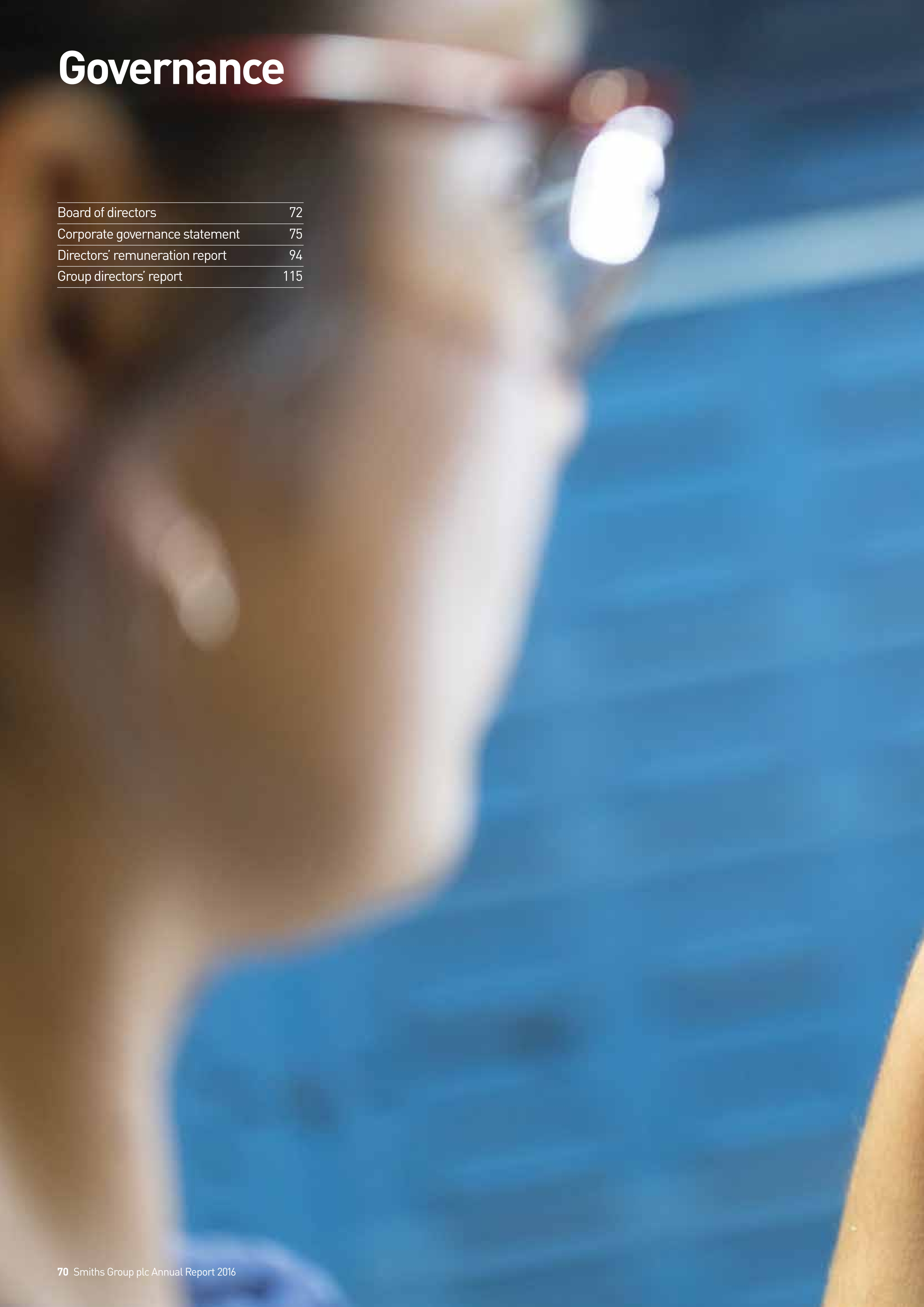
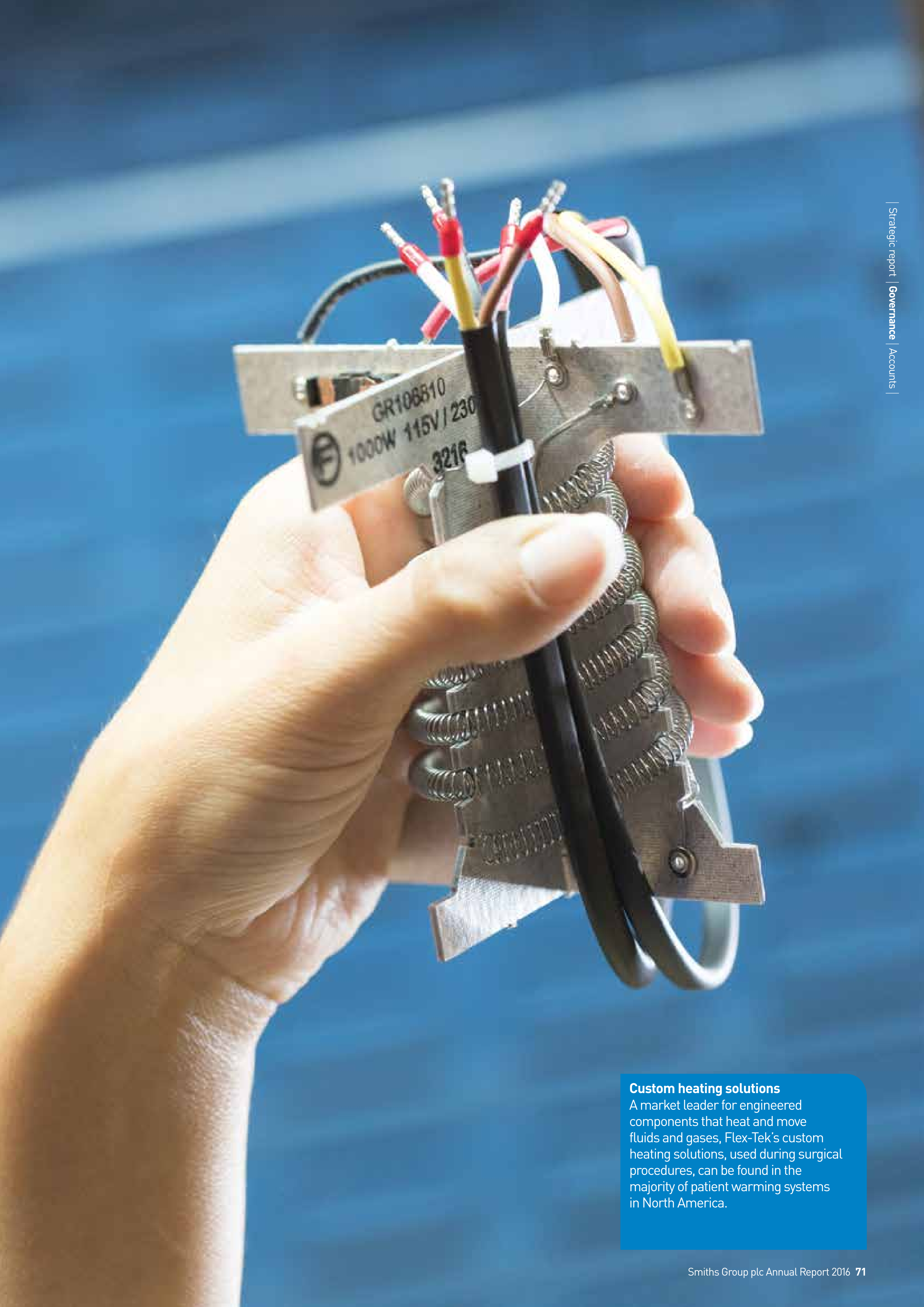
Governance





Custom heating solutions
A market leader for engineered components that heat and move fluids and gases, Flex-Tek's custom heating solutions, used during surgical procedures, can be found in the majority of patient warming systems in North America.

Board of directors

Sir George Buckley
Chairman

Committee membership N R

Appointment to Board
Sir George Buckley joined the Board on 1 August 2013 as a non-executive director and Deputy Chairman and was appointed as its Chairman on 19 November 2013.

Experience
Sir George has a PhD in Electrical Engineering. Sir George retired in 2012 as Chairman and CEO of 3M, the US-based global technology company and Dow Jones 30 component, after a long and successful business career spent mainly in the United States. He was previously Chairman and CEO of Brunswick Corporation and Chief Technology Officer for appliances, motors and controls at Emerson Electric Company. Sir George's expertise in engineering and innovation, combined with his extensive experience of large, multi-industry businesses that operate in global markets, are of huge benefit to Smiths.

External appointments

- Chairman of Ownership Capital
- Non-executive director of Hitachi, Ltd.
- Non-executive director and a member of the Audit Committee of PepsiCo, Inc.
- Non-executive director and member of the Audit and Compensation Committees of Stanley Black & Decker, Inc.

Committee membership key
A Audit Committee
N Nomination Committee
R Remuneration Committee
● Denotes Chair of the Committee

Andy Reynolds Smith
Chief Executive

Appointment to Board
Andy Reynolds Smith joined the Company as Chief Executive on 25 September 2015.

Experience
Before joining Smiths Group, Andy was Chief Executive Automotive at GKN plc, serving on the Board from 2007. He joined GKN in 2002 and held a number of senior positions across the Group, which included leading the Driveline, Powder Metallurgy and Land Systems divisions. In previous roles, Andy was Managing Director Europe for Ingersoll Rand's Bearings and Components business, Vice President International Operations at Invensys, and UK Country Director and Global Customer Director (Japan) for Delphi Automotive Systems. Andy began his career as an electrical and electronic apprentice with Texas Instruments. He is a former Chairman of the CBI Manufacturing Council and a former member of HM Government's Ministerial Advisory Group for Manufacturing and Green Economy Council. Until May 2016, he was a non-executive director of Morgan Advanced Materials plc. Andy has extensive experience in delivering significant growth in China and in driving business strategy, technological innovation and operational excellence.

Chris O'Shea
Chief Financial Officer

Appointment to Board
Chris O'Shea joined the Company as Chief Financial Officer on 18 September 2015.

Experience
Chris is a qualified Chartered Accountant with a finance degree from the University of Glasgow and an MBA from Duke University. Chris joined Smiths Group from the metals technology company, Vesuvius plc, where he was the CFO from 2012, following its demerger from Cookson Group plc. He was also a non-executive director of Foseco India Ltd, an Indian-listed supplier to the foundry industry and a part of Vesuvius plc. Chris has also held a number of senior finance roles at BG Group, latterly serving as CFO for the group's businesses in Africa, the Middle East and Asia. From 1998 to 2005 Chris worked in the UK, the US and Nigeria for Royal Dutch Shell in a variety of roles, including CFO for Shell's offshore exploration and production business in Nigeria. Chris has wide knowledge and experience of multi-national operations, including the manufacturing and oil and gas sectors. He also has experience of international tax and financing through roles at Ernst & Young and Royal Dutch Shell.

Melanie Rowlands
Company Secretary & Deputy Group General Counsel

Appointment
Mel was appointed as Company Secretary on 29 May 2015.

Experience
Mel holds an MA in Law from Oxford University and is a qualified solicitor. She joined Smiths in 2013, having previously held senior roles in BG Group plc and Linde AG. Most recently, she was the General Counsel of British Gas and Legal & HR Director of Edwards Group.

Bruno Angelici
Non-executive director

Committee membership A N R

Appointment to Board
Bruno Angelici was appointed to the Board as a non-executive director on 1 July 2010.

Experience
Bruno has Business and Law degrees from Reims and an MBA from Kellogg School of Management. His career includes senior management roles in pharmaceutical and medical device companies. Bruno retired from AstraZeneca in 2010 as Executive Vice President, International after a 20-year career. He was responsible for Europe, Japan, Asia Pacific, Latin America, Middle East and Africa and originally joined as President of ICI Pharma France. Prior to this, he was at Baxter, a US-based global supplier of medical devices. He has extensive international experience, including in the US, and brings a deep understanding to the Group of the medical device and pharmaceutical industries.

External appointments

Member of the Global Advisory Board of Takeda Pharmaceutical Company Ltd, Japan

Non-executive director and a member of the Nomination Committee of Novo Nordisk A/S, a Danish healthcare company

Member of the Supervisory Board and the Audit Committee of Wolters Kluwer nv, a Dutch-based information services and publishing company

Chairman of the Board and a member of the Nomination and Remuneration Committees of Vectura Group plc, a UK-listed specialty pharmaceutical company

Tanya Fratto
Non-executive director

Committee membership A N R

Appointment to Board
Tanya Fratto was appointed to the Board as a non-executive director on 1 July 2012.

Experience
Tanya is a qualified electrical engineer with a BSc in Electrical Engineering. She was CEO of Diamond Innovations Inc., a world-leading manufacturer of super-abrasive products for the material removal industry, until 2010. Before that she enjoyed a successful 20-year career with GE. She held a number of senior positions in product management, operations, Six Sigma and supply chain management. Tanya provides Smiths with wide experience in product innovation and sales and marketing in a range of sectors.

External appointments

Non-executive director and a member of the Audit Committee of Advanced Drainage Systems, Inc., a US-listed water management and drainage company

Non-executive director and a member of the Nomination and Remuneration Committees of Ashtead Group plc, a UK-listed international equipment rental company

Anne Quinn, CBE
Non-executive director

Committee membership A N R

Appointment to Board
Anne Quinn was appointed to the Board as a non-executive director on 1 August 2009.

Experience
Anne has a BCom from Auckland University and MSc in Management Science from the Massachusetts Institute of Technology. Anne spent her early career with NZ Forest Products Limited and US management consulting company, Resource Planning Associates. She has extensive overseas experience in the oil and gas sector, having enjoyed a successful 25-year career with Standard Oil of Ohio and BP. She held a number of executive positions including Group Vice President in the US, Belgium, Colombia and the UK. Following her career with BP, Anne was the managing director of Riverstone LLP, an energy private equity group. Anne's experience is a great benefit to the Group in its development of new geographic markets and its exposure to the oil and gas sector.

External appointments

Senior Independent Director and Chair of the Remuneration Committee of Mondi plc and Mondi Limited, a packaging and paper company, dual-listed in the UK and South Africa

Bill Seeger
Non-executive director

Committee membership A N R

Appointment to Board
Bill Seeger was appointed to the Board as a non-executive director on 12 May 2014.

Experience
Bill has a BA in Economics and an MBA, both from UCLA (University of California, Los Angeles). Bill joined GKN plc, the global engineering company, in 2003 as Senior Vice-President and Chief Financial Officer of Aerospace. In 2007 he became a member of the Executive Committee as President and Chief Executive Propulsion Systems and Special Products before being appointed to the Board as Group Finance Director the same year. Bill retired as the Finance Director of GKN in 2014. He previously held a number of senior finance posts during a 28-year career with TRW, the US-based automotive and aerospace group. His long career in finance in the engineering sector and in-depth knowledge of global markets, contracting and strategy execution greatly benefits Smiths.

External appointments
- Non-executive director and Chairman of the Audit and Risk Committee of Spectris plc, a UK-listed instrumentation and controls company
- Visiting Professor – UCLA Anderson School of Management

Mark Seligman
Non-executive director

Committee membership A N R

Appointment to Board
Mark Seligman was appointed to the Board as a non-executive director on 16 May 2016.

Experience
Mark is a Chartered Accountant, with a MA in Philosophy, Politics and Economics. He is a former Chairman of UK investment banking for Credit Suisse and previously served in senior roles at S.G. Warburg. He is also a former Chairman of the UK Government's Industrial Development Advisory Board. He has served as non-executive Deputy Chairman of G4S plc and chaired its Audit Committee. He was also a non-executive director and the chairman of the Audit Committee of BG Group plc. He brings to the Board a long and successful career in investment banking and extensive experience in corporate finance and capital markets.

External appointments
- Senior Independent Director and member of the Audit and Nomination Committees of Kingfisher plc
- Alternate member of the Panel on Takeovers and Mergers for the Association for Financial Markets in Europe

Sir Kevin Tebbit, KCB, CMG
Senior Independent Director

Committee membership A N R

Appointment to Board
Sir Kevin Tebbit was appointed to the Board as a non-executive director on 14 June 2006 and was appointed as the Senior Independent Director on 17 November 2015.

Experience
Sir Kevin has a BA in History. He held policy management and finance posts in the MoD, Foreign and Commonwealth Office and NATO. These included three years' service in Washington as Defence and European Counsellor at the British Embassy before becoming Director of GCHQ and finally Permanent Under Secretary at the Ministry of Defence from 1998 to 2005. Sir Kevin's career as a former senior British civil servant provides Smiths with considerable experience in the security and defence sectors and in government relations issues.

External appointments
- Executive Vice President, Government and Defence of AECOM
- Senior Associate Fellow at Royal United Services Institute
- Visiting Professor at Kings College, London
- Member of the Advisory Board of the Imperial College Institute for Security, Science and Technology

Committee membership key
A Audit Committee
N Nomination Committee
R Remuneration Committee
● Denotes Chair of the Committee

Corporate governance statement

Chairman's introduction

Smiths has a long and proud history, and excellence in corporate governance is essential to ensuring the Company's continued and long-term success. As the Board of Smiths we are responsible for the good stewardship of our shareholders' investment; we set the strategic direction and risk appetite within which the executive management team generate and drive value but all underpinned by a strong framework of good governance.

In this Annual Report we are reporting against the FRC's new revised UK Corporate Governance Code and the Board has adopted the revised principles and requirements it contains, including assessing the Company's long-term viability and increased focus on the Company's assurance framework for risk management. During the year we introduced an extra meeting of the Audit Committee at which the committee was able to obtain a deeper understanding of the risks of each of the business divisions and to give added focus to specific risks such as cyber-security, as well as considering the strategic risks for the Group as a whole. I am pleased with the work done in relation to setting the risk appetite for the Group, and in understanding the material risk areas in terms of multiple dimensions that include reputational impact and velocity. I think this puts us in much better shape to weather the storms to which all businesses are subject from time to time.

I reported last year that the Board had overseen a great deal of change in 2015, and we continued to support Andy Reynolds Smith and Chris O'Shea through their inductions and during their first year as Chief Executive and Chief Financial Officer, respectively. Following the retirement of David Challen from the Board after last year's Annual General Meeting, the Nomination Committee carried out a thorough review of the Board's composition, looking at the skills, knowledge and experience needed to take Smiths forward. Following a rigorous selection process I was delighted that Mark Seligman joined the Board in May as a non-executive director. Mark has had a good induction and it was helpful that he was able to join us in time for the Board's strategic review at its three-day meeting in May. I was also extremely pleased when Sir Kevin Tebbit agreed to take on the position of Senior Independent Director, as were the rest of the Board.

Throughout the year the Board has met regularly with members of the executive management team and other senior managers, during Board meetings and at other times. In particular the Board has participated in detailed strategic reviews, operating reviews and risk reviews for each of the business areas of the Group. Non-executive directors have also had the opportunity to meet with senior management less formally, during dinners and during business visits, in order to give them the opportunity to connect with individuals at various levels in the organisation.

I was interested to see the FRC's report on Corporate Culture and the Role of Boards published in July of this year which explores the responsibility of Boards for setting the right "tone at the top" and overseeing the values and culture of a business and the importance of this in ensuring effective business decisions and risk management. The Board spent time during Board meetings this year to consider the Company's ethics and anti-bribery programme, the health and safety programme, and its security and environmental sustainability programmes. The Board also considered work undertaken around the Group's supplier code of conduct and endorsed a statement for publication reinforcing our commitment to ensure there is no slavery in our operations. Which takes me back to my original theme – the key to resilience is to ensure that a business keeps the trust and respect of its internal and external stakeholders, and Smiths is absolutely committed to demanding the right behaviours at all times.

Sir George Buckley
Chairman

Excellence in corporate governance is essential to ensuring the Company's continued and long-term success.

Sir George Buckley
Chairman

Compliance with the UK Corporate Governance Code

Throughout the period 1 August 2015 to 31 July 2016 the Company has been in full compliance with the September 2014 edition of the UK Corporate Governance Code (the 'Code'), published by the Financial Reporting Council ('FRC') and available on its website (https://www.frc.org.uk/Our-Work/Codes-Standards/Corporate-governance/UK-Corporate-Governance-Code.aspx) except that:

1) The Company has not put the external audit contract out to tender for more than ten years. Details of the Company's intention in respect of competitive audit tendering and audit firm rotation and its compliance with the Competition & Markets Authority's Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 are described in the Audit Committee report on pages 88 and 89.

2) The value of any fees received by Philip Bowman in respect of his external non-executive directorships up to the time that he ceased to be a director of the Company on 24 September 2015 is not disclosed in the Directors' remuneration report, as this has not been considered relevant to the Company.

Disclosure Guidance & Transparency Rule 7

This Corporate governance statement is a section of the Group directors' report and is incorporated into the report by reference. This statement complies with sub-sections 2.1; 2.2(1); 2.3(1); 2.5; 2.7; and 2.10 of Rule 7 of the UK Listing Authority Disclosure Guidance & Transparency Rules. The information required to be disclosed by sub-section 2.6 of Rule 7 is shown in the Group directors' report on page 117 and is incorporated into this Corporate governance statement by reference.

2016 in summary

Succession planning for the Board and senior management remained a priority together with oversight of a focused, comprehensive induction programme for the new executive directors. The Board held its annual senior management talent and succession planning review.

Andy Reynolds Smith appointed as Chief Executive and Chris O'Shea appointed as Chief Financial Officer.

