243</b>	<b>1,279</b>
Liabilities classified as held for sale:		
Financial liabilities		
- lease liabilities	(44)	(48)
- financial derivatives	(2)	(4)
Trade and other payables	(161)	(167)
Current tax payable	(13)	(10)
Deferred tax liabilities	(51)	(53)
Retirement benefit obligations	(5)	(5)
Provisions for liabilities and charges	(7)	(8)
<b>Liabilities classified as held for sale</b>	<b>(283)</b>	<b>(295)</b>

#### **Contract liabilities from variable consideration agreements**

Smiths Medical has a number of agreements with Group Purchasing Organisations and Individual Development Networks offering variable pricing arrangements on sales creating the need for rebates to be paid.

Gross contract liabilities relating to variable consideration agreements amounted to £43m in the current year (FY2020: £41m). £30m (FY2020: £34m) of these gross contract liabilities have been netted against trade and other receivables, as there is the contractual right of offset, and £13m (FY2020: £7m) have been included within trade and other payables.

These contract liabilities are estimated based on current sales and an applicable erosion rate. The erosion rate is based on historical rebate trends and adjusted for inventory maintained at distributor sites. There has been no recent history of material revisions to this contract liability.

#### **Intangible assets**

Smiths Medical intangible assets comprise:

	31 July 2021 £m	31 July 2020 £m
Goodwill	535	564
Development costs	104	140
Acquired intangibles	19	20
Software, patents and intellectual property	11	10
<b>Intangible assets</b>	<b>669</b>	<b>734</b>

During the year impairment tests were carried out on capitalised development costs for products that were still under development and acquired intangibles where there were indications of impairment. Value in use and fair value less costs to sell calculations were used to determine the recoverability of these assets.

The impairment analysis performed for FY2021 has identified a total non-cash impairment charge for Smiths Medical of £61m, comprising £52m of capitalised development costs, £5m of specific inventory and £4m of attributable fixed assets. The impairment charge mostly related to the Intellifuse Large Volume Pump (LVP); see below for further details.

## Intellifuse programme capitalised development costs, fixed assets and inventory

In April 2021 Smiths Medical invested in Ivenix Inc., the owner of an US Food and Drug Administration (FDA) approved LVP and also entered into an exclusive distribution agreement for the Ivenix LVP. The investment and distribution agreement meant that Smiths Medical prioritised the commercialisation of the Ivenix LVP and the development of the Intellifuse LVP was put on hold. This change has given rise to the impairment charges disclosed above, with the entire value of the Intellifuse LVP having been impaired. In June 2021 the first customer purchase order was secured for the Ivenix LVP, confirming the commercial acceptance of Ivenix within the LVP market segment.

These agreements with Ivenix triggered an impairment assessment for the Intellifuse programme. The Intellifuse programme has previously been considered a single CGU for impairment testing purposes. Following the change in circumstances for Intellifuse LVP, management has reassessed the appropriateness of the CGU structure and has concluded that it is appropriate to assess the Intellifuse syringe pump and LVP products as separate CGUs.

The fair value model for the Intellifuse programme had previously been supported by the cash-flows from commercialising the LVP ahead of the syringe pump revenue stream. Developments in the syringe pump market, together with the partnership with Ivenix Inc., have provided a stronger business case to prioritise the commercialisation of the Intellifuse syringe pump. Revised impairment review cash-flow models have been prepared to assess the Intellifuse syringe pump and LVP revenue streams as two separate CGUs.

### Impairment assessment methodology:

In light of the change in strategy, the Intellifuse project has been updated to focus on completion of the syringe pump development and submit this for FDA regulatory approval in the next financial year. The Intellifuse LVP development has been placed on hold but may be revisited depending on the success of Smiths Medical's agreement with Ivenix.

Management has separated the Intellifuse capitalised development costs between the syringe pump and LVP assets, including an allocation of shared costs. A summary of the cost allocation of the capitalised development costs, tangible fixed assets and inventory attributable to the Intellifuse programme at 31 July 2021 is as follows:

	LVP £m	Syringe pump £m	Total programme £m
Capitalised development expenditure	48	35	83
Inventory	3	1	4
Fixed assets	4	2	6
<b>Total allocated costs</b>	<b>55</b>	<b>38</b>	<b>93</b>

### Intellifuse LVP

As the Intellifuse LVP development has been placed on hold, the LVP impairment model assumes that it is not currently probable that the product will be commercialised and generate any positive cash-flows. Therefore management has impaired the entire value of the LVP, and an impairment charge of £55m has been recognised in the second half of the financial year to 31 July 2021, comprising £48m of capitalised development costs, £3m of specific inventory and £4m of attributable fixed assets.

### Intellifuse syringe pump

The syringe pump impairment model cash-flow forecast utilises a 15-year model for North American revenues – with an 8 year asset life and a subsequent 7 year annuity for related software licences. The result of this impairment testing is that the estimated fair value of the Intellifuse syringe pump exceeded the carrying value by £12m. Therefore, no impairment charge has been determined for the Intellifuse syringe pump.

IAS 36 states that the recoverable amount of an asset is the greater of its 'fair value less costs to sell' (FVLCTS) and its 'value in use'. Accordingly, the impairment review for the Intellifuse syringe pump has been completed using a FVLCTS valuation model. As valuations of identical assets in active markets are not available, nor are market observations, the valuation is based on assumptions which a third party would use in estimating a fair value in an arm's length sale process.

The fair value model utilised for syringe pump impairment testing used the following key assumptions:

- 9% post-tax discount rate (pre-tax: 12.5%);
- 15.8% tax amortisation benefit;
- 1% cost to sell;
- An additional period of development to gain FDA clearance and prepare for commercial launch;
- 8-year sales forecast focused on North America only, being the expected primary market, excluding for modelling purposes the opportunities from other regions where CE Mark regulatory approval has already been obtained;
- 7-year annuity for Software Licences in North America; and
- manufacturing and operating expenses priced as if they were outsourced to a third party, based on the third quartile of data points in third party benchmarking studies.

If the assumptions used in the syringe pump impairment review were changed to a greater extent than as presented in the following table, the changes would, in isolation, lead to impairment losses being recognised for the year ended 31 July 2021:

	Change required for carrying value to equal recoverable amount
Delay in commercial launch of product	9 month delay
Post-tax discount rate	+319 bps increase
Volume of sales achieved per annum	+1,910 bps decrease

## 28 Discontinued operations and businesses held for sale continued

### Contingent Liability

Medfusion product range - US Food and Drug Administration (FDA) 'for-cause' audit

In February 2021 the FDA commenced a for-cause audit inspection of Smiths Medical's product development documentation as a result of an initial review into the Medfusion product range of syringe pumps.

At the conclusion of the inspection, in April 2021 the FDA issued a Form 483 (a form issued by the FDA to Smiths Medical management at the conclusion of an inspection when an investigator has observed any conditions that in their judgement may constitute violations of the Food Drug and Cosmetic Act and related acts).

The Form 483 contained certain observations and discussion items, the majority of which related to an aged regulatory submission, design changes done through letters to the file and several field issues for certain Medfusion products. The Group has submitted an initial written response to the Form 483 to the FDA, in which the Group described the actions it had already completed, as well as a number of promised actions to address each of the observations and discussion items.

Smiths Medical is undertaking significant remediation actions, and committing significant resources, to address each of the observations and discussion items contained in the FDA findings and to strengthen its quality control systems. Smiths Medical is aiming to complete the outstanding remediation actions it described in its response to the Form 483 by the end of 2023 at an estimated total remediation cost of up to £72m (\$100m).

The FDA feedback to Smiths Medical's initial written response is not known at this time and to date the FDA have not formally issued a warning letter or any other formal overall conclusion. Additionally, whilst not considered likely, there is risk of a product recall, warranty claims and fines. It is not possible to reliably quantify this risk at this time. Accordingly, this issue is considered to be a contingent liability.

### Cash-flow from discontinued operations

Cash-flows from discontinued operations included in the consolidated cash-flow statement are as follows:

	31 July 2021 £m	31 July 2020 £m
Net cash inflow from operating activities	148	141
Net cash-flow used in investing activities	(67)	(55)
Net cash-flow used in financing activities	(53)	(83)
	<b>28</b>	<b>3</b>

Movement in net cash held in the disposal group included £nil of foreign exchange gains/losses (FY2020: £9m losses), generating a total inflow of £28m (FY2020: £6m outflow).

### Additional segmental information for discontinued operations

Headline operating profit for discontinued operations was stated after charging depreciation £nil (FY2020: £nil), amortisation £nil (FY2020: £nil) and share based payments £1m (FY2020: £1m). The capital expenditure on property, plant and equipment, capitalised development and other intangible assets for discontinued operations was £56m (FY2020: £46m).

Revenue for the Smiths Medical discontinued operation is analysed by the following product lines: Infusion Systems £303m (FY2020: £323m), Vascular Access £272m (FY2020: £275m) and Vital Care/Other £274m (FY2020: £320m). Vital Care in FY2020 included £25m of revenue attributable to the Ventilator Challenge UK.

Revenue by destination and non-current operating assets by location for discontinued operations is shown below:

	Year ended 31 July 2021				Year ended 31 July 2020			
	Americas £m	Europe, Middle East & Africa £m	Asia-Pacific £m	Total £m	Americas £m	Europe, Middle East & Africa £m	Asia-Pacific £m	Total £m
Revenue	456	228	165	<b>849</b>	488	282	148	<b>918</b>
Intangible assets, right of use assets and property, plant and equipment	730	107	57	<b>894</b>	780	96	53	<b>929</b>

Revenue by destination attributable to the United Kingdom was £26m (FY2020: £69m). FY2020 included £25m of revenue attributable to the Ventilator Challenge UK. Revenue earned in the United States of America was material totalling £411m (FY2020: £438m). Revenue by destination has been selected as the basis for attributing revenue to geographical areas as this is the attribution used by management to review the performance of the business.

Non-current assets located in the United Kingdom total £35m (FY2020: £33m). Significant non-current assets were held in the United States of America totalling £710m (FY2020: £732m).

## 29 Cash-flow

### Cash-flow from operating activities

	Year ended 31 July 2021			Year ended 31 July 2020		
	Headline £m	Non-headline £m	Total £m	Headline £m	Non-headline £m	Total £m
Operating profit – continuing operations	372	(46)	326	327	(86)	241
– discontinued operations	177	(79)	98	184	(23)	161
Amortisation of intangible assets	14	53	67	13	57	70
Impairment of intangible assets	1	52	53	12	–	12
Impairment of tangible assets	–	6	6	–	–	–
Depreciation of property, plant and equipment	39	1	40	41	–	41
Depreciation of right of use assets	32	–	32	33	–	33
Loss on disposal of property, plant and equipment	1	–	1	3	–	3
Profit on disposal of businesses	–	–	–	–	(1)	(1)
Share-based payment expense	13	–	13	10	–	10
Retirement benefits*	6	(23)	(17)	8	(41)	(33)
Distribution from trading investment	5	–	5	–	–	–
Recycling of cash-flow hedge reserve	(5)	–	(5)	–	–	–
Decrease/(increase) in inventories	62	4	66	(73)	–	(73)
Decrease/(increase) in trade and other receivables	(14)	4	(10)	76	4	80
Increase/(decrease) in trade and other payables	46	(10)	36	49	(2)	47
Increase/(decrease) in provisions	(4)	(26)	(30)	1	–	1
Cash generated from operations	745	(64)	681	684	(92)	592
Interest paid	(40)	–	(40)	(57)	–	(57)
Interest received	2	1	3	7	–	7
Tax paid	(109)	–	(109)	(113)	–	(113)
<b>Net cash inflow from operating activities</b>	<b>598</b>	<b>(63)</b>	<b>535</b>	<b>521</b>	<b>(92)</b>	<b>429</b>
– continuing operations	445	(58)	387	356	(68)	288
– discontinued operations	153	(5)	148	165	(24)	141

\* The retirement benefits non-headline operating cash-flows principally relate to employer contributions to legacy defined benefit and post-retirement healthcare plans.

### Headline cash measures

The Group measure of headline operating cash includes capital expenditure supporting organic growth and excludes interest and tax.

	Year ended 31 July 2021			Year ended 31 July 2020		
	Headline £m	Non-headline £m	Total £m	Headline £m	Non-headline £m	Total £m
<b>Net cash inflow from operating activities</b>	<b>598</b>	<b>(63)</b>	<b>535</b>	<b>521</b>	<b>(92)</b>	<b>429</b>
Include:						
Expenditure on capitalised development, other intangible assets and property, plant and equipment	(117)	–	(117)	(110)	–	(110)
Repayment of lease liabilities	(44)	–	(44)	(47)	–	(47)
Disposals of property, plant and equipment	2	–	2	1	–	1
Investment in financial assets relating to operating activities and pensions financing outstanding at the balance sheet date	7	–	7	–	–	–
<b>Free cash-flow</b>			<b>383</b>			<b>273</b>
Exclude:						
Investment in financial assets relating to operating activities and pensions financing outstanding at the balance sheet date	(7)	–	(7)	–	–	–
Repayment of lease liabilities	44	–	44	47	–	47
Interest paid	40	–	40	57	–	57
Interest received	(2)	–	(2)	(7)	–	(7)
Tax paid	109	–	109	113	–	113
<b>Operating cash-flow</b>	<b>630</b>	<b>(63)</b>	<b>567</b>	<b>575</b>	<b>(92)</b>	<b>483</b>

### Headline cash conversion

Headline operating cash conversion for the total Group is calculated as follows:

	Year ended 31 July 2021 £m	Year ended 31 July 2020 £m
Headline operating profit - including discontinued operations	549	511
Depreciation and amortisation of held for sale assets	(45)	(45)
Pro-forma profit including depreciation and amortisation on held for sale assets	504	466
Headline operating cash-flow	630	575
<b>Headline operating cash conversion</b>	<b>125%</b>	<b>123%</b>

## 29 Cash-flow continued

### Reconciliation of free cash-flow to total movement in cash and cash-equivalents

	Year ended 31 July 2021 £m	Year ended 31 July 2020 £m
<b>Free cash-flow</b>	<b>383</b>	<b>273</b>
Investment in financial assets and acquisition of businesses	(97)	(36)
Disposal of businesses and discontinued operations	–	1
Other net cash-flows used in financing activities (note: repayment of lease liabilities is included in free cash-flow)	(195)	(141)
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>91</b>	<b>97</b>

## 30 Alternative performance measures and key performance indicators

The Group uses several alternative performance measures ('APMs') in order to provide additional useful information on underlying trends and the performance and position of the Group. APMs are non-GAAP and not defined by IFRS; therefore they may not be directly comparable with other companies' APMs and should not be considered a substitute for IFRS measures.

