



2014 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.

Contents

| | |
|--|-----|
| Chief Executive's Q&A | 1 |
| About Smiths Group | 2 |
| Governance | 10 |
| Corporate responsibility trends and strategy | 12 |
| Our focus areas | 14 |
| Ethics | 14 |
| Environment, health and safety | 16 |
| Our people | 22 |
| Community | 26 |
| Assurance | 28 |
| Report scope and contacts | 28 |
| Policy statements | IBC |

Revenue

£m
£2,952m (5)%

| | |
|------|-------|
| 2014 | 2,952 |
| 2013 | 3,109 |
| 2012 | 3,038 |
| 2011 | 2,842 |
| 2010 | 2,770 |

Headline operating profit

£m
£504m (10)%

| | |
|------|-----|
| 2014 | 504 |
| 2013 | 560 |
| 2012 | 554 |
| 2011 | 517 |
| 2010 | 492 |

Operational highlights

- Commercial market gains but challenging healthcare and homeland security markets
- John Crane, Smiths Interconnect and Flex-Tek increased underlying revenue and margins
- Smiths Medical returned to growth in H2 with improvement in infusion pumps
- Smiths Detection margins under pressure with tough trading and additional charges
- *Fuel for Growth* restructuring process delivered £10m of savings
- FX translation impact on sales of £157m and operating profit of £27m; transaction hit of £16m
- Company-funded investment in new product development up 5% to underlying £109m
- Headline operating cash conversion at 97%; dividend up 2%

Responsibility highlights

- **Ethics:** held third global forum, expanded training on areas such as anti-bribery and corruption for third parties and launched Supplier Code of Business Ethics
- **EHS:** improved our environmental and safety metrics; re-evaluated serious EHS risks and identified additional actions for reduction; and introduced a new EHS management software system
- **People:** strengthened our talent pipeline; continued the roll-out of our leadership development programmes; and embedded our new operating model
- **Community:** engaged with local communities across the globe

Celebrating 100 years as a listed company.

To find out more about our history visit www.smiths.com



Samuel Smith opens his first jewellery shop in south London



S. Smith & Sons floats on the London Stock Exchange, only days before the First World War breaks out



A world leader in advanced technologies, Smiths today employs more than 23,000 people in over 50 countries

1851

1914

2014



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.

How would you sum up Smiths Group's approach to CR?

Smiths is a truly global business – we have direct operations in more than 50 countries and our products and services reach more than 200. We also serve a diverse range of end markets, many of which are highly regulated. Each of these countries and markets brings its own opportunities and 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. Our Code of Business Ethics

provides the framework for the behaviour of each and every one of us at Smiths, as well as for our CR programme, which is made up of five core areas:

- 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 our ultimate ambition is 'zero harm' to employees.
- 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.

How is CR managed at Smiths?

Each and every employee at Smiths has a role to play in ensuring Smiths is a responsible business. Our aim is to instil a culture of responsible, ethical behaviour in Smiths that is so strong that it becomes second nature to our employees. Our Code of Business Ethics and continually reinforcing the 'tone from the top' are clearly key to this, as is creating a culture in which all CR issues and risks – be they safety, ethics or people-related – are openly discussed. More formally, the Board is ultimately responsible for the stewardship of the business, including risk management policies and an effective system of internal control, while our executive management team are responsible for delivering our strategic objectives and implementing supporting policies. However, I emphasise, self-responsibility must be our watchword.

In CR terms, what has Smiths achieved in FY2014 and what are the goals for this year?

We continue to work towards our goal of 'zero harm' to employees and 2014 was our safest year on record. Our environmental performance continued its overall positive long-term trend – we reduced our GHG emissions and waste levels, although we recorded minor increases in energy and water consumption due to a colder winter and increased customer demand for products involving water-intensive production processes. In terms of people, we further consolidated our work to strengthen the talent pipeline, maintaining our focus on talent assessment, personal development and succession planning, complemented by targeted external recruitment. We have introduced career counselling and over 100 managers are currently on or have participated in our refreshed junior and senior leadership development programmes. We also conducted our third MyVoice global employee engagement survey, achieving an 85% participation rate. Turning to ethics, we held our third global ethics forum in Dubai, UAE, in recognition of the growing importance and corresponding challenges of emerging markets. We also expanded our training programmes, including developing anti-bribery and corruption training for third parties, which we supported by launching a Supplier Code of Business Ethics.

Looking ahead, we will be working to address the key points from the third MyVoice engagement survey, work towards our 2018 reduction targets for our environmental metrics and hold our fourth global ethics forum in Berlin in June 2015. All this work will help us further embed responsible behaviour in the DNA of Smiths.

Philip Bowman
Chief Executive

Who we are

Smiths Group is a global technology company listed on the London Stock Exchange. Our vision is to establish Smiths Group as a world-leading engineering business.

What we do

We apply leading-edge technology to design, manufacture and deliver innovative solutions that meet our customers' needs.

Our markets / who we serve

We do this across a wide range of applications and end markets – from healthcare, energy and petrochemicals through to threat and contraband detection, telecommunications and equipment manufacture.

