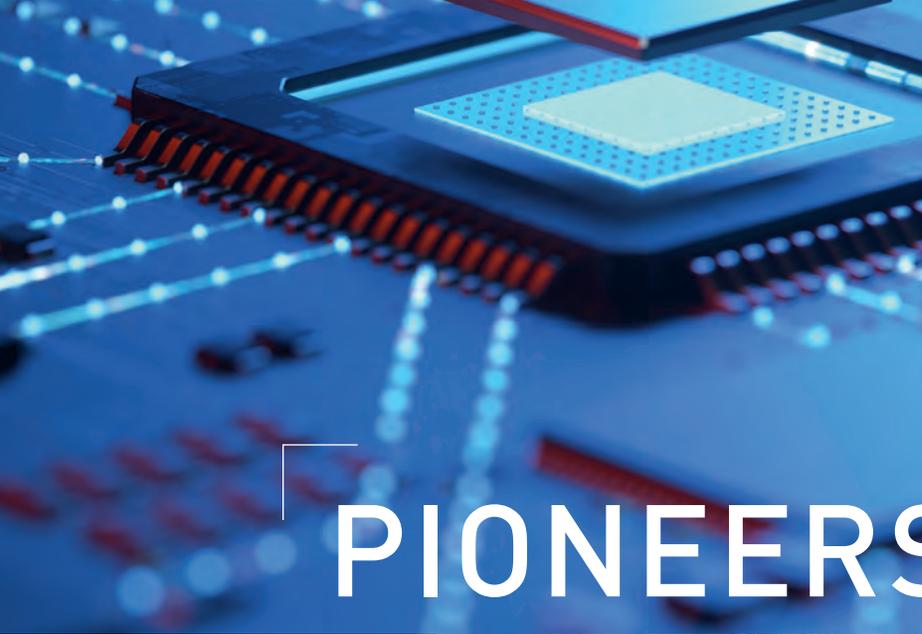


smiths



PIONEERS OF PROGRESS

IMPROVING OUR WORLD
THROUGH SMARTER ENGINEERING



SMITHS GROUP PLC
A responsible business

AT SMITHS WE HAVE NEVER STOOD STILL

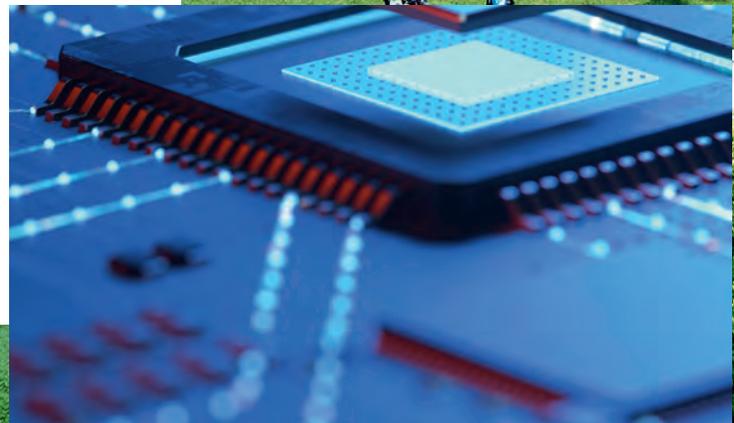
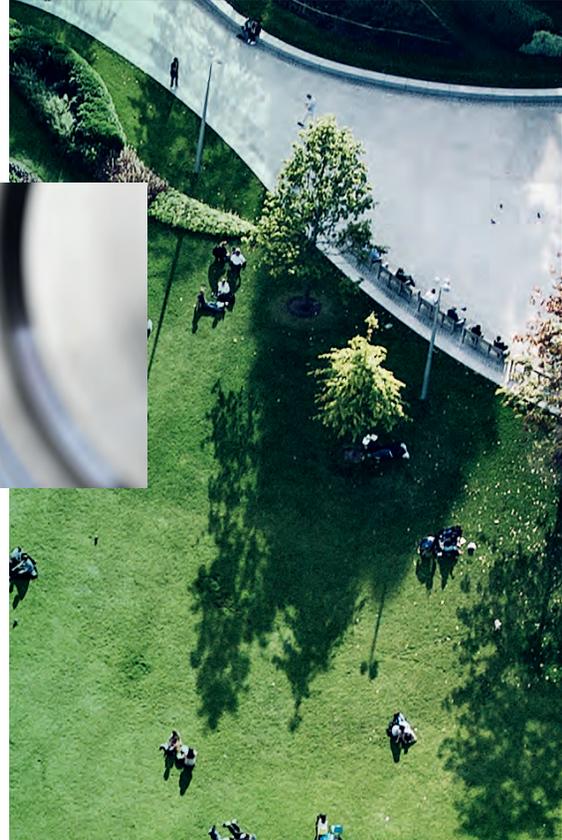
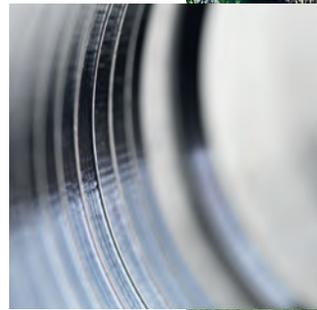
For 170 years, our passion for technology and excellence has moved the world forward; solving problems and creating new opportunities through smarter engineering.

