

Being the best at what we do



Highlights

Smiths Group is a global technology company listed on the London Stock Exchange. Our vision is to build Smiths Group into one of the world's leading technology companies.

Key highlights

Growth in reported revenue and headline operating profit in four out of five divisions

Group revenue declined 2% on an underlying¹ basis; up 2% on a reported basis

53% of Group revenues derived from aftermarket and consumables

Headline operating profit declined 4% on an underlying¹ basis, driven by tough global energy market conditions for John Crane

Good margin expansion in Smiths Medical, Smiths Detection and Smiths Interconnect

John Crane margins resilient at 21.9%; Flex-Tek margins stable

102% cash conversion drove an underlying reduction in net debt

¹ Underlying excludes the impact of acquisitions and divestments, and the effects of foreign exchange translation

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Ethics

Held regional forums in Brazil and China; met with key suppliers to discuss the Supplier Code of Business Ethics; held an International Trade Compliance Forum in Washington; and updated online training courses addressing the Smiths Code of Business Ethics.

EHS

Environmental performance continued its long-term improvement trend; reduced injury incident rate to lowest historical level; developed global technical minimum safety standards for serious EHS risks; and completed sustainability materiality assessments in two divisions.

People

Launched the Smiths Excellence Awards; conducted a comprehensive MyVoice global employee engagement survey; and implemented several new career development programmes for employees across the Group.

Community

Engaged with local communities across the globe.

Chief Executive's introduction

At Smiths, we do the right thing. At the end of every working day, we should all be able to hold our head high knowing that we've done business the right way. Acting with honesty, fairness and respect is part of what we stand for. Doing the right thing protects our reputation, ensures our business can continue to grow and enables us to attract talented people.

Smiths has strong businesses with a great heritage. We're known around the world as a respected, well governed and safe company. Our products and services benefit the environment and contribute to the safety, health, security and productivity of people wherever they are used.

At the heart of our business is the commitment to taking responsibility for our actions and building relationships based on trust and honesty with customers and colleagues. Our Code of Business Ethics provides the framework for our approach and our corporate responsibility focus areas. This sets out the standards and responsible business practices we expect to instil to enable our employees to make ethical decisions, every time.

We have an impressive workforce of 22,000 people, operating in 50 countries across the world. I know that people are our only truly sustainable source of competitive advantage, and that the best people want to work for a company that shares their values. Our people's achievements inspired me to launch the Smiths Excellence Awards scheme this year to celebrate our outstanding examples of initiatives and behaviours across our organisation.

At Smiths, we are respectful of each other. We play a positive role in the communities where we operate. And by creating a learning organisation that attracts, retains, develops, engages and inspires our employees, we'll provide the opportunity for everyone to be the best they can be.

Our approach to corporate responsibility helps us to address key trends in our markets. This includes an increased focus on avoiding bribery and corruption; increased competition for talent in many of the global markets in which we operate; focusing more pressure on energy and water use, climate change, and materials safety; and enhancing our ability to recycle waste and products which have reached the end of their useful life.

Since joining the company in September 2015, I have been impressed by the progress that has been made. We have reduced our injury incident rate to its lowest historical level, updated our environment, health and safety strategy with an increased focus on safety culture and behaviours, and increased our employee engagement across the globe. This gives us a firm base within our current business and provides the tools to embed similar principles in any future acquisitions; but there is more to do.

Going forward, we plan to extend our supplier training on our new Supplier Code of Business Ethics, implement new global technical minimum standards to address environment, health and safety risks, and expand our employee development programmes.

As a global technology company operating in highly regulated sectors, we know that doing business the right way will benefit our employees, our customers, and our shareholders across the world – and help us to fulfil our aim of being the best at what we do.

Our vision is to establish Smiths as one of the world's leading technology companies. This is a huge and exciting challenge – and one that we can only achieve by doing the right thing to become the best at what we do.

Andy Reynolds Smith
Chief Executive



Smiths at a glance

We apply leading-edge technology to design, manufacture and deliver innovative solutions that meet our customers' needs. Our products and services – often hidden from view – touch the lives of millions of people every day.

Revenue in 2016

£2,949m

Headline operating profit in 2016

£510m

Employees worldwide

22,000

Our markets

We serve a wide range of end markets – from healthcare, energy and petrochemicals through to threat and contraband detection, telecommunications and equipment manufacture. Our customers range from governments and their agencies, to hospitals, petrochemical companies and equipment manufacturers and service providers in various sectors around the world.



Our competitive advantage

Our products and services are often critical to our customers' operations, while our proprietary technology and high service levels help create competitive advantage.



Our structure

We employ 22,000 people in more than 50 countries through our five divisions: John Crane, Smiths Medical, Smiths Detection, Smiths Interconnect and Flex-Tek.



Our approach

We do this responsibly, through the combined expertise of our people and effective, focused leadership, to deliver value to our customers, shareholders and wider stakeholders.



Where we operate

Group manufacturing and service locations



Countries our products and services reach

>200

Our market split

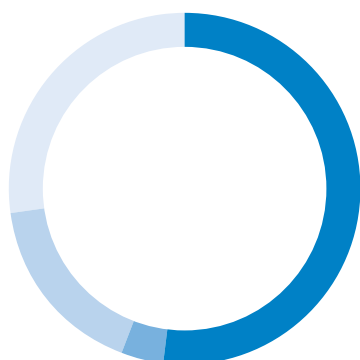
68% of our revenue comes from three markets: healthcare, energy, and homeland security and defence. Our aftermarket products and services account for 53% of our business.

Percentage of revenue from emerging markets

17%

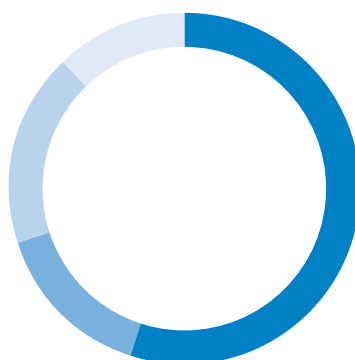
Group revenue by destination

- North America 52%
- United Kingdom 4%
- Europe other 17%
- Rest of World 27%



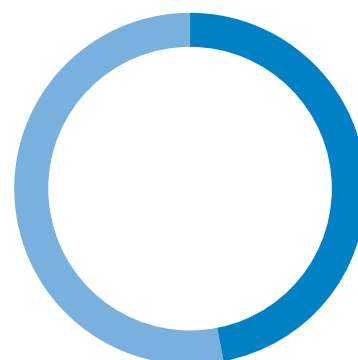
Location of assets

- North America 55%
- United Kingdom 15%
- Europe other 18%
- Rest of World 12%



Revenue from equipment sales and aftermarket/consumables

- Equipment sales 47%
- Aftermarket/consumables 53%



Excludes cash and cash equivalents

Our divisions

Smiths Group has five divisions each serving specialist technology markets worldwide

