smiths

SMITHS GROUP PLC
Annual Report FY2018

CREATING THE FUTURE

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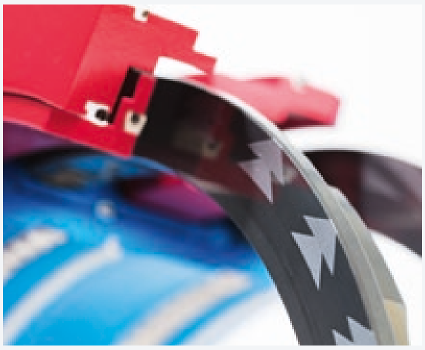
"I was attracted to Smiths by its enormous potential, and that potential has to be realised in the form of growth. Almost a year in, I am even more confident in both the potential, and our ability to translate it into superior returns to shareholders."



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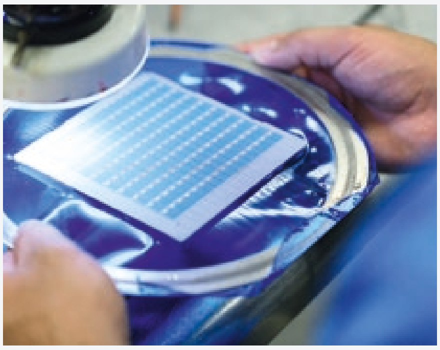


WHO WE ARE

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

We've been at the heart of modern life for over 160 years and today touch the lives of millions.

We push boundaries to solve the world's challenges, making it safer, healthier, more efficient and more connected.

WE'RE CREATING THE FUTURE

FY2018 HIGHLIGHTS

DELIVERING OUR RETURN TO GROWTH

Our ambition is to establish Smiths as one of the world's leading technology companies. FY2018 marks an important milestone on that journey.

£m	FY2018	FY2017	Reported change	Underlying[2] change
Revenue	£3,213m	£3,280m	(2)%	+2%
Headline EBITDA[1]	£641m	£690m	(7)%	
Headline operating profit[1]	£544m	£589m	(8)%	+3%
Headline operating profit margin[1]	16.9%	18.0%	(110)bps	+10bps
Statutory operating profit	£494m	£674m	(27)%	
Profit before tax	£487m	£528m	(8)%	
Earnings per ordinary share – basic				
Headline[1]	90.7p	97.6p	(7)%	+4%
Statutory	70.0p	144.1p	(51)%	
Dividends per ordinary share	44.55p	43.25p	+3%	
Headline operating cash[1]	£538m	£695m	(23)%	
Headline cash conversion[3]	99%	118%		
Free cash-flow	£302m	£370m	(18)%	
Net debt	£893m	£967m		
Net debt/Headline EBITDA[1]	1.4x	1.4x		
Return on Capital Employed (ROCE)	14.6%	16.2%	(160)bps	

This is our Annual Report for the financial year ended 31 July 2018.

1 **Headline**: definitions of headline metrics, and information about adjustments to statutory measures are provided in Note 3 to the financial statements.

2 **Underlying**: modifies headline performance to: adjust prior year to reflect an equivalent period of ownership for divested businesses; include restructuring and pension administration costs as headline for both years; and exclude the effects of foreign exchange, acquisitions and supplemental sales for divested businesses. See the presentation of results note on p129 for further details.

3 Cash conversion is the ratio measuring headline operating cash over headline operating profit.

PORTFOLIO STRENGTH

~80%

FY2017: ~75%

~80% of the Group is well positioned in attractive markets, up from ~75% last year. Driven by increased organic investment and targeted M&A activity.

- Integration of Morpho Detection on track
- Flex-Tek's acquisition of the heating element division of Osram Sylvania Inc.
- John Crane's disposal of the Bearings business
- John Crane's acquisition of Seebach GmbH, a high performance filtration business

RECORDABLE INCIDENT RATE

0.38 per 100 colleagues

FY2017: 0.38

We maintained our record low recordable incident rate in FY2018 as we work to create safe and secure workplaces for our people.

HIGHER-GROWTH REGIONS*

17%

FY2017: 16%

Revenue from higher-growth regions increased by 6% on an underlying[2] basis to 17%, with strong growth in China and India.

* See page 06 for definition.

AFTERMARKET NEW KPI

57%

FY2017: 55%

Aftermarket, a core characteristic of a Smiths business, increased by 200bps, taking aftermarket sales as a percentage of Group revenue to 57%, driven by John Crane and Smiths Detection.

STOCK TURNS NEW KPI

3.7x

FY2017: 3.5x

Stock turns measures speed and efficiency across our operations. Our focus on operational excellence drove further improvement with stock turns up 0.2x to 3.7x.

R&D

4.6%

FY2017: 4.6%

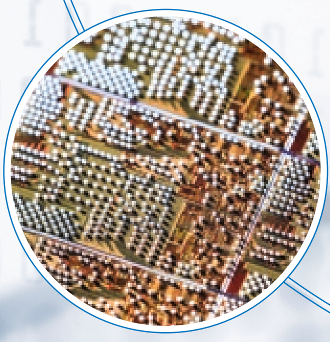
R&D cash costs in line with last year at 4.6% as we continue to invest for growth.

VITALITY NEW KPI

13%

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

A BUSINESS FIT FOR THE FUTURE

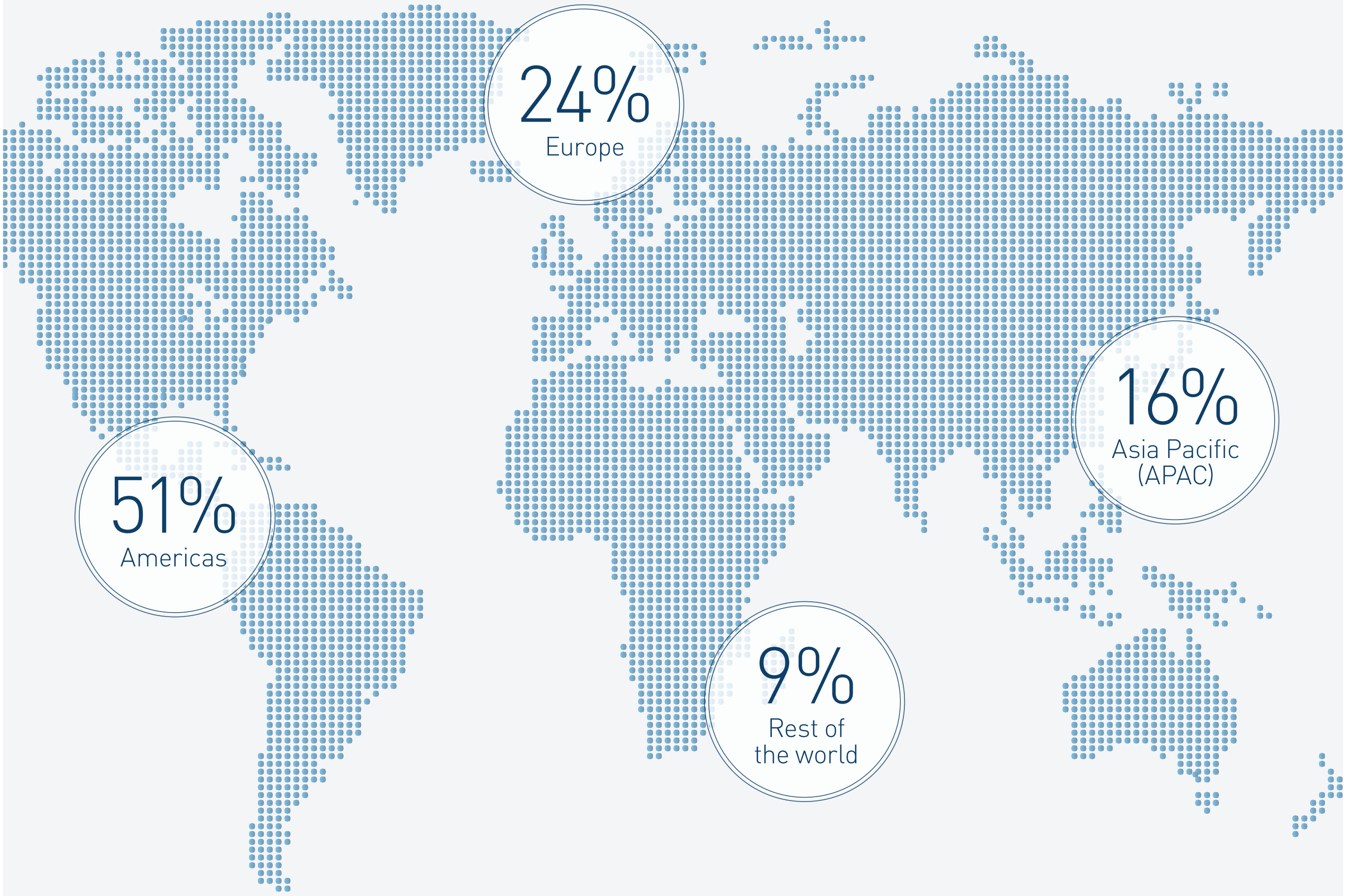


STRATEGIC REPORT

OUR GLOBAL BUSINESS

WE HAVE OPERATIONS IN MORE THAN 50 COUNTRIES. OUR SOLUTIONS REACH c.200 COUNTRIES AND TERRITORIES

REVENUE BY DESTINATION



c.22,000
EMPLOYEES WORLDWIDE

17%
REVENUE FROM HIGHER-GROWTH REGIONS*

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

OUR MARKETS

WE TARGET MARKETS WITH STRONG LONG-TERM GROWTH PROSPECTS

Our products make a vital contribution to our customers' ability to save and enhance lives. There is growing demand for medical technology worldwide, driven by ageing populations, the increasing incidence of chronic diseases, and the expansion of healthcare spending in developing countries. Smiths Medical focuses heavily on this market and both Smiths Interconnect and Flex-Tek supply solutions that support the manufacture of medical devices.

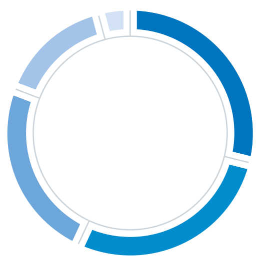
Our threat detection equipment helps keep people and assets safe. Demand in the security market is driven by persistent and evolving terror threats, changing security regulations, and increased global air travel and trade. Aftermarket opportunities rise as the installed base grows. The defence segment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

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

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

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

REVENUE BY MARKET



Medical technology	29%
Security and defence	28%
General industry	24%
Oil & gas	15%
Space and commercial aerospace	4%

All of our markets are driven by the ever-changing nature of the world.

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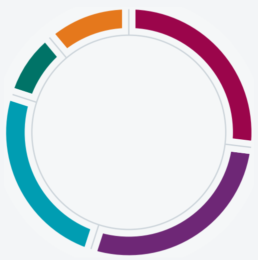
OUR DIVISIONS

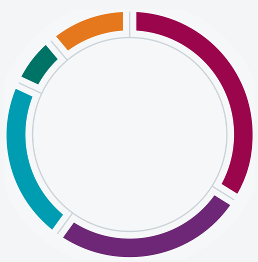
OUR DIVISIONS ARE EXPERTS IN THEIR CHOSEN MARKETS

DIVISIONAL REVENUE SPLIT



John Crane	27%
Smiths Medical	28%
Smiths Detection	25%
Smiths Interconnect	9%
Flex-Tek	11%

DIVISIONAL HEADLINE OPERATING PROFIT SPLIT



John Crane	34%
Smiths Medical	26%
Smiths Detection	22%
Smiths Interconnect	7%
Flex-Tek	11%

JOHN CRANE

Mission-critical solutions for global energy and process industries

REVENUE

£881m

HEADLINE OPERATING PROFIT MARGIN

22.9%

A global leader in flow control for rotating equipment

Strong proprietary technology and expertise in applied engineering

Broad installed base in Oil & Gas and Non-Oil & Gas

Strong aftermarket service offering with c.200 sales and service centres

Long-term customer relationships

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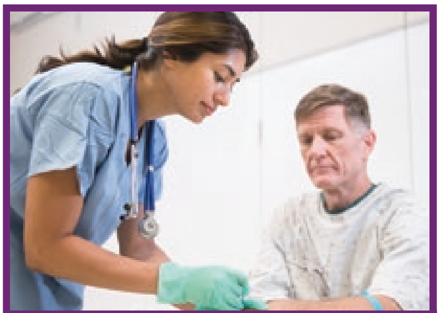

SMITHS MEDICAL

High-quality, cost-effective medical devices and consumables that are vital to patient care globally

REVENUE

£885m

HEADLINE OPERATING PROFIT MARGIN

17.6%

A category leader in our chosen markets

Trusted brands with a reputation for quality and safety

Strong, defensible intellectual property

c.80% of revenue from single-use devices and proprietary consumables

Strong customer relationships and extensive global sales network

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MARKETS KEY

- Medical technology
- Security and defence
- General industry
- Oil & gas
- Space and commercial aerospace

SMITHS DETECTION

A global leader in the detection and identification of security threats and contraband

REVENUE

£793m

HEADLINE OPERATING PROFIT MARGIN

16.9%

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

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SMITHS INTERCONNECT

Solutions for high-speed, secure connectivity in demanding applications

REVENUE

£300m

HEADLINE OPERATING PROFIT MARGIN

14.1%

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

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FLEX-TEK

Innovative components to heat and move fluids and gases

REVENUE

£354m

HEADLINE OPERATING PROFIT MARGIN

18.9%

- High performance products
- Leading capability in design and manufacture
- Market-leading residential gas tubing products
- High performance flexible tubing for aerospace
- Strong customer relationships

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A CHANGING WORLD

SHAPING THE FUTURE OF SMITHS

There are many possible futures for Smiths.
We monitor mega trends to inform our strategy, which drives our innovation agenda so we can create the future.

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

HOW SMITHS IS WELL POSITIONED

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

AGEING POPULATION AND HEALTHCARE DEMANDS

The world's population is growing and ageing. The over 60 global cohort is expected to double by 2050 and triple by 2100*. Ageing populations increases the need for medical technology.

HOW SMITHS IS WELL POSITIONED

- Smiths Medical's digitised devices enable remote care, and support 'smart' hospitals through automation and increased efficiency
- Customer intimacy drives continuous improvement in our products, and strong and sustained R&D is supporting the next generation of innovation

* United Nations World Population Prospects 2017.

ENERGY DEMANDS AND EFFICIENCIES

Energy demand is increasing worldwide, with estimated growth of 1.3%* per annum, and a changing mix with gas growing faster than oil. Environmental regulations and the need to reduce harmful emissions are also impacting the energy landscape.

HOW SMITHS IS WELL POSITIONED

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

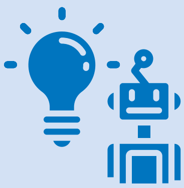
* BP 2018 Global Energy Outlook.

ARTIFICIAL INTELLIGENCE (AI)

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

HOW SMITHS IS WELL POSITIONED

- Our Digital Forge is supporting Group-wide progress in the application of AI
- Our Smiths Detection CORSYS™ software platform leverages AI to enable our customers to make better informed decisions



MOBILITY AND GLOBALISATION

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

HOW SMITHS IS WELL POSITIONED

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

NEW BUSINESS MODELS

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

HOW SMITHS IS WELL POSITIONED

- We are asset-light, helping us to be competitive and agile in a sustainable way
- A high proportion of our revenue (57%) comes from aftermarket services
- Customer intimacy and technological expertise are elements of the Smiths Excellence System, our shared operating model

DEMAND FOR TALENT

Advances in technology, globalisation, demographic trends and competition are increasing the demand for specialised talent. Our HR strategy is to attract, retain, develop, engage and inspire the right people.

HOW SMITHS IS WELL POSITIONED

- Our people are a sustainable source of competitive advantage and we are committed to enabling them to be the best they can be
- We reward our colleagues for their contributions and enable them to share in our success. We aim to engage them so that they are more innovative, productive, effective and happier at work

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WHAT IS i³?

i3

OUR GROUP-WIDE INNOVATION FRAMEWORK

i³ – innovation, implementation and inspiration – identifies mega and emerging trends, translating them into revenue opportunities in our markets.

This drives our innovation agenda and enables us to stay at the cutting edge of knowledge and product development.

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CHAIRMAN'S STATEMENT

BUILDING A BUSINESS FIT FOR THE FUTURE

Building sustainable competitive advantage requires the right combination of world-class operating excellence, innovation, growth and people development. This is what we have been pursuing at Smiths.

I have traditionally used these statements to outline a management philosophy targeted at building sustainable competitive advantage and higher levels of organic growth. So I will continue that tradition this year. I will expand on a few of these management concepts in greater detail in this statement and also briefly report on our progress in FY2018. Chief Executive Andy Reynolds Smith will expand on this topic in his section of this report. I've previously defined our approach to growth as an 'everybody wins' strategy. My goal in all these statements is to be informative, helpful and factual in describing how the Company thinks about its products and markets, the value it ascribes to people, how it competes and how it intends to be sustainable.

In terms of the details of our approach to creating new shareholder value in the Smiths business, little has changed from my Chairman's statement last year. Referring back to the days of the great British industrialists in the 1970s and 1980s, an outcome of their intense focus on short-term results was that many UK and, indeed, US companies gradually became trapped in a paradigm of high margin and low growth. As we all know, Smiths was in a very similar position for many years.

Immediate and consistent financial success were the two historical objectives of most companies. The more enlightened companies stayed the course of finding a better balance between the present and the future and between stronger organic growth and margin enhancement. But the intense short-term pressures often led management teams to compromise and invest less than they should in the future. The outcome was stagnation, and slowly decreasing competitiveness. However, despite the merits of achieving higher levels of organic growth, let's not deceive ourselves; changing from a management philosophy of 'squeeze the lemon harder' to another of 'stimulating organic growth through innovation' can be a tricky exercise in 'performing while transforming'.

As I mentioned in last year's Chairman's Statement, the laboratory of life teaches us that various industries have maximum best-in-class operating margins. Once these best-in-class margins have been achieved by a company – if they can in fact be achieved – the new value creation objective always runs out of roadway unless a company finds new ways of achieving organic growth. If not, earnings and returns plateau and stock prices stagnate, except for the incremental market growth offered by the particular local market. And I stress again that the growth we seek is primarily organic growth, not just acquisitive growth.

The real danger that emerges when a company pushes margins unnaturally high, is that it produces unhappy customers who see the company's financial reports and think the profit sharing is unfair. It also becomes the birthplace of new competition that is attracted by the magnet of high margins. That's less of a problem if the high margin is driven by growth that is born of innovation. Companies with a combination of high growth and low margin, or of low growth and high margin, are ultimately destined to pivot toward a rebalance because neither one of these two performance extremes is sustainable in the long run. If they don't, the result will inevitably be an unhappy ending.

MAKING THE WORLD SAFER

88 million containers traverse the globe each year, but only around 2% are physically inspected at ports and borders. Smiths Detection has developed CORSYS™, a pioneering, AI-driven software solution, designed specifically for the Security Operations market. Partnering with Microsoft and Hitachi Consulting, this new solution enables operators to increase the number of containers inspected, while providing a significant increase in the inspection precision and greatly improving overall efficiency. Evaluating 100% of containers with CORSYS™ will allow our customers to know more about each container and choose the right ones to inspect.

88 million

cargo containers traverse the globe each year but only around 2% are physically inspected

So what can a company normally expect in terms of growth?

Niels Bohr, the Nobel prize-winning theoretical physicist, is famously quoted as saying 'forecasting is very difficult, especially when it concerns the future'. He was right. But some parts of forecasting are fairly easy, especially if you do the same old thing. Whilst on the physicists theme, Albert Einstein also said "One definition of madness is to perform the same experiment over and over again but expect different results". In the vernacular, if you always do what you always did, you'll always get what you always got.