How we create competitive advantage

Our products and services are often critical to our customers' operations, while our proprietary technology and high service levels help create competitive advantage.

Our approach

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.

Countries with direct operations
>50


Employees worldwide
23,200

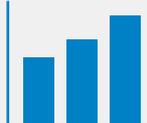

Countries our products and services reach
>200


Investment in new product development in 2014
£117m


Safety improvement since 2010 (Recordable incident rate)
31%


Smiths opened its doors for business
1851


Revenue in 2014
£2,952m


Headline operating profit in 2014
£504m


Waste reduction since 2010
25%


Bringing technology to life

We bring technology to life to help to make the world safer, healthier and more productive.

We've been at the forefront of technology for over 160 years and our products continue to touch the lives of millions of people every day.



John Crane's seals help extract and transport oil and gas safely at extreme pressures and temperatures



Smiths Medical's safety needles protect healthcare workers from needlestick injuries



Smiths Detection's chemical identifiers help the military and emergency responders identify unknown threats



Smiths Interconnect's microwave products enable next-generation communications networks



Flex-Tek's ultra-lightweight hoses make next-generation airliners more fuel efficient

Our divisions

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

We 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.



Revenue
2014

£941m

Significant locations

51

Employees

6,850

Strengths

- Strong proprietary technology with expertise in applied engineering
- Market leader in mechanical seals
- Two-thirds of sales in aftermarket
- Global network of c. 230 sales and service centres

→ 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.



Revenue
2014

£804m

Significant locations

36

Employees

7,850

Strengths

- Strong market positions in select clinical areas
- Highly recognised and respected brands
- Reputation for reliable quality and safety
- Differentiated lower risk, short residency, interventional devices
- Innovative pipeline and new product launches
- Extensive global sales network

→ 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.



Revenue
2014

£512m

Significant locations

15

Employees

2,250

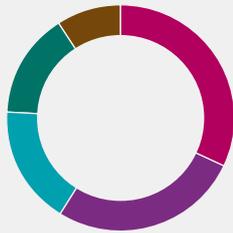
Strengths

- Market leader with strong global brand
- Operates in regulated markets that require product certification
- Technology leveraged across broad range of markets and applications
- c. 30% of sales from aftermarket service and growing
- Global sales and service network with strong emerging market presence

→ Read more at www.smithsdetection.com

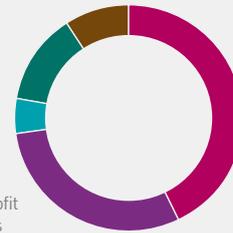
Divisional revenue

- John Crane 32%
- Smiths Medical 27%
- Smiths Detection 17%
- Smiths Interconnect 15%
- Flex-Tek 9%



Divisional headline operating profit

- John Crane 43%
- Smiths Medical 30%
- Smiths Detection 5%
- Smiths Interconnect 13%
- Flex-Tek 9%



Percentage relates to headline operating profit before corporate costs

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, data centres and industrial markets.



Revenue
2014

£445m

Significant locations

26

Employees

4,000

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

➔ 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.



Revenue
2014

£250m

Significant locations

15

Employees

2,000

Strengths

- Manufacturer of qualified components for the aerospace industry
- Largest supplier of open coil heating elements worldwide
- Leading manufacturer of flexible gas piping and HVAC ducting for US construction market

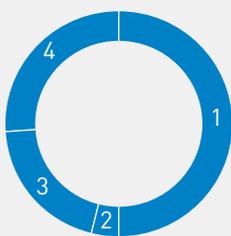
➔ Read more at www.flextekgroup.com

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 are investing to grow our presence in 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

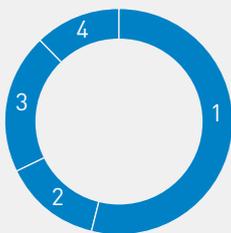
- 1 North America 50%
- 2 United Kingdom 4%
- 3 Europe other 20%
- 4 Rest of World 26%



Location of assets

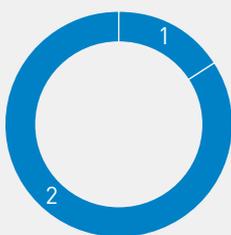
- 1 North America 54%
- 2 United Kingdom 14%
- 3 Europe other 20%
- 4 Rest of World 12%

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



US employees
8,300

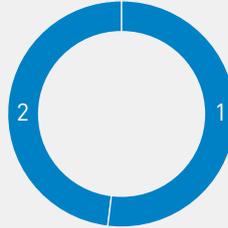
Countries with direct operations
>50

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 over the past five years. 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 22% 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 to build its long-term position 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.

