

Promoting responsibility



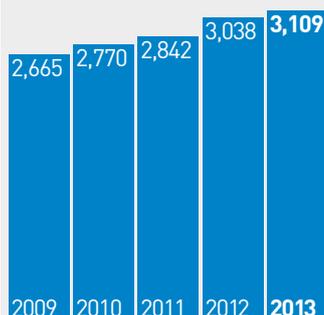
2013 Performance highlights

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

Headline revenue

£m

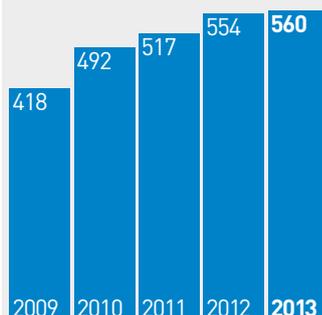
£3,109m +2%



Headline operating profit

£m

£560m +1%



Operational highlights

- Headline revenue 2% higher, driven by John Crane, Smiths Detection and Flex-Tek
- Headline operating profit up 1% – increased investment in growth
- Strong headline operating cash conversion at 98% – with free cash-flow of £237m
- Company-funded investment in new product development up 5% to £112m
- Emerging market revenue up 14%; now representing 16% of Group revenues
- Identified another phase of restructuring in all divisions to fund growth/enhance margins
- Dividend up 4% to 39.5p and special dividend of 30p, reflecting the balance sheet strength

Responsibility highlights

- Ethics: held second global forum and updated our training, materials and policies
- EHS: improved our environmental and safety metrics; completed peer benchmarking; and updated policies, strategy and targets
- People: strengthened our talent pipeline; rolled out leadership development programmes; and implemented new operating model
- Community: engaged with local communities across the globe

Read more on pages 8 to 9 and at www.smiths.com



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Photographs on the front cover

- 1 Rick Martini, Manufacturing Engineer, Flex-Tek, US
- 2 John Vasquez, Sales & Service Engineer, John Crane, Colombia
- 3 Lee Hiong Chua, Operations Director, Smiths Detection, Malaysia
- 4 Vasanthi Supurmaniyam, Sales & Marketing Director, Smiths Medical, Southeast Asia & Korea
- 5 Woo Chang Jung, Quality Assurance Supervisor, John Crane, South Korea
- 6 David Henry, Global Engineering VP for Platform Product & Manufacturing Engineering, Smiths Interconnect, US
- 7 Leila Kurevija, Custom Anaesthesia Assembly, Smiths Medical, US

Chief Executive's Q&A

Conducting our business responsibly is one of our fundamental values and a key element of our six-part business strategy. Behaving ethically, working safely, reducing our environmental impact, attracting and developing our people and contributing to our communities creates long-term value for our shareholders and our wider stakeholders.

Philip Bowman
Chief Executive



Why is Corporate Responsibility (CR) important to Smiths Group?

Conducting our business with integrity, honesty, fairness and transparency is not just important to Smiths, it is one of our core values and a key element of our business strategy. By behaving ethically, working safely, reducing our environmental impact, attracting and developing our people and contributing to our communities, we help create long-term value for our shareholders and our wider stakeholders.

What is Smiths Group's approach to CR?

We are a global business, operating in more than 50 countries – all different and all with their own challenges. However there is one constant – the high ethical standards that we must apply wherever we operate and whoever we deal with, be it customers, governments, regulators or suppliers. This extends beyond mere legal compliance. To us it means ensuring that we are honest and transparent in our dealings with all our stakeholders. For ease of understanding, let's look at how we break down CR:

- Ethics – our global ethics programme aims to instil the highest standards of business behaviour throughout the very fabric of Smiths. It also provides the framework to support our other CR principles.
- Health and safety – awareness of this should be second nature. A safe place to work is a basic right and we hold ourselves to the highest practical standards.
- Environment – we all have a duty to help protect our world by improving energy efficiency, cutting harmful emissions and water consumption, and generating less waste.

- Our people – only by attracting, retaining and developing the right people with the right skills can we hope to become a truly world-class business.
- Community – we may be global, but we must also think local. Community engagement, charitable giving, and education initiatives all help enhance our reputation, encourage employee engagement, and contribute to local prosperity.

Who is responsible for CR at Smiths?

All of us. While the Board has overall responsibility for our risk management policies and ensuring we have an effective system of internal control, all employees must take responsibility for their actions and behaviour. In this age of instant communications when a company's reputation can be severely damaged in a matter of hours, protecting the global reputation of Smiths has never been more important. Our good name depends on all of us conducting our business responsibly. Self-responsibility must be our watchword and managers in particular should take the lead by setting the correct tone in all they do.

What CR challenges concern you the most?

A difficult question to answer given our extremely varied and complex business environment. It is constantly evolving, presenting new sources of risk, particularly as we expand more into emerging markets. However, I would highlight the following: basic compliance with laws and regulations and the need to avoid even the perception, let alone the reality, of corrupt business behaviour; intense competition for the talented and qualified people we need to run our businesses, particularly in developing economies; and tightening environmental standards affecting emissions, water usage and materials safety.

In CR terms, what has Smiths achieved in FY2013 and what are the goals for this year?

In the area of safety we continue to reduce our incident rate which is now at our lowest on record. The environmental impact and energy use of our operations continues to decrease and we want to ensure these trends are maintained. In terms of people, we have strengthened our internal talent pipeline through a rigorous focus on talent assessment, personal development and greater emphasis on succession planning. We are introducing career counselling and two specific programmes aimed at early career development and senior leadership roles respectively. Almost 90 managers now participate in the 'Horizons' or 'Aspire2' programmes. We consolidated the anti-bribery and corruption course we launched last year by updating training on international trade compliance and competition and anti-trust issues. The growing importance and corresponding challenges of the emerging markets were recognised by a global ethics forum held in Brazil in October 2012 which built on an earlier meeting in China. A third was held in Dubai in October 2013.

In summary, I make no apology for returning to my main theme. Our goal – not only for the current year but for every year – should be the establishment of an ethical culture in Smiths so deep-rooted that it becomes second nature to all our employees.

Philip Bowman
Chief Executive

Bringing technology to life...

We apply leading-edge technology to design, manufacture and deliver innovative, engineered solutions to meet our customers' needs. We do this across a diverse range of applications and end markets, ranging from healthcare, energy and petrochemicals through to threat and contraband detection, telecommunications and equipment manufacture.

A deep understanding of these markets combined with strong customer relationships enables Smiths to apply its leading-edge technologies and deliver engineered solutions to specific client applications. Our products and services are often critical to customer operations, while our proprietary advanced technology and high service levels create competitive advantage.

From seals enabling the efficient, environmentally friendly extraction of oil and gas to high energy cargo scanners protecting ports and borders, and from medication infusion pumps which support safe delivery of medication through to filters enabling next-generation communications networks, we bring technology to life to help to make the world safer, healthier and more productive.

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

Employees
23,250

Direct operations in over
50 countries

2013 Revenue
£3,109m

2013 Headline operating profit
£560m

Divisions
5

Founded in
1851





Our divisions

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

They employ more than 23,000 people in over 50 countries worldwide and are focused on the threat & contraband detection, medical devices, energy, communications and engineered components markets worldwide.