The reality is that if a company participates in a 2% growth market, without active intervention to produce a different outcome, the company will grow at 2%, assuming of course that it is properly combating attrition of its core business. Worse, as new competitors enter the market, the company may actually grow at less than 2% as these new market entrants nibble away at their market share.

In an ideal situation, a company must grow faster than every competitor in the market, otherwise it's implicitly planning never to be better than second place.

For the low growth, high margin companies, the best new value creator is produced by higher levels of organic growth. When starting on a journey of change and value creation improvement, management teams often ask themselves, what should we do first? Try to push operating margins higher or try to get more organic growth? There is a compelling answer here. Depending on the exact starting point, the ratio of value creation for 100bps of organic growth or 100bps of operating margin typically ranges between 4x and 12x. The magic which companies must therefore discover is how to grow again. That has been the challenge for Smiths since I became its Chairman – and for many years before it. I will outline our mechanism for achieving that later in this statement.

How we compete: competitive platforms

So, the principal challenge for any company is how to build sustainable competitive advantage. This requires the right combination of world-class operating excellence, innovation, growth and people development. This is what we have been pursuing at Smiths.

Industrial companies like Smiths compete with each other in a number of different ways. They use a set of competitive platforms; there are seven in most industrial company cases. The first platform is cost, the second is technology, the third is distribution, the fourth is customer service, the fifth is brands and marketing, the sixth is people and the seventh is industrial design. I have included industrial design because great design is not only beautiful, it's usually simple. With simplicity comes low-cost, elegance, reliability and ease of manufacture. But in this list, the single most important factor is the calibre of people you hire and inspire because nothing in a corporation ever happens except through people.

CHAIRMAN'S STATEMENT CONTINUED

The importance of these seven competitive platforms varies depending on which part of the market is being served. If we think of the market as a pyramid where the various segments are divided into three horizontal layers of 'good', 'better', then 'best', the requirements needed to compete effectively in each level of the marketplace segmentation are different. What is considered 'better' or 'best', for example, will vary depending on the state of maturity of a particular market, especially when we consider emerging ones. What is a 'good' product in a developed market may actually appear to be a 'better' product in a developing market. And that changes over time as a market gradually moves from emerging to developed. Medical markets have a softer version of this market tiering because, which one of us wants to receive an opening price point heart valve, even if it is cheap? Nobody.

Opening price point products always require a company to be the lowest cost producer to be successful and sustainable. High-technology companies obviously require their leading competitive vector to be technology – but they also need attractive costs too. All companies require great distribution, customer service, good brands and marketing plus good industrial design. No matter how great or how inexpensive a product is, without proper distribution, the product will fail.

So I repeat that our primary goal is to achieve higher levels of organic growth, while significantly improving operations excellence and people development. We have begun to make significant progress along this three avenue journey. As previously, we will selectively enhance and turbocharge this approach with appropriate acquisitions.

As I have said in previous statements, the primary tool we use for separating us from the pack is innovation, which underpins all of our competitive platforms. While new products are rightly seen as the primary manifestation of innovation, we also need innovation in our route to market, our manufacturing processes, materials science, algorithmic development through mathematics, etc. If a company doesn't cannibalise its own products then someone else will. The Eastman Kodak Company is a classic example of how this can go terribly wrong. But the greatest crystal balls on the future are mathematics, the electronics and software that bring it to life, plus materials science. This includes all the popular elements we think of today such as Artificial Intelligence, the Internet of Things, machine learning, computer vision, natural language processing, robotics, Industry 4.0, mathematical taxonomy, 3D printing, etc.

Some observers may naturally ask, "Why can't you push innovation and growth faster in Smiths Medical?" There are some market realities here. New product innovation is actually toughest in regulated markets such as medical where patient safety, the scrutiny and requirements of regulatory bodies is at its highest. Even seemingly small product modifications can require thousands of pages of submissions to the FDA. Sales forecasts can also be challenging with completely new medical products because, unlike in unregulated markets, new products cannot be presold to hospitals. That brings Niels Bohr's comment on forecasting to real life.

Nevertheless, the fact remains that a company can neither save nor spend its way into prosperity, but it can innovate its way there. In most places at Smiths, the Company had underinvested for many years. When we began this journey three years ago, the new product Vitality Index was zero or near zero in almost every reporting division and sub-segment, and had been so for many years. The Smiths management team has done a magnificent job in getting this moving again.

The bird's eye view of a company

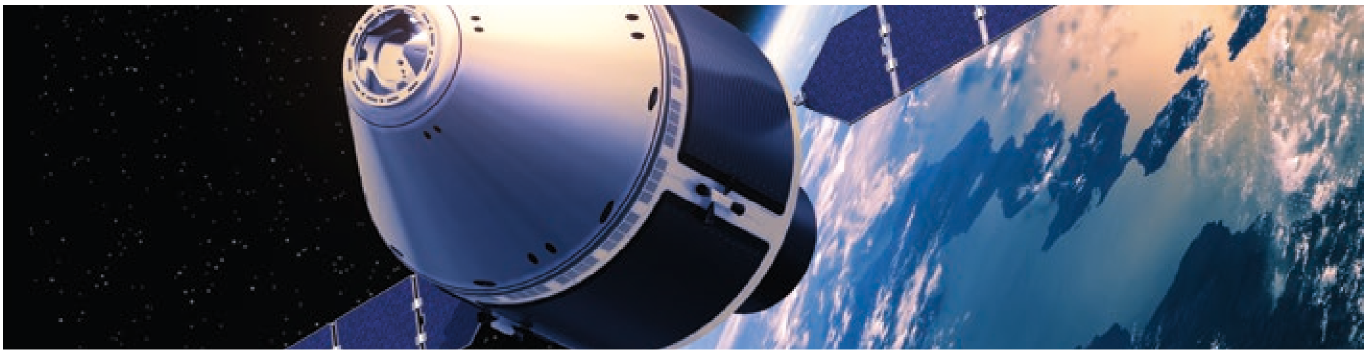
To stand back from the above detail, at the 30,000 ft. level, companies are about four things:

1. A dream (for the future)
2. A strategy to achieve that dream
3. People
4. Relentless execution

While some observers may prefer different words to mine, the word 'dream' here describes a combination of fervent hope and desire for a better future. If a company doesn't have a dream it will simply become a figurative version of Alice's conversation with the Cheshire cat at the crossroads in Lewis Carroll's Alice's Adventures in Wonderland. Undecided and indecisive. Our dream is to become one of the great engineering technology companies of the world, but we will start by first becoming one of the great engineering technology companies of the UK. This is a long haul, but it is an achievable one and a worthy one in my view.

Our strategy to achieve this dream is to use operations excellence and innovation as our two primary tools, and superb people as the driving force. The circumstances surrounding each of the Smiths businesses vary somewhat, but the core set of ideas of how to achieve them are largely the same in every business we own.

WE'RE CREATING THE FUTURE



As regards our people, that vital ingredient, the objective here is to inspire the voluntary engagement of our employees, and give them a stimulating career within an exciting growth environment in an innovation-oriented company. Gradually our employment brand will build and more and more people will choose Smiths as an employer. We will invest in them, just as we invest in operational excellence and innovation.

> "Our strategy to achieve this dream is to use operations excellence and innovation as our two primary tools, and superb people as the driving force."

And, finally, relentless execution. I have found in a lifetime of work experience that very few companies cannot be improved by the application of imagination, creativity and relentless effort. No matter how hard the challenge, or how long the road, problems always eventually yield to this combination of factors. So it will be for Smiths.

The four lines of my 30,000 ft comment above are foundation stones and, without all four simultaneously supporting the corporation, we have what mathematicians call a 'null set'. So we therefore expand our framework for eventual success by adding investment in people to our investments in operations excellence and innovation.

The calculus of growth

I return to my central theme. Over the years, companies have found many different ways to drive organic growth. But it always comes from doing something new. While innovation is itself not a process at the strategic level, methods to achieve growth are. The rules for achieving it are as follows:

1. In the core markets of the company (2% in our earlier example), a company must discover (through segmentation analysis) or create (through innovation), pockets of new organic growth in their core at multiples of the underlying market. The core is always the best place to begin.
2. Line extension and geographic expansion.
3. Gain market share year after year (in a statement of the obvious, no great company was ever created by losing market share each year).
4. Having the courage and discipline to prioritise differently; reallocate and move resources from low-growth markets to high-growth markets.
5. Invent completely new markets or products.

There is no other calculus for growth than this one and it can be applied systematically in any business. As I have mentioned before over the years, three of the five strategies listed above require innovation. This is the pathway we've been following at Smiths.

On the road to success

Smiths has made great progress in FY2018, with the return to organic revenue growth for the first time in five years. Further enhancement of growth and margins must come from further reducing the use of working capital, the cost of poor quality, and on-time service performance.

When a company embarks on a change as radical and thorough as the one which we are engaged, there is always significant upfront investment in time, money and human resources. A company which has a history of innovation and new product development always has a family of growing innovative products in the market paying for the new ones being developed. In most cases at Smiths, we are having to play catch-up, which makes the transition to growth and innovation trickier. But it is the way to make the Company more competitive and sustainable in the long-term. It will produce better growth and better earnings as the challenges gradually yield to the combination of imagination, creativity, relentless effort and of course, the all-important financial investment.

I'd like to thank all of our investors for believing in our story. It will work – I'm sure of it – and as I said in 2017, ultimately all of us will be the beneficiaries.

SIR GEORGE BUCKLEY
CHAIRMAN

GOING INTO DEEP SPACE WITH NASA

Providing mission-critical support to NASA's manned spacecraft Orion, during its deep space mission.

Two of our divisions are providing mission-critical support to NASA's manned spacecraft Orion, during its deep space mission. Smiths Interconnect's rugged connectors support high-speed data rates that will keep digital signals transmitting despite the extreme vibration of blast-off and splash-down. Bespoke tests run by Flex-Tek improved and proved the robustness of the Space Launch System's fuel manifolds.

CHIEF EXECUTIVE'S Q&A

RETURN TO GROWTH

FY2018 marks a very important milestone on our journey. We said that this would be the year that we returned to growth and we've done that. Our next objective is to deliver continued, sustainable growth, on the way to outperforming our markets.

When I joined Smiths, the thing that I felt, and continue to feel the strongest about, is the level of opportunity and potential that we have in this business.

We're now three years into a journey towards delivering our dream of building a world-leading technology company. Right across the organisation we're focused on creating a business that executes consistently, is a leader in innovation and attracts, retains and develops the very best people.

We are creating the future of Smiths.

Q

In 2016 you set out your new strategy and vision for the Group. What progress have you made this year?

A

Over the last three years we've been putting in place the building blocks that will support sustainable growth into the future. We're successfully implementing the Smiths Excellence System (SES), our Group-wide operating model that helps drive speed and efficiency, ensures consistent execution and supports the development of a culture of continuous improvement. We've also put in place a new Group-wide innovation framework, i^3, to ensure that Smiths stays at the cutting edge of technology and continues to deliver innovative services and products that meet or exceed customer needs. Finally, most importantly, we've developed and rolled out a global people plan that ensures we are investing in the right way in our most valuable resource.

Driving operational improvement takes time; innovation and bringing new products to market takes time; and, developing the culture of an organisation with a 160-year history takes time; but we're making real and measurable progress as you can see from our KPIs on page 25. These include, for the first time, our new Vitality Index which measures the effectiveness of our innovation by tracking revenue from products and services launched in the last three years.

This year we also continued to make progress on strengthening our portfolio by improving the market positions of each of our businesses with the aim of achieving and maintaining top three leadership positions.

> "Driving operational improvement takes time; innovation and bringing it to market takes time; and, developing the culture of an organisation that is over 160 years old takes time; but we're making real and measurable progress."

We said three years ago that around 60% of our business was well positioned in attractive markets and we're now at around 80%. We've got there through a combination of targeted organic investment decisions and a disciplined approach to acquisitions and disposals, having sold eight non-core operations and bought four businesses that have increased our momentum and strengthened competitiveness.

We aim to buy well and sell well and I'm particularly pleased that our acquisition of Morpho Detection last year, which significantly enhanced Smiths Detection, is being successfully integrated with synergies being delivered ahead of plan.

In the coming years I expect the percentage of the Smiths business that is well positioned will continue to improve. But note that this is not a dash to 100% – portfolio review is a continuous process. In parallel, we're constantly thinking about those bigger portfolio prioritisation decisions across the Group that will ensure we're allocating our capital appropriately to drive maximum value creation. We can't do everything big. We're thinking with great clarity around the risk and return potential of each of our business areas, from an organic and non-organic perspective.

> "We're constantly thinking about those bigger portfolio prioritisation decisions across the Group that will ensure we're allocating our capital appropriately to drive maximum value creation."

We said that FY2018 would be the year that we returned to growth and we've done that. We delivered this growth despite some disappointing setbacks in our Medical division. Importantly, the Group achieved this growth while maintaining our underlying operating margin. This has been enabled by our relentless focus on driving efficiency and productivity improvements to help fund investment in growth. This is a key point for me. Investing in the future is critical, but it has to come without taking a backwards step in profitability.

FY2018 marks a very important milestone on our journey. Our next objective is to deliver continued, sustainable growth, on the way to outperforming our markets.

Q

As a Group with five divisions, what does it mean to be a Smiths business?

A

First impressions may suggest that our businesses are diverse; but they all share the Smiths DNA. A Smiths business is targeted in attractive markets where we can achieve and maintain a top three leadership position. Our businesses share the same four characteristics, which embody how we create value: technological differentiation; increasing digitisation; a high proportion of aftermarket and services; and sustainably competitive and asset-light. You should expect us to focus investment in businesses which match these characteristics.

These are the characteristics that define the Group and our shared culture and values guide how we behave. For us, our values are more than just words, we use them every day to direct our decisions and actions, to make sure that Smiths is both a place people want to work and an organisation that people want to do business with.

Our characteristics and culture are wrapped together by the SES operating model and, together, these are our source of sustainable growth, competitive advantage and strong returns for all our stakeholders.

Q

What do you see as the priority to ensure you deliver on your vision for the Group?

A

Our people. They are the difference between success and failure.

It's critical that we have the right team in place to lead this business into the future, and I believe we do. The breadth of experience and strength of leadership throughout the Group is a real differentiator for us in executing our strategy.

Developing and recognising the broader talent we have across the organisation is central to the Smiths people plan. We've made great strides on that this year, with enhanced employee communication, widely available development opportunities, and stronger employer branding.

We have also increased our focus on diversity and inclusion at all levels. This is a key priority for me. I'm inspired by the unique ideas and perspectives that my colleagues bring to work each day and I truly believe that creating a more inclusive environment is the foundation of innovative thinking. All of our efforts in this area are focused on ensuring that we can attract, retain, develop, engage and inspire the very best people.

CHIEF EXECUTIVE'S Q&A CONTINUED

Having the right team in place, doing things the right way is vital to our future success. Integrity is one of our core values and is central to our new Code of Ethics. It means we do the right thing, every time, regardless of whether someone is looking – it's part of our Smiths Way of doing things.

I'd like to thank everyone at Smiths for their hard work in FY2018, a year that has marked our return to growth.

Q

As Chief Executive you have a lot of responsibilities. What keeps you awake at night?

A

It's the need for speed. We have big ambitions at Smiths. Our strategy is on track but, in an ever-changing world where our markets are moving fast, we need to keep up the pace and make sure we stay ahead; identifying mega and emerging trends in our markets and in the world to shape our strategy and build our future.

Our execution has become far more consistent and our risk management system is strong but, as we saw this year at Smiths Medical, we can all suffer setbacks. These were one-off disruptions that impacted on the division's overall performance in FY2018. In advance of the new EU Medical Device Regulation in 2020, one of Smiths Medical's European Notified Body service providers was decertified for some products. This led to the temporary suspension of some of Smiths Medical's products in Europe.

> "In an ever-changing world where our markets are moving fast, we need to keep up the pace."

As a result of this, and the termination of two contracts in the US, the division didn't deliver the growth that we had been expecting. This was very disappointing, but we are confident that the regulatory and contract challenges will progressively abate – and the growing contribution of new products should see Smiths Medical revenues back in growth for the full year.

Q

In the near term how is the Group positioned for FY2019?

A

In FY2019 we anticipate at least sustaining the rate of underlying revenue growth. As in previous years, Group performance in FY2019 is expected to be weighted towards the second half. Foreign exchange will provide a tailwind to reported headline revenue and operating profit, if current rates prevail.

Over the medium term we remain confident that we can grow faster than our markets. This is driven by our strategy to focus the portfolio for growth and deliver world-class competitiveness, underpinned by our strong financial framework. In parallel with continued active portfolio management, the Board remain confident that this will drive long-term sustainable growth and attractive returns.

ANDY REYNOLDS SMITH
CHIEF EXECUTIVE

STRENGTHENING THE PORTFOLIO

In April 2017, we acquired Morpho Detection. The acquisition positions us well to benefit from global aviation market growth, with:

- A combined technology roadmap with strong R&D capability;
- Improved commercial positioning with a broader product portfolio, which supported the $50m contract win with Airports Authority of India this year;
- Improved operating structure with common processes and removal of duplication, all of which supports the delivery of the expected $30m cost synergies.

Smiths Detection's now broader product portfolio supported the $50m contract win with Airports Authority of India

OUR EXECUTIVE COMMITTEE

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

ANDY REYNOLDS SMITH
Chief Executive
Joined Smiths in 2015. Background: Chief Executive, Automotive, GKN plc; Ingersoll Rand; Siebe plc and Delphi Automotive Systems.
For full biography see page 72.

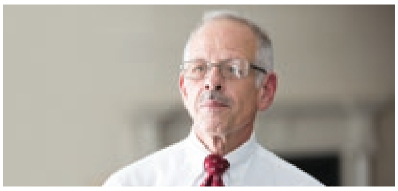
JOHN SHIPSEY
Chief Financial Officer
Joined Smiths in 2017. Background: CFO at Dyson for 12 years; 13 years in senior finance and strategy roles at Diageo plc.
For full biography see page 72.

JEAN VERNET
President, John Crane
Joined Smiths in 2017. Background: CFO of Expro; Grid Net and Formfactor; Director of Risk at Rio Tinto Alcan; Schlumberger.

CHRIS HOLMES
President, Smiths Medical
Joined Smiths in 2015. Appointed President of Smiths Medical in 2017. Background: Senior VP of Operations & Supply Chain at 3M; Executive VP of the Industrial Business Group, 3M.

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

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



TEDD SMITH
President, Flex-Tek
Joined Smiths in 1991 with acquisition of Flexible Technologies. Appointed President of Flex-Tek in 2002. Prior roles included CFO, Executive VP of Operations and General Manager.

JULIAN FAGGE
Group Strategy and M&A Director
Joined Smiths in 2013 as Group Financial Controller. Appointed Group Strategy and M&A Director in 2017. Background: Royal Caribbean Cruises; Procter & Gamble; PwC.

SHEENA MACKAY
Group HR Director
Joined Smiths in 2016. Background: Group HR Director at Aggreko plc, BBA Aviation plc and SSL International plc, starting her career at GEC plc.

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

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

OUR BUSINESS MODEL

THE SMITHS WAY IS HOW WE DO THINGS

It starts with the core characteristics that define our businesses and the values that guide how we behave.

It encompasses our shared operating model, focused on excellence, innovation, and consistent execution.

