

Bringing technology to life



2015 Performance highlights

Smiths Group is a leading global technology company listed on the London Stock Exchange. We develop advanced technology that meets our customers' evolving needs.

Responsibility highlights

Ethics

Held our fourth global forum; expanded training in areas such as anti-bribery and corruption; and worked with suppliers to embed the Supplier Code of Business Ethics

EHS

Environmental performance continued its long-term improvement trend; implemented new EHS management and issue tracking software; developed global technical minimum safety standards for serious EHS risks and job risk assessments; and started materiality assessment processes in two divisions

People

Continued to strengthen the talent pipeline; put new cohorts through our leadership development programmes; and conducted an interim MyVoice employee engagement survey

Community

Engaged with local communities across the globe

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Operational highlights

Smiths Medical delivered highest revenue growth in almost a decade

John Crane aftermarket strength underpinned resilient performance

Smiths Detection achieved margin improvement and strengthened order book

Difficult trading conditions at Smiths Interconnect

Continued positive performance from Flex-Tek

Enhanced investment in growth initiatives through *Engineered for Growth* programme

Headline EPS up 5% and continued strong headline operating cash conversion at 95%

Revenue

£m

£2,897m down 2%

2015	2,897
2014	2,952
2013	3,109
2012	3,038
2011	2,842

Headline operating profit

£m

£511m up 1%

2015	511
2014	504
2013	560
2012	554
2011	517

Chairman's introduction

'Doing the right thing' is a formidable challenge for a company of some 23,000 people, operating in more than 50 countries. A deceptively simple phrase perhaps, but one that exemplifies the way all Smiths employees should go about their business: not only because it is morally correct but also because it makes sound business sense.

Sir George Buckley
Chairman



Behaving ethically, working safely and reducing our environmental impact are fundamental to creating long-term shareholder value. These are also the qualities that help attract and retain the best people and ensure a positive contribution to the communities in which our businesses operate.

What we make and do – though often hidden from view – benefits the environment and contributes to the safety, health, security and productivity of tens of millions of people around the world, every minute of every day of the year.

From gas seals that enable the safe, efficient extraction and transport of oil and gas, X-ray scanners detecting chemical agents and threats, to medical devices improving the lives of patients worldwide – all play vital roles. It is also crucial to the long-term prosperity of Smiths that our mission to make the world safer, healthier and more productive is matched by our commitment to operating responsibly wherever we work around the world.

Internally, promoting these goals through employee engagement remains a central priority. We have introduced safety activities aimed at instilling a 'zero harm' culture so that potential risks are identified and managed before incidents occur. Over the past five years, we have significantly reduced our environmental impact and we are working towards our 2018 improvement targets. And our focus on attracting, retaining and developing the world-class talent needed to support our ambition of transforming Smiths into a world-class organisation is unwavering.

Smiths is a truly global business, serving a diverse range of end markets, many of which are highly regulated and each of which brings its own opportunities and challenges. It is therefore vital that we uphold the highest standards of ethical behaviour wherever we operate and whoever we deal with, be it customers, governments, regulators or suppliers. We are particularly aware of the growing importance of ensuring global supplier compliance and we must not weaken in our efforts to ensure the standards of contractors match our own.

Our Code of Business Ethics provides the framework for the behaviour of each and every one of us at Smiths, as well as for our Corporate Responsibility programme, which is made up of five core areas:

- Ethics – our global ethics programme aims to instil the highest standards of business behaviour throughout the very fabric of Smiths. It also provides the framework to support our other CR principles.
- Health and safety – awareness of this should be second nature. A safe place to work is a basic right and our ultimate ambition is 'zero harm' to employees.
- Environment – we all have a duty to help protect our world by improving energy efficiency, cutting harmful emissions and water consumption, and generating less waste.
- Our people – only by attracting, retaining and developing the right people with the right skills can we hope to become a truly world-class business.

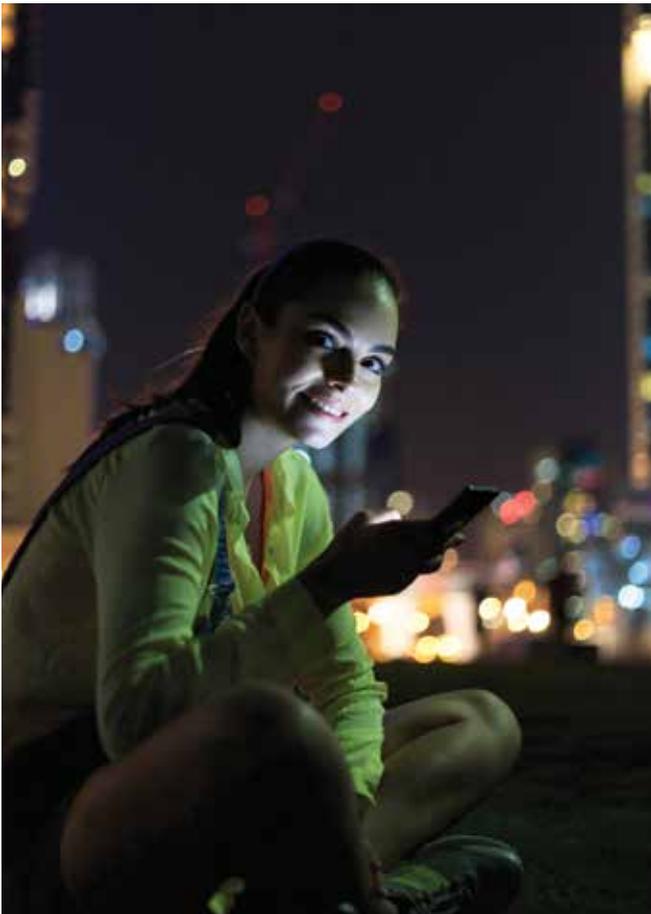
- Community – we may be global, but we must also think local. Community engagement, charitable giving, and education initiatives all help enhance our reputation, encourage employee engagement, and contribute to local prosperity.

Every employee without exception has a role to play in instilling a culture of responsible, ethical behaviour so strong that it becomes second nature from the boardroom to the shop floor. Our Code of Business Ethics and continually reinforcing the 'tone from the top' are clearly key to this, as is creating a culture in which all CR issues and risks – be they safety, ethics or people-related – are openly discussed. More formally, the Board is ultimately responsible for the stewardship of the business, including risk management policies and an effective system of internal control, while our executive management team are responsible for delivering our strategic objectives and implementing supporting policies. As leaders they have a duty to set an example by leading with integrity, honesty, and fairness. However I cannot stress enough that self-responsibility applies to everyone without exception. It behoves us all to 'do the right thing'.

Sir George Buckley
Chairman

Bringing technology to life

We bring technology to life to help to make the world safer, healthier and more productive.



