

# Notice of Annual General Meeting

Circular to shareholders

**smiths**

bringing technology to life

Notice is hereby given that the ninety-seventh 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 22 November 2011 at 2.30pm.

# Notice of Annual General Meeting

Notice is hereby given that the ninety-seventh 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 22 November 2011 at 2.30pm.

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 auditors and the audited accounts for the financial year ended 31 July 2011.

**2** To approve the directors' remuneration report for the financial year ended 31 July 2011.

**3** To declare a final dividend of 25 pence per ordinary share for the financial year ended 31 July 2011.

**4** To re-elect Mr B.F.J. Angelici as a director of the Company.

**5** To re-elect Mr P. Bowman 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 D.J. Challen, CBE as a director of the Company.

**8** To re-elect Mr S.J. Chambers as a director of the Company.

**9** To re-elect Ms A.C. Quinn, CBE as a director of the Company.

**10** To re-elect Sir Kevin Tebbit, KCB, CMG as a director of the Company.

**11** To re-elect Mr P.A. Turner as a director of the Company.

**12** To reappoint PricewaterhouseCoopers LLP as auditors 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 auditors.

**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 £49,062,877;

(ii) comprising equity securities (as defined in Section 560(1) of the Companies Act 2006) up to a further nominal amount of £49,062,877 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 2013, 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 £7,359,431; 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 2013, 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 39,250,301;

(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 2013 (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 2013.

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 Long Term Incentive Plan 2011 (the 'LTIP'), the principal terms of which are summarised in the explanatory note to this resolution and as shown in the rules of the LTIP produced to the Meeting and initialled by the Chairman for the purposes of identification, be and is hereby approved and that the directors be and are hereby authorised to do all such acts and things that they may consider appropriate to implement the LTIP, including the making of any amendments to the rules and any 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 LTIP, 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

21 October 2011

# General notes

**1** The statutory Reports and Accounts for Smiths Group plc for 2011 are called the Annual Report 2011. The Directors' Remuneration Report for 2011 is contained in the Annual Report 2011. The first two items of business at the Annual General Meeting ('AGM') relate to the approval of the statutory Reports and Accounts for 2011 and the Directors' Remuneration Report for 2011. Shareholders who have not elected to receive the statutory Reports and Accounts for 2011 may obtain copies by writing to the Secretary, Smiths Group plc, 2nd Floor, Cardinal Place, London SW1E 5JL (e-mail: [secretary@smiths.com](mailto:secretary@smiths.com)) or by downloading them from the Company's website ([www.smiths.com](http://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](http://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 the proxy vote electronically by visiting the website [www.sharevote.co.uk](http://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 10 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 20 November 2011 (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 (available via [www.euroclear.com/CREST](http://www.euroclear.com/CREST)). 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](http://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 (IDRA19) 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 time stamp 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 17 October 2011 (being the latest practicable date prior to the publication of this Notice) the Company's issued share capital consists of 392,535,309 ordinary shares carrying one vote each. Therefore the total voting rights in the Company as at 17 October 2011 are 392,535,309.

**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 22 November 2011 from 2.15pm 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 25 November 2011 to the ordinary shareholders on the register at the close of business on 28 October 2011.

**18** Although copies of the Annual Report 2011 are distributed to some shareholders and made available on the website, [www.smiths.com](http://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 auditors' report and the conduct of the audit) that are to be laid before the AGM for the financial year beginning 1 August 2010; or (ii) any circumstance connected with an auditor of the Company appointed for the financial year beginning 1 August 2010 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](http://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.

# 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 and 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 to 11: Re-election of directors**

In accordance with the UK Corporate Governance Code, all the directors 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 2011 and on the Company's website – [www.smiths.com](http://www.smiths.com).

