

A man with a beard and safety glasses is smiling while working on a large industrial machine. He is wearing a dark blue polo shirt, a black cap, and safety glasses. The machine has various pipes and components, and the background is a dark industrial setting.

smiths

DOUBLE
MATERIALITY
ASSESSMENT

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 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 regulations¹.

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

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 distributes the 23 topics into three distinct categories:

Highest-impact issues: 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

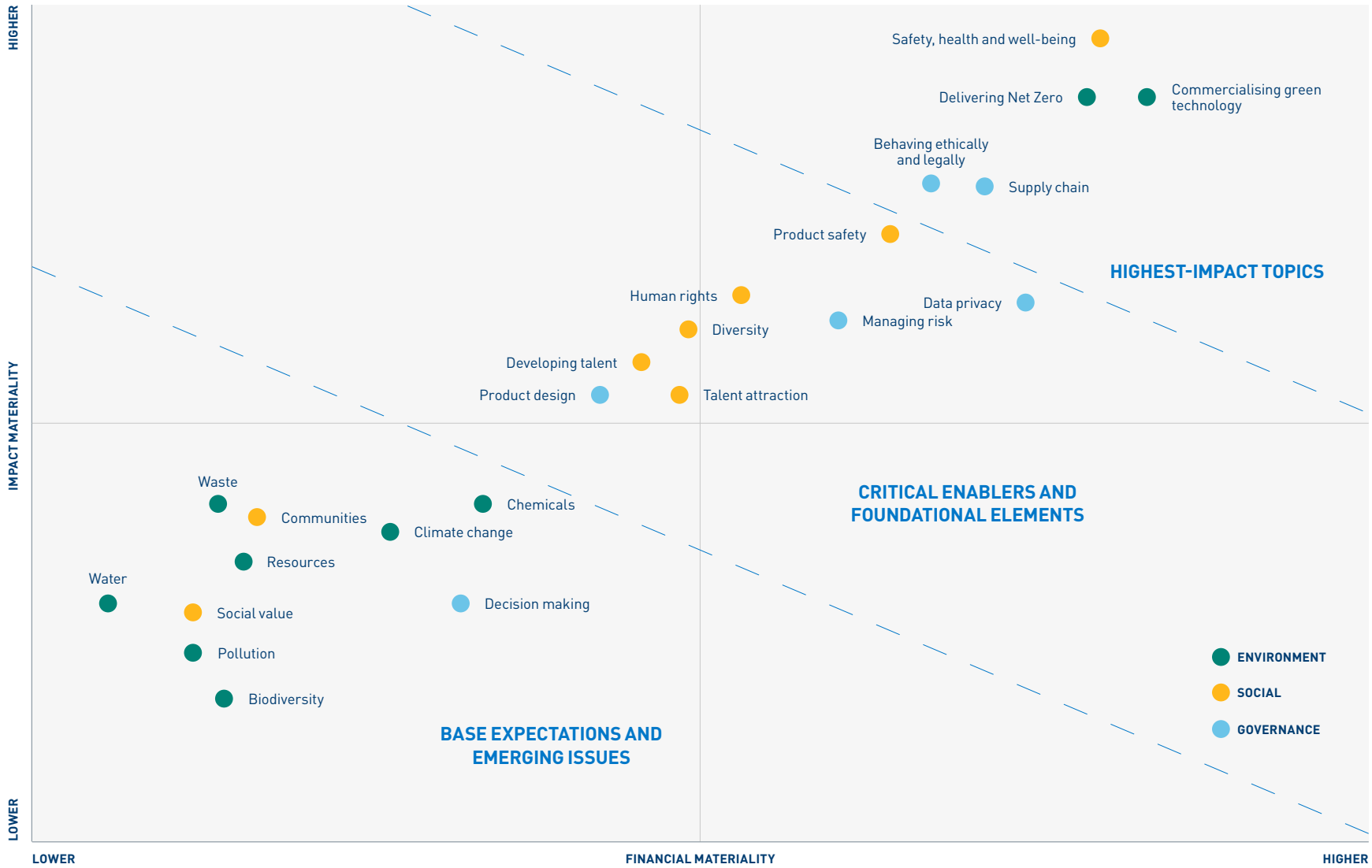
Peers: like Smiths, peers are moving ahead with SBTi-aligned Net Zero goals and green product offerings

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.

