

Directors' remuneration report

The Directors' remuneration report is presented to shareholders by the Board. The report complies with the Directors' Remuneration Report Regulations 2002 (the Regulations). A resolution will be put to shareholders at the Annual General Meeting on 18 November 2008 inviting them to approve this report.

Remuneration policy and arrangements

The Remuneration Committee

Responsibilities of the Committee include making recommendations to the Board on the Group's executive remuneration policy and determining, on behalf of the Board, specific remuneration packages for the executive directors and Chairman. The Committee operates within agreed terms of reference which are available for inspection on the Company's website. The Company complied with the provisions of the Combined Code 2006 on Corporate Governance relating to directors' remuneration throughout the financial year except as is disclosed on page 43.

In 2007/08 the Committee consisted of: Mr S.J. Chambers (Chairman of the Committee); Mr D.H. Brydon; Mr D.J. Challen; Mr P.J. Jackson (member from 16 April 2008); Mr P.H. Loescher (resigned on 4 April 2008); and Sir Kevin Tebbit (member from 16 April 2008).

Mr Brydon is absent when his own remuneration as Chairman of the Company is under consideration. The Chief Executive attends meetings of the Committee by invitation; he is absent when his own remuneration is under consideration.

During the year, the Committee received material assistance and advice from the Chief Executive, the General Counsel (who was also Secretary to the Committee until 3 June 2008) and the HR Director (who was also Secretary to the Committee from 3 June 2008).

During the year, the Committee received advice from Kepler Associates, who succeeded Towers Perrin as the independent executive remuneration advisers to the Committee in March 2008, and Freshfields Bruckhaus Deringer LLP. Kepler Associates did not provide any other advice to the Group. Freshfields Bruckhaus Deringer LLP, who were appointed by the Company, also advised the Group on various legal matters during the year.

Remuneration policy

The Committee applies a remuneration policy which has at its core the following objectives:

- to align the interests of executives with those of shareholders
- to focus on top line growth, improving margins and capital discipline
- to link a significant proportion of remuneration to financial and individual performance, both in the short-term and long-term
- to provide strong linkage between remuneration and performance
- to ensure remuneration is market-competitive and helps attract and retain executives of the highest calibre.

Remuneration arrangements

The remuneration of senior executives balances fixed, variable, short-term and long-term remuneration, and is reviewed each year to ensure that they are appropriately incentivised to achieve the Group's objectives.

For 2007/08, executive directors' remuneration comprised basic salary, benefits in kind, annual bonus and pension benefits. In addition, executive directors and senior executives participated in share-based incentive schemes, which in 2007/08 included the Smiths Group Sharesave Scheme, the Smiths Group Performance Share Plan (PSP) and the Smiths Group Co-Investment Plan (CIP).

During the year, the Remuneration Committee reviewed the Group's senior executive remuneration arrangements with a view to ensuring that they support the new strategy of focusing on value creation at both Group and Divisional levels.

On 28 July 2008, shareholders approved the Value Sharing Plan (VSP), a one-off long-term incentive plan rewarding executives for value creation at Group and Divisional levels over three-year and four-year periods commencing with the financial year 2008/09. The two executive directors and any other Corporate participants will be rewarded under the VSP for value creation at a Group level, whereas the executives with divisional responsibilities will be rewarded for value creation within the division for which they are responsible. The CIP will continue to operate with some amendments, also approved by shareholders. The participants in the VSP (including executive directors) will not be eligible for awards under the Performance Share Plan in 2008/09 or 2009/10.

Directors' remuneration report continued

The main elements of remuneration for executive directors in 2007/08 and 2008/09 are summarised below:

Element	Objective	2007/08 policy	2008/09 policy
Base salary (see page 49)	<ul style="list-style-type: none"> Reflects individual performance and experience; size and nature of the role 	<ul style="list-style-type: none"> Reviewed annually 2007/08 annual base salaries for current executive directors range from £400,000 to £800,000 p.a. 	<ul style="list-style-type: none"> Frozen at current levels for at least 2 years
Annual bonus (see page 49)	<ul style="list-style-type: none"> Incentivises short-term operational and financial performance 	<ul style="list-style-type: none"> Rewards Group and Divisional profit, cashflow and individual performance Maximum opportunity of 120% of salary for the Chief Executive and 100% of salary for other executive directors 	<ul style="list-style-type: none"> Increased weighting on individual performance Tougher performance targets Opportunity increased to 180% of salary for the Chief Executive and 150% of salary for any other executive director
Co-Investment Plan (CIP) (see page 49)	<ul style="list-style-type: none"> Encourages executives to build a shareholding in the Company Helps align interests of executives and shareholders 	<ul style="list-style-type: none"> Voluntary investment opportunity of up to 100% of net bonus earned (or 25% of salary, if higher) into Smiths shares 1-for-1 matching opportunity on any invested shares if average 3-year ROCE exceeds WACC+1% p.a. 	<ul style="list-style-type: none"> Mandatory investment in Smiths shares of 50% of any net bonus earned in respect of 2008/09 2-for-1 matching opportunity on invested shares after 3 years if average ROCE exceeds WACC+3% p.a. (1-for-1 match for ROCE between WACC+1% and WACC+3% p.a.)
Performance Share Plan (PSP) (see page 50)	<ul style="list-style-type: none"> Incentivises executives to achieve superior long-term performance and commitment to the goals of the Group Aligns executives' interests with those of shareholders Helps retain key talent 	<ul style="list-style-type: none"> Annual conditional share awards vesting 1/3rd on 3 year TSR relative to the FTSE100 (excluding financial services companies) and 2/3rds on 3-year EPS growth Awards worth 133.3% of salary for the Chief Executive and 112.5% of salary for other executive directors 	<ul style="list-style-type: none"> Replaced by VSP (see below)
Value Sharing Plan (VSP) (see page 49)	<ul style="list-style-type: none"> Incentivises senior executives to drive value creation Reinforces and rewards delivery of strategic goals 	<ul style="list-style-type: none"> Not applicable 	<ul style="list-style-type: none"> One-off incentive rewarding value creation over 3 years and 4 years Executives receive a pre defined number of shares per £5m of 'surplus value created'. For executive directors, 1/3rd of an award is based on growth in TSR relative to the FTSE100 (excluding financial services companies) and 2/3rds on the growth in internal value above the cost of equity
Pension (see page 50)	<ul style="list-style-type: none"> Provides competitive retirement benefits 	<ul style="list-style-type: none"> Varies between executive directors according to what was agreed at time of appointment 	<ul style="list-style-type: none"> As for 2007/08
Share ownership guidelines (see page 50)	<ul style="list-style-type: none"> Requires executives to build and maintain a significant shareholding in Smiths Supports alignment with shareholder interests 	<ul style="list-style-type: none"> 150% of salary for executive directors 	<ul style="list-style-type: none"> Increase share ownership guideline for the Chief Executive to 200% of salary 150% of salary for other executive directors

The executive directors' remuneration packages in 2007/08 and 2008/09 include fixed and variable elements. The fixed element is salary, which remains unchanged for both the Chief Executive and Finance Director, as described above: the variable elements assume that target annual bonuses will be achieved in respect of each year and include fair-value assessments of the long term incentive components of the packages awarded in each year. Approximately 60% of the executive directors' total remuneration for 2007/08 is expected to come from the variable elements of their packages: the changes outlined above for 2008/09 are anticipated to increase the proportion of their remuneration that is derived from variable elements to approximately 70%.

Elements of Remuneration

Base salary and benefits

Executive directors' salaries have typically been reviewed annually, taking into account individual performance and experience, the size and nature of the role, the relative performance of the Company, remuneration policy within the Company and salaries at comparator companies. The salaries for all participants in the Value Sharing Plan, including executive directors, will be frozen at current levels until 2010. Executive directors' base salaries for 2008/09 are, therefore, unchanged from 2007/08 at the following levels:

Executive director	Salary last reviewed	2008/09 salary
Mr P Bowman	10 December 2007	£800,000
Mr J Langston	1 August 2007	£424,000

Benefits include a fully expensed company car, or an allowance in lieu, and health insurance.

Annual bonus

2007/08

Executive directors were eligible to participate in an annual bonus plan based on a combination of corporate financial goals (Group and Divisional profit and cashflow) and individual performance. The maximum annual bonus opportunity for the Chief Executive was 120% of salary and for other executive directors was 100% of salary. Bonuses to be paid to executive directors in respect of the 2007/08 financial year are set out in the emoluments table on page 51.

2008/09

Maximum annual bonus opportunities will be increased to 180% of salary for the Chief Executive and 150% of salary for any other executive director. Targets will be made commensurately more demanding, and one-third of the bonus opportunity will be linked to the achievement of personal objectives. 50% of any net bonus earned must be invested in Smiths shares under the rules of the CIP.

Co-Investment Plan (CIP)

2007/08

Executive directors and selected senior executives were invited to participate in the CIP. Participants were able to invest up to 100% of their net earned annual bonus (or, if greater, 25% of salary) into Smiths shares. Invested amounts were eligible for a 1-for-1 matching share award after three years (based on the pre-tax amount of salary or deferred bonus in question), subject to continued employment in the Group and the Company's average return on capital employed (ROCE) over the performance period exceeding the Company's weighted average cost of capital (WACC) over the same period by an average margin of at least 1% per annum.

2008/09

Executive directors and selected senior executives will be required to invest 50% of any net bonus earned in respect of 2008/09 in Smiths shares. The maximum matching opportunity will be increased to 2-for-1, subject to the average ROCE exceeding the WACC by at least 3% p.a. over three years (with a 1-for-1 match if ROCE is between WACC+1% and WACC+3% p.a.). As a change to 2007/08, notional dividends will be paid on matching shares that vest.

The Committee continues to regard ROCE as an appropriate performance condition for reflecting the operating efficiency of the Company.

Value Sharing Plans (VSPs)

The Group and Divisional VSPs are one-off, long-term incentive plans, designed to reinforce Smiths' strategy of focusing on shareholder value creation at the Group and Divisional levels.

