

Notice of Annual General Meeting

Circular to shareholders

Notice is hereby given that the ninety-sixth Annual General Meeting of Smiths Group plc will be held at The Thomas Lord Suite, Lord's Cricket Ground, Grace Gate, St John's Wood Road, London NW8 8QN on Tuesday 16 November 2010 at 2.30pm.

smiths

bringing technology to life

Notice of Annual General Meeting

Notice is hereby given that the ninety-sixth Annual General Meeting of Smiths Group plc will be held at The Thomas Lord Suite, Lord's Cricket Ground, Grace Gate, St John's Wood Road, London NW8 8QN on Tuesday 16 November 2010 at 2.30pm, for the following purposes:

Resolutions 15 to 17 (inclusive) will be proposed as special resolutions. All other resolutions will be proposed as ordinary resolutions.

1. To adopt the reports of the directors and the auditor and the audited accounts for the financial year ended 31 July 2010.
2. To approve the directors' remuneration report for the financial year ended 31 July 2010.
3. To declare a final dividend of 23.5 pence per ordinary share for the financial year ended 31 July 2010.
4. To elect Mr B.F.J. Angelici as a director of the Company.
5. To elect Mr P.A. Turner as a director of the Company.
6. To re-elect Mr D.H. Brydon, CBE as a director of the Company.
7. To re-elect Mr P. Bowman as a director of the Company.
8. To re-elect Mr D.J. Challen, CBE as a director of the Company.
9. To re-elect Mr S.J. Chambers as a director of the Company.
10. To re-elect Ms A.C. Quinn, CBE as a director of the Company.
11. To re-elect Sir Kevin Tebbit, KCB, CMG as a director of the Company.
12. To reappoint PricewaterhouseCoopers LLP as auditor of the Company to hold office until the conclusion of the next general meeting at which accounts are laid before the Company.
13. To authorise the directors to determine the remuneration of the auditor.

14. That the directors be generally and unconditionally authorised pursuant to and in accordance with Section 551 of the Companies Act 2006 to exercise all the powers of the Company to allot shares in the Company or grant rights to subscribe for or to convert any security into shares in the Company:

(i) up to a nominal amount of £48,883,565;

(ii) comprising equity securities (as defined in Section 560(1) of the Companies Act 2006) up to a further nominal amount of £48,883,565 in connection with an offer by way of a rights issue;

such authorities to apply in substitution for all previous authorities pursuant to Section 551 of the Companies Act 2006 and to expire at the end of the next Annual General Meeting or on 31 January 2012, whichever is the earlier but, in each case, so that the Company may make offers and enter into agreements during the relevant period which would, or might, require shares to be allotted or rights to be granted after the authority ends.

For the purposes of this Resolution 'rights issue' means an offer to:

(a) ordinary shareholders in proportion (as nearly as may be practicable) to their existing holdings; and

(b) people who are holders of other equity securities if this is required by the rights of those securities or, if the directors consider it necessary, as permitted by the rights of those securities

to subscribe for further securities by means of the issue of a renounceable letter (or other negotiable document) which may be traded for a period before payment for the securities is due, but subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates or legal, regulatory or practical problems in, or under the laws of, any territory.

15. That subject to the passing of Resolution 14 above, the directors be empowered to allot equity securities (as defined in Section 560(1) of the Companies Act 2006) wholly for cash:

(i) pursuant to the authority given by paragraph (i) of Resolution 14 above or where the allotment constitutes an allotment of equity securities by virtue of Section 560(3) of the Companies Act 2006 in each case:

(a) in connection with a pre-emptive offer; and/or

(b) otherwise than in connection with a pre-emptive offer, up to an aggregate nominal amount of £7,332,534; and

(ii) pursuant to the authority given by paragraph (ii) of Resolution 14 above in connection with a rights issue,

as if Section 561(1) of the Companies Act 2006 did not apply to any such allotment; such power to expire at the end of the next Annual General Meeting or on 31 January 2012, whichever is the earlier but so that the Company may make offers and enter into agreements during this period which would, or might, require equity securities to be allotted after the power ends and the directors may allot equity securities under any such offer or agreement as if the power had not ended.

For the purposes of this Resolution:

(a) 'rights issue' has the same meaning as in Resolution 14 above;

(b) 'pre-emptive offer' means an offer of equity securities open for acceptance for a period fixed by the directors to holders (other than the Company) on the register on a record date fixed by the directors of ordinary shares in proportion to their respective holdings but subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates or legal, regulatory or practical problems in, or under the laws of, any territory;

(c) references to an allotment of equity securities shall include a sale of treasury shares; and

(d) the nominal amount of any securities shall be taken to be, in the case of rights to subscribe for or convert any securities into shares of the Company, the nominal amount of such shares which may be allotted pursuant to such rights.

16. That the Company be and is hereby unconditionally and generally authorised for the purpose of Section 701 of the Companies Act 2006 to make market purchases (as defined in Section 693 of the Companies Act 2006) of ordinary shares of 37.5p each in the capital of the Company on such terms and in such manner as the directors may determine provided that:

(a) the maximum number of shares which may be purchased is 39,106,852;

(b) the minimum price which may be paid for each share is 37.5p;

(c) the maximum price which may be paid for an ordinary share shall not be more than the higher of 5 per cent above the average middle market quotations for an ordinary share, as derived from the London Stock Exchange Daily Official List, for the five business days immediately preceding the day on which the ordinary share is purchased and the amount stipulated by Article 5(1) of the Buy-back and Stabilisation Regulation 2003 (No 2273/2003); and

(d) this authority shall expire at the conclusion of the next Annual General Meeting of the Company or, if earlier 31 January 2012 (except in relation to the purchase of shares the contract for which was concluded before the expiry of such authority and which might be executed wholly or partly after such expiry).