The Group uses these measures, which are common across the industry, for planning and reporting purposes. The measures are also used in discussions with the investment analyst community and by credit rating agencies.

We have identified and defined the following key measures which are used within the business by management to assess the performance of the Group's businesses:

APM term	Definition and purpose
Capital employed	Capital employed is a non-statutory measure of invested resources. It comprises statutory net assets and is adjusted to add goodwill recognised directly in reserves in respect of subsidiaries acquired before 1 August 1998 and eliminate post-retirement benefit assets and liabilities and non-headline litigation provisions related to John Crane, Inc. and Titeflex Corporation, both net of deferred tax, and net debt. It is used to monitor capital allocation within the Group. See below for a reconciliation from net assets to capital employed.
Capital expenditure	Comprises additions to property, plant and equipment, capitalised development and other intangible assets, excluding assets acquired through business combinations, see note 1 for an analysis of capital expenditure. This measure quantifies the level of capital investment into ongoing operations.
Divisional headline operating profit ('DHOP')	DHOP comprises divisional earnings before central costs, finance costs and taxation. DHOP is used to monitor divisional performance. A reconciliation of DHOP to operating profit is shown in note 1.
Free cash-flow	Free cash-flow is calculated by adjusting the net cash inflow from operating activities to include capital expenditure, the repayment of lease liabilities and proceeds from the disposal of property, plant and equipment. The measure shows cash generated by the Group before discretionary expenditure on acquisitions and returns to shareholders. A reconciliation of free cash-flow is shown in note 29.
Gross debt	Gross debt is total borrowings (bank, bonds and lease liabilities). It is used to provide an indication of the Group's overall level of indebtedness. See below for an analysis of gross debt.
Headline	The Group has defined a 'headline' measure of performance that excludes material non-recurring items or items considered non-operational/trading in nature. Items excluded from headline are referred to as non-headline items. This measure is used by the Group to measure and monitor performance excluding material non-recurring items or items considered non-operational. See note 3 for an analysis of non-headline items.
Headline EBITDA	EBITDA is a widely used profit measure, not defined by IFRS, being earnings before interest, taxation, depreciation and amortisation. A reconciliation of headline operating profit to headline EBITDA is shown in the note below.
Headline EBITDA before restructuring costs and write-downs	Headline EBITDA, as defined above, is adjusted to exclude restructuring costs from the Group's strategic restructuring programme which commenced in FY2020. A reconciliation of Headline EBITDA to Headline EBITDA before restructuring costs and write-downs is shown in the note below.
Headline operating profit excluding restructuring and write-downs	Headline operating profit is adjusted for strategic restructuring programme costs and write-downs. See note 2 for a reconciliation. This measure of profitability is used by the Group to measure and monitor performance.
Net debt	Net debt is total borrowings (bank, bonds and lease liabilities) less cash balances and derivatives used to manage the interest rate risk and currency profile of the debt. This measure is used to provide an indication of the Group's overall level of indebtedness and is widely used by investors and credit rating agencies. See note 18 for an analysis of net debt.
Non-headline	The Group has defined a 'headline' measure of performance that excludes material non-recurring items or items considered non-operational/trading in nature. Items excluded from headline are referred to as non-headline items. This is used by the Group to measure and monitor material non-recurring items or items considered non-operational. See note 3 for an analysis of non-headline items.
Operating cash-flow	Comprises free cash-flow and excludes cash-flows relating to interest and taxation. The measure shows how cash is generated from operations in the Group. A reconciliation of operating cash-flow is shown in note 29.
Operating profit	Operating profit is earnings before finance costs and tax. A reconciliation of operating profit to profit before tax is shown on the income statement on page 144. This common measure is used by the Group to measure and monitor performance.
Return on capital employed ('ROCE')	Smiths ROCE is calculated over a rolling 12-month period and is the percentage that headline operating profit represents of the monthly average capital employed on a rolling 12-month basis. This measure of return on invested resources is used to monitor performance and capital allocation within the Group. See below for Group ROCE and note 1 for divisional headline operating profit and divisional capital employed.

The key performance indicators ('KPIs') used by management to assess the performance of the Group's businesses are as follows:

KPI term	Definition and purpose
Aftermarket % of sales	The aftermarket percentage of sales is defined as the proportion of revenue derived from aftermarket sales. Aftermarket sales are a core characteristic of Smiths businesses and are an indicator of resilient, repeatable revenue for the Group.
Dividend cover – headline	Dividend cover is the ratio of headline earnings per share (see note 5) to dividend per share (see note 25). This commonly used measure indicates the number of times the dividend in a financial year is covered by headline earnings.
Free cash-flow (as a % of operating profit)	This measure is defined as free cash-flow divided by headline operating profit averaged over a three-year performance period. This cash generation measure is used by the Group as a performance measure for remuneration purposes.
Headline cash conversion	Comprises cash flow from operations before non-headline items as a percentage of headline operating profit. This measure is used to show the proportion of headline operating profit converted into cash flow from operations before investment, finance costs, non-headline items and taxation. The calculation is shown in note 29.
Headline operating profit margin	Headline operating profit margin is calculated by dividing headline operating profit by revenue. This measure is used to monitor the Group's ability to drive profitable growth and control costs.
Organic revenue growth	Organic revenue growth is the compounded annualised growth in revenue calculated on an underlying basis. Organic revenue growth differs from underlying revenue growth in that it is calculated on a compounded annualised basis. This measure of revenue growth is used by the Group for remuneration purposes.
Portfolio strength	Portfolio strength is defined as the percentage of revenue derived from products that are positioned in the top three in their markets. Portfolio strength is used to measure the success of the Group's strategy to actively manage its portfolio of businesses to operate in growing markets where it can achieve a sustainable top-three leadership position.
R&D cash costs as a % of sales	This measure is defined as the cash cost of research and development activities as a percentage of revenue. Innovation is an important driver of sustainable growth for the Group and this measures our investment in research and development to drive innovation.
Ratio of capital expenditure to depreciation and amortisation	Represents the amount of capital expenditure as a proportion of the depreciation and amortisation charge for the period. This measure shows the level of reinvestment into operations.
Stock turns	Stock turns during the year is calculated as the last 12 month cost of sales divided by the 12 month average inventory. This measure is used by the Group to measure operational efficiency.
Underlying revenue growth	Underlying revenue growth is net revenue growth or decline excluding the effects of foreign exchange, acquisitions (see note 27) and adjusting the prior period to reflect an equivalent period of ownership for divested businesses (see note 28). Underlying revenue growth is used by the Group to aid comparability when monitoring performance.
Underlying headline operating profit growth	Underlying headline operating profit growth is net headline operating profit growth or decline excluding the effects of foreign exchange, acquisitions (see note 27), restructuring costs and write-downs (see note 2), adjusting the prior period to reflect an equivalent period of ownership for divested businesses and including depreciation and amortisation for discontinued operations. Underlying headline operating profit growth is used by the Group to aid comparability when monitoring performance.
Vitality Index / Gross vitality	The Vitality Index or Gross vitality is calculated as the percentage of revenue over the last 12 months derived from new products and services launched in the performance period, typically three years. This measure is used to monitor the effectiveness of the Group's investment into new products and services.
Working capital	Working capital is calculated as the sum of the 12-month rolling average of inventory, trade receivables, contract assets, trade payables and contract liabilities.

### Capital employed

Capital employed is a non-statutory measure of invested resources. It comprises statutory net assets adjusted to add goodwill recognised directly in reserves in respect of subsidiaries acquired before 1 August 1998 of £787m (FY2020: £787m) and eliminate post-retirement benefit assets and liabilities and non-headline litigation provisions related to John Crane, Inc. and Titeflex Corporation, both net of related tax, and net debt.

	Notes	31 July 2021 £m	31 July 2020 £m
<b>Net assets</b>		<b>2,423</b>	<b>2,394</b>
Adjust for:			
Goodwill recognised directly in reserves		787	787
Retirement benefit assets and obligations	8	(413)	(372)
Tax related to retirement benefit assets and obligations		108	70
John Crane, Inc. litigation provisions and related tax	23	158	172
Titeflex Corporation litigation provisions and related tax	23	36	50
Net debt (including £4m of net cash in discontinued operations (FY2020: £28m cash))	18	1,018	1,141
<b>Capital employed</b>		<b>4,117</b>	<b>4,242</b>

### Return on capital employed ('ROCE') – total Group including discontinued operations

	Notes	Year ended 31 July 2021 £m	Year ended 31 July 2020 £m
Headline operating profit for previous 12 months – including discontinued operations		549	511
Average capital employed	1	4,165	4,315
<b>ROCE</b>		<b>13.2%</b>	<b>11.8%</b>

## NOTES TO THE ACCOUNTS CONTINUED

### 30 Alternative performance measures continued

#### Credit metrics – total Group including discontinued operations

Smiths Group monitors the ratio of net debt to headline EBITDA as part of its management of credit ratings; see note 26 for details. This ratio is presented for the whole Group, including discontinued operations, and is calculated as follows:

##### Headline earnings before interest, tax, depreciation and amortisation (headline EBITDA)

– total Group including discontinued operations

	Notes	Year ended 31 July 2021 £m	Year ended 31 July 2020 £m
<b>Headline operating profit</b>		<b>372</b>	<b>327</b>
Include:			
– headline operating profit of discontinued operations	28	177	184
Exclude:			
– depreciation of property, plant and equipment	12	40	41
– depreciation of right of use assets	13	32	33
– amortisation and impairment of development costs	10	7	18
– amortisation of software, patents and intellectual property	10	7	7
<b>Headline EBITDA</b>		<b>635</b>	<b>610</b>
Add back: restructuring costs and write-downs (including £9m in discontinued operations (FY2020: £4m))	2	30	47
<b>Headline EBITDA before restructuring costs and write-downs</b>		<b>665</b>	<b>657</b>

In FY2020 £1m of software amortisation was charged to restructuring projects and treated as a non-headline cost.

#### Ratio of net debt to headline EBITDA – total Group including discontinued operations

	Notes	Year ended 31 July 2021 £m	Year ended 31 July 2020 £m
Headline EBITDA		635	610
Net debt – incl. £4m of net cash in discontinued operations (FY2020: £20m cash)	18	1,018	1,141
<b>Ratio of net debt to headline EBITDA</b>		<b>1.6</b>	<b>1.9</b>

The ratio of net debt to headline EBITDA before restructuring costs and write-downs was 1.5 times (FY2020: 1.7 times).

#### Gross debt – total Group including discontinued operations

	Year ended 31 July 2021			Year ended 31 July 2020		
	Continuing operations (note 18) £m	Discontinued operations (note 28) £m	Total £m	Continuing operations (note 18) £m	Discontinued operations (note 28) £m	Total £m
<b>Short-term borrowings:</b>						
– lease liabilities	27	44	71	31	48	79
– interest accrual	9	–	9	10	–	10
<b>Long-term borrowings</b>	<b>1,466</b>	<b>–</b>	<b>1,466</b>	<b>1,520</b>	<b>–</b>	<b>1,520</b>
<b>Gross debt</b>			<b>1,546</b>			<b>1,609</b>

### 31 Post Balance Sheet Events

Details of the proposed final dividend announced since the end of the reporting period are given in note 25.

On 2 August 2021, the Group announced that it had entered into an agreement for the sale of Smiths Medical to TA Associates LLP.

Subsequently, on 8 September 2021, the Group announced that it had agreed the sale of Smiths Medical to ICU Medical on terms that are superior to the previously announced transaction with TA Associates (the “ICU Transaction”).

The ICU Transaction is a non-adjusting post balance sheet event for the Group and values Smiths Medical at an enterprise value of \$2.7bn, plus an additional \$0.1bn contingent on the future share price performance of the enlarged ICU Medical business. After the deduction of debt and other liabilities, the equity value of the ICU Transaction is \$2.4bn.

The Group expects to receive initial net cash proceeds on completion of the ICU Transaction of \$1.85bn (equivalent to £1.34bn at current FX rates). In addition to the initial net cash proceeds, the Group will also receive 2.5m new ICU Medical shares, worth \$0.5bn at ICU Medical’s closing share price on 7 September 2021 of \$205.98, equivalent to approximately 10% of the fully diluted enlarged ICU Medical share capital.

The ICU Transaction is a Class 1 transaction under the UK Listing Rules and is therefore conditional upon the approval of Smiths’ shareholders. The ICU Transaction is also conditional on receipt of customary regulatory approvals. ICU Medical has provided strong contractual commitments to the Group to secure the customary regulatory approvals by 8 March 2022 (the “Long Stop Date”). However, in certain limited circumstances, the Long Stop Date may be extended to 8 March 2023.

The Board have determined that the realistic expectation is that it will take six to nine months to complete the customary regulatory approvals for the sale to ICU Medical. Therefore management believe that it remains highly probable that the transaction will complete within 12 months of the balance sheet date.

# **UNAUDITED GROUP FINANCIAL RECORD 2017-2021**

The headline income statement metrics shown below for the years ended 31 July 2018 and 2017 have been represented to show the results of Smiths Medical as a discontinued operation.