THE **CORE CHARACTERISTICS** THAT DEFINE OUR BUSINESSES

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

TECHNOLOGY DIFFERENTIATION

INCREASING **DIGITISATION**

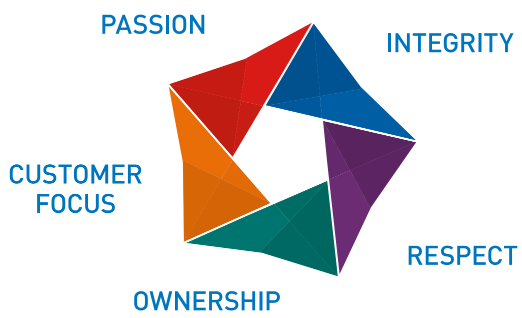
TARGETED IN GROWING MARKETS

HIGH PROPORTION OF **AFTERMARKET AND SERVICES**

SUSTAINABLY COMPETITIVE AND **ASSET-LIGHT**

WE ARE UNITED BY OUR **SHARED CULTURE AND VALUES**

Our values are more than just words, we use them to guide every decision and action as we work to make Smiths one of the world's leading technology companies.



ACHIEVING WORLD-CLASS COMPETITIVENESS THROUGH **EXCELLENCE AND INNOVATION**

The Smiths Excellence System (SES) is our shared operating model. It helps us apply best practice across the Group to drive speed and efficiency. We work to ensure consistent execution and a culture of continuous improvement.

TECHNOLOGY
We are at the forefront of technology and develop products that meet our customers' evolving needs. We bring innovative, differentiated solutions to market quickly.

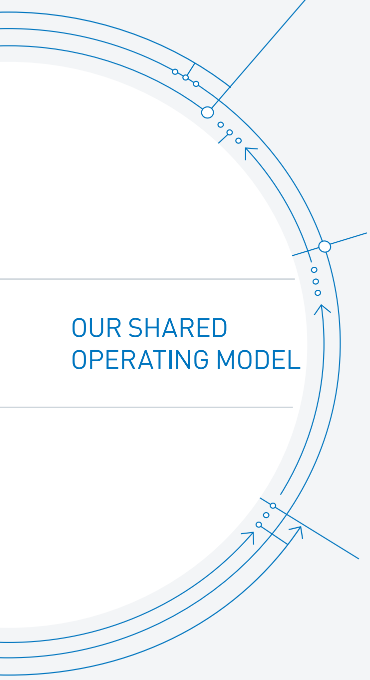
PRODUCTION
We work to continuously improve our production processes to enhance safety and increase efficiency and quality. Much of our manufacturing is small-batch and made to meet specific customer orders, which helps us to be asset-light and flexible.

PROGRAMME
We work to drive consistent and flawless execution. Many of our businesses provide a high level of aftermarket service generating customer loyalty, understanding of our product performance and increased resilience throughout the cycle.

INNOVATION

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

Read more on how we manage our resources and relationships
60



PEOPLE

Our people are critical to our success. We work to attract, retain, engage, develop and inspire the best people.

CUSTOMER

We partner with our customers to shape product innovation and technology development. Deep market knowledge enables us to achieve a high degree of customer intimacy, allowing us to anticipate their specific needs.

SUPPLY CHAIN

We build strong, strategic supplier relationships to deliver quality, efficiency and flexibility. This enables us to meet the expectations of our customers.

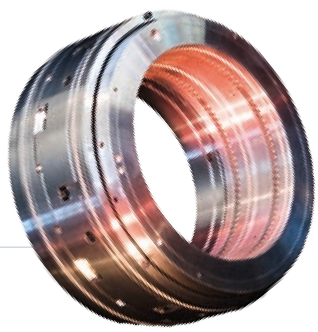
DRIVES SMARTER AND FASTER NEW PRODUCT DEVELOPMENT AND COMMERCIALISATION

CREATING **WIDER VALUE** FOR OUR STAKEHOLDERS

ATTRACTING AND RETAINING **THE BEST TALENT**

PRODUCTS AND SERVICES THAT GO **BEYOND CUSTOMER EXPECTATIONS**

OPERATING RESPONSIBLY WHICH INCLUDES HEALTH AND SAFETY, ENVIRONMENT AND ETHICS



SUSTAINABLE RETURNS TO SHAREHOLDERS

+4%
Headline EPS underlying growth[1]

+3%
Dividends per share growth

1 **Underlying**: modifies headline performance to: adjust prior year to reflect an equivalent period of ownership for divested businesses; include restructuring and pension administration costs as headline for both years; and exclude the effects of foreign exchange, acquisitions and supplemental sales for divested businesses. See the presentation of results note on p129 for further details.

OUR STRATEGY

WE ARE SEEING COMPREHENSIVE BENEFITS FROM IMPLEMENTING OUR THREE KEY STRATEGIC OBJECTIVES

1 OUTPERFORM OUR CHOSEN MARKETS

Focus the portfolio on our most attractive markets globally, where we can sustainably maintain a scalable top three leadership position.

FOCUS THE PORTFOLIO FOR GROWTH THROUGH ORGANIC INVESTMENT AND A HIGHLY DISCIPLINED APPROACH TO ACQUISITIONS AND DISPOSALS

Progress in FY2018

We continued to invest in R&D and innovation in a focused and commercial way. During the year we launched:

- John Crane's new Aura™ dry gas seal range, reducing methane emissions;
- Over 20 new Smiths Medical products;
- CORSYS™, a new Smiths Detection AI based platform;
- Smiths Interconnect's SpaceNXT™ for next generation space applications;
- Flex-Tek's Thermaflex® floating core Heating Ventilation and Air Conditioning (HVAC) duct.

We continued to focus the portfolio into profitable and high-growth markets:

- Morpho Detection integration progressing to plan;
- Acquired the heating element division of Osram Sylvania Inc. in Flex-Tek;
- Disposed of our Bearings business in John Crane;
- Acquired Seebach GmbH, a high-performing filtration business in John Crane;
- We now have ~80% of our portfolio with leadership positions in attractive markets.

Priorities for FY2019

Drive the market share growth of our businesses in chosen markets through effective R&D investment

Continue to focus the portfolio and grow the percentage of the Group that is well positioned

Maintain a disciplined approach to acquisitions that will enhance our capabilities and leadership

INCREASE OUR FOCUS ON HIGHER-GROWTH REGIONS

Progress in FY2018

We continued to make progress in growing our presence in higher-growth regions, which now represent 17% of Group revenue which grew by 6%[1] in FY2018. This is supported by multiple actions across the Group including:

- Creation of the Asia Pacific leadership team;
- John Crane's contract wins in Thailand and China;
- Smiths Medical's strong growth in India and China;
- Opened the customer experience centre in Malaysia for Smiths Detection;
- Smiths Detection's contract win with Airports Authority of India;
- Smiths Interconnect's joint venture signed with Sichuan Huafeng in China;
- Flex-Tek's Heat Solutions strong growth in China.

Priorities for FY2019

Continue to embed and execute our new operating model and strategy for Asia Pacific

Look for partnership opportunities in India and China to strengthen our business

1 **Underlying:** modifies headline performance to: adjust prior year to reflect an equivalent period of ownership for divested businesses; include restructuring and pension administration costs as headline for both years; and exclude the effects of foreign exchange, acquisitions and supplemental sales for divested businesses. See the presentation of results note on p129 for further details.

2

DELIVER WORLD-CLASS COMPETITIVENESS

Drive world-class competitiveness through: a shared operating model (SES) that drives speed and efficiency on a sustainable basis; investing in innovation for technological differentiation; and building a learning organisation that enables our people to be the best that they can be.

DELIVER THE SMITHS EXCELLENCE SYSTEM (SES) – A SHARED OPERATING MODEL FOCUSED ON CONTINUOUS IMPROVEMENT, SPEED AND EFFICIENCY

Progress in FY2018

We continued to embed SES.
Key highlights included:

- Continued to improve our top tier safety culture;
- Introduced SES fundamentals to further develop capabilities and drive continuous improvement;
- Developed IT roadmaps, to accelerate enabling technology and software deployment;
- Launched SES training academy.

We deployed best practice sharing via SES cross-divisional projects, such as:

- Production – established six Model Value Streams, to showcase best practices and pilot collaborative robots (CoBots), additive manufacturing and augmented reality technology applications;
- Supply – launched transformation projects to improve operational planning and inventory optimisation.

We have introduced Stock Turns and Aftermarket revenue as a percentage of total revenue as Group KPIs.

Priorities for FY2019

Safety and zero-harm remains our number one focus

Continue to drive Group-wide capability development and continuous improvement

Implement IT roadmaps

Expand SES projects to accelerate associated business performance benefits through best practices

CREATE A CULTURE OF INNOVATION

Progress in FY2018

i³ is driving the innovation agenda, and participated in the funding and development of key projects.

We opened our first Digital Forge in the San Francisco Bay area with a team of technologists, who have capabilities in AI and machine learning, digital signal processing, web software development, DevOps, cyber security, user interfaces, and software architecture.

Forge and divisional collaborations include:

- John Crane's Sense™
- Smiths Medical's large volume pump
- Smiths Detection's CORSYS™
- Smiths Interconnect's Integrated Data Terminal

We have added Vitality Index as a new KPI. This measures revenue from products launched in the last three years as a percentage of total revenue.

Priorities for FY2019

Increase our Vitality Index with new revenue streams, product lines and capabilities

Translate our future scenario planning into near-term products and services

Drive the culture of innovation deeper into the organisation

Expand our strategic partner network to help accelerate our innovation and commercialisation

OUR STRATEGY CONTINUED

2 DELIVER WORLD-CLASS COMPETITIVENESS CONTINUED

BUILD A LEARNING ORGANISATION

Progress in FY2018

Continued to embed our values, strategy and operating model across Smiths to support a unified Group.

Progressed our people plan to improve attraction, retention, development and engagement of employees.

Evolved our senior leadership programme with our partner UCLA.

Progressed our early career talent strategy.

Increased our focus on diversity and inclusion at all levels.

Held the first Smiths Day which celebrated The Smiths Way across our locations globally.

Priorities for FY2019

Progress our people plan and diversity and inclusion strategy through a wide set of initiatives

Launch our enhanced Leadership programme

Globalise our finance graduate programme and launch our engineering graduate programme

3 STRONG FINANCIAL FRAMEWORK

Our financial framework underpins the delivery of our strategy and value creation by optimising cash generation and allocating capital to the best value creation opportunities. Our governance framework is supported by robust risk management and strong financial control to help maintain our investment-grade credit rating.

DELIVER PROFITABLE GROWTH WITH SUSTAINABLE MARGINS

Progress in FY2018

Returned to organic growth for the first time since 2013 with underlying revenue growth of +2%.

Margin up 10bps compared to FY2017 on an underlying[1] basis.

FOCUS THE PORTFOLIO ON SUSTAINABLY COMPETITIVE AND ASSET-LIGHT BUSINESSES

Progress in FY2018

Further focused the portfolio with two acquisitions and one disposal.

Strong cash generation and conversion has enabled further investment and value creation.

APPLY STRONG FINANCIAL DISCIPLINE TO THE WAY WE MANAGE THE BUSINESS AND INVEST

Progress in FY2018

New R&D stage gate process has strengthened capital allocation decisions.

Further strengthened the balance sheet with net debt/headline EBITDA at 1.4x.

Maintained an investment-grade credit rating.

1 **Underlying:** modifies headline performance to: adjust prior year to reflect an equivalent period of ownership for divested businesses; include restructuring and pension administration costs as headline for both years; and exclude the effects of foreign exchange, acquisitions and supplemental sales for divested businesses. See the presentation of results note on p129 for further details.

KEY PERFORMANCE INDICATORS

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

OPERATIONAL PERFORMANCE

KPI	Performance		Ambition	Strategic objective
PORTFOLIO STRENGTH	FY2018	~80%	85%+ revenue from top 3 positions in attractive markets	1
	FY2017	~75%		
	FY2016	~60%		
R&D CASH COSTS AS % SALES	FY2018	4.6%	5.0-6.0%	1
	FY2017	4.6%		
	FY2016	4.0%		
VITALITY INDEX* NEW KPI	FY2018	13%	~20%	1 & 2
STOCK TURNS NEW KPI	FY2018	3.7x	~6.0x	2
	FY2017	3.5x		
	FY2016	3.2x		
AFTERMARKET % NEW KPI	FY2018	57%	60%+	1
	FY2017	55%		
	FY2016	53%		
EMPLOYEE ENGAGEMENT	FY2018	73%		2
	FY2017	71%		

FINANCIAL PERFORMANCE

KPI	Performance		Ambition	Strategic objective
UNDERLYING REVENUE GROWTH	FY2018	2%	Outperform our chosen markets	1
	FY2017	(1)%		
	FY2016	(2)%		
% Revenue from higher-growth regions	FY2018	17%		1
	FY2017	16%		
	FY2016	16%		
OPERATING MARGIN	FY2018	16.9%	18-20%	2 & 3
	FY2017	18.0%		
	FY2016	17.3%		
Cost of poor quality	FY2018	1.7%		2
	FY2017	2.1%		
Procurement savings	FY2018	£44m		2
	FY2017	£42m		
ROCE	FY2018	14.6%	16-18% through the cycle	2 & 3
	FY2017	16.2%		
	FY2016	15.3%		
WORKING CAPITAL % SALES**	FY2018	26%	~20%	2
	FY2017	27%		
CASH CONVERSION*	FY2018	99%	100%+	2 & 3
	FY2017	118%		
	FY2016	102%		

* See pages 02 and 03 for definitions.

** Working capital as a percentage of sales is calculated as the 12-month rolling average of inventory, trade receivables and associated provisions, unbilled receivables, trade payables and deferred revenue as a percentage of total annual sales.

CHIEF FINANCIAL OFFICER'S REVIEW

FY2018 PERFORMANCE REVIEW

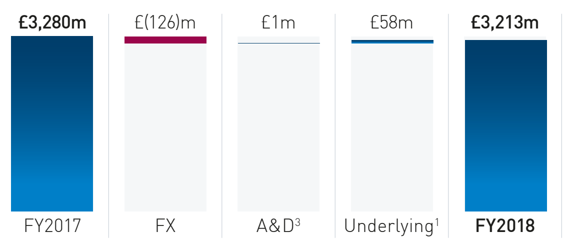
Revenue

The Group returned to growth, with underlying[1] revenue up 2%. This marked an important milestone on our journey to deliver sustained outperformance. Reported revenue of £3,213m (FY2017: £3,280m) was down (2)% primarily due to £(126)m of adverse foreign exchange translation. Underlying[1] revenue was up 2%, or £58m. Growth in John Crane, Flex-Tek and Smiths Detection was partially offset by the performance in Smiths Medical and Smiths Interconnect. Second half growth was 5%, reflecting an improving trend over the year.

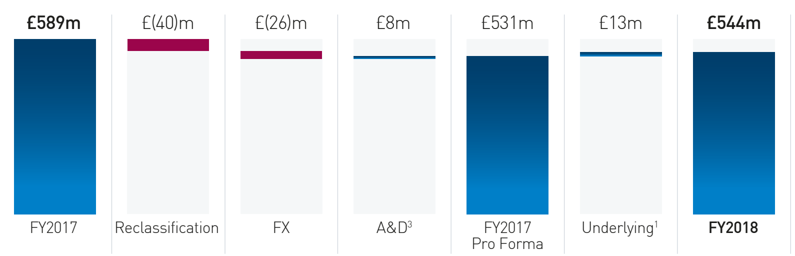
Operating profit

On a reported basis, headline operating profit of £544m (FY2017: £589m) was down (8)%. After adjustment for £(40)m of restructuring and pension administration costs (reported as non-headline in FY2017), £(26)m of adverse foreign exchange translation and an £8m net impact from acquisitions and disposals, headline operating profit was up 3% on an underlying[1] basis. This was driven by good underlying[1] headline operating profit growth in Smiths Detection, John Crane and Flex-Tek, partially offset by the disruptions in Smiths Medical. Central costs decreased by £5m on an underlying[1] basis to £(57)m, but included increased investment in innovation to support sustainable growth.

REVENUE



OPERATING PROFIT[2]



Operating profit on a statutory basis, after taking account of the items excluded from the headline figures, was £494m (FY2017: £674m) – see note 3 to the accounts for information on the excluded items. Non-headline charges of £(50)m reflect the change in reporting of restructuring costs and pension administration costs as headline items (FY2017: £(33)m restructuring costs and £(7)m operating charge for pension administration were classified as non-headline items) and the £175m profit on disposal of businesses generated in FY2017.

1 **Underlying:** modifies headline performance to: adjust prior year to reflect an equivalent period of ownership for divested businesses; include restructuring and pension administration costs as headline for both years; and exclude the effects of foreign exchange, acquisitions and supplemental sales for divested businesses. See the presentation of results note on p129 for further details.

2 **Headline:** definitions of headline metrics, and information about adjustments to statutory measures are provided in note 3 to the financial statements.

3 Includes disposals and FY2018 performance from acquisitions that do not have comparators for the prior year.

Margin
Headline operating margin increased 10bps to 16.9% on an underlying[1] basis. This improvement was driven by continued focus on operational excellence, as well as volume growth and Morpho cost synergies, partially offset by the disruptions in Smiths Medical. On a reported basis headline operating margin decreased (110)bps.

Finance costs
Headline finance costs of £(57)m (FY2017: £(61)m) were £4m lower driven by the repayment of higher coupon debt. Statutory finance costs were £(59)m (FY2017: £(73)m).

Tax
The principles of the Group's approach to taxation remain unchanged. The Group seeks to manage the cost of taxation in a responsible manner to enhance its competitive position on a global basis while managing its relationships with tax authorities on the basis of full disclosure, co-operation and legal compliance. The headline tax charge for the year of £126m (FY2017: £140m) represents an effective rate of 25.8% (FY2017: 26.5%). This was impacted by the new US tax legislation, where 44% of our revenue originates. The statutory tax rate of 35.9% includes one-time costs associated with US tax reform.

An effective tax rate of c.25% is expected for the year ending 31 July 2019.

The forecast has been updated to recognise the impacts of a shift in profit mix and non-deductibles.

Total profit and earnings per share
Total statutory profit for the year of £279m and EPS of 70.0p was down 51% on a reported basis, impacted by the non-headline items; but on an underlying[1] basis EPS was up 4%.

R&D
The Group's investment in R&D was maintained with R&D cash costs at 4.6% of sales or £147m (FY2017: 4.6% or £150m).

R&D income statement costs increased to £131m (FY2017: £125m), an underlying[1] increase of 8%. In FY2018, we reported our Vitality Index of 13% for the first time. It measures the revenue from new products launched in the past three years as a percentage of total revenue.

Net capex, Depreciation & Amortisation
Net capex at £102m (FY2017: £98m) represented 1.1x depreciation and amortisation, broadly in line with last year (FY2017: 1.0x).

Working capital
Movement in working capital was an outflow of £(16)m (FY2017: £85m inflow), reflecting higher receivables following strong growth in the latter part of the year as well as higher inventory to support the return to growth. Working capital as a percentage of sales improved to 26% (FY2017: 27%).

Operating cash
Cash conversion was good at 99% (FY2017: 118%) translating into headline operating cash-flow of £538m (FY2017: £695m). Statutory operating cash was £405m (FY2017: £479m). See note 29 to the financial statements for a reconciliation of headline operating cash to statutory cash-flow measures.

Pension
The net accounting pension position has improved to a surplus of £381m (FY2017: £224m). The Group continues to work with the Trustees to de-risk the pension schemes. In August 2017, the Smiths Industries Pension Scheme (SIPS) entered a £207m buy-in with Canada Life, and in December 2017 the US scheme paid $36m to members who opted to take lump sums in lieu of pension.

In FY2017, formal valuations of the Group's principal UK defined benefit schemes were undertaken one year ahead of the triennial deadline and concluded in June 2018. The updated valuations showed that SIPS had a surplus of £32m and the TI Group Pension Scheme had a £35m deficit on a funding basis. The Company has agreed to continue funding these schemes with total annual contributions of £24m (FY2017: £27m). For FY2019, we expect total cash contributions of up to £45m across all schemes (FY2018: £49m).