Appointment of Sir Kevin Tebbit as SID and recruitment and induction of Mark Seligman as non-executive director.

The Audit Committee added a fourth meeting to its annual schedule in order to enable a greater focus on risk assessment and management; it also monitored reporting in accordance with the UK Corporate Governance Code 2014.

The Board supported a number of Ethics programmes, including regional Business & Ethics Forums in Sao Paulo, Washington, DC and Shanghai, and approved the Smiths Modern Slavery Act Statement and a positive assurance programme for compliance issues at key suppliers in high-risk countries.

With oversight by the Board, information and cyber-security risks continued to have a proactive focus. Compulsory training was deployed to all employees, alongside a rolling real-life simulation programme aimed to make employees aware of the external threats from attacks such as phishing.

Governance structure

The governance structure of the Group is illustrated below. The Board is responsible to stakeholders for overseeing these activities and supervising management in its implementation of the strategy within a framework of prudent and effective controls which enables risk to be assessed and managed. The Board is also responsible for setting the Company's culture of ethical behaviour and compliance, and for promoting policies and providing oversight. The main activities of the Board are listed on page 78. In line with the UK Corporate Governance Code certain Board responsibilities are delegated to Board Committees which play an important role in supporting the Board (their terms of reference are available on our website). In addition, the work of the Chief Executive's Committee in executing the Group's strategy is supported by a number of sub-committees.

Governance model

Board and Board Committees

Board

Reviews and approves strategy, budgets and plans and ensures governance, risk and control framework

Nomination Committee

Reviews and makes recommendations to the Board on structure, size and composition of Board and Board Committees and succession planning for directors and senior management

Remuneration Committee

Makes recommendations to Board on remuneration framework and remuneration of Chairman, executive directors and senior management

Audit Committee

Monitors integrity of financial statements, internal control systems and risk management and internal and external audit controls

Executive Management structure

Executive Committee

Develops and recommends strategy to Board, recommends budgets and plans to Board and executes strategy and drives performance to budget and plans

Investment Committee

Assesses high-value/high-risk proposals, capital expenditure, asset disposal and special revenue expenditure projects that need Board or CEO approval

Disclosure Committee

Advises CEO and Board in accordance with Disclosure Policy.
Makes recommendations concerning identification of inside information and the timing and method of disclosure

Acquisitions & Divestments Committee

Approves mergers, acquisitions, disposals and joint ventures within parameters delegated by Board

In addition to the above there are a number of functional committees which include the Environmental Health & Safety Steering Committee, the Company's innovation council, known as *i^3*, and the Ethics Code Compliance Council.

The Board

Board role and responsibilities

The Board holds formal meetings at least six times a year to make and review major decisions and monitor trading against the plans which it has approved, and holds additional meetings to consider the strategy of each of the divisions and the overall strategy of the Company. Further meetings are arranged as necessary to deal with urgent items. The Board exercises control by determining matters specifically reserved to it in a formal schedule which only the Board may change: these matters include the acquisition or divestment of significant companies or businesses, the issue of shares, significant contractual commitments, the review of the effectiveness of risk management processes and major capital expenditure.

The Board sets the Company's values and standards, including the Company's Code of Business Ethics which is referred to on pages 61 to 64. The role of the Board in the governance of the Group is illustrated in the diagram on page 77 and its main activities are outlined in the diagram below.

The executive directors and senior management team are responsible for the Company's financial performance, the day-to-day management of the Company's businesses and implementation of the strategy and direction approved by the Board.

Board activities

Culture, trust and values

- Ethics and compliance
- Health and safety
- Environmental management
- Security of people, assets and information

Strategy

- Group strategic plans and annual budget
- M&A strategy, pipeline
- Major acquisitions (and post-acquisition reviews)
- Financing

Performance

- Talent pipeline and succession
- CEO's report
- Divisional performance updates and operating reviews
- KPIs

Risk and controls

- Internal audit reports
- Risk management process
- Viability testing

Financial

- Financial performance versus budget and forecasts
- Trading statements
- Annual results
- Financial risk and treasury reports
- Tax risk and status reports

Governance and compliance

- Board effectiveness review
- Corporate governance updates
- Director conflicts of interest review
- Share register and investors
- Inside information and disclosure requirements
- Legal issues and litigation report

Board composition; balance and tenure

As at 27 September 2016, the Board comprises Sir George Buckley (Chairman), Andy Reynolds Smith (Chief Executive), Chris O'Shea (Chief Financial Officer) and six independent non-executive directors: Bruno Angelici, Tanya Fratto, Anne Quinn, Bill Seeger, Mark Seligman and Sir Kevin Tebbit (Senior Independent Director). On 18 September 2015 Chris O'Shea was appointed as Chief Financial Officer and succeeded Peter Turner (who resigned as Finance Director on 24 April 2015) and Rob White (who acted as interim CFO until Chris O'Shea's appointment). Andy Reynolds Smith was appointed as an executive director and as the Chief Executive on 25 September 2015 (his predecessor, Philip Bowman, having stepped down as Chief Executive and as a director of the Company on 24 September 2015). David Challen retired as a non-executive director at the conclusion of the Annual General Meeting ('AGM') in November 2015. On 16 May 2016 Mark Seligman was appointed as a non-executive director of the Company. Biographies of the current directors are set out on pages 72 to 74.

The Board and its committees have the appropriate balance of skills, experience, independence and knowledge of the Company to enable them to discharge their respective duties and responsibilities effectively. The wide-ranging experience and backgrounds of the non-executive directors ensure that they can debate and constructively challenge management in relation to both the development of strategy and the evaluation of performance against the goals set by the Board.

The Chairman meets the non-executive directors without the executive directors present after each Board meeting in order to understand their priorities and issues. He also meets with the Senior Independent Director and the Chairs of the Audit and Remuneration Committees. The Senior Independent Director meets the other non-executive directors without the Chairman present at least annually and is available to provide support to the Chairman and to serve as an intermediary for the other directors, if required.

Board balance and independence

There is a balance of executive and non-executive directors such that no individual or small group can dominate the Board's decision making. Throughout the financial year at least half the Board, excluding the Chairman, has comprised independent non-executive directors.

The FRC's UK Corporate Governance Code 2014 states that diversity is as much about differences of approach and experience as it is about gender. The Board does not endorse the setting of rigid quotas to achieve diversity but it does believe in the merits of a diverse mix of experience, interests and personalities to ensure the effective functioning of a Board in which the dialogue is both challenging and constructive. The diagrams overleaf illustrate the good balance of longer standing Board members and more recent appointments, and the diversity in gender and nationality.

The individual qualifications, strengths and experiences of the directors are included in their biographies on pages 72 to 74.

In deciding the chairmanship and membership of the Board committees, the need to refresh membership of the committees is taken into account. The table on page 79 indicates the service, to 31 July 2016, of each of the directors.

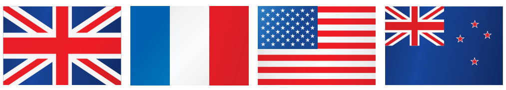
Each of the non-executive directors is considered to be independent and Sir George Buckley was considered to be independent at the time of his appointment as Chairman. In the light of the length of service of Sir Kevin Tebbit on the Board, the Board and each of its committees undertook a rigorous review of his performance, including his independence in order to evaluate his contribution to the Board and to the committees on which he sits. Sir Kevin continues to demonstrate attributes of an independent non-executive director, including contributing constructive challenge and debate at meetings, and there has been no evidence that his tenure on the Board has impacted his independence. As such the Board is satisfied that Sir Kevin continues to bring robust non-executive oversight. During the review, the Board also determined that Sir Kevin should remain in the role of Senior Independent Director (following his appointment to that role on the retirement of the previous incumbent, David Challen, on 17 November 2015).

Board balance, diversity and tenure

These charts illustrate the diversity and tenure of board members as at 31 July 2016.

Nationality

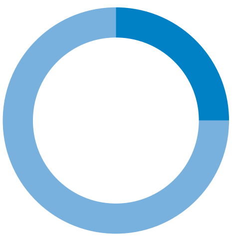
Four nationalities are represented on the Board (United Kingdom, France, United States and New Zealand), although the international experience of Board members is much wider than this.



United Kingdom France United States New Zealand

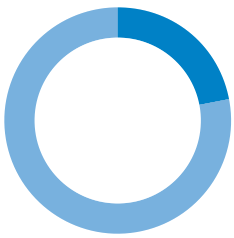
Executive balance

- Executive directors 2 (25%)
- Non-executive directors 6 (75%) (excluding the Chairman)



Gender balance

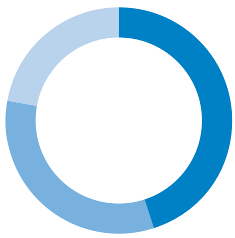
- Female 2 (22%)
- Male 7 (78%)



Board tenure

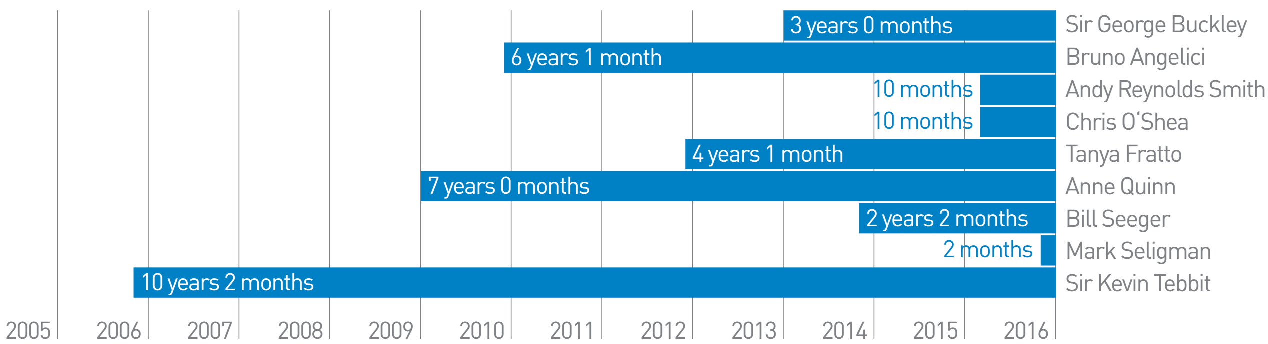
- From 0 to 2 years 45%
- From 3 to 6 years 33%
- From 7 to 10 years 22%

Further details on the tenure of each director are shown on pages 72 to 74.



Tenure of the Board

The Board and Nomination Committee regularly review the mix of skills and experience on the Board. The chart illustrates the good balance of longer standing Board members and more recent appointments, providing both continuity and fresh perspectives.



Chairman and Chief Executive

The Board has established clearly defined roles for the Chairman and the Chief Executive. The Chairman is responsible for leadership of the Board, ensuring its effectiveness and setting its agenda. Once agreed by the Board as a whole, it is the Chief Executive's responsibility to ensure delivery of the strategic and financial objectives approved by the Board. During the year, the Chairman and Chief Executive have had meetings or calls at least weekly.

Key roles and responsibilities

Chairman

The Chairman's responsibilities include:
- Leadership of the Board
- Setting the agenda and tone for the Board
- Promoting high standards of integrity and corporate governance
- Ensuring the effectiveness of the Board

Chief Executive

The Chief Executive's responsibilities include:
- Ensuring implementation of the strategic and financial objectives approved by the Board
- Providing leadership on all executive management matters affecting the Company
- Leadership of his Executive Committee
- Ensuring the Company's diverse stakeholder relationships (including with shareholders, employees and customers) are properly managed

Senior Independent Director

The Senior Independent Director's responsibilities include:
- Acting as a sounding board for the Chairman
- Acting as an intermediary for the directors where necessary
- Being available to shareholders if they have concerns which cannot be resolved through the Chairman or executive management
- Conducting an annual review of the Chairman's performance

Company Secretary

The Company Secretary's responsibilities include:
- Maintaining the Group's governance and listing rule compliance framework
- Ensuring that all Board and Board committee meetings are properly held and advising the Board on matters of governance and on legislative and regulatory developments
- Assisting the Chairman and the Chief Executive in ensuring that the directors are provided with all relevant information in a timely manner
- Organising new director induction and ongoing director training

Appointments to the Board

The Nomination Committee has a formal, rigorous and transparent procedure for the appointment of new directors, which are made on merit and against objective criteria, having due regard for the benefits of diversity, including gender. This procedure was followed in the selection and appointments of Chris O'Shea, as an executive director and Chief Financial Officer on 18 September 2015; Andy Reynolds Smith, as an executive director and Chief Executive on 25 September 2015; and Mark Seligman, as a non-executive director on 16 May 2016. Further information in relation to the recruitment of Messrs O'Shea, Reynolds Smith and Seligman is contained in the Nomination Committee report on pages 91 and 92.

The Board is satisfied that the directors are able to allocate sufficient time to their responsibilities relating to the Company. During the year, the Board considered the other engagements and proposed engagements of the directors as part of the director conflicts of interest procedure, as further described below.

Re-election

All directors stand for election by the shareholders at the first AGM following their appointment. The Board has resolved that all directors who are willing to continue in office will stand for re-election by the shareholders each year at the AGM. Non-executive directors are appointed for a specified term of three years, subject now to annual re-election at each AGM, and reappointment for a second three-year term is not automatic. Any term for a non-executive director beyond six years is subject to a particularly rigorous review. The Chairman has confirmed that, following the performance reviews undertaken in 2016, the performance of each of the directors standing for re-election at this year's AGM continues to be effective and that they each continue to demonstrate commitment to their respective roles and dedicate the time necessary to perform their duties.

Conflicts of interest

Under the Companies Act 2006 (the '2006 Act') a director must avoid a situation where he or she has, or could have, a direct or indirect interest that conflicts or possibly may conflict with the Company's interests. The 2006 Act allows directors of public companies to authorise conflicts and potential conflicts where appropriate and where the articles of association contain a provision to this effect. Article 65 of the Company's Articles of Association provides that the directors can authorise potential conflicts of interest.

The Board has put procedures in place for directors to report any potential or actual conflicts to the other members of the Board for their authorisation where appropriate. Each director is aware of the requirement to seek approval of the Board for any new conflict situations, as they may arise. The process of formally reviewing conflicts disclosed, and authorisations given (including such conditions as the Board may determine in each case), is repeated twice a year. Any conflicts or potential conflicts considered by the Board and any authorisations given are recorded in the Board minutes and in a register of director conflicts which is maintained by the Company Secretary.

The current directorships in listed companies and other significant commitments of the Chairman and the non-executive directors are shown on pages 72 to 74. During the year, Andy Reynolds Smith resigned as a non-executive director of Morgan Advanced Materials plc and Tanya Fratto was appointed as a non-executive director of Ashtead Group plc. It is confirmed that the Chairman and the non-executive directors have sufficient time to fulfil their commitments to the Company and that no executive director holds more than one non-executive directorship of another FTSE 100 company.

Board meetings and visits

The table below shows the number of Board meetings held during the financial year ended 31 July 2016 and, opposite each director's name, the number of meetings they were eligible to attend and the number actually attended.

	Board meetings	
	Attended*	Eligible to attend*
Sir George Buckley (Chairman)	11	11
Andy Reynolds Smith (appointed 25 September 2015)	8	8
Chris O'Shea (appointed 18 September 2015)	9	9
Bruno Angelici	10†	11
Tanya Fratto	10†	11
Anne Quinn	11	11
Bill Seeger	11	11
Mark Seligman (appointed 16 May 2016)	2	2
Sir Kevin Tebbit	10†	11
Philip Bowman (resigned 24 September 2015)	3	3
David Challen (retired 17 November 2015)	4	4

*Includes four occasions where matters were conducted by telephone conference calls and one matter approved by written resolution

†Bruno Angelici, Tanya Fratto and Sir Kevin Tebbit were each unable to attend a non-scheduled conference call meeting, called at short notice, due to prior commitments

Rob White also attended three meetings as Interim Chief Financial Officer prior to the appointment of Chris O'Shea as Chief Financial Officer

During the year, the divisional general managers, heads of Corporate departments, senior managers and other external advisers were invited to attend certain Board meetings, as and when required.

The Board regards attendance at meetings as only one measure of directors' contributions to the Company. In addition to formal Board meetings, the directors attend other meetings and make site visits during the year.

Board visit to Smiths Medical, Minneapolis, USA

As part of its 2016 schedule, the Board visited the head office and research and development laboratory of Smiths Medical in Minneapolis in July 2016. The visit included presentations on strategy, performance, operations, R&D and quality from senior management, a tour of the facility and the opportunity to meet employees in a less formal setting.

Induction, information and professional development

The Board is provided with detailed information up to a week in advance on matters to be considered at its meetings and non-executive directors have ready access to the executive directors and other senior corporate staff. Non-executive directors are also provided with information and updates between meetings. Regular site visits are arranged and non-executive directors are encouraged to visit sites independently. During site visits, briefings are arranged and the directors are free to discuss aspects of the business with employees at all levels.

Newly appointed directors undergo an induction programme to ensure that they have the necessary knowledge and understanding of the Company and its activities. They undertake briefing sessions on corporate governance, strategy, stakeholder issues, finance and risk management and HR, as well as meetings and site visits to business locations. Each director's individual experience and background is taken into account in developing a programme tailored to his or her own requirements. The suitability of external courses is kept under review by the Company Secretary who is charged with facilitating the induction of new directors and with assisting in the ongoing training and development of all directors. Tailored induction programmes were designed for Chris O'Shea, Andy Reynolds Smith and Mark Seligman in order to ease their transitions into their respective new roles and to expedite their integration into the Group.

Advice and insurance

All directors have access to the advice and services of the Company Secretary and a procedure is in place for them to take independent professional advice at the Company's expense should this be required.

The directors and officers of the Company and its subsidiaries have the benefit of a directors' and officers' liability insurance policy.

Performance

The Board and its committees undertake an annual evaluation of their own performance. This is conducted by external consultants at least once every three years. Last year the Board evaluation was conducted by an external consultant and the resulting actions included the introduction of a framework of periodic Board agenda items, focusing on certain key areas, such as succession planning and cyber-security risks.

In view of the changes in composition of the Board during the year, the evaluation for this financial year is being conducted with the assistance of an external consultant, Lintstock Limited (which also provides the Company with software and services for maintaining its insider list under the EU Market Abuse Regulation). The evaluation involved the completion by the directors of questionnaires relating to the performance of the Board and its committees collectively and to the personal contributions of the individual directors. The questionnaires were administered confidentially by Lintstock. The Board members were asked to mark the performance of the Board in areas such as strategy, risk management, succession planning and the overall efficiency and effectiveness of the Board. They were also asked to make specific comments and suggestions for improving the performance and efficiency of the Board. Lintstock's analysis of and report on the responses to the questionnaire will be discussed by the Board, which will review the findings and agree appropriate actions.

In addition, an evaluation of the Chairman was carried out by Sir Kevin Tebbit, as the Senior Independent Director, who sought the individual views of each of the directors. Sir Kevin then met with the Chairman to discuss feedback.

The Board continued with its practice of setting itself a series of written objectives for the financial year. Those for the year ended 31 July 2016 included the following:

- on-boarding of the new executive directors
- creating a vision for Smiths that equates to the drive and imagination shown by the Smiths of the past
- developing the growth strategy
- succession planning for CEO and senior leadership

Relations with shareholders and other capital providers

Dialogue with shareholders

The Chief Executive, the Chief Financial Officer and the Group Director, Corporate Affairs communicate with institutional investors through analysts' briefings and extensive investor roadshows in the UK, US and continental Europe, as well as timely Stock Exchange announcements, meetings with management and site visits, as shown in the table below. The Chairman also met with investors. The Senior Independent Director and the other non-executive directors are available to meet shareholders on request. Members of the Board, and in particular non-executive directors, are kept informed of investors' views, in the main through distribution of analysts' and brokers' briefings. At least twice a year a report is made to the Board on the number and types of meetings between the Company and institutional shareholders. The Board is confident that this process enables the non-executive directors to maintain a balanced understanding of the views and concerns of major shareholders.

During the year, the Chief Executive and Chief Financial Officer continued the programme of dialogues with shareholders in the UK, US and continental Europe as part of the 2016 investor relations programme, detailed below.

Dialogue with other capital providers

The Company values the contribution of its committed lending banks and bond holders to the achievement of its strategic aims. The Chief Financial Officer and the Director, Tax and Treasury meet with and communicate proactively with this investor base and the rating agencies, Standard & Poor's and Moody's, on a regular basis. There is also a formal, annual meeting with the rating agencies. They communicate with the debt markets generally via investor roadshows at the time of financing activity. Committed banks are invited to the biannual presentations of its trading results and the Capital Markets Days to enable them to keep informed of business strategy and meet both senior corporate and divisional management. Members of the Board are kept informed of the current credit views of debt investors, generally, and the rating agencies, specifically, by regular commentary and financial metric reporting to meetings.

Constructive use of the Company's Annual General Meeting

All directors normally attend the AGM and shareholders are invited to ask questions during the meeting and to meet directors before and after the formal proceedings have ended. The Board values the AGM as an opportunity to meet with those shareholders who are able to attend and to take their questions.

At the 2015 AGM all directors in post, including the Chairs of the Audit, Nomination and Remuneration Committees, were available to answer shareholders' questions. The notice of the AGM and related papers were sent to shareholders at least 20 working days before the meeting.

The 2016 AGM will be held on 15 November 2016 and is an opportunity for shareholders to vote on certain aspects of Group business in person. It is intended that there shall be a poll vote on each resolution at the 2016 AGM. The audited, final results of the poll votes will be released to the London Stock Exchange and published on the Company's website, www.smiths.com, as soon as is practicable after the conclusion of the AGM.