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



John Crane

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

2013 Revenue £986m
Significant locations 59
Strengths <ul style="list-style-type: none"> • Strong proprietary technology with specialist product expertise • Market leader with c. 30% market share in mechanical seals • Two-thirds of sales in aftermarket with >95% conversion rate from OEM • Global network of c. 230 sales and service centres
Employees 7,000

Read more at www.johncrane.com 

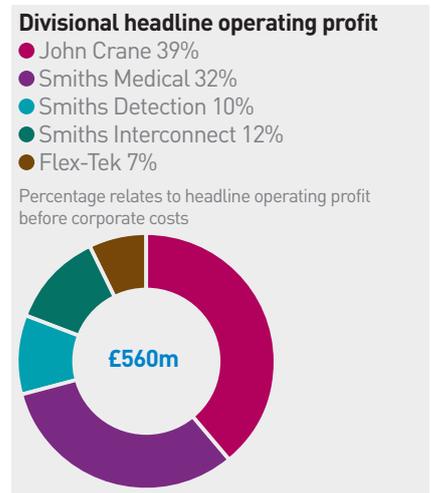
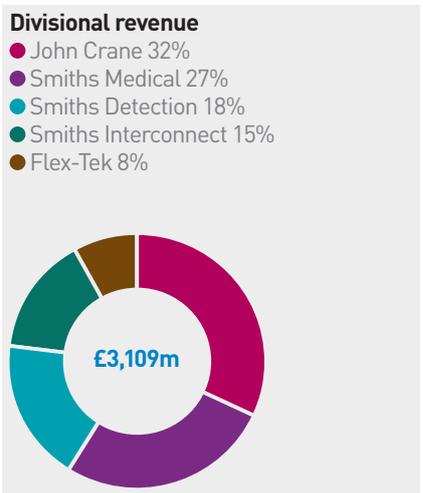


Smiths Medical

A leading supplier of specialist medical devices, consumables and equipment for global markets. Our products are focused on the medication delivery, vital care and safety devices market segments.

2013 Revenue £850m
Significant locations 36
Strengths <ul style="list-style-type: none"> • Strong market positions in niche areas • Highly recognised and respected brands • Reputation for high quality and safety • Differentiated lower risk, short residency, interventional devices • Innovative pipeline and new product launches • Extensive global sales network
Employees 7,900

Read more at www.smiths-medical.com 



Smiths Detection

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

2013 Revenue
£559m

Significant locations
18

Strengths

- Market leader with strong global brand
- Operates in regulated markets that require product certification
- Technology leveraged across broad range of markets and applications
- c. 25% of sales from aftermarket service and growing
- Global sales and service network with strong emerging market presence

Employees
2,250

Read more at www.smithsdetection.com →

Smiths Interconnect

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

2013 Revenue
£461m

Significant locations
30

Strengths

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

Employees
3,850

Read more at www.smithsinterconnect.com →

Flex-Tek

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

2013 Revenue
£253m

Significant locations
17

Strengths

- Manufacturer of qualified components for the aerospace industry
- Largest supplier of open coil heating elements worldwide
- >90% share of clothes tumble dryer applications in North America
- Leading manufacturer of flexible gas piping and HVAC ducting for US construction market

Employees
2,000

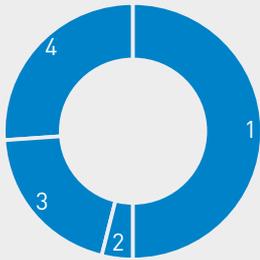
Read more at www.flextekgroup.com →

Our geographic reach and end markets

The Group has operations in more than 50 countries, with a network of dealers and distributors in many more. North America accounts for half our revenue and we have an increasing exposure to high-growth emerging markets. We serve markets that are well positioned to deliver long-term profitable growth, as well as strong and stable cash-flows.

Group revenue by destination

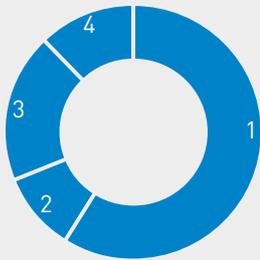
- 1 North America 50%
- 2 United Kingdom 4%
- 3 Europe other 20%
- 4 Rest of World 26%



Location of assets

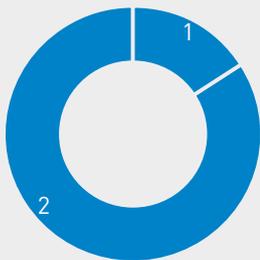
- 1 North America 59%
- 2 United Kingdom 10%
- 3 Europe other 19%
- 4 Rest of World 12%

Analysis excludes cash and cash equivalents



Revenue from emerging and developed markets

- 1 High-growth emerging markets 16%
- 2 Developed markets 84%



Group manufacturing and service locations

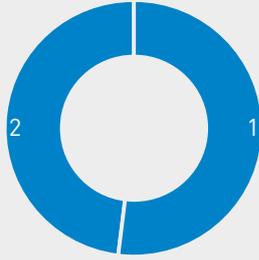


Smiths Group is investing to expand its emerging market presence

Smiths Group has grown its exposure to high-growth emerging markets through a targeted investment in sales and marketing capabilities. At 16% of Group revenue, our presence in these markets is not yet where we would like it to be and there are further opportunities to expand our footprint. John Crane has the highest proportion with some 21.5% of revenue in the emerging markets, building on a long-term presence in countries such as Brazil (over 50 years) and China (around 30 years). Smiths Medical has invested around £13m in the past two years to build its salesforce and brand presence in these markets. Smiths Interconnect and Smiths Detection have built their coverage through acquisitions over several years. We will continue to seek opportunities to grow our share in these important markets.

Revenue from equipment sales and aftermarket/consumables

- 1 Equipment sales 52%
- 2 Aftermarket/consumables 48%



We have strong and stable cash-flows driven by the high level of revenue from aftermarket service and single-use consumables

We derive around half our revenue from servicing the aftermarket needs of our customers or supplying single-use consumables that are used as part of everyday processes. For example, almost two-thirds of John Crane's revenues are from the aftermarket servicing of equipment, reflecting a very high capture rate following the original sale to the original equipment manufacturers (OEMs). In Smiths Medical, over 80% of sales are from the supply of single-use consumables that may be used in conjunction with their hardware equipment (such as an infusion pump) or as part of everyday hospital procedures. In Smiths Detection, around a quarter of revenues are from the supply of servicing and spares for their equipment. As a result, Smiths Group generates strong and stable cash-flows.

Emerging markets revenue up

14%



Group overview

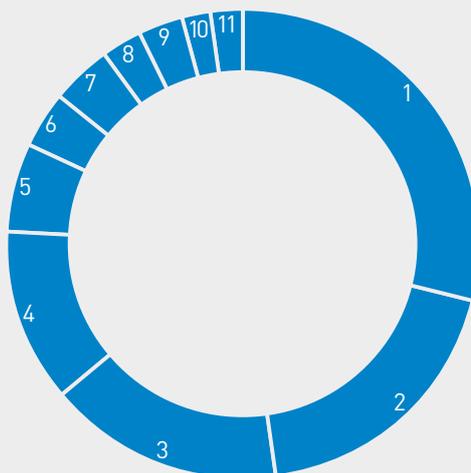
Corporate responsibility

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Revenue by end market

- 1 Healthcare 29%
- 2 Oil, gas and petrochemical 19%
- 3 Homeland security 16%
- 4 Industrial 12%*
- 5 Defence 6%
- 6 Aerospace, space 4%
- 7 Chemical and pharma 4%
- 8 Telecoms 3%
- 9 Semiconductors, data centres 3%
- 10 US residential construction 2%
- 11 Household appliances 2%

*Industrial includes power generation, alternative energy, mining, test, rail and other general industrial applications



Smiths Group benefits from a wide range of end markets

Our businesses are either market leaders in their sectors or are well placed in attractive niches. These typically have scope for long-term profitable growth with strong growth drivers. They include the demand for healthcare from increasing spend in emerging markets and ageing populations in developed markets, the global demand for energy, security threats and challenges, the expansion of wireless communications, the demand for new fuel-efficient aircraft and the need for new homes in the US.

Our strategy and progress

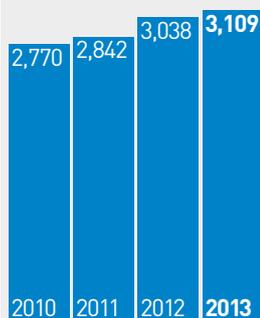
We have a six-part strategy for creating long-term value for our shareholders and we measure our performance against this strategy through several key performance indicators.