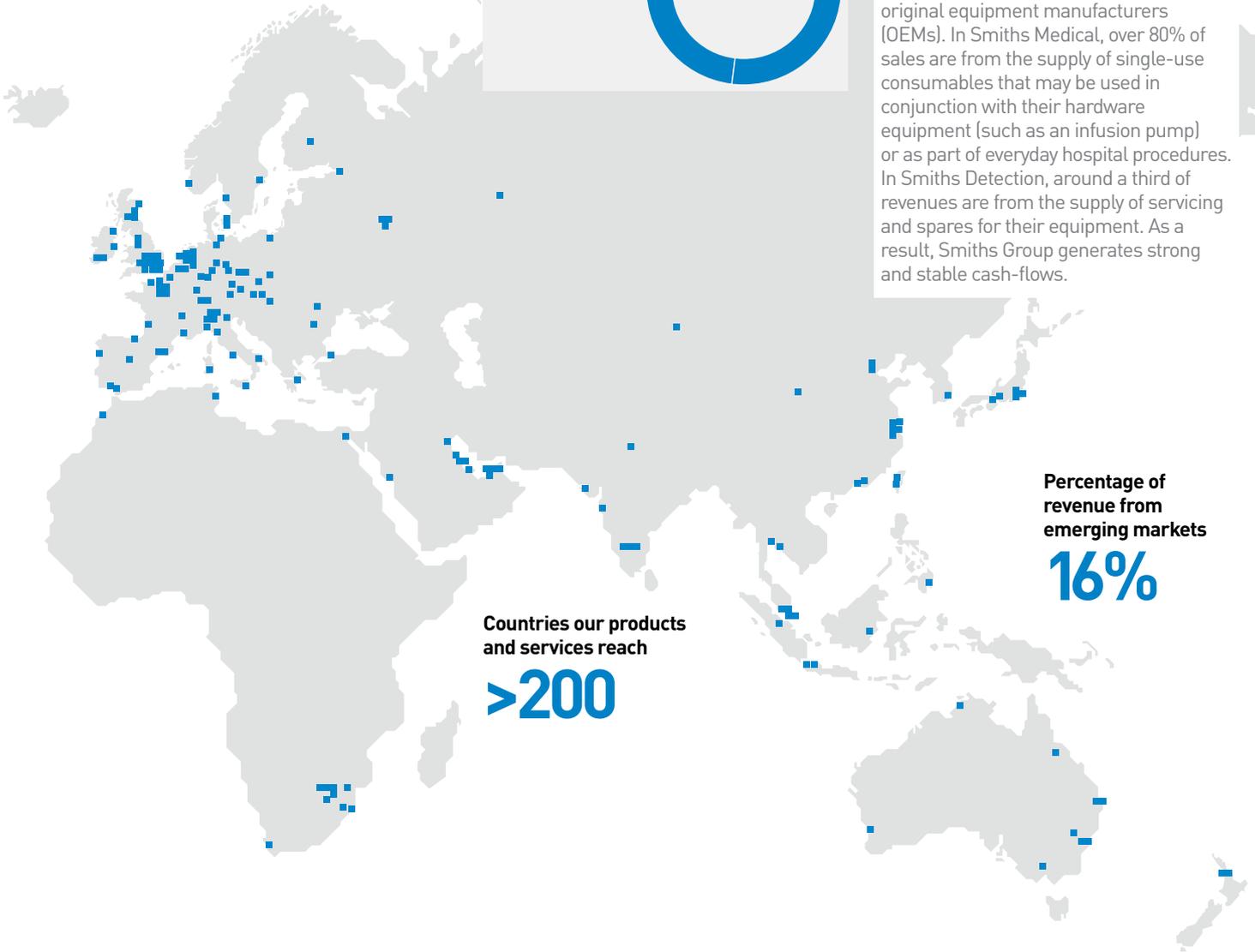
Revenue from equipment sales and aftermarket/consumables

- 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 third of revenues are from the supply of servicing and spares for their equipment. As a result, Smiths Group generates strong and stable cash-flows.



Countries our products and services reach

>200

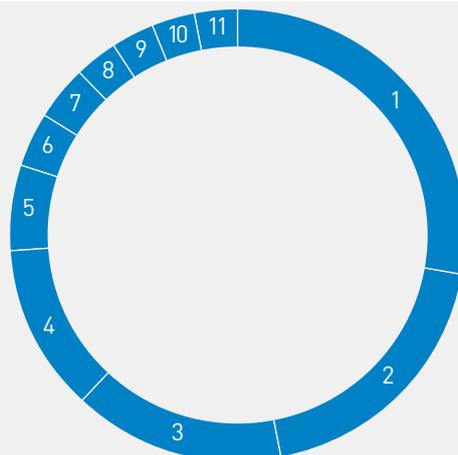
Percentage of revenue from emerging markets

16%

Revenue by end market

- 1 Healthcare 28%
- 2 Oil, gas and petrochemical 19%
- 3 Homeland security 15%
- 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 3%
- 11 Household appliances 3%

*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.

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 our presence where needed, for example 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 2014

Revenue £m

£2,952m

| | |
|------|-------|
| 2014 | 2,952 |
| 2013 | 3,109 |
| 2012 | 3,038 |
| 2011 | 2,842 |
| 2010 | 2,770 |

Revenue was down 5%, but was flat on 2013 excluding currency effects. Gains in our businesses that serve commercial markets were offset by the challenges facing our healthcare and defence-related divisions. We raised company-funded R&D by 5% underlying to £109m to drive innovation and launched a number of new products. Revenues from emerging markets were maintained at 16% of Group sales. Savings from our *Fuel for Growth* programme are providing the fuel for investment in growth initiatives.