## **Resolutions 12 and 13: Reappointment and Remuneration of PricewaterhouseCoopers as auditors**

The Board recommends the reappointment of PricewaterhouseCoopers LLP as auditors, to hold office until the next meeting at which the accounts are laid. Resolution 13 authorises the directors to determine the auditors' 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 £49,062,877, which is equivalent to approximately one third of the total issued ordinary share capital of the Company as at 17 October 2011. 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 £49,062,877 which is equivalent to approximately one third of the total issued ordinary share capital of the Company as at 17 October 2011. This is in line with corporate governance guidelines. As at 17 October 2011, 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. If the resolution is passed the authority will expire on the earlier of 31 January 2013 and the end of the AGM due to be held in 2012.

## **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 £7,359,431, equivalent to approximately five per cent of the total issued ordinary share capital of the Company as at 17 October 2011, 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 39,250,301 ordinary shares, until the AGM in 2012 or 31 January 2013 whichever is the earlier. This represents approximately 10% of the ordinary shares in issue as at 17 October 2011 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 17 October 2011, there were 6.8 million outstanding options and awards granted under all share schemes operated by the Company, which, if vested would represent 1.7% of the issued ordinary share capital of the Company. If this authority were exercised in full, that percentage would increase to 1.9%. For the purpose of these calculations, it has been assumed that (i) all the extant options under the Sharesave and Executive Share Option schemes and all the conditional share awards under the Co-Investment Plan would vest in full; (ii) the number of ordinary shares that would be expected to be earned under the Value Sharing Plans (based on current projections for the satisfaction of the performance conditions) would vest and (iii) none of the extant options or awards under any of the plans would lapse prior to their applicable vesting dates. The actual number of ordinary shares that will vest in respect of awards under the Co-Investment Plan and Value Sharing Plans will only be determined at their applicable vesting dates, subject to the satisfaction of the performance conditions and other requirements at those times.



### **Resolution 17: Notice of general meetings**

Under the 2006 Act, as amended, the notice period required for general meetings of the Company is 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 law was amended in 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 in the EU totalling more than £5,000 in any twelve month period, and for any political expenditure in the EU, 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 UK subsidiaries might wish to support, even though these activities are not designed to support or influence support for a particular party. It is the policy of the Company not to make political donations or incur political expenditure in the EU 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 (by virtue of the 2006 Act, the term "subsidiary" in Resolution 18 is a reference to each UK subsidiary of the Company) to make political donations and to incur political expenditure in the EU 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: Long Term Incentive Plan 2011 ('LTIP')**

#### **Background**

The Remuneration Committee reviews the Company's executive long-term incentive arrangements annually in order to reflect developments in best practice and in light of the Group's objectives and priorities. Although the resolution for the adoption of the 2010 Value Sharing Plans was strongly supported by shareholders at the 2010 AGM, the Company has since received feedback from shareholders and from the ABI expressing concern about share plans along the lines of the VSP, particularly in relation to the uncapped nature of the awards under the plan and especially in circumstances where a company intends to operate such plans on an annual basis rather than in exceptional circumstances.

As a consequence the Remuneration Committee has decided to seek the approval of shareholders for the implementation of a new LTIP under Resolution 19 at the AGM. Further details on the proposed LTIP are set out below. If the LTIP is approved by shareholders, the first LTIP awards will be made in November 2011.

### **Eligibility**

Participation in the LTIP is at the discretion of the Remuneration Committee (the 'Committee').

The Committee intends to make grants to the Chief Executive, the Finance Director and other senior executives, all of whom have group-wide responsibilities. These grants will be subject to the performance conditions described further below.

The Committee has discretion to make grants under the LTIP to other executives including those who have executive responsibilities within the Group's five divisions (Smiths Medical, John Crane, Smiths Detection, Smiths Interconnect and Flex-Tek). Grants to divisional executives will also be subject to performance conditions. These are outlined below but the actual targets and weightings given to each condition will be specific to the relevant division and may vary from year to year.

### **Grant of awards**

Awards can be granted within 42 days of any of the following: the AGM at which the LTIP is approved by shareholders, the announcement of the Company's results for any period; or the occurrence of exceptional circumstances justifying the grant of awards (for example, on a senior executive joining the Group).

No payment is required for the grant of awards.

No invitations to participate in the LTIP may be made more than ten years following the date on which it is approved by shareholders.

### **Form of awards**

It is expected that awards will typically be granted as conditional share awards, which entitle participants to acquire or receive shares for no or only a nominal payment.