We've delivered progress in tough conditions, with revenue growth and strong cash generation, plus improvements in our corporate responsibility measures and organisational capabilities.

1 Driving top-line growth

We drive our top-line growth in four ways. First, we invest in new product development – the lifeblood of a technology business such as Smiths. Second, we look to expand in emerging markets such as China, India and Brazil, through investing in sales resources. Third, by improving our sales and marketing effectiveness through sharing tools and best practice. Fourth, we make bolt-on acquisitions to add complementary technologies and increase our exposure to high-growth markets.

Performance in 2013
Headline revenue £m
£3,109m



Headline revenue increased by 2% this year, driven by John Crane, Smiths Detection and Flex-Tek. We raised company-funded R&D by 5% to £112m to drive innovation and completed a number of new product launches across the business.

Revenues from emerging markets grew by 14% to 16% of Group revenues, reflecting our ongoing investment to increase our exposure in these markets.

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

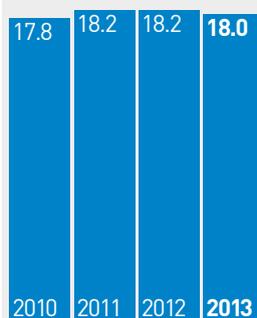
Priorities

We aim to accelerate our top-line growth through continued investment in new product development, sales and marketing in high-growth markets and targeted acquisitions.

2 Enhancing margins through operational efficiencies

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

Performance in 2013
Headline operating margin %
18.0%



Headline operating margin declined by 20 basis points, reflecting reduced profitability in Smiths Medical and Smiths Detection and our continued investment in sales, marketing and new product development.

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

Priorities

Continue to drive cost savings and operational improvements through the ongoing initiatives at Smiths Detection and a new Group-wide restructuring plan to be launched this year.

3 Transforming Smiths into a world-class organisation

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

Performance in 2013

Leadership

We changed the leadership at John Crane and Smiths Interconnect during the year to take both businesses to the next phase of development.

Talent pipeline

Our focus on succession planning has delivered significant progress in building our talent pipeline, through a more rigorous and consistent approach to talent assessment and the preparation and monitoring of personal development plans. We have also relaunched our two development programmes for both junior and senior leaders, with almost 90 managers from across the business currently participating.

People management

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

Priorities

We will launch our revised HR strategy, further developing our leadership capabilities and technological expertise. We will continue to roll-out e-enabled HR and conduct our third engagement survey.

4 Promoting a culture of responsibility

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

Performance in 2013
A range of indicators for safety and environmental impact

Recordable incident rate per 100 employees (RIR)	0.54
FY2013 target: less than 0.5 per 100 employees (established businesses)	
Target FY2010-FY2015	FY2013 v FY2010
Energy	
10% reduction	Reduced by 19%
Greenhouse gas emissions	
10% reduction	Reduced by 27%
Total non-recycled waste	
10% reduction	Reduced by 21%
Water consumption	
5% reduction	Reduced by 25%

We improved all our environmental metrics in FY2013 and exceeded our FY2015 goals. We improved our RIR over FY2012 in our established businesses from 0.58 to 0.50. Our recently acquired businesses are working to meet our standards, resulting in a published RIR of 0.54.

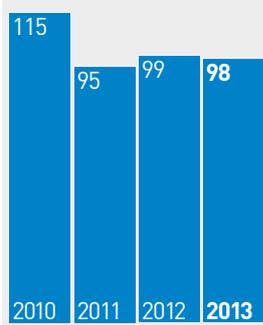
Priorities
We will implement our new sustainability strategy and continue to embed a culture of ethical behaviour across the business.

5 Generating cash and managing the balance sheet effectively

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

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

Performance in 2013
Cash conversion %
98%



Cash generation remained strong, with headline operating cash of £548m resulting in cash conversion of 98%.

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

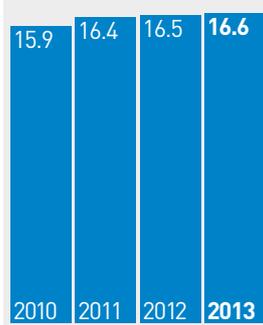
Priorities
Continue to focus on cash generation and balance sheet management, so that we have the financial strength to grow the business and generate returns for shareholders.

6 Allocating capital to maximise returns

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

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

Performance in 2013
Return on capital employed %
16.6%



Return on capital increased by 10 basis points to 16.6%, with improved returns at John Crane, Smiths Interconnect and Flex-Tek offset by declines at Smiths Medical and Smiths Detection as a result of lower profitability.

This is headline operating profit divided by monthly average capital employed, expressed as a percentage. Capital employed is total equity, adjusted for goodwill recognised directly in reserves, net post-retirement benefit related assets and liabilities, litigation provisions relating to exceptional items and net debt. Return on capital for 2010 and 2011 has been restated.

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

How we manage corporate responsibility

Promoting a culture of responsibility, transforming Smiths into a world-class organisation and delivering operational efficiencies to enhance margins form key elements of our values and six-point business strategy. Our Code of Business Ethics provides the framework for our approach and CR focus areas.

Our Code of Business Ethics ('the Code')

As a global technology company operating in highly regulated sectors and interacting with stakeholders including customers, governments and their agencies, regulators and suppliers across the globe, we insist on the highest standards of ethical behaviour. This extends beyond legal compliance – to us it means ensuring that we are honest and transparent in our dealings with all our stakeholders and maintain the courage of our convictions, regardless of external political or business pressures.

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

Our Code of Business Ethics	
1 We comply with the law	2 We compete fairly
3 We act with integrity in all our business dealings	4 We treat suppliers, partners and customers properly
5 We treat our co-workers respectfully	6 We contribute to healthy, safe and secure workplaces
7 We respect the environment	8 We contribute to our communities
9 We participate in relevant public debates	10 We respect human rights
11 We have high standards of financial record-keeping and reporting	12 The Code applies to all of us

Bringing technology to life... to make the world more productive Helping power China safely

China's fast-growing demand for energy is such that a third West-East Pipeline from the central Asian gas fields is being built to help fuel what is now the second biggest economy in the world. John Crane will supply a range of specialty equipment – including dry gas seals, filters, bearings and couplings – to ensure the secure, efficient and environmentally safe delivery of natural gas from China's Xinjiang border to the heavily industrialised coastal province of Guangdong. The more than 7,000 km (4,000 mile) pipeline will transport some 30 billion cubic metres of gas each year when it fully opens in 2015.



Operating within the Code and implementing our CR objectives enables us to meet our obligations to our stakeholders and delivers real business benefits, creating long-term value for shareholders. Complying with the Code:

- protects our reputation and ability to grow
- helps us to win business from customers who value strong CR performance
- enhances our efficiency
- enables our people to work productively, in a safe and ethical environment
- helps us to attract and retain talent, and encourages employees to take pride in working for us
- reduces the risk of incidents and their associated costs.

Many of our products also benefit the environment, enhance efficiency and contribute to the safety, health and security of people around the world. For example, Smiths Detection's security scanners play a vital role in helping to thwart terror attacks on planes and public buildings; John Crane's seals help their customers to reduce their environmental impacts (see case study opposite); and Smiths Medical's safety syringes help to protect healthcare workers from needlestick injuries.

Our CR governance

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

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

The Chief Executive and the executive team are responsible for delivering our strategic objectives, upholding the Code, implementing its supporting policies and delivering both our overall business strategy and specific CR strategies. CR issues are typically the top agenda item at Executive Committee and Board meetings and our executive team champions our commitments and strategies within the business, setting and continually reinforcing the 'tone from the top'.

