

Chairman's statement

Donald Brydon
Chairman



Headline earnings per share
+13%

47.0p

Dividend
+8.5%

34.0p

Statutory earnings per share

36.9p

The past year has seen further progress in the evolution of Smiths Group.

Each of the Group's three divisions brings technological products and solutions to a range of highly sophisticated customers. The Group's strength lies in a common technological culture based on shared values and breadth of experience. The Board continually ensures that this strength is focused on the needs of customers in areas with significant and profitable growth.

I remarked last year that I was disappointed that the market appeared reluctant to give Smiths management full credit for the investments that we had made in the aerospace business. By their nature these investments give returns over the long term and carry inherent risks, and for this reason were not fully reflected in the value of the Group.

Therefore this year will probably be best remembered as the year in which the Group sold its aerospace activities to General Electric Company (GE). Much of the vitality of the Group comes from the continuous appraisal by management and the Board of the appropriate structure for the Group. We are the guardians of your money and, as I have commented previously, together we ask ourselves on a regular basis if we are the best owners of our businesses. The restless hunt for shareholder value has seen the shape of the Group change considerably in recent years and this latest transaction is further proof of our determination to create value.

With the prospect of consolidation in the aerospace industry over the coming years the Board saw the opportunity to accelerate the return on its investments by seeking a buyer who would place a value on the aerospace businesses which, in the Board's view, would more appropriately reflect its inherent value. The result was the sale to GE at a price widely accepted as fully meeting that objective.

Discussions with GE at that time also revealed the possible benefits of combining our detection business with the relevant part of their Security Division. In the event the two companies were not able to agree a shared strategic vision for the combined business and agreed to terminate discussions in late September. Smiths Detection is the world leader in a fast-growing industry with excellent opportunities and the capacity to expand.

At the same time, there have been notable ongoing operational projects across the business as a whole: addressing new customers and generating new products in Detection; restructuring our manufacturing facilities and processes in Medical to ensure lower unit costs; driving into new markets in Specialty. The Group continues to push to improve production techniques. Our passion for efficiency underpins the creation of innovative customer solutions.

Following the sale of Aerospace, the Group returned £2.1 billion to shareholders. In doing so the Board recognised its responsibility as guardian of your money and, whilst ensuring that sufficient resources are available for appropriate acquisitions to maintain the dynamism of the Group, took the simple view that your money would be better in your hands. At the same time we have slimmed the central functions of the Group to reflect better its continuing size and shape.

I announced on 26 September the appointment of Philip Bowman as Chief Executive from 10 December 2007.

It is typical of Keith Butler-Wheelhouse's commitment and loyalty that he has placed the interests of the Group ahead of personal considerations and helped to facilitate this change by retiring on that date. He has led Smiths through major transformations and will be remembered for his continuous drive to extract the full potential from all the Group's activities.

The Board and the shareholders owe him a great debt and I would like to add my personal thanks for the way that he has led Smiths. We all wish him and Pam well in the next phase of their lives.

There were a number of other changes to the composition of the board during the last twelve months. Sir Julian Horn-Smith and Sir Nigel Broomfield both retired after many years of service to the Group. They each made significant contributions and I am delighted that Sir Nigel continues to bring his very special expertise to Detection. Dr John Ferrie left with the sale of the aerospace business. It is a measure of his professionalism, and of his team's, that the journey to its new owners passed off so smoothly. I would like to record here my thanks to all three. Change always presents opportunity and I am delighted to welcome Stuart Chambers and Peter Loescher to the Board; they both have considerable experience and will add value to our deliberations.

You will have noticed a different style in our reporting this year more in keeping with our drive to control costs and maintain efficiency. I hope nonetheless that our enthusiasm for the achievements of the Group still shows clearly even if the style of communication differs.

Finally, returning to the performance of the past year, the consolidated results show an underlying increase in sales of 5%. Headline earnings per share increased by 13%. As a result of this good performance the Board is recommending an increase in the dividend for the full year of 8.5% to 34.0p, with a final dividend therefore of 23.5p.

The Group remains strong and dynamic. I look forward to reporting further progress next year.



Donald Brydon
Chairman