John Crane



Providing engineered products and services to global energy and process industry customers

Smiths Medical



Supplying medical devices and consumables that are vital to patient care globally

Revenue

£830m

£874m

Headline operating profit margin

21.9%

21.4%

Employees

6,550

7,600

Competitive strengths

Market leader in mechanical seals
 Strong proprietary technology and expertise in applied engineering
 High degree of customisation to meet specific demands
 Global network of c. 230 sales and service centres
 Over half of sales in aftermarket

Strong market positions in chosen clinical areas
 Highly recognised and respected brands
 Reputation for quality and safety
 Extensive global sales network
 Innovative pipeline of new products in development

Read more at www.johncrane.com



Read more at www.smiths-medical.com



Divisional revenue

- John Crane 28%
- Smiths Medical 30%
- Smiths Detection 18%
- Smiths Interconnect 15%
- Flex-Tek 9%



Smiths Detection



Designing and manufacturing technology solutions that detect and identify security threats and contraband

£526m

13.0%

2,050

Strong global brand

Operates in regulated markets requiring rigorous product certification

Technologies leveraged across many markets and applications

Investment in continuous improvement driving division-wide efficiencies

Growing aftermarket revenues (37% of total revenues)

Read more at www.smithsdetection.com



Smiths Interconnect



Developing electronic components and sub-systems that connect, protect and control critical telecommunications systems

£435m

13.1%

3,400

Innovative and technically differentiated offerings

Ultra-high reliability solutions used in demanding applications

Customer intimacy, responsiveness and product customisation

Highly regulated markets with strong barriers to entry

Global presence, reach and support

Read more at www.smithsinterconnect.com



Flex-Tek



Providing engineered components that heat and move fluids and gases

£284m

18.0%

2,050

High-performance flexible tubing products for aerospace

High capability to design and manufacture heating solutions for bespoke applications

Strong customer relationships

Market-leading product performance in residential gas tubing

Read more at www.flextekgroup.com



Divisional headline operating profit*

- John Crane 33%
- Smiths Medical 34%
- Smiths Detection 13%
- Smiths Interconnect 11%
- Flex-Tek 9%

*Before corporate costs



How we manage corporate responsibility

Promoting a culture of responsibility, developing smarter ways of working and attracting the best talent, and delivering operational efficiencies to enhance margins form key elements of our values and business strategy.

Our Code of Business Ethics

This provides the framework for our approach and CR focus areas.

1
We comply with the law

2
We compete fairly

3
We act with integrity in all our business dealings

4
We treat suppliers, partners and customers properly

5
We treat our co-workers respectfully

6
We contribute to healthy, safe and secure workplaces

7
We respect the environment

8
We contribute to our communities

9
We participate in relevant public debates

10
We respect human rights

11
We have high standards of financial record-keeping and reporting

12
The Code applies to all of us

Read more at
www.smiths.com/responsibility



Why Corporate responsibility (CR) is important to Smiths

Many of our products and services benefit the environment and contribute to the safety, health, security and productivity of people around the world. For example, Smiths Detection's security scanners play a vital role in helping to prevent terror attacks, while John Crane's seals help its customers to reduce their environmental impact. Similarly, how we do business is critical to our long-term success. As a global technology company operating in highly regulated sectors and interacting with stakeholders including customers, governments and their agencies, regulators and suppliers across the globe, we insist on the highest standards of ethical behaviour. This extends beyond legal compliance – to us it means ensuring that we are honest and transparent in our dealings with all our stakeholders and maintain the courage of our convictions, regardless of external or business pressures.

Conducting our business responsibly enables us to meet our obligations to our stakeholders and delivers real business benefits, creating long-term value for shareholders by:

- Protecting our reputation and ability to grow
- Helping us to win business from customers who value strong CR performance
- Enhancing our efficiency
- Enabling our people to work productively, in a safe and ethical environment
- Helping us to attract and retain talent, and encouraging employees to take pride in working for us
- Reducing the risk of incidents and their associated costs.

Our Code of Business Ethics ('the Code')

Given our devolved structure and global footprint, it is impractical to set specific rules to cover every situation. Our Code of Business Ethics therefore sets out 12 broad principles for how we do business, based on integrity, honesty, fairness and transparency. It provides the framework for our policies, programmes and procedures for a range of CR issues and is intended to instil responsible business practices across the business, enabling our employees to make ethical decisions, every time. The Code clearly sets out the standards we expect of our employees. We require every one of them to understand and comply with the Code at all times.

Our CR governance

Strong governance is essential to embedding responsible business practices across the Group and delivering long-term success. Our Board of directors is ultimately responsible for the stewardship of the business, including our Code of Business Ethics. The Board sets the tone for the Group, establishes high ethical standards and robust corporate governance and risk management frameworks, defines our strategic and financial objectives, and monitors succession planning.

The Audit Committee monitors how we implement and comply with the Code. It reports to the Board on the effectiveness of our internal controls and the ongoing process of identifying, evaluating and managing significant business risks, including potential Code violations.

The Chief Executive and the executive team are responsible for delivering our strategic objectives, upholding the Code, implementing its supporting policies and delivering both our overall business strategy and specific CR strategies. They champion our commitments and strategies within the business, setting and continually reinforcing the 'tone from the top'.

The corporate centre fosters a culture of responsibility and accountability wherever we work around the world. It sets governance and risk management frameworks and policies, and provides oversight to ensure a strong culture of ethical behaviour and effective environmental, health and safety (EHS) and people management. Our divisions are responsible for actively managing their risks, embedding a culture of ethics and compliance across their businesses and attracting, retaining and developing their people.

Further detail on how we manage our focus areas can be found on pages 10 to 23.

Risk management

The Board has overall responsibility for our risk management policies and ensuring we have an effective system of internal control. We have a well-established risk management framework that combines a top-down strategic view of risks with a bottom-up divisional process. Our bottom-up divisional approach involves the identification, management and monitoring of the material risks in each of our divisions. Each division is required to maintain risk registers and monitor their significant risks on an ongoing basis. A full description of our risk management processes can be found on page 53 of our 2016 Annual Report.

We also use more detailed risk management tools for specific CR risks. For EHS, for example, we use management systems such as OHSAS 18001 and ISO 14001 to provide an externally verified framework for risk reduction, continual improvement, compliance assurance and management review. Similarly, in areas such as ethics, we continually review our programmes to ensure we are addressing areas of heightened risk, such as operating in emerging markets.

International best practice initiatives

Smiths Group is proud to be a member of the FTSE4Good Index, which objectively measures the performance of companies which meet globally recognised CR standards.