	Accounting valuation		Cash contribution	
	FY2018	FY2017	Going forward	FY2018
SIPS scheme	£303m	£213m	£12m	£24m
TI scheme	£223m	£177m	£12m	£3m
Total UK schemes	£526m	£390m	£24m	£27m
Total Group	**£381m**	**£224m**	**c.£45m**	**£49m**

CHIEF FINANCIAL OFFICER'S REVIEW CONTINUED

Acquisitions and disposals

During the year, the Group acquired two businesses and made one disposal. For more information, please read notes 26, 27 and 28 of the accounts.

- On 1 November 2017, Flex-Tek acquired the heating element division of Osram Sylvania Inc. for £15m.
- On 31 May 2018, John Crane disposed of its Bearings business for $35m.
- On 13 June 2018, John Crane acquired from Seebach GmbH a highly technological filtration business for €60m.

Litigation

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

John Crane, Inc. litigation

John Crane, Inc. (JCI), a subsidiary of the Group, continues to actively monitor the conduct and effect of its current and expected asbestos litigation, including the effective presentation of its 'safe product' defence, and intends to resist these asbestos cases based on this defence. Approximately 277,000 claims against JCI have been dismissed before trial over the last 39 years. JCI is currently a defendant in cases involving approximately 43,000 claims. Despite these large numbers of claims, since the inception of litigation JCI has had final judgments against it in 140 cases, and has had to pay awards amounting to approximately $164m.

At 31 July 2018, the aggregate provision for JCI asbestos litigation, including for adverse judgments and defence costs, amounted to £223m (2017: £237m) expressed at the then current exchange rate. In deciding upon the amount of the provision, JCI has relied on independent expert advice from a specialist.

Titeflex Corporation litigation

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

At 31 July 2018, provision of £78m (FY2017: £84m) has been made for the costs which the Group expects to incur in respect of these claims.

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

Free cash flow

Free cash flow of £302m (FY2017: £370m) decreased by (18)% reflecting the £157m decrease in headline operating cash-flow, offset by lower pension contributions and tax payments. See note 29 to the accounts for further details.

Dividend

The Board has a progressive dividend policy, aiming to increase dividends in line with long-term underlying growth in earnings and cash-flow. This policy enables us to retain sufficient cash-flow to finance investment in the drivers of growth and meet our financial obligations. In setting the level of dividend payments, the Board takes into account prevailing economic conditions and future investment plans, along with the objective to maintain minimum dividend cover of around 2.0x.

The Board is recommending a final dividend of 30.75p per share (FY2017: 29.70p per share), to be paid on 16 November 2018 to shareholders on the register at close of business on 19 October 2018. This will bring the total dividend for the year to 44.55p per share (FY2017: 43.25p per share), a year-on-year increase of 3%.

Dividends paid in the year on ordinary shares amounted to £172m (FY2017: £167m), which were covered by the Group's free cash-flow generation.

Debt

Net debt at 31 July 2018 was £893m, a reduction of £74m in the period. Net debt to EBITDA remained unchanged at 1.4x. Gross debt was £1,610m (FY2017: £1,749m) and cash reserves were £717m (FY2017: £782m). Of the gross debt, £203m fell due within one year; the majority was repaid in September 2018 when the Group redeemed $250m 7.2% Notes. Our strong balance sheet continues to allow us to deploy significant further investment capacity to support sustainable growth.

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

2019 – £190m ($250m 7.20% bond), which was repaid early in September 2018

2022 – £298m ($400m 3.625% bond)

2023 – £533m (€600m 1.25% bond)

2027 – £575m (€650m 2.00% bond)

Return on capital employed

ROCE declined (160)bps to 14.6% (FY2017: 16.2%) primarily due to the reclassification of restructuring and pension administration costs as headline items. The ROCE movement also reflects recent investments, such as the acquisition of Morpho Detection, which are expected to generate superior returns over the longer-term.

Accounting policies and recent accounting developments

The accounts in this report are prepared under IFRS, as adopted by the European Union (EU). The accounting policies used in preparing these accounts are set out on pages 127 to 133.

A number of new standards and amendments to standards and interpretations have been issued but are not yet effective for the current accounting period. None of these are expected to have a material impact on the consolidated financial statements of the Group. For further details, please refer to page 133. Certain standards which could be expected to have an impact are outlined below.

IFRS 9: Financial instruments – the changes will not have a quantitative impact on the financial statements. An expected credit loss will need to be recognised on all financial assets held at amortised costs as well as qualitative enhancements to the interest rate and foreign currency risk management disclosures.

IFRS 15: Revenue from contracts with customers – a reasonable estimate of the expected impact on the reported results for FY2018: a £(16)m reduction in revenue, no impact on operating profit and a £(1)m reduction in net assets.

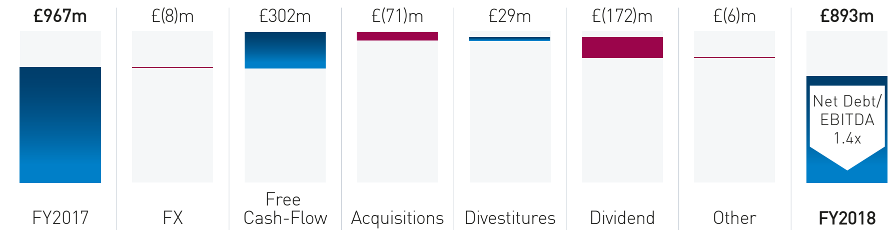
IFRS 16: Leases – the standard now requires all material lease liabilities and corresponding 'right of use' assets to be recognised on the balance sheet.

NET DEBT BRIDGE

5.5 years
Weighted average debt maturity

3.7%
Weighted average interest rate

BBB+/Baa2
Stable credit rating



Exchange rates

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

EXCHANGE RATES

	Average rates			Period-end rates		
	31 July 2018	31 July 2017		**31 July 2018**	31 July 2017	
USD	**1.35**	1.27	USD weakened by 6%	**1.31**	1.32	USD strengthened by 1%
EUR	**1.13**	1.16	EUR strengthened by 3%	**1.12**	1.12	EUR unchanged

JOHN SHIPSEY
CHIEF FINANCIAL OFFICER

DIVISIONAL REVIEW

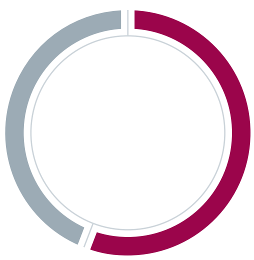
JOHN CRANE

Mission-critical solutions for global energy and process industries

FY2018 PERFORMANCE

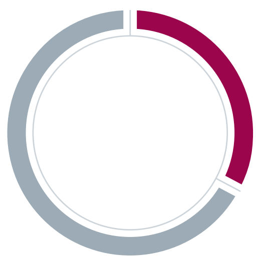
Revenue	Headline operating profit	Headline operating margin
£881m	£202m	22.9%
+5%[1]	+6%[1]	

REVENUE BY SECTOR



Oil & Gas	c.56%
Non-Oil & Gas	c.44%

REVENUE MIX



Original equipment	33%
Aftermarket	67%

CUSTOMERS

We serve process industries including oil & gas, pharmaceutical, chemical, petrochemical, power generation, mining, water treatment, and pulp & paper, as well as pump and turbo machinery original equipment manufacturers (OEMs). Our customers include Chevron, International Paper, ExxonMobil, Shell, BASF, Sulzer, GE, Solar and Siemens.

PRINCIPAL OPERATING REGIONS

We have operations in more than 50 countries, including around 200 sales and service centres.

SUPPLIERS

We align purchasing across our global supply chain with regional procurement. Direct sourcing includes metals, ceramics, and advanced materials and parts.

COMPETITORS

Our main competitors are Flowserve and Eagle Burgmann (seals and systems), Danaher and Hydac (filtration), and Rexnord (couplings).

COMPETITIVE STRENGTHS

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

GROWTH DRIVERS

- Oil & gas markets recovering driven by underlying energy demand
- Expansion in high growth markets
- Pent-up demand for maintenance and upgrades in oil & gas and petrochemical
- Need for operation improvements in non-oil & gas industries
- Disruptive innovations including materials science advancements and digital transformation

1 **Underlying:** modifies headline performance to: adjust prior year to reflect an equivalent period of ownership for divested businesses; include restructuring and pension administration costs as headline for both years; and exclude the effects of foreign exchange, acquisitions and supplemental sales for divested businesses. See the presentation of results note on p129 for further details.

MARKETS AND TRENDS

We combine technology leadership with proven field experience, helping to optimise customers' manufacturing operations.

Our comprehensive product portfolio includes mechanical seals, seal support systems, power transmission couplings and specialised filtration systems. These engineered solutions drive reliability improvements in customer operations.

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

Our primary vertical market – oil & gas – has experienced the most severe market downturn in the last 30 years. Major oil & gas producers remain cautious around capital expenditures in the face of low and volatile commodity prices, although we have seen improving market sentiment and expect a gradual recovery over the next few years. In particular, customers are investing in growing areas such as liquified natural gas and pipelines, and we have recently seen increased aftermarket activity in the form of demand for ongoing maintenance and upgrades.

We believe mega trends, such as the global demand for energy, higher productivity and more stringent environmental and safety requirements, will continue to generate demand for our products over the longer term.

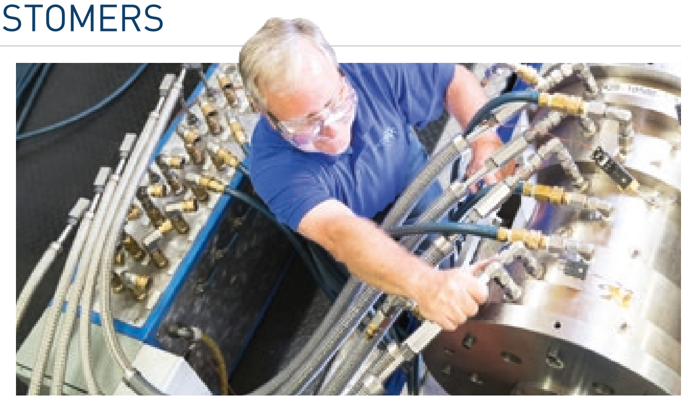
We also have a significant and growing presence in other process industries (around 44% of revenue), including pharmaceutical, chemical, power generation, mining, water treatment, and pulp & paper. We expect these verticals will continue to grow in the near term, helped by building demand in higher-growth regions. Although global industrial production forecasts remain cautious due to an uncertain macro-environment, drivers such as improved plant productivity, workforce safety and equipment reliability will continue to create growth opportunities over the medium to long term.

Around 67% of our sales stem from the aftermarket servicing and support of existing installed equipment, which has proven resilient. We continue to expand our footprint through opening new service centres in selected higher-growth markets, as well as the best in class field service teams.

GOING ABOVE AND BEYOND FOR OUR CUSTOMERS

RESPONDING TO HURRICANE HARVEY

After the devastation of Hurricane Harvey in Texas, John Crane worked around the clock to help return a petrochemical customer's major polyethylene facility to full operation. Working in an extremely challenging environment replacing and repairing over 300 items, including our wet and dry gas seals, the plants returned to full capacity safely and ahead of schedule, reducing downtime and lost revenue.



DIVISIONAL REVIEW CONTINUED

JOHN CRANE CONTINUED

STRATEGY

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

We will maintain differentiation by investing in product development, broadening our aftermarket value proposition, delivering operational excellence (with a particular focus on safety and quality), and accelerating growth through bolt-on acquisitions. We will also continue to diversify into non-oil & gas segments and higher-growth regions.

PROGRESS IN FY2018

- Continued success in penetrating non-oil & gas sectors, particularly in chemical, pharmaceutical, mining, pulp & paper and general industry
- Further progress in our continuous improvement and lean manufacturing journey to reduce waste and increase productivity
- Product development for various markets including the launch of a new pipeline seal, a new single use seal, a new line of competitive filtration elements and continued expansion of the Aura™ dry gas seal product range
- Continued investment in digital transformation technology for John Crane Sense™
- Co-branding and development of a pump/seal performance management system with a customer
- Acquisition of Seebach GmbH to complement John Crane's existing filtration business, further enhancing its technology leadership in energy applications, and providing innovative solutions and capabilities to grow into mission-critical chemical and process industries
- Successful divestment of our Bearings business

PRIORITIES FOR FY2019

- Continue expansion in selected process industries
- Develop and launch new products and expand more into innovative digital technologies
- Enhance productivity and cost competitiveness throughout the supply chain
- Maximise aftermarket performance and expand our service offering
- Build out selected high-growth markets
- Successful integration of Seebach GmbH
- Expand manufacturing network capacity to serve our growing markets

DID YOU KNOW...

Since John Crane launched its innovative dry gas seal technology, we've helped to prevent millions of tonnes of methane from being vented to the atmosphere, helping to protect our environment and saving our customers money.

FY2018 FINANCIAL PERFORMANCE

	FY2018	FY2017	Underlying[1] change	Reported change
Revenue	£881m	£885m	+5%	Flat
Headline operating profit[2]	£202m	£204m	+6%	(1)%
Headline operating margin[2]	22.9%	23.0%	+10bps	(10)bps
Statutory operating profit	£199m	£190m		+5%
Return on capital employed	22.9%	22.9%		Flat
R&D % of revenue	1.3%	1.1%		+20bps

PERFORMANCE

John Crane delivered a good performance, returning to growth with revenue up 5% on an underlying[1] basis. Reported revenue was flat, reflecting £(31)m of adverse foreign exchange translation and a £(16)m net impact from the disposals of Artificial Lift and the Bearings business, and the acquisition of Seebach GmbH.

Underlying[1] sales from John Crane's Oil & Gas and Non-Oil & Gas activities were up c.7% and c.3% respectively, reflecting the improving trend in global energy markets and continued growth in John Crane's chemical, pharma, mining and pulp & paper activities. These market conditions were also reflected in improving underlying[1] sales of Original Equipment ('OE'), which were up 1%. Investment in OE projects and the expansion of the installed base continued during the period. Multiple new project agreements were secured, including contracts in Oil & Gas in Asia and the Middle East, as well as marine, chemical and pulp & paper contracts in the USA, Europe and Asia. John Crane's large installed base and leading service offering positioned it well to satisfy pent-up aftermarket demand for repairs, maintenance and upgrades; underlying[1] aftermarket revenue grew 8% during the period.

Revenue from higher-growth regions, which represent 25% of sales, grew 14% on an underlying[1] basis with strong sales growth in China.

Headline operating profit of £202m increased 6% on an underlying[1] basis, driven by improved volumes. Headline operating profit margin was 22.9%, up 10bps on an underlying[1] basis with the positive impact of volume growth partially offset by geographic mix and the costs of restarting capacity. The difference between statutory and headline operating profit primarily reflects movement in the provision for John Crane, Inc. asbestos litigation, offset by gains on disposals.

ROCE was flat at 22.9% driven by the net impact of the two disposals, one acquisition and increased profitability.

John Crane has made further progress on focusing the business on leading positions in attractive markets. In May 2018, John Crane sold its Bearings business for an enterprise value of $35m, and in June 2018 completed the acquisition of Seebach GmbH, a highly engineered filtration solutions business, for an enterprise value of €60m. We continue to look for opportunities to enhance John Crane's technology leadership and service offering.

RESEARCH AND DEVELOPMENT

Cash R&D expenditure during the period increased by 15% to 1.3% of sales (FY2017: 1.1%). Product developments included:

- A new dry gas seal in the Aura™ range which reduces methane emissions
- An advanced seal for crude oil pipeline pumps which supports pump efficiency and tolerance of harsh operating environments
- An innovative filtration design tool to enhance performance
- Continued development of John Crane's Sense™ predictive diagnostics systems

1 **Underlying:** modifies headline performance to: adjust prior year to reflect an equivalent period of ownership for divested businesses; include restructuring and pension administration costs as headline for both years; and exclude the effects of foreign exchange, acquisitions and supplemental sales for divested businesses. See the presentation of results note on p129 for further details.

2 **Headline:** definitions of headline metrics, and information about adjustments to statutory measures are provided in Note 3 to the financial statements.

DIVISIONAL REVIEW CONTINUED

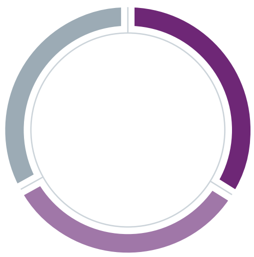
SMITHS MEDICAL

High-quality, cost-effective medical devices and consumables that are vital to patient care globally

FY2018 PERFORMANCE

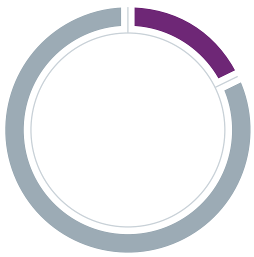
Revenue	Headline operating profit	Headline operating margin
£885m	£156m	17.6%
(2)%[1]	(14)%[1]	

REVENUE BY SECTOR



Infusion Systems	34%
Vascular Access	33%
Vital Care and Specialty Products	33%

REVENUE MIX



Original equipment	18%
Aftermarket/consumables	82%

CUSTOMERS

80% of our revenue is derived from hospitals while the remainder comes from clinics, homecare providers, surgery centres and products sold to other original equipment manufacturers (OEMs).

PRINCIPAL OPERATING REGIONS

We sell our products in over 120 countries, with operations in over 30.

SUPPLIERS

Assured supply of quality products is critical in the industry. We work with our supply chain to reduce costs, drive efficiencies, and ensure high quality standards and continuity of supply.

COMPETITORS

Our competitors range from large multi-national medical device manufacturers such as Medtronic, Becton Dickinson, Baxter and B. Braun, through to small, single-product companies.

COMPETITIVE STRENGTHS

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

GROWTH DRIVERS

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

1 **Underlying:** modifies headline performance to: adjust prior year to reflect an equivalent period of ownership for divested businesses; include restructuring and pension administration costs as headline for both years; and exclude the effects of foreign exchange, acquisitions and supplemental sales for divested businesses. See the presentation of results note on p129 for further details.

MARKETS AND TRENDS

The medical device industry remains attractive, with strong growth drivers. The global market we serve is estimated to be £7.2bn and growing at 3-4% annually, with growth drivers such as expansion of developing markets, ageing populations, increasing need for connected systems and data analytics, and growth of alternate site and home-based healthcare and innovation.

Our Infusion Systems products deliver medication for treating conditions such as acute and chronic pain, cancer, pulmonary hypertension and Parkinson's disease, in hospital and home settings. We are one of the market leaders in ambulatory infusion and have strong positions in the syringe pump market. The increasing incidence of chronic conditions, and the continued advancement of digital connectivity between infusion devices, remote monitoring systems and hospital information systems, is expected to drive growth in this area over the longer term.

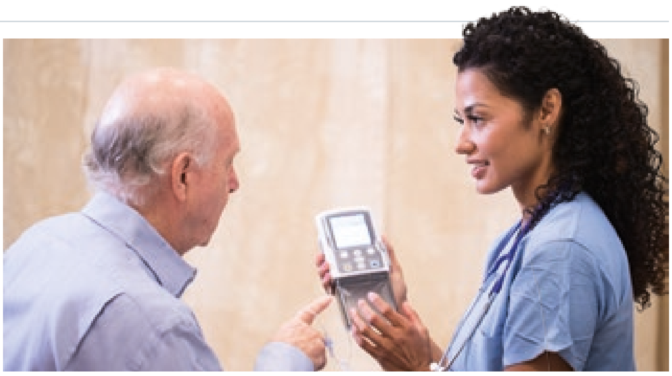
Our Vascular Access products protect healthcare workers and patients from the risk of infection. Our portfolio covers a range of functions, including drawing blood, catheters for the infusion of fluids and medication, injecting vaccinations, delivering chemotherapeutic agents and monitoring blood pressure for critically ill patients. Continued growth in the Vascular Access market is expected as safety regulations drive the use of safety-engineered syringes and catheters to protect healthcare workers from needlestick injuries and blood exposure, while reducing hospital-acquired infections for patients. These are growth drivers we are well positioned to serve.