We transform laboratory science into advanced, hands-on technologies that solve our customers' toughest challenges and make the world a safer, healthier and more productive place. Our products and services – often hidden from view – continue to touch the lives of millions of people around the world every day.

Making the world safer



Millions of air travellers around the world are protected every day by Smiths Detection equipment. Over 75,000 of our advanced X-ray scanners have been deployed around the world. In aviation security they detect and identify threat items in passenger bags, hold luggage and freight.

Making the world healthier



Smiths Medical's Gripper safety needles access implanted ports to draw blood or deliver medication, particularly in cancer and transplant patients. The safety needle of choice among clinicians, a Gripper is used on average every 3.6 seconds in hospitals and clinics in more than 80 countries.

Making the world more productive



From extraction and transport to storage and refining, the world's oil and gas industries rely on John Crane for vital equipment and support. Its mechanical seals, filtration systems and bearings, backed by a global service network, help ensure safe and efficient delivery of the energy that powers the modern world.

Who we are

Smiths Group is a global technology company listed on the London Stock Exchange. Our vision is to establish Smiths Group as a world-leading engineering business.



What we do

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. We've helped provide the energy you use to boil the kettle, ensure the safe delivery of pain medication, protect ports and borders from terrorist threat, help make cars and aeroplanes more fuel efficient and improve mobile phone signals.

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.

How we create 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 over 23,000 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.

Revenue in 2015

£2,897m

Headline operating profit in 2015

£511m

Investment in new product development in 2015

£110m

Waste reduction since 2011

26%

Safety improvement since 2011 (Recordable incident rate)

17%

Smiths opened its doors for business

1851

Our geographic reach

We have operations in more than 50 countries, with a network of dealers and distributors in many more. North America accounts for more than half our revenue and around a third of our employees, and we are investing to grow our presence in high-growth, emerging markets.

We have grown our exposure to emerging markets to 16% of revenue through targeted investment in our Sales and Marketing capabilities over the past five years and we continue to invest to expand our footprint.

Group manufacturing and service locations

Countries with direct operations

>50



Employees worldwide

23,250

Countries our products and services reach

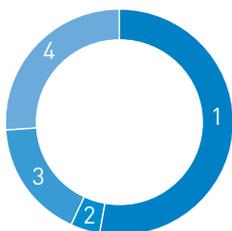
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Percentage of revenue from emerging markets

16%

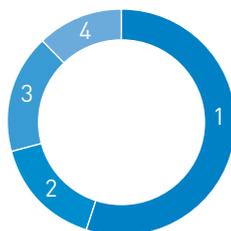
Group revenue by destination

- 1 North America 53%
- 2 United Kingdom 4%
- 3 Europe other 17%
- 4 Rest of World 26%



Location of assets

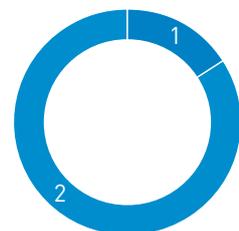
- 1 North America 55%
- 2 United Kingdom 16%
- 3 Europe other 17%
- 4 Rest of World 12%



Excludes cash and cash equivalents

Revenue from emerging and developed markets

- 1 Emerging markets 16%
- 2 Developed markets 84%



Our divisions

Smiths Group has five divisions: John Crane, Smiths Medical, Smiths Detection, Smiths Interconnect and Flex-Tek.

We are focused on the energy, medical devices, threat and contraband detection, communications and engineered components markets worldwide.

Our businesses are highly competitive, with strong technology positions, operating in sectors with excellent opportunities for growth. They are united by high-quality brands, a deep understanding of their customers and markets, the ability to engineer products to meet customers' specific needs, expertise in small-batch manufacturing and aftermarket service and an unwavering commitment to operating responsibly.

John Crane

A leading provider of products and services to global energy services customers. Our solutions help ensure the reliability of mission-critical equipment in challenging operating environments.



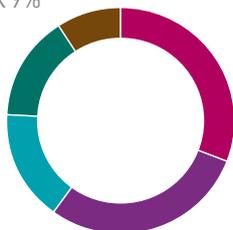
Smiths Medical

A leading supplier of medical devices and consumables that are vital to patient care around the world. Our products include infusion systems, vascular access, vital care and specialty devices.



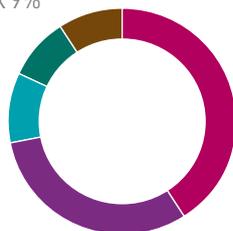
Divisional revenue

- John Crane 31%
- Smiths Medical 29%
- Smiths Detection 16%
- Smiths Interconnect 15%
- Flex-Tek 9%



Divisional headline operating profit*

- John Crane 41%
- Smiths Medical 31%
- Smiths Detection 10%
- Smiths Interconnect 9%
- Flex-Tek 9%



*Before corporate costs

Revenue 2015

£905m

Headline operating profit margin 2015

24.8%

Employees

6,950

Strengths

- Strong proprietary technology with expertise in applied engineering
- Market leader in mechanical seals
- Over half of sales in aftermarket
- Global network of c. 230 sales and service centres

➔ Read more at www.johncrane.com

Revenue 2015

£836m

Headline operating profit margin 2015

19.8%

Employees

7,950

Strengths

- Strong market positions in select clinical areas
- Highly recognised and respected brands
- Reputation for quality and safety
- Differentiated lower risk, short-duration, interventional devices
- Building an innovative pipeline of new product launches
- Extensive global sales network

➔ Read more at www.smiths-medical.com

Smiths Detection

A world-leading designer and manufacturer of sensors that detect and identify explosives, narcotics, weapons, chemical agents, biohazards, nuclear and radioactive material and contraband.



Revenue
2015

£467m

Headline operating profit margin
2015

11.9%

Employees

2,150

Strengths

- Market leader with strong global brand
- Operates in regulated markets that require product certification
- Technology leveraged across broad range of markets and applications
- More than a third of sales from aftermarket service and growing

➔ Read more at
www.smithsdetection.com

Smiths Interconnect

A leader in electronic components and sub-systems that connect, protect and control critical systems for wireless telecommunications, aerospace, defence, space, test, medical, rail, data centres and industrial markets.



Revenue
2015

£420m

Headline operating profit margin
2015

11.6%

Employees

3,850

Strengths

- Innovative and technically differentiated technologies
- Ultra-high reliability solutions used in demanding applications
- High degree of customer intimacy and product customisation
- Addressing highly regulated markets with strong barriers to entry

➔ Read more at
www.smithsinterconnect.com

Flex-Tek

A global provider of engineered components that heat and move fluids and gases for the aerospace, medical, industrial, construction and domestic appliance markets.



Revenue
2015

£269m

Headline operating profit margin
2015

18.5%

Employees

2,050

Strengths

- Manufacturer of qualified components for the aerospace industry
- Largest supplier of open coil heating elements worldwide
- Leading manufacturer of flexible gas piping and HVAC ducting for US construction market

➔ Read more at
www.flextekgroup.com

Our strategy and progress

We have a six-part strategy for creating long-term value for our shareholders and we measure our performance against this strategy through several key performance indicators.