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

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

Risk management

The Board has overall responsibility for our risk management policies and ensuring we have an effective system of internal control. We have a well-established risk management framework that combines a top-down strategic view of risks with a bottom-up divisional process. Our bottom-up divisional approach involves the identification, management and monitoring of the material risks in each of our divisions. Each division is required to maintain risk registers and monitor their significant risks on an ongoing basis. A full description of our risk management processes can be found on page 56 of our 2013 Annual report.

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

International best practice initiatives

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

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

Corporate responsibility trends and strategy

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

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

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

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

Moreover, within the context of the principal risks facing Smiths Group as a whole, the Board has determined that the most significant risks to promoting a culture of responsibility and transforming Smiths into a world-class organisation are compliance with legislation and regulations, and talent and succession planning. Further detail on these can be found on page 16 and pages 56-61 of our 2013 Annual report.

Our strategic focus

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

Ethics

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

[Read more on page 14](#)



Environment

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

[Read more on page 16](#)



Health and safety

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

Read more on page 16



Our people

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

Read more on page 22



Community

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

Read more on page 26



We have specific strategies and governance structures for each of these areas, which are discussed in 'Our focus areas' on pages 14-27. These priorities are shared across the Group and our divisions are required to implement and support these strategies and actively manage performance, with regular reporting back to the Group centre. As our business and operating environment evolves, we review our focus areas and strategies to ensure we are addressing our most material risks and opportunities.

Our focus areas

Ethics

Our global Ethics programme focuses on embedding a culture of ethical compliance across Smiths, so our employees do the right things in the right way, every time. Our objective is not only to protect the reputation of our company and to safeguard the investment of our shareholders, but also to protect the interests of every employee by ensuring individual legal and regulatory compliance as well as responsible behaviour.

2013 Highlights

- Held our second global ethics forum in São Paulo, Brazil, to reflect growing presence in emerging markets
- Updated training in areas such as anti-bribery and corruption, international trade compliance and competition and anti-trust
- Expanded our Code of Ethics materials, adding seven new translations and enhancing our intranet

Governance

The Code Compliance Council leads our Ethics and Compliance programme and reports to the Audit Committee (see p11). It is made up of senior business leaders from across the Group, including our General Counsel, HR Director, Internal Audit Director and the Senior Vice President, Ethics and Compliance, as well as a Board member from each division. The Council determines our priorities, reviews key issues and makes recommendations to the Audit Committee.

The Senior Vice President, Ethics and Compliance also advises on ethical issues and manages responses to all enquiries and allegations. Legal counsel provide compliance support to our businesses, offering advice, education, training, guidance materials, export control policies and assessment tools. Ethics and compliance issues are considered at Executive Committee meetings and Quarterly Business Reviews, as well as during site-level internal audits.

Communicating and embedding the Code

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

We give every employee a printed copy of the Code when they join. The Code itself and information and posters about our Ethics programme and the Ethics Alertline are available on our intranet to view, download and print in 19 languages, with seven languages added during 2013. These posters are displayed at all of our sites. The Code is supported by an online training course, which is available in English and five other languages through our intranet, global learning platform and CD-ROM.

Behaving ethically is an integral part of every employee's job. It is an important duty of line management to monitor compliance, and consideration of ethical issues forms part of managers' performance reviews.

Reporting concerns and managing specific issues

We encourage employees to raise concerns or queries about the Code with line management, human resources, their local in-house legal counsel or our confidential Ethics Alertline. The Alertline is available via email, the internet and toll-free phone numbers in 53 countries. Employees can raise concerns at any time through call centres operated by a contracted management company, which provides continuous coverage and support in 35 languages. We address all issues promptly and, if necessary, refer them to the relevant functions for investigation. Our non-retaliation policy means that any employee who in good faith reports an act of apparent misconduct or unethical behaviour will not be victimised or treated adversely.

Context and trends

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

Governments and regulators around the world have also increased their focus on avoiding bribery and corruption in recent years, including through the implementation of the UK Bribery Act in 2011. While Smiths has always worked to uphold the highest ethical standards, this increased scrutiny raises the potential reputational and business impact of an incident and has prompted companies worldwide, including Smiths, to review their policies and procedures in this area.

Strategy and objectives

Our Ethics programme continues to embed the Code across the business through communication, training and awareness programmes in order to promote a culture of ethical compliance. It also develops and enhances our policies and controls to ensure we comply with laws and regulations across the jurisdictions in which we operate.

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

As noted above, we continue to develop our programme to address the heightened and evolving risks of doing business in emerging markets. Other focus areas include expanding our online training, developing additional policies to enhance our governance of key areas, and continued collaboration with Internal Audit, as part of our risk management and assurance processes.



Performance

Communication, policies and training

During 2013, to build our communication of the Code, we enhanced the usability of our Ethics intranet portal and added seven translations of the Code and supporting posters.

To address evolving global risks, we regularly expand and update training on key compliance areas. For example, in 2012 we rolled out an anti-bribery and corruption course, while in 2013 we updated and launched our training on international trade compliance and competition & anti-trust to the relevant personnel in several languages.

Similarly, in 2013 we updated our policies on areas such as international trade sanctions and embargoes, import and customs, and international export compliance. This was part of a wider review of Smiths Group policies.

We continue to address the particular challenges of doing business in emerging markets. Following the success of our first global ethics forum in Shanghai, China, in 2011, we held our second forum in São Paulo, Brazil in 2012. (See the case study above for more information.) A third forum was held in Dubai in October 2013.

Priorities for 2014

- Hold third global ethics forum in Dubai
- Continue to update our training and compliance programmes, in line with changing business needs and regulations
- Refresh our online Code of Ethics training

Global ethics forum

We held our second global ethics forum in December 2012 in São Paulo, Brazil. The forum brought together 60 senior executives and managers from around the Group to consider the business and ethical challenges of doing business in Latin America. The programme included input from subject matter experts and local business leaders, together with a number of case study scenarios. The participants were required to develop action plans to respond to a variety of ethical challenges, which they then discussed with members of the Smiths Group Executive Committee. This event is one of a series of interactive programmes addressing similar issues in many of the developing or emerging markets in which we operate.

Our focus areas

Environment, health and safety

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

2013 Highlights

- Updated our EHS Policy and Energy & Greenhouse Gas Policy
- Completed an EHS benchmarking study against peers and other high-performing companies, and engaged practice experts to understand our relative performance within our industries and identify best practices and global trends
- Updated our multi-year EHS and sustainability strategy, objectives and targets, to take Smiths Group to the next level of performance and practice
- Implemented Group-wide environmental awareness training

Governance

Our environmental, health and safety (EHS) approach starts with our EHS policy, which is reproduced on the inside back cover of this report. We recently updated this policy to re-emphasise all managers' accountability for the safety of employees they supervise, and their duty to promote and enforce our safety policies and make certain employees are appropriately trained. Other additions to the policy expand our principles, including how we:

- evaluate EHS performance and management practices
- share EHS management best practices throughout our businesses, and
- consider EHS issues in relation to joint ventures and partnerships.

