

smiths

INSIDE SMITHS

# WHAT'S INSIDE?



 AT A GLANCE  
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 OUR DIVISIONS  
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This publication provides an overview of our business. More detailed information is available on our website.

[www.smiths.com](http://www.smiths.com)

# HIGHLIGHTS 2017

WE ARE PROUD TO BE SMITHS,  
PUSHING BOUNDARIES TO DELIVER  
INNOVATIVE SOLUTIONS FOR THE  
WORLD'S CHALLENGES. OUR  
AMBITION IS TO ESTABLISH SMITHS  
AS ONE OF THE WORLD'S LEADING  
TECHNOLOGY COMPANIES

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## KEY HIGHLIGHTS

- Group underlying<sup>1</sup> revenue broadly in line with prior year, up 11% on a reported basis
- Underlying headline operating profit up 3%, and up 16% on a reported basis
- Margin expansion in all divisions combined with increased investment
  - Total R&D increased to 4.6% of sales (2016: 4.0%)
- Operational excellence supporting strong cash conversion of 118%
- Significant portfolio upgrading:
  - c. 75% of the Group now well-positioned in growth markets;
  - increased investment in all divisions to drive future growth, up 60bps to 4.6% of sales;
  - four non-core businesses sold;
  - Morpho Detection acquisition integration on track
- Balance sheet remains strong, with further investment capacity for sustainable growth
- ROCE up 90bps with increases in all divisions
- Headline basic EPS up 15% at 97.6p per share
- Proposed final dividend of 29.70p per share. Full year dividend growth of 3%
- Statutory operating profit of £674m

1 Underlying excludes the impact of foreign exchange translation and acquisitions but includes divested businesses for the period they were owned in the reported financial year and adjusts prior financial year comparators as if the divested businesses were owned for the same period in those financial years to aid comparability statements



# ENABLING

With one of the largest global service footprints in the mechanical seal industry, John Crane's expert engineers and technicians work closely with customers to provide rapid onsite support – analysing root-cause failures, identifying areas for improvement and applying performance-based solutions to reduce equipment outages.

A low-angle photograph of an industrial facility, likely a water treatment plant or chemical processing plant. The image shows a complex network of metal pipes, walkways, and structural supports. A prominent feature is a large, cylindrical structure on the left, possibly a storage tank or part of a filtration system. The sky is bright with scattered clouds, and the sun is visible, creating a lens flare effect. The word "INDUSTRY" is overlaid in large, blue, sans-serif capital letters across the center of the image.

# INDUSTRY

Our technologies and services help to increase reliability, improving equipment performance and maximising up-time for mission-critical components across process industries, including chemical, power generation, water and wastewater, and pulp and paper.

# SMITHS AT A GLANCE

WE APPLY LEADING-EDGE TECHNOLOGY TO DESIGN, MANUFACTURE AND DELIVER MARKET-LEADING INNOVATIVE SOLUTIONS THAT MEET OUR CUSTOMERS' EVOLVING NEEDS. OUR PRODUCTS AND SERVICES TOUCH THE LIVES OF MILLIONS OF PEOPLE EVERY DAY



## Our strategy

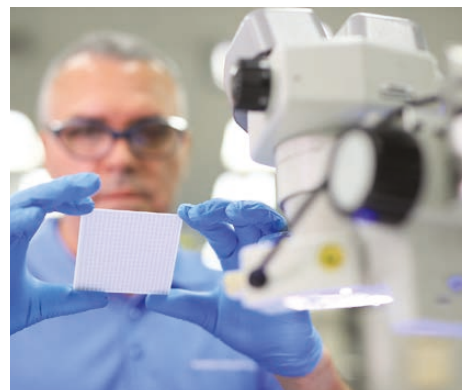
Our ambition is to establish Smiths as one of the world's leading technology companies. We will achieve this by outperforming our chosen markets and delivering world-class competitiveness and innovation, underpinned by our strong financial framework.

## Our solutions

Our products and services are often critical to our customers' operations, while our proprietary technology and high service levels help create competitive advantage. Our solutions make a real impact on the world – from driving industry, improving healthcare and enhancing security, to advancing connectivity and enabling new homes.

## Our end markets and businesses

Today, we serve seven markets through our divisions: John Crane, Smiths Medical, Smiths Detection, Smiths Interconnect and Flex-Tek. We are focusing our portfolio on our most attractive market segments, where we can sustain above-market growth.



### REVENUE

£3,280M

### HEADLINE OPERATING PROFIT

£589M

### EMPLOYEES WORLDWIDE

c. 22,000



### Our people

We employ around 22,000 people globally and are building a learning organisation that enables them to be the best that they can be.

