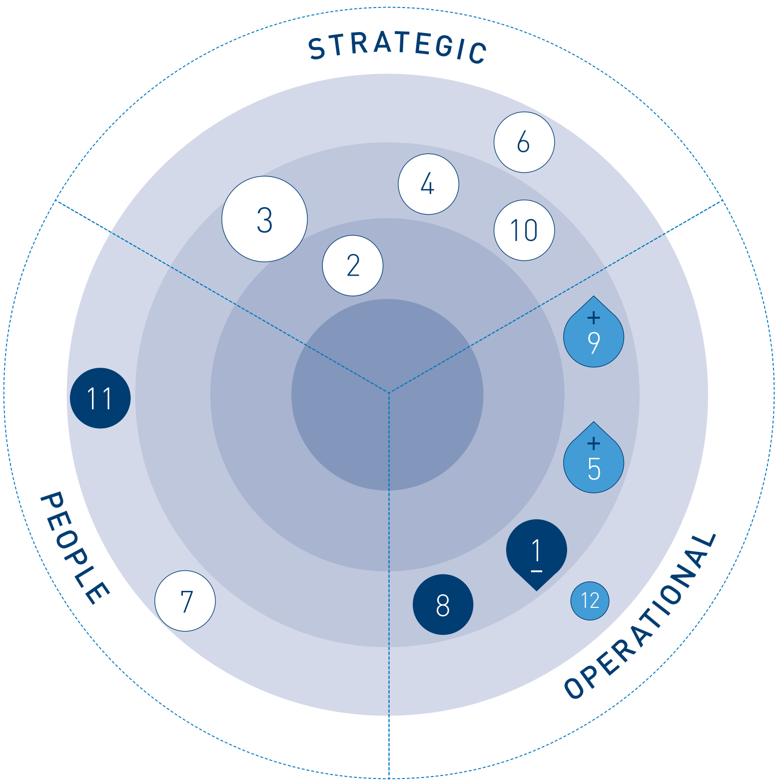
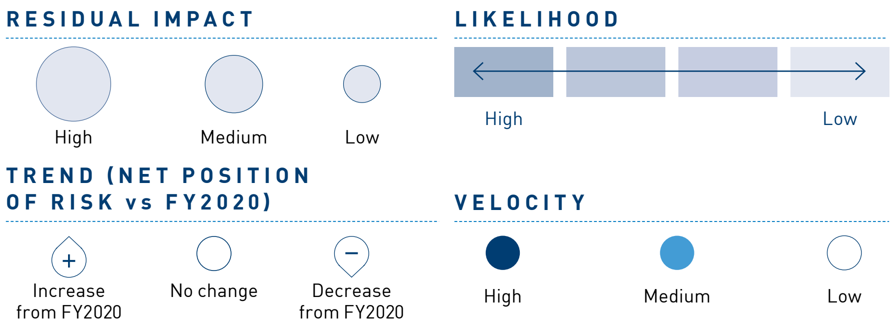
PRINCIPAL RISKS AND UNCERTAINTIES

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

PRINCIPAL RISKS

1. COVID-19
2. TECHNOLOGY
3. ECONOMY AND GEOPOLITICS
4. GROUP PORTFOLIO
5. PRODUCT QUALITY
6. CUSTOMERS
7. PEOPLE
8. CYBER SECURITY
9. INTEGRATED SUPPLY CHAIN
10. MARKETS
11. ETHICAL BREACH
12. CONTRACTUAL OBLIGATIONS





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

We updated our register of principal risks and uncertainties following review by the Executive Committee and approval by the Board. Liquidity has been retired from our principal risks in recognition of our resilient cash performance during COVID-19. Integrated Supply Chain risk has increased due to our reliance on critical sites and sole and single source suppliers. We concluded that our Product Quality risk has increased as a result of changes in the regulatory landscape in the markets in which we operate. The risk of COVID-19 impacting our colleagues, customers and suppliers has decreased following the introduction of global vaccines and stabilisation within the global economy.

