

Doing business
the right way



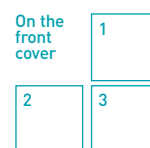
Smiths is a world leader in the practical application of advanced technologies. Our products and services make the world safer, healthier and more productive.

Smiths has six key strengths that help us deliver our Full Potential Strategy. One of these is doing business the right way.

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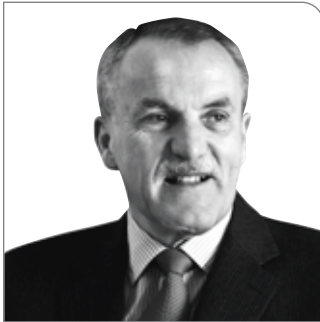
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Chief Executive's introduction



Keith Butler-Wheelhouse
Chief Executive

Welcome to the first consolidated corporate responsibility report from Smiths. Over the last few years we have reported on some corporate responsibility issues in our annual report and accounts, and produced separate environment, health and safety reports. Our aim in this consolidated format is to demonstrate how the principles enshrined in our Code of Corporate Responsibility and Business Ethics (the Code) are implemented consistently across the business, helping everyone at Smiths to do business the right way.

The Smiths 12 principles outlined in the Code

- 1 Compliance with national laws and regulations
- 2 Fair and vigorous competition in the marketplace
- 3 Integrity and ethical conduct as the standard for individual and corporate business behaviour
- 4 Fair and honest treatment of suppliers and customers
- 5 Proper and respectful treatment of employees
- 6 High standards for health and safety in the workplace
- 7 Respect for the environment
- 8 Contributing to the communities in which we live and work
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- 11 Prudent and transparent public accounting and reporting
- 12 A culture of compliance throughout the entire Smiths organisation – from the Chief Executive to the newest employee

Reporting on our principles

We are proud of our reputation and will report progress on all our principles. However, having only recently launched the Code, we have some way to go before we have comprehensive data from across the business on all twelve principles. Notwithstanding, in this first year, we are focusing on those responsibilities on which we have something significant to report – our employees, health and safety, the environment, and the communities in which we operate.

In the coming year we will be continuing our dialogue with key stakeholders across Smiths to develop a better understanding of our corporate responsibilities. Building on this understanding, we will, in future years, report on more of the responsibilities outlined in the Code and on our progress.

Corporate responsibility in 2006

Whilst we were very pleased to be included in the Global 100 Most Sustainable Corporations in the World, we know that there is more work to be done. This report gives us an opportunity to share highlights of the work and activities from around the Smiths world and I hope you enjoy reading it.

A handwritten signature in black ink that reads "Keith Butler-Wheelhouse". The signature is written in a cursive, slightly stylized font.

Keith Butler-Wheelhouse
Chief Executive

Smiths at a glance

Aerospace



Detection



Medical



Specialty Engineering



Group Managing Director
Description

Dr John Ferrie CBE

Smiths Aerospace has two business units: Smiths Aerospace Systems and Smiths Aerospace Components. The first designs, manufactures and provides in-service support for digital, electrical and mechanical systems for military and commercial aircraft; the second supplies high-value components to the principal aircraft engine manufacturers. Across the division, military sales account for 54% and commercial for 46%.

Stephen Phipson

Smiths Detection is a prime contractor and designs and manufactures equipment to detect and identify explosives, weapons, contraband and dangerous substances.

It has an unrivalled range of technologies, including trace detection, x-ray, millimetre wave, infra-red and biological agent analysis.

Srini Seshadri

Smiths Medical focuses on improving medical outcomes. Smiths helps its customers:

- deliver medication, for example, by providing the equipment to deliver chemotherapy, pain relief and insulin;
- provide vital care, for example, by providing the equipment that manages airways and fluids during and after surgical procedures, as well as monitoring vital signs; and
- keep people safe, through safety devices for drawing blood samples, giving injections and delivering intravenous drugs.

Paul Cox

Within Specialty Engineering John Crane provides mechanical rotating seals and associated equipment and services used in process industries. Interconnect supplies components and sub-systems for connecting, protecting and controlling critical electronic and radio frequency systems. Flex-Tek provides ducting and hosing for a wide range of applications, mainly for heating and ventilation and domestic equipment. Marine Systems supplies marine electronics and charts.

Employees

10,900

2,000

7,600

11,200

Principal operating regions

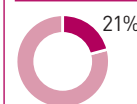
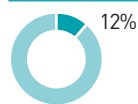
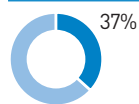
Manufacturing is concentrated in the US and UK.

Manufacturing is concentrated in North America, Germany, France and the UK.

Manufacturing is concentrated in the US, the UK, Mexico and Italy.

Specialty Engineering has operations across the world.

Contribution to 2006 Group sales



Key customers

Customers include major airframe platform and engine manufacturers worldwide, and, for service and support, defence departments and airlines.

Some 85% of sales are made direct to governments around the world including homeland security authorities, customs and immigration authorities, emergency responders and the military.

Smiths Medical's end customers are hospitals and other healthcare providers worldwide. Most territories are serviced through wholly owned local sales and distribution companies.

John Crane serves oil and gas companies and refineries. Interconnect sells to aircraft manufacturers, defence and wireless telecoms companies. Flex-Tek serves mainly domestic appliance manufacturers and the US construction industry. Marine Systems serves the global professional marine industry.