17. That a general meeting other than an annual general meeting may be called on not less than 14 clear days' notice.

18. That, in accordance with Part 14 of the Companies Act 2006, the Company and every other company which is now or may become a subsidiary of the Company at any time during the period during which this resolution is in force is hereby authorised to make donations and incur expenditure under each and any of the following heads:

(a) donations to political parties or independent election candidates;

(b) donations to political organisations other than political parties; and

(c) political expenditure,

up to an aggregate amount of £50,000, and the amount authorised under each of paragraphs (a), (b) and (c) shall also be limited to such amount.

The authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company or, if earlier, on 31 January 2012.

All existing authorisations and approvals relating to political donations or expenditure under Part 14 of the Companies Act 2006 are hereby revoked without prejudice to any donation made or expenditure incurred prior to the date hereof pursuant to such authorisation or approval.

For the purpose of this resolution, the terms 'political donations', 'political parties', 'independent election candidates', 'political organisations' and 'political expenditure' have the meanings set out in Sections 363 to 365 of the Companies Act 2006.

19. THAT the Smiths Group 2010 Value Sharing Plan (the 'VSP'), the principal terms of which are summarised in the Appendix to this Notice of AGM and as shown in the rules of the VSP produced to the Meeting and initialled by the Chairman for the purpose of identification, be and is hereby approved and that the directors be and are hereby authorised to do all such acts and things as they may consider appropriate to implement the VSP including the establishment of the Divisional Value Sharing Plans and the making of any amendments to the rules and the establishment of any sub-plans for the benefit of employees outside the UK (modified as necessary to take account of relevant exchange control, taxation and securities laws of the relevant jurisdiction); and the directors be and are hereby authorised to vote as directors and be counted in any quorum on any matter connected with the VSP, notwithstanding that they may be interested in the same, save that no director may vote or be counted in the quorum on any matter solely concerning his own participation therein, and that any prohibition on directors' voting shall be suspended to this extent accordingly.

By Order of the Board

Sarah Cameron
Secretary

Registered Office:
2nd Floor, Cardinal Place
80 Victoria Street
London SW1E 5JL

13 October 2010

General notes

1. The statutory Reports and Accounts for Smiths Group plc for 2010 are called the Annual Report 2010. The Directors' Remuneration Report for 2010 is contained in the Annual Report 2010. The first two items of business at the Annual General Meeting ('AGM') relate to the approval of the statutory Reports and Accounts for 2010 and the Directors' Remuneration Report for 2010. Shareholders who have not elected to receive the statutory Reports and Accounts for 2010 may obtain copies by writing to the Secretary, Smiths Group plc, 2nd Floor, Cardinal Place, London SW1E 5JL (e-mail: secretary@smiths.com) or by downloading them from the Company's website (www.smiths.com). Shareholders who wish to receive the printed statutory Reports and Accounts (free of charge) in future years should write to the Company's registrar, Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA, quoting Reference 0282.

2. Members are entitled to appoint a proxy to exercise all or any of their rights to attend and to speak and vote on their behalf at the meeting. A shareholder may appoint more than one proxy in relation to the AGM provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. If a proxy is submitted without indicating how the proxy should vote on any resolution, the proxy will exercise his discretion as to whether and, if so, how he votes.

3. A proxy need not be a shareholder of the Company. A proxy form which may be used to make such appointment and give proxy instructions accompanies this notice. If you do not have a proxy form and believe that you should have one, or if you require additional forms, from the UK, please contact Equiniti Limited on 0871 384 2943. (Calls to this number are charged at 8p per minute from a BT landline. Other telephony providers' costs may vary. Lines open 8.30am to 5.30pm, Monday to Friday.) From outside the UK call the Equiniti overseas helpline on +44 121 415 7047. Shareholders wishing to appoint a proxy and register their proxy votes electronically should visit the website www.sharevote.co.uk. The on-screen instructions will give details on how to complete the appointment and voting process. Electronic proxy appointments and voting instructions must be received not later than 48 hours before the AGM to be effective.

4. In order to be valid any proxy form or other instrument appointing a proxy must be received by one of the following methods:

(a) in hard copy form using the reply-paid envelope or otherwise by post (in which case postage will be payable), by courier or (during normal business hours only) by hand to the Company's registrar, Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6UU;

(b) in the case of CREST members, by utilising the CREST electronic proxy appointment service in accordance with the procedures set out below; or

(c) by appointing and registering his proxy vote electronically by visiting the website www.sharevote.co.uk (the on-screen instructions will give details on how to complete the appointment and voting process)

and in each case must be received by the Company not less than 48 hours before the time of the meeting.

5. The return of a completed proxy form, other such instrument, any CREST Proxy Instruction (as described in paragraph 9 below) or the appointment of a proxy electronically will not prevent a shareholder attending the AGM and voting in person if he/she wishes to do so.

6. Any person to whom this notice is sent who is a person nominated under Section 146 of the Companies Act 2006 (the '2006 Act') to enjoy information rights (a 'Nominated Person') may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy of that shareholder for the AGM. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.

7. The statement of the rights of shareholders in relation to the appointment of proxies in paragraphs 2 and 3 above does not apply to Nominated Persons. The rights described in these paragraphs can only be exercised by shareholders of the Company. If you have been nominated to receive general shareholder communications directly from the Company, it is important to remember that your main contact in terms of your investment remains the registered shareholder or custodian or broker who administers the investment on your behalf. Therefore, any changes or queries relating to your personal details and holding (including any administration) must continue to be directed to your existing contact at your investment manager or custodian. The Company cannot guarantee to deal with matters that are directed to them in error. The only exception to this is where the Company, in exercising one of its powers under the 2006 Act, writes to you directly for a response.