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 improvement of our market and customer understanding and investment in new product development, sales and marketing in high-growth markets and in targeted acquisitions.

2: Enhancing margins through operational excellence

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 2014

Headline operating margin %

17.1%

| | |
|------|------|
| 2014 | 17.1 |
| 2013 | 18.0 |
| 2012 | 18.2 |
| 2011 | 18.2 |
| 2010 | 17.8 |

Headline operating profit margin declined by 90 basis points, reflecting reduced profitability at Smiths Medical and Smiths Detection and our continued investment in growth initiatives such as sales excellence.

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 our divisions.

3: Developing smarter ways of working and attracting the best talent

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 2014

Leadership

We changed the leadership at Medical and Detection 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. Over 100 managers from across the business are currently on or have been through our refreshed junior and senior leadership development programmes.

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 further develop our leadership capabilities and technological expertise across the organisation, and continue to roll-out e-enabled HR. We will continue to address the results of our third MyVoice engagement survey and conduct an interim survey to monitor progress.

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 2014 A range of indicators for safety and environmental impact

Recordable incident rate per 100 employees (RIR) 0.50

| | FY2013-FY2018 Reduction target | FY2014 v FY2013 |
|--------------------------|-----------------------------------|-----------------|
| Energy | 15% | 1% increase |
| Greenhouse gas emissions | 15% | 4% reduction |
| Total non-recycled waste | 15% | 5% reduction |
| Water consumption | 10% | 1% increase |

Whilst our goal is zero harm, we improved our RIR from 0.54 to 0.50. Our environmental performance continued its long-term improvement trend, with good reductions in GHG emissions and non-recycled waste, but minor increases in energy and water usage.

Priorities

We will 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 2014

Cash conversion %

97%

| | |
|------|-----|
| 2014 | 97 |
| 2013 | 98 |
| 2012 | 99 |
| 2011 | 95 |
| 2010 | 115 |

Operating cash generation remained strong, with headline operating cash of £490m, resulting in cash conversion of 97%.

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 2014

Return on capital employed %

15.7%

| | |
|------|------|
| 2014 | 15.7 |
| 2013 | 16.6 |
| 2012 | 16.5 |
| 2011 | 16.4 |
| 2010 | 15.9 |

Return on capital employed declined 90 basis points to 15.7%, as a result of reduced profitability in Smiths Medical and Smiths Detection more than offsetting improved profitability in John Crane, Smiths Interconnect and Flex-Tek.

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, developing smarter ways of working and attracting the best talent, 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 | |
|--|---|
| 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

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 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.

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 protecting planes and public buildings; John Crane's seals help their customers to reduce their environmental impacts 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 environmental, health and safety (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 to 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 60 of our 2014 Annual report.

We also use more detailed risk management tools for specific CR risks. For 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 in Western markets
- 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 18 and pages 60 to 65 of our 2014 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



Strategic overview



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

Corporate responsibility

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 to 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.

Policy statements

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.

2014 Highlights

- Held our third global ethics forum in Dubai to reflect growing presence in emerging markets
- Expanded training in areas such as anti-bribery and corruption for third parties, international trade compliance, international embargoes and sanctions, and competition and anti-trust
- Expanded our Code of Ethics materials, adding quick reference wallet cards and new translations of Code posters, and enhancing access to ethics materials via the Smiths intranet
- Included ethics questions in our MyVoice global employee engagement survey
- Adopted Supplier Code of Business Ethics, including contractual terms which set it as a minimum standard for ethical operations and behaviours

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, Procurement Director, Chief Information Officer, 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 the Executive Committee and the Audit Committee on ethical issues and manages responses to all enquiries and allegations. The Legal & Business Affairs (L&BA) team in each division provides 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 or electronic 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. These posters are displayed at all of our sites. The Code is supported by an online training course, which is available in English and 18 other languages through our 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. During the annual performance appraisal process each employee must certify that they have received the Code and understand its requirements. They also must respond to a question whether they are aware of any unreported violations of the Code. Any positive answer triggers immediate discussion with a manager and potentially an internal investigation.

Reporting concerns and managing specific issues

In addition to the appraisal process we encourage employees to raise concerns or queries about the Code with line management, Human Resources, their local in-house legal counsel or through 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 internal or external specialists 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 global markets. Other focus areas include expanding our online training, encouraging open discussion of ethical risks with employees at every level of the organisation, 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

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. This year we launched an online course on "Ethics Training for Third Parties" for our agents, distributors and external sales representatives. We also introduced a Supplier Code of Business



Ethics, which is available externally on the Smiths website and provided to all major suppliers. The Supplier Code and our contractual provisions require suppliers to maintain high ethical standards in line with our Supplier Code or their own comparable ethics programme.

We continue to update our policies and training on areas such as developments in international trade sanctions and embargoes, import and customs, and international export compliance. This is part of a wider review of Smiths Group processes and procedures.

