

smiths

bringing technology to life

ADVANCING TECHNOLOGY

Smiths Group plc

Responsible Business Report 2017

WHAT'S INSIDE OUR REPORT?

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OUR APPROACH

Embedding responsible business in the ways we think and work

 P06



ETHICS

Applying our shared values to our actions so that we act with integrity at all times

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HEALTH, SAFETY & ENVIRONMENT

Achieving world-class HSE performance wherever we operate

 P17



PEOPLE

Attracting, retaining, developing, engaging and inspiring the best people

 P22



PRODUCTS

Ensuring our products meet the highest quality and safety standards, and benefit the world

 P26



COMMUNITIES

Making a positive contribution to our communities

 P29



Visit www.smiths.com to find out more

This is our Responsible Business Report (previously called the Corporate Responsibility Report) and covers the period from 1 August 2016 to 31 July 2017.

CHIEF EXECUTIVE'S REVIEW

WE BELIEVE THAT DOING THINGS THE RIGHT WAY AND BEING A RESPONSIBLE BUSINESS ISN'T A CHOICE – IT'S A RESPONSIBILITY

ANDY REYNOLDS SMITH
CHIEF EXECUTIVE



At Smiths we believe in doing business the right way. That includes how we support and develop our colleagues, our unflinching commitment to safety, how we work with our customers and our suppliers, our approach to the environment, and how we support the communities around us.

Across our entire business, in more than 50 countries, we work in the Smiths Way. That means around 22,000 of us across the world applying our shared values in our actions and behaviour, as individuals and as a business. Our values are supported by our global Code of Business Ethics, which helps everyone understand what doing the right thing means.

We believe that our people are our only truly sustainable source of competitive advantage. As a result we're transforming our business into a learning organisation that attracts, retains, develops, engages and inspires our colleagues. We invest in training, leadership and communication, to help improve the way we do things, support our people to be the best they can be, and enhance the experience they have at work.

Celebrating success is a key part of a winning culture and FY2017 was the second year of our Smiths Excellence Awards scheme, which enables us to celebrate the many outstanding examples of inspiring people and initiatives from across Smiths. I'm delighted to say that this year we had over 300 entries, and next year we expect even more.

At Smiths we're proud of our 160-year history of innovation, our reputation as a respected, well governed and safe place to work, and the role our products and services play in the world. Across the business, our solutions help support safety, health, security and productivity across the planet.

We believe that doing things the right way and being a responsible business isn't a choice – it's a responsibility and one we take seriously. We also believe it benefits every stakeholder – colleagues, customers, suppliers, shareholders, and the world at large.

It's our ambition to become one of the world's leading technology companies, and being a responsible business is crucial to achieving this. We hope you enjoy reading more about it in this report.

ANDY REYNOLDS SMITH
CHIEF EXECUTIVE

SMITHS AT A GLANCE

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



Our strategy

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

Our solutions

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

Our markets and businesses

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



REVENUE

£3,280M

HEADLINE
OPERATING PROFIT

£589M

EMPLOYEES
WORLDWIDE

c. 22,000



Our people

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

Our values

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

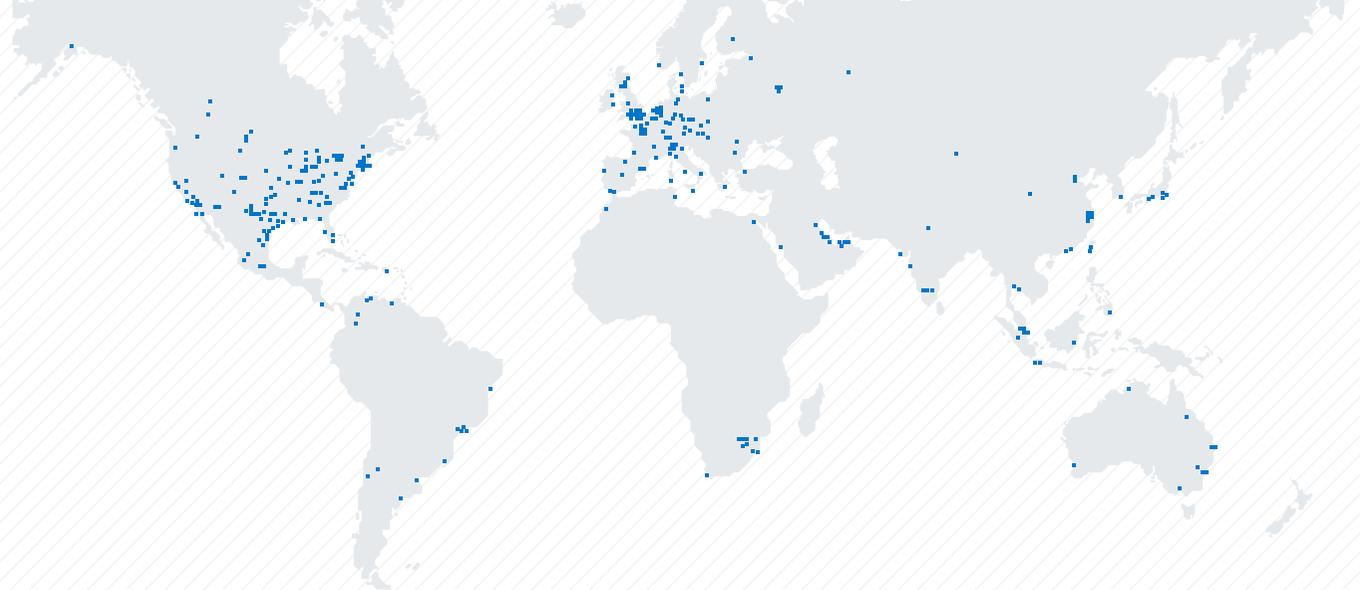
INTEGRITY
OWNERSHIP
RESPECT
CUSTOMER FOCUS
PASSION

Where we operate

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

COUNTRIES AND TERRITORIES OUR SOLUTIONS REACH

c. 200



REVENUE FROM HIGHER-GROWTH REGIONS

16%

REVENUE BY DESTINATION



- Americas 53%
- Europe 23%
- Asia Pacific (APAC) 15%
- Rest of World 9%

LOCATION OF ASSETS



- Americas 57%
- Europe 34%
- APAC 6%
- Rest of World 3%

SMITHS OUR DIVISIONS

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



JOHN CRANE

Mission-critical solutions for global energy and process industries



SMITHS MEDICAL

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

DIVISIONAL REVENUE

DIVISIONAL HEADLINE OPERATING PROFIT**



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

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

REVENUE

£885M

HEADLINE OPERATING PROFIT MARGIN

23.0%

COMPETITIVE STRENGTHS

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

REVENUE

£951M

HEADLINE OPERATING PROFIT MARGIN

22.0%

COMPETITIVE STRENGTHS

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

SMITHS DETECTION

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



REVENUE

£687M

HEADLINE OPERATING PROFIT MARGIN

15.0%

COMPETITIVE STRENGTHS

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

SMITHS INTERCONNECT

Solutions for high-speed, secure connectivity in demanding applications



REVENUE

£419M

HEADLINE OPERATING PROFIT MARGIN

13.4%

COMPETITIVE STRENGTHS

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

FLEX-TEK

Innovative components to heat and move fluids and gases



REVENUE

£338M

HEADLINE OPERATING PROFIT MARGIN

19.3%

COMPETITIVE STRENGTHS

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



OUR APPROACH TO RESPONSIBLE BUSINESS

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



GOVERNANCE AND RISK MANAGEMENT

At Smiths, being a responsible business is firmly embedded in the ways we think and operate.

With around 22,000 people working in more than 50 countries, it is important that we maintain the highest standards of corporate responsibility. Behaving ethically, working safely, providing high-quality innovative solutions, reducing our environmental impact, developing and engaging our people, and contributing to our communities is fundamental to our long-term success.

Many of our products and services deliver valuable benefits to society and the environment, helping to reduce harm, improve efficiency and minimise adverse environmental impact.

