

Corporate Responsibility Report 2012

Smiths Group plc

smiths

bringing technology to life

Promoting responsibility



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Chief Executive's statement

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



Philip Bowman
Chief Executive

The foundation of our corporate responsibility (CR) approach is our Code of Business Ethics ('the Code'). Operating within the Code enables us to meet our obligations to our stakeholders and deliver real business benefits. It protects our reputation and our ability to grow, enhances our efficiency, enables our people to work productively in a safe and ethical environment, and reduces the risk of incidents and their associated costs. It applies to all of our businesses and employees worldwide.

Sustainability is also a business opportunity. Our customers value suppliers with strong CR performance. Many of our products and services also benefit the environment and contribute to the safety, health and security of people around the world.

In the past year, we continued to improve our CR programmes and strengthened our ethics programme steering committee, through greater participation by senior divisional leaders. We have aggressive targets for environmental and safety performance. Last year was our safest on record and our employee engagement surveys show safety as one of our highest performing areas. We met our recordable incident rate (RIR) target for our established businesses. However, recently acquired sites have yet to meet our operating and performance standards resulting in the published RIR being marginally higher than the target. We exceeded our environmental targets, by cutting our energy and water use and our production of waste and greenhouse gases.

Supporting our quest for continuous improvement, more than 90 of our locations are certified to international standards for health and safety and environmental management systems. In addition, we have robust policies setting out our commitments towards the environment, health and safety, energy and greenhouse gas. I feel strongly that our systems, policies and the drive of our business leaders will help us to deliver the safety performance I expect and further improve our environmental performance, well into the future.

Business ethics is a cornerstone of our culture and we have no tolerance for bribery, conflicts of interest or any form of corruption. Our ethics programme fosters, monitors and audits our business conduct and is continually evaluated.

This year, we were again awarded membership of the FTSE4Good Index, which acknowledges businesses that meet globally recognised CR standards. This is independent verification of our commitment but we know that we can do more. In the coming years, we will focus on enhancing our performance and our behaviours through strong governance and building our culture of continuous improvement.

Philip Bowman
Chief Executive
September 2012

About Smiths Group

Smiths Group is a global business, listed on the London Stock Exchange. We develop advanced technology and bring it to life to create products that meet our customers' evolving needs.

We do this through five divisions, which employ around 23,000 people in more than 50 countries.

John Crane

2012 Revenue
£973m

Employees
7,000



A world-leading provider of products and services for the major process industries, including oil and gas, power generation, chemical, pharmaceutical, pulp and paper, and mining sectors.

Locations
60

Strengths

- Two-thirds of revenue from aftermarket service
- Market leader in its field with a blue chip customer base
- Driven by long-term demand for energy
- Good positions in key markets

Read more at www.johncrane.com



Smiths Medical

2012 Headline revenue
£864m

Employees
7,750



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.

Locations
35

Strengths

- Established brands with practitioner loyalty
- Global sales and marketing network
- Single-use consumable devices represent c. 80% of sales
- Focusing increased R&D investment on higher-growth segments and markets

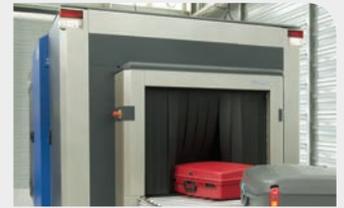
Read more at www.smiths-medical.com



Smiths Detection

2012 Revenue
£519m

Employees
2,300



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

Locations
19

- Strengths**
- Market leader with a global presence
 - Strong technology positions and excellent product engineering skills
 - Access to growth markets
 - Investment in R&D increasing to support customer requirements

Read more at www.smithsdetection.com



Smiths Interconnect

2012 Revenue
£449m

Employees
4,100



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.

Locations
31

- Strengths**
- Technical differentiation providing solutions to customer needs
 - Strong brands recognised by customers
 - Excellent programme positions
 - Positive long-term dynamics in diverse end markets including wireless infrastructure, data centres, semiconductor test and aerospace

Read more at www.smithsinterconnect.com



Flex-Tek

2012 Revenue
£233m

Employees
2,000



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

Locations
17

- Strengths**
- Strong positions in niche markets
 - Lean manufacturing culture with tight cost control
 - Well-positioned for a recovery in US housing and domestic appliances with strong operating leverage

Read more at www.flextekgroup.com



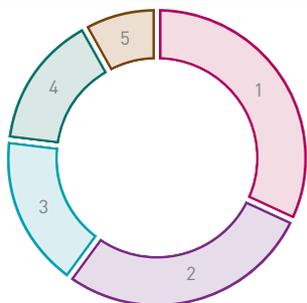
About Smiths Group

Continued

The Group has operations in more than 50 countries, with a network of dealers and distributors in many more. Over half of our revenue comes from North America and we have an increasing exposure to higher-growth emerging markets.