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 forums in São Paulo, Brazil in 2012 and Dubai in October 2013. (See the case study above.) A similar forum is planned in Berlin during June 2015.

Controls on defence sales

We seek to ensure that all sales and exports of defence equipment are undertaken in accordance with international trade regulations and national government export and approval procedures and regulations, such as the International Traffic in Arms Regulation and the Export Administration Regulations

in the US. These laws prohibit export of certain items to specific countries. The Group's policy is to adhere to all relevant government guidelines designed to ensure that products are not incorporated into weapons or other equipment used for the purposes of terrorism or abuse of human rights, with internal controls to ensure compliance with these guidelines.

Human rights

Smiths seeks to uphold all internationally recognised human rights wherever its operations are located. Within this framework we do not tolerate the use of child or forced labour at Smiths facilities or those of our suppliers. We take all steps possible to ensure our products are not used to abuse human rights.

Priorities for 2015

- Hold our fourth global ethics forum in Berlin
- Continue to update our training and compliance programmes, in line with changing business needs and regulations, such as expanding international sanctions and embargoes
- Train suppliers on our ethical standards and requirements to support the launch of the new Supplier Code of Business Ethics, including the prohibition of any abuse of human rights

Global ethics forum

We held our third global ethics forum in October 2013 in Dubai, UAE. The forum brought together 75 senior executives and managers from around the Group to consider the business and ethical challenges of doing business in the Middle East. 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.

2014 Highlights

- Implemented a new EHS management software system
- Re-evaluated our most serious EHS risks and identified additional actions for reduction
- Introduced a serious incident metric to help monitor injury severity trends and respond accordingly
- Performed a gap analysis of our greenhouse gas emissions reporting to further improve completeness and accuracy

Governance

Our environmental, health and safety (EHS) approach starts with our EHS policy, which is reproduced on the inside back cover of this report.

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 111 have implemented EHS management systems. Sites with 50 or more employees are also required to have their EHS management systems externally certified. Of the 98 sites that require certification, 96 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

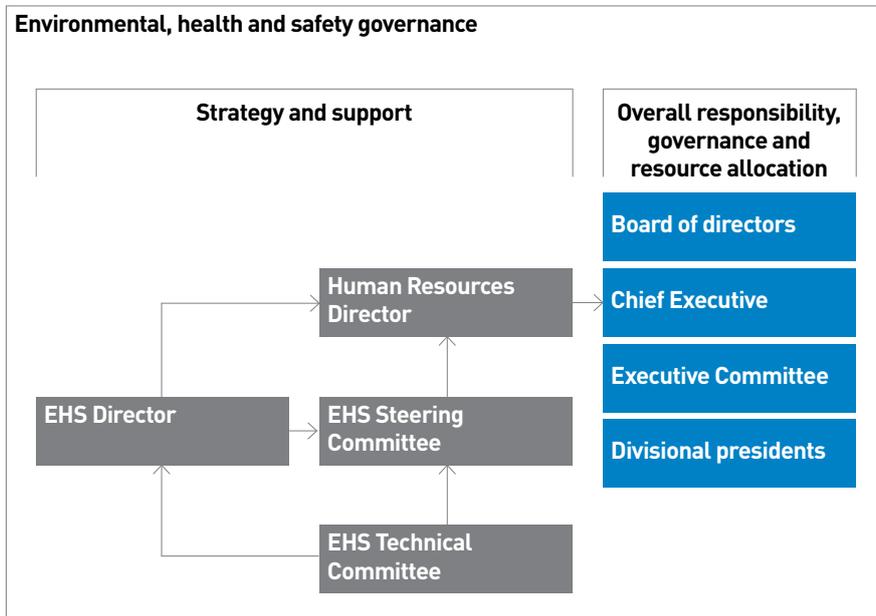
Smiths is committed to meeting or exceeding its legal and other EHS requirements. We periodically assess our compliance, including using external auditors to audit our operations' legal EHS compliance. We choose the facilities to audit from across the Group, based on their size, complexity and compliance 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 reliable 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. In 2014, we began implementing a new online EHS management software system that will provide enhanced features for collecting, monitoring and analysing data. The software will also assist with the overall management of environmental, health and safety, including risk management, training, requirements tracking and auditing.

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 2013, we updated our strategic objectives and 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 over the next three years in order 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 in the future, 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 specific actions for their businesses.

Priorities for 2015

- **Develop global technical minimum standards to reduce our most serious EHS risks**
- **Complete the implementation of our new EHS management software system**

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

Smiths Detection has a number of waste reduction and recycling programmes. Following a review of the parts used in the manufacture of trace detection equipment, a joint EHS, Quality and Procurement team worked with our largest suppliers to identify opportunities to reduce packaging and increase recyclability. They eliminated individual packaging of many parts, improving production efficiency and reducing costs, and have now expanded the programme to work with more suppliers.

The John Crane Lutin facility in the Czech Republic implemented a new system for purchasing absorbent textiles and materials. They partnered with an international textile management company, who helped select a reusable absorbent textile, supplied bins and established regular collections to exchange the used absorbents. This recycling programme has reduced the volume of absorbent waste by 35% and reduced costs by 420,000 CZK against the previous year.

