CHAIRMAN'S STATEMENT

SIR GEORGE W. BUCKLEY
Chairman

Dear shareholders,

This is the final Chairman's shareholder letter I'll write to you since I retire at the upcoming shareholders' meeting. You'll have a new Chair, Steve Williams, at the close of voting.

You will likely know I write these letters myself, not our corporate staff. I've always thought a personal letter from the Chairman is important, and I generally use these letters as teaching pieces. This letter will reflect on past achievements and postulate a few things for the future.

Over the last 20 years, Smiths Group plc experienced only very moderate organic growth. My mission as Board leader was to try to change that pattern. But, as the Chairman, you are constrained by good governance because directors are generally required to be 'nose in, finger out'. While the Board constantly monitors performance, intervention only comes when the Board senses a significant deviation from performance and investor expectations. Until then, we are mostly advisers, guides, and inspirers, but sometimes cajolers and even pleaders. I've seen the Chair as a position where we can help develop the senior management team to learn new skills and approaches to persistent historical problems. All great leaders are great teachers.

During my tenure with Smiths, we have seen the disposal of the medical business, the COVID-19 pandemic, tremendous supply chain shortages, rampant inflation, the Russia-Ukraine war, tensions in both the Middle and Far East, and a growing trade war between the United States and China.

There are always challenges and worries in any period of history, but this one has had several spectacular problems. We haven't seen a global pandemic since the so-called 'Spanish flu' (Influenza type A, subtype H1N1) between 1918 and 1919. But we got one in COVID-19. I have written much previous commentary on supply chain dynamics, forecasting the end of COVID-19 and anticipating President Xi's change of heart regarding COVID-19. I recently spoke to the UK Parliament about rebuilding Britain's manufacturing and technological capabilities. We cannot solve poverty and social deprivation in Middlesbrough or South Wales simply by having more bankers in London.

Two primary causative agents were at work in producing this larger set of challenges. During the pandemic, it created temporary peaks in demand for certain types of services, local logistics and delivery services, plus huge demand for electronics and things related to safe environments where, except for factory workers, we all largely worked from home. Other things suffered: airline travel, transportation, restaurants and conventional retail shopping.

After the end of the pandemic, supply chain shortages were generated by a simultaneous start-up of all the world's economies. The illusory overshoot in companies' sales demand curves also led to panic buying, component shortages and huge price inflation. The outcome of panic buying was excess and sometimes high-priced inventory, high-priced shipping containers, and energy and food shortages because of the Russia-Ukraine war. The illusory overshoot in demand was the thing that could've been avoided most easily, including its contribution to inflation.

Regarding inflation, I have often used the phrase that the solution to high prices is high prices. Manufacturers re-engineer their products, substitute new materials, find ways to reduce waste, and find new suppliers. A significant piece of the inflation in the UK was due to energy. To illustrate this point, I pay nine cents per kilowatt hour in my home in Florida for my electrical energy. I pay 59 pence per kilowatt hour of energy in the UK, about eight times as much as in the United States. Therefore, any energy-intensive process manufacturing was crushed and cannot compete long term in the UK. We understand the obvious smelting and steelmaking processes, but a surprising component of this problem is manufacturing cars, where the paint process is hugely energy intensive. One way around this might be using body films instead of paint.

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Adaptability and proactive measures the Company took ensured minimal disruptions to our global operations during COVID-19. Over the last two years, the Company has also returned to encouraging levels of organic growth.

PERFORMANCE HIGHLIGHTS

Adaptability and proactive measures the Company took ensured minimal disruptions to our global operations during COVID-19. Over the last two years, the Company has also returned to encouraging levels of organic growth. Some comparisons benefit from easier year-over-year comparisons, but the results reported in the last two years still significantly bettered expectations.

Smiths businesses cover many industries, but among the largest are energy, construction and transportation – primarily aviation and airport-related businesses. But we also have a business in defence and vast opportunities to move into other areas of urban safety and food safety, for example. We have technologies currently applied to detecting military chemical warfare contaminants that can be applied in commercial property applications and the home. And sealing technologies developed by John Crane will have a significant role to play in the decarbonisation of existing industries, including oil & gas, and the growth of new low- and zero-carbon energy infrastructure like hydrogen, supported by carbon capture.

One of the most exciting developments is in Smiths Detection, where X-ray diffraction can help identify specific materials based on their molecular spacing, not just material density, which is what traditional X-ray methods use. This will make Smiths the world's most advanced hold baggage and carry-on baggage screening company.

Investors naturally worry about our end markets under pressure. Two of our end markets experienced significant contractions during the year. The first is electronics, particularly those related to semiconductor testing. The second is construction.

Contraction in our Smiths Interconnect business partially relates to silicon wafer volume and certain types of chipsets passing through semiconductor manufacturing. During the pandemic, those industries saw huge increases in demand for electronic products. Those electronic end markets contracted a few percentage points as the pandemic eased. However, demand in the upstream supply chain saw temporary contractions year-over-year of around 40% in many cases. That, in turn, reflects in the demand seen by businesses like Smiths Interconnect. These contractions are perfectly normal in electronics and tend to be relatively short-lived.

In any environment experiencing demand contraction, management has two primary responsibilities. The first estimates how deep the contraction will go, and the second is to estimate how long it will last. In any make-to-stock business, demand in the channel, both in expansion and contraction, is always many multiples of what happens in the end market. Typically, the higher the demand overshoot/undershoot, the shorter it lasts, as companies in the supply chain work to clear the excess inventory quickly. Regular readers will remember my forecasts of high energy costs and the consequence of panic buying during the illusory demand increase as the global economy restarted post-COVID-19. This is exactly what we're seeing.

Part of our Flex-Tek business participates in the important US construction industry. It's a make-to-stock business and supplies products through large retailers and distributors in the United States. A similar phenomenon of channel demand contractions to those in the electronics industry happens in construction. End market conditions change, and the channel adjusts quickly to new circumstances. It does this in both directions: increasing or decreasing demand. So, there's reason to expect that, as the calendar year 2024 unfolds, we will see improving demand conditions in the construction segment of Flex-Tek. The aviation segment of Flex-Tek remains robust as the demand for new airplanes increases rapidly.

At the end of the Smiths financial year, the US inflation rate was 3.2% compared to 6.8% in the UK. July's inflation rate was down to 0.2%, so it is clearly headed in the right direction. The demand for goods and services is up 0.3% and 0.5%, respectively. This data can all be found at www.bls.gov. The US Federal Reserve Bank has an inflation target of 2% and is still cautious, but perhaps unnecessarily. US housing starts have begun to increase again. It's reasonable to expect that the upward trend in housing starts will continue and will accelerate once the Federal Reserve either pauses or ultimately reduces interest rates. In conclusion, the pressure on our construction-oriented business will ease.

One of the most important data sets investors can examine is the US Bureau of Economic Analysis on its site, www.bea.gov. The Bureau publishes overall GDP numbers in a sequence of three estimates, but one of the most important Table 2 entries is the heading "Change in private inventories". In the first quarter of calendar year 2023, the change in private inventories was a full negative 214 basis points of GDP, indicating that the economy was, as expected, reducing inventories on a large-scale basis. The contribution to US GDP of change in private inventories in the second quarter is a positive 14 basis points, suggesting an easing in the inventory bleed-off. The US economy overall is running a little over 2% growth. While that may not be spectacular, it's stable in the economic context we find ourselves in.

The only real negative I see is that, in my view, the Federal Funds Rate is still too high and likely to produce an overshoot in cooling demand unless the Federal Reserve Bank eases monetary policy soon.

INNOVATION AND R&D

We remain committed to the belief that the best tool for new value creation is higher than market organic growth. The best unlock code to achieve this objective is innovation. As I have said in previous letters, the core of every company is dying, so the contribution to growth for innovation has to exceed the core attrition rate caused by cannibalisation, end-of-life technology, competitive attack, and changing customer preferences.

As we embark on a new year, we focus on innovation, growth, and increasing value to our shareholders. We identified key strategic priorities guiding our efforts in 2022 and beyond. We will continue to invest in research and development, driving innovation across our product lines and positioning Smiths as a leader in cutting-edge technologies.

In an early Chairman's letter, I said I believed the great crystal ball of the future for engineering companies is mathematics, electronics and materials science. The mathematics here covers every piece of engineering calculation and forecasting, including artificial intelligence, deep cognitive learning, and mathematical taxonomy. Electronics here include sensors, controllers, software, and the like. Materials science includes aspects of physics and chemistry, including X-ray diffraction, special surface coatings, nanomaterials, 3D printing, and graphene.

CONCLUSION

I sincerely thank our dedicated employees, esteemed shareholders, and valued customers. Smiths journey has been marked by resilience, innovation and a shared vision of a better future. As we navigate the path ahead, I am confident that our collective efforts will continue to drive success and create lasting value.

It has been both an honour and a privilege to serve as Chairman of this great business and, on behalf of the Board, I would like to thank you for your continued trust and partnership.

Sincerely,

SIR GEORGE W. BUCKLEY
Chairman of the Board, Smiths Group plc

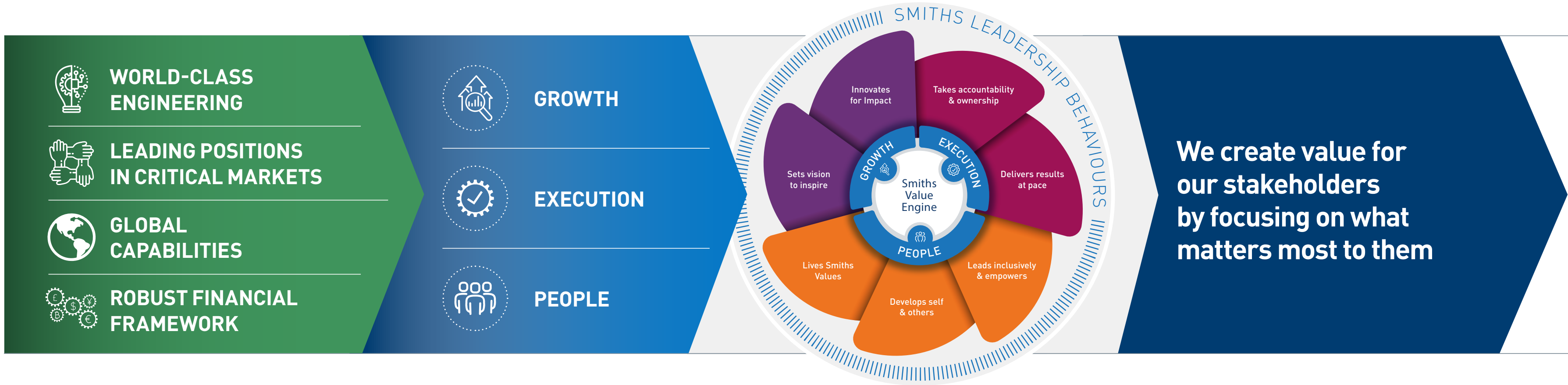
We remain committed to the belief that the best tool for new value creation is higher than market organic growth. The best unlock code to achieve this objective is innovation.

REVIEW OF THE YEAR
Read more about our performance.
→ PG 18

OUR BUSINESS MODEL

Our business model leverages our strengths to perform to our potential, deliver our purpose, and generate value for all stakeholders.

OUR STRENGTHS | OUR STRATEGIC PRIORITIES | OUR CULTURE | OUR STAKEHOLDERS



OUR STRENGTHS

WORLD-CLASS ENGINEERING

We have a long track record of innovating across our multiple markets. R&D investment consistently ahead of competitors ensures a strong pipeline of new products.

LEADING POSITIONS IN CRITICAL MARKETS

Our markets (General Industrial, Safety & Security, Energy and Aerospace) are secularly attractive and growing. We have leading positions in many key segments based on technology and/or service differentiation.

GLOBAL CAPABILITIES

We are present in more than 50 countries and our geographical spread and end market diversification provides stability and growth.

ROBUST FINANCIAL FRAMEWORK

Our robust financial framework derives from accelerating revenue growth; recurring, higher margin aftermarket revenues; good margins and return on capital; and low asset intensity and strong cash generation.

OUR STRATEGIC PRIORITIES

GROWING FASTER TO UNLOCK VALUE

We will grow faster by using our existing market positions to invest in focused new product development and commercialisation; by building out priority adjacencies; and disciplined M&A to augment strategy implementation.

STRONGER EXECUTION

We are focused on executing with agility, speed and greater consistency to deliver improved results.

INSPIRE AND EMPOWER OUR PEOPLE

Our people are critical to our success. Building an inclusive, high-performing and engaged team, and our commitment to development and talent progression will facilitate our ambitions.

OUR CULTURE

Our culture inspires and empowers our people to deliver. It has enabled Smiths to prosper for more than 170 years.

OUR VALUES

are the things that are important to us.

OUR LEADERSHIP BEHAVIOURS

make us dynamic, inclusive and focused on delivering results.

OUR CODE OF BUSINESS ETHICS

outlines the ethical standards we all commit to.

THE SMITHS EXCELLENCE SYSTEM (SES)

drives stronger execution and continuous improvement across all of our priorities.

OUR STAKEHOLDERS

OUR PEOPLE

Decent, inclusive, safe work, and environments where colleagues can build careers and flourish.

OUR CUSTOMERS

Differentiated technology, engineering and service solutions that make the businesses of our sophisticated global customers work and grow.

OUR SUPPLIERS

Collaborative supplier partnerships with enduring mutually beneficial outcomes.

COMMUNITIES AND SOCIETY

Environmental/social value though our products and direct contributions via taxes, wages and giving.

REGULATORS AND GOVERNMENTS

Openness, transparency and support for global policies that deliver a safe, secure and sustainable world.

OUR INVESTORS

Long-term financial value and returns for investors.

MARKETS AND MEGATRENDS
Read more about our markets and megatrends.
→ PG 3

DIVISIONS
Read about our divisions.
→ PG 4

STRATEGIC PRIORITIES
Read more about our strategy.
→ PG 12

CULTURE
Read more about our culture.
→ PG 13

STAKEHOLDERS
Read more about our stakeholders.
→ PG 58

PRINCIPAL RISKS AND UNCERTAINTIES
Read more about our principal risks and uncertainties.
→ PG 68

OUR STRATEGY

FY2023 was another strong year of progress in advancing our strategic priorities.

OUR STRATEGIC PRIORITIES		FY2023 PROGRESS
ACCELERATING GROWTH	– Taking full advantage of strong demand in most of our markets – Improving new product development and commercialisation – Extending our reach by building out priority adjacencies driven by megatrends of energy transition and sustainability, increasing security needs, and enhanced connectivity – Supplementing organic growth with disciplined M&A	– Record organic revenue growth; now nine consecutive quarters of growth – Double digit organic revenue growth in three of four Smiths divisions – +310bps of growth coming from new products. Gross vitality of 31% – £113m invested in R&D; capex +14.1% – Growing John Crane's presence in hydrogen and carbon capture. Now over 70 active projects – Growing Smiths Detection's penetration in other security systems segment, +34.9% revenue – Flex-Tek supporting development of the world's first Green Steel production facility – Smiths Interconnect acquisition of Plastronics – Continued active acquisition pipeline
STRENGTHENING EXECUTION	– Embedding the Smiths Excellence System across the Group – Accelerating pace and establishing a more consistent operating rhythm – Continuously improving to deliver value for customers – Executing against our environmental commitments	– +20bps headline operating profit margin to 16.5% – Strong profit growth in John Crane and Smiths Detection. Solid profit growth in Flex-Tek – 6 Master Black Belts and 31 Black Belts across the Group; 71 SES Black Belt projects underway or completed – +£14m incremental profit from SES projects – Reduction in working capital through second half supported by focused SES projects – Submitted Net Zero trajectory and targets for Scopes 1, 2 and 3 emissions to the Science-Based Target initiative – (11.8)% reduction in Scope 1 & 2 GHG emissions
DOING EVEN MORE TO INSPIRE AND EMPOWER OUR PEOPLE	– Building upon our world-class safety record – Accelerating talent development through the Smiths Leadership Behaviours – Creating an ever-more diverse and inclusive environment – Living Smiths Values each and every day	– Safety Recordable Incident Rate (RIR) down (26)% and record low lost time incident rate (LTIR) – Continued to embed Smiths Leadership Behaviours and integrated them into our Accelerate leadership development programme (300 trained in FY2023) – Expansion of diversity, equity and inclusion initiatives, including significant growth in activities to inspire and develop female leaders. 25% of senior leadership positions now held by women – My Say survey global e-Sat engagement score increased to 73. See page 14 – Launched Smiths Group Foundation and global volunteering policy

FY2023 PROGRESS AGAINST TARGETS

Organic revenue growth

4–6%

↗ 11.6%

FY2022: 3.8%

EPS growth

7–10%

↗ 39.6%

FY2022: 17.8%

ROCE

15–17%

↗ 15.7%

FY2022: 14.2%

Operating profit margin

18–20%

↗ 16.5%

FY2022: 16.3%

Operating cash conversion

100%+

↗ 86%

FY2022: 80%

- Target still to achieve
- FY2023 progress vs target

OUR PURPOSE
We are united by our purpose to improve our world through smarter engineering. It is what we do, how we think, and how we will continue to use our passion for technology and engineering.

BOARD OVERSIGHT
Read more about this and how the Board influences our culture.

→ PG 82

SMITHS VALUES

INTEGRITY
We do the right thing

RESPECT
We respect each other

OWNERSHIP
We take responsibility

CUSTOMER FOCUS
We earn our customers' trust

PASSION
We are united in purpose

OUR PEOPLE AND CULTURE

Our culture inspires and empowers our people to deliver our strategy. The four key elements of our cultural framework support the Smiths business model and drive positive outcomes for all our stakeholders. The framework is underpinned by governance processes set and monitored by the Smiths Board, which has ultimate responsibility for ensuring that our culture remains healthy and drives the long-term success of the Group.

1. OUR VALUES

Our Values are the things that are important to us as an organisation. They make us reliable, trustworthy and valued partners for each other, our customers and suppliers, and they make Smiths a place where we are happy and proud to work. We live them every day, in each action and decision that we take.

2. SMITHS LEADERSHIP BEHAVIOURS

The Smiths Leadership Behaviours take our Values to the next level. Grouped under growth, execution and people, they describe the behaviours needed to be displayed by all colleagues for the organisation to be dynamic, inclusive and focused on delivering results that create value and enable our growth strategy. Leadership is a mindset at Smiths. Everyone can be a leader.

SETS VISION TO INSPIRE
Collaborates to uncover future growth opportunities for Smiths. Shares this in a way that inspires and energises colleagues to take action.

INNOVATES FOR IMPACT
Committed to continuous improvement, takes opportunities to the market that differentiate Smiths and deliver sustainable value for all stakeholders.

TAKES ACCOUNTABILITY AND OWNERSHIP
Actively takes accountability, follows through on commitments and empowers others to own their outcomes.

DELIVERS RESULTS AT PACE
Takes an agile, focused and resilient approach that delivers excellent outcomes to meet customer/stakeholder expectations.

LEADS INCLUSIVELY AND EMPOWERS
Champions inclusion at every opportunity. Creates the environment where others can contribute and thrive, building trust and nurturing empowerment.

DEVELOPS SELF AND OTHERS
Visibly commits to their personal development and encourages the development of others to reach their full potential.

LIVES SMITHS VALUES
Embodies and promotes Smiths Values: integrity, respect, ownership, customer focus and passion, using these to guide all actions.

3. SMITHS CODE OF BUSINESS ETHICS

The Smiths Code is the foundational document that outlines the standards of behaviour to which we all commit at Smiths. It is a practical guide to what 'doing the right thing' looks like when conducting business and forging relationships legally, ethically and with integrity. The Code is supplemented by a suite of policies and procedures relating to specific ethics, compliance and people matters.

4. SMITHS EXCELLENCE SYSTEM

SES is central to how we solve problems and deliver improved results at Smiths. The SES structure, leadership, committed resources, tools and training ensure that we explicitly prioritise and resource projects according to impact and importance, and execute with greater pace, urgency and consistency in support of our Smiths Value Engine priorities.

MONITORING AND MEASURING THE HEALTH OF OUR CULTURE

ENGAGING WITH OUR COLLEAGUES

Our global communications activities are designed to engage colleagues around the world with our purpose, culture and strategy. Key communications materials are translated into our ten core languages.

Our Smiths Now app is a platform for colleagues to receive news from around the business and share their views and stories and is always active with grassroots content. There is also a global fortnightly e-newsletter, Signal, which amplifies key company news to the global business and our global virtual Town Halls have an online translation feature. Our intranet web portal acts as an online hub holding links to support, training and resources for many areas including SES, safety, ethics and compliance, and diversity and inclusion.

We undertook a large range of engagement activities in FY2023 including:

- My Say employee engagement survey (see right)
- Site visits by members of the Executive Committee and the Smiths Board
- Global Town Halls in September and March
- Global leadership summits for our extended and senior leadership teams (c.400 colleagues) in November, June and February
- Live broadcasts of 'fireside chats' featuring female members of the Executive Committee and the Smiths Board
- One-to-one meetings of the Chairman and senior leaders
- Live broadcasts and communications around our results announcements, our Capital Markets event in November 2022, and other key CEO and CFO external activities

MY SAY EMPLOYEE ENGAGEMENT SURVEY

We have been tracking engagement on a range of important cultural measures since 2017. We use the results of the survey in a transparent and meticulous way to surface issues and more precisely understand what we are doing well and where we need to do better, both at a high level and at grassroots level in individual teams.

We undertook our latest survey in May 2023, with updated questions to align the survey more closely with our cultural focus areas, testing the following categories:

- Overall happiness working at Smiths (our employee engagement eSat KPI) and excitement about our future
- Awareness and understanding of the Smiths Leadership Behaviours and people living our Values
- Commitment to safety and the environment
- Empowerment, continuous improvement, leadership, collaboration and understanding of individual priorities
- Career, recognition, feedback and opportunities to learn and grow
- Work/life balance, feeling cared about at work, equal opportunities
- Diverse perspectives valued, and ability to express thoughts and ideas/speak out

Strengths:
- Smiths is committed to providing a safe workplace
- I understand how my work contributes to company success
- Smiths is committed to having a positive impact on the environment
- We continually improve the way the work gets done
- People frequently express their thoughts and ideas
- I am able to find the balance I desire between my work life and personal life

Opportunities:
- Everyone has an equal opportunity to succeed
- I feel satisfied with the recognition I receive for my work
- I have good career opportunities at Smiths

Results from the survey and recommendations are reported to, and discussed by, the Executive Committee and the Smiths Board before being incorporated into strategic planning to prioritise action in lower scoring categories. Actions include continuing our efforts to strengthen and upskill our leaders; using the Leadership Behaviours as a driver for people to share their opinions and ideas; building stronger diversity and inclusion programmes; and continuing to improve our talent development processes to make career plans and prospects more visible. Each division and function have also identified improvement opportunities to work on in the coming year.

SPEAKING OUT

Engaging and communicating on ethical matters is vitally important, as is colleague trust in our procedures. Colleagues and business partners are expected to be vigilant and report any activity or behaviour – whether in our business or those of our partners – that they consider may be in breach of our ethics codes and policies or inconsistent with our Values. This can be done through their line manager, HR representative or the Legal team, or by using our confidential Speak Out reporting hotline, which is accessible 24 hours a day, seven days a week to colleagues and third parties. Reports to the hotline can be made anonymously. This is communicated regularly to ensure that awareness remains high.

We also use colleague feedback to build understanding of how we are doing on ethical matters, and to target our activities effectively. Our grassroots Ethics Ambassador network reviews plans and helps us to bring ethics to life, and to the widest possible audience, and our global Ethics Pulse survey delivers rich data on colleague perceptions across Smiths. This data is reported to the Audit & Risk Committee along with Speak Out data.

84%
of Smiths colleagues participated in the My Say survey (May 2022: 82%; industry benchmark 75%).

↗ +2%

12,158
Comments made in the My Say survey.

73
Overall eSat score for the My Say survey was 73 (May 2022: 72; industry benchmark 74).

↗ +1 point

OUR PEOPLE
Read more about our people.

→ PG 59

BUILDING SMITHS CULTURE IN FY2023

We recognise that a healthy culture requires continuous care and attention to support our ambitions. Some of the ways we nurtured our culture in FY2023 are given below.

SMITHS DAY	Our annual Smiths Day global celebration of Smiths culture took place in June 2023. Smiths Day celebrates our Values and the rich connections and relationships we have as colleagues. This year's theme 'contributing to our communities' encouraged every Smiths site to look outwards and to undertake a locally based activity as a way of giving back to their immediate communities.
EMBEDDING THE SMITHS LEADERSHIP BEHAVIOURS	After their launch at the end of FY2022, embedding the Smiths Leadership Behaviours has been an important focus in FY2023. The Behaviours are intended to become foundational to the colleague experience and are central to development, talent assessment, and progression and reward. Our Accelerate people leadership programme, launched in FY2023, is based around the Leadership Behaviours.
LAUNCH OF SUSTAINABILITY AT SMITHS FRAMEWORK	The Sustainability at Smiths ESG framework was formally launched to colleagues at the beginning of FY2023 with messages from our senior ESG leaders. Sustainability is at the heart of our purpose and the framework helps us to translate our purpose into practical action to create sustainability value.
ESG DOUBLE MATERIALITY ASSESSMENT	Our ESG double materiality assessment undertaken in FY2023 provided a robust analysis of the importance of culture and other ESG topics at Smiths. Safety, ethical behaviour and diversity were all highlighted as either highest-impact topics or critical enablers in the findings. Read more on page 33.
LAUNCH OF SMITHS GROUP FOUNDATION	The Smiths Group Foundation, a charitable giving foundation with a committed initial fund of £10m, was launched on Smiths Day to provide grants to charitable organisations that align with our purpose. At the same time, we launched global colleague volunteering principles which will enable every Smiths colleague to take one day paid volunteering leave each year from FY2024, and formal budgeting opportunities for charitable giving in our divisions, China and Group to support organisations falling outside of the scope of the Foundation.
CELEBRATION AND RECOGNITION EVENTS	Group and team events and communications recognised and celebrated: World Day for Health and Safety at Work; Earth Day; Global Recycling Day; International Women in Engineering Day; International Women's Day; Black History Month; and Pride month.
NEW CODE OF BUSINESS ETHICS	Our new Code of Business Ethics was launched by CEO Paul Keel in July 2023. The new Code is organised under our Values, is shorter and easier to read, and more practical to apply with links to all our policies. The new Code will be embedded through a programme of activity in FY2024.
SPEAK OUT AWARENESS	Speak Out awareness activities have been ongoing throughout FY2023.
SMITHS EXCELLENCE AWARDS	Our annual Smiths Excellence Awards recognise achievement across a range of disciplines and are enthusiastically supported by Smiths colleagues. The Smiths Leadership Behaviours were reflected in this year's award categories to emphasise their importance and impact. This year we had more than 500 submissions to the Awards.