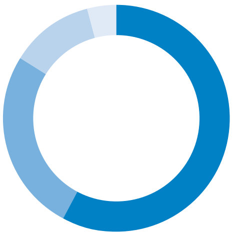
Investor relations activities timeline 2016

	Roadshows	Presentations
June 2016	Hong Kong equity	
May 2016	France and Germany equity	
April 2016	US equity	
March 2016	UK equity	Interim results
December 2015	Private client brokers	
November 2015	Private client brokers	AGM
October 2015	CEO and CFO introductory roadshow	
September 2015		Annual results

During financial year 2016, senior management and the investor relations team had contact with over 250 analysts and investors.

Contact with investors/analysts

- United Kingdom 58%
- US and Canada 26%
- Rest of Europe 12%
- Rest of World 4%



Accountability and audit

Financial reporting

The Board is required to present a fair, balanced and understandable assessment of the Company's position and prospects in the Annual Report and in interim and other public reports. The directors are required to explain in the Annual Report the basis on which the Company both generates and preserves value over the longer term and its strategy for delivering the Company's objectives. The Board is satisfied that it has met these obligations in this Annual Report. A summary of the directors' responsibilities for the financial statements is set out on page 124.

The assessment of the fairness, balance and understandability of the Annual Report is described on page 86.

The 'going concern' statement required by the Code is set out in the Group directors' report on page 116.

A report on the viability assessment made by the Board in accordance with requirements of the Code is included in the Strategic report on page 52.

Internal control

The Board is responsible for determining the nature and extent of the significant risks it is willing to take in achieving its particular objectives and ensuring that there are sound risk management and internal control systems in place to safeguard shareholders' investments and the Company's assets. Throughout the financial year the Board, through the Audit Committee, reviews the effectiveness of internal control and the management of risks. In addition to financial and business reports, the Board has reviewed medium- and longer-term strategic plans; management development programmes; reports on key operational issues; tax; treasury; risk management; insurance; legal matters; and Audit Committee reports, including internal and external auditors' reports. The Audit Committee carried out a formal review of the effectiveness of the internal control system, covering all material controls, including financial, operational and compliance controls, and risk management systems, during the year ended 31 July 2016.

The Company has in place internal control and risk management systems in relation to the Company's financial reporting process and the Group's process for preparation of consolidated accounts. These systems include policies and procedures that: pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; provide reasonable assurance that transactions are recorded as necessary to permit the preparation of financial statements in accordance with International Financial Reporting Standards ('IFRS'); require representatives of the businesses to certify that their reported information gives a true and fair view of the state of affairs of the business and its results for the period; and review and reconcile reported data. The Audit Committee is responsible for monitoring these internal control and risk management systems.

The Company's internal control is based on assessment of risk and a framework of control procedures to manage risks and to monitor compliance with procedures. The procedures for accountability and control are outlined below.

The Company's internal control systems are designed to meet the Company's particular needs and the risks to which it is exposed and, by their nature, can provide only reasonable, not absolute, assurance against material loss to the Company or material misstatement in the financial accounts.

The Group has an embedded process for the identification, evaluation and management of its principal business risks. The process is reviewed through the Audit Committee and monitored by the Group Internal Audit department. The Company has during the year identified the principal risks and the controls and procedures that are in place to manage these risks. The directors have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity, and the controls and procedures put in place to manage and mitigate the risks and defend the Group (as described on pages 52 to 60).

In the highly regulated environment of the industries in which the Company operates, procedures are codified in detailed operating procedures manuals and are reinforced by training programmes. These are designed to ensure compliance not only with the regulatory requirements but also with general principles of business integrity.

A key element in any system is communication: the executive directors and senior corporate staff meet regularly with representatives from the businesses to address financial, human resource, legal, risk management and other control issues.

Audit Committee and auditors

The Audit Committee makes formal and transparent arrangements for considering how financial reporting and internal control principles are applied and for maintaining an appropriate relationship with the independent external auditors, PricewaterhouseCoopers LLP.

Remuneration

Information regarding the Remuneration Committee is set out on page 93 and the Directors' remuneration report is on pages 94 to 114.

Board Committees

The Company has established the Audit, Nomination and Remuneration Committees of the Board. Each such committee meets regularly in accordance with its respective terms of reference. Each committee's responsibilities, activities and membership are described in this Corporate governance statement. The full terms of reference of the following Board committees are available upon request and on the Company's website, www.smiths.com.

Audit Committee

Bill Seeger
Chairman of the Audit Committee

Introduction from the Chairman of the Audit Committee
I am pleased to report to our stakeholders that the audit committee remains focused, diligent and aligned to providing a strong control environment for Smiths Group. Working together, real progress has been made to bring together our risk assessment with our strategic agenda and priorities. This year, as outlined in the detailed report of the committee, our focus was to integrate the work we do with the operational and strategic blueprint for the business under our new CEO and CFO. We also took a thorough look at the Group's 'lines of defence' strategy for modelling the effectiveness of the enterprise risk management and control systems.

This year we introduced a fourth annual meeting to the Committee's schedule at which the risk reviews for all the Group's businesses were brought together into a single, focused session. This has been of particular benefit in considering the potential impacts of the differing industry and geographical risks presented by our diverse businesses, both individually and in combination. This has also been used in assessing the risk profile of the Group as a whole and the effect that has on the 'long-term viability' assessment of the Group, as described in this Annual Report.

Throughout the year we have benefited from productive and open relationships with our external auditor, Internal Audit and Group management. We have also welcomed the new executive team of Andy Reynolds Smith and Chris O'Shea who have provided the Committee with their strategic vision for the Group. The contributions of PwC, Internal Audit and senior management have all enhanced the effective operation of the Committee and its oversight of the Company's controls and risk management. In a business with the scale, diversity and geographical spread of Smiths Group, issues relating to internal financial and other risk controls, codes of conduct and ethical standards arise from time to time for review by the Committee. We are satisfied that the Group has systems in place to identify such issues promptly and that management has the appropriate processes and resources available to address them effectively.

The Committee has continued to monitor the changing rules and regulations applicable to the external auditor and its own role in the governance of the Group audit. Following its review of the independence and effectiveness of our external auditor, the Committee affirmed its recommendation last year that the most practical and business-driven approach to our external auditor appointment would be to conduct a competitive tendering and rotation in 2019. This timeframe would coincide with the normal audit partner rotation and comply with the auditor rotation transition rules. The Committee has recommended to the Board that PwC should be proposed for reappointment as auditor at this year's AGM.

We strive to achieve continuous improvement in our financial and risk controls and our high standards of corporate governance as Smiths Group evolves and grows. Sincere thanks to my audit committee colleagues as well as the executive team for the transparency with which they have supported the Committee.

Committee membership
The members of the Committee during the 2016 financial year were:

	Appointed/last re-appointed
Bill Seeger (Chairman)	12 May 2014
Bruno Angelici	1 July 2016
Tanya Fratto	1 July 2015
Anne Quinn	1 August 2015
Mark Seligman	16 May 2016
Sir Kevin Tebbit	17 July 2016
David Challen (retired 17 November 2015)	

All members served on the Committee throughout the year, except for Mark Seligman, who joined the Committee on his appointment as a non-executive director of the Company, and David Challen, who retired from the Board and the Committee on 17 November 2015.

All members of the Committee are independent non-executive directors and, in the view of the Board, have recent and relevant financial and accounting experience gained from their respective business activities in international businesses. In particular, Bill Seeger was the Group Finance Director of GKN plc, which post he had held for over six years before his retirement in 2014. Tanya Fratto, Anne Quinn and Bruno Angelici have extensive senior management experience in international oil & gas, engineering and medical devices industries, respectively; Mark Seligman has a long history in corporate finance; and Sir Kevin Tebbit has substantial knowledge of international governmental relationships. As part of his induction programme as a director of the Company (which included a detailed overview of the Company's business models, strategy and risk profile), Mark Seligman was provided with relevant material on the constitution and working of the Committee and copies of recent papers and presentations. Further details of the qualifications and experience of the members of the Committee are contained in the biographies of the directors on pages 72 to 74.

There have been no changes to the membership of the Committee since the financial year-end.

Meetings and attendance

The Committee met four times during the 2016 financial year, with three meetings timed to align with the financial reporting and audit cycles of the Company, namely: the approval of the Annual Report in September; the approval of the half-year report in March; and the presentation of the pre-year-end 'early warnings' report from the external auditor, PricewaterhouseCoopers LLP ('PwC'), in July. A meeting was also held in May 2016 at which the Committee reviewed the risk management reports of the Group's five divisions.

The attendance record of the members of the Committee was:

	Attendance
Bill Seeger (Chairman)	4/4
Bruno Angelici	4/4
Tanya Fratto	4/4
Anne Quinn	4/4
Mark Seligman (appointed 16 May 2016)	2/2
Sir Kevin Tebbit	4/4
David Challen (retired 17 November 2015)	1/1

In order to maintain effective communications between all relevant parties, the following were frequent attendees at the meetings:

- the Chairman of the Board
- the Chief Executive
- the Group Chief Financial Officer
- the Group Financial Controller
- the Company Secretary
- the Director of Internal Audit
- the Group Director of Tax and Treasury and
- the Group audit partners of the external auditor, PwC.

In addition, annual presentations on risk management were given to the Committee by the divisional general manager of each of the Group's five divisions and the head of Business Information Services ('BIS', the Group's IT function). The Senior Vice-President & General Counsel – Ethics & Compliance reported to the Committee on the implementation of the Business Ethics Programme; the work of the Company's Code Compliance Council; and the investigations into allegations of non-compliance with the Ethics Code, including issues raised through the Group's whistleblowing procedures.

At the conclusion of the meetings, the representatives of the external auditor and the Director of Internal Audit were each given the opportunity to discuss matters without executive management being present. The Director of Internal Audit, the Senior Vice-President & General Counsel – Ethics & Compliance and the external auditor have direct access to the Chairman and the members of the Committee should they wish to raise any concerns outside formal Committee meetings.

The members of the Committee also had the opportunity to meet separately at each meeting to discuss any relevant matters in the absence of all the invitees.

The members of the Committee receive briefing notes from the Company and from PwC on all relevant developments in company law; governance standards; and international and domestic financial accounting practices and regulations.

All the members of the Committee at the time attended the AGM in November 2015.

Outside of the formal meetings schedule, the Chairman of the Audit Committee has met separately with the senior management of the Company, the representatives of PwC and the Director of Internal Audit to discuss the Company's financial reporting and governance.

Role and responsibilities

The primary role of the Audit Committee is to ensure the integrity of the financial reporting and audit processes and the maintenance of sound internal control and risk management systems. This includes responsibility for monitoring and reviewing:

- the integrity of the Group's financial statements; the significant reporting issues and judgements contained therein; and the reports of the external and internal auditors;
- the bases for the Board's statement on the adoption of the 'going concern' basis of accounting; its assessment of the long-term viability of the Company; and its description of the information contained in the Annual Report as enabling a 'fair, balanced and understandable' assessment of the Group;
- the consistency of the Annual Report and the annual financial statements;
- financial announcements released by the Company and any reports or returns made by the Group to financial regulators;
- the appropriateness of the Group's relationship with the external auditor, including auditor independence and objectivity; auditor compliance with relevant ethical and professional standards and guidance; audit fees; and provision of non-audit services;
- the terms of engagement of the external auditor;
- the scope of the annual external audit plan and the quality and experience of the external audit team assigned to its execution;
- the reports of the external auditor, including any major issues or reservations and significant accounting and audit judgements highlighted therein;
- the effectiveness of the external audit process, making recommendations to the Board on the appointment or re-appointment or the removal of the external auditor;
- the remit and effectiveness of the internal audit function and the appropriateness of the resources available thereto;
- the effectiveness of the Group's policies on internal control and risk management systems in the evaluation and management of significant business risk;
- statements on the assessment and management of risks and on internal controls;
- the Group's implementation of the Company's Code of Business Ethics and Business Ethics Programme, including the Group's arrangements for its employees to raise any issues of concern (whistleblowing) and the process for the investigation and resolution of any such issues; and
- the Group's procedures for detecting fraud and systems and controls for preventing bribery.

The Chairman of the Audit Committee reports formally to the full Board on the activities of the Committee after each Committee meeting.

Written terms of reference that define the Committee's authority and responsibility are available on our website at www.smiths.com.

Financial and narrative reporting

During the financial year, the Committee has:

- considered information presented by management on key matters of accounting judgements and policies, adopted in respect of the Company's 2015 Annual Report and 2016 half-year report, and relevant changes to accounting standards and agreed their appropriateness;
- discussed with PwC the firm's audit reports and noted the key accounting matters and significant judgements highlighted by PwC in respect of each set of financial statements;
- reviewed documentation prepared to support the statement on internal control in the 2015 Annual Report and was satisfied that the Company was operating an effective system of internal controls to manage risk;
- reviewed documentation prepared to support the going concern judgement in the 2015 Annual Report and concluded that the accounts had been properly prepared on a going concern basis;
- assessed the processes and activities undertaken by the Group in order to ensure that the 2015 Annual Report, taken as a whole, would be 'fair, balanced and understandable' and concluded that the quality and range of information provided in the Annual Report was sufficient to enable shareholders to assess properly the Group's position, performance, business model and strategy;
- examined key points of disclosure and presentation to ensure the adequacy, clarity and completeness of the 2015 Annual Report and 2016 half-year report and the preliminary announcement of the annual results;
- reported to the Board its views on significant financial reporting issues and judgements applied to the 2015 Annual Report, the 2016 half-year report and the associated information releases (including matters communicated to the Committee by the external auditor);
- evaluated the bases for and the content of the Strategic report, the operational review and the corporate governance statement contained in the 2015 Annual Report;
- satisfied itself that the 2015 Annual Report was consistent within itself and that the 'front half' and the 'back half' of the publication were thoughtfully cohesive;
- reviewed documentation prepared to support the going concern judgement in the 2016 half-year report, including the review of the principal risks for the second half of the financial year, and concluded that the accounts had been properly prepared on a going concern basis;
- in addition to the press releases for the preliminary annual results for 2015 and the 2016 half-year results, reviewed the Company's press releases and announcements containing price-sensitive material and reports made to financial regulators during the year; and
- analysed the methodology and processes presented by the management for the assessment in the 2016 Annual Report of the prospects of the Company over the longer-term ('long-term viability assessment') and agreed that a three-year period is appropriate for this purpose, taking into consideration the Company's various business cycles and forecasting models. The Committee considered scenario-based stress testing models, prepared by the Company, to assess the impact on Group cash and finances if one or more of the Group's principal risks occurred. The Committee concurred with the conclusion that the Group's balance sheet and ability to raise cash were more than sufficient to withstand such occurrences comfortably for at least the three-year period under review.

Subsequent to the end of the financial year, the Committee has also reviewed and reported to the Board on the reports and information supplied by management and by PwC on the judgements and policies adopted for the 2016 Annual Report and the content of that document. The Committee considered that the quality and range of the material included within the 2016 Annual Report was sufficient to provide shareholders with the necessary information for them to assess properly the Group's position, performance, business model and strategy and that the report was presented in such a way as could be considered 'fair, balanced and understandable'. The Committee reviewed the statement on risk management and internal controls; the going concern statement; the assessment of the long-term viability of the Group; and the content of the announcement of the financial results for 2016.

In assessing the fairness, balance and understandability of the 2016 Annual Report, the Committee considered:

- the accuracy and integrity of the messages conveyed in the report; the appropriateness of the level of detail in the narrative reporting; the correlation between the judgements and issues and the disclosures and estimation uncertainties;
- the consistency between the narrative reporting in the front half and the financial reporting in the back half of the report; the explanations of the differences between statutory and headline reported results; and
- the overall design and layout of the information and data; the clarity of the messages and the reporting; the holistic nature of the report.

Following its review of the 2016 Annual Report, the Committee was of the opinion that it is representative of the year and presents a fair, balanced and understandable overview, providing the necessary information for shareholders to assess the Group's position, performance, business model and strategy.

Corporate governance

During the year, the Audit Committee has reviewed the Company's compliance with its governance obligations and its plans to comply with forthcoming changes thereto. In particular, the Committee has:

- monitored the changes introduced by the Company to ensure full compliance in the 2015 Annual Report with the requirements of the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013; the 2014 edition of the UK Corporate Governance Code (the 'Code'); and The Large & Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 – all of which also govern the 2016 Annual Report;
- considered the amendments to and developments in the International Financial Reporting Standards that affected the 2016 financial year; and the adoption of FRS 101 in place of the UK GAAP accounting framework;

- taken account of the Competition & Markets Authority's Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 (the 'CMA Order');
- considered the changes to the Code contained in the 2016 edition (which will apply to the Company's 2017 financial year) and the Company's plans to comply with them; and
- reviewed the changes in the Financial Reporting Council's 2016 Guidance to Audit Committees and Ethical Standards for Auditors, reflecting the implementation in the UK of the EU Audit Directive and Regulation.

In relation to the Code, the Committee noted and approved the Company's plan to introduce the 'long-term viability' assessment and the detailed description of the strategies for managing and mitigating principal risks and threats in the 2016 financial year. Certain other changes introduced by the Code had already been adopted by the Company and reflected in the 2015 Annual Report.

The CMA Order applied to the Company's 2016 financial year. Under the transitional provisions of the order, the competitive audit tendering regulations require the Company to put the external auditor role out to tender by 2023. The Committee decided not to recommend a competitive tender this year in order to enable the Company's recently appointed Chief Executive and Chief Financial Officer the opportunity to acquaint themselves fully with the Group. The Committee took into account that the current audit engagement partner had had a full year in the role, in addition to his experience in shadowing the 2014 audit. The Committee's proposal for a competitive audit tender and auditor rotation is described in the External Auditor effectiveness and reappointment section below.

The Company has complied with the provisions of the CMA Order during the financial year ended 31 July 2016.

External audit

In relation to the activities of the external auditor, during the financial year, the Committee:

- considered PwC's audit report on the 2015 Annual report; its review of the 2016 half-year results; and its 'Early Warning' report on the 2016 audit;
- monitored PwC's execution of the audit plans for 2015 and 2016, taking into consideration the change of audit partner after rotation for the 2015 audit;
- discussed all major issues identified by PwC during the course of the audits, including the key accounting and audit judgements taken by management and management's responses to the audit findings;
- agreed materiality and de minimis levels with PwC;
- considered the draft letter of representation from the Company to PwC in connection with the audit of the 2015 financial statements;
- reviewed the non-audit fees paid to PwC and found them to have been incurred in accordance with the policy on the provision of non-audit services;
- conducted the annual review of the independence and objectivity of PwC and was satisfied that PwC's behaviour had been professional in both respects;
- determined that PwC remained effective in its role as external auditor; and
- recommended to the Board that PwC be proposed for re-appointment as external auditor at the 2015 AGM for a further year.

Subsequent to the financial year-end, the Committee has considered and approved the same items in respect of the 2016 audit and the preparation of the 2016 Annual Report. The Committee has recommended that PwC be proposed for reappointment as external auditor at the 2016 AGM.

The Committee considered that each of the Company's directors had taken all necessary steps to ensure that he or she was aware of all pertinent audit information and that such information had been properly communicated to PwC in a timely manner.

External audit plan

PwC presented its Group Audit Plan for the financial year ending 31 July 2016. The Committee discussed with PwC:

- its risk matrix and the factors affecting the various audit risk assessments; the proposed audit scope, taking into consideration statutory audit requirements, financially significant components and significant risk components and central programme testing;
- materiality levels;
- the impairment risk relating to John Crane Production Solutions;
- the adverse effect on working capital of aged inventory and receivables; and
- the impact of changes in governance regulations and professional standards.

The Committee noted the focus on the audit risks associated with revenue recognition; certain litigation risks; impairment of goodwill; and management override of controls. PwC's proposal to decrease the overall materiality level to £17m (approximately 3.5% of headline operating profit) (2015: £18m) and an unchanged de-minimis reporting threshold of £500,000 was accepted as prudent and appropriate. The Committee considered the resources proposed by PwC, including the qualities, seniorities and experience of the audit team members, to be consistent with the scope of the audit. It was noted that the Audit Plan had been discussed and co-ordinated with Internal Audit. Through a combination of full-scope audits, specified audit procedures and local GAAP statutory audits, business units producing 89% of the Group's forecast headline operating profit for 2016 would be audited by PwC under the 2016 Audit Plan.

The fee structure and terms of the audit engagement letter, which had been agreed with Smiths management, and PwC's assessment of its independence were considered appropriate for the work proposed and were approved.

Non-audit services

In order to safeguard auditor independence, the Committee has monitored compliance with the Group policy on the engagement of external audit firms for non-audit work. Non-audit services were divided into three categories in relation to the incumbent external auditor:

- Pre-approved (but subject to the Group Chief Financial Officer's approval for projects likely to exceed £10,000) – where the threat to auditor objectivity and independence is considered low, such as regulatory compliance work; tax advisory work; and low-level acquisition work;
- Permitted (but subject to the approval of the Audit Committee for projects over £10,000 and competitive tendering for projects over £100,000) – such as larger acquisitions; corporate reorganisation; tax structuring; and IT risk and security; and
- Not permitted – such as book keeping; financial system design; actuarial services; management functions; and internal audit.