Managing corporate responsibility and business ethics

Good corporate governance is essential for doing business the right way. The annual report and accounts explains how Smiths has applied the principles and complied with the provisions of the Combined Code on Corporate Governance (July 2003 issue).

Compliance with the Combined Code is just the start. Our own Code of Corporate Responsibility and Business Ethics defines how we do business. When the Code was communicated to employees, the Chief Executive, Keith Butler-Wheelhouse said: "We need to ensure that all Smiths employees throughout the organisation have a clear understanding of how the Company expects them to behave." He went on to make his point as follows: "...all our stakeholders – owners, customers, suppliers and communities – have high expectations of us. These need to be anticipated and satisfied."

Implementing the Code

Translated into 13 languages, the Code applies to all Smiths businesses and employees worldwide and provides the framework for policies, programmes and procedures for a range of corporate responsibility issues.

The Code is set by the Board and monitored by the Code Compliance Council, chaired by the General Counsel. The Council includes senior corporate directors for Human Resources, Communications, Internal Audit and Legal, and meets at least three times a year. Two representatives of the Council, General Counsel and the Director of Ethics and Compliance, brief the Audit Committee at regular intervals on how the Code is being implemented across Smiths.

We provide communication and training to all levels of management to reinforce the general principles of the Code and the policies and procedures that support it. All managers are measured on their understanding and support of the Code's principles as part of their annual appraisal process.

Communicating with employees

We communicate the Code and its importance for how we operate to every employee. All new employees are given training on the guiding principles and the importance of the Code to Smiths, including explaining potential disciplinary action for violating specific principles, policies or procedures.

The Code and corporate policies are available to employees on the Smiths intranet, and externally on the Group website, www.smiths.com. Legal representatives across Smiths host monthly internal web conferences, publish legal and compliance bulletins, and host other conferences and seminars. Our internal legal and compliance website includes additional training materials and links to external sources and materials to support the process.

The Code is not a static or lifeless document. All Smiths employees have access to an Ethics Helpline via telephone or email to raise any concerns or questions in confidence. These receive immediate attention, and any allegations of impropriety, whether made anonymously or openly, are investigated promptly. If appropriate, we report back to the employee who raised the issue. We maintain statistics for the categories of calls and how they were resolved, and these are reported annually to the Audit Committee of the Board.

Managing specific issues

Responsibility for managing specific corporate responsibility issues lies at different levels within the Group, depending on the nature of the issue and how it can most effectively be managed. Nonetheless we are committed to sharing best practice, not only within Smiths but also with our customers and suppliers.

- **Environment** issues are managed through a Group-wide steering committee and organisation.
- **Health and safety** issues are managed through the same committee.
- **Employee** issues are managed by line management and the Human Resources function.
- **Supplier and customer** programmes are managed divisionally.
- **Community** programmes are principally managed locally, with additional Group-level activity.

Aims for next year

We continue to develop a consistent approach to corporate responsibility throughout Smiths, and have set ourselves three main goals for the coming year:

- to understand better our corporate responsibilities as they apply to our global operations;
- to capture the views and opinions of our key stakeholders; and
- to continue to drive our environment, health and safety programmes.

Proper and respectful treatment of employees



A great place to work

In 2006 John Crane Brazil was voted one of the top 100 'Great Places to Work' in Brazil through a confidential survey held by the Great Place to Work® Institute (www.greatplacetowork.com). To be included, a minimum of 70% of employees had to reply spontaneously. The final score was based on employees' assessment (75%) and HR policies and practices (25%).

Code: Employees

- 1 Smiths recruits, selects and promotes employees on the basis of their qualifications, skills, aptitude and attitude.
- 2 In employment-related decisions, Smiths complies with anti-discrimination requirements in the relevant jurisdictions concerning matters of race, colour, national origin, gender, marital status, sexual orientation, religious belief, age, or physical or mental disability.
- 3 All Smiths employees shall be treated with respect and dignity. Accordingly, any harassment or bullying is unacceptable.
- 4 Smiths respects the right of each employee to join or not to join a trade union or other bona fide employee representative organisation.
- 5 Smiths believes in good communications with employees and in promoting consultation, co-operation and teamwork on matters of mutual concern.

Smiths is a diverse group of businesses and our people reflect that diversity across the globe. Smiths Group and its businesses employ just under 32,000 people in 46 countries on six continents. 57% of our employees are located in North America and 23% in the UK. The remaining 20% are predominantly located in Germany, France and Italy.

Reaching full potential

We introduced our 'Full Potential' programme three years ago to grow sales and enlarge profitability. People in every part of the business are taking action to achieve the best possible long-term performance for our shareholders. We invest in our employees' skills and capabilities to help them achieve their full potential, which in turn helps Smiths and its businesses to succeed. Current priorities across the Group are developing our talent, succession planning and engaging our employees in pursuing their full potential.

Developing talent

Smiths Group and our individual businesses invest in identifying and developing the talents of employees. Smiths provides employees with challenging work that stretches their capabilities, and embeds this with training and development activities tailored to their individual needs. In 2006, Smiths introduced a new process for the most senior people, integrating the performance review with the overall 'full potential' goals of the business. Our aim is to drive this process deeper into the organisation in future years.

Succession planning

Smiths has a systematic succession management process for senior leadership roles. The Group identifies leadership talent and development needs, and follows this up with individual development plans that are monitored by senior management to help secure effective succession when required.

We aim, through these means and others, to develop fully the capabilities of our employees and to deploy them in the most effective way. Employees are encouraged to advance their careers across the Group where this makes sense for their development and for the business. Our selection processes are focused on an individual's capabilities and record of performance.