Group VSP

Messrs Bowman and Langston are participants in the Group VSP, which rewards executive directors and selected senior executives with a pre determined number of shares for every £5m of value created above a hurdle over the three-year and four-year performance periods from 1 August 2008 (or until a vesting event, if earlier). On 28 July 2008 Mr Bowman was granted an award under which he will be entitled to receive 1,250 Smiths Group shares for each £5m of surplus value created in respect of each performance period. On the same date Mr Langston was granted an award under which he will be entitled to receive 500 Smiths Group shares for each £5m of surplus value created in respect of each performance period.

- TSR Element

One-third of the award will depend on the growth, over each performance period, in Smiths' market capitalisation plus net equity cashflows to shareholders (i.e. dividends plus share buybacks less share issues) over and above the median total shareholder return of the FTSE100 companies (excluding financial services companies).

- Earnings Element

The remaining two thirds of each award will be determined by the growth, over each performance period, in adjusted Profit Before Tax (PBT) (2007/08: £338.6m) times a fixed multiple of 12 plus net equity cashflows to shareholders over and above a cost of equity hurdle return of 9.5% p.a.

Participants will only be entitled to a vesting of shares under the TSR Element if the Committee is satisfied that this is justified by the underlying financial performance of the Company over the Performance Period.

No retesting of either performance condition is permitted.

Directors' remuneration report continued

Divisional VSPs

In addition to the Group VSP, the Committee has introduced Divisional plans for each of the five divisions (Smiths Detection, Smiths Medical, John Crane, Smiths Interconnect, and Flex-Tek). The plans are along the same lines as the Group VSP to help focus the most senior Divisional executives on maximising the value of their divisions and returning surplus cash. Further details on the Divisional VSPs are contained in the Circular Letter to Shareholders dated 4 July 2008.

Performance Share Plan (PSP)

No awards will be made under the PSP to executive directors or any other participants in the VSP in 2008/09 and 2009/10. Grants to executive directors in 2007/08 were between 112.5% and 133.3% of salary. An award of 150% of salary was made to Mr Bowman on his appointment.

Awards vest after three years, subject to performance conditions. One-third of the award vests based on the Company's TSR performance relative to the FTSE100 companies (excluding financial services companies); the remaining two-thirds of the award vests subject to an earnings per share (EPS) growth target (measured before exceptional items).

Sharesave Scheme

The Smiths Group Sharesave Scheme, which is open to all UK employees with at least 12 months' service, is subject to UK legislation as to the amount that can be saved. Participants save a fixed sum per month for three or five years and may use the sum generated by their savings contracts to exercise the options which are usually granted at a 20% discount to the market price.

Share ownership guidelines

It is the Committee's policy that executive directors should, over time, acquire a shareholding with a value equal to at least one and a half years' gross salary and retain at least 50% of any net vested share awards (after sales to meet tax liabilities) until those values are achieved. In 2008/09, the share ownership guideline will be increased to two years' gross salary for the Chief Executive.

Share scheme dilution limits

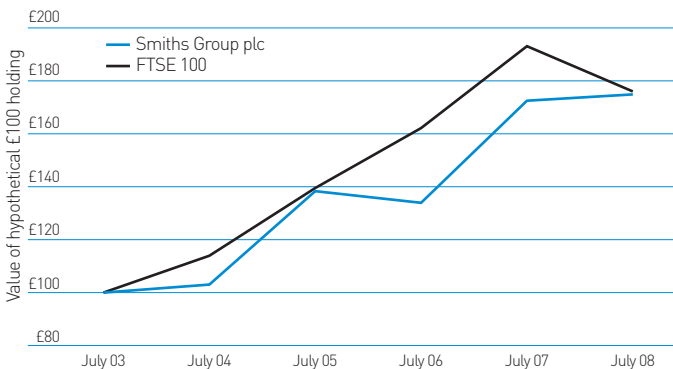
The Company follows the guidelines laid down by the Association of British Insurers. These restrict the issue of new shares under all the Company's share schemes in any 10-year period to 10 per cent of the issued ordinary share capital and under the Company's discretionary schemes to 5 per cent in any 10-year period. As at 31 July 2008, the headroom available under these limits was 3.8% and 0.1%, respectively (excluding the conditional share awards granted under the VSP on 28 July 2008).

Pension

The Company operates appropriate pension arrangements for executive directors. In the case of Mr Bowman, the Company pays a monthly salary supplement of a percentage of salary approved by the Committee to enable him to make his own pension provision. In the case of Mr Langston, a final salary scheme provides a pension of up to two-thirds of final pensionable salary. The Company continues to apply an earnings cap, on a basis similar to the pre-2006 statutory limit, to determine the proportion of overall pension payable by the regulated pension scheme, with the balance of pension provided by the Company. This arrangement substantially represents a continuation of pre-2006 practice and involves no additional cost for the Company. In appropriate cases, the Company permits the waiver of salary and pension supplement entitlements where the arrangement does not involve additional cost for the Company. Where such waivers are made, incentives and pension entitlements continue to be calculated by reference to salaries prior to these reductions. Details of the salary supplements, waiver and other pension provisions are set out in the tables on pages 51 and 52.

Five-year historical TSR performance

The following graph shows the Company's total shareholder return (TSR) performance over the past five years compared to the FTSE100 Index. The FTSE100 Index, of which the Company has been a member throughout the period, has been selected to reflect the TSR performance of other leading UK-listed companies. The values of hypothetical £100 investments in the FTSE100 Index and Smiths Group plc shares (after adjustment for the Return of Cash in June 2007) were £165 and £166 respectively.