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, reparability 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.

This document focuses on our commitment to being a responsible business. Over the following pages you will find

Who we are:	Our purpose	2
What we do:	Our business at a glance	4
How we do it:	Our business model	6
Stakeholders:	Our resources and relationships	8



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



Paul Keel
CEO



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*



* Continuing Operations. See definition on page 4.

4

OUR FOUR DIVISIONS*

JOHN CRANE

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

SMITHS DETECTION

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

FLEX-TEK

Safe and efficient movement of fluids and gases

SMITHS INTERCONNECT

High-speed, secure connectivity in critical applications

SMITHS MEDICAL
Discontinued Operations

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 MARGIN¹
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 MARGIN¹
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 MARGIN¹
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 MARGIN¹
11.2%



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

REVENUE
£849m

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

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

£0.5bn¹

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

¹ Continuing operations.



DRIVES AND SUSTAINS VALUE FOR ALL OUR STAKEHOLDERS

PEOPLE

BELONGING SCORE

69

FY2020: 70
See page 13

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 INDEX¹

20%

FY2020: 20%
revenue from new products

OTIF

73%

FY2020: 86%
On time in full

BASIC HEADLINE EPS²

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.

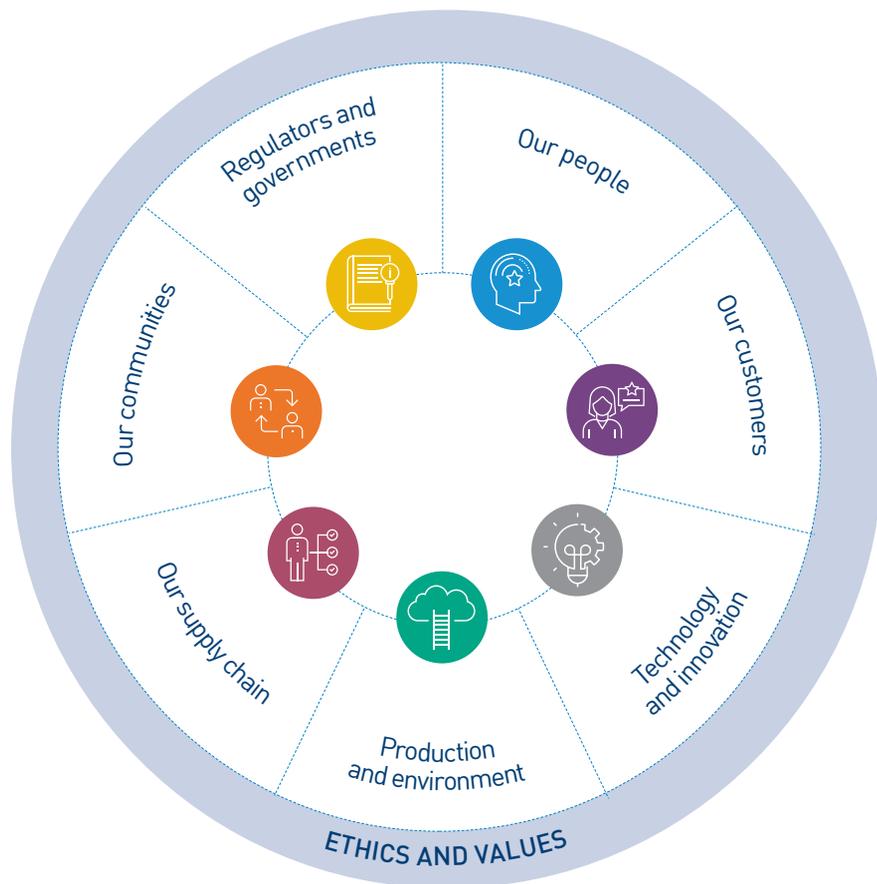
UNDERSTANDING AND NURTURING OUR RESOURCES AND RELATIONSHIPS

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 page 24).

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

Figures in this section are for Total Group unless otherwise stated

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 people

Focus areas

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

Key highlights in FY2021