Our Vital Care products help to manage patient airways before, during and after surgery, alleviating breathing difficulties, improving bronchial hygiene and helping maintain body temperature. Key growth drivers for these therapies include the expansion of enhanced recovery after surgery (ERAS) and the prevalence of chronic obstructive pulmonary disease (COPD).

KEEPING PATIENTS ON THE MOVE

CONNECTING HOSPITALS AND PATIENTS

Smiths Medical's CADD®-Solis wireless infusion pump delivers pain medication to patients while allowing them to remain mobile. Integrated with PharmGuard® Infusion Management software, this innovative platform supports coordinated wireless updates to drug libraries and software, increasing efficiency for our healthcare customers who no longer need to update pumps individually – and allows sharing of infusion information with patients' electronic medical records.



DIVISIONAL REVIEW CONTINUED

SMITHS MEDICAL CONTINUED

STRATEGY

Our objective is to achieve category leadership in the Infusion Systems segment and in selected Vascular Access and Vital Care segments. We will build on our reputation for high-quality, innovative solutions, creating a portfolio of leading, effective and valued total solutions and services that drive sustained competitiveness and above-market growth in our chosen segments.

We will achieve this primarily through a pipeline of innovative organic developments, including investment in product development, manufacturing and supply chain optimisation, and efficiency gains in marketing and distribution models.

We will also continue to drive progress in higher-growth regions and new channels to market outside the hospital.

PROGRESS IN FY2018

- Over 20 new products launched across all three segments
- Expanded presence in higher-growth regions
- Expanded US distribution for non-hospital-based Infusion Systems

PRIORITIES FOR FY2019

- Continue the introduction of organically developed new products, to support core-market category leadership
- Enter higher-growth, adjacent categories
- Expand distribution and sales within non-acute and homecare channels
- Increase penetration in higher-growth economies
- Accelerate category scale and competitiveness
- Continued focus on improving operational efficiency

DID YOU KNOW...

The new Neoheel™ Safety Lancet, used to collect quality blood samples from infants and toddlers, is designed to require fewer heel puncture sites. The result is less time to complete the test, less bruising and, importantly, less crying.

FY2018 FINANCIAL PERFORMANCE

	FY2018	FY2017	Underlying[1] change	Reported change
Revenue	£885m	£951m	(2)%	(7)%
Headline operating profit[2]	£156m	£209m	(14)%	(26)%
Headline operating margin[2]	17.6%	22.0%	(250)bps	(440)bps
Statutory operating profit	£152m	£286m		(47)%
Return on capital employed	13.1%	16.7%		(360)bps
R&D % of revenue	5.8%	6.4%		(60)bps

PERFORMANCE

Smiths Medical underlying[1] revenue was down (2)%. The division's performance was impacted by the transition to a new Notified Body for European Conformity registration. This led to a short-term suspension of some Smiths Medical products in Europe. This disruption and the loss of two contracts in the US offset good underlying[1] growth that was underpinned by a growing contribution from products launched during the year. Reported revenue fell (7)%, reflecting £(37)m of adverse foreign exchange translation and the £(11)m impact of the divestment of the Wallace product line in November 2016.

Costs associated with the Notified Body transition and implementation of the new EU Medical Device Regulation in 2020 are expected to be £10-15m in each of FY2019 and FY2020.

Underlying[1] revenue was up 4% in Infusion Systems driven by sales of ambulatory infusion disposables, partially offset by the impact of a contract termination. Vascular Access underlying[1] revenue declined by (4)% as a result of lower peripheral intravenous catheter ('PIVC') sales. Underlying[1] revenue from Vital Care and Specialty Products was down (6)%, with growth in tracheostomy and general anaesthesia offset by a contract termination.

Revenue from higher-growth regions, which represents 10% of sales, increased 10% on an underlying[1] basis, driven by growth in China and India.

Headline operating profit declined (14)% on an underlying[1] basis. This included adjustment for £(16)m restructuring costs in the prior year. In addition, there were higher R&D costs associated with new product launches, and costs of transition to a new Notified Body in Europe. As a result, headline operating margin was (250)bps lower than the prior year on an underlying[1] basis at 17.6%. The difference between statutory and headline operating profit included £(3)m of amortisation of acquired intangible assets.

ROCE decreased (360)bps to 13.1%, reflecting the lower profitability.

Post year end, Smiths Medical made further progress on focusing the business on scalable leading positions in its chosen markets, and agreed the sale of its sterile water bottling business to Amsino Healthcare (USA), Inc., for an enterprise value of $40m. The deal is expected to complete in the first half of FY2019.

RESEARCH AND DEVELOPMENT

Cash R&D expenditure was 5.8% of sales (FY2017: 6.4%) with an increase in the income statement R&D costs. Smiths Medical continues to invest in research and development to support long-term, sustainable growth, with the development of innovative, commercially focused products across the portfolio. Over 20 new products were launched during the year. These included:

- CADD™ VIP ambulatory pump for homecare and alternate sites
- Upgrades to the PharmGuard® server platform for connecting CADD Solis™ and Medfusion™ wireless pumps to hospital networks
- EchoGlo™ needle, an ultrasound-guidable needle line for targeted delivery of pain management medications in nerve block procedures
- Sol-M, blood-draw venipuncture safety devices designed to reduce the risk of infection and blood contamination
- A Closed System Catheter for the Chinese market that prevents blood exposure and reduces IV set-up time
- A next generation paediatric tracheostomy tube line that is MRI-safe and DEHP-free

1 **Underlying:** modifies headline performance to: adjust prior year to reflect an equivalent period of ownership for divested businesses; include restructuring and pension administration costs as headline for both years; and exclude the effects of foreign exchange, acquisitions and supplemental sales for divested businesses. See the presentation of results note on p129 for further details.

2 **Headline:** definitions of headline metrics, and information about adjustments to statutory measures are provided in Note 3 to the financial statements.

DIVISIONAL REVIEW CONTINUED

SMITHS DETECTION

A global leader in the detection and identification of security threats and contraband

FY2018 PERFORMANCE

Revenue	Headline operating profit	Headline operating margin
£793m	£134m	16.9%
+1%[1]	+16%[1]	

REVENUE BY SECTOR

Air Transportation	68%
Ports and Borders	7%
Defence	4%
Urban Security	21%

REVENUE MIX

Original equipment	56%
Aftermarket	44%

CUSTOMERS

Almost half of total revenue is influenced by c.100 governments and their agencies. Major customers include airports, cargo and freight forwarders, ports, customs authorities, prisons and the armed forces.

PRINCIPAL OPERATING REGIONS

We sell our products to around 150 countries and territories, with facilities in Germany, France, the UK, Malaysia, and the USA.

SUPPLIERS

We coordinate manufacturing and purchasing activity globally to achieve economies of scale and meet stringent quality and delivery standards.

COMPETITORS

We compete with a wide range of companies in each end-use market. Those with the broadest global reach include Nuctech, Rapiscan and L-3 SDS.

COMPETITIVE STRENGTHS

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

GROWTH DRIVERS

- Persistent and evolving terror threats
- Changing security regulations for air cargo and passengers
- Growing urbanisation and the need to protect people and assets
- Global trade, e-commerce and passenger numbers
- Equipment replacement cycle, typically 7–10 years
- Growth of security infrastructure in emerging markets

1 **Underlying:** modifies headline performance to: adjust prior year to reflect an equivalent period of ownership for divested businesses; include restructuring and pension administration costs as headline for both years; and exclude the effects of foreign exchange, acquisitions and supplemental sales for divested businesses. See the presentation of results note on p129 for further details.

MARKETS AND TRENDS

Demand for detection equipment and service is forecast to continue to grow at mid-single digits per annum over the near term, driven by ongoing geopolitical unrest and the resulting terrorist and criminal threats, but there is considerable variation by geography and market segment.

Almost half of our customers are government-funded so budget constraints affect market revenues. Nevertheless, our growing installed equipment base creates significant opportunities for aftermarket (service and support) and digital revenues through the sale of software upgrades.

The heavily regulated air transportation segment is our largest market. Rising passenger volumes, together with continuing security threats, a strong replacement cycle and increasing air freight volumes are expected to continue to support market growth and new airport investment. Systems which integrate networked screening equipment with airport and passenger data are being used to improve the efficiency and effectiveness of the security process, and are expected to drive increased demand.

In the ports and borders market, the continued growth of world-wide trade volumes combined with increasing regulatory standards is expected to drive demand for security screening equipment and digital solutions. Powerful technologies are required to address a variety of threats as governments become increasingly concerned about the smuggling of explosives, weapons and radiological materials, while continuing to recognise the strong revenue-generating potential from contraband detection.

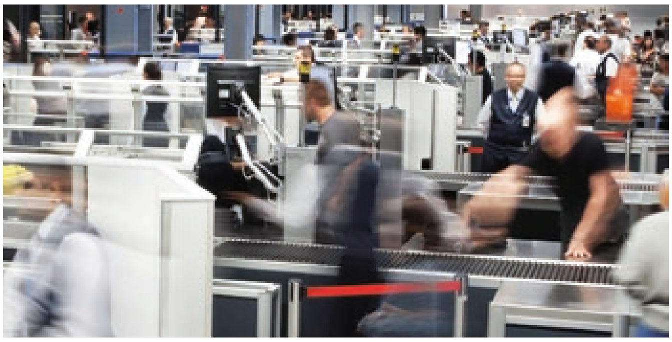
Global demand for chemical warfare agent detection equipment and other threat-specific sensors required by the military is forecast to grow steadily in our key NATO-oriented markets but is affected by the highly cyclical nature of the associated procurement cycles.

The urban security market is large but fragmented and unregulated. The major sub-segments of critical infrastructure, mass transit and crowded spaces, have specific customer needs and challenges. Demand in each is growing, driven by increasing urbanisation and the response by public and private sector organisations to a wide and ever-increasing range of threats, as they seek to provide better protection for their customers, staff and assets.

MAKING THE WORLD SAFER

IMPROVING SECURITY FOR TRAVELLERS

Helping reduce traveller frustration and improve throughput at security checks, as well as increasing efficiency for customers, Smiths Detection's HI-SCAN 6040 CTiX allows passengers to leave electronics and liquids in their bags. Rendering 3D images, the CTiX enables operators to examine scanned contents from every angle, giving more accurate data to aid security judgements.



DIVISIONAL REVIEW CONTINUED

SMITHS DETECTION
CONTINUED

STRATEGY

We aim to equip our customers with high-integrity solutions that satisfy security needs in the context of an ever-evolving threat and regulatory environment, while meeting their broader commercial and operational requirements. Through technology-led investment, we also play an increasingly important role in future proofing our customers' business through digital transformation.

We continue to drive profitable revenues from aftermarket, digital products and software upgrades to extend machine life and counteract the volatility of prime contracting.

Operational improvements based on quality, waste elimination and reduced lead times are delivering savings, which are reinvested in the development of products and software solutions.

PROGRESS IN FY2018

- Integration of Morpho Detection on track
- Maintained strong share of installed base through the European Standard 3 hold baggage recapitalisation
- Uptake of integrated checkpoint solutions and CORSYS™ proceeding as planned
- Focused investment in key product initiatives: Air Transportation – both hold baggage and checkpoint; software upgrades; remote diagnostics; and Defence
- ECAC, TSA and CAAC certifications for key products
- Continuous improvement initiatives to implement lean standards, eliminate waste, improve flow and reduce working capital

PRIORITIES FOR FY2019

- Complete the integration of Morpho Detection
- Extend presence and capabilities in Ports and Borders and Urban Security market segments
- Refresh our go-to-market approach in key geographies – especially Asia
- Drive R&D investment behind key initiatives
- Deliver further growth in aftermarket and digital revenues
- Maintain focus on continuous improvement initiatives

DID YOU KNOW...

Our high-energy cargo inspection systems can 'see' through up to 410mm of steel, optimising security checks at ports and border crossings by screening whole trucks, containers and vehicles for threats and illegal contraband.

FY2018 FINANCIAL PERFORMANCE

	FY2018	FY2017	Underlying[1] change	Reported change
Revenue	£793m	£687m	+1%	+15%
Headline operating profit[2]	£134m	£103m	+16%	+30%
Headline operating margin[2]	16.9%	15.0%	+240bps	+190bps
Statutory operating profit	£93m	£70m		+33%
Return on capital employed	12.1%	12.6%		(50)bps
R&D % of revenue	7.4%	7.1%		+30bps

PERFORMANCE

Smiths Detection underlying[1] revenue increased by 1%. Second half underlying[1] growth of 11% reflected continued strong growth in Air Transportation enhanced by the phasing of contract deliveries. Full year growth was partially offset by declines in Ports & Borders and Defence. Overall aftermarket revenue grew by 1% on an underlying[1] basis and now accounts for 44% of total revenue (FY2017: 39%). On a reported basis, revenue increased by 15%; this included £124m of incremental revenue associated with the acquisition of Morpho Detection ('Morpho'), and £(22)m of adverse foreign exchange translation.

Revenue in Air Transportation increased 20% on an underlying[1] basis. Air Transportation is Smiths Detection's largest segment and, following the acquisition of Morpho, now represents 68% of total revenue. During the period there was strong growth in EMEA as a result of deliveries associated with the ECAC Standard 3 Regulation for hold baggage. Major deliveries included projects in the UK, Frankfurt and Amsterdam, as well as in the US and Saudi Arabia. Contract wins included: providing Helsinki Airport with eight XCT units to upgrade its hold baggage system; a $70m contract with the TSA for hold baggage systems across the USA, and a contract to sell 151 trace detection devices across airports in China. Revenue from Ports & Borders fell (43)% on an underlying[1] basis following the completion of key programmes in Italy, Mali and Kuwait last year. Contract wins included an order for CORSYS™ by the Port of Rotterdam. Underlying[1] revenue in Defence decreased by (46)% against last year's strong comparator and reflects the wind down of some major US military programmes. Urban Security revenues increased 3% on an underlying[1] basis, driven by growing sales of hand-held devices to detect and identify nuclear-threats to the US Department for Homeland Security.

Revenue from higher-growth regions represented 19% of sales, broadly in line with the prior year on an underlying[1] basis. Good sales growth in India was offset by the completion of projects in South Korea, Pakistan and Turkey. We continue to experience pricing pressure in some end-use markets, and in unregulated parts of the market from lower-priced competitors.

Headline operating profit increased 16% on an underlying[1] basis, reflecting volume growth and the delivery of cost synergies associated with the Morpho acquisition. Headline reported operating margin increased by 240bps on an underlying[1] basis to 16.9%, reflecting these cost synergies as well as other efficiency savings and the benefit of one-off items associated with long-term programmes. The difference between statutory and headline operating profit primarily reflects integration costs associated with the acquisition of Morpho and amortisation of acquired intangibles. The integration of Morpho continues to progress well, with the benefits of the combination supporting new contract wins, including a $50m contract with Airports Authority of India. The $30m of annualised cost synergies are now expected to be delivered in full by the end of FY2019, one year ahead of schedule.

ROCE decreased (50)bps to 12.1% driven by the impact of the Morpho acquisition.

1 **Underlying:** modifies headline performance to: adjust prior year to reflect an equivalent period of ownership for divested businesses; include restructuring and pension administration costs as headline for both years; and exclude the effects of foreign exchange, acquisitions and supplemental sales for divested businesses. See the presentation of results note on p129 for further details.

2 **Headline:** definitions of headline metrics, and information about adjustments to statutory measures are provided in Note 3 to the financial statements.

RESEARCH AND DEVELOPMENT

Cash R&D expenditure during the period was 7.4% of sales, or 6.3% excluding customer funded R&D (FY2017: 7.1% and 6.0% respectively). Specific highlights included continued investment in:

- A range of solutions for the Chinese aviation market
- Freight and cargo scanners that can now detect lithium batteries
- Next generation chemical warfare agent detection devices for the defence market
- Digital solutions – including CORAL, our advanced predictive analytics suite for hold baggage detection systems and Checkpoint.evo^{plus}, our integrated checkpoint screening and management platform

DIVISIONAL REVIEW CONTINUED

SMITHS INTERCONNECT

Solutions for high-speed, secure connectivity in demanding applications

FY2018 PERFORMANCE

Revenue	Headline operating profit	Headline operating margin
£300m	£42m	14.1%
(1)%[1]	(2)%[1]	

REVENUE BY SECTOR

Defence	40%
Semiconductor	17%
Medical	11%
Space	8%
Commercial Aerospace	10%
Rail, Industrial, Other	14%

COMPETITIVE STRENGTHS

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

GROWTH DRIVERS

- Increased connectivity supporting growth in space applications and in commercial aerospace
- Growing urbanised population requiring transportation and infrastructure
- Increasing geopolitical uncertainty
- Ageing population and rising need for connected healthcare services

CUSTOMERS

Our blue-chip customers are prime contractors, key original equipment manufacturers (OEMs) and sub-system manufacturers. Examples include Raytheon, Lockheed Martin, BAE Systems, Huawei, NVIDIA and Biosense Webster.

SUPPLIERS

We cultivate deep supplier partnerships that enable new technology developments, quality and efficiency, whilst endeavouring to have no substantial dependencies on individual sources.

PRINCIPAL OPERATING REGIONS

We have 23 locations in ten countries across North and Central America, Europe and Asia. We sell products to over 50 different countries around the world.

COMPETITORS

Our competitors differ depending on the market being served. They range from the large multinationals such as Amphenol, TE and Molex to the more niche and single technology providers.

1 **Underlying:** modifies headline performance to: adjust prior year to reflect an equivalent period of ownership for divested businesses; include restructuring and pension administration costs as headline for both years; and exclude the effects of foreign exchange, acquisitions and supplemental sales for divested businesses. See the presentation of results note on p129 for further details.

MARKETS AND TRENDS

Increasing connectivity and the demand for high-speed and reliable applications is the key growth driver across our six key end-markets.

We provide a range of mission-critical products to the defence market, including microwave technology and high-speed connector solutions. These are deployed in the most extreme environments. The current economic environment and increasing geopolitical uncertainty creates a platform for growth.

We provide sophisticated test sockets, probe heads and cable assembly solutions for semiconductor testing applications. The semiconductor market has seen marked growth this year. The high rate of technology refresh, increased functionality and the greater connectivity requirements of electronic devices are key drivers.

Our medical portfolio includes high-reliability enhanced signal integrity performance connectors for applications requiring higher bandwidth and data rates, including advanced imaging, augmented reality, and surgical robotics. A growing, ageing population and the rise in chronic diseases continue to drive growth for the global medical market.

In space and commercial aerospace, we provide connectors, components and satellite communications antenna solutions for various aircraft and space applications. The commercial aerospace market remains robust, driven by increasing passenger and freight demand, particularly in developing regions, and the need to upgrade aircraft fleets to more efficient models.

In the rail market, our cable solutions provide communications connectivity and our connector solutions are used in applications such as control, command and signalling in autonomous train systems. Growth is in part driven by increasing demand for sophisticated digital train systems that improve safety, security and high data-rate connectivity for passengers. To penetrate the growing Chinese market, and specifically commercial aviation and high speed train applications, we have signed a joint venture agreement with Sichuan Huafeng which is a major manufacturer of electronic components in China.

WE ARE CREATING THE FUTURE

GETTING INTO SPACE FASTER

Smiths Interconnect is creating higher reliability products for next generation space applications with their innovative SpaceNXT™ programme. Pre-testing and qualifying components for space use reduces lead times and the cost of ownership for customers, and improves the customer experience.

DIVISIONAL REVIEW CONTINUED

SMITHS INTERCONNECT CONTINUED

STRATEGY

We aim to be the supplier of choice to customers that value our broad portfolio of innovative and technically differentiated connectivity solutions. We focus on the most attractive applications in the defence, semiconductor test, medical, space, commercial aerospace and rail markets. Our aim is to grow our market positions in all regions and continue to embed our key account partnerships and channels to market.