### Our values

We are united by our shared values, which guide our actions and behaviour every day:

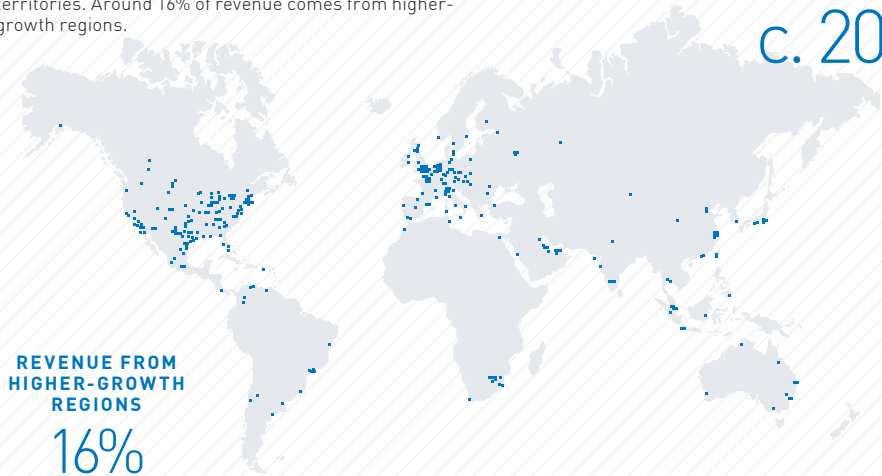
INTEGRITY  
 OWNERSHIP  
 RESPECT  
 CUSTOMER FOCUS  
 PASSION

### Where we operate

We have operations in more than 50 countries and our products and services reach around 200 countries and territories. Around 16% of revenue comes from higher-growth regions.

COUNTRIES AND TERRITORIES OUR SOLUTIONS REACH

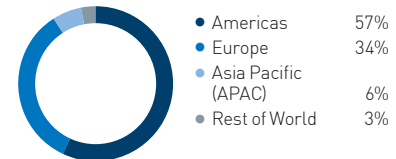
c. 200



### REVENUE BY DESTINATION



### LOCATION OF ASSETS



# OUR DIVISIONS

OUR DIVISIONS ARE EXPERTS IN THEIR MARKETS, WORKING CLOSELY WITH CUSTOMERS TO DELIVER INNOVATIVE SOLUTIONS TO MEET THEIR EVOLVING NEEDS



## JOHN CRANE

Mission-critical solutions for global energy and process industries



## SMITHS MEDICAL

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

DIVISIONAL REVENUE



DIVISIONAL HEADLINE OPERATING PROFIT\*\*



● John Crane	27%	● John Crane	29%	● John Crane	32%
● Smiths Medical	29%	● Smiths Medical	33%		
● Smiths Detection*	21%	● Smiths Detection*	16%		
● Smiths Interconnect	13%	● Smiths Interconnect	9%		
● Flex-Tek	10%	● Flex-Tek	10%		

REVENUE

£885M

HEADLINE OPERATING PROFIT MARGIN

23.0%

### COMPETITIVE STRENGTHS

- A market leader in mechanical seals
- Strong proprietary technology and expertise in applied engineering
- Strong aftermarket service offering, with around two-thirds of sales in aftermarket
- One of the largest global service networks in the mechanical seal industry, with c. 200 sales and service centres

REVENUE

£951M

HEADLINE OPERATING PROFIT MARGIN

22.0%

### COMPETITIVE STRENGTHS

- A category leader in our chosen markets
- Highly recognised and respected brands
- Category breadth and depth, including capital, consumable and software products
- Reputation for quality and safety
- Extensive global sales network

\* Includes the results of Morpho Detection for the approximately four-month period since becoming part of the Group

\*\* Excludes central costs



## SMITHS DETECTION

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



REVENUE

£687M

HEADLINE OPERATING  
PROFIT MARGIN

15.0%

### COMPETITIVE STRENGTHS

- A market leader with a strengthened global position following the Morpho Detection acquisition
- Technologies leveraged across many markets and applications
- Operates in several regulated markets requiring product certification
- Growing aftermarket revenues (39% of total)

## SMITHS INTERCONNECT

Solutions for high-speed, secure connectivity in demanding applications



REVENUE

£419M

HEADLINE OPERATING  
PROFIT MARGIN

13.4%

### COMPETITIVE STRENGTHS

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

## FLEX-TEK

Innovative components to heat and move fluids and gases



REVENUE

£338M

HEADLINE OPERATING  
PROFIT MARGIN

19.3%

### COMPETITIVE STRENGTHS

- A market-leading performance in residential gas tubing
- High-performance flexible tubing products for aerospace
- Leading capability in the design and manufacture of heating solutions for bespoke applications
- Strong customer relationships



# ENHANCING

Our ViaValve Safety IV Catheters are easy to use one-handed and incorporate an innovative valve in the catheter hub that prevents backflow of blood from a patient's vein on insertion – this blood-flow control protects clinicians and patients from the risk of infection and cross-contamination caused by blood exposure during IV starts.



# HEALTHCARE

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Our catheters are raising the standard for safety in a device used in around 90% of hospital in-patient treatments. They are supported by our dedicated team of nurses who train customers to use and maintain the devices safely and effectively.

# OUR BUSINESS MODEL

## OUR AMBITION

OUR AMBITION IS TO ESTABLISH SMITHS AS ONE OF THE WORLD'S LEADING TECHNOLOGY COMPANIES

## OUR STRATEGY

We will achieve our ambition by outperforming our chosen markets and delivering world-class competitiveness and innovation, to deliver sustainable growth and attractive returns.

We actively manage our portfolio of businesses to ensure we are competitively positioned in attractive markets globally with strong long-term profitable growth prospects, where we can sustainably achieve a top three leadership position.