The Committee recognises that non-audit services falling in the Pre-approved category can be purchased more cost effectively from and completed more efficiently by the incumbent auditor due to the audit firm's existing knowledge of the Group and its systems. The Committee is satisfied that the non-audit work performed by PwC during the financial year had been properly assessed and authorised in accordance with the Group policy.

On 17 June 2016, the EU Audit Directive and Regulation came into force and the FRC published a revised Ethical Standard for Auditors in respect of audits of financial years beginning on or after that date. As a consequence of the new regulation and standard, the Committee has reviewed and approved changes to the Group policy on the engagement of audit firms for non-audit work in order to take account of the prohibited list of non-audit services that an incumbent auditor is not permitted to provide in the EU under the regulation and the cap on the level of permitted non-audit services that can be billed.

External auditor independence

The Committee is responsible for the development, implementation and monitoring of the Company's policies on external audit which are designed to maintain the objectivity and independence of the external auditor. These policies also regulate the appointment by the Group of former employees of PwC and set out the approach to be taken when using the external auditor for non-audit work.

The external auditor is not permitted to provide services which could result in:

- the external auditor auditing its own firm's work;
- the external auditor making management decisions for the Group;
- a mutuality of interests being created; or
- the external auditor being put in the role of advocate for the Group.

The Committee's review of the independence of the external auditor included:

- examining written confirmation from PwC that they remained independent and objective within the context of applicable professional standards;
- considering the tenure of the audit engagement partner, who is required to rotate every five years in line with ethical standards (and has so rotated following the conclusion of the 2015 audit);
- monitoring the ratio between the fees for audit work and non-audit services (12% in 2015); and
- checking that management confirmed compliance with the Group's policies on the employment of former employees of PwC and the use of PwC for non-audit work.

As a result of this review, the Committee concluded that PwC remained appropriately independent in the role of external auditor.

Details of the fees paid to PwC in 2016 can be found in note 2 on page 149. Non-audit fees incurred during 2016 amounted to £0.3m which related principally to tax advisory services and audit-related assurance services in connection with the interim report. Non-audit fees as a percentage of audit fees totalled 6%. All such activities remained within the policy approved by the Board.

External auditor effectiveness and reappointment

The Committee's review of the performance of PwC and the effectiveness of the external audit process included consideration of the views and opinions of the executive directors and senior management on PwC's effectiveness in a number of areas including independence and objectivity, audit strategy and planning, conduct and communication, audit findings and feedback, and expertise and resourcing. The results were positive and confirmed that both PwC and its audit process were appropriate and effective and that the relationships between the audit teams and the Company's businesses were strengthening. The Committee recognised the challenges in ensuring consistency in the audit process across the whole Group and the need to continue to improve communication at local and divisional levels.

The Committee received and considered the Independence Letters, sent by PwC in September 2015 in respect of its 2015 audit and September 2016 in respect of the 2016 audit, and concurred with PwC's opinion that it had complied with all relevant regulatory and professional requirements and that the firm's objectivity had not been compromised.

The Committee noted the findings in the Financial Reporting Council's May 2016 Audit Quality Inspection report on PwC. It evaluated a summary of PwC's internal quality control procedures and noted that the lead engagement partner, Andy Kemp, is accountable directly to the Committee for the execution of the audit. The Committee satisfied itself that the quality of the work exhibited by the firm and its commitment to improvements were of a high standard.

PwC has been the Company's external auditor since its formation in 1998, although a predecessor organisation of PwC held office as sole auditor in 1997. In determining whether to recommend PwC for reappointment as auditor in 2016, the Committee took into consideration the following factors:

- the length of PwC's appointment and the guidance on the new audit firm rotation regulations and proposals;
- the results of the effectiveness review detailed above;
- the qualities and experience of the audit partner (following the rotation of the previous audit partner whose five-year term expired at the completion of the 2014 audit), and
- the changes in the executive management team during 2016, in particular the appointments of a new Chief Financial Officer who took up his post on 18 September 2015 and a new Chief Executive who was appointed on 25 September 2015.

Taking these elements into account and acknowledging that it would take some time to stage a competitive audit tender from initial planning to final selection, the Committee concluded (a) that it would not be practical to put the auditor appointment for 2016 out to competitive tender at this stage and (b) that it was appropriate to recommend to the Board that the reappointment of PwC as the Company's auditor for a further year be proposed to shareholders at the 2016 AGM.

Recognising the various requirements in the Code, the CMA Order and the Statutory Auditors and Third Country Auditors Regulations 2016 (implementing the EU's June 2014 Audit Directive and Regulation), the Committee reviewed its decision last year and concluded that it would remain in the best interests of the Company to plan for a competitive audit tender for the rotation of the external auditor in 2019. This would coincide with the end of the current PwC audit partner's five-year term and enable the Company to plan its implementation of the final audit firm rotation regulations. Notwithstanding its continued recommendation for tendering in 2019, the Committee will keep the performance of the incumbent audit firm under annual review.

The Board has considered and adopted the Committee's recommendations to propose the reappointment of PwC as auditor in 2016 and to plan for a competitive audit tender and auditor rotation in 2019.

There are no contractual obligations restricting the Group's choice of external auditor.

Internal control and risk management

In fulfilling its responsibilities, the Committee:

- reported to the Board on its evaluation of the Group's risk assurance framework and embedded risk management processes, based on consideration of the reports by PwC on the Group's control environment and ERP systems and on fraud risk; the audits undertaken by Internal Audit; and the risk management reports presented by and discussed with each of the divisions and BIS; and
- reviewed management's plans to mitigate and remedy the failings and weaknesses in the Company's internal financial and risk controls that were identified by PwC and Internal Audit and has monitored their effectiveness. The Committee did not view any of the issues that had been identified and addressed as significant.

The Committee has reviewed the effectiveness of the identification and management of risk at the Group level. Each division also presents an analysis of its own business strategic risks to the Committee on an annual basis.

Further information on the Group's systems of internal control and risk management is given on page 83.

Internal audit

During the financial year the Committee:

- received progress reports on the execution of the 2016 Internal Audit Plan (which comprised 50 site audits, nine programme management and process reviews and four IT reviews);
- discussed the recommendations made by the internal auditors;
- noted the progress being made by management in reducing the numbers of aged outstanding recommendations;
- reviewed the effectiveness of Internal Audit as a part of the Company's risk management process, including its use of KPMG as an external contractor to provide additional resources and capabilities in certain areas;
- considered the remit of Internal Audit, its budget and resources and the nature and extent of the outsourcing to KPMG; and
- approved the 2017 Internal Audit Plan (49 site visits, eight programme and process reviews and seven IT reviews), including the proposed audit scope, approach, coverage and allocation of resources. The Committee noted the number, quality and skills of staff employed within Internal Audit.

Treasury and tax

During the financial year, the Committee reviewed the report of the Treasury department of the Group on financial risk and treasury management, noting the Group's borrowing position and debt capacity. The extension of the Group's revolving credit facility to 2021, at no cost, and the repayment of the Sterling bond, on 30 June 2016, were noted.

The Committee also received status reports on tax risk from the Group's Tax department, noting the assessments of compliance, tax audit risk, tax provisions and international tax rates. The Company's assessment of its appetite for tax risk was also reviewed.

Ethics

During the financial year, the Committee reviewed the annual report of the Group's Business Ethics Council on the Group-wide Ethics programme. The report included details of the investigations into allegations of non-compliance with the Ethics Code and whistleblowing events, including bribery and corruption, and the Council's work programme to support the initiatives of the businesses and monitor compliance with both the Group's Code of Business Ethics and the various applicable national regulations. The Committee received a report on the first phase of an external review of compliance with Group and divisional ethical policies and procedures. The Committee considered that the Company's processes and arrangements for staff to report concerns about any improprieties were both appropriate and effective. The Committee also considered that the Company's investigation of such reports and consequential actions (where required) were timely and effective.

Constitution and membership

During the year the Committee considered and approved changes to its terms of reference to reflect the changes contained in the Code and CMA Order, which applied to the Company's 2016 financial year.

During the year, the committee memberships of Bruno Angelici and Sir Kevin Tebbit came up for review. After a rigorous review of their individual performances as members of and their history on the Committee (with each individual not participating in the discussion concerning their own performance), the Committee determined to recommend to the Nomination Committee to propose to the Board that Bruno Angelici should be reappointed as a member of the Committee for a further three-year term. In the case of Sir Kevin Tebbit, who has over ten years' service as a non-executive director of the Company but was still considered to be independent, the Committee recommended that Sir Kevin should be reappointed as a member of the Committee for a further year. It was noted that Bill Seeger's first term as a member and as Chairman of the Committee would expire on 12 May 2017. In recognition that the Company's evaluation of Committee memberships usually takes place in July annually, it was agreed that it would be prudent to recommend extending Bill Seeger's term to the date on which Committee memberships are considered by the Board in 2017. It was further noted that membership of the Committee would automatically lapse if a member ceased to be a director of the Company.

Performance evaluation

An annual evaluation of the performance of the Committee is conducted as part of the annual evaluation of the performance of the Board. Details of the latest evaluation are given in the Corporate governance statement on page 81.

Significant judgements and issues

An important responsibility of the Audit Committee is to review and agree the most significant management judgements and issues. To satisfy this responsibility, the Committee requests a written formal update from the Chief Financial Officer and Director of Tax and Treasury three times a year and requires regular reports from the external auditors at each Committee meeting. The Committee carefully considers the content of these reports and the most significant issues and areas of judgement raised. The key areas of judgement in the year were as follows:

Revenue recognition

The Committee reviewed the key judgements on revenue recognition. Attention was given to large, multi-faceted and nonstandard contracts in Smiths Detection and to contracts where 'percentage of completion' accounting was used in Smiths Detection and Smiths Interconnect. The Committee reviewed the accounting treatment of three large programmes in Smiths Detection where management has assessed the portion of revenue to be attributed and the anticipated profit margin and concluded that the revenue judgements made were appropriate. The Committee also reviewed 'bill and hold' transactions in Smiths Detection and were satisfied with the adopted accounting treatment.

Impairment

The Committee considered the Group's intangible assets and the assumptions used to justify the carrying values of these assets, including 'fair value less costs to sell'. Particular attention was given to John Crane Production Solutions, Smiths Interconnect Power and Smiths Interconnect Microwave Telecoms and Components. The Committee also reviewed the carrying value of capitalised development assets for Smiths Medical and Smiths Detection. The Committee agreed that the projected future cash-flows from these businesses either supported the carrying value of the assets or agreed with the value of the impairments recorded. In the case of Smiths Interconnect Telecoms, the Committee reviewed the 'fair value less costs to sell' model and agreed the value of the impairment. The Committee reviewed the disclosures contained in the financial statements and agreed that they appropriately reflect the sensitivity of the judgements made. Details of impairment testing and sensitivities are included in note 11 of the financial statements.

Working capital

The Committee considered the key judgements within working capital and, in particular, the level of inventory provisions and overdue receivables in emerging markets. The Committee determined that the judgements made were appropriate to justify the working capital provision levels at 31 July 2016.

Provisions for liabilities and charges

The Committee continued to monitor carefully the expert assessments of the financial exposure of the Group to the John Crane, Inc. asbestos litigation and to the Titeflex Corp. CSST claims. In particular, the Committee considered the treatment of potential liabilities and the changes to the assumptions made in calculating the provisions, including the reassessment of the time period for the Titeflex Corp. CSST provision and the continued appropriateness of the ten-year time period for John Crane, Inc. asbestos litigation. In both these cases, it was determined that the assumptions fairly reflect the position at 31 July 2016. Further details of the assumptions used are included in note 22 of the financial statements.

Taxation

The Committee assessed the appropriateness of the Group's assumptions and judgements in relation to the estimates of the assets and liabilities to be recognised in income and deferred tax as well as the treatment of losses in the UK. Particular focus was given to deferred tax assets relating to the John Crane, Inc. asbestos provision, the Titeflex Corp. CSST provision, the write-off of tax assets in John Crane Production Solutions and the recognition of tax assets in Detection USA and France. In reviewing projected profit streams the Committee was satisfied that, where appropriate, the relevant entities will generate sufficient future taxable profits to utilise those assets recognised. Further details on movements in tax balances are set out in note 6 of the financial statements.

Post-retirement benefits

The Committee reviewed and agreed the methods, assumptions and benchmarks used by the actuaries to calculate the position of the UK and US schemes at 31 July 2016. The Committee agreed the treatment and the corresponding disclosures on these matters. More detail on post-retirement benefits is contained in note 8 of the financial statements.

FRC Corporate Reporting Review

During the year the FRC's Conduct Committee raised a number of points on the Company's 2015 Annual Report. The Committee has monitored the dialogue between the Company and the FRC and discussed with the external auditors the matters raised and the responses to date provided by the Company. The Committee noted that the Company has responded to all of the points raised by the FRC, with additional disclosures being included in the 2016 Annual Report in respect of provisions, revenue, tax, inventory provisioning and post-retirement benefits. The Committee is aware of the continuing correspondence over the remaining open item, namely the period over which a range of possible outcomes can be estimated sufficiently reliably for the provision by John Crane, Inc. in respect of its continuing asbestos litigation and related disclosures, including estimation uncertainty.

Discharge of responsibilities

During the year, the Committee has monitored its discharge of responsibilities. In addition to the actions reported in the sections above, the Committee has:

- observed the induction and on-boarding of the new Chief Executive and new Chief Financial Officer;
- welcomed Mark Seligman as a new member; and
- considered practical ways to improve the quality and clarity of the Company's reporting.

The Committee has enjoyed a positive relationship with the Board throughout the year and has no contentious or unresolved issues to report.

Advice

The Committee has independent access to the services of Internal Audit and to the external auditor and may obtain outside professional advice, at the expense of the Company, as it sees fit, in the performance of its duties.

Nomination Committee

Sir George Buckley
Chairman of the Nomination Committee

Introduction from the Chairman of the Nomination Committee
During the 2016 financial year the Nomination Committee worked to find the Company's two new executive directors and we were delighted to appoint Andy Reynolds Smith and Chris O'Shea. In addition, after the retirement from the Board of David Challen I took the opportunity for the Nomination Committee to review the composition and balance of skills of the Board and to plan for succession in view of the Company's strategic aims. The review informed our search for a new non-executive director and I was delighted that Mark Seligman was appointed to the Board in May 2016. This report sets out details of these director appointments and their induction into the Company.

Meeting attendance

The attendance record of the members of the Committee was:

	Attendance
Sir George Buckley (Chairman)	3/3
Bruno Angelici	3/3
Tanya Fratto	2*/3
Anne Quinn	2*/3
Bill Seeger	3/3
Mark Seligman (appointed 16 May 2016)	1/1
Sir Kevin Tebbit	3/3
David Challen (retired 17 November 2015)	1/1

*Tanya Fratto and Anne Quinn were unable to attend a meeting called at short notice, due to prior commitments

Committee membership

The Committee meets periodically, as and when required. During the financial year the members of the Committee were: Sir George Buckley (Chairman), Bruno Angelici, David Challen (until November 2015), Tanya Fratto, Anne Quinn, Bill Seeger, Sir Kevin Tebbit and Mark Seligman (from his appointment in May 2016).

The Chief Executive is normally invited to attend the Nomination Committee. The HR Director, the Director of Talent and the Director of Reward have also attended these meetings in order to advise the Committee. External advisers may also be invited by the Committee to aid its deliberations.

Role and responsibilities

The Committee leads the process for identifying and makes recommendations to the Board regarding candidates for appointment as directors of the Company and as Company Secretary (and their removal or retirement), giving full consideration to succession planning and the leadership needs of the Group. It also makes recommendations to the Board on the composition of the Nomination Committee and the composition and chairmanship of the Audit and Remuneration Committees. It reviews the structure, size and composition of the Board, including the balance of skills, knowledge and experience and the independence of the non-executive directors, and makes recommendations to the Board with regard to any changes. The Committee also has responsibility for the annual review of the talent pipeline for senior management roles.

The Chairman and the rest of the Board continue to support Lord Davies' aspiration for female board representation, but this presents a particular challenge for a small board. The Nomination Committee and the Board remain committed to ensuring diversity is included within the remit for appointments at all levels in the Company, but do not think it is appropriate to set specific Group-wide targets or objectives at this stage. Further information on diversity is provided in the Strategic Report.

The Committee has access to such information and advice both from within the Group and externally, at the cost of the Company, as it deems necessary. This may include the appointment of external search consultants, where appropriate.

The Committee reviews annually its terms of reference and effectiveness and recommends to the Board any changes required as a result of such review. The annual review of the Committee's terms of reference was conducted in July 2016 and certain changes were approved with effect from 1 August 2016.

Committee activities during 2016

Chris O'Shea and Andy Reynolds Smith were appointed as executive directors of the Company, on 18 and 25 September 2015, respectively, successfully concluding the searches, instigated by the Committee during the previous financial year and run in conjunction with Egon Zehnder (in Andy Reynolds Smith's case) and Inzito (in Chris O'Shea's case) and interview process.

David Challen retired from the Board on 17 November 2015, after 11 years' service. The Nomination Committee carried out a review of the skills and experience of the Board and embarked upon a search for a new non-executive director. The Committee appointed Lygon, an independent search firm with no other connections with the Company, to carry out the search. The Nomination Committee worked with Lygon to produce a detailed specification for the role including the capabilities and attributes which were either required or desirable. These included the benefits to the Board of diversity in its widest sense (gender, nationality, age, experience, and background) and the particular skills which would benefit the Company as a multi-industry company operating in a global market. From the candidates produced by the search, Mark Seligman was selected. He agreed to the appointment as a non-executive director and duly joined the Board and its Audit, Nomination and Remuneration Committees on 16 May 2016.

David Challen's retirement also created a vacancy in the position of Senior Independent Director. After due consideration, the Committee recommended to the Board that the role should be offered to Sir Kevin Tebbit. The Board concurred and Sir Kevin accepted the position with effect from 17 November 2015.

The Company Secretary is responsible for ensuring that new directors have a thorough and appropriate induction programmes when joining the Company's board of directors. Each of the directors who were appointed during the financial year received a comprehensive induction data reading room and hard copy data pack, containing detailed information on the Company and its business and on the proceedings of the Board and its committees. Each of these inductions was based on the individual directors' requirements and included meetings with Board members, divisional presidents, functional heads and other relevant employees and external advisers. Mark Seligman has visited some Smiths sites in order to gain a deeper understanding of the Group's business operations and these visits are ongoing. Andy Reynolds Smith and Chris O'Shea both received comprehensive on-boarding when they joined and they met with the Company's largest investors and spent several weeks visiting Smiths sites around the world, meeting employees at all levels of the organisation, as well as senior personnel and board members. Andy Reynolds Smith met with key customers and suppliers and also conducted town hall meetings at sites that he visited where he also listened to feedback from various parts of the organisation. Upon his appointment as Senior Independent Director Sir Kevin Tebbit received some additional focused training from the Company's external legal counsel.

During the year, the Committee conducted its annual review of senior management and succession plans with a view to ensuring a strong and robust plan exists in all parts of the Group.

In July 2016 the Committee considered the appointment and re-appointment of certain members of the Audit, Remuneration and Nomination Committees and the appointment of the Chairs of those committees and recommended the appointment and reappointment of members and Chairs as set out in more detail in the relevant sections of this Statement.

Also in July 2016 the Committee carefully assessed the independence of each of the non-executive directors and concluded that all of them were independent notwithstanding in the case of Sir Kevin Tebbit, the Senior Independent Director, that he had served on the Board for more than nine years. The Committee and the Board each considered the matter carefully and decided that Sir Kevin continues to demonstrate the qualities of independence and judgement in carrying out his role, supporting the executive directors and senior management in an objective manner. In addition, based on the recommendation of the Nomination Committee, the Board resolved that Sir Kevin should continue as Senior Independent Director.

Remuneration Committee

Anne Quinn, CBE
Chair of the Remuneration Committee

Introduction from the Chair of the Remuneration Committee
The responsibilities of the Remuneration Committee are to make recommendations to the Board on the Company's remuneration framework, giving full consideration to the matters set out in the Code. The Committee also agrees with the Board the policy for the remuneration of the Chairman, the Chief Executive, the Chief Financial Officer and senior management. The Committee sets the remuneration for these individuals within the agreed policy having regard to a number of factors, including their performance, remuneration across the Company and market positioning. The Committee takes note of the policies and trends in remuneration across the whole Group in relation to all levels of employees. Further information about the activities and focus of the Remuneration Committee during the year is set out in the Directors' remuneration report.

Meeting attendance
The attendance record of the members of the Committee was:

	Attendance
Anne Quinn (Chair)	5/5
Sir George Buckley	5/5
Bruno Angelici	5/5
Tanya Fratto	5/5
Bill Seeger	5/5
Mark Seligman (appointed 16 May 2016)	2/2
Sir Kevin Tebbit	5/5
David Challen (retired 17 November 2015)	1/1

Committee membership
The members of the Committee during the financial year were: Anne Quinn (Chair of the Committee), Bruno Angelici, Sir George Buckley, David Challen (until his retirement in November 2015), Tanya Fratto, Bill Seeger, Sir Kevin Tebbit and Mark Seligman (from his appointment in May 2016).

The Chief Executive is normally invited to attend Remuneration Committee meetings (except when his own remuneration is under discussion). The HR Director, the Director of Reward and Kepler Associates, the external remuneration adviser, have also attended meetings in order to advise the Committee, as and when required.

The Committee's activities are further described in the following Directors' remuneration report. The Committee reviews its terms of reference annually and recommends to the Board any changes required as a result of such review. The latest annual review of the Committee's terms of reference was conducted in July 2016.