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This year's Smiths Day theme 'contributing to our communities' encouraged every Smiths site to look outwards and to undertake a locally-based activity as way of giving back to their immediate communities.

CEO MESSAGE

PAUL KEEL
Chief Executive Officer

£113m
R&D investment.
+6%

+20%
Growth in energy revenue.

Fellow shareholders,

Smiths had another strong year of progress in fiscal 2023 as we further accelerated our growth, sharpened our execution, and developed and empowered our talented people. Since our financials and strategic progress are covered in good detail in the following report, I will devote the lion's share of this year's message to longer-term trends underway in the markets we serve. In particular, I will comment on a curious disconnect I observe between the macro and the micro.

Most of the macro commentary at present leans towards the cautious, and there is fair reason for this. Inflation, while climbing less steeply, remains at historic highs. Committed to tamping this down, central banks have raised rates at the briskest pace since the 1980s. The expected result is softening demand, as has been visible in most forecasts of late. Similarly concerning, economics and geopolitics are often inversely related, so just as forecasts cool, tensions around the world continue to warm. Speaking of warm, environmental concerns, percolating for years, are reaching a boiling point. Further still, more than a few would argue that things may still get worse before they get better. The macro, in short, is pretty cloudy.

The micro, however, provides grounds for optimism, especially in our industrial technology corner of the world. FY2023 was a record year for Smiths – record topline and EPS growth. We commit to five medium-term financial targets (growth, EPS, ROCE, margins, cash conversion) and all five improved year-over-year. Promisingly, we are not alone in this regard. Over half of our 15 closest peers have delivered double-digit growth across the same period. Still more encouraging, this was not driven by a one-time bounce from COVID lows (although we do benefit from still-unmet demand in several end markets) or inflationary tailwinds that will eventually weaken (roughly half our FY2023 growth came from volume). The trends we see in our business are longer-lived, with growth now extending over nine consecutive quarters. The micro, in short, looks pretty good.

So, how do we reconcile the apparent disconnect of economic forecasts trending down but performance trending up? A few important factors help connect the dots.

INNOVATION

First, innovation is economically insensitive. In the period between the 'Panics' of 1873 and 1893, Bell invented the telephone and Edison patented the lightbulb. During the Great Depression, Carlson introduced the photocopier and Edwin brought us FM radio. Stagflation and a raft of skyjackings in the 1970s led to the introduction of X-ray scanning in airports. Wikipedia, Skype, YouTube and Facebook were all formed shortly after the Nasdaq crash of 2001, and Uber and Airbnb were both launched during the global financial crisis of 2008–09. Necessity helps, but capabilities and capital are the true mothers of invention. Knowing that innovative companies extend their lead when storm clouds form, we increased our R&D investment by 14% in FY2022 and another 6% this year. Returns on our investments are good. Fully three points of our FY2023 growth came from new products introduced just this year alone.

MARKET SELECTION

A second factor bridging the gap is market selection. All markets have cycles, but the most attractive ones cycle upward, in a northeast direction. Energy and aerospace are good examples. Energy demand has a 5- to 10-year cycle, with global growth peaking in 1984, 1988, 1996, 2004, 2010 and 2021. Growth in energy demand may soften in any given year, but it rarely turns negative. In fact, global energy demand has only contracted three times in the past 50 years (the early '80s recession, the global financial crisis and COVID) leading to a near-quadrupling of underlying demand across this time. Over 20% of Smiths revenue comes from energy markets, where we grew 20% in FY2023. Consistent with other upward-cycling markets, continued energy growth will be driven by secular long-term forces such as decarbonisation. Our world will invest around

+24%
Market investment in clean energy over two years.

+9%
Growth in aviation detection revenue.

FY2024 will mark Smiths Group's 110th consecutive year of being listed on the London Stock Exchange, and our 173rd of continuous operation. While a lot has changed across this time, our purpose of improving our world through smarter engineering has remained a steadfast guide.

US$100 trillion over the next 30 years to evolve from mostly fossil-based to low- and no-carbon energy sources. Global investment in energy will be about US$2.8 trillion in 2023, and investment in clean technologies such as low-emission fuels, carbon capture and heat pumps will represent more than 60% of the total. Clean energy investment is up 24% in just two years and participants in this market are seeing surging demand. Our pipeline of hydrogen and carbon capture opportunities, for example, more than doubled over the past 12 months.

Aviation markets behave similarly. While the cycle is a bit shorter, closer to five years, the trajectory is also steadily positive over time. Airline passenger volume has only dipped twice in the past three decades (9/11 and COVID), with volume up threefold across the period. As with energy markets, we are in the early days of an upcycle following airport closures around the globe in 2020–21. Powerful long-term forces are also at work here, such as the world's ever-rising need for better security and faster screening times. You would have experienced an example of this if you weren't required to remove your laptop the last time you went through an airport checkpoint. This safer and more efficient experience is made possible by technologies like computed tomography, automated tray returns and machine learning. Smiths is at the forefront of each, and propelled by this, our aviation detection business grew 9% in FY2023.

Not all of our end markets grew last year. As our Chairman notes in his letter, semiconductors are an example. Smiths has some exposure here – less than 3% of Group sales. On the one hand, the semiconductor market shares several similarities with energy and aviation. It's large (>US$500bn). It's global. It consistently grows over time (+10 times in 40 years). And it is cyclical. However, unlike energy and aviation, which are both cycling up, the global semiconductor market is coming off a record peak in 2022. Smiths makes test equipment used to measure chip performance and durability. As expected, this business contracted for us in FY2023, particularly during the second half. We expect these challenges to continue through the first part of FY2024, but we remain confident in the coming upcycle that we have seen so many times before. So much so, in fact, that we acquired a synergistic testing business in Q2, positioning us to extend our leadership position once recovery begins.

Further to our Chairman's letter, North American construction is another example of a market that contracted last year. Smiths also has exposure here – around 15% of Group sales. In this case, despite a market downturn, our business grew 9% in FY2023, marking our 14th straight year of expansion. The two effects mentioned earlier – innovation and market selection – have helped our business consistently grow even as the market naturally cycles. With respect to innovation, we have a technology platform that addresses specific customer needs by applying different resin layers to metallic tubing systems. We introduced a new product in this family at the start of the fiscal year and it is beginning to scale. In terms of market selection, our penetration is highest in parts of the US where population growth is strongest, such as the southeast, south central and the midwest. In support of this, we opened a new manufacturing facility in Texas in FY2023 and completed a synergistic acquisition in Ohio at the start of FY2024. Consistent with macro forecasts, we expect the US construction downcycle to continue for a few more quarters. Consistent with past performance, however, we expect our business to post another year of growth in FY2024.

PORTFOLIO BALANCE

The many benefits of portfolio balance are a third factor enabling industrial technology companies to shine, even against a cloudy macro. Balance takes many forms. The highest-performing industrials typically serve multiple end markets (we serve four major ones). They often balance one-time equipment sales with recurring aftermarket service revenues (our business is roughly half and half). They earn more price than they absorb, especially important in high inflation environments (our delta was +£40m in FY2023). And they are well balanced geographically. Worldwide reach is a prerequisite for serving global customers, and upswings in one part of the world offset downturns in others. Smiths has people and resources in more than 50 countries and, aside from the US, no country accounts for more than 5% of revenues. Our business outpaced GDP growth in all major regions of the world in FY2023.

LOOKING FORWARD

Looking forward to FY2024, the macro and micro should converge. After a period of serial downgrades, macro forecasts have recently started to improve. The most recent data published by the OECD, IMF, and World Bank all expect global GDP growth in 2024 to be modestly above 2023. Specific to Smiths, we've guided to 4-6% organic revenue growth, in line with the medium-term financial commitments we made at our November 2021 Capital Markets Day.

FY2024 will mark Smiths Group's 110th consecutive year of being listed on the London Stock Exchange, and our 173rd of continuous operation. While a lot has changed across this time, our purpose of improving our world through smarter engineering has remained a steadfast guide. I applaud my 15,000 colleagues around the world who live this purpose each and every day. I thank Sir George Buckley for his many contributions to Smiths over the last ten years and welcome Steve Williams, who takes over as Chair at our Annual General Meeting in November.

In closing, we're encouraged by our progress and proud of our accomplishments in FY2023. Energised by this momentum, we are even more excited by all we see ahead for Smiths.

Thank you for your trust and support,

PAUL KEEL
Chief Executive Officer

REVIEW OF THE YEAR

£3,037m
Revenue

+11.6%
Organic growth.

Smiths delivered record organic revenue growth of +11.6%, ahead of guidance. We generated £501m of operating profit, up +20.0% on FY2022 as we continue to make progress on our strategy.

£m	FY2022	Foreign exchange	Acquisitions	Organic movement	FY2023
Revenue	2,566	146	8	317	**3,037**
Headline operating profit	417	27	0	57	**501**
Headline operating profit margin	16.3%				**16.5%**

GROWTH

Accelerating growth is the primary driver of unlocking enhanced value creation for the Group. We grew in every quarter of FY2023 and raised our guidance three times during the year, delivering record organic revenue growth of +11.6%. We have now delivered nine consecutive quarters of organic revenue growth.

Strong growth continued in the second half for our two largest businesses; with both John Crane and Smiths Detection delivering double digit growth throughout the year. Flex-Tek continued to grow into the second half, with growth moderating to +3.6% reflecting the anticipated softness in the US construction market. Smiths Interconnect declined (8.4)% in the second half, as anticipated, impacted by a weakening semiconductor test market as well as delays in some large defence and aerospace programmes.

Revenue grew +18.3% on a reported basis, to £3,037m (FY2022: £2,566m). This included +£146m of favourable foreign exchange translation, and +£8m from the acquisition of Plastronics in January 2023.

Strong execution to access end market opportunity is the first of the four actionable levers for accelerating growth.

Our business operates across four major global end markets: General Industrial, Safety & Security, Energy, and Aerospace. Our strong market positions, coupled with the balanced market exposure we have across our businesses, are distinctive long-term advantages for Smiths.

Smiths organic revenue in our largest end market, General Industrial, grew +7.8% in FY2023, supported by strong demand for John Crane's industrial products in chemical processing, water treatment and life sciences. Slower H2 growth of +1.0% reflects a strong prior year performance, and a softening in demand for Flex-Tek's heating, ventilation and air conditioning ("HVAC") products and Smiths Interconnect semiconductor test solutions. Organic revenue growth in Safety & Security was +11.9%, accelerating in the second half due to Smiths Detection's strong delivery against its orderbook, partially offset by a decline in Smiths Interconnect from the timing of defence programmes. The +19.5% growth in Energy reflected strong demand in John Crane. Growth in Aerospace of +10.5% continued throughout the year driven by aircraft build demand benefiting Flex-Tek; and helping to offset the impact of delays in aerospace programmes in Smiths Interconnect.

Our second lever for faster growth is **improved new product development and commercialisation**. During FY2023, +310bps of growth was delivered from high impact new products including John Crane's next-generation diamond coating product offering for high-speed and high-heat applications, Smiths Detection's next-generation CTiX scanners installed with threat recognition software, and Flex-Tek's ducting in the energy efficient Rheia air management systems. Gross vitality, which measures the proportion of

ORGANIC REVENUE GROWTH (BY BUSINESS)

	H1 2023	H2 2023	FY2023
John Crane	+14.6%	+15.8%	+15.2%
Smiths Detection	+14.0%	+18.8%	+16.4%
Flex-Tek	+17.0%	+3.6%	+10.1%
Smiths Interconnect	+3.3%	(8.4)%	(2.8)%
Smiths Group	**+13.5%**	**+9.9%**	**+11.6%**

SMITHS ORGANIC REVENUE GROWTH IN OUR END MARKETS

	% of Smiths revenue	H1 2023	H2 2023	FY2023
General Industrial	40%	+15.4%	+1.0%	+7.8%
Safety & Security	31%	+9.4%	+14.4%	+11.9%
Energy	22%	+17.1%	+21.8%	+19.5%
Aerospace	7%	+10.1%	+10.8%	+10.5%
Smiths Group	**100%**	**+13.5%**	**+9.9%**	**+11.6%**

READ MORE
Our divisions.
→ PG 24

revenues coming from products launched in the last five years, was 31% (FY2022: 31%), supported by our successful new product commercialisation.

As an industrial technology leader, continuing to invest in R&D ensures we capitalise on the wealth of opportunities in our pipeline, with increasing demand for our sustainability-related products. During FY2023, we invested £113m in R&D (FY2022: £107m), of which £73m (FY2022: £80m) was an income statement charge, £21m was capitalised (FY2022: £12m) and £19m (FY2022: £15m) was funded by customers.

To support new product launches, and the strong demand for our existing solutions, we increased capex +14.1% in FY2023 to £81m (FY2022: £71m). This represents 1.6x depreciation and amortisation (FY2022: 1.5x).

Our third growth lever is **building out priority adjacencies.** Each of our four businesses are executing strategies to expand beyond their existing core markets and ensure we capitalise on the long-term megatrends of energy transition and sustainability, increasing security needs and enhanced connectivity. Examples in FY2023 include Flex-Tek's high temperature heating solution for the world's first green steel production facility; and Smiths Detection's +34.9% revenue growth in the other security systems segment, supported by key wins in ports and borders and parcel delivery markets.

Our fourth growth lever is using **disciplined M&A** to augment our organic growth focus. In January 2023, Smiths Interconnect acquired Plastronics, a leading supplier of burn-in test sockets and patented spring probe contacts, extending our reach into an attractive market adjacency. We will benefit from Plastronics' attractive position in artificial intelligence, data centres and automotive end markets, and expanding Plastronics' sales globally by leveraging Smiths Interconnect's strong presence in Asia.

Following the year end, in August 2023 we acquired Heating & Cooling Products ("HCP") in our Flex-Tek business. This further expands the Group's presence in the North American HVAC market, enabling Smiths to serve more customers with an even broader product range. Acquired for $82m (approximately £65m), at less than 7x estimated 2023 EBITDA, this acquisition further demonstrates our disciplined and targeted approach to M&A.

EXECUTION

Stronger execution is our second key priority.

In FY2023, headline operating profit grew +12.7% (+£57m) on an organic basis, and +20.0% (+£84m) on a reported basis to £501m (FY2022: £417m). Headline operating profit benefited from strong profit growth in John Crane and Smiths Detection, and a solid contribution in Flex-Tek, partially offset by a decline in Smiths Interconnect.

Headline operating profit margin was 16.5%, up +20bps on a reported basis supported by volume growth, pricing more than offsetting inflation and the benefits of SES and savings actions, all of which offset the impact of product mix and investment in growth. By division, strong operating leverage in John Crane reflected improved execution and supply chain conditions. Smiths Detection also improved its margin despite higher Original Equipment ("OE") sales mix. Flex-Tek and Smiths Interconnect contracted from their record prior year highs, with Flex-Tek continuing to invest in new product development and commercialisation, and Smiths Interconnect seeing lower volumes.

Headline EPS grew +39.6%, driven by headline operating profit growth which contributed over a third of the growth, the share buyback programme which contributed a third, with the remainder of the growth coming from FX and a reduction in both the effective headline tax rate and interest expense. The headline tax charge for FY2023 of £121m (FY2022: £104m) represents an effective rate of 26.0% (FY2022: 27.6%).

ROCE increased +150bps to 15.7% (FY2022: 14.2%) reflecting the higher profitability of the Group. For further detail, please refer to note 29 of the financial statements.

Headline operating cash conversion for FY2023 was 86% (FY2022: 80%), with stronger conversion in the second half supported by improvement in working capital. This was delivered through targeted and disciplined working capital management helped by focused SES projects. Headline operating cash-flow[4] was £433m (FY2022: £332m). In FY2023, free cash-flow[4] generation was £178m (FY2022: £130m) or 35% of headline operating profit (FY2022: 31%).

During FY2023 we continued to make good progress on SES. There are currently 71 Black Belt projects completed or underway, being driven by our 6 Master Black Belt and 31 Black Belt employees across the Group. Projects completed in the year contributed £14m of profit, ahead of our plan of £12m. For FY2024, we expect a contribution of £20m from SES as our hopper of new projects continues to scale.

We implemented some targeted savings projects across the Group through FY2023. These projects were focused on simplification and improving efficiency. Costs amounting to £36m in respect of these projects have been charged to non-headline in the year, with no further charges anticipated. In line with our previous communications, £11m of benefit was realised in FY2023 from these projects, with the annualised benefits expected to be £25m.

£m	FY2022	Foreign exchange	Acquisitions	Organic movement	FY2023
Headline operating profit	417	27	0	57	**501**
Headline operating profit margin	16.3%	+10bps		+10bps	**16.5%**

PEOPLE

Inspiring and empowering our people is our third key priority and our people plan is focused around four key areas of safety, leadership development, diversity, equity and inclusion, and engagement.

The first area, safety, is at the forefront of everything we do. Our Recordable Incident Rate ("RIR") for FY2023 improved to 0.41 (FY2022:0.56), and we delivered a record low lost time injury rate of 0.14. This improvement in safety has been achieved through continuous reinforcement of our safety culture with over 13,000 Safety Leadership Tours and Safety Observations undertaken in the year. Of particular focus was our Royal Metal site, acquired in 2021, which delivered an 80% reduction in the number of incidents through changes to manufacturing, new risk management processes and leveraging technology to make safety easier.

Our biggest people initiative this year was the continued rollout of our Smiths Leadership Behaviours to define our expectations for an inclusive and high-performance culture. We continued the rollout of these seven behaviours to fully embed them throughout the organisation. We completed 94 workshops, attended by over 1,600 leaders and the behaviours are now used in our annual performance assessment process.

Alongside Smiths Leadership Behaviours, talent development is a key priority within our People plan. We are focused on growing and promoting talent from within and in FY2023, 70% of open roles for manager level and above were filled internally, versus 39% in the past. To support our talent development, we have relaunched the Accelerate Leadership Development programme having trained our first 300 leaders in FY2023, introduced mentoring programmes with the Executive Committee for our high potential leaders and continued to develop our Early Careers Programme, which includes several engineering apprenticeship programmes.

Promoting diversity, equity and inclusion is another key part of our people strategy. We are specifically focused on increasing gender diversity at all levels of the organisation and we have ramped up our initiatives this year, including introducing women's support networks and flexible working arrangements. As at 31 July 2023, 25% of our senior leaders, 25% of our Executive Committee and 40% of our Board of directors are women. With the help of the multiple initiatives throughout the organisation, we expect to continue to drive improvement in these metrics.

Overall, through our focus on inspiring and empowering our people we have seen a year-on-year improvement in our voluntary attrition, down 310bps to 12% for our global employees and down 410bps for our engineering employees

OUR ESG APPROACH

Environment, Social and Governance (ESG) performance is at the very centre of our purpose, and fundamental to each of our three key priorities.

Growth

ESG at Smiths is approached with a growth mindset. Our R&D is focused on commercialising high-value green technology. Our progress is evident through John Crane's growing presence in hydrogen and carbon capture markets with over 70 active projects and in Flex-Tek supporting the development of the world's first green steel production facility. Our proven ability to serve these customers positions us well today and in the future as the world increasingly relies upon smart engineering to achieve Net Zero.

We are executing well against our ESG strategy, with significant progress against our sustainability metrics, which are now fully incorporated into both our annual and long-term incentives. In the year, we launched our first Sustainability report, submitted our Science Based Targets for review and validated our framework through completion of our first-ever ESG double materiality assessment in accordance with applicable guidance under the Corporate Sustainability Reporting Directive ("CSRD"). We also extended the scope of the limited assurance work carried out by KPMG to follow the more rigorous ISAE3000/3410 standard for FY2022 and FY2023 data.

Execution

Environmental metrics	FY2022	FY2023
Absolute Scope 1 & 2 GHG emissions reductions	0.9% reduction	**11.8% reduction**
Energy efficiency[6]	n/a	**7.9% improvement**
Proportion of electricity from renewable sources	63%	**70%**
Non-recyclable waste[7]	11.5% reduction	**9.8% reduction**
Water use in stressed areas[7]	4.5% reduction	**13.3% reduction**

6 Normalised to local currency revenue, excluding growth from price.
7 Normalised to reported revenue.

People

Engagement with our communities has long been a strength of Smiths. This year we have gone one step further with the launch of our new charitable foundation, "The Smiths Group Foundation". The foundation committed an initial £10m of funding linked to engineering-related good causes. The mission of the foundation is central to Smiths purpose of "Improving our world through smarter engineering." We also launched our global volunteering policy, amplifying the multitude of grass-roots efforts already in place across the organisation.

OUTLOOK

In FY2024, we expect organic revenue growth within our medium-term target range of 4-6%, with growth weighted towards the second half of the year. Our strong orderbooks in John Crane and Smiths Detection, along with our new product pipeline, give us confidence in delivering this growth despite a record comparator, moderating pricing environment, and the challenging market conditions facing parts of Flex-Tek and Smiths Interconnect. We also expect continued margin expansion in FY2024, as we continue to scale the Smiths Excellence System and reinvest to support future sustainable growth.

ESG performance is at the very centre of our purpose, and fundamental to each of our three key priorities.

Read more about sustainability in our Sustainability at Smiths report www.smiths.com

SMITHS LEADERSHIP BEHAVIOURS
Read more about our Leadership Behaviours.
→ PG 13

CFO REVIEW

CLARE SCHERRER
Chief Financial Officer

£350m
Returned to shareholders in FY2023.

+5%
Increase in dividend.

CAPITAL ALLOCATION

With our strong technology, market positions, and financial frameworks, our highest capital priority continues to be organic growth. Accretive M&A, either to strengthen core positions or to accelerate penetration of priority adjacencies comes second. Third, we have a strong track record of returning capital to shareholders, as evidenced by the £350m returned in FY2023, on top of the £661m returned in FY2022.

ORGANIC INVESTMENT

In FY2023 we invested £81m in capex projects, including £21m in capitalised R&D on programmes such as next-generation hold and cabin baggage screening and further advancements in our defence portfolio. A further £73m in R&D was charged to the income statement, supporting new product development.

CAPITAL ALLOCATION FRAMEWORK

1. ORGANIC INVESTMENT
- Target R&D at 4% of sales, focused on high return investments
- Capex to support growth
- Compensation linked to growth and new products

2. M&A
- Focus on core and adjacencies through bolt-on acquisitions
- Enhance technology roadmap
- Accelerate growth and create scale

3. RETURNS TO SHAREHOLDERS
- 70+ years of uninterrupted dividend
- Target dividend growth in-line with long-term earnings growth
- Maintain dividend cover of >2x

STRONG AND FLEXIBLE BALANCE SHEET TO SUPPORT GROWTH STRATEGY

M&A

In January 2023, Smiths Interconnect acquired Plastronics, a leading supplier of burn-in test sockets and patented spring probe contacts. In August 2023, following the year end close, Flex-Tek acquired HCP, a manufacturer of HVAC solutions in North America.

These acquisitions support our strategy to make complementary inorganic investments to accelerate our presence in adjacent markets or expand our product offering. We have an active acquisition pipeline and disciplined M&A approach across the Group.

SHAREHOLDER RETURNS

During the year we continued to repurchase shares under the £742m share buyback programme initiated in November 2021, in connection with our commitment to return the majority of cash proceeds from the disposal of Smiths Medical to shareholders. We have now completed the share buyback programme.

In line with our progressive dividend policy and plan to rebuild dividend cover after the sale of Smiths Medical, the Board is recommending a final dividend of 28.7p, bringing the total dividend for the year to 41.6p, a year-on-year increase of +5.1% (FY2022: 39.6p).

The final dividend will be paid on 24 November 2023 to shareholders on the register at close of business on 20 October 2023. Our dividend policy aims to increase dividends in line with growth in earnings and cash-flow, with the objective of maintaining minimum dividend cover of around 2 times. The policy enables us to retain sufficient cash-flow to finance investment in growth and meet our financial obligations. In setting the level of dividend payments, the Board considers prevailing economic conditions and future investment plans

The Company offers a Dividend Reinvestment Plan ("DRIP") enabling shareholders to use their cash dividend to buy further shares in the Company – see our website for details. To participate in the DRIP, shareholders must submit their election notice to be received by 3 November 2023 ("the Election Date"). Elections received after the Election Date will apply to dividends paid after 24 November 2023. Purchases under the DRIP are made on, or as soon as practicable after, the dividend payment date and at prevailing market prices.

NET DEBT

Net debt[4] at 31 July 2023 was £387m (FY2022: £150m), an increase of £237m as we paid £143m in dividends and returned £207m to shareholders via our share buyback during the year. Net debt to headline EBITDA[4] was 0.7x (FY2022: 0.3x).