8. In order to be entitled to attend and vote at the AGM or any adjourned meeting (and for the purpose of the determination by the Company of the votes they may cast), shareholders must be registered in the register of members of the Company at 6:00pm on 14 November 2010 (or, in the event of any adjournment, 6.00pm on the date which is two days before the time of the adjourned meeting). Changes to the register of members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.

9. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

10. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with Euroclear's specifications, and must contain the information required for such instruction, as described in the CREST Manual (available via www.euroclear.com/CREST). The message (regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy) must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA19) by the latest time(s) for receipt of proxy appointments specified in the notice of meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

- 11.** CREST members (and, where applicable, their CREST sponsors, or voting service providers) should note that Euroclear does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members (and, where applicable, their CREST sponsors or voting system providers) are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
- 12.** The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
- 13.** Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.
- 14.** As at 8 October 2010 (being the last practical date day prior to the publication of this Notice) the Company's issued share capital consists of 391,088,226 ordinary shares carrying one vote each. Therefore the total voting rights in the Company as at 8 October 2010 are 391,088,226.
- 15.** Copies of the directors' service contracts and letters of appointment for non-executive directors and deeds of indemnity are available for inspection by shareholders at the registered office of the Company during normal business hours and may be inspected at the place of the AGM on 16 November 2010 from 2:15p.m. until the close of the Meeting.
- 16.** Each of the resolutions to be put to the meeting will be voted on by poll and not by show of hands. A poll reflects the number of voting rights exercisable by each member and is in line with corporate governance recommendations. The results of the poll will be published on the Company's website and notified to the UK Listing Authority as soon as practicable after the votes have been counted and verified.
- 17.** Subject to the final dividend being approved at the AGM, dividend warrants will be payable on 19 November 2010 to the ordinary shareholders on the register at the close of business on 22 October 2010.
- 18.** Although copies of the Annual Report 2010 are distributed to some shareholders and made available on the website, www.smiths.com, only ordinary shareholders on the register at the relevant time or their proxies are entitled to attend or vote at the AGM.
- 19.** Shareholders should note that, on a request made by shareholders of the Company under Section 527 of the 2006 Act, the Company may be required to publish on a website a statement setting out any matter relating to: (i) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the AGM for the financial year beginning 1 August 2009; or (ii) any circumstance connected with an auditor of the Company appointed for the financial year beginning 1 August 2009 ceasing to hold office since the previous meeting at which annual accounts and reports were laid. The Company may not require the shareholders requesting any such website publication to pay its expenses in complying with Sections 527 or 528 (requirements as to website availability) of the 2006 Act. Where the Company is required to place a statement on a website under Section 527 of the 2006 Act, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the AGM for the relevant financial year includes any statement that the Company has been required under Section 527 of the 2006 Act to publish on a website.
- 20.** Any member attending the meeting has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the meeting but no such answer need be given if (a) to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information, (b) the answer has already been given on a website in the form of an answer to a question, or (c) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.
- 21.** A copy of this notice and other information required by Section 311A of the 2006 Act can be found at www.smiths.com.
- 22.** Members may not use any electronic address provided in either this notice of meeting or any related documents (including the enclosed form of proxy) to communicate with the Company for any purposes other than those expressly stated.
- 23.** A copy of the draft rules of the Smiths Group 2010 Value Sharing Plan is available for inspection by shareholders at the registered office of the Company during usual business hours on any weekday (public holidays excepted) until the conclusion of the AGM and will be available at the AGM from 2:15 p.m. until the conclusion of the AGM.

Explanatory notes to the Notice of Annual General Meeting

The notes on the following pages give an explanation of the proposed resolutions.

Resolutions 1 to 14, 18 and 19 are proposed as ordinary resolutions. This means that for each of those resolutions to be passed, more than half of the votes cast must be in favour of the resolution. Resolutions 15 to 17 are proposed as special resolutions. This means that for each of those resolutions to be passed, at least three-quarters of the votes cast must be in favour of the resolution.

Resolutions 4 and 5: Election of Mr B.F.J. Angelici and Mr P.A. Turner

In accordance with Article 49(1)(a) of the Company's Articles of Association, Mr B.F.J. Angelici, who was appointed as a non-executive director on 1 July 2010, and Mr P.A. Turner, who was appointed an executive director on 19 April 2010, both retire and offers themselves for election. Biographies of all the directors, including Mr Angelici and Mr Turner, are included in the Annual Report 2010 and on the Company's website – www.smiths.com. Mr Angelici's and Mr Turner's appointments both followed a rigorous and comprehensive recruitment process during which their experience and skills were identified as appropriate for their respective roles. The Board recommends the election of each of Mr Angelici and Mr Turner as a director of the Company at the AGM.

Resolutions 6 to 11: Re-election of directors

Following the decision of the Board to propose the annual re-election of all directors, as reported in the Report & Accounts 2009, all the directors, other than Mr Angelici and Mr Turner who will retire in accordance with the Articles and stand for election at the AGM, will retire from office at the AGM and offer themselves for re-election. Separate resolutions will be proposed at the AGM to re-elect each of the directors. Biographies of all the directors are included in the Annual Report 2010 and on the Company's website – www.smiths.com.

Resolutions 12 and 13: Reappointment and Remuneration of PricewaterhouseCoopers as auditor

The Board recommends the reappointment of PricewaterhouseCoopers LLP as auditor, to hold office until the next meeting at which the accounts are laid. Resolution 13 authorises the directors to determine the auditor's remuneration.

Resolution 14: Authority to allot shares

The purpose of Resolution 14 is to renew the directors' power to allot shares.

The authority in paragraph (i) will allow the directors to allot new shares in the Company or to grant rights to subscribe for or convert any security into shares in the Company up to a nominal value of £48,883,565, which is equivalent to approximately one third of the total issued ordinary share capital of the Company as at 8 October 2010.