The LTIP also provides that where an award involving real shares is not appropriate for legal, regulatory or tax reasons, a phantom award may be granted. This will deliver a cash payment equal to the net benefit a participant would have derived from the vesting or exercise of a share award. In certain circumstances, share based awards may be satisfied (in whole or in part) in cash.

### **Value of awards**

Awards levels will be determined each year by the Committee. The Committee's intention is that annual awards will be made with a maximum face value of 300% of base salary for the Chief Executive, 200% of base salary for the Finance Director and between 50% and 150% of base salary for other executives. However, the Committee has power to make share awards up to a maximum face value of 300% of base salary if it thinks there are circumstances justifying such a grant.

# Explanatory notes to the Notice of Annual General Meeting

continued

## Performance conditions – general

The vesting of awards granted to all participants will be dependent upon the satisfaction of stretching performance conditions that are appropriate to the strategic objectives of the Group. The Committee can set different performance conditions for awards granted in different years (in terms of the type of condition, the weighting given to that condition and the targets applicable to each condition) provided that, in the reasonable opinion of the Committee, the targets are not materially less challenging from any one award to the next.

Each performance condition will be measured over the three financial years commencing on 1 August of the year in which the award is granted (the 'Performance Period').

There will be no retesting of any performance condition.

The Committee may vary the performance conditions applying to existing awards if an event occurs or there are circumstances (for example, an acquisition or disposal of a business or a significant part of a business) such that the conditions are no longer a fair measure of performance provided that, in the reasonable opinion of the Committee, the new conditions are not materially less challenging than the original conditions would have been but for the event or circumstances in question. In exercising any power to vary performance conditions the Committee will have regard to ensuring fairness between participants and shareholders.

## Performance conditions – awards granted in 2011

For awards granted in 2011 to the Chief Executive and other participants with group-wide responsibilities vesting will be dependent upon three separate performance conditions: relative total shareholder return, growth in earnings per share and cash conversion. Further detail on each of these performance conditions is set out below.

The vesting of awards granted in 2011 to participants with divisional responsibilities will also be dependent upon three separate performance conditions: underlying revenue growth, operating margin and cash conversion.

### Relative Total Shareholder Return

The vesting of 30% of an award will depend on the Company's total shareholder return ('TSR') relative to the other companies included in the FTSE 100 index (excluding financial services companies) at the beginning of the Performance Period. For these purposes:

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

(b) TSR performance of all relevant companies will be averaged over the 60 dealing days immediately before the start and end of the performance period.

In addition to the above, participants will only be entitled to a vesting of shares under the TSR element of the award, if the Committee is satisfied that this is justified by the underlying financial performance of the Company over the Performance Period.

## Earnings Per Share Growth

The vesting of 50% of an award will depend on the growth of the Company's basic earnings per share ('EPS'). For the purposes of the LTIP, earnings will be calculated as set out below. This reflects the headline profit figure used by the Company to present a measure of underlying performance and which is not impacted by exceptional items or items considered non-operational in nature. It is used by management to measure and monitor performance and is reported in the Company's accounts.

(a) Earnings will be calculated excluding:

(i) exceptional items – these are items which are material either because of their size or their nature, and which are non-recurring. Items which are included within the exceptional category include profits/(losses) on disposal of businesses and costs of acquisitions; spend on the integration of significant acquisitions and other major restructuring programmes; significant goodwill or other asset impairments; income and expenditure relating to John Crane, Inc. asbestos litigation; and other particularly significant or unusual items;

(ii) amortisation and impairment of acquired intangible assets;

(iii) financing credits and charges relating to retirement benefits;

(iv) tax; and

(v) any other material items that are considered by the Committee to be outside the control of management;

(b) EPS will be measured in terms of the compound annual growth in EPS achieved over the Performance Period by comparison with the EPS of the financial year immediately preceding the Performance Period.

## Cash Conversion

The vesting of the remaining 20% of the award will depend on the Company's cash conversion. For these purposes, cash conversion shall be calculated as headline operating cashflow/headline operating profit.