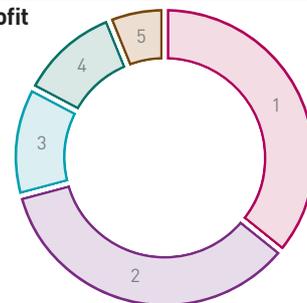
Divisional revenue

- 1 John Crane 32%
- 2 Smiths Medical 28%
- 3 Smiths Detection 17%
- 4 Smiths Interconnect 15%
- 5 Flex-Tek 8%



Divisional headline operating profit

- 1 John Crane 36%
- 2 Smiths Medical 35%
- 3 Smiths Detection 12%
- 4 Smiths Interconnect 11%
- 5 Flex-Tek 6%



Percentage relates to headline operating profit before corporate costs

Read more at www.smiths.com

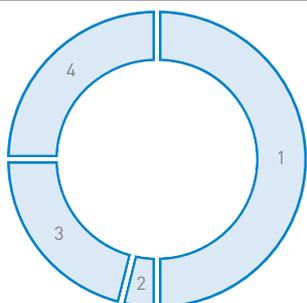


Read more at www.smiths.com



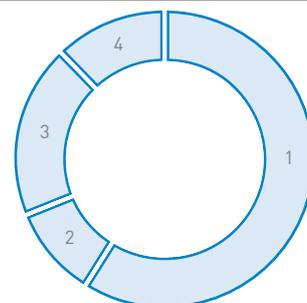
Group revenue by destination

- 1 North America 50%
- 2 United Kingdom 4%
- 3 Europe other 21%
- 4 Rest of World 25%



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

Read more at www.smiths.com



Group manufacturing and service locations

US Employees

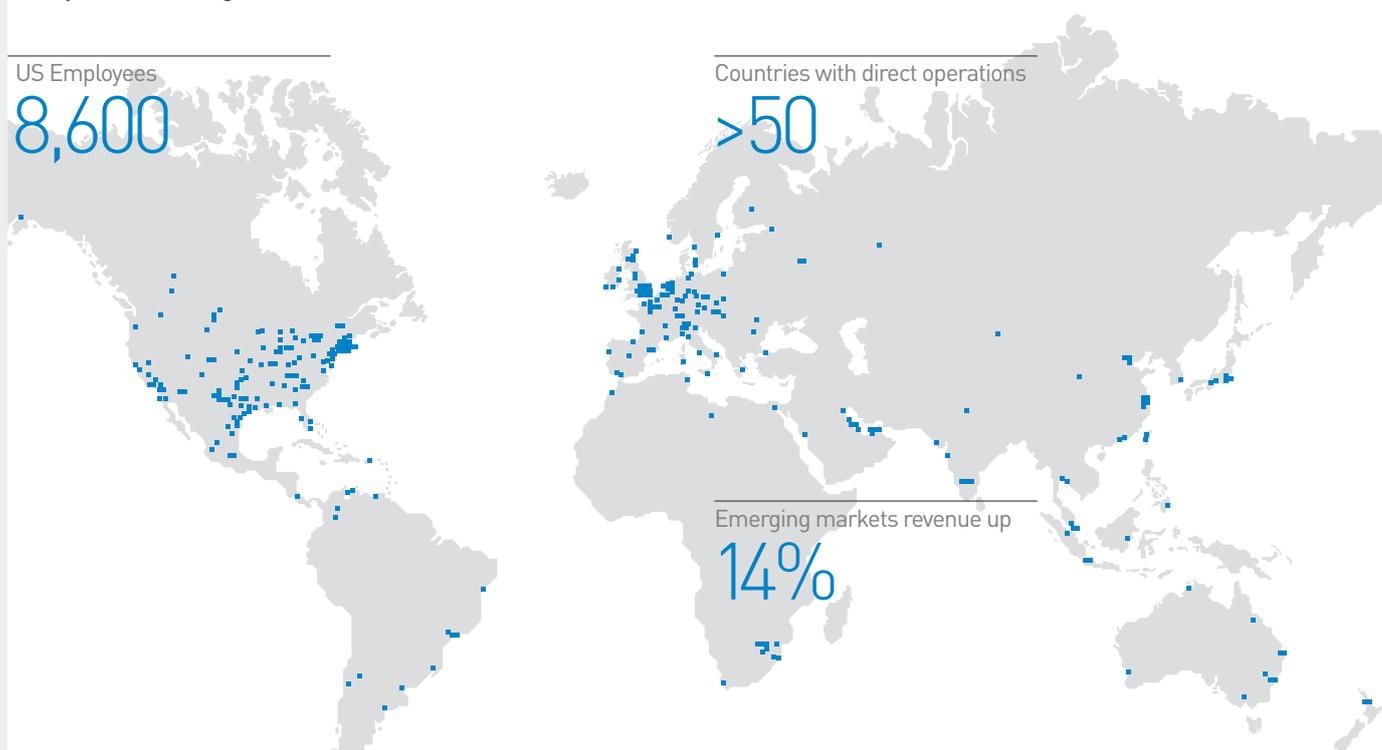
8,600

Countries with direct operations

>50

Emerging markets revenue up

14%



Managing corporate responsibility and business ethics

The Code 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. Every Smiths employee must know, understand and comply with the Code 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 |

Read more at
www.smiths.com/responsibility



Managing corporate responsibility and business ethics

Continued

Managing the Code

The Code is approved by our Board of Directors and supported by the Chief Executive, directors and management at all levels. The Board has ultimate responsibility for the Code.