We are also members of the Carbon Disclosure Project (CDP), an international not-for-profit organisation providing a global system for companies and cities to measure, disclose, manage and share vital environmental information. We submit our carbon emissions data annually to the CDP. We are committed to continuously improving both the disclosure of our carbon impacts and our performance.

Did you know...

In 2016 we reduced our injury incident rate to its lowest historical level.

Read more at
www.smiths.com/responsibility



Corporate responsibility trends and strategy

We recognise that a number of environmental, social and regulatory trends could influence Smiths and the industries in which we operate. These include:

- worldwide government and regulatory focus on prohibiting bribery and corruption
- competition for technical talent – in the face of growing demand from both traditional and non-traditional sources and the continued decline in the number of people taking Science, Technology, Engineering and Manufacturing (STEM) degrees in Western markets
- increased competition for talent in higher-growth emerging markets, as businesses around the world focus on these regions
- energy use and the associated challenge of carbon emissions and climate change, requiring businesses to reduce their environmental impacts and drive efficiency
- materials safety, requiring us to innovate to replace materials of concern
- water use, ensuring the efficient and effective use of a vital global resource
- customer demands for responsible and sustainable procurement, requiring us to continuously improve the performance of our products.

Many of these trends could be both positive and challenging for us. For example, the pressure on all businesses to reduce their environmental impacts represents a challenge in terms of our operations, while potentially increasing the demand for many of our products and services which help our customers to improve their own efficiency and environmental performance.

Moreover, within the context of the principal risks facing Smiths Group as a whole, the Board has determined that two of the key risks to promoting a culture of responsibility and transforming Smiths into a world-class organisation are compliance with legislation and regulations, and talent and succession planning. Further detail on these can be found on pages 55 to 60 of our 2016 Annual Report.

Our strategic focus

Promoting a culture of responsibility, transforming Smiths into a world-class organisation and delivering operational efficiencies to enhance margins are key elements of our business strategy. Our Code of Business Ethics provides the framework for the way we do business and, more specifically, the way we manage many of our CR issues. Our priority CR issues reflect our strategic focus and framework.

Ethics



Embedding a culture of ethical behaviour and supporting compliance programmes across Smiths to address evolving global risks.

Read more on page 11



The business environment is constantly evolving, presenting new risks and opportunities for Smiths. We monitor this environment to ensure that our strategy and risk management processes reflect the most material issues facing the business.

Environment



Reducing our environmental footprint through continual improvements in energy efficiency, greenhouse gas emissions, water consumption and waste generation.

Read more on page 14



Health and safety



Reinforcing a safety culture across the business to provide a safe and secure working environment for all our people.

Read more on page 14



People



Attracting, retaining, developing, engaging and inspiring the right people with the right skills to support our growth and to realise our vision of becoming one of the world's leading technology companies.

Read more on page 19



Community



Building strong links with the communities in which we operate, through local engagement, charitable giving and education initiatives, in order to contribute to local prosperity, enhance our reputation, foster employee engagement and attract new employees.

Read more on page 23



We have specific strategies and governance structures for each of these areas, which are discussed in 'Our focus areas' on pages 10 to 23. These priorities are shared across the Group, and our divisions are required to implement and support these strategies and actively manage performance, with regular reporting back to the Group centre. As our business and operating environment evolves, we review our focus areas and strategies to ensure we are addressing our most material risks and opportunities.

Our focus areas

Ethics

Global Business Ethics Forum

"Don't let your ethics slip" was just one of the sessions at the regional ethics forums hosted in Brazil and China, and an International Trade Compliance Forum in Washington, DC in 2016.

These forums brought together senior executives and managers from across the Group to consider the business and ethical risks of working in challenging environments, with a particular focus on the individual ethical responsibility of all employees.

These events are all part of a series of interactive learning programmes addressing business and compliance issues in many of the developing or emerging markets in which we operate.

We believe ethical behaviour is the responsibility of every Smiths employee at all levels 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 necessary for individual legal or regulatory compliance and ethical decision-making.

Governance

The Business Ethics Council leads our ethics programme and reports to the Audit Committee (see page 7). It is made up of senior business leaders from across the business. These include our Group General Counsel, Human Resources Director, Internal Audit Director, Procurement Director, Chief Information Officer and the Senior Vice President, Ethics and Compliance from the corporate centre, as well as Board members from each division. The Council determines our priorities, reviews key issues and makes recommendations to the Audit Committee.

The Senior Vice President, Ethics and Compliance chairs the Council and advises the Executive Committee and the Audit Committee on ethical matters. He also conducts internal investigations and manages responses to all enquiries and breach allegations. The Legal & Business Affairs team in each division provides additional compliance support to our businesses, offering advice, education, training, guidance materials, export control policies and assessment tools. Ethics and compliance issues are considered at Executive Committee meetings and business reviews, as well as during site-level internal audits.

Context and trends

Expanding our presence in higher-growth emerging markets is a key part of our strategy. Like all companies operating in these markets, we must take account of the heightened risks involved and put in place appropriate mitigation.

In recent years governments and regulators around the world have increased their focus on detecting, investigating and punishing bribery and corruption, with many countries introducing new or updated laws and dedicating additional resources to enforcement. Smiths has always upheld the highest ethical standards, but we review continually our anti-bribery and corruption policies and procedures.

Strategy and objectives

Our ethics programme is focused on continuing to embed the Code and ethics- and compliance-related policies through communication, training and awareness programmes. We aim to ensure our employees understand our expectations and are able to make the right, ethical decision every time and to know when to ask for help, as well as to ensure compliance with our ethics-related policies and controls and the laws and regulations of the jurisdictions in which we operate.

We continually review and update our policies and business controls to mitigate changing areas of risk. We also review, evaluate and update our ethics programme, systems and procedures for fostering, monitoring and auditing ethical business conduct.

Other focus areas include expanding our online training, encouraging open discussion of ethical risks with employees at every level of the organisation, developing additional policies to enhance governance of key risk areas, and continued collaboration with Internal Audit, as part of our risk management and assurance processes.

2016 Highlights



Held regional Business Ethics Forums in Brazil and China. These highlighted the need for all employees to take responsibility for ethical compliance

Met with key suppliers to discuss the Supplier Code of Business Ethics, which sets a minimum standard for ethical operations and behaviours of third parties

Held an International Trade Compliance Forum in Washington, DC to focus on specific trade compliance risks

Updated online training courses addressing the Smiths Code of Business Ethics and held employee focus sessions to gauge knowledge and understanding

Extended the MyVoice global employee engagement survey to offer all employees an opportunity to assess the effectiveness of the Smiths ethics programme

Engaged an external data collection agency to assess compliance risks for certain suppliers in high-risk countries

Did you know...