As a global technology company operating in highly regulated sectors, working responsibly also creates long-term value for shareholders by:

- Enhancing our reputation with our people, customers, suppliers and investors
- Winning business from customers who value responsible business performance
- Improving efficiency and reducing costs
- Providing a safe and ethical work environment that supports health and productivity, and reduces the risk of an ethical breach
- Attracting and retaining key talent in an increasingly competitive market

Our Responsible Business governance framework

Strong governance is essential to embedding responsible business practices across the Group. Our Board of directors oversees our approach to responsible business, including our Code of Business Ethics (the 'Code'). The Board sets our strategic and financial objectives, establishes high ethical standards and robust risk management frameworks, 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 processes to identify, evaluate and manage significant business risks, including potential violations of the Code.

The Chief Executive and Executive Committee are responsible for delivering our responsible business strategy. They champion the strategy within the business, setting and continuously reinforcing the 'tone from the top'. This includes ensuring the Code is upheld, implementing supporting policies, setting targets and reviewing performance across key areas.

Our corporate centre helps foster a sustainable business culture. It sets governance and risk management frameworks, and develops tools, policies and programmes that help to embed a strong culture of responsible behaviour across the Group (including the Smiths Excellence System). Our divisions tailor these programmes to reflect their specific business needs and local regulations.

Risk management

Our governance framework is supported by a robust risk management process to ensure risks are managed appropriately. The Board has overall responsibility for our risk management policies and ensuring we have an effective system of internal control in place. The Executive Committee is responsible for designing our Enterprise Risk Management (ERM) system. Our ERM process is designed to ensure a constant feedback loop between the Board and Audit Committee, the Executive Committee, divisions, functions and sites, to enable us to manage and monitor the risks that threaten the successful execution of our strategy. This framework ensures our strategic, financial and operational risks are appropriately considered by the Executive Committee and the Board. A full description of our risk management process can be found on page 61 of our 2017 Annual Report.

We also use more detailed risk management tools to identify and monitor specific responsible business risks. For example, we use OHSAS 18001 and ISO 14001 to assess Health, Safety and Environment (HSE) risks. These systems provide an externally verified framework for risk reduction, continual improvement, compliance assurance and management review. Our responsible business focus areas and programmes are regularly updated to ensure emerging issues are addressed.

HOW WE DO BUSINESS: OUR VISION AND STRATEGY

OUR VISION AND AMBITION

OUR VISION OUTLINES WHAT SMITHS IS ALL ABOUT, IT REFLECTS WHO WE ASPIRE TO BE: WE'RE PROUD TO BE SMITHS, PUSHING BOUNDARIES TO DELIVER INNOVATIVE SOLUTIONS FOR THE WORLD'S CHALLENGES

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

OUR STRATEGIC OBJECTIVES

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

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

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

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

OUR FINANCIAL FRAMEWORK

Our strong financial framework provides the flexibility to enable us to invest in growth.

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

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

OUR DIVISIONS

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

- Sustainably competitive and asset-light
- Technology differentiation
- Increasing digitisation
- A high proportion of aftermarket services

JOHN CRANE

Mission-critical engineered solutions for global energy and process industries

SMITHS MEDICAL

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

SMITHS DETECTION

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

SMITHS INTERCONNECT

Solutions for high-speed, secure connectivity in demanding applications

FLEX-TEK

Innovative components to heat and move fluids and gases

OUR OPERATING MODEL

OUR VALUES

THE RESULT

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

Our values bring our vision to life and set the tone for how we operate as a business. They guide our behaviour, actions and decisions every day.

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

CUSTOMER

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

PRODUCTION

Our production processes drive efficiency, enhance safety and improve quality

INTEGRITY

We do the right thing, every time

RESPECT

We respect each other, value different perspectives and cultures and act inclusively

FINANCIAL VALUE

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

PEOPLE

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

PROGRAMME

We aim to drive consistent and flawless execution across programmes

OWNERSHIP

We make and keep commitments

CUSTOMER FOCUS

We are valued and trusted partners in all we do

SOCIAL VALUE

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

TECHNOLOGY

We aim to bring innovative and differentiated solutions to market quickly

SUPPLY

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

PASSION

We learn and innovate together to deliver excellence and win

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

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

VALUE TO EMPLOYEES

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

OUR RESPONSIBLE BUSINESS PRIORITIES

With around 22,000 people, operating in 50 countries, across a range of markets, it is essential that we create strong relationships with all of our stakeholders so we can identify and prioritise our responsible business focus areas.

Identifying our responsible business priorities

We use our strategy, risk management and stakeholder engagement processes to identify our responsible business priorities.

We also use a range of external sources to identify potential issues and focus areas. These include:

- regulatory guidelines and legislation
- peer reviews
- sustainability standards eg GRI, Sustainable Development Goals, CDP (including industry-specific guidelines if applicable)
- experts and consultancy guidance

We engage with a wide range of stakeholders – including our employees, customers, investors, industry bodies and suppliers – around the world on an ongoing basis, and use their insights and feedback to help shape our activities and communication. The table to the right describes our engagement approach with key stakeholders.

HOW WE ENGAGE	
Our people	<ul style="list-style-type: none"> • My Say employee engagement survey • Personal development reviews • Smiths Excellence Awards • Seminars and conferences • Training and development opportunities • Ongoing two-way communications • Line manager cascade and feedback
Customers	<ul style="list-style-type: none"> • Customer satisfaction surveys • Trade seminars and conferences • Client meetings and roundtables • Key account management
Suppliers and partners	<ul style="list-style-type: none"> • Seminars, conferences and roadshows
Investors	<ul style="list-style-type: none"> • Investor roadshows • Annual and interim reporting • Meetings with investors
Local communities	<ul style="list-style-type: none"> • Community interest groups • Employee volunteering • Donations and sponsorship
Government and regulators	<ul style="list-style-type: none"> • Participation in public policy debate • Providing industry updates • Engaging with government agencies
Academic institutions	<ul style="list-style-type: none"> • Academic partnerships • Research and development opportunities
Industry peers	<ul style="list-style-type: none"> • Industry partnerships • Industry events • Round table discussions

KEY FY2017 ENGAGEMENTS



Measured employee engagement through our My Say survey, achieving a participation rate of 82% and an engagement score of 71



Held investor roadshows in the UK, Europe and North America



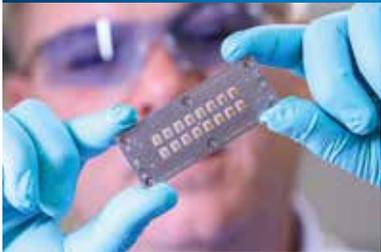
Launched a partnership with UCLA Anderson Executive Education to deliver leadership development courses



Sponsored STEMconnector's 2017 Global STEM Talent Summit and hosted a roundtable discussion on STEM education with industry peers

OUR RESPONSIBLE BUSINESS PRIORITIES CONTINUED

We have identified a number of material issues, which we group under our five focus areas. In FY2017, we introduced a new 'Products' focus area to reflect the importance of the safety and quality of our products – many of which are mission-critical – and the societal benefits they bring.

 ETHICS	 HEALTH, SAFETY & ENVIRONMENT	 PEOPLE	 PRODUCTS	 COMMUNITIES
				
<ul style="list-style-type: none"> • Culture • Education • Human rights • Compliance <p> P13</p>	<ul style="list-style-type: none"> • HSE management • Workplace health and safety • Security <p> P17</p>	<ul style="list-style-type: none"> • Culture, engagement and communication • Leadership and learning • Reward and recognition • Diversity and inclusion <p> P22</p>	<ul style="list-style-type: none"> • Quality • Product safety • Product outcomes <p> P26</p>	<ul style="list-style-type: none"> • Community engagement • Economic contribution • Sponsorships and donations <p> P29</p>

OUR RESPONSIBLE BUSINESS STRATEGY

Our Group-wide responsible business strategy sets out our approach to our five focus areas, including policies, priorities and performance targets.

Our divisions implement this strategy, tailoring programmes as needed to reflect their specific business needs, and regularly report on performance.

The Executive Committee reviews performance and is supported by divisional leadership and responsible business experts from across the Group.