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 on the ongoing process of identifying, evaluating and managing significant business risks, including potential Code violations.

The Code Compliance Council for the Code of Business Ethics ('the Council') acts as the steering committee for our ethics programme. The Senior Vice President, Ethics & Compliance reports to the Audit Committee periodically throughout the year on ethical issues and suspected or actual Code breaches.

The Chief Executive and his leadership team champion the Code through several routes. These include:

- discussing ethical issues and Code compliance at management meetings
- considering ethical issues in managers' performance reviews, and
- examining Code compliance during site-level internal audits.

The Code of Business Ethics can be viewed on the intranet in 12 languages and is available to download and print. Every employee is also provided with a printed copy of the Code when they join.

To communicate the Code, we provide ethics training to employees across the Group. This training course is available online in English and five other languages, through a custom-built platform, the Global Learning Resource (GLR), and installed on a Group training portal accessible through the internet. The course is also available on CD-ROM.

The GLR and training portal are designed to support future employee training in the areas of business ethics, compliance, safety and security. We regularly add new ethics and compliance training programmes, such as programmes on Trade Compliance. The most recent addition was an online Anti-Bribery and Corruption course.

With our growing presence in the Asia-Pacific region, we held a Business & Ethics conference in China in October 2011 for our senior leaders. The conference addressed cultural differences and business and compliance risks such as corruption, competition, import/export, intellectual property, and mergers and acquisitions.

Managing specific issues

We encourage employees who have concerns or queries about the Code to raise them with line management, human resources, their local in-house legal counsel or the Smiths Group Ethics Alertline.

The Ethics Alertline is confidential. It answers queries and enables employees to report any concerns or allegations. It 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. All issues are addressed promptly and referred, as required, to relevant functions so we can investigate them. 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.

Information about the Ethics Alertline and Code compliance is available to our employees on our intranet, which we regularly update to improve content and ease of use. Ethics posters in several languages are available online for download and printing. These posters are also displayed at all of our sites, to advertise the ethics programme and the Ethics Alertline.

Smiths' ongoing business ethics programme

Each year we 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. This is a continuous process.

The Code is the foundation of our commitment to legal compliance, including the prohibition of bribery and any form of corruption. We periodically update our ethics programme to take account of legal, regulatory and enforcement procedure changes, such as the UK Bribery Act, which took effect in July 2011.

FTSE4Good

The FTSE4Good Index acknowledges companies that meet globally recognised CR standards, and Smiths Group continues to be awarded membership. While we are not complacent about the ongoing work required, we were pleased to receive this external recognition of our CR initiatives and business ethics programme.

Managing the environment, health and safety

Organisational arrangements

Our environmental, health and safety (EHS) approach starts with our EHS policy, which is reproduced on page 17 of this report.

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.

The General Manager of each division has overall responsibility for EHS matters within their business.

Our EHS strategy

A key part of our overall business strategy is to promote a culture of responsibility throughout the Group. Our EHS strategy supports this business strategy and our Code of Business Ethics.

Our EHS strategy sets out a multi-year plan for improving our performance and is updated periodically. Our current EHS strategy is based around our safety culture, organisation and resources, managed risks, infrastructure and compliance.

Our EHS key performance indicators (KPIs) are aligned to the strategy and allow us to assess our progress. Achievement of KPIs is also part of our senior management performance assessment.

The divisions adopt and support the Group's EHS strategy, KPIs and goals. However, as they have different businesses and geographic footprints, their impacts vary. The divisions therefore expand on the Group strategy, KPIs and goals to address any specific needs to improve their EHS management and performance.

Our EHS management systems

We believe in the power of continuous improvement and use management systems to realise its benefits. These systems help to improve our EHS management by providing an externally verified framework for risk reduction, continual improvement, compliance assurance and management review.

For several years, we implemented EHS management systems at manufacturing sites with 50 or more employees. Since 2010, we have expanded these systems to include warehousing and service centres and sites with 20 or more employees.

Sites with 50 or more employees are required to have their EHS management systems externally certified to the following standards:

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

Of our more than 160 sites, 95 are required to implement systems and complete external certification. Some smaller sites voluntarily obtain certification. So far, 95 sites have completed certification. Sites that have not completed certification have action plans to do so. Most of these sites are new acquisitions or expanded operations and they have two years to obtain certification.



John Crane, Busan, South Korea New facility and safer work environment

John Crane's continued growth in South Korea led to it combining its regional sales office and service facility into a single, larger facility. The new state-of-the-art facility contains training space, has room for further growth and was built with energy efficiency in mind. It is equipped with newer and safer machining tools, replacing old manual equipment, which in turn has improved customer service response. The new office also has a recycling programme, in conjunction with the building's owner.