As at 31 July 2023, borrowings were £654m (FY2022: £1,166m) comprising a €650m bond which matures in February 2027 and £117m of lease liabilities. The £512m reduction in borrowings is due to repayment of a €600m bond in April 2023. There are no financial covenants associated with these borrowings. Cash and cash equivalents as at 31 July 2023 were £285m (FY2022: £1,056m).

In May 2023, we refinanced our $800m (c.£620m at the period-end exchange rate) revolving credit facility ("RCF") which was due to mature in November 2024. The new RCF is for the same amount, with the same lenders, on substantially the same terms and matures in May 2028. There are no financial covenants attached to the new facility and it remains undrawn. Taking cash and the RCF together, total liquidity was over £0.9bn at the end of the period.

ICU MEDICAL STAKE

Since the sale of Smiths Medical in January 2022 the Group holds a financial asset reflecting our investment in 10% of the equity in ICU Medical, Inc ("ICU"). See note 14 of the financial statements for further detail.

STATUTORY RESULTS

INCOME STATEMENT

The £98m difference between headline operating profit of £501m and statutory operating profit of £403m is non-headline items as defined in note 3 of the financial statements. The largest constituents relate to the amortisation of acquired intangible assets of £52m, costs from savings projects of £36m, acquisition related costs of £7m, £9m in costs for asbestos litigation in John Crane, Inc and a provision reduction of £7m for subrogation claims in Titeflex Corporation. Statutory operating profit of £403m was £286m higher than last year (FY2022: £117m), reflecting higher headline operating profit and lower non-headline charges.

Statutory finance costs were £43m (FY2022: £14m), mainly due to a prior year non-headline £22m foreign exchange gain on an intercompany loan with Smiths Medical.

Non-headline taxation items of £13m relate to amortisation of acquisition-related intangible assets, legacy pension scheme arrangements, litigation provisions and non-headline finance items. The statutory effective tax rate was 37% (FY2022: 87%). Please refer to notes 3 and 6 of the financial statements for further details.

TOTAL GROUP PROFIT AFTER TAX AND EPS

Statutory profit after tax for the total Group decreased by 77.6% to £232m (FY2022: £1,035m) as the prior year included the profit on sale and results of Smiths Medical of £1,022m. Statutory basic EPS was 65.5p (FY2022: 267.1p).

STATUTORY CASH-FLOW

Statutory net cash inflow from operating activities for the total Group was £293m (FY2022: £279m). See note 28 of the financial statements for a reconciliation of headline operating cash-flow to statutory cash-flow.

PENSIONS

Included within free cash-flow was £5m of pension contributions (FY2022: £9m). These contributions relate to unfunded, overseas schemes and healthcare arrangements.

It is not anticipated that any further contributions will be made to the TI Group Pension Scheme ("TIGPS"), the liabilities of which have now been insured via a series of buy-in annuities. Smiths and the TIGPS Trustee are working toward final buy-out of the scheme in order to deliver certainty for the Scheme's 21,000 members and remove future risk for Smiths.

The other major pension scheme, Smiths Industries Pension Scheme ("SIPS") is estimated to be in surplus on the Technical Provisions funding basis, and no cash contributions are currently being made. The Group and the SIPS Trustee continue to work together to progress towards the long-term funding target of full buy-out funding.

The two main UK pension schemes and the US pension plan are well hedged against changes in interest and inflation rates. Over 90% of their assets are invested in third-party annuities, government bonds, investment grade credit or cash, with no remaining equity investments. As at 31 July 2023, over 60% of the UK liabilities had been de-risked through the purchase of annuities from third party insurers.

LITIGATION

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

John Crane, Inc. litigation

John Crane, Inc. (JCI) a subsidiary of the Group, continues to actively monitor the conduct and effect of its current and expected asbestos litigation, including the effective presentation of its 'safe product' defence, and intends to resist asbestos cases based on this defence. Approximately 310,000 claims against JCI have been dismissed before trial over the last 40 years. JCI is currently a defendant in cases involving approximately 20,000 claims. Despite these large numbers of claims, since the inception of asbestos litigation against JCI it has had 154 cases and has had to pay awards amounting to approximately $190m.

At 31 July 2023, the aggregate provision for JCI asbestos litigation, including for adverse judgements and defence costs, amounted to £204m (FY2022: £229m) expressed at the then current exchange rate. In deciding upon the amount of the provision, JCI has relied on independent expert advice from a specialist.

Titeflex Corporation litigation

Titeflex Corporation, a subsidiary of the Group in the Flex-Tek division, has received a number of claims in recent years from insurance companies seeking recompense on a subrogated basis for the effects of damages allegedly caused by its flexible gas piping products being energised by lightning strikes. It has also received a number of product liability claims relating to this product, some in the form of purported class actions. Titeflex Corporation believes that its products are a safe and effective means of delivering gas when installed in accordance with the manufacturer's instructions and local and national codes. However, some claims have been settled on an individual basis without admission of liability. The continuing progress of claims and the pattern of settlement, together with recent market-place activity, provide sufficient evidence to recognise a liability in the accounts.

At 31 July 2023, a provision of £41m (FY2022: £52m) has been made for the costs which the Group expects to incur in respect of these claims. For the Group's litigation provisions, because of the significant uncertainty associated with the future level of claims and of the costs arising out of the related litigation, there is no guarantee that the assumptions used to estimate the provision will result in an accurate prediction of the actual costs that may be incurred.

FOREIGN EXCHANGE

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

	Average rates		Period-end rates	
	31 Jul 2023 (12 months)	31 Jul 2022 (12 months)	**31 Jul 2023**	31 Jul 2022
USD	**1.21**	1.32	**1.29**	1.22
EUR	**1.15**	1.18	**1.17**	1.19

DIVISIONAL REVIEW

JOHN CRANE

FY2023 FINANCIAL PERFORMANCE

	FY2023 (£m)	FY2022 (£m)	FY Reported growth	H1 organic growth	H2 organic growth	FY organic growth
Revenue	**1,079**	**901**	**+19.8%**	**+14.6%**	**+15.8%**	**+15.2%**
Original Equipment	169	148	+14.3%	+13.3%	+6.8%	+9.9%
Aftermarket	487	382	+27.5%	+18.5%	+27.8%	+23.2%
Energy	656	530	+23.8%	**+17.1%**	**+21.8%**	**+19.5%**
Original Equipment	145	131	+10.5%	+14.1%	(0.9)%	+6.0%
Aftermarket	278	240	+16.0%	+9.2%	+12.3%	+10.9%
General Industrial	423	371	+14.0%	**+10.9%**	**+7.6%**	**+9.2%**
Headline operating profit	**244**	**188**	**+29.7%**	**+24.6%**	**+25.7%**	**+25.2%**
Headline operating profit margin	**22.6%**	**20.9%**	**+170bps**	**+190bps**	**+180bps**	**+180bps**
Statutory operating profit	217	167	+29.9%			
Return on capital employed	23.8%	19.4%	+440bps			
R&D cash costs as % of sales	1.7%	2.5%	(80)bps			

REVENUE

£m	FY2022 reported	Foreign exchange	Organic movement	FY2023 reported
Revenue	901	36	**142**	**1,079**

OPERATING PROFIT

£m	FY2022 reported	Foreign exchange	Organic movement	FY2023 reported
Headline operating profit	188	7	**49**	**244**
Headline operating profit margin	20.9%			**22.6%**

John Crane delivered record organic revenue growth of +15.2% for the year, accelerating to +15.8% in H2 executing well against strong demand, with orders up +15%. Organic revenue grew across all segments and geographies. Aftermarket organic revenue grew +18.4% to make up 71% of sales (FY2022: 69%) and OE grew +8.1%.

Reported revenue grew to record levels at over £1bn for the first time, which was up +19.8% reflecting the organic growth and a favourable foreign exchange impact.

In Energy, organic revenue grew +19.5% benefiting from an increased focus on energy security and higher demand for energy efficiency and emissions reduction solutions. John Crane is well positioned to support customers with their decarbonisation goals as they look to become more efficient and reduce leakage within existing facilities or invest in new infrastructure for low carbon alternatives. Notable contract wins in the year included one of the world's largest offshore Carbon Capture and Storage ("CCS") facilities in Malaysia and compressor seals for use in an innovative energy storage solution for a customer in Europe. John Crane's leadership in this area was recognised by the UK government through a £925k grant awarded for its innovative high temperature sealing solution, which is designed to improve customer efficiency through reduced emissions.

The Industrial segment grew +9.2% organically, driven by strong demand across chemical processing, water treatment and life sciences. Efficiency in industrial processes is as important as it is to John Crane's Energy customers, evidenced by multiple wins across all markets.

Read more about our divisions at www.smiths.com

Reported revenue grew to record levels at over £1bn for the first time.

Headline operating profit of £244m grew a record +25.2% on an organic basis, resulting in +170bps of margin expansion. This was driven by the increased volumes and improving plant efficiency, pricing offsetting inflation and benefits from SES and savings projects, while continuing to invest in growth to service the strong demand.

On a reported basis, headline operating profit was up +29.7%, including a favourable foreign exchange impact. The difference between statutory and headline operating profit includes the net cost in relation to the provision for John Crane, Inc. asbestos litigation and charges from savings projects.

ROCE was 23.8%, up 440bps, reflecting the record headline operating profit growth.

R&D

Cash R&D expenditure was 1.7% of sales (FY2022: 2.5%). John Crane's continued investment in R&D is primarily focused on reducing product lead times and enhancing the efficiency, performance and sustainability of high duty seals and hydrogen compressors.

John Crane plays a significant role in its customers' sustainability journeys through reducing leaks, including for demanding hydrocarbon pipelines. John Crane's recently launched Safematic Upstream Pumping System product nearly eliminates cooling water requirements, delivering significant energy and emissions reductions in liquid sealing.

SMITHS DETECTION

FY2023 FINANCIAL PERFORMANCE

	FY2023 (£m)	FY2022 (£m)	FY Reported growth	H1 organic growth	H2 organic growth	FY organic growth
Revenue	**803**	**655**	**+22.6%**	**+14.0%**	**+18.8%**	**+16.4%**
Original Equipment	226	198	+14.2%	+10.3%	+8.6%	+9.4%
Aftermarket	309	269	+14.6%	+10.3%	+7.0%	+8.6%
Aviation	**535**	**467**	**+14.5%**	**+10.3%**	**+7.7%**	**+8.9%**
Original Equipment	164	102	+60.2%	+39.2%	+64.4%	+51.3%
Aftermarket	104	86	+21.5%	+2.9%	+28.3%	+15.2%
Other Security Systems	**268**	**188**	**+42.7%**	**+22.9%**	**+47.9%**	**+34.9%**
Headline operating profit	**90**	**73**	**+23.1%**	**+4.5%**	**+26.8%**	**+15.4%**
Headline operating profit margin	**11.2%**	**11.1%**	**+10bps**	**(110)bps**	**+70bps**	**0bps**
Statutory operating profit	55	36	+52.8%			
Return on capital employed	7.7%	7.1%	+60bps			
R&D cash costs as % of sales	8.4%	9.3%	(90)bps			

REVENUE

£m	FY2022 reported	Foreign exchange	Organic movement	FY2023 reported
Revenue	655	34	**114**	**803**

OPERATING PROFIT

£m	FY2022 reported	Foreign exchange	Organic movement	FY2023 reported
Headline operating profit	73	5	**12**	**90**
Headline operating profit margin	11.1%			**11.2%**

Read more about our divisions at www.smiths.com

Smiths Detection returned firmly to growth in FY2023 with organic revenue growth of +16.4% executing well against the multi-year orderbook. Growth was delivered across all segments with particularly strong growth in lower margin OE, up +23.9% organically. Aftermarket revenue grew +10.2% organically, making up 51% of sales (FY2022: 54%). Orders grew +6% in the year, supporting revenue growth in FY2024, which due to the expected timing of order delivery will be weighted towards the second half. Reported revenue was up +22.6% reflecting the organic growth and a favourable foreign exchange impact.

In Aviation, organic revenue grew +8.9% with continued strong demand for Smith Detection's latest range of 3D CT machines for cabin baggage, CTIX, with over 1,000 now sold, supported by regulatory requirements in many countries mandating upgrades. Smiths Detection continues to achieve a good win rate in Aviation with key contract wins in all regions of the world across the year including provision of CTIX machines to Birmingham and Edinburgh airports in the UK and JAL Airline in Japan, and full-sized lane configurations to the US Transportation Security Administration.

Other Security Systems ("OSS") grew +34.9% driven by high growth in all three sub-segments of urban security, ports and borders and defence, demonstrating good progress in these attractive market adjacencies. Order intake in defence was very strong for both current and future chemical and biological detection requirements, including for the US DoD on their next generation programme. Smiths Detection has also been contracted to provide security screening at COP28 in November this year.

Headline operating profit was up +15.4% on an organic basis for the year, supported by the strong organic revenue growth, SES benefits and targeted actions on cost. On a reported basis, headline operating profit was up +23.1% including favourable foreign exchange translation.

Headline operating profit margin of 11.2% was up 10bps on a reported basis as the benefits of SES and cost actions offset the mix impact of lower margin OE. These OE deliveries will secure longer-term, high margin aftermarket revenue, which together with a building SES impact, will support future margin expansion.

The difference between statutory and headline operating profit primarily reflects amortisation of acquired intangibles and charges from savings projects.

ROCE increased by +60bps to 7.7%, driven by the headline operating profit growth.

R&D

Cash R&D increased +9.8% representing 8.4% of sales (FY2022: 9.3%). This includes an increase in customer funded projects to £18m (FY2022: £14m).

Smiths Detection continued to invest in next-generation detection devices, new algorithms to improve the detection of dangerous goods, and digital solutions to strengthen the aftermarket proposition. During the year Smiths Detection launched a new high volume air cargo screening technology, and an extension of their automated detection algorithm.

Read more about our divisions at www.smiths.com

Smiths Detection continues to achieve a good win rate in Aviation with key contract wins in all regions of the world across the year including provision of CTIX machines to Birmingham and Edinburgh airports in the UK and JAL Airline in Japan, and full-sized lane configurations to the US Transportation Security Administration.

FLEX-TEK

FY2023 FINANCIAL PERFORMANCE

	FY2023 (£m)	FY2022 (£m)	FY Reported growth	H1 organic growth	H2 organic growth	FY organic growth
Revenue	768	647	+18.6%	+17.0%	+3.6%	**+10.1%**
General Industrial	624	531	+17.5%	+17.5%	+0.9%	**+9.0%**
Aerospace	144	116	+24.4%	+14.8%	+16.4%	**+15.6%**
Headline operating profit	149	133	+11.9%	+9.0%	(2.0)%	**+3.4%**
Headline operating profit margin	19.4%	20.6%	(120)bps	(150)bps	(110)bps	**(130)bps**
Statutory operating profit	131	106	+23.6%			
Return on capital employed	26.1%	25.6%	+50bps			
R&D cash costs as % of sales	0.4%	0.4%	0bps			

REVENUE

£m	FY2022 reported	Foreign exchange	Organic movement	FY2023 reported
Revenue	647	50	**71**	**768**

OPERATING PROFIT

£m	FY2022 reported	Foreign exchange	Organic movement	FY2023 reported
Headline operating profit	133	11	**5**	**149**
Headline operating profit margin	20.6%			**19.4%**

Organic revenue grew +10.1% in the year, with growth in H2 of +3.6%. Revenue on a reported basis grew +18.6%, supported by a favourable foreign exchange translation.

In Industrial, organic revenue was up +9.0% in the year reflecting strong demand for Flex-Tek's products, primarily in HVAC applications. These products include energy efficiency solutions such as the Rheia air distribution system and the partnership with Midrex to deliver heating solutions that enable the production of commercial "green steel". As expected, demand slowed in the second half reflecting a softer US HVAC market. In Aerospace, organic revenue grew +15.6% in the year, with growth in the second half accelerating to +16.4% supported by an increasing number of aircraft builds.

Headline operating profit grew +3.4% on an organic basis, driven by the revenue growth which was partly offset by higher costs including starting up a new facility in Houston to expand capacity. This increase in costs, together with continued investments in new product development and a product mix impact, contributed to a 19.4% headline operating margin, (120) bps lower than the record prior year comparator.

The difference between statutory and headline operating profit is due to amortisation of acquired intangible assets and the provision for Titeflex Corporation subrogation claims.

ROCE increased +50bps to 26.1% reflecting the continued profit growth in FY2023.

In August 2023, Flex-Tek acquired HCP expanding its presence in the North American HVAC market, broadening its product range and customer base.

R&D

Cash R&D expenditure grew in-line with sales remaining at 0.4% of sales (FY2022: 0.4%). R&D is focused on developing new products for the construction market, and an expanded product offering in aerospace.

Read more about our divisions at www.smiths.com

In Industrial, organic revenue was up +9.0% in the year reflecting strong demand for our products, primarily in HVAC applications.

SMITHS INTERCONNECT

FY2023 FINANCIAL PERFORMANCE

	FY2023 (£m)	FY2022 (£m)	FY Reported growth	H1 organic growth	H2 organic growth	FY organic growth
Revenue	387	363	+6.5%	+3.3%	(8.4)%	**(2.8)%**
Headline operating profit	62	65	(4.6)%	(1.7)%	(20.7)%	**(11.9)%**
Headline operating profit margin	16.0%	18.0%	(200)bps	(80)bps	(250)bps	**(170)bps**
Statutory operating profit	50	64	(21.9)%			
Return on capital employed	13.3%	16.3%	(300)bps			
R&D cash costs as % of sales	6.3%	5.6%	+70bps			

REVENUE

£m	FY2022 reported	Foreign exchange	Acquisitions	Organic movement	FY2023 reported
Revenue	363	26	8	**(10)**	**387**

OPERATING PROFIT

£m	FY2022 reported	Foreign exchange	Acquisitions	Organic movement	FY2023 reported
Headline operating profit	65	5	0	**(8)**	**62**
Headline operating profit margin	18.0%				**16.0%**

Smith Interconnect's organic revenue declined (2.8)% for the year following the strong +13.9% growth last year, with +3.3% growth in H1 more than offset by the (8.4)% decline in H2. Reported revenue grew +6.5% in the year including a favourable foreign exchange impact and an £8m contribution from the acquisition of Plastronics.

The performance in the year reflected a weakening in the semiconductor market and delayed timing on large aerospace and defence related programmes, partly offset by strong demand for industrial connector products such as a new medical cable assembly product. Contraction into FY2024 is expected with FY2023 orders down 17%, continued weakness in the semiconductor market and a slowing in connectors.

During the first half, Smiths Interconnect acquired Plastronics to strengthen the product portfolio and leverage Plastronics' attractive positions in artificial intelligence, data centres and automotive end markets.

Headline operating profit declined (11.9)% on an organic basis, resulting in a (200)bps reduction in operating profit margin to 16.0%. This decline was driven by the lower volumes and continued investment in R&D. Headline operating profit was down (4.6)% on a reported basis, reflecting the organic decline, partly offset by a favourable foreign exchange impact.

The difference between statutory and headline operating profit reflects the amortisation of acquired intangibles, acquisition costs and charges from savings projects.

ROCE reduced (300)bps to 13.3% driven by the lower operating profit.

R&D

Cash R&D expenditure increased to 6.3% of sales (FY2022: 5.6%). R&D is focused on bringing to market new products that improve connectivity and product integrity in demanding operating environments. Product launches include the next-generation of radio frequency components and transceivers.

Read more about our divisions at www.smiths.com

During the first half, Smiths Interconnect acquired Plastronics to strengthen our product portfolio and leverage Plastronics' attractive positions in Artificial Intelligence, data centres and automotive end markets.

KEY PERFORMANCE INDICATORS

FINANCIAL TARGETS

Our financial targets were set out at our Capital Markets Day in November 2021.

Alternative Performance Measures (APMs) and KPIs are defined in note 29 of the financial statements.

All measures exclude Smiths Medical which was sold in January 2022.

LINK TO STRATEGY

- Growth
- Execution
- People

ORGANIC REVENUE GROWTH

Growing faster is the primary driver of unlocking value creation for the Group.

FY2023 PROGRESS

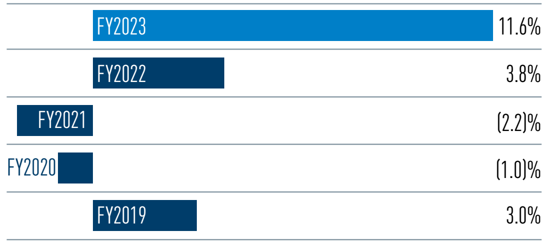
In FY2023 we delivered organic revenue growth in all four quarters of the year and full year growth of +11.6%.

MEDIUM-TERM TARGET

+4-6%

STRATEGY

PERFORMANCE



LINKED TO REMUNERATION

Read more in CEO review of the year.

→ PG 18

OPERATING PROFIT MARGIN

Stronger execution is the second key priority for the Group and will drive higher margins.

FY2023 PROGRESS

In FY2023 we delivered +20bps of margin progression to 16.5%, while continuing to invest in growth.

MEDIUM-TERM TARGET

18-20%

STRATEGY

PERFORMANCE

LINKED TO REMUNERATION

Read more in CEO review of the year.

→ PG 18

EARNINGS PER SHARE GROWTH

Strong margins will convert revenue growth into earnings growth.

FY2023 PROGRESS

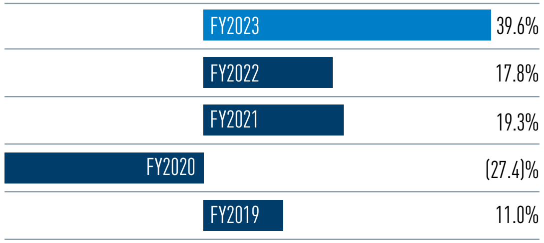
In FY2023 we delivered record EPS growth of +39.6%, driven by organic operating profit growth and the benefit of our share buyback programme.

MEDIUM-TERM TARGET

+7-10%

STRATEGY

PERFORMANCE



LINKED TO REMUNERATION

Read more in CEO review of the year.

→ PG 18

RETURN ON CAPITAL EMPLOYED (ROCE)

Monitoring our return on capital acts as a discipline on both organic and inorganic investment to drive maximum value from our growth.

FY2023 PROGRESS

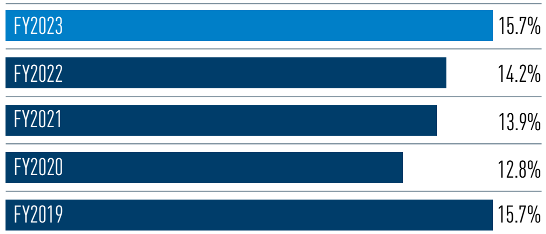
In FY2023 ROCE increased +150bps into our target range driven by the strong operating profit performance.

MEDIUM-TERM TARGET

15-17%

STRATEGY

PERFORMANCE



LINKED TO REMUNERATION

Read more in CEO review of the year.

→ PG 18

OPERATING CASH CONVERSION

Maintaining our strong track record of cash conversion is a key component of our robust financial framework.

FY2023 PROGRESS

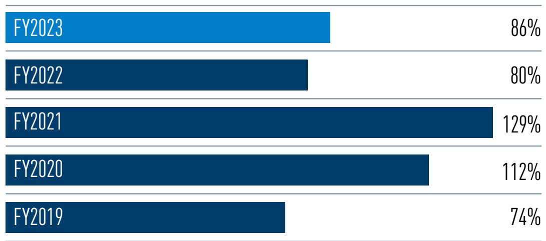
In FY2023 we improved our operating cash conversion by +6 percentage points to 86%, supported by an improvement in working capital in the second half of the year.

MEDIUM-TERM TARGET

100%

STRATEGY

PERFORMANCE



LINKED TO REMUNERATION

Read more in CEO review of the year.

→ PG 18

OPERATIONAL AND NON-FINANCIAL TARGETS

GROSS VITALITY

Gross Vitality measures the revenue contribution of products launched in the last five years. Improved new product development and commercialisation is a key component of our growth strategy.

FY2023 PROGRESS

In FY2023 Gross Vitality was 31% reflecting continued investment in R&D and new product development.

MEDIUM-TERM TARGET

30%+

STRATEGY

PERFORMANCE

READ MORE

Read more in CEO review of the year.

→ PG 18

GREENHOUSE GAS (GHG) REDUCTION

Meeting our commitment to deliver Net Zero Scope 1 & 2 GHG emissions by 2040 is a fundamental part of our sustainability strategy.

FY2023 PROGRESS

In FY2023 our Scope 1 & 2 emissions reduced (11.8)% in absolute terms due to actions on energy efficiency and a further increase in renewable electricity.

MEDIUM-TERM TARGET

Net Zero Scope 1 & 2 emissions by 2040

STRATEGY

PERFORMANCE

See page 45 for our statement on limited assurance.

LINKED TO REMUNERATION

Read more in Sustainability at Smiths.

→ PG 32

RECORDABLE INCIDENT RATE (RIR)

Our commitment to our people starts with keeping us all safe and healthy. This is our essential foundation and number one focus. Our key safety metric is RIR per 100 colleagues.

FY2023 PROGRESS

In FY2023 RIR fell by (26)% with improvement in every division. We continue to track below the industry average and in the top quartile of industry performance.

MEDIUM-TERM TARGET

A zero-harm workplace

STRATEGY

PERFORMANCE

FY2023	0.41
FY2022	0.56
FY2021	0.47
FY2020	0.35
FY2019	0.50

READ MORE

Read more in Sustainability at Smiths.