1: Driving growth

We drive growth in four ways. We invest in new product development – our lifeblood as a technology business. We expand our presence in higher growth markets such as China, India and Brazil, through investment in sales resources. We improve sales and marketing effectiveness through sharing tools and best practice. And fourth, we make bolt-on acquisitions to add complementary technologies and increase our exposure to high-growth markets.

Performance in 2015

Revenue £m

£2,897m down 2%

	Revenue	Reported	Underlying
2015	2,897	(2)%	(2)%
2014	2,952	(5)%	–
2013	3,109	2%	2%
2012	3,038	7%	5%
2011	2,842	3%	1%

Revenue declined 2% on a reported and constant currency basis as growth in Smiths Medical and Flex-Tek was more than offset by declines in Smiths Interconnect, Smiths Detection and John Crane.

The absolute level of revenue achieved in the year. This includes the effect of portfolio changes and currency movements.

Earnings per share Pence

86.1p up 5%

2015	86.1
2014	81.8
2013	92.7
2012	92.6
2011	86.5

Headline earnings per share grew 5% with higher headline operating margin and lower finance and taxation costs.

Priorities

We aim to accelerate growth through continued improvement of our market and customer understanding and investment in new product development, sales and marketing in high-growth markets and in targeted acquisitions.

2: Enhancing margins through operational excellence

We continue to enhance our attractive margins through further operational improvement, leveraging our scale and IT systems, and focusing on low-cost manufacturing. These operational efficiencies also provide the fuel to invest in growth.

Performance in 2015

Headline operating margin %

17.6% up 50bps

2015	17.6
2014	17.1
2013	18.0
2012	18.2
2011	18.2

Headline operating profit margin rose 50 basis points, reflecting a recovery in profitability at Smiths Detection.

Based on our headline operating profit, which excludes a number of items that do not reflect the portfolio's underlying performance.

Priorities

Continue to drive cost savings and operational improvements through the ongoing initiatives in our divisions.

3: Attracting the best talent and developing smarter ways of working

Attracting, retaining and developing the right people with the right skills is key to transforming Smiths into a world-class organisation. We are raising the bar in terms of fostering talent through a rigorous focus on succession planning, assessment programmes and personal development. We also look for opportunities to foster smarter ways of working and encourage collaboration.

Performance in 2015

Leadership

We have appointed a new CEO and Finance Director and confirmed the appointment of Roland Carter as President of Smiths Interconnect during the year.

Talent pipeline

Our focus on succession planning has delivered significant progress in building our talent pipeline, through a more rigorous and consistent approach to talent assessment and the preparation and monitoring of personal development plans. Around 150 managers from across the business are currently on, or have been through, our refreshed junior and senior leadership development programmes.

People management

Since 2010 we have transformed our HR function to ensure that we have the appropriate infrastructure in place to support growth.

Priorities

Further develop our leadership capabilities and technological expertise, and continue to roll-out e-enabled HR. Continue to address the MyVoice engagement survey results and conduct our fourth survey to monitor progress.

4: Promoting a culture of responsibility

We promote a culture of responsibility throughout Smiths Group. This requires us all to work according to our Code of Business Ethics. We are committed to working in a way that protects the health and safety of employees and minimises the environmental effects of our activities and detrimental effects of our products and services. This delivers real business benefits, while ensuring that we meet our obligations to all our stakeholders.

Performance in 2015 A range of indicators for safety and environmental impact

Recordable incident rate per 100 employees (RIR) 0.55

	FY2013-FY2018 Reduction target	FY2015 v FY2013
Energy	15%	2% increase
Greenhouse gas emissions	15%	4% reduction
Total non-recycled waste	15%	17% reduction
Water consumption	10%	6% reduction

While our goal is zero harm, our RIR increased slightly from 0.50 to 0.55. Focused programmes to address this at the few sites that experienced increased incidents have already delivered significant improvements and we continue to drive world-class safety standards across the organisation. Our environmental performance continued its long-term improvement trend, with good reductions in GHG emissions, non-recycled waste and water usage, but a minor increase in energy, compared to our 2013 baseline year.

Priorities

We will continue to embed a culture of ethical behaviour and responsibility across the business.

5: Generating cash and managing the balance sheet effectively

By emphasising working capital management, particularly our debtors and inventories, we are able to convert a high proportion of headline operating profit into cash.

We also look to optimise our capital structure and secure long-term financing. Our borrowings are mainly through long-term bonds rather than bank debt. We also closely match the currency of our debt with our assets and earnings.

Performance in 2015

Cash conversion %

95% down 2%

2015	95
2014	97
2013	98
2012	99
2011	95

Operating cash generation remained strong, with headline operating cash of £484m (2014: £490m), resulting in cash conversion of 95%.

This is the proportion of headline operating profit that we are able to convert to headline operating cash.

Priorities

Continue to focus on cash generation and balance sheet management, so that we have the financial strength to grow the business and generate returns for shareholders.

6: Allocating capital to maximise returns

Smiths Group delivers high returns on capital. We achieve this through disciplined capital allocation to the divisions, by enhancing our profitability and through active portfolio management, with a targeted programme of acquisitions and disposals.

At the same time, we actively manage our portfolio of liabilities, such as our defined benefit pension schemes and legacy product liability issues, so that we minimise their impact on our value creation.

Performance in 2015

Return on capital employed %

16.0% up 30bps

2015	16.0
2014	15.7
2013	16.6
2012	16.5
2011	16.4

Return on capital employed increased 30 basis points to 16.0% as a result of improved profitability at Smiths Detection.

This is headline operating profit divided by monthly average capital employed, expressed as a percentage. Capital employed is total equity, adjusted for goodwill recognised directly in reserves, net post-retirement benefit-related assets and liabilities, litigation provisions relating to exceptional items and net debt. Return on capital for 2011 has been restated.

Priorities

Continue to manage our portfolio to create maximum value for shareholders.

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 six-point business strategy. Our Code of Business Ethics provides the framework for our approach and CR focus areas.

Our Code of Business Ethics

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

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.

Read more at www.smiths.com/responsibility

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 the common values of 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 organisation, 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, 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. CR issues are typically the top agenda item at Executive Committee and Board meetings and our executive team champions 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.

Within this overarching framework, we have distinct governance and management structures for each of our CR focus areas. This reflects the diverse nature of our activities and decentralised structure. Further detail on how we manage each area can be found in 'Our focus areas' on pages 14 to 27.

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 58 of our 2015 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 a member of the Carbon Disclosure Project (CDP), an international not-for-profit organisation providing the only 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.

Corporate responsibility trends and strategy

The business environment is constantly evolving and 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.