Smiths Interconnect in Santa Ana, US, eliminated 20 tons of hazardous waste and \$21,000 of disposal costs annually through improvements to a production process. One of its waterjet machines used an abrasive sand and water medium to cut copper. The collection tank required frequent cleaning and the waste was classified as hazardous. A new extractor now continually pulls sand from the tank, causing the copper level to be low enough for the sand to be reused by the supplier.



Our focus areas

Environment, health and safety

Performance against environmental targets

| | Target FY2013-18 | FY2014 progress against FY2013 |
|---------------------------------|------------------|--------------------------------|
| Energy | 15% reduction | 1% increase |
| Greenhouse gas emissions | 15% reduction | 4% reduction |
| Total non-recycled waste | 15% reduction | 5% reduction |
| Water consumption | 10% reduction | 1% increase |

Reduction targets are compared to the FY2013 baseline year and normalised to revenue consolidated at FY2014 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.

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.

Our greenhouse gas (GHG) emissions calculation methodology closely follows the Greenhouse Gas Protocol and includes emissions from sources under our control. In addition, the inventory consists of Scope 1 (direct GHG emissions from sources owned or controlled by the company) and Scope 2 (GHG emissions from the generation of purchased electricity consumed by the company) emissions. In 2014, an external adviser performed a review of our GHG emissions calculation methodology and

prepared a GHG Inventory Management Plan that will be used to further align our emissions calculation methodology with the GHG Protocol. It was concluded that emissions from vehicles, production processes and fugitive sources are small and not material compared to our total GHG emissions. Due to the difficult nature of collecting emission data from these sources and their immateriality, they have been excluded from the inventory totals. The materiality of these sources will be reviewed again in the future.

Environmental targets

In 2013, we set new five-year environmental targets. Our targets are to achieve 15% reductions in energy usage, greenhouse gas emissions and waste generation, and a 10% reduction in water usage by FY2018, all normalised to revenue against a baseline of FY2013. Where necessary, we adjust our baseline metrics to account for acquisitions and disposals.

Over the past four years we have significantly reduced our environmental impact, with 18% energy, 29% GHG, 24% water and 25% non-recycled waste reductions, normalised to revenue. Compared to our new FY2013 baseline for our next five-year goals, FY2014 environmental performance continued, overall, its long-term improvement trend. We achieved good progress in reducing GHG emissions and non-recycled waste. Minor increases were recorded in energy and water usages due to colder winter temperatures and an increase in sales of products using water in the production process. Less water-intensive production methods are being developed for these products.

Total energy

'000MWh

| | |
|------|-----|
| 2014 | 281 |
| 2013 | 278 |
| 2012 | 279 |
| 2011 | 303 |
| 2010 | 305 |

Total CO₂ emissions

'000 tonnes

| | |
|------|-----|
| 2014 | 99 |
| 2013 | 103 |
| 2012 | 110 |
| 2011 | 121 |
| 2010 | 124 |

Water use

'000m³

| | |
|------|-----|
| 2014 | 440 |
| 2013 | 435 |
| 2012 | 465 |
| 2011 | 485 |
| 2010 | 515 |

Total non-recycled waste

'000 tonnes

| | |
|------|-----|
| 2014 | 5.3 |
| 2013 | 5.6 |
| 2012 | 5.5 |
| 2011 | 6.1 |
| 2010 | 6.2 |

Total energy efficiency

MWh/£m revenue

| | |
|------|-----|
| 2014 | 98 |
| 2013 | 97 |
| 2012 | 100 |
| 2011 | 116 |
| 2010 | 119 |

Total CO₂ emissions

Tonnes/£m revenue

| | |
|------|----|
| 2014 | 34 |
| 2013 | 36 |
| 2012 | 39 |
| 2011 | 46 |
| 2010 | 49 |

Water consumption

m³/£m revenue

| | |
|------|-----|
| 2014 | 154 |
| 2013 | 152 |
| 2012 | 167 |
| 2011 | 185 |
| 2010 | 202 |

Total non-recycled waste

Tonnes/£m revenue

| | |
|------|-----|
| 2014 | 1.9 |
| 2013 | 2.0 |
| 2012 | 2.0 |
| 2011 | 2.3 |
| 2010 | 2.4 |

FY2013 metrics have been revised marginally from last year to reflect refinements in monitoring.



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. We also work to reduce the impact of our production processes and facilities, for example through the installation of building automation systems and energy-efficient lighting, heating and ventilation systems, roofing, windows and air compressors.

To help reduce energy usage and costs, Smiths Medical improved insulation at its headquarters in St Paul, Minnesota, US. Over 150 windows were fitted with compression plastic to provide an additional layer of air insulation, reducing the demand on heating and cooling systems in winter and summer months, as well as providing a more comfortable working environment for our employees.

Smiths Medical, Japan, has begun using hybrid fuel vehicles for its commercial fleet. The hybrid vehicles are 1.7 times more fuel efficient, with 40% lower CO₂ emissions.