Responsible business and the Smiths Excellence System

Being a responsible business is integral to our Smiths way of working, which includes a set of shared values that guide our behaviour, and a shared operating model. The Smiths Excellence System (SES), our operating model, helps us drive speed and efficiency on a sustainable basis. Built around six pillars, it helps us to make the most of our scale and continuously improve how we do things.

The table on the right helps to explain how our material issues map across the system.

		PEOPLE	CUSTOMER	TECHNOLOGY	PROGRAMME	PRODUCTION	SUPPLY
Ethics	Human rights	Fully covered					Fully covered
	Culture	Fully covered	Partially covered			Partially covered	Partially covered
	Education	Fully covered	Fully covered	Partially covered			
	Compliance	Fully covered			Partially covered	Partially covered	Fully covered
HSE	Environmental management	Partially covered		Fully covered	Fully covered	Fully covered	Partially covered
	Workplace health and safety	Fully covered		Partially covered	Fully covered	Fully covered	Partially covered
	Security	Fully covered	Partially covered		Partially covered	Partially covered	
People	Culture, engagement and communication	Fully covered	Fully covered		Partially covered		Fully covered
	Leadership and learning	Fully covered			Fully covered	Partially covered	
	Reward and recognition	Fully covered			Partially covered	Partially covered	
	Diversity and inclusion	Fully covered			Partially covered		
Products	Quality	Partially covered		Partially covered	Fully covered	Fully covered	Fully covered
	Product safety	Partially covered	Fully covered	Fully covered		Fully covered	
	Product outcomes	Partially covered	Fully covered	Fully covered			
Communities	Economic inputs	Partially covered	Partially covered				Partially covered
	Sponsorships and donations	Fully covered			Fully covered		
	Community engagement	Fully covered	Partially covered				



ETHICS

INTEGRITY IS ONE OF OUR
CORE VALUES AND UNDERPINS
OUR COMMITMENT TO DOING
BUSINESS THE RIGHT WAY.
IT SUPPORTS OUR AMBITION
TO ESTABLISH SMITHS AS
ONE OF THE WORLD'S LEADING
TECHNOLOGY COMPANIES

ETHICS

OUR APPROACH

Integrity is one of our core values and underpins our commitment to doing business the right way. It supports our ambition to establish Smiths as one of the world's leading technology companies.

2017 HIGHLIGHTS

- Held ethics training events in regional growth markets: Dubai, Indonesia, Thailand and China
- Hosted 100 Smiths leaders at our annual Global Business Ethics Conference
- Strengthened our ethics programmes and processes, especially those to counter modern slavery
- Established a trade compliance centre of excellence to oversee export and import compliance
- Increased the role of the corporate centre in the design and oversight of ethics and compliance programmes to ensure consistency across the divisions

Our approach

Being ethical means applying our shared values (see page 9) to our everyday actions and decisions so that each and every one of us acts with integrity at all times. Our values are at the heart of what it means to be Smiths and our ethics programmes support these values and underscore how we are expected to behave.

This ethical culture underpins our more targeted compliance programmes. Strong compliance means not only honouring the rules that govern our operations around the world, but doing so consistently and reliably. It relies on successfully identifying new rules, translating them into job responsibilities, and having processes in place to check that things are being done right. This approach to doing business the right way helps protect our reputation, business and people, and safeguard our shareholders' investment.

Governance

Ethics and compliance starts with our leaders, who live our values and set the standard for others to follow. But everyone at Smiths shares responsibility for putting our values into action so we make sure every employee has the knowledge, tools and ethical insights to do the right thing every time.

Our Board of directors is ultimately responsible for the ethical conduct of the Group and its employees. On behalf of the Board, the Audit Committee assesses the ethical risks to our reputation and performance, monitors the implementation of the Code, and reviews reports and investigations from our Ethics Alertline.

Our Business Ethics Council meets quarterly to monitor the status and effectiveness of our ethics and compliance programme, set priorities, and review and approve policies on behalf of the Executive Committee. The Council is made up of senior leaders from across our divisions and key functions to ensure representation and alignment throughout Smiths.

The Audit Committee and Business Ethics Council draw on the specialist legal expertise of our Ethics and Compliance team. The team designs and implements our ethics and compliance programme, manages our Ethics Alertline, investigates breach allegations and promotes the Codes of Business and Supplier Ethics. They are supported by other internal teams, including Legal, HR and Internal Audit, who help foster a culture of doing the right thing and monitor compliance across the business.

We adopt a 'three lines of defence' approach to the oversight of our compliance programmes. Our divisions oversee the compliance controls in their businesses (first line) and are supported by our Ethics and Compliance team, who monitor controls and look for opportunities to strengthen them (second line). Internal Audit provides an independent review of the effectiveness of controls (third line).

Our strategy

We aim to continuously reinforce a strong ethical culture and enhance our compliance programmes to address evolving areas of risk. Our objective is to ensure that everyone knows what is expected of them, where they could face exposure to ethics and compliance risks, how to ask for help and where to report concerns. We aim to maintain an environment where people can speak openly about the best ways to act, and provide year-round training to raise awareness and understanding.

We continually review our approach to compliance as risks evolve. Our principal compliance programmes focus on the following risks:

- modern slavery risks
- trade compliance
- supplier conduct
- anti-bribery and corruption
- antitrust
- data protection

ETHICS

OUR FOCUS AREAS

Culture

Our shared values underpin our culture of 'doing the right thing' every time, guiding our actions and behaviour, while the Code provides more detailed guidance on expected conduct. Our Chief Executive and Executive Committee champion our values and the Code, and set the tone through their behaviour, decisions and communications.

We give everyone a copy of the Code and an online training course when they join us, and support it with refresher training every two years. Both the Code and the training are available in our top 19 operating languages. We launched our shared values during FY2017 as part of our Smiths Way of working, aligning our approach across the business. We plan to launch a refreshed version of our Code during FY2018 to more closely align it with the Smiths Way.

We want everyone to feel confident about speaking up if they have a concern. They can report concerns through their line manager, HR and Legal teams, or the Ethics Alertline. During annual performance reviews, employees must confirm if they are aware of any breaches of the Code and a positive response triggers a conversation with the line manager and potentially an investigation.

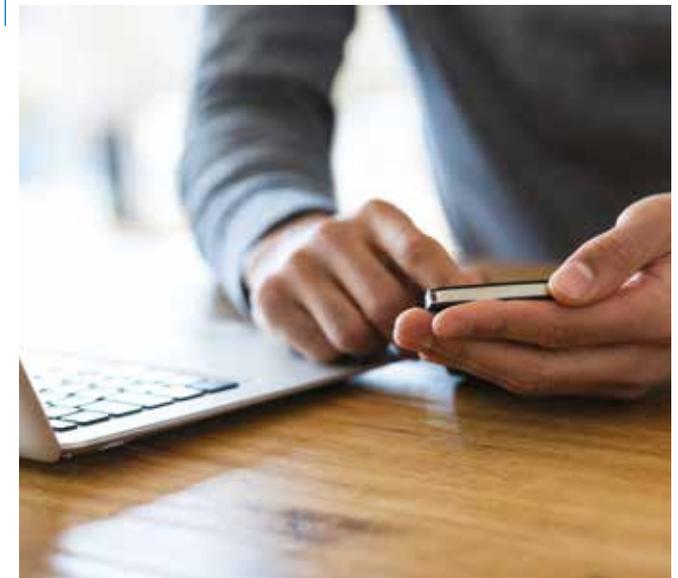
Education

As a global technology company operating in a range of highly regulated sectors around the world, an effective compliance programme is critical to our long-term success. We regularly review, update and expand our programme to reflect evolving risks and regulations. Our training programmes cover risk areas such as competition and antitrust, anti-bribery and corruption, modern slavery, and trade and export controls.

In addition to online training modules, we hold interactive training sessions on-site at select locations and target training at employees in relevant and 'high-risk' roles to address key risk areas.

Throughout the year we arrange global forums to deepen our managers' understanding of the ethical challenges facing the business. In 2017, we held regional events in growth markets such as Dubai, Indonesia, Thailand and China, as well as our Global Business Ethics Forum in San Diego, California, US.