		<b>Year ended 31 July 2021 £m</b>	Year ended 31 July 2020 £m	Year ended 31 July 2019 £m	Year ended 31 July 2018 £m	Year ended 31 July 2017 £m
<b>Income statement metrics – headline*</b>						
Continuing operations	Revenue	2,406	2,548	2,498	2,328	2,329
	Headline operating profit	372	327	427	388	355
	Headline profit before tax	332	278	376	333	296
Discontinued operations	Revenue	849	918	874	869	951
	Headline operating profit	177	184	147	156	194
	Headline profit before tax	176	180	144	154	192
<b>Income statement metrics – statutory**</b>						
Revenue		2,406	2,548	2,498	2,328	3,280
Operating profit		326	241	326	342	674
Profit before taxation		240	133	304	287	601
Profit for the year		285	267	227	279	572
<b>Balance sheet metrics***</b>						
Net debt		(1,018)	(1,141)	(1,197)	(893)	(967)
Shareholders' equity		2,402	2,373	2,360	2,272	2,089
Average capital employed		4,165	4,315	3,972	3,735	3,639
<b>Ratios***</b>						
Headline operating profit: revenue (%)		16.9	14.7	17.0	17.0	18.0
Headline effective tax rate (%)		27.1	26.2	25.9	25.8	26.5
Return on capital employed (%)		13.2	11.8	14.4	14.6	16.2
Return on shareholders' funds (%)		15.9	10.8	12.3	12.1	14.5
<b>Cash-flow metrics***</b>						
Headline operating cash		630	575	474	538	695
Headline operating cash conversion (%)		125	123	83	99	118
Free cash-flow		383	273	234	302	370
Free cash-flow per share (p)		96.6	68.9	59.1	76.3	93.6
<b>Earnings per share***</b>						
Headline earnings per share (p)		93.1	84.8	96.8	90.7	97.6
<b>Dividends and dividend cover***</b>						
Pence per share		37.70	35.00	45.90	44.55	43.25
Headline dividend cover		2.5	2.4	2.1	2.0	2.3
<b>Number of employees (000s)***</b>						
United Kingdom		1.5	1.6	1.6	1.5	1.5
Overseas		20.5	21.5	20.5	20.2	20.4
		22.0	23.1	22.0	21.7	21.9

\* The headline income statement metrics in the above five year record have been presented to reflect the reclassification of the Smiths Medical business as a discontinued operation and the Group's current accounting policy of including restructuring and pension administration costs within headline profit. The discontinued operations comparatives for the year ended 31 July 2018 have also been restated for the adoption of IFRS 15.

\*\* The statutory income statement metrics are presented based on continuing operations for both the current and comparative year.  
The years ended 31 July 2017 and 31 July 2016 are presented as originally published.

\*\*\* Balance sheet metrics, ratios, cash-flow metrics, earnings per share, dividend cover and number of employees are presented based on both continuing and discontinued operations for all years.

**UNAUDITED US DOLLAR  
PRIMARY STATEMENTS  
CONTINUED**

**UNAUDITED SUPPLEMENTARY CONSOLIDATED INCOME  
STATEMENT – US DOLLAR TRANSLATION**

	Year ended 31 July 2021			Year ended 31 July 2020 - represented*		
	Headline \$m	Non-headline (note 3) \$m	Total \$m	Headline \$m	Non-headline (note 3) \$m	Total \$m
<b>CONTINUING OPERATIONS</b>						
Revenue	3,264	–	3,264	3,216	–	3,216
Operating costs	(2,760)	(62)	(2,822)	(2,804)	(108)	(2,912)
<b>OPERATING PROFIT/(LOSS)</b>	<b>504</b>	<b>(62)</b>	<b>442</b>	<b>412</b>	<b>(108)</b>	<b>304</b>
Interest receivable	12	–	12	8	–	8
Interest payable	(66)	–	(66)	(69)	–	(69)
Other financing gains/(losses)	–	(71)	(71)	–	(83)	(83)
Other finance charges – retirement benefits	–	8	8	–	9	9
Finance costs	(54)	(63)	(117)	(61)	(74)	(135)
<b>Continuing operations – profit before taxation</b>	<b>450</b>	<b>(125)</b>	<b>325</b>	<b>351</b>	<b>(182)</b>	<b>169</b>
Taxation	(130)	18	(112)	(100)	16	(84)
<b>Continuing operations – profit for the year</b>	<b>320</b>	<b>(107)</b>	<b>213</b>	<b>251</b>	<b>(166)</b>	<b>85</b>
<b>Discontinued operations</b>						
Profit on discontinued operations	182	(8)	174	175	77	252
<b>PROFIT FOR THE YEAR</b>	<b>502</b>	<b>(115)</b>	<b>387</b>	<b>426</b>	<b>(89)</b>	<b>337</b>
Attributable to						
Smiths Group shareholders – continuing operations	319	(107)	212	248	(166)	82
Smiths Group shareholders – discontinued operations	182	(8)	174	175	77	252
Non-controlling interests	1	–	1	3	–	3
	<b>502</b>	<b>(115)</b>	<b>387</b>	<b>426</b>	<b>(89)</b>	<b>337</b>
<b>EARNINGS PER SHARE</b>						
Basic			97.2c			84.4c
Basic – continuing			53.4c			20.7c
Diluted			96.7c			83.9c
Diluted – continuing			53.1c			20.6c

\* Results in the comparatives for the period ended 31 July 2020 have been represented to show operating costs on the face of the income statement.

Assets and liabilities have been translated into US dollars at the exchange rate at the date of that balance sheet and income, expenses and cash-flows are translated at average exchange rates for the period. This reflects the accounting approach that Smiths Group plc would use if the Group moved to reporting in US dollars without making any changes to its Group structure or financing arrangements.

# UNAUDITED SUPPLEMENTARY CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME – US DOLLAR TRANSLATION

	Year ended 31 July 2021 \$m	Year ended 31 July 2020 \$m
<b>PROFIT FOR THE YEAR</b>	<b>387</b>	<b>337</b>
<b>Other comprehensive income:</b>		
Re-measurement of post-retirement benefits assets and obligations	18	24
Taxation	(8)	(3)
<b>Other comprehensive income and expenditure which will not be reclassified to the consolidated income statement</b>	<b>10</b>	<b>21</b>
<b>Other comprehensive income which will be reclassified and reclassifications:</b>		
Exchange losses/(gains)	(32)	(48)
Fair value gains/(losses) and reclassification adjustments:		
– on financial asset at fair value through other comprehensive income	5	2
– deferred in the year on cash-flow and net investment hedges	111	92
– reclassified to income statement on cash-flow and net investment hedges	3	(2)
<b>Total other comprehensive income</b>	<b>97</b>	<b>65</b>
<b>Total comprehensive income</b>	<b>484</b>	<b>402</b>
<b>Attributable to:</b>		
Smiths Group shareholders	484	398
Non-controlling interests	–	4
	<b>484</b>	<b>402</b>

**UNAUDITED US DOLLAR  
PRIMARY STATEMENTS  
CONTINUED**

**UNAUDITED SUPPLEMENTARY CONSOLIDATED  
BALANCE SHEET – US DOLLAR TRANSLATION**

	<b>31 July 2021</b> <b>\$m</b>	31 July 2020 <b>\$m</b>
<b>NON-CURRENT ASSETS</b>		
Intangible assets	2,082	2,049
Property, plant and equipment	295	285
Right of use assets	150	123
Financial assets – other investments	15	25
Retirement benefit assets	759	676
Deferred tax assets	128	134
Trade and other receivables	82	68
Financial derivatives	104	107
	<b>3,615</b>	<b>3,467</b>
<b>CURRENT ASSETS</b>		
Inventories	530	584
Current tax receivable	105	60
Trade and other receivables	876	820
Cash and cash equivalents	563	480
Financial derivatives	3	4
Assets held for sale*	1,728	1,675
	<b>3,805</b>	<b>3,623</b>
<b>TOTAL ASSETS</b>	<b>7,420</b>	<b>7,090</b>
<b>CURRENT LIABILITIES</b>		
Financial liabilities		
– borrowings	(13)	(13)
– lease liabilities	(38)	(40)
– financial derivatives	(4)	(4)
Provisions for liabilities and charges	(64)	(72)
Trade and other payables	(737)	(698)
Current tax payable	(124)	(95)
Liabilities held for sale*	(393)	(388)
	<b>(1,373)</b>	<b>(1,310)</b>
<b>NON-CURRENT LIABILITIES</b>		
Financial liabilities		
– borrowings	(1,907)	(1,906)
– lease liabilities	(131)	(85)
– financial derivatives	–	(1)
Provisions for liabilities and charges	(335)	(361)
Retirement benefit obligations	(178)	(182)
Current tax payable	(7)	(7)
Deferred tax liabilities	(39)	(35)
Trade and other payables	(82)	(67)
	<b>(2,679)</b>	<b>(2,644)</b>
<b>TOTAL LIABILITIES</b>	<b>(4,052)</b>	<b>(3,954)</b>
<b>NET ASSETS</b>	<b>3,368</b>	<b>3,136</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital	207	195
Share premium account	505	472
Capital redemption reserve	8	8
Revaluation reserve	1	3
Merger reserve	327	308
Retained earnings	2,608	2,534
Hedge reserve	(317)	(413)
Total shareholders' equity	<b>3,339</b>	<b>3,107</b>
Non-controlling interest equity	29	29
<b>TOTAL EQUITY</b>	<b>3,368</b>	<b>3,136</b>

\* Assets and liabilities held for sale were previously classified as held for distribution to owners.

# UNAUDITED SUPPLEMENTARY CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – US DOLLAR TRANSLATION

	Share capital and share premium \$m	Other reserves \$m	Retained earnings \$m	Hedge reserve \$m	Equity shareholders' funds \$m	Non- controlling interest \$m	Total equity \$m
At 31 July 2020	<b>667</b>	<b>319</b>	<b>2,534</b>	<b>(413)</b>	<b>3,107</b>	<b>29</b>	<b>3,136</b>
Profit for the year	–	–	386	–	386	1	387
<b>Other comprehensive income:</b>							
– re-measurement of post-retirement benefits assets/obligations and tax	–	–	10	–	10	–	10
– exchange (losses)/gains net of recycling	42	17	(72)	(18)	(31)	(1)	(32)
– fair value gains/(losses) and related tax	–	–	5	114	119	–	119
<b>Total comprehensive income for the year</b>	<b>42</b>	<b>17</b>	<b>329</b>	<b>96</b>	<b>484</b>	<b>–</b>	<b>484</b>
<b>Transactions relating to ownership interests:</b>							
Exercises of share options	3	–	–	–	3	–	3
Receipt of capital from non-controlling interest	–	–	–	–	–	1	1
Purchase of own shares	–	–	(22)	–	(22)	–	(22)
Dividends:							
– equity shareholders	–	–	(252)	–	(252)	–	(252)
– non-controlling interests	–	–	–	–	–	(1)	(1)
Share-based payment	–	–	19	–	19	–	19
<b>At 31 July 2021</b>	<b>712</b>	<b>336</b>	<b>2,608</b>	<b>(317)</b>	<b>3,339</b>	<b>29</b>	<b>3,368</b>
	Share capital and share premium \$m	Other reserves \$m	Retained earnings \$m	Hedge reserve \$m	Equity shareholders' funds \$m	Non- controlling interest \$m	Total equity \$m
At 31 July 2019	<b>621</b>	<b>295</b>	<b>2,434</b>	<b>(468)</b>	<b>2,882</b>	<b>25</b>	<b>2,907</b>
Impact of adopting IFRS 16	–	–	(1)	–	(1)	–	(1)
Impact of adopting IFRIC 23	–	–	(5)	–	(5)	–	(5)
Profit for the year	–	–	334	–	334	3	337
<b>Other comprehensive income:</b>							
– re-measurement of post-retirement benefits assets/obligations and tax	–	–	21	–	21	–	21
– exchange (losses)/gains net of recycling	43	24	(83)	(34)	(50)	2	(48)
– fair value gains/(losses) and related tax	–	–	3	89	92	–	92
<b>Total comprehensive income for the year</b>	<b>43</b>	<b>24</b>	<b>275</b>	<b>55</b>	<b>397</b>	<b>5</b>	<b>402</b>
<b>Transactions relating to ownership interests:</b>							
Exercises of share options	3	–	–	–	3	–	3
Purchase of own shares	–	–	(23)	–	(23)	–	(23)
Dividends:							
– equity shareholders	–	–	(159)	–	(159)	–	(159)
– non-controlling interests	–	–	–	–	–	(1)	(1)
Share-based payment	–	–	13	–	13	–	13
<b>At 31 July 2020</b>	<b>667</b>	<b>319</b>	<b>2,534</b>	<b>(413)</b>	<b>3,107</b>	<b>29</b>	<b>3,136</b>

**UNAUDITED US DOLLAR  
PRIMARY STATEMENTS  
CONTINUED**

**UNAUDITED SUPPLEMENTARY CONSOLIDATED CASH-FLOW  
STATEMENT – US DOLLAR TRANSLATION**

	<b>Year ended 31 July 2021 \$m</b>	Year ended 31 July 2020 \$m
<b>Net cash inflow from operating activities</b>	<b>726</b>	541
<b>Cash-flows from investing activities</b>		
Expenditure on capitalised development	(37)	(44)
Expenditure on other intangible assets	(16)	(18)
Purchases of property, plant and equipment	(106)	(77)
Disposals of property, plant and equipment	3	1
Capital returned by/(investment in) financial assets	9	–
Acquisition of businesses	(113)	(30)
Acquisition of businesses - discontinued operations	–	(15)
Investment in financial asset - discontinued operations	(19)	–
Disposals of businesses – discontinued operations	–	1
<b>Net cash-flow used in investing activities</b>	<b>(279)</b>	(182)
<b>Cash-flows from financing activities</b>		
Proceeds from exercise of share options	3	3
Purchase of own shares	(22)	(23)
Dividends paid to equity shareholders	(251)	(159)
Cash inflow from matured derivative financial instruments	5	1
Reduction and repayment of lease liabilities	(60)	(59)
<b>Net cash-flow used in financing activities</b>	<b>(325)</b>	(237)
<b>Net decrease in cash and cash equivalents</b>	<b>122</b>	122
Cash and cash equivalents at beginning of year	480	353
Cash held in disposal group	(38)	8
Exchange differences	(1)	(3)
<b>Cash and cash equivalents at end of year</b>	<b>563</b>	480
<b>Cash and cash equivalents at end of year comprise:</b>		
– cash at bank and in hand	304	227
– short-term deposits	259	253
	<b>563</b>	480

# UNAUDITED GROUP US DOLLAR FINANCIAL RECORD

## 2017-2021

The headline income statement metrics shown below for the years ended 31 July 2018 and 2017 have been represented to show the results of Smiths Medical as a discontinued operation.