John Crane, Brazil and Mexico Improved material handling

John Crane's products are typically heavy and difficult to handle, which increases the risk of injury. John Crane has therefore reduced these risks at its Brazil and Mexico facilities by investing in improved material handling processes and equipment. The new equipment includes electric weight lifters, hydraulic carts, fixed and mobile cranes and electric lifts.

Managing the environment, health and safety

Continued

EHS compliance

The Group 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. The facilities to be audited are chosen 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 overall results of the audits and the 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 also have procedures for identifying their legal requirements and evaluating compliance.

Smiths and workplace safety

The Group is committed to working in a way that protects, as far as reasonably practicable, the health and safety of its employees.

Our employees recognise this commitment. In our Group-wide employee engagement surveys, workplace safety was the highest-scoring dimension, exceeding the worldwide benchmark for manufacturing industry.

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

Our recent Group-wide activities to reduce incidents have focused on leadership and employee safety awareness and involvement. We recently implemented these activities and are monitoring them through our Safety Leading Indicator Activities Programme.

Starting in FY2012, we added a safety leading indicator activity score as a KPI for safety, complementing the recordable incident rate (RIR). Sites with more than 50 employees 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
- employee safety accountability training
- employee safety inspection and communication events, and
- near-miss and improvement reporting.

During FY2012, over 100 sites implemented these activities. Sites report their scores quarterly and are required to achieve annual targets. Performance against Leading Indicator Targets is reviewed quarterly by the Executive Committee and the Board. The Safety Leading Indicator Activity Programme has been received well by our businesses and we will therefore continue it for the foreseeable future. We are creating new leadership and employee training programmes to build on the first year.

Safety performance

Our FY2012 safety performance metrics were the Safety Leading Indicator Activity Score, RIR and lost time incident rate (LTIR). Smiths 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.

RIR and LTIR are measured 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 are required to report recordable and lost time incidents to the Group each month.

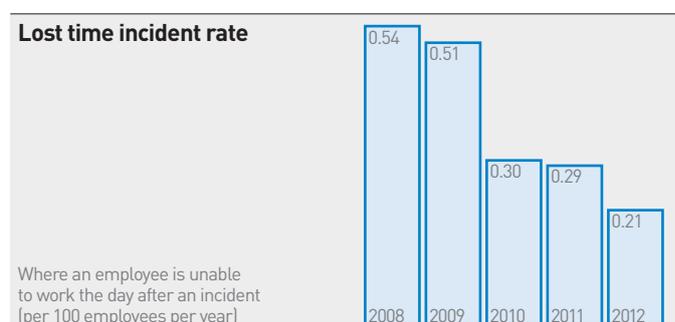
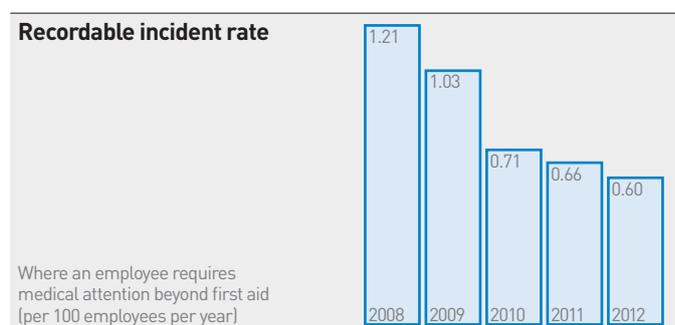
Since 2004, we have achieved a steady reduction in our RIR, with FY2012 being our safest on record. In 2007, we established a three-year RIR goal of 1.5. We outperformed this goal, achieving an RIR of 0.71 in FY2010. In keeping with our continuous improvement commitment, we then established a new three-year RIR goal of 0.5, to be achieved by July 2013. We also set annual progress targets, with our FY2012 target at 0.58. We improved our RIR over last year for our established businesses, meeting our 0.58 target. Our recently acquired businesses have yet to meet our operations and performance standards resulting in our published RIR of 0.60, which however, is still our best on record.

We have also continued to reduce our LTIR in recent years. Our LTIR has dropped from 0.54 in FY2008 to 0.21 in FY2012.

Performance against safety targets

	FY2013 target	2012 result
Recordable incident rate	Better than 0.5 per 100 employees	0.60*
Lost time incident rate	No target	0.21

*0.58 excluding recently acquired businesses





Smiths Medical, Tijuana, Mexico Machinery safety programme

Smiths Medical in Tijuana established a multi-disciplinary team, including production, maintenance and EHS representatives. The team's remit was to reduce the risk of injury by ensuring that production equipment had proper safety systems and preventive maintenance. As a result, the site has seen a decrease in incidents related to production equipment.