- Implementation of Global Employee Assistance Programme
- Ethics Pulse survey
- THRIVE well-being resources
- Smiths Day celebration

UN SDGs



Read more



Our customers

Focus areas

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

Key highlights in FY2021

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

UN SDGs



Read more



Technology and innovation

Focus areas

- Innovation culture
- Capabilities and collaboration
- Enterprise IT

Key highlights in FY2021

- 3.9% of revenue invested in R&D
- 20% Vitality Index¹
- Collaboration on digital and AI development
- Continued improvement in enterprise cyber security

UN SDGs



Read more



Production and environment

Focus areas

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

Key highlights in FY2021

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

UN SDGs



Read more



Our supply chain

Focus areas

- Total value
- Relationships and resilience
- Ethical alignment

Key highlights in FY2021

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

UN SDGs



Read more



Our communities

Focus areas

- Beneficial impact
- Employee engagement
- Ethical behaviour

Key highlights in FY2021

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

UN SDGs



Read more



Regulators and governments

Focus areas

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

Key highlights in FY2021

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

UN SDGs



Read more



¹ 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 contact 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 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 significant¹ safety or health fines or penalties in FY2021 from any regulatory agencies.

¹ 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.

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.

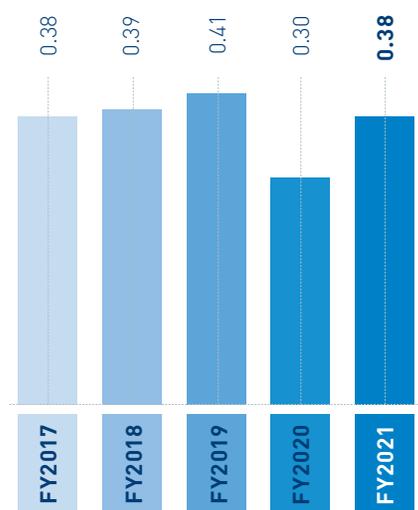
We closely monitor colleague trips to high and extreme risk locations, with all travel pre-approved per policy, although travel has been significantly curtailed during the COVID-19 pandemic for safety reasons. The ISOS (International SOS) app, free of charge for all colleagues, allows the broad location 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