Remuneration

The total remuneration of directors, excluding the value of shares to which certain directors may become entitled under the Performance Share Plan and Co-Investment Plan and also defined benefit pension arrangements, was as follows:

	2008 £000	2007 £000
Fees, salaries and benefits, compensation for loss of office	4,098	2,740
Performance-related bonuses	1,232	1,943
Aggregate gain from exercise of share options and vesting of share awards	2,026	3,479
Incremental gain from deferred share scheme exercises	109	363
Payments in lieu of pension contribution	362	544
	7,827	9,069

The emoluments of the directors are set out below:

	Fees/salary		Compensation for loss of office		Benefits	Bonus	Payments in lieu of pension contribution		Total emoluments	
	2008 £000	2007 £000	2008 £000	2007 £000			2008 £000	2007 £000	2008 £000	2007 £000
Chairman										
D H Brydon	295	273	-	-	22	-	-	-	317	293
Chief Executive										
P Bowman (appointed 10/12/07)	516	-	-	-	14	608	217	-	1,355	-
Executive director										
J Langston	424	400	-	-	38	346	-	-	808	788
Non-executive directors										
D J Challen	67	65	-	-	-	-	-	-	67	65
S J Chambers (appointed 27/11/06)	62	40	-	-	-	-	-	-	62	40
P J Jackson	67	65	-	-	-	-	-	-	67	65
Sir Kevin Tebbit (appointed 14/06/06)	52	50	-	-	-	-	-	-	52	50
Directors who resigned in 2007/08										
K O Butler-Wheelhouse (retired 10/12/07 – note 4)	310	840	1,748	-	46	-	145	-	2,249	2,132
D P Lillycrop (resigned 03/06/08 – note 5)	337	359	-	-	70	278	-	-	685	787
P H Loescher (appointed 01/06/07; resigned 08/04/08)	36	8	-	-	-	-	-	-	36	8
Directors who resigned in 2006/07 (in aggregate)	-	412	-	-	-	-	-	-	-	999
	2,166	2,512	1,748		190	1,232	362		5,698	5,227

1. Shares which may be awarded under the Performance Share Plan; Co-Investment Plan; and the Group Value Sharing Plan are as set out in the directors' share options and awards table on pages 54 to 56.

2. Under the arrangements approved by the Remuneration Committee, Mr Butler-Wheelhouse waived entitlements to certain of his emoluments in return for the Company making equivalent amounts of contributions to the Smiths Industries Pension Scheme to provide money purchase benefits, which does not involve additional cost for the Company. Under these arrangements, Mr Butler-Wheelhouse waived £38,905.79 during the year. The amounts waived would otherwise have been paid to Mr Butler-Wheelhouse as payments in lieu of pension contributions and are included in the table above.

3. In common with other UK employees participating in the relevant pension schemes, the salaries of Messrs Langston and Lillycrop were each reduced by £8,580 and the Company paid the same amount directly to the pension schemes during the year. The salaries shown in the table above for these directors are the amounts they would have been paid if they had not given up these salary entitlements.

4. Mr Butler-Wheelhouse retired on 10 December 2007. The salary, benefits and pension contribution information in the table above relates to his employment from 1 August 2007 to 10 December 2007. Further information on Mr Butler-Wheelhouse's termination arrangements, including his bonus payment for 2007/08, is set out below.

5. Mr Lillycrop remained in service on his existing terms and conditions following his resignation from the board. The information in the table reflects salary and benefits up to his resignation and the proportion of the 2007/08 bonus attributable to his period of service as a director within that year. During the period 4 June to 31 July 2008, Mr Lillycrop received £63,388 in salary and benefits to the value of £13,164 as an employee: the proportion of his 2007/08 bonus attributable to that period was £53,395. Further information on Mr Lillycrop's termination arrangements is set out below.

Directors' remuneration report continued

Directors' pension entitlements

Accrued annual pension under defined benefit schemes

	Age at 31 July 2008	Accrued entitlement at 31 July 2007 £000	Additional pension earned during the year (excluding any increase for inflation) £000	Transfer value of accrued benefits at 31 July 2008 (New basis) (A) £000	Transfer value of accrued benefits at 31 July 2007 (MFR basis) (B) £000	Transfer value of accrued benefits at 31 July 2007 (New basis) (C) £000	The amount of (A - B) less contributions made by the director in 2008 £000	Accrued entitlement at 31 July 2008 £000 p.a.
J Langston	58	212	20	5,670	3,656	4,183	2,014	241
D P Lillycrop (resigned 03/06/08)	52	156	24	3,414	2,058	2,267	1,356	186

1. An executive director's normal retirement age is 60. An early retirement pension, based on actual service completed, may be paid after age 50 and may be subject to a reduction on account of early payment. On death, a spouse's pension of two-thirds of the director's pension (or for death-in-service his prospective pension at age 60) is payable. All pensions in excess of the Guaranteed Minimum Pension (GMP) are guaranteed to increase at the lesser of (i) 7% per annum compound and (ii) the annual increase in the Retail Prices Index. There has, however, been a long-standing practice of granting additional discretionary increases on pensions in excess of the GMP to bring them into line with price inflation.