Engaging employees

For employees to reach their full potential, we have to make sure they are properly engaged in the business. Not only do we provide the training and development opportunities that represent an investment in both their and the Group's future, but also a safe and responsible working environment that encourages respect, gives them the scope to apply their capabilities and to assume responsibilities, and enables both individual and team contributions to be recognised.

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

In the UK, we have organised workplace information and consultation arrangements at all our sites. These link to the Smiths European Forum through which employee representatives from across the European Union (EU) meet annually to discuss trans-national matters within an EU context. This year's meeting was held in the UK and included a presentation by the Chief Executive on the Group's financial performance and prospects.

Aims for next year

- We will continue to offer a range of training and development opportunities that match people's needs with the needs of the business.
- We will continue to develop new programmes to enable our people to reach their full potential.

**Horizons**

This year, employees early in their career took part in 'Horizons', a two-year development programme designed to develop individual and collective capabilities. Horizons is popular with participants and their managers, who report that it gives participants self-awareness and confidence and enables them to assume greater responsibilities more quickly.

High standards for health and safety in the workplace



Safety at work

Our aim is for all employees to be safe at work. An important part of this is ensuring that they are aware of, and protected from, hazards.

Employees at Smiths Medical in Tijuana, Mexico receive a safety briefing.

Code: Health and safety

Smiths is committed to conducting all its activities in a manner which achieves the highest practicable standards of health and safety.

Managing health and safety

The Chief Executive has overall responsibility for environment, health and safety matters throughout Smiths. The Group Human Resources Director, supported by the Director, Environment, Health and Safety, is responsible for implementing environment, health and safety policies across the Group. The Environment, Health and Safety Steering Committee monitors performance and sets strategic direction. The Committee includes representatives from all Smiths divisions and meets quarterly to set policy and targets and to review progress against goals.

The most senior director for each business unit is responsible for environment, health and safety matters within their unit, and business managers are responsible for making sure that the right resources are in place to manage the level of hazard and risk in their areas. A network of regional co-ordinators helps to ensure that local issues are supported and Group strategy and reporting requirements are met.

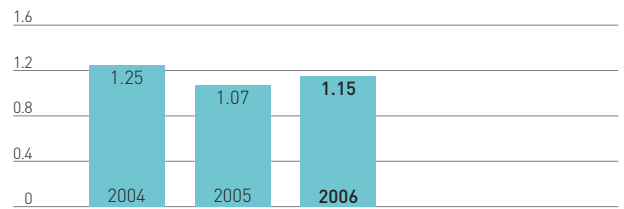
We operate an internal health and safety management system using proprietary audit software. We assess all our facilities for compliance once a year and this process indicates opportunities for improvement. Where we find areas of weakness we share knowledge and best practice from other parts of the Group to improve performance. This year we continued our record of steady improvement with the overall average scores from our facilities reaching 73% compliance against 70% last year.

Performance against targets

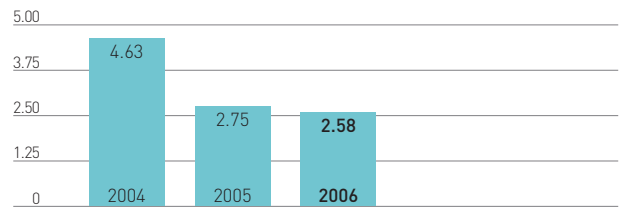
We monitor our safety performance using the United States Occupational Safety and Health Administration (OSHA) standard methodologies which define rates per 100 employees per year. However, whilst we have again seen improvement in our recordable incident rate and lost-time severity rate, our lost-time incident rate has not improved this year. We will be focusing on this in the coming year.

Our safety record was tarnished early in 2006 when an employee at the Smiths Aerospace facility in Manchester, Connecticut lost most of a finger and thumb in a machining accident. We quickly initiated a full audit of the site's operations, and this, together with a related OSHA audit, identified several actions, most of which we have now completed. We received a fine of US\$134,000 from OSHA following the incident, and are continuing to make improvements to the operation of the site and to share lessons learned across the Group.

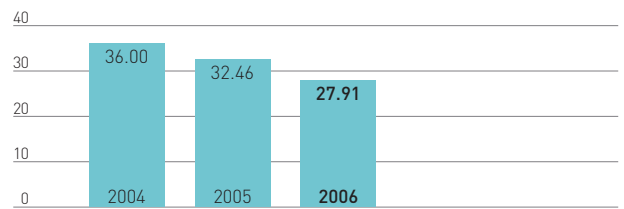
Lost-time incident rate



Recordable incident rate



Lost-time severity rate



Lost-time incident rate

92 sites out of 163 beat our target of less than one lost-time incident per 100 employees per year. However, 2006 saw a slight overall increase in the rate following some years of steady improvement. We will focus on this particularly in the coming year to make sure we achieve our goal of continuous improvement.

Recordable incident rate

This year 50 sites reported no recordable incidents. Our rate continues to show steady improvement, and we aim to maintain this good progress in the coming year.

Lost-time severity rate

Again this year we have seen a notable improvement in performance.