In 2016 we launched the Smiths Excellence Awards to recognise the highest levels of achievement across the Group.

Our focus areas

Continued

Ethics

Communicating and embedding the Code

The Code is championed by our Chief Executive, the senior management team and the divisional presidents, who set the 'tone from the top' through Group-wide and divisional communications, meetings and site visits.

We give every employee a printed or electronic copy of the Code when they join. The Code itself and materials supporting our ethics programme and the Ethics Alertline are available on our intranet to view, download and print in 19 languages. Posters are displayed at all of our sites. The Code is supported by an online training course, which is available in English and 18 other languages through our global learning platform.

Behaving ethically is an integral part of every employee's job. All new employees undergo our online training course and must take a refresher every two years. It is an important duty of line management to monitor compliance, and consideration of ethical issues forms part of managers' performance reviews. During the annual performance appraisal process all employees must certify that they have received the Code and understand its requirements. They also must respond to a question asking whether they are aware of any unreported violations of the Code. Any positive answer triggers immediate discussion with a manager and potentially an internal investigation.

Communication, policies and training

We regularly expand and update communications and training on key compliance areas to address evolving global risks, changes in laws and regulations, and enforcement trends in jurisdictions around the world. We also increase the number of languages in which training is offered to ensure we reach Smiths employees world-wide as we expand. Our courses include global competition and international trade law, encompassing compliance with national laws governing import and export, and applicable embargoes and sanction programmes.

We use frequent, targeted communication and face-to-face training to spread the ethics and compliance message to every employee. Following the success of our global ethics forums over the past four years, we have held several regional programmes in Brazil and China, exploring the individual ethical responsibility of every employee.

We also require our suppliers and partners to uphold our standards. To support this, we offer online training on Ethics for Third Parties for our agents, distributors and external sales representatives. Our Supplier Code of Business Ethics is available externally on the Smiths website and is provided to all major suppliers. The Supplier Code and our contractual provisions require suppliers to maintain high ethical standards in line with our Supplier Code or their own comparable ethics programme.

Reporting concerns and managing specific issues

We encourage employees who have concerns or queries about the Code to raise them with line management, Human Resources or their local in-house legal counsel. If employees have concerns they do not feel comfortable discussing with line management or their local HR or Legal teams, they can report those concerns through our confidential Ethics Alertline, which is managed by a third party. The Alertline enables them to report these directly to the Ethics and Compliance function. It is available 24/7 via email, the internet and toll-free phone numbers in every language used by Smiths employees. All issues are addressed promptly and referred, as required, to relevant internal or external specialists for investigation. Our non-retaliation policy means that any employee who in good faith reports an act of apparent misconduct or unethical behaviour will not be victimised or treated adversely.

Controls on defence sales

We seek to ensure that all sales and exports of defence equipment are undertaken in accordance with international trade regulations and national government export approval procedures and regulations, such as the International Traffic in Arms Regulation and the Export Administration Regulations in the US. These laws prohibit export of certain items to specific countries. The Group's policy is to adhere to all relevant government guidelines designed to ensure that products are not incorporated into weapons or other equipment used for the purposes of terrorism or abuse of human rights, with internal controls to ensure compliance with these guidelines.

Human rights

Smiths seeks to uphold all internationally recognised human rights wherever its operations are located. Within this framework, we do not tolerate the use of child or forced labour at Smiths facilities or those of our suppliers. The Supplier Code of Business Ethics and contractual clauses incorporate and implement these prohibitions. Furthermore, we take all steps reasonably possible to ensure our products are not used to abuse human rights. This year Smiths produced its first Modern Slavery Statement in line with the UK Modern Slavery Act. This can be found at www.smiths.com.

Priorities for 2017



Hold regional ethics conferences in countries considered a compliance risk

Continue to update our training and compliance programmes in line with changing business needs and regulations

Continue to refresh employees' online Code of Business Ethics training every two years

Continue to train suppliers on our ethical standards and requirements to support the new Supplier Code of Business Ethics, including the prohibition of any abuse of human rights, such as slavery and human trafficking

Continue to ensure ethics messages are received and understood by all employees worldwide

Refresh our compliance risk assessments for all businesses and all regions

Expand our positive assurance programmes for significant risk areas

Did you know...

Over the past six years we've reduced our greenhouse gas emissions by 38%.

Environment, health and safety

Creating a supportive safety culture

To reduce the risk of injury in the workplace, we promote a positive health and safety culture where employees aren't afraid to suggest improvements.

John Crane's facility in Stoney Creek, Canada has redesigned its racking system for raw materials and the associated procedures for handling materials. While the old system relied on a dedicated forklift to load and unload heavy materials from a cantilever storage rack and move them to the manufacturing line, the new storage system is based on rails and no longer needs a forklift to move materials, minimising the risk to employees.

Our focus areas

Continued

Environment, health and safety

We are committed to achieving excellence in environment, health and safety management and performance.

Our aim is to provide effective leadership in the pursuit of injury-free and environmentally responsible workplaces.

Governance

Our environment, health and safety (EHS) approach starts with our EHS policy, which is available on our website at www.smiths.com.

Our Chief Executive has overall responsibility for EHS matters and the Group Human Resources Director is responsible for the effective administration and implementation of our EHS policies. The President of each division has overall responsibility for EHS matters within their business, including the effective management of expectations, allocation of resources and administration of organisational arrangements to ensure the implementation of and continuing compliance with EHS policies.

The Group EHS Steering Committee and EHS Technical Committee, which are made up of senior Group and divisional representatives, develop our policies and strategic direction. They also evaluate and track performance, which enables us to share best practice around the Group and identify training needs. The Executive Committee approves our policies and strategy and, along with the Board of directors, monitors our performance.

EHS management systems

We believe in continuous improvement and use management systems to realise its benefits. These systems identify risks and issues, helping sites to prioritise the most significant risks. The systems also help to improve our EHS management by providing an externally verified framework for risk reduction, continuous improvement, compliance assurance and management review.

2016 Highlights



Developed new global technical minimum safety standards for serious EHS risks

Completed formal sustainability materiality assessments in two divisions

Reduced injury incident rate to lowest historical level

Environmental performance continued its long-term improvement trend

Updated our multi-year EHS strategy with increased focus on safety culture and behaviours

We require all manufacturing, warehousing and service centre sites with more than 20 employees to implement the following EHS management systems:

- OHSAS 18001 (ISO 45001) for occupational health and safety management systems, and
- ISO 14001 for environmental management systems.

Sites with 50 or more employees are required to have their EHS management systems externally certified. All sites required to be certified have completed certification. We give new acquisitions or expanded operations two years to obtain certification.

