GOVERNANCE

GOVERNANCE


smiths interconnect
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BOARD OF DIRECTORS

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SIR GEORGE BUCKLEY
CHAIRMAN

Committee membership N R

Appointed:
1 August 2013 (non-executive director and Deputy Chairman);
19 November 2013 (Chairman)

Relevant skills and experience:
Sir George was Chairman, President and CEO of 3M, a US-based global technology company, until 2012, and he brings his extensive experience of large, global, multi-industry businesses to the Board. Sir George has a PhD in Electrical Engineering and spent most of his long and successful career in the US, including as Chairman and CEO of Brunswick Corporation and President of Mercury Marine. His previous experience also includes Chief Technology Officer for appliances, motors and controls at Emerson Electric Company. Sir George's track record in strategic transformation, engineering and innovation are invaluable to the Group and support his effective Chairmanship of the Board.

Other significant appointments:
- Stanley Black & Decker, Inc. (Chairman)
- Hitachi, Ltd. (non-executive director)
- PepsiCo, Inc. (non-executive director)

ANDY REYNOLDS SMITH
CHIEF EXECUTIVE

Appointed:
25 September 2015

Relevant skills and experience:
Andy has extensive experience in driving business strategy, technological innovation and operational excellence. Before joining Smiths Group he was CEO of GKN Automotive, serving on the Board since 2007. Andy joined GKN in 2002 and held several senior positions across the Group, including 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. His past experience includes Chairman of the CBI Manufacturing Council, membership of HM Government's Ministerial Advisory Group for Manufacturing and Green Economy Council, and as non-executive director of Morgan Advanced Materials plc.

BILL SEEGER
INTERIM CHIEF FINANCIAL OFFICER

Appointed:
12 May 2014 (non-executive director);
19 May 2017 (Interim Chief Financial Officer)

Relevant skills and experience:
Bill has an established career in finance in the engineering sector, in addition to an in-depth knowledge of global markets, long term contracts and strategy execution, supporting his effective contribution to the work of the Board. Bill has an MBA and a BA in Economics, and was previously Chief Financial Officer at GKN plc, retiring in 2014. Prior to his role at GKN, Bill held a number of senior finance posts during a 28-year career with TRW, a US-based automotive and aerospace group. Bill chaired the Smiths Group Audit Committee for almost three years, and was well placed to assume the role of Interim Chief Financial Officer in May 2017. Bill stepped down as Chair of the Audit Committee following this appointment.

Other significant appointments:
- Spectris plc (non-executive director)

Committee membership key

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

BRUNO ANGELICI
NON-EXECUTIVE DIRECTOR

Committee membership A N R

Appointed:
1 July 2010

Relevant skills and experience:
Bruno has an MBA from Kellogg School of Management and has held senior management roles in global medical device and pharmaceutical companies throughout his career. Bruno has extensive international experience, including at Baxter, a US-based global supplier of medical devices. At AstraZeneca he held the role of Executive Vice President, International and was responsible for Europe, Japan, Asia Pacific, Latin America, Middle East and Africa. Bruno provides the Board with valuable global experience of both the medical device and pharmaceutical industries.

Other significant appointments:
- Vectura Group plc (Chairman)
- Wolters Kluwer nv (Supervisory Board member)

TANYA FRATTO
NON-EXECUTIVE DIRECTOR

Committee membership A N R

Appointed:
1 July 2012

Relevant skills and experience:
Tanya has a BSc in Electrical Engineering and her executive career includes 20 years at GE. She brings knowledge of manufacturing and operations to the Board, in addition to experience of sales and marketing across a range of sectors. Most recently she was CEO of Diamond Innovations Inc., a manufacturer of products for the material removal industry. In 2017 Tanya was appointed non-executive director at Mondi Group, an international packaging and paper business, and her exposure to a global industrial company further strengthens the contribution she makes to the Smiths Group Board.

Other significant appointments:
- Advanced Drainage Systems, Inc. (non-executive director)
- Ashtead Group plc (non-executive director)

BOARD OF DIRECTORS

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ANNE QUINN CBE
NON-EXECUTIVE DIRECTOR

Committee membership A N R

Appointed:
1 August 2009

Relevant skills and experience:
Anne has extensive global experience in the oil and gas sector, enjoying a 25-year career with Standard Oil of Ohio and BP. Anne has a BCom from Auckland University and an MSc in Management Science from the Massachusetts Institute of Technology. At BP she held a number of executive positions, including Group Vice President in the US, UK, Belgium, and Colombia. Following her career at BP Anne was Managing Director of Riverstone LLP, an energy private equity group. Anne's experience and knowledge of the oil and gas industry is particularly valuable when the Board is debating strategy for John Crane, as a provider of products and services to global energy services customers. Anne also brings extensive experience as chair of remuneration committees.

MARK SELIGMAN
NON-EXECUTIVE DIRECTOR

Committee membership A N R

Appointed:
16 May 2016

Relevant skills and experience:
Mark is a Chartered Accountant and has an MA in Philosophy, Politics and Economics. Mark was previously Chairman of UK Investment Banking for Credit Suisse, and his career in investment banking brings a deep understanding of investment strategy and corporate finance to the Board. Mark has non-executive experience serving on Audit Committees, which has been valuable to the Board in 2017 as he has been appointed Chair of the Audit Committee following Bill Seeger's appointment as Interim Chief Financial Officer.

Other significant appointments:
- Kingfisher plc (Senior Independent Director)
- Royal Bank of Scotland Group plc (non-executive director)
- Panel on Takeovers and Mergers (Alternate Member)

NOEL TATA
NON-EXECUTIVE DIRECTOR

Committee membership A N R

Appointed:
1 January 2017

Relevant skills and experience:
Noel has a BA in Economics and is currently Managing Director of Tata International Limited, a global trading and distribution company and a trading arm of the Tata Group, the privately-owned multinational holding company headquartered in Mumbai, India. Noel has a successful career in global business, and his executive role within the Tata Group of companies provides him with current contacts and experience in high growth economies, including Asia and Africa, which is valuable as the Smiths Group continues to grow in these regions.

Other significant appointments:
- Tata Investment Corporation* (Chairman)
- Kansai Nerolac Paints Ltd* (non-executive director)
- Trent Ltd* (non-executive director)
- Titan Company Ltd* (non-executive director)
- Voltas Ltd* (non-executive director)

* Listed on the Bombay and Indian National Stock Exchanges

Committee membership key

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

Additional biographical information for each of the directors can be found online at www.smiths.com.

SIR KEVIN TEBBIT KCB, CMG
SENIOR INDEPENDENT DIRECTOR

Committee membership A N R

Appointed:
14 June 2006 (non-executive director); 17 November 2015 (Senior Independent Director)

Relevant skills and experience:
Sir Kevin brings considerable experience in the security and defence sectors to the Board, as well as his expertise and depth of knowledge of Government. This is particularly important when the Board considers Smiths Detection. Sir Kevin has a BA in History, and over his career has held posts in the Ministry of Defence (MoD), the Foreign and Commonwealth Office and NATO. His roles have included Defence and European Counsellor at the British Embassy in Washington, Director of Government Communications Headquarters (GCHQ) and Permanent Under Secretary at the MoD.

Other significant appointments:
- Executive Vice President AECOM UK (Government and Defence)
- Institute of Security Science and Technology, Imperial College London (Advisory Board Member)

MEL ROWLANDS
COMPANY SECRETARY AND DEPUTY GROUP GENERAL COUNSEL

Appointed:
29 May 2015

Relevant skills and 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.

CORPORATE GOVERNANCE STATEMENT
CHAIRMAN'S INTRODUCTION

SIR GEORGE BUCKLEY
CHAIRMAN

During 2017 the Smiths leadership team have continued on the path of building our 'new future'.

Elsewhere in this Annual Report you will read about our story – how we are creating a more vibrant, faster growing and innovative company and how this will benefit our investors, employees and other stakeholders alike. In this Corporate Governance Review you will read about the part your Smiths Board of Directors has played during the year and our plans for the future.

The building blocks of any great company include ensuring there is a strong framework of company governance. This should never be done with a 'tick box' mindset; it needs to be engaged, thoughtful and effective. Boards need to take the lead to set a positive culture and to make sure that good governance forms a firm foundation for decision making throughout the company. The Smiths Way was launched in 2017 and this framework provides our shared set of values, a common approach to strategy, and a commitment to excellence across all our businesses.

Our ambition for Smiths is one with innovation and growth in its DNA, but also where colleagues act with integrity and respect towards each other and keep each other safe. It is often said that the true test of integrity is that you do the right thing – even when no one is watching, and I can assure you that the Board gives a great deal of focus to corporate governance in its widest and deepest sense. The Audit Committee reviewed the Group's ethics and compliance programme during the year, which has led to a number of significant improvements. We also strengthened our anti-slavery compliance programme and published an updated Smiths Modern Slavery Statement which affirms our commitment not to tolerate this in any part of our business or supply chain.

Another fundamental and vital building block is people. The Nomination Committee of the Board sponsored the new Group-wide process for talent and succession planning across Smiths and we continue to work to achieve an appropriate balance of experience, skills, domain knowledge and background in both the Boardroom and at senior leadership levels of the Group. We are mindful of the reports from Sir Philip Hampton and (the late) Dame Helen Alexander and from Sir John Parker in the areas of women in leadership positions and ethnic diversity respectively, and are committed to staffing diverse Board and senior leadership teams. We firmly believe that diversity improves our performance as it produces better ideas.

Board succession and composition continues to be a priority for the Board and I was delighted that Noel Tata was appointed to the Board as an additional non-executive director in January 2017. Noel brings a very valuable and distinct contribution to Smiths with his current experience and connections in those economies where we are focusing on higher levels of growth. In May 2017 Chris O'Shea stepped down as Chief Financial Officer to pursue his career outside the Group. I was delighted that Bill Seeger agreed to take on the role of Interim Chief Financial Officer whilst we carried out a search for a replacement. I was also delighted that Mark Seligman agreed to take on a key non-executive role as Audit Committee Chair. I am personally grateful to Bill and to Mark, and to Anne Quinn as Chair of the Remuneration Committee, for all the support they have shown to me and to Andy over recent months. As further detailed in its report, the Nomination Committee continues to keep Board composition and succession plans under regular review, but with an eye to maintaining a good measure of stability and continuity during a time of significant change for the Group.

As Chairman I am responsible for leading an effective Board and I am pleased to report that your Board has been effective during the year. Details of the annual appraisal process and the actions and improvements that we agreed to drive through 2017 are set out on pages 89 and 90 of this Report. I want to take this opportunity to record my thanks to all members of the Board for their hard work and support throughout the year. I hope you find this report interesting and enlightening as it details the work the Board and its Committees have carried out on your behalf during the year. I strongly urge you to attend this year's shareholders Annual General Meeting and take the opportunity to engage with us in person.

SIR GEORGE BUCKLEY
CHAIRMAN

UK Corporate Governance Code (the 'Code')
As the Company is listed on the London Stock Exchange we comply with the Code. A copy of the Code published in 2016, and applying to financial years beginning on or after 17 June 2016, can be found at www.frc.org.uk. For the year ended 31 July 2017, and at the date of this report, we applied the main principles and complied with the provisions of the Code.

Disclosure Guidance and Transparency Rules
This corporate governance statement is incorporated into the Directors' Report by reference and is compliant with the corporate governance statement requirements of the FCA's Disclosure Guidance and Transparency Rules.

BOARD STATEMENTS

Requirement	Board Statement	Where to find further information
Compliance with the UK Corporate Governance Code	For the year ended 31 July 2017, and at the date of this report, the Company has been in full compliance with the 2016 UK Corporate Governance Code.	Page 83
Going concern basis of accounting	The directors continue to adopt the going concern basis of accounting in preparing the annual accounts of the Company and the Group.	Page 124
Viability statement	The directors have assessed the longer-term prospects of the Group and they have a reasonable expectation the Group will remain viable for the period being assessed, and will continue to operate and meet its liabilities as they fall due.	Page 57
Robust assessment of the principal risks facing the Group	The Board 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.	Page 93
Annual review of systems of risk management and internal control	The Audit Committee, on behalf of the Board, monitored, reviewed and assessed the effectiveness of the Group's risk management and internal control systems.	Page 93
Fair, balanced and understandable	The Board considers the 2017 Annual Report to present a fair, balanced and understandable overview of the Group's position and performance.	Page 97

BOARD ACTIVITIES DURING FY2017

Principles of the UK Corporate Governance Code	Activity in FY2017
Leadership	• Held a Board strategy week to set Smiths' vision for five years • Oversight of M&A, including acquisition of Morpho Detection and its integration with Smiths Detection • Board members attended Smiths Global Leadership Conference at UCLA • Sponsored the launch of the Smiths Way, culture and values for the Group • Nomination Committee sponsored a new Group-wide process for talent, succession and strategic workforce planning
Effectiveness	• Actioned the Board evaluation improvements • Appointed a new non-executive director Noel Tata • Reviewed the Board skills matrix and discussed succession planning for the Board • Search for a new Chief Financial Officer
Accountability	• Held a risk-focused Audit Committee meeting • Agreed the Audit Tender timetable • Added cyber security to the Audit Committee terms of reference • Reviewed the financial statements to ensure they are fair, balanced and understandable • Monitored the work programme for managing modern slavery risks in the Group's business and supply chain, and approved the updated Smiths Modern Slavery Statement
Remuneration	• Considered and approved annual incentive plan payouts and set targets for the new financial year • Approved the salary proposal for the Chief Executive, members of the Executive Committee and reviewed fees for the Chairman • Determined Chris O'Shea's arrangements on stepping down from the Board, and agreed Bill Seeger's package for assuming the role of Interim Chief Financial Officer
Relations with shareholders	• Held the 2016 AGM • Met with shareholders and brokers regarding director changes • Sponsored and reviewed the 2017 investor survey • Held a number of investor roadshows and conferences

LEADERSHIP

The Board of directors is collectively responsible for ensuring the long-term success of Smiths. This includes reviewing and approving strategy in order to create sustainable value for the shareholders, as well as setting the Company's culture and values. This is underpinned by a strong framework of good governance, including the Board's responsibility for setting risk appetite.