		<b>Year ended 31 July 2021 \$m</b>	Year ended 31 July 2020 \$m	Year ended 31 July 2019 \$m	Year ended 31 July 2018 \$m	Year ended 31 July 2017 \$m
<b>Income statement metrics – headline*</b>						
Continuing operations	Revenue	3,264	3,216	3,218	3,139	2,952
	Headline operating profit	504	412	550	523	450
	Headline profit before tax	450	351	484	449	375
Discontinued operations	Revenue	1,152	1,159	1,126	1,172	1,206
	Headline operating profit	240	232	189	210	246
	Headline profit before tax	239	227	185	208	243
<b>Income statement metrics – statutory**</b>						
Revenue	3,264	3,216	3,218	3,139	4,158	
Operating profit	442	304	420	461	855	
Profit before taxation	325	169	391	386	762	
Profit for the year	387	337	291	375	715	
<b>Balance sheet metrics***</b>						
Net debt	(1,415)	(1,495)	(1,462)	(1,172)	(1,275)	
Shareholders' equity	3,339	3,107	2,882	2,982	2,756	
Average capital employed	5,790	5,652	4,852	4,903	4,800	
<b>Ratios***</b>						
Headline operating profit: revenue (%)	16.9	14.7	17.0	17.0	18.0	
Headline effective tax rate (%)	27.1	26.2	25.9	25.8	26.5	
Return on capital employed (%)	13.2	11.8	14.4	14.6	16.2	
Return on shareholders' funds (%)	16.4	10.6	12.1	12.5	14.2	
<b>Cash-flow metrics***</b>						
Headline operating cash	855	726	611	725	881	
Headline operating cash conversion (%)	125	123	83	99	118	
Free cash-flow	520	345	301	407	469	
Free cash-flow per share (c)	131.1	68.9	76.1	102.9	118.6	
<b>Earnings per share***</b>						
Headline earnings per share (c)	126.3	107.0	124.7	122.3	123.6	
<b>Dividends and dividend cover***</b>						
Cents per share (c)	51.1	44.2	59.1	60.1	54.8	
Headline dividend cover	2.5	2.4	2.1	2.0	2.3	
<b>Number of employees (000s)***</b>						
United States of America	6.5	7.3	7.2	7.1	7.7	
Rest of World	15.5	15.8	14.8	14.6	14.2	
	22.0	23.1	22.0	21.7	21.9	

\* The headline income statement metrics in the above five year record have been presented to reflect the reclassification of the Smiths Medical business as a discontinued operation and the Group's current accounting policy of including restructuring and pension administration costs within headline profit. The discontinued operations comparatives for the year ended 31 July 2018 have also been restated for the adoption of IFRS 15.

\*\* The statutory income statement metrics are presented based on continuing operations for both the current and comparative year.  
The year ended 31 July 2017 and prior years are presented as originally published.

\*\*\* Balance sheet metrics, ratios, cash-flow metrics, earnings per share, dividend cover and number of employees are presented based on both continuing and discontinued operations for all years.

## COMPANY BALANCE SHEET

	Notes	31 July 2021 £m	31 July 2020 Represented* £m
<b>Non-current assets</b>			
Right of use assets	2	6	7
Investments	3	2,414	2,405
Loans due from subsidiaries	3	611	868
Financial assets	4	–	6
Retirement benefit assets	11	546	516
Financial derivatives	9	75	80
		<b>3,652</b>	<b>3,882</b>
<b>Current assets</b>			
Trade and other receivables	6	52	70
Current tax receivable		5	–
Cash and cash equivalents	8	158	176
Financial derivatives	9	2	–
		<b>217</b>	<b>246</b>
<b>Total assets</b>		<b>3,869</b>	<b>4,128</b>
<b>Current liabilities</b>			
Trade and other payables	7	(91)	(110)
Lease liabilities	8	(1)	(1)
Financial derivatives	9	(2)	–
		<b>(94)</b>	<b>(111)</b>
<b>Non-current liabilities</b>			
Borrowings	8	(1,354)	(1,429)
Lease liabilities	8	(6)	(6)
Provisions for liabilities and charges	10	(2)	(2)
Retirement benefit liabilities	11	(58)	(60)
Deferred tax liabilities	5	(28)	(11)
		<b>(1,448)</b>	<b>(1,508)</b>
<b>Total liabilities</b>		<b>(1,542)</b>	<b>(1,619)</b>
<b>Net assets</b>		<b>2,327</b>	<b>2,509</b>
<b>Shareholders' equity</b>			
Called up share capital	12	149	149
Share premium account	12	363	361
Capital redemption reserve	12	6	6
Other reserves	12	181	181
Profit and loss account	12	1,628	1,812
<b>Total equity</b>		<b>2,327</b>	<b>2,509</b>

\* The comparative 31 July 2020 balance sheet has been represented on a IAS 1 basis to align the Company balance sheet presentation to the format of the consolidated balance sheet.

The Company's loss for the period was £2m (FY2020:£32m profit).

The accounts on pages 212 to 219 were approved by the Board of Directors on 27 September 2021 and were signed on its behalf by:

**Paul Keel**  
CHIEF EXECUTIVE OFFICER

**John Shipsey**  
CHIEF FINANCIAL OFFICER

Smiths Group plc – registered number 137013

# COMPANY STATEMENT OF CHANGES IN EQUITY

	Share capital £m	Share premium £m	Capital redemption reserve £m	Other reserves £m	Retained profit £m	Shareholders' equity £m
At 31 July 2020	149	361	6	181	1,812	2,509
Profit for the year	–	–	–	–	(2)	(2)
Other comprehensive income:						
– actuarial loss on retirement benefits	–	–	–	–	12	12
– taxation recognised on retirement benefits	–	–	–	–	(6)	(6)
<b>Total comprehensive income for the year</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>4</b>	<b>4</b>
Transactions with owners:						
Exercise of share options	–	2	–	–	–	2
Purchase of own shares	–	–	–	–	(16)	(16)
Dividends paid to equity shareholders	–	–	–	–	(185)	(185)
Share-based payment	–	–	–	–	13	13
<b>Total transactions with owners recognised in equity</b>	<b>–</b>	<b>2</b>	<b>–</b>	<b>–</b>	<b>(188)</b>	<b>(186)</b>
At 31 July 2021	149	363	6	181	1,628	2,327
	Share capital £m	Share premium £m	Capital redemption reserve £m	Other reserves £m	Retained profit £m	Shareholders' equity £m
At 31 July 2019	148	360	6	181	1,902	2,597
Profit for the year	–	–	–	–	32	32
Other comprehensive income:						
– actuarial loss on retirement benefits	–	–	–	–	15	15
– taxation recognised on retirement benefits	–	–	–	–	(4)	(4)
<b>Total comprehensive income for the year</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>43</b>	<b>43</b>
Transactions with owners:						
Exercise of share options	1	1	–	–	–	2
Purchase of own shares	–	–	–	–	(18)	(18)
Dividends paid to equity shareholders	–	–	–	–	(126)	(126)
Share-based payment	–	–	–	–	11	11
<b>Total transactions with owners recognised in equity</b>	<b>1</b>	<b>1</b>	<b>–</b>	<b>–</b>	<b>(133)</b>	<b>(131)</b>
At 31 July 2020	149	361	6	181	1,812	2,509

# COMPANY ACCOUNTING POLICIES

## Basis of preparation

The accounts have been prepared in accordance with the Companies Act 2006 and Financial Reporting Standard 101, "Reduced Disclosure Framework" (FRS 101). In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of international accounting standards in conformity with the requirements of the Companies Act 2006 ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

These accounts have been prepared on a going concern basis and under the historical cost convention modified to include revaluation of certain financial instruments, share options and pension assets and liabilities held at fair value.

As permitted by Section 408(3) of the Companies Act 2006, the Company's income statement and statement of comprehensive income have not been presented. As permitted by Section 408(2), information about the Company's employee numbers and costs is not presented.

## Exemptions from the requirements of IFRS applied in accordance with FRS 101

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share-based payment' (details of the number and weighted-average exercise prices of share options, and how the fair value of goods or services received was determined)
- IFRS 7, 'Financial Instruments: Disclosures'
- Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities).
- Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information requirements in respect of:
  - paragraph 79(a)(iv) of IAS 1;
  - paragraph 73(e) of IAS 16 'Property, plant and equipment';
- The following paragraphs of IAS 1, 'Presentation of financial statements'
  - 10(d) (statement of cash flows),
  - 16 (statement of compliance with all IFRS),
  - 38A (requirement for minimum of two primary statements, including cash flow statements),
  - 38B-D (additional comparative information),
  - 111 (cash flow statement information), and
  - 134-136 (capital management disclosures)
- IAS 7, 'Statement of cash flows'
- Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective)
- Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation)
- The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.
- The requirements of paragraphs 52 and 58 of IFRS 16 Leases

## Significant judgements, key assumptions and estimates

The preparation of the accounts in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the accounts and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates. The key estimates and assumptions used in these parent company financial statements are set out below.

### Taxation

The Company has recognised deferred tax assets of £89m (FY2020: £72m) relating to revenue losses brought forward. The recognition of these assets is dependent on the ability to recover them against the unwind of other tax positions and forecast UK taxable profits of the tax group. The treatment of these assets is reviewed regularly. Further detail on the Company's deferred taxation position is included in note 5.

### Retirement benefits

The financial statements include costs in relation to, and provision for, retirement benefit obligations. The costs and the present value of any related pension assets and liabilities depend on such factors as life expectancy of the members, the returns that plan assets generate, and the discount rate used to calculate the present value of the liabilities. The Company uses previous experience and independent actuarial advice to select the values of critical estimates. The estimates, and the effect of variances in key estimates, are disclosed in note 8 to the consolidated accounts.

At 31 July 2021 there is a retirement benefit asset of £546m (FY2020: £516m) which arises from the rights of the employers to recover the surplus at the end of the life of the scheme. If the pension schemes were wound up while they still had members, the schemes would need to buy out the benefits of all members. The buyouts would cost significantly more than the present value of the scheme liabilities calculated in accordance with IAS 19: Employee benefits.

## **Foreign currencies**

Foreign currency transactions are recorded at the exchange rate ruling on the date of transaction. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the retranslation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the profit and loss account.

## **Leases**

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term, which includes periods covered by renewal options the Company is reasonably certain to exercise. In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date.

The Company recognises right of use assets at the commencement date of the lease. Right of use assets are measured at cost including the amount of lease liabilities recognised and initial direct costs incurred, less any incentives granted by the lessor. Right of use assets are subject to impairment and are depreciated over the shorter of the lease term and the useful life of the right of use asset.

The Company has a buildings lease with a term of 7 years. Other leases with lease terms of 12 months or less and leases of office equipment with low value (typically below £5,000) are recognised as an expense on a straight-line basis over the lease term with the Company having applied 'short-term lease' and 'lease of low-value assets' recognition exemptions.

## **Investments in and loans to Group companies**

The Company's investments in shares in Group companies are stated at cost less provision for impairment. Any impairment is charged to the profit and loss account as it arises.

The recoverability of intercompany loans is assessed applying the methodology of IFRS 9 by looking at the credit quality of the subsidiary and any support available to the entity. These calculations require the use of estimates including projected future cash-flows and other future events. The application of the expected credit loss model has not had a material impact on the Company's loan receivables provisioning position.

## **Financial instruments**

The policies disclosed in the Group accounting policies on pages 149 to 156 for recognition, measurement and presentation of financial instruments are applied in the Company accounts.

## **Taxation**

Deferred tax is provided using the balance sheet liability method. A deferred tax asset is recognised where it is probable that future taxable income will be sufficient to utilise the available relief.

Deferred tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

## **Provisions**

Provisions for disposal indemnities, restructuring costs, property dilapidations and legal claims are recognised when: the Company has a legal or constructive obligation as a result of a past event; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are discounted where the time value of money is material.

## **Retirement benefits**

The Company has both defined benefit and defined contribution plans. The policies disclosed in the Group accounting policies on pages 149 to 156 for recognition, measurement and presentation of retirement benefits are applied in the Company accounts. Note 8 to the consolidated accounts explains the valuation basis for the Company's retirement benefit schemes assets and liabilities.

## **Share-based payment**

The Company operates a number of equity-settled and cash-settled share-based compensation plans.

The fair value of the shares or share options granted is recognised over the vesting period to reflect the value of the employee services received. The charge relating to grants to employees of the Company is recognised as an expense in the profit and loss account and the charge for grants to employees of other group companies is recognised as an investment in the relevant subsidiary.

The fair value of options granted, excluding the impact of any non-market vesting conditions, is calculated using established option pricing models, principally binomial models. The probability of meeting non-market vesting conditions, which include profitability targets, is used to estimate the number of share options that are likely to vest.

For cash-settled share-based payment schemes, a liability is recognised based on the fair value of the payment earned by the balance sheet date. For equity-settled share-based payment schemes, the corresponding credit is recognised directly in reserves.

## **Dividends**

Dividends are recognised as a liability in the period in which they are authorised. The interim dividend is recognised when it is paid and the final dividend is recognised when it has been approved by shareholders at the Annual General Meeting.