Clean Industry Certification, John Crane Vallejo, Mexico

John Crane is committed to reducing its environmental footprint. Its facility in Vallejo, Mexico, is participating in the country's federal Clean Industry Certification Program, which recognises companies that comply with environmental legislation, employ best practice pollution prevention practices and implement environmental improvement initiatives. The ISO 14001-certified facility has implemented numerous projects to reduce energy and water usage and waste generation and held a ceremony for all its employees to celebrate its Clean Industry certification award.

Our focus areas
Environment, health and safety



Improving safety and efficiency, Smiths Detection, Wiesbaden
 Smiths Detection, Wiesbaden improved the safety and efficiency of moving thousands of heavy X-ray generators each year by introducing an articulated 'lifting arm'. A team from Production, Safety and Construction studied the process involved in moving the 630 tonnes of equipment annually. The resulting investment in the lifting arm demonstrates our commitment to safety, as well as reducing the risk of damage to the generators and speeding up the production process.



Working together on safety
 Several Smiths businesses in China came together for a workshop on safety at Smiths Interconnect's site in Suzhou, China. The training brought together employees from Smiths Medical, Smiths Interconnect and Flex-Tek to learn about legal requirements in China, EHS management systems, personal protective equipment, ergonomics, safety inspections and hazard assessments through exercises, case studies, photos and videos. The training and team dinner also helped build networks across Smiths Group in China.

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 continues to be 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 and risk reduction. We continue to implement and build on these activities and are monitoring them through our Safety Leading Indicator Activities Programme. We use 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.

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. In FY2014, the Safety Leading Indicator Activities Programme was rolled out to sites with more than 20 employees (rather than the previous 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. Supervisor safety management training was added in FY2014, to improve the safety skills supervisors require to manage a workforce. In FY2015, our activities will be split between Group-wide and division-specific activities in order to further target the specific improvement needs of each division.

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 also revised our safety performance targets. The new targets increase our focus on leading indicator activities designed to reduce the risk of incidents.

In FY2014, we evaluated 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 further emphasises 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 FY2014 being our safest on record. Whilst our aspiration is zero harm, we improved our RIR from 0.54 to 0.50, with 9% fewer incidents in 2014, meeting our objective to continuously improve. After years of reductions, our LTIR has been steady at 0.22 for the past two years. 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.

Performance against safety targets

| 2014 results | |
|---------------------------------|-------------|
| Recordable incident rate | 0.50 |
| Lost time incident rate | 0.22 |

Corporate security

Security is an important part of protecting our employees and our business. We aim to minimise security risks in order to safeguard our people and physical and intellectual property. Our Group Security Director advises the Executive Committee on current and emerging security risks. The Executive Committee is responsible for setting Group-wide priorities and reviewing our approach and performance. The Group Security Committee oversees progress and shares good practice, while the divisions are responsible for the implementation of division-specific security initiatives. Our Security programme includes Group-wide minimum standards covering physical and procedural security at company sites, business travel security and security awareness.



Safety awareness and involvement
Increasing employee safety awareness and involvement is a key part of our strategy to deliver a zero harm workplace and there are a number of initiatives in place across the Group.

Smiths Medical has implemented an employee-driven safety performance system throughout the division. Its facility in Dublin, Ohio, US, for example, trained a committee of employees on areas such as incident investigation, safety walkthroughs, risk assessments and root cause analysis. Dublin chose to name their team STOMP, 'Safety Through Organized Manufacturing Practices', and they now perform monthly walkthroughs, review all safety incidents and make recommendations for improvements to management.

To encourage employees to communicate safety risks, John Crane in San Fernando, Mexico, established an empowerment programme. Every three months, awards are given for the three most significant suggestions submitted, helping employees to take pride in keeping themselves and their colleagues safe.

Ergonomics programmes

To reduce the risk of repetitive strain injuries, we aim to design out hazards, as well as providing ergonomics awareness training and stretching programmes at many sites.

Smiths Medical in Latina, Italy installed robot arms to load products into blister packaging machines. The automation of this process has improved safety and efficiency, involving a far less repetitive motion and reducing the risk of soft tissue injury.

Smiths Interconnect has implemented ergonomics programmes at its facilities in Kansas City and Hudson, US. Working with external consultants and implementing best practice from other divisional facilities, the programmes include educating employees about posture and working positions, as well as individual workstation assessments and a daily stretching programme. Further planned improvements include additional workstation and tooling reviews, and robot placement.

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.

2014 Highlights

- **Strengthened our talent pipeline through targeted external recruitment and a focus on talent assessment, personal development and succession planning**
- **Rolled out junior and senior leadership development programmes, Horizons and Aspire2**
- **Conducted our third MyVoice global employee engagement survey**
- **Embedded new HR operating model, to enhance efficiency and support business growth**

Governance

In the past four 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 and remuneration management.

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

We have consistently 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.

To support this we will 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. Over 100 managers from across the Group have been through or are currently participating in these programmes.

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.



Employee recognition, Smiths Medical, Hangzhou, China

To help build engagement, Smiths Medical in Hangzhou, China recognises employees' involvement in improvement initiatives in areas such as EHS, quality and cost reductions at quarterly town hall meetings, an annual dinner and on posters around the facility.