John Crane, Shannon, Ireland First ISO 50001 Energy Management System Standard certification

John Crane's facility in Shannon, Ireland became the first Smiths Group business to obtain certification to the ISO 50001:2011 Energy Management Systems Standard. With the ever-increasing cost of energy and desire to reduce greenhouse gas emissions, Shannon pursued a systematic and continual improvement approach to managing its energy, which ISO 50001 provides. Since the site began implementing ISO 50001, it has improved its management of the technical and human factors necessary to reduce energy use. The result to date has been a 23% reduction in electricity use and a corresponding fall in greenhouse gas emissions.



John Crane, Corporate Leadership EHS Summit

John Crane held its first global EHS Strategy Summit, at its state-of-the-art manufacturing facility in Lutín, Czech Republic. More than 30 of its top business leaders attended, including five of John Crane's board members. Attendees discussed business-specific EHS challenges and ultimately set the John Crane global EHS strategy for the next three years.



Smiths Medical, Keene, New Hampshire, USA Energy reduction projects

Smith Medical's Keene facility implemented several energy conservation programmes, including replacing ageing compressors with a powerful variable speed compressor, adding a heat recovery system, installing new air nozzles to reduce air leaks and adding motion sensors to automatically darken empty rooms. The result is an estimated 3 million pound reduction in greenhouse gas emissions per year and annual savings of almost \$300,000. The Association of Energy Engineers New England presented the facility with the 'Best Compressed Air Energy Project in New England 2011' award, and recognised the project as one of the top eight energy-efficient solutions in New England.

Managing the environment, health and safety

Continued

Smiths and the environment

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 plans to realise improvements. We share action plans, lessons learned and best practices across the Group.

Energy and greenhouse gas

The Group is committed to efficient use of energy and natural resources and to reducing its greenhouse gas emissions. Our energy and greenhouse gas policy addresses our approach to managing these impacts, and is reproduced on page 17.

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 performance

In 2007, we set three-year targets to reduce water consumption and waste generation by 9% (normalised against revenue) and to cap our absolute greenhouse gas emissions at FY2007 levels. Our focus on improving our performance enabled us to beat these goals.

In 2010, we set new five-year targets for our environmental metrics and added an energy reduction target. Our targets are 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, which expanded the number of sites required to report environmental performance to the Group. Previously, only manufacturing sites with more than 50 employees had to report. We now capture data from warehouses, service centres and offices, and have reduced the size threshold to 20 employees.

These reporting changes provide us with a more comprehensive view of our environmental impact. The environmental metrics for FY2010 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.

Our environmental performance through FY2012 continued to be very favourable compared to our baseline year of FY2010. We achieved significant reductions in all metrics, already exceeding our FY2015 goals. Our intention is now to establish new multi-year goals to reflect this outperformance.

Performance against environmental targets*

	Target FY2010-FY2015	2012 progress against FY2010
Energy	10% reduction	16% reduction
Greenhouse gas emissions	10% reduction	19% reduction
Total non-recycled waste	10% reduction	18% reduction
Water consumption	5% reduction	19% reduction

*Reduction targets are compared to the FY2010 baseline year and normalised to revenue consolidated at FY2012 exchange rates



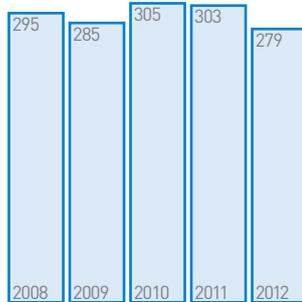
John Crane, Corporate Renewable energy purchasing

Going green is a top priority at John Crane and the company has a shrinking carbon footprint to prove it. John Crane has invested in renewable energy for a number of its sites, to offset the environmental effects of energy used. Its renewable energy purchases, one of several eco-friendly initiatives the company is pursuing, further Smiths Group's efforts to reduce greenhouse gas emissions.

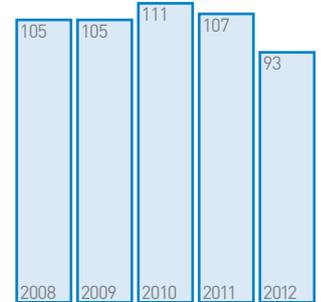
John Crane uses renewable energy credits (RECs) to ensure that consumed electricity is replaced with renewable energy on the electric utility grid. When John Crane buys RECs from a renewable energy producer, that producer adds a fixed amount of energy from clean sources, such as wind, solar and geothermal, back to the power grid.

John Crane and Smiths Group utilised their economies of scale when buying electricity and RECs for several sites in the US. In the Northeast, sites bought enough RECs to cover their estimated combined electricity use of 71,000 megawatt-hours (MWh) for two years, resulting in savings of \$388,000. These RECs offset the same amount of carbon dioxide from the atmosphere as planting more than 138,000 mature trees or not driving 33 million miles. John Crane also purchased electricity and RECs for 16 sites in Texas and three in Illinois, offsetting an estimated 35,000 MWh of energy consumption and its carbon emissions over two years.