GROUP MATERIALITY PICTURE



TOPIC MAPPING

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

ENVIRONMENTAL	SOCIAL	GOVERNANCE & ECONOMIC
DELIVERING NET ZERO GHG <ul style="list-style-type: none">– Delivering Net Zero GHG– Climate change adaptation and resilience	IMPROVING SAFETY, HEALTH AND WELL-BEING <ul style="list-style-type: none">– Improving safety, health and well-being	BEHAVING ETHICALLY AND LEGALLY <ul style="list-style-type: none">– Behaving ethically and legally– Protection of human rights and affected communities
COMMERCIALISING HIGH-VALUE GREEN TECHNOLOGIES <ul style="list-style-type: none">– Commercialising high-value green technologies	PROMOTING DIVERSITY, EQUITY AND INCLUSION <ul style="list-style-type: none">– Promoting diversity, equity and inclusion	MANAGING RISK AND MAINTAINING STRONG AND EFFECTIVE CONTROLS <ul style="list-style-type: none">– 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
RESPECTING NATURAL RESOURCES <ul style="list-style-type: none">– Respecting natural resources– Preventing pollution– Waste management– Water conservation and stewardship– Sustainable product design and lifecycle management	CONTRIBUTING TO OUR COMMUNITIES <ul style="list-style-type: none">– Contributing to our communities– Delivering social value through our products DEVELOPING TALENT <ul style="list-style-type: none">– Developing talent– Talent attraction and retention	EFFECTIVE LONG-TERM DECISION MAKING AND TRANSPARENCY <ul style="list-style-type: none">– Effective long-term decision making and transparency
TOPICS NOT INCLUDED IN EXISTING FRAMEWORK <ul style="list-style-type: none">– Biodiversity and ecological restoration	TOPICS NOT INCLUDED IN EXISTING FRAMEWORK <ul style="list-style-type: none">– N/A	TOPICS NOT INCLUDED IN EXISTING FRAMEWORK <ul style="list-style-type: none">– Supply chain management and responsible procurement

NEXT STEPS

FINDING	ACTION
Safety, health and well-being assessed as the most material issue	<ul style="list-style-type: none"> – Continue absolute focus on keeping our people safe and healthy with an increasing emphasis on health and well-being matters alongside physical safety
Commercialising high-value green technology assessed in highest-impact group and as a material opportunity	<ul style="list-style-type: none"> – Continue focus on bringing to market green technology solutions that address customer and global goals on decarbonisation and green re-industrialisation – Deploy division-appropriate green product accounting to enable detailed reporting in future years
Delivering Net Zero GHG highly material to most stakeholders	<ul style="list-style-type: none"> – Continue prioritising delivery of Net Zero using SBTs/transition plan – Continue FY2023 practice of aligning FY2024 remuneration (AIP¹ and LTIP²) to reward progress in line with SBTs/transition plan
Supply chain management and responsible procurement assessed as high-impact issue rising quickly in perceived risk by internal and external stakeholders	<ul style="list-style-type: none"> – Recognise supply chain management and responsible procurement as a cross-cutting priority ESG topic for additional focus in FY2024 as an important underpinning factor for achievement of targets and future reporting needs (Scope 3 emissions, human rights and modern slavery, biodiversity impacts) – Add supply chain to Sustainability at Smiths framework – Accelerate project to implement Group-wide supplier management platform to significantly increase transparency, efficiency and accuracy of data and processes
Behaving ethically and legally assessed in highest-impact group	<ul style="list-style-type: none"> – Maintain maturity and proactivity of governance environment and robust approach to standards and diligence processes – Continue internal focus on Group Values, Smiths Leadership Behaviours and embed updated Smiths Code of Business Ethics – Utilise supplier management platform to support alignment of our supply chain with our purpose and culture
Critical enablers and foundational elements topics	<ul style="list-style-type: none"> – Continued recognition of role as critical foundations to success and therefore priority areas for investment in Group/divisional model – Confirmation that these topics are sufficiently mapped to our Sustainability at Smiths framework. – Talent development and attraction merged to one topic and updated in Sustainability at Smiths framework as Developing and attracting talent, as determined by our focus on internal talent mobility
Base expectations and emerging elements topics	<ul style="list-style-type: none"> – Monitor and maintain