The authority in paragraph (ii) will allow the directors to allot new shares or to grant rights to subscribe for or convert any security into shares in the Company only in connection with a rights issue up to a further nominal value of £48,883,565 which is equivalent to approximately one third of the total issued ordinary share capital of the Company as at 8 October 2010. This is in line with corporate governance guidelines.

As at 8 October 2010, the Company did not hold any shares in treasury.

There are no present plans to undertake a rights issue or to allot new shares other than in connection with the Company's share option schemes and plans. The directors consider it desirable to have the maximum flexibility permitted by corporate governance guidelines to respond to market developments and to enable allotments to take place to finance business opportunities. The directors intend to take note of relevant corporate governance guidelines on the use of such powers in the event that the authority is exercised.

If the resolution is passed the authority will expire on the earlier of 31 January 2012 and the end of the AGM due to be held in 2011.

Resolution 15: Disapplication of pre-emption rights

If the directors wish to allot new shares and other equity securities, or sell treasury shares, for cash (other than in connection with an employee share scheme) company law requires that these shares are offered first to shareholders in proportion to their existing holdings.

The purpose of paragraph (i) of Resolution 15 is to authorise directors to allot new shares, pursuant to the authority given by paragraph (i) of Resolution 14, or to sell treasury shares for cash: (a) in connection with a pre-emptive offer; and/or (b) otherwise up to a nominal value of £7,332,534, equivalent to approximately five per cent of the total issued ordinary share capital of the Company as at 8 October 2010, in each case without the shares first being offered to existing shareholders in proportion to their existing holdings.

The purpose of paragraph (ii) of Resolution 15 is to authorise the directors to allot new shares pursuant to the authority given by paragraph (ii) of Resolution 14, or sell treasury shares, for cash in connection with a rights issue without the shares first being offered to existing shareholders in proportion to their existing holdings. This is in line with corporate governance guidelines. The directors consider it desirable to have the maximum flexibility permitted by corporate governance guidelines to respond to market developments and to enable allotments to take place to finance business opportunities.

The directors intend to adhere to the provisions in the Pre-emption Group's Statement of Principles regarding cumulative usage of authorities within a rolling three-year period where the Principles provide that usage in excess of 7.5 per cent should not take place without prior consultation with the Investment Committees of the Association of British Insurers and National Association of Pension Funds.

Resolution 16: Purchase of own shares

The effect of this resolution is to renew the authority granted to the Company to purchase its own ordinary shares, up to a maximum of 39,106,852 ordinary shares, until the AGM in 2011 or 31 January 2012 whichever is the earlier. This represents approximately 10% of the ordinary shares in issue as at 8 October 2010 and the Company's exercise of this authority is subject to the stated upper and lower limits on the price payable, which reflect the requirements of the Listing Rules.

Pursuant to the 2006 Act, the Company can hold the shares which have been purchased as treasury shares and either resell them for cash, cancel them, either immediately or at a point in the future, or use them for the purposes of its employee share schemes. The directors believe that it is desirable for the Company to have this choice as holding the purchased shares as treasury shares would give the Company the ability to re-sell or transfer them in the future, and so provide the Company with additional flexibility in the management of its capital base. No dividends will be paid on, and no voting rights will be exercised in respect of, treasury shares. However, it is not the Company's present intention to hold shares in treasury, in the event that any shares were to be purchased under this authority.

Shares will only be purchased if the directors consider such purchases to be in the best interests of shareholders generally and that they can be expected to result in an increase in earnings per share. The authority will only be used after careful consideration, taking into account market conditions prevailing at the time, other investment opportunities, appropriate gearing levels and the overall financial position of the Company. Shares held as treasury shares will not automatically be cancelled and will not be taken into account in future calculations of earnings per share (unless they are subsequently resold or transferred out of treasury).

If any shares purchased by the Company are held in treasury and used for the purposes of its employee share schemes, the Company will count those shares towards the limits on the number of new shares which may be issued under such schemes.

As at 8 October 2010, there were 5.4 million outstanding options granted under all share option schemes operated by the Company, which, if exercised would represent 1.4% of the issued ordinary share capital of the Company. If this authority were exercised in full, that percentage would increase to 1.5%.

Resolution 17: Notice of general meetings

Changes made to the 2006 Act by the Companies (Shareholders' Rights) Regulations 2009 (the 'Shareholders' Rights Regulations') increase the notice period required for general meetings of the Company to 21 days unless shareholders approve a shorter notice period, which cannot however be less than 14 clear days. AGMs will continue to be held on at least 21 clear days' notice.

Before the coming into force of the Shareholders' Rights Regulations on 3 August 2009, the Company was able to call general meetings other than an AGM on 14 clear days' notice without obtaining such shareholder approval. In order to preserve this ability, Resolution 17 seeks such approval. Any exercise of this power by the Company will be conducted in accordance with any relevant corporate governance guidelines applicable at the time. In particular, the shorter notice period will only be used where flexibility is merited by the business of the meeting and is thought to be to the advantage of shareholders as a whole. The approval will be effective until the Company's next AGM, when it is intended that a similar resolution will be proposed.

The Company will comply with the requirement to provide appropriate facilities for all shareholders to vote by electronic means at general meetings held on less than 21 clear days' notice.

Resolution 18: Political donations

Part 14 of the 2006 Act requires companies to obtain shareholders' authority for donations to registered political parties and other political organisations totalling more than £5,000 in any twelve month period, and for any political expenditure, subject to limited exceptions. The definition of donation in this context is very wide and extends to bodies such as those concerned with policy review, law reform and the representation of the business community. It could include special interest groups, such as those involved with the environment, which the Company and its subsidiaries might wish to support, even though these activities are not designed to support or influence support for a particular party.

It remains the policy of the Company not to make political donations or incur political expenditure as those expressions are normally understood. To avoid inadvertent infringement of the 2006 Act, the directors are seeking shareholders' authority for the Company and its UK subsidiaries to make political donations and to incur political expenditure for the period from the date of the AGM to the conclusion of next year's AGM up to a maximum aggregate amount of £50,000.