During 2017, we continued to align and strengthen our global compliance programme across the business, further enhancing our central policies, training and oversight, including establishing a global centre of excellence for trade compliance.



ETHICS ALERTLINE

Everyone should be able to raise a concern in good faith, easily and confidentially, without fear of retaliation. Employees who feel uncomfortable raising an issue with their manager, HR or Legal, have 24/7 access to our independently operated Ethics Alertline, which is available online or through toll-free numbers in 54 countries and 100 languages. Experienced operators provide immediate support and pass on all reports to the Ethics and Compliance team for further investigation. A strict non-retaliation policy protects anyone who raises a concern. In FY2017, 182 issues were reported via the Alertline, all of which were thoroughly investigated and disciplinary action was taken in 26 instances as a result.

ETHICS

OUR FOCUS AREAS

Human rights

Respect is one of our core values and we are committed to upholding all internationally recognised human rights standards wherever we operate. We do not tolerate any use of child or forced labour within our facilities or those of our suppliers. Addressing modern slavery risks has been a focus area during 2017 and we rolled out a policy and risk assessment process (see below). This is supported by our Supplier Code of Business Ethics, which sets out our expectations of our suppliers, contract manufacturers and other third parties in terms of ethics, compliance, human rights, and social and environmental issues.

TACKLING MODERN SLAVERY

The need to eradicate modern slavery and forced labour is urgent – and increasingly regulated by governments around the world. We published our first Modern Slavery and Human Trafficking Statement in September 2016, while our corporate and Supplier Codes of Business Ethics set out our expectations of our business, employees and supply partners.

In March 2017 we rolled out an Anti-Modern Slavery Policy and conducted a risk assessment that highlighted three areas of focus: our supply chain; our use of agencies to source labour for certain roles; and the use of worker dormitories provided by us or our suppliers. We have developed compliance programmes for all three of these areas.

Anti-bribery and corruption

Integrity is one of our core values and we continuously review our anti-bribery and corruption policies and procedures as governments and regulators continually increase their focus on this area. We continued our anti-bribery and corruption education programme during the year, including live training programmes at key sites and a new global Gifts, Meals and Entertainment Policy. We also continued to review our controls around the appointment of distributors and agents.

Trade compliance

As a global organisation we have to comply with numerous local and regional laws. To support this, we revised our Export and Import Controls Policy to provide enhanced corporate oversight of transactions, rolled out a new online training course, and strengthened our cross-divisional trade compliance working group to share best practices and address emerging issues. We also regularly assess trade activities at site level to identify risks, and develop appropriate action plans and training programmes.

We sell some defence equipment that is subject to specific international trade regulation and government approval procedures, which prohibit the export of certain items to specific countries. Our policy is clear that we must adhere to all relevant government guidelines to ensure that our products are not incorporated in weapons or other equipment related to terrorism or human rights abuses.

Supplier conduct

Our compliance programme extends to our supply chain partners, who must meet our own high standards and comply with all local legislation. Our Supplier Code of Business Ethics sets out our expectations, our procurement process includes a pre-qualification questionnaire, and our supplier contracts cover anti-bribery and corruption, international law compliance, and modern slavery and human trafficking.



GLOBAL BUSINESS ETHICS FORUM

Integrity is one of our core values and 'doing the right thing' is at the heart of what it means to work at Smiths – and it was the theme of our FY2017 Business and Ethics conference, which brought together 100 leaders from across the organisation to consider the ethical issues we face at Smiths. Internal and external speakers offered a range of perspectives on corporate ethics, while analysing ethical challenges in different business scenarios led to lively discussions amongst delegates.

2018 PRIORITIES

- Refresh and roll out our Code of Business Ethics
- Upgrade the Ethics Alertline operating system to improve reporting processes
- Hold regional ethics conferences in India and Eastern Europe
- Refresh and roll out our Supplier Code of Business Ethics and continue to embed our pre-qualification questionnaire for new suppliers
- Oversee the implementation of our Anti-Modern Slavery Policy



HEALTH, SAFETY & ENVIRONMENT

AT SMITHS WE ARE COMMITTED
TO PROTECTING OUR PEOPLE,
COMMUNITIES, CUSTOMERS AND
THE ENVIRONMENT



HEALTH, SAFETY & ENVIRONMENT OUR APPROACH AND FOCUS AREAS

We're determined to achieve world-class health, safety and environmental (HSE) performance. Wherever we operate, we aim to provide injury-free and environmentally responsible workplaces.

2017 HIGHLIGHTS

- Recordable incident rate (RIR) fell to 0.36 – our lowest level ever
- Greenhouse gas (GHG) emissions reduced by over 25% against our baseline target
- New HSE technical standards rolled out across all divisions, to better align our approach to HSE

Governance

At Smiths, we are committed to protecting our people, communities, customers and the environment. This commitment is demonstrated by our comprehensive HSE policy (available at www.smiths.com) and our HSE governance framework. Together we're creating a culture that prioritises the health and wellbeing of our people and minimises our impact on the environment.

Our Chief Executive has ultimate oversight for HSE across the Group. Working closely with the Executive Committee, he is responsible for executing our HSE strategy, policies, and processes, and meeting our HSE targets. To ensure these principles are fully and effectively embedded, the President of each division sets HSE programmes specific to their business.

The HSE Steering Committee and HSE Technical Committee – which includes representatives from each division – develop the Group's strategic focus for HSE. They also monitor performance, share best practices, identify areas for improvement and fine-tune our approach to HSE. Both committees report directly to the Executive Committee.

Our strategy

Our HSE strategy is integral to the Smiths Way – it supports our corporate strategy and Code of Business Ethics, and is aligned with our corporate values. By developing a common Group approach to HSE, we manage our safety and environmental risks more effectively and provide better protection for our employees, our communities, the environment and shareholder value.

Our strategy has driven improvements to our HSE culture, processes and performance, and set ambitious HSE goals for the business. Through a series of KPIs we monitor progress and gather the insights that help us stay on track. HSE performance is reviewed monthly by Group and divisional senior management.

We encourage everyone to take personal responsibility for working safely, sharing feedback and suggesting improvements to workplace safety. By building our safety culture around this, we have continually improved our performance and made Smiths a better place to work.

Changing behaviour is a key aspect of our strategy. By focusing on behaviour change, we have raised awareness of workplace health and safety, reduced our risks and cut the number of incidents. To ensure our behavioural health and safety programmes are industry leading, we ask external consultants to assess their effectiveness and recommend improvements.

HSE management and compliance

Our management systems help us identify and prioritise HSE risks across the Group. They drive continuous improvement and provide the externally verified framework behind a consistent, best-practice approach to HSE management. The need for external verification is tiered. All production sites with more than 20 employees must implement OHSAS 18001 (ISO 45001) for occupational health and safety management systems, and ISO 14001 for environmental management systems. Sites with 50 or more employees must have their HSE management systems externally certified.

Through dedicated HSE management software we measure our HSE performance, site-by-site, against Group targets. The software provides monthly data, the accuracy of which is improved by real-time error checking.

To ensure that our operations meet or exceed our legal and HSE requirements, we use external auditors to check compliance. Audit findings drive corrective action plans that are monitored to ensure that issues identified are resolved quickly and effectively. The criteria for choosing which facilities will be audited are size, complexity and risk profile. Afterwards we reinforce compliance by sharing the outcomes and lessons learned across the Group. Audits are a certification requirement for sites with OHSAS 18001 and ISO 14001.

HEALTH, SAFETY & ENVIRONMENT

OUR FOCUS AREAS



TAKING OWNERSHIP OF HEALTH AND SAFETY

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

Environmental performance

At Smiths, we are committed to using energy and natural resources efficiently and reducing our greenhouse gas (GHG) emissions. We do this through advanced production processes that decrease waste and energy consumption. We also invest in low-carbon technologies and environmental management systems that drive improvement in our performance.

Each division develops a tailored strategy to minimise their impact on the environment, based on the Group HSE Policy. To promote best practice, we closely monitor energy and water use, waste generation and GHG emissions to identify potential improvements, and share action plans and lessons learned across the Group.