Due to the long-term nature of climate change, it is not categorised as a principal risk. However, the Board recognises the importance of considering climate change in its decision-making, both in terms of risk and on longer-term strategic topics. Our climate change risks are managed in the same way as other risks. See page 79 for more details.

While we continue to monitor and manage a wider range of risks, the risk map above and the tables that follow summarise those risks considered to have the greatest potential impact.

LINK TO RESOURCES AND RELATIONSHIPS

READ MORE
RESOURCES AND RELATIONSHIPS P26

- Our people
- Our customers
- Technology and innovation
- Production and environment
- Our supply chain
- Our communities
- Regulators and governments

1. COVID-19

RISK OWNER
Mel Rowlands

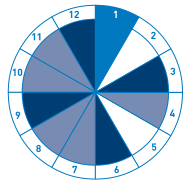
TREND
Decrease

INCLUDED IN VIABILITY ASSESSMENT:
✓

RELATIONSHIP TO OTHER PRINCIPAL RISKS

Strong

Moderate



COVID-19 is impacting our colleagues, customers, suppliers and operations to varying degrees across different territories and different parts of our business. This includes, but is not limited to: risks to the well-being of our people, their families and communities; our customers, who have in many cases revised their demand forecasts; our suppliers, whose businesses have had challenges maintaining continuity of supply; and our own operations and our customer service sites in relation to which have had to deal with all the combined challenges of the pandemic. Conversely, the Group is well positioned to identify and grasp opportunities that this change creates whether through organic development or M&A/joint venture/investment opportunities. The pandemic has accelerated major changes such as energy transition, and increased investment in solutions around safety and sustainability and other major societal problems whether clean air, virus free transport or greener oil & gas. All of which are already relevant to our future strategy.

How this could impact our strategy or business model

- Significant reduction in global demand for our products
- Disruption to our ability to deliver products and services to customers in the event of interruptions to our supply chain and manufacturing operations

Examples of how we manage this risk

- Smiths Group Crisis process was mobilised overseeing various workstream sub-groups and reporting to the Executive Committee
- Divisional Crisis Teams and Site Emergency Response Teams operationalised
- Smiths support network including partnerships with third parties providing pandemic related advice and support

Examples of how we know the controls are working effectively

- Pan Smiths operations and supply nerve centre continues to provide real-time updates on status of operations, supply chain and logistics through dashboards
- Fast track issue spotting, escalation and resolution through Group and cross-divisional resources
- Over 90% of our manufacturing facilities operational during the worst stages of the pandemic
- Group HSE monitoring employee health across sites and within countries/regions
- Proactive case management of employee health in relation to COVID-19 regularly reported and acted upon

2. TECHNOLOGY

RISK OWNER
Paul Keel

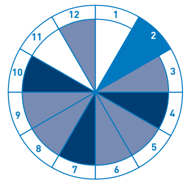
TREND
No change

INCLUDED IN VIABILITY ASSESSMENT:
N/A

RELATIONSHIP TO OTHER PRINCIPAL RISKS

Strong

Moderate



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.

How this could impact our strategy or business model

- Material adverse effect on margin and profitable growth
- Erosion of our reputation as a leader in our markets and of our ability to attract and retain talent

Examples of how we manage this risk

- Proactive repositioning of the portfolio around the most attractive markets where we can sustainably hold a top three position based on technology leadership
- Diversified technology portfolio serving a range of sectors and geographies, mitigating exposure to any one sector or area
- Continuing and smarter investment in R&D (FY2021: 3.9% of Continuing Operations revenue, FY2020: 5.0%)
- Focus on building a culture of innovation with a long-range technology roadmap for each division
- Focus on next generation and transformational initiatives
- New Product Introduction (NPI) process operating across divisions to accelerate projects
- Digital Forge works to accelerate digital transformation across the Group
- Vitality Index as a KPI
- Robust IP protection via patents and other protections, and litigation where appropriate