Governance structure

In order to fulfil their collective responsibility effectively, the Board of directors has established the Audit, Nomination and Remuneration Committees. Each Committee has authority delegated to it by the Board, and their responsibilities, activities and membership are described in this corporate governance statement. The full terms of reference for each Board Committee have been approved by the Board and are available online at www.smiths.com.

There is a clear division of responsibilities between the Board and the Executive Committee and senior management, who are responsible for the day-to-day management of the business, including the execution of strategy set by the Board.

The role of the Board

The directors are responsible for the long-term success of the Group, and in order to retain control over decision-making there is a formal schedule of matters which have been reserved for the decision of the Board, as opposed to those matters that are delegated to management. These matters include approval of the following:

- Group strategy, business plans and budgets
- half-yearly financial reports and the Annual Report and Accounts
- acquisition or divestment of significant companies or businesses
- remuneration policy for directors and other senior executives
- changes to the structure, size and composition of the Board
- the issuance of Smiths Group plc shares

GOVERNANCE MODEL

Board and Board Committees

BOARD

Responsible for ensuring the Group's long-term success by creating sustainable shareholder value.

NOMINATION COMMITTEE

Reviews and makes recommendations to the Board on the structure, size and composition of the Board and Board Committees, and succession planning for directors and senior management.
See page 91 for more information

REMUNERATION COMMITTEE

Makes recommendations to the Board on the remuneration framework, including the remuneration of the Chairman, executive directors and senior management.
See page 103 for more information

AUDIT COMMITTEE

Monitors the integrity of financial statements, risk management and internal control systems, and internal and external audit.
See page 94 for more information

Executive Management structure*

EXECUTIVE COMMITTEE

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

INVESTMENT COMMITTEE

Assesses high-value and high-risk proposals, capital expenditure, asset disposal and special revenue expenditure projects that will require Board or Chief Executive approval.

DISCLOSURE COMMITTEE

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

ACQUISITIONS AND DIVESTMENTS COMMITTEE

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

* In addition to the above there are a number of functional committees which include the Environmental Health and Safety Steering Committee, i³ (Smiths innovation forum), and the Business Ethics Council.

Only the Board has the authority to approve any changes to the formal matters reserved for its decision-making. The full list was reviewed in July 2017 and can be found online at www.smiths.com. To ensure that they continue to operate effectively the directors have at least six formal Board meetings a year. Board meeting agendas have been reshaped during the year to include more time to focus on the long term, and less on backward-looking financial information and performance. Board agendas include a review of elements of the Group strategy and its execution at each meeting, in addition to the meetings focused on strategy which take place in May each year. Regular matters for review by the Board, including the Group's financial performance, divisional business plans and progress against them, budgets, mergers and acquisitions, material investments, large projects, the people plan and possible threats to the business, are all considered by the Board under the framework of the agreed strategy. The Board also assesses the implementation of strategy within a framework of prudent and effective controls; a key part of ongoing risk management is ensuring that the strategy in place remains fit for purpose.

The Board is responsible for steering our culture and our shared values of integrity, ownership, respect, customer focus and passion. The Board sets the tone from the top and oversees key programmes, including ethics and compliance, health and safety and our people plan. In 2017 the Board supported the launch of the Smiths Way, a shared way of working that includes our values, operating model and strategy. As part of this we celebrate the best examples of excellence in Smiths with our annual Excellence Awards, and members of the Board attended the gala dinner for winners in April 2017.

Division of responsibilities

While the Board is collectively responsible for the success of the Group, there is a clear division of responsibilities between running the Board and the executive responsibility for running the business. The Board recognises the importance of ensuring that no one individual should have unfettered powers of decision-making, and has clearly defined roles for the Chairman and the Chief Executive which have been agreed by the Board. A summary of the responsibilities of the Board are identified in the adjacent table.

In order to fulfil his role effectively the Chief Executive is supported by the Executive Committee. The Committee normally meets once a month, and includes the five divisional Presidents, the Asia President and the functional heads. The Committee's responsibilities include ensuring the Group's continued financial performance, day-to-day management of the Company's business and the implementation and delivery of the strategy set by the Board.

Chairman
Responsibilities include:

- leading the Board, including ensuring constructive relations between executive and non-executive directors
- the Board's continued effectiveness and integrity
- promoting high standards of corporate governance
- ensuring effective communication with shareholders

Chief Executive
Responsibilities include:

- developing and recommending strategy to the Board
- setting and embedding an appropriate culture for the Group and communicating the 'tone from the top', with a focus on ethical behaviour and health and safety
- leading the Executive Committee
- ensuring strategic and financial objectives and business KPIs are met
- effectively managing stakeholders, including shareholders, customers and employees

Senior Independent Director
Responsibilities include:

- acting as a sounding board for the Chairman
- being available to shareholders where their concerns cannot be resolved by the Chairman or executive management
- if necessary, acting as an intermediary for directors

Non-executive directors
Responsibilities include:

- helping to formulate strategy
- providing constructive challenge in Board discussions
- assessing whether the systems of internal control and risk management are sufficiently robust
- as members of the Board Committees, fulfilling the responsibilities of those Committees set out in their terms of reference

Company Secretary
Responsibilities include:

- maintaining the Group's governance framework and advising on matters of governance and legislative and regulatory developments
- ensuring that the directors are provided with all relevant information in a timely manner
- facilitating new director inductions and ongoing director training

EFFECTIVENESS

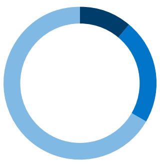
Board composition
The Board composition as at 22 September 2017 is detailed in the attendance table on page 88, and the relevant skills and experience each director brings to the Board are described in their biographies on pages 78 to 81.

In order to operate effectively the Board and its Committees must be comprised of a suitable balance of tenure, skills, experience, knowledge and independence. The Board and the Nomination Committee keep this under regular review, and in 2017 concluded that the range of experience and diversity of skills has allowed the Board to effectively discharge its duties and responsibilities.

Diversity
The directors believe that a mix of experience, interests and personalities ensures the effective functioning of a Board in which the dialogue is both challenging and constructive. The Board currently has no quota in place to achieve diversity.

The diagrams below illustrate the independence of the Board and also its composition and balance as at 22 September 2017. In particular, the tenure of longer standing Board members and more recent appointments, ensuring both continuity and fresh perspectives, and the diversity in gender and nationality on the Board.

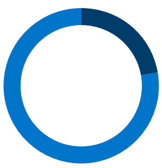
EXECUTIVE BALANCE



Chairman	1 (11%)
Executive directors*	2 (22%)
Non-executive directors	6 (67%)

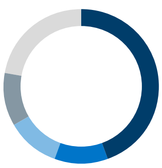
* This includes Bill Seeger, Chief Financial Officer

GENDER BALANCE



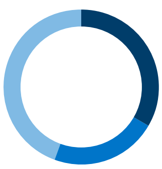
Female	2 (22%)
Male	7 (78%)

NATIONALITY BALANCE



UK	4 (45%)
New Zealand	1 (11%)
France	1 (11%)
India	1 (11%)
US	2 (22%)

TENURE OF THE BOARD



1-2 years	3 (33%)
3-5 years	2 (22%)
Over 5 years	4 (45%)

Time commitment
Each of the directors must be able to allocate sufficient time to the work of the Board in order to discharge their responsibilities effectively. The current directorships in listed companies and other significant commitments of the Chairman and the non-executive directors are shown on pages 78 to 81. Ahead of his appointment as non-executive director in January 2017, the Board assessed Noel Tata's other commitments and agreed that, as many of his other appointments are as part of his employment in the Tata Group, he is able to commit sufficient time to the work of the Smiths Board.

The Board considers the external appointments of each of the directors twice yearly, and for 2017 it is confirmed that the Chairman and the non-executive directors have sufficient time to fulfil their commitments to Smiths, and that no executive director holds more than one non-executive directorship of another FTSE 100 company.

Independence
As identified in the table on page 88, over the financial year at least half of the Board members (excluding the Chairman) were independent non-executive directors. Sir George Buckley was considered to be independent on appointment as Chairman. The Board keeps the independence of its members under continued review and in July 2017 the Nomination Committee assessed the independence of each of the non-executive directors and concluded that all of them were independent. More information on the work of the Board regarding succession planning and director tenure can be found in the Report of the Nomination Committee on page 92. Specific points for Board consideration over the past financial year are set out below:

Bill Seeger
Following his appointment as Interim Chief Financial Officer, Bill Seeger is no longer considered an independent non-executive director. A search for a new Chief Financial Officer is underway and the Board expects Bill Seeger's appointment to be for a short period. When a new Chief Financial Officer is appointed, Bill Seeger will resume his role as a non-executive director, and the Board will review his independence in light of the guidance in the UK Corporate Governance Code and criteria for independence determined by the Board.

Sir Kevin Tebbit
As Sir Kevin Tebbit has served on the Board for 11 years a rigorous review of his performance was undertaken. The Board concluded that Sir Kevin continues to demonstrate the qualities of objectivity and independence, and to contribute to constructive challenge and debate at meetings, and therefore should continue as Senior Independent Director. Through a year of significant change on the Board Sir Kevin fulfilled an important role, supporting the Chairman and making himself available to investors and the other directors.

Conflicts of interest
Directors must avoid situations where they have a direct or indirect interest that conflicts or may possibly conflict with the Company's interests. The Company's Articles of Association allow the Board to authorise conflicts and potential conflicts where appropriate, and there are procedures in place for directors to report any potential or actual conflicts to the other members of the Board for their authorisation.

EFFECTIVENESS
CONTINUED

A Register of Conflicts and Potential Conflicts is maintained by the Company Secretary and the directors are advised of the requirement to seek Board approval for any new situations which may present a conflict as they arise. In September and March the Board formally reviews the Conflicts Register, considering the conflicts disclosed and authorisations given, including any conditions determined by the Board. In the past financial year there was a temporary cross-directorship when Tanya Fratto joined the Mondi Group Board on 1 January 2017, as Anne Quinn was a serving non-executive director. The Smiths Board did not consider this cross-directorship a conflict of interest, or an independence issue, as neither director held an executive position on the Mondi Board. Anne Quinn retired from the Mondi Board on 11 May 2017.

Board meetings and visits

The table below shows the directors attendance at Board meetings held during the financial year ended 31 July 2017. In order to discharge their responsibilities effectively all directors should be able to allocate sufficient time to Smiths, and the table discloses the number of meetings that each director attended out of those that each was eligible to attend.

	Role	Independent	Board meeting attendance	
			Attended	Eligible to attend
Current directors				
Sir George Buckley	Chairman		7	7
Andy Reynolds Smith	Chief Executive		7	7
Bill Seeger	Interim Chief Financial Officer		7	7
Bruno Angelici	Non-executive director	✓	7	7
Tanya Fratto	Non-executive director	✓	7	7
Anne Quinn	Non-executive director	✓	7	7
Mark Seligman	Non-executive director	✓	7	7
Noel Tata[1]	Non-executive director	✓	3	4
Sir Kevin Tebbit	Senior Independent Director and non-executive director	✓	7	7
Former director				
Chris O'Shea[2]	Former Chief Financial Officer		5	6

1 Noel Tata was unable to attend one meeting due to a prior commitment arranged before he joined the Board
2 Chris O'Shea did not attend a meeting at which his retirement from the Board as Chief Financial Officer was on the agenda

The directors attend additional meetings outside the formal meeting schedule, as well as making site visits to the various global divisions. To ensure that the Board is kept up to date with senior management priorities and challenges, and in order to gauge the culture embedded within the business, invitations to Board meetings are regularly extended to divisional presidents, business managers, heads of functions and external advisers. During the year the Board had a number of opportunities to meet and hear from Smiths employees, including at Board dinners and during Board and individual director visits to sites.