In 2013 we set new five-year environmental targets, having exceeded previous targets two years early. These targets are to reduce, by 2018, our energy usage, GHG emissions and waste generation by 15%, and our water usage by 10%. The baseline year is 2013 and all results are normalised to revenue.

For the past seven years we have recorded year-on-year performance improvements for each of our four targets. We've made good progress by installing more energy efficient equipment, implementing water reuse programmes and focusing on green energy contracts.

Compared to our baseline year of 2013, we have achieved good progress in reducing our environmental metrics, with GHG and non-recycled waste already exceeding our five-year goal and water consumption on target. We are working hard across the Group to reduce energy consumption and are cautiously optimistic about making our 15% reduction goal. We have also secured clean renewable energy to reduce the environmental impact of our energy use. During FY2017, our overall environmental performance continued its long-term improvement trend with normalised reductions in energy, water usage and GHG emissions, while non-recycled waste remained broadly in line. Absolute environmental metrics reduced in FY2017 with 4% energy, 9% water usage, 7% GHG, and 2% non-recycled waste.

WATER USED

'000m³
385,000m³

2017	385
2016	422
2015	426
2014	457
2013	456

WATER CONSUMPTION

m³/£M REVENUE
129m³/£M REVENUE

2017	129
2016	138
2015	137
2014	144
2013	144

TOTAL NON-RECYCLED WASTE

'000 TONNES
4,800 TONNES

2017	4.8
2016	4.9
2015	5.1
2014	5.6
2013	6.1

TOTAL NON-RECYCLED WASTE

TONNES/£M REVENUE
1.6 TONNES/£M REVENUE

2017	1.6
2016	1.6
2015	1.7
2014	1.8
2013	1.9

HEALTH, SAFETY & ENVIRONMENT

OUR FOCUS AREAS



WATER REDUCTIONS AT FLEX-TEK

As part of Flex-Tek's commitment to reducing their environmental impact, their subsidiary, Titeflex, has transformed their water recovery process – reducing water use by 50% since August 2016. With a new, dedicated water recovery room, waste water is getting recycled and reused across the site, or being treated before it's pumped out of the facility.

Energy and greenhouse gas

We measure and monitor energy consumption at site level within each of our divisions using a HSE data management system. This provides a single, consolidated measure of Group-wide performance.

Our GHG emissions are calculated using the Greenhouse Gas Protocol (operational approach) and include emissions from all sources under our control, grouped under: Scope 1 – direct GHG emissions from owned assets; and Scope 2 – GHG emissions from supplied electricity. Emissions from company vehicles, production processes and fugitive sources are small and not deemed to be material and, as such, are not included in reported totals.

Our Energy & Greenhouse Gas Policy (see www.smiths.com) sets out our approach to managing our business impacts, with action plans and best practices being shared across the Group.

TOTAL ENERGY

'000 MWh
252,000 MWh

2017	252
2016	263
2015	280
2014	284
2013	280

TOTAL ENERGY EFFICIENCY

MWh/£M REVENUE
85 MWh/£M REVENUE

2017	85
2016	86
2015	90
2014	90
2013	89

Workplace health and safety

People are our most important asset, so we work hard to protect their health, safety and wellbeing, wherever they work in the business. To achieve these aims we're building a culture of zero harm. We're rolling out a series of Group-wide initiatives that continually drive our safety culture and shape our behaviours while reducing exposure to risks. Because our employees recognise the integrity of our commitment, they gave workplace safety the highest score in our most recent employee engagement survey.

We monitor Group-wide activities through our Safety Leading Indicator Activities (SLIA) Programme and measure our score as a company KPI. To compile our SLIA scores, each site monitors up to six proactive safety activities that help drive safety engagement, ownership and risk reduction. This data helps each division develop its own tailored approach to health and safety, and focus on the activities that create the safest possible working environment.

TOTAL CO₂ EMISSIONS

'000 TONNES
73,000 TONNES

2017	73
2016	79
2015	95
2014	102
2013	104

TOTAL CO₂ EMISSIONS

TONNES/£M REVENUE
24 TONNES

2017	24
2016	27
2015	31
2014	32
2013	33

HEALTH, SAFETY & ENVIRONMENT

OUR FOCUS AREAS

Two other Group-wide measures of safety are the recordable incident rate (RIR) and the lost-time incident rate (LTIR). We measure both per 100 employees. A recordable incident is one that involves medical attention beyond first aid; a lost-time incident is one that leads to a lost work day beyond the day of the incident. Since FY2004, we've cut our RIR from 4.6 to 0.36 – achieving our lowest historical RIR in FY2017. Our LTIR also continues to be very low at 0.16 in FY2017.

Over the past fourteen years, we have 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.

In FY2018 we will launch a new set of HSE initiatives across the Group. These programmes aim to increase awareness of health and safety-related matters and reinforce our zero-harm culture. Among them is an advanced forklift safety programme and new safety tools for our mobile workforce.

RECORDABLE INCIDENT RATE

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

2017	0.36
2016	0.47
2015	0.55
2014	0.50
2013	0.54

LOST TIME INCIDENT RATE

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

2017	0.16
2016	0.14
2015	0.22
2014	0.22
2013	0.21

Security

We take vigorous measures to safeguard our employees and visitors, and protect our business from security threats. By frequently reviewing and identifying potential risks we can put the necessary security controls in place to protect our people, and physical and intellectual property.

Our Group Security Director advises the Executive Committee on current and emerging security risks, who in turn review our security approach, set Group-wide priorities and monitor performance. The Group Security Committee oversees progress and shares best practice, while each division – led by its President – deploys its own business-specific security initiatives. All security programmes adhere to Group-wide minimum standards relating to physical and procedural security at sites, business travel security and raising security awareness among employees.

We aim to keep our people safe at all times – in the workplace and when travelling. In FY2017, we launched an online travel security course to help our people identify and avoid security risks they may face while travelling and to provide advice on how and when to seek assistance.

2018 PRIORITIES

- Continue to improve our safety performance and draw ever closer to our target of zero injuries
- Develop a new set of environmental goals for our next commitment period



PEOPLE

OUR PEOPLE STRATEGY IS FOCUSED ON BUILDING A LEARNING ORGANISATION THAT ATTRACTS, RETAINS, ENGAGES, DEVELOPS AND INSPIRES THE VERY BEST PEOPLE

PEOPLE

OUR APPROACH AND FOCUS AREAS

Our employees are our one truly sustainable source of competitive advantage. We are passionate about helping them fulfil their potential, so we can reach ours.

2017 HIGHLIGHTS

- Launched the Smiths Way, our new way of working that aligns our culture, strategy and operating model
- Implemented a new learning partnership with UCLA Anderson Executive Education to further develop our leaders
- Established a dedicated culture and diversity function to further embed culture and diversity throughout the business
- Started a series of early career training initiatives focused on STEM graduate and internship opportunities

Governance

People are an essential part of our growth strategy, so our Board places great emphasis on setting and delivering a successful people strategy that attracts and retains the right people, with the right skills, in the right areas – and the Chief Executive is directly accountable for fulfilling these ambitions.

The Chief Executive, Executive Committee and Human Resources (HR) Leadership team set our People strategy and work closely with business leaders to ensure the appropriate policies, programmes and culture are in place. They are supported by HR teams and line managers across the business who then help to bring our strategy to life.

Our strategy

Our People strategy is focused on building a learning organisation that attracts, retains, engages, develops and inspires the very best people. We do this by concentrating on four key areas – Culture, Leadership and Learning, Reward and Recognition, and Infrastructure. This strategy helps us manage our responsible business priorities more effectively.

The engaging and inspiring culture we're creating reflects our shared vision and values. It's the foundation of an inclusive and collaborative working environment in which our people can succeed.

By investing in leadership and talent development programmes we give our people the skills and experience they need to succeed. Our investment also builds a strong talent pipeline for the business. Our reward and recognition processes ensure that experience, ability and achievements are suitably recognised.

At the foundation of our HR programme is a scalable and efficient infrastructure, from payroll to recruitment, which helps to deliver our people strategy.