2. See Note 3 above. The benefits provided under the relevant pension schemes were not affected by these arrangements.

3. Transfer values of the accrued benefits have been calculated in accordance with actuarial guidance (GN11), and represent the amount that the pension scheme would pay to another pension provider if the member elects to transfer all of his benefits out of the scheme. The transfer values do not represent sums payable or due to the individual directors and therefore cannot be added meaningfully to annual remuneration.

4. The transfer basis changed with effect from August 2007 and therefore the transfer value at 31 July 2007 is shown on the revised basis for comparison purposes [see Column (C) in the table above].

Directors' interests in the Company's shares

	Ordinary shares of 37.5p each 31 July 2008	Ordinary shares of 37.5p each 1 August 2007
D H Brydon	8,000	8,000
P Bowman (appointed 10/12/07)	20,000	3,000†
D J Challen	1,333	1,333
S J Chambers	1,333	1,333
P J Jackson	0	0
J Langston	175,650	112,824
Sir Kevin Tebbit	0	0
K O Butler-Wheelhouse (retired 10/12/07)	317,368*	400,732
D P Lillycrop (resigned 03/06/08)	91,598*	80,623
P H Loescher (resigned 04/04/08)	0*	0

*Indicates holding of ordinary shares of 37.5p each at date of resignation.

†Indicates holding of ordinary shares of 37.5p each at date of appointment

These interests include beneficial interests of the directors and their families in the Company's shares held in trusts and holdings through nominee companies. None of the directors has disclosed any non-beneficial interests in the Company's shares.

The Company has not been notified of any changes to the holdings of the current directors, their families and any connected persons between 1 August and 19 September 2008.

Service contracts

The Company's policy is that executive directors are normally employed on terms which include a one-year rolling period of notice and provision for the payment of a predetermined sum in the event of termination of employment in certain circumstances (but excluding circumstances where the Company is entitled to dismiss without compensation).

Mr Bowman is employed under a service contract with the Company dated 15 November 2007 and effective from 10 December 2007. The service contract is for an indefinite term expressed to end automatically on his anticipated normal retirement date (age 60), but may be terminated by 12 months' notice given by the Company (save that during the first 12 months of employment, the notice period shall expire on the second anniversary of the effective date) or six months' notice given by Mr Bowman. The Company may elect to terminate the contract by making a payment in lieu of notice equal to 150% of Mr Bowman's basic salary in respect of the unserved notice period. In this event, the contract provides that Mr Bowman's bonus entitlement for the financial year in which termination occurs and for the unserved notice period will be the subject of a separate, good faith discussion between Mr Bowman and the Chairman; the contract also specifies that Mr Bowman will be treated as a "good leaver" for the purposes of relevant share plans. In certain constructive dismissal events, Mr Bowman is entitled to resign and be treated in the manner set out above.

Mr Langston is employed under a service contract with the Company dated 26 September 2001. The service contract is for an indefinite term expressed to end automatically on the anticipated normal retirement date (age 60), but may be terminated by 12 months' notice given by the Company or six months' notice given by Mr Langston. The Company may at its discretion elect to terminate the contract by making a payment in lieu of notice on the following terms:

1. the salary receivable during the notice period;
2. an amount equal to 50% of the maximum bonus potential receivable under the executive bonus scheme for the then current bonus year;
3. the annual cost to the Company of providing all other benefits to which Mr Langston is entitled under his contract, which has been pre-agreed as 10% of basic salary; and
4. an amount equal to the cost of securing one year's pensionable service in the appropriate pension scheme(s). In addition, the Company has given its irrevocable consent to early payment of Mr Langston's pension from age 50 and without actuarial reduction from age 55.

Mr Lillycrop, who resigned as a director on 3 June 2008, remains employed under a service contract dated 26 September 2001. Under a compromise agreement dated 14 August 2008, it has been agreed that Mr Lillycrop will remain in service until 30 November 2008 (serving six months of his notice period), continuing to receive normal salary and benefits until that date. In accordance with the termination provisions in his service contract (which reflect those of Mr Langston's service contract, as described above), he will on termination become entitled to a payment of £332,000 and the credit of six months' additional pensionable service. The Company has agreed to the continuation of private healthcare cover for Mr Lillycrop's and his spouse's lifetimes and to approximately £50,000 of educational benefits for his children for the current academic year: he will also be entitled to outplacement counselling and to payment of legal fees relating to the termination. In accordance with Mr Lillycrop's service contract, his share awards under the PSP and matching share awards under the CIP will be preserved and will be capable of vesting on the normal vesting dates without application of time prorating.