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

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

EHS management systems

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

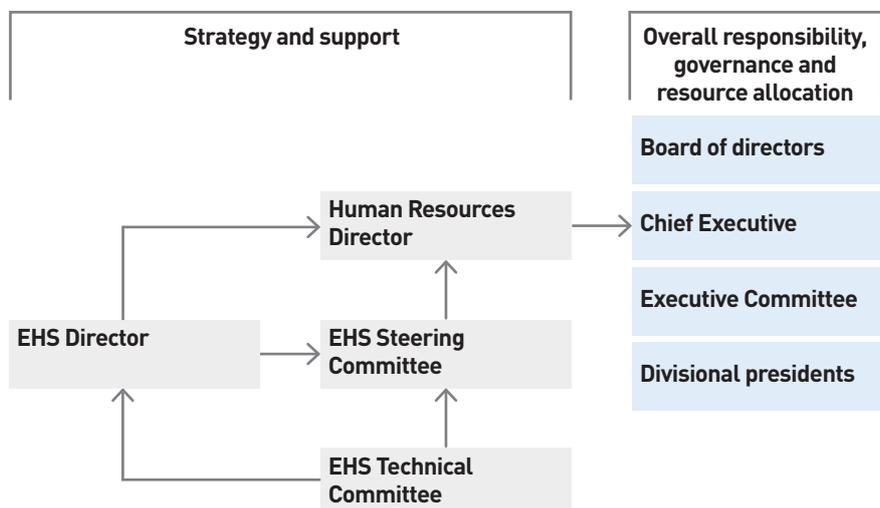
We require all manufacturing, warehousing and service centre sites with more than 20 employees to implement the following EHS management systems:

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

We have more than 160 major sites, of which 107 have implemented EHS management systems. Sites with 50 or more employees are also required to have their EHS management systems externally certified. Of the 94 sites that require certification, 92 have completed them. Sites that have not completed certification have plans in place to do so. We give new acquisitions or expanded operations two years to obtain certification.

EHS compliance

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



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

EHS data collection and analysis

Our global online data management system is designed to give us high-quality and timely data, with monthly reporting and real-time error checking. We use this system to monitor and analyse our EHS performance, site-by-site, in real time against Group targets.

To confirm data reliability, we have an annual validation process involving third-party assessments at a sample of sites. Our divisions also implement robust processes to minimise and detect data errors. These processes include training, detailed site reporting instructions and frequent data audits.

Strategy and objectives

Our EHS strategy supports our business strategy and our Code of Business Ethics. It is designed to protect our employees, communities, environment and shareholder value, by effectively managing safety and environmental risks.

Smiths Group has made significant strides in improving its EHS organisational culture, processes and performance. In 2010, we developed and implemented a multi-year strategy, focused on safety culture, organisation and resources, managed risks, infrastructure and compliance. We have already achieved many of the targets laid out in that strategy. During 2013, we therefore developed our next set of strategic objectives and corresponding goals. This strategy development process involved benchmarking against our peers and other high-performing companies and evaluating global trends. In doing so, we identified EHS strategic areas that we will focus on during the next three years, to improve our:

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



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

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

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

The divisions adopt and support the Group's EHS strategy, KPIs and goals. The divisions then identify and define the specific actions for their businesses, using processes such as materiality assessments, to evaluate practical sustainability applications and their importance to their businesses.

Priorities for 2014

- Review our use of materiality assessments to identify the most important and common issues for Smiths Group, its businesses and stakeholders
- Re-evaluate our most serious EHS risks by performing Group and divisional risk assessments and consider Group minimum standards for the higher risk areas, to ensure we mitigate these risks across the Group
- Introduce a serious incident metric, to help monitor injury severity trends and respond accordingly

Sustainable product design

Several Smiths businesses have significant initiatives underway to make their products more sustainable. This will help us to produce products with minimal environmental impact and to meet the ever-growing regulatory and customer demand for products that use less hazardous materials.

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

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

Waste reduction

Improving its manufacturing process has turned Titeflex, part of Flex-Tek, in Springfield, Massachusetts, US, from one of Smiths Group's largest generators of hazardous waste to one of our smallest. By replacing the detergent used to wash braided stainless steel hoses and installing an evaporator to treat oily wastewater, it cut hazardous waste generation from 17 to 8 tonnes a year.



Smiths Detection has a number of waste reduction and recycling programmes, resulting in a divisional waste recycle rate of 82%. The site in Edgewood, New Jersey, US, has improved its waste segregation rate from less than 45% to over 80% in FY2013. It achieved this by working with its procurement team to educate suppliers, with its shippers to develop re-usable crating, and with its waste vendors to match incoming waste streams to their recycling capabilities.

Our focus areas
Environment, health and safety

Performance against environmental targets

	Target FY2010-FY2015	2013 progress against FY2010
Energy	10% reduction	19% reduction
Greenhouse gas emissions	10% reduction	27% reduction
Total non-recycled waste	10% reduction	21% reduction
Water consumption	5% reduction	25% reduction

Reduction targets are compared to the FY2010 baseline year and normalised to revenue consolidated at FY2013 closing exchange rates.

Environmental management

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

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

Energy and greenhouse gas

The Group is committed to using energy and natural resources efficiently and to reducing its greenhouse gas emissions. Our Energy & Greenhouse Gas policy addresses our approach to managing these impacts, and is reproduced on the inside back cover of this report. We recently updated this policy, to clarify our intent and align more closely with our EHS policy.

Where feasible, we leverage our size to negotiate favourable terms and rates for buying energy, and contract to use cost-effective and reliable renewable energy sources.

Environmental targets

In 2010, we set new five-year environmental targets and added an energy reduction target. Our targets were to achieve 10% reductions in energy usage, greenhouse gas emissions and waste generation, and a 5% reduction in water usage by FY2015, all normalised to revenue against a baseline of FY2010. Where necessary, we adjust our baseline metrics to account for acquisitions and disposals.

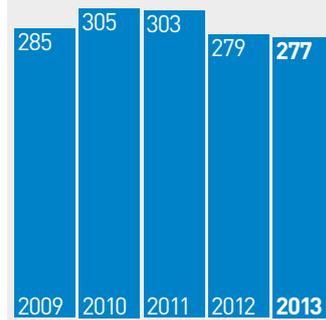
Also in 2010, we adopted a new reporting policy for our environmental metrics, to give us a more comprehensive view of our environmental performance. Previously, only manufacturing sites with more than 50 employees had to report. Since 2010, we have also captured data from warehouses, service centres and offices, and used a threshold of 20 employees. The environmental metrics for FY2010, which are included in the charts opposite, were therefore slightly higher than FY2009, due to the inclusion of data from more of our business. When analysing changes in our environmental metrics, absolute increases are mainly associated with increased production and acquired businesses and some decreases are associated with site closures and consolidations as well as improved recycling and energy conservation.

The targets we established in FY2010 were scheduled to be achieved by FY2015. However, we had over-achieved against these targets by the end of FY2013. Therefore, as part of our strategic plan updating and benchmarking in FY2013, we also revised our environmental performance targets. The new targets require the following reductions against our FY2013 performance by the end of FY2018, normalised to revenue:

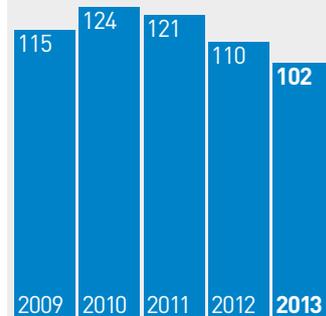
- Energy use: 15%
- Greenhouse gas emissions: 15%
- Waste generation (non-recycled): 15%
- Water use: 10%

Our environmental performance in FY2013 remained very favourable, compared to our baseline of FY2010. We achieved significant reductions in all metrics and exceeded our FY2015 goals.