→ PG 32

MY SAY SURVEY ENGAGEMENT SCORE

Engaging our people is key to the success of our strategy. We have been tracking employee engagement on a range of important cultural measures since 2017.

FY2023 PROGRESS

In FY2023 we updated the questions in the My Say survey to align it more closely with our cultural focus areas. The overall e-Sat survey score went up by 1 point.

MEDIUM-TERM TARGET

Upper quartile

STRATEGY

PERFORMANCE

FY2023	73
FY2022	72
FY2021	71
FY2020	73
FY2019	72

READ MORE

Read more in Our people and culture.

→ PG 13

DIVERSITY

We are focused on proactively increasing the number of women in leadership roles at Smiths, with our measure being percentage of senior leadership positions held by women.

FY2023 PROGRESS

In FY2023 we increased the number of senior leadership positions held by women to 25%. We also undertook a wide range of activities to support female colleagues and increase female talent in our pipelines.

MEDIUM-TERM TARGET

30% by the end of FY2024

STRATEGY

PERFORMANCE

FY2023	25%
FY2022	24%
FY2021	23%

READ MORE

Read more in Sustainability at Smiths.

→ PG 32

SUSTAINABILITY AT SMITHS

Strong ESG performance is essential to deliver on our purpose and create value for each of our stakeholders. We organise our ESG commitments and objectives using our Sustainability at Smiths framework that we first introduced in FY2022.

In FY2023, we tested and further refined the framework by completing an ESG double materiality assessment (DMA) in accordance with requirements and best practices developed under the EU's Corporate Sustainability Reporting Directive (CSRD). As summarised from page 33 the ESG DMA validated the framework and helped to identify our best opportunities for value creation through our ESG performance.

During the year we submitted our Net Zero trajectory and targets to the Science-Based Targets initiative (SBTi). Our Net Zero/climate transition plan is published in this report. See page 40.

Read more about sustainability in our Sustainability at Smiths report.

GOVERNANCE AND OVERSIGHT

The Smiths Board of Directors and Executive Committee have ultimate responsibility for Smiths ESG performance and associated governance and oversight. Our collaboration model enables us to bring together the skills and knowledge of our Board, our Executive team and our business leaders to harness the knowledge and skills of the whole Group to drive and deliver innovation, effective execution and best practice.

See our ESG governance and delivery model on page 49.

METRICS AND REPORTING

ESG metrics and targets are incorporated into Smiths overall business performance dashboard and are reviewed annually to ensure they remain aligned with business priorities. The metrics cascade down through business and functional operating units as relevant and realistic building block targets that aggregate to deliver performance at the overall Group level. Metrics are reported to, and discussed by, the Executive Committee and the Board and its Committees. We report externally metrics relating to our material ESG areas and those required by reporting regulations.

See ESG metrics, targets and performance on page 44.

REWARD INCENTIVES

For FY2022, we began incorporating ESG performance alongside traditional financial metrics to determine the long-term incentive plan (LTIP) pay of our senior executives. For FY2023, we again assigned 15% of the LTIP award to reducing GHG emissions, now aligned to the pace of reductions required to deliver our Science-Based Targets (SBTs). In addition, we added an energy efficiency metric as a component of our Annual Incentive Plan (AIP) that potentially benefits approximately 6,000 colleagues.

In FY2024, we are continuing the same approach, setting:

- LTIP targets for absolute GHG reductions aligned to the pace required to deliver SBTs; and
- AIP targets for energy efficiency tailored to reward operational improvements that support sustainable and high-value delivery of our SBTs.

New product revenue targets (including named sustainability-focused products) were also included in the AIP in FY2023.

EXTERNAL FRAMEWORKS

We also look outside the Company to benchmark and evaluate progress and make sure that we are learning from our peers, sector leaders and subject-matter specialists. The measures used by third-party ratings agencies and framework developers help us to identify opportunities for improvement and additional disclosure that helps our external stakeholders understand and accurately assess our priorities and progress. While these external frameworks do not dictate our path, they are very helpful to inform our reporting, planning and prioritisation.

We are fully supportive of emerging sustainability reporting obligations and will take an approach guided by value creation and what matters to our stakeholders. We are preparing the business and internal workstreams for this enhanced reporting.

We currently report climate disclosures aligned with the Task Force on Climate-related Financial Disclosures (TCFD). See page 47.

We participate annually in the CDP global environmental reporting initiative and during the year completed our latest carbon and water submissions to CDP for FY2022.

Read more about sustainability and our ESG priorities in our FY2023 Sustainability at Smiths report at www.smiths.com

VALIDATING OUR SUSTAINABILITY AT SMITHS FRAMEWORK AND APPROACH

In FY2023 we completed an ESG double materiality assessment (DMA) which validated our existing prioritisation of ESG-related topics. It also provided a robust analysis of critical enablers and emerging matters of interest and importance to our multiple stakeholders and emerging regulatory requirements.

We conducted the DMA over five months with support from a specialist team from PwC. The findings and proposed next steps were discussed by the Smiths Executive Committee and presented to the Science, Sustainability & Excellence (SSE) Committee of the Board in July 2023. We agreed next steps and these are being integrated into short- and medium-term strategic planning and resourcing decisions. They are also being integrated into our ESG reporting and internal communication and education on ESG matters to increase impact and realise more value from our performance.

DMA APPROACH

1. DEFINE LIST OF TOPICS

Selection of 23 ESG topics based on:

- Smiths existing ESG framework elements
- Latest market practices/peer benchmarking
- Existing and future regulatory standards and frameworks

2. ASSESS TOPIC MATERIALITY ON TWO DIMENSIONS (DOUBLE MATERIALITY)

Impact materiality
Financial materiality

Internal stakeholder engagement including workshops, one-to-one interviews and a Group-wide colleague survey.

External stakeholder research on expectations and priorities covering customers, key shareholders, potential investors, key suppliers, peers and seven upcoming ESG regulations[1.]

1 Corporate Sustainability Reporting Directive (CSRD), including European Sustainability Reporting Standards (ESRS) and EU Taxonomy; UK Green Taxonomy; Task Force on Climate-Related Financial Disclosures (TCFD); Taskforce on Nature-related Financial Disclosures (TNFD); Corporate Sustainability Due Diligence Directive (CSDDD); UK and EU REACH; Carbon Border Adjustment Mechanism (CBAM).

3. SYNTHESISE RESULTS

Customers, investors and Smiths internal views were prioritised through weighting to synthesise results.

Stakeholder		IMPACT MATERIALITY	WEIGHTING	FINANCIAL MATERIALITY	WEIGHTING
INTERNAL	Workshops	✓	30	✓	30
	Employee survey	✓	20	✓	20
EXTERNAL	Customers	✓	25	✓	20
	Investors	✓	5	✓	20
	Regulators	✓	10	–	–
	Peers	✓	5	✓	5
	Suppliers	✓	5	✓	5

See Group materiality picture on
→ PG 35

4. INTEGRATE OUTCOMES AND COMMUNICATE RESULTS

- Presentation/discussion with Executive Committee
- Presentation/discussion with SSE Committee
- Presentation/discussion with functional and divisional leadership teams
- Integration into FY2023 reporting
- Integration into strategic planning FY2024 and beyond
- Preparation for future reporting requirements

ASSESSMENT

We chose 23 ESG topics for assessment based on the diamonds of Smiths existing ESG framework, latest market practices as taken from a peer benchmarking exercise, and an analysis of existing and future regulatory standards and frameworks.

We assessed each topic on two dimensions:

- Impact materiality – an ESG topic is material when it pertains to Smiths material (actual or potential, positive or negative) impacts on people or the environment over the short, medium, or long term.
- Financial materiality – an ESG topic is material if it triggers, or may trigger, material financial effects on Smiths by generating risks or opportunities that have or are likely to have a material influence on cash-flows, development, performance, position, cost of capital or access to finance in the short, medium, or long term.

GROUP MATERIALITY PICTURE

The Group ESG double materiality picture is shown on page 35. It distributes the 23 topics into three distinct categories:

Highest-impact topics: Five key strategic and disclosure focus ESG topics where Smiths must place the most focus (four of which formed part of our existing ESG framework)

Critical enablers and foundational elements: Eight topics which we characterise as the key success factors for enabling progress on our ESG priorities

Base expectations and emerging issues: ESG topics to maintain and monitor performance

As expected, we observed some differences in the divisional materiality pictures driven by market sector, nature of operations, customers, geographies and regulatory environments. For example, the John Crane and Flex-Tek value propositions are highly aligned with the commercialising high-value green technology topic; Smiths Detection is further on its path to delivering Net Zero, and managing risk and maintaining strong and effective controls is an important focus due to operating in highly regulated markets; Smiths Interconnect is positioned in markets such as medical technology and space exploration so products can be ascribed a social value; and the evolving Government policy agenda in China makes reinforcing data privacy and cyber security an important topic for Smiths China.

Our stakeholders also place different emphasis on topics:

Customers: many share our Net Zero goals and we can meet their needs both with our technologies and by decarbonising our operations (their Scope 3 emissions).

Investors: are attracted to high-value green technologies that deliver long-term growth. Investors also have high expectations of Net Zero delivery.

Regulators: new regulations are coming down the track across the spectrum of ESG topics.

Peers: like Smiths, peers are moving ahead with SBTi-aligned Net Zero goals and green product offerings.

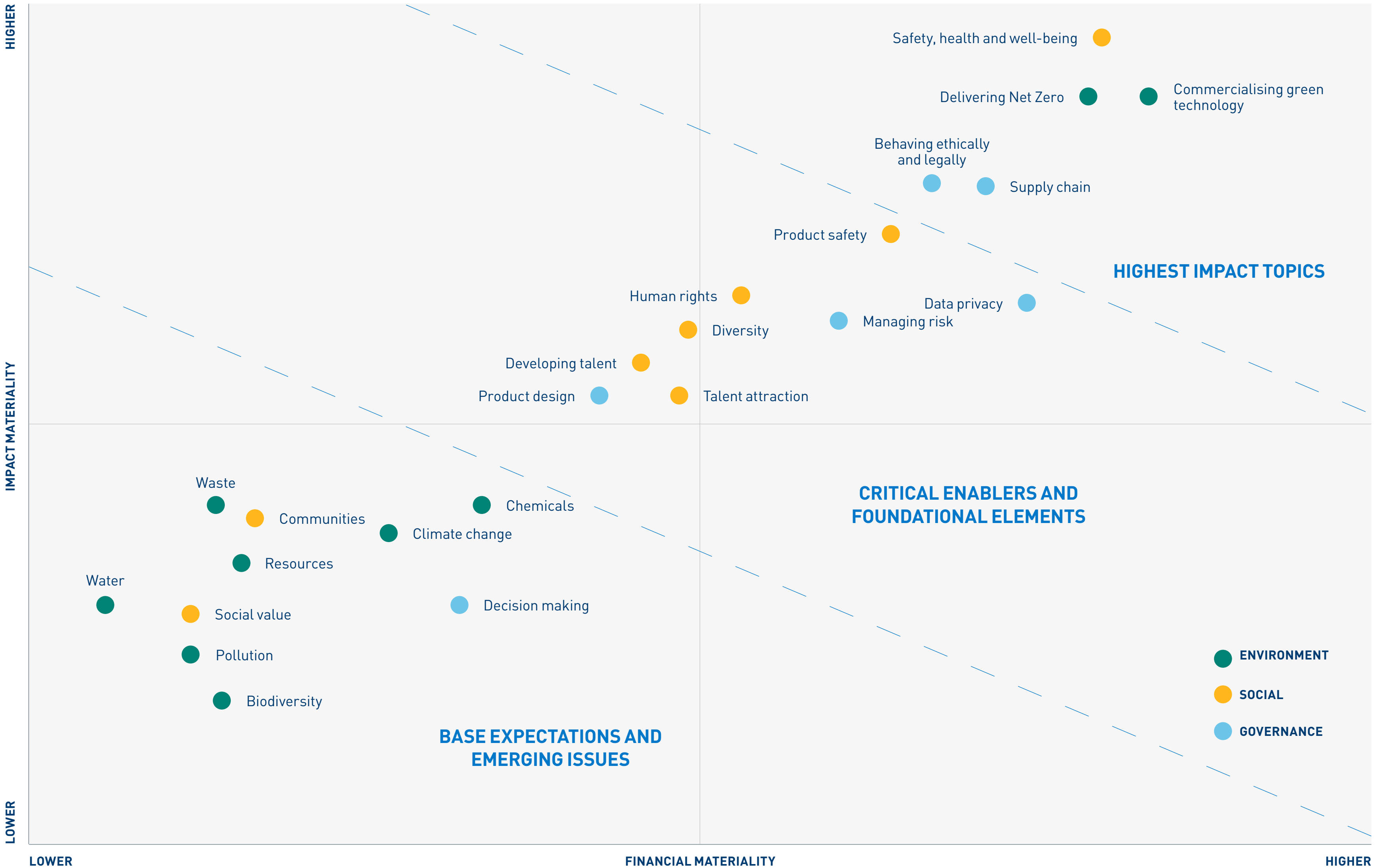
Suppliers: maintain their traditional focus on compliance and controls; now expanding to Net Zero GHG (our Scope 3 emissions).

VALIDATION

The DMA confirmed that all topics within the Sustainability at Smiths framework are important to our performance and valued by our stakeholders. Of the 23 assessed topics, 21 mapped to the diamonds in the framework.

23 ESG TOPICS CHOSEN FOR ASSESSMENT

GROUP MATERIALITY PICTURE



HIGHEST IMPACT TOPICS

IMPROVING SAFETY, HEALTH AND WELL-BEING

The most material ESG topic, aligned with the findings of our My Say survey.

COMMERCIALISING HIGH-VALUE GREEN TECHNOLOGY

Material opportunity as viewed by external stakeholders.

DELIVERING NET ZERO GHG

Highly material to most stakeholders including customers who have set similar objectives and to our colleagues.

→ PG 40

Continued overleaf

TOPIC MAPPING

Of the 23 assessed topics, 21 mapped to topics in our Sustainability at Smiths framework.

ENVIRONMENTAL

DELIVERING NET ZERO GHG
- Delivering Net Zero GHG
- Climate change adaptation and resilience

COMMERCIALISING HIGH-VALUE GREEN TECHNOLOGIES
- Commercialising high-value green technologies

RESPECTING NATURAL RESOURCES
- Respecting natural resources
- Preventing pollution
- Waste management
- Water conservation and stewardship
- Sustainable product design and lifecycle management

TOPICS NOT INCLUDED IN EXISTING FRAMEWORK
- Biodiversity and ecological restoration

SOCIAL

IMPROVING SAFETY, HEALTH AND WELL-BEING
- Improving safety, health and well-being

PROMOTING DIVERSITY, EQUITY AND INCLUSION
- Promoting diversity, equity and inclusion

CONTRIBUTING TO OUR COMMUNITIES
- Contributing to our communities
- Delivering social value through our products

DEVELOPING TALENT
- Developing talent
- Talent attraction and retention

TOPICS NOT INCLUDED IN EXISTING FRAMEWORK
- N/A

GOVERNANCE

BEHAVING ETHICALLY AND LEGALLY
- Behaving ethically and legally
- Protection of human rights and affected communities

MANAGING RISK AND MAINTAINING STRONG AND EFFECTIVE CONTROLS
- Managing risk and maintaining strong and effective controls
- Product safety and quality assurance
- Management of chemicals and hazardous substances
- Reinforcing data privacy and cyber security

EFFECTIVE LONG-TERM DECISION MAKING AND TRANSPARENCY
- Effective long-term decision making and transparency

TOPICS NOT INCLUDED IN EXISTING FRAMEWORK
- Supply chain management and responsible procurement

HIGHEST IMPACT TOPICS CONTINUED

SUPPLY CHAIN MANAGEMENT AND RESPONSIBLE PROCUREMENT

Customers and regulators particularly expect visibility across the supply chain which will be essential to deliver our Net Zero Scope 3 and human rights commitments, and new reporting requirements e.g., CBAM.

BEHAVING ETHICALLY AND LEGALLY

Consistently high priority across all stakeholder groups – vital for employee engagement and managing reputational risk.

SUSTAINABILITY AT SMITHS FRAMEWORK

Our Sustainability at Smiths ESG framework articulates the structure through which we manage ESG topics. Defining these topics clearly tightens the connection with operational execution and assists us to report in a transparent way to our stakeholders. We made minor changes to the framework to reflect the outcome of the FY2023 DMA.

Read more about the Sustainability at Smiths framework in our FY2023 Sustainability at Smiths report www.smiths.com

COMMERCIALISING HIGH-VALUE GREEN TECHNOLOGIES

- High impact topic
- Executive Committee and Board approved strategic focus on decarbonisation and green re-industrialisation
- Green product data to be published in FY2024

DELIVERING NET ZERO GHG

- High impact topic
- Climate/Net Zero transition plan completed
- Targets submitted to SBTi
- Scope 1 & 2 emissions down (11.8)% in year
- Renewable electricity 70% of total use
- Linked to remuneration

→ PG 40

DEVELOPING AND ATTRACTING TALENT

- 300 leaders participated in the Accelerate leadership development programme
- 70% of open grade 11 and above roles were filled by internal candidates

CONTRIBUTING TO OUR COMMUNITIES

- Smiths Foundation and global volunteering policy launched
- £2.8bn direct economic contribution

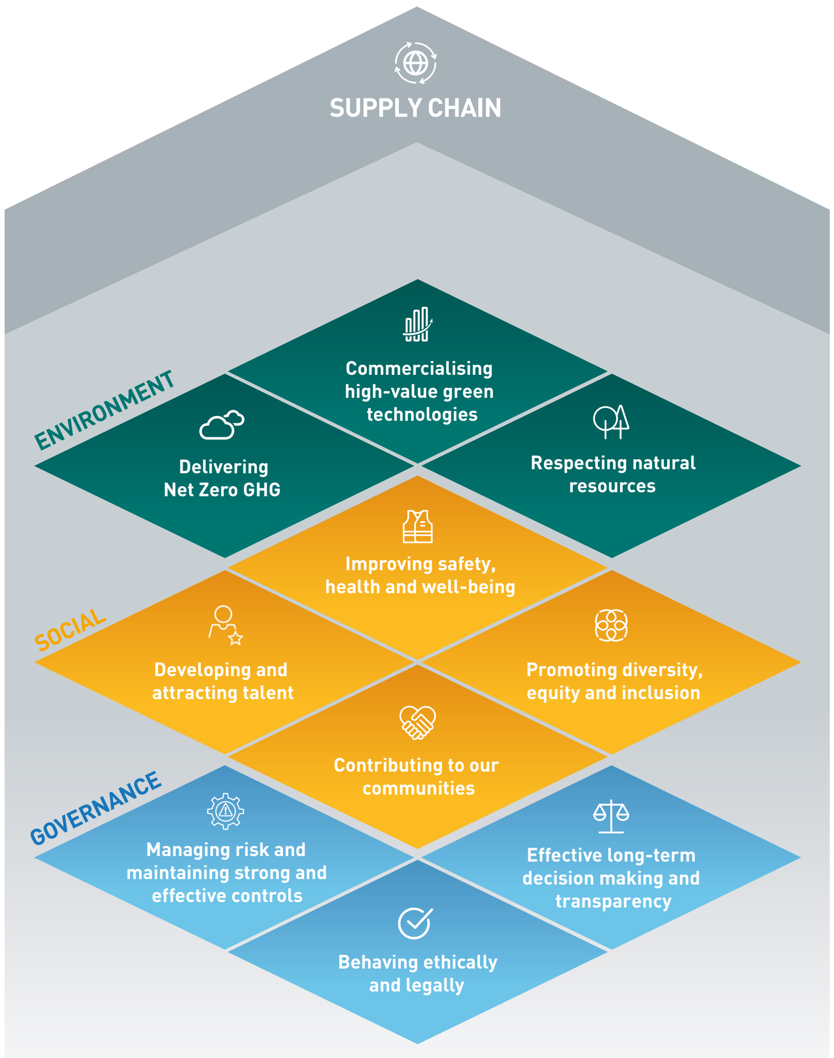
BEHAVING ETHICALLY AND LEGALLY

- High impact topic
- Incorporates human rights ESG topic
- Launched new Code of Business Ethics
- 299 Speak Out reports

MANAGING RISK AND MAINTAINING STRONG AND EFFECTIVE CONTROLS

- Incorporates product safety, product design and data privacy topics assessed in the DMA

Sustainability at Smiths



RESPECTING NATURAL RESOURCES

- (17.1)% reduction in water use in water-stressed locations vs FY2021 baseline
- 22 water reduction projects
- (20.2)% reduction in non-recyclable waste disposal vs FY2021 baseline
- 11 packaging reduction projects

SUPPLY CHAIN

- High impact topic
- Added to Sustainability at Smiths framework following DMA as cross-cutting ESG topic
- Incorporates human rights ESG topic
- Accelerated plans to implement supplier management system

IMPROVING SAFETY, HEALTH AND WELL-BEING

- Most material topic for Smiths
- RIR fell by (26)% during the year
- Over 13,000 safety look out observations and leadership tours

PROMOTING DIVERSITY, EQUITY AND INCLUSION

- 25% of senior leadership roles held by women
- Range of events celebrated across the Group

EFFECTIVE LONG-TERM DECISION MAKING AND TRANSPARENCY

- Managed under our overall governance framework

→ PG 79

Read more about each of the diamonds in the framework in our Sustainability at Smiths report.

COMMERCIALISING HIGH-VALUE GREEN TECHNOLOGIES

Our unique engineering capabilities and pioneering spirit position Smiths strongly to support customers on their journeys to decarbonise and deliver next generation efficient and sustainable infrastructure and processes. Commercialising differentiated products and services with sustainability impact has and will continue to enable Smiths to make a significant and positive contribution to global environmental goals.

DELIVERING NET ZERO GHG

In FY2022 Smiths committed to ambitious Net Zero targets that align us with the UN's critical global climate objectives and the ambition to limit global warming to 1.5°C. With the support of the Smiths Board and Executive Committee, we are planning for success with a Net Zero/climate transition plan which describes how, through consistent and prioritised focus across all aspects of our business over the next 25 years, we will deliver Net Zero emissions from our operations (Scope 1 & 2) by 2040 and our value chain (Scope 3) by 2050.

RESPECTING NATURAL RESOURCES

Natural resources are finite, and we believe that all businesses have a responsibility to use them respectfully and safely – responsibly sourcing, minimising consumption and preventing pollution. Our longstanding commitment to both non-GHG resource targets and product efficiency and stewardship are valued by our employees as the right thing to do, and by our customers as they seek to manage their own environmental footprints.

SUPPLY CHAIN

A deeper understanding and ability to effect change in our multiple supply chains is becoming increasingly critical as we seek to manage risk and make progress on all aspects of ESG.

IMPROVING SAFETY, HEALTH AND WELL-BEING

Our commitment to our people starts with keeping us all safe and healthy. Looking after our people in the workplace is an essential foundation and our number one focus.

Driving to zero injuries and improved health is a shared commitment to one another, and it requires sharp focus and practical action. We strive to continuously improve by reducing risk across Smiths operations. This means systematic analysis of data, proactively designing and investing for safety, and strengthening our global and local safety cultures to deliver in our varied operating environments.

DEVELOPING AND ATTRACTING TALENT

Our colleagues can do remarkable things. Their passion and expertise have driven our business forward for more than 170 years. It is critical that we have the talent we need to meet the demands of the future. Our organisational commitment is to ensure that all our colleagues have opportunities to develop their knowledge and skills, reach their full potential, and build a career at Smiths. Creating an environment and infrastructure that achieves this is also the key to attracting the right talent to Smiths, whether young people at the beginning of their working lives, or experienced specialists should there be a gap to fill.

PROMOTING DIVERSITY, EQUITY AND INCLUSION	Our team of colleagues represents dozens of nations, speaking a multiplicity of languages, and embodying many different perspectives. We embrace these differences and promote actions and behaviours that will deliver an inclusive and supportive work environment where every member of the Smiths team feels that they belong and can be the best version of themselves. We know that when colleagues feel included, valued and encouraged to make a meaningful contribution, Smiths will thrive as we continue to attract and retain the diverse talent that we need.
CONTRIBUTING TO OUR COMMUNITIES	We aim to improve our world by contributing positively to our communities and society in general. Smiths products and services support critical global industries where we are creating social and environmental value by making the world safer and improving environmental performance. Our operations around the world play a beneficial role in local economies through job creation and skills development; procurement and generating tax revenues; and operating safely, environmentally responsibly and ethically. We also engage directly through fundraising, charitable giving and education initiatives. Healthy and prosperous communities and supportive relationships with them inspire and promote a sense of pride and ownership in our people.
BEHAVING ETHICALLY AND LEGALLY	Behaving ethically and with integrity is a fundamental part of our culture. We also operate in some highly regulated markets and sectors which require strict adherence to local and international industry regulations. We have expert teams in place to manage these matters and we use data and other intelligence objectively to identify relative performance gaps and emerging risk, and continually target improvements in our procedures.
EFFECTIVE LONG-TERM DECISION MAKING AND TRANSPARENCY	Good quality, ethical and effective decision making builds sustainable businesses and enables them to create long-term value for all stakeholders.
MANAGING RISK AND MAINTAINING STRONG AND EFFECTIVE CONTROLS	Continual assessment and management of risks, and assurance through internal controls, is an integral part of day-to-day operations at Smiths.

NET ZERO/CLIMATE TRANSITION PLAN

Work on the Smiths Net Zero/climate transition plan was completed in FY2023. Our Net Zero trajectory was submitted to the Science-Based Targets initiative (SBTi) in May.