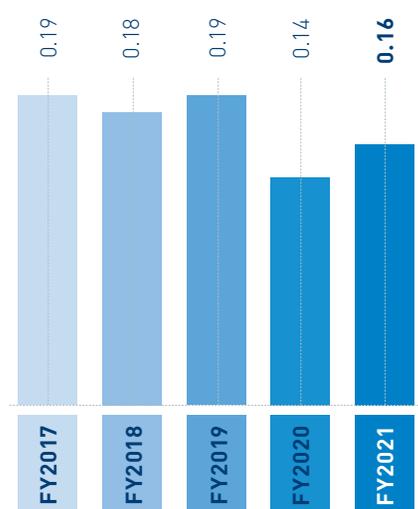


LOST TIME INCIDENT RATE

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 13).



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](#)

WWW.SMITHS.COM/RESPONSIBLE-BUSINESS

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.

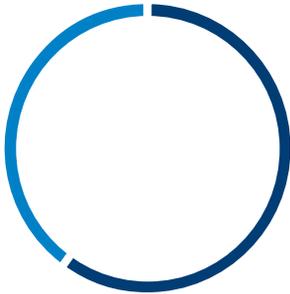
We are particularly focused on being an employer of choice for women, actively promoting International Women's Day and International Women in Engineering Day. During FY2021 we launched Restart@Smiths which encourages career breakers to return to their careers.

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.

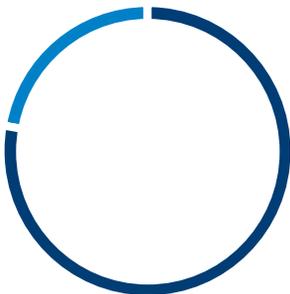
As required by the UK Government, we report every year on our UK gender pay gap. Our most recent report is on the Smiths website.

**GENDER DIVERSITY
IN THE GROUP**
BOARD OF DIRECTORS¹



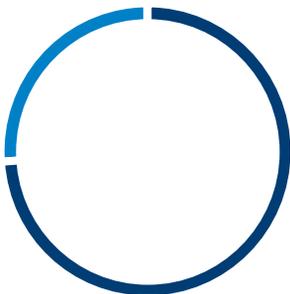
Male	6
Female	4

EXECUTIVE COMMITTEE¹



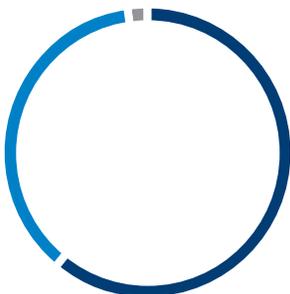
Male	7
Female	2

SENIOR MANAGERS²



Male	378
Female	133

COLLEAGUES (TOTAL)³



Male	13,264
Female	8,246
Not declared	13

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.

READ MORE	
ETHICS	P10
ENVIRONMENT	P19
TECHNOLOGY AND INNOVATION	P17
DESIGN FOR SUSTAINABILITY PILOT	P22

¹ Paul Keel and John Shipsey are included in both Board of Directors and the Executive Committee.
² 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.
³ 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

OPTICAL
TECHNOLOGY
CONNECTING
OUR WORLD

Read more online
www.smiths.com/what-we-do

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.

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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, reparability 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 sales¹

FY2020:4.7%

VITALITY INDEX¹

20%

FY2020:20%

¹ 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.

[READ MORE](#)

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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.

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.

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.

SUPPORTING RESEARCH INTO EFFICIENT JET ENGINE DESIGN

Read more online
www.smiths.com/what-we-do

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.

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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.

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.

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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 SALES¹

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

26%

FY2020: 28%

STOCK TURNS¹

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.