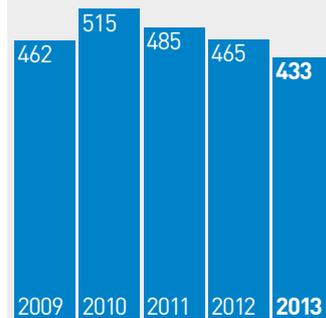
Total energy
 '000MWh



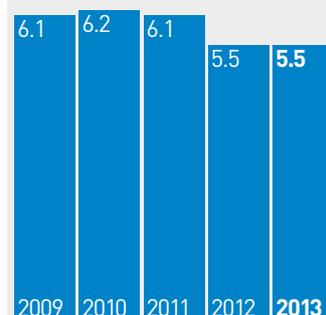
Total CO₂ emissions
 '000 tonnes



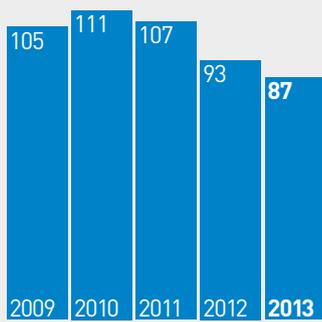
Water use
 '000m³



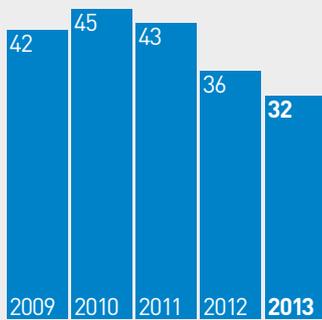
Total non-recycled waste
 '000 tonnes



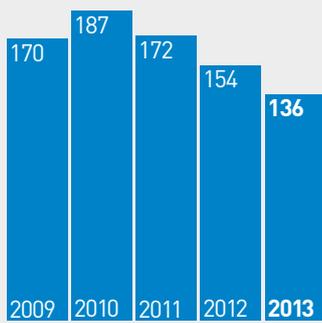
Total energy efficiency
MWh/£m revenue



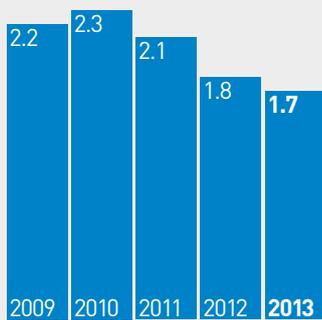
Total CO₂ emissions
Tonnes/£m revenue



Water consumption
m³/£m revenue



Total non-recycled waste
Tonnes/£m revenue



Energy and greenhouse gas reduction

We continually look to improve our energy efficiency and reduce our environmental impact. Many of our businesses use energy with zero carbon emissions, through a mix of green power generation and purchasing carbon offsets.

In conjunction with its energy supplier, Smiths Interconnect Tecom, in Thousand Oaks, California, US, replaced lighting fixtures with more energy-efficient equipment. This reduced energy use by 9% and greenhouse gas emissions by 20 tonnes, compared with the previous year. The business is considering other energy conservation measures with its supplier, including heating and cooling systems, on-demand electrical regulation and occupancy technology for switching.

To help meet its target of a 10% reduction in energy consumption and CO₂ emissions, John Crane in Rouen, France, recently refurbished two floors to include more energy-efficient windows and lighting, and better insulation. These improvements reduced energy consumption by 40%. John Crane in Barendrecht, Netherlands, also switched to more energy-efficient lighting, reducing its CO₂ emissions by 7%. It was awarded a special certificate by the Climate Neutral Group, an organisation that helps companies to operate in a climate neutral way.



Note: Environmental metrics are normalised to revenue consolidated at FY2013 closing exchange rates

Our focus areas
Environment, health and safety

Water reduction

Smiths Medical's site in Monterrey, Mexico, significantly reduced its water use through process improvements. Changing salt type and reducing cycle times for the water softener retro washing system cut water consumption by 18% compared to FY2011.



Smiths Interconnect EMC Technologies in Costa Rica was one of Smiths Group's largest water users. As part of its water reduction efforts, it installed a water recycling system on the sputter-wrap process. This reduced water use by more than 1,550 cubic metres per year, or 13%.



Performance against safety targets

	FY2013 target	2013 results
Recordable incident rate	Better than 0.5 per 100 employees	0.54*
Lost time incident rate	No target	0.22

*0.50 excluding business acquired within the last two years

Workplace health and safety management

The Group is committed to protecting, as far as reasonably practicable, the health and safety of its employees. Our employees recognise this commitment. Workplace safety was the highest scoring dimension in our Group-wide employee engagement surveys, exceeding the worldwide benchmark for the manufacturing industry.

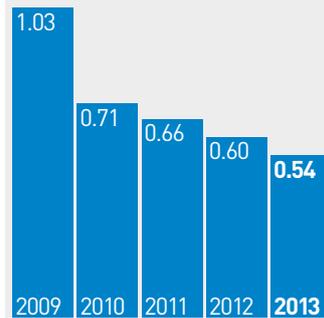
By focusing on their business risks and needs, our divisions can make improvements that reduce the chance of an incident. They assess site safety and create improvement programmes, if needed, and sites may also be selected for additional Group-level management review and assessment.

Our Group-wide activities to reduce incidents have focused on leadership and employee safety awareness and involvement. We continue to implement and build on these activities and are monitoring them through our Safety Leading Indicator Activities Programme. In FY2012, we added a safety leading indicator activity score as a KPI. Sites are required to complete a minimum number of each of the following activities, which count towards their score:

- leadership safety training
- leadership site safety tours
- supervisor safety management training
- employee safety accountability training
- employee safety risk assessment, inspection and communication events, and
- near-miss and improvement reporting.

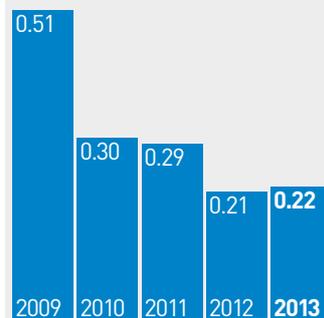
Recordable incident rate

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



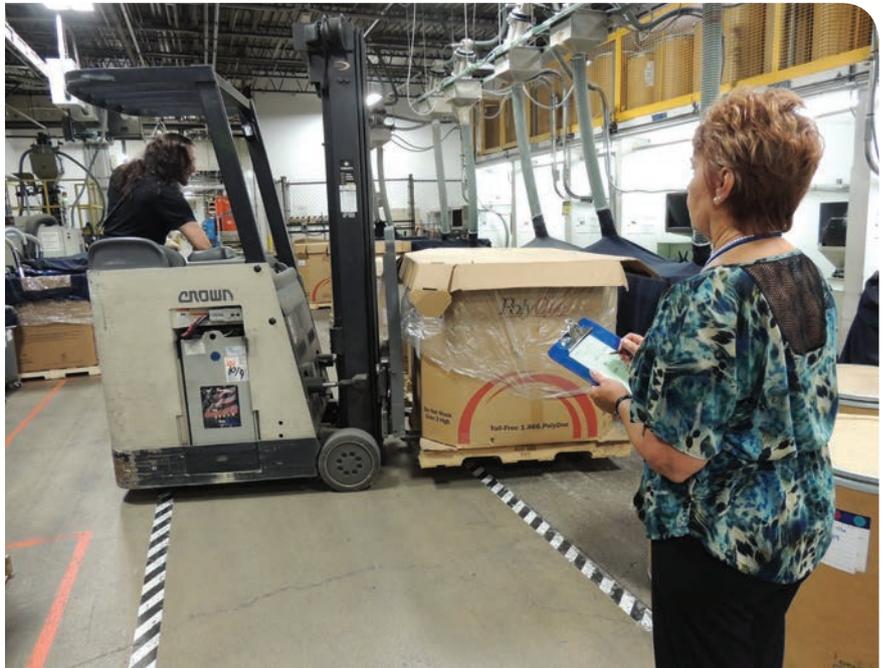
Lost time incident rate

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



Peer 2 Peer safety observations, Smiths Medical, Dublin, OH, US

Smiths Medical in Dublin, US, became one of three pilot plants for a new peer to peer safety observation programme, which helps to identify and eliminate at-risk behaviours and to document the safe or at-risk behaviours observed. The programme increases communication at the time of the behaviour and documents the reasons that a particular behaviour was chosen. This information is then used to direct training and streamline processes, to help our employees act safely. Dublin conducted small training classes to discuss the programme, including how to be a good observer and how to handle feedback. Employees have been observing each other and are steadily improving communication about safe behaviour on the floor.