To ensure the continued effectiveness of the Board, and to allow different members to fulfil their separate responsibilities, after each Board meeting the Chairman meets the non-executive directors without the executive directors present. He also has separate meetings with the Senior Independent Director and the Chairs of the Audit and Remuneration Committees. In addition, the Senior Independent Director meets the other non-executive directors without the Chairman present at least annually.

BOARD VISIT TO SMITHS DETECTION SITE, NEWARK, USA

In 2017 the directors travelled to Palo Alto, USA. Their itinerary included visiting the Smiths Detection Site (formerly Morpho Detection) in Newark, San Francisco, where they spent time with the senior management team and met other employees informally.

In addition they toured the site's operations and were given presentations on a number of matters including the integration of the legacy Morpho Detection business with the Smiths Detection business, the Morpho business and its products, customers and financial performance.

Appointments to the Board
The Nomination Committee has a formal, rigorous and transparent process in place for the appointment of new directors to the Board. Appointments are made based on the merit of the individual, having due regard for the benefits of diversity in its broadest sense, including gender, ethnicity, nationality, age and experience. Matters considered by the Board prior to all appointments include the following:

- agreed Group strategy;
- the Board skills matrix;
- satisfaction that the director is able to allocate sufficient time to their responsibilities to Smiths; and
- existing succession plans.

Following their appointment to the Board directors undergo an induction programme to ensure that they have the necessary knowledge and understanding of the Group to contribute to Board discussion and decision-making. Each director's individual experience and background is taken into account, and a programme is developed which is tailored to their own requirements. This will include meeting senior individuals in the business, receiving copies of previous Board papers, and visits to operational sites. The appointment of Noel Tata was approved in 2016, and he joined the Board on 1 January 2017. More information about his appointment process can be found in the Report of the Nomination Committee on page 92.

Information and training provided to the Board
In addition to the induction programme for new directors, the Board recognises the importance of ongoing training, and directors are given the opportunity to continue to update their skills and knowledge on a regular basis throughout their time on the Board. Ongoing training includes receiving twice-yearly governance briefings and technical updates on regulatory developments. The Board is regularly presented with updates from each of the divisions to ensure the directors remain aware of their priorities and challenges, and the Board committees are provided with relevant material by external advisers. The suitability of external courses is kept under review by the Company Secretary, who ensures that these are sent to Board members regularly.

Following feedback from the Board evaluation in FY2016 a number of improvements were made to the quality and timeliness of information received by the directors. Clearer guidance and procedures have been put in place to ensure that information received is presented in an appropriate format and contains the level of detail required for directors to fulfil their responsibilities effectively. The Company Secretary and her team assist the Chairman and Chief Executive in ensuring that the Board is provided with all relevant information in a timely manner.

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 Group's expense, should this be required. The directors and officers of the Smiths Group and its subsidiaries have the benefit of a directors' and officers' liability insurance policy.

Re-election
It is Company practice for all directors to stand for shareholder election at the first Annual General Meeting (AGM) following their appointment. In addition, the Board has resolved that all directors who are willing to continue in office will stand for annual re-election by the shareholders at each AGM. Non-executive directors are appointed for a specified term of three years, subject to annual re-election at the AGM, and re-appointment for a second three-year term is not automatic. At the 2017 AGM the shareholders will be asked to approve a change to the Company's Articles of Association to reflect the annual re-election of directors. 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 2017, 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.

Board performance evaluation
The Board undertakes an annual evaluation of its own performance as well as that of its committees and directors. The appraisal process provides an opportunity for Board members to take a step back from the day-to-day board business and consider the Board's effectiveness and to identify areas for further development and find any ways of working more efficiently.

In accordance with the Code, an external evaluation is carried out every three years. Sheena Crane carried out an external review of the Board for FY2015. Sheena Crane is independent to the Company and to the directors. For FY2016 the Board conducted a review with the support of Lintstock Limited (Lintstock also provides the software which Smiths uses to manage its insider lists, however Lintstock is determined to be independent). Together with the Chairman and the Company Secretary, Lintstock designed a structured set of questionnaires. The questionnaires focused on areas of specific relevance to Smiths and also checked on progress against matters identified in the previous evaluation. Topics addressed included the composition of the Board and its committees, Board dynamics, time management, Board support and efficiency, the Board's oversight of strategy, risk management and internal controls, succession planning, people issues and priorities for change.

Using online questionnaires, Lintstock produced an anonymised report which was presented to the Board for discussion at its meeting in November 2016. Overall, the results were positive and a number of actions were agreed. Progress made against these actions was reviewed by the Board at its meetings in March and September 2017.

EFFECTIVENESS
CONTINUED

The Board evaluation for 2017 is underway and is being supported by Lintstock again in order to build on the previous evaluation. Questionnaires have been provided to the directors and the Company Secretary covering the previous year's topics and providing a deeper dive into some key areas. In addition, a number of priorities were identified during the previous evaluation in terms of improving performance of the Board in FY2017 and these have also been addressed in the survey. Some of the key areas identified and actions taken or underway are set out below.

2017 Board evaluation actions

Evaluation topic	Actions
Board composition	Refreshed Board skills matrix to reflect the updated Smiths strategy Held a Board discussion on succession for key non-executive director roles
Board support and efficiency	Improvements made to length, focus and clarity of Board papers
Strategic oversight and priorities for change	Redesigned Board and Board committee agendas to focus more meeting time on key areas of: strategy and execution, M&A and portfolio changes and innovation and technology
Culture, people and succession planning	Increased Board oversight of people, talent and succession planning, and strengthened link between strategy and people planning processes Increased opportunities for Board members to meet with senior managers and wider population of Smiths employees
Risk	Introduced more regular deep dives into ethics and compliance

Director evaluation

During the year the Chairman provided feedback on the performance of individual Board members in one-to-one meetings. In addition the Senior Independent Director led an evaluation of the Chairman's performance on behalf of the non-executive directors. Details on executive director performance and remuneration are set out on page 113.

Following this it is confirmed that each Director continues to make an effective and valuable contribution to the Board and to demonstrate the required commitment to their role.

NOMINATION COMMITTEE

SIR GEORGE BUCKLEY
CHAIRMAN OF THE NOMINATION COMMITTEE

At the start of the financial year the Nomination Committee refreshed its assessment of Board capability against the five-year skills analysis that the Committee had discussed in 2016.

We considered the future profile of the Group from the perspective of end markets, geographic focus and strategic priorities. It was clear that the Board would benefit from an additional non-executive director who had a current executive role working in higher growth economies where Smiths is accelerating its growth agenda. I was delighted that we were able to bring Noel Tata on to our Board from the start of the 2017 calendar year. As Managing Director of Tata International Limited and a board member of various Tata Group companies he has brought a wealth of market knowledge and makes a distinct contribution to the Board.

In May we announced that Chris O'Shea was stepping down from the Board to pursue his career outside the Group. The Nomination Committee was pleased to have Bill Seeger on the Board with his recent experience as a Chief Financial Officer of a FTSE 100 company, who agreed to step in as Interim Chief Financial Officer whilst we conducted a search for Chris O'Shea's successor.

In view of his interim assignment Bill was no longer able to chair the Audit Committee, and the Nomination Committee was pleased that Mark Seligman agreed to take on this key non-executive role. Mark is well placed to do this with his finance background and previous experience of chairing audit committees.

This report sets out further details of the work done by the Nomination Committee during the year.

Committee membership and meeting attendance

Membership and meeting attendance during the year is set out in the table below:

Director	Attendance: Attended	Attendance: Eligible to attend
Sir George Buckley (Chairman)	3	3
Bruno Angelici	3	3
Tanya Fratto	3	3
Anne Quinn	3	3
Bill Seeger[1]	2	2
Mark Seligman	3	3
Noel Tata (appointed 1 January 2017)	2	2
Sir Kevin Tebbit	3	3

1 Bill Seeger was not a member of the Committee from the date he stepped into the Interim Chief Financial Officer role (19 May 2017).

The Committee holds one scheduled meeting each year when it conducts its annual review of senior management talent and succession plans with a view to ensuring a strong and robust plan exists in all parts of the Group. Otherwise during the year it meets as and when required.

The Chief Executive is normally invited to attend the Nomination Committee and has attended each of this year's meetings. The HR Director and the Director of Talent have also attended some meetings in order to advise the Committee.

Role and responsibilities

The Nomination Committee's terms of reference are available on the website, www.smiths.com. The Committee leads the process for identifying candidates for appointment as directors of the Company and as its Company Secretary. It also leads the process for their removal or retirement (giving full consideration to succession planning and leadership needs). It 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 holds an annual review of the succession plans and talent pipeline for senior management roles. In doing this the Committee takes account of the current and future needs, challenges and opportunities relating to the Group (with knowledge of the strategic and commercial issues affecting Smiths and the markets in which we operate). The Committee has access to information and advice both from within Smiths and externally, at the cost of the Group. This may include the appointment of recruitment consultants.

The Committee conducts annual reviews of its terms of reference and effectiveness and recommends any changes to the Board. The annual review of the Committee's terms of reference was conducted in July and certain changes were approved with effect from 1 August 2017. This included ensuring the Committee's commitment to considering diverse candidates for appointments, including a clear reference to ethnic origin in addition to diversity of gender and experience. The Committee conducted a review of its performance to ensure compliance with appropriate corporate governance guidelines and obligations, and the performance of the Committee was considered as part of the wider Board evaluation process. It was confirmed that the Committee continues to operate effectively.

The Board continues 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 to the Board. This commitment extends to appointments at all levels in Smiths, as evidenced by the appointment of a senior leader with responsibility for culture and diversity. Further information on diversity is provided in the Strategic report.

Committee activities during 2017

The Board commenced the search for a new non-executive director in 2016, and following an evaluation of the skills, knowledge, experience and diversity on the Board, the Nomination Committee identified a role profile. External recruitment consultants were engaged to assist with the search for a candidate with current experience of working in higher-growth regions. Noel Tata was appointed as a non-executive director of the Company on 1 January 2017 using external search firm Buchanan Harvey & Co. (whose only connection to Smiths is to provide recruitment services) and following interviews with the Chairman, the Senior Independent Director, the Remuneration Committee Chair and meetings with the Chief Executive and the Chief Financial Officer. Buchanan Harvey & Co. is a member of the Voluntary Code of Conduct for executive search firms. The Committee also considered Noel Tata's experience and commitments elsewhere and was satisfied that he would have time available to discharge his responsibilities effectively. The terms of his appointment are set out in a formal Letter of Appointment.

Chris O'Shea stepped down from his role as Chief Financial Officer and as a director of the Company on 19 May 2017 and commenced a period of garden leave. His exit was overseen by the Nomination Committee. Chris O'Shea's employment is expected to end on 18 November 2017 but may end at an earlier date on payment in lieu of notice. Full details are set out in the Directors' remuneration report on page 103.

The Nomination Committee considered the succession plan and recommended that an external search process was undertaken and that during this process the Board appoint Bill Seeger as Interim Chief Financial Officer. In making the recommendation, the Committee considered his skills, knowledge and experience. The Committee considered he had excellent credentials to step into this interim role, having joined Smiths in May 2014 as a non-executive director and having chaired the Company's Audit Committee for almost three years. In addition, he was previously Chief Financial Officer of GKN plc.

The Committee approved the role description for the recruitment of the permanent position of Chief Financial Officer, ensuring that the criteria were objective and would enable candidates from a wide range of backgrounds, having due regard for the benefits of diversity in its broadest sense. The Nomination Committee has commenced a search for the replacement Chief Financial Officer using Buchanan Harvey & Co.

In July 2017 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. It recommended the appointment and re-appointment of members and Chairs as set out in more detail in the relevant sections of this report. In particular, the Committee considered and recommended to the Board that Mark Seligman replace Bill Seeger as Chair of the Audit Committee. The Committee considered Mark Seligman as having excellent credentials to step into this key non-executive role with his finance background and experience of chairing audit committees and having been a member of the Board and Audit Committee for over 12 months.

In July 2017 the Committee met with the Group HR Director and the Director of Talent to carry out its annual review of the Smiths Group talent pipeline and succession planning process. During 2017 it has sponsored the creation and implementation of a Group-wide process for talent, succession and strategic workforce planning, which is now being embedded. The aim is to have a formal, rigorous and transparent approach to identifying and developing a talent pipeline with the knowledge, skills and potential to fill key business leadership positions in the Company. Succession planning increases the availability and development opportunities for our talent pipeline, which is prepared to assume these roles as they become available.