精益随行
史密斯之道

1 5S
整理 整顿 清扫 清洁 素养

2 标准作业
最佳工作标准化

3 可视化管理
异常可视化

4 领导力标准作业
领导人领导力

5 实际问题解决
5个为什么
测量 材料 方案
环境 人员 机器

6 7大浪费
了解浪费成本
运输 库存 等待 搬运 过量生产 过量库存 不良品

7 持续改善
每个人, 每一天, 每个地方, 持续改善

改善

使用精益工具箱作为培训模板和工作指引
<https://online.smiths.com/SES/Knowledge/Pages/Lean-and-CI-Toolbox.aspx>

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.

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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, reparability, 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.



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.

OUR 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 24).

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.

1 Our global Nurture environmental initiative aims to inspire and educate everyone at Smiths through resources, campaigns and regular communication on environmental matters

2 A global recycling campaign launched on Global Recycling Day to support reaching our FY2021 recycling target

3 Refreshed environmental awareness training for all colleagues

4 Established Environment Advisory Committee to support the work of the EER

5 Established Communication Committee comprising our Group and divisional communications managers and divisional HSE Directors to gather local stories and support campaigns

6 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 SOURCES¹

-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 online
www.smiths.com/what-we-do

¹ 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
Use of renewable electricity ¹	5% increase to 48%	6%	17%	Achieved in FY2020
Greenhouse gas emissions	5% reduction	-5%	-8%	Achieved in FY2019
Recycling rate	5% increase to 71%	7%	5%	Achieved in FY2021
Water consumption in stressed areas (13 locations)	5% reduction	-8%	-11%	Achieved in FY2021

¹ Non-GHG producing electric sources including hydroelectric and nuclear.

Energy use and GHG (Scope 1 and 2) emissions

	FY2021	FY2020*	FY2019*	FY2018	FY2017
Global energy use KWh	254,557,230	257,483,020	247,258,350	255,467,620	256,112,390
Emissions					
Absolute values					
Scope 1 (direct emissions)	t CO ₂ e 16,818	15,261	14,763	15,670	15,169
Scope 2 (indirect emissions)	t CO ₂ e 49,594	56,367	51,706	54,489	62,072
Total	t CO₂e 66,412	71,268	66,469	70,158	77,241
Normalised values					
Scope 1 (direct emissions)	t CO ₂ e/£m revenue 4.87	4.32	4.52	4.67	5.09
Scope 2 (indirect emissions)	t CO ₂ e/£m revenue 14.37	15.97	15.82	16.23	20.83
Total	t CO₂e/£m revenue 19.25	20.29	20.34	20.90	25.92

* 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 8).

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.

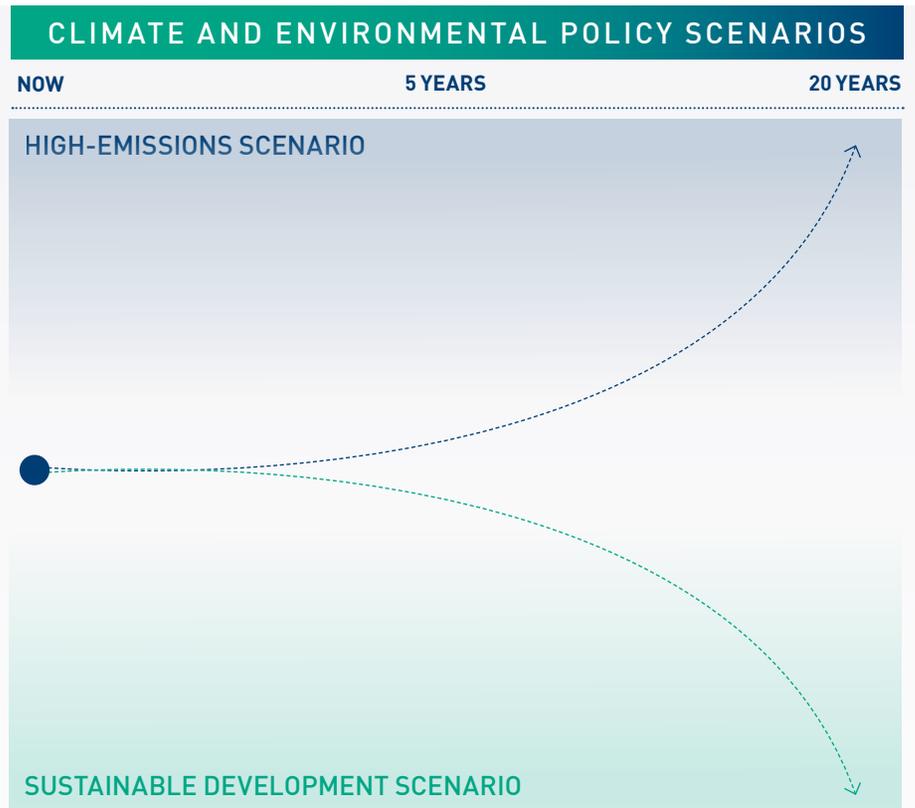
During FY2020 we conducted an initial climate-related risk assessment with a five-year time horizon for each of our divisions. This was supplemented by a risk assessment workshop held centrally to review Group climate-related risk on a 20-year time horizon.