Headline operating cash-flow is a non-statutory cash flow measure used by the Company to monitor performance. It is calculated as net cash inflow from headline operating activities less capital expenditure. It excludes interest, tax paid, cash inflow and outflow in respect of exceptional operating items, pension deficit payments and includes expenditure on capitalised development, other intangible assets and property, plant and equipment and disposals of property, plant and equipment in the ordinary course of business.

In considering the vesting of that part of an award subject to the cash conversion target the Committee expressly reserves the right to reduce the vesting level of awards to reflect the overall performance of the business.



### **Vesting schedule for awards granted in 2011**

Awards will vest following the announcement of results for the final financial year of the Performance Period. The vesting schedule for awards granted in 2011 will be as set out below.

The TSR element of the award will vest in full if the Company's TSR is at or above the 75th percentile; 25% of this element will vest if the Company's TSR is at the median; there will be straight line pro-rata vesting if the Company's TSR falls between the median and the 75th percentile. No part of this element will vest if the Company's TSR is below the median.

The EPS element of the award will vest in full if the Company's compound annual growth rate in EPS is equivalent to or greater than 14% per annum; 25% of this element will vest if compound annual growth in EPS is equivalent to 6% per annum; this element will vest on a straight line basis for compound annual growth in EPS between 6% and 14%. No part of this element will vest for compound annual growth in EPS below 6%. The Committee has determined these threshold and maximum vesting levels after considering the Company's historic performance and future plans, and on the basis of external advice. The Committee considers that the achievement of compound annual EPS growth of 14% per annum is a suitably demanding target for maximum vesting in the light of the Group's diverse business.

The Cash Conversion element of the award will vest in full if the Company's three year average cash conversion ratio is at least 100%; 25% of this element will vest if the ratio is 85%, with straight line vesting for ratios between 85% and 100%.

### **Dividend enhancement**

In addition to the shares which vest under an award, participants will receive a cash sum equal to the value of dividends paid on any vesting shares in the period between grant and vesting. Any cash paid in respect of dividends will be released at the same date the vesting shares are transferred to participants.

### **Cessation of employment**

Awards to executives who leave at any time prior to vesting will lapse unless they leave by reason of death, disability, or in other circumstances at the discretion of the Committee, for example on the sale out of the Group of the participant's employing company ('good leavers').

Awards for good leavers will vest at the normal vesting date to the extent that the TSR, EPS and Cash Conversion performance conditions are met, but will normally be pro-rated on the basis of actual service within the Performance Period. If the Committee thinks there are circumstances that justify it, the Committee may release shares early having regard to performance achieved to the date of leaving.

### **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 the EPS, TSR and Cash Conversion performance conditions are met by that date. The Committee will have discretion, in relation to the EPS and cash conversion elements, to adjust the vesting level if it considers that the performance conditions would have been met to a greater or lesser extent at the end of the full three-year performance period. The Committee will in normal circumstances scale down the vesting level of each element having regard to the time that has elapsed between the grant of the award and the date of change of control, but will retain a limited discretion to modify pro-rating if it considers that the contribution of the management team to the creation of shareholder value during the performance period would not otherwise be properly recognised.

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

### **Adjustment of awards**

If there is a variation in the share capital of the Company (including without limitation a capitalisation issue, rights or bonus issue or sub-division or consolidation of share capital, or a reduction of capital, in the event of a demerger or payment of a special dividend), the shares under award may be adjusted to reflect that variation. In addition, on a demerger the Committee may determine for some or all participants that part or all of the award shall vest and/or that awards held by participants leaving the group as a result of the demerger should be rolled over into appropriate awards in the demerged company.

### **Rights attaching to shares**

A participant will not have any voting or dividend rights prior to the vesting of the award. All shares allotted under the LTIP 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 LTIP are not pensionable and may not be assigned or transferred except on a participant's death.

### **Alterations to the LTIP**

In addition to the Committee's powers to vary performance measures described above, it will have authority to amend the rules of the LTIP, provided that no amendments to the advantage of the participants or eligible employees may be made to provisions relating to the key features of