Examples of how we know the controls are working effectively

- Vitality data is part of the SES dashboard
- Adherence to NPI process is audited and embedded in systems with monthly 'pipeline' overview provided by divisions
- Technology roadmap is part of the Group strategic cycle
- Digital Advisory Committee as a governance mechanism to ensure the Digital Forge is working on the most value-creating projects for the Group

3. ECONOMY AND GEOPOLITICS

RISK OWNER
John Shipsey

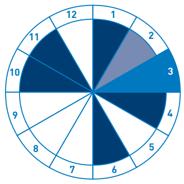
TREND
No change

INCLUDED IN VIABILITY ASSESSMENT:
✓

RELATIONSHIP TO OTHER PRINCIPAL RISKS

Strong

Moderate



COVID-19 triggered a highly significant global economic downturn. In many sectors, demand has reduced. There is a likelihood that the impact on demand will be prolonged, especially in commercial aerospace. There may be an increase in bankruptcies of both customers and suppliers. Conversely, the crisis is opening up new opportunities, and inorganic opportunities are likely to arise more frequently and at better values. Geopolitical tensions have risen further, most notably with problems in the US/China relationship, which are now extending to China/UK and EU, and pose threats to the free movement of goods, capital and people. Governments continue to look for ways to improve tax revenues to ease fiscal budget pressures. Fiscal deficits are likely to threaten or delay government spending on programmes (e.g. in defence and security) which rely on Smiths' products. The consequences of Brexit are becoming clearer. Effects, applicable to many businesses, include some economic and operational dislocation.

How this could impact our strategy or business model

- Significant and prolonged reduction in global demand for our products
- Geopolitical tensions, most notably relating to China, the US, India, the Middle East, South Korea and North Korea, adversely impact trade
- Adverse impact on business performance due to the imposition of tariffs
- The consequences of Brexit are clearer, but uncertainty remains. Potential effects include economic and operational uncertainty, volatility of currency exchange, regulatory changes and the imposition of tariffs on trade between the UK and the Eurozone
- Governments continue to look for ways to improve tax revenues to ease fiscal budget pressures

Examples of how we manage this risk

- Identification and application of learnings from past downturns through the cycle
- Diversified portfolio of businesses which mitigates exposure to any one country or sector
- Geographic spread which 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
- Representation of our interests by the Corporate Affairs team
- Network of trade compliance officers across the Group who monitor upcoming changes in regulation and oversee import and export activities
- Monitoring of the ongoing negotiations between the UK and the EU in order to assess the potential impact of Brexit
- Sustainable tax strategy to optimise the Group's position

Examples of how we know the controls are working effectively

- Impact of US tariffs to date has been absorbed
- Order tracking reported and monitored
- Business indicators reported weekly

4. GROUP PORTFOLIO

RISK OWNER
John Shipsey

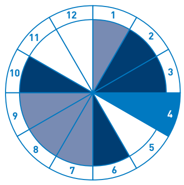
TREND
No change

INCLUDED IN VIABILITY ASSESSMENT:
N/A

RELATIONSHIP TO OTHER PRINCIPAL RISKS

Strong

Moderate



Our strategy is predicated primarily on organic growth. However, acquisitions/divestments can also play a role in building and/or strengthening competitive positions.

Acquisitions bring risk as well as opportunity. We may invest substantial funds and resources in acquisitions which fail to deliver on expectations. The opposite risk is that we miss out on opportunities to build market-leading positions and growth.

Divestments also carry risk. We may divest an asset at the wrong time or may not realise appropriate value for the asset. Separation may be complex and, if poorly executed, may impact the wider business. The Medical separation is a very significant divestment; there is a risk that it may not be completed or that it will be completed badly.