## NOTES TO THE COMPANY ACCOUNTS

### 1 Audit fee

The audit fee paid to KPMG LLP for the Parent Company was £0.1m (FY2020: £0.1m).

### 2 Right of use assets

	Properties £m
<b>Cost or valuation</b>	
Right of use assets on transition	8
<b>As at 31 July 2020</b>	<b>8</b>
<b>At 31 July 2021</b>	<b>8</b>
<b>Depreciation</b>	
Charge for the year	1
<b>At 31 July 2020</b>	<b>1</b>
Charge for the year	1
<b>At 31 July 2021</b>	<b>2</b>
<b>Net book value at 31 July 2021</b>	<b>6</b>
Net book value at 31 July 2020	7

### 3 Investments and loans due from subsidiaries

	Shares in subsidiary undertakings £m	Loans due from subsidiaries £m	Total £m
<b>Cost or valuation</b>			
At 31 July 2019	2,414	1,111	3,525
Foreign exchange rate movements	–	(61)	(61)
Contribution through share options	7	–	7
Disposals	(11)	–	(11)
Decrease in advances due from subsidiaries	–	(181)	(181)
<b>At 31 July 2020</b>	<b>2,410</b>	<b>869</b>	<b>3,279</b>
Foreign exchange rate movements	–	(74)	(74)
Contribution through share options	9	–	9
Decrease in advances due from subsidiaries	–	(183)	(183)
<b>At 31 July 2021</b>	<b>2,419</b>	<b>612</b>	<b>3,031</b>
<b>Provision for impairment</b>			
At 31 July 2019, 31 July 2020 and 31 July 2021	5	1	6
<b>Net book value at 31 July 2021</b>	<b>2,414</b>	<b>611</b>	<b>3,025</b>
Net book value at 31 July 2020	2,405	868	3,273

Loans due to subsidiaries are offset against loans due from subsidiaries to the extent that there is a legal right of set off and an intention to settle the balances net. At 31 July 2021 £2,790m of loans payable are offset against loans receivable (FY2020: £2,790m). The Company has large offsetting loan balances because it uses loans to reduce its foreign currency exposures and separately monitor net cash generated from trading activities.

The Company's subsidiaries are largely held according to business lines by the following holding companies, which are incorporated in England:

Smiths Group International Holdings Limited  
 Smiths Detection Group Limited  
 John Crane Group Limited  
 Flex-Tek Group Limited  
 Smiths Interconnect Group Limited  
 Smiths Medical 2020 Limited

The principal subsidiaries and their countries of incorporation are:

### **England**

Smiths Detection – Watford Ltd  
Smiths Medical International Limited  
John Crane UK Limited

### **Other**

Smiths Heimann GmbH (Germany)  
Smiths Detection (Asia-Pacific) Pte Ltd (Singapore)  
Smiths Medical Japan Limited (Japan)  
John Crane Middle East FZE (UAE)  
John Crane Technology (Tianjin) Co Limited (China)  
John Crane Saudi Arabia Ltd (Saudi Arabia)  
John Crane Canada Inc (Canada)

### **United States**

Smiths Detection, Inc.  
Smiths Medical ASD, Inc.  
John Crane, Inc.  
Titeflex Corporation  
Flexible Technologies, Inc.  
Tutco, LLC.  
Smiths Interconnect Americas, Inc  
Smiths Interconnect, Inc  
Kreisler Manufacturing Corp  
Smiths Tubular Systems – Laconia Inc

Of the companies above, Smiths Group International Holdings Limited is 100% owned directly by the Company. The others are 100% owned through intermediate holding companies. Shareholdings are of ordinary shares or common stock. All of the above subsidiaries operate in their country of incorporation.

See pages 220 to 228 for a complete list of subsidiary undertakings.

## **4 Financial assets**

At 31 July 2021 £nil (FY2020: £6m) was held on deposit with banks as security for liabilities or letters of credit.

## **5 Deferred tax assets and liabilities**

The Company has recognised the following deferred tax assets and liabilities:

	Share-based payment £m	Retirement benefit obligations £m	Losses carried forward £m	Other £m	Total £m
At 31 July 2020	3	(88)	72	2	(11)
(Charge)/credit to income statement	–	(29)	17	1	(11)
Charge to equity	–	(6)	–	–	(6)
<b>At 31 July 2021</b>	<b>3</b>	<b>(123)</b>	<b>89</b>	<b>3</b>	<b>(28)</b>

The Company is part of a UK tax group including all its UK-based subsidiaries. The Company has recognised deferred tax assets of £89m (FY2021: £72m) relating to revenue losses brought forward. The recognition of these assets is dependent on the ability to recover them against the unwind of other tax positions and forecast UK taxable profits of the tax group. The treatment of these assets is reviewed at each reporting date.

As at 31 July 2021 the Company has unrecognised deferred tax assets relating to share based payments of £nil (FY2020: £nil).

In June 2021, the previously enacted a future increase in the rate of UK Corporation tax. From 1 April 2023, the rate increases from 19% to 25%. Deferred tax, as at 31 July 2021 has been calculated at the 25% rate.

## **6 Trade and other receivables**

	31 July 2021 £m	31 July 2020 £m
Amounts owed by subsidiaries	51	64
Other receivables	1	6
	<b>52</b>	<b>70</b>

## **7 Trade and other payables**

	31 July 2021 £m	31 July 2020 £m
Amounts owed to subsidiaries	56	82
Other creditors	21	16
Accruals and deferred income	14	12
	<b>91</b>	<b>110</b>

**SMITHS GROUP PLC**  
**COMPANY ACCOUNTS**  
**CONTINUED**

## 8 Borrowings and net debt

	<b>31 July 2021</b> £m	31 July 2020 £m
Cash at bank	20	16
Short-term deposits	138	160
Cash and cash equivalents	<b>158</b>	<b>176</b>
Lease liabilities falling due within one year	(1)	(1)
Lease liabilities falling due after one year	(6)	(6)
Term loans falling due within one year	(23)	–
Term loans falling due after one year	(1,354)	(1,429)
Borrowings	<b>(1,384)</b>	<b>(1,436)</b>
<b>Net debt</b>	<b>(1,226)</b>	<b>(1,260)</b>

## Term loans and lease liabilities

The currency and coupons for the term loans are disclosed in note 18 of the Group accounts.

	<b>31 July 2021</b> £m	31 July 2020 £m
Less than one year	24	1
Between one and two years	290	–
Between two and five years	516	847
Greater than five years	554	588
<b>Smiths Group plc term loans and lease liabilities</b>	<b>1,384</b>	<b>1,436</b>

See the liquidity risk disclosures in note 19 in the Group accounts for information on the cash and borrowing facilities available to the Group. Smiths has Revolving Credit Facilities of \$110m maturing on 1 November 2023 and \$690m maturing on 1 November 2024.

## 9 Derivatives

The tables below set out the nominal amount and fair value of derivative contracts held by the Company:

	Contract or underlying nominal amount £m	At 31 July 2021		
		Assets £m	Liabilities £m	Fair value Net £m
Foreign exchange contracts (not hedge accounted)	325	2	(2)	–
Cross currency swaps (fair value and net investment hedges)	539	72	–	72
Interest rate swaps (fair value hedges)	108	3	–	3
<b>Total financial derivatives</b>	<b>972</b>	<b>77</b>	<b>(2)</b>	<b>75</b>
<b>Balance sheet entries</b>				
Non-current		75	–	75
Current		2	(2)	–
<b>Total financial derivatives</b>		<b>77</b>	<b>(2)</b>	<b>75</b>

	Contract or underlying nominal amount £m	At 31 July 2020		
		Assets £m	Liabilities £m	Fair value Net £m
Foreign exchange contracts (not hedge accounted)	55	–	–	–
Currency swaps (fair value and net investment hedges)	572	76	–	76
Interest rate swaps (fair value hedges)	114	4	–	4
<b>Total financial derivatives</b>	<b>741</b>	<b>80</b>	<b>–</b>	<b>80</b>
<b>Balance sheet entries</b>				
Non-current		80	–	80
Current		–	–	–
<b>Total financial derivatives</b>		<b>80</b>	<b>–</b>	<b>80</b>

Derivatives, including forward exchange contracts, currency swaps, interest rate instruments and embedded derivatives are level 2 fair value instruments and are valued at the net present value of the future cash-flows calculated using market data at the balance sheet date (principally exchange rates and yield curves).

The debit to the income statement arising from change in fair value in the year was £5m (FY2020: £37m).

## 10 Provisions for liabilities and charges

	At 31 July 2020 £m	Charged against profit £m	Utilisation £m	At 31 July 2021 £m
<b>Disposals</b>	<b>2</b>	–	–	<b>2</b>

The closing disposal provision relates to warranties and other obligations in respect of a past disposal and is expected to be utilised within the next five years.

## 11 Post-retirement benefits

The Company is the principal employer for the two major defined benefit plans in the UK. The Company is accounting for all the UK defined benefit schemes (funded and unfunded) and virtually all of the post-retirement healthcare schemes.

The retirement benefit assets and liabilities comprise:

	31 July 2021 £m	31 July 2020 £m
Market value of scheme assets	4,104	4,240
Present value of funded scheme liabilities	(3,558)	(3,724)
Surplus	546	516
Unfunded pension plans	(54)	(55)
Post-retirement healthcare	(4)	(5)
Present value of unfunded obligations	(58)	(60)
<b>Net pension asset</b>	<b>488</b>	<b>456</b>
Retirement benefit assets	546	516
Retirement benefit liabilities	(58)	(60)
<b>Net pension asset</b>	<b>488</b>	<b>456</b>

See the disclosures for UK schemes in note 8 to the consolidated accounts for the circumstances of the major schemes, risk management, principal assumptions, assets and liabilities and the funding position of the two major schemes.

## 12 Share capital and reserves

### Share capital

	Number of shares	Issued capital £m	Consideration £m
<b>Ordinary shares of 37.5p each</b>			
At 31 July 2019	395,956,781	148	
Exercise of share options	254,399	1	2
At 31 July 2020	396,211,180	149	
Exercise of share options	165,934	–	2
<b>Total share capital at 31 July 2021</b>	<b>396,377,114</b>	<b>149</b>	

At 31 July 2021, all of the issued share capital was in free issue. All issued shares are fully paid. See note 9 to the consolidated accounts for information about share schemes, including total shares under options and options exercisable at the balance sheet date. During the year, the Company received £2m (FY2020: £2m) on the issue of shares in respect of the exercise of options awarded under various share option schemes.

### Smiths Industries Employee Benefit Trust

The retained earnings include the purchase of Smiths Group plc shares by the Smiths Industries Employee Benefit Trust, and the issue of these shares upon the exercise of share options. The consideration paid was £16m (FY2020: £18m) and £2m (FY2020: £2m) was received as a result of the issue of shares. At 31 July 2021 the Trust held 326,364 (FY2020: nil) ordinary shares.

### Distributable profits

The Company's profit and loss reserve of £1,628m (FY2020: £1,812m) includes £638m (FY2020: £822m) of distributable profits. See note 26 in the Group accounts for a discussion of capital management and the factors which the Board considers when proposing dividends.

### Other reserves

Other reserves arose from the cancellation of the share premium arising from an equity-funded acquisition in the year ended 30 July 1988.

### Differential between consolidated and parent Company net assets

The Group's consolidated balance sheet shows net assets that are £96m (FY2020: £115m) lower than the net assets shown on the parent Company's balance sheet. This deficit principally arose in 2007 when the Group returned £2.1bn of capital to shareholders, creating a net asset deficit of £1.9bn. Earnings retained within the Group have subsequently reduced this deficit.

## 13 Contingent liabilities

The Company has provided guarantees and arranged letter of credit facilities to support the Group's pension plans. The current amount outstanding under letters of credit is £54m (FY2020: £54m). The Company has guaranteed the US\$800m revolving credit facility available to a subsidiary.

## 14 Post balance sheet event

Details of the proposed final dividend announced since the end of the reporting period are given in note 25 to the Group consolidated financial statements.

# SUBSIDIARY UNDERTAKINGS

A full list of the Group's related undertakings as at 31 July 2021 is provided below. The entities are grouped by the country in which they are incorporated and details of their registered office address, classes of shares and ownership is disclosed. Related undertakings include subsidiaries, associated undertakings, joint ventures and associates.