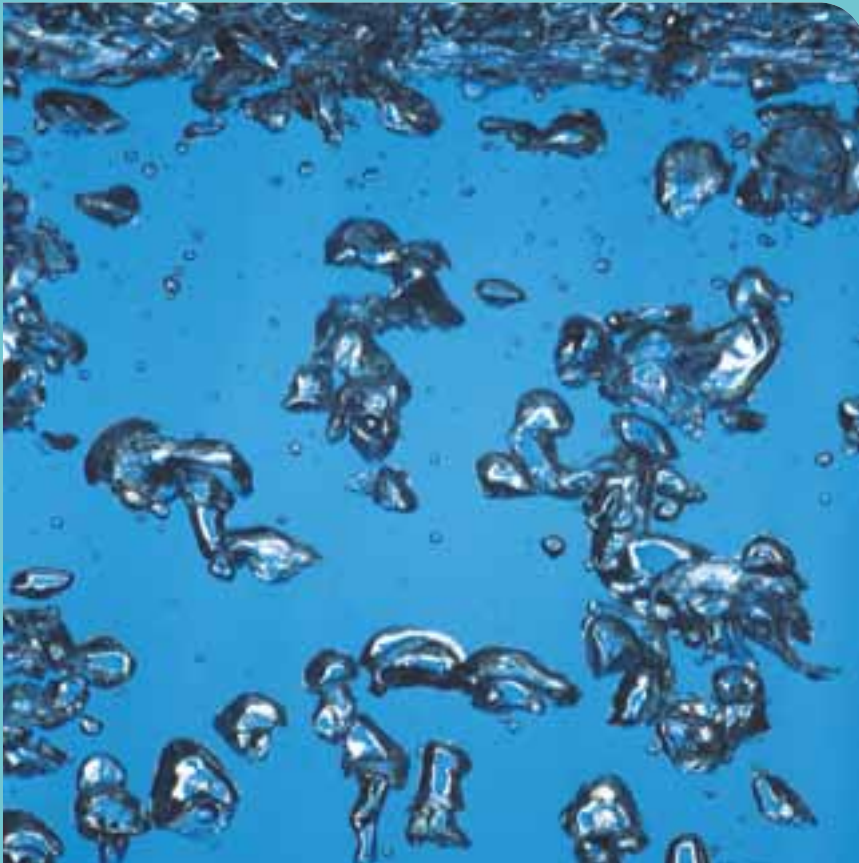
Aims for next year

We will be focusing on those businesses that have not yet succeeded in achieving Smiths safety targets and assisting their improvement plans. We will also be investigating the use of externally certifiable management systems to drive improvements further.



An employee at New Addington UK wears protection against chemical exposure while dipping printed circuit boards.

Respect for the environment



HTC seals reduce emissions

In April 2006 following an extensive research and development effort, John Crane introduced new Type 604HTC and Type 609HTC high temperature corrosion resistant welded metal bellows mechanical seals. When used as a dual seal arrangement, the new HTC seals provide zero or near-zero emissions to the atmosphere.

Code: Environment

Smiths is committed to ensuring that, as far as is reasonably practicable, any detrimental effects of its activities, products and services upon the environment are minimised.

Managing environmental impacts

We use the same organisational arrangements to manage environment issues as we use for health and safety (see page 7). At Smiths we believe that performance-based environmental management systems are the way to drive improvements throughout the business in terms of our own impacts. All facilities except small offices have been set the task of certification to ISO14001 while all new acquisitions must achieve certification within two years. Of our 104 eligible sites, 83 are certified to ISO14001 and we have programmes in place for those remaining uncertified.

We also see broader opportunities for reducing our impact on the environment, including managing the impact our products have on the environment after they have left our factories, and helping our suppliers improve their own performance.

Environmental management in the supply chain

Smiths recognises that achieving the level of commitment necessary for ISO14001 can be a bewildering process for smaller suppliers. In the UK, we have developed a programme in partnership with Envirowise (a UK government-funded advisor to business) for our suppliers, offering assistance by sharing our experiences of environmental management. The aim of the programme is to provide a catalyst for our suppliers to consider similar programmes.

Twelve companies in the UK signed up to the programme which has several objectives:

- to help suppliers use 'eco-design practices' (these include environmental considerations in product design);
- to provide support to ensure that products manufactured by suppliers have minimal impact on the environment;
- to assist suppliers to comply with current environmental legislation;
- to assist suppliers in developing an environmental policy; and
- to provide tailored support so that suppliers can embrace environmental best practice.

Suppliers who have been involved in this programme have already started to reduce both environmental impacts and operating costs. One supplier has reduced waste to landfill by 30%, site energy by 14% and has replaced some of its materials with less hazardous alternatives.

Our programme is now being extended to other parts of the supply chain.

Product stewardship

We acknowledge that our products continue to have an impact on the environment after they have left our factories and during their useful life. We have therefore developed a product stewardship programme to establish standard processes and materials that minimise products' impacts on the environment during manufacture, use and final disposal.

At Smiths Aerospace, we have combined product stewardship with helping suppliers manage their environmental impacts. Four suppliers were selected to join our eco-design improvement programme with Envirowise and ECO3, a UK environmental consultancy. The suppliers attended workshops to learn about the principles of eco-design, bringing with them one component part or unit they supply to Smiths. Through disassembling each component, suppliers learned about opportunities to find better materials and processes, improve end-of-life processing, recycling and packaging design. The other part of the programme includes follow-up visits from Envirowise to suppliers' sites.

Sustainable aviation

The UK aerospace industry has launched a major drive to improve the sustainability of the industry and Smiths is a founder signatory of the 'Sustainable Aviation Strategy'.