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.

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HIGH-EMISSIONS SCENARIO

Intergovernmental Panel on Climate Change (IPCC) RCP (representative concentration pathway) 8.5 high emissions scenario which represents a future where levels of GHG emissions continue to rise throughout the 21st century resulting in warming of 0.7-2.0°C between 2031 and 2050.

SUSTAINABLE DEVELOPMENT SCENARIO

The World Energy Outlook 2020 Sustainable Development Scenario (SDS) which models a significant reallocation of investment away from fossil fuels towards a low carbon economy/renewable energy and GHG reductions in line with achieving the Paris Agreement of limiting global warming to 2.0°C.

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 24

FY2022-2024 OPERATIONAL AND PRODUCT STEWARDSHIP GOALS

See page 23

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

ONSITE RENEWABLE ELECTRICITY PROJECTS

See page 24

SCOPE 3 EMISSIONS ROADMAP

See page 24

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 21
 - See Enterprise Risk Management (ERM) process and Risk governance page 70 of annual report
 - See Audit & Risk Committee Report page 100 of annual report
- b. Describe management's role in assessing and managing climate-related risks and opportunities
 - See Committees and Information Flow page 21
 - See Enterprise Risk Management (ERM) process and Risk Governance page 70 of annual report
 - 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 27
- 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 27
 - See division sections from page 52 of annual report
 - See environmental goals on page 23
- 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 26
 - See Key transition and physical opportunities and Key transition and physical risks on page 27

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 26
 - See Enterprise Risk Management (ERM) process page 70 of annual report
- b. Describe the organisation's processes for managing climate-related risks.
 - See Climate risk and opportunity assessment and scenario analysis on page 26
- 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 of annual report
 - Climate and energy transition risk and opportunities included in business and strategic planning at Group and divisions

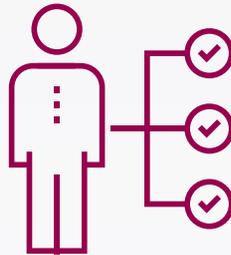
Metrics and targets

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 25
 - 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 23

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

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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 of annual report). 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.

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.

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

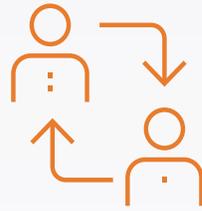
including £12.4m of market inflation

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

* Continuing Operations.

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.