Name	Security	Direct (%)	Total (%)
<b>UNITED KINGDOM</b>			
<b>11-12 St James's Square, London, SW1Y 4LB</b>			
Air Log Limited	Ordinary 1p		100
EIS Group Plc	Ordinary 25p	100	100
Flex-Tek Group Limited	Ordinary £1		100
Flightspares Limited	Ordinary 10p	100	100
Francis Shaw And Company (Manchester) Limited	Ordinary £1		100
Francis Shaw PLC	37% 2nd Pref Ordinary 10p; 5.25% Cum Pref £1; Dif 20p; Ordinary 10p		100
Graseby Limited	Ordinary 25p	100	100
Roof Units (Group) Limited	Ordinary 10p	100	100
S.I. Pension Trustees Limited	Ordinary £1	100	100
SI Properties Limited	Ordinary 25p	100	100
SITI 1 Limited	Common US\$1		100
Smiths Aerospace Components Tyseley Limited	Ordinary £1	100	100
Smiths Aerospace Gloucester Limited	Ordinary 25p; Ordinary A 25p		100
Smiths Finance Limited	Ordinary £1; Red US\$1		100
Smiths Group Finance EU Limited	Ordinary €1		100
Smiths Group Finance US Limited	Ordinary US\$1		100
Smiths Group Innovation Limited	Ordinary £1		100
Smiths Group International Holdings Limited	Ordinary £1	100	100
Smiths Industries Limited	7% Non Cum Pref; Ordinary £1	100	100
Smiths Nominees Limited	Ordinary £1	100	100
Smiths Technologies Limited (in Liquidation)	Ordinary £0.0000033		100
Smiths Wolverhampton Limited	Ordinary 25p		100
TI Corporate Services Limited	Ordinary £1	100	100
TI Group Limited	Ordinary 25p	100	100
Tigrup No. 7 Limited	Ordinary £1	100	100
Tigrup No. 14 Limited	Ordinary 20p		100
XDG Limited	Ordinary 50p	100	100
XDG Services Limited	Ordinary £1		99
<b>29 Dunsinane Avenue, Dundee, DD2 3QF</b>			
Flexible Ducting Limited	Ordinary £1		100
Trak Microwave Limited	Ordinary £1		100
<b>52 Grayhill Road, Westfield Industrial Area, Cumbernauld, G68 9HG</b>			
Ashfield Medical Systems Limited	Ordinary £1		100
<b>54 Hagley Road, Edgbaston, Birmingham, B16 8PE</b>			
CVE Trustee Limited	Ordinary £1	100	100
Smiths Pensions Limited	Ordinary £1	99	100
TI Pension Trustee Limited	Limited By Guarantee		100
<b>1500 Eureka Park, Lower Pemberton, Ashford, Kent, TN25 4BF</b>			
Graseby Medical Limited	Ordinary £1		100
Medex Medical Limited	Ordinary £1		100
Pneupac Limited	Ordinary 50p		100
SI Overseas Holdings Limited	Ordinary £1		100
Smiths Medical 2020 Limited	Ordinary £1		100
Smiths Medical Group Limited	Ordinary A £1; Ordinary B £1; Ordinary C £1		100
Smiths Medical International Limited	Ordinary £1		100
<b>Abercanaid, Merthyr Tydfil, Mid Glamorgan, CF48 1UX</b>			
Amnitech Hose Limited	Ordinary 1p		100
Amnitech Limited	Ordinary £1		100
<b>Buckingham House, 361-366 Buckingham Avenue, Slough, Berkshire, SL1 4LU</b>			
Flexibox International Limited	Ordinary £1		100
John Crane Group Limited	Ordinary £1		100
John Crane Investments Limited	Ordinary £1		100

Name	Security	Direct (%)	Total (%)
John Crane UK Limited	Ordinary £1		100
Project Sugar Limited	Ordinary £1		100
Smiths Business Information Services Limited	Ordinary £10		100
<b>Century House, Maylands Avenue, Hemel Hempstead, Hertfordshire, HP2 7DE</b>			
Smiths Detection Group Limited	Ordinary £1		100
Smiths Detection Investments Limited	Ordinary £1		100
Smiths Detection Limited	Ordinary £1	100	100
Smiths Detection-Watford Limited	Ordinary £1		100
Smiths Heimann Limited	Ordinary £1	100	100
<b>No 1 Exchange, Market Street, Aberdeen, Scotland</b>			
John Crane Asset Management Solutions Limited	Ordinary £1		100
<b>Unit 130 Centennial Park, Elstree, Hertfordshire, WD6 3TJ</b>			
Hypertac Limited	Ordinary £1		100
Smiths Industries Industrial Group Limited	Ordinary £1		100
Smiths Interconnect Group Limited	Ordinary £1		100
<b>Unit 3 &amp; 4, Illuma House, Gelders Hall Road, Shepshed, Leicestershire, LE12 9NH</b>			
Gastite Systems Limited	Ordinary £1		100
<b>ANGOLA</b>			
<b>Rue Kwamme Nkrumah, Torres Impor-Africa, 3 Andar, Apt A, Luanda</b>			
John Crane (Angola) Prestacao De Services Ltd	Ordinary AOA 1		100
<b>ARGENTINA</b>			
<b>Av. Leandro N. Alem 1110, 13 Floor, Baker Mackenzie Office, Buenos Aires</b>			
John Crane Argentina SA	Common \$1 ARS		100
TI Group Automotive Systems (Argentina) SA	Ordinary \$1 ARS		100
<b>AUSTRALIA</b>			
<b>549 – 551, Somerville Road, Sunshine, Melbourne, VIC 3020</b>			
Flexibox Pty Limited	Ordinary AUS\$1		100
John Crane Australia Pty Limited	Ordinary AUS\$1		100
<b>Botany Grove Estate Unit 5, 14A Baker Street, Botany, NSW 2019</b>			
Smiths Detection (Australia) Pty Ltd	Ordinary AUD\$1		100
<b>Suite 2.03, 97 Waterloo Road, Macquarie Park, NSW 2113</b>			
Smiths Medical Australasia Pty Ltd	Ordinary		100
<b>AUSTRIA</b>			
<b>Campus 21, Europaring, A 03 5 02, Brunn Am Gebirge, A-2345</b>			
Smiths Medical Osterreich GmbH	Ordinary €1		100
<b>Azerbaijan Republic</b>			
<b>32, Dostluq Street, Salyan Highway PO Box AZ1023, Baku</b>			
John Crane Baku LLC	Ordinary US\$10		100
<b>BELGIUM</b>			
<b>Pegasuslaan 5, Diegem, 1831</b>			
Smiths Medical Belgium NV	Registered Shares		100
<b>Glasstraat 37, Antwerpen, 2170</b>			
John Crane Belgium NV	Ordinary		100
<b>BRAZIL</b>			
<b>Rua George OHM, 205-5 Andar-Conj. 51 E 52 Torre B, Cidade Moncoes – CEP 04576-020, São Paulo</b>			
Smiths Medical Do Brasil Produtos Hospitalares Ltda	Ordinary R\$1		100
<b>Rua Tabapoã, 422, 10th floor, conj. 101, Itaim Bibi, 04533-001</b>			
Smiths Detection Brasil Comérico De Equipamentos Ltda	Common R\$1		100
<b>Industrial District of The City of Rio Claro, State of São Paulo, AV. Brasil Number 4.700, CEP 13505-600</b>			
Smiths Brasil Ltda	Ordinary R\$1		100
<b>CANADA</b>			
<b>301, Gough Road, Markham, Ontario, L3R 4Y8</b>			
Smiths Medical Canada Ltd	Common		100
<b>423, Green North Road, Stoney Creek, Ontario, L8E 3A1</b>			
John Crane Canada Inc	Common CAD\$1		100

## SUBSIDIARY UNDERTAKINGS CONTINUED

Name	Security	Direct (%)	Total (%)
<b>3700, Stock Exchange Tower, P.O. Box 242, 800 Place Victoria, Montreal, PQ, H4Z 1E9</b>			
Smiths Detection Montreal Inc.	Class A Shares; Class B Shares	100	100
<b>4610, Eastgate Parkway, Unit 3, Mississauga, Ontario, L4W 3W6</b>			
Flexible Technologies (Canada) Ltd.	Ordinary \$1	100	100
<b>16771, Sainte Marie Rd, Kirkland, Quebec, H9H 5H3</b>			
Smiths Interconnect Canada Inc	Common Shares	100	100
<b>CHILE</b>			
<b>Americo Vespucio 2542, Complejo Empresarial El Cortijo, Conchali, Santiago</b>			
John Crane Chile SA	Ordinary 1 Peso	100	100
<b>CHINA</b>			
<b>No. 1, Lane 65, Huanlong Road, Pudong New District, Shanghai</b>			
Smiths (Shanghai) Management Co., Ltd	Ordinary US\$1	100	100
<b>No. 7, Factory Building, Maqiao Industrial Square, Changshu Economic Development Zone, Changshu, Jiangsu</b>			
Changshu Flex-Tek Thermal Fluid Systems Manufacturer Co. Ltd	Ordinary US\$1	100	100
<b>No.9, No. 1, Haitai Huake Road, Huayuan Industrial District (Outside The Ring), Binhai Hi-Tech, Industrial Park, Tianjin</b>			
John Crane Technology (Tianjin) Co Limited	Ordinary US\$1	100	100
<b>No. 14 Unit, No. 78, XingLin Road, Suzhou Industrial Park, Suzhou 215026</b>			
Antares Advanced Test Technologies (Suzhou) Co. Ltd	Ordinary US\$1	100	100
<b>No. 26, The 3rd Avenue, Economic &amp; Technological Development Area, Hangzhou</b>			
Smiths Medical Instrument (Zhejiang) Co. Ltd	Ordinary CNY1	100	100
<b>No. 120, Sanjiang Avenue, Economic Development Zone, Mianyang, Sichuan Province</b>			
Huafeng Smiths Interconnect (Sichuan) Co. Ltd	Ordinary RMB1	60	60
<b>Room 923B, No 55, Xili Road, Shanghai, (China) Pilot Free Trade Zone</b>			
SMO Detection Equipment (Shanghai) Co., Ltd	Ordinary US\$1	100	100
<b>Room 1668, No. 14F Floor 3 Datong Building, Huanghe Avenue, Nankai District, Tianjin</b>			
John Crane China Co Limited	Ordinary CNY1	100	100
<b>Unit 2805, Tower 3, Jing An Kerry Centre, 1228 Middle Yan An Road, Shanghai, 200040</b>			
Smiths Medical (Shanghai) Co., Ltd.	Ordinary US\$	100	100
<b>Unit 3018, South Tower, Beijing Kerry Centre, 1, Guanghua Road, Chaoyang District, Beijing</b>			
Smiths Medical (Beijing) Co. Ltd	Ordinary US\$1	100	100
<b>COLOMBIA</b>			
<b>Calle 46A No 82-54 Int 14, Parque Empresarial San Cayetano, Bogota</b>			
John Crane Colombia SA	Ordinary COP\$1	100	100
<b>COSTA RICA</b>			
<b>33rd St. Number 777 Barrio Francisco Peralta, Central Avenue &amp; 8th, San Jose</b>			
Smiths Interconnect Sociedad Anonima	Ordinary US\$1	100	100
<b>CZECH REPUBLIC</b>			
<b>Jana Sigmunda 78, Lutin, 78349</b>			
John Crane A.S.	Ordinary CZK 1M	100	100
<b>Olomoucka 306, Hranice I-Mesto, Hranice, 75301</b>			
Smiths Medical Czech Republic A.S	Ordinary CZK 100,000	100	100
<b>DENMARK</b>			
<b>Orestads Boulevard 73, 2300 Kobenhavn S</b>			
Smiths Medical Denmark ApS	Dkk 100 Shares	100	100
<b>DOMINICAN REPUBLIC</b>			
<b>Calle El Recodo, #2 Bella Vista, Santa Domingo</b>			

Name	Security	Direct (%)	Total (%)
John Crane Dominicana SA	Ordinary DP\$1		100
<b>EGYPT</b>			
<b>139, Mogamaa El Masanea Street, El Amireya, Cairo</b>			
John Crane Egypt Llc	Ordinary EGP 1	100	
John Crane Egypt Sealing Systems Llc	Ordinary EGP 100	99	
<b>Nile City Towers, North Tower, 22nd Floor, Ramlet Boulaq, Nile Cournich, Cairo</b>			
Detection Technologies Egypt	Quotas		100
<b>FINLAND</b>			
<b>PO Box 10, Punasillantie 15, Muurame, 40950</b>			
John Crane Safematic Oy	Ordinary €16.82		100
<b>FRANCE</b>			
<b>3/5 Rue Du Pont Des Halles, Batiment A, Rungis, 94150</b>			
Smiths Medical France S.A.S.	€7.7 Shares	100	
<b>22, Avenue Maurice Chevalier, 77833 Ozoir-La-Ferriere, Paris</b>			
Titeflex Europe S.A.S.	Ordinary \$39	100	
<b>31 Rue Isidore Maille, Saint-Aubin-Les-Elbeuf, 76410</b>			
Hypertac S.A.	Ordinary €76	100	
<b>36 Rue Charles Heller, Vitry Sur Seine, F-94400</b>			
Smiths Detection France S.A.S.	€1 Shares	100	
<b>114, Rue Jules Ferry, B.p.35, Deville-Les-Rouen, 76250</b>			
John Crane France S.A.S.	Ordinary €286	100	
TISA (France)	Ordinary €4.9	100	
<b>GERMANY</b>			
<b>Am Zirkus 2, Berlin, 10117</b>			
John Crane Filtration Technologies GmbH	Ordinary €1	100	
<b>Bretonischer Ring 3, Grasbrunn, 85630</b>			
Smiths Group Deutschland GmbH	€1,491,400 Shares; €3,478,400 Shares; €995,500 Shares	100	
Smiths Medical Deutschland GmbH	€1,000 Shares; €27,000 Shares; €5,000 Shares; €500 Shares	100	
<b>Gewerbestraße 15 a, Graben, 86836</b>			
Gastite Systems Deutschland GmbH	Ordinary €1	100	
<b>Im Herzen 4, Wiesbaden, 65205</b>			
Smiths Detection GmbH	€25,000 Share; €183,100 Share; €791,900 Share	100	
Smiths Detection Germany GmbH	Ordinary	100	
<b>Neckarweg 3, Vellmar, 34246</b>			
Herkules Holding GmbH	Ordinary €1	100	
Seebach GmbH	Ordinary €1	100	
<b>Reepschläger Str., 10B, Lübeck, 23556</b>			
Flexschlauch Produktions GmbH	DM 11,000; DM 380,000; DM 9,000	100	
<b>Tolzer Strasse, 15 82031, Grunwald</b>			
Zamor KG	Ordinary shares €1	48	
<b>Ulrichsberger Strasse 17, Deggendorf, 94469</b>			
Hypertac GmbH	Ordinary €1	100	
<b>Werner-Von-Siemens – Str.6, Fulda, 36041</b>			
John Crane GmbH	Ordinary €1	100	
<b>GREECE</b>			
<b>3 Stratigou Tobre Street, Municipality Of Agia Paraskevi, Athens, 153 42</b>			
John Crane Hellas – Engineered Sealing Systems Monoprosopi Epe	Ordinary €1	100	
<b>GUERNSEY</b>			
<b>Level 5, Mill Court, La Charroterie, St Peter Port, GY1 1EJ</b>			
Smiths Group Insurance Limited	Ordinary £1	100	
<b>HONG KONG</b>			
<b>806-807, 8/F, One Pacific Place, 88 Queensway</b>			
Smiths Interconnect Group (HK) Limited	Ordinary US\$1	100	
Smiths Interconnect Hong Kong Co Limited	Ordinary US\$1	100	
<b>Suite 1106-8, 11/F Tai Yau Building, No 181 Johnston Road, Wanchai</b>			