The strategy is a co-ordinated industry response to the challenges outlined by the UK Government in the 2003 Air Transport White Paper, and the joint industry and government report of the Aerospace Innovation and Growth Team. These made clear that long-term sustainable development of the aviation industry is essential to the environmental, economic and social well-being of the UK, and set the industry the task of leading the drive for sustainability. The strategy has been developed by UK airlines, airport operators, aircraft manufacturers and the principal air navigation service provider. It sets out eight goals and 34 detailed commitments, and establishes the mechanisms for monitoring and reporting on progress.

Aims for next year

Our four key reduction targets – energy consumption, waste to landfill, air emissions in the form of volatile organic compounds and water consumption – are set to run until July 2007, and we will continue to drive improvement against these. The Environment, Health and Safety Steering Committee is currently considering future goals that will further drive improvement throughout Smiths.



Helping suppliers with eco-design
Suppliers attending our eco-design workshop in Cheltenham, UK assess the components they produce for Smiths to find ways of reducing their impacts on the environment.

Performance against targets

In July 2004, we identified four key reduction targets (normalised based on turnover) with a three-year horizon:

- energy consumption, 5%;
- waste to landfill, 6%;
- air emissions in the form of volatile organic compounds (VOCs), 6%; and
- water consumption, 12%.

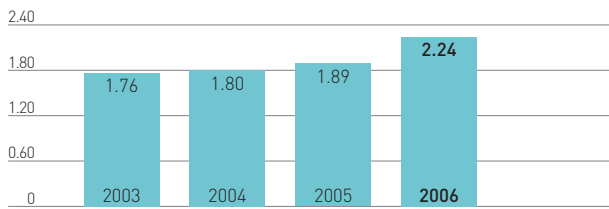
We are very pleased that we have already met all four of our three-year targets. We also aim to reduce CO₂ emissions or their equivalents, although we did not set a specific target for these in July 2004.

This year for the first time we have included environmental data from Medex, a significant acquisition for Smiths Medical in 2005. When their activities are added, the absolute amounts of most measures have increased, but the overall trend for reduction on a turnover basis has continued.

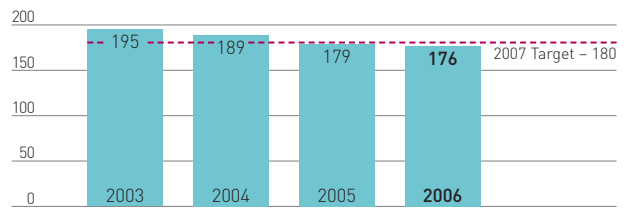
Energy consumption

When normalised by turnover, our total energy consumption continued to decline. This maintains the steady reduction we have achieved since we targeted energy consumption.

Total energy use (million GJ)



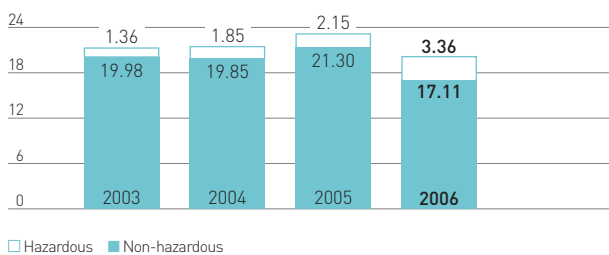
Total energy use (MWh/£m sales)



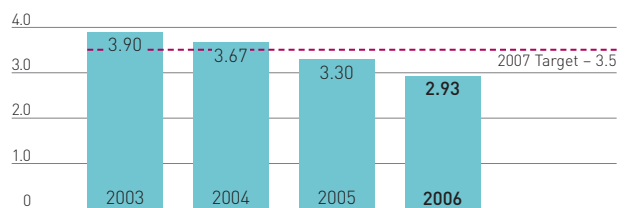
Waste

Waste to landfill continues to decline as we choose alternative disposal routes. Some sites are getting close to their target of zero waste to landfill.

Total waste ('000 tonnes)



Waste to landfill (tonnes/£m sales)



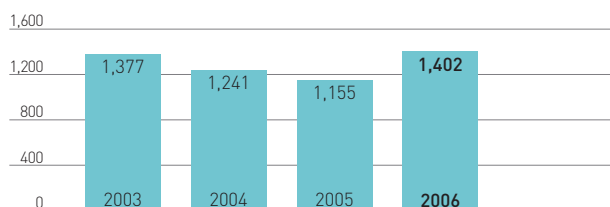
Over 90% scored

Smiths has for some years participated in Business in the Community's Environment Index. In 2005 we were =48th overall, scoring just over 90%, an improvement on the previous year. We scored well on management systems and related issues but accept that we have more to do on product stewardship and supply chain relationships to improve our performance.

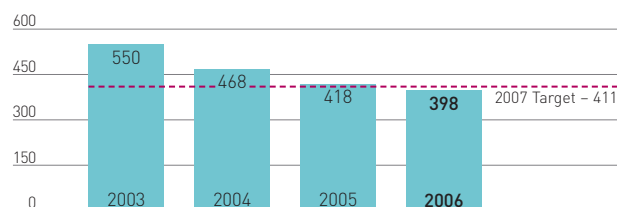
Water consumption

Our water efficiency is on target but we will continue to push for further economies in the coming year.