TRANSITION PLAN OBJECTIVE	Establish a robust and credible, bottom-up, decarbonisation pathway and delivery plan, incorporating interim emission reduction targets, to meet our long-term Net Zero commitments: – Net Zero Scope 1 & 2 emissions by 2040 – Net Zero Scope 3 emissions by 2050 Medium term: FY2032 Long term: FY2040 and FY2050
PRIORITIES	Update and enhance bespoke emission reduction plans for every division working within agreed Group principles Surface and action material decarbonisation opportunities to frontload trajectory Embed plans into business planning and budget cycles Understand risks/challenges to maintain flexibility
KEY PHASES OF WORK continued overleaf	Set emissions baseline (FY2021) for each Scope Deeper dive to analyse base year Scope 3 emissions categories by division Establish hierarchy of preference for Scope 1 & 2 delivery mechanisms to enable consistent and efficient decisions across the Group Determine parameters/assumptions for external developments eg., decarbonisation of electricity grids, electrification and decarbonisation of transportation and distribution, progress of green heating options, and other industry/governmental commitments Maintain and monitor divisional Scope 1 & 2 operational transition plans to 2032 to enable approximately 50% reduction vs baseline by 2032 grouped by: – Emissions increases associated with strategic plan growth – Energy efficiency measures – Onsite renewables – Purchase of renewable electricity – Electrification of vehicle fleets – Green heating – Footprint and portfolio optimisation

COMMERCIALISING HIGH-VALUE GREEN TECHNOLOGIES

Read more about how we are addressing customer and societal Net Zero/climate transition needs through our products and services in our FY2023 Sustainability at Smiths report www.smiths.com

KEY PHASES OF WORK continued	
	Divisional analysis of supply chain and supplier progress towards SBTs
	For Smiths Detection an additional analysis of the decarbonisation trajectory for products in use (Smiths Detection being the only division with a significant emissions inventory identified in this category)
	Creation of five-year divisional roadmaps of projects by Scope to embed into business planning and budget cycles
	Group planning for supplier prioritisation, engagement and implementation of Group-wide supplier management platform in FY2024
	Creation of overall Scope 3 roadmap to 2028 and 2032 and strategy beyond 2032
	Analysis of risks/challenges
	Review and sign off by Executive Committee (owned by Divisional Presidents and Chief Sustainability Officer)
	Review and sign off by SSE Committee of the Board

ELECTRICITY PREFERENCE HIERARCHY

We require electricity to run our business and, as part of the transition planning work, determined an electricity preference hierarchy to ensure we are making appropriate and consistent decisions across the Group as we move to 100% renewable electricity. This hierarchy has informed preparation of our divisional Scope 1 & 2 transition plans.

PREFERENCE HIERARCHY:

1. Energy efficiency measures
2. Renewable electricity self-supply for high-demand sites with adequate space, access to renewable resources, cost-effective delivery, and where regulation allows
3. Power Purchase Agreements (PPAs) – contracts to buy electricity for a set period of time from a specific energy system installed, owned and operated by a third party
4. Green electricity tariffs offered by local utilities sourcing/generating renewable electricity
5. Energy Attribution Certificates (EACs) – unbundled renewable certificates purchased separately from electricity. Reserved as a solution for challenging situations where no other option is available or viable

ENVIRONMENTAL PERFORMANCE

See our environmental performance data on page 44.

SCOPE 1 & 2 OPERATIONAL TRANSITION TO NET ZERO BY 2040

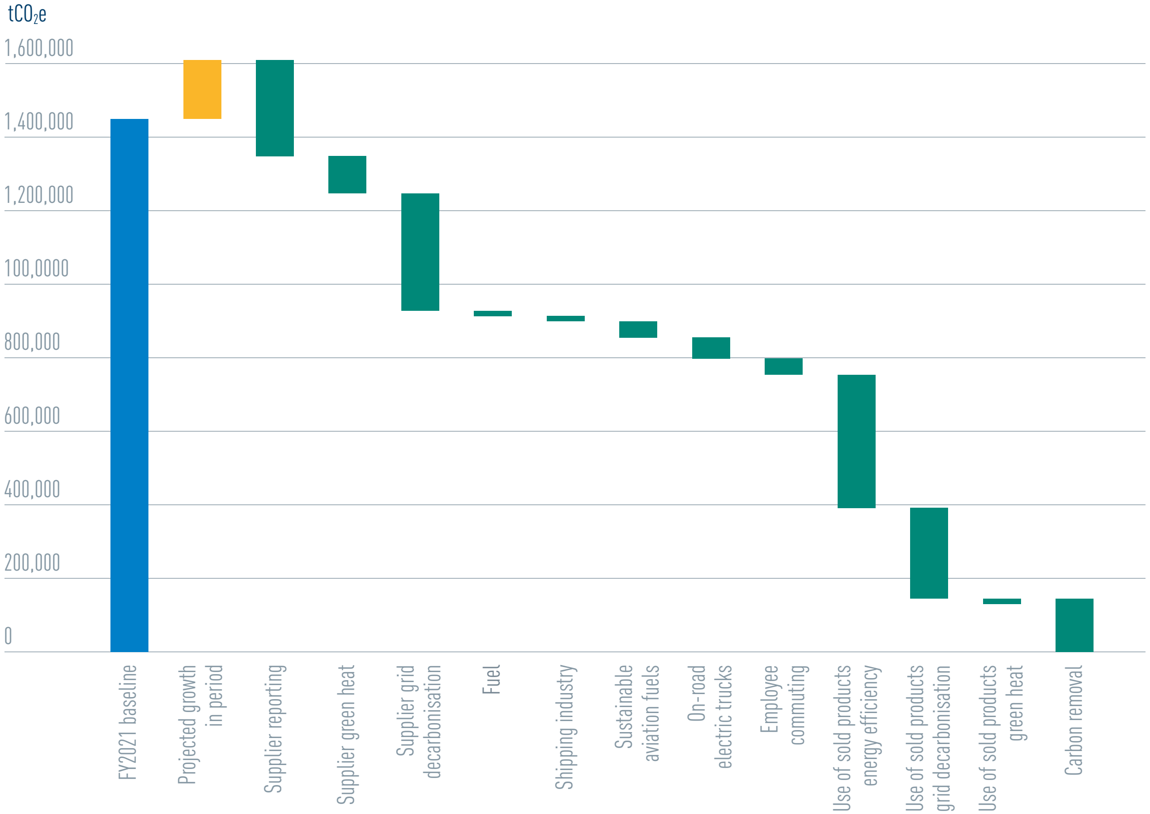
KEY ASSUMPTIONS IN MODEL:

- Delivery of our commitments in accordance with those submitted to the SBTi with a c.50% reduction by 2032
- Carbon intensity of revenue growth will decrease over time
- Energy efficiency benefit is approximately 1% per year after business growth
- Onsite renewable options/technology/incentives improve so that they become increasingly cost-effective over time
- Renewable electricity and EACs will be available in necessary quantities
- Electric vehicles and associated infrastructure suiting our fleet needs will be available
- Zero-carbon fuels will be available to power the remaining portion of our operations not amenable to electrification
- Carbon removal solutions will be available to eliminate remaining emissions, if any

EXAMPLE DELIVERY PROJECTS IN FIVE-YEAR ROADMAPS:

CROSS-DIVISION/ GROUP	– Energy efficiency (Turn it Off) campaign (FY2023) – Site energy assessments using third-party partner
JOHN CRANE	– Slough heating (FY2023) – Lutin renewable electricity contract (FY2023) – Site solar reviews – Fleet electrification – Hnevotin renewable electricity contract
SMITHS DETECTION	– Solar Hemel and Vitry – Solar and heat pump installation Wiesbaden – Heat pump installation Hemel, Vitry, Edgewood – Fleet electrification – Renewable electricity Newark and Singapore
FLEX-TEK	– Solar evaluation (FY2024) – Green heat evaluation Springfield, Tutco, Scotia – New ovens and oven insulation – LED and motion sensors installation and air compressor upgrades – Renewable energy Amnitec
SMITHS INTERCONNECT	– Solar review for Costa Rica, Tampa and Mexico – Tunisia solar implementation – Fleet electrification – Review green heat Dundee and St. Aubin – LED projects and HVAC and air compressor replacements – Irving renewable electricity contract

SCOPE 3 VALUE CHAIN TRANSITION TO NET ZERO BY 2050



EXAMPLE DELIVERY PROJECTS IN FIVE-YEAR ROADMAPS:

- Near-term cross-Group supplier engagement and diligence implementation
  - Supplier platform and standardised procurement, diligence and reporting processes
  - 50% of suppliers by spend to have targets aligned with the SBTi by FY2028
- Medium- and long-term cross-Group supplier engagement and diligence implementation beyond top 50% to disclose emissions and set SBTs
- Smiths Detection customer engagement programme on efficient use of products
- Smiths Detection circular economy expansion

KEY ASSUMPTIONS IN MODEL:

- Emissions growth tracks as expected to business growth plans
- Scope 3 plan focused on purchased goods and services, capital goods, fuel and energy-related activities, and Smiths Detection energy consumption of products in use, is delivered with c.50% reduction by 2032
- External factors progress as expected:
  - Supplier action on emissions and emissions reporting
  - Energy efficiency across all sectors
  - Decarbonisation of electricity grids
  - Electrification and decarbonisation of transportation and distribution
  - Adoption of low-carbon heating options
  - Continued governmental commitments and actions to support cost-effective energy transition
- Successful introduction of supplier management platform and implementation of supplier engagement campaigns
- Continued supply chain engagement and diligence post-2032
- Carbon removal solutions will be available to eliminate remaining emissions, if any

ESG METRICS, TARGETS AND PERFORMANCE

ENVIRONMENT

NEW PRODUCT COMMERCIALISATION/GREEN TECHNOLOGIES

We report R&D spend as a percentage of sales and Gross Vitality which measures the revenue contribution of products launched in the last five years.

Medium-term target:

	Target	FY2023	FY2022
Gross Vitality	30%+	**31%**	31%

R&D as a percentage of sales was 3.7% in FY2023 (FY2022: 4.2%).

We are preparing for reporting under CSRD and will publish a green technology metric in FY2024.

ENERGY, RENEWABLE ELECTRICITY, WATER AND WASTE

Medium-term targets:

	FY2022–2024 target	Status
Use of renewable electricity[1]	**5% increase to 66%**	70%
Normalised non-recyclable waste[2]	**5% reduction**	(20.2)%
Normalised water use in stressed areas (11 locations)[2]	**5% reduction**	(17.1)%
Water reduction projects	**30**	22
Packaging reduction projects	**24**	11

1 Non-GHG producing electric sources including hydroelectric and nuclear.
2 Normalised to revenue.

ENERGY EFFICIENCY AND GHG EMISSIONS

Long-term targets:

- Net Zero emissions from our operations (Scope 1 & 2) by 2040
- Net Zero emissions from our supply chain and products in use (Scope 3) by 2050

Medium-term targets:

	FY2022–2024 target	Status
Normalised greenhouse gas emissions[1]	**5% reduction**	(30.8)%

1 Normalised to revenue.

In FY2022, to align decision making and ownership of our Net Zero targets and accelerate progress, new energy efficiency and emissions targets were added to Smiths annual and long-term incentive plans for FY2023.

Plan	Performance period	Measure	Target	Weighting	Performance
Annual Incentive Plan (AIP) – approximately 6,000 colleagues	1 year	**Energy efficiency[1]**	3% improvement in efficiency	10%	7.9% improvement in efficiency
Long-Term Incentive Plan (LTIP)	3 years	**Scope 1 & 2 GHG emissions reduction[2]**	15-20% reduction in emissions	15%	N/A

A further decision was made in FY2023 for FY2024 remuneration.

Plan	Performance period	Measure	Target	Weighting
AIP	1 year	**Energy efficiency[1]**	4.5% improvement in efficiency	10%
LTIP	3 years	**Scope 1 & 2 GHG emissions reduction[2]**	15-20% reduction in emissions	15%

1 The energy efficiency ratio is expressed as the MWh energy consumed (excluding renewable electricity produced and consumed onsite), divided by the local-currency revenue at budget rates (excluding price growth within the measurement year).
2 Scope 1 & 2 GHG emissions reduction (absolute): calculated in accordance with the WRI/WBCSD Greenhouse Gas Protocol. Reductions must be achieved with a balanced portfolio of actions that prioritise energy savings, onsite renewable electricity generation and purchase of renewable electricity.

70%
renewable electricity.

(11.8)%
reduction in Scope 1 & 2 emissions.

SECR GLOBAL ENERGY USE AND EMISSIONS DISCLOSURE

		FY2023	FY2022	Change
Global energy use – absolute values Δ	MWh	**218,094**	223,709	(2.5)%
UK energy use – absolute values	MWh	**11,394**	10,446	
Global emissions – absolute values				
Scope 1 (direct emissions) Δ	t CO_2e	**19,694**	19,591	
Scope 2 (market-based emissions) Δ	t CO_2e	**25,955**	32,193	
Scope 3 (value chain emissions) Δ	t CO_2e	**1,380,000**	1,450,000	
Total Scope 1 & 2 emissions	t CO_2e	**45,649**	51,784	(11.8)%
UK Scope 1 & 2 emissions	t CO_2e	**1,779**	1,755	
Global emissions – normalised values				
Scope 1 (direct emissions)	t CO_2e/£m revenue	**6.48**	7.63	
Scope 2 (indirect emissions)	t CO_2e/£m revenue	**8.55**	12.55	
Scope 3 (value chain emissions)	t CO_2e/£m revenue	**454.40**	565.08	
Total Scope 1 & 2 emissions	t CO_2e/£m revenue	**15.03**	20.18	(25.5)%

1 Previously published data has been restated following the FY2022 review and limited assurance process conducted by KPMG.

LIMITED ASSURANCE

KPMG has provided limited assurance under ISAE (UK) 3000 and 3410 over selected FY2022 and FY2023 information marked with Δ. For the full assurance opinions for FY2022 and FY2023 please see our corporate website www.smiths.com. This information was prepared in line with our reporting criteria which can also be found on our website.

GHG INVENTORY

Smiths assesses the GHG emissions associated with all its global operations for all four of its operational divisions and all sites. We have developed a GHG Inventory Management Plan (IMP) that outlines our methodology to provide systematic and appropriate GHG inventory data collection, manipulation and management, to produce a relevant, credible and transparent GHG inventory that will provide visibility into our near- and long-term goals. The IMP includes methods to estimate direct emissions from Smiths operations (Scope 1), indirect emissions from purchased energy (Scope 2), and value chain emissions (Scope 3).

The methods prescribed in the IMP conform to the World Resources Institute (WRI) and World Business Council for Sustainable Development (WBCSD) GHG Protocol and the United States Environmental Protection Agency (USEPA) Center for Corporate Climate Leadership Greenhouse Gas Inventory Guidance.

GHG BOUNDARIES

Per the GHG protocol, we have selected the operational control approach to set the organisational boundary for our GHG inventory, meaning 100% of GHG emissions from assets which the Company manages and over which it has authority to implement operational policies will be included. In selecting these organisational boundaries, Smiths evaluated equity share, financial control and operational control approaches and primarily considered the comprehensiveness of assets that would be included in the inventory under each of the three approaches, as well as which boundary would best reflect Smiths level of influence over emissions. This includes 98 locations globally.

As for our operational boundary, which determines the direct (Scope 1) and indirect (Scope 2 and 3) emissions associated with operations within Smiths organisational boundary, we defined this as operations where we have the full authority to introduce and implement operating policies. Operations or activities that are outside of Smiths operational control, and therefore excluded from our Scope 1 and Scope 2 inventories may become relevant when accounting for Scope 3 emissions.

GHG emissions are reported in metric tons of CO_2 equivalents (MT CO_2e). Because individual GHGs have different impacts on climate change, or global warming potentials (GWPs), CO_2e is used to express the impact of emissions from each GHG on a common scale. Smiths uses the IPCC Fifth Assessment Report (AR5) GWPs.

SOCIAL

SAFETY

Medium-term target: continuous improvement towards a zero-harm workplace

PERFORMANCE

Recordable injuries		Recordable incident rate Per 100 employees		Lost time incident rate Per 100 employees	
FY2023	64	FY2023	0.41	FY2023	0.14
FY2022	87	FY2022	0.56[1]	FY2022	0.25[1]
		FY2021	0.47	FY2021	0.20
		FY2020	0.35	FY2020	0.17
		FY2019	0.50	FY2019	0.24

1 FY2022 data restated due to reclassification of incidents.

Zero work-related colleague or contractor fatalities in FY2023.

Zero contractor recordable incidents in FY2023.

Over 13,000 safety look out observations and leadership tours in FY2023.

EMPLOYEE ENGAGEMENT

Employee engagement is measured in our annual My Say survey. See page 14 for more information on My Say.

Medium-term target: E-sat: Upper quartile score.

	E-sat score
FY2023	**73**
FY2022	**72**
FY2021	**71**
FY2020	**73**
FY2019	**72**

The survey response rate was 84% in FY2023 (FY2022: 82%). 12,158 comments were submitted in FY2023.

DEVELOPING TALENT

An internal talent mobility metric, as measured by the percentage of available roles filled by internal candidates is monitored by management and will be published from FY2024. In FY2023 70% of open grade 11 and above roles were filled by internal candidates.

REWARD AND RECOGNITION

Recognising and rewarding colleagues in a fair, open and meaningful way is an important underpin to developing and attracting talent. We are committed to fair pay practices, ensuring colleagues are rewarded fairly and equally for the work they do, and that they have opportunities to participate in our success.

We have been an accredited Living Wage employer in the UK since 2018. In the UK, we operate an all-colleague Sharesave Scheme, which enables colleagues to buy Smiths shares at a discounted rate. In FY2023 we have continued with our process to align colleague benefits across markets, so they are the same for colleagues in any of our four divisions or Group. We completed this work in China, India and Mexico during the year.

GENDER DIVERSITY

Medium-term target: 30% of senior leadership positions[1] held by women by end of FY2024.

FY2023	25%
FY2022	24%
FY2021	23%

Other gender disclosures

	Male	%	Female	%
Board of Directors	**6**	60%	**4**	40%
Executive Committee[1]	**9**	75%	**3**	25%
Senior Leadership Team[2]	**493**	75%	**163**	25%
Total colleagues[3]	**10,796**	71%	**4,360**	29%

1 The Executive Committee does not include the Company Secretary.
2 Senior Leadership Team is the KPI used to track gender diversity at Smiths. It is defined as all colleagues that are Grade 14 or above. These colleagues are able to influence and drive business results.
2 Employees on permanent and fixed term contracts.

Data for senior managers (Executive Committee plus Directors of subsidiary undertakings) as defined by the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 is Female: 34 (17%) and Male: 164 (83%).

Data for the senior management (Executive Committee, including the Company Secretary, and their direct Reports) as defined by the UK Corporate Governance Code 2018 is Female: 47 (36%) and Male: 82 (64%).

Data for the Women in Leadership (Executive Committee and their direct reports) as defined by the FTSE Women Leaders definition is Female: 46 (36%) and Male: 81 (64%).

COMMUNITIES

We report externally our direct contribution to communities and society using a composite number of employee costs + supplier costs + tax paid.

From FY2024 we will report the total value of annual grants made by the Smiths Foundation.

	FY2023 £m	FY2022 £m	FY2021 £m
Employee costs	**939**	823	751
Supplier costs	**1,732**	1,364	1,063
Tax paid	**146**	140	133
Total	**£2.82bn**	£2.33bn	£1.95bn

↙(26)%

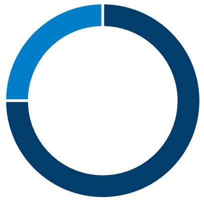
reduction in RIR.

25%

of senior leadership positions held by women.

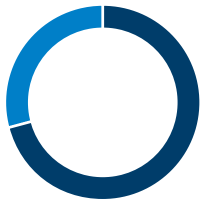
GENDER DIVERSITY

Senior leadership team



● Male	75%
● Female	25%

Total colleagues



● Male	71%
● Female	29%

TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

COMPLIANCE STATEMENT

FCA LISTING RULES

In this report, we set out our climate-related financial disclosures consistent with all of the Task Force on Climate-related Financial Disclosures (TCFD) recommendations and recommended disclosures pursuant to Listing Rule 9.8.6R (8). This includes all four of the TCFD pillars and the 11 recommended disclosures set out in the report entitled 'Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures' published in October 2021 by the TCFD. In completing this work, we made use of TCFD guidance material including the TCFD technical supplement on the use of scenario analysis, TCFD Guidance on Metrics, Targets and Transition Plans, and the TCFD Guidance for All Sectors. We are reporting against the TCFD framework in line with FCA Listing Rules.

In FY2024, we plan to continue our progress in reporting against all four pillars of the recommendations and align with the recommendations of the Transition Plan Taskforce (TPT) which is due to be released later this year. This will include conducting a quantitative scenario analysis. More detailed information on FY2024 priorities in reporting against TCFD is outlined in the TCFD summary in our FY2023 Sustainability at Smiths report.

The TCFD provides an internationally recognised framework to provide clear, comprehensive and high-quality information on the impacts of climate change. Over several years, we have progressed our alignment with the TCFD recommendations to embed the management of climate-related risks and opportunities into our processes, and to ensure that our business strategy is adapting to the effects of climate change.

Our diverse range of products and geographical spread of assets allows the business to be resilient to climate risks, such as cost and availability of resources, in the short term. We are also well prepared for market opportunities presenting themselves due to climate change. However, we recognise the potential impacts of climate risks on our business in the long term and have continued to implement mitigation strategies to ensure that we remain resilient.

GOVERNANCE

BOARD

The Board has overall responsibility for our approach to sustainability matters, including climate change. Oversight of this is delegated to sub-committees. Climate risk management has been delegated to the Audit & Risk Committee and delivery on our commitments in relation to climate change to the Science, Sustainability & Excellence (SSE) Committee. The Board has oversight of our Group-level and divisional strategies, receiving performance updates from our divisions three times a year. This includes an annual strategy presentation, an operations update and a half-year progress discussion. Our divisions report to the SSE Committee on a rolling annual basis. Read more about the work of the SSE Committee on page 111. Related Board member competencies for climate change can be found in the Board biographies on page 80. Our governance structure is outlined on page 79.

STRATEGIC DECISIONS RELATING TO CLIMATE RISKS AND OPPORTUNITIES

As the world transitions to a low-carbon economy, the Group has identified a number of climate-related opportunities relating to global investment in decarbonisation and green re-industrialisation. Commercialising these high-value green technologies is a strategic priority and is built into our divisional strategic plans. The Board also considers climate-related issues when reviewing strategy and performance objectives. Energy and GHG metrics are presented and discussed in management reviews. In FY2023, the Board approved the setting of operational Net Zero transition targets aligned with the SBTi and holds responsibility for overseeing performance against these. The Board has visibility of implementation of our climate transition plan and is regularly updated on progress against climate metrics and targets.

AUDIT & RISK COMMITTEE

The Audit & Risk Committee is responsible for reviewing the effectiveness of risk management across the business (see page 91), including climate risks which are integrated into our enterprise risk management framework. On a rolling basis, divisions attend the Audit & Risk Committee and present the outcome of divisional assessments which include climate risks and opportunities. Twice a year, the Committee reviews the Group's principal risks. Climate change has been identified as a Group principal risk and is managed and owned by the Audit & Risk Committee.

SCIENCE, SUSTAINABILITY AND EXCELLENCE COMMITTEE

The SSE Committee is responsible for overseeing the delivery of climate-related commitments and opportunities, such as the commercialisation of green products, mitigating the impacts of climate change, and setting and reviewing progress against relevant climate-related targets. The Committee met four times during the year to assess progress against targets including GHG emissions, renewable energy use, energy efficiency, water use and waste disposal. On a rolling basis, divisions provide a deep-dive on progress against their SBT plans, new product development and innovation. For more information on the work of the SSE Committee see page 111.

EXECUTIVE COMMITTEE

Divisional Presidents form part of the Executive Committee and are responsible for our divisions' approach to sustainability, including climate change. The Executive Committee reports to the CEO, who reports directly to the Board six times a year. Discussions at the Executive Committee relate to commercial climate activities such as new product development and operational climate activity, such as energy and GHG reductions. The Chief Sustainability Officer works closely with the Group Head of Strategy and Communications and Divisional Presidents to ensure sustainability is embedded in strategic, commercial and operational decision making.

Climate-related risks are managed and reported in line with wider risk management processes, with the outcomes of divisional assessments integrated into executive-level strategic planning and priorities. Climate-related opportunities such as those relating to the decarbonisation/energy transition agenda have been communicated to the Executive Committee and Board, culminating in a Group-wide strategic response for markets and opportunities.

A number of key climate-related issues were discussed by the Executive Committee and the Board in FY2023 including:

1. Science-based targets and transition planning for Net Zero Scope 1, 2 and 3 emissions
2. Strategic opportunities arising from the energy transition/decarbonisation and green revenue tracking dashboards
3. Alignment of remuneration with environmental targets

EXECUTIVE REMUNERATION

Scope 1 & 2 reduction targets continue to make up part of our LTIP. From FY2023 onwards, we introduced climate-related metrics (energy efficiency) into our AIP and (absolute GHG reduction) into our LTIP to more closely align decision making and ownership of climate goals. Details can be found in the Remuneration & People Committee Report on page 98. FY2024 remuneration metrics continue to incorporate these climate-related targets.