## SUBSIDIARY UNDERTAKINGS CONTINUED

Name	Security	Direct (%)	Total (%)
Smiths Detection Hong Kong Limited	Ordinary 1 HKD	100	
Smiths Medical (Hong Kong) Limited	Ordinary 1 HKD	100	
<b>HUNGARY</b>			
<b>2040 Budaors, Gyar U. 2</b>			
John Crane Hungary Kft	Ordinary €1	100	
<b>INDIA</b>			
<b>508/509, 5th Floor, Western Edge li, Western Express Highway, Borivali East, Mumbai, 400066</b>			
Smiths Medical India Private Limited	Ordinary Inr 1	100	
<b>D-196 Okhla Industrial Area, Phase-1, New Dehli, 110020</b>			
Plenty India Limited	Ordinary Shares	100	
<b>No 11, 1st Phase, Peenya, Industrial Area, Bangalore, 560058</b>			
John Crane Sealing Systems India Private Limited	Ordinary Inr 10	100	
Smiths Interconnect India Private Limited	Ordinary Inr 10	100	
<b>No 38, Kiadb Industrial Area, Bangalor, 561203</b>			
STS Titeflex India Pvt Ltd	Ordinary INR 100	100	
<b>Shirwal, Maharashtra 412801</b>			
Seebach Filter Solutions India Pvt Ltd	Ordinary INR 10	90	
<b>Vardhman Crown Mall, Unit No. 300 3rd Floor, Sector 19 Dwarka, New Delhi 110075</b>			
Smiths Detection Systems Private Limited	Class A Equity Shares Inr 10; Class B Equity Shares Inr 10	100	
<b>INDONESIA</b>			
<b>Cilandak Commercial Estate Bldg 401A, Jl. Kko Cilandak, Jakarta, 12560</b>			
PT John Crane Indonesia	Ordinary IDR 1,000	99	
<b>IRELAND</b>			
<b>Suite 3, One Earlsfort Centre, Earlsfort Terrace, Dublin 2</b>			
Graseby Medical Ireland Limited	Ordinary €1.269738	100	
Smiths Detection Ireland Limited	Ordinary €1.25; Ordinary B €1.269738; Ordinary D €1.25; Series C €1.25	100	
<b>T53/54, Shannon Industrial Estate, Shannon, Co. Clare</b>			
John Crane (Ireland) Limited	Ordinary €1	100	
<b>ITALY</b>			
<b>Via Da Bissoni 7A, Genova, 16153</b>			
Hypertac SpA	Ordinary €5	100	
<b>Via Della Stazione, 2, 04013 Latina Scalo, Latina</b>			
Smiths Medical Italia srl	Ordinary €1	100	
<b>Via Giotto 3, Muggio, 20835</b>			
John Crane Italia SpA	Ordinary €5.16	100	
Smiths Detection Italia srl	Quota Value of Shares	100	
Smiths Group Italia Srl	Ordinary €1	100	
<b>JAPAN</b>			
<b>1-1-1 Uchisaiwaicho, Chiyoda-ku, Tokyo</b>			
Smiths Medical Japan Ltd	Common Stock	100	
Smiths Detection Japan Gk	Cash Contribution	100	
<b>2222, Kamitoyama Ritto City, Ritto-Shi, Shiga-Ken</b>			
John Crane Japan Inc	Ordinary JYP 1,000	70	
<b>KAZAKHSTAN</b>			
<b>Atyrau Region, Gatyrau, Station K Arabathan, House Production Site 14, 060000</b>			
John Crane Kazakhstan	Ordinary KZT	100	
<b>KOREA, REPUBLIC OF</b>			
<b>Migeundong, Westgate Tower 15F, 70 Chungjeong-Ro, Seodaemun-Gu, Seoul</b>			
John Crane Korea Co Ltd	Ordinary Kwon 5,000	100	
<b>MALAYSIA</b>			
<b>207, Jalan Tun Razak, Suite 13.03, 13th Floor, Menara Tan &amp; Tan, Kuala Lumpur, 50400</b>			
John Crane Malaysia Sdn Bhd	Ordinary RM1	100	

Name	Security	Direct (%)	Total (%)
Flexible Ducting Malaysia Sdn Bhd (in liquidation)	Ordinary RM1		100
<b>Menara LGB, 1, Jalan Wan Kadir Taman Tun Dr Ismail, 60000 Kuala Lumpur, WPKL</b>			
Smiths Detection Malaysia Sdn Bhd	Ordinary RM1		100
<b>MEXICO</b>			
<b>679, Poniente 152, Vallejo Delegacion Azcapotzalco, Mexico City, 2300</b>			
Industrias John Crane Mexico S.A. de C.V.	Series A MXN 1; Series B MXN 1		100
<b>Av. Primero De Mayo Lote 3 Edificio 1B, Prologis Park, Reynosa, 88780</b>			
Tutco De Mexico S de RL de CV	Ordinary \$1.00		100
<b>Ave Calidad No. 4, Parque Industrial, Internacional Tijuana, Tijuana, B.C., 22425</b>			
Smiths Healthcare Manufacturing, S.A. de C.V.	Series B 10 Pesos; Series B-1 Pesos 10		100
<b>Carretera Ciudad Victoria Matamoros, Km.173+600, Solonia San Fernando Centro, Tamaulipas, San Fernando, CP 87600</b>			
John Crane Sociedad De Responsabilidad Limitada De Capital Variable	Ordinary MXN \$1		100
<b>Carretera Libre Antiguo Camino Tijuana 20221-B, Fideicomiso el Florido, Tijuana, Baja California, 22234</b>			
Smiths Interconnect Mexico S. de RL de C.v.	Equity Quotas MEX \$2,500		100
<b>Paseo De La Reforma 505, Col, Cuauhtemoc, 6500, Ciudad De Mexico</b>			
Smiths Detection Mexico S. de RL de C.v.	PS US\$1; PS US\$2,999		100
<b>NETHERLANDS</b>			
<b>Abraham van Stolkweg 118, Rotterdam, 3041 JA</b>			
Amnitec BV	Ordinary €1		100
<b>Bergen 9 – 17, Barendrecht, Zuid, 2993LR</b>			
John Crane Holland BV	Ordinary €1		100
Smiths Detection Benelux BV	Ordinary €1		100
<b>Buckingham House, 361-366 Buckingham Avenue, Slough, Berkshire, SL1 4LU, England</b>			
Smiths Group Holdings Netherlands BV	Ordinary €1		100
<b>Hydrograaf 25, PO Box 442, 6900 Ak Zevenaar, Duiven, 6921 RS</b>			
Indufil BV	Ordinary €1		100
<b>Jagersbosstraat 28, 5241JT Rosmalen</b>			
Smiths Medical Nederland B.V.	NLG100 shares		100
<b>NEW ZEALAND</b>			
<b>Deloitte, Level 18, 80 Queen Street, Auckland 1010</b>			
Smiths Detection New Zealand Limited	Ordinary		100
<b>PERU</b>			
<b>Av. Guillermo Dansey 2124, Urbanizacion Industrial Conde, Lima</b>			
John Crane Peru Sac	Common Shares PEN 1		100
<b>POLAND</b>			
<b>1327, ul. Bielska, Poland, 43-374 Buczkowi</b>			
John Crane Poland Sp Z O.O.	Ordinary 50 PLN		100
<b>PORTUGAL</b>			
<b>Avenida Engenheiro Duarte Pacheco, Amoreiras, Torre 2, 15º A, Campo De Ourique, Lisboa, 1070-102</b>			
Smiths Medical (Portugal), Unipessoal Lda	€505,000 Share		100
<b>PUERTO RICO</b>			
<b>654 Plaza, Suite #933, 654 Munoz Rivera Ave, San Juan, 00918</b>			
John Crane Caribe Ltd	Common Shares US\$1		100
<b>RUSSIAN FEDERATION</b>			
<b>104 Oktyabrskayanab., Building 25, Litera AJ, Premises 4-H, Saint-Petersburg, 193079</b>			
Smiths Detection Rus LLC	Ordinary RUB 1		100
<b>B.savvinsky Per, D.11, Moscow, 119435</b>			
LLC John Crane Rus	Ordinary RUR 1		100
<b>SAUDI ARABIA</b>			
<b>Dammam Industrial City, Dammam, 3243</b>			
John Crane Saudi Arabia Ltd	Ordinary ZAR 1		100
<b>Building 7, Zone A, Airport road, Business Gate, P.O Box Riyadh 11683, 93597</b>			

## SUBSIDIARY UNDERTAKINGS CONTINUED

Name	Security	Direct (%)	Total (%)
Smiths Detection Saudi Arabia Ltd	1,000 Saudi Riyals Shares		100
<b>SINGAPORE</b>			
<b>6 Shenton Way, OUE Downtown #26-00, 068809</b>			
John Crane Singapore Pte Limited	Ordinary S\$1		100
<b>6 Shenton Way, Oue Downtown #33-00, 068809</b>			
Smiths Medical Singapore Pte. Limited	Ordinary US\$1		100
<b>20, Pasir Panjang Road, #13-26 Mapletree Business City, 117439</b>			
Smiths Connectors Asia Pte. Ltd.	Ordinary S\$1		100
Smiths Detection (Asia Pacific) Pte. Ltd	Ordinary S\$1		100
<b>SLOVAKIA</b>			
<b>Dvorakovo nabrezie 10, Bratislava-mestska cast Stare Mesto, 811 02</b>			
John Crane Slovakia SRO	Ordinary €1		100
<b>SOUTH AFRICA</b>			
<b>2, Jansen Road, Nuffield Industrial Sites, Springs Gauteng, 1559</b>			
Flexibox (Pty) Limited	Ordinary SAR 1		100
John Crane Pty Ltd	Ordinary ZAR 1		100
<b>SPAIN</b>			
<b>Av Diagonal, Num.635 P.1, Barcelona, 08028</b>			
Smiths Medical España S.L.	Shares €1		100
<b>Cemento 1, Torrejon De Ardoz, Madrid</b>			
John Crane Iberica SA	Ordinary €6.010121		100
<b>SWEDEN</b>			
<b>Knivsta, 74180</b>			
Habia Teknofluor AB	SEK100 Shares		100
Teknofluor Holding AB	SEK100 Shares		100
<b>Box 1143, 164 22 Kista</b>			
Smiths Medical Sverige AB	SEK100 Shares		100
<b>Faltspatsgatan 4, Se-421 30 Vastra Frolunda</b>			
John Crane Sverige AB	Ordinary SEK 100		100
<b>SWITZERLAND</b>			
<b>Hohenrainstrasse 10, 4133 Pratteln</b>			
John Crane (Switzerland) AG	Ordinary 1 CHF		100
<b>Zurichstrasse 33, Adliswil, 8134</b>			
Smiths Medical Schweiz AG	Shares of CHF 10		100
<b>TAIWAN</b>			
<b>324-4, Fong-Jen Road, Renwu District, Kaohsiung City 814</b>			
John Crane Taiwan Co Ltd.	Ordinary T\$1		100
<b>THAILAND</b>			
<b>9/311, 31st Floor, Um Tower, Ramkhamhaeng Road, Suanluang District, Bangkok</b>			
John Crane (Thailand) Limited	Ordinary THB 1; Pref THB 25		100
<b>99/3 Moo 5, Kingkaew Road, Tambol Rajatheva, Amphoe Bangplee, Samutprakarn Province, 10540</b>			
Smiths Detection (Thailand) Limited	Pref THB 100; Ordinary THB 100		100
<b>TUNISIA</b>			
<b>Zone Industrielle Route De Khniss, Monastir, 5000</b>			
Smiths Connectors Tunisia SARL	Ordinary 100 DT		100
<b>TURKEY</b>			
<b>Istanbul Sarıyer, Huzur Mahallesi, Ahmet Bayman Caddesi, Dis, Reklamcilik Apt No:17-19/1</b>			
John Crane Endustriyel Sizdirmazlik Sistemleri Ltd	Ordinary TRY 25		100
<b>UNITED ARAB EMIRATES</b>			
<b>Building B10, Industrial Mussaffah, M44, Sector 15, Abu Dhabi</b>			
Smiths Detection Security Systems Llc	Aed 1,500		49
<b>Dubai Airport Free Zone, PO Box 48225, Building No. 8WA (West Side), 401, Dubai</b>			
Smiths Detection Middle East Fze	Aed 1,000,000 Share		100
<b>S20113, Jebel Ali Free Zone, 61040</b>			
John Crane Middle East Fze	Ordinary AED 1		100