Total water use ('000m³)



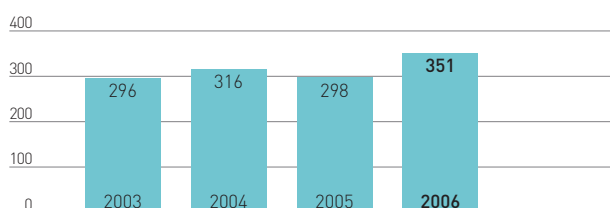
Water efficiency (m³/£m sales)



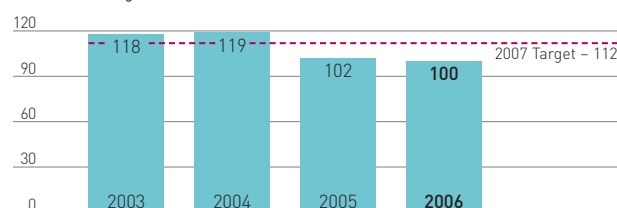
Air emissions in the form of VOCs

Our volatile organic compound emissions largely comprise chlorinated solvents. Again, whilst we have achieved the target that we had set for July 2007, we consider this to be an important area of activity and will push for further reductions.

VOC emissions (tonnes)



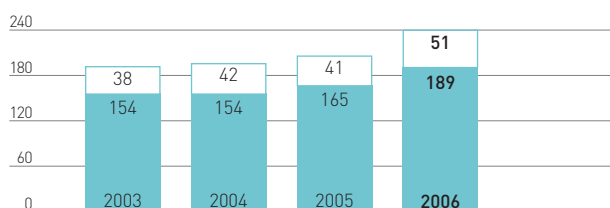
VOC emissions (kg/£m sales)



CO₂ emissions

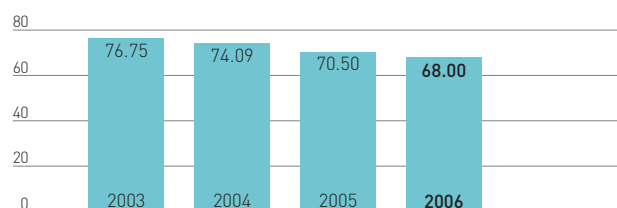
Emissions of CO₂ and indirect CO₂ equivalents show a steady reduction on a turnover basis.

Total CO₂ emissions ('000 tonnes)



□ Natural gas and other site energy sources ■ Electricity

CO₂ emissions (tonnes/£m sales)



Testing for air emissions

Reducing emissions to air is one of our four key targets. Here a contractor at the Smiths Medical steriliser plant in Keene, New Hampshire USA takes samples of air from the roof exhausts to test for ethylene oxide.

Contributing to the communities in which we live and work



St Mungo's

Smiths is building a relationship with St Mungo's, a London-based charity that helps homeless and vulnerable people. One initiative is to fund training for staff on health issues as well as helping to improve access for their 1,700 residents to the health care services they need.

Code: Communities

In addition to the provision of employment opportunities and training and development activities, Smiths seeks to contribute to the communities in which it operates by participation in, and support for, community and charitable initiatives.

With long-established roots in our local communities where we are often a major employer, Smiths businesses take an active role in the community, in schools, universities, hospitals and through charitable projects. These are often small but significant interventions involving people's time, rather than large corporate donations.

Smiths also supports national and international charitable organisations from a central budget administered by the Charity and Donations Committee, and, in 2006, donated £745,000 for charitable purposes. Other donations were made by our businesses around the world to various charities.

Here are just some of the examples of how Smiths people get involved in their local communities around the world.

Health

Health is a priority for Smiths, with our commitment to making the world healthier through products and services, not least through Smiths Medical. Beyond that we aim to participate in initiatives and schemes with wider public health objectives. Just after the end of this financial year, Smiths Medical donated airway management and pain management devices to the World Health Organization valued at £150,000.

Supporting developments in anaesthesia

Smiths Medical has had a relationship with Great Ormond Street Hospital and University College London (UCL) for over 15 years, donating funds totalling several million pounds. Now we have extended this commitment with the foundation of the Smiths Medical Chair of Anaesthesia and Critical Care at UCL contributing £150,000 a year.

Professor Monty Mythen, who sits on the Smiths Medical advisory panel, is the first to hold the Chair. He conducts important research to improve healthcare in the UK and worldwide. His team researches the medical implications of extreme conditions such as natural disasters and those experienced on expeditions.

Site spotlight**Cookeville, Tennessee, USA**

Our Tutco facility has been running various employee well-being campaigns this year, including a 'Stop Smoking' programme and a 'Biggest Loser' weight-loss programme. Tutco also ran a 'Wellness Fair' in September offering health screening for employees.

Toronto, Canada

Smiths Detection Toronto supports many health-related causes including Big Brothers and Big Sisters of Peel Sick Kids Foundation Toronto, the Heart and Stroke Foundation, Dances for Cancer and Juvenile Diabetes Research. Toronto also supports other good causes including Peel Children's Aid Foundation, School Supplies for Kandahar, and the Dixie Neighborhood Centre.

Education

Education is vital for people to achieve their potential. Smiths supports a host of initiatives that provide educational opportunities.

Supporting Headstart and creating engineering bursaries

By engaging with education, companies can help schools, colleges and universities recruit good students into technical disciplines and then help those students to focus on the types of challenges they will face once employed in industry.

In the UK, the number of students entering engineering is declining. Those that do tend increasingly to be recruited from a small pool who have engineers in their families. The Royal Academy of Engineering is seeking to address this problem through its Headstart programme which encourages young people to study engineering at university. The programme seeks out able students studying maths and science at A-level and puts them through a summer residential course in engineering and science in a university department. Headstart is developing ways of reaching out to female students from varied backgrounds and minority ethnic students.