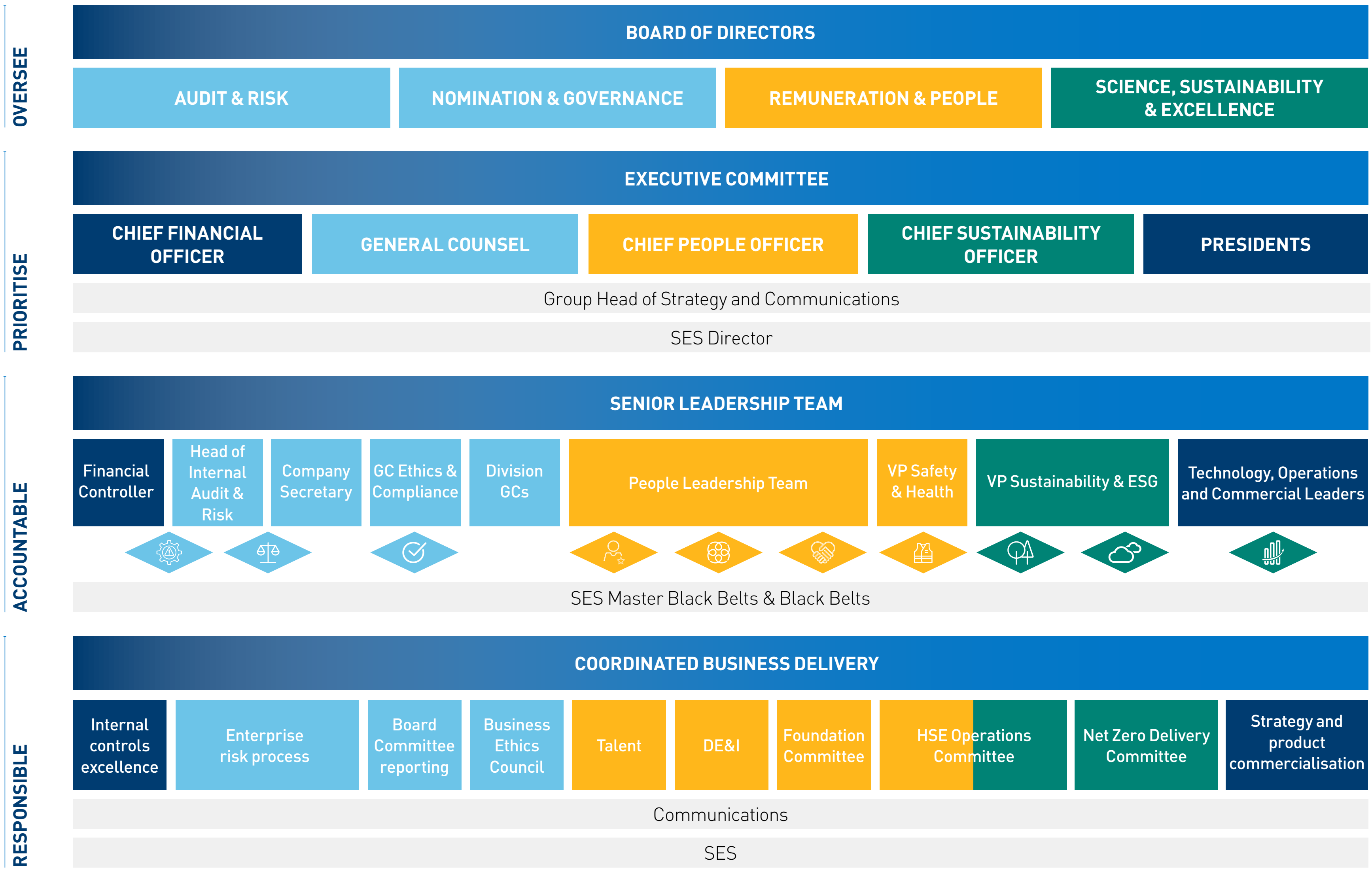
The SSE Committee is responsible for overseeing the delivery of climate-related commitments and opportunities, such as the commercialisation of green products, mitigating the impacts of climate change, and setting and reviewing progress against relevant climate-related targets.

SEE MORE
Our Net Zero/climate transition plan.

→ PG 40

ESG GOVERNANCE AND DELIVERY

The diagram below shows how sustainability/ESG matters are managed at Smiths. As described on page 48, climate matters are integrated into this overall management framework.



STRATEGY

The transition to a low-carbon world poses significant opportunities for Smiths as demand for green technology and energy efficient products increases.

DISTRIBUTION OF SMITHS GREEN TECHNOLOGY

EFFICIENCY AND CIRCULAR ECONOMY SOLUTIONS **Solutions that help our customers to use less, waste less and reduce emissions** – Efficient, reliable and lower emission oil and gas value streams – Resource efficiency in industrial processes – Water reduction for process industries and energy transition minerals – Effective and lower energy safety and security infrastructure – Detection solutions for resource mining and recycling – Building efficiency – residential and commercial – Smaller, lighter and more efficient connectivity components	John Crane Smiths Detection Flex-Tek Smiths Interconnect

WIDESPREAD GREEN ELECTRIFICATION
Solutions that help our customers move from carbon-intense fuels to green electricity
– Electrical heating for:
  – Building heating, ventilation and air-conditioning (HVAC)
  – Industrial processes
– High-power electrical connectors to enable efficient and reliable transmission of electricity
	Flex-Tek
	Smiths Interconnect

LOW-/NO-CARBON FUELS IN HARD-TO-ELECTRIFY SECTORS **Solutions that help our customers to make, store, move and use new fuels** – Efficient compression, transportation and storage of hydrogen – Reliable pumping and compression of biofuels and synthetic fuels – Filtration of hydrogen and low-carbon marine fuels	John Crane Flex-Tek
CARBON CAPTURE **Solutions that help our customers efficiently capture, transport, sequester and/or use carbon** – Proven and reliable CO_2 capture technologies – Efficient and reliable transportation, storage and injection of CO_2	John Crane

See our Sustainability at Smiths report for more information on decarbonisation megatrends and how we are commercialising high-value green technologies.

CLIMATE RISKS AND OPPORTUNITIES

We have identified a range of physical and transition risks and opportunities that could impact our business.

The climate transition also gives rise to legal risks, such as stricter GHG emission regulations, as well as market risks such as from new and emerging competitors. Extreme weather events such as floods and extreme temperatures pose physical risks, including damage to assets, both owned by us and within our supply chain, as well as disruption to transportation routes. More extreme temperatures may also lead to new opportunities in our markets, such as remote sensing and cooling systems.

The time horizons considered for identified climate-related risks and opportunities, found in the table below, align to our targets which have been submitted to the SBTi. While we recognise that climate-related risks will occur over short-, medium- and long-term horizons, our assessment determines that climate-related risks and opportunities are likely to impact the business in the medium and long term. We believe that we remain resilient to climate risks with the adaptation and mitigation strategies that are in place. It was determined that the climate risks identified do not have a significant impact on the business, although are considered as a Group principal risk in aggregation. We will continue to assess the materiality of any financial impact arising.

Time horizons for materialisation: climate risks and opportunities	Description
Short term	**2023–2028**
Medium term	**2028–2032**
Long term	**2032–2040**

Each of our identified risks and opportunities has been assessed by scenario analysis, which is described alongside an explanation of their potential impact on the business, subsequent actions we are taking to respond, and the associated time horizon.

SCENARIO ANALYSIS

We have carried out scenario analysis on our climate risks and opportunities for several years and, in FY2022, we collaborated with external consultants to extend our qualitative scenario analysis to two scenarios for both physical and transition risks and opportunities. Next year, we plan to develop our assessment of financial impacts, integrating quantitative analysis where possible. This year, we have reviewed the findings of the scenario analysis, finding no significant changes to the modelled impact of climate risks and opportunities since last year.

While scenario analysis is hypothetical and does not provide a certain forecast, it helps to identify how our most material climate-related risks and opportunities will likely impact us and our operations in the future. This subsequently informs our risk management strategies, as well as the metrics and targets we use to monitor such issues, enabling us to become more resilient to risks and seize opportunities in the long term.

PHYSICAL SCENARIOS

For the physical scenarios, the Intergovernmental Panel on Climate Change's (IPCC) Representative Concentration Pathway RCP 4.5 and RCP 8.5 scenarios were used. The impacts highlighted a change in annual rainfall levels at our sites and seasonal differences in temperature. Extreme weather events such as flooding, wildfires and drought will become more severe and frequent. See page 52 for more information on how we are managing these impacts.

For the transition scenarios, the International Energy Agency's (IEA) World Energy Outlook Sustainable Development Scenario (SDS) and Stated Policies Scenario (STEPS) were used. The STEPS scenario provides a benchmark to assess the potential achievements of recent developments in energy and climate policy and the SDS scenario assumes full alignment with the Paris Agreement to hold the rise in global average temperature to well below 2°C.

A summary of our risk and opportunities assessment across each scenario can be found below.

Risk/ opportunity	Risk description	TCFD category	Time horizon for materialisation	Which parts of the business will be most impacted?	Potential impact on the business	Response/actions we're taking and how they are managed	RCP4.5 scenario 2040 medium term	RCP4.5 scenario 2080 long term	RCP8.5 scenario 2040 medium term	RCP8.5 scenario 2080 long term
PHYSICAL RISKS										
Damage to Group assets from extreme weather events	Extreme weather events: hurricanes; tropical storms; flooding; wildfires; and sea-level rise. A number of Smiths divisions have already experienced site-specific disruption due to wildfires and flood events.	Environment (acute physical)	Medium	All divisions	Increased costs and resulting revenue losses due to repair and increasing insurance costs.	All sites are required by policy to complete annual site-specific risk assessments through the divisional Business Continuity Plans review, which considers risks from a wide range of issues, including from severe weather. A number of John Crane sites have been identified as vulnerable, so mitigation measures are being put in place such as: relocations; alert systems; guidance from insurance providers when sites come up for insurance policy renewal; and local, specific mitigation measures such as independent generators.	Low risk	Moderate risk	Low risk	Very high risk
Damage to key supply chain assets from extreme weather events			Medium	All divisions	Loss of revenue due to disruption/delay of manufacturing processes.	Development of a coordinated procurement process for consideration of physical risks in procuring new suppliers.	Moderate risk	Very high risk	Moderate risk	Very high risk
Temperature regulation requirements during heatwaves and cold snaps	Increasing average temperatures across all seasons, as well as more extreme heatwaves and cold snaps requiring the temperature in buildings to be regulated in order to minimise health and safety risks.	Environment (chronic physical)	Medium	All divisions	Health and safety risks from overheating or freezing mean there are higher operating costs from increased air conditioning and heating. Capital costs associated with retrofitting assets to provide sufficient temperature are also high.	Consideration of extreme weather risk when deciding where to expand existing operations and annual business continuity reviews across our sites.	Low risk	Low risk	Low risk	Low risk
Disruption to transportation and distribution networks from extreme weather events	Weather events directly impacting transportation networks.	Environment (acute physical)	Medium	All divisions	Loss of revenue due to delays in getting products to market, caused by supply chain disruption.	We are reviewing and investigating ways to minimise travel distances by ensuring products are produced as close to customers as possible. We aim to avoid the use of single-source materials to increase resilience over regional disruption. This includes looking at reducing double handling of products by having suppliers send directly to customers.	Moderate risk	Very high risk	Moderate risk	Very high risk

KEY

Black text in table = Current activity
Blue text = Future activity

Risk key	Definition
Very high risk	Very significant impact on the Company
High risk	Significant impact on the Company
Moderate risk	Moderate impact on the Company
Low risk	Relatively marginal impact on the Company
Very low risk	Marginal impact on the Company

Risk/ opportunity	Risk description	TCFD category	Time horizon for materialisation	Which parts of the business will be most impacted?	Potential impact on the business	Response/actions we're taking and how they are managed	RCP4.5 scenario 2040 medium term	RCP4.5 scenario 2080 long term	RCP8.5 scenario 2040 medium term	RCP8.5 scenario 2080 long term
PHYSICAL OPPORTUNITIES										
Growth in remote sensing market	Smiths Interconnect: Growth in satellite demand and requirements for climate change/weather/ environmental tracking and monitoring.	Environment (chronic physical)	Medium	Smiths Interconnect	Increased revenue from growth in demand for satellite technology for environmental monitoring and tracking.	Opportunities in remote sensing and cooling systems have been incorporated into business planning and other relevant sectors are also being monitored for changes in demand (e.g., communication systems).				
Increased demand for cooling systems	Ongoing extreme variation in global temperatures will increase demand for heating, ventilation and air conditioning (HVAC) systems from Flex-Tek globally. John Crane also has the opportunity to develop sealing and water filtration technology for transportation and cleaning of water in water-stressed locations.	Environment (chronic physical)	Medium	Flex-Tek and John Crane	Increased revenue from increased demand for residential and domestic cooling systems, driven by ongoing variation in global temperatures.					

KEY

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Blue text = Future activity

Opportunity key	Definition
Very high opportunity	Very significant impact on the Company
High opportunity	Significant impact on the Company
Moderate opportunity	Moderate impact on the Company
Low opportunity	Relatively marginal impact on the Company
Very low opportunity	Marginal impact on the Company

Risk/ opportunity	Risk description	TCFD category	Time horizon for materialisation	Which parts of the business will be most impacted?	Potential impact on the business	Response/actions we're taking and how they are managed	RCP4.5 scenario 2040 medium term	RCP4.5 scenario 2080 long term	RCP8.5 scenario 2040 medium term	RCP8.5 scenario 2080 long term
TRANSITION RISKS										
Increased regulations and pricing on GHG emissions	Regulations relating to GHG emissions, including the cost of reporting and complying with regulations (e.g., carbon taxes, CBAM).	Political and legal risk	Medium	All divisions	Greater costs associated with emissions reduction, monitoring and reporting obligations. Risk of reduced access to investment opportunities from failure to meet these.	We have established the Energy Governance Committee (now known as the Net Zero Delivery Committee) and other cross-functional working groups to drive and track initiatives.				
Increased transportation costs	Greater fuel costs related to freight and internal transportation.	Market risk	Medium	All divisions	Greater fuel costs due to increased pricing on GHG emissions.	Reduction in double handling of products, optimising space in freight through reusable and recyclable packaging solutions and exploring localised business models.				
Cost and availability of resources	Increased price and reduced availability of critical raw materials. For Smiths Interconnect, there are concerns around lithium and beryllium and for Smiths Detection there is a risk of limited supply of key components.	Market risk	Medium	All divisions	Limited supply of materials and components could lead to price volatility and production constraints.	The procurement team for Smiths Interconnect tracks critical raw materials and reports monthly. Actions are taken based on trends such as pre-buys or vendor managed inventory. The division also periodically looks at alternative materials. Smiths Detection continually monitors availability of critical materials and parts for its products.				
New and emerging competitors	Reduced accessible market due to increased competition in Net Zero/ energy efficiency space such as methane leakage. For example, there is a risk of overcrowding in the methane leak detection and remediation market for John Crane in 2030.	Market risk	Medium	All divisions	Reduced revenue due to greater competition in product market.	John Crane has implemented procedures to track and respond to changes in demand from traditional oil & gas customers to additionally target its portfolio of products and services to target new customers and markets e.g., hydrogen and carbon capture. Smiths Detection monitors power consumption of its products relative to competitors and product durability and strives to be best in class to lower total cost of ownership.				

KEY

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Risk key	Definition
Very high risk	Very significant impact on the Company
High risk	Significant impact on the Company
Moderate risk	Moderate impact on the Company
Low risk	Relatively marginal impact on the Company
Very low risk	Marginal impact on the Company

Risk/ opportunity	Risk description	TCFD category	Time horizon for materialisation	Which parts of the business will be most impacted?	Potential impact on the business	Response/actions we're taking and how they are managed	RCP4.5 scenario		RCP8.5 scenario	
							2040 medium term	2080 long term	2040 medium term	2080 long term
TRANSITION OPPORTUNITIES										
Aviation/ aerospace energy efficiency requirements	Demand for energy efficient detection products.	Products and services	Medium	Smiths Detection	Revenue from development of more energy efficient safety and security infrastructure.	Smiths Detection monitors power consumption of its products relative to competitors and product durability and strives to be best in class to lower total cost of ownership.				
Growth in energy efficiency products market	Increased demand for efficiency and emission reduction products.	Products and services	Medium	John Crane	Increased revenue from sealing solutions that reduce hydrocarbon leakage from oil & gas and other infrastructure.	Continuing development of next generation solutions for oil & gas and other industrial customers that align with their decarbonisation targets, such as via digitisation.				

KEY

Black text in table = Current activity
Blue text = Future activity

Opportunity key	Definition
Very high opportunity	Very significant impact on the Company
High opportunity	Significant impact on the Company
Moderate opportunity	Moderate impact on the Company
Low opportunity	Relatively marginal impact on the Company
Very low opportunity	Marginal impact on the Company

IMPACT ON THE BUSINESSES, STRATEGY AND FINANCIAL PLANNING

We submitted our Net Zero transition plan and GHG emissions reduction targets to the SBTi in May 2023. These outline our operational Net Zero GHG trajectory to meet a 1.5°C scenario by achieving Net Zero Scope 1 & 2 emissions by 2040 and Net Zero Scope 3 emissions by 2050. This aligns with the Net Zero by 2050 targets set out by the UK and US governments (which are our largest areas of operation). We are preparing to comply with Transition Plan Taskforce (TPT) guidance next year. Our transition plan was developed with consideration of the updated TCFD guidance and lays out our 2028, 2032 and long-term Net Zero milestones and emission reduction targets. See Net Zero/climate transition plan on page 40.

Divisional-level initiatives and actions to reduce Scope 1 & 2 emissions are based on energy efficiency, green electricity (including implementation of solar technologies and fleet electrification), and alternative fuels. The majority of our Scope 3 emissions will be addressed by in-country grid decarbonisation and via targeting significant suppliers with education and training to set and meet their own SBT targets. The impacts of our transition plan on our customers, suppliers and other stakeholders, and on our business are integrated into the roadmap. In developing our transition plan, we have considered, and align with, the Net Zero economy commitments in the countries in which we operate, in particular where we are headquartered.

The opportunities identified within the climate scenario analysis form part of our strategic priority to commercialise high-value green technologies to increase green product revenues.

RISK MANAGEMENT

We adopt a Group-wide approach to risk management which is discussed in detail on pages 66 to 74. The Board has overall responsibility for ensuring that a robust risk management process is in place and delegates responsibility to the Audit & Risk Committee to ensure that it is adhered to. Climate risk management is considered in line with the existing risk management framework. This year, for the first time, climate risk was identified as a Group principal risk. See page 68 for more information on our Group principal risks.

Updates to climate regulation, including the emergence of new climate-related regulation is picked up in line with our Group-wide regulation monitoring processes.

In previous years, we have considered a wide range of risks and opportunities relating to climate change that were identified with the support of external technical specialists and then evaluated through a series of Group and divisional workshops. These include, for example, impacts relating to damage to assets from weather events, cost and availability of resources, regulation related to GHG emissions and increased demand for green technologies. The identification process includes assessment of the full value chain, such as impacts relating to key supply chain assets from extreme weather events.

At the Group, divisional and site levels, risks and mitigating controls are allocated to relevant owners. This year, each of our divisions conducted their annual review of climate-related risks in divisional risk registers to ensure accuracy of impact assessment and adequacy of mitigation actions. The results of these reviews are consolidated and managed in our risk register as per the enterprise risk management process.

Twice a year, a top-down review of our principal risks and opportunities, including climate risks, is conducted as part of the wider risk management process. In FY2023, we conducted an ESG double materiality assessment to understand the ESG topics of most importance to our business as outlined on page 33.

We continued our detailed procedures to assess and manage climate risks and opportunities via scenario analysis. This incorporates analysis of base case revenue streams, climate scenario analysis conducted over two physical and two transition climate scenarios against medium- and long-term time horizons. Risks and opportunities have been considered alongside established mitigation measures and strategic actions during validation workshops held at Group and divisional level to determine materiality of impacts over time.

The Executive Committee has responsibility for designing the enterprise risk management framework and ensuring that it is effectively deployed. The Audit & Risk Committee is responsible for overseeing the effectiveness of our management and implementation of internal controls, including those related to climate risks. Divisional and functional teams are responsible for day-to-day management and reporting of risks, including climate risk. They identify new and emerging risks, escalate where appropriate, and take action to ensure risks are managed appropriately. Prioritisation of risks is supported by matrices to improve, monitor (controls/ability to respond), monitor (risks) and accept/optimise.

METRICS AND TARGETS

We have identified relevant metrics and targets to monitor progress in achieving our sustainability goals, as well as manage and mitigate identified climate-related risks and opportunities as detailed on page 57. Metrics and targets are monitored by the SSE Committee and inform decision making to execute our strategic priorities.

Sustainability metrics form part of the Smiths annual and long-term incentive plans. These include metrics on GHG emissions reductions (Scope 1 & 2 emissions absolute reduction target) and energy efficiency.

We have committed to Net Zero Scope 1 & 2 emissions across our operations by 2040, with Net Zero Scope 3 emissions reached by 2050 in line with the 1.5°C Business Ambition under the UN Race to Zero. As per our submission to the SBTi, we have committed to interim targets of 50% reduction in Scope 1 & 2 emissions by 2032 and 50% of suppliers by spend with SBTs by 2028. As required by the SBTi, our proposed interim reduction target covers more than two-thirds of our total Scope 3 GHG inventory.

Our Scope 1 & 2 emissions have decreased significantly this year as we progress conversion of our energy mix to renewable electricity, as well as undertake transition initiatives such as fleet electrification. Our Scope 3 emissions have also decreased year-on-year. Further details of Scope 1, 2 and 3 emissions can be found on page 45 including progress during FY2023. More detail, including our methodology for calculation of emissions in line with the GHG Protocol, can be found in our FY2023 Sustainability at Smiths report.

We continue to monitor completion of annual business continuity plan reviews and have surpassed our three-year targets on waste and water reduction. We will assess whether water targets are renewed at the end of the three-year goal period, given the relatively low consumption required in our operations.

Information on how metrics and targets are linked to our remuneration policy can be found in the Remuneration & People Committee Report from page 98. Progress towards achieving other sustainability targets is included in the Sustainability at Smiths section from page 32. Our Scope 1, 2 and 3 emissions for both FY2022 and FY2023 have undergone an external limited assurance process. We anticipate that further metrics and targets will be established during FY2024 as we move into our next three-year goal period. In the coming year we will review our disclosure of other cross-industry climate-related metrics.

MONITORING METRICS AND TARGETS

The table below outlines the key metrics and targets used to monitor climate risks and opportunities. Performance against the majority of these metrics is monitored by the SSE Committee. Further detail, including historical performance, can be found on pages 44 and 45. Our FY2023 Sustainability at Smiths report describes the basis of preparation of our metrics and targets.

	Unit of measure	Metric	Metric target set and reported?	Metric performance for FY2023	Linked to identified climate risks and opportunities
GHG EMISSIONS	tCO_2e	Absolute Scope 1 & 2 emissions	Yes – zero by 2040 with 50% reduction by 2032	(11.8)% reduction year-on-year	Pricing on GHG emissions – tracking our GHG emissions helps us to remain aligned with upcoming regulations and is of value to our customers seeking to reduce emissions in their supply chains.
GHG EMISSIONS	tCO_2e	Absolute Scope 3 emissions	Yes – zero by 2050	(4.8)% reduction year-on-year	Pricing on GHG emissions – tracking our GHG emissions helps us to remain aligned with upcoming regulations and is of value to our customers seeking to reduce emissions in their supply chains.
PHYSICAL RISKS	%	All site business continuity plans to be reviewed annually	Yes, not reported externally	N/A	All identified physical risks – reviewing our site business continuity plans enables us to plan and mitigate against potential physical risks from climate change.
TRANSITION RISKS	%	Revenue from green technologies	No – data to be reported in FY2024	N/A	Monitoring revenue from products with sustainability, including climate, benefits.
TRANSITION RISKS	%	% reduction in normalised non-recyclable waste	Yes – 5% reduction between FY2022 and FY2024	(20.2)% reduction vs FY2021 baseline	Cost and availability of resources – monitoring our reduction in waste and setting targets helps to reduce the resources used by our business.
TRANSITION RISKS	%	% reduction in normalised water use in water-stressed areas	Yes – 5% reduction between FY2022 and FY2024	(17.1)% reduction vs FY2021 baseline	Cost and availability of resources – monitoring our water use and setting reduction targets helps to reduce the resources used by our business.

STAKEHOLDERS AND SECTION 172 STATEMENT

During the year ended 31 July 2023, the Board has acted in accordance with Section 172(1) of the Companies Act 2006, with each Director acting in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole.

Understanding the needs and priorities of our key stakeholders and building strong and positive relationships is critical to our success. Stakeholder engagement takes place across the Group, operationally by our divisional teams and management, at a Group-level, and by the Board.

In a business as diversified as Smiths, engagement with most stakeholder groups is handled locally by management, or by specialist Group teams. The Board maintains oversight and only engages directly if there are issues which truly warrant its involvement or where it can add value. This is particularly true of engagement with customers and suppliers (the majority of whom are unique to a specific division) but is also usually the case for governments, regulators and our local communities.

The outcomes of stakeholder engagement, including concerns raised, are reported to the Board and Board Committees on a regular basis through our usual processes that support informed decision-making. The reporting was enhanced during the period to include greater focus on macro conditions and stakeholders. This was partly in response to feedback received as part of the FY2022 Board Evaluation process (see page 85). Discussion and decision-making by the Board takes the views of key stakeholders into account, in order to balance their needs, and effectively build the sustainable, long-term success of the Group. Throughout FY2023 we have matured our approach with a focus on critical business priorities that are regularly reported, underpinned by relevant data, in a global performance dashboard that allows tracking against the targets that have been set. Where needed, corrective actions were presented and discussed.

During the year ended 31 July 2023, the Board has acted in accordance with Section 172(1) of the Companies Act 2006, with each Director acting in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole. In doing so, the Directors had regard to the interests of other stakeholders, whilst maintaining and overseeing high standards of business conduct. Our approach to key stakeholders and stakeholder considerations that influenced Board discussions, the outcomes of these discussions and the Board's principal decisions are outlined in this section, along with illustrative examples.