Name	Security	Direct (%)	Total (%)
<b>UNITED STATES OF AMERICA</b>			
<b>100 Royal Way, Temple, Georgia, 30179, United States</b>			
Royal Metal Products, LLC	Ordinary US\$1	100	100
<b>51 Growth Road, Laconia, NH, 03246</b>			
Lakes Region Tubular Products Inc.	Common Stock	100	100
Scotia Acquisition Co	Common Stock of US\$0.01	100	100
Scotia Real Estate LLC	Limited Liability Company Interests		100
<b>116, Pine Street, 3rd Floor, Suite 320, Harrisburg, PA 17101</b>			
Tutco, Llc	Ordinary US\$1	100	100
<b>180 Van Riper Avenue, Elmwood Park, NJ 07407</b>			
Kreisler Industrial Corp	Common Stock	100	100
Kreisler Manufacturing Corp	Common Stock of US\$0.001	100	100
<b>701 E. Pratt Street, Baltimore, MD, MD 2102</b>			
PathSensors, Inc.	Ordinary US\$1	100	100
<b>208 S. Lasalle Street, Suite 814, Chicago, IL, 60604</b>			
John Crane International Inc.	Common Shares	100	100
<b>5200, Upper Metro Place, Dublin, OH, 43017</b>			
Medex Cardio-Pulmonary, Inc	Common Stock of US\$0.01	100	100
<b>815 Forestwood Drive, Romeoville, IL 60446</b>			
United Flexible, Inc.	Common Stock of US\$0.01	100	100
US Hose Corp	Common Stock	100	100
<b>1219 Stewart Plaza, Dunbar, WV, 25064</b>			
Seebach Filtration USA, Inc.	Ordinary US\$25	100	100
<b>2801 Red Dog Lane, Knoxville, TN 37914</b>			
Fulton Bellows LLC	Limited Liability Company Interests	100	100
<b>Corporation Service Company, 2711 Centerville Rd, Suite 400, Wilmington, DE, 19808</b>			
United Flexible Technologies, Inc.	Common Stock of US\$0.001	100	100
<b>The Corporation Trust Company, 1209 Orange Street, Wilmington, DE, 19801</b>			
Flexible Technologies, Inc	Ordinary Shares US\$0.01	100	100
Flex-Tek Group (US) LLC	Ordinary	100	100
John Crane Group, Llc	Ordinary US\$0.01	100	100
John Crane Inc	Common US\$0.01; Preferred US\$0.10	100	100
John Crane USA, Inc	Ordinary US\$0.01	100	100
MDII Investments LLC	Ordinary	100	100
Powercam-Houdaille, Inc.	Common Shares US\$1	100	100
Smiths Business Information Services, Inc.	Common Stock of US\$0.01	100	100
Smiths Detection International, Llc	Equity Interests	100	100
Smiths Detection US Holdings, LLC	Limited Liability Company Interests	100	100
Smiths Detection US, Llc	Ordinary US\$1	100	100
Smiths Group Services Corp.	Common Stock US\$0.01	100	100
Smiths Interconnect Americas, Inc.	Common Stock US\$0.01	100	100
Smiths Interconnect, Inc.	Common Stock US\$10	100	100
Smiths US Innovation LLC	Ordinary	100	100
<b>CT Corporation System, 9 Capitol Street, Concord, NH 03301</b>			
Smiths Tubular Systems-Laconia, Inc	Ordinary Shares US\$1	100	100
<b>CT Corporation System, 155 Federal Street, Suite 700, Boston, MA 02110</b>			
Titeflex Commercial, Inc.	Ordinary US\$0.01	100	100
<b>One Corporate Center, Hartford, CT 06103-3220</b>			
Titeflex Corporation	Ordinary US\$1	100	100
<b>Registered Agent Solutions, Inc., 1679 Dupont Highway, Suite 100, Dover DE, 19901</b>			
Smiths Medical Asd Inc.	Common Stock \$1	100	100
<b>The Corporation Trust Company of Nevada, 701 S Carson Street, Suite 200, Carson City, NV, 89701</b>			
Smiths Detection Inc	Common Stock of \$0.0001	100	100
<b>VENEZUELA</b>			
<b>Carretera Vía A Perijá, Km 8 ½, Avenida 50, Local N° 185-72, Zona Industrial El Silencio, Maracaibo, 4001</b>			
John Crane Venezuela CA	Class A BSF1; Class B BSF1; Common BSF1	100	100

## SUBSIDIARY UNDERTAKINGS CONTINUED

Name	Security	Direct (%)	Total (%)
<b>ASSOCIATES</b>			
<b>RUSSIAN FEDERATION</b>			
28, Academica Vedeneeva Street, Perm, Permskiy Region, 614038	Ordinary RUR 1	50	

Between 1 August and 27 September 2021:

- Reflex Photonics Inc., was renamed Smiths Interconnect Canada Inc. on 1 August 2021.

### Overseas branches

The Company does not operate through any branches. Some Group subsidiary companies have established branch operations outside the UK.

# SHAREHOLDER INFORMATION

## Financial calendar

	2021	2022 (provisional)
Announcement of FY2021 Results	28 September	
Dividend ex-dividend date	21 October	
Dividend record date	22 October	
Last DRIP election date	5 November	
Annual General Meeting	17 November	
Dividend payment date	19 November	
Announcement of FY2022 Interim Results		25 March
Interim dividend ex-dividend date		7 April
Interim dividend record date		8 April
Last DRIP election date		28 April
Interim dividend payment date		13 May
FY2022 financial year end		31 July
Announcement of FY2022 Results		September

### Registered Office

Smiths Group plc  
4th Floor  
11-12 St James's Square  
London SW1Y 4LB, UK  
020 7004 1600  
Incorporated in England  
Company No. 137013  
[www.smiths.com](http://www.smiths.com)

### Registrars

Our share register is maintained by Equiniti. If you have any questions about your Smiths shares, please contact Equiniti by:

**Visiting:** [www.shareview.co.uk](http://www.shareview.co.uk).

#### Telephoning:

T: + 44 (0)371 384 2943 (in the UK)  
Textel: 0870 384 2255  
Lines open 9:00am to 5:00pm (UK time),  
Monday to Friday (excluding public holidays  
in England and Wales)

**Writing to:** Equiniti Limited, Aspect House  
Spencer Road, Lancing, West Sussex, BN99 6DA

Equiniti offer the Shareview portfolio service to investors; visit [www.shareview.co.uk](http://www.shareview.co.uk) to register for an account. Through Shareview you can access information about your investments, including balance movements and indicative share prices, as well as practical help about transferring your shares or updating your personal details.

### Dividends

Since November 2019 Smiths no longer issues dividend cheques. In order to have your dividends paid directly to your bank or building society account please contact Equiniti for a copy of the Bank Mandate Form, or register your nominated bank or building society account by visiting [www.shareview.co.uk](http://www.shareview.co.uk).

By registering your account all future dividends will be paid securely by direct credit on the dividend payment date.

Alternatively, Smiths offers a Dividend Reinvestment Plan. For more information please visit our website or contact Equiniti.

### Ordinary shares

The market value of an ordinary share of the Company on 31 March 1982 for the purposes of capital gains tax was 136.875p (taking into account the sub-division of 50p shares into 25p shares on 14 January 1985 and the sub-division and consolidation of 25p shares into 37.5p shares on 18 June 2007).

### Annual General Meeting (AGM)

The 2021 Smiths Group plc AGM will be held at 11.30am on Wednesday, 17 November 2021 at Freshfields Bruckhaus Deringer, 100 Bishopsgate, London EC2P 2SR. Because of ongoing concerns and uncertainty regarding COVID-19, Smiths Group plc strongly recommends that shareholders do not attend the Annual General Meeting in person and instead are encouraged to join remotely. Shareholders will be able to watch a webcast alongside the AGM presentation slides which will be made available electronically at 10.30am on 17 November 2021. There will also be a facility available for shareholders to ask questions remotely. Instructions are detailed in the Notice of AGM which can be found in a separate document which is sent out at least 20 working days before the AGM and made available on our website. If you are in any doubt as to what action you should take in relation to the resolutions being proposed at the AGM, you are recommended to consult your stockbroker, bank manager, solicitor, accountant or other independent professional adviser authorised under the Financial Services and Markets Act 2000. A recording of the webcast will be available on our website shortly after the meeting concludes.

### Voting at the AGM

The Company provides electronic proxy voting for the AGM. Shareholders who are unable to attend the AGM in person are encouraged to vote their shares by appointing a proxy and issuing voting instructions. Electronic and paper proxy appointments and voting instructions must be received by the Company's Registrar not later than 48 hours before the AGM is held in order to be valid. Shareholders who are not CREST members can appoint a proxy and vote online by visiting [www.sharevote.co.uk](http://www.sharevote.co.uk). CREST members, CREST personal members and other CREST-sponsored members should consult the CREST Manual or their sponsor or voting service provider for instructions on electronic proxy appointment and voting.

## **Forward-looking statements**

This report contains certain forward-looking statements. They appear in a number of places throughout this document and include statements regarding the intentions, beliefs and/or current expectations of Smiths Group plc (the 'Company') and its subsidiaries (together, the 'Group') and those of their respective officers, directors and employees concerning, amongst other things, the results of operations, financial condition, liquidity, prospects, growth, strategies and the businesses operated by the Group. Forward-looking statements can be identified by the use of forward-looking terminology, including terms such as "believes", "estimates", "anticipates", "expects", "forecasts", "intends", "plans", "projects", "goal", "target", "aim", "may", "will", "would", "could" or "should" or, in each case, their negative or other variations or comparable terminology. By their nature, these statements involve uncertainty and are subject to known and unknown risks, including, without limitation, those discussed under the section titled 'Principal risks and uncertainties' in this report.

Future events and circumstances can cause performance, results and developments to differ materially from those expressed, implied or anticipated. The past business and financial performance of the Group is not to be relied on as an indication of its future performance. The forward-looking statements reflect knowledge and information available at the date of preparation of this document and, unless otherwise required by applicable law, the Company undertakes no obligation to update or revise these forward-looking statements. Undue reliance should not be placed on such forward-looking statements. Nothing in this document should be construed as a profit forecast or be interpreted to mean that future earnings per share of the Company will necessarily match or exceed its historical published earnings per share. The Company and its Directors accept no liability to third parties. This document contains brands that are trademarks and are registered and/or otherwise protected in accordance with applicable law. Some of the products described in these materials are under development at Smiths Medical and are not available for sale. The products described are subject to FDA 510(k) Premarket Notification clearance and receipt of CE Mark prior to commercial distribution, and we make no definitive claims about the final features or benefits of these products.

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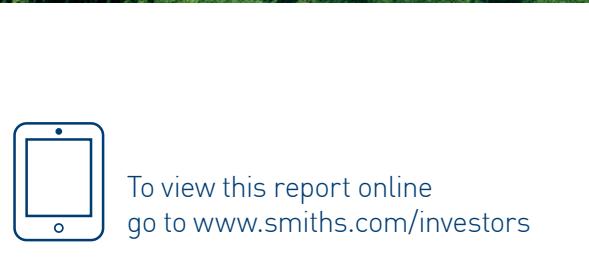
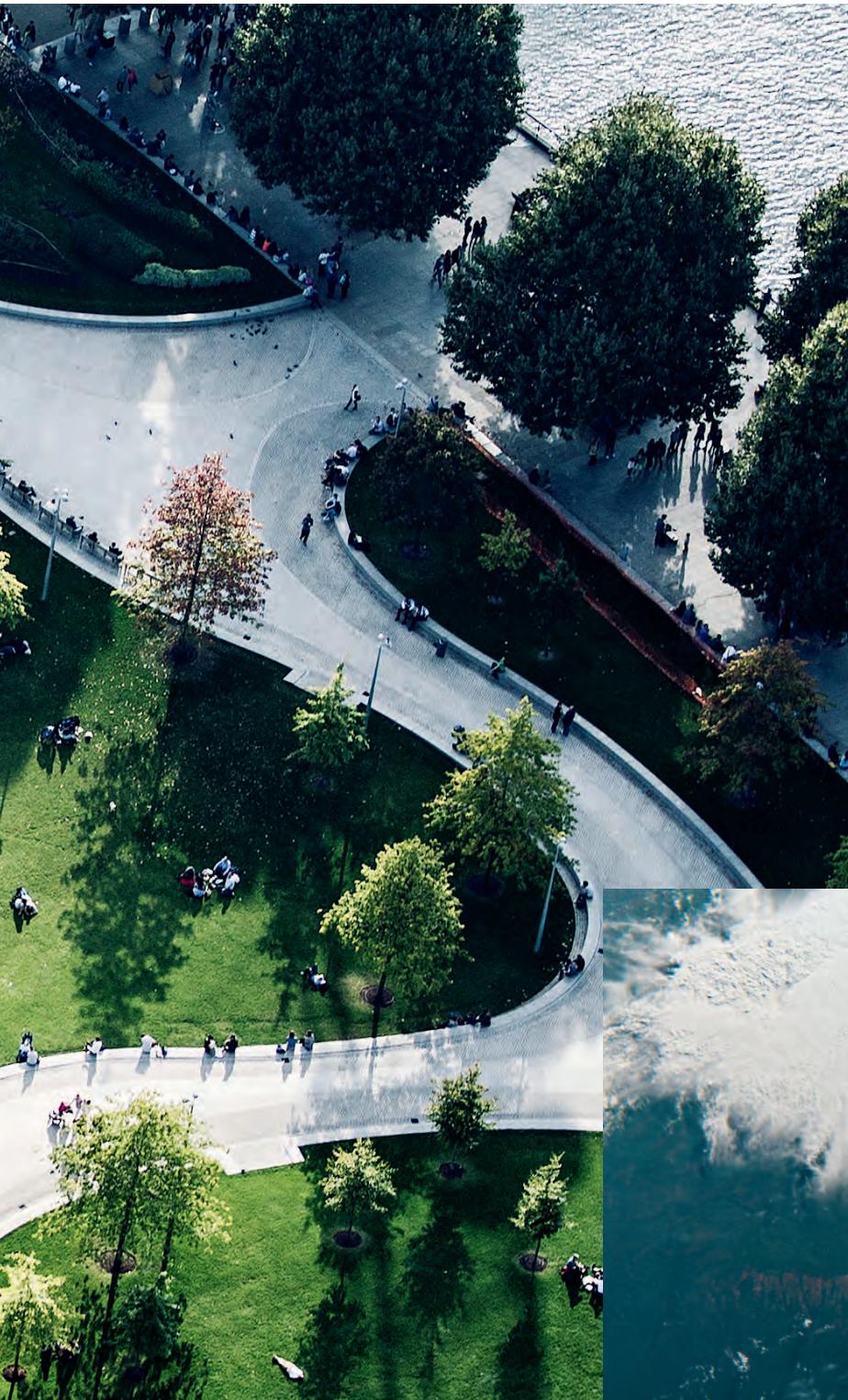
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