Resolution 19: Smiths Group 2010 Value Sharing Plan

Changes to Executive Long-Term Incentives

In July 2008, Smiths introduced the Value Sharing Plan ('2008 VSP') to support a new business strategy focused on generating superior returns for shareholders. The Remuneration Committee (the 'Committee') committed at that time to consider the design of a subsequent long-term incentive in 2010.

Over recent months, the Committee has carried out a review of potential follow-on arrangements in conjunction with its independent remuneration advisors, Kepler Associates. In doing so, the Committee has given full consideration to the need to closely link pay and performance, and the need for executive incentives to remain aligned closely with the business strategy and the interests of its shareholders.

The review highlighted that the 2008 VSP does incentivise the behaviours required to create significant value across the divisions and the Group as a whole. Value creation remains at the core of Smiths' business strategy and, as such, the Committee believes the broad structure of VSP remains appropriate going forward.

As a result of these findings and following consultation with major shareholders and their representative bodies, the Committee is proposing:

1. to freeze base salaries at current levels for executive directors (the third consecutive year for the CEO) and other Group VSP participants for FY10/11;
2. making awards under a rolling VSP, with annual grants vesting after 3 years;
3. no changes to the structure of either the Annual Incentive Plan or the Co Investment Plan for FY10/11.

Shareholder approval for the revised VSP, to be known as the Smiths Group 2010 Value Sharing Plan (the 'VSP' or the 'Plan'), is being sought under Resolution 19 at the AGM.

The VSP

The VSP is designed to provide exceptional reward for exceptional performance. Senior executives with group-wide responsibilities will be eligible to participate in the Group VSP. The VSP also empowers the Committee to establish Divisional VSPs for our five divisions – Smiths Detection, Smiths Medical, John Crane, Smiths Interconnect and FlexTek. Further information on the VSP is set out in the Appendix hereto but the key features are as follows:

The Group VSP

Under the Group VSP, participants will receive annually an opportunity to share in 'surplus value' created above a hurdle over a 3-year period. Participation is at the discretion of the Committee but it is anticipated that participants will include the two executive directors of the Company and Executive Committee members with group-wide responsibilities.

Participants will be conditionally awarded a specified number of Smiths shares for achieving predetermined levels of outperformance of the hurdle, expressed as a number of shares for every £5 million of 'surplus value' created. Individual VSP opportunities will be reduced by approximately two thirds (vis a vis awards granted in 2008) to reflect the proposed frequency of grants. The Committee will review VSP award levels prior to the start of each cycle.

Awards will vest based on a combination of two performance conditions: (i) growth in total shareholder return (TSR) over and above the median return of the companies comprising the FTSE 100 as at the date of grant (excluding financial services companies), and (ii) growth in earnings – defined by reference to adjusted profit before tax (PBT) – times a fixed multiple (plus net equity cashflows to shareholders) over and above a hurdle return (8.5% per annum compound for FY10/11 awards). For FY10/11 awards, the split between the TSR and earnings performance conditions will be 30%/70%, respectively. Performance will be measured over a three year performance period and after the cost of the Group VSP and Divisional VSPs. Participants will not receive any value if the hurdle is not exceeded and there will be no retesting of the performance measures.

The Committee believes that PBT remains the best internal measure of value creation for Smiths Group; it is highly visible internally and regularly monitored and reported. The Committee believes that the proposed blend of measures provides the most appropriate balance between internal and external performance and between absolute and relative performance. For awards in future years, the Committee may alter the blend of these performance conditions or adopt other conditions that it considers to be no less onerous.

At the end of each performance period, the Remuneration Committee will review the % share of surplus value warranted by performance over the relevant 3 year cycle. In the event the Committee concludes that the distribution of surplus value between executives and shareholders is manifestly inequitable due to unanticipated events or circumstances, it shall retain discretion to make good faith adjustments to payouts to ameliorate such an outcome. 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. The Committee will also have the discretion to adjust the payout of the Earnings Element, having regard to the size and nature of any acquisitions made during the performance period and their impact on the return on invested capital.

The Divisional VSPs

The review highlighted the continued importance of providing strong long term incentives in our five divisions, reflecting the objectives of the Group strategy. Accordingly, the revised VSP continues to empower the Committee to establish Divisional VSPs. The Divisional VSPs will be introduced 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 to the Group over rolling 3-year cycles. The proforma rules of the Divisional VSPs are contained in an Appendix to the rules of the Group VSP. Further information on the Divisional VSPs is set out in the Appendix hereto.

Appendix

Summary of the Smiths Group 2010 Value Sharing Plan (the 'Plan')

Eligibility

Participation in the Plan is at the discretion of the Remuneration Committee (the 'Committee'). The Plan is designed to be operated on a rolling, annual basis. No awards may be made later than 15 November 2015.

The Committee intends to invite the Chief Executive, the Finance Director and selected senior executives with group-wide responsibilities, to participate in the Plan. It is expected that senior executives with responsibilities within the Group's five primary divisions will be invited to participate in rolling Divisional Value Sharing Plans (the 'Divisional VSPs'). The precise terms of the Divisional VSPs, the main features of which are described below, will be established by the Committee. The proforma rules of the Divisional VSPs are contained in an Appendix to the rules of the Plan.

Grant of awards

Awards will be granted to selected executives within 42 days of the announcement of annual results or, if there is a prohibition on dealings at that time, as soon as practicable thereafter. Awards may also be granted to executives who commence employment with the Group shortly after they commence that employment.