How this could impact our strategy or business model

- Poor acquisitions/divestments, or poorly managed integrations/separations, lead directly to financial damage and indirectly to loss of shareholder confidence
- 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 or inheritance of material unknown liabilities

Examples of how we manage this risk

- 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
- Detailed separation planning, in accordance with our acquisitions and disposals policy
- Governance ensures multi-disciplinary sign off
- Larger transactions approved by the full Board
- Post-transaction reviews with lessons learned incorporated into future projects
- Use of external advisers

Examples of how we know the controls are working effectively

- Technology acquisitions have established a strong track record
- Strong internal team
- Proper governance and oversight
- Learnings from previous acquisitions considered and applied
- Ongoing evaluation measured against original business case

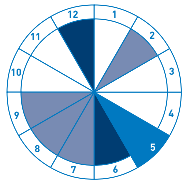
5. PRODUCT QUALITY

RISK OWNER
Divisional Presidents

TREND
Increase

INCLUDED IN VIABILITY ASSESSMENT:
✓

RELATIONSHIP TO OTHER PRINCIPAL RISKS
Strong
Moderate



If a regulatory body identifies a potentially defective product that may cause or has caused a significant failure, Smiths will be subject to violations and possible regulatory action. 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. Internal risks can originate from inadequacies or insufficiencies in change control, manufacturing, internal quality system, adaptation to changing industry regulations, and systems maintenance and compliance. External risks can result from inspections and audits or challenges to product registrations or certifications. An example of this risk materialising includes the Medfusion® 3500 and 4000 syringe pumps recall and subsequent inspection by the US Food and Drug Administration (FDA) in Smiths Medical.

How this could impact our strategy or business model

- Damage to our reputation amongst customers and reduction in market acceptance of, and demand for, our products from an adverse event involving one of our products
- Recall of products due to manufacturing flaws, component failures, damage to persons/property, and/or design defects
- Customers' losses but also losses arising from a potentially large class of third parties

Examples of how we manage this risk

- 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
- Quality development and quality integration built into NPI processes
- Risk analysis and mitigation processes relating to product cyber resilience embedded in the product lifecycle process. Proactive steps taken to ensure product cyber related risks are continually monitored and managed
- Insurance cover for product liability
- Material litigation managed under the oversight of the Group General Counsel

Examples of how we know the controls are working effectively

- Quality measures (e.g. DPPM, COPQ) are measured and action plans put in place to drive their improvement – these are regularly reported
- Group and divisional governance frameworks (including Delegation of Authority) ensure a close working relationship between legal and commercial teams (includes quality) to manage risks
- Fewer quality issues at launch of new products

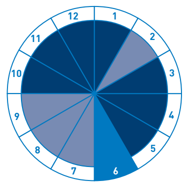
6. CUSTOMERS

RISK OWNER
Julian Fagge

TREND
No change

INCLUDED IN VIABILITY ASSESSMENT:
N/A

RELATIONSHIP TO OTHER PRINCIPAL RISKS
Strong
Moderate



Our markets are evolving at a fast pace, creating potential for customers to change their business models as they look to deliver products and services at higher quality, with better service and at lower cost.

Failure of the Group to keep pace with customer changes/requirements (innovation, go-to-market strategies) could have a materially adverse impact on Group performance.

How this could impact our strategy or business model

- Loss of market share and adverse impact on Group results
- Material adverse effect on profitable growth
- Erosion of our reputation as a leader in our markets

Examples of how we manage this risk

- As part of the Group innovation framework and our approach to potential technology disruption, we include customer disruption as well as competitor and product disruption
- New product innovation feedback through market research and direct feedback from existing and potential customers

Examples of how we know the controls are working effectively

- Megatrend workshops and disruption risks reviewed annually
- Customer input gathered on a frequent basis
- Pilot programmes to test products, business models and partnerships
- Strategic review process; divisional deep dives

7. PEOPLE

RISK OWNER
Sheena Mackay

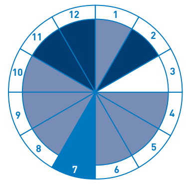
TREND
No change

INCLUDED IN VIABILITY ASSESSMENT:
N/A

RELATIONSHIP TO OTHER PRINCIPAL RISKS

Strong

Moderate



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.