Smiths is backing Headstart by providing support for students identified as being capable of studying engineering at university but who face financial and social barriers. Initially we will provide support for 20 students, all of whom will be eligible to apply for one of five Smiths bursaries which will help fund them through university. The bursaries will be administered by The Royal Academy of Engineering.

Supporting the Industrial Trust

Our UK Aerospace business has for the last two years been a partner in the Open Industry project of the Industrial Trust. The aim of this project is to help students link their academic studies to the world of work while encouraging them to consider a career in industry. Reports from both students and teachers have shown how beneficial the scheme has been, and many who took part have reported an interest in working in industry. The added advantage of the scheme is that the companies who host the project have also learnt from the visits.

**Improving the local environment**

While we aim to reduce CO₂ emissions, planting trees helps offset what we do produce. Smiths Detection in Watford, UK planted trees to offset the site's CO₂ emissions produced through business travel (pictured). Meanwhile, John Crane Italy planted trees near Bellusco Village which offset about 12% of the CO₂ emissions related to site electricity use.

Supporting CREST

For the sixth successive year, Smiths Aerospace hosted the 17th annual Creativity in Science, Engineering and Technology (CREST) award celebration and Schools Technology awards, whose aim is to further the teaching of technology and encourage students to pursue an education in engineering. The competition gives students the opportunity to get involved in technology projects, develops teamworking skills, encourages problem solving and enhances students' communication skills.

Site spotlight

Slough, UK

John Crane has been an active partner in a range of educational activities including the Young Enterprise programme which helps students design and market new products, the Education Business Partnership Science and Technology event, and the Engineering Education Scheme programme run by the Royal Academy of Engineering.

Community initiatives

At a local level, Smiths supports a variety of community initiatives.

Supporting St Mungo's

A new initiative agreed for the year ahead will see Smiths establish a relationship with St Mungo's, a London-based charity that provides practical support for thousands of homeless and vulnerable people each year. The charity aims to enable disadvantaged and vulnerable people to lead full, independent lives by helping them find a place to live, develop their skills through education and training programmes and workshops, build positive relationships with other people, and improve their mental and physical health.

As well as housing, St Mungo's provides specialist help to address the complex physical and mental health problems that many of their most vulnerable clients face. This health care programme is expanding and St Mungo's aims to achieve consistent practice across all of its housing projects over the next two years by training 'health champions' to support its clients' medical needs, employing health support workers who will build strong relationships with local health authorities, and developing more in-house clinics in its hostels.

A donation from Smiths is enabling St Mungo's to provide training for all their staff on health issues as well as helping them improve access for their 1,700 residents to the health care services they need. This training will enable staff to recognise the symptoms of serious conditions and give them the advocacy skills and knowledge they need to help residents get decent health care from GPs, hospitals and statutory services. Training will also cover awareness of healthy eating, sexual health and access to exercise for all residents.

Site spotlight

Minden, Nevada, USA

Through the donation of used computer and office equipment, PolyPhaser supports Computer Corps, a local not-for-profit organisation that repairs computers and donates them to financially disadvantaged students in the community.

Toronto, Canada

Smiths Detection in Toronto contributes to 'Computers for Schools Ontario'. This programme involves donating working computers to schools within the Mississauga area.

Stuart, Florida, USA

Smiths employees from RF Labs and EMC met at the Hobe Sound National Wildlife Refuge to scour the beaches, dunes, and woods to pick up litter and debris left by the tide. The same employees donated US\$500 which was then matched by the Group for a total donation of US\$1,000 to benefit the Muscular Dystrophy Association.

Edgwood, Maryland, USA

Smiths Detection in Edgwood received the 'Harford Award' for their outstanding efforts in contributing to the community, the local economy and their employees.

Aims for next year

- We will continue to look for opportunities to support causes that complement our business position.
- Smiths businesses will continue to support their local communities and charities.

**Raising awareness in Bangalore**

Sangamanath Amarappa Navadagi from John Crane Bangalore ran environmental awareness classes for the government children's home for boys in Takke in Bijapur.

Assurance statement

URS Verification Ltd (URSVL) has been commissioned by Smiths Group (Smiths) to provide independent assurance of its Corporate responsibility report 2006.

Responsibilities of Directors and Assurors

The information contained in Smiths Corporate responsibility report 2006 is the sole responsibility of the Directors of the company. This assurance statement represents the independent opinion of URSVL. The URSVL project team members have not been involved in the development of the report or associated systems. URSVL receives less than 5% of its revenue from Smiths.

URSVL has carried out its services by checking samples of information and documents that have been made available to URSVL by Smiths. Accordingly, URSVL has not checked or reviewed all of Smith's information and documents. This assurance statement is not intended to be used as advice or as the basis for any decisions, including, without limitation, financial or investment decisions.

Method

URSVL has performed this assurance process following the principles of the AA1000 assurance standard. URSVL auditors also apply the general principles of auditing and audit procedures as contained within international standard ISO 19011. The assurance process included:

- Interviews with twelve key Smiths personnel covering a range of business units and corporate responsibility related functions; and
- Visits to seven sites across the four divisions of Smiths located in UK, USA, Canada, Mexico and India.

The case studies presented in the report fall outside the scope of the verification process.

Opinion

Although Smiths has been reporting on environmental, health and safety management and performance for a number of years this is Smiths first annual corporate responsibility report. As acknowledged by Smiths, there is need for further work defining additional programmes under the corporate responsibility umbrella.