We will drive outperformance and competitiveness through innovation, our shared operating model that drives speed and efficiency across our value chain, and by building a learning organisation where our people can be the best they can be.

We are experts in our markets, with a strong understanding of customer needs.

## OUR DIVISIONS

Our divisions serve specialist technology markets worldwide and are unified by four common characteristics:

- sustainably competitive and asset-light
- technology differentiation
- increasing digitisation
- a high proportion of aftermarket services

### JOHN CRANE

Mission-critical engineered solutions for global energy and process industries

### SMITHS MEDICAL

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

### SMITHS DETECTION

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

### SMITHS INTERCONNECT

Solutions for high-speed, secure connectivity in demanding applications

### FLEX-TEK

Innovative components to heat and move fluids and gases

OUR  
OUR SHARED VALUES OF INTEGRITY, RESPECT  
GUIDE OUR BEHAVIOUR, ACTIONS AND

## OUR OPERATING MODEL

The Smiths Excellence System is our shared operating model. It helps us apply best practice across the Group to drive speed and efficiency on a sustainable basis, as we work to ensure consistent execution and a culture of continuous improvement.

### CUSTOMER

We partner with our customers to steer our product innovation and technology development

### PEOPLE

We work to attract, retain, engage, develop and inspire the best people to help us deliver results

### TECHNOLOGY

We aim to bring innovative, differentiated solutions to market quickly

### PRODUCTION

Our production processes drive efficiency, enhance safety and improve quality

### PROGRAMME

We work to drive consistent and flawless execution across programmes

### SUPPLY

We are building strong, strategic supplier relationships to ensure quality, efficiency and flexibility

## FINANCIAL FRAMEWORK

Our strong financial framework provides the flexibility to enable us to create superior returns and invest in growth.

It helps us manage our business efficiently to optimise cash generation and allocate capital to the best organic and inorganic opportunities to create value.

We have a strong governance framework and robust approach to risk management and financial control.

## THE RESULT

As a globally aligned organisation that is committed to doing business responsibly, we generate value for a wide range of stakeholders around the world.

### FINANCIAL VALUE

We generate superior shareholder returns on a sustainable basis, as well as delivering economic value where we operate around the world

### SOCIAL VALUE

Our solutions meet customers' evolving needs and have a positive impact on the world, enhancing security, improving healthcare, advancing connectivity, driving efficiency and reliability, and reducing environmental impact.

We source components and materials from approximately 12,000 suppliers globally and expect our partners to meet our own high ethical standards.

We also support the communities in which we operate around the world

### VALUE TO EMPLOYEES

We employ around 22,000 people in more than 50 countries, and give them the opportunity to be the best that they can be

# OUR STRATEGY

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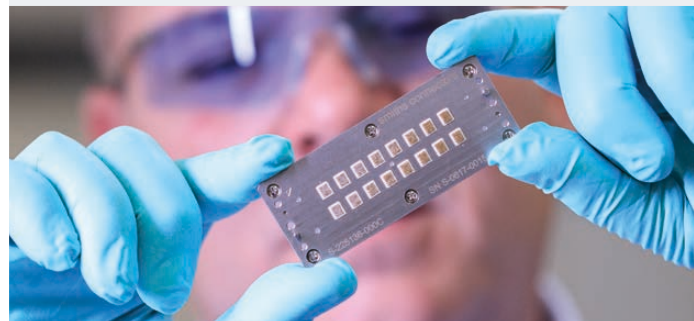
OUR AMBITION IS TO ESTABLISH SMITHS AS ONE OF THE WORLD'S LEADING TECHNOLOGY COMPANIES, BY DELIVERING ABOVE-MARKET GROWTH AND WORLD-CLASS COMPETITIVENESS, SUPPORTED BY OUR STRONG FINANCIAL FRAMEWORK

## OUTPERFORMING OUR TARGET MARKETS

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

### Our focus areas

- Reposition the portfolio for growth through organic investment and a highly disciplined approach to acquisitions and disposals
- Increase our focus on higher-growth regions

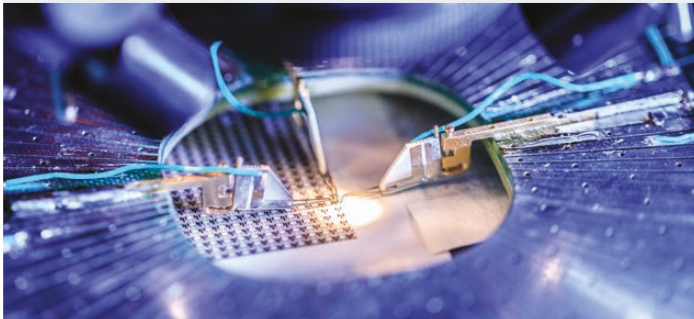


## DELIVERING WORLD-CLASS COMPETITIVENESS

We drive outperformance and competitiveness through innovation, our shared operating model that drives speed and efficiency across our value chain, and by building a learning organisation that supports the development of our people.