We want to outperform our competitors and market growth through customer-focus, innovation and service as well as attracting and retaining the best talent available.

We drive competitiveness through R&D and fund our investments through manufacturing efficiency.

PROGRESS IN FY2018

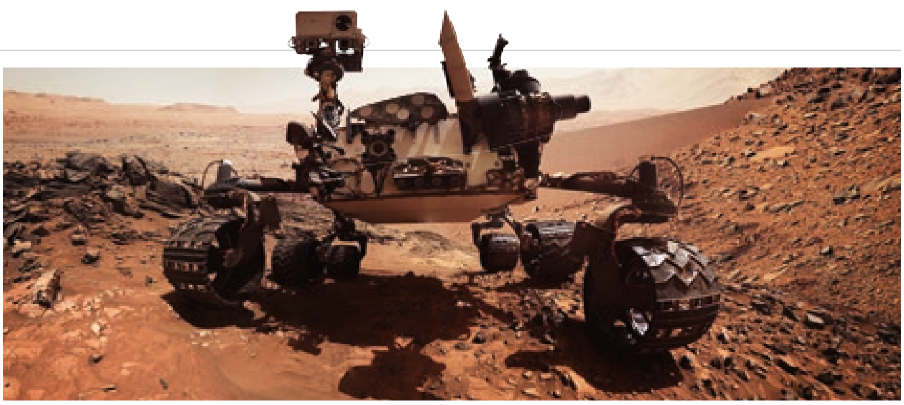
- Simplified global structure to improve communication and agility around customer focus, engineering and technology
- Focused on six attractive core end-markets
- Further embedded our Key Account Management programme to facilitate customer focus and gain access to new programmes and technology partnerships
- Further simplified our distribution channels to improve service and reliability
- Increased investment in R&D to drive new technology and products for the future
- Signed a joint venture agreement with Sichuan Huafeng to strengthen our presence in the commercial aerospace and rail markets in China

PRIORITIES FOR FY2019

- Continue to focus on strategic markets, customers and sales channels
- Expand key account programme
- International expansion, particularly in Asia building on the launch of the joint venture with Sichuan Huafeng
- Increase vitality rate and introduction of new products
- Reduce costs through value engineering and scale efficiencies

DID YOU KNOW...

Smiths Interconnect's microwave components are used on the Mars Rover to compensate for temperature variations from -65°C to +150°C, enabling it to maintain a consistent signal strength in extreme atmospheric conditions, ensuring long-term, mission-critical success.



FY2018 FINANCIAL PERFORMANCE

	FY2018	FY2017	Underlying[1] change	Reported change
Revenue	£300m	£419m	(1)%	(28)%
Headline operating profit[2]	£42m	£56m	(2)%	(25)%
Headline operating margin[2]	14.1%	13.4%	(10)bps	+70bps
Statutory operating profit	£37m	£124m		(70)%
Return on capital employed	11.9%	11.4%		+50bps
R&D % of revenue	7.0%	6.7%		+30bps

PERFORMANCE

Smiths Interconnect's underlying[1] revenue was down (1)%, reflecting an improved trend in the second half, especially in the Defence, Semiconductor Test and Rail markets. On a reported basis, revenue declined by (28)%, reflecting a £(96)m impact from the divestments of Power and Telecoms businesses in January and May 2017 respectively, and £(19)m of adverse foreign exchange translation.

Underlying[1] revenue in the Defence segment grew by 1%, supported by increased defence spending in the US, Europe and the Middle East, including programmes such as Eurofighter, Joint Strike Fighter, Gripen and various naval programmes. In the Medical segment, underlying[1] revenue grew by 7% driven by strong sales of highly specialist connectors for patient monitoring and imaging systems. In the Space segment, revenue increased 3% driven by higher connectivity product content within satellite programs. The Rail segment increased by 10% driven by power and data connectors. Commercial Aerospace declined by (20)% due to lower sales of antenna systems. Semiconductor Test declined by (9)% primarily due to order timing.

Revenue from higher-growth regions, which represents 16% of sales, decreased by (9)% on an underlying[1] basis as a result of order timing in Semiconductor Test.

Headline operating profit declined (2)% on an underlying[1] basis to £42m, where an improvement in gross margin was offset by investment in sales, marketing and R&D to drive future growth. Headline operating margin was broadly in line with last year at 14.1%, on an underlying[1] basis. The difference between statutory and headline operating profit primarily reflects adjustments for amortisation of acquired intangibles and the loss on disposal of a trade investment.

In April 2018, Smiths Interconnect signed a joint venture agreement with Sichuan Huafeng Enterprise Group Co. Ltd – a major manufacturer of electronic components in China. The combined portfolio of highly specialised electronic components and customer relationships is expected to accelerate penetration and growth in this important market.

ROCE increased 50bps to 11.9% driven by disposal of the Power and Telecoms businesses in FY2017.

RESEARCH AND DEVELOPMENT

Cash R&D expenditure was 7.0% of revenue (FY2017: 6.7%) (6.0% excluding customer funded R&D, FY2017: 5.5%). Product developments included:

- Volta semiconductor solutions for testing integrated chip packages
- SpaceNXT™ HC Series – a range of high reliability microwave components qualified for next-generation commercial space applications
- SpaceNXT™ Q Series – a range of flexible cable assemblies qualified for space applications
- Eclipta™ connector – a double ended edge card contact technology for disposable medical applications

1 **Underlying:** modifies headline performance to: adjust prior year to reflect an equivalent period of ownership for divested businesses; include restructuring and pension administration costs as headline for both years; and exclude the effects of foreign exchange, acquisitions and supplemental sales for divested businesses. See the presentation of results note on p129 for further details.

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DIVISIONAL REVIEW CONTINUED

FLEX-TEK

Innovative components to heat and move fluids and gases

FY2018 PERFORMANCE

Revenue	Headline operating profit	Headline operating margin
£354m	£67m	18.9%
+10%[1]	+10%[1]	

REVENUE BY SECTOR

Construction Products	30%
Fluid Management	25%
Heat Solutions	26%
Flexible Solutions	19%

COMPETITIVE STRENGTHS

- High performance products
- Leading capability in design and manufacture
- Market leading residential gas tubing products
- High performance flexible tubing for aerospace
- Strong customer relationships

GROWTH DRIVERS

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

CUSTOMERS

We serve the US construction industry, domestic appliance, aerospace engine and airframe manufacturers and other specialist markets. Large customers include Watsco, Boeing, Airbus, Pratt & Whitney, GE, Samsung, Trane and Carrier.

PRINCIPAL OPERATING REGIONS

The majority of our sales and operations are in North America, with some operations and a growing sales mix across Europe and Asia.

SUPPLIERS

We source key materials from world-class companies selected to provide the quality, service and value needed for mission-critical components. Key materials include metal components, electrical controls, and plastic resins.

COMPETITORS

We compete with leading providers in each of our product categories. Examples include Parker-Hannifin and Eaton for aerospace tubing, Omega Flex for flexible natural gas tubing, and Nibe for heating elements.

1 **Underlying:** modifies headline performance to: adjust prior year to reflect an equivalent period of ownership for divested businesses; include restructuring and pension administration costs as headline for both years; and exclude the effects of foreign exchange, acquisitions and supplemental sales for divested businesses. See the presentation of results note on p129 for further details.

MARKETS AND TRENDS

Our business is structured around four segments: Heat Solutions; Construction Products; Fluid Management; and Flexible Solutions. Key markets include US residential and commercial construction, global aerospace tubing and hoses, and electrical heating elements.

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

In heating, we are one of the world's largest manufacturers of open coil heating elements. These specialised elements and thermal systems provide consistent temperature controls to improve system efficiency and performance for heating ventilation and air conditioning (HVAC) equipment, tumble dryer, and other bespoke applications. Growth in Heat Solutions is largely driven by the US housing market, along with an increasing number of specialty heating applications in North America and Asia. Steady growth in US housing is also driving demand for our leading flexible gas piping and HVAC ducting in our Construction Products segment.

Our Heat Solutions elements are also used in the manufacturing of medical devices, and our Flexible Solutions hoses are used in this market too, particularly for respiratory care devices. Increasing global healthcare spend is driving growth.

In the automotive market our hoses are used to deliver fuel and brake fluid and will play a crucial role in the delivery of gas and hydrogen in next-generation vehicles.

In aerospace, we are a market-leading provider of specialty, high-performance flexible and rigid fluid management tubing assemblies that provide reliable, efficient delivery of hydraulic fluids and jet fuel for commercial and military aircraft globally. The market for commercial aircraft remains strong, with a current OEM order book of over 14,000 aircraft.

MAKING THE WORLD MORE EFFICIENT

BROADENING OUR PRODUCT PORTFOLIO

Flex-Tek acquired the heating element division of Osram Sylvania Inc. in FY2018. This acquisition has enhanced our exposure to attractive end-markets and geographies, whilst broadening our product portfolio in bespoke heating solutions and improving our technological capabilities. The integration is complete and synergies have been delivered to plan.

DIVISIONAL REVIEW CONTINUED

FLEX-TEK CONTINUED

STRATEGY

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

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

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

PROGRESS IN FY2018

- Integration of the Osram Sylvania Inc. heating solutions business into Heat Solutions
- Expanded Gastite sales in Construction Products in the UK
- Fluid Management progress on delivering products for new aerospace platforms
- High growth rate for medical tubing in Flexible Solutions
- Further progress in China in Heat Solutions
- New product launches with the Thermaflex® floating core flexible duct

PRIORITIES FOR FY2019

- Expand through new technologies for Heat Solutions applications
- Grow Gastite in Europe for Construction
- Launch new FlashShield+ product in Gastite for Construction Products
- Win new aerospace platform for Fluid Management
- Expand revenue in Asia, especially China

DID YOU KNOW...

Flex-Tek's aerospace heater range – used for testing air and inert gas applications in the aviation industry – can ramp temperature up and down by 50°C per second and heat up to 900°C in custom designs, and are helping to develop faster, safer and more fuel efficient aircraft components.

FY2018 FINANCIAL PERFORMANCE

	FY2018	FY2017	Underlying[1] change	Reported change
Revenue	£354m	£338m	+10%	+4%
Headline operating profit[2]	£67m	£65m	+10%	+2%
Headline operating margin[2]	18.9%	19.3%	Flat	(40)bps
Statutory operating profit	£68m	£68m		Flat
Return on capital employed	35.0%	35.8%		(80)bps
R&D % of revenue	0.6%	0.6%		Flat

PERFORMANCE

Flex-Tek delivered a strong performance with revenue up 10% on an underlying[1] basis, with growth in all segments. On a reported basis revenue increased 4%, despite a £(17)m adverse foreign exchange translation.

Construction revenue grew 5% on an underlying[1] basis, with both Gastite and Thermaflex benefiting from continued growth in the US housing market. Fluid Management revenue was up 11% on an underlying[1] basis, driven by strong sales of its aerospace solutions across a range of engine and airframe platforms. Heat Solutions revenue increased by 17% on an underlying[1] basis, principally due to growth in its engineered solutions as well as increased sales of clothes dryer elements and heating, ventilation and air conditioning (HVAC) systems. Flexible Solutions underlying[1] revenue growth of 10% was driven by increased demand from the medical sector, partially offset by a decline in the floor care segment.

Revenue from higher-growth regions, which represents 9% of sales, increased 16%, driven by strong sales into China and India.

On an underlying[1] basis headline operating profit increased 10% to £67m and headline operating margin was in line with the prior year at 18.9%. The difference between statutory and headline operating profit is primarily due to a reduction in the provision for Titeflex Corporation for subrogation claims.

In November 2017 the Heat Solutions business completed the acquisition of the heating element division of Osram Sylvania, Inc. The integration of the business is now largely complete and the benefits of broadening its portfolio into faster growing engineered heating solutions are starting to flow through.

ROCE decreased (80)bps to 35.0%, driven by the acquisition of Osram's heating element business.

RESEARCH AND DEVELOPMENT

R&D expenditure remained consistent at 0.6% of sales (FY2017: 0.6%), focused on market-leading innovative solutions to meet specific customer needs. Product developments included:

- Thermaflex floating core HVAC duct
- Gastite's FlashShield II, the next generation of flexible gas piping which is expected to launch in FY2019

1 **Underlying:** modifies headline performance to: adjust prior year to reflect an equivalent period of ownership for divested businesses; include restructuring and pension administration costs as headline for both years; and exclude the effects of foreign exchange, acquisitions and supplemental sales for divested businesses. See the presentation of results note on p129 for further details.

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RISK MANAGEMENT

A PROACTIVE APPROACH TO RISK

We operate across a range of markets and geographies and are prepared to accept certain levels of risk in pursuing our ambition of establishing Smiths as one of the world's leading technology companies.

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

RISK GOVERNANCE

The Board and its Committees set the 'tone at the top' 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 Committee is responsible for reviewing and assessing the effectiveness of the Group's risk management and internal control systems. The review process covers financial, operational and compliance controls, as well as the Group's principal risks.

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

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

Internal Audit provides independent and objective assurance, to both the Audit 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 reviews and assurance reviews of key programmes, processes and systems.

HOW WE MANAGE RISK

THE ENTERPRISE RISK MANAGEMENT PROCESS

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

During FY2018 a risk workshop was facilitated by the Director of Internal Audit at the Executive Committee. This workshop resulted in an update to the principal risk register which was presented to the Audit Committee. The Audit Committee selected three of the principal risks – ethics and compliance (focus on agents and distributors), cyber security, and growth markets (focus on Asia) – for deep dive reviews at both the Executive and Audit Committees.

A further 51 risk workshops were facilitated at operational sites during the year to gather a 'bottom-up' view of risk.

Within the ERM framework, we operate a 'three lines of defence approach'. This model ensures that the three lines – Risk Ownership and Mitigation, Monitoring and Compliance, and Independent Assurance – are clearly defined and work effectively.

The Audit Committee on behalf of the Board has reviewed the effectiveness of the risk management process, considering the principal risks and uncertainties, actions taken by management to manage those risks, and the Board's risk appetite in respect of each risk. The Directors consider the risk management process to be effective. It recognises that this is an ongoing process and work will continue in FY2019.

BOARD AND AUDIT COMMITTEE

- Setting the strategy and 'tone at the top'
- Reviewing and assessing the effectiveness of risk management and internal control systems
- Monitoring through Board processes

EXECUTIVE COMMITTEE AND SENIOR MANAGEMENT

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

1ST LINE OF DEFENCE

RISK OWNERSHIP AND MITIGATION

Operational teams

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

2ND LINE OF DEFENCE

MONITORING AND COMPLIANCE

Risk and compliance functions

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

3RD LINE OF DEFENCE

INDEPENDENT ASSURANCE

Internal audit function

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

Regulators and external audit

RISK MANAGEMENT CONTINUED

PRINCIPAL RISKS AND UNCERTAINTIES

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

We review each risk and rate them according to the current net risk position i.e. the likelihood of occurrence, taking into account external factors and current internal mitigating controls, and we consider an appropriate target exposure or risk appetite. This, and our 'velocity' metric, which reflects the expected time we would have to react should a risk materialise, drives mitigation priorities. Our trend metric shows the net position of the risk year-on-year.

We updated our register of principal risks and uncertainties following the Executive Committee workshop held during FY2018.

While we continue to monitor and manage a wider range of risks, the tables below summarise those which might have the greatest impact if they were to materialise, and the key mitigating controls in place to address them. These principal risks are ordered based on our current consideration of potential impact, taking into account the time we would have to react.

Risk	Potential impact	Key mitigating controls
TECHNOLOGY Differentiated new products and services are critical to our success. We may be unable to maintain technological differentiation or to meet customers' needs and may face disruptive innovation by a competitor.	– Loss of market share – Material adverse effect on profitable growth – Erosion of our reputation as a leader in our markets and of our ability to attract and retain talent – Need for higher R&D spend to maintain sales growth	– Diversified technology portfolio serving a range of sectors and geographies, mitigating exposure to any one sector or area – Proactive repositioning of the portfolio around the most attractive markets, where we can sustainably hold a top three position based on technology leadership – Sustained and smarter investment in R&D (FY2018: 4.6% of revenue, FY2017: 4.6%) – Focus on building a culture of innovation – Innovation Fund to leverage critical mass and accelerate key areas – New Product Introduction (NPI) process rolled out across divisions to accelerate time to market

Strategic objective

2
DELIVER WORLD-CLASS COMPETITIVENESS

Current	Target	Trend	Velocity
		↔	Y

Risk	Potential impact	Key mitigating controls
PEOPLE People are our only truly sustainable source of competitive advantage and competition for key skills is intense, especially around science, technology, engineering and mathematics (STEM) disciplines. We may not be successful in attracting, retaining, developing, engaging and inspiring the right people with the right skills to achieve our growth ambitions. **Strategic objective** 2 DELIVER WORLD-CLASS COMPETITIVENESS	– Inability to attract key talent leading to a loss of competitive advantage – Difficulty in retaining personnel, at all levels of the organisation, leading to a loss of competitive advantage – In acquisitions, losing key personnel from the newly-acquired business which may significantly impact performance and value	– Investment to build a learning organisation with a focus on culture, reward and recognition – Implementation of the right HR infrastructure – Delivery of a range of learning and development opportunities at all levels of the organisation – Talent and succession plan reviews – Remuneration packages evaluated regularly against market trends – Chief Executive assessment of the leadership team – Annual performance management reviews for the majority of employees using best practice processes such as 360 degree feedback surveys – Formal career counselling for senior people in the business – A clearly defined people integration plan for acquisitions

Current	Target	Trend	Velocity
Medium	Low	No change	Y

Key

Current exposure to risk	Target exposure of risk	Trend: Net position of risk vs FY2017	Velocity: Time to react
Low, Medium, High	Low, Medium, High	Lessened, No change, Increased	Y Years, M Months, W Days/Weeks

RISK MANAGEMENT CONTINUED

Risk	Potential impact	Key mitigating controls
PRODUCT QUALITY In the ordinary course of business, we are potentially subject to product liability claims and lawsuits, including potential class actions. The mission-critical nature of many of our solutions makes the potential consequences of failure more serious than may otherwise be the case.	– Recall of products due to manufacturing flaws, component failures and/or design defects in order to avoid serious, or potentially catastrophic, failure – Exposure to losses in the event of a cyber security breach relating to our products, particularly at Smiths Detection and Smiths Medical. These include not only customer losses, but also those of a potentially large class of third parties – Damage to our reputation and reduction in market acceptance of, and demand for, our products from an adverse event involving one of our products	– The US SAFETY Act provides legislative protection for certain Smiths Detection products in the US. We support efforts to implement similar legislation in other markets – Divisional quality risk assessments that address product failures, product compliance, regulatory compliance, product performance, product safety and market authorisation risks – Quality assurance processes embedded in manufacturing locations for critical equipment, supporting compliance with industry regulations (e.g. FAA, FDA, API, etc.) – Quality development and quality integration built into NPI processes – Material litigation managed under the oversight of the Group General Counsel – Group-wide Quality Council drives standard definitions, identifies and shares best practice and reduces the cost of poor quality – Insurance cover for product liability – 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

Strategic objective

2
DELIVER WORLD-CLASS COMPETITIVENESS

Current	Target	Trend	Velocity
		↔	W

Risk	Potential impact	Key mitigating controls
CYBER SECURITY Cyber attacks seeking to compromise the confidentiality, integrity and availability of IT systems and the data held on them are a continuing risk. We operate in markets and product areas which are known to be of interest to cyber criminals.	– Compromised confidentiality, integrity and availability of our assets resulting from a cyber attack, impacting our ability to deliver to customers and, ultimately, financial performance and reputation – Exposure to significant losses in the event of a cyber security breach relating to our security or medical products. These include not only customer losses, but also those of a potentially large class of third parties	– Board oversight of the approach to mitigating cyber risks – Proactive focus on information and cyber security risks supported by a strong governance framework – Group-wide assessment of critical information assets and protection to enhance security – Information Security Awareness programme – Security monitoring to provide early detection of hostile activity on Smiths networks and an incident management process – Partnership and monitoring arrangements in place with critical third parties, including communications service providers – Risk analysis and mitigation processes relating to product cyber-resilience embedded in the product lifecycle process

