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Smiths Group plc
765 Finchley Road, London NW11 8DS, UK
www.smiths.com

APPORTIONMENT OF BASE COST OF SMITHS SHARES FOR UK CAPITAL GAINS TAX PURPOSES

The comments below are intended as a general guide only and are based on current United Kingdom tax law and HM Revenue and Customs practice as at 10 July 2007. The comments below relate only to shareholders who are resident and ordinarily resident in the United Kingdom for tax purposes and who hold their New Ordinary Shares and B Shares (each as defined below) beneficially as investments and not on trading account. The tax consequences set out below may not apply for participants in Smiths Group share schemes.

Shareholders who are in any doubt as to their tax position or who are subject to tax in a jurisdiction other than the United Kingdom should consult an appropriate professional adviser.

On 18 June 2007, Smiths Group's ordinary shares of 25p each ("Old Ordinary Shares") were consolidated into new ordinary shares of 37.5p each ("New Ordinary Shares") in the ratio of two New Ordinary Shares for every three Old Ordinary Shares held. At the same time, a capitalisation issue was made of one non-cumulative preference share of 1p ("B Share") for every one Old Ordinary Share.

As explained in Section 1(i) of Part 8 (*United Kingdom Taxation in relation to the Return of Cash*) of the Circular to shareholders dated 16 May 2007 (the "Circular"*), on a disposal of New Ordinary Shares or B Shares, a shareholder's original base cost in his or her shareholding of Old Ordinary Shares must for UK capital gains tax purposes be apportioned between his or her corresponding shareholdings of New Ordinary Shares and B Shares. This apportionment must be made by reference to the respective market values of a New Ordinary Share and a B Share on the first day on which both of these classes of share were listed. Market values must be determined for this purpose under section 272 of the Taxation of Chargeable Gains Act 1992 ("Section 272").

Shareholders who elect to receive a single dividend in respect of some or all of their B Shares should note in particular that part of their base cost in respect of their Old Ordinary Shares will, following payment of the single dividend, continue to be attributable to those B Shares in respect of which a single dividend is paid. Such shareholders should refer to Section 2(b) of Part 8 of the Circular for further information in this respect.

* Link to Circular

The New Ordinary Shares and the B Shares were both first listed on 18 June 2007. On that date, the market values of New Ordinary Shares and B Shares (each determined under Section 272) were as follows:

New Ordinary Share	1163.655 pence [1]
B Share	366.875 pence [2]

Source: The Daily Official List of the London Stock Exchange
[1] Calculated using the average of the highest and lowest prices on 18 June 2007
[2] Calculated as the closing bid price plus one quarter of the spread on 18 June 2007

Shareholders who acquired their shareholding of Old Ordinary Shares through a single original transaction should (before the application of any indexation, allowable losses, taper reliefs or any other adjustments, including previous capital sub-divisions and bonus issues) apportion their base cost in respect of that shareholding of Old Ordinary Shares as to approximately 67.892% to their New Ordinary Shares and as to approximately 32.108% to their B Shares[3].

[3] *The precise apportionments are:*

Percentage of base cost of shareholding of Old Ordinary Shares to be apportioned to shareholding of New Ordinary Shares:

67.892477541% *= 2/3 x 1163.655 ÷ 1142.645*

Percentage of base cost of shareholding of Old Ordinary Shares to be apportioned to shareholding of B Shares:

32.107522459% *= 366.875 ÷ 1142.645*

The above apportionments take account of the '2 for 3' consolidation of the ordinary share capital, as well as the issue of B Shares.

Shareholders should note that as every 2 New Ordinary Shares represent the consolidation of 3 Old Ordinary Shares, the base cost of 2 New Ordinary Shares is therefore derived from 67.892% of the original base cost of 3 Old Ordinary Shares.

For shareholders who received a cash payment in respect of a fractional entitlement to New Ordinary Shares, the amount of the cash payment should be deducted from the base cost of the corresponding Old Ordinary Shares before apportionment.

Shareholders who acquired their Old Ordinary Shares through more than one original transaction may be required to treat their Old Ordinary Shares for capital gains tax purposes as two or more separate shareholdings of Old Ordinary Shares, referred to in this paragraph as "sub-shareholdings". Each sub-shareholding will have its own base cost, which would need to be apportioned between the New Ordinary Shares and B Shares corresponding to that sub-shareholding. This apportionment would involve the same percentages as set out above being applied to the base cost of the sub-shareholding. Shareholders should note that the rules concerning sub-shareholdings are complex, and it is therefore recommended that shareholders who acquired their Old Ordinary Shares through more than one original transaction consult an appropriate professional adviser.

<u>Simple hypothetical example (assuming a single original purchase of Old Ordinary Shares and no indexation, allowable losses or incidental expenses, taper reliefs or any other adjustments, including previous capital sub-divisions and bonus issues)</u>

300 Old Ordinary Shares were purchased for, say, 1000p each - Total cost £3,000

300 Old Ordinary Shares become 200 New Ordinary Shares plus 300 B Shares

Therefore:

The base cost of the 200 New Ordinary Shares is:	0.67892 x £3,000	=	**£2,036.77**
The base cost of the 300 B Shares is:	0.32107 x £3,000	=	**£963.23**

These amounts together equal the base cost of the Old Ordinary Shares, viz:

	£2,036.77 + £963.23	=	£3,000.00

Shareholders who are in any doubt as to their base cost in respect of any Old Ordinary Share should consult an appropriate professional adviser.