### Our focus areas

- Deliver a shared operating model (SES) that drives speed and efficiency on a sustainable basis
- Build a culture of innovation and investing for technological differentiation through our i<sup>3</sup> innovation framework
- Build a learning organisation that enables our people to be the best that they can be



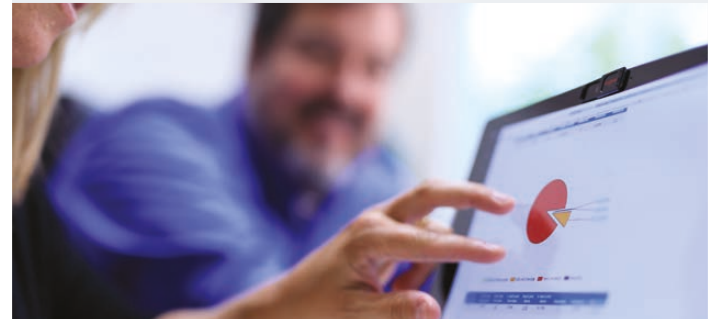
## STRONG FINANCIAL FRAMEWORK

Our strong 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.

### Our focus areas

- Deliver profitable growth with sustainable margins
- Focus the portfolio on sustainably competitive and asset-light businesses
- Apply strong financial discipline to the way we manage the business and invest



# OUR MARKETS

WE SERVE SEVEN  
MAIN MARKETS WITH  
STRONG LONG-TERM  
PROFITABLE GROWTH  
PROSPECTS

Through our five divisions, we serve seven markets: medical technology, energy, security and defence, space and commercial aerospace, transportation, construction and general industrial.

Around half of our revenue is derived from servicing our customers' aftermarket needs or supplying consumables that are used as part of our customers' everyday procedures. This gives resilience to our revenues and provides strong cash-flows.

## REVENUE MIX



- Original equipment sales 45%
- Aftermarket/sales 55%

## MEDICAL TECHNOLOGY



Our largest single end market is medical technology. The majority of revenue comes from Smiths Medical, while both Smiths Interconnect and Flex-Tek supply components to medical device manufacturers. The medical technology market is driven over the long term by ageing populations, the increasing incidence of chronic diseases and increasing healthcare spending in developing countries. Some 82% of Smiths Medical's revenue is from single-use devices used in everyday hospital procedures. The remaining 18% of revenue is from capital equipment, such as infusion pumps.

## SECURITY AND DEFENCE



Smiths Detection provides threat detection equipment that enhances safety and security for airports, ports and borders, urban security, military and emergency responder markets. Demand is driven in the medium term by growth in air travel and ongoing geopolitical unrest and associated terrorist and criminal threats, although there is considerable variation by geography and end market. The growing installed base creates opportunities for aftermarket and software upgrade revenues. The defence segment is served by both Smiths Detection and Smiths Interconnect, who provide a range of trace detection and mission-critical secure connectivity solutions respectively, and is primarily driven by spending on specific programmes in developed markets like the US.

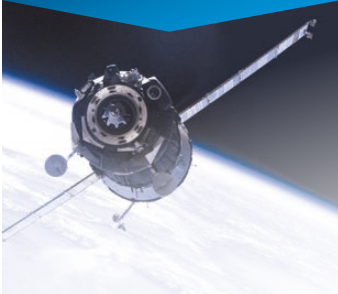
## ENERGY



This market is primarily served by John Crane, with oil and gas representing around 55% of its revenues. Long-term drivers include increasing global demand for energy and increasing environmental and safety requirements. John Crane's mechanical seals and seal support systems are primarily used in the process equipment found in downstream (eg refineries) and midstream (eg pipelines, gas storage, liquefied natural gas (LNG) transportation) applications. Demand for original equipment (36% of revenue) is affected by customer capital expenditure cycles, while aftermarket service (64% of revenue) depends on utilisation rates and equipment age. The drop in oil prices since late 2014 has reduced customer capital expenditure, but we have seen investment in growing areas such as LNG and pipelines and increased aftermarket demand due to pent-up maintenance and upgrade requirements.



## SPACE & COMMERCIAL AEROSPACE



Flex-Tek provides hydraulic hoses and fuel lines for airframes and aeroengines and Smiths Interconnect supplies connectors, microwave components and antenna systems for aircraft and satellite communications. Aerospace demand is driven by investment in new fuel-efficient aircraft and increasing passenger and freight traffic.

## CONSTRUCTION



Flex-Tek manufactures a range of products such as flexible gas piping and ducting for Heating Ventilation and Air Conditioning (HVAC) applications that are used in the construction of homes and commercial buildings, primarily in the US. Demand for homes for families is driven by population growth.

## TRANSPORTATION



In the rail segment, Smiths Interconnect supplies cable solutions, ferrite components and connectors for communications, control command and signalling systems in autonomous trains. Growth is driven by increasingly sophisticated digital train systems, high data-rate connectivity for passengers and the distribution of high levels of electricity to support the power demand of these systems. In the automotive segment, Flex-Tek supplies hoses for fuel and brake fluid delivery.

## GENERAL INDUSTRIAL



We serve a range of general industrial sectors including petrochemical, mining, pulp and paper, water treatment, semiconductor test, heating elements and automotive, through John Crane, Smiths Interconnect and Flex-Tek. There are different drivers for each of these markets but overall they tend to track GDP.

# PIONEERING

Our advanced Checkpoint.Evo<sup>plus</sup> security screening and management platform integrates next-generation checkpoint scanners into a single, integrated and intelligent solution.