How this could impact our strategy or business model

- 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

Examples of how we manage this risk

- 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
- People Plan oversight by the Board
- Diversity & Inclusion plan and initiatives

Examples of how we know the controls are working effectively

- Participation rates in the Smiths learning and development programmes measured. Capability and performance of alumni are tracked
- Benchmarking ratio of hires into senior roles from internal and external sources
- Formal and informal measures of culture, for example regular engagement surveys with follow-up action planning
- Measurement of the effectiveness of the Executive education programme through post-completion evaluation tests
- Post-acquisition and lessons learned reviews

8. CYBER SECURITY

RISK OWNER
John Shipsey

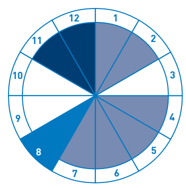
TREND
No change

INCLUDED IN VIABILITY ASSESSMENT:
✓

RELATIONSHIP TO OTHER PRINCIPAL RISKS

Strong

Moderate



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 criminals. Digitalisation and increased interconnectivity of our products intensify the risk and the number of areas under potential attack.

How this could impact our strategy or business model

- 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, particularly relating to our security or medical products. These include not only customer losses, but also those of a potentially large class of third parties

Examples of how we manage this risk

- Board oversight of the approach to mitigating cyber risk
- 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
- Cyber risk analysis and mitigation processes embedded in the product lifecycle process to increase resilience

Examples of how we know the controls are working effectively

- Formal reviews with the Executive Committee and the Board
- Vulnerability scanning/event reporting
- External reviews of vulnerability controls
- Mandatory staff training
- Compliance with recognised standards
- Cyber leads at divisions

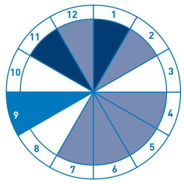
9. INTEGRATED SUPPLY CHAIN

RISK OWNER
Sheena Mackay

TREND
Increase

INCLUDED IN VIABILITY ASSESSMENT:
✓

RELATIONSHIP TO OTHER PRINCIPAL RISKS
Strong
Moderate



Timely, efficient supply of raw materials and purchased components is critical to our ability to deliver to our customers. Manufacturing and supply chain continuity is exposed to external events that could have significant adverse consequences, including natural catastrophes, civil or political unrest, changes in regulatory conditions, terrorist attacks and disease pandemics – this applies to our own manufacturing sites and those of our key component suppliers.

How this could impact our strategy or business model

- Inability to deliver products/solutions to customers, impacting financial performance and reputation

Examples of how we manage this risk

- Supply excellence pillar of our SES operating model delivers increased focus on 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 – risk reduction measures for critical products and dual manufacturing capabilities
- Mitigation plans for sole source suppliers, sub-contractors and service providers developed and deployed by divisions to include qualification of alternative sources of supply where appropriate
- Property damage and business interruption insurance

Examples of how we know the controls are working effectively

- Business continuity planning (BCP) testing and results
- Mitigation plans reviewed and reported by divisions
- Externally provided business interruption risk surveys of operational sites
- Insurance requirements driven by the risk appetite of the Group and divisions are validated at least annually

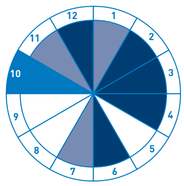
10. MARKETS

RISK OWNER
Roland Carter

TREND
No change

INCLUDED IN VIABILITY ASSESSMENT:
N/A

RELATIONSHIP TO OTHER PRINCIPAL RISKS
Strong
Moderate



A significant proportion of our revenue comes from the US and European markets, with a notable proportion coming from governments. In addition to geographical markets, there is a risk that we do not focus on attractive sectors where we have, or could have, a sustainable position. The Group's growth strategy is expanding our operations in developing/higher growth markets – particularly markets that are under served in Asia Pacific.