During the year the Committee received advice from the Company Secretary concerning the corporate governance trends in respect of board evaluation and board succession planning. The Committee reviewed the size and composition of the Board and its succession plan in the light of the outcomes of the Board strategy reviews in May 2017 and the future profile of the Group from the perspective of end markets, geographic focus and strategic priorities. Succession planning is seen as a constant requirement. Over the next two years two non-executive Directors, Anne Quinn and Bruno Angelici, will have completed nine years on the Board and, in recognition of the Code's guidance in respect of independence, we are looking to establish a pipeline of potential candidates who could succeed them. As set out on page 87, the independence of Sir Kevin Tebbit is kept under frequent review. The Committee also reviewed the composition and balance of skills of the Board and has drawn up a succession plan that takes into account the desirability of maintaining a good balance of director tenure and the need to ensure there is a succession for key non-executive director roles as well as executive positions.

ACCOUNTABILITY

Corporate reporting

The Board is responsible for promoting the long-term success of the Company and is accountable to the Group's various stakeholders for doing so. When reporting externally the Board aims to present a fair, balanced and understandable assessment of the Company's position and prospects, and the Board is satisfied that, when taken as a whole, the 2017 Annual Report is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

During the year the Group has had internal control and risk management arrangements in place to support the financial reporting process:

- requiring the divisions to certify that their reported information gives a true and fair view of the results for the period;
- supporting record keeping to accurately and fairly reflect transactions and the disposal of assets; and
- providing reasonable assurance that transactions are recorded to permit the preparation of financial statements in accordance with International Financial Reporting Standards ('IFRS').

For the year ended 31 July 2017:

- the Audit Committee considered, on behalf of the Board, the John Crane Inc. asbestos litigation disclosure. In order to assist with disclosure in the financial statements the Committee received advice from Bates White LLC, Economic Consultants, regarding the appropriate provisioning for the risk of litigation. More information, including disclosure regarding the FRC Corporate Reporting Review, can be found in the Audit Committee report on page 98
- Smiths strengthened its anti-modern slavery compliance programme. A new Anti-Modern Slavery Policy was introduced, and the Board approved the Smiths Anti-Modern Slavery Statement. The Ethics and Compliance team conducted a risk assessment to identify the three greatest modern slavery risk areas in the Smiths business, and has since introduced programmes to reduce risk in these areas. Further detail in relation to our anti-modern slavery activities is included in Smiths Modern Slavery and Human Trafficking Statement, which is available on the Group website, www.smiths.com

Internal control and risk management

The Board is responsible for determining the nature and extent of the principal risks it is willing to take to achieve its objectives, and for ensuring that there are sound risk management and internal control systems in place to safeguard shareholders' investments and the Group's assets.

The Board's explanation of the basis on which the Group generates and preserves value over the longer term, and its strategy for delivering the Company's objectives, can be found in the Strategic report on page 24.

The Board Statements table on page 83 of this corporate governance statement signpost where various director confirmations, statements and assessments can be found.

The internal control system is based on an assessment of risk, and a framework of control procedures to manage risks and monitor compliance with procedures. The Group's internal control systems are designed to meet Smith's particular needs and the risks to which it is exposed, however they can provide only reasonable, not absolute, assurance against material loss to the Group or material misstatement in the financial statements. The Executive Committee is responsible for designing the Enterprise Risk Management ('ERM') system and ensuring it is effectively deployed throughout the Group, more detail can be found on page 61.

Over the year ended 31 July 2017 the Audit Committee, on behalf of the Board and with the assistance of the Internal Audit function, monitored, reviewed and assessed the effectiveness of the Group's risk management and internal control systems in the context of the Group's strategy and business model. The review covered material financial, operational and compliance controls. In 2016 the Audit Committee annual calendar was updated to include an additional meeting in order to facilitate its increased focus on risk management. This meeting was maintained in the 2017 calendar with the May 2017 Audit Committee meeting. Each divisional president attended and presented their respective risk register to the Audit Committee which included a risk dashboard, the process each division uses to identify and evaluate risk, and their internal controls and procedures to mitigate any identified risk. In addition, the Executive Committee selected three principal risks for 'deep dive' reviews at the Audit Committee meeting – a significant ethical breach, cyber security and product quality at Smiths Medical – and the owner of each risk attended to discuss the risk with the Board.

The Investment Committee assists the Board with practical risk management, meeting approximately 10 times a year to consider high-risk and high-value proposals that are either beyond the authority delegated to divisional presidents, or prior to Board approval. This can include capital and special revenue expenditure or asset disposals. By reviewing the details in advance the Investment Committee assesses the risks, and reviews investment papers ahead of their presentation to the Board for approval, thereby helping to manage the associated risk.

Principal risks

During the year the Board 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. In 2017 the Internal Audit function ran a global programme of risk workshops at divisional sites in order to ensure that risk is being identified from the bottom up. At the workshops local business controls and the likelihood and potential impact of risks were reviewed. Following this exercise the Executive Committee were presented with a refreshed list of principal risks for the Group, and agreed a top 10 to be presented to the Board. On consideration of the principal risks and uncertainties facing the Group, and the actions taken by management to manage those risks, the directors then determined the Group's risk appetite, and the nature and extent of the risks the Board is willing to take. The Executive Committee ensures the Board's risk appetite is understood by risk owners and decision-makers in the business. A description of the principal risks facing the Company can be found on pages 62-67. The Board takes these into account when considering the Company's viability, as set out on page 57.

AUDIT COMMITTEE

MARK SELIGMAN
CHAIR OF THE AUDIT COMMITTEE

The 2017 financial year was a busy year for the Audit Committee and I am pleased to share with you an insight into some of the matters the Committee considered.

As a member and then Chair of the Committee, I would firstly like to extend my thanks to Bill Seeger. Bill led the Committee through the majority of the year under review and has helped me settle into the role of Committee Chair whilst maintaining a high degree of professionalism throughout. I remain confident in the Finance function and that Bill will lead the team in an effective manner until a permanent Chief Financial Officer is appointed.

In addition to reviewing the financial statements and related fiscal matters, the Committee has focused on the risks and internal controls exercised throughout the Group. As the Chairman mentions in his report on page 82, the Committee paid particular attention to the Group's ethics and compliance programme, reviewing the existing processes and enhancing areas where the Committee felt more could be done to emphasise our core value of integrity. The Committee also reviewed the Group's position on Anti-Modern Slavery, and more information on this can be found on the Smiths website (www.smiths.com).

The analysis of risk forms a growing part of the Committee's agenda, both in the context of examining future threats and opportunities to the Group and also in identifying and assessing the controls in place to mitigate those identified risks. The Committee held a dedicated meeting in May to discuss and review those risks identified by management. The process for determining those risks is set out in the Risk management section on page 60 which formed the basis for the Viability Statement on page 57. Whilst discussing the deep dive on cyber security, the Committee agreed to amend its forward agenda to add a review of the Group's cyber security measures biannually and to specifically add this review to the Committee's Terms of Reference. This is a growing area of threat to the Group and the Committee will continue to monitor the Group's response and preventative measures.

I am pleased to be able to report that the FRC's review of the Groups' 2015 Annual Report has been closed and the Board has agreed to make further disclosures in respect of the asbestos litigation provisioning as described on page 98.

The Committee has also agreed a timetable for an audit tender with a view to appointing a new auditor for the 2020 audit. The process will begin in earnest in early 2018. The Committee has been fully briefed on its responsibilities and expects to approve the tender document setting out the Group's requirements, having consulted with shareholders and other stakeholders as appropriate. This will form a key focus point for the Committee over the next 12 to 18 months. Having conducted a thorough evaluation of PwC's audit in respect of the previous financial year and the current half year, the Committee remains satisfied that PwC are both effective and retain a degree of professional scepticism in conducting their audit. A recommendation to appoint PwC as auditor for the FY2018 audit will be presented to shareholders at the AGM to be held in November.

As the FY2018 financial year progresses, the Committee expects to review the Group's position in respect of its tax risks and opportunities and specifically in respect of the strategy as global uncertainty on tax rates continues. In addition, uncertainty around Brexit remains and the Board as a whole will keep this area under review.

Committee membership and meeting attendance

Membership and meeting attendance during the year is set out in the table below:

Director	Attendance: Attended	Attendance: Eligible to attend
Bill Seeger[1] (Chair until 18 May 2017)	3	3
Mark Seligman (Chair from 19 May 2017)	4	4
Bruno Angelici	4	4
Tanya Fratto	4	4
Anne Quinn	4	4
Noel Tata[2] (appointed 1 January 2017)	2	3
Sir Kevin Tebbit	4	4

1 Bill Seeger was not a member of the Committee from the date he stepped into the Interim Chief Financial Officer role (19 May 2017).
2 Noel Tata was unable to attend one meeting due to a prior commitment arranged before he joined the Board.

The Committee met four times during the 2017 financial year, with three meetings timed to align with the financial reporting and audit cycles of the Group, 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, PwC, in July. A meeting was also held in May 2017 at which the Committee reviewed the risk management reports of the Group's five divisions. All the members of the Committee at the time attended the AGM in November 2016.

All members of the Committee who served during the year are, in the view of the Board, independent non-executive directors and have recent and relevant financial, accounting and sector experience gained from their respective international business activities. In particular, Bill Seeger was Chief Financial Officer of GKN plc, a post he had held for over six years before his retirement in 2014; and Mark Seligman has a long history in corporate finance, as well as being a qualified accountant. Tanya Fratto, Anne Quinn and Bruno Angelici have extensive senior management experience in international oil and gas, engineering and medical devices industries, respectively; Sir Kevin Tebbit has substantial knowledge of international governmental relationships; and Noel Tata has had a successful career in global business, with extensive experience in high-growth economies.

As part of his induction programme as a director of the Company (which included a detailed overview of the Group's business model, strategy and risk profile), Noel Tata was provided with relevant material on the responsibility and working of the Committee and copies of recent papers and presentations. Upon becoming Chair of the Audit Committee Mark Seligman was provided with a short structured induction programme, which included meetings with senior members of the Finance team, the external auditor PwC, the Internal Audit team and other senior executives in the business.

Further details of the qualifications and experience of the members of the Committee are contained in the biographies of the directors on pages 78 to 81. There have been no changes to the membership of the Committee since the financial year end.

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 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 General Counsel and 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 with the Committee and 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 Committee Chair 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 Committee receives briefing notes from the Group and PwC on all relevant developments in company law, governance standards, and international and domestic financial accounting practices and regulations.

Outside of the formal meetings schedule, the Chairs of the Audit Committee met separately with senior management representatives of PwC to discuss the Group's financial reporting, internal control 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 its 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;
- the Group's procedures for detecting fraud and systems and controls for preventing bribery; and
- the Group's risks associated with the internal and external threats to, and the resilience of, the Smiths IT enterprise, information, operations and products relating to 'cyber security'.

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

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 2016 Annual Report and 2017 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 2016 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 2016 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 2016 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 2016 Annual Report and 2017 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 2016 Annual Report, the 2017 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 2016 Annual Report;
- satisfied itself that the 2016 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 2017 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 2016 and the 2017 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 2017 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 FY2017, 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 2017 Annual Report and the content of that document. The Committee considered that the quality and range of the material included within the 2017 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 2017.

In assessing the fairness, balance and understandability of the 2017 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; and the holistic nature of the report.

Following its review of the 2017 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.

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 three times a year; the Group Director of Tax and Treasury twice a year; and reports from the external auditor 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 non-standard 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 programmes in Smiths Detection where management 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 Morpho Detection which was tested on a fair value less cost to sell basis. A sensitivity is included in note 11 of the financial statements. The Committee reviewed the carrying value of Medical capitalised development and was satisfied that the treatment was reasonable due to the new product launches planned for FY2018 and FY2019. The Committee agreed that the projected future cash-flows from these assets supported the carrying value. 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.

Acquisitions and divestments

The Committee reviewed the judgement and accounting treatment of the acquisition of Morpho Detection. Particular attention was paid to the opening balance sheet judgements concerning the valuation of acquired assets and the resulting calculation of goodwill. The Committee also considered the treatment of costs between headline and non-headline. The Committee agreed that the judgements made and the accounting treatment were appropriate. The Committee also reviewed the judgements and accounting treatment relating to the divestments of Smiths Interconnect Power, John Crane Artificial Lift, Smiths Interconnect Telecoms and the Smiths Medical Wallace and Morpho Trace businesses, and the gains (losses) on disposal. The Committee was satisfied that these disposals have been appropriately reflected in the Annual Report and Accounts 2017, and the treatment of Morpho Trace as a discontinued operation in the income statement.

Working capital

The Committee considered the key judgements within working capital and, in particular, the level of 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 2017.