Shining example

As part of Smiths Medical's commitment to reducing its environmental impact, its facility in Tijuana, Mexico implemented an ambitious energy savings programme in 2015, installing nearly 6,500 LED lights across their three buildings – saving over 2,600,000 kWh annually.



EHS compliance

Smiths is committed to meeting or exceeding its legal and other EHS requirements. We periodically assess our compliance, including using external auditors to audit our operations' legal EHS compliance. We choose the facilities to audit from across the Group, based on their size, complexity and compliance risks.

After these audits, we prepare corrective action plans, which we monitor closely to ensure issues are properly resolved and in good time. The Group EHS Technical Committee reviews the audits' overall results and any potential Group-wide risks the audits identify. Common issues may result in Group-wide initiatives to ensure we maintain compliance and our new EHS management software allows us to track legal requirements and audit findings to ensure actions are completed. We also share best practices identified during the audits across the divisions. In addition to our external compliance auditing, sites with OHSAS 18001 and ISO 14001 management systems have procedures for identifying their legal requirements and evaluating compliance.

EHS data collection and analysis

Our global EHS management software is designed to give us reliable and timely data, with monthly reporting and real-time error checking. We use this software to monitor and analyse our EHS performance, site-by-site, in real time against Group targets. It provides enhanced features for collecting, monitoring and analysing data, as well as assisting with the overall management of environmental, health and safety, including risk management, training, requirements tracking and auditing. To confirm data reliability, we have a periodic validation process.

Our divisions also implement robust processes to minimise and detect data errors. These processes include training, detailed site reporting instructions and frequent data audits.

Strategy and objectives

Our EHS strategy supports our business strategy and our Code of Business Ethics. We aim to provide injury-free and environmentally responsible workplaces in order to protect our employees, communities, environment and shareholder value by effectively managing safety and environmental risks.

Smiths Group has made significant strides in improving its EHS culture, processes and performance. We have updated our multi-year strategic objectives and goals which address areas of EHS culture, risk, learning and capabilities, continuous improvement, and sustainability. We are also updating our external safety benchmarking study to identify areas of opportunity to develop our capabilities and improve our performance.

We align our EHS key performance indicators (KPIs) to this strategy, allowing us to assess our progress. We set specific targets for both our environmental and safety performance. These are discussed in the relevant sections below. Achieving our targets for these KPIs is part of our senior management performance assessment.

In addition to EHS, we have identified other sustainability strategic areas that we will focus on improving in the future, including:

- product stewardship
- supply chain EHS risk management
- the environmental impacts of our products and services across the value chain.

The divisions adopt and support the Group's EHS strategy, KPIs and goals and then identify specific actions for their businesses.

Sustainable product design

Our businesses look for opportunities to make products more sustainable by monitoring the use of environmentally regulated materials and researching alternatives. In addition, we look for ways to 'design out' or substitute materials and chemicals. These actions will help us to produce products with minimal environmental impact and to meet the ever-growing regulatory and customer demand for products that use less-hazardous materials.

Environmental management

We are committed to minimising, as far as reasonably practicable, any detrimental effects our activities, products and services have on the environment. This includes using performance-based environmental management systems to drive improvement throughout the business.

Our divisions develop and implement strategies to minimise their operations' environmental effects. Our sites monitor energy and water usage, waste generation and greenhouse gas emissions, identify opportunities for reduction and implement improvement plans. We share action plans, lessons learned and best practices across the Group.

Energy and greenhouse gas

The Group is committed to using energy and natural resources efficiently and to reducing our greenhouse gas emissions. Our Energy & Greenhouse Gas policy addresses our approach to managing these impacts, and is available on our website at www.smiths.com. Where feasible, we leverage our size to negotiate favourable terms and rates for buying energy, and contract to use cost-effective and reliable renewable energy sources.

Our greenhouse gas (GHG) emissions calculation methodology closely follows the Greenhouse Gas Protocol and includes emissions from sources under our control. In addition, the inventory consists of Scope 1 (direct GHG emissions from sources owned or controlled by the company) and Scope 2 (GHG emissions from the generation of purchased electricity consumed by the company) emissions. In 2014, an external adviser performed a review of our GHG emissions calculation methodology and prepared a GHG Inventory Management Plan that has been used to further align our emissions calculation methodology with the GHG Protocol. It was concluded that emissions from vehicles, production processes and fugitive sources are small and not material compared to our total GHG emissions. Due to the difficult nature of collecting emission data from these sources and their immateriality, they have been excluded from the inventory totals. The materiality of these sources will be reviewed again in the future.

Our focus areas

Continued

Environment, health and safety

Total energy

'000MWh
252,000 MWh

2016	252
2015	278
2014	284
2013	280
2012	279

Total CO₂ emissions

'000 tonnes
79,000 tonnes

2016	79
2015	95
2014	102
2013	104
2012	107

Water use

'000m³
428,000m³

2016	428
2015	425
2014	457
2013	456
2012	456

Total non-recycled waste

'000 tonnes
4,900 tonnes

2016	4.9
2015	5.1
2014	5.6
2013	6.1
2012	5.8

Total energy efficiency

MWh/£m revenue
86 MWh/£m revenue

2016	86
2015	93
2014	93
2013	92
2012	94

Total CO₂ emissions

Tonnes/£m revenue
27 tonnes/£m revenue

2016	27
2015	32
2014	33
2013	34
2012	36

Water consumption

m³/£m revenue
145 m³/£m revenue

2016	145
2015	142
2014	150
2013	150
2012	153

Total non-recycled waste

Tonnes/£m revenue
1.7 tonnes/£m revenue

2016	1.7
2015	1.7
2014	1.8
2013	2.0
2012	2.0

Environmental targets

In 2013, we set new five-year environmental targets. Our targets are to achieve 15% reductions in energy usage, greenhouse gas emissions and waste generation, and a 10% reduction in water usage by 2018, all normalised to revenue against a baseline of 2013. Where necessary, we adjust our baseline metrics to account for acquisitions and disposals.

Over the past six years, we have significantly reduced our environmental impact with 21% energy, 38% GHG, 16% water and 25% non-recycled waste reductions, normalised to revenue.

Compared to our baseline year of 2013, we have achieved good progress in reducing our environmental metrics, with GHG and non-recycled waste already exceeding our five-year goal. During 2016, our overall environmental performance continued its long-term improvement trend with normalised reductions in energy, GHG emissions, and non-recycled waste while water usage increased slightly. Absolute environmental metrics reduced in 2016 with 9% energy, 17% GHG and 5% non-recycled waste. Absolute water usage increased 1%.

A small number of historical metrics have been revised marginally to reflect refinements in monitoring

Performance against environmental targets

	Target 2013-18	2016 progress against 2013
Energy	15% reduction	7% reduction
Greenhouse gas emissions	15% reduction	22% reduction
Total non-recycled waste	15% reduction	18% reduction
Water consumption	10% reduction	3% reduction

Reduction targets are compared to the 2013 baseline year and normalised to revenue consolidated at 2016 closing exchange rates.