Smiths Code of Corporate Responsibility and Business Ethics has been rolled out across the business for a couple of years and there is a good level of awareness of the Code.

Materiality

Has Smiths applied an effective process to identify material risks?

Smiths has a business risk process that considers both financial and non-financial risks and is aggregated at a divisional and Group level. The process has been refined during the past year to include challenge by the non-executive directors on the content of the Group level risk matrix.

A variety of non-financial risks were identified during our interview process; these were generally consistent with those contained within the Group risk register. Increased dissemination of the outcomes from the business risk process could provide additional benefits to reinforce the existing risk management practices.

Completeness

Does the report provide a complete, fair and balanced representation of material issues?

The activities and programmes discussed in the report are fairly represented, and some difficult performance issues have been openly addressed. However, further discussion of the key environmental and social impacts of Smiths operations and stakeholder engagement would increase the clarity and balance of sections within this report. We look forward to Smiths providing greater coverage of impacts and performance in other areas such as marketplace including customer and supplier interactions, social impacts of product use and business change to improve the completeness of future reports.

Smiths has an established environmental, health and safety collection and collation process. Some errors have been identified during the assurance process, the majority of which relate to one off human error. None of these would be considered material when aggregated up to a divisional or corporate level. Furthermore, all the identified errors have been corrected within the data set contained in this report.

Responsiveness

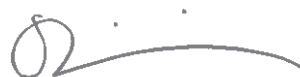
Does Smiths engage actively on key issues with appropriate stakeholders?

It is clear that there is engagement with various stakeholders at a number of levels within the organisation. There is also evidence that Smiths has changed its business practices to reflect the needs of its stakeholders. However, based on the scope of this assurance process and the devolved nature of Smiths it is not possible to comment on the overall quality and effectiveness of these processes.

Recommendations

We have provided recommendations for further development of the group's corporate responsibility strategy and programmes to Smiths management.

For and on behalf of URS Verification Ltd



Sally Vivian
Managing Principal

London
November 2006

Summary financial performance

Headline* results

	2006		2005	
	Sales £m	Profits £m	Sales £m	Profits £m
Aerospace	1,300	152.4	1,146	132.4
Detection	412	76.5	367	69.0
Medical	737	137.5	563	87.7
Specialty Engineering:				
– John Crane	518	69.4	463	62.5
– Specialty – Other	556	84.0	466	64.1
Total sales	3,523		3,005	
Headline* operating profit		519.8		415.7
Interest		(54.2)		(23.2)
Pensions financing		27.6		11.3
Post-tax loss of associate		(1.1)		
Headline* pre-tax profit		492.1		403.8
Headline* earnings per share (basic)		64.8p		52.8p

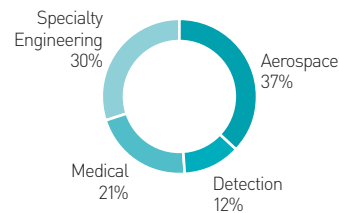
*Before exceptional items (including impairment of assets), amortisation of acquired intangible assets, profit or loss on disposal of businesses and financing gains or losses from currency hedging.

Statutory results

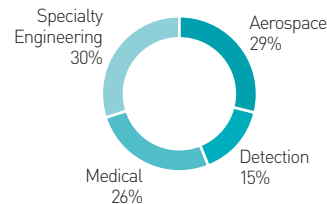
	2006		2005	
	Sales £m	Profits £m	Sales £m	Profits £m
Aerospace	1,300	145.8	1,146	119.9
Detection	412	81.2	367	69.0
Medical	737	108.5	563	57.8
Specialty Engineering:				
– John Crane	518	74.3	463	64.9
– Specialty – Other	556	75.8	466	70.4
Impairment of financial assets		(325.0)		
Total sales	3,523		3,005	
Operating profit		160.6		382.0
Interest		(54.2)		(23.2)
Pensions financing		27.6		11.3
Share of post-tax loss of associate		(1.1)		
Financing losses		(0.5)		(4.2)
Pre-tax profit		132.4		365.9
Earnings per share (basic)		4.3p		48.3p

Market analysis by division

Sales

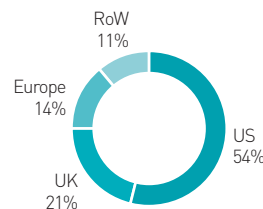


Headline profit

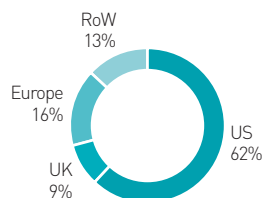


Market analysis by origin

Sales



Headline profit



Operating and financial review

[Operating review](#)

Financial review

Legal issues

Risks and uncertainties

Corporate responsibility

Corporate responsibility

Chief Executive's introduction

Smiths at a glance

[Managing corporate responsibility
and business ethics](#)

Employees

Health and safety

Environment

Communities

A comprehensive Operating and financial review is available online at www.smiths.com/ofr within the Investor Centre. This provides a detailed commentary on Smiths strategy, Group and divisional performance, legal issues, risks and uncertainties, and a summary of our approach to corporate responsibility.

The Smiths Corporate responsibility report is also available online at www.smiths.com/responsibility. Our first full Corporate responsibility report this year builds on the environment, health and safety reports published in previous years and also includes information on employees and communities.

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You can find our annual report and summary financial statement at: www.smiths.com/ir