How this could impact our strategy or business model

- 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, impacting financial performance

Examples of how we manage this risk

- A diversified portfolio of businesses mitigates exposure to any one country, sector or customer
- Growth strategy which places emphasis on expanding operations in higher-growth markets and regions which are currently underserved, including Asia
- An Asia Board has been established to oversee the strategy, and the progress we are making in the region
- Strategic process to capture continuing opportunities in current and adjacent markets
- Government relations function which collaborates with colleagues across the Group to advise on developments
- More resilient services and consumable components built into some of our government-related business

Examples of how we know the controls are working effectively

- Strong and long-term customer relationships provide assurance
- Managing Director councils established in India and China
- Carefully crafted JV and Partnership arrangements in China

11. ETHICAL BREACH

RISK OWNER
Mel Rowlands

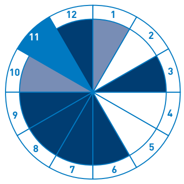
TREND
No change

INCLUDED IN VIABILITY ASSESSMENT:
N/A

RELATIONSHIP TO OTHER PRINCIPAL RISKS

Strong

Moderate



We have more than 21,500 employees in more than 50 countries. Individuals may not behave in accordance with our 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;**
- **General Data Protection Regulation; and**
- **Government contracting regulations.**

How this could impact our strategy or business model

- 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
- 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

Examples of how we manage this risk

- Group-wide ethics framework which includes our values, 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 ability to report anonymously and a non-retaliation policy)
- Reporting and investigation mechanisms
- Anti-trust training programmes and guidance
- Network of trade compliance officers across the Group who monitor upcoming changes in regulation and oversee import and export activities
- Monitoring and acting on upcoming legislative changes
- Modern Slavery and Transparency Statement and procedures to reduce the risk of modern slavery within the Group and our supply chain
- Multi-functional programme for data privacy compliance

Examples of how we know the controls are working effectively

- Multiple sources to assess culture including My Say results, 'Speak Out' reports, internal audit findings, exit interviews and ethics questions in performance reviews
- Monitoring and reporting on compliance with ethics and compliance policies
- Tracking of online ethics training and compliance modules
- Reporting non-compliance cases to the business, Executive and Audit & Risk Committees

12. CONTRACTUAL OBLIGATIONS

RISK OWNER
Mel Rowlands

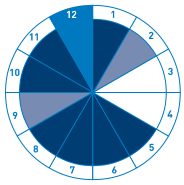
TREND
No change

INCLUDED IN VIABILITY ASSESSMENT:
N/A

RELATIONSHIP TO OTHER PRINCIPAL RISKS

Strong

Moderate



We may fail to deliver contracted products and services, or fail in our contractual execution due to delays or breaches by our suppliers or other counterparties.

How this could impact our strategy or business model

- Production delays; unexpected increases in costs of labour or materials; freight, quality and warranty issues could all cause unexpected losses/reduced profits resulting from our failure to manage our contracts
- Breach of contract resulting in significant expenses due to disputes and claims, loss of customers, damage to our reputation with other customers/prospective customers, and loss of revenue and profit due to higher costs, liquidated damages or other penalties
- Contracts, particularly those with governments, may include terms that provide for unlimited liabilities, including for loss of profits, intellectual property (IP) indemnities, extended warranties or allowing the counterparty to cancel, modify or terminate unilaterally and seek alternative sources of supply at our expense

Examples of how we manage this risk

- 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
- Legal teams deliver training to colleagues
- Programmes in place across the Group which harmonise the contract review process
- Cross-divisional US Government working group determines and shares best practice on government contracting

Examples of how we know the controls are working effectively

- Divisional legal teams embedded in the business, working cross-functionally throughout the contract lifecycle
- Review and approval process for contracts determined by adherence to the Delegation of Authority matrix
- Insurance programme tailored to reflect the risk appetite of the Group
- Uniform diligence and contracting process in place for agents and distributors

CLIMATE CHANGE

Smiths recognises the complex global challenges presented by climate change and the importance of: (a) understanding the risks and opportunities that it represents for the Group and (b) embedding these considerations into strategic decision-making. As described elsewhere in this Report, Smiths is well positioned to support customers in meeting their own climate and environmental goals as well as developing future products and services targeted at climate risk, energy transition and other environmental needs.