Workplace health and safety management

The Group is committed to protecting, as far as reasonably practicable, the health and safety of its employees. Our employees recognise this commitment and workplace safety continues to be the highest scoring dimension in our Group-wide employee engagement survey.

By focusing on their business risks and needs, our divisions can make improvements that reduce the chance of an incident. They assess site safety and create improvement programmes, if needed, and sites may also be selected for additional Group-level management review and assessment.

Our Group-wide activities to reduce incidents have focused on improving safety culture, behaviours and risk reduction. We continue to implement and build on these activities and are monitoring them through our Safety Leading Indicator Activities Programme. We use a safety leading indicator activity score as a KPI. Sites are required to complete a minimum number of activities, which count towards their score.

Sites report their scores monthly and are required to achieve annual targets. The Executive Committee and the Board review performance against these targets each quarter. In 2016, the Safety Leading Indicator Activities Programme was required at sites with more than 20 employees, which covers more than 90% of our employees.

The Safety Leading Indicator Activities Programme has been well received by our businesses and we intend to continue it for the foreseeable future. In 2016, our activities were split between Group-wide and division-specific activities in order to target the individual improvement needs of each division.

Other safety key performance indicators include recordable incident rate (RIR) and lost time incident rate (LTIR). We measure these rates per 100 employees per year. A recordable incident is one where an employee requires medical attention beyond first aid. A lost time incident is one which results in a lost work day beyond the day of the incident. All of our sites must report recordable and lost time incidents to the Group each month.

Health and safety targets

As part of our strategic plan update and benchmarking in 2013, we revised our safety performance targets. These targets increase our focus on leading indicator activities designed to improve safety culture, behaviours and reduce the risk of incidents.

Our ultimate aim is 'zero harm' to employees. Adopting this aim further emphasises to employees and other stakeholders how seriously we take our safety performance.

These metrics have placed less emphasis on RIR. However, we continue to monitor it and the LTIR, and investigate incidents for contributing factors and trends to help focus risk assessments.

Health and safety performance

During the year, the Group and all divisions completed the required number of safety leading indicator activities, which will support our efforts to improve our safety culture and risk management.

From 2004 to 2016, we achieved a significant reduction in our RIR, improving from 4.6 to 0.47, achieving our lowest RIR in 2016. We also focus on sites that experience increased incidents. This focus has already delivered significant improvements as we continue to drive world-class performance and standards across the business.

After several years of a steady LTIR, we experienced a good reduction in 2016 to 0.14. Over the past thirteen years, we experienced three occupational fatalities with an employee at a former facility in Sweden in 2003, a contractor in Costa Rica in 2007, and an employee in a vehicle accident in 2014.

Security

Security is an important part of protecting our employees and our business.

We aim to minimise security risks in order to safeguard our people, and physical and intellectual property. Our Group Security Director advises the Executive Committee on current and emerging security risks. The Executive Committee is responsible for setting Group-wide priorities and reviewing our approach and performance. The Group Security Committee oversees progress and shares good practice, while the divisions are responsible for the implementation of division-specific security initiatives. Our Security programme includes Group-wide minimum standards covering physical and procedural security at company sites, business travel security and security awareness.

Priorities for 2017



Implement new global technical minimum standards to address serious EHS risks

Focused leadership and employee training to support safety culture and behaviours

Update safety external benchmarking study to further identify areas of opportunity to support world-class safety

Recordable incident rate

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

2016	0.47
2015	0.55
2014	0.50
2013	0.54
2012	0.60

Lost time incident rate

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

2016	0.14
2015	0.22
2014	0.22
2013	0.22
2012	0.21

People

engineeringU Accelerated Development Programme

John Crane set up engineeringU as a 12-month accelerated development programme in 2014 to attract, develop and retain talented engineering graduates at a time when competition for STEM talent has never been greater. Since its inauguration, the programme has not only succeeded on these terms, but is also helping to improve the business overall by bringing fresh thinking to projects at an early stage.

The programme combines engineering and leadership development, through interactive workshops, coaching, self-study and business projects – giving graduates both the technical ability and confidence to move into permanent roles.

We believe that people excellence is a strong enabler of business growth, and we develop our employees' capabilities so they can fulfil their potential and help us reach ours.

Building a learning organisation that attracts, retains, develops, engages and inspires the right people with the right skills is central to our ambition of transforming Smiths into a world-class organisation and supporting our growth ambitions.

Governance

The Board places a high priority on attracting and retaining the right people and the Chief Executive is the Board member nominated to bring these ambitions to life. He is supported by the Group Human Resources Director, a team of Human Resources professionals and line managers across the organisation.

Context and trends

As a global technology company, innovation is our lifeblood. We are investing to drive growth through product development and expansion into new markets, and to transform Smiths into a world-class organisation. Attracting, developing and retaining the best candidates is also fundamental to this vision. The competition for skilled technologists and engineers, however, is intensifying around the world in the face of:

- increased demand from both traditional sources (such as engineering and technology companies) and non-traditional sources (such as financial services and consulting firms)
- the continued decline in the number of people taking Science, Technology, Engineering and Manufacturing (STEM) degrees, and
- increased competition for talent in higher-growth emerging markets, as many businesses around the world focus on these regions.

Strategy and objectives

We have consistently focused on strengthening our leadership capabilities and talent pipeline at both senior and junior levels, improving our recruitment and assessment techniques, succession planning and development, enhancing employee engagement, and transforming our HR function to provide a strong platform for growth. We benchmark the effectiveness of our processes against world-class standards and put in place year-on-year improvement plans to help us become best-in-class.

As we work to transform Smiths into a world-class organisation, a talented and determined workforce, united by commercial acumen, an appetite for innovation, strong leadership and a commitment to collaboration and inclusion will be essential to achieving our ambitions. To support this, we will continue to develop our leadership capabilities throughout the organisation to ensure we have the depth and breadth necessary to support growth; deepen our focus on our technological and engineering expertise in order to drive innovation and maintain our technological leadership; and continue to build employee engagement across the business in response to the global employee engagement survey and ongoing feedback.

2016 Highlights



Conducted a comprehensive MyVoice global employee engagement survey

Launched the Smiths Excellence Awards to showcase and celebrate exceptional behaviours and achievements across the Group

Implemented several new programmes to provide learning and career development opportunities for our employees

Created additional HR efficiencies to ensure employees get the right information, faster

Culture, engagement, and communication

We aspire to have a culture that is engaging, respectful, fair and diverse, and rooted in the regular giving and receiving of feedback. We recognise our employees' contributions and growth, and we are proud of both our heritage and our future.