PEOPLE

OUR APPROACH

Our people are vital to the success of Smiths.

We aim to attract and retain the very best by creating an environment for colleagues based on respect, personal growth, recognition and development of talent, and a sense of belonging and purpose.

Our culture is a powerful asset and empowers and enables our people to deliver our purpose. It is supported by our Values and our Leadership Behaviours which influence every decision, guide how we behave, and help make Smiths a place where people are happy and proud to work.

KEY PEOPLE PRIORITIES

- Health, safety and well-being
- Purpose and culture
- Ethical behaviour
- Reward and recognition
- Employee retention and engagement
- Talent development
- Diversity, equity and inclusion
- Sustainability
- Community contribution

BOARD AND MANAGEMENT ENGAGEMENT ACTIVITIES

- Management engages with colleagues through regular Town Hall meetings, Company news updates, and through our online tools where colleagues can share their views. See page 14 for more information
- Non-executive Directors undertake workforce engagement activities, including in-person site visits and attendance at colleague meetings, forums and events. Regular updates are provided to the Remuneration & People Committee. Such activities included:
  - Richard Howes met members of the senior leadership team over a period of 12 months as part of his induction programme. He also visited John Crane's Morton Grove site, met key team members and learnt about operational aspects of the business
  - Noel Tata attended the Indian Managing Directors' Council and met members of the India leadership team. He also toured Mumbai airport to see Smiths Detection machinery in operation
  - Sir George Buckley and Pam Cheng met SES Master Black Belts. Sir George shared his perspective on excellence, his experience in other companies, and what SES means for Smiths. Pam offered her experience and expertise in the area of change management
  - Bill Seeger attended the China Ethics Committee and Global HSE team meeting
  - Mark Seligman met with senior leaders from across the Finance function including Finance and Finance Excellence, Tax, Investor Relations, Internal Audit and Divisional CFOs
- Across the year, the Board met with colleagues of varying seniority. This included divisional teams and those in corporate functions, allowing for informal introductions to Board members
- Talent Roundtables were held to discuss top talent and identify potential Executive Committee successors. Following this process Sir George Buckley met c.30 extended leadership team members across Smiths
- The Company established a Group mentoring scheme to give senior leaders an Executive Committee formal mentor to foster the 'developing self and others' Smiths Leadership Behaviour
- Management identified a need to increase female senior leaders' visibility in order to amplify role modelling across the Group and demonstrate female representation in senior positions
- The Board and Remuneration & People Committee receive regular updates and deep-dives from the Chief People Officer on employee engagement, reward, talent, and diversity and inclusion. It also monitors KPI metrics relating to those areas
- The Audit & Risk Committee is provided with updates on 'Speak Out', our confidential reporting hotline, and other reports and statistics relating to the Group's ethical policies and performance
- The Board receives health and safety reports at every Board meeting and regular updates on the Group's pension arrangements
- DE&I continued to be an area of focus to help create a more diverse and inclusive Smiths and we are targeting improved gender balance

OUTCOMES OF ENGAGEMENT IN FY2023

- The Board approved the refined people strategy with a focus on the Leadership Behaviours and developing and retaining talent. This included: a focus on early years careers including apprenticeships and graduate opportunities; and a global leadership training programme aligned with the Leadership Behaviours and the talent process
- Implementation of a quarterly colleague webinar featuring a female Executive Committee member and a female Non-executive Director, which has included Dame Ann Dowling and Pam Cheng in FY2023, with Karin Hoeing to lead in FY2024. Initiatives such as these are important as we continue to foster a more diverse and inclusive environment
- Mentees of the mentoring scheme have taken on expanded roles and responsibilities, resulting in cross-functional and cross-divisional internal career changes. All of the mentees of the Executive Committee have now become mentors for the next leadership tier. This is cascading the mentoring culture at Smiths
- Engagement measured by our annual My Say engagement survey, which had a very high response rate of 84% of our employees, improved by one point since last year and is now just one point below the industry benchmark. It was encouraging to see that four out of our five businesses (including the corporate centre) tracked improvement in engagement, while one remained flat year-on-year. My Say results can be found on page 14
- The Board considered and declined the request from the Trustee of the Smiths Industries Pension Scheme (SIPS) to recommend paying the 2023 stated aim discretionary increase. This decision was taken with the security of all SIPS members benefits in mind. The Company continues to work with the SIPS Trustee to progress towards the long-term target of full buyout funding

READ MORE
Governance.
→ PG 78

SEE MORE
Read more about sustainability in our Sustainability at Smiths report at www.smiths.com

84%
colleague participation in My Say engagement survey.

CUSTOMERS

OUR APPROACH

Meeting customer needs and exceeding their expectations with products, quality and service, and the way we conduct business and pay attention to the things that matter to them, is a fundamental part of our operating model and our Values.

Strong and enduring customer relationships will sustain Smiths into the future.

KEY CUSTOMER PRIORITIES

- Product innovation, lead times, quality and aftermarket service
- ESG performance of products to help customers meet their own ESG goals
- Long-term strategic relationships
- Mutual confidence and respect
- Ethical behaviour
- Data protection

BOARD AND MANAGEMENT ENGAGEMENT ACTIVITIES

- Management teams engage with customers through formal feedback activities such as surveys, quarterly business reviews, aftermarket service team reviews, and senior team meetings with key customers. They also integrate informal feedback from conversations had with customers by our operational and field-based teams
- Management teams use Key Account Management structures and Customer Relationship Management tools across our business to deliver timely and high-quality responses to our customers. We aim to apply best practices, develop skills and capabilities, and deliver continuous improvement in execution to enhance the overall customer experience
- Customers and market challenges are considered as part of the monthly divisional performance updates to the Executive Committee with a deep-dive every quarter
- Divisional performance reports including customer data and commentary are sent to the Board on a quarterly basis and deep-dives on divisional performance and strategy are held on a rotational basis
- The Board monitors performance indicators relating to customer satisfaction such as On-Time-In-Full (OTIF) and Cost of Poor Quality (COPQ)
- The SSE Committee reviews the progress of strategic projects as well as new products introduced to the market. On a rotational basis divisions provide deep-dives on innovation and new product development. For more information see the SSE Report on page 111
- The Board reviewed key market and sector specific macroeconomic indicators to understand the impact of the macroeconomic environment on our customers
- The Board met with material customers of John Crane and Smiths Detection during the year to understand what it is like to do business with Smiths

OUTCOMES OF ENGAGEMENT IN FY2023

- The Board heard the challenges of key customers in the security and energy sectors. This led to a deeper understanding of the solutions required by our customers and highlighted the importance of our continued focus on commercialising high-value green technologies to align with our customers' decarbonisation journeys
- The Board continued to focus on reducing lead times for customers, where it was necessary, at the expense of investment in working capital and notably higher inventory levels, to mitigate the effects of disrupted supply chains
- Customer input was gathered frequently to inform new product development and customer service improvements. Management initiated SES projects with suppliers to help them reduce lead times and improve forecasting on key component shipments. These activities all help maintain quality customer relationships
- The Board discussed and was satisfied that the culture of the Group is appropriately focused on customer needs and that customer risks are being managed appropriately. However, the Board agreed it would dedicate more time in FY2024 to understanding customer priorities

READ MORE
CEO review of the year.
→ PG 18

3.7%

R&D spend as a % of revenue.

SUPPLIERS

OUR APPROACH

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 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, including GHG reduction, and alignment with our Values, continuous improvement and risk.

KEY SUPPLIER PRIORITIES

- Long-term relationships with Smiths
- Mutual confidence and respect
- Ethical behaviour, meeting ESG standards
- Innovation partnerships

BOARD AND MANAGEMENT ENGAGEMENT ACTIVITIES

- Management teams meet regularly with suppliers to review performance, discuss new business opportunities, set goals and work on improvement areas. For our higher value and/or more complex products, management engages with our suppliers at the highest level to partner on R&D, new product introduction, quality and continuous improvement projects
- Updates on suppliers and supply chain are included in divisional performance updates to the Executive Committee
- Divisional performance reports are sent to the Board ahead of each Board meeting and deep-dives on divisional performance and strategy are discussed by the Board on a rotational basis. The reports include updates on suppliers and supply chain
- At each Board meeting the Board selects a critical priority for a deep-dive, many of which have a link with our suppliers
- The Audit & Risk Committee was updated on cyber risks including potential cyber security breaches in the supply chain

OUTCOMES OF ENGAGEMENT IN FY2023

- In order to meet our Net Zero targets, management engaged with suppliers to determine our Scope 3 baseline for submission to the SBTi
- Supply chain was identified as a material issue in the FY2023 ESG DMA. As a result, supply chain has been added to the ESG framework. Management is reviewing actions for FY2024; these will include introducing a global supplier management system to gather standardised supplier data (including ESG data) and help manage relationships with suppliers
- Management worked with suppliers to ensure continuity of supply for our key customers. This included working in partnership with suppliers on SES projects in the areas of supply and customer satisfaction
- Smiths continued to strengthen its cyber resilience. In addition, management continue to enhance relationships with suppliers so that cyber breaches in our supply chain are reported to us in a timely manner. This design helps to protect Smiths, our employees, products and customers

SEE MORE
Read more about sustainability in our Sustainability at Smiths report www.smiths.com

COMMUNITIES AND SOCIETY

OUR APPROACH

We aim to improve our world by contributing positively to our communities and society in general.

Smiths products and services support critical global industries where we are pioneering progress in safety, efficiency and environmental performance. Our operations around the world play a beneficial role in local economies through job creation and skills development; procurement and generating tax revenues; operating safely, environmentally responsibly and ethically; and direct engagement.

Healthy and prosperous communities and strong relationships are aligned with our Values and inspire and promote a sense of pride and ownership in our people.

KEY COMMUNITY PRIORITIES

- Safe and effective operations
- Green technology, environmental performance, respecting natural resources
- Fair employment, skills development and prosperity
- Ethical behaviour
- Direct engagement – education and community support

BOARD AND MANAGEMENT ENGAGEMENT ACTIVITIES

- Our teams across the world engage directly with their local communities through fundraising, charitable giving and education initiatives
- Science, technology, engineering and maths (STEM) education initiatives are particularly important to management and to our colleagues as a way to share their passion for engineering and encourage young people to consider careers in the sector. Many of our sites run STEM programmes
- The Board is provided with updates on the elements of the Group's operations which impact the wider community, including the Group's Global Tax Strategy. This describes our approach to the responsible management of tax affairs to enhance long-term shareholder value while contributing to public expenditure and the welfare of our local communities
- The Audit & Risk Committee receives regular reports on issues raised through the Group's Speak Out reporting hotline which enables reporting of matters affecting communities such as safety, ethical behaviour, human rights and modern slavery
- Colleagues are regularly involved in and support local community events
- The SSE Committee heard how the divisions have been driving environmental change in their businesses. It also provided challenge and guidance on the divisions' roadmaps to achieve Net Zero

OUTCOMES OF ENGAGEMENT IN FY2023

- The Board approved the launch of the Smiths Group Foundation, a charitable giving foundation with a committed initial fund of £10m. Grants will be available to charitable organisations with a primary focus on expanding access to STEM skills
- The Board approved the implementation of global colleague volunteering principles which will enable every Smiths colleague to take one day of paid volunteering leave each year from FY2024
- The Group introduced formal budgeting opportunities for charitable giving in our divisions, China and Group of at least £250,000 per year in aggregate from FY2024 to enable continued support for local organisations that fall outside of the scope of the Foundation
- Our annual Smiths Day global celebration of Smiths culture took place in June 2023. This year's theme 'contributing to our communities' encouraged every Smiths site to look outwards into their community and find opportunities to give back
- The SSE Committee was supportive of the submission of SBTs and related plans for Scopes 1, 2 and 3 to the SBTi in May 2023, demonstrating Smiths commitment to achieving our Net Zero goals
- The Company continued to contribute to society with a direct economic contribution value of £2.8bn in FY2023

SEE MORE
Read more about sustainability in our Sustainability at Smiths report www.smiths.com

£10m

The Smiths Group Foundation committed initial fund.

GOVERNMENTS AND REGULATORS

OUR APPROACH

Governments and regulators are vital to our business as they are policy setters and influencers in the markets where we operate.

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 levels so that we are able to operate effectively and to ensure our interests and those of the industries in which we operate are represented in decision-making.

KEY GOVERNMENT AND REGULATOR PRIORITIES

- Product and operational safety
- Net Zero and environmental policies
- Protection of natural resources
- Defence and security
- Safe and fair working conditions
- Economic growth and prosperity
- Trade compliance
- Ethical behaviour
- Privacy and data protection

BOARD AND MANAGEMENT ENGAGEMENT ACTIVITIES

- Our Government Relations team based in the UK, US, Europe and Asia guides and supports our relationships with key regulators, local policymakers, budget holders and industry groups. It also leads our outreach and relationship programme with government bodies and regulators, with the aim of promoting a deeper understanding of the Smiths culture and products. The team further enables greater access to funding both at regional and national levels, through engagement with key agencies ahead of and during funding programmes
- Government policy and regulators are considered during formulation of divisional strategies
- Updates on regulatory processes for approval of new products are provided during divisional performance reviews at the Executive Committee

OUTCOMES OF ENGAGEMENT IN FY2023

- Management approved policy guidelines and an operational framework within which government relations are conducted. The business sustains harmonious relations with governments and the relevant regulatory authorities in the countries where we manufacture and operate
- We completed the alignment of responsibilities for ESG and Government Relations under the Chief Sustainability Officer
- John Crane received, together with its two university partners, circa £925,000 in research funding from the UK Department for Energy Security and Net Zero (DESNZ) for its high temperature sealing solution for the supercritical CO_2 power cycle in carbon capture. By engaging with the UK Government during the application process the Government Relations team contributed to a stronger project, clearly aligned with DESNZ's objectives

£925k

funding from DESNZ for carbon capture research.

INVESTORS

OUR APPROACH

We are committed to openness and transparency with all capital providers and to the effective management of risk. We report routinely to shareholders through our formal results activities and undertake regular meetings and one-off events such as Capital Markets Days and investor conferences. Third-party analyst and broker briefings also form part of our communications schedule.

Shareholders are directly consulted by the Board on such matters as Remuneration Policy and views are sought on key corporate activity.

KEY INVESTOR PRIORITIES

- Sustainable growth
- Shareholder returns
- Delivering against our strategy
- Openness and transparency
- Maintaining effective controls and managing risk
- Environmental performance and social impact
- Appropriate remuneration and incentive arrangements

BOARD AND MANAGEMENT ENGAGEMENT ACTIVITIES

- The Board attends the AGM and General Meetings where shareholders are invited to submit questions to the Board in person or in advance of the meeting
- The Chief Executive Officer and the Chief Financial Officer host results presentations and Q&A sessions for current and prospective investors. They attended investor conferences and met with a broad spread of the Group's capital providers throughout the year
- Members of the Board engaged with investors at the Capital Markets Day in November 2022. In addition, Bill Seeger met with an investor at their request to discuss financial performance, progress against the Company's strategy and capital allocation
- Analyst and broker briefings, and feedback following meetings with major or prospective shareholders, are circulated to Directors
- The Board considered investors and the UK Pensions Act 2021 prior to approving the Group's capital allocation policy
- The Board considered succession planning for the Chairman, Sir George Buckley, taking into account feedback from investors

OUTCOMES OF ENGAGEMENT IN FY2023

- The Board continued to focus on the Group's strategy including the Smiths Value Engine and our three priorities of growth, execution and people
- The Board discussed feedback from the Capital Markets Day with management which reaffirmed that our strategic priorities aligned with the wider investor community
- Meetings are being arranged with 12 investors for FY2024, representing approximately 38% of the issued share capital of the Company, to meet the new Chair, Steve Williams
- The Board agreed to repay the Company's €600m Eurobond at maturity from existing cash resources, and approved the renewal of the US$800m revolving credit facility for a further 5-year term, to provide the Company with an efficient and flexible balance sheet which benefits all investors
- The Board continued with the share buyback programme and approved the payment of the final dividend for FY2022 and the FY2023 interim dividend

NON-FINANCIAL INFORMATION STATEMENT

The following disclosure aligns to the non-financial reporting requirements contained in sections 414CA and 414CB of the Companies Act 2006 and reflects our commitment to and management of the environment, employees, social matters, human rights and anti-bribery and anti-corruption. Our Smiths cultural framework supports our efforts in these areas and is described on page 13.

ENVIRONMENT

We have committed to ambitious Net Zero targets: Net Zero emissions from our operations (Scope 1 & 2) by 2040, and Net Zero emissions from our supply chain and products in use (Scope 3) by 2050, and present our Net Zero/climate transition plan in this report. We also have longstanding commitments to use natural resources efficiently and minimise waste. The policies that support our approach are:

- Environmental Sustainability Policy
- Health, Safety and Environment (HSE) Policy
- Responsible Minerals Sourcing Policy

You can find more information on the environment on the following pages:

- Review of the year, page 20
- KPIs, page 30
- Sustainability at Smiths, pages 35 to 45
- Task Force on Climate-related Financial Disclosures (TCFD), pages 47 to 57
- Principal risks and uncertainties, pages 68 to 70
- Remuneration & People Committee Report, page 101
- Science, Sustainability & Excellence Committee Report, pages 111 and 112

EMPLOYEES

Our people are vital to the success of Smiths. We aim to attract and retain the very best by creating an environment for employees based on respect, personal growth, recognition and development of talent, and a sense of belonging and purpose.

We provide equal employment opportunities. We recruit, support and promote our people based on 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, harassment or retaliation.

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 based on their aptitude and ability. We endeavour to find roles for those who are unable to continue in their existing job because of disability. We recruit using balanced slates and interview panels where possible and have gender-neutral job descriptions. Our procedures and training activities advocate and enforce fair treatment for all.

Policies that support our approach are:

- Fair Employment Policy
- Recruitment Policy; helping us to attract and retain our staff transparently
- Global Mobility Assignment Policy

You can find information on our employees on the following pages:

- Our People and culture, pages 13 to 15
- Review of the year, page 20
- KPIs, page 31
- Sustainability at Smiths, pages 35 to 39 and 45 to 46.
- Stakeholders and Section 172 Statement, page 59
- Principal risks and uncertainties, pages 68 to 69 and 71
- Remuneration & People Committee Report, page 99

SOCIAL MATTERS

We aim to improve our world by contributing positively to our communities and society. Smiths products and services support critical global industries and our operations around the world play a role in local economies through job creation; procurement and generating tax revenues; operating responsibly and ethically; and engaging directly. The policies that support our approach are:

- Code of Business Ethics
- Data Protection and Privacy Policy
- Data Protection Code of Conduct
- Supplier Code of Conduct

You can find information on social matters on the following pages:

- Review of the year, page 20
- Sustainability at Smiths, pages 35 to 39 and 46
- Stakeholders and Section 172 Statement, page 62

HUMAN RIGHTS AND ANTI-BRIBERY AND ANTI-CORRUPTION

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 and policies and is not tolerated. We recognise the important responsibility we have, and we support the vision of a world where everyone can access decent work and enjoy their universal human rights. We have not identified any serious human rights issues in our operations or in those of our suppliers in FY2023.

Our Human Rights Policy is guided by the international human rights principles encompassed in the Universal Declaration of Human Rights, the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, and the United Nations Guiding Principles on Business and Human Rights. We adhere to national laws and regulations in each market in which we operate and, should we encounter conflict between internationally recognised human rights and national laws, we will seek ways to honour the principles of international human rights. All persons working for, or on behalf of, Smiths are required to adhere to our Policy and approach.

Bribery and corruption matters are covered by our Code of Business Ethics. We also have specific policies and procedures relating to 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 a broad range of matters including 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, 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. We also have a specific China Anti-bribery and corruption policy.

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. The policies that support our approach are:

- Code of Business Ethics
- Anti-bribery and anti-corruption policy
- The Smiths Modern Slavery and Human Trafficking Statement (found on our website www.smiths.com)
- Human Rights Policy (found on our website www.smiths.com)

You can read more about the Group's whistleblowing hotline Speak Out in the Audit & Risk Committee Report on page 97

POLICY DUE DILIGENCE AND OUTCOMES

Smiths operates a confidential Speak Out reporting hotline to report behaviour and activities that breach our Values, our policies, or the law. This is critical to assessing the effectiveness of our policies. All reports to the Speak Out hotline are investigated, and metrics associated with reporting monitored. Reports can be made anonymously. Our ethics training operates in two tiers – online modules delivered in all our core languages, and group training activities covering specific subjects. Additionally, we run regional ethics workshops for leaders across Smiths to embed a deeper understanding of our ethics and compliance critical drivers.

During FY2023 we continued to review the effectiveness of our policies, including:

- Revising and relaunching our Code of Business Ethics
- Reviewing our ethics dashboard which enables us to view key information, track progress and analyse data
- Ethics Pulse surveys to check organisational engagement on ethical matters and Speak Out
- Undertaking targeted risk assessments to ensure that our Human Rights Policy was being followed
- Continuing to monitor and review procurement-related modern slavery and human rights risks and controls

OTHER INFORMATION

Other information to support this statement can be found as follows:

- Business model on page 11
- Non-financial KPIs on pages 30 and 31
- Sustainability at Smiths on pages 33 to 46 and our Sustainability at Smiths report which can be found on our website www.smiths.com
- Task Force on Climate-related Financial Disclosures on pages 47 to 57
- Stakeholders and Section 172 Statement on pages 58 to 63
- Principal risks and uncertainties on pages 68 to 74
- Viability Statement on pages 75 to 77

RISK MANAGEMENT

We operate across a number of markets and geographies. We are prepared to accept certain levels of risk to realise our ambitions, and our purpose to improve our world through smarter engineering.

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

RISK GOVERNANCE

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

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

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

ENTERPRISE RISK MANAGEMENT ROLES AND RESPONSIBILITIES

3rd LINE OF DEFENCE	**BOARD AND AUDIT & RISK COMMITTEE**	– Approves the strategy and set the culture and risk appetite of the Group – Reviews and assesses the effectiveness of risk management and internal control systems – Monitors through Board processes and good governance
	INTERNAL AUDIT	**Independent assurance** – Provides assurance on internal controls, programmes, systems and risk management processes
2nd LINE OF DEFENCE	**EXECUTIVE COMMITTEE AND SENIOR MANAGEMENT**	– Design and establish risk management and internal control systems – Ensure that the risk appetite of the Board is understood by risk owners and decision makers – Ensure risks are adequately managed
	RISK AND COMPLIANCE FUNCTIONS	**Monitoring and compliance** – Develop and manage the ERM process – Monitor risks and controls – Develop and manage policies and control frameworks – Ensure financial, legal and ethical compliance – Ensure security, quality, and health and safety
1st LINE OF DEFENCE	**DIVISIONAL MANAGEMENT**	**Risk ownership and mitigation** – Identify, manage and escalate risks – Set division strategic objectives – Establish and apply internal control systems – Escalate issues to the Executive Committee as required
	OPERATIONAL TEAMS	**Conducting business activities in accordance with Group policies and standards** – Understand roles and responsibilities – Comply with policies – Follow risk management processes

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

Our divisional and functional teams are responsible for the day-to-day management and reporting of risks, including climate risk. They identify new and emerging risks, escalate where appropriate, and take action to ensure risks are managed as required. Our divisions also conduct annual assessments of the risks they face. In FY2023 these were updated to ensure that the latest views were presented and considered.

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

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

During FY2023 the Executive Committee agreed the ERM timetable and the risks selected for deep-dive discussions at Executive and Audit & Risk Committee meetings. These were: supply chain; cyber; and Flex-Tek commercial risks. The Group's list of principal risks was also discussed and recalibrated by the Executive Committee.

The following items relating to our principal risks were also discussed at Board, Finance Committee, and SSE Committee meetings during FY2023: organic growth and financial performance; tax, treasury, liquidity, pensions and insurance; technology; health and safety; acquisitions; litigation; our people strategy; and ESG matters.

There is a requirement for risk owners to demonstrate how they provide assurance that controls are working effectively. Examples are provided in the tables of principal risks from page 69.

In addition, a further 31 risk workshops were facilitated at operational sites during the year to support the bottom-up view of risk that has fed into divisional and functional risk assessments.

The Directors consider the risk management process to be effective.

EMERGING RISKS

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

Climate change has moved from an emerging risk to a Group principal risk. During FY2022 we undertook a scenario analysis, including climate risk and opportunities workshops for Group and the divisions. Outcomes from this work are described in the Task Force on Climate-related Financial Disclosures (TCFD) section on page 47.

PRINCIPAL RISKS AND UNCERTAINTIES

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

RISK PROCESS

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

CHANGES TO PRINCIPAL RISKS

Our principal risks continue to evolve in response to our changing risk environment. This year, based on our current assessment of their materiality, we have replaced our environment, social and governance (ESG) risk with a broader climate-related risk, capturing both the opportunity and risk of energy transition and climate-related regulatory risks. We have also increased the likelihood and residual impact of our cyber risk.