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 re-assessment 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 the case of the John Crane, Inc. asbestos litigation, the Committee also agreed the judgement that litigation is extremely rare such that a sufficiently reliable estimate cannot be made to cover the full period over which it is expected that costs will be incurred. In both these cases, it was determined that the assumptions fairly reflect the position at 31 July 2017. 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 the recognition of UK deferred tax assets which we now judge to be recoverable (see note 6); deferred tax assets relating to the John Crane, Inc. asbestos provision; and the Titeflex Corp. CSST provision. In reviewing projected profit streams the Committee was satisfied that, where appropriate, the relevant entities will generate sufficient future taxable profits to utilise the 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 2017, which have now moved to a net surplus position. 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
In August 2017 the FRC Conduct Committee closed its enquiry into the Company's 2015 Annual Report. During 2017 the Committee continued to monitor the dialogue between the Company and the FRC and discuss the matters raised with the external auditor. As a result of the enquiry, the Annual Report 2017 includes enhanced disclosures for the John Crane, Inc. litigation provision. Disclosures have been amended to explain why the Company judged that the circumstances of this provision are "extremely rare", to provide more context on the judgement to use a ten-year time horizon to calculate the provision, and to include additional sensitivities around an extended time horizon. To support the provision time period and recommended judgement the Committee received advice from Bates White LLC, Economic Consultants. The enhanced disclosures can be found in note 22 on pages 180 to 183 . Expanded disclosures in respect of provisions, revenue, tax, inventory provisioning and post-retirement benefits arising from the enquiry were included in the Annual Report 2016.

The Committee, after receiving the reports on the significant issues and areas of judgement, was content that the judgements made were appropriate and are correctly reflected in the Annual Report 2017.

Corporate governance
During the year, the Audit Committee has reviewed the Company's compliance with its governance obligations. In particular, the Committee has:

- monitored the changes introduced by the Company to ensure full compliance with the requirements of the 2016 edition of the UK Corporate Governance Code (the 'Code'); and The Large & Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations;
- considered the amendments to and developments in the International Financial Reporting Standards that affected the 2017 and 2018 financial years, including the adoption of IFRS 9, 15 and 16;
- 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'); 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.

The CMA Order first applied to the Company's 2016 financial year and the Group has complied with it during the 2017 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 given the change to Chief Financial Officer. The Committee's proposal for a competitive audit tender and auditor rotation is described in the External Auditor effectiveness and reappointment section below.

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

- considered PwC's audit report on the 2016 Annual Report; its review of the 2017 half-year results; and its 'Early Warning' report on the 2017 audit;
- monitored PwC's execution of the audit plans for 2016 and 2017;
- 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 2016 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;
- conducted an internal survey on the effectiveness of PwC as external auditor; and 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 2016 AGM for a further year.

Subsequent to the financial year end, the Committee has considered and approved the same items in respect of the 2017 audit and the preparation of the 2017 Annual Report. Subsequently, the Committee has also recommended that PwC be proposed for reappointment as external auditor at the 2017 AGM.

The Committee considered that each of the 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 2017. 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 accounting for the acquisition of Morpho Detection Inc and the sale of the Morpho Trace Detection business;
- the movement in working capital relating to aged inventory and receivables; and
- the impact of senior management changes within the business.

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 increase the overall materiality level to £20m (approximately 3.5% of headline operating profit) (2016: £17m) and a de-minimis reporting threshold of £1m (2016: £0.5m) 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 78% (2016: 79%) of the Group's forecast headline operating profit for 2017 would be audited by PwC under the 2017 Audit Plan.

The fee structure and terms of the audit engagement letter, which had been agreed with 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 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; limited 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; 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 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 Group'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;
- monitoring the ratio between the fees for audit work and non-audit services; 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 for the year ended 31 July 2017 can be found in note 2 on page 152. Non-audit fees incurred during this period amounted to £0.3m ,which related principally to work on cyber security and audit-related assurance services in connection with the interim report. Non-audit fees as a percentage of audit fees totalled 7%. 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 conducting a survey to take into consideration the views of the executive directors, senior management and the divisional finance teams, views and opinions of PwC's effectiveness in a number of areas. The survey included questions on PwC's 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 continued to provide effective and objective challenge. 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.

Independence Letters, sent by PwC in September 2016 in respect of its 2016 audit and September 2017 in respect of the 2017 audit, were also considered and the Committee 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 FRC's June 2017 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. There has been no external audit tender since PwC's appointment. In determining whether to recommend PwC for re-appointment as auditor in 2017, the Audit Committee took into consideration the following factors:

- the length of PwC's appointment and the guidance on the audit firm rotation regulations and proposals;
- the results of the effectiveness review detailed above;
- the qualities and experience of the audit partner, and
- the changes in the executive management team during 2017, in particular the appointment of Bill Seeger as Interim Chief Financial Officer, who took up his post on 19 May 2017.

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 that it would not be practical to put the auditor appointment for 2018 out to competitive tender, and that it was appropriate to recommend to the Board that the re-appointment of PwC as the Company's auditor for a further year be proposed to shareholders at the 2017 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 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 for the 2020 audit. This would coincide with the end of the current PwC audit partner's five-year term. The Committee has reviewed and agreed a timetable for placing a competitive audit tender and will be starting the process during 2018. PwC will not be invited to participate in the tender. However, 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 re-appointment of PwC as auditor in 2017 and to plan for a competitive audit tender and auditor rotation for the 2020 audit. 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 60.

Internal Audit

Internal Audit is independent of the business, and as such has no responsibility for operational business management. This ensures the integrity and objectivity of its annual Audit Plan work, which is approved by the Committee. The authority of the Internal Audit function is derived from the Committee. The Director of Internal Audit is accountable to the Board of Directors through the Chairman of the Committee. Administratively, the Director of Internal Audit reports to the Chief Financial Officer. In order to carry out the responsibilities, as set out in a charter approved by the Committee, the Internal Audit function has:

- full and unrestricted access to all Smiths records, property and personnel;
- independent access to the Chairman and members of the Committee;
- the right to request meetings with the Committee; and
- the authority and obligation to report significant findings or other concerns to the Committee.

The Committee oversees the performance of the Internal Audit function through the Director of Internal Audit's attendance at Committee meetings and a review of agreed KPIs which are reported to the Committee three times per year. In addition, during 2018 an independent third party review of the function's effectiveness will be undertaken. The review will be overseen by the Committee.

During the financial year the Committee:

- received progress reports on the execution of the 2017 Internal Audit Plan;
- 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;
- considered the remit of Internal Audit, its budget and resources and the nature and extent of the outsourcing to KPMG; and
- approved the 2018 Internal Audit Plan, including the proposed audit scope, approach, coverage and allocation of resources.

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 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 Group'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 Code of Business Ethics 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. No issues were raised that required the Committee's action.

Constitution
The Committee conducts an annual review of its terms of reference and effectiveness and recommends any changes to the Board. During 2017 the Board approved changes to the Committee's terms of reference to include cyber security and the revised terms of reference are available on our website at www.smiths.com.

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. Following the conclusion of the evaluation it was determined that the Committee continues to operate effectively.

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 Committee Chairman and Interim Chief Financial Officer; and
- welcomed Noel Tata as a new member.

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

In light of its work, the Audit Committee was content with the effectiveness of the Group's processes governing financial and regulatory reporting and controls, its culture, ethical standards and its relationships with stakeholders. The Committee was also satisfied with the appropriateness and adequacy of the Group's risk management arrangements, as well as supporting risk management systems including the risk monitoring processes, internal controls framework and three lines of defence model.

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 Group, as it sees fit, in the performance of its duties.

MARK SELIGMAN
CHAIR OF THE AUDIT COMMITTEE

RELATIONS WITH STAKEHOLDERS

Relations with shareholders and other capital providers

During financial year 2017, senior management and the investor relations team had contact with over 200 investors and analysts.

Contact with investors/analysts

United Kingdom	50%
US and Canada	30%
Rest of Europe	15%
Rest of World	5%

Dialogue with shareholders

During 2017 the Chief Executive, the Chief Financial Officer and the Investor Relations Director communicated with institutional investors through analysts' briefings and extensive investor roadshows in the UK, US and Europe. The executive directors regularly met with shareholders to maintain a two-way communication on business performance and long-term strategy, and the Chairman and non-executive directors were available to meet with investors to discuss issues as and when they arose, for example to hear views around strategy and management change. The investor relations programme for the past year is detailed in the activities timeline, and a programme for the FY2018 financial year is being developed.

Members of the Board, and in particular non-executive directors, are kept informed of investors' views, mainly through distribution of analysts' and brokers' briefings and the Chief Executive's written updates. At least twice a year a detailed written report is provided to the Board on the number and types of meetings between Smiths 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.

In 2017 an investor perception study was carried out by Makinson Cowell, the results of which were presented to the Board at their September 2017 meeting. Some key messages in the report include that investors believe that the Group comprises some high-quality, high-margin and high-returns businesses, with a strong senior management team. Smiths is generally rated as a strong communicator with investors, who believe that they have sufficient access to senior management and that there is a clear articulation of the near-term strategy. The report also identifies some development points, including that a deeper understanding of the business could be facilitated by greater access to divisional management and a Capital Markets Day. A Capital Markets Day for FY2018 is being held in London in December 2017.

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 Group 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. Communication with debt markets is generally via investor roadshows at the time of financing activity. Committed banks are invited to the biannual presentations of the Group's trading results 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 and the rating agencies through regular commentary and financial metric reporting to meetings.

Investor relations activities timeline

	Roadshows/conferences	Presentations
September 2017		Annual results
July 2017	Sweden and Denmark equity	
June 2017	European Capital Goods CEO conference	
April 2017	US equity	
March 2017	UK equity	Interim results
December 2016	Canada equity	
December 2016	UK private client brokers	
November 2016	UK private client brokers Best of British conference Best Ideas conference	AGM
October 2016	UK, US, Europe equity	
September 2016		Annual results

Annual General Meeting (AGM)

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. 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 2016 AGM all directors in post, including the Senior Independent Director and the Chairs of the Audit, Nomination and Remuneration Committees, were available to answer shareholders' questions. The directors were also available after the meeting for informal discussion with shareholders. The notice of the AGM and related papers were sent to shareholders at least 20 working days before the meeting.

The 2017 AGM will be held on 14 November 2017 and is an opportunity for shareholders to vote on certain aspects of Group business in person. It is intended that there will be a poll vote on each resolution at the 2017 AGM. The audited, final results of the poll votes will be released to the market and published on the Company's website, www.smiths.com, as soon as is practicable after the conclusion of the AGM.

DIRECTORS' REMUNERATION REPORT

ANNE QUINN, CBE
CHAIR OF THE REMUNERATION COMMITTEE

On behalf of the Board, I am pleased to present the report of the Remuneration Committee for the year to 31 July 2017.

This report is split into three parts:

- the Annual Statement;
- the policy report, which presents the Group's forward-looking Directors' remuneration policy; and
- the Annual Report on Remuneration, which details how our remuneration policy was implemented during the year to 31 July 2017 and how we intend to apply our policy in the year to 31 July 2018.

Following the approval of the Policy at the 2015 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 10 to 17 of this Annual Report, the operating environment continued to be challenging in the year to 31 July 2017. However, four of the five divisions reported growth in headline operating profit. As expected, John Crane continued to face tough global energy market conditions, leading to an anticipated decline in operating profit. However, the Board was encouraged that, along with the other four divisions, John Crane reported improved margin performance. Group performance in cash conversion was strong at 118%. Taking into consideration EPS performance and each director's performance against their personal objectives, the annual bonus outcome was just below maximum. ROCE, at 16.2%, remains well ahead of the Group's weighted average cost of capital and resulted in the maximum matching under the final CIP award cycle in which Andy Reynolds Smith and Chris O'Shea did not participate. 3-year EPS growth, relative TSR performance and average cash conversion warranted vesting of 62.6% of the 2014 LTIP awards that will vest later this year following the end of the performance period on 31 July 2017. Andy Reynolds Smith and Chris O'Shea did not participate in this LTIP cycle as it pre-dates their appointment. 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).

During the year, the Committee also considered and agreed the implications on the remuneration of Chris O'Shea stepping down from the Board of Directors in May 2017. He will leave the Company in November 2017. As set out in the RNS of 23 May 2017, the Committee operated within the provisions of its Policy to determine that, in addition to contractual payments, Chris O'Shea would remain eligible for a pro-rated annual bonus payment in relation to the financial year ended 31 July 2017, and retain a pro-rated interest in outstanding LTIP awards. His retained interests in the LTIP will vest on the normal vesting date to the extent warranted by performance at the end of the normal performance period. Any awards vesting to Chris O'Shea before 18 November 2017 are unaffected by his stepping down from the Board.

In addition, the Committee determined the package for Bill Seeger on his appointment as Interim Chief Financial Officer. The arrangements for Bill Seeger (further details of which are set out in the Annual Report on Remuneration) reflect the short term interim nature of his appointment, and are in line with the Remuneration Policy currently in force.