Form of awards

Awards will entitle participants to receive ordinary shares in the Company ('Shares'). The number of Shares a participant may receive will be determined by the extent of the Company's outperformance of the performance conditions described below. Participants will not receive any Shares unless the appropriate hurdle is exceeded. Participants will be conditionally awarded a specified number of Shares for achieving predetermined levels of outperformance ('Surplus Value'). Awards will be expressed as a number of Shares for every £5 million of Surplus Value (the number of Shares being pro-rated for every part of £5 million Surplus Value) created under each performance condition. In consequence, there is no upper limit on the number of Shares which a participant may receive under their award.

Individual limits

The entitlements of all participants under Group VSP awards granted in any one financial year will not be more than 2,500 Shares for each £5 million of Surplus Value created and, of those, no one participant will be entitled to more than 1,000 Shares for each such £5 million. For awards to be granted in FY10/11, the Committee intends to grant the CEO and the Finance Director 800 and 320 Shares per £5m of Surplus Value, respectively. It is proposed other participants be granted on average 160 Shares per £5m of Surplus Value.

Performance conditions

The number of Shares received under an award will be directly related to the Company's performance in relation to two key performance conditions (the 'Performance Conditions'). Performance against each of these conditions will be assessed over the three year period commencing at the start of the financial year in which the award is made (the 'Performance Period'). Both Performance Conditions, and therefore the number of Shares received in respect of performance over the Performance Period, will be tested on a self-standing basis. There will be no retesting of either Performance Condition.

(a) TSR Element – this part (30% for FY10/11 awards) of the participant's award will relate to Surplus Shareholder Value. This element will directly reward participants for the Company's TSR during each Performance Period over and above the median TSR of the companies comprising the FTSE 100 as at the date of grant (excluding financial services companies); and

(b) Earnings Element – this part (70% for FY10/11 awards) of the participant's award will relate to the Company's Internal Value, defined as a fixed multiple of adjusted profit before tax ('PBT') plus net equity cashflows to shareholders. This element will reward participants for PBT growth and cash returns to shareholders over and above a hurdle (8.5% per annum compound for FY10/11 awards). The Committee will review the hurdle rate prior to the start of each cycle.

Detailed information on the Performance Conditions, and the mechanism for determining the participant's reward, are set out below.

Under the TSR Element, participants will be directly rewarded for the Company's TSR performance during each Performance Period (Shareholder Value) over and above the median TSR of the relevant FTSE 100 companies (Median TSR) over the same periods (Surplus Shareholder Value).

For these purposes:

(a) TSR is a means of measuring a company's long term market return, expressed as share price performance plus dividends and other distributions in respect of those shares, with those returns treated as reinvested in shares at the date the share goes ex-dividend;

(b) the absolute TSR percentage achieved by the Company in excess of the Median TSR percentage will be calculated. The resulting TSR percentage outperformance will be applied to the Company's starting market capitalisation for each performance period to determine the Surplus Shareholder Value created. A number of Shares will be determined by reference to the resultant amount (see below); and

(c) TSR measurements for the Company and the relevant FTSE 100 companies will be based on average share prices on the 60 dealing days prior to the relevant measuring date.

The Share entitlement for each participant will be derived from the Surplus Shareholder Value achieved by the Company in respect of the Performance Period, calculated as described in Table 1 below. A participant will have no entitlement to Shares unless the relevant hurdle is exceeded.

The method of calculation can be illustrated as follows:

– Assume that, over the Performance Period, the Median TSR is a positive return of 10% and the Company's TSR is a positive return of 15% (e.g. the total Shareholder Value grows from £4.5 billion to £5.2 billion);

– This gives a Surplus Shareholder Value for that Performance Period of £225 million (being £4.5 billion times (15 minus 10) %);

– Then a participant with an award over 300 Shares per £5 million of Surplus Shareholder Value would be entitled to 13,500 Shares (that is, 225/5 x 300 Shares).

In addition to the above, 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.

Under the Earnings Element, participants will be rewarded for the Company's growth in Internal Value over the Performance Period, to the extent that the Internal Value grows by more than the hurdle rate of return. A participant will have no entitlement to Shares if the Internal Value grows by less than the hurdle rate of return. For these purposes:

- Internal Value is defined as follows:

- PBT multiplied by an appropriate multiple (the 'Multiple'), which will be determined at the date of grant of awards by reference to the Company's PBT for the financial year immediately preceding the start of the Performance Period and the Company's market capitalisation as at that time. This Multiple will also apply to the valuations for the final year of the Performance Period unless the Committee considers that unanticipated circumstances apply which justify the use of a higher or lower Multiple;

- given that less than 5% of the Group's business is transacted in the UK, PBT will be measured on a constant currency basis to maximise line of sight for participants and provide alignment with divisional participants. The Remuneration Committee will continue to have discretion to adjust PBT for items substantially outside the control of participants and to achieve fairness for participants and shareholders; and

- the result of the above calculation will then be adjusted for net cash remittances to shareholders (dividends plus share buy-backs less any share issues);

- Growth in Internal Value is calculated by calculating the Internal Value for the financial year immediately preceding the start of the Performance Period and for the financial year immediately preceding the end of the Performance Period. The Surplus Internal Value is then calculated as follows:

$$EV - [SV + (SV \times H)]$$

Where

EV is the End Value, equal to the Internal Value at the end of the Performance Period;

SV is the Starting Value, equal to the Internal Value at the start of the Performance Period; and

H is the total hurdle rate of return over the Performance Period;

- PBT for both the starting and final years will be derived from the Company's published 'headline profit before tax' for that year excluding 'Other finance income — retirement benefits'. The Committee will also have discretion to adjust the PBT figure for matters which it considers to be substantially outside the control of participants. The nature and extent of any adjustment would be intended to achieve fairness for participants and shareholders;

- Any adjustments made by the Committee to the PBT figure will be set out in the Directors' Remuneration Report;

- The Committee has the power to adjust the hurdle rate in unanticipated circumstances such as a material change in interest rates; and

- The Committee will also have discretion to adjust the payout of the Earnings Element, having regard to the size and nature of any acquisitions made during the performance period and their impact on the return on invested capital.