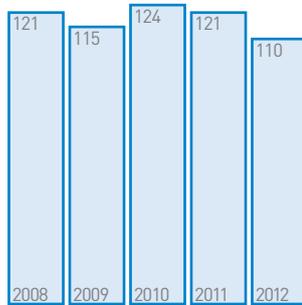
Total energy
'000 MWh



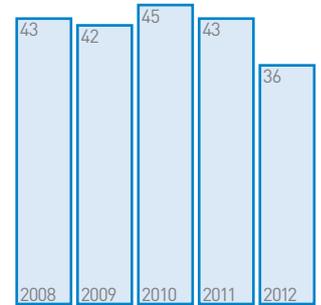
Total energy efficiency
MWh/£m revenue



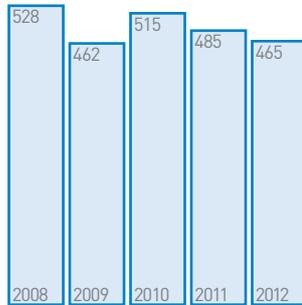
Total CO₂ emissions
'000 Tonnes



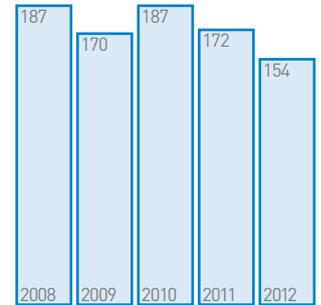
Total CO₂ emissions
Tonnes/£m revenue



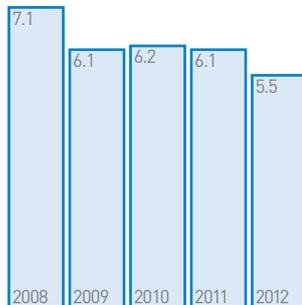
Water use
'000m³



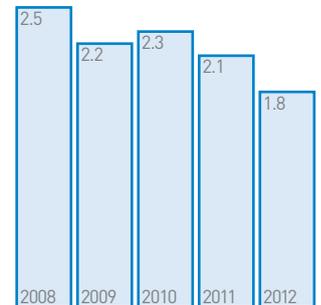
Water consumption
m³/£m revenue



Total non-recycled waste
'000 Tonnes



Total non-recycled waste
Tonnes/£m revenue



Note: Environmental metrics are normalised to revenue consolidated at FY2012 exchange rates

Managing the environment, health and safety

Continued

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 checking for errors. We use this system to monitor and analyse our EHS performance. It allows us to review performance site-by-site, in real time against Group targets.

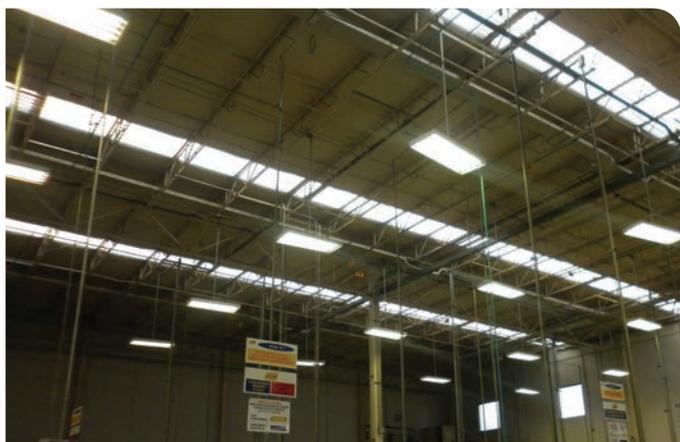
To confirm data reliability, we have an annual validation process involving third-party assessments at a sample of sites. In addition, our divisions implement robust processes to minimise and detect data errors. These processes include training, establishing detailed site reporting instructions and conducting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



Smiths Medical, Southington, CT and Dublin, OH, USA Cooling tower focus to reduce water use

Smiths Medical has focused on water reduction for several years. This has included improving cooling water management and replacing cooling towers, reducing the need for water blow-down and make-up. Smiths Medical in Dublin, Ohio, USA, reduced water use by 19% compared to FY2010, in part due to installing a new cooling water sand filter system. These filters have improved the water's thermal transfer capability by removing dirt and particulates that were depositing in moulds and machines.

Smiths Medical in Southington, Connecticut, USA, has achieved an average reduction in water use of 8% over the last five years. The site installed meters to monitor water use throughout the plant, to help identify reduction opportunities. One of the largest contributors to reducing water use was replacing the cooling towers and improving the site's water chemistry management. The new cooling towers were equipped with variable speed fan motors which also saved energy.



Smiths Group, Multiple locations Lighting upgrades and energy reduction

Numerous Smiths Group locations around the world have reduced the energy they use for lighting. For example, our Flex-Tek facility in Abbeville, South Carolina, USA has been upgrading its lighting over the past two years, covering 90% of the site and resulting in a 30% reduction in electricity use, normalised to sales. The John Crane Mexico Machining Center also upgraded to more energy efficient lamps. This improved the working environment and reduced energy consumption by 50% and annualised greenhouse emissions by 67 tonnes CO₂-e. John Crane Mexico also reduced energy consumption by installing translucent sheets in the building's roof, to add natural lighting. The annualised saving is estimated at 18,000 kWh of electricity and 12 tonnes CO₂-e.