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

ANNE QUINN, CBE
CHAIR OF THE REMUNERATION COMMITTEE

Performance highlights
- Increased profit performance
- Strong cash conversion performance
- Group wide operating margin improvement

DIRECTORS' REMUNERATION REPORT
CONTINUED

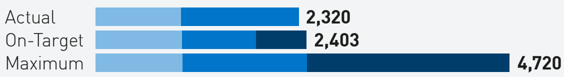
REMUNERATION AT A GLANCE

Key activities

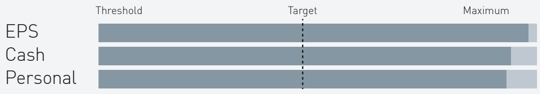
Salary and annual incentive plan	• Approve salary proposal for Chief Executive, members of the Executive Committee and reviewed fees for the Chairman • Considered and approved annual incentive plan payouts and set targets for the new financial year
Long Term Incentive Arrangements	• Agreed performance measures for 2017 LTIP awards • Determined vesting levels for 2014 CIP and LTIP awards
Executive Director Changes	• Determined Chris O'Shea's arrangements on stepping down from the Board • Agreed Bill Seeger's package for assuming the role of Interim Chief Financial Officer

Remuneration for the year ended 31 July 2017

ANDY REYNOLDS SMITH
TOTAL REMUNERATION VS OPPORTUNITY (£000)

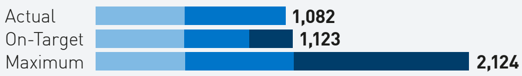


ANNUAL INCENTIVE PLAN OUTTURN
(% OF SALARY)

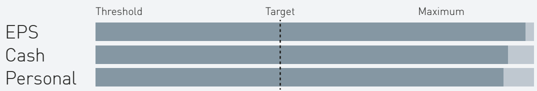


LTIP OUTTURN (VALUE OF AWARDS £000S)
No LTIP awards eligible to vest in 2017

CHRIS O'SHEA
TOTAL REMUNERATION VS OPPORTUNITY (£000)
(Pro-rated to Chris O'Shea's leaving date of 18 May 2017)



ANNUAL INCENTIVE PLAN OUTTURN
(% OF SALARY)



LTIP OUTTURN (VALUE OF AWARDS £000S)
No LTIP awards eligible to vest in 2017

Fixed Pay AIP LTIP Extent to which AIP performance targets have been met

Note: During the year, Bill Seeger served as Interim Chief Financial Officer from 19 May 2017 to 31 July 2017. Mr Seeger's remuneration comprises a fixed salary only (recognising the interim nature of his appointment) and is not shown here

Committee details, activities and performance

Membership and meeting attendance during the year is set out in the table below:

Director	Attendance: Attended	Attendance: Eligible to attend
Anne Quinn (Chair)	4	4
Sir George Buckley	4	4
Bill Seeger*	3	3
Bruno Angelici	4	4
Tanya Fratto	4	4
Mark Seligman	4	4
Noel Tata† (appointed 1 January 2017)	2	3
Sir Kevin Tebbit	4	4

* Bill Seeger was not a member of the Committee from the date he stepped into the Interim Chief Financial Officer role (19 May 2017)

† Noel Tata was unable to attend one meeting due to a prior commitment arranged before he joined the Board

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

The Committee's activities and focus during the year are 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. The latest annual review of the Committee's terms of reference was conducted in July 2017, when they were updated to reflect current Committee practice regarding the annual review of the remuneration policy and ongoing contact with principal shareholders. The terms of reference can be found on the Smiths website, www.smiths.com.

An evaluation of the performance of the Committee is included in the annual Board evaluation and following the conclusion of the evaluation it was determined that the Committee continues to operate effectively.

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 14 November 2017. 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 82.

Remuneration policy report

This section of the report sets out our remuneration policy for directors, which shareholders approved at the AGM on 16 November 2015 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 and to add page references.

Remuneration policy for the executive directors

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

Element and link to strategy	Operation	Opportunity	Performance measures
Base salary 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 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

DIRECTORS' REMUNERATION REPORT
CONTINUED

Element and link to strategy	Operation	Opportunity	Performance measures
Annual bonus 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 percentage 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.

Element and link to strategy	Operation	Opportunity	Performance measures
Long-Term Incentive Plan (LTIP) 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).

DIRECTORS' REMUNERATION REPORT
CONTINUED

Element and link to strategy	Operation	Opportunity	Performance measures
Benefits 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

Element and link to strategy	Operation	Performance measures
Sharesave 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 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 delivering sustainable return on capital.

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 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.

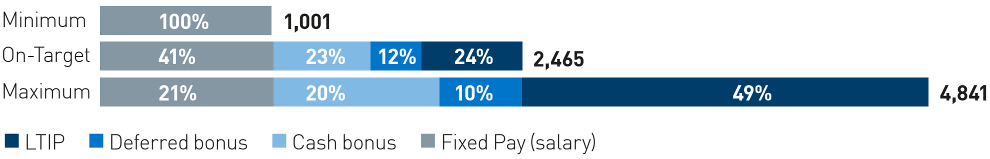
Difference in policy between executive directors and other employees

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 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 the CEO, and the potential mix between the different elements of remuneration under three different performance scenarios; 'Minimum', 'On-Target' and 'Maximum'.

ANDY REYNOLDS SMITH (£000)



Potential opportunities illustrated above are based on the Policy, which will apply in the 2018 financial year, applied to the annualised base salary in force from 1 August 2017 for Andy Reynolds Smith. For the annual bonus, the amounts illustrated are those potentially receivable in respect of performance for 2018. 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 chart:

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

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:

Element and link to strategy	Operation	Opportunity	Performance measures
Annual fee 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.	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 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 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 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 110.

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 or other applicable agreements 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 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. Chris O'Shea ceased to be a director on 19 May 2017 and will cease to be employed by the Company on 18 November 2017. Up to that date he will continue to be entitled to base salary (£507,375 per annum), benefits and pension allowance in accordance with terms of existing employment contract.

Bill Seeger
Bill Seeger is employed under an extended letter of agreement with the Company dated 22 June 2017 and effective from 19 May 2017 in the role of Chief Financial Officer for an interim period. It is anticipated that Bill Seeger will return to his Non-Executive Director position at the earlier of the appointment of a new Chief Financial Officer, or 1 January 2018. The agreement can be terminated on one month's notice by the Company or by Bill Seeger.

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	2017	15 November 2016
Sir George Buckley	1 August 2013	2017	15 November 2016
Tanya Fratto	1 July 2012	2017	15 November 2016
Anne Quinn	1 August 2009	2017	15 November 2016
Bill Seeger	12 May 2014	2017	15 November 2016
Mark Seligman	16 May 2016	2017	15 November 2016
Sir Kevin Tebbit	14 June 2006	2017	15 November 2016
Noel Tata	1 January 2017	2018	N/A

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 2017.

Committee members and meeting attendance in 2017
The members of the Committee are Anne Quinn (Chair of the Committee), Sir George Buckley, Sir Kevin Tebbit, Bruno Angelici, Tanya Fratto, Bill Seeger (until he resigned following his appointment as Chief Financial Officer on an interim basis on 19 May 2017), Mark Seligman and Noel Tata (from his appointment on 1 January 2017). Their attendance at meetings held during the year is set out on page 104.

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, Mercer | Kepler (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 £49,950 to Mercer | Kepler in relation to remuneration advice to the Committee during the year. Fees were determined on the basis of time and expenses. During 2017, Mercer | Kepler provided the 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 Committee via competitive tender in 2013. Mercer | 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 Mercer | Kepler is objective and independent and that they do not have connections with the company that may impair their independence. 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:

- further aligning remuneration arrangements to the new business strategy;
- consideration of market trends and pay levels for the executive directors and the Chairman;
- the exit arrangements of the Chief Financial Officer
- 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 the appointment terms of key senior executive roles.

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

The resulting voting outcome in 2015 for 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 (2016)

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)
269,575,472	97.8%	6,021,703	2.2%	275,597,175	11,129,864

Directors' single figure of annual remuneration (auditable)

Executive directors

	Salary/fees		Benefits[6]		Annual bonus[7]		Long-term incentives		Payments in lieu of pension contribution		Other[8]		Total	
	2017 £000	2016 £000	2017 £000	2016 £000	2017 £000	2016 £000	2017 £000	2016 £000	2017 £000	2016 £000	2017 £000	2016 £000	2017 £000	2016 £000
Andy Reynolds Smith	780	650	1	1	1,344	1,038	–	–	195	163	–	1,112	2,320	2,964
Chris O'Shea	405	430	1	1	575	572	–	–	101	108	–	751	1,082	1,862
Bill Seeger[1]	205		63										268	–

Chairman and non-executive directors

	Salary/fees		Benefits[6]		Annual bonus		Long-term incentives		Payments in lieu of pension contribution		Other		Total	
	2017 £000	2016 £000	2017 £000	2016 £000	2017 £000	2016 £000	2017 £000	2016 £000	2017 £000	2016 £000	2017 £000	2016 £000	2017 £000	2016 £000
Sir George Buckley[2]	423	413	98	105									521	518
Sir Kevin Tebbit[3]	89	82											89	82
Anne Quinn[4]	89	88											89	88
Bruno Angelici	69	68	13	7									82	75
Tanya Fratto	82	80	58	40									140	120
Bill Seeger[1]	84	100	65	56									149	156
Mark Seligman[5]	73	14											73	14
Noel Tata	45	–	18										63	–

1 Bill Seeger was appointed as Chief Financial Officer on an interim basis on 19 May 2017, having served as a non-executive director (and chairing the Audit Committee) prior to that date.
2 Sir George Buckley's fee comprised his non-executive director's fee; an additional fee for being Chairman and his additional fee for chairing the Nomination Committee.
3 Sir Kevin Tebbit'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 Mark Seligman's fees for 2016 are for a part year following his appointment on 16 May 2016. His fees for 2017 include his additional fee for Chairing the Audit Committee from 19 May.
6 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.
7 Andy Reynolds Smith and Chris O'Shea each deferred 33% of their 2017 and 2016 bonus earned into Smiths shares. The total bonus paid during the year, including deferral, is captured under 'annual bonus' above. The deferral is for a three-year period and is not subject to any further performance conditions.
8 '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. Full details of the buyout arrangements were disclosed in last year's Annual Report on Remuneration.

Incentive outcomes for 2017 (auditable)

2017 annual bonus outcome for Andy Reynolds Smith and Chris O'Shea

The table below summarises the structure of the 2017 annual bonus, our performance and the resulting annual bonus payout for each of the executive directors

Director	Measure	Weighting	Maximum Opportunity (% of salary)	Earned bonus[1] Performance Level	(% of max. bonus)	(% salary)	£000
Andy Reynolds Smith	EPS	50%	90%	Just Below Maximum	98.0%	88.2%	688
	Cash Conversion	20%	36%	Just Below Maximum	94.0%	33.8%	264
	Personal Objectives	30%	54%	See below	93.0%	50.2%	392
Total		100%	180%		95.7%	172.3%	1,344
Chris O'Shea	EPS	50%	75%	Just Below Maximum	98.0%	73.5%	297
	Cash Conversion	20%	30%	Just Below Maximum	94.0%	28.2%	114
	Personal Objectives	30%	45%	See below	90.0%	40.5%	164
Total		100%	150%		94.8%	142.2%	575

1 The annual bonus earned by Chris O'Shea is pro-rated to 18 May 2017 when he stepped down from the Board.

Personal Objectives

Challenging personal objectives are set for each Executive Director to reinforce the Company's annual and strategic plans. For 2017, these targets included: focus on the Group's portfolio shape, building organisation and leadership excellence, and several targeted financial priorities.

In determining the outcomes of this element of the AIP, the Committee took into consideration the following achievements:

- Strong execution of strategic initiatives, including portfolio reshaping. The successful acquisition of Morpho provides global strength in our Detection business and was an important step in growing Smiths, and the portfolio has been reshaped further by focussing on attractive market segments and divesting four businesses. The Group has also successfully introduced a new product innovation process.
- Significant implementation of the Smiths Way, to clarify the Group's culture, vision and values, and build the capabilities and bench strength of our senior leadership team
- Strong execution of financial priorities, including: reducing working capital to mobilise funds to support growth, steady progress during the year in our performance on inventory turns, and improvement in quality management. The Group has also continued to manage its pension liabilities to ensure obligations are met without long-term over funding.

Incentive outcomes for 2016 (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 2016 annual bonus. Andy Reynolds Smith and Chris O'Shea both achieved 92% of their personal objectives after delivering significant improvement in free cash flow and executing on the important acquisition and divestiture strategy. Andy Reynolds Smith had personal objectives focused on the strategic direction of the Group, including bringing greater financial stability and earnings growth as well as driving measurable improvements in commercial and programme management. Chris O'Shea's personal objectives focused on building strong functional capability as well as developing plans for improved reporting across the Group in the areas of financial performance and New Product Introduction.