Sites report their scores monthly and are required to achieve annual targets. The Executive Committee and the Board review performance against these targets each quarter. During FY2013, the number of sites implementing leading indicator activities increased from 100 to more than 120. To increase employee participation in FY2014, the programme will apply to sites with more than 20 employees rather than the current 50, resulting in coverage of almost 93% of the Group's employees.

The Safety Leading Indicator Activities Programme has been well received by our businesses and we intend to continue it for the foreseeable future. Each year, we create new leadership and employee training programmes, to build on the previous year. In FY2013, we added employee safety risk assessments, to increase employee identification and perception of risks. We will add supervisor safety management training in FY2014, to improve the safety skills supervisors require to manage a workforce.

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

Health and safety targets

As part of our strategic plan update and benchmarking in FY2013, we revised our safety performance targets. The new targets increase our focus on safety leading indicator activities designed to reduce the risk of incidents.

In FY2014, we will evaluate a new metric to capture serious incidents, to increase our focus on serious risks. Our ultimate ambition is 'zero harm' to employees. Adopting this aim will further emphasise to employees and other stakeholders how seriously we take our EHS performance.

These changes mean we will place less emphasis on RIR in the future. However, we will continue to monitor it and the LTIR, and investigate incidents for contributing factors and trends to help focus risk assessments.

Health and safety performance

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

Since 2004, we have achieved a steady reduction in our RIR, with FY2013 being our safest on record. In FY2010, we established a new three-year RIR goal of 0.50, to be achieved by July 2013. In FY2013, we improved our RIR for our established businesses, with the RIR meeting our goal by falling from 0.58 to 0.50. Our recently acquired businesses are working to meet our standards, resulting in an overall RIR for the Group of 0.54, which is still our best on record and lower than our FY2012 RIR of 0.60.

After years of reductions in our LTIR, we had a slight increase in FY2013 from 0.21 to 0.22. This is still well below our FY2008 of 0.54. Over the past ten years, we experienced two occupational fatalities with an employee at a former facility in Sweden in 2003 and a contractor in Costa Rica in 2007.

Employee safety engagement, Smiths Detection, Danbury, CT, US

To increase employee engagement with safety, Smiths Detection in Danbury encourages employees to participate in their Employee EHS Committee. This Committee includes both hourly and salaried employees and meets monthly. Employees discuss ideas and concerns with representatives from each function, including senior management. This invaluable discussion helps us to identify hazards and implement controls before an incident occurs. It also provides a way to communicate our progress towards our safety goals, to discuss injuries and near misses, and to alert employees to upcoming events. Each month, an employee is presented with an award for their contribution to improving safety.



EHS Award recipients Tammy Beedle and Ron Bottino – recognised for their commitment to improving the Danbury EHS Program.

Our focus areas

People

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

2013 Highlights

- Strengthened our talent pipeline through a focus on talent assessment, personal development and succession planning
- Rolled out junior and senior leadership development programmes, Horizons and Aspire2
- Continued to address the results of our 2012 MyVoice global employee engagement survey
- Implemented new HR operating model, to enhance efficiency and support business growth

Governance

In the past three years, we have transformed our HR function to ensure we have the right infrastructure to support business growth. We now have a new operating model based around:

- divisional HR business partners, focused on talent, performance and reward
- cross-divisional, regional shared service centres, delivering HR services to employees and managers across the Group
- centres of expertise, driving consistent best-in-class talent management and reward programmes, and
- GlobalView, Smiths first HR information system, which now supports e-enabled HR, specifically talent management and information-based decision-making. Remuneration management will be added early in FY2014.

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

Context and trends

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

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

Strategy and objectives

Over the past three years, we have focused on strengthening our leadership capabilities and talent pipeline at both senior and junior levels, improving succession planning, enhancing employee engagement and transforming our HR function to provide a strong platform for growth.

As we work to transform Smiths into a world-class organisation, a talented and determined workforce, united by commercial acumen, an appetite for innovation, strong leadership and a commitment to collaboration and responsibility will be essential to achieving our ambitions.

In FY2014, we will launch a revised HR strategy, to build the enablers for growth between now and 2020. A core part of this will be repositioning the business with a clear Employee Value Proposition, which reflects our multi-industry career offering and the global careers we can offer for the very best people.

We will also continue to:

- develop our leadership capabilities throughout the organisation, to ensure we have the depth and breadth necessary to support growth
- deepen our focus on our technological and engineering expertise, to drive innovation and maintain our technological leadership, and
- continue to build employee engagement across the business, in response to the global MyVoice survey and ongoing feedback.

Performance

Building the talent pipeline and succession planning

Our focus on succession planning has delivered significant progress in building our talent pipeline, through a more rigorous and consistent approach to assessing talent and a greater focus on the preparation and monitoring of personal development plans. We have also invested substantially in our two leadership development programmes. 'Horizons' fosters emerging talent at junior levels, while 'Aspire2' develops senior leaders. These programmes challenge and engage our employees, build their understanding of the wider Group, increase their exposure to our senior leaders and enhance their core leadership competencies. The programmes will also improve the diversity of candidates, especially in the areas of gender and emerging market backgrounds.

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



We constantly challenge ourselves as to whether we have the right skills and competencies to support our growth ambitions. We believe this is best achieved through a healthy balance of recruiting the very best external candidates, to bring fresh approaches and perspectives, while also strengthening our internal talent pipeline.

Performance and reward

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

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



Horizons development programme

Our junior leadership development programme, Horizons, aims to build participants' understanding of the wider Group, increase their exposure to senior leaders and enhance their core leadership competencies. Running over 12 months, it mixes theory, business simulations, presentations and psychometric testing with business projects.

"The programme has been a truly challenging and engaging experience," said participant Dr Marina Kittredge, a Product Manager at Smiths Detection in the US. "That challenge has come on many levels – teaching us to work outside our comfort zone, learning within different cultural environments, and working with colleagues across not only different divisions but the globe – all of which was extremely powerful when building our understanding of the business as a whole."

Fellow participant Vinay Kajave, a Project Engineer for John Crane, Japan, said of the programme: "It's given me the opportunity to work with people from different divisions and regions, as well as providing exposure to real business challenges. It's also helped me to understand the importance of effective leadership and the qualities needed to help the business prosper – and to assess and develop my own strengths and weaknesses within that framework."

Our focus areas
People

Employee engagement & recreation, Smiths Interconnect, IDI, Suzhou, China
As part of its holistic approach to employee engagement, Interconnect Devices, Inc. (IDI), in Suzhou, China, created 'People Centric Initiatives'. The initiatives include the 'Overall Training Programme', which invests in developing employees' skills. These employees are typically given priority over external candidates to fill vacancies through the Job Opportunity System (JOS), which augments succession planning at IDI.

The Employee Suggestion Programme (EPS) encourages employees to contribute safety, efficiency and social ideas. During FY2013, savings from the EPS programme amounted to over £65,000. One significant saving was achieved from a change in the operating parameters for two high-precision CNC machines.

A third initiative, Employee Recreation Clubs, organises activities ranging from dance classes to hikes to cater for employees' interests. Twice a year, meet-the-people sessions gather employees' views so that the Clubs stay up-to-date.



Women's Leadership Network, Smiths Medical

Smiths Medical established the Women's Leadership Network in 2011 and it now has 53 members around the world. The Network fosters ideas and creates strategies to attract, develop and retain high-performing women to drive company goals. It gathers benchmarking data to assess the current position of women in Smiths Medical and in business globally, as well as using metrics to gauge its impact on the business. In November 2012, the Network's global summit developed a diversity mission and a vision and strategy for gender diversity.