# SECURITY

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Our software streamlines security processes to increase passenger throughput, optimise resources, reduce operational costs, and improve security. It enables remote screening and directed search, as well as delivering valuable management data.

# JOHN CRANE



MISSION-CRITICAL  
ENGINEERED SOLUTIONS  
FOR GLOBAL ENERGY AND  
PROCESS INDUSTRIES

CONTRIBUTION TO 2017  
GROUP REVENUE

27%

CONTRIBUTION TO 2017 GROUP  
HEADLINE OPERATING PROFIT

32%

NUMBER OF  
EMPLOYEES

6,050

# JOHN CRANE PROVIDES MISSION-CRITICAL SOLUTIONS FOR PUMPS, COMPRESSORS, AND OTHER ROTATING EQUIPMENT ACROSS PROCESS INDUSTRIES

## Markets and trends

Our technology leadership and field expertise help optimise customers' manufacturing operations. Products include mechanical seals, seal support systems, power transmission couplings and specialised filtration systems. These are supported by an extensive global sales and service network – one of the largest in the mechanical seal industry – with a reputation for improving equipment performance and reducing downtime.

Although low and volatile commodity prices has limited capital expenditure in our primary vertical – oil and gas – customers are starting to invest in growth areas such as liquified natural gas and pipelines, plus aftermarket services. Meanwhile, we have a significant and growing presence in other process industries (around 45% of revenue) including chemical, power generation, water and wastewater, and pulp and paper.

Responding to demand and strong aftermarket sales (64%), we are opening new service centres in selected higher-growth markets. We believe megatrends such as the global demand for energy, and more stringent environmental and safety requirements in oil and gas, plus drives for plant productivity, safety and equipment reliability in other verticals represent significant future opportunities for us.



## PRINCIPAL OPERATING REGIONS

We have operations in more than 50 countries, including around 200 sales and service centres, and manufacture in 14 countries.



## CUSTOMERS

We serve process industries including oil and gas, chemical, power generation, and pulp and paper, as well as pump and compressor OEMs. Our customers include Chevron, International Paper, ExxonMobil, Shell, BASF, Sulzer, GE, and Siemens.



## COMPETITORS

Our main competitors are Flowserve and Eagle Burgmann (seals), Kingsbury and Waukesha (engineered bearings), Danaher and Hydac (filtration), and Rexnord (couplings).



## GROWTH DRIVERS

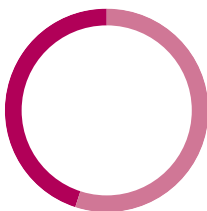
- Need for operational improvements in non-oil and gas process industries
- Pent-up demand for maintenance and upgrades in oil and gas and petrochemical
- Expansion in high growth markets
- Disruptive innovations including materials science advancements and digital transformation of industry



## COMPETITIVE STRENGTHS

- A market leader in mechanical seals
- Strong proprietary technology and expertise in applied engineering
- Market-leading aftermarket service offering, with around two-thirds of sales in aftermarket
- One of the largest global service networks in the mechanical seal industry, with c. 200 sales and service centres

## REVENUE BY SECTOR



- Oil and gas c. 55%
- Non-oil and gas c. 45%

## REVENUE PERFORMANCE €M

2017	885
2016	830
2015	905

# SMITHS MEDICAL



HIGH-QUALITY, COST-EFFECTIVE  
MEDICAL DEVICES AND  
CONSUMABLES THAT ARE VITAL  
TO PATIENT CARE GLOBALLY

CONTRIBUTION TO 2017  
GROUP REVENUE

29%

CONTRIBUTION TO 2017 GROUP  
HEADLINE OPERATING PROFIT

33%

NUMBER OF  
EMPLOYEES

7,700

# SMITHS MEDICAL'S PORTFOLIO INCORPORATES ESTABLISHED BRANDS AND STRONG POSITIONS IN SELECT SEGMENTS OF THE INFUSION SYSTEMS, VASCULAR ACCESS AND VITAL CARE MARKETS

## Markets and trends

Through a combination of innovative medical devices, consumables, software and services, we enable customers to cost-effectively provide quality care, in hospitals, clinics and homes.

Our Infusion Systems products deliver medication for treating chronic conditions such as cancer and Parkinson's, and include strongly performing sub-sector brands such as CADD, Medfusion and Graseby. Our Vascular Access products protect healthcare workers and patients from both needlestick injury and hospital-acquired infection. This positions us well to meet new legislation-driven safety demands.

The market for our Vital Care products, which help manage patient airways before, during and after surgery, is being driven by the expansion of enhanced post-surgery recovery and the prevalence of chronic obstructive pulmonary disease (COPD).

The £6bn global medical device market remains very attractive, with c. 3% annual growth. Our long-term growth drivers, along with a portfolio mix that provides continuous access to customers, and meets growing need for interoperable and connected systems, position us well for continuing growth.



## PRINCIPAL OPERATING REGIONS

We sell our products in over 120 countries with operations in over 30, with manufacturing in North America, Europe and Asia.



## CUSTOMERS

Three-quarters of our revenue is derived from hospitals, while the remainder comes from surgery centres, clinics, home care providers and products sold to other OEMs.