		Performance Targets and Actual Performance			
Measure		Threshold	Target	Maximum	Actual
EPS		78.9p	85.9p	88.0p	85.2p
Cash Conversion[1]	Q1	–	55%	–	>55%
	Q2	–	85%	–	>85%
	Q3	–	85%	–	>85%
	Q4	–	85%	–	>85%
	FY	–	85%	–	102%

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

2014 CIP outcome

Matching awards granted under the CIP in 2014 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 2014 to 31 July 2017	< 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%		

Andy Reynolds Smith and Chris O'Shea did not participate in the 2014 CIP.

2014 CIP outcome for past Directors

2014 CIP	Interests held	Vesting %	Interests vesting	Date of vesting	Market price[1]	Value £000
Philip Bowman[2]	51,203	100%	51,203	Oct 2017	£16.11	825

1 Based on the average share price over the three months to 31 July 2017 of £16.11
2 Philip Bowman was formerly the Chief Executive Officer and an executive director of the Company. He ceased to be an employee on 31 December 2015

2014 LTIP outcome

Awards granted under the LTIP in 2014 were subject to the following performance conditions:

Measure	Weighting	Performance period	Vesting schedule: Performance	Vesting schedule: % vesting	Actual performance: Outturn	Actual performance: % vesting
Group EPS growth	50%	1 August 2014 to 31 July 2017	< 4% p.a.	0%	6.4% p.a.	23.7%
			4% p.a.	12.5%		
			≥ 12% p.a.	50.0%		
			Straight-line vesting between these points			
Total Shareholder Return rank vs. FTSE 100 companies (excluding financial services)	30%	1 August 2014 to 31 July 2017	Below median	0%	Ranked 63rd	18.9%
			Median	7.5%		
			Upper quartile or above	30.0%		
			Straight-line vesting between these points			
Average cash conversion	20%	1 August 2014 to 31 July 2017	< 85%	0%	103.1%	20.0%
			85%	5.0%		
			≥ 100%	20.0%		
			Straight-line vesting between these points			
Total						62.6%

Andy Reynolds Smith and Chris O'Shea did not participate in the 2014 LTIP.

2014 LTIP outcome for past Directors

2014 LTIP	Interests held	Vesting %	Interests vesting	Date of vesting	Market price[1]	Value £000
Philip Bowman[2]	200,796	62.6%	125,697	Oct 2017	£16.11	2,025

1 Based on the average share price over the three months to 31 July 2017 of £16.11
2 Philip Bowman was formerly the Chief Executive Officer and an executive director of the Company. He ceased to be an employee on 31 December 2015 and his share awards were preserved as previously disclosed to shareholders

Scheme interests awarded in 2017 (auditable)
2016 LTIP

During the year ended 31 July 2017, the executive directors were awarded conditional share awards under the LTIP details of which are summarised in the table below:

Executive	Form of award	Date of grant	Number of shares awarded	Face value: Award price[1]	Face value: £'000	% of salary	Date of vesting
Andy Reynolds Smith	Conditional shares	8 Nov 2016	167,741	£13.95	2,340	300%	Oct 2019
Chris O'Shea	Conditional shares	8 Nov 2016	90,927	£13.95	1,268	250%	Oct 2019

1 The closing price on 7 November 2016.

DIRECTORS' REMUNERATION REPORT
CONTINUED

The performance conditions attached to these 2016 LTIP awards are as follows:

Measure	Weighting	Performance period	Vesting schedule: Performance	Vesting schedule: % vesting
Group EPS growth	35%	1 August 2016 to 31 July 2019	< 3% p.a.	0%
			3% p.a.	8.75%
			≥ 12% p.a.	35.0%
			Straight-line vesting between these points	
Return on Capital Employed	35%	1 August 2016 to 31 July 2019	< 15%	0%
			15%	8.75%
			≥ 18%	35.0%
			Straight-line vesting between these points	
Average cash conversion	30%	1 August 2016 to 31 July 2019	< 85%	0%
			85%	7.5%
			≥ 100%	30.0%
			Straight-line vesting between these points	

2016 Deferred Bonus Award
During the year ended 31 July 2017, the executive directors were awarded conditional shares as deferred bonus awards, details of which are summarised in the table below. The only performance condition is continued employment.

Executive	Form of award	Date of grant	Number of shares awarded	Face value: Award price[1]	Face value: £'000	Date of vesting
Andy Reynolds Smith	Conditional shares	8 Nov 2016	24,546	£13.95	342	8 Nov 2019
Chris O'Shea	Conditional shares	8 Nov 2016	13,519	£13.95	186	8 Nov 2019

1 The closing price on 7 November 2016.

SAYE
Andy Reynolds Smith and Chris O'Shea became participants in the Smiths Group Sharesave Scheme in the year ending in 31 July 2016 and as they chose to participate at the maximum level they did not participate in the scheme in the year ending in 31 July 2017. 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
As disclosed in last year's Annual Report on Remuneration, Andy Reynolds Smith and Chris O'Shea were made certain buyout awards to replicate the structure and fair value of incentives forfeited by each director as a consequence of their joining Smiths Group.

Andy Reynolds Smith received an award of 86,893 restricted shares, the grant value of which was captured in the 2016 single figure. 30,412 shares vested on the 30 June 2016, with the remaining 56,481 restricted shares vesting on 30 June 2017 (at a share price of 1,597p). Andy Reynolds Smith also received awards of 79,806, 26,602 and 26,602 conditional shares which vest, subject to performance conditions, in October 2018, 2019 and 2020 respectively, subject to the achievement of performance conditions. To the extent these awards vest, their value will be reflected in the 2018, 2019 and 2020 single figures of remuneration for Andy Reynolds Smith.

Chris O'Shea received 71,938 restricted shares, the grant value of which was captured in the 2016 single figure. 35,969 shares vested on 18 September 2016 (at a share price of 1,345p) and the remaining 35,969 shares vested on 18 September 2017 (at a share price of 15.91p).

Percentage change in remuneration from 2015/16 to 2016/17

	Salary	Benefits	Bonus
CEO remuneration	0.0%	0%	29.5%
Average of all employees	2.8%	0%	37.3%

'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 (i.e. dividends and share buybacks) and total employee pay expenditure for the financial years ended 31 July 2016 and 31 July 2017, and the percentage change.

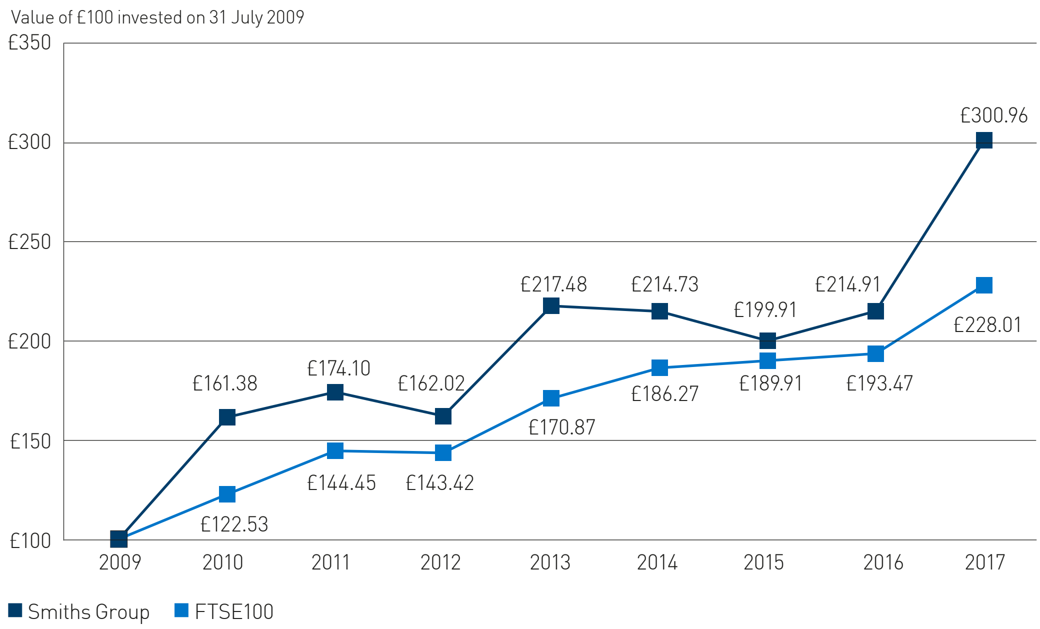
	2017 £m	2016 £m	Change
Shareholder distributions	167	163	2.5%
Employee costs	978	872	12.2%

Payments to past directors (auditable)
Other than those disclosed in the single figure of annual remuneration table on page 113 and on page 111 in relation to Chris O'Shea, the only payment is a contribution of £10,000 to Chris O'Shea's legal fees in conjunction with his stepping down arrangements.

Payments for loss of office (auditable)
No exit payments were made during the year ending 31 July 2017.

TSR performance
The following graph shows the Company's total shareholder return (TSR) performance over the past eight 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 £228.01 and £300.96 respectively.

TOTAL SHAREHOLDER RETURN



CEO remuneration for the last eight 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	2017 A Reynolds Smith
CEO total remuneration £000	3,399	4,776	5,026	3,864	3,912	4,195	1,602	2,964	2,320
Annual bonus outcome (% max)	95%	64%	79%	39%	43%	80%	88%	89%	96%
CIP outcome (% max)	n/a	100%	100%	100%	100%	100%	100%	n/a	n/a
2007 PSP outcome (% max)[1]	46%	33%	n/a	n/a	n/a	n/a	n/a	n/a	n/a
LTIP outcome (% max)					18%	17%	18%	n/a	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 2018

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 2018:

Executive director	2016/17	2017/18
Andy Reynolds Smith	£780,000	£800,000

Bill Seeger was appointed Chief Financial Officer on an interim basis on 19 May 2017 after it was announced that Chris O'Shea would be stepping down. In this role, Bill Seeger is paid a monthly salary of £83,333. Bill Seeger does not receive any pension contribution (or allowance in lieu), and he is not eligible to participate in the annual bonus or the LTIP.

Pension and benefits

Andy Reynolds Smith will continue to receive a cash allowance in lieu of pension of 25% of his base salary and Chris O'Shea will also continue to do so until he leaves the Company on 18 November 2017. The executive directors do not have a prospective entitlement to a defined benefit pension.

Annual bonus

For 2018, Andy Reynolds Smith will continue to have a maximum bonus opportunity of 180% of salary. Annual bonus measures (and their weightings) will remain unchanged from 2017. 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, likely to be within two years of the end of the performance period.

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 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.

The LTIP award granted to Andy Reynolds Smith in 2017/18 (at the normal annual grant level of 300% of salary) 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%	90%	105%

This represents no change to the LTIP for the 2017/18 cycle. The Committee believes that the current structure provides an appropriate balance between earnings growth, returns and cash. The Committee recognises that this balance of Group's performance measures remains very important for many of our largest shareholders. As previously stated, 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 2017 and to be paid in 2018 are shown below:

	2017	2018
NED base fee	£66,200	£67,850
Additional fee payable to the Chairman of the Board	£336,636	£345,050
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	£4,000 per meeting

Share ownership guidelines

Executive directors are required, over time, to 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. Bill Seeger is not subject to this requirement, reflecting the interim nature of his appointment as CFO.

There is no shareholding policy for non-executive directors.

Directors' shareholdings (auditable)

The table below shows the shareholding of each director (or past director) and for executive directors the shareholding against their respective shareholding requirement as at 31 July 2017.

	Shareholding requirement (% 2016/17 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 (% 2016/17 salary)	Guideline met[1]
Andy Reynolds Smith	200%	148,649	527,275			2,078	293%	Yes
Chris O'Shea	200%	39,840	210,723			3,464	124%	No
Bruno Angelici		2,000						
Sir George Buckley		10,000						
Tanya Fratto		1,500						
Anne Quinn		1,024						
Bill Seeger		5,000						
Mark Seligman		5,000						
Sir Kevin Tebbit		1,000						
Noel Tata		0						

1 Executive directors have five years from the date of appointment to meet the required personal shareholding.

In accordance with a binding commitment entered into on 19 July 2017, pursuant to which the Chairman purchases Ordinary Shares on a quarterly basis using a fixed proportion (20%) of the after-tax fees he receives from the Company, Sir George Buckley acquired 431 Ordinary Shares on 1 August 2017. There have been no other changes in the interests of the directors and their connected persons between 31 July 2017 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 2017, the headroom available under these limits was 7.69% and 3.22%, respectively.

Auditable part

The directors' single figure of annual remuneration and accompanying notes on page 113; the incentive outcomes for 2016 and 2017 on pages 113 and 114; the scheme interests awarded in 2017 and accompanying notes on page 115; the payments to past directors and payments for loss of office on page 117; the directors' shareholdings on page 119 and the directors' share options and long-term plans table on page 120 have been audited.