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

PRINCIPAL RISKS AND UNCERTAINTIES

Principal risk	Link to strategy	Gross risk	Residual risk	Likelihood	Velocity	Trend
1. ORGANIC GROWTH Ability to achieve organic growth in line with market opportunity	Growth, Execution, People	Very high	Moderate	Possible	Years	Stable
2. CLIMATE CHANGE Missed opportunities in energy transition and change in climate conditions causing business disruption and economic loss for the Group	Execution	High	Low	Possible	Years	New
3. TECHNOLOGY Technology disruption by existing or future competitor	Growth, Execution, People	Very high	Moderate	Probable	Years	Stable
4. PEOPLE Ability to attract and retain people	People	Moderate	Low	Possible	Months	Stable
5. BUSINESS CONTINUITY Business disruption to supply chain or operations	Execution	High	Moderate	Probable	Weeks	Stable
6. ECONOMY AND GEOPOLITICS Impact of economic and geopolitical environment	Growth	High	Moderate	Likely	Weeks	Stable
7. COMMERCIAL Loss of focus on customers and not competing in the right markets	Growth	High	Low	Possible	Years	Stable
8. PRODUCT QUALITY Failure of product causes serious harm to people/property	Execution	Moderate	Low	Probable	Weeks	Stable
9. CYBER SECURITY Impact of enterprise or product cyber event	Execution	High	Moderate	Likely	Days	Up
10. LEGAL AND COMPLIANCE Significant ethical breach or failing to meet contractual obligations	Execution	High	Low	Possible	Days	Stable

KEY

LINK TO STRATEGY

- Growth
- Execution
- People

LIKELIHOOD

Almost certain	>80%
Likely	>60%
Probable	>40%
Possible	>20%
Unlikely	<20%

TREND

- New
- Stable
- Up

CONNECTIVITY BETWEEN PRINCIPAL RISKS

Principal risk	ORGANIC GROWTH	CLIMATE CHANGE	TECHNOLOGY	PEOPLE	BUSINESS CONTINUITY	ECONOMY AND GEOPOLITICS	COMMERCIAL	PRODUCT QUALITY	CYBER SECURITY	LEGAL AND COMPLIANCE
ORGANIC GROWTH		✓	✓	✓	✓	✓	✓	✓		
CLIMATE CHANGE	✓		✓	✓	✓		✓			✓
TECHNOLOGY	✓	✓		✓			✓			
PEOPLE	✓	✓	✓		✓	✓				✓
BUSINESS CONTINUITY	✓	✓		✓		✓			✓	
ECONOMY AND GEOPOLITICS	✓			✓	✓		✓			
COMMERCIAL	✓	✓	✓			✓		✓		
PRODUCT QUALITY	✓						✓			✓
CYBER SECURITY					✓					
LEGAL AND COMPLIANCE		✓		✓				✓		

1. ORGANIC GROWTH – Ability to achieve organic growth in line with market opportunity

Failure to deliver anticipated organic growth, which may lead to missing strategic growth targets and shareholder value erosion.

HOW THIS COULD IMPACT OUR STRATEGY OR BUSINESS MODEL

- Not growing could have an adverse effect on our valuation
- Lack of growth and/or erosion of our market leadership positions could impact our ability to attract and retain talent

EXAMPLES OF HOW WE MANAGE THIS RISK

- A clear Group strategy to achieve organic growth goals, underpinned by detailed divisional strategies
- Detailed reviews of existing and potential new markets to identify opportunities with significant growth potential
- A people plan focused on securing and retaining the best talent to execute our strategy and deliver organic growth
- An annual incentive programme to support profitable growth
- Monthly forecasting, annual budgeting, and an annual review of our multi-year strategic plan
- Ongoing investment in research and development to drive innovation and growth
- The Smiths Excellence System (SES), which contributes to effective execution

EXAMPLES OF HOW WE KNOW THE CONTROLS ARE WORKING EFFECTIVELY

- Divisional monthly operating reviews
- The Board's regular review of our performance and KPIs
- Functional reviews of SES and our people strategy

RISK OWNER

Divisional Presidents

TREND

— Stable

2. CLIMATE CHANGE – Missed opportunities in energy transition and change in climate conditions causing business disruption and economic loss for the Group

Failure to identify and act on the significant opportunities arising from the world's transition to a low-carbon economy and/or failure to respond appropriately to climate change risks and regulation.

HOW THIS COULD IMPACT OUR STRATEGY OR BUSINESS MODEL

- If we do not position ourselves to serve our customers and growing markets in decarbonisation and green re-industrialisation, we will not reach our full commercial potential
- If we do not make progress towards and then achieve our own Net Zero commitments our Company reputation and customer relationships may be damaged
- We may not be able to attract and retain key talent if we are not viewed as a socially responsible and sustainable organisation
- If we do not communicate sufficiently our approach to managing climate opportunities and risk, we may limit the number of interested debt and equity investors
- Extreme weather caused by climate change may have an impact on our markets and our operations if not identified and addressed

EXAMPLES OF HOW WE MANAGE THIS RISK

- The Group has reviewed and is pursuing strategic market opportunities arising from the energy transition/decarbonisation
- Products with a sustainability impact have been prioritised for commercialisation in our new product pipelines
- A comprehensive Net Zero/climate transition plan has been prepared for Scope 1, 2 and 3 GHG emissions and submitted to the Science-Based Targets initiative (SBTi)
- GHG reduction and energy efficiency targets are built into our performance scorecard and our annual and long-term incentive plans
- We have published our second Sustainability at Smiths report and communicate regularly internally and externally on environmental matters

EXAMPLES OF HOW WE KNOW THE CONTROLS ARE WORKING EFFECTIVELY

- All divisions are engaged in new product development that contributes to sustainability
- Our FY2023 Scope 1 & 2 GHG reduction of (11.8)% is in line with the trajectory needed for our SBTs
- The Science, Sustainability & Excellence (SSE) Committee meets four times a year to review sustainable products and progress on our sustainability goals
- The environmental commitment topic scored highly in our My Say employee survey

RISK OWNER
Chief Sustainability Officer

TREND
✱ New risk

3. TECHNOLOGY – Technology disruption by existing or future competitor

If we fail to maintain our technological differentiation and our innovation pipeline does not meet customers' evolving requirements, we may lose market share to a new or existing competitor. This could impact our financial performance and our ability to attract and retain talent.

HOW THIS COULD IMPACT OUR STRATEGY OR BUSINESS MODEL

- If our technological differentiation were to erode, it could have an adverse effect on our financial performance and our ability to attract and retain talent

EXAMPLES OF HOW WE MANAGE THIS RISK

- We proactively position our portfolio around the most attractive markets where we can sustainably hold a leadership position based on technology differentiation
- Our diversified portfolio serves a range of sectors and geographies, and mitigates our exposure to any one sector or area
- Our continuing investment in R&D (FY2023: 3.7% of Group revenue, FY2022: 4.2%) with an increasing focus on shared digital development
- Our focus on nurturing a culture of innovation
- Our focus on processes that support new product development and commercialisation
- We track Gross Vitality as a KPI
- We maintain robust intellectual property (IP) protection via patents and other protections, and pursue litigation to protect our differentiation, where appropriate

EXAMPLES OF HOW WE KNOW THE CONTROLS ARE WORKING EFFECTIVELY

- Reviews of our product commercialisation progress at our monthly operating reviews
- The consideration of technology priorities as part of our long-term strategic planning
- Our SSE Committee's regular reviews of both new product development and commercialisation

RISK OWNER
Divisional Presidents

TREND
— Stable

4. PEOPLE – Ability to attract and retain people

Failing to attract, develop and retain the right people with the right skills may affect our ability to achieve our commercial ambitions.

HOW THIS COULD IMPACT OUR STRATEGY OR BUSINESS MODEL

- If we do not attract and retain key talent, our business performance may suffer
- If we do not retain key management when we make acquisitions, we may not realise the value of those acquisitions

EXAMPLES OF HOW WE MANAGE THIS RISK

- Fair and competitive pay practices benchmarked against the external market
- Our focus on embedding and evaluating performance against Smiths Leadership Behaviours
- Investment in early career programmes
- Planning for the introduction of technical engineering communities, technical career ladders
- Our targeted talent and succession planning
- Increasing internal talent mobility
- Our onboarding for new hires
- Our structured assessment, development and reward programme
- Enhanced diversity and inclusion initiatives

EXAMPLES OF HOW WE KNOW THE CONTROLS ARE WORKING EFFECTIVELY

- Formal and informal measures of culture, for example, our regular employee engagement surveys
- The Remuneration & People Committee's regular review of key people metrics

RISK OWNER
Chief People Officer

TREND
Stable

5. BUSINESS CONTINUITY – Business disruption to supply chain or operations

Disruption to our supply chain, manufacturing or service operations, or customers' operations could impact our financial performance.

HOW THIS COULD IMPACT OUR STRATEGY OR BUSINESS MODEL

- If we are unable to deliver products and services to our customers, it will adversely affect our financial performance and reputation
- Cost pressure and volatility in commodities, goods and labour may affect our ability to serve customers and erode our competitive advantage

EXAMPLES OF HOW WE MANAGE THIS RISK

- SES has increased our focus on resilient and cost-effective supply
- We have tested business continuity and disaster recovery plans in place for critical locations
- We regularly evaluate key sites against a range of risk factors using external benchmarks
- Mitigation plans for sole source suppliers, sub-contractors and service providers, including qualifying alternative sources of supply where appropriate
- Property damage and business interruption insurance

EXAMPLES OF HOW WE KNOW THE CONTROLS ARE WORKING EFFECTIVELY

- We test business continuity plans annually
- Divisional risk mitigation plans reviewed by the Audit & Risk Committee
- Business interruption risk surveys which are completed annually with an external provider at key operational sites
- Insurance is reviewed at least annually by the Audit & Risk Committee

RISK OWNER
Divisional Presidents

TREND
Stable

6. ECONOMY AND GEOPOLITICS – Impact of economic and geopolitical environment

The challenging economic and geopolitical environment in which we operate may have an adverse effect on demand for our products, our cost structure, pricing strategies, profitability and market share. External adverse events could cause an unanticipated and sudden disruption to our business.

HOW THIS COULD IMPACT OUR STRATEGY OR BUSINESS MODEL

- A regional or global recession could reduce demand for our products
- If we are unable to pass additional inflation on through pricing, our financial performance may suffer
- Geopolitical tensions relating to Russia, China, India and the Middle East could adversely impact our operations
- The introduction of new tariffs and/or taxes could adversely impact our financial performance

EXAMPLES OF HOW WE MANAGE THIS RISK

- Our geographic footprint and diversified portfolio of businesses mitigate the exposure we have to any one country or sector
- Our divisions monitor order flows and other leading indicators in order to respond quickly to deteriorating market conditions and tariffs/trade barriers
- Our government relations team actively monitors relevant developments and represents our interests
- Our network of trade compliance officers across the Group monitors upcoming changes in regulation and oversees import and export activities
- In FY2023 the Board received an update from an external speaker on geopolitical events

EXAMPLES OF HOW WE KNOW THE CONTROLS ARE WORKING EFFECTIVELY

- Divisional reporting on order trends at monthly operating reviews
- Active tracking of inflation and pricing at monthly operating reviews

RISK OWNER
Chief Financial Officer

TREND
— Stable

7. COMMERCIAL – Loss of focus on customers and not competing in the right markets

Failure to act in a timely manner and adapt our market strategy in response to changes in the commercial environment in which we operate may result in an adverse effect on our financial performance and market share.

HOW THIS COULD IMPACT OUR STRATEGY OR BUSINESS MODEL

- If we fail to develop growth markets and geographies, it could affect our strategic progress and financial performance
- Significant disruption to government budgets could result in fewer contracts being awarded to Smiths, adversely affecting our financial performance
- If we do not innovate in line with our customers' needs, we may lose market share, and this could adversely impact our results

EXAMPLES OF HOW WE MANAGE THIS RISK

- New product innovation feedback through market research and direct feedback from existing and potential customers
- Our diversified portfolio of businesses mitigates exposure to any one country, sector or customer
- Our growth strategy places emphasis on expanding operations in higher-growth customer markets as well as geographic regions which are currently underserved, including Asia
- Our regular strategy reviews evaluate adjacent market opportunities and the evolving competitive environment including reviewing new/potential market entrants
- Our Government Relations function collaborates with colleagues across the Group to advise on developments

EXAMPLES OF HOW WE KNOW THE CONTROLS ARE WORKING EFFECTIVELY

- Strategic reviews, including commercial excellence reviews, and divisional deep-dives, including detailed monitoring of pricing
- Customer input is gathered frequently to inform new product development, marketing segmentation/communication, and customer service improvement
- Strong and long-term customer relationships
- Managing Director councils in India and China provide cross-divisional alignment to support our growth strategy

RISK OWNER
Divisional Presidents

TREND
— Stable

8. PRODUCT QUALITY – Failure of product causes serious harm to people/property

Failure of one of our products, including failure due to non-compliance with product regulation, may result in financial loss and reputational damage. In the ordinary course of business, we could be subject to material product liability claims and lawsuits, including potential class actions from customers or third parties.

HOW THIS COULD IMPACT OUR STRATEGY OR BUSINESS MODEL

- If we were to suffer reputational damage, it could lead to a loss of customers/future business
- If our products were to cause material harm to people or property and/or business interruption for customers due to quality issues, design defects, manufacturing failures or component failures, we could suffer reputational damage, loss of business and higher costs beyond anticipated warranty claims. These may include contractual claims for penalties, indemnities and damages, and also product liability claims arising from end-users and other affected third parties (potentially large classes)

EXAMPLES OF HOW WE MANAGE THIS RISK

- Divisional quality risk assessments that address product failures, product performance, product safety, product compliance, regulatory compliance, and market authorisation
- Quality assurance processes embedded in manufacturing locations for critical equipment, supporting compliance with customer requirements and industry regulations
- Quality development and quality integration built into new product development processes
- Risk analysis and mitigation processes relating to product cyber resilience embedded in the product lifecycle process. Proactive steps taken to ensure product cyber-related risks are continually monitored and managed
- Insurance cover for product liability and other related risks such as aviation grounding. Insurance and legal teams collaborate to ensure that contracts (and supplier flow-downs) cover insurance issues, and that claims are notified
- Contracting and litigation managed under the oversight of the Group General Counsel with regular reporting to the Executive Committee and Board

EXAMPLES OF HOW WE KNOW THE CONTROLS ARE WORKING EFFECTIVELY

- Regular quality reporting (e.g., defective parts per million (DPPM) and cost of poor quality (COPQ)) and actions to drive improvement in key metrics
- Group and divisional governance frameworks (including Delegation of Authority) ensure a close working relationship between legal and commercial teams (including quality) to manage risks

RISK OWNER
Divisional Presidents

TREND
Stable

9. CYBER SECURITY – Impact of enterprise or product cyber event

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

HOW THIS COULD IMPACT OUR STRATEGY OR BUSINESS MODEL

- If a cyber attack compromised confidentiality, integrity or availability of our assets, it could adversely affect our ability to deliver to customers and, ultimately, our financial performance and reputation
- If we had a cyber security breach, we could be exposed to significant losses, particularly concerning our security products. These could include not only customer losses but also those of a potentially large class of third parties

EXAMPLES OF HOW WE MANAGE THIS RISK

- Board oversight of the defence in depth approach to mitigating cyber risk
- Proactive focus on information and cyber security risks supported by a robust governance framework
- Group-wide assessment of critical information assets and protection to enhance security
- Information Security Awareness programme
- Security monitoring to provide early detection of hostile activity on Smiths networks and an incident management process
- Partnership and monitoring arrangements in place with critical third parties, including communications service providers
- Cyber risk analysis and mitigation processes embedded in the product lifecycle process to increase resilience

EXAMPLES OF HOW WE KNOW THE CONTROLS ARE WORKING EFFECTIVELY

- Formal reviews with the Executive Committee and the Board
- Vulnerability scanning/event reporting
- External reviews of threats, processes, controls and capabilities
- Mandatory staff training
- Compliance with recognised standards

RISK OWNER
Chief Financial Officer

TREND
Up

10. LEGAL AND COMPLIANCE – Significant ethical breach or failing to meet contractual obligations

We have more than 15,000 colleagues in more than 50 countries. Individuals may not all behave in accordance with the Group's Values and in accordance with ethical and legal requirements. We operate within increasingly complex legal regimes, often in highly regulated markets and with governments, customers and suppliers requiring strict adherence to laws. We may fail to deliver contracted products and services or fail in our contractual execution due to delays or breaches by our suppliers or other counterparties.

HOW THIS COULD IMPACT OUR STRATEGY OR BUSINESS MODEL

- An ethics or compliance breach could cause harm to our reputation, financial performance, customer relationships and our ability to attract and retain talent
- Failure to comply with trade compliance requirements (import and export) could lead to significant fines and/or delays to procurement or supplies
- Failure to meet strict conditions within government contracts, particularly in the US, could prevent us from bidding for contracts or have other serious financial and reputational consequences
- Breach of contract resulting in significant expenses due to disputes and claims, loss of customers, damage to our reputation with other customers/prospective customers, and loss of revenue and profit due to higher costs, liquidated damages or other penalties
- Contracts, particularly those with governments, may include terms that provide for unlimited liabilities, including for loss of profits, IP indemnities, perpetual warranties or allowing the counterparty to cancel, modify or terminate unilaterally and seek alternative sources of supply at our expense

EXAMPLES OF HOW WE MANAGE THIS RISK

- Our ethics and compliance team run a proactive programmatic approach, areas of which are at different stages of maturity including:
  - Managing an independent Speak Out reporting line and investigations process with communications encouraging the reporting of ethics violations (includes ability to report anonymously and a non-retaliation policy)
  - Anti-bribery and anti-corruption training is mandated for all employees online; and in-person training with a process for monitoring and reporting compliance
  - Policies and processes to mitigate risks are in place, including policies and procedures to mitigate distributor and agent-related risks, including due diligence, contractual controls and internal approvals
  - Anti-trust training programmes
  - Modern Slavery and Transparency Statement and procedures to reduce the risk of modern slavery within the Group and our supply chain
- Network of trade compliance officers across the Group who monitor upcoming changes in regulation and oversee import and export activities
- Monitoring and acting on upcoming legislative changes
- Multi-functional programme for General Data Protection Regulation (GDPR) compliance

EXAMPLES OF HOW WE KNOW THE CONTROLS ARE WORKING EFFECTIVELY

- Multiple measures to assess culture including My Say results, Speak Out reports, Ethics Pulse surveys, internal audit findings, exit interviews and ethics questions in performance reviews
- Monitoring and reporting on compliance with ethics and compliance policies, on training statistics, on investigations, on Ethics Pulse metrics (Executive Committee and Audit & Risk Committee oversight)
- Divisional legal teams embedded in the business, working cross-functionally throughout the contract lifecycle, contract risk tool rolled out in three divisions and used to assess mitigation of risk through contract negotiations

RISK OWNER

Group General Counsel

TREND

Stable

GOING CONCERN AND VIABILITY STATEMENT

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 8 to 77. The financial position of the Company, its cash-flows, liquidity position and borrowing facilities are described on pages 21 to 23. In addition, the notes to the financial statements include the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The Group has undertaken a detailed going concern review with a severe but plausible downside scenario taking into account everything that has been learnt since March 2020.

At 31 July 2023 the net debt of the Group was £387m, a £237m increase from 31 July 2022. At the end of July, the Group had available cash and short-term deposits of £285m. These liquid resources are immediately available with 96% invested with the Group's global banking partners. The Group's debt profile shows an average maturity of 3.6 years (from 2.5 years at 31 July 2022). There are no scheduled repayments of debt due until February 2027.

The Group maintains a core US$800m committed Revolving Credit Facility (RCF) from these banks which was renewed in May 2023 and matures in May 2028.

The RCF remained undrawn at 31 July 2023 and has no financial covenants attached.

The Directors, having made appropriate enquiries, have a reasonable expectation that the Company and the Group have adequate resources to continue in operation for a period of at least 12 months from the date of this Report. Thus, they continue to adopt the going concern basis of accounting in preparing the financial statements of the Company and the Group.

In accordance with the requirements of the 2018 UK Corporate Governance Code, the Directors have assessed the longer-term prospects of the Group, taking into account its current position and a range of internal and external factors, including the principal risks detailed on pages 68 to 74 (the 'viability assessment').

The Directors have determined that a three-year period to 31 July 2026 is an appropriate timeframe for the viability assessment. The selected period is considered to be appropriate as, based on the historical performance of the Group, a three-year outlook represents an optimum balance of long-term projection and acceptable forecasting accuracy. The three-year viability assessment timeframe also takes into account considerations such as the maturity of the Group's borrowing facilities and the cyclicality of the performance of the Group's underlying markets. In making this viability assessment, the Directors have considered the current financial position and prospects of the Group, including the current year business performance, the detailed operating plan for 2024 and forecasts for 2025 and 2026. Against these financial projections, the Directors took into account the principal risks (as outlined on pages 68 to 74) to develop a set of plausible scenarios (as set out overleaf) with potentially high-impact outcomes.

In addition to the scenario-specific assumptions (detailed overleaf) the principal assumptions for this three-year viability assessment are as follows:

- FX rates for £ at US$1.22 and €1.18 and are modelled to remain at this level in the forecast period;
- Interest payments have been updated to reflect latest forecast interest rate increases with no further refinancing with overdrafts and the Group's RCF drawn to maintain our minimum cash requirements;
- Dividend payments are made in line with a 7% increase in dividend per share. Even under the downside scenarios it has been assumed that dividend increases are maintained, representing a potential mitigating action that could be taken;
- The share buyback of £742m is completed in Q1 of FY2024 in all scenarios; and
- The RCF was renewed in May FY2023 and will be accessible throughout the period as there are no financial covenants attached.

Consideration was then given to the magnitude of the gross risks and their potential impact, directly or indirectly, on the Group's future performance and liquidity. The assessment included stress testing of the Group's financial capacity to absorb the impact of such adverse events, either individually or in combination, and what mitigating actions the Group could take to respond to them in order to protect its business.

The Directors also considered the Group's ability to raise additional liquidity. In performing this assessment, the Directors have taken comfort from the diversity of the Group's businesses across different markets, industries, geographies, products and customers. In order to ensure consistency, the base case used for the three-year viability assessment has also been reconciled against divisional impairment review models.

The Group holds a tradeable commodity through its investment in 10% of the equity in ICU Medical, Inc. The base case assumes that the Group could contemplate a possible reduction in this investment, the cash inflows from which would remove any need to utilise the RCF over the period. The downside scenarios do not include any cash inflows from the sale of this investment.

The downside results below show the impact on EBITDA, net debt and headroom under each scenario. The headroom includes the currently unutilised RCF of US$800m (£656m). This renewal removed the only interest covenant to which the Group was subject.

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

SCENARIOS MODELLED

Scenarios	Link to principal risks	Scenario-specific assumptions
SCENARIO 1 An economic shock (political unrest or resurgence of a pandemic) leads to significant supply chain disruption, low customer demand and recessionary circumstances extending into the following year.	Business continuity and Economy and geopolitics	– 20% fall in revenue across the Group in FY2024 and a 10% fall in FY2025 and a further 5% fall in FY2026 compared to the base case – 65% reduction in operating profit in FY2024 due to plant closures, customer and supply chain disruption, and a 35% fall in FY2025 and 20% in FY2026 – Increased working capital due to stock builds and customer defaults – No mitigating activities such as restructuring and headcount reductions
SCENARIO 2 One of John Crane's mechanical seals is identified as faulty and the cause of an explosion at a major refinery causing the deaths of two staff and significant damage to the plant. John Crane is sued for the costs of repair and restoration of the plant in addition to the consequential losses of plant closure.	Product quality	– Legal defence costs of £20m per annum plus a one-off payment of £100m in FY2024 in settlement of deceaseds' claims – Legal defence costs of £5m per annum over the review period in relation to agreement of restoration costs – Restoration costs of £50m spread over the three-year review period – Legal defence costs of £25m per annum over the review period in relation to mitigation of consequential loss claims – One-off payment of £250m payable in FY2024 in settlement of the losses claim – Insurance claim rejected

SCENARIOS MODELLED CONTINUED

Scenarios	Link to principal risks	Scenario-specific assumptions
SCENARIO 3 Following a product cyber attack, a terrorism-related incident occurs at a US airport. As a consequence, the US Government revokes Smiths Detection's licence. Sales of Detection's products to the US military and all other governmental contracts have been banned and due to the reputational damage, the impact of the ban will spread to other Group divisions.	Cyber security	– Immediate loss of all US-based Government contracts within Smiths Detection. – 25% fall in other Smiths Detection revenue over FY2024 – Loss of 50% of Smiths Interconnect's North America revenue – Legal defence costs of £10m per annum – £100m fine levied by the US Government for security breach – £50m compensation paid to the US Government in FY2024 in respect of previous products purchased that may have security flaws – Insurance claim under product liability is not met or delayed outside of the review period
SCENARIO 4 Smiths Detection is found guilty of bribing government officials in Asian countries in order to land significant contracts. This damages the Group's reputation and leads to worldwide regulators imposing significant sanctions on the Group.	Legal and compliance	– Regulatory fines globally amounting to £100m – Loss of all future revenue in both China and Japan – 10% sales erosion in Smiths Detection's USA and EMEA markets due to reputational damage – £50m of severance costs incurred – 10% fall in revenue within other Smiths businesses due to the reputational impact
SCENARIO 5 A major fire at the John Crane plant in Czech Republic renders the facility unusable, causing severe disruption to production.	Business continuity	– Loss of six months' EMEA revenue and margin in FY2024 – 20% reduction in future (FY2025 and FY2026) EMEA revenue due to loss in market shares and competitiveness – Breach of supply contracts leading to legal defence costs of £20m per annum plus a one-off settlement of £50m in FY2024 – Refurbishment and repair costs of £50m in Czech Republic (net of insurance claims) – Costs of increasing capacity and other John Crane sites incurs an additional £50m of cost – Capital expenditure on replacement equipment in Czech Republic of £10m (net of insurance claims)
SCENARIO 6 Combination of scenarios 2 and 3.	Product quality and cyber security	– As above

The Strategic Report was approved by the Board on 25 September 2023.

By order of the Board

PAUL KEEL
Chief Executive Officer