We are on a journey to transform our culture, and to bring greater unity and strength across the Smiths divisions. These efforts will create more development opportunities for our employees and leaders, and bring greater strength and recognition of the Smiths Group brand.

Communication, engagement and inclusion are at the heart of this journey. We have reached out to more than 600 employees across 20 countries to hear their feedback and insights into what makes Smiths great, and what we can do to better support employees. We will continue to engage with employees in different ways as we focus on culture and communication as part of our renewed focus on people excellence.

Our MyVoice survey is one valuable tool we use for measuring engagement and providing insights into our employees' experiences and perceptions. In March, we conducted our fourth global survey. We achieved a participation rate of 86% across the Group, and benchmarked results against global norms for the manufacturing industry. We will use the data and insights gained from this survey to identify our global priorities for 2017 and beyond.

Our focus areas

Continued

People

Leadership

Our focus on leadership development has delivered enhanced capability in our talent pipeline, through a more rigorous and consistent approach to assessing and developing talent and a greater focus on personal development plans. We have also invested significantly in our leadership development programmes across the Group and continue to add new opportunities to ensure our leaders have the skills, insights and support to be truly effective. These programmes challenge and engage our employees, build their understanding of the wider Group, increase their exposure to our senior leaders and enhance their core leadership competencies. The programmes will also improve the diversity of candidates, especially in the areas of gender, geography, and educational routes. More than 600 leaders from across the business have been on or are currently participating in these programmes.

Learning and capability

We provide a variety of other learning and training opportunities, ranging from workshops and mentoring to online resources and internal and external training courses. Personal development planning and identification of training and development needs form a key part of our annual performance review process and we have implemented a new development programme for managers that helps them better coach and develop their employees, maximising the outcomes of the annual review process through ongoing development conversations and feedback.

We constantly challenge ourselves to have the right skills and competencies to support our growth ambitions. We believe this is best achieved through a healthy balance of recruiting the very best external candidates to bring fresh approaches and perspectives, while also strengthening our internal talent pipeline. For 2017, we will focus on building new relationships with universities and new rotational and apprentice programmes for new graduates while continuing to expand our internal learning programme offerings and other development opportunities.

Reward and recognition

Managing and differentiating performance is critical to ensuring our employees fulfil their potential and deliver outstanding business results. In a competitive marketplace, we recognise the importance of rewarding employees appropriately and aim to offer compensation and benefits packages that enable us to attract, develop and retain key talent. We have also created the new Smiths Excellence Awards to reward and recognise the highest levels of achievement and impact in the six areas of our Excellence system: Customer, People, Technology, Production, Programme and Supply chain.

Diversity and inclusion

With operations in more than 50 countries and a strategic focus on innovation and expanding into new geographic markets, having a diverse, engaged workforce that reflects our geographic footprint and brings local knowledge, fresh perspectives and constructive challenge is critical. We aim to provide an inclusive, collaborative culture that values every individual, fosters collaboration, and provides the tools, opportunities and challenges to enable them to fulfil their potential and add value to the business.

At the end of 2016, 38% of our global workforce and 18% of our senior managers were women. We are committed to increasing the diversity (in its broadest sense) of our workforce and are adding and supporting programmes that aim to increase the diversity of candidates for senior positions. Two of our Board directors are women, representing 22% of the Board as at 31 July 2016, which is slightly below the level recommended by the Women on Boards Davies Report.

	Male	Female	Total
Board directors	7	2	9
Senior managers*	209	46	255
Total employees	13,700	8,300	22,000

*Senior managers are as defined by the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, which includes employees who have responsibility for planning, directing or controlling the activities of the Group or a strategically significant part of the Group (other than Board members) and/or who are directors of subsidiary undertakings

We provide a variety of learning and training opportunities, ranging from workshops and mentoring to online resources and internal and external training courses.

It is our policy to provide equal employment opportunities. The Group recruits, selects and promotes employees 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 appropriate alternative jobs for those who are unable to continue in their existing job because of disability.

All our employees are treated with respect and dignity. Accordingly, any harassment or bullying is unacceptable. The Group respects the right of each employee to join or not to join a trade union or other bona fide employee representative organisation.

Acquisition integration

When new businesses are acquired, we implement plans to integrate them into the Group, ensuring that our business ethics, employee development, and EHS policies and programmes are well embedded. We regularly review our processes in these areas to identify any opportunities to improve.