Directors' remuneration report

Remuneration Committee

Annual Statement

On behalf of the Board, I am pleased to present the report of the Remuneration Committee for the year to 31 July 2016. As last year, this report is split into three parts:

- this Annual Statement;
- a policy report, which presents the Group's forward-looking Directors' remuneration policy; and
- an Annual Report on Remuneration, which details how our remuneration policy was implemented during the year to 31 July 2016 and how we intend to apply our policy in the year to 31 July 2017.

Following the approval of the revised Policy at last year's AGM, there are no proposed changes to the Policy this year.

As highlighted by the Chairman and Chief Executive in their annual statements on pages 8 to 13 of this Annual Report, the markets remained challenging in the year to 31 July 2016. However, four of the five divisions reported growth in reported revenue and headline operating profit. Even though the operating profit declined in John Crane driven by the tough global energy market conditions, the division reported resilient margin performance. At a Group level, cash conversion remained very strong at 102% and ROCE, at 15%, remains well ahead of the Group's weighted average cost of capital. Against this backdrop, annual bonus payouts are between target and maximum but the TSR and EPS elements of 2013 LTIP awards lapsed in full following the end of the performance period on 31 July 2016. The Group's cash conversion, however, warranted the full payout of that element of the annual bonus and a partial vesting of the LTIP. The matching award under the CIP vested based on our sustained ROCE performance. The Committee recognises the importance of close alignment of remuneration with Group performance and we consider the incentive outcomes for this year to demonstrate this link (further details of which are disclosed in this year's Annual Report on Remuneration).

On behalf of the Board, I would like to thank shareholders for their continued support.

Anne Quinn, CBE
Chair of the Remuneration Committee

Summary of 2016

Strong cash conversion performance

Appointment of a new Chief Executive and Finance Director

Approved simplification of long-term incentives for 2016

The Directors' remuneration report is presented to shareholders by the Board. The report complies with Regulation 11 and Schedule 8 of the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 (the 'Regulations'). As required by the Regulations, the Annual Report on Remuneration will be put to an advisory shareholder vote at the Annual General Meeting on 15 November 2016. The Committee also continues to comply with the provisions of the UK Corporate Governance Code relating to directors' remuneration, except as disclosed in the Corporate governance statement on page 75.

Remuneration policy report

This section of the report sets out our remuneration policy for directors, which shareholders approved at the 2015 AGM and is effective for a period of three years from the date of the 2015 AGM. The only amendments to this policy report from the version approved by shareholders in 2015 are to update the data used in the pay-for-performance scenarios, to add page references, and to remove any references on the implementation of this policy in 2016.

Remuneration policy for the executive directors

The remuneration policy for the executive directors at Smiths is summarised in the table below:

Base salary

Element and link to strategy	Operation	Opportunity	Performance measures
To attract, motivate and retain executive directors with the required skills and expertise to deliver the Group's objectives.	Salaries are reviewed (but not necessarily increased) annually and benchmarked against comparable roles at companies of similar market capitalisation, revenues and complexity. The review also takes into account individual performance and experience, the relative performance of the Company and the remuneration policy operated across the Company as a whole. Salary increases are typically effective 1 August.	Base salaries are adjusted according to the outcome of the annual review and will be disclosed in the Annual Report on Remuneration. Salary increases for the executive directors will normally be in line with those awarded to Smiths wider employee population. Where increases are awarded in excess of this, for example if there is a material change in the responsibility, size or complexity of the role, or a significant change in the market competitiveness of salary, the Committee will provide the rationale in the relevant year's Annual Report on Remuneration.	Not applicable.

Pension

Element and link to strategy	Operation	Opportunity	Performance measures
Enables executive directors to save for their retirement in a cost-efficient manner.	Executives may choose either to participate in the Company's defined contribution pension plan or to receive a pension allowance in lieu thereof (and thus arrange their own pension provision). Pension allowances are reviewed periodically to ensure market competitiveness. Salary is the only element of remuneration that is taken into account when determining pension contributions or allowances.	Pension contributions (or cash allowances in lieu thereof) are set at a level that the Committee considers appropriate having regard to prevailing market practice at other FTSE 100 companies of similar market capitalisation, revenues and complexity. Pension arrangements for current executive directors are set out in the Annual Report on Remuneration. The maximum level of pension contribution (or allowance in lieu thereof) is 30% of annual base salary.	Not applicable.

Annual bonus

Element and link to strategy	Operation	Opportunity	Performance measures
Incentivises short-term cash management and profit growth, as well as annually defined non-financial goals.	Annual bonus payments are determined based upon performance against measures and targets set by the Committee at the start of each financial year. After the end of the financial year, to the extent that the performance criteria have been met, up to 67% of the earned annual bonus is paid in cash. The balance is deferred into shares and released after a further period of three years, subject to continued employment only. The Committee may use its discretion to adjust payout of the annual bonus to executive directors, within the range of the minimum to maximum opportunity. Such discretion will only be used where the Committee believes that performance against the prescribed targets does not accurately reflect the Company's underlying performance. In addition, cash and deferred share bonuses awarded for performance in 2015/16 onwards will be subject to malus and/or clawback for a period of three years from the end of the relevant performance year in case of misconduct or material misstatement in the published results of the Group.	The maximum annual bonus opportunity for executive directors is up to 180% of salary. The annual bonus opportunities for the year under review and the coming year are disclosed in the Annual Report on Remuneration. Under the financial element of the annual bonus, threshold performance must be exceeded before any annual bonus becomes payable. The % payout then increases according to the level of achievement against targets.	Based on a combination of financial and non-financial performance measures linked to short-term objectives. Financial performance will account for no less than 70% of the bonus opportunity and may include, but is not limited to, profit and cash measures.

Long-Term Incentive Plan (LTIP)

Element and link to strategy	Operation	Opportunity	Performance measures
Incentivises long-term value creation for shareholders, sustainable profit growth and effective management of the balance sheet.	Awards of conditional shares are granted annually and vest after a performance period of at least three years, subject to the achievement of performance targets set by the Committee at the start of each cycle. For awards made in 2016 onwards, vested shares may also be subject to a post vesting holding period. Details of any such holding period will be disclosed in the Annual Report on Remuneration for the year in which the relevant award is made. To the extent that the performance targets are not met over the performance period, awards will lapse. No retesting of awards under any performance condition is permitted. Dividends accrue and are paid in cash at the end of the vesting period, on shares that vest. The Committee may use its discretion to adjust payout of the LTIP to executive directors, within the limits of the Plan rules. Such discretion will only be used where the Committee believes that performance against the prescribed targets does not accurately reflect the Company's underlying performance. Awards are also subject to clawback for a period of five years from the date of grant in case of misconduct or material misstatement in the published results of the Group.	The maximum LTIP award opportunity for executive directors is up to 400% of salary. LTIP award sizes for the year under review and the coming year are disclosed in the Annual Report on Remuneration. At threshold performance against each measure, up to 25% of the award subject to that measure vests, increasing on a straight-line basis to 100% for achieving stretch targets.	Based on measures of performance that are aligned with the Group's strategy. To ensure continued alignment with the Company's strategic priorities, the Committee may, at its discretion, vary the measures and their weightings from time to time (but will consult shareholders before making significant changes to the performance measures).

Benefits

Element and link to strategy	Operation	Opportunity	Performance measures
To provide market-competitive benefits to executive directors.	Benefits comprise car allowance, life assurance and private healthcare insurance, and other such benefits as the Committee may from time to time determine are appropriate. These include, but are not limited to, relocation allowances, as well as any other future benefits made available either to all employees globally or all employees in the region in which the executive director is employed.	Benefits vary by role and individual circumstances. Benefits in respect of the year under review are disclosed in the Annual Report on Remuneration. It is not anticipated that the costs of benefits provided will increase significantly in the financial years over which this policy will apply, although the Committee retains discretion to approve a higher cost in exceptional circumstances (eg to facilitate recruitment, relocation, expatriation, etc) or in circumstances where factors outside the Group's control have changed materially (eg market increases in insurance costs).	Not applicable.

Sharesave

Element and link to strategy	Operation	Performance measures
Encourages ownership of shares in the Company and alignment with shareholder interests.	All UK employees (including executive directors) may save up to a maximum monthly savings limit (as determined by UK legislation, or other such lower limit as the Committee may determine at its discretion) for three or five years. At the end of the savings period, participants may use their savings to exercise options to acquire shares, which may be granted at a discount of up to 20% to the market price on grant. The Company intends to look into introducing all-employee share schemes to some non-UK countries on a basis consistent with local laws and market practice.	Not applicable.

Shareholding guidelines

Element and link to strategy	Operation	Performance measures
Encourages ownership of shares in the company and alignment with shareholder interests.	Executive directors must build a minimum shareholding of two times base salary within five years of appointment to the Board. 50% of any net vested share awards (after sales to meet tax liabilities) must be retained until the minimum shareholding requirements are met.	Not applicable.

Existing grants or entitlements
It is the Company's intention to honour all pre-existing commitments at the date of this report and to honour all future obligations entered into, consistent with the approved remuneration Policy in force at that time. In the case of internal promotion to the Board, the Committee intends to honour any pre-existing commitments made prior to becoming a member of the Board, including where these differ from the approved remuneration Policy.

Performance measure selection and approach to target setting
Annual bonus measures are selected to reflect the Company's short-term financial and non-financial priorities. At its discretion, the Committee may vary these measures at the start of each financial year to maintain close alignment between executive incentives and the annual business plan.

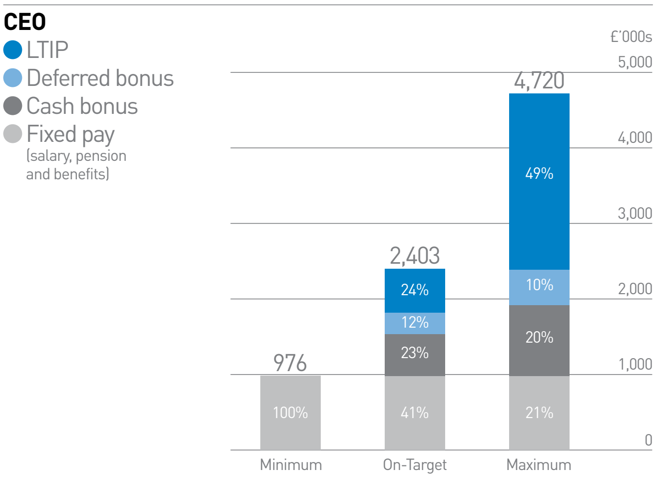
The measures used in the Long-Term Incentive Plan are selected to reflect Smiths prevailing strategy and to reinforce the key drivers of value creation highlighted elsewhere in this Annual Report: operating margin, cash conversion and ROCE.

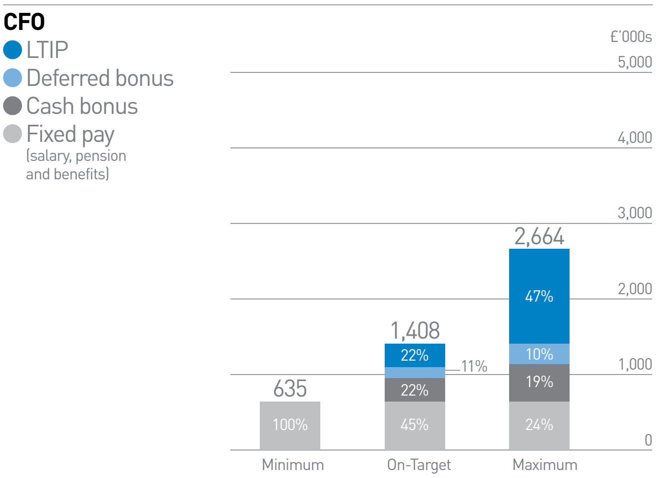
Annual bonus and LTIP targets are reviewed annually, and take into account the Company's strategic plan, analyst forecasts for Smiths and its sector comparators and external expectations for Smiths key markets. The Remuneration Committee sets targets that it considers to be challenging but attainable and aligned to the Company's business objectives over the short term, as reflected in the annual business plan, and longer term, consistent with the strategic plan. On top of aligning strategy with incentives, targets are designed to ensure that participants are aligned with the interests of shareholders.

Difference in policy between executive director and other employees
The reward policy for other senior employees is broadly consistent with that for executive directors, and the Company does not currently operate any incentive plans in which only executive directors participate. The Remuneration Committee reviews each year the all-employee pay and incentive trends and takes these into account in setting executive director pay levels. The principles of remuneration packages being market related, performance sensitive and driven by business needs are applied at all levels and geographies in the Group.

Pay scenarios

The graphs below provide estimates of the potential future reward opportunity for executive directors, and the potential mix between the different elements of remuneration under three different performance scenarios; 'Minimum', 'On-Target' and 'Maximum'.





Potential opportunities illustrated above are based on the Policy, which will apply in the 2017 financial year, applied to the annualised base salary in force from 1 August 2016 for Andy Reynolds Smith and Chris O'Shea. For the annual bonus, the amounts illustrated are those potentially receivable in respect of performance for 2017. It should be noted that any awards granted under the LTIP in a year do not normally vest until at least the third anniversary of the date of grant. This illustration is intended to provide further information to shareholders on the relationship between executive pay and performance. Please note, however, that actual pay delivered will further be influenced by factors such as share price appreciation or depreciation and the value of dividends paid. The following assumptions have been made in compiling the above charts:

CEO			
Base salary	Annual base salary		
Pension	Company pension allowance		
Other benefits	Taxable value of annual benefits provided		
Cash bonus	'Minimum' 0% of salary (Minimum)	'On-Target' 72% of salary (Target)	'Maximum' 120% of salary (Maximum)
Deferred bonus	'Minimum' 0% of salary	'On-Target' 36% of salary (Target)	'Maximum' 60% of salary (Maximum)
LTIP	'Minimum' 0% of salary (Minimum)	'On-Target' 75% of salary (Threshold)	'Maximum' 300% of salary (Maximum)

CFO			
Base salary	Annual base salary		
Pension	Company pension allowance		
Other benefits	Taxable value of annual benefits provided		
Cash bonus	'Minimum' 0% of salary (Minimum)	'On-Target' 60% of salary (Target)	'Maximum' 100% of salary (Maximum)
Deferred bonus	'Minimum' 0% of salary	'On-Target' 30% of salary (Target)	'Maximum' 50% of salary (Maximum)
LTIP	'Minimum' 0% of salary (Minimum)	'On-Target' 62.5% of salary (Threshold)	'Maximum' 250% of salary (Maximum)

Chairman and non-executive directors

The policy for the remuneration of the Chairman and non-executive directors at Smiths is summarised in the table below:

Annual fee

Element and link to strategy	Operation	Opportunity	Performance measures
To attract, motivate and retain non-executive directors with the required skills and expertise.	Fees may be paid in cash or a combination of cash and shares and are reviewed annually (but not necessarily increased) to ensure they compare appropriately to fees payable at companies of similar size and complexity to Smiths. Additional fees are paid to the chairs of the Remuneration, Nomination and Audit Committees and to the Senior Independent Director to reflect the additional time commitment of these roles. The additional fee paid to the Chairman of the Board is determined by the Committee, absent the Chairman, while the fees for all non-executive directors are agreed by the Chairman and executive directors.	Fees are adjusted according to the outcome of the annual reviews. The basic fee for non-executive directors is subject to the maximum aggregate annual fee of £750,000, as approved by shareholders in 2006 in the Company's Articles of Association. Fee levels for the year under review and for the current year are disclosed in the Annual Report on Remuneration.	Not applicable.

Other

The Chairman and non-executive directors are not eligible for benefits. The Chairman and the non-executive directors are not eligible for bonuses or participation in share schemes or any pension provision. They are paid an attendance allowance for each overseas meeting attended in addition to the annual fee and are reimbursed for actual expenses incurred (transportation, hotels etc.).

Approach to recruitment remuneration

External appointments

The Remuneration Committee approves the remuneration of each executive director on their appointment. In setting the remuneration during the recruitment of external appointments, the Committee will apply the following policy:

External appointments

Pay element	*Policy on recruitment*
Salary	Salary on recruitment is determined based on the same principles as the annual salary review, as outlined in the policy table.
Pension	As described in the policy table.
Benefits	As described in the policy table.
Annual Bonus	As described in the policy table and typically pro-rated for the proportion of year served. Maximum annual award opportunity: 180% of salary with mandatory deferral of 33% into shares.
LTIP	May be considered for an award under the LTIP on similar terms to other executives. Maximum annual award opportunity: 400% of salary.
Other	The Remuneration Committee may make an award in recognition of incentive arrangements forfeited on leaving a previous employer. Any such award will take account of relevant factors including the fair value of awards forfeited, any performance conditions attached, the likelihood of those conditions being met and the proportion of the vesting period remaining. For the purposes of making such awards, but for no other reason, the Committee may avail itself of Listing Rule 9.4.2R. The Remuneration Committee may also make payments to cover reasonable expenses in recruitment and relocation, and any other miscellaneous expenses including but not limited to housing, tax and immigration support.

Internal promotions

In cases of appointing a new executive director by way of internal promotion, the policy will be consistent with that for external appointees, as detailed above. Any commitments made prior to an individual's promotion will continue to be honoured even if they would not otherwise be consistent with the policy prevailing when the commitment is fulfilled, although the Company may, where appropriate, seek to revise an individual's existing service contract on promotion to ensure it aligns with other executive directors and prevailing market best practice.

Disclosure on the remuneration structure of any new executive director (external or internal), including details of any exceptional payments, will be disclosed in the RNS notification made at the time of appointment and in the Annual Report on Remuneration for the year in which the recruitment occurred.

Non-executive directors

In recruiting a new non-executive director, the Committee will use the policy as set out in the table on page 100.

Service contracts

The Company's policy is that executive directors are normally employed on terms which include a one-year rolling period of notice and provision for the payment of a predetermined sum in the event of termination of employment in certain circumstances (but excluding circumstances where the Company is entitled to dismiss without compensation). In addition to payment of basic salary, pension allowance and benefits in respect of the unexpired portion of the one-year notice period, the predetermined sum would include annual bonus and share awards only in respect of the period they have served, payable following the end of the relevant performance period and subject to the normal performance conditions. Existing service contracts are available for viewing at the Company's Registered Office.

Andy Reynolds Smith

Andy Reynolds Smith is employed under a service contract with the Company dated 6 July 2015 and effective from 25 September 2015. It may be terminated by 12 months' notice given by the Company or six months' notice given by Andy Reynolds Smith. The Company may elect to terminate the contract by making a payment in lieu of notice equal to Andy Reynolds Smith's base salary and benefits (including pension allowance) in respect of any unserved period of notice. The service contract contains specific provisions enabling a reduction in any phased payments in lieu of notice, in the event that Andy Reynolds Smith finds alternative employment during the notice period.

Chris O'Shea

Chris O'Shea is employed under a service contract with the Company dated 30 April 2015 and effective from 18 September 2015. It may be terminated by 12 months' notice given by the Company or six months' notice given by Chris O'Shea. The Company may elect to terminate the contract by making a payment in lieu of notice equal to Chris O'Shea's base salary and benefits (including pension allowance) in respect of any unserved period of notice. The service contract contains specific provisions enabling a reduction in any phased payments in lieu of notice, in the event that Chris O'Shea finds alternative employment during the notice period.

Philip Bowman

Philip Bowman was employed under a service contract with the Company dated 15 November 2007 and effective from 10 December 2007. It could be terminated with six months' notice given by Philip Bowman. Philip Bowman gave more than his contractual six months' notice when he signalled his intention to retire in December 2014. He was employed by the Company until 31 December 2015.

Chairman and non-executive directors

The Chairman and the non-executive directors serve the Company under letters of appointment and do not have contracts of service or contracts for services. Except where appointed at a general meeting, directors stand for election by shareholders at the first AGM following appointment. Although the Articles of Association only require directors to stand for re-election at every third AGM (or such earlier AGM as the Board may determine) thereafter (under Article 49), the Board has resolved that all directors who are willing to continue in office will stand for re-election by the shareholders each year at the AGM. Either party can terminate the appointment on one month's written notice and no compensation is payable in the event of an appointment being terminated early.

Non-executive director	Date of appointment	Expiry of current term	Date of election/last re-election
Bruno Angelici	1 July 2010	2016	17 November 2015
Sir George Buckley	1 August 2013	2016	17 November 2015
David Challen (retired 17 November 2015)	21 September 2004	N/A	N/A
Tanya Fratto	1 July 2012	2016	17 November 2015
Anne Quinn	1 August 2009	2016	17 November 2015
Bill Seeger	12 May 2014	2016	17 November 2015
Mark Seligman	16 May 2016	2017	N/A
Sir Kevin Tebbit	14 June 2006	2016	17 November 2015

Leaving and change-of-control provisions

For those individuals regarded as 'bad leavers' (eg voluntary resignation or dismissals for cause), annual bonus awards are forfeited, and outstanding matching awards under the CIP and outstanding awards under the LTIP automatically lapse.

A 'good leaver' will typically remain eligible for a pro-rated annual bonus award to be paid after the end of the financial year and LTIP awards will typically vest at the normal vesting date to the extent that the associated performance conditions are met, but will normally be pro-rated on the basis of actual service within the performance period. In cases of death or disability, individuals are automatically deemed to be good leavers under the plan rules of the LTIP. All other good leavers will be defined at the discretion of the Committee on a case-by-case basis.