Smiths Medical, Monterrey, Mexico Chiller maintenance improves energy efficiency

Smiths Medical's site in Monterrey, Mexico, identified that its chillers were a significant part of its energy use. By focusing on chiller maintenance, the site reduced its annual electricity use by more than 9%.

Smiths in the workplace

We believe in providing our employees with opportunities to develop their talent and to contribute to the business they work in. We support them by investing in improved safety, upholding their statutory rights and creating an ethical, supportive environment where colleagues are treated fairly and with respect.

Adding value

Throughout the Group, we are taking action to achieve the best possible long-term performance for our shareholders. We invest in our people's skills and capabilities, and expect them to reflect that investment in their delivery of business results.

Career progression

As a global technology group, we offer a variety of ways for our people to progress their careers, in line with their capabilities and performance. We identify potential leaders and provide them with development tools and opportunities to support their career ambitions and our business needs. We also recognise the need to balance internal development and promotion with external recruitment, where this is necessary to fulfil our commitment to add value.

Diversity

We welcome diversity in our workforce, not only to adhere to our legal obligations but also because we believe that everyone needs to challenge constructively and to contribute ideas from their own perspective. Our Group is also increasingly global as we expand into new markets, making local knowledge and a diverse workforce ever more valuable to us.

Succession management

The Group operates a systematic succession-management process for leadership roles. Our businesses identify leadership talent and development needs using a set of key competencies, common tools and a consistent language. Senior management monitor development plans to optimise effective succession.

Developing talent

We have a number of development programmes to evaluate and enhance core leadership competencies. These programmes are tailored to address a wide range of learning styles, incorporating workshops, experiential learning, mentoring, team working and project experience.

For employees to add value, we have to ensure they are properly engaged with and committed to the business. We provide training and development that represent an investment in both their future and that of the business. We also offer a safe and responsible working environment that encourages mutual respect, provides opportunities for personal growth and rewards individual and team contributions that realise value for the business.



Smiths Medical, Global

Over and Above employee recognition

Smiths Medical appreciates its employees' dedication and created the Over and Above Award to recognise outstanding contributions. This prestigious award is for employees that go well beyond their regular responsibility, to do something special for their internal or external customers. Between 10 and 20 employees are usually recognised every quarter, in addition to special annual winners. Whether the employee works directly with customers or behind the scenes, ensuring that customers get the best quality, service and support, every Over and Above award winner is a role model for the entire Smiths Medical community.

One of our winners in Dublin, Ohio, took ownership of a project to improve the efficiency of the site's chiller system. He spent time on weekends designing and building a cooling water loop with a filtering system to prevent clogging. He also researched galvanic corrosion and found that the distilled water used in the chillers was contributing to the corrosion of the aluminium dies on the packing machines. Dublin now uses deionized water and the system requires less water and energy to operate. Our award winner realised how waste and downtime affected the bottom line at Dublin and ultimately Smiths Medical's profit growth.

Smiths in the workplace

Continued

Communication

Communication is crucial to helping employees engage with the business. At business unit level, we communicate through team briefings, presentations, intranets and newsletters. Many businesses have well-established forums for exchanging information and best practice, as well as discussing current business issues including efficiency initiatives, training and development, and EHS issues.

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.

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 established.

Employee engagement

In FY2012, the Group conducted its global 'My Voice' employee engagement survey for the second time. We partnered with Kenexa, a leading survey provider, to ensure that responses were anonymous and to enable us to conduct the survey in local languages. We achieved a participation rate of more than 91%.

Results were measured against the global norms for manufacturing industry and we have communicated divisional, local and functional results. Action plans to address the most significant issues have been drawn up using focus groups and local champions. We will repeat our global surveys periodically, so we can monitor our progress.



Smiths Interconnect, Suzhou, China International Engineering Graduate School

As an international company, Smiths Interconnect's IDI business in Suzhou, China, appreciates its responsibility to engage with educational institutions, to foster understanding of China's cultures and business environments. For the second year, IDI hosted an Executive Engineering Management Program group from the St. Cloud University in Minnesota. The group, as well as officials from the University of Shanghai, visited a variety of businesses. They were given a line tour through the IDI facility, followed by presentations on its operations, research and development, finance, quality control and human resources, among others. The meeting became a forum for sharing ideas and discussions. IDI looks forward to hosting future educational groups.

Smiths in the community

Smiths contributes to the community in a variety of ways. By providing jobs and boosting local economies, we contribute directly to the well-being of the people who live there. At the same time, our charitable donations and community initiatives help make the world a safer, healthier and more productive place.

Building strong community links also benefits our business. It helps to enhance our reputation, foster employee engagement and attract new employees.