Mr Butler-Wheelhouse, who resigned as a director on 10 December 2007, was employed under a service contract with the Company dated 26 September 2001, as varied by a letter dated 31 July 2007. Although it had been anticipated that Mr Butler-Wheelhouse would be retiring on 31 July 2008, such that no compensation would have been payable to him under his service contract on retirement, his employment was, in fact, terminated on 10 December 2007 in order to facilitate handover arrangements to his successor as Chief Executive. He was accordingly entitled under his contract to receive a termination payment of £833,055, representing his entitlement to salary, pension allowance and benefits in kind for the period from 11 December 2007 to 31 July 2008, and a cash bonus of £915,363 (being an amount equal to the average of the annual bonuses paid to him over the three financial years 2004/05, 2005/06 and 2006/07). He was also entitled to the continuation of private healthcare for his and his spouse's lifetimes and to life cover and car benefits until 31 July 2008. In relation to Mr Butler-Wheelhouse's share awards under the PSP and matching share awards under the CIP, the Committee agreed to provide him with the most favourable treatment under the rules, so that his awards will be preserved and capable of vesting on the normal vesting dates without application of time prorating.

External appointments

Subject to the overriding requirements of the Company, the Committee is prepared to allow executive directors to accept external appointments where it considers that such appointments will contribute to the director's breadth of knowledge and experience. Directors are permitted to retain fees associated with such appointments.

Chairman and non-executive directors

Non-executive directors (which term excludes the Chairman) were paid fees totalling £284,000 in the financial year ended 31 July 2008. Their remuneration is determined by the Board in accordance with the Articles of Association, with the non-executive directors abstaining from voting. During the year, the basic fee was £52,000 per annum. The Chairman and the non-executive directors are not eligible for bonuses or participation in share schemes and no pension contributions are made on their behalf. The Chairman and the non-executive directors serve the Company under letters of appointment and do not have contracts of service or contracts for services.

Auditable part

The directors' remuneration tables and accompanying notes on page 51; the directors' pensions table and accompanying notes on page 52; and the directors' share options and awards table on pages 54 to 56 have been audited.

The Directors' remuneration report has been approved by the Board and signed on its behalf by:

S J Chambers

23 September 2008

Directors' remuneration report continued

Directors' share options and long-term share plans

Director and Scheme	Options and awards held on 31 July 2008	Options and awards held on 31 July 2007	Option and award data						Options exercised and awards vested 2007/08			
	Number	Number	Performance test	Exercise price	Grant date	Vesting date*	Expiry date**	Exercise date	Number	Exercise price	Market price at date of grant***	Market price at date of exercise†
P Bowman – appointed 10/12/07												
PSP	75,543	0 x	C	n/a	11/12/07	13/11/10	13/11/10					
	37,771	0 x	D	n/a	11/12/07	13/11/10	13/11/10					
J Langston												
95 ESOS	38,462	38,462	A	806.00p	09/04/02	09/04/05	09/04/12					
	38,461	38,461	B	806.00p	09/04/02	09/04/05	09/04/12					
PSP	0	44,547	C	n/a	07/12/04	07/12/07		07/12/07	44,547	n/a	781.50p	1,059.00p
	0 #	22,274	D	n/a	07/12/04	07/12/07		<i>lapsed 07/12/07</i>				
	38,269	38,269	C	n/a	07/10/05	20/10/08	20/10/08					
	19,135	19,135	D	n/a	07/10/05	20/10/08	20/10/08					
	44,618	44,618	C	n/a	29/09/06	25/10/09	25/10/09					
	22,309	22,309	D	n/a	29/09/06	25/10/09	25/10/09					
	38,243	0	C	n/a	13/11/07	13/11/10	13/11/10					
	19,121	0	D	n/a	13/11/07	13/11/10	13/11/10					
CIP	51,680	51,680	E	n/a	25/10/05	24/09/08	24/09/08					
	31,881	31,881	E	n/a	02/02/07	30/09/09	30/09/09					
	22,202	0	E	n/a	13/11/07	29/09/10	29/09/10					
SAYE	0	1,795		525.00p	05/05/04	01/08/07		01/08/07	1,795	525.00p	525.00p	1,025.00p
	1,088	1,088		868.00p	18/05/07	01/08/10	01/02/11					
DSS	0	17,922		0.10p	07/12/04	07/12/07		07/12/07	17,922	0.10p	784.17p	1,059.00p
TI 90 ESOS	0 #	18,691		1,219.80p	08/09/97	08/09/00		<i>lapsed 08/09/07</i>				
D P Lillycrop – resigned 03/06/08												
95 ESOS	37,221 z	37,221	A	806.00p	09/04/02	09/04/05	01/05/09					
	37,220 z	37,220	B	806.00p	09/04/02	09/04/05	01/05/09					
PSP	0	42,491	C	n/a	07/12/04	07/12/07		07/12/07	42,491	n/a	781.50p	1,059.00p
	0 #	21,246	D	n/a	07/12/04	07/12/07		<i>lapsed 07/12/07</i>				
	36,503 z	36,503	C	n/a	07/10/05	20/10/08	20/10/08					
	18,252 z	18,252	D	n/a	07/10/05	20/10/08	20/10/08					
	40,060 z	40,060	C	n/a	29/09/06	25/10/09	25/10/09					
	20,030 z	20,030	D	n/a	29/09/06	25/10/09	25/10/09					
	36,057 z	0	C	n/a	13/11/07	13/11/10	13/11/10					
	18,029 z	0	D	n/a	13/11/07	13/11/10	13/11/10					
CIP	45,362 z	45,362	E	n/a	25/10/05	24/09/08	24/09/08					
	29,994 z	29,994	E	n/a	02/02/07	30/09/09	30/09/09					
	19,934 z	0	E	n/a	13/11/07	29/09/10	29/09/10					
SAYE	0	1,539		645.00p	09/05/02	01/08/07		01/08/07	1,539	645.00p	645.00p	1,025.00p
	1,185 z	1,185		554.00p	08/05/03	01/08/08		<i>exercised 01/08/08</i>				
	1,131 z	1,131		868.00p	18/05/07	01/08/10	01/05/09					
	899 z	0		724.00p	15/05/08	01/08/13	01/05/09					
DSS	0	21,750		0.10p	07/12/04	07/12/07		07/12/07	21,750	0.10p	784.17p	1,059.00p
TI 90 ESOS	0 #	19,675		1,219.80p	08/09/97	08/09/00		<i>lapsed 08/09/07</i>				
	0	23,364		1,026.66p	13/03/98	13/03/01		29/10/07	23,364	1,026.66p	1,026.66p	1,122.90p