Climate-related risks and their potential impact on the business and its strategy form part of risk reporting and risk management across the Group. Due to its long-term nature, climate change is not considered to be a principal risk, but it is related to other principal risks, for example Technology, Group portfolio, Customers and Integrated supply chain.

In FY2021, the Group undertook an expanded climate risk and opportunity assessment, including scenario analysis to consider climate-related physical and transition risks.

We evaluated two climate change scenarios and identified actions to mitigate risks and capture opportunities in strategic plans.

We have joined the Task Force on Climate-related Financial Disclosures (TCFD) as supporters and we have committed to the 1.5 degree C Business Ambition under the UN Race for Zero covering all three scopes of GHG emissions.

READ MORE
CLIMATE RISK ASSESSMENT AND ITS FINDINGS P44

Physical risk

Smiths locations and key Smiths customers and suppliers (particularly in India and on the US gulf coast) are exposed to extreme weather events such as storms/hurricanes, heatwaves and drought.

How this could impact our strategy or business model

- Damage to key Smiths assets leads to significant disruption and Smiths is unable to meet its obligations to customers (revenue and reputational impact)
- Damage to key supplier assets leads to significant disruption and Smiths is unable to meet its obligations to customers
- Customers in coastal areas relocate their operations to limit their own physical risk leading them to review their supplier portfolio
- Impact on safety and well-being of employees
- Increased operating and capital investment costs to regulate temperatures and/or deal with shortages of resources at operational sites

Examples of how we manage this risk

- Diversified geographic base mitigates exposure to any one country
- Current and future climate trends considered during evaluation of potential new sites and acquisitions
- Regular evaluation of key sites making critical products, business continuity and disaster recovery plans and dual manufacturing capabilities
- Supplier resilience programme evaluating a range of risk factors, including a review of critical suppliers operating in high-risk environments
- Global Employee Assistance Programme and ISOS app
- Energy reduction projects

Examples of how we know the controls are working effectively

- No recent business continuity incident from a significant weather event

Energy transition risk

The move to a low carbon economy could have a profound effect on some of Smiths traditional customers and reduce demand for Smiths products. Smiths may not take full advantage of the market disruption/increased regulation which provide opportunities to supply new products and services nor support customers on their energy transition. Smiths may be unable to improve the environmental performance of its operations and products.

How this could impact our strategy or business model

- New and emerging green technology suppliers taking share in Smiths market sectors or move faster to gain incumbency
- Changing consumer preferences including a permanent reduction in demand for flying and increasing demand for greener products and services
- Margin impact from increased regulation around GHG emissions and cost of offsetting/renewable energy

Examples of how we manage this risk

- Development of products and services targeted at climate risk, energy transition and other environmental needs
- Supporting customers to use Smiths technology to meet their own environmental goals
- Proactively managing reductions in operational GHG emissions. Increasing use of renewable electricity. Targeting Net Zero by 2040
- Focus on intrinsic sustainability from operations of Smiths products through Design for Sustainability – raw materials, supply chain, durability, repairability, circularity and end-of-life outcomes

Examples of how we know the controls are working effectively

- New product initiatives such as the John Crane methane programme and products supporting renewable energy systems
- Ongoing achievement of environmental targets
- Onsite renewable energy projects
- Customer interest consolidated by energy efficiency of products/programmes such as Smiths Detection's CTiX scanner