## 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.



## GROWTH DRIVERS

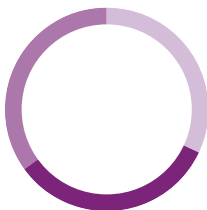
- Ageing populations with increasing life expectancy and quality of life expectations
- Growing incidence of chronic diseases
- Increasing need for interoperable and connected systems
- Growth of alternate site and home-based medical care
- Rising healthcare spend in developing markets, offsetting budget constraints in developed markets



## COMPETITIVE STRENGTHS

- Category leadership in our chosen markets
- Highly recognised and respected brands
- Category breadth and depth, including capital, consumable and software products
- Reputation for quality and safety
- Extensive global sales network

## REVENUE BY SECTOR



- Infusion Systems 32%
- Vascular Access 33%
- Vital Care and Speciality Products 35%

## REVENUE PERFORMANCE €M

2017	951
2016	874
2015	836

# SMITHS DETECTION



A LEADER IN THE DETECTION  
AND IDENTIFICATION OF  
SECURITY THREATS AND  
CONTRABAND

CONTRIBUTION TO 2017  
GROUP REVENUE

21%

CONTRIBUTION TO 2017 GROUP  
HEADLINE OPERATING PROFIT

16%

NUMBER OF  
EMPLOYEES

2,450



# SMITHS DETECTION IS A LEADER IN ITS SECTOR AND PRODUCES EQUIPMENT FOR CUSTOMERS IN THE AIR TRANSPORTATION, PORTS AND BORDERS, URBAN SECURITY AND MILITARY END-USE MARKETS

## Markets and trends

We help customers detect and identify security threats and contraband.

Our largest market is air transportation. Globalisation, rising passenger and freight volumes, together with heavy regulation and ever-increasing threats are expected to drive market growth, new airport investment, demand for integrated solutions and a strong replacement cycle. Similar factors, plus rising interest in contraband detection, will drive demand for screening equipment at ports and borders, along with solutions that digitally integrate disparate equipment.

Although fragmented and unregulated, the urban market is large and growing as organisations seek better protection for assets and staff. Steady growth is also forecast in our key NATO-oriented military markets for chemical warfare agent detection equipment and other threat-specific sensors.

Combined, the near-term forecast for these markets is mid-single digit annual growth because, while threats are persistent and evolving, the majority of our customers are constrained by government budgets. However, our growing installed equipment base represents a significant opportunity for aftermarket and software sales.



## PRINCIPAL OPERATING REGIONS

We sell our products to around 200 countries and territories, with manufacturing facilities in Germany, France, Malaysia, USA and the UK.



## CUSTOMERS

The majority of revenues are influenced by over 100 governments and their agencies. The acquisition of Morpho Detection significantly enhances our market-leading positions and expands the product portfolio.



## COMPETITORS

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

## REVENUE BY SECTOR



- Air transportation 52%
- Ports and borders 15%
- Military 9%
- Urban security 24%



## GROWTH DRIVERS

- Persistent and evolving terror threats
- Changing security regulations for air cargo and passengers
- Equipment replacement cycle, typically 7–10 years
- Software-driven solutions providing functionality, networking and systems integration
- Growth of security infrastructure in emerging markets



## COMPETITIVE STRENGTHS

- A market leader with a strengthened global position following the Morpho acquisition
- Operate in several regulated markets requiring product certification
- Technologies leveraged across many markets and applications
- Growing aftermarket revenues (39% of total)

## REVENUE PERFORMANCE €M

2017	687
2016	526
2015	467



# SMITHS INTERCONNECT



SOLUTIONS FOR HIGH-SPEED,  
SECURE CONNECTIVITY IN  
DEMANDING APPLICATIONS

CONTRIBUTION TO 2017  
GROUP REVENUE

13%

CONTRIBUTION TO 2017 GROUP  
HEADLINE OPERATING PROFIT

9%

NUMBER OF  
EMPLOYEES

3,250

# SMITHS INTERCONNECT PROVIDES HIGH-RELIABILITY INNOVATIVE CONNECTIVITY SOLUTIONS FOR THE DEFENCE, AEROSPACE, SPACE, RAIL, MEDICAL AND SEMICONDUCTOR TEST END MARKETS

## Markets and trends

We provide a range of mission-critical products to the defence market, including microwave technology, and ruggedised and high-speed connector solutions for sensors, communications and next-generation radar for the military. While recent defence spending has been constrained, there is new investment in intelligence, surveillance, reconnaissance, force protection and force multipliers.

In aerospace, we provide connectors, components and satellite antenna solutions for aircraft and space applications. This robust market is driven globally by fleet upgrades, and by rising user volumes in developing regions.

In the rail market, our cable solutions provide communications connectivity, and our ferrite components and connectors facilitate control command and signalling in autonomous systems. Safety, security, passenger data-rates and power distribution demands are driving growth.

High-reliability connectors in our medical portfolio enables higher bandwidth and data rates in applications like advanced imaging, augmented reality and surgical robotics. Dual growth in population and chronic diseases are driving demand, especially in China and India.

Our test sockets, probe heads and cable assembly solutions facilitate semiconductor testing. Growth is driven by ever-increasing performance demands on electronic devices.



## PRINCIPAL OPERATING REGIONS

We sell products to over 50 countries, manufacture in nine and have offices across North and Central America, Europe and Asia.