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 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 the most significant 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 60 to 66 of our 2015 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 six-point 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 14](#)



Environment

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

[Read more on page 16](#)

Health and safety

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

 [Read more on page 16](#)



Our people

Attracting, retaining and developing the right people with the right skills to support our growth and our ambition of transforming Smiths into a world-class organisation.

 [Read more on page 22](#)

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 26](#)



We have specific strategies and governance structures for each of these areas, which are discussed in 'Our focus areas' on pages 14 to 27. 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

We believe ethical behaviour is the responsibility of every Smiths employee at every level of the organisation. Our objective is not only to protect the reputation of our company and to safeguard the investment of our shareholders, but also to protect the interests of every employee by ensuring he or she has the knowledge and tools necessary for individual legal or regulatory compliance and ethical decision-making.

2015 Highlights

- **Held our fourth global ethics forum in Berlin, Germany. The theme was the individual ethical responsibility of every employee**
- **Developed additional online training courses in areas such as anti-bribery and corruption for both employees and third parties, and compliance with international trade law, applicable embargoes and sanctions, global competition law and anti-trust**
- **Enhanced the availability of Code of Business Ethics materials with additional internal and external online resources**
- **Included ethics questions in employees' annual performance reviews and the MyVoice global employee engagement survey to gauge the knowledge and understanding of ethical principles at all levels of the organisation**
- **Met with key suppliers to introduce the Supplier Code of Business Ethics, which has been implemented through contractual terms that set the Code as a minimum standard for ethical operations and behaviours**

Governance

The Business Ethics Council leads our Ethics programme and reports to the Audit Committee (see page 11). 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, Sales Academy Director 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 (L&BA) 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

Quarterly 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, Smiths 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 avoiding, 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 continually review our policies prohibiting bribery or corruption and the adequacy of our procedures to prevent or detect violations.

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 the expectations of them 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.

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 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 continue to increase the number of languages in which training is offered to ensure we reach Smiths employees around the world. 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 in Shanghai, China; São Paulo, Brazil; and Dubai, UAE over the past three years, we held a similar forum in Berlin, Germany in June 2015, exploring the individual ethical responsibility of every employee (see case study opposite).

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. We also recently introduced a Supplier Code of Business Ethics, which is available externally on the Smiths website and 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. They also may report those concerns through our confidential Ethics Alertline, which is managed by a third party. If employees have concerns they do not feel comfortable discussing with line management or their local HR or Legal teams, 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 and 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.

Priorities for 2016

- 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, such as expanding international sanctions and embargoes
- Continue to refresh employees' online Code of 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
- Continue to ensure ethics messages are received and understood by all employees worldwide



Global ethics forum

We held the fourth global ethics forum in June 2015 in Berlin, Germany. The forum brought together 75 senior executives and managers from around the Group to consider the business and ethical challenges of doing business in Eastern, Central and Western Europe, with a particular focus on the individual ethical responsibility of all employees. The programme included input from subject matter experts and local business leaders, together with a number of case study scenarios. The participants were required to develop action plans to respond to a variety of ethical challenges, which they then discussed with members of the Smiths Group Executive Committee. This event is one of a series of interactive programmes addressing similar issues in many of the developing or emerging markets in which we operate.

Environment, health and safety

Smiths Group is committed to achieving excellence in environment, health and safety management and performance and providing effective leadership in the pursuit of injury-free and environmentally responsible workplaces.

2015 Highlights

- Continued implementation of a new EHS management software system
- Developed global technical minimum safety standards for serious EHS risks and conducting job risk assessments
- Implemented new EHS issue-tracking software to ensure proper and timely closure
- Initiated formal sustainability materiality assessments in two divisions
- Environmental performance continued its long-term improvement trend

Governance

Our environmental, health and safety (EHS) approach starts with our EHS policy, which is reproduced at the back of this report.

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, which is made up of senior Group and divisional representatives, develops our policies and strategy, and tracks progress. The Executive Committee approves our policies and strategy and, along with the Board of directors, monitors our performance. The Group EHS Technical Committee develops programmes through which we implement our EHS strategy. It also evaluates performance, helps us to share best practice around the Group and identifies training needs.

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, continual improvement, compliance assurance and management review.

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

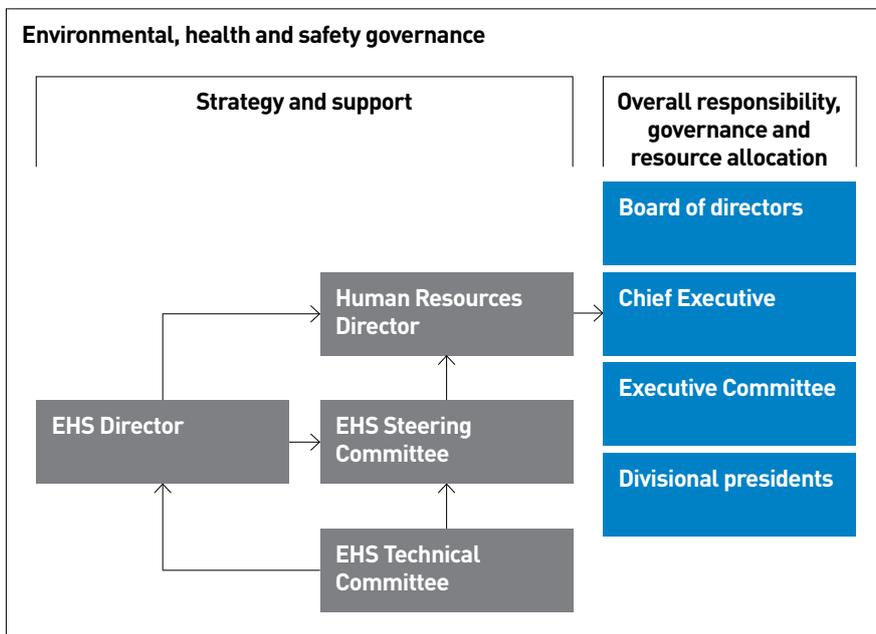
- OHSAS 18001 for occupational health and safety management systems, and
- ISO 14001 for environmental management systems.

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. External certification to both standards has been completed at 105 locations. We give new acquisitions or expanded operations two years to obtain certification.

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 we resolve issues properly and in good time. The Group EHS Technical Committee reviews the audits' overall results and any potential Group-wide risks they 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 new 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 involving third-party assessments at a sample of sites.

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 organisational culture, processes and performance. In 2013, we updated our strategic objectives and goals. This strategy development process involved benchmarking against our peers and other high-performing companies and evaluating global trends. In doing so, we identified EHS strategic areas that we will continue to focus on in order to improve our:

- safety culture and behaviours
- employee knowledge of EHS
- EHS training consistency across Smiths
- identification and mitigation of significant EHS risks
- EHS management, through our IT infrastructure
- tracking of issues of concern
- energy management systems.

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

Several Smiths businesses have significant initiatives underway to make their products more sustainable. This 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.

