

Chairman's statement

As I indicated in last year's report, the Board appointed Philip Bowman as Chief Executive of the Group in December 2007. Philip brings a new energy to the Group and already some significant changes to the operation of the Group have been announced following his initial review at all levels. All businesses benefit from fresh eyes and the Board has been delighted by the way in which Philip has further energised the management team.

Each of the Group's businesses brings technology based products and solutions to a range of highly sophisticated customers. The Board has continued to ensure that these customers are to be found in areas of significant and profitable growth opportunity including security, oil & gas, medical devices and wireless communications. These opportunities have to be turned into value for our shareholders and to this end the Chief Executive has instigated major changes that are aimed at substantially increasing value creation across the Group's portfolio of businesses.

The programme of changes set out in the Chief Executive's statement and the other narrative in this report explain these opportunities and how they will be exploited. The Board has encouraged the new approach to ensure that operationally the Group develops its potential to the full. At the forefront of this structure is clear delegated accountability for achievement in each of our businesses with executive reward clearly linked to value creating performance.

The smaller corporate centre of the Group guides the strategy and leverages benefits of scale across the Group. It retains the task, on behalf of the Board, of ensuring that the divisions comply with all of the systems and processes that protect shareholders' interests. Each division will now hold monthly Divisional Board Meetings: included on these boards will be an Investor Director from one of the Chief Executive's direct reports who will have a mandate that includes monitoring compliance with Group policies.

The business leadership teams deliver the operational performance which translates into improved shareholder returns. This clarity is important in developing a more performance-driven culture in Smiths. There is a corresponding increase in the demands made of all management to perform.

On 28 July, an Extraordinary General Meeting of shareholders adopted proposals that substantially change how the senior teams both at the centre and in each of the divisions are rewarded. These changes place a premium on the creation of shareholder value. They strengthen the link between pay and performance, they link remuneration to long-term value creation at divisional level and they provide exceptional reward only if there is exceptional performance.

In the past year there have been notable operational projects across the business as a whole addressing new customers and generating new products. Examples from across the businesses of these are to be found in this report; but it would be wrong at this time, when everyone is focused on safety, not to mention the major breakthrough achieved by our Detection business with its new aTix system security machines which are now being rolled out from Heathrow Airport in the UK to airports all around the world. It is a relief not to have to take out laptops where these machines are installed!

I have said in past reports that the Board is mindful of its role as guardian of shareholders' money. As well as ensuring operating excellence the Board remains restless in its hunt for shareholder value and will continue to monitor each of our businesses to ensure that the Group is their most appropriate owner.

The past year has seen a number of changes to the composition of the Board. On the executive side, the arrival of Philip Bowman in December 2007 was preceded by the retirement of Keith Butler-Wheelhouse, as I discussed last year. In addition, David Lillycrop resigned from the Board in June 2008, standing down from his role as General Counsel and Company Secretary. David had been a member of the Board since the merger with TI Group and I would like to thank him for his major contribution to Smiths Group and for the help he has given me.

On the non-executive side, in April 2008 Peter Loescher resigned as a non-executive director at his own request so that he could concentrate on his responsibilities as Chief Executive of Siemens AG. The Board benefitted from his wisdom and wish him well in his executive role.

At the half year we explained that in light of the prevailing market conditions and the scope for investment in organic growth and acquisitions, the Board intends to grow dividends consistent with increasing cover to around 2.5 times in the medium term. As a result the interim dividend was unchanged year-on-year.

The Board has considered the final dividend in the light of this policy and has decided to propose a dividend of 23.5p, making a total of 34.0p for the year, unchanged from last year.

The final dividend will be paid on 21 November to shareholders registered at the close of business on 24 October. The ex-dividend date is 22 October.

This report is being published at a time of turmoil in financial markets and anxieties for world growth. This is putting pressure on sales and margins for many businesses. It is not by chance that Smiths Group is positioned in markets that the Board believes are better equipped to resist the pressures of a global downturn. Neither the Board nor management are complacent and the businesses have embarked on an extensive programme of self-help that aims over the course of the next 24 months not only to withstand any effects from the downturn but also to deliver increased value to shareholders. The Group remains therefore both strong and dynamic.

Donald Brydon
Chairman