Director and Scheme	Options and awards held on 31 July 2008	Options and awards held on 31 July 2007	Performance test	Exercise price	Grant date	Option and award data			Options exercised and awards vested 2007/08			
	Number	Number				Vesting date*	Expiry date**	Exercise date	Number	Exercise price	Market price at date of grant***	Market price at date of exercise†
K O Butler-Wheelhouse – retired 10/12/07												
95 ESOS	86,849 z	86,849	A	806.00p	09/04/02	09/04/05	10/06/09					
	86,848 z	86,848	B	806.00p	09/04/02	09/04/05	10/06/09					
PSP	0	100,746	C	n/a	07/12/04	07/12/07		07/12/07	100,746	n/a	781.50p	1,059.00p
	0 #	50,373	D	n/a	07/12/04	07/12/07		<i>lapsed 07/12/07</i>				
	86,548 z	86,548	C	n/a	07/10/05	20/10/08	20/10/08					
	43,274 z	43,274	D	n/a	07/10/05	20/10/08	20/10/08					
	93,698 z	93,698	C	n/a	29/09/06	25/10/09	25/10/09					
	46,849 z	46,849	D	n/a	29/09/06	25/10/09	25/10/09					
	82,308 z	0	C	n/a	13/11/07	13/11/10	13/11/10					
	41,154 z	0	D	n/a	13/11/07	13/11/10	13/11/10					
CIP	125,937 z	125,937	E	n/a	25/10/05	24/09/08	24/09/08					
	75,213 z	75,213	E	n/a	02/02/07	30/09/09	30/09/09					
	51,655 z	0	E	n/a	13/11/07	29/09/10	29/09/10					
SAYE	2,964 z	2,964		554.00p	08/05/03	01/08/08		<i>exercised 01/08/08</i>				
DSS	58,987 z	58,987		0.10p	07/12/04	07/12/07		<i>exercised 20/03/08</i>				

Value Sharing Plan

Director and Scheme	VSP awards held on 31 July 2008	VSP awards held on 31 July 2007	Performance test	Exercise price	Grant date	Award data			Awards vested 2007/08			
	Shares per £5m surplus value‡	Shares per £5m surplus value‡				Vesting date*	Expiry date**	Exercise date	Number	Exercise price	Market price at date of grant***	Market price at date of exercise†
P Bowman – appointed 10/12/07												
VSP	417	0 x	F	n/a	28/07/08	Oct 2011	Oct 2011					
	833	0 x	G	n/a	28/07/08	Oct 2011	Oct 2011					
	417	0 x	F	n/a	28/07/08	Oct 2012	Oct 2012					
	833	0 x	G	n/a	28/07/08	Oct 2012	Oct 2012					
J Langston												
VSP	167	0	F	n/a	28/07/08	Oct 2011	Oct 2011					
	333	0	G	n/a	28/07/08	Oct 2011	Oct 2011					
	167	0	F	n/a	28/07/08	Oct 2012	Oct 2012					
	333	0	G	n/a	28/07/08	Oct 2012	Oct 2012					

Key

95 ESOS The Smiths Industries 1995 Executive Share Option Scheme

PSP The Smiths Group Performance Share Plan

CIP The Smiths Group Co-Investment Plan

SAYE The Smiths Group Sharesave Scheme

DSS The Smiths Industries Senior Executive Deferred Share Scheme

TI 90 ESOS The TI Group (1990) Executive Share Option Scheme

VSP The Smiths Group Value Sharing Plan

* The Vesting Dates shown above in respect of options granted under the 95 ESOS and awards made under the PSP, CIP and VSP are subject to the relevant performance test being passed.

** Market price of a Smiths share at date of grant (if different from exercise price). The exercise price of an option under the Smiths Group Sharesave Scheme is set at 20% less than the mid-market closing price of a Smiths share on the business day preceding the date on which employees are invited to participate in the grant. The market prices for DSS options are actual prices paid for the matching shares purchased by the optionholders.

*** The expiry dates shown above apply in normal circumstances. No expiry date is shown if the option or award was exercised or vested or lapsed prior to 19 September 2008. In the case of the two former directors, the expiry dates shown are specific to their particular circumstances.

† Mid-market closing quotation from the London Stock Exchange Daily Official List or actual sale price, if applicable.