## CUSTOMERS

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



## COMPETITORS

Our competitors range from large multinationals through to small, more focused companies across our product portfolio. Examples include Amphenol, TE Connectivity, Yokowo and Cobham.

## REVENUE BY SECTOR



- Defence 28%
- Semi-conductor 20%
- Medical 8%
- Space 5%
- Commercial aerospace 10%
- Rail, Industrial, Other 29%



## GROWTH DRIVERS

- Growth in high data rate applications
- Continued proliferation of electronics
- Demand for greater connectivity and mobility
- Increasing sophistication of customer needs in high-growth markets
- Increasing geopolitical uncertainty



## COMPETITIVE STRENGTHS

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

## REVENUE PERFORMANCE €M

2017	419
2016	435
2015	420

# FLEX-TEK



INNOVATIVE COMPONENTS  
TO HEAT AND MOVE FLUIDS  
AND GASES

CONTRIBUTION TO 2017  
GROUP REVENUE

10%

CONTRIBUTION TO 2017 GROUP  
HEADLINE OPERATING PROFIT

10%

NUMBER OF  
EMPLOYEES

2,100

# FLEX-TEK PROVIDES ENGINEERED COMPONENTS THAT HEAT AND MOVE FLUIDS AND GASES FOR AEROSPACE, CONSUMER PRODUCTS, CONSTRUCTION, MEDICAL AND INDUSTRIAL APPLICATIONS

## Markets and trends

Although primarily exposed to the US economy, Flex-Tek operates in diverse markets, reducing our reliance on any specific technology.

In Heat Solutions, we are one of the world's largest manufacturers of open coil heating elements used in domestic appliances. Steady growth in US housing is driving demand for these and our leading Construction Products like flexible gas piping, heating ventilation and air conditioning. Increasing specialty heating applications in North America and Asia are also contributing growth for Heat Solutions.

Both our Heat Solutions elements and Flexible Solutions are used in the medical device sector, which is benefitting from increased spending globally. In the automotive market, our hoses help deliver fuel and brake fluid and will play a crucial role in next-generation vehicles.

Increasing air passenger and freight volumes, plus investment in next-generation aircraft, are driving aerospace growth. As a global leader of specialty, high-performance flexible and rigid Fluid Management tubing assemblies, we benefit from a strong OEM market comprising over 13,000 aircraft.



## 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.



## CUSTOMERS

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



## 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.



## GROWTH DRIVERS

- Steady growth of the US housing construction market
- Continued increase in large commercial aircraft production
- Growth of medical devices and their increased use of flexible tubing
- Growing presence in Europe and Asia with further expansion potential



## COMPETITIVE STRENGTHS

- A strong performance in residential gas tubing
- High-performance flexible tubing products for aerospace
- Leading capability in the design and manufacture of heating solutions for bespoke applications
- Strong customer relationships

## REVENUE BY SECTOR



- Construction Products 32%
- Fluid Management 24%
- Heat Solutions 25%
- Flexible Solutions 19%

## REVENUE PERFORMANCE €M

2017	338
2016	284
2015	269



# ADVANCING

Highly reliable and durable, our Thermopad attenuators help customers reach higher frequencies in the face of congestion in broadcast spectrums for wireless communications and when in orbit for communication satellites.

A satellite is shown in orbit against the backdrop of Earth's blue and white atmosphere. The satellite has a complex, cylindrical body with various instruments and antennas. Two long, thin solar panel arrays extend from the satellite. The word "CONNECTIVITY" is overlaid in large, blue, sans-serif capital letters across the center of the image, framed by thin blue brackets on the left and right sides.

# CONNECTIVITY

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Our attenuators help ensure the reliability of mission-critical communications systems in telecoms, defence and space applications.

## OUR APPROACH TO RESPONSIBLE BUSINESS

PROMOTING A CULTURE OF RESPONSIBLE BUSINESS IS FUNDAMENTAL TO OUR LONG-TERM SUCCESS AND TO ACHIEVING OUR VISION OF DELIVERING INNOVATIVE SOLUTIONS FOR THE WORLD'S CHALLENGES

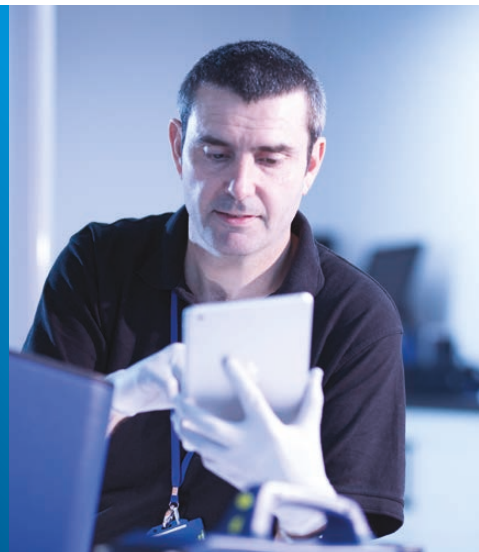
At Smiths, being a responsible business is firmly embedded in the ways we think and operate. Behaving ethically, working safely, providing high-quality innovative solutions, reducing our environmental impact, developing and engaging our people, and contributing to our communities are fundamental to our long-term success.