Priorities for 2017

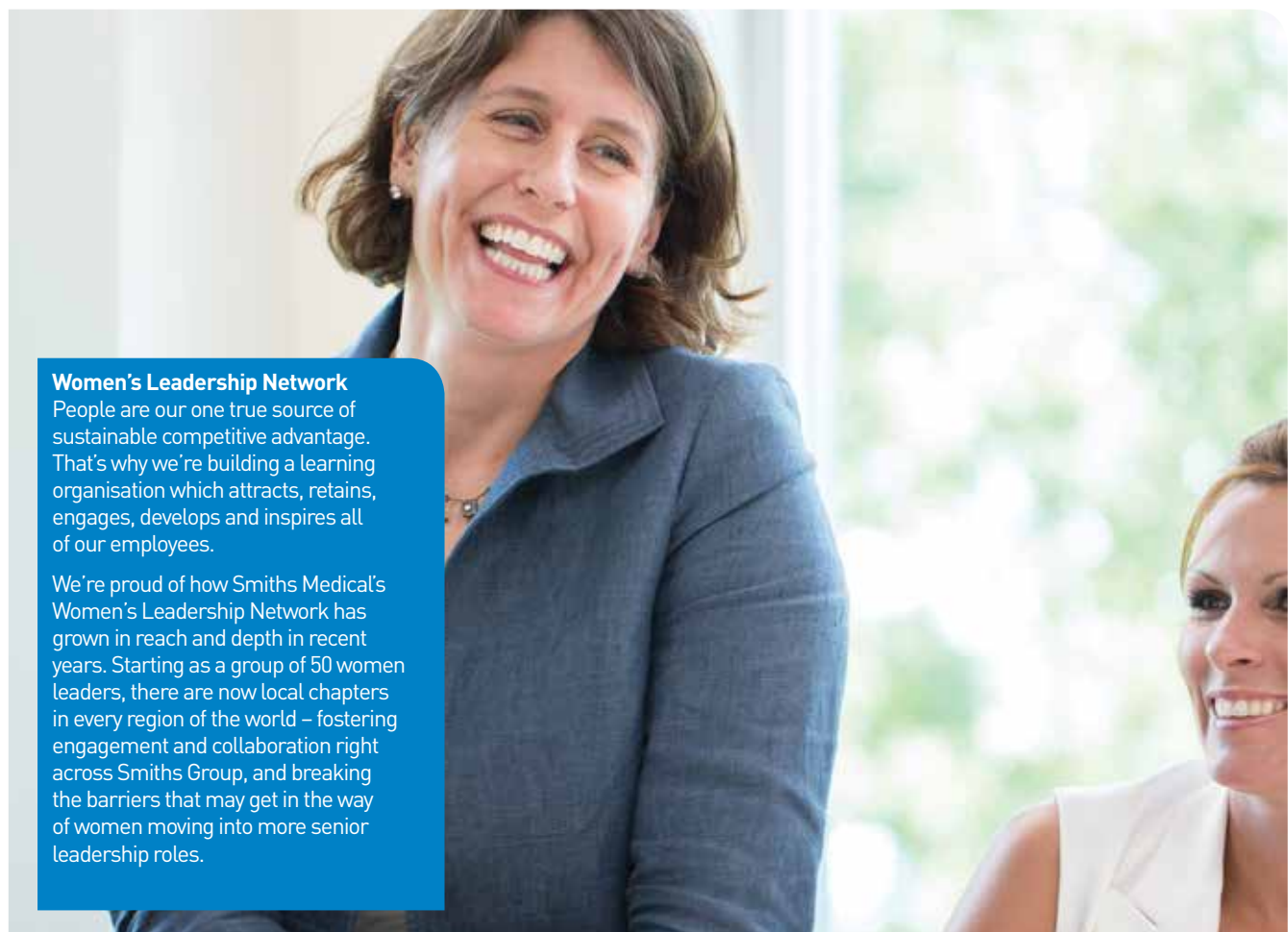


Introduce a culture transformation focused on enhanced communication, collaboration, inclusion and excellence

Continue to develop leadership capabilities across the organisation

Deepen our commitment to, and our development of, STEM talent, including an increased focus on recruiting new graduates and providing expanded internship opportunities

Continue to align our reward and recognition approaches to highlight and reinforce excellence



Women's Leadership Network

People are our one true source of sustainable competitive advantage. That's why we're building a learning organisation which attracts, retains, engages, develops and inspires all of our employees.

We're proud of how Smiths Medical's Women's Leadership Network has grown in reach and depth in recent years. Starting as a group of 50 women leaders, there are now local chapters in every region of the world – fostering engagement and collaboration right across Smiths Group, and breaking the barriers that may get in the way of women moving into more senior leadership roles.

Community

Giving back to the community

Flex-Tek's Tutco facility in Cookeville, Tennessee has created a strong culture of giving back to the community, hosting a different activity every year to support local engagement. From renovating a playground at a shelter for abused women, to hosting a carnival for children with special needs, Tutco is constantly searching for a new cause or need in the community.

Tutco General Manager Dane Owen said: "This year we all enjoyed a day replanting the garden at a local nursing home. It was such a pleasure to meet all the staff and we had a great time organising social activities for the residents."

Contributing to the communities in which we operate helps to drive prosperity in local communities, enhance our profile and promote employee engagement.

2016 Highlight



Engaged with local communities and supported charitable initiatives across the globe

Priority for 2017



Continue to engage with the communities in which we operate across the Group

Governance

Given the diversity of our business and our decentralised structure, our community relationships and charitable programmes are primarily managed at a local level to allow our businesses to focus on the needs of their markets and communities. We also offer some Group-level support to charities and organisations that can demonstrate how a donation will enhance the well-being of people through improved education, health and welfare, or environment.

Context and trends

In today's world, it is increasingly important for companies that value their reputation to demonstrate good corporate citizenship. The global talent market is also increasingly competitive (see page 8), with growing demand for key technical talent and a decline in interest in STEM qualifications, increasing the importance of fostering employee engagement across the business.

Strategy and objectives

We believe that developing strong relationships with the communities in which we operate delivers real benefits to both our business and local stakeholders. We contribute to the prosperity and well-being of these communities by providing jobs, boosting local economies and participating in education and environmental initiatives. Our community and charitable initiatives also help to foster employee engagement, by building a sense of involvement and pride in our business, as well as helping to attract new employees.

Performance

In 2016, we made charitable donations of £258,000 as a Group. Our employees also raised money for a wide range of charitable causes through a variety of fund-raising initiatives across the business. While the diverse nature of our local community involvement and charitable activities makes it difficult to report on in an overarching way, the case studies in this section illustrate just a few of the initiatives across the business during the year.

Supporting local inventors

More than 1,000 people in the US enjoyed access to free legal services last year alone thanks to the Patent Pro-Bono Advice Programme. Piloted in conjunction with the US Patent Office in 2011, our Associate General Counsel – Intellectual Property at Smiths Medical, Dave Justmann, was instrumental in its creation.

The Patent Pro-Bono Advice Programme gives low-income inventors in the US access to legal services they couldn't otherwise afford to help patent their inventions. Now the programme has been rolled out nationwide by the US Patent Office, Dave's work on the pilot programme has been widely recognised and we couldn't be prouder.



Report scope and contacts

Unless otherwise stated, this Report highlights our corporate responsibility governance, issues relevant to Smiths, strategy and performance during our 2016 fiscal year (1 August 2015 to 31 July 2016).

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We may occasionally mention activities that occurred earlier when it helps to provide a clearer picture of our performance. This report supplements information in our 2016 Annual Report. Several case studies are included to provide examples of our corporate responsibility efforts. This report covers our owned or operated businesses. It does not include activities or performance of our suppliers, contractors or partners unless otherwise noted. We publish our Corporate Responsibility Report annually.

We welcome feedback and enquiries from our stakeholders. To provide feedback or request additional information, please email cr@smiths.com.

You can view our 2016 and historical Corporate Responsibility Reports at www.smiths.com/responsibility.

Assurance

Smiths does not commission independent assurance of its CR management and reporting. We regularly review this decision, to assess whether independent assurance would be valuable to the business and our key stakeholders. For EHS data, we perform validation assessments at a sample of sites periodically, which is vital for maintaining our rigorous standards for EHS management and ensuring the integrity of our data.

In addition, compliance with internal policies is a key aspect of the responsibilities of our Internal Audit function and is regularly discussed by our Board and Executive Committee.



Raising safety awareness in the community

John Crane steel machinist Chris Carpenter is an inspiring example of our employees' commitment to health and safety, and to our local communities. Chris works tirelessly, in his own time, to raise safety awareness among new and young workers in Hamilton, Canada. Visiting schools as the Area Co-ordinator for the Young Worker Awareness Programme, Chris reaches thousands of people every year.

One local teacher said: "Many of my students haven't worked before and are oblivious to the need for safety training prior to entering the workforce. Chris uses his years of experience to open their eyes to workplace hazards and how to advocate for themselves in such situations."

smiths

bringing technology to life

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