In the event of a change of control, LTIP awards will vest to the extent that each of the performance conditions is met based on the Committee's assessment of performance over the performance period to the date of change of control. For internal performance measures, the Committee may exercise its judgment in determining the outcome based on its assessment of whether or not the performance conditions would have been met to a greater or lesser extent at the end of the full performance period. Awards will also normally be pro-rated to reflect the time that has elapsed between the grant of the award and the date of change of control.

The Committee retains discretion to vary these provisions on a case-by-case basis.

In connection with the termination of an executive director's contract, the Company may make a payment on account of accrued but untaken leave and may pay outplacement and legal fees for support provided to the individual.

External appointments

Subject to the overriding requirements of the Company, the Committee allows executive directors to accept external appointments where it considers that such appointments will contribute to the director's breadth of knowledge and experience. Directors are permitted to retain fees associated with such appointments.

Consideration of employment conditions

The Committee always takes into account pay and employment conditions elsewhere in the Company. We do not consult directly with employees regarding executive director pay. Each year the Committee is provided with information on pay trends and ratios of the wider employee population across the Group.

Consideration of shareholder views

The Committee has actively consulted with major shareholders whenever there have been changes to the remuneration policy in a manner that is receptive to and respectful of shareholder views.

Annual Report on Remuneration

This section of the remuneration report details how our Policy was implemented in the year ended 31 July 2016.

Committee members and meeting attendance in 2016

The members of the Committee are Anne Quinn (Chair of the Committee), Sir George Buckley, Sir Kevin Tebbit, Bruno Angelici, Tanya Fratto, Bill Seeger and Mark Seligman (from his appointment on 16 May 2016). David Challen was a member of the Committee until his retirement on 17 November 2015. Their attendance at meetings held during the year is set out in the Corporate governance statement on page 81.

Sir George Buckley is absent when his own remuneration as Chairman of the Company is under consideration. The Chief Executive attends meetings of the Committee by invitation but he is not involved in the determination of his own remuneration.

Advisers to the Committee

During the year, the Committee received material assistance and advice from the Chief Executive, the HR Director, the Group Director of Reward, Kepler a brand of Mercer (the Committee's appointed independent remuneration adviser) and Freshfields Bruckhaus Deringer LLP. The Company Secretary has been secretary to the Committee since May 2016.

The Company paid a total annual fee of £58,306 to Kepler in relation to remuneration advice to the Remuneration Committee during the year. Fees were determined on the basis of time and expenses. During 2016, Kepler provided the Remuneration Committee with benchmarking analysis of executive and non-executive directors' pay, information on market trends, drafting support for this and last year's Directors' remuneration report, and other relevant assistance on determining directors' remuneration. Kepler was reappointed by the Remuneration Committee via competitive tender in 2013. Kepler is a founding member of the Remuneration Consultants Group and a signatory to its Code of Conduct. Kepler's parent company, Mercer provides unrelated services to the Group in the areas of all-employee reward and retirement benefits. However, the Committee is satisfied that the advice provided by Kepler is objective and independent. Freshfields Bruckhaus Deringer LLP was appointed by the Company to advise the Group on various legal matters during the year.

Main activities during the year

During the year under review, the Committee's main activities included:

- aligning remuneration arrangements to the new business strategy;
- consideration of market trends and pay levels for the executive directors and the Chairman;
- review of all senior executive salary and bonus payments;
- target setting for both the Annual Incentive Plan and Long-Term Incentive Plan;
- performance review of the executive directors against the targets for the financial year; and
- other activities including a review of the effectiveness of senior executive incentive arrangements.

Summary of shareholder binding vote on Directors' Remuneration Policy (2015)

The resulting voting outcome for last year's Directors' Remuneration Policy was as follows:

Votes for	% of votes cast for	Votes against	% of votes cast against	Total votes cast	Votes withheld (abstentions)
278,345,426	96.4%	10,397,058	3.6%	288,742,484	22,481,558

Summary of shareholder advisory vote on Directors' Remuneration Report (2015)

The resulting voting outcome for last year's Directors' Remuneration Report was as follows:

Votes for	% of votes cast for	Votes against	% of votes cast against	Total votes cast	Votes withheld (abstentions)
264,500,742	91.6%	24,254,693	8.4%	288,755,435	22,468,607

Directors' single figure of annual remuneration (auditable)

Executive directors

	Salary / fees		Benefits[7]		Annual bonus[8]		Long-term incentives[9]		Payments in lieu of pension contribution		Other[10]		Total	
	2016 £000	2015 £000	2016 £000	2015 £000	2016 £000	2015 £000	2016 £000	2015 £000	2016 £000	2015 £000	2016 £000	2015 £000	2016 £000	2015 £000
Andy Reynolds Smith	650	–	1	–	1,038	–		–	163	–	1,112	–	2,964	–
Chris O'Shea	430	–	1	–	572	–		–	108	–	751	–	1,862	–
Philip Bowman	127	860	3	32	201	1,239	960	1,703	53	361		–	1,344	4,195

Chairman and non-executive directors

	Salary / fees		Benefits[7]		Annual bonus		Long-term incentives		Payments in lieu of pension contribution		Other		Total	
	2016 £000	2015 £000	2016 £000	2015 £000	2016 £000	2015 £000	2016 £000	2015 £000	2016 £000	2015 £000	2016 £000	2015 £000	2016 £000	2015 £000
Sir George Buckley[1]	413	410	105	134									518	544
David Challen[2]	28	91											28	91
Sir Kevin Tebbit[3]	82	74											82	74
Anne Quinn[4]	88	91											88	91
Bruno Angelici	68	74	7	4									75	78
Tanya Fratto	80	77	40	54									120	131
Bill Seeger[5]	100	89	56	64									156	153
Mark Seligman[6]	14												14	

[1] Sir George Buckley's fee comprised his non-executive director's fee; an additional fee for being Chairman and his additional fee for the Chairmanship of the Nomination Committee.

[2] David Challen waived his right to the fee payable to the Senior Independent Director but he did receive the fee paid for his Chairmanship of the Audit Committee, in addition to his non-executive director's fee. His fees for 2016 reflect the fact that he retired on 17 November 2015.

[3] Sir Kevin Tebbitt's fees comprised his non-executive director's fee and his additional fee payable to the Senior Independent Director from November 2015.

[4] Anne Quinn's fees comprised her non-executive director's fee and her additional fee for Chairing the Remuneration Committee.

[5] Bill Seeger's fees comprised his non-executive director's fee and his additional fee for Chairing the Audit Committee.

[6] Mark Seligman's fees for 2016 are for a part year following his appointment on 16 May 2016.

[7] Benefits for executive directors include car allowance, life assurance and private healthcare insurance. For the Chairman and non-executive directors, this value relates to reimbursed travel-related expenses, which is grossed-up for the UK income tax and National Insurance contributions paid by the company on their behalf.

[8] Andy Reynolds Smith and Chris O'Shea each deferred 33% of their 2016 bonus earned into Smiths shares. The total bonus paid during the year, including deferral, is captured under 'annual bonus' above.

[9] Figure for 2016 has been valued using the three-month average share price to 31 July 2016 (£11.36) and includes the projected payouts from the 2013 CIP and 2013 LTIP awards. Figures for 2015 has been trued up (compared to last year's figure) to reflect the vest-date share price on 30 September 2015 of £10.05.

[10] Other includes the face values of restricted share awards made to Andy Reynolds Smith and Chris O'Shea to reflect outstanding awards forfeited on their joining Smiths Group and a cash payment made to Andy Reynolds Smith to reflect the pro-rated 2015 annual bonus foregone in respect of his former employment. These values also include amounts received from the Company's Sharesave Scheme in 2016. Further details of the buyout arrangements are set out on page 108 of this report.

Incentive outcomes for 2016 (auditable)

2016 annual bonus outcome for Andy Reynolds Smith, Chris O'Shea and Philip Bowman

The table below summarises the structure of the 2016 annual bonus, our performance and the resulting annual bonus payout for each of the executive directors.

Director	Measure	Weighting	Maximum opportunity (% of salary)	Performance level	Earned bonus (% of max. bonus)	Earned bonus (% salary)	Earned bonus £000
Andy Reynolds Smith	EPS	50%	90%	Just below target	81.9%	73.7%	480
	Cash conversion	20%	36%	At maximum	100.0%	36.0%	234
	Personal objectives	30%	54%	See below	92.0%	49.7%	324
Total		**100%**	**180%**		**88.6%**	**159.4%**	**1,038**
Chris O'Shea	EPS	50%	75%	Just below target	81.9%	61.4%	265
	Cash conversion	20%	30%	At maximum	100.0%	30.0%	129
	Personal objectives	30%	45%	See below	92.0%	41.4%	178
Total		**100%**	**150%**		**88.6%**	**132.8%**	**572**
Philip Bowman	EPS	50%	90%	Just below target	81.9%	73.7%	93
	Cash conversion	20%	36%	At maximum	100.0%	36.0%	46
	Personal objectives	30%	54%	See below	90.0%	48.6%	62
Total		**100%**	**180%**		**88.0%**	**158.3%**	**201**

Personal objectives

Challenging personal objectives are derived from the Company's annual and strategic plans. For 2016, these targets included establishing the Smiths Excellence System to drive continuous improvement and consistent execution, leadership talent development and succession planning with an emphasis on building key functional capability, implementing a new organisation structure to bring higher rates of growth in Asia, bringing back Divisional earnings growth and measurable improvements in the commercial and programme management of the Group.

Incentive outcomes for 2015 (auditable)

As disclosed last year, the Committee will disclose annual bonus targets at such time as these are considered to be no longer commercially sensitive. In line with this commitment, the table below summarises the financial targets and the Company's actual performance against these for the 2015 annual bonus.

Measure		Performance targets and actual performance: Threshold	Target	Maximum	Actual
EPS		82.5p	84.7p	87.0p	84.6p
Cash conversion[1]	Q1	–	55%	–	>55%
	Q2	–	85%	–	>85%
	Q3	–	85%	–	>85%
	Q4	–	85%	–	>85%
	FY	–	85%	–	94.7%

[1] Maximum payout requires the meeting or exceeding of all quarterly targets and the full year target.

2013 CIP outcome

Included in the 2016 'Long-term incentives' column of the executive director annual remuneration table above is the outcome of CIP awards granted in 2013 to Philip Bowman. Matching awards granted under the CIP in 2013 were subject to the following performance condition:

			Vesting schedule		Actual performance	
Measure	Weighting	Performance period	ROCE performance	% match	ROCE	% match
Group ROCE	100%	1 August 2013 to 31 July 2016	< WACC+1% p.a.	0%	>WACC+3% p.a.	200%
			WACC+1% p.a.	100%		
			WACC+1% to 3% p.a.	100%		
			≥ WACC+3% p.a.	200%		

2013 CIP	Interests held	Vesting %	Interests vesting	Date of vesting	Market price[1]	Value £000
Philip Bowman	41,913	100%	41,913	Oct 2016	£11.36	476

[1] Based on the average share price over the three months to 31 July 2016 of £11.36.

The CIP values carried in the 2016 long-term incentive element of the single figure table also include dividend equivalents of £69,936 for Philip Bowman in respect of the vested 2013 CIP shares.

2013 LTIP outcome

Also included in the 2016 'Long-term incentives' column of the executive director annual remuneration table above, is the outcome of the LTIP awards granted in 2013 to Philip Bowman, details of which are summarised in the table below:

			Vesting schedule		Actual performance	
Measure	Weighting	Performance period	Performance	% vesting	Outturn	% vesting
Group EPS growth	50%	1 August 2013 to 31 July 2016	< 6% p.a.	0%	< 6% p.a.	0%
			6% p.a.	12.5%		
			≥ 14% p.a.	50.0%		
			Straight-line vesting between these points			
Total Shareholder Return rank vs. FTSE 100 companies (excluding financial services)	30%	1 August 2013 to 31 July 2016	Below median	0%	Below median	0%
			Median	7.5%		
			Upper quartile or above	30.0%		
			Straight-line vesting between these points			
Average cash conversion	20%	1 August 2013 to 31 July 2016	< 85%	0%	97.8%	17.8%
			85%	5.0%		
			≥ 100%	20.0%		
			Straight-line vesting between these points			
Total						**17.8%**

2013 LTIP	Interests held	Vesting %	Interests vesting	Date of vesting	Market price[1]	Value £000
Philip Bowman	178,470	17.8%	31,809	Oct 2016	£11.36	361

[1] Based on the average share price over the three months to 31 July 2016 of £11.36.

The 2013 LTIP values carried in the single figure table also include dividend equivalents of £53,008 for Philip Bowman in respect of the vested LTIP shares.

Scheme interests awarded in 2016 (auditable)

2015 LTIP

During the year ended 31 July 2016, the executive directors were awarded conditional share awards under the LTIP details of which are summarised in the table below:

					Face value		
Executive	Form of award	Date of grant	Number of shares awarded	Award price[1]	£'000	% of salary	Date of vesting
Andy Reynolds Smith	Conditional shares	26 Nov 2015	226,524	£10.33	2,340	300%	Oct 2018
Chris O'Shea	Conditional shares	26 Nov 2015	119,796	£10.33	1,238	250%	Oct 2018

[1] The closing price on 25 November 2015.

The performance conditions attached to these 2015 LTIP awards are as follows:

			Vesting schedule	
Measure	Weighting	Performance period	Performance	% vesting
Group EPS growth	30%	1 August 2015 to 31 July 2018	< 3% p.a.	0%
			3% p.a.	7.5%
			≥ 12% p.a.	30.0%
			Straight-line vesting between these points	
Revenue Growth	30%	1 August 2015 to 31 July 2018	< 2% p.a.	0%
			2% p.a.	7.5%
			≥ 5% p.a.	30.0%
			Straight-line vesting between these points	
Return on Capital Employed	20%	1 August 2015 to 31 July 2018	< 15%	0%
			15%	5.0%
			≥ 18%	20.0%
			Straight-line vesting between these points	
Average cash conversion	20%	1 August 2015 to 31 July 2018	< 85%	0%
			85%	5.0%
			≥ 100%	20.0%
			Straight-line vesting between these points	

SAYE

During the year ended 31 July 2016, Andy Reynolds Smith and Chris O'Shea became participants in the Smiths Group Sharesave Scheme. Andy Reynolds Smith has 2,078 share options under the scheme and Chris O'Shea has 3,464 share options under the scheme.

Buyout awards

During the year ended 31 July 2016 (and as disclosed in last year's Remuneration Report), the following awards were made to Andy Reynolds Smith and Chris O'Shea to replicate the structure and fair value of incentives forfeited by each director as a consequence of their joining Smiths Group:

Executive	Form of award	Date of grant	Number of shares awarded	Award price[1]	Face value £'000	Date of vesting
Andy Reynolds Smith	Restricted shares	26 Nov 2015	30,412	£10.33	314	30 Jun 2016
			56,481	£10.33	583	30 Jun 2017
	Conditional shares	26 Nov 2015	79,806	£10.33	824	Oct 2018
			26,602	£10.33	275	Oct 2019
			26,602	£10.33	275	Oct 2020
Chris O'Shea	Restricted shares	26 Nov 2015	35,969	£10.33	372	18 Sep 2016
			35,969	£10.33	372	18 Sep 2017

[1] The closing price on 25 November 2015.

Restricted share awards will vest on the date of vesting shown, subject to the director remaining employed by Smiths Group at that date. The conditional shares awarded to Andy Reynolds Smith are based on performance over a period of three financial years preceding the vesting date, and will each vest subject to satisfaction of the same performance conditions that apply to awards made under the Company's LTIP vesting at the same time. The performance conditions for the first tranche of this award (vesting in October 2018) are as set out in the table summarising the 2015 LTIP performance conditions, above.

Andy Reynolds Smith and Chris O'Shea were each also entitled to a cash payment in early 2016, reflecting the actual reported outcome of the pro-rated 2015 annual bonus in respect of each director's former employment that was forfeited on joining Smiths Group. The amount of the cash payment for Andy Reynolds Smith (paid in April 2016) was £209,402 and is captured in the 'Other' column of the single figure of annual remuneration table on page 104. For Chris O'Shea, the actual reported outcome was for a zero payment and therefore no cash payment was made.

Percentage change in remuneration from 2014/15 to 2015/16

	Salary	Benefits	Bonus
CEO remuneration	(9.6)%	(87.5)%	(1.0)%
Average of all employees	2.6%	0%	17.9%

CEO remuneration is based on a comparison of Philip Bowman's remuneration for 2015, and the sum of remuneration paid in 2016 to Andy Reynolds Smith and Philip Bowman (in relation to the period for which he remained CEO, ie to 25 September 2015).

'All employees' is defined as the global senior management population of approximately 60 individuals who are eligible to participate in the same incentive arrangements as the Chief Executive.

Relative importance of spend on pay

The table below shows shareholder distributions (ie dividends and share buybacks) and total employee pay expenditure for the financial years ended 31 July 2015 and 31 July 2016, and the percentage change.

	2016 £m	2015 £m	Change
Shareholder distributions	163	160	1.9%
Employee costs	872	857	1.8%

Payments to past directors (auditable)

No payments have been made to past directors in the year, other than those disclosed in the single figure of annual remuneration table on page 104.

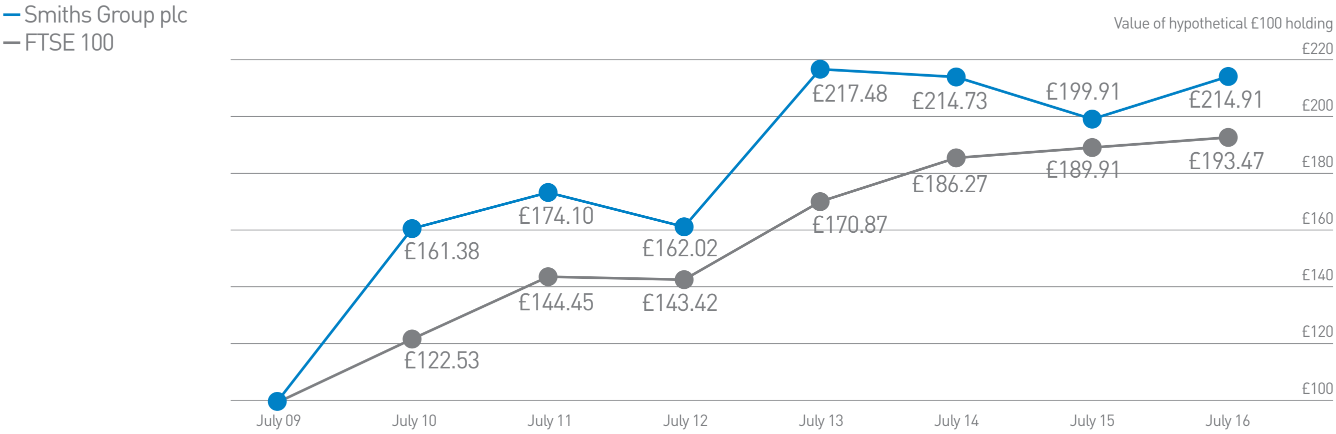
Payments for loss of office (auditable)

Philip Bowman stepped down from the Board on 24 September 2015 and retired from the Company on 31 December 2015. Philip Bowman's remuneration as CEO for the year under review is captured in the single figure table. He continued to receive salary and benefits (including pension allowance) until his retirement and remained eligible for a pro-rata annual bonus for 2016. As disclosed in last year's Remuneration Report, the Committee exercised its discretion not to time pro-rate his outstanding CIP and LTIP awards. These vest on their normal vesting dates subject to the achievement of the original performance conditions over the relevant performance periods.

TSR performance

The following graph shows the Company's total shareholder return (TSR) performance over the past seven years compared to the FTSE 100 Index. The FTSE 100 Index, of which the Company has been a member throughout the period, has been selected to reflect the TSR performance of other leading UK-listed companies. The values of hypothetical £100 investments in the FTSE 100 Index and Smiths Group plc shares were £193.47 and £214.91 respectively.

Total shareholder return



CEO remuneration for the last seven years

CEO	2010 P Bowman	2011 P Bowman	2012 P Bowman	2013 P Bowman	2014 P Bowman	2015 P Bowman	2016 P Bowman	2016 A Reynolds Smith
CEO total remuneration £000	3,399	4,776	5,026	3,864	3,912	4,195	1,344	2,964
Annual bonus outcome (% max)	95%	64%	79%	39%	43%	80%	88%	89%
CIP outcome (% max)	n/a	100%	100%	100%	100%	100%	100%	n/a
2007 PSP outcome (% max)[1]	46%	33%	n/a	n/a	n/a	n/a	n/a	n/a
LTIP outcome (% max)					18%	17%	18%	n/a

[1] The 2007 PSP outcome shown for 2010 represents the outcome under the EPS element of that award only (2/3 of the award). The 2007 PSP outcome shown for 2011 represents the outcome under the TSR element of that award (1/3 of the award) as TSR performance was measured over a three-year period commencing on the date of the grant.

Note: VSP outcome as a percentage of maximum is not shown in table above as award opportunity was uncapped. Awards received are included in the CEO total remuneration table above and the values are: £1,453,000 for 2011 (150,694 shares at a price of £9.64); £1,899,000 for 2012 (175,193 shares at a price of £10.84); and £364,000 for 2013 at (25,885 shares at a price of £14.06).