If the Company's Surplus Internal Value in respect of the Performance Period is zero or negative (that is, the growth in the Internal Value does not exceed the hurdle over that period), participants will not be entitled to a vesting of Shares under the Earnings Element in respect of that period. If the Company's Surplus Internal Value is positive in respect of the Performance Period, participants will be entitled to a vesting of Shares in respect of that period. The Share entitlement of each participant will be derived from the Surplus Internal Value achieved by the Company in respect of that period, calculated as described in Table 2 below.

Satisfaction of awards

The Plan rewards absolute outperformance in relation to each Performance Condition over the Performance Period. This is achieved by entitling participants to a number of Shares in respect of every £5 million of Surplus Value (or part thereof) created in relation to each Performance Condition (that is, Surplus Shareholder Value and Surplus Internal Value).

In relation to Surplus Shareholder Value, the potential entitlement of participants in FY10/11 is as follows.

Table 1

	Shares accrued by reference to Surplus Shareholder Value created		
	Chief Executive	Finance Director	Average for other executives
Surplus Shareholder Value created (£0m implies TSR is in line with the Median TSR of the relevant FTSE100 companies)			
At or below £0m	0	0	0
Above £0m and for each £5m	240	96	48

In relation to Surplus Internal Value, the potential entitlement of participants in FY10/11 is as follows.

Table 2

	Shares accrued by reference to Surplus Internal Value created		
	Chief Executive	Finance Director	Average for other executives
Surplus Internal Value created (£0m implies PBT growth x Multiple plus net cashflow to shareholders is in line with the hurdle rate – 8.5% per annum compound for FY10/11 awards – of return)			
At or below £0m	0	0	0
Above £0m and for each £5m	560	224	112

The Committee continues to attach great importance to the feature that the 'currency' of participants' rewards under the Plan will be in the form of Shares not cash. This is because the linkage of participants' rewards to the share price will further align the interests of shareholders and participants, and act as a further incentive to participants to deliver share price growth. However, the Committee has the power to satisfy awards in cash if this is considered appropriate for tax or regulatory reasons in any jurisdiction in which the Plan is operated.

The Committee's primary intention is to satisfy awards with existing Shares held by an employee trust or Shares held in treasury, rather than a new issue of Shares. However, the Company retains the discretion to issue up to 5% of equity for the purpose of satisfying awards under the Plan. In addition, the Company will comply with institutional guidelines to the effect that no more than 10% of equity may be issued (or transferred as treasury shares) under all group share plans and no more than 5% of equity may be issued (or transferred as treasury shares) under any executive share plan in either case in any ten-year period. Where Shares to satisfy awards are held in an employee trust, that trust will not hold more than 5% of the Company's issued share capital.

The following table illustrates the 'sharing' between shareholders and participants of Surplus Value (both Surplus Shareholder Value and Surplus Internal Value) over the Performance Period for Group VSP awards granted in FY10/11.

The table shows the number of Shares vesting by reference to a range of Surplus Value created and then (in the last two rows) illustrates the percentage shares of Surplus Value between shareholders and participants. For these purposes, the Performance Conditions are treated as a single pool, and any additional cost or saving associated with hedging decisions relating to the provision of Shares is ignored (that is, awards are notionally treated as satisfied in cash).

Table 3

	Range of Surplus Value created after 3 years				
	£0m	£50m	£100m	£500m	£1,000m
Illustrative FY10/11 Group VSP awards (Shares)					
Chief Executive	–	8,000	16,000	80,000	160,000
Finance Director	–	3,200	6,400	32,000	64,000
Average for other Executive Committee members	–	1,600	3,200	16,000	32,000
Total Shares (assumes 4 Executive Committee members)	–	17,600	35,200	176,000	352,000
% of Surplus Value created for shareholders	n/a	99.52%	99.51%	99.48%	99.44%
% of Surplus Value created for participants	n/a	0.48%	0.49%	0.52%	0.56%

A participant will have no entitlement to Shares unless the relevant hurdle is exceeded. If the hurdle is not exceeded, the full amount of Shareholder Value or Internal Value (as the case may be) will accrue only to shareholders.

Cessation of employment

Awards held by participants who leave at any time prior to the end of a Performance Period will lapse on cessation of employment unless they leave by reason of death, disability, or in other circumstances at the discretion of the Committee ('good leavers'). Awards held by good leavers will ordinarily continue and vest at the end of the Performance Period to the extent that the Performance Conditions are met at that date. The number of Shares which would otherwise vest will be pro-rated on the basis of actual service within the Performance Period.

Exceptionally (for example, if a participant is terminally ill), the Committee may allow an award to vest early having regard to performance achieved to the date of leaving. In appropriate circumstances, the Committee may moderate the application of the pro rata reduction if it considers that the participant's contribution to the business would not be fully recognised if the Share entitlement was scaled down in the manner described above.

Change of control

In the event of a change of control of the Company, performance will be measured to the date of change of control and awards will vest to the extent that each Performance Condition is met at that date.

On a change of control, the method of calculating Surplus Internal Value will be varied in light of the accelerated maturity of the Plan. The Company's actual market capitalisation immediately prior to the change of control will be taken as the Internal Value for the final year of the Performance Period (EV in the calculation set out above). The method of calculating Surplus Shareholder Value will also be varied, in that the amount or value of the consideration paid on change of control would be used in place of the 60 day average share price described in (c) on page 8.

There will be no time pro-rating of awards if the change of control occurs more than 12 months after the commencement of the Performance Period of an award. This is because the value accrues under the Plan on a time related basis so that the curtailing of the Performance Period can be expected automatically to reduce the value of the Plan.

However, if a change of control occurs at any time in the 12 months after the commencement of the Performance Period of an award, the Committee will have discretion to prorate the number of Shares that would otherwise vest under the TSR Element of an award.