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

ANNE QUINN, CBE
CHAIR OF THE REMUNERATION COMMITTEE
21 September 2017

DIRECTORS' REMUNERATION REPORT
CONTINUED

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

Director and Plans	Options and awards held on 31 July 2017 Number	Options and awards held on 31 July 2016 Number	Option and award data					Awards vested 2016/17				
			Perfor-mance 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)												
Restricted Share Award	0	56,481		n/a	26/11/15	30/06/17	30/06/17	30/06/17	60,360	n/a	1033.00p	1593.00p
Performance Share Award	79,806	79,806	A	n/a	26/11/15	Oct 2018						
	26,602	26,602		n/a	26/11/15	Oct 2019						
	26,602	26,602		n/a	26/11/15	Oct 2020						
LTIP 2015	226,524	226,524	A	n/a	26/11/15	Oct 2018						
	167,741	0	B	n/a	08/11/16	Oct 2019						
Deferred Bonus Award	24,546	–	–	n/a	08/11/16	08/11/19						
SAYE	2,078	2,078	–	866.00p	11/05/16	01/08/19	01/02/20					
Chris O'Shea (stepped down 18 May 2017)												
CFO Restricted Share Award	0	35,969		n/a	26/11/15	18/09/16		30/09/16	37,371	n/a	1033.00p	1453.27p
	35,969	35,969		n/a	26/11/15	18/09/17	18/09/17					
LTIP 2015	119,796	119,796	A	n/a	26/11/15	Oct 2018						
	90,927	0	B	n/a	08/11/16	Oct 2019						
Deferred Bonus Award	13,519	–	–	n/a	08/11/16	08/11/19						
SAYE	3,464	3,464	–	866.00p	11/05/16	01/08/21	01/02/22					

Key

CEO Restricted Share Award	Under the terms of his contract of employment on joining the Company, Andy Reynolds Smith was granted a buy-out restricted share award over 86,893 shares of which 35% vested on 30 June 2016 and 65% vested on 30 June 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. Andy Reynolds Smith received 3,879 additional shares on 30 June 2017 in respect of the notional dividends on the tranche of his award that vested on this date.
Performance Share Award	Under the terms of his contract of employment on joining the Company, Andy Reynolds Smith was also granted a buy-out 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 Restricted Share Award	Under the terms of his contract of employment on joining the Company, Chris O'Shea was granted a buy-out restricted share award over 71,938 shares of which 50% vested 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 50% 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. Chris O'Shea received 1,402 additional shares on 30 September 2016 in respect of the notional dividends on the tranche of his award that vested on that day.
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 19 September 2017.
#	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.

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	LTIP 2016 awards- 35% subject to EPS element; 35% subject to return on capital employed; 30% subject to cash conversion
–	There are no performance criteria for the Deferred Bonus Shares awards or SAYE

Notes

The high and low market prices of the ordinary shares during the period 1 August 2016 to 31 July 2017 were 1238p and 1685p respectively.
The mid-market closing price on 31 July 2016 was 1263p and on 31 July 2017 was 1535p.
The mid-market closing prices of a Smiths share on the dates of the awards made to directors in the 2016/17 financial year was 1404p (8 November 2016)
The options over 5,542 shares granted to and held by the directors under SAYE at 31 July 2017 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 2016 to 31 July 2017.
No options or awards have been granted to or exercised by directors or have lapsed during the period 1 August to 19 September 2017.
At 31 July 2017, the trustee of the Employee Share Trust held 766 shares (none of the directors had an interest in these shares at 31 July 2017). The market value of the shares held by the trustee on 31 July 2017 was £11,758 and dividends of approximately £324 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.

DIRECTORS' REPORT

The Strategic report is a requirement of the Companies Act 2006 (the 'Act') and can be found on pages 1 to 75. The Company has chosen, in accordance with section 414 C(11) of the Act, and as noted in this Directors' Report, to include certain matters in its Strategic report that would otherwise be disclosed in this Directors' Report. Other information that is relevant to the Directors' Report, and which is incorporated by reference into this report, including information required in accordance with the Act and Listing Rule 9.8.4R of the Financial Conduct Authority's Listing Rules, can be located as follows:

Disclosure	Page
Likely future business developments	24-51
Research and Development activities	32-51
Employment of disabled persons and employee involvement	73
Greenhouse gas emissions	70
Financial instruments	55
Independent auditors report	129-135

Corporate governance statement

The corporate governance statement is on pages 78 to 125 and is incorporated by reference into this Directors' Report.

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 129-135.

Results and dividends

The results for the financial year ended 31 July 2017 are set out in the consolidated income statement. Revenue for the year amounted to £3,280m (2016: £2,949m). The profit for the year after taxation and discontinued operations amounted to £564m (2016: £261m). An interim dividend of 13.55p per ordinary share of 37.5p ('ordinary share') was paid on 28 April 2017. The directors recommend for payment on 17 November 2017 a final cash dividend of 29.70p per ordinary share, making a total dividend of 43.25p for the financial year. The Group's dividend policy is described in the Financial review on page 53.

Waiver of dividends

The following waived all dividends payable in the year, and all future dividends, on their shareholdings in the Company:

- Wealth Nominees Limited (Smiths Industries Employee Share Trust)
- Reuter File Limited

Directors

The membership of the Board and biographical details of the directors are given on pages 78 to 81. The following directors served as directors of the Company throughout the year ended 31 July 2017:

Name	Role on the Board
Sir George Buckley	Chairman
Andy Reynolds Smith	Executive director
Bill Seeger	Executive director
Bruno Angelici	Non-executive director
Tanya Fratto	Non-executive director
Anne Quinn CBE	Non-executive director
Mark Seligman	Non-executive director
Sir Kevin Tebbit, KCB, CMG	Non-executive director

The following table discloses directorate changes during the year:

Name	Role on the Board	Date of appointment/resignation
Noel Tata	Non-executive director	Appointed on 1 January 2017
Chris O'Shea	Executive director	Resigned on 19 May 2017

Details of directors' beneficial and non-beneficial interests in the shares of the Company are shown on page 119. In accordance with section 430(2B) of the Act, details of the arrangements made in respect of the retirement of Philip Bowman and the resignation of Chris O'Shea are available on the Smiths website (www.smiths.com).

Appointment and replacement of directors

The rules regarding the appointment and replacement of directors are determined by the Company's Articles of Association and the Act. The Articles of Association can only be amended by a special resolution of the shareholders. In accordance with the UK Corporate Governance Code all the directors, apart from Noel Tata, will retire voluntarily from office at the 2017 Annual General Meeting ('AGM') and seek re-election by the shareholders. The directors may appoint a person to be a director, but under the Articles of Association they shall only hold office until the next AGM, when they shall be eligible for election by the shareholders. Accordingly, Noel Tata will retire and seek election at the 2017 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 111. 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 page 120.

Qualifying third-party indemnity provisions (as defined by section 234 of the 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 2017 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.

DIRECTORS' REPORT
CONTINUED

Post balance sheet events

The $175m private placement 2018 was repaid early in August 2017.

Interests in voting rights

As at 31 July 2017 the Company had been notified pursuant to the Disclosure Guidance & Transparency Rules (DTRs) of the Financial Conduct Authority (FCA), or had received disclosures pursuant to the Act, of shareholding interests of the following holdings of voting rights in shares:

	Number of shares	Percentage of issued ordinary share capital	Date of notification or disclosure
Ameriprise Financial	19.5m	4.9%	8 June 2017
BlackRock	27.8m	7.0%	21 September 2016
Dodge & Cox	28.4m	7.2%	12 August 2016
Harris Associates LP	19.1m	4.8%	11 October 2016
Jupiter Asset Management	14.8m	3.8%	22 September 2016

During the period 1 August to 15 September 2017 the Company has received the following notifications or disclosures:

	Number of shares	Percentage of issued ordinary share capital	Date of notification
Dodge & Cox	19.5m	4.9%	24 August 2017

Corporate responsibility

The Company operates a Code of Business Ethics and has Group policies on environmental, employee and health and safety matters. The Company seeks to minimise, as far as is reasonably practicable, any detrimental effects on the environment of its operations and products. Further information on environmental, employee and health and safety matters is contained in the Responsible Business section on pages 68 to 75. The full Responsible Business report is available online at www.smiths.com.

Branches

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

Share capital
As at 31 July 2017, the Company's issued share capital was 395,476,662 ordinary shares, with a nominal value of £148,303,748. The ordinary shares are listed and admitted to trading on the Main Market of the London Stock Exchange. 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 ordinary share, and the programme trades 'over-the-counter' as a level 1 ADR programme. As at 31 July 2017, 7,059,489 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. There are no requirements for prior approval of any transfers. None of the shares carry any special rights with regards 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 2017 the trust held 766 ordinary shares in the Company. The trust waived its dividend entitlement on its holding during the year, and the trust abstains from voting the shares at general meetings.

Powers of the directors
The powers of the directors are determined by the Act and the Articles of Association of the Company. The directors have been authorised to issue and allot shares, and to buy back shares. These powers are subject to annual shareholder approval at the Annual General Meeting (AGM), and at the 2017 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 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.

The authority in the second 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, only in connection with a rights issue, up to a nominal value which is equivalent to approximately an additional third of the total issued ordinary share capital of the Company. This is in line with corporate governance guidelines.

There are no present plans to undertake a rights issue or to allot new shares other than in connection with the Company's share 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.

The Company did not repurchase any shares during the financial year ended 31 July 2017. As at 15 September 2017 the Company had an unexpired authority to repurchase ordinary shares up to a maximum of 39,540,648. As at 15 September 2017, the Company did not hold any shares in treasury. Any ordinary shares purchased may be cancelled or held in treasury.

Change of control
The Company has in place credit facility agreements under which a change in control would trigger prepayment clauses. The Company also 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 in 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.

Remuneration policy
Details of the Directors' remuneration policy, as approved at the AGM in 2015, is shown on pages 105 to 108 of the Directors' remuneration report. Under the regulations which now form part of the 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.

Political donations

The Group made contributions to non-EU political parties totaling $58,500 (£46,000) 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 8,100 employees in the US.

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 1 to 75. The financial position of the Company, its cash-flows, liquidity position and borrowing facilities are described in the Financial review on pages 52 to 57. In addition, the notes to the accounts include the Company's objectives, policies and processes for managing its capital, financial risk management objectives, details of its financial instruments and hedging activities, and its exposures to credit risk and liquidity risk.

In October 2016, the Company established a €2.5bn Euro Medium Term Note Programme (the 'Programme'). In February 2017, pursuant to the Programme, the Company issued €650m of new long-term public debt securities with a maturity in 2027. On 5 May 2017 the Group repaid €300m debt under long-term public debt securities issued in 2010. The new issuance and repayment resulted in an increase in the average maturity of gross debt to 5.9 years (from 4.5 years at 31 July 2016).

At 31 July 2017 the net debt of the Group was £967m, a £11m decrease from 31 July 2016. At the end of July the Group had available cash and short-term deposits of £782m. 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 2017. 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 60 to 61, and have paid particular attention to the financial and pension funding risks and their mitigation (see page 62).

The directors, having made appropriate enquiries, have a reasonable expectation that the Company and the Group have adequate resources to continue in operation for the foreseeable future and for a period of at least 12 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.

Long term Viability Statement

The directors have assessed the longer-term prospects of the Group, taking into account the current position of the Group and a range of internal and external factors. The assessment is described in the Strategic report on page 57.

Disclosure of information to the auditor

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 auditor is 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.

Annual General Meeting (AGM)

The 2017 AGM will be held on Tuesday, 14 November 2017 at 11:00 am. The Notice of the AGM will be published on the Company's website, www.smiths.com, on or around Tuesday, 10 October 2017. Electronic copies of the Annual Report 2017 and the Notice of AGM will be posted on the Company's website.

Further information about the AGM and the Registrar can be found on page 215.

By order of the Board

MEL ROWLANDS
COMPANY SECRETARY
Smiths Group plc
4th Floor, 11-12 St James's Square
London, SW1Y 4LB
21 September 2017

Disclosure table pursuant to Listing Rule LR9.8.4R

Listing Rule	Information to be included	Disclosure
9.8.4(1)	Interest capitalised by the Group	£2.4m interest was capitalised as part of the costs of development projects. £0.6m of tax relief has been recognised as current tax relief in the period
9.8.4(2)	Unaudited financial information	The supplementary US dollar financial statements on pages 190 to 195 The Group financial record 2013-2017 on page 189
9.8.4(4)	Long-term incentive scheme only involving a director	No disclosure for the year ended 31 December 2017
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 options awarded under shareholder-approved schemes. See page 184 for more information.
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	See page 121
9.8.4(13)	Waivers of future dividends	See page 121
9.8.4(14)	Agreement with a controlling shareholder	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 119
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 122
9.8.6(3)(a)	Directors' going concern statement	See page 124
9.8.6(3)(b)	Directors' assessment of the Company's prospects	See page 57
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 83
9.8.6(6)(b)	Details of non-compliance with UK Corporate Governance Code and reasons	None
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 111 The Chairman and the non-executive directors serve under letters of appointment – see page 111