Statement of implementation of remuneration policy in 2017

Base salary and benefits

Salaries are reviewed (but not necessarily increased) annually and benchmarked against comparable roles at other FTSE 100 companies of similar market capitalisation, revenues and complexity. Having considered a number of important factors including individuals' performance and experience, the relative performance of the Company and the remuneration policy within the Company, the Committee has determined the following annualised salaries for executive directors for 2017:

Executive director	2015/16	2016/17
Andy Reynolds Smith	£780,000 From date of joining	£780,000
Chris O'Shea	£495,000 From date of joining	£507,375 From 1 August 2016

Pension and benefits

Andy Reynolds Smith and Chris O'Shea will each continue to receive a cash allowance in lieu of pension of 25% of their base salaries.

Annual bonus

For 2017, Andy Reynolds Smith will continue to have a maximum bonus opportunity of 180% of salary and Chris O'Shea will continue to have a maximum bonus opportunity of 150% of salary. Annual bonus measures (and their weightings) will remain unchanged from 2016. 33% of any bonus earned will be deferred into shares for three years. Specific targets cannot be disclosed at this time due to the commercially sensitive nature of these objectives, but they will be disclosed at such a time as the Committee deems them to no longer affect the commerciality of the Company.

Long-Term Incentive Plan

The LTIP is a conventional share plan under which an award over a capped number of shares will vest if demanding performance conditions are met. LTIP awards of conditional shares are granted to selected senior executives (including the executive directors) with face values (from 2016 onwards) of up to 400% of salary. Under the LTIP, the normal annual grants are 300% of salary for the Chief Executive and 250% of salary for the Finance Director.

LTIP awards granted to Andy Reynolds Smith and Chris O'Shea in 2016/17 (at the normal annual grant levels of 300% and 250% of salary respectively) will vest on the achievement of the following performance conditions:

Performance measure	Weighting	Threshold performance target	Maximum performance target (full vesting of element)
3-year EPS growth	35%	3% p.a.	12% p.a.
3-year average return on capital employed	35%	15%	18%
3-year average annual cash conversion	30%	85%	100%

The only change proposed to the LTIP for the 2016/17 cycle is a simplification of the scorecard from four to three measures. The Committee believes the proposed structure provides an appropriate balance between earnings growth, returns and cash. The Committee recognises that this balanced performance of the Group's performance remains very important for many of our largest shareholders. The scorecard will be reviewed at the start of each future LTIP cycle to ensure it continues to reflect the Group's strategic priorities.

For performance between 'threshold' and 'maximum', awards vest on a straight-line sliding scale.

Non-executive director fees

NED fees paid for 2016 and to be paid in 2017 are shown below:

	2016	2017
NED base fee	£64,575	£66,200
Additional fee payable to the Chairman of the Board	£328,425	£336,636
Additional fee payable to the Senior Independent Director	£20,000	No change
Additional fees for Audit, Nomination and Remuneration Committee Chairs	£20,000	No change
Attendance allowance for meetings outside the NED's home continent	£3,000 per meeting	No change

Share ownership guidelines

It is proposed that executive directors should, over time, acquire a shareholding with a value equal to at least two years' base salary. Executive directors are required to retain at least 50% of any net vested share awards (after sales to meet tax liabilities) until those guidelines are achieved. There is no shareholding policy for non-executive directors.

Directors' shareholdings (auditable)

The table below shows the shareholding of each director and for executive directors the shareholding against their respective shareholding requirement as at 31 July 2016.

	Shareholding requirement (% 2015/16 salary)	Shares owned outright	Shares subject to performance	Performance tested but unvested shares	Shares subject to CIP deferral	Save As You Earn (SAYE)	Current shareholding (% 2015/16 salary)	Guideline met[3]
Andy Reynolds Smith	200%	116,716	416,015			2,078	189%	No
Chris O'Shea	200%	20,069	191,734			3,464	51%	No
Philip Bowman[1]	200%	610,599	472,382		22,935	0	692%	Yes
Bruno Angelici		2,000						
Sir George Buckley		10,000						
David Challen[2]		1,333						
Tanya Fratto		1,500						
Anne Quinn		1,024						
Bill Seeger		5,000						
Mark Seligman		5,000						
Sir Kevin Tebbit		1,000						

[1] The shares owned outright is at the date that Philip Bowman retired from the Company on 24 September 2015 and the value of his shareholding is based upon the share price on that date of £9.75.

[2] The shares owned outright is at the date that David Challen retired from the Company on 17 November 2015.

[3] Both Andy Reynolds Smith and Chris O'Shea have five years from the date of their appointment to meet the required personal shareholding.

There are no changes in the interests of the directors and their connected persons between 31 July 2016 and the date of this report.

Share scheme dilution limits

The Company complies with the guidelines laid down by the Investment Association. These restrict the issue of new shares under all the Company's share schemes in any 10-year period to 10% of the issued ordinary share capital and under the Company's discretionary schemes to 5% in any 10-year period. As at 31 July 2016, the headroom available under these limits was 7.07% and 2.77%, respectively.

Auditable part

The directors' single figure of annual remuneration and accompanying notes on page 104; the incentive outcomes for 2015 and 2016 on page 105; the scheme interests awarded in 2016 and accompanying notes on page 107; the payments to past directors and payments for loss of office on page 109; the directors' shareholdings on page 111 and the directors' share options and long-term plans table on pages 112 to 114 have been audited.

The Directors' remuneration report has been approved by the Board and signed on its behalf by:

Anne Quinn
27 September 2016

Directors' share options and long-term share plans (Auditable)

	Options and awards held on 31 July 2016	Options and awards held on 31 July 2015	Option and award data					Awards vested 2015/16				
Director and Plans	Number	Number	Performance test	Exercise price	Grant date	Vesting date*	Expiry date**	Exercise/ vesting date	Number	Exercise price	Market price at date of grant#	Market price at date of exercise##
Andy Reynolds Smith (appointed 25 September 2015)												
CEO Buyout award	0	0		n/a	26/11/15			30/06/16	31,597	n/a	1034.00p	1114.50p
	56,481	0		n/a	26/11/15	30/06/17	30/06/17					
Restricted Share Award	79,806	0	A	n/a	26/11/15	Oct 2018						
	26,602	0	F	n/a	26/11/15	Oct 2019						
	26,602	0	TBD	n/a	26/11/15	Oct 2020						
LTIP 2015	226,524	0	A	n/a	26/11/15	Oct 2018						
SAYE	2,078	0	–	866.00p	11/05/16	01/08/19	01/02/20					
Chris O'Shea (appointed 18 September 2015)												
CFO Buyout award	35,969	0		n/a	26/11/15	18/09/16	18/09/16					
	35,969	0		n/a	26/11/15	18/09/17	18/09/17					
LTIP 2015	119,796	0	A	n/a	26/11/15	Oct 2018						
SAYE	3,464	0	–	866.00p	11/05/16	01/08/21	01/02/22					
Philip Bowman (stepped down 24 September 2015, ceased employment 31 December 2015)												
LTIP 2011	0†	113,469	D	n/a	19/10/12			30/09/15	0			
	0†	68,081	C	n/a	19/10/12			30/09/15	0			
	0††	45,387	E	n/a	19/10/12		◊	30/09/15	37,823	n/a	1076.00p	999.62p
	89,235	89,235	D	n/a	19/09/13	Oct 2016	Oct 2016					
	53,541	53,541	C	n/a	19/09/13	Oct 2016	Oct 2016					
	35,694	35,694	E	n/a	19/09/13	Oct 2016	Oct 2016					
	100,398	100,398	D	n/a	26/09/14	Oct 2017	Oct 2017					
	60,239	60,239	C	n/a	26/09/14	Oct 2017	Oct 2017					
	40,159	40,159	E	n/a	26/09/14	Oct 2017	Oct 2017					
CIP	0	107,704	B	n/a	19/10/12			30/09/15	107,704	n/a	1076.00p	999.62p
	41,913	41,913	B	n/a	26/09/13	Oct 2016	Oct 2016					
	51,203	51,203	B	n/a	26/09/14	Oct 2017	Oct 2017					
SAYE	0	1,818	–	990.00p	14/05/14	01/08/17		15/06/16	1,161	990.00p	1237.00p	1085.00p

Key

CEO Buyout award	Under the terms of his contract of employment on joining the Company, Andy Reynolds Smith was granted a Buyout award over 86,893 shares of which 35% vested on 30 June 2016 and 65% will vest on 30 June 2017 (subject to Andy Reynolds Smith remaining an employee of the Company). The terms of the award provide that additional shares are awarded on vesting to a value equivalent to the notional dividends that would have been earned on the number of shares that vest. On 30 June 2016, Andy Reynolds Smith received 1,185 additional shares in respect of the notional dividends on the tranche of his award that vested that day.
Restricted Share Award	Under the terms of his contract of employment on joining the Company, Andy Reynolds Smith was also granted a conditional award over 133,010 shares of which up to 60% are expected to vest in October 2018 (subject to the performance tests applicable to awards granted under LTIP 2015 in 2015); up to 20% are expected to vest in October 2019 (subject to performance tests applicable to awards granted under long-term incentive plans in 2016); and up to 20% are expected to vest in October 2020 (subject to the performance tests applicable to awards granted under long-term incentive plans in 2017). The terms of the award provide that additional shares are awarded on vesting to a value equivalent to the notional dividends that would have been earned on the number of shares that vest.
CFO Buyout award	Under the terms of his contract of employment on joining the Company, Chris O'Shea was granted a Buyout award over 71,938 shares of which 50% will vest on 18 September 2016 (or at the end of any closed period in force at the time and subject to Chris O'Shea remaining an employee of the Company) and 20% will vest on 18 September 2017 (or at the end of any closed period in force at the time and subject to Chris O'Shea remaining an employee of the Company). The terms of the award provide that additional shares are awarded on vesting to a value equivalent to the notional dividends that would have been earned on the number of shares that vest.
CIP	The Smiths Group Co-Investment Plan
LTIP 2011	The Smiths Group Long Term Incentive Plan 2011
LTIP 2015	The Smiths Group Long Term Incentive Plan 2015
SAYE	The Smiths Group Sharesave Scheme
*	The Vesting Dates shown above in respect of awards made under CIP and the LTIPs are subject to the relevant performance test(s) being passed.
**	The Expiry dates shown above apply in normal circumstances. No Expiry date is shown if the option or award was exercised or vested or lapsed prior to 23 September 2016.
#	Mid-market closing price of a Smiths share on the business day preceding the date of grant. Note: the exercise price of an option under the SAYE is set at 20% less than the mid-market closing price of a Smiths share on the business day immediately preceding the day on which employees are invited to participate in the grant.
##	Actual sale price of shares sold on date of exercise of an option or the vesting of an award or the mid-market closing quotation on the date of exercise when no shares are sold.
†	Awards which lapsed during the period 1 August 2015 to 31 July 2016.
††	Award which partially lapsed during the period 1 August 2015 to 31 July 2016.
◊	Awards which vested or were exercised after Philip Bowman ceased to be a director of the Company.

Performance tests

A	LTIP 2015 awards – 30% subject to revenue growth; 30% subject to EPS element; 20% subject to cash conversion; 20% subject to return on capital employed.
B	CIP Return on Capital Employed (ROCE) test
C	LTIP Relative shareholder return (TSR) test
D	LTIP EPS growth test (EPS) test
E	LTIP Cash conversion (CC) test
F	LTIP 2016 awards (to be granted in the 2017 financial year) – 35% subject to EPS element; 35% subject to return on capital employed; 30% subject to cash conversion.
TBD	Each tranche of Andy Reynolds Smith's Restricted Share Award will vest subject to the same performance conditions as the LTIP award, which will vest at the same time as that tranche. Where these have yet to be agreed, these performance conditions will be confirmed in the relevant Remuneration Report.
–	There are no performance criteria for SAYE

Notes

The high and low market prices of the ordinary shares during the period 1 August 2015 to 31 July 2016 were 858p and 1275p respectively.

The mid-market closing price on 31 July 2015 was 1129p and on 31 July 2016 was 1263p.

The mid-market closing prices of a Smiths share on the dates of the awards made to directors in the 2016 financial year was 1034p (26 November 2015).

The options over 5,542 shares granted to and held by the directors under SAYE at 31 July 2016 were granted at exercise prices below the market price of a Smiths Group share on 23 September 2016 (1420p).

None of the options or awards listed above was subject to any payment on grant.

No other directors held any options over the Company's shares during the period 1 August 2015 to 31 July 2016.

No options or awards have been granted to or exercised by directors or have lapsed during the period 1 August to 23 September 2016.

At 31 July 2016, the trustee of the Employee Share Trust held 852 shares (none of the directors had an interest in these shares at 31 July 2016). The market value of the shares held by the trustee on 31 July 2016 was £10,761 and dividends of approximately £351 were waived in the year in respect of the shares held by the trustee during the year.

Special provisions permit early exercise of options and vesting of awards in the event of retirement; redundancy; death; etc.

CIP awards granted in 2012

Smiths return on capital employed (ROCE) over the performance period for the 2012 CIP awards (1 August 2012 to 31 July 2015) exceeded the Company's weighted average costs of capital (WACC) over the period by more than 3% p.a. Accordingly the 2012 CIP Awards vested in full. The notional gross dividends accrued in respect of the performance period amounted to 165.56p per share. This amount, after deduction of income tax and National Insurance Contributions, was paid in cash in respect of each share that vested.

Group LTIP awards granted in 2012

Over the three-year period from 1 August 2012 to 31 July 2015, Smiths TSR performance and EPS performance did not result in the vesting of any shares under those elements of the 2012 LTIP awards. The Cash Conversion element of the awards partially vested (83.3%) which resulted in 37,283 shares vesting for Philip Bowman. All the share awards under the TSR and EPS elements and the balance of the share awards under the Cash conversion element lapsed. The notional gross dividends accrued in respect of the performance period amounted to 165.56p per share. This amount, after deduction of income tax and National Insurance Contributions, was paid in cash in respect of each share that vested.

Group directors' report

Results and dividends
The results for the financial year ended 31 July 2016 are set out in the Consolidated income statement. Revenues for the year amounted to £2,949m (2015: £2,897m). The profit for the year after taxation amounted to £261m (2015: £248m).

An interim dividend of 13.25p per ordinary share of 37.5p ('ordinary share') was paid on 22 April 2016. The directors recommend for payment on 18 November 2016 a final cash dividend of 28.75p on each ordinary share, making a total dividend of 42p for the financial year.

The Group's progressive dividend policy is described in the CFO report on page 25.

Directors
Sir George Buckley; Bruno Angelici; Tanya Fratto; Anne Quinn, CBE; Bill Seeger; and Sir Kevin Tebbit, KCB, CMG all served as directors of the Company throughout the year. Chris O'Shea and Andy Reynolds Smith were appointed as executive directors on 18 September and 25 September 2015, respectively. Mark Seligman was appointed as a non-executive director on 16 May 2016. Philip Bowman resigned as a director and retired as Chief Executive on 24 September 2015. In accordance with section 430(2B) of the Companies Act 2006 (the '2006 Act'), details of the arrangements made in respect of Philip Bowman's retirement are available on the Company's website – www.smiths.com – and contained in the Directors' remuneration report on page 94. David Challen, CBE retired at the conclusion of the AGM on 17 November 2015 and has not received any payment following his retirement.

Reappointment of directors
In accordance with the UK Corporate Governance Code, all the directors, apart from Mark Seligman, will retire voluntarily from office at the AGM and will seek re-election. Mark Seligman will retire at the AGM under Article 49 of the Company's Articles of Association, following his appointment during the year, and will seek election. Separate resolutions to re-elect or elect each of them as a director of the Company will be proposed at the AGM.

Biographical details of all the directors at the date of this report are set out on pages 72 to 74.

Directors' remuneration report
The Directors' remuneration report is on pages 94 to 114.

An ordinary resolution to approve the report will be put to shareholders at the AGM.

Directors' interests in contracts
Details of the executive directors' service contracts are disclosed in the service contracts section of the Directors' remuneration report on page 101. Details of the interests of the executive directors in the Company's share option schemes and plans are shown in the Directors' remuneration report on pages 112 and 113.

Qualifying third-party indemnity provisions (as defined by section 234 the 2006 Act) have remained in force for the directors of the Company and certain other employees in respect of their directorships of some subsidiary companies during the financial year ended 31 July 2016 and, at the date of this report, are in force for the benefit of the current directors and certain other employees who are directors of some subsidiary companies in relation to certain losses and liabilities which they may incur (or may have incurred) to third parties in the course of their professional duties for the Company or a subsidiary company, as applicable.

Apart from the exceptions referred to above, no director had an interest in any significant contract to which the Company or its subsidiaries was a party during the year.

Changes in the Company and its interests during the financial year
On 17 November 2015 the Company announced the finalisation of the triennial valuation of the Smiths Industries Pension Scheme as at 31 March 2015 under which the actuarial deficit was £285m, £250m lower than the previous triennial valuation. Following agreement with the Scheme Trustee, the Company's annual contribution to the Scheme has reduced from £60m per annum to £24m per annum. In August 2015 the Company concluded a partial buy-out of its US pension scheme under which US$527m of liabilities was transferred to Voya Retirement Insurance and Annuity Company, thereby insuring around 60% of the of the gross liabilities of that scheme. On 1 March 2016 the Company announced the finalisation of the triennial valuation of the TI Group Pension Scheme under which the actuarial valuation had reduced from £117m to £16m. The Company has agreed with the Trustee to pay off the remaining deficit over three financial years, with the Company's contributions reducing from £16m in 2015 to £3m in 2017 and 2018.

On 21 April 2016 the Company announced it had agreed with Safran S.A. to purchase its Morpho Detection business for US$710m. The acquisition is subject to customary conditions and regulatory approvals in several countries and is expected to be completed in early 2017.

On 25 July 2016 the Company moved its headquarters and its registered office to 4th Floor 11-12 St James's Square, London SW1Y 4LB.

Post balance sheet events
On 23 September 2016 the Company announced that it had reached agreement to sell John Crane's Artificial Lift business for a cash consideration of US$39.5m. Completion of the transaction is subject to customary regulatory approvals.

There have been no other post-balance sheet events.

Interests in voting rights
As at 31 July 2016 the Company had been notified, pursuant to the Disclosure Guidance & Transparency Rules ('DTRs') of the Financial Conduct Authority ('FCA'), of notifiable voting rights in its issued share capital or had received disclosures pursuant to the 2006 Act of shareholding interests in excess of 3% of its share capital, as follows:

	Number of shares	Percentage of issued ordinary share capital*	Date of notification or disclosure
Ameriprise Financial	23.1m	5.9%	11/08/2016
BlackRock	26.9m	6.8%	08/08/2016
Dodge & Cox	28.4m	7.2%	12/08/2016
Harris Associates LP	28.3m	7.2%	10/08/2016

*Percentage of ordinary share capital in issue on 31 July 2016.

During the period 1 August to 23 September 2016 the Company has received the following notifications or disclosures:

	Number of shares	Percentage of issued ordinary share capital*	Date of notification or disclosure
Ameriprise Financial	23.0m	5.8%	20/09/2016
BlackRock	27.8m	7.0%	21/09/2016
Harris Associates LP	22.0m	5.6%	22/09/2016
Jupiter Asset Management	14.8m	3.8%	22/09/2016

*Percentage of ordinary share capital in issue on 23 September 2016.

Note: The DTRs oblige a shareholder to notify to a company when his interests in the voting rights of that company's shares exceed or fall below 3% of the company's issued share capital and every whole percentage point above 3%. Where the voting rights in shares are managed by an investment manager under certain defined schemes, the manager is obliged to notify a company when its interests in the voting rights in the shares it manages under such schemes exceed or fall below 5% or 10% of the company's issued share capital.

The interests of the directors, their families and any connected persons in the issued share capital of the Company are shown in the Directors' remuneration report on page 111.

Corporate responsibility
The Company has Group policies on environmental, employee and health & safety matters and operates a Code of Business Ethics. The Company seeks to minimise, as far as is reasonably practicable, any detrimental effects on the environment of its operations and products. The Group HR director has responsibility for environmental, health and safety matters, which are subject to preventative, investigatory and consultative systems, overseen by the Group Environment, Health and Safety Committee, and reports regularly to the Board on these matters. Issues relevant to the Company pension schemes are likewise covered by means of structured committees, including representation from recognised trade unions.

Further information on environmental, employee and health and safety matters, including key performance indicators, is contained in the Corporate responsibility summary on pages 61 to 69. The full Corporate responsibility report is available online at www.smiths.com/responsibility.

Corporate governance statement
The Corporate governance statement is on pages 75 to 93 and is incorporated in this Directors' report by reference. PricewaterhouseCoopers LLP has reviewed the Company's statements as to compliance with the UK Corporate Governance Code, to the extent required by the UK Listing Authority Listing Rules. The results of its review are set out in the Independent auditors' report on pages 125 to 131.

Strategic report
The statements and reviews on pages 2 to 69 comprise the Group Strategic report which contains certain information, outlined below, that is incorporated into this Directors' report by reference:

- an indication of the Group's likely future business developments;
- an indication of the Group's research and development activities;
- information on the Company's policies for the employment of disabled persons and employee involvement; and
- the Group's disclosures regarding greenhouse gas emissions.

Branches
The Company does not operate through any branches. Some Group subsidiary companies have established branch operations outside the UK.

Financial instruments
The financial risk management objectives and policies of the Group; the policy for hedging each major type of forecasted transaction for which hedge accounting is used; and the exposure of the Group to foreign exchange risk, interest rate risk, price risk, financial credit risk, liquidity risk and cash-flow risk is outlined in note 18 of the Group accounts.