Culture, engagement and communication

Through the Smiths Way we are building a culture based on integrity, respect, ownership, customer focus and passion. As well as using our shared values to guide our decisions and behaviour, we're aligning globally on key initiatives and a shared operating model to build a bigger, better, and more focused Smiths.

Two-way communication was an important part of developing the Smiths Way. We engaged with employees across the globe through a series of workshops to develop our new vision and values before launching the Smiths Way in April 2017. To introduce this new way of working, our employees took part in a variety of events. Video blogs, role-play exercises and team discussions all helped embed our new values across the business.

We use regular surveys to measure employee engagement and gather insights into their experience and perceptions. A new survey, My Say was introduced in FY2017 and encourages an ongoing, two-way dialogue across the Group. The survey features a fresh set of questions that better align with our new strategy and culture, more granular reporting and increased frequency. Feedback helps managers to understand the needs of their teams and then build short- and longer-term action plans to meet those needs. Participation in our June survey was 82% across the Group and we achieved an employee engagement score of 71. It gave us data and insights that we will use to set our global priorities for FY2018.

Repositioning our portfolio around our most attractive markets is a key part of our growth strategy. We use well-defined processes to support employees affected by business acquisition and divestment. Our integration process, for example, helps us embed our values, culture, strategy and policies in newly-acquired businesses. In FY2017, we divested four non-core businesses and completed the acquisition of Morpho Detection, for which the integration process is progressing well.

PEOPLE

OUR FOCUS AREAS



IMPROVING MOTIVATION ON THE SHOP FLOOR

Recognising the key role supervisors play in employee engagement and operational performance, John Crane launched a Supervisor Development Programme in Bangalore, India. By building the knowledge and skillset of site supervisors, the programme has increased motivation and engagement among shop floor production teams, as well as creating a new passion for learning.

Sathishbabu Palani, Continuous Improvement Manager at John Crane said: "The scheme has been really successful – it's enabling our people to become better coaches to their teams and ultimately improve safety, productivity and team engagement."

Leadership and learning

Our People Plan ensures that our employees benefit from the best learning and development opportunities, so we combine job-specific skills training with personal and professional development. This approach helps our employees succeed and creates a strong pipeline of talent to support our business strategy.

Line managers and HR professionals work with employees to identify their skills, areas for improvement and development opportunities. These personal development plans then become part of our annual performance-review process. We support these plans with a variety of learning and training opportunities, ranging from workshops and mentoring, to online resources and training courses.

Competition for talent is increasing, so it's essential we can identify and engage with our leaders through world-class development programmes – giving them the skills, insights and support to be successful. In FY2017, we launched an executive development programme in partnership with UCLA Anderson Executive Education. The programme, which has two streams – leadership and strategy, and finance – has already been piloted with a cohort of our senior leaders. A further three cohorts will participate in FY2018.

As a global technology company, we depend on a flow of new talent. We need people with the right skills to learn and grow at Smiths. Through our early career talent initiatives we attract and develop students and graduates with desirable degrees in science, technology, engineering, mathematics (STEM) or finance. We develop our graduate and internship roles within a structured development programme that provides technical and behavioural skills, as well as insight into career paths at Smiths.

Reward and recognition

Recognising and rewarding our employees in a fair and transparent way ensures that our people feel incentivised to succeed, that strong performance is recognised and that individuals can be differentiated according to abilities and results.

Since we operate in a competitive marketplace, we frequently assess our compensation and benefits packages so that we continue to attract and retain talent. To support this, we're launching a global grading project to identify clear career paths for all employees. Initially focusing on our leadership population, the programme will be rolled out to the wider organisation during FY2018.

We've also developed new incentive plans to support our growth agenda. These plans align individual objectives with the delivery of key elements of our growth strategy, such as meeting performance targets relating to our Excellence model and to sales. We adjust these incentive plans each year as our areas of focus change.

Recognition is broader than reward and compensation. The Smiths Excellence Awards, launched last year, recognise the highest levels of achievement across our six pillars of Excellence (see page 9). They also celebrate outstanding contributions to health and safety and to our communities.

PEOPLE

OUR FOCUS AREAS



SMITHS EXCELLENCE AWARDS

We believe that recognition is broader than reward and compensation and the Smiths Excellence Awards recognise the highest levels of achievement across our six pillars of Excellence, as well as outstanding contributions to Health and Safety and our communities. This year, we expanded the programme to celebrate success more widely and further embed Excellence across the business by rolling out a tiered scheme, with divisional winners being rolled up into an overarching Group scheme. The winning teams were celebrated at a gala dinner and received a \$1,000 contribution to a charity of their choice.

Diversity and inclusion

As a diverse organisation, operating in more than 50 countries and serving a wide range of high-technology markets, we thrive on the varied experiences and perspectives our people bring to their work. Since respect is one of our core values, we're creating an inclusive, collaborative culture that weaves respect for diversity into everything we do – whether that is gender, race, ethnicity, sexual orientation, disability, religion, age or cultural background.

We've introduced a new Group Culture and Diversity function to increase our focus in this area. In FY2017 it worked to consolidate and build on the progress we've already made. For example, we put diversity-related questions into our new engagement survey to help us understand our employees' workplace experience. We also piloted an online training course to counteract unconscious bias. The course, which helps build a fair and inclusive work environment, will be available to the rest of the organisation in FY2018.

We practice equal opportunities when interviewing, recruiting and promoting employees by basing our decisions on skills and expertise, first and foremost. We also calibrate performance ratings, merit and base-pay increases to eliminate systemic biases from the way we reward our employees.

At the end of FY2017, women made up 38% of our global workforce and 14% of our senior managers. Our two female Board directors account for 22% of the Board as at 31 July 2017. We are determined to broaden our workforce diversity and are developing programmes such as our global Women's Leadership Network to increase diversity among candidates for senior positions.

Diversity performance

	Male	Female	Total
Board of directors	7	2	9
Senior managers*	218	36	254
Employees (total)	13,600	8,300	21,900

* 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.

In employment-related decisions, we comply with all applicable anti-discrimination requirements in the relevant jurisdictions. People with disabilities are given full consideration for employment and subsequent training (including retraining, if needed, for people who have become disabled), career development and promotion on the basis of their aptitudes and abilities. We endeavour to find appropriate alternative jobs for those who are unable to continue in their existing job because of disability.

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

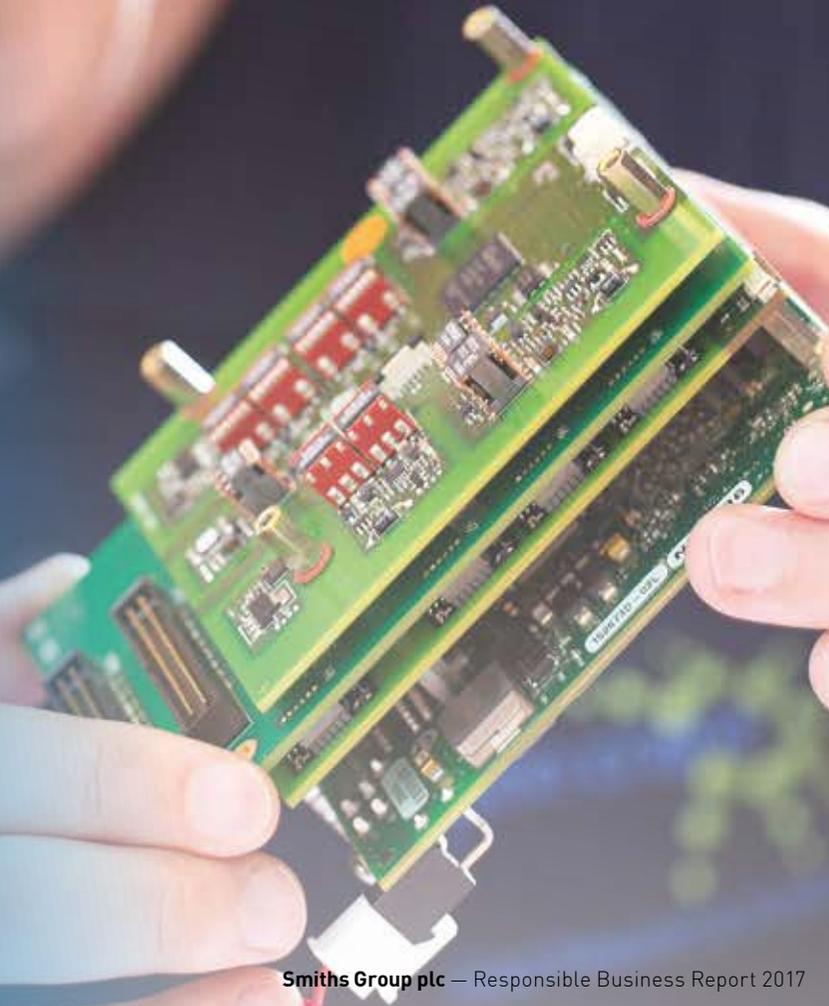
2018 PRIORITIES

- Continue to embed the Smiths Way through leadership engagement, local employee initiatives and communication
- Develop the right people to drive our strategy by integrating workforce planning with talent development
- Develop and use our unique employer brand to attract and retain the best talent
- Create new job opportunities and career paths, and align remuneration across Smiths through our global job-grading programme