Smiths Medical, for example, has a global project to replace heavy metals with less hazardous alternatives in its electronic devices. It is also evaluating environmentally preferable plasticisers. To help drive these changes, the business appointed a Director of Environmental Engineering in 2014 to focus on environmentally conscious product design and compliance.

John Crane monitors its use of environmentally regulated materials and researches alternatives. In addition, it always looks for ways to 'design out' or substitute materials and chemicals. It has a designated team member in its analytical lab, who is responsible for identifying opportunities through an active R&D programme.

You can also see an example from Smiths Detection above.



Sustainable production through reduction of hazardous substances, Smiths Detection Wiesbaden, Germany
As part of Smiths Detection's commitment to reducing its environmental impact, its facility in Wiesbaden, Germany, has eliminated sulphur hexafluoride (SF₆), an extremely potent greenhouse gas, from its production processes.

SF₆ is often used as an insulation gas in X-ray units to prevent short circuits and to extinguish electric arcs – plasma discharges that occur when a current flows through a normally non-conductive medium such as air. While neither flammable nor toxic, SF₆ has a significant environmental impact – just one kilogram has the same effect on global warming as 22,800 kilograms of CO₂.

By analysing production processes and optimising sequencing, Smiths Detection was able to remove SF₆ from its production processes entirely.

Our focus areas continued
Environment, health and safety continued

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 their 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 its greenhouse gas emissions. Our Energy & Greenhouse Gas policy addresses our approach to managing these impacts, and is reproduced on the inside back cover of this report.

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 will be 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.

Total energy
'000MWh
278,000 MWh

2015	278
2014	283
2013	278
2012	279
2011	303

Total CO₂ emissions
'000 tonnes
97,000 tonnes

2015	97
2014	101
2013	103
2012	110
2011	121

Water use
'000m³
403,000m³

2015	403
2014	440
2013	437
2012	465
2011	485

Total non-recycled waste
'000 tonnes
4.900 tonnes

2015	4.9
2014	5.4
2013	5.9
2012	5.5
2011	6.1

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

Performance against environmental targets

	Target FY2013-18	FY2015 progress against FY2013
Energy	15% reduction	2% increase
Greenhouse gas emissions	15% reduction	4% reduction
Total non-recycled waste	15% reduction	17% reduction
Water consumption	10% reduction	6% reduction

Reduction targets are compared to the FY2013 baseline year and normalised to revenue consolidated at FY2015 closing exchange rates.

Total energy efficiency
MWh/£m revenue
96 MWh/£m revenue

2015	96
2014	96
2013	94
2012	97
2011	112

Total CO₂ emissions
Tonnes/£m revenue
33 tonnes/£m revenue

2015	33
2014	34
2013	35
2012	37
2011	44

Water consumption
m³/£m revenue
139m³/£m revenue

2015	139
2014	149
2013	148
2012	158
2011	180

Total non-recycled waste
Tonnes/£m revenue
1.7 tonnes/£m revenue

2015	1.7
2014	1.8
2013	2.0
2012	2.0
2011	2.3

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 FY2018, all normalised to revenue against a baseline of FY2013. Where necessary, we adjust our baseline metrics to account for acquisitions and disposals.

Over the past five years we have significantly reduced our environmental impact, with 14% energy, 25% GHG, 23% water and 26% non-recycled waste reductions, normalised to revenue. Overall, our environmental performance continued its long-term improvement trend in FY2015. We continued to reduce our GHG emissions, non-recycled waste and water usage while energy usage was flat by comparison to 2014. Compared to our baseline year of FY2013, we have achieved good progress in reducing GHG emissions, non-recycled waste and water, though energy usage increased slightly. This increase in energy use was due to colder than normal winter temperatures, increases in production to build inventory and a few facilities operating concurrently for a short period while in the process of consolidating.



Energy conservation saves costs, John Crane, US locations

John Crane continually looks for ways to minimise its environmental impact. Every year, the business identifies projects that will reduce energy and water use, non-recycled waste and greenhouse gas emissions.

In 2014, its Morton Grove facility in Illinois reduced heating costs by 8.5% and cooling costs by 19.7% (normalised to weather), by improving natural gas heating insulation and air handling systems, as well as installing windows that conserve heat more effectively.

Its facility in Golden, Colorado, replaced metal halide and florescent lights with LED versions. The upgrade is expected to reduce related energy use by 68%, from 57,500 KWh to 18,100 KWh.



Press replacement reduces environmental footprint, Smiths Medical, Dublin, OH, US

In mid-2013, Smith Medical's facility in Dublin, Ohio, launched a programme to replace its plastic injection moulding hydraulic presses with electric versions in order to reduce its environmental footprint.

A hydraulic press consumes 60% more energy than electric alternatives, as well as using up to 80 gallons of hydraulic oil a year, with the associated disposal costs and risk of oil leaks. The new, electric machines are more energy efficient, have lower running costs, offer increased capacity through reduced cycle times and use no hydraulic oil, thereby reducing environmental impact and providing a safer working environment by reducing leaks. The Dublin facility has replaced nine of their hydraulic presses with new, energy-efficient electric machines and plans to replace an additional six presses this year.

Our focus areas continued
Environment, health and safety continued

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. Workplace safety continues to be the highest scoring dimension in our Group-wide employee engagement surveys, exceeding the worldwide benchmark for the manufacturing industry.

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 leadership and employee safety awareness and involvement 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 FY2015, the Safety Leading Indicator Activities Programme was required at sites with more than 20 employees resulting in coverage of more than 90% of the Group's 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 FY2015, our activities were split between Group-wide and division-specific activities in order to further 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 FY2013, we also revised our safety performance targets. The new targets increase our focus on leading indicator activities designed to reduce the risk of incidents.

In FY2015, we piloted a new performance indicator to increase our focus on serious risks. Our ultimate ambition is 'zero harm' to employees. Adopting this aim further emphasises to employees and other stakeholders how seriously we take our EHS performance.

These changes mean we will place less emphasis on RIR in the future. However, we will 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 FY2004 to FY2014, we achieved a steady reduction in our RIR, improving from 4.6 to 0.50. Whilst our goal is zero harm, our RIR increased slightly from 0.50 to 0.55 in FY2015. Focused programmes to address this at the few sites that experienced increased incidents have already delivered significant improvements and we continue to drive world-class standards across the business.

After years of reductions, our LTIR has been steady at 0.22 for the past three years. This is still well below our 2008 level of 0.54. Over the past twelve 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.