Going concern
The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic report on pages 2 to 69. The financial position of the Company, its cash-flows, liquidity position and borrowing facilities are described in the CFO report on pages 25 to 31. In addition, the notes to the accounts include the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

On 30 June 2016 the Group paid off £150m of debt on maturity. The bond repayment resulted in the decrease of the average maturity of gross debt to 4.5 years (from 5.1 years at 31 July 2015).

The Group holds its debt in the currency of its underlying assets and as such most debt is held in US dollars and euros. The strengthening of both these currencies against the British pound in late June 2016 contributed to the Group's net debt, as reported in British pounds, increasing. At 31 July 2016 the net debt of the Group was £978m, a £160m increase from 31 July 2015. At 31 July 2016 the Group had available cash and short-term deposits of £431m. These liquid resources are immediately available with 98% invested with the Group's global banking partners.

The Group maintains a core US$800m committed revolving credit facility from these banks which was undrawn at 31 July 2016. This committed facility matures in February 2021. This facility has certain financial covenants: however these are not expected to prevent utilisation at the Group's discretion if required.

This financial position and debt maturity profile provides confidence that the Group has sufficient financial resources for the foreseeable future. As a consequence, the directors believe that the Company is well placed to manage its business and its liabilities as they fall due. In coming to this conclusion, the directors have taken account of the Group's risk management process described on pages 52 to 60, and have paid particular attention to the financial and pension funding risks and their mitigation (see page 56).

The directors, having made appropriate enquiries, have a reasonable expectation that the Company and the Group have adequate resources to continue in operation for a period of at least twelve months from the date of this report. Thus they continue to adopt the going concern basis of accounting in preparing the annual accounts of the Company and the Group.

Viability
The directors' assessment of the long-term prospects of the Company is described in the Strategic report on page 52.

Share capital and control
As at 31 July 2016, the Company's nominal issued share capital was £148,208,652 and comprised 395,223,072 ordinary shares. The ordinary shares are listed and admitted to trading on the Main Market of the London Stock Exchange (symbol: SMIN). The Company has an American Depositary Receipt ('ADR') programme for which J.P. Morgan acts as Depositary and transfer agent. One ADR equates to one Smiths Group ordinary share. The programme trades 'over-the-counter' as a level 1 ADR programme under the ticker symbol SMGZY. At the year-end, 5,580,727 ordinary shares were held by the nominee of the programme depositary in respect of the same number of ADRs in issue at that time.

The holders of ordinary shares are entitled to receive the Company's reports and accounts; to attend and speak at general meetings of the Company; to appoint proxies and to exercise voting rights.

There are no restrictions on transfer or limitations on the holding of any class of shares and no requirements for prior approval of any transfers. None of the shares carries any special rights with regard to control of the Company. There are no restrictions on the voting rights attaching to the ordinary shares (other than a 48 hour cut-off for the casting of proxy votes prior to a general meeting). There are no arrangements of which the directors are aware under which financial rights are held by a person other than the holder of the shares and no known agreements relating to or restrictions on share transfers or voting rights.

Shares acquired through Company share schemes and plans rank pari passu with the shares in issue and have no special rights. The Company operates an employee benefit trust, with an independent trustee, to hold shares pending employees becoming entitled to them under the Company's share schemes and plans. On 31 July 2016 the trust held 852 ordinary shares in the Company. The trust waived its dividend entitlement on its holding during the year: the trust abstains from voting the shares at general meetings.

The tables on pages 115 and 116 set out the notifications received by the Company pursuant to the FCA's DTRs and the 2006 Act, as at 31 July 2016 and any changes thereto up to 23 September 2016, from persons with significant direct or indirect holdings in the Company's share capital.

The rules about the appointment and replacement of directors are contained in the Company's Articles of Association and legislation in force from time to time. Changes to the Articles of Association must be approved by the shareholders in accordance with the legislation in force from time to time.

The powers of the directors are determined by English law and the Articles of Association of the Company in force from time to time. The directors have been authorised to issue and allot ordinary shares, pursuant to Article 5. The directors have authority to make market purchases of ordinary shares. The powers to issue and allot shares and, subject to specified limits, to allot shares on a non pre-emptive basis and on a pre-emptive basis, are referred to the shareholders at the AGM each year for renewal. At the AGM the shareholders are also requested to renew the power to make market purchases of ordinary shares. Any ordinary shares so purchased may be cancelled or held in treasury.

The Company has in place credit facility agreements under which a change in control would trigger prepayment clauses and has bonds in issue the terms of which would allow bondholders to exercise put options and require the Company to buy back the bonds at their principal amount plus interest if a rating downgrade occurs at the same time as a change of control takes effect. The Company's share plans (including the buy-out awards granted to the executive directors on their appointments) contain clauses which may cause options and awards to vest on a change in control, in some cases subject to the satisfaction of performance conditions at that time. The Company is not party to any other significant agreements that would take effect, alter or terminate upon a change of control following a takeover.

No director or employee is contractually entitled to compensation for loss of office or employment as a result of a change in control except that provisions of the Company's share schemes may cause options and awards granted to employees under such schemes to vest on a change in control, in some cases subject to the satisfaction of performance conditions at that time.

Purchase of own shares
No shares in the Company were either purchased or acquired or charged or disposed of by the Company or any nominee of the Company during the financial year ended 31 July 2016.

Electronic communications at www.smiths.com
The 2006 Act recognises the growing importance of electronic communication ('e-communication') and enables companies to provide documentation and communications to shareholders via their websites, except to those shareholders who elect to receive hard (printed paper) copies by post. E-communication allows shareholders faster access to important information about the Company; saves the Company considerable overheads, by reducing its print production costs and postage; and helps the environment by saving the energy and raw materials that would otherwise be used in producing and dispatching printed documents. At the Extraordinary General Meeting held on 11 June 2007 shareholders approved the adoption of electronic communications.

Electronic copies of the Annual Report 2016 and the Notice of AGM will be posted on the Company's website, www.smiths.com. The Company's announcements to the Stock Exchange and press releases are available online through the website. Shareholding details and practical help on share transfers and changes of address can be found at www.shareview.co.uk.

Shareholders wishing to change their election and receive documents in hard copy form can do so at any time by contacting the Company's Registrar or by logging on to www.shareview.co.uk.

Annual General Meeting ('AGM')
The 2016 AGM will be held on Tuesday 15 November 2016 at 11:00 am. The Notice of the AGM will be published on the Company's website, www.smiths.com, on or around 13 October 2016.

Remuneration policy
Details of the Directors' remuneration policy as approved at the AGM in 2015, are shown on pages 95 to 98. Under the regulations which now form part of the 2006 Act, the remuneration policy must be put to a binding shareholder vote at least once every three years. All payments to former and current directors must comply with the terms of the policy, unless specifically approved by shareholders in general meeting.

Authority to issue shares
At the AGM shareholders will be asked to renew and extend the authority, given to the directors at the last AGM, to allot shares in the Company, or grant rights to subscribe for, or to convert any security into, shares in the Company for the purposes of Section 551 of the 2006 Act (the 'Allotment Resolution').

The authority in the first part of the Allotment Resolution will allow the directors to allot new shares in the Company or to grant rights to subscribe for or convert any security into shares in the Company up to a nominal value which is equivalent to approximately one-third of the total issued ordinary share capital of the Company as at the latest practical date prior to the publication of the Notice of AGM.

The authority in the second part of the Allotment Resolution will allow the directors to allot new shares or to grant rights to subscribe for or convert any security into shares in the Company only in connection with a rights issue up to a nominal value which is equivalent to approximately one-third of the total issued ordinary share capital of the Company as at the latest practical date prior to the publication of the Notice of AGM. This is in line with corporate governance guidelines. The Board has undertaken to seek the re-election of each director annually by the shareholders, whether or not this authority were to be used.

There are no present plans to undertake a rights issue or to allot new shares other than in connection with the Company's share option schemes and plans. The directors intend to take note of relevant corporate governance guidelines on the use of such powers in the event that the authority is exercised.

If the Allotment Resolution is passed the authority will expire on the earlier of 31 January 2018 and the end of the next AGM, due to be held in 2017.

Also at the AGM shareholders will be asked to pass two special resolutions to renew the powers granted to directors to disapply shareholders' pre-emption rights under certain circumstances (the 'Pre-emption Resolutions').

If the directors wish to allot new shares and other equity securities, or sell treasury shares, for cash (other than in connection with an employee share scheme) company law requires that these shares are offered first to shareholders in proportion to their existing holdings. There may be occasions, however, when the directors need the flexibility to finance business opportunities by the issue of shares without a pre-emptive offer to existing shareholders. This cannot be done under the 2006 Act unless the shareholders have first waived their pre-emption rights. The purpose of the Pre-emption Resolutions is to enable shareholders to so waive their pre-emption rights.

The Pre-emption Resolutions authorise the directors to allot new shares, pursuant to the authority given by the Allotment Resolution, or to sell treasury shares for cash:

a) in connection with a rights issue or pre-emptive offer; and/or

b) otherwise up to a nominal value equivalent to 5% of the total issued ordinary share capital of the Company as at the latest practical date prior to the publication of the Notice of AGM; and

c) in connection with the financing (or refinancing, if the authority is to be used within six months after the original transaction) of an acquisition or specified capital investment which is announced contemporaneously with the allotment or which has taken place in the preceding six-month period and is disclosed in the announcement of the allotment (provided that the nominal value equivalent is no more than 5% of the total issued share capital of the Company at the latest practical date prior to the publication of the Notice of AGM),

in each case without the shares first being offered to existing shareholders in proportion to their existing holdings.

The Board intends to adhere to the provisions in the Pre-emption Group's Statement of Principles, as updated in March 2015, and not to allot shares for cash on a non pre-emptive basis pursuant to the authority in Pre-emption Resolutions:

- in excess of an amount equal to 5% of the total issued ordinary share capital of the Company (excluding treasury shares); or
- in excess of an amount equal to 7.5% of the total issued ordinary share capital of the Company (excluding treasury shares) within a rolling three-year period, without prior consultation with shareholders,

in each case other than in connection with an acquisition or specified capital investment which is announced contemporaneously with the allotment or which has taken place in the preceding six-month period and is disclosed in the announcement of the allotment.

The Pre-emption Resolutions also authorise the directors to allot new shares, pursuant to the authority given by the Allotment Resolution, or to sell treasury shares for cash in connection with a rights issue, without the shares first being offered to existing shareholders in proportion to their existing holdings. This is to allow the directors to make exclusions or such other arrangements as may be appropriate to resolve legal or practical problems which, for example, might arise with overseas shareholders. This is in line with corporate governance guidelines.

If the Pre-emption Resolutions are passed, the authorities they confer will expire on the earlier of 31 January 2018 and the end of the next AGM, due to be held in 2017.

During the financial year ended 31 July 2016, the following ordinary shares in the Company were issued:

- 363,068 ordinary shares pursuant to the terms of the Company's shareholder-approved share option schemes and share plans.

Authority to purchase own shares
At the AGM the Company will seek to renew the authority, granted at the last AGM to the directors, to purchase the Company's ordinary shares in the market.

The effect of the resolution is to renew the authority granted to the Company to purchase its own ordinary shares until the next AGM (due to be held in 2017) or 31 January 2018 whichever is the earlier. This authority is limited to 10% of the ordinary shares in issue as at the latest practical date prior to the publication of the Notice of AGM and the Company's exercise of this authority is subject to the stated upper and lower limits on the price payable, which reflect the requirements of the Listing Rules.

Pursuant to the 2006 Act, the Company can hold the shares which have been purchased as treasury shares and either resell them for cash, cancel them, either immediately or at a point in the future, or use them for the purposes of its employee share schemes. The directors believe that it is desirable for the Company to have this choice as holding the purchased shares as treasury shares would give the Company the ability to resell or transfer them in the future, and so provide the Company with additional flexibility in the management of its capital base. No dividends will be paid on, and no voting rights will be exercised in respect of, treasury shares. However, it is not the Company's present intention to hold shares in treasury in the event that any shares were to be purchased under this authority.

Shares will only be purchased if the directors consider such purchases to be in the best interests of shareholders generally and that they can be expected to result in an increase in earnings per share. The authority will only be used after careful consideration, taking into account market conditions prevailing at the time, other investment opportunities, appropriate gearing levels and the overall financial position of the Company. Shares held as treasury shares will not automatically be cancelled and will not be taken into account in future calculations of earnings per share (unless they are subsequently resold or transferred out of treasury).

If any shares purchased by the Company are held in treasury and used for the purposes of its employee share schemes, the Company will count those shares towards the limits on the number of new shares which may be issued under such schemes.

At 27 September 2016, the Company did not hold any shares in treasury.

Political donations
The Group made contributions to non-EU political parties totalling US$36,500 (£28,000) during the year. The political contributions were made on a bi-partisan basis in the US, in accordance with US state and federal election laws, in order to raise awareness and to promote the interests of the Company. The Group has a number of key manufacturing sites and approximately 7,900 employees in the US.

A resolution will be proposed at the AGM to renew the authority, granted by the shareholders at the last AGM to the Company and its UK subsidiaries, to make donations to political organisations and to incur political expenditure.

Part 14 of the 2006 Act requires companies to obtain shareholders' authority for donations to registered political parties and other political organisations in the EU totalling more than £5,000 in any twelve-month period, and for any political expenditure in the EU, subject to limited exceptions. The definition of donation in this context is very wide and extends to bodies such as those concerned with policy review, law reform and the representation of the business community. It could include special interest groups, such as those involved with the environment, which the Company and its UK subsidiaries might wish to support, even though these activities are not designed to support or influence support for a particular political party.

It is the policy of the Company not to make political donations or incur political expenditure in the EU, as those expressions are normally understood. To avoid inadvertent infringement of the 2006 Act, the directors are seeking shareholders' authority for the Company and its UK subsidiaries to make political donations (as defined in the 2006 Act) and to incur political expenditure (as defined in the 2006 Act) for the period from the date of the AGM to the conclusion of next year's AGM up to a maximum aggregate amount of £50,000.

Auditors
Resolutions will be proposed at the AGM to reappoint PricewaterhouseCoopers LLP as independent auditors, to hold office until the next meeting at which the accounts are laid, and to authorise the directors to determine the auditors' remuneration. Further information on the process for recommending the appointment of auditors is contained in the Audit Committee report on pages 88 and 89.

Notice period for extraordinary general meetings
A special resolution will be proposed at the AGM to renew the authority, granted by the shareholders at the last AGM to the Company, to call a general meeting of the Company (other than an AGM) with a minimum notice period of 14 clear days. Changes made to the 2006 Act by the Shareholders' Rights Regulations increased the notice period required for general meetings of the Company to 21 days unless shareholders approve a shorter notice period, which cannot, however, be less than 14 clear days. AGMs will continue to be held on at least 21 clear days' notice.

Before the coming into force of the Shareholders' Rights Regulations on 3 August 2009, the Company was able to call general meetings other than an AGM on 14 clear days' notice without obtaining such shareholder approval. In order to preserve this ability, such approval is sought at the AGM. Any exercise of this power by the Company will be conducted in accordance with any relevant corporate governance guidelines applicable at the time. In particular, the shorter notice period will only be used where flexibility is merited by the business of the meeting and is thought to be to the advantage of shareholders as a whole. The approval will be effective until the Company's next AGM, when it is intended that a similar resolution will be proposed.

The Company will comply with the requirement to provide appropriate facilities for all shareholders to vote by electronic means at general meetings held on less than 21 clear days' notice.

Disclosure table pursuant to Listing Rule LR9.8.4C

Listing Rule	Information to be included	Disclosure
9.8.4(1)	Interest capitalised by the Group	£1.8m interest was capitalised as part of the costs of development projects. £0.4m of tax relief has been recognised as current tax relief in the period
9.8.4(2)	Unaudited financial information (LR9.2.18)	The supplementary US dollar financial statements on pages 186 to 190 The Group financial record 2012-2016 on page 185
9.8.4(4)	Long-term incentive scheme only involving a director (LR9.4.3)	The terms of the contracts entered into with Chris O'Shea, appointed as Chief Financial Officer on 18 September 2015, and Andrew Reynolds Smith, appointed as Chief Executive on 25 September 2015, are described on page 101 and include details of their incentive arrangements
9.8.4(5)	Directors' waivers of emoluments	None
9.8.4(6)	Directors' waivers of future emoluments	None
9.8.4(7)	Non pro-rata allotments for cash (issuer)	Shares have been issued and allotted pursuant to the exercise of options awarded under shareholder-approved schemes
9.8.4(8)	Non pro-rata allotments for cash (major subsidiaries)	None
9.8.4(9)	Listed company is a subsidiary of another company	Not applicable
9.8.4(10)	Contracts of significance involving (a) a director or (b) a controlling shareholder	(a) None; (b) Not applicable
9.8.4(11)	Contracts for the provision of services by a controlling shareholder	Not applicable
9.8.4(12)	Waivers of dividends	(1) Wealth Nominees Limited WAIVED a/c (per pro the Smiths Industries Employee Share Trust) waived all the dividends payable in the year on its holding of 852 shares; and (2) Reuter File Limited waived its dividends in full (on 2 shares)
9.8.4(13)	Waivers of future dividends	(1) Wealth Nominees Limited WAIVED a/c (full waiver) (2) Reuter File Limited (full waiver)
9.8.4(14)	Agreement with a controlling shareholder LR9.2.2AR(2)(a)	Not applicable

Additional information pursuant to LR9.8.6

Listing Rule	Information to be included	Disclosure
9.8.6(1)	Directors' (and their connected persons') interests in Smiths shares at year-end and at not more than one month prior to date of the Notice of AGM	See page 111
9.8.6(2)	Interests in Smiths shares disclosed under DTR5 at year-end and not more than one month prior to date of the Notice of AGM	See pages 115 and 116
9.8.6(3)(a)	Directors' going concern statement	See page 116
9.8.6(3)(b)	Directors' assessment of the Company's prospects	See page 52
9.8.6(4)(a)	Amount of the authority to purchase own shares available at year-end	Authority available in full at year-end
9.8.6(4)(b)	Off-market purchases of own shares during the year	None
9.8.6(4)(c)	Off-market purchases of own shares post year-end	None
9.8.6(4)(d)	Non pro-rata sales of treasury shares during the year	None
9.8.6(5)	Compliance with the Main Principles of the UK Corporate Governance Code	See the Corporate governance statement on page 76
9.8.6(6)(b)	Details of non-compliance with UK Corporate Governance Code and reasons	See the Corporate governance statement on page 76
9.8.6(7)	Re directors proposed for re-election: the unexpired term of any director's service contract and a statement about directors with no service contracts	Details of the executive directors' service contracts are given in the Directors' remuneration report on page 101 The Chairman and the non-executive directors serve under letters of appointment – see page 101

Electronic proxy voting
The Company continues to provide electronic proxy voting for this year's AGM. Shareholders who are not Crest members can appoint a proxy and vote online for or against (or consciously not vote on) the resolutions to be proposed at the AGM by visiting the website www.sharevote.co.uk. The onscreen instructions will give details on how to complete the appointment and voting process. Crest members, Crest personal members and other Crest-sponsored members should consult the Crest Manual or their sponsor or voting service provider for instructions on electronic proxy appointment and voting. The Company may treat as invalid a Crest proxy voting instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

Paper proxy cards will be distributed with the Notice of AGM to all shareholders other than those who have elected to receive Company notifications by email.

Shareholders who will not be able to attend the AGM on 15 November 2016 in person are encouraged to vote their shares by appointing a proxy and issuing voting instructions (either electronically or by completing and returning their proxy cards). Electronic and paper proxy appointments and voting instructions must be received by the Company's Registrar not later than 48 hours before the AGM in order to be valid.

Adoption of financial reporting standard FRS 101
Following the publication of FRS 100 'Application of financial reporting requirements' by the Financial Reporting Council, the Company was required to change its accounting framework for its financial statements, which previously had followed UK GAAP, for the financial year commencing 1 August 2015.

The Board considered that it would be in the best interests of the Company to adopt FRS 101 'Reduced Disclosure Framework'. No disclosures in the current UK GAAP financial statements would be omitted on adoption of FRS 101.

Shareholders were invited to register any objection to the use of this Reduced Disclosure Framework no later than 10:30 am on 15 November 2015. No objections were received. The 2016 financial statements contained in this Annual Report have been prepared using the FRS 101 framework.

Registrar
The address and contact details of Equiniti Limited, the Company's Registrar, are listed on the inside back cover of this report. Individual shareholders' access to their personal shareholder information is available online, through the www.shareview.co.uk website. The UK shareholder helpline telephone number is 0371 384 2943. Helpline services are available from 08:30 to 17:30, Monday to Friday. The international shareholder helpline telephone number is +44 (0) 121 415 7047.

Important information
If you are in any doubt as to what action you should take in relation to the resolutions being proposed at the AGM, you are recommended to consult your stockbroker, bank manager, solicitor, accountant or other independent professional adviser authorised under the Financial Services and Markets Act 2000. If you received this document in printed form from the Company and have recently sold or transferred all your shares in Smiths Group plc, please pass this document to the purchaser or transferee or to the agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Disclosure of information to the auditors
As at the date of this report, as far as each director is aware, there is no relevant audit information of which the Company's auditors are unaware. Each director has taken all the steps he or she should have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Recommendation
Your directors believe that all the proposals to be considered at the AGM are in the best interests of the Company and its shareholders as a whole and recommend shareholders to vote in favour of the resolutions. The directors intend to vote in favour of the resolutions in respect of their own beneficial holdings.

By Order of the Board

Melanie Jane Rowlands
Secretary
Smiths Group plc
4th Floor, 11-12 St James's Square, London SW1Y 4LB

27 September 2016