Our Code of Business Ethics (the 'code') sets out the broad principles for how we do business and provides the framework for the management of our five focus areas: Ethics; Health, Safety and Environment; People; Products; and the communities in which we operate.

In 2017 we introduced a new 'Products' focus area to reflect the importance of the safety and quality of our products and services – many of which deliver valuable benefits to society and the environment, helping to reduce harm, improve efficiency and minimise adverse environmental impact.

### TAKING OWNERSHIP OF HEALTH AND SAFETY

With service teams often working in external environments outside our direct control, their ability to recognise unsafe conditions and act accordingly is critical. Smiths Detection has launched a new online training tool and web-based/mobile risk assessment platform that's giving both leadership and field service engineers a better understanding of how to stay safe when working off-site. We encourage everyone at Smiths to take ownership of both their own health and safety and that of their colleagues, and this tool is helping our service teams do just that.





## Ethics

Our values are at the heart of what it means to be Smiths and underpins our commitment to doing business the right way.

We believe that ethical behaviour is the responsibility of every Smiths employee, at every level of the organisation. Our objective is not only to protect the reputation of our company and to safeguard the investment of our shareholders, but also to protect the interests of every employee by ensuring he or she has the knowledge and tools needed to make the right decision every time and to know when to ask for help.

We embed the Code and ethics- and compliance-related policies through communication, training and awareness programmes. We continually review our approach to compliance as risks evolve.

## Health, Safety and Environment (HSE)

We are committed to protecting our people, communities, customers and the environment. Wherever we operate, we aim to provide injury-free and environmentally responsible workplaces.

Health and safety is our main focus and our goal is zero harm. We have made good progress in recent years and achieved our lowest recordable incident rate in 2017. We encourage everyone to take personal responsibility for working safely, sharing feedback and suggesting improvements to workplace safety. By building our safety culture around this, we have continually improved our performance and made Smiths a better place to work.

To ensure we are using energy and natural resources efficiently, we implement world-class production processes that decrease water and energy consumption. We also invest in low-carbon technologies and environmental management systems that drive improvement in our performance.

We are working towards our new five-year targets of achieving 15% reductions in energy usage, GHG emissions and waste generation, and a 10% reduction in water use. Compared to our baseline year of FY2013, we have achieved good progress in reducing our environmental metrics, with GHG and non-recycled waste already exceeding our five year goal and water consumption on target. We are working hard across the Group to reduce energy consumption and are cautiously optimistic about making our 15% reduction goal. We have also secured clean renewable energy to reduce the environmental impact of our energy use.

## People

People are our one truly sustainable source of competitive advantage and critical to our growth strategy. We are passionate about helping them fulfil their potential so we can reach ours.

Our people strategy is focused on building a learning organisation that attracts, retains, develops, engages and inspires the very best people. We do this by focusing on four key areas – culture, leadership and learning, reward and recognition, and infrastructure.

## Products

From Smiths Medical's products which are vital to patient care globally; and Smiths Detection's security scanners, which play a critical role in enhancing security around the world; to John Crane's seals, which help its customers reduce their environmental impact – we provide innovative solutions to some of the world's toughest challenges.

By developing leading-edge, mission-critical solutions, we help to drive safety, security, health, productivity, reliability, connectivity and progress around the world, every day. Our solutions enable customers to operate in safe, efficient and environmentally-friendly ways, and we ensure that our products meet the highest standards of quality and safety.

## Communities

Supporting the communities in which we operate helps drive prosperity locally – providing jobs, boosting the economy and supporting local initiatives – as well as enhancing both employee engagement and our reputation as an employer.

Given the diversity of our business, we manage our community relationships and charitable programmes at a local level, so each business can focus on its own markets and communities. We also offer Group-level support to charities and organisations that can show how a donation will increase the wellbeing of people through improvements to their education, health and welfare or environment.

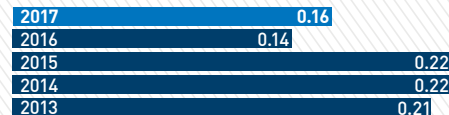
### RECORDABLE INCIDENT RATE

Where an employee requires medical attention beyond first aid (per 100 employees per year)



### LOST TIME INCIDENT RATE

Where an employee is unable to work the day after an incident (per 100 employees per year)

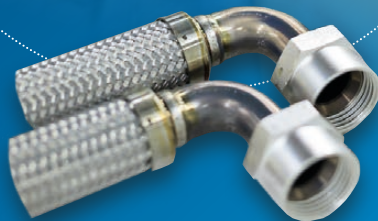


Read more on our website and in our 2017 Responsible Business Report at [www.smiths.com](http://www.smiths.com)

A woman with long dark hair, wearing clear safety glasses and a blue polo shirt, is smiling and looking towards the camera. She is holding a complex metal fuel manifold component. The background is a blurred industrial setting. The word "DELIVERING" is written in large, white, sans-serif capital letters across the center of the image. A dotted line connects the manifold she is holding to a close-up image of two similar manifold components at the bottom of the page.

# DELIVERING

Our complex fuel manifolds deliver leading-edge fluid management at extreme pressures and temperatures in aircraft engines.





# EFFICIENCY

Used in next-generation aeroplane engines, our fuel manifolds are making airliners more fuel-efficient and environmentally friendly.

smiths

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