OUR RESOURCES AND RELATIONSHIPS CONTINUED

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

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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

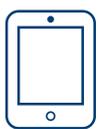
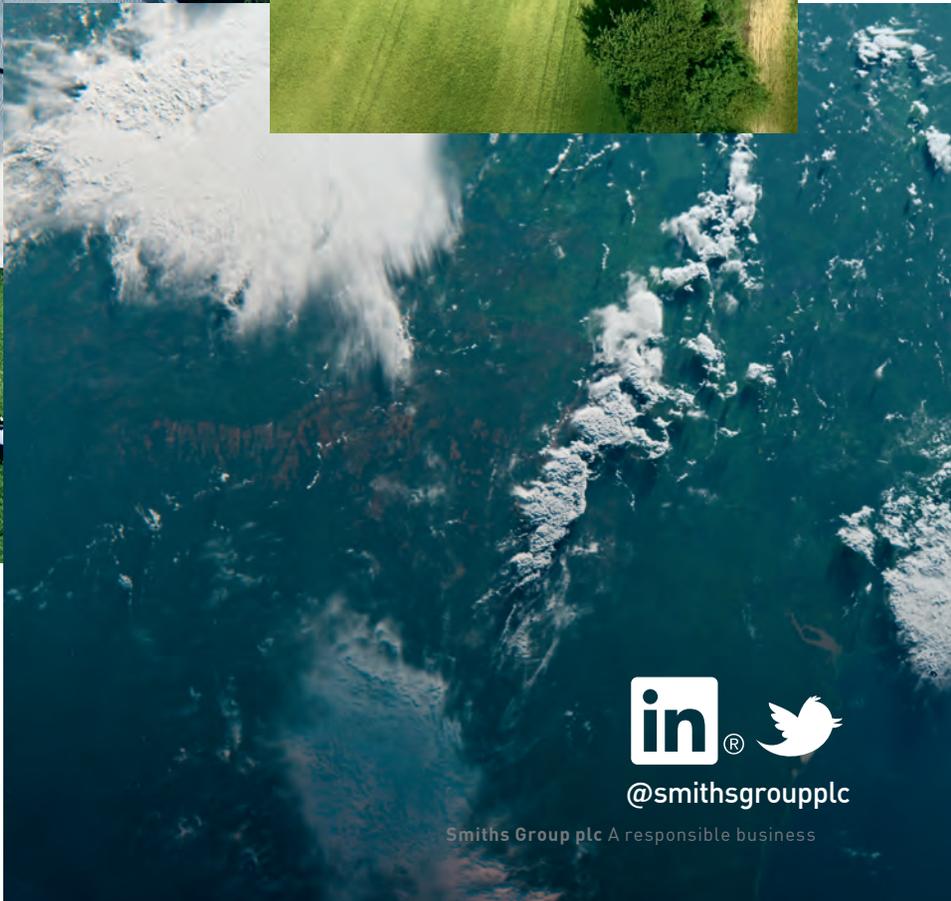
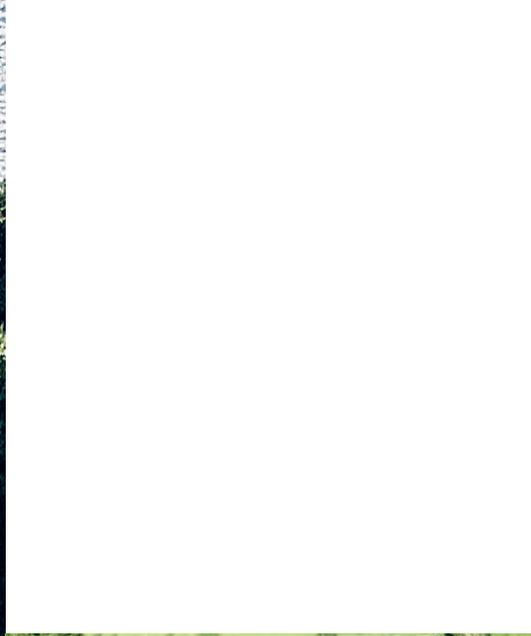
Our Group Corporate Affairs team leads our outreach and relationship programme with the aim of promoting a deeper understanding of the Smiths business and culture; our capabilities and critical products; and developing long-term relationships with decision-making groups to support our business objectives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

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