PRODUCTS

OUR SOLUTIONS ENABLE CUSTOMERS TO OPERATE IN SAFE, EFFICIENT AND ENVIRONMENTALLY-FRIENDLY WAYS, AND WE ENSURE THAT OUR PRODUCTS MEET THE HIGHEST STANDARDS OF QUALITY AND SAFETY



PRODUCTS

OUR APPROACH

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

2017 HIGHLIGHTS

- Developed and launched the Smiths Quality Excellence platform – part of our SES operating model – to enhance quality throughout the production process
- Significantly improved quality performance, reducing the Cost of Poor Quality and Defective Parts Per Million across the Group

Governance

Technological differentiation is critical to outperforming our chosen markets on a sustainable basis and innovation is a key part of our growth strategy. Our Board is ultimately responsible for our innovation strategy and our Chief Executive spearheads the innovation agenda across the Group. Working closely with the Executive Committee, Group Head of Innovation, our i³ innovation framework, the SES team and divisional leadership teams, he is responsible for ensuring we execute successfully against our innovation strategy to ensure a strong product pipeline and deliver sustainable solutions of the highest quality.

Our Group-wide innovation framework, i³, helps drive collaboration and leverage core competencies from across Smiths and from external partners to build capability, drive collaboration and exploit breakthrough opportunities across the Group. Quality is a central part of the Smiths Excellence System, which is overseen by our Group Operations Director, supported by operations teams across the Group.

Our strategy

By developing leading-edge solutions, we are helping to build a safer and better world. At the same time, we ensure that every product is manufactured to the highest standard of quality and safety.

Our product pipeline is aligned with our corporate strategy and business model. It focuses on capturing value for our customers through innovation, to deliver world-class competitiveness. This ensures we are meeting the changing needs of our diverse global customer base, and developing safer and more sustainable products.

Our New Product Introduction (NPI) process is part of our Smiths Excellence System. It ensures that technology development is firmly embedded in the way we operate. As part of this gated process, new products must demonstrate certain HSE and quality deliverables, such as reducing hazardous materials in the supply chain.

SES drives our approach to quality, both within our operations and throughout the supply chain. We use common quality procedures to minimise product safety and quality issues, and monitor performance through quality control processes and systems.



PROTECTING PEOPLE FROM DANGEROUS SUBSTANCES

The threat of fentanyl, a highly dangerous synthetic opioid that can be absorbed through the skin, is on the rise and Smiths Detection has become the first company to develop technology that can detect it – helping protect the security and health professionals coming into contact with this dangerous substance in emergency situations. And our ReachBackID 24/7 hotline service has been enhanced so first responders using our products in the field can speak directly to PhD scientists to help them better analyse situations and reduce risk.

PRODUCTS

OUR FOCUS AREAS

Product quality

Many of our solutions play a mission-critical role in our customers' operations and ensuring consistently high standards of quality and safety through their manufacture, distribution and end use is essential to our reputation and long-term success.

The SES drives our approach to quality, both within Smiths operations and throughout our supply chain, ensuring consistent best practice across the business. It enables our divisions to maintain and enhance quality through standardised policies, processes and guidelines, supported by a culture of continuous improvement.

We also have quality assurance processes embedded in our manufacturing locations for critical equipment, which are compliant with industry regulations.

In 2017, our baseline year, we made good progress on improving our quality performance, achieving a 2.1% reduction in our Cost of Poor Quality (COPQ). COPQ includes the cost of waste, corrective work, warranty claims, returns and penalties, measured as a percentage of annual revenue.

Product safety

It's critical that our products are safe in their manufacture, distribution and end use. Where possible, we look for ways to 'design out' or replace less sustainable materials and chemicals used in our manufacturing processes with more sustainable alternatives. Doing this helps to reduce the environmental impacts of our products. It also ensures we meet changing regulatory requirements, reduce the risks and costs associated with product safety issues, and meet the needs of customers who increasingly demand more sustainable solutions.

We are also committed to using materials that are ethically and safely sourced, and we have clear processes in place to ensure this. Further detail on our supply chain can be found on page 16 in the Ethics section of this report. The use of conflict minerals is prohibited both across the Group and within our supply chain.

Product outcomes

Many of our products and services make significant contributions to the health, security and productivity of people around the world, and help reduce our impact on the environment. From Smiths Medical's products which are vital to patient care globally; and Smiths Detection's security scanners, which play a vital role in enhancing security around the world; to John Crane's seals, which help its customers reduce their environmental impact – we provide innovative solutions to some of the world's toughest challenges.

Our NPI and technology development processes assess the current and future needs of customers and consider health, safety, security and environmental outcomes when determining and developing the solutions that make up the pipeline.

The case studies in this section illustrate the positive impact our solutions have on the world.

2018 PRIORITIES

- Develop and execute comprehensive Quality improvement plans



REUSABLE TRACHEOSTOMY TUBES

Tracheostomy tubes are typically one-use products, but Smiths Medical's Bivona tubes for adults have been designed so they can be cleaned and sanitised for reuse, up to 10 times, giving a lifecycle of almost 11 months – a significant advantage in the homecare sector and unique to the disposables market.



COMMUNITIES

SUPPORTING THE COMMUNITIES
IN WHICH WE OPERATE HAS
A POSITIVE IMPACT BOTH FOR
SMITHS AND THE WORLD
AROUND US

COMMUNITIES

OUR APPROACH AND FOCUS AREAS

Supporting the communities in which we operate has a positive impact both for Smiths and the world around us. Our contributions help to drive local prosperity by providing jobs, boosting the economy and supporting local initiatives. Community relationships also enhance our reputation as an employer – vital as competition for key technical talent increases – and promotes employee engagement.

2017 HIGHLIGHTS

- Outstanding examples of community contributions recognised at the Group's 2017 Excellence Awards
- Supported STEMconnector's Global STEM Talent Summit in Washington DC and took part in a panel discussion
- Continued to engage with local communities around the world

Governance

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

Our strategy

Local sites across our five divisions develop and manage their own community programmes, providing both financial and non-financial support. Initiatives don't just come from the business; our employees generate ideas and donate their own time and resources to support local projects.

We are also reviewing our community engagement strategy to identify further opportunities to make an impact as we work together to build a bigger, better, stronger and more focused Smiths.

Economic contribution

As a global business operating in more than 50 countries, we generate financial value for a wide range of communities. As well as paying wages and benefits to our c. 22,000 employees worldwide, we contribute to local economies through taxes, duties, infrastructure investment, and the purchase of local goods and services.

Donations

In FY2017 the Group made charitable donations amounting to £348,000. Our employees also donated and raised money for a number of good causes by participating in fund-raising initiatives across the business.

Community engagement

We encourage our businesses and people to get involved in their local communities to build a sense of pride in our business, engage our people and build strong community relationships. We celebrate the best of these initiatives through our Excellence Awards scheme where ten winning teams from across our Excellence pillars receive \$1,000 to donate to a charity of their choice.