Corporate 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 2016

- **Develop additional global technical minimum standards to address our remaining most serious EHS risks**
- **Complete the implementation of our new EHS management software system**
- **Complete formal sustainability materiality assessments in two divisions and start the process in the other three**

Recordable incident rate

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

2015	0.55
2014	0.50
2013	0.54
2012	0.60
2011	0.66

Lost time incident rate

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

2015	0.22
2014	0.22
2013	0.22
2012	0.21
2011	0.29



America's Safest Companies Award, Smiths Medical, US

Smiths Medical has been named one of America's Safest Companies for 2015 by EHS Today magazine. Its awards recognise management commitment, employee involvement and world-class processes and performance in employee safety and health, environment management and risk control. Smiths Medical was one of 16 companies from a range of sectors recognised for their environment, health and safety leadership.

Jeff McCaulley, President of Smiths Medical, said: "I am truly pleased to see our commitment to EHS leadership recognised this way. Providing an injury-free and environmentally-responsible workplace is a cornerstone of our company's approach, and I would like to congratulate everyone in Smiths Medical for their commitment to continuous improvement."



Exceptional Workplace Safety Award Smiths Medical, St. Paul, MN, US
Smiths Medical's St. Paul and Oakdale sites in Minnesota were recognised for their commitment to workplace safety with an Award of Honour from the Minnesota Safety and Health Council in 2014. The Exceptional Workplace Safety Award is based on performance over time, self-evaluation of safety programmes and comparison against companies of a similar size and industry.

Left to right: Robert Lund – Chairman of the Safety Council Board of Directors, DeLayne Wippich – EHS Manager St. Paul site, Doug Johnson – Warehouse Coordinator Oakdale, Stephanie Kaiser – SOAR Team Co-chair St. Paul, and Minnesota Governor Mark Dayton



Strengthening safety culture, Smiths Detection, Edgewood, NJ, US
Smiths Detection in Edgewood, New Jersey, is using a behaviour-based safety programme called P.A.U.S.E to increase employees' safety awareness and involvement. P.A.U.S.E (Prepare, Adjust attitude, Understand, Speak out and Execute) encourages employees to consider the consequences of their actions before doing them, to take ownership of their own safety and that of others and to be proactive in driving improvements.

Dean Hansen, a supervisor at the site, said: "The behaviour-based safety programme is just common sense. Quite often we only focus on objectives we have ownership of. By sharing ownership with each member of my department it provides everyone with a sense of responsibility as well as the sense of accomplishment when actions are taken. Safety issues are being addressed and corrected quicker and/or elevated more effectively."



Ergonomic improvements, Smiths Medical, Dublin, OH, US
To reduce the risk of repetitive strain injuries, we aim to design out hazards, as well as providing ergonomics awareness training and stretching programmes at many sites.

Smiths Medical's facility in Dublin, Ohio has redesigned its testing fixture process, used to calculate the force it takes to separate the components of a product, in order to reduce repetitive motions and improve quality.

While the old test fixture process required a repetitive hand-twist motion, the new fixture is digital which is faster and more easily repeatable and ergonomic for the user, improving safety, efficiency and accuracy.

People

Attracting, retaining and developing the right people with the right skills is central to transforming Smiths into a world-class organisation and supporting our growth ambitions. We believe that people growth is a strong enabler of business growth and we develop our employees' skills and capabilities so they can fulfil their potential and, in turn, help us fulfil ours.

2015 Highlights

- Continued to strengthen our talent pipeline through targeted external recruitment and a focus on talent assessment, personal development and succession planning
- Put new cohorts through our early career and senior leadership development programmes
- Conducted an interim MyVoice ('Pulse') global employee engagement survey
- Further embedded our e-enabled HR operating model to support business growth

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.

In the past five years, we have transformed our HR function to ensure we have the right infrastructure to support business growth. Our operating model is now based around:

- divisional HR business partners, focused on talent, performance and reward
- cross-divisional, regional shared service centres, delivering HR services to employees and managers across the Group
- centres of expertise, driving consistent best-in-class talent management and reward programmes, and
- GlobalView, Smiths first HR information system, which now supports e-enabled HR, specifically talent management and information-based decision-making and remuneration management.

This model is designed to bring world-class people management to Smiths and to leverage the Group's strength and scale. It combines consistent, best practice approaches and programmes in key areas, with divisional initiatives that address specific business needs. The e-enabled model empowers managers and employees to take more responsibility for many aspects of their working lives.

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 fundamental to this vision. However, the competition for skilled technologists and engineers 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 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, 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 year-on-year improvement plans in place 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 responsibility 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, to drive innovation and maintain our technological leadership, and
- continue to build employee engagement across the business, in response to the global MyVoice survey and ongoing feedback.

Performance

Building the talent pipeline and succession planning

Our focus on succession planning has delivered significant progress in building our talent pipeline, through a more rigorous and consistent approach to assessing talent and a greater focus on the preparation and monitoring of personal development plans. We have also invested substantially in our two leadership development programmes. Our early career development programme, 'Horizons', fosters emerging talent, while 'Aspire2' develops senior leaders. 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, educational routes and emerging market backgrounds. Around 150 managers from across the Group have been through or are currently participating in these programmes.

We provide a variety of learning and training opportunities across the business, ranging from workshops and mentoring to online resources and internal and external courses. Personal development planning and identifying training and development needs form key parts of our annual performance review process. We are also rolling out a new, enhanced toolkit to support this process, as part of the development of GlobalView.



We constantly challenge ourselves as to whether we 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. As part of the *Engineered for Growth* programme, we have increased our focus on developing our technological capabilities and expertise in both the short term and over the next 10 years.

Performance and reward

Managing performance is critical to ensuring our employees fulfil their potential, deliver business results and enable us to meet our commitments to our customers, shareholders and wider stakeholders. In a competitive marketplace, we recognise the importance of rewarding employees appropriately for the value they bring to the business and aim to offer compensation and benefits packages that attract and retain key talent. Our global centres of expertise are helping to drive consistent, best-in-class approaches to reward across the Group.

We encourage our people to share in our success and periodically offer employees the opportunity to participate in share plans. These enable employees to benefit from increases in the company's share price, aligning their interests more closely with those of shareholders.

People-centric initiatives, Smiths Interconnect, China

To promote employee engagement, Smiths Interconnect in Suzhou developed 'People-centric Initiatives', a holistic approach encompassing career development programmes, a job opportunity system, recreational clubs and an employee suggestion programme. Since its introduction three years ago, participation in the global employee engagement survey has risen to 95% at Suzhou, and the programme has been extended to the division's Shanghai facility.

The recreational clubs range from sport and reading to dance and yoga and are run by employee volunteers to help create a fulfilling and engaging working environment, as well as allowing the organisers to demonstrate their management skills. The development programme invests developing employees' skills and the job opportunity system encourages internal promotion. The combination helps to provide work-life balance and encourages employees to enjoy building a career at Smiths.

Our focus areas continued
People continued

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 footprint and brings local knowledge, fresh perspectives and constructive challenge is critical to success. We aim for an inclusive, collaborative culture that values every individual, fosters collaboration and provides the tools, opportunities and challenges to enable our people to fulfil their potential and add value to the business. Of particular note is the establishment this year of a dedicated management team for China, recruited locally and made up entirely of Chinese nationals.