Strategic objective

2
DELIVER WORLD-CLASS COMPETITIVENESS

Current	Target	Trend	Velocity
Low	Low	No change	W

Key

Current exposure to risk	Target exposure of risk	Trend: Net position of risk vs FY2017	Velocity: Time to react
Low, Medium, High	Low, Medium, High	Lessened, No change, Increased	Y Years, M Months, W Days/Weeks

RISK MANAGEMENT CONTINUED

Risk	Potential impact	Key mitigating controls
ECONOMY AND GEOPOLITICS While global economic conditions remain relatively benign, there is concern that we are in the late stage of the economic cycle. Threats to free trade are increasing. **Strategic objective** 1 OUTPERFORM OUR TARGET MARKETS 2 DELIVER WORLD-CLASS COMPETITIVENESS	– Stresses on operational capacity resulting from a recovery in volumes driven by higher oil prices – Governments continue to look for ways to improve tax revenues to ease fiscal budget pressures – Adverse impact on business performance due to the imposition of tariffs. Sanctions have already affected trade with Iran and Russia. The consequences of Brexit are uncertain. Potential effects applicable to many businesses include economic and operational uncertainty, volatility of currency exchange, regulatory changes and the imposition of tariffs on trade between the UK and the Eurozone – Geopolitical tensions, most notably in the Middle East and the Koreas, carry a direct financial threat, particularly if the latter escalates into a global issue	– Diversified portfolio of businesses which mitigates exposure to any one country or sector and geographic spread that mitigates the impact of trade barriers between regions – Divisions monitor order flows and other leading indicators so that they may respond quickly to deteriorating trading conditions and tariffs/barriers to free trade – Identification and application of learnings from past downturns through the cycle – Sustainable tax strategy to optimise the Group's position – Representation of our interests by our Government Relations team – Trade compliance officers monitor compliance with sanctions and other trade restrictions – Monitoring of the ongoing negotiations between the UK and the EU in order to assess the potential impact of Brexit and any transitional arrangements that may be agreed

Current	Target	Trend	Velocity
		⟷	Y

Risk	Potential impact	Key mitigating controls
GROWTH MARKETS A significant proportion of our revenue comes from the US and European markets, with a notable proportion coming from governments. **Strategic objective** 1 OUTPERFORM OUR TARGET MARKETS	– Failure to develop other markets and geographies impacts strategic progress and financial performance – Significant disruption to government budgets results in fewer contracts being awarded to Smiths Detection, Smiths Medical and Smiths Interconnect, impacting financial performance	– A diversified portfolio of businesses mitigates exposure to any one country, sector or customer – Growth strategy that places emphasis on expanding operations in higher-growth markets and regions that are currently underserved, including Asia – Strategic process to capture continuing opportunities in current markets – Government Relations function that collaborates with colleagues across the Group to advise on developments – More resilient services and consumable components built into some of our government-related business

Current	Target	Trend	Velocity
		⟷	Y

Risk	Potential impact	Key mitigating controls

ETHICS AND COMPLIANCE

We have c.22,000 employees in more than 50 countries. Individuals may not all behave in accordance with the Company's values and ethical standards. We operate in highly regulated markets requiring strict adherence to laws with risk areas including:
- bribery and corruption;
- anti-trust matters;
- international trade laws and sanctions;
- human rights, modern slavery and international labour standards; and
- General Data Protection Regulation (GDPR).

Potential impact

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

Key mitigating controls

- Group-wide ethics framework which includes the Smiths Way, the Code of Business Ethics and the Supplier Code of Conduct
- Policies and procedures to mitigate distributor and agent-related risks including due diligence, contractual controls and internal approvals
- Anti-bribery and corruption training for all employees supported by the 'Speak Out' line encouraging the reporting of ethics violations (includes a non-retaliation policy)
- Reporting and investigation mechanisms
- Competition law/anti-trust training programmes and guidance
- Network of trade compliance officers across the Group that oversee import and export activities
- Dedicated staff at Smiths Medical who maintain close contact with the FDA and other key regulators
- Group General Counsel and divisional General Counsels monitor legislative changes and report and monitor actions as necessary
- Anti-Modern Slavery Policy and procedures to reduce the risk of modern slavery within the Company and our supply chain
- GDPR working group driving programme to ensure compliance

Strategic objective

2
DELIVER WORLD-CLASS COMPETITIVENESS

Current	Target	Trend	Velocity
Low	Low	No change	W

Key

Current exposure to risk	Target exposure of risk	Trend: Net position of risk vs FY2017	Velocity: Time to react
Low, Medium, High	Low, Medium, High	Lessened, No change, Increased	Y Years, M Months, W Days/Weeks

RISK MANAGEMENT CONTINUED

Risk	Potential impact	Key mitigating controls
CONTRACTUAL LIABILITIES We may fail to deliver the products and services we are obliged to deliver, or fail in our contractual execution due to delays or breaches by our suppliers or other counterparties.	– Production delays, unexpected increases in costs of materials, freight, quality and warranty issues resulting from differences between estimated and actual costs in our medium and long-term contracts – Breach of contract resulting in significant expenses due to disputes and claims, loss of customers, damage to Smiths reputation with other customers/ prospective customers, and loss of revenue and profit due to higher costs, liquidated damages or other penalties. Smiths contracts, particularly those with governments, may include terms that provide for unlimited liabilities, including for loss of profits, IP indemnities, perpetual warranties or allowing the counterparty to cancel modify or terminate unilaterally and seek alternative sources of supply at Smiths expense	– Contracts managed and delivered by programme management teams that regularly review risks and take appropriate action – Review and approval process for significant and higher-risk contracts in place at Group and divisional levels – Diversified nature of the Group mitigates exposure to any single contract – Programmes in place across the Group that harmonise the contract review process – Cross divisional US Government working group determines and shares best practice on government contracting

Strategic objective

2
DELIVER WORLD-CLASS COMPETITIVENESS

Current	Target	Trend	Velocity
		↔	M

Risk	Potential impact	Key mitigating controls
ACQUISITIONS AND INTEGRATION Our strategy is predicated primarily on organic growth. However, acquisitions can also play a role in building and/or strengthening competitive positions. Acquisitions carry risk, but also opportunity. We may invest substantial funds and resources in acquisitions which fail to deliver on expectations – due to incorrect appraisal of the target and/or poor execution. The opposite risk is that (perhaps through an excess of caution) we miss out on opportunities to build market-leading positions and growth.	– Poor acquisitions lead directly to financial damage and indirectly to loss of shareholder confidence in management – Newly-acquired products and solutions deliver less value, fewer synergies, or require more investment than anticipated – Fall in our return on capital employed measure – Financial performance suffers from goodwill or other acquisition-related impairment charges	– Investment in greater internal capability for the evaluation and execution of transactions – Regular reviews of the acquisition pipeline and a stage-gated M&A process – Detailed due diligence and integration work in accordance with our acquisitions and disposals policy – Larger transactions approved only by the full Board – Post-acquisition reviews with lessons learned incorporated into future projects

Strategic objective

1
OUTPERFORM OUR TARGET MARKETS

3
STRONG FINANCIAL FRAMEWORK

Current	Target	Trend	Velocity
		↔	M

Risk	Potential impact	Key mitigating controls
SUPPLY CHAIN – MANUFACTURING Timely, efficient supply of raw materials and purchased components is critical to our ability to deliver to our customers drive growth. Manufacturing continues to be exposed to external events which could have significant adverse consequences, including natural catastrophes, disease pandemics and terrorist attacks. We are also affected by the social, economic, regulatory and political conditions where we operate.	– Inability to deliver products/solutions to customers, impacting financial performance and reputation	– Supply Excellence pillar of our SES operating model delivers increased focus on efficient, resilient and cost-effective supply – Business continuity and disaster recovery plans in place and tested for critical locations – Regular evaluation of key sites for a range of risk factors using externally benchmarked assessments – Business interruption and property damage insurance

Strategic objective

2
DELIVER WORLD-CLASS COMPETITIVENESS

Current	Target	Trend	Velocity
Low	Low	No change	W

Risk	Potential impact	Key mitigating controls
SUPPLY CHAIN – SOLE SOURCE Our businesses depend on the availability and timely delivery of raw materials and purchased components. Where sole or single source suppliers are the only qualified source of raw material and/or components, any disruption to supply could adversely impact production, associated customers and the downstream supply chain.	– Inability to deliver products/solutions to customers, impacting financial performance and reputation	– Risk management process based on failure mode and effects analysis (FMEA) principles developed by the Group Strategic Sourcing team that includes sole or single suppliers – Mitigation plans, including qualification of alternative sources of supply where appropriate, in place – All critical suppliers screened on a daily basis with any change to risk status communicated to the appropriate procurement leader for analysis and follow-up

Strategic objective

2
DELIVER WORLD-CLASS COMPETITIVENESS

Current	Target	Trend	Velocity
Low	Low	No change	W

Key

Current exposure to risk	Target exposure of risk	Trend: Net position of risk vs FY2017	Velocity: Time to react
Low, Medium, High	Low, Medium, High	Lessened, No change, Increased	Y Years, M Months, W Days/Weeks

RESOURCES AND RELATIONSHIPS

DOING THINGS THE RIGHT WAY IS A RESPONSIBILITY, NOT A CHOICE

Being a responsible business is deeply embedded in how we think, operate and manage our key resources and relationships with all our stakeholders.

WORKING IN THE SMITHS WAY

The Smiths Way is how we do things. From our shared vision and values that define our culture and our strategy, to our operating model, the Smiths Excellence System (SES), it's ensuring we do the right things, in the right way.

SES helps us manage our business, and our resources and relationships more efficiently and sustainably, under our six pillars – customer, people, technology, programme, production and supply.

In this section, we outline how our responsible business focus areas map across the six pillars. However, most topics, particularly health, safety and environment (HSE) and our ethics and compliance activities, are applied across more than one pillar.

OUR APPROACH TO HEALTH AND SAFETY

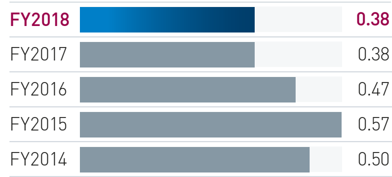
Health and safety is a top priority at Smiths and underpins the way we operate in every part of our business. We work to create safe and secure workplaces for our people, our customers, our suppliers and all other stakeholders.

Our safety culture is built around a cross-divisional network of health, safety and environment (HSE) leaders. They share ideas and best practices, and implement initiatives to help improve our safety performance. While HSE management systems are used to identify and prioritise risks, we also encourage colleagues to take ownership of safety by sharing feedback and suggesting improvements.

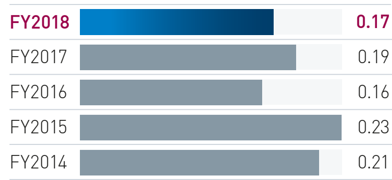
Our people recognise our commitment to health and safety. Safety came out as one of the highest scores in our most recent My Say colleague survey, when colleagues were asked if they agreed with the statement 'Safety is a top priority here'. In our Group-wide safety assessment, administered by DuPont Security Solutions, we were pleased that colleagues said our safety culture – based on HSE leadership, structure, and processes – was continually improving.

To track our progress, we closely monitor our recordable incident rate (RIR) – where incidents require medical attention beyond first aid – and lost-time incident rate (LTIR) – where an employee is unable to work the day following an incident – per 100 employees, per year across Smiths.

RECORDABLE INCIDENT RATE (per 100 colleagues)



LOST TIME INCIDENT RATE (per 100 colleagues)



Figures vary from those reported in prior years due to the reclassification of a small number of incidents as outcomes became known.

During FY2018, as part of our journey towards 'zero harm', we launched several Group-wide initiatives to help improve our safety performance, including our safety behaviours programme and forklift safety survey. Online safety training, hand safety and safe driving campaigns are planned for FY2019.

CUSTOMER

We work closely with our customers to deliver innovative products and value-adding support.

At Smiths, our goal is to continuously enhance the customer experience and increase the value we create for them.

CUSTOMER ENGAGEMENT AND SATISFACTION

We take time to understand customer challenges and anticipate their needs, partnering to steer innovation and technology development, delivering high-quality products, and optimising lead times.

We're investing in customer relationship management (CRM) tools and training to improve customer engagement and satisfaction. We'll continue to improve this by focusing on five core areas – pricing, deal follow-up, key account management, customer complaint management, and order-to-delivery management.

We seek to create trusting partnerships with our customers. We are committed to adhering to our Code of Business Ethics (Code) (see PEOPLE section – Ethics and Support), applying our shared values, and complying with all applicable international and local rules and regulations. We also encourage our customers to contact our Speak Out reporting line if they identify any behaviour that's not in line with our Code.

CREATING CUSTOMER VALUE

We drive value by working closely with our customers all the way from product development and delivery, to end-use and aftermarket support – but the creation of customer value starts with understanding their needs.

We actively engage with our customers during concept and design stages of our New Product Introduction (NPI) process and aim to provide integrated, full lifecycle support. We also introduced a futuring process to predict how our customers' needs will evolve, as influenced by mega trends, macro trends and emerging trends and technologies, which we'll continue in FY2019.

ANTI-BRIBERY AND ANTI-CORRUPTION

We regularly review our policies and procedures to reduce our exposure to bribery. We provide regular anti-bribery training, and have clear policies and procedures to regulate giving and receiving of gifts and hospitality, and how we interact with government officials. Our gifts register helps us monitor compliance with these policies.

We apply strict controls around the appointment of distributors and agents to make sure we know who we're dealing with. In FY2018 we enhanced our distributor and agents due diligence processes and implemented an audit programme to support these efforts. As part of this process, we ask potential distributors and agents to complete a questionnaire with any issues identified and remedial actions taken. In addition, we use third-party due diligence services to supplement our own due diligence. Where the potential risks of bribery are particularly high we use investigators on the ground to provide enhanced due diligence. We'll continue to monitor activities in FY2019. We also continue to educate colleagues on this important issue through our ethics and compliance training programmes.

ANTI-TRUST

We're committed to competing fairly within the markets we operate in. We provide colleagues whose roles may expose them to competition law risks with regular training and in FY2018 we refreshed our Anti-trust policy and supporting materials, including our trade and industry event register.

DEVELOPING INNOVATIVE PRODUCTS FOR OUR CUSTOMERS

COLLABORATING WITH UPS

Smiths Detection worked closely with UPS, one of the world's largest air freight companies, to develop a software interface that transfers CT X-ray image data collected from Detection's XCT systems straight to UPS's IBX database.

This helps UPS move massive volumes of image data, speeding up and securing their cargo shipping operations. The team worked on-site with the UPS software team to modify configurations and software while testing the limits of the new system.

RESOURCES AND RELATIONSHIPS CONTINUED

PEOPLE

Our people are our most important sources of sustainable competitive advantage.

Our people strategy is focused on building a learning organisation that attracts, retains, develops, engages and inspires our people to be the best they can be.

CULTURE, ENGAGEMENT AND COMMUNICATION

Our Smiths Way of working helps us align our culture, strategy and operating model to create an inspiring and innovative workplace.

We hold our My Say colleague survey twice a year to inform the co-creation of action plans that are helping to make Smiths a better place to work. Our May 2018 survey maintained our high response rate of 87%, with more than 30,000 comments. The results reflected improvements in many areas, including overall engagement, culture and communications.

To further embed our Smiths Way culture, we held our first ever Smiths Day with events and celebrations all over the world. We also introduced our colleague smartphone app, Smiths Now, to enhance engagement, share news across the business and encourage peer-to-peer communication.

Our annual Smiths Excellence Awards, recognising the highest levels of achievement across our six SES pillars, as well as outstanding contributions to HSE and to our communities, continues to be a highlight for colleagues.

May 2018 My Say survey

ENGAGEMENT SCORE	COMMENTS
73	30,000+

June 2017: 71

Employee engagement My Say score, based on an average score for two questions assessing how happy colleagues are working at Smiths and pride in Smiths.

LEADERSHIP AND LEARNING

We are building a learning organisation that supports our people through formal and informal development programmes, to allow them to reach their full potential. This includes our SES Academy, which will be launched in FY2019 to provide progressive training for all colleagues across a range of professional disciplines. We also plan to partner with a leading academic institution to deliver a portfolio of lean six sigma belted programmes.

Our success is driven by the effectiveness of our leaders. We continued our executive development programme at UCLA, California, enhancing our senior leadership capabilities. In FY2019, we'll implement a new leadership programme to help new and existing managers be more effective in their roles at Smiths.

We also look to fill our talent pipeline by focusing on attracting graduates and early career talent to Smiths – with a focus on talent who have an interest in science, technology, engineering and maths. Through our early career initiatives, we offer graduate and internship roles within a structured development programme.

REWARD AND RECOGNITION

Recognising and rewarding our colleagues in a fair and open way helps them feel valued, supported and incentivised to succeed. To stay competitive, and attract and retain the curious and innovative people we need to drive our growth, it's critical that we offer a comprehensive and meaningful approach to reward and recognition.

Cross-divisional job movement, aligned incentive plans, international mobility and clear career paths are all opportunities we're working to build on. Creating a shared global job architecture enables greater movement and development opportunities for colleagues to expand and enhance their careers at Smiths.

In FY2018, we also became an accredited living wage employer in the UK.

DIVERSITY AND INCLUSION

To fuel our growth and meet the evolving needs of our stakeholders, we must draw on the innovative thinking of a diverse employee population.

Our aim is a diverse, high-performing workforce that reflects our global business and is supported by an inclusive culture that engages all individuals, and values their talents and perspectives. Our recently introduced Diversity and Inclusion (D&I) Plan aligns with this intent, outlining our philosophy, targets and actions to establish ourselves as a diverse and inclusive company, including our unconscious bias programme and virtual D&I forums.

CELEBRATING OUR PEOPLE AND SUCCESSES

FIRST EVER GLOBAL SMITHS DAY

On 7 June 2018, we celebrated our first ever Smiths Day – bringing together colleagues from every division, function and region around the world.

In addition to local celebrations, musical performances, charity events and STEM education initiatives, our Chief Executive, Andy Reynolds Smith hosted two global town hall sessions to connect with colleagues and announce our 2018 Excellence Awards finalists.

Andy said: "I found the enthusiasm shown all over the world really inspiring. It underlined to me what can be achieved when motivated colleagues get together, support each other, and collaborate with real focus."

Our goal is to increase the diversity of our entire population, including more equal representation of women. This year, we also published our 2017 and 2018 UK Gender Pay Gap (GPG) Reports. We remain committed to increasing the proportion of women in senior roles and building a diverse senior management team, and our FY2018 report showed that overall we're already making progress in reducing the gap year-on-year.

	Male	Female	Total
Board of Directors	9	2	11
Executive Committee*	8	3	11
Senior managers**	237	35	272
All employees	13,400	8,300	21,700

* Andy Reynolds Smith and John Shipsey are included on both the Board of Directors and Executive Committee.

** Includes certain employees who report directly to an Executive Committee member, lead a large operational site or sales region, or who are a director of a subsidiary undertaking.

It's our policy to provide equal employment opportunities. We recruit, select and promote our people on the basis of their qualifications, skills, aptitude and attitude. In employment-related decisions, we comply with all applicable anti-discrimination requirements in the relevant jurisdictions. People with disabilities are given full consideration for employment and subsequent training (including retraining, if needed, for people who have become disabled), career development and promotion on the basis of their aptitudes and abilities. We endeavour to find jobs for those who are unable to continue in their existing job because of disability.