Diversity and inclusion

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

It is our policy to provide equal employment opportunities. The Group recruits, selects and promotes employees on the basis of their qualifications, skills, aptitude and attitude. In employment-related decisions, we comply with all applicable anti-discrimination requirements in the relevant jurisdictions. People with disabilities are given full consideration for employment and subsequent training (including re-training, if needed, for people who have become disabled), career development and promotion on the basis of their aptitudes and abilities. We endeavour to find appropriate alternative jobs for those who are unable to continue in their existing job because of disability.

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

Employee engagement

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

We conducted our second survey in 2012 in partnership with Kenexa, a leading survey provider, to ensure that responses were anonymous and to enable us to conduct the survey in local languages. The participation rate was more than 91%, up from 85% in 2011. We benchmarked results against global norms for the manufacturing industry and communicated divisional, local and functional results.

In FY2013 we continued to address the results of our 2012 survey, implementing action plans across the business to address the most significant issues highlighted. We will repeat our global survey in 2014, in order to monitor our progress.

Communication

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

In European Union (EU) countries we have workplace information and consultation arrangements at our sites. These link to the Smiths Group European Forum, through which employee representatives from across the EU meet annually to discuss transnational matters with Group executives. Our 2013 Forum was held in the UK in June 2013 and saw 16 representatives from across the Group meet with senior executives including the Chief Executive and Group HR Director, to discuss matters such as HR, ethics, market conditions and business strategy and performance. Feedback from the event was extremely positive.

Acquisition integration

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

Priorities for 2014

- Launch revised HR strategy
- Continue to develop leadership capabilities throughout the organisation
- Deepen our focus on technological and engineering expertise across the Group
- Continue the roll-out of GlobalView tools to support performance management and employee development
- Conduct our third MyVoice engagement survey

Our focus areas

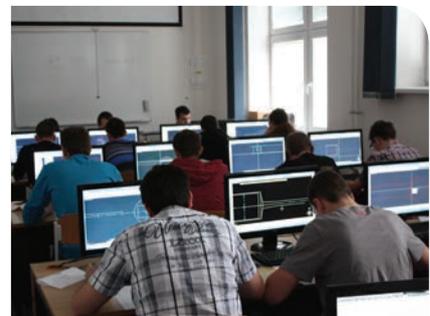
Community

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



Community technical development, John Crane

John Crane relies on the technical skills of its employees, so it works with its local communities to support the development of the machining trade. For example, John Crane Engineered Bearings in Grafton, Wisconsin, US, works with Moraine Park Technical College to address the predicted upcoming shortage of machinists. Alongside John Crane, Moraine Park has created five programmes that provide concentrated training to existing employees. John Crane has also partnered with Moraine Park to create CNC Machining Boot Camps, helped by a three-year state grant of over \$700,000. The grant is designed to create concentrated accredited training for CNC Machining. Wisconsin Governor Scott Walker was on hand to announce the award and present the initiative to the community.



John Crane Sigma in Lutín, Czech Republic, also works with its local community to build up technical talent. It works with local engineering high schools throughout the Olomouc region, and the school in Lutín in particular, to provide site tours and student practice, helping it to obtain solid candidates for technical positions, such as machinists or designers. John Crane also supports the school's regional 2D drawing and 3D modelling competition, with volunteers from John Crane's CAD/Engineering and Production Engineering teams helping with the competition. In turn, the school promotes John Crane Sigma as a strong local employer who supports and develops local young talent.

2013 Highlights

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

Governance

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

Context and trends

The financial crisis has eroded trust in businesses around the world, increasing the onus on businesses to demonstrate good corporate citizenship. The global talent market is also increasingly competitive (see page 12), with growing demand for key technical talent and a decline in interest in STEM qualifications, increasing the importance of fostering employee engagement across the business.

Strategy and objectives

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

Performance

In FY2013, the Group as a whole made charitable donations of £453,000. This included Smiths Medical's donation of £303,000 to The Great Ormond Street Hospital in London in sponsorship of the Smiths Medical Professor of Anaesthesia and Critical Care and the Portex Anaesthesia, Intensive Care and Respiratory Unit.

Our employees also raised money for a wide range of charitable causes. While the diverse nature of our local community involvement and charitable activities makes it difficult to report on in an overarching way, the case studies in this section illustrate just some of the initiatives across the business during the year.

Priorities for 2014

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



Smiths Medical employees from St Paul and around the world present a cheque to the Red Cross for \$100,000

Red Cross Platinum Award, Smiths Medical

Smiths Medical is proud to support the Red Cross. In the last year, hundreds of employees took part in Red Cross blood drives, activities and fundraisers in more than 30 locations around the world. Generous support meant that Smiths Medical and its employees achieved their goal of raising \$100,000. The Red Cross thanked Smiths Medical by awarding it the Red Cross Platinum Award, for their global partnership and giving programmes.



Operation Angel, Smiths Detection, Danbury, CT, US

On 14 December 2012, Newtown, Connecticut, experienced a devastating tragedy at the Sandy Hook Elementary School. Newtown and Danbury are only seven miles apart, which increased the shock and sadness felt by Smiths Detection employees. Many asked how they could help and 'Operation Angel' was born. As soon as the call to action was posted, donations flooded in from our employees and, with a corporate match, raised almost \$2,000 for the Sandy Hook Family Support Fund. In addition, a 13-member team took part as 'Team Smiths' in a 5K run for the families in Hartford, CT. A local sports shop generously donated Team Smiths t-shirts and the remaining inventory was sold, to add to the total fundraising effort.



Girls' Day, Smiths Heimann, Wiesbaden, Germany

Every year, Smiths Heimann hosts a 'Girls' Day', a nationwide initiative encouraging girls to enter a career in technical or scientific professions. This year, thirteen girls of around 12 years of age participated. The day included examining the inside of an X-ray scanner and learning how to solder LEDs onto circuit boards.

Smiths does not commission independent assurance of its CR management and reporting. We regularly review this decision, to assess whether independent assurance would be valuable to the business and our key stakeholders. We do commission annual independent verification of our EHS data, which is vital for maintaining our rigorous standards for EHS management and ensuring the integrity of our data. In addition, compliance with internal policies is a key aspect of the responsibilities of our internal audit function and is regularly discussed by our Board and Executive Committee.

Unless otherwise stated, this Report highlights our corporate responsibility governance, issues relevant to Smiths, strategy and performance during our 2013 fiscal year (1 August 2012 to 31 July 2013). We may occasionally mention activities that occurred earlier when it helps to provide a clearer picture of our performance. This report supplements information in our 2013 Annual Report. Several case studies are included to provide examples of our corporate responsibility efforts. This report covers our owned or operated businesses. It does not include activities or performance of our suppliers, contractors or partners unless otherwise noted. We publish our Corporate Responsibility Report annually.

We welcome feedback and enquiries from our stakeholders. To provide feedback or request additional information, please email cr@smiths.com. You can view our 2013 and historical Corporate Responsibility Reports at www.smiths.com/responsibility.

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Policy statements

Environment, health and safety policy

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

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

The President of each division has overall responsibility for EHS matters within their business, including the effective management of expectations, allocation of resources and administration of organisational arrangements to ensure the implementation of and continuing compliance with this policy. All managers are accountable for the safety of employees they supervise and have a duty to promote and enforce safety policies and make certain employees are appropriately trained.

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

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

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

Philip Bowman

Chief Executive. April 2013

Energy and greenhouse gas policy

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

The Chief Executive has overall responsibility for energy and GHG matters in the Company. The Environmental, Health & Safety Steering Committee, which is chaired by the Group Human Resources Director and includes representation from all Smiths divisions, is responsible for strategic direction and performance monitoring.

The President of each division has responsibility for these matters within their business, including the establishment of effective administration and organisational arrangements to ensure the implementation of and continuing compliance with this policy.

It is the responsibility of every Smiths employee to optimise the use of energy in their job activities.

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

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

Philip Bowman

Chief Executive. April 2013

smiths

bringing technology to life

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