At the end of FY2015, 38% of our global workforce and 10% of our senior managers were women. We are committed to increasing the diversity (in its broadest sense) of our workforce, and our two leadership development programmes aim to increase the diversity of candidates for senior positions. Two of our Board directors are women, representing 25% of the Board as at 31 July 2015. However, as at that date the Board had reduced to eight directors following the departure of Peter Turner. Following the appointment of Chris O'Shea as Finance Director in September 2015 this will reduce to 22%, which is slightly below the level recommended by the Davies Report.

	Male	Female	Total
Board directors	6	2	8
Senior managers*	231	25	256
Total employees [†]	14,050	8,600	22,650

*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

[†]Full-time equivalents at 31 July 2015

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 re-training, 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.

Employee engagement

To achieve our objectives, we need an engaged and motivated workforce which is committed to our vision. Our MyVoice global engagement survey is a valuable tool for measuring engagement and providing insight into our employees' motivations and priorities.

We conducted our third full survey in 2014 in partnership with Kenexa, a part of IBM and a leading survey provider, to ensure that responses were anonymous and to enable us to conduct the survey in local languages. We achieved a participation rate of 85% and benchmarked results against global norms for the manufacturing industry. We communicated divisional, local and functional results and action plans in place across the business to address the most significant issues highlighted. During FY2015, we continued to address the results from this, as well as conducting an interim engagement survey in April on a significant, representative sample of employees (c. 5000) in order to monitor progress. The next full survey is planned for Spring 2016.

Communication

Communication is fundamental to engaging employees with the business. This having been identified as a key theme in the last MyVoice survey, we have implemented a number of initiatives to improve information sharing, collaboration and news flow, at both Group and divisional levels. Key initiatives include developing a new intranet, more regular updates on performance and key business issues, and providing more opportunities for feedback and dialogue. These have built on the well-established tools and channels we use across the Group, including site meetings, team briefings, presentations and newsletters, which we continually review and develop as our business needs evolve. Continuing to improve two-way communications is one of our focus areas.

In European Union (EU) countries we have workplace information and consultation arrangements at our sites. These link to the Smiths Group European Forum, through which employee representatives from across the EU meet annually to discuss transnational matters with Group executives. Our 2015 Forum was held in Germany and saw 16 representatives from across the Group meet with senior executives including the Chief Executive and Group HR Director, to discuss matters such as *Engineered for Growth*, the interim MyVoice survey results, market conditions and business strategy and performance. Feedback from the event was extremely positive.

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 2016

- **Continue to develop leadership capabilities throughout the organisation**
- **Deepen our focus on technological and engineering expertise across the Group**
- **Continue the roll-out of GlobalView tools to support performance management, individual development and succession planning**
- **Conduct the fourth MyVoice global engagement survey**



Health initiatives, Smiths Medical, Tijuana, Mexico

As part of its commitment to protecting and promoting the health of the 3,000 employees based at its facility in Tijuana, Smiths Medical regularly runs health campaigns in partnership with local medical social services. They hold thousands of medical consultations each year, vaccinating, testing and diagnosing hundreds of patients across a range of conditions and treatments. In 2014, this included over 10,000 medical consultations, 1,300 flu vaccines, 1,500 anti-parasitic treatments and 800 folic acid treatments, as well as hundreds of cancer checks.

Aspire2 participants from left to right: Yash Kaul, Shashanka Muppaneni, Michael Blum, David Hensley, Barbara Turk, Aaron Gagnon, Hayley Beattie, Bernd Hetterscheidt, David Moorehouse, Simon Quintin, Mark Glennerster, Zhen Mao



Aspire2 senior leadership development programme

Aspire2, our senior leadership development programme, aims to develop candidates for senior divisional and corporate leadership roles through world-leading facilitation, business simulations and strategic business projects. The final module was led by the Chief Executive, with participation from the entire Executive Committee.

“Aspire2 represents an impressive investment in talent development by Smiths – unlike anything I’ve experienced previously in my career. The business simulations provided immediate feedback from senior executives and leading external business advisers on my leadership behaviours and competencies. And the business projects allowed me to work with other rising leaders from across Smiths on strategic challenges such as improving our culture of innovation,” said participant Michael Blum, Associate General Counsel at Smiths Medical.

Fellow participant Dave Moorehouse, a business unit leader from Smiths Interconnect, commented, “Aspire2 was of a very high standard. It allowed me to develop my leadership capabilities and provided a solid framework for continued development. The programme demonstrated the strength of the Group’s commitment to leadership development and made me very proud to be a Smiths employee.”



Horizons early career development programme

Our early career development programme, Horizons, aims to build participants’ understanding of the Group, increase their exposure to senior leadership and enhance their core leadership competencies. It mixes theory, business simulations, presentations and psychometric testing with business projects.

“The Horizons programme has definitely helped me develop my leadership capabilities and expand my professional network across both John Crane and the wider Smiths organisation,” commented Mustafa Al-Hammadi, a regional Sales manager for John Crane, Saudi Arabia. “I’ve developed a broader understanding of the business through the group business projects, as well as improving my commercial and decision-making skills.”

“I felt privileged to be part of such a varied group of people, who all treated each other with a high level of mutual respect and appreciation,” said fellow participant Gunnar Teufert, a regional business manager from Smiths Medical, Germany. “The combination of different cultures, divisions and people, together with high-quality content encompassing business theory and simulations and career development made Horizons an extremely valuable programme.”

Promoting wellness, Smiths Medical, Keene, New Hampshire, US

To increase employee engagement and well-being, Smiths Medical in Keene, US encourages employees to join their Wellness Committee. Two members of the Wellness Committee offer an insight into why they joined.

“When Smiths Medical formed the Wellness Committee, I joined right away! I wanted to make my colleagues aware of the importance of wellness, self-care, exercise, and most of all, fun! We have run contests, challenges, hikes, walks and weight-loss classes,” said Assembler Candy Nolin.

Fellow Committee member Ann Blake (above), an IT Client Services Analyst, commented: “Being on the Wellness Committee has allowed me to get to know my colleagues and interact with them outside of work during weekend hikes. Every Committee member brings their own unique perspective on promoting a healthy workplace and they genuinely care about helping people.”

Community

Contributing to the communities in which we operate benefits both local people and our business. It helps to drive prosperity in local communities, enhances our profile and reputation, promotes employee engagement and attracts new employees.

2015 Highlight

- **Engaged with local communities and supported charitable initiatives across the globe**

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 demonstrate how a donation will enhance the well-being of people through improved education, health and welfare, or environment.

Context and trends

The financial crisis has eroded trust in businesses around the world, increasing the onus on businesses to demonstrate good corporate citizenship. The global talent market is also increasingly competitive (see page 12), 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 FY2015, we made charitable donations of £154,000 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 some of the initiatives across the business during the year.