Charitable donations and community initiatives

We support community involvement through charitable giving and education initiatives.

We primarily manage these activities at a divisional level. However, the Group does offer some support to community and charitable organisations at Group level. We consider charities and organisations that demonstrate how a donation will enhance the well-being of people through improved education, health and welfare or environment. Projects local to our operational facilities or connected to our industries are the main focus of our support.

During the financial year, the Group made charitable donations of £570,000. This included payments totalling £300,000 to the Institute of Child Health, in sponsorship of the Smiths Medical Professor of Anaesthesia and Critical Care and the Portex Anaesthesia, Intensive Care and Respiratory Unit.

Education

Education is vital for people to achieve their potential. We support a host of initiatives, both centrally and within individual businesses, that provide educational opportunities.



Smiths Group, Global Education support

As an engineering and technology company, Smiths Group encourages its businesses to support the building of highly-educated and trained technical workforces. Smiths Interconnect's Millitech business in Northampton, Massachusetts, USA was originally founded by professors from the University of Massachusetts and has a long history of supporting students' technical advancement through scholarships and internships. In FY2012, Millitech supported the newly created Engineering M5 'makerspace' lab with a \$2,500 donation. The M5 lab allows engineering students to advance their technical interests through experimentation, exploration, interaction and entrepreneurship.

Smiths Detection in Watford, UK sponsored three Arkwright Engineering Scholarships during FY2012, worth £6,000. Arkwright is a charitable organisation established to identify high-potential students and to inspire them to pursue a leadership career in science, engineering and technology. The Arkwright Scholars combine excellent academic performance and a commitment to science, engineering and technology as their intended career, with a wide range of achievements in the arts, sport, outdoor pursuits and voluntary work. Detection has pledged to continue its sponsorship in the coming year.

Smiths Detection in Edgewood, New Jersey sponsors the local Boys and Girls Club's LET'S GO STEM programme. LET'S GO stands for Leadership Engineering, Technology,



BOYS & GIRLS CLUB

Science Generating Opportunities and STEM is for Science, Technology, Engineering, Math. This year, Detection donated \$1,500 to STEM, which enables out-of-school organisations to deliver fun, hands-on educational activities. These activities will increase interest in STEM and raise STEM proficiency, leading to growth in the quality and quantity of students entering the STEM education pipeline. STEM's goal is to inspire and support children to become professionals in science, engineering and other technical career fields.

Smiths in the community

Continued



John Crane Responsible Partnership award

John Crane in São Paulo, Brazil received the distinguished Responsible Partnership Program from Petrobras for the third consecutive year. The programme encourages Petrobras's critical suppliers to commit to improvements in quality, safety, environment, health and social responsibility. John Crane ranked as an outstanding performer among 17 companies involved in maintenance services throughout the country, reflecting its commitment to exceeding stakeholder expectations. The awards process consists of a series of evaluations and audits.



Smiths Medical, Corporate Product environmental footprint

Smith Medical looks to reduce waste throughout its operations, from its manufacturing processes to its user manuals and packaging.

By replacing paper manuals with electronic versions for its Medfusion pumps, Smiths Medical is saving approximately eight tons of paper annually. The high-volume trays and inner decks used in its pain management kits from Keene, New Hampshire, USA were downgauged by an average of 20%, reducing polystyrene waste by approximately 15% compared to other trays and decks. In addition, the 96 series Saf-T HOLDER Blood Culture Devices were moved from a Tyvek film pouch to a rigid tray with Tyvek lid, sized specifically for the product. This resulted in a package size reduction of 40%.

Policy statements

Environment, health and safety policy

Smiths Group ('the Company') is committed to achieving excellence in environment, health and safety (EHS) performance and demonstrating leadership to create an injury-free and environmentally responsible workplace

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

The most senior manager in each division has overall responsibility for EHS matters within their business and for implementing organisational arrangements to ensure compliance with this policy.

Smiths employees, at all levels, have a personal responsibility to take due care and follow 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, hazard reduction and the protection of human health
- Robust training systems to ensure that all persons working for or on behalf of the company are competent to fulfil their EHS responsibilities
- 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
- 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

This report is printed on Claro Silk which has FSC certification. The FSC (Forest Stewardship Council) is a worldwide label which identifies products obtained from sustainable and responsible forest management. Claro also has PEFC accreditation. The PEFC Council (Programme for the Endorsement of Forest Certification schemes) is an independent, non-profit, non-governmental organisation which promotes sustainably managed forests through independent third party certification.

Energy and greenhouse gas policy

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

The Chief Executive has overall responsibility for energy and GHG matters in the Group. The general managers of each division have responsibility for these matters within their respective businesses and for establishing effective administration, implementation and organisational arrangements to ensure compliance with this policy. The Group 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. 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 all relevant laws and regulations and other requirements to which the company subscribes, 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
- Use of cost-effective and reliable renewable energy sources, where available.

Philip Bowman
Chief Executive

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