We're also working to develop STEM knowledge and skills within our communities. Through our STEMconnector partnership, we supported the Global STEM Talent Summit in Washington DC in April 2017 and hosted a round-table discussion at our London head office in June.

Our focus on STEM subjects extends to our divisions. Smiths Medical runs a summer internship programme and launched its STEM Outreach Committee in FY2017. The scheme has attracted over 100 volunteers and has reached thousands of students through presentations and career exhibitions.

REPORT SCOPE AND CONTACTS



COMMUNITY GIVING IN COSTA RICA

The team at Smiths Interconnect, Costa Rica, ran a wide-ranging community programme during the year. The team supported projects ranging from sponsoring a shelter for at-risk teenagers and young mothers – providing food, clothing and baby supplies, as well as helping with building repairs and maintenance – through to a re-forestation project in the local national park. The team of volunteers showed real passion for the initiative and were recognised at our 2017 Smiths Excellence Awards as an outstanding example of supporting local communities where we operate.

Report scope

Unless otherwise stated, this report highlights our Responsible Business governance, issues relevant to Smiths, strategy and performance during our 2017 financial year (1 August 2016 to 31 July 2017).

We may occasionally mention activities that occurred earlier when this helps to provide a clearer picture of our performance. This report supplements information in our 2017 Annual Report. Several case studies are included to provide examples of our responsible business activities. The report covers our owned or operated businesses. It does not include activities or performance of our suppliers, contractors or partners unless otherwise noted. This report was published in October 2017. We publish our Responsible Business Report annually.

We welcome feedback and enquiries from our stakeholders relating to anything in this report. To provide feedback, or request additional information, please email: cr@smiths.com. You can view our 2017 Responsible Business Report and historical Corporate Responsibility reports, as well as our Group Annual Report at www.smiths.com

Assurance

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

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

Contacts

Smiths Group plc
4th Floor
11-12 St James's Square
London
SW1Y 4LB

Incorporated in England No. 137013

T: +44 (0) 20 7004 1600
www.smiths.com

GRI G4 INDEX

This report was prepared in accordance with the Global Reporting Initiative's (GRI) G4 Reporting Guidelines at Core level.

GENERAL STANDARD DISCLOSURES

GENERAL STANDARD DISCLOSURES	DESCRIPTION	COVERAGE
STRATEGY AND ANALYSIS		
G4-1	CEO Statement	AR – P14-17 RBR – P1
ORGANISATIONAL PROFILE		
G4-3	Name of the organisation	RBR – BC
G4-4	Primary brands, products and services	RBR – P4-5
G4-5	Location of the organisation's headquarters	RBR – P31
G4-6	Number of countries where the organisation operates	RBR – P3
G4-7	Nature of ownership and legal form	AR – P4-7
G4-8	Markets served	AR – P28-29
G4-9	Scale of the organisation, including employees, operations, revenues and quantity of products and services	RBR – P2-5
G4-10	Total number of employees broken down by contract and gender and employment type, and supervised workers	AR – P73
G4-11	Percentage of total employees covered by collective bargaining agreements	AR – P73
G4-12	Description of the supply chain	AR – P22-23
G4-13	Significant changes during the reporting period regarding the organisation's size, structure, ownership, or its supply chain	RBR – P31
G4-14	How the precautionary approach or principle is addressed by the organisation	AR – P60-61
G4-15	External economic, environmental and social charters, principles, or other initiatives to which the organisation subscribes	RBR – P10
G4-16	Memberships of associations maintained at the organisational level	RBR – P10
IDENTIFIED MATERIAL ASPECTS AND BOUNDARIES		
G4-17	Entities included in the report	RBR – P31 AR – P6-7
G4-18	Process for defining the report content and the Aspect Boundaries	RBR – P10-12
G4-19	Material Aspects identified in the process for defining report content	RBR – P10-12
G4-20	Aspect Boundary within the organisation	RBR – P31
G4-21	Aspect Boundary outside the organisation	RBR – P31
G4-22	Effect of any restatements of information provided in previous reports	RBR – P31
G4-23	Significant changes from previous reporting periods	RBR – P31

GENERAL STANDARD DISCLOSURES	DESCRIPTION	COVERAGE
STAKEHOLDER ENGAGEMENT		
G4-24	List of stakeholder groups engaged by the organisation	RBR – P10
G4-25	Basis for identification and selection of stakeholders with whom to engage	RBR – P10
G4-26	Approach to stakeholder engagement.	RBR – P10
G4-27	Key topics and concerns that have been raised through stakeholder engagement	RBR – P10-12
REPORT PROFILE		
G4-28	Reporting period	RBR – P31
G4-29	Date of most recent previous report	RBR – P31
G4-30	Reporting cycle	RBR – P31
G4-31	Contact point for questions	RBR – P31
G4-32	The 'in accordance' option the organisation has chosen	RBR – P31
G4-33	Policy and current practice with regard to seeking external assurance for the report	RBR – P31
GOVERNANCE		
G4-34	Governance structure of the organisation	AR – P85
ETHICS AND INTEGRITY		
G4-56	The organisation's values, principles, standards and norms of behaviour	RBR – P8-9

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SPECIFIC STANDARD DISCLOSURES

SPECIFIC STANDARD DISCLOSURES	DESCRIPTION	COVERAGE	SPECIFIC STANDARD DISCLOSURES	DESCRIPTION	COVERAGE
ECONOMIC					
Economic performance	G4-EC1	Direct economic value generated and distributed			RBR – P4-5
	G4-EC4	Financial assistance received from government			AR – P52
	G4-EC7	Development and impact of infrastructure investments and services supported			RBR – P30
Indirect economic impacts	G4-EC8	Significant indirect economic impacts, including the extent of impacts			RBR – P8-9
ENVIRONMENTAL					
Energy	G4-EN3	Energy consumption within the organisation			RBR – P20
	G4-EN4	Energy consumption outside the organisation			RBR – P20
	G4-EN5	Energy efficiency			RBR – P20
	G4-EN6	Reduction of energy consumption			RBR – P20
Water	G4-EN10	Percentage and total volume of water recycled and reused			RBR – P19
Emissions	G4-EN15	Direct Greenhouse gas (GHG) emissions (Scope 1)			AR – P70
	G4-EN16	Energy indirect Greenhouse gas (GHG) emissions (Scope 2)			AR – P70
	G4-EN19	Reduction of Greenhouse gas (GHG) emissions			RBR – P20
	G4-EN22	Total water discharge by quality and destination			RBR – P19
	G4-EN23	Total weight of waste by type and disposal method			RBR – P19
Products and services	G4-EN27	Extent of impact mitigation of environmental impacts of products and services			RBR – P28
SOCIAL					
LABOUR PRACTICES AND DECENT WORK					
Occupational health and safety	G4-LA6	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and gender			RBR – P21
PEOPLE					
Training and education	G4-LA10	Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings			RBR – P24-25
			G4-LA11	Percentage of employees receiving regular performance and career development reviews, by gender and by employee coverage	RBR – P24
Diversity and equal opportunities	G4-LA12	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity			RBR – P25
Supplier assessment for labour practices	G4-LA15	Percentage of new suppliers that were screened using labour practices criteria			RBR – P16
Labour grievance mechanism	G4-LA16	Number of grievances about labour practices filed, addressed, and resolved through formal grievance mechanisms			RBR – P15
HUMAN RIGHTS					
Forced or Compulsory Labour	G4-HR6	Operations and suppliers identified as having significant risk for incidents of forced or compulsory labour, and measures to contribute to the elimination of all forms of forced or compulsory labour			RBR – P16
Supplier Human Rights Assessment	G4-HR11	Significant actual and potential negative human rights impacts in the supply chain and actions taken			RBR – P16
SOCIETY					
Anti-Corruption	G4-S03	Total number and percentage of operations addressed for risks related to corruption and the significant risks identified			RBR – P16
	G4-S04	Communication and training on anti-corruption policies and processes			RBR – P16
	G4-S05	Confirmed incidents of corruption and actions taken			RBR – P16
Compliance	G4-S08	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations			RBR – P16

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Smiths Group plc

4th Floor

11-12 St James's Square

London SW1Y 4LB, UK

020 7004 1600

www.smiths.com