Horizons development programme

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

"The mix of different personalities, cultures and divisions helped me better understand my own leadership style and how to strengthen it. The programme also taught me a lot about Smiths Group and what role I can play in the Company in the future. The contacts I made with some outstanding leaders and peers from across the Group continue to help me every day," said participant Louise Branigan, a Commercial Marketing Manager based in the UK. "I feel the Smiths leadership is really supporting me in growing my career."

Fellow participant Dharav Dalal, a Marketing Manager from India, commented, "Horizons was excellent with the right balance of business management and personal development, through public speaking and group work. The exposure to different functions and divisions provided a great platform for developing my understanding of the Group."



Our focus areas
People



Family days, multiple businesses
As part of our engagement initiatives, many Smiths facilities hold 'open house' days for employees and their families. These help to build understanding of the business by showcasing their products, operations and social and environmental initiatives. In FY2014, for example, John Crane in Rio Claro, Brazil, provided demonstrations and social activities, while Smiths Medical in Hangzhou, China held a family day on the eve of the country's traditional mid-autumn festival to demonstrate its gratitude to employees.



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 third survey in 2014 in partnership with Kenexa, a part of IBM and 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 85% and benchmarked results against global norms for the manufacturing industry and communicated divisional, local and functional results. Action plans are in place across the business to address the most significant issues highlighted. During FY2014, we also continued to address the results of the 2012 survey and incorporated any ongoing actions in the most recent survey action plans to ensure continuity. We intend to conduct an interim engagement survey in the future based on a significant sample of employees in order to monitor 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 2014 Forum was held in the UK 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 2015

- 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 an interim MyVoice engagement survey based on a significant sample of employees to monitor progress

Celebrating 100 years as a listed company

2014 marks Smiths Group's centenary as a listed company on the London Stock Exchange. A communications campaign and site events – ranging from town hall meetings to celebratory meals – have been held across the Group to build pride among employees in our historic achievements and the business today. To support these activities, we commissioned a history book and video and rolled out a heritage brand across a range of communications channels. Feedback has been extremely positive, with the celebrations gathering momentum through a strong 'word of mouth' effect.



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.

2014 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.



Smiths Day, Singapore

Over 200 employees from across our divisions came together in Singapore for our first 'Smiths Day', a joint blood donation drive and fundraising event for the Red Cross. The event included blood donation, a food carnival and games, and raised over \$14,000 and 31 pints of blood, as well as providing an opportunity for employees from across the business to connect in an informal setting.

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.



One kilometer against hunger, Smiths Medical, Tijuana, Mexico

Smiths Medical employees in Tijuana, Mexico, helped the local food bank provide meals for locals in need by collecting a kilometer of food over two weeks.

Performance

In FY2014, the Group as a whole made charitable donations of £192,000.

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 2015

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



Building community ties, Flex-Tek, US

Flex-Tek's US facilities participate in range of activities to build ties with their local communities. A team from the Flexible Technologies facility in Abbeville, South Carolina, spent an afternoon creating a garden at a nearby nursing home. The volunteers enjoyed the experience and residents were excited by the prospect of growing fresh fruit and vegetables. The Tutco facility in Cookeville, Tennessee, organised a range of activities in support of a local shelter for victims of domestic abuse. They raised funds to provide a new grill and furniture, held a drive to collect clothing, toys and toiletries, and repaired playground equipment for children.



Supporting employability, John Crane, Lutín, Czech Republic
 John Crane, Lutín, in the Czech Republic has developed strong links with its local community through a range of initiatives. As part of this, it works with the charity Association D, which aims to prepare teens for adult responsibilities and finding jobs. The Lutín Human Resources Department held four sessions to teach CV writing, job hunting, and interviewing skills, building skills in the community and enhancing employee engagement.



Food Bank Assistance, Smiths Interconnect, Kansas and Hudson, MA, US
 Smiths Interconnect employees in Kansas City and Hudson helped raise funds, held food drives and donated time to support local food banks. A team from Hudson raised more than \$1,600 and packed meal boxes for local families in need, while employees from Kansas City volunteered at the Harvesters Community Food Network, assembling over 3,000 backpacks of food to distribute to at risk children.



Hugged and happy for the first time
 Luan was born in Pretoria, South Africa, with pulmonary interstitial glycogenosis, a serious lung condition that restricts oxygen flow into the bloodstream. Staff at the Kloof Medi-Clinic eased his breathing by using a standard tracheostomy tube. But it had to be changed often and the near constant discomfort rendered him virtually immobile. With Luan still chronically distressed after nine months, the hospital turned to Smiths Medical for a solution. The soft and flexible Bivona Silicone tracheostomy tube, specially designed for infants, was urgently supplied and fitted. Luan's parents were able to freely lift and hug him at last. And for the first time he didn't cry.

Assurance

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.

Report scope and contacts

Unless otherwise stated, this Report highlights our corporate responsibility governance, issues relevant to Smiths, strategy and performance during our 2014 fiscal year (1 August 2013 to 31 July 2014). 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 2014 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 2014 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

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