Any internal reorganisation to create a new holding company will not result in the accelerated vesting of awards; they will be replaced by awards over the shares in the new holding company unless the Committee determines otherwise.

Variation of share capital

If there is a variation in the share capital of the Company (including without limitation a rights or bonus issue or sub-division or consolidation of share capital, or a reduction of capital, or in the event of a demerger or payment of a special dividend), the Shares under award will be adjusted by the Committee to reflect that variation.

In the event of a demerger or other splitting-up of the existing group, the Committee will have power to authorise a partial vesting of awards if it considers that this is desirable to achieve the objectives of the Plan.

Rights attaching to shares

A participant will not have any voting or dividend rights in respect of Shares that are the subject of an award prior to the vesting of the award. All Shares allotted under the Plan will carry the same rights as any other issued ordinary shares in the Company and application will be made for the Shares to be listed by the UK Listing Authority and traded on the London Stock Exchange.

Benefits received under the Plan are not pensionable and may not be assigned or transferred except on a participant's death.

Amendments

In addition to the Committee's powers to vary Performance Conditions described above, it will have authority to amend the rules of the Plan, provided that no amendment to the advantage of participants or eligible employees may be made to provisions relating to the key features of the Plan without the prior approval of shareholders in general meeting unless the amendment is minor and made to benefit the administration of the Plan, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment either for participants or members of the group. Key features are: who can be a participant, the limits on the number of Shares which can be issued under the Plan, the basis for determining a participant's entitlement to Shares and the terms on which they can be acquired, and the provisions relating to adjustments in the event of a variation in the Company's share capital.

Further information on Divisional Value Sharing Plans

The Plan also enables the Committee to establish Divisional VSPs to make rolling, annual awards to executives with responsibility for managing the Group's five divisions – Smiths Detection, Smiths Medical, John Crane, Smiths Interconnect and FlexTek. Participation will be limited to the division heads and their core executive team members.

The Divisional VSPs will operate in a similar way to the Group VSP (that is, the Plan as described above) by providing a reward directly linked to the performance of the division in which the participant works. For each Divisional VSP, there will be a single performance condition relating to Internal Value created over the Performance Period, to the extent that the Internal Value grows by more than a specified percentage per annum. For these purposes:

- (a) participants will be rewarded for growth in divisional headline operating profit (Divisional Profit) times a fixed multiple (plus net cash remittances to the parent company) above a hurdle. The multiples will vary by division to reflect current sum of the parts valuations and market conditions;
- (b) as for the Group VSP, EBIT under the Divisional VSPs will be measured on a constant currency basis;
- (c) the hurdle will be based on a calculated weighted average notional cost of capital (WACC) for each division as determined by the Committee. The Committee will also have discretion to vary the rate that applies to any additional capital borrowed or returned to ensure divisions are 'charged' appropriately for the capital they employ. The overall hurdle rate cannot fall below an agreed minimum (which will also be determined by the Committee for each division);
- (d) Divisional Profit will be calculated in accordance with IFRS. The Committee will have discretion to adjust for exceptional items and other matters which it considers to be substantially outside management control. The purpose of any adjustment would be to ensure an outcome that is fair both to executives and to shareholders. Performance of each division will be measured after the cost of the relevant Divisional VSP; and
- (e) the Committee will determine the number of Shares which accrue to a participant for each £5 million of Surplus Value (or part thereof) created.

In other respects, the Divisional VSPs will generally operate in a similar way to the Group VSP, including the duration of the Performance Period and the satisfaction of awards in Shares. Some differences are, however, highlighted below.

Some structural differences arise from the fact that participants work for a division. In the event that a division is sold outside the group before the end of the Performance Period, the performance condition will be applied as at the time of sale. For these purposes, the amount of the sale consideration will be used to calculate the final Internal Value. However, the Committee will have power, acting fairly and reasonably, to adjust the reward to participants in a Divisional VSP if, in light of the sale consideration achieved, it considers that the hurdle return or Multiple originally adopted was too high or too low.

Vesting of Shares in these circumstances will be conditional upon the participant, in the view of the Committee, behaving in shareholders' interests. Any Shares due to a participant will be released in one or more tranches as determined by the Committee (even if such date is after the end of the Performance Period).

Similar principles to those set out above will apply in the event of a transaction involving the demerger of a division to the Company's shareholders. In these circumstances, the number of Shares which vest will be determined by reference to the value of the demerged division at or shortly following the demerger.

In the event of a change of control of the Company before the end of the Performance Period, the Committee will have power to require the Divisional VSPs to continue for the remainder of the Performance Period (even though the Group VSP will terminate) in order that divisional performance can be assessed on the basis originally intended. In this event, the Committee will have power to determine the basis on which the Divisional VSPs should continue, including determining the 'currency' of payment of the participant's award once Smiths' Shares have ceased to be available and implementing appropriate governance structures to safeguard the interests of participants following the change of control. Alternatively, the Committee will have power to crystallise the financial value of the Divisional VSPs on change of control (on similar principles to those set out above in relation to the Group VSP) but may make release of the crystallised amount dependent on the participant not resigning and/or not being dismissed for cause prior to the end of the Performance Period.

As regards the cost of the Divisional VSPs, the total cost of one cycle of awards under all five Divisional VSPs is expected to be c.1% of the total divisional surplus value created over the Performance Period (assuming that all Divisions perform in a similar way). If there was a material divergence between the divisions' achievement on WACC, then the total cost of the Divisional VSPs could exceed this estimate.

How to get there

Smiths Group plc

Annual General Meeting

The Thomas Lord Suite, Lord's Cricket Ground,
Grace Gate, St John's Wood Road, London NW8 8QN

Tuesday 16 November 2010 at 2.30pm

Light refreshments only will be served.