Denotes an option that lapsed on the 10th anniversary of its date of grant or a conditional award that lapsed on the 3rd anniversary of the date of its grant.

x Options and awards held at date of appointment as a director of the Company.

z Options and awards held at date of cessation of appointment as a director of the Company.

‡ Indicates the number of shares that will be awarded for each £5m of surplus value created, subject to the performance test and hurdle. The operation of the VSP is explained in detail above.

Directors' remuneration report continued

Performance tests

- A EPS growth versus UK RPI Index + 3% p.a.
- B EPS growth versus UK RPI Index + 4% p.a.
- C PSP Earnings Per Share growth test (see below)
- D PSP Total Shareholder Return rank test (see below)
- E CIP Return on Capital Employed test (see above)
- F Surplus Shareholder Value – VSP TSR Test (see above)
- G Surplus Internal Value – VSP PBT Test (see above)

Notes

The high and low market prices of the ordinary shares during the period 1 August 2007 to 31 July 2008 were 1151p and 891.5p respectively.

The mid-market closing price on 31 July 2007 was 1047p and on 31 July 2008 was 1047p.

The mid-market closing price of a Smiths share on the date of awards made to directors under the PSP and CIP in the 2007/08 financial year was 1057p.

Of the 78,011 shares under options granted to and held by directors under 95 ESOS and SAYE at 31 July 2008, all shares were granted at exercise prices below the market price of a Smiths Group share on 19 September 2008 (1108p).

None of the options or awards listed above was subject to any payment on grant.

Options and awards which lapsed during the financial year ended 31 July 2008 are indicated in the table above by a hash mark (#); no other options or awards held by any director lapsed during the period 1 August 2007 to 31 July 2008.

No other Director held any options over the Company's shares during the period 1 August 2007 to 31 July 2008.

No options or awards have been granted to or exercised by directors or have lapsed during the period 1 August to 19 September 2008.

Executive directors received their final grants of options under the 95 ESOS in October 2003. From 2004 to 2007, senior executives, including directors, received awards under the PSP. The final grant of options under the DSS was issued in December 2004: the DSS has been replaced by the CIP.

PSP awards will be released after three years to the extent a performance condition is met. One-third of the award is subject to a TSR target relative to other FTSE 100 companies (excluding financial companies and investment trusts). For full vesting, the Company's TSR must be at or above the 75th percentile over the three year performance period. 25% of the award will vest if the Company's TSR is at median. Awards will vest on a straight-line pro rata basis between median and 75th percentile. The remaining two-thirds of the award will be subject to an earnings per share (EPS) growth target (measured before exceptional items). For each of the three year cycles commencing in 2005/06, 2006/07 and 2007/08 full vesting will occur if the compound annual growth in EPS is equivalent to 12% per annum. 25% vesting will occur if the compound annual growth in EPS is equivalent to 5% per annum, with vesting on a straight-line basis between 5% and 12%. The Committee considered the use of two measures, in these proportions, to be appropriate. The TSR performance measure is dependent on the Company's relative long-term share price performance and, therefore, brings a market perspective to the Performance Share Plan. This is balanced by a key internal measure, EPS growth, which is critical to our long-term success and ties in with the Group's strategic goals. The Committee determined the threshold and maximum vesting levels operated to date after considering the Company's historic performance and future plans, and on the basis of external advice. There will be no retesting of the TSR and EPS performance measures. The VSP had replaced the PSP and no awards will be made under the PSP in 2008/09 or 2009/10.

The performance criterion for EPS-element of the PSP Awards granted on 7 December 2004 was exceeded and the PSP-element of the Awards vested in full on 7 December 2007. The performance criterion for the TSR-element of the 2004 PSP Awards was not passed and the TSR-element of all those Awards lapsed on 7 December 2007.

The performance tests for options granted the 95 ESOS up to and including December 2004 have all been passed with the sole exception of the grant on 9 April 2002, which failed its initial test and two annual retests. No further retests of the April 2002 grant will be undertaken. The April 2002 grant can now only be exercised in the event of a change in control of the Company or by certain good leavers, in which circumstances the performance tests will be waived.

Under the DSS executive directors were able to use their after tax bonus to purchase the Company's shares at the prevailing market price. At the end of a three year period, if the Director is still in office, he can exercise an option granted to him over matching shares, in respect of any shares retained for that period. The number of matching shares awarded was determined by the Committee at the end of the year in which the bonus was earned by reference to annual bonus, and other corporate financial criteria. The last grant under the DSS was made on 7 December 2004, in respect of bonus earned in the year to 31 July 2004, and matched shares purchased in the market by the grantee on that day.

At 31 July 2008 the trustee of the Employee Share Trust held 1,095,965 shares of which 18,582 shares were held for the benefit of senior executives with extant DSS options (none of the directors had an interest in these shares at 31 July 2008, as disclosed above). The market value of the shares held by the trustee on 31 July 2008 was £11.47m and dividends of approximately £291,114 were waived in the year in respect of the shares held by the trustee during the year.

There are no performance criteria for the SAYE, DSS or the TI 90 ESOS.

Special provisions permit early exercise of options and vesting of awards in the event of redundancy, death, etc.