ETHICS AND SUPPORT

We want to create a culture where colleagues feel safe and respected. For us, that means applying our shared values of integrity, respect, ownership, customer focus and passion to our actions and decisions every day.

Our values are at the heart of what it means to be Smiths and in FY2018 we revised our Code of Business Ethics (Code) to reflect this. The updated Code provides guidance, including through real-life scenarios, to help colleagues understand how to address challenging and ethical issues they may encounter at work. In FY2019, we'll update our online ethics training module to reflect these changes.

We also launched our 'Speak Out' campaign in FY2018 to remind and encourage colleagues to report behaviour that's inconsistent with the Code and our values through their line manager, HR and legal teams, or through our confidential reporting Alertline.

SECURITY

We take vigorous measures to safeguard colleagues and visitors all over the world to protect our business from security threats. All locations have site security plans which adhere to Group-wide standards.

In FY2019, we'll continue to review and identify potential risks and ensure the protection of our physical and intellectual property.

COMMUNITY ENGAGEMENT

We get involved in local communities to build strong community relationships, a sense of pride in our business, and engage our people. We manage community relationships locally, with each business focusing on markets and communities important to them. We offer Group-level support to charities and organisations that show how a donation will increase wellbeing through improvements to education, health, welfare or environment.

In FY2018, the Group made charitable donations of £88,000. In addition, colleagues donated and raised money for a number of good causes, through a range of fundraising initiatives. We celebrate the best of these initiatives at our annual Group-wide Excellence Awards.

POLITICAL DONATIONS

As a Group, we made contributions to non-EU political parties totalling $52,000 (£40,200) during FY2018. The political contributions were made on a bi-partisan basis in the US, in accordance with US state and federal election laws, in order to raise awareness and to promote Smiths interests.

CONTRIBUTING TO OUR LOCAL COMMUNITIES

SUPPORTING CHILDREN AFFECTED BY CANCER

Coming together to support their local community, the team at Flex-Tek partnered with a local ATV (all-terrain vehicle) camp for children affected by cancer. Together, they cleaned the camp, landscaped and cleared driving trails, and built a new volleyball court – giving the children a chance to spend quality time with friends and family, away from the hospital.

RESOURCES AND RELATIONSHIPS CONTINUED

TECHNOLOGY

Our innovative technology helps make the world safer, healthier and more efficient.

Technology and innovation is the life blood of Smiths. It helps fill our future product pipeline, create new business models, bring value to our customers and drive sustainable growth.

INNOVATION FRAMEWORK

Our Group-wide innovation framework – i³ – is helping us foster an innovative, future-focused and customer-centric culture through a disciplined approach to innovation, aligned with our strategy for growth. It's helping us translate our expertise and insight into innovative new products, services and business models through our futuring process, already resulting in funded proposals, such as CORSYS™, Smiths Detection's AI based software platform.

To support our ambitions, we opened our first Digital Forge in the San Francisco Bay area in FY2018, designed to accelerate our digital projects and provide a co-innovation space for us, our customers and other partners. We also held workshops throughout the year to drive innovative thinking, identify and develop solutions for future problems, and collaborate on forward-thinking technologies.

Our new cross-divisional communities of practice are also helping to connect subject matter experts from across the business through dedicated online forums.

Our approach to collaboration, innovation and breakthrough thinking also extends to external partnerships. In FY2018, we signed strategic partnerships with Microsoft, to accelerate and enable our digital transformation, and Carnegie Mellon, to advance our additive manufacturing capabilities.

RESEARCH AND DEVELOPMENT

We have taken great strides to balance our innovation investment profile and establish targets for R&D spend and vitality, which measures our percentage of total revenue derived from new products launched in the last three years. The tools used to measure vitality give us a holistic view of the organic pipeline, improving insight and decision-making.

INVESTMENT IN R&D (PERCENTAGE OF SALES)

4.6%

FY2017: 4.6%

PROGRAMME

We aim for consistent and flawless execution across all we do.

Our products and solutions are used in some of the most highly-regulated markets in the world, requiring compliance with strict regulatory requirements.

PRODUCT LIFECYCLE MANAGEMENT

We design new products by thinking holistically from customer need and problem definition through product conception to introduction, and from end-use to end of life. This approach is collaborative and cross-functional to create solutions that delight customers, create value and make the world healthier, safer and more productive.

New product introduction

We've developed a standard, flexible New Product Introduction (NPI) process across the Group. This scalable methodology is tailored to market and product, ensuring investment is proportionate, and helps maintain our crucial new product innovation pipeline. The methodology is based on a stage-gate approach with regular internal audits to ensure commercial effectiveness and improve our speed and effectiveness of bringing new products to market.

IMAGINING THE FUTURE

EXAMINING EMERGING TRENDS AND TECHNOLOGIES

Innovative, breakthrough thinking is vital to helping us establish Smiths as one of the world's leading technology companies.

This year, we held our first Futuring workshop, bringing together colleagues from across the business to examine current and emerging trends and technologies, at a market and global level. Together, they outlined future problem statements, and generated ideas and solutions to these problems that are now being developed into reality.

Product cyber security

Our products are used in mission-critical applications in highly-regulated industries. As our focus on digital transformation increases we're committed to ensuring the highest standards of cyber security. We apply a unified, top-level approach to leverage our scale and maximise product security. In FY2018, we focused on cyber security, and process and controls, with both being incorporated into our NPI process.

Product safety

Our approach to product lifecycle management means thinking about safety at every step – including how the product is designed, manufactured, used and disposed of. We are developing common quality procedures to minimise product safety and quality issues, and monitor performance through quality control processes and systems.

In FY2018, we established a cross-divisional restricted substances working group to help minimise the use of hazardous materials in our products and ensure compliance with local regulations.

PRODUCTION

We constantly drive for enhanced production efficiency, effectiveness and quality.

We're committed to ensuring that every product is manufactured efficiently, to the highest standard of quality and safety, and that we minimise our impact on the environment.

PRODUCT QUALITY

Our cross-divisional quality council drives our approach to quality through standardised policies, processes and guidelines, to help our Divisions embed quality in their work, supported by a culture of sharing knowledge and continuous improvement.

We focus our broad performance monitoring on two quality metrics – defects per million parts shipped (DPPM) and cost of poor quality (COPQ). COPQ includes the costs of waste, corrective work, warranty claims, returns and penalties, measured as a percentage of annual revenue.

In FY2018, we recorded

DEFECTS PER MILLION PARTS SHIPPED	COST OF POOR QUALITY
424	1.7%
FY2017: 459	**FY2017: 2.1%**

LEAN AND CONTINUOUS IMPROVEMENT

We incorporate continuous improvement and lean methodology to improve safety, quality, cycle time, delivery performance and productivity. Model value streams across our business allow us to test the effectiveness of new manufacturing technologies and approaches in a live environment. These projects are already recording significant improvements in HSE, quality, efficiency and lead times.

We're embracing new manufacturing technologies by piloting additive manufacturing, deploying collaborative robots (CoBots) in live production, and automating product lines in some areas. We also have augmented reality trials underway to understand the potential benefits to operations.

In FY2019, we'll continue to embed lean and continuous improvement tools and resources within manufacturing and service sites, establishing a common approach to production across the Group.

TRANSFORMING MANUFACTURING THROUGH TECHNOLOGY

COLLABORATIVE ROBOTS IN A LIVE PRODUCTION ENVIRONMENT

We're investing in new production technologies to bring the biggest benefits, without adding unnecessary complexity to what we do. In FY2018, our Smiths Interconnect manufacturing facility in Alajuela, Costa Rica, celebrated the introduction of the first CoBot to be fully deployed in a live production environment at Smiths. This new style of robot allows the production team to safely interact with the CoBot as it assembles and tests high volume electronic components as part of the production process.

RESOURCES AND RELATIONSHIPS CONTINUED

PRODUCTION CONTINUED

ENVIRONMENTAL MANAGEMENT

We're committed to using energy and natural resources efficiently within our operations and reducing our greenhouse gas (GHG) emissions, through advanced production processes that decrease waste and energy consumption. We've also invested in environmental management systems that drive improvement in our performance and focus on procuring energy that produces no GHG emissions.

Our HSE and GHG policies are used by each division to develop tailored strategies. We closely monitor energy and water use, waste generation and GHG emissions to identify potential improvements, sharing mitigating action plans and best practice across the Group.

ENVIRONMENTAL PERFORMANCE

In FY2013, we set environmental targets to reduce, by FY2018, our energy usage, GHG emissions and waste generation by 15%, and our water usage by 10%, all normalised to revenue. By the end of FY2018, we'd met and exceeded three of our four targets.

Performance against environmental metrics

	FY2013-2018 target	FY2018 outcome
Energy	(15)%	**(13)%**
Greenhouse gas emissions	(15)%	**(38)%**
Total non-recycled waste	(15)%	**(27)%**
Water consumption	(10)%	**(29)%**

Reduction targets are compared to the FY2013 baseline year and normalised to FY2018 revenue.

Energy and GHG emissions

Our GHG emissions calculations and reporting follows the Greenhouse Gas protocol (operational approach) and cover emissions from all sources under our control, grouped under: Scope 1 – direct GHG emissions from owned assets; and Scope 2 – GHG emissions from supplied electricity. Emissions from company vehicles and fugitive sources are not deemed to be material, and so are not in our reported totals.

Environmental goals

We've set new three-year environmental improvement targets for FY2019 in accordance with our HSE and GHG policies.

By FY2021, we aim to reduce our GHG emissions by a further 5%, normalised to revenue, and increase our use of renewable energy by an additional 5% – from the current 43% of our electricity use – by using more energy efficient equipment and green energy contracts.

We'll focus on reducing water usage by an additional 5%, normalised to revenue, in regions where water resources are reported as 'limited' by other agencies. While we don't operate in any regions defined as 'stressed' by UNESCO, we've identified sites where we can have an impact on local resources by minimising our water use. We've also targeted an increase in the amount we recycle to 75%, including waste, water and other materials, within our operations and local sites.

Emissions

		FY2018	FY2017	FY2016
Absolute values				
Scope 1 (direct emissions)	t CO_2e	**12,241**	11,143	12,088
Scope 2 (indirect emissions)	t CO_2e	**55,841**	62,072	69,004
Total	t CO_2e	**68,082**	73,215	81,092
Normalised values				
Scope 1 (direct emissions)	t CO_2e/£m revenue	**3.65**	3.74	3.95
Scope 2 (indirect emissions)	t CO_2e/£m revenue	**16.63**	20.83	22.56
Total	t CO_2e/£m revenue	**20.28**	24.57	26.51

MINIMISING OUR ENVIRONMENTAL IMPACT

REDUCING OUR WATER USE

Thinking outside the box, a John Crane facility has installed a closed loop wastewater recycling system which allows them to re-use treated water used during production for flushing toilets. Designed to reduce water consumption by 15%, this project is reinforcing our Group-wide commitment to reducing our environmental impact.

SUPPLY

We're building strong strategic supplier relationships to ensure quality, efficiency and flexibility.

We apply our shared values to everything we do, and ask our suppliers to do the same.

SUPPLIER ENGAGEMENT AND CONDUCT

Our Supplier Code of Conduct, revised in FY2018, makes clear our expectations of suppliers when it comes to ethical behaviour, the supply of minerals from socially and environmentally responsible sources, and the environment.

To grow sustainably, we need strong, smart partnerships to generate and capture value. We want to limit our partnerships to those suppliers who are committed to Smiths and the way we do things.

Supplier contracts and payment terms vary across the Group. We aim to contract with our suppliers in line with local practice and meet our contractual obligations with regard to payment.

SUPPLY CHAIN MANAGEMENT

We apply an end-to-end, cross-functional, total value approach to supply chain management. This helps deliver better forecast accuracy, OTIF (on-time and in-full) delivery and improved lead times for customers, as well as improved stock turns, production costs and working capital for Smiths.

We measure supplier performance through OTIF delivery and supplier quality. In FY2019, we'll introduce supplier score cards to drive performance improvement and further develop our supplier relationship management tools.

TRADE COMPLIANCE

Doing business in the right way means respecting laws wherever we operate. Our trade compliance policies and procedures set out the necessary controls and provide corporate oversight of transactions. Our cross-divisional trade compliance working group meets regularly to share best practice and address emerging issues. We also regularly assess trade activities at the site level to identify risks and review controls.

HUMAN RIGHTS AND TACKLING MODERN SLAVERY

We're committed to upholding all internationally recognised human rights standards wherever we do business, and to addressing any modern slavery risks in our operations and supply chain.

During FY2018, we conducted an internal site survey and made an assessment of existing suppliers using a variety of factors, including country ranking on the Global Slavery Index. Our sites and suppliers identified as high-risk were asked to complete a questionnaire with any issues identified investigated, and remedial actions taken. We also revised our standard supply contracts to require our suppliers to ensure their own suppliers follow our anti-modern-slavery and labour standards commitments.

We launched a modern slavery awareness campaign to further educate our people on the risks of modern slavery at our facilities and those of our suppliers. You can read our latest modern slavery statement on our website.

In FY2019, we'll continue our due diligence drive with a focus on tier one suppliers, and enhance our monitoring capabilities, supplier controls, and human rights training.

STAYING AHEAD OF SUPPLY CHAIN RISK

ASSESSING THE HEALTH OF OUR SUPPLY CHAIN

We source a wide range of materials and components to make the technologies our customers rely on. To give us constant visibility of the health of our supply chain and react faster to emerging risks, we developed a dedicated supplier risk tool that aggregates data on 6,000 of our suppliers representing over 90% of our spend.

GOING CONCERN AND VIABILITY STATEMENT

GOING CONCERN

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

The Company's financial position, including access to liquid resources and a committed undrawn credit facility, together with its debt maturity profile, provide confidence that the Group has sufficient financial resources and is well placed to manage its business and its liabilities as they fall due. As a consequence, the Directors believe that the Company will continue in operation for the foreseeable future and for a period of at least 12 months from the date of this report and therefore continue to adopt the going concern basis of accounting in preparing the annual accounts of the Company and the Group.

In coming to this conclusion, the Directors have taken account of the Group's risk management process and have paid particular attention to the Group's principal risks. More information can be found on pages 50-59.

VIABILITY STATEMENT

During the year the Directors also assessed the longer-term prospects of the Group, taking into account its current position, a robust assessment of the Company's principal risks, particularly those which could threaten the business model, and a range of internal and external factors.

The Directors have determined a three-year period to 31 July 2021 to be appropriate for the viability assessment. This is because based on the historical performance of the Group a three-year outlook represents an optimum balance of long-term projection and acceptable forecasting accuracy. This period 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 order to assess the Group's viability the Directors developed a set of plausible scenarios (standalone and combined) based on the Group's principal risks, each with potentially high-impact outcomes.

In assessing the impact of each of the scenarios the Directors reviewed the current financial position and prospects of the Group, including current year business performance, the detailed budget for FY2019 and the three-year Strategic Plan. 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 the Group's financial capacity to absorb the impact of such adverse events, either individually or in combination, and what mitigating actions the Group could take to respond to them in order to protect its business.

The Directors also considered the Group's ability to raise additional liquidity. In performing this assessment the Directors have taken comfort from the diversity of the Group's businesses across different markets, industries, geographies, products and customers.

Based on the robust assessment, the Directors confirm that they have a reasonable expectation the Group will remain viable for the three-year 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

	Link to principal risks
SCENARIO 1: A natural or other disaster destroys key manufacturing facilities resulting in severe disruption to approximately one-quarter of Smiths Medical's production.	SUPPLY CHAIN – MANUFACTURING
SCENARIO 2: A fault in a critical product within Smiths Medical causes the product range to be suspended by global regulatory authorities pending further investigation. Trade licences are subsequently revoked until the products are tested to be safe.	PRODUCT QUALITY
SCENARIO 3: A corruption scandal leads to global regulatory penalties and damage to the Group's reputation. The corruption scandal also leads to heavy penalties against the Group in its main markets.	ETHICS AND COMPLIANCE
SCENARIO 4: A major environmental disaster arises from product failure. A severe oil spill at an offshore drill causes marine damage and environmental hazards for local residents. Investigations identify a fault in John Crane's mechanical seals as the root cause, and John Crane is judged to bear a share of the recovery costs and damages claimed.	PRODUCT QUALITY
SCENARIO 5: A product cyber-attack at a major global hub airport located in North America. Subsequently civil, military and governmental licences are revoked.	CYBER SECURITY
SCENARIO 6: Combination of scenarios 1 & 4; **SCENARIO 7:** Combination of scenarios 2 & 5	

The Strategic report was approved by the Board on 20 September 2018.

By order of the Board

ANDY REYNOLDS SMITH
CHIEF EXECUTIVE

SHAREHOLDER INFORMATION

FINANCIAL CALENDAR

	2018	2019 (provisional)
Announcement of FY2018 Results	21 September	
Final dividend ex-dividend date	18 October	
Final dividend record date	19 October	
Annual General Meeting	14 November	
Final dividend payment date	16 November	
Announcement of FY2019 Interim Results		22 March
Interim dividend ex-dividend date		4 April
Interim dividend record date		5 April
Interim dividend payment date		26 April
FY2019 financial year end		31 July
Announcement of FY2019 Results		20 September

The market value of an ordinary share of the Company on 31 March 1982 for the purposes of capital gains tax was 136.875p (taking into account the sub-division of 50p shares into 25p shares on 14 January 1985 and the subdivision and consolidation of 25p shares into 37.5p shares on 18 June 2007).

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Incorporated in England
Company No. 137013

Auditor
PricewaterhouseCoopers LLP

Registrars
Our share register is maintained by Equiniti. If you have any questions about your Smiths shares, please contact Equiniti by:

– **Visiting:** www.shareview.co.uk.

– **Telephoning:**
T: 0371 384 2943 (in the UK)
T: +44 (0)121 415 7047 (outside the UK)
Textel: 0870 384 2255
Lines open 8:30am to 5:30pm (UK time), Monday to Friday (excluding public holidays in England and Wales)

– **Writing to:**
Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA

Equiniti offer the Shareview portfolio service to investors, visit www.shareview.co.uk to register for an account. Through Shareview you can access information about your investments, including balance movements and indicative share prices, as well as practical help about transferring your shares or updating your personal details.

From November 2019 Smiths will no longer be issuing dividend cheques. In order to have future dividends paid directly to your bank or building society account please contact Equiniti for a copy of the Bank Mandate Form or register your nominated bank or building society account by visiting www.shareview.co.uk. By registering your account all future dividends will be paid securely by direct credit on the dividend payment date.

ANNUAL GENERAL MEETING (AGM)

The 2018 Smiths Group plc AGM will be held at 11:00am on Wednesday, 14 November 2018 at Linklaters LLP, One Silk Street, London, EC2Y 8HQ.

The Notice of AGM can be found in a separate document which is sent out at least 20 working days before the AGM and made available on our website.

If you are in any doubt as to what action you should take in relation to the resolutions being proposed at the AGM, you are recommended to consult your stockbroker, bank manager, solicitor, accountant or other independent professional adviser authorised under the Financial Services and Markets Act 2000.

VOTING AT THE AGM

The Company provides electronic proxy voting for the AGM. Shareholders who are unable to attend the AGM in person are encouraged to vote their shares by appointing a proxy and issuing voting instructions. Electronic and paper proxy appointments and voting instructions must be received by the Company's Registrar not later than 48 hours before the AGM is held in order to be valid. Shareholders who are not Crest members can appoint a proxy and vote online by visiting the website www.sharevote.co.uk. Crest members, Crest personal members and other Crest-sponsored members should consult the Crest Manual or their sponsor or voting service provider for instructions on electronic proxy appointment and voting.

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