Priority for 2016

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

Building communities, Flex-Tek, Abbeville, SC, US
Flex-Tek employees in Abbeville, South Carolina helped local shelters and charities prepare for winter by collecting and donating warm clothing and food. The group donated 50 warm coats and other winter items to a number of local shelters and collected non-perishable food items for the local Salvation Army food bank.

Employees have also been supporting the community by hosting local blood drives. Each blood donation saves three lives and the Abbeville employees' participation has increased by 30% in 2015.

World Vision Devices Donation, Smiths Medical

Smiths Medical is proud to support World Vision. In addition to annual monetary donations, Smiths Medical donates medical devices which can no longer be sold due to a limited remaining shelf-life. World Vision distributes these devices to medical staff in poor and impoverished areas who can use the products within the remaining shelf life.

In January 2014, Smiths Medical donated 22 cases of medical supplies to Ruth Paz Children's Surgical and Burn Hospital in Honduras via World Vision. This hospital treats an average of 21,000 paediatric patients every year.



The John Crane Girls' House, John Crane, South Africa

Over the past two years, John Crane South Africa has partnered with The Soul Provider Trust, a local charity that supports the community. In 2013, donations from the business were used to build a house for 18 orphaned girls, who attend school but previously had nowhere to live. Last year, the donations were used to buy a van to transport food and supplies. Through this program, the girls are given support, food, clothing, and a place to call home, as well as building employee engagement at John Crane.

Community fund-raising and events, Flex-Tek, Cookeville, TN, US
 Flex-Tek's Tutco facility in Cookeville, Tennessee hosted a range of activities to support the local community and build employee engagement in 2014, including a carnival for children with special needs and a Relay for Life fundraiser for the American Cancer Society.

A reporter who attended the Relay for Life event commented, "They were very enthusiastic and happy to take part in the Relay for Life fundraiser: they all showed dedication towards inspiring hope for their families, community and the town of Cookeville."

The site also hosted a carnival for Kids Putnam, a charity for children with special needs. Over 100 children attended the carnival – most of whom had never attended an event like this before due to their health conditions – providing a memorable day for children, parents and employees.



STEM Ambassadors, John Crane, Manchester, UK

Manchester is one of several John Crane sites whose employees work as STEM ambassadors to promote early-age interest in Science, Technology, Engineering and Maths (STEM) in order to increase the number of pupils pursuing careers in STEM and support the local community.

Employees from Manchester acted as mentors to local students aged 12-14, helping them prepare a report on their chosen environmental project and organising a tour of the John Crane facility. On-site engineers offered the students insight into different types of engineering and gave them a tour of the training facility and test laboratory.

From left to right: Ram Mitha (School science technician), Catrin Parry, Apoorva Verma, Florence Bradshaw, Lauren Wheeler, Susie Petri, Rose McEwan, Lisa Bradshaw (science teacher)



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 have a periodic validation process involving third-party assessments at a sample of sites, 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.

Report scope and contacts

Unless otherwise stated, this Report highlights our corporate responsibility governance, issues relevant to Smiths, strategy and performance during our 2015 fiscal year (1 August 2014 to 31 July 2015). 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 2015 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 2015 and historical Corporate Responsibility Reports at www.smiths.com/responsibility.

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Policy statements

Environment, Health and Safety Policy

Smiths Group is committed to achieving excellence in environment, health and safety (EHS) management and performance and providing effective leadership in the pursuit of injury-free and environmentally responsible workplaces.

The Chief Executive has overall responsibility for EHS matters and the Group Human Resources Director is responsible for the effective administration and implementation of the Smiths Group EHS Policy. Strategic direction, support and performance monitoring is undertaken by the EHS Steering Committee and the EHS Technical Committee, which have representation from all Smiths divisions.

Each Division General Manager 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 this policy.

All managers are accountable for the safety of employees they supervise and have a duty to promote and enforce safety policies and make certain employees are appropriately trained.

Smiths employees, at all levels, and third-party representatives have a personal responsibility to take due care of their own safety and to follow Smiths EHS rules. They also have a responsibility to warn others of potential hazards and unsafe behaviours. Fulfilling these responsibilities is an employment obligation.

Smiths conducts its business in accordance with the following key EHS principles, which are supported by effective management systems:

- A commitment to meeting or exceeding all relevant legal and other requirements to which Smiths is subject, and monitoring compliance through periodic assessment
- Continual improvement in EHS performance, including prevention of pollution, risk reduction and the protection of human health
- Objective evaluation of EHS performance and management practices
- Robust training systems to ensure that all persons working for or on behalf of Smiths are competent to fulfil their EHS responsibilities
- Sharing EHS management best practices throughout our businesses
- Clearly defined objectives and targets that are periodically reviewed
- Regular assessment of the EHS impacts and interactions of all new and existing business activities, products and services
- Promotion of the efficient use of energy and natural resources to minimise environmental impact
- Promotion of the health and wellness of our employees
- Consideration of EHS issues during acquisitions and divestitures and in relation to joint ventures and partnerships
- Selection of competent contractors who commit to compliance with Smiths high EHS standards
- Communication with all persons working for or on behalf of Smiths, and other stakeholders, regarding the EHS impacts and objectives of Smiths operations.

Philip Bowman
Chief Executive

11 September 2014

Energy & Greenhouse Gas Policy

Smiths Group is committed to the efficient use of energy and natural resources and the reduction of greenhouse gases (GHG), thereby minimising our environmental impact worldwide, adding value to our business and enabling us to fulfil our corporate responsibilities.

The Chief Executive has overall responsibility for energy and GHG matters.

The Environmental, Health & Safety Steering Committee, which is chaired by the Group Human Resources Director and includes representation from all Smiths Divisions, is responsible for strategic direction and performance monitoring.

Each Division General Manager has responsibility for these matters within their business, including the establishment of effective administration and organisational arrangements to ensure the implementation of and continuing compliance with this policy.

It is the responsibility of employees, at all levels, and third-party representatives, to optimise the use of energy in their job activities.

Smiths subscribes to the following energy and GHG principles, supported by effective management systems:

- Continually improving the energy efficiency and environmental impacts of our operations
- Considering the energy and environmental impacts in relevant business decision-making processes
- Meeting or exceeding all relevant legal and other requirements to which Smiths is subject, related to our energy usage and GHG emissions, and monitoring compliance through periodic assessment
- Establishing improvement objectives and targets, which are reviewed periodically
- Ensuring the availability of information and resources necessary to meet our objectives and targets
- Sharing energy management best practices throughout our businesses
- Promoting a corporate culture of energy conservation through employee education and involvement
- Securing adequate, reliable and cost-effective energy supplies
- Regularly reviewing and using cost-effective and reliable renewable energy sources, where available.

Philip Bowman
Chief Executive

11 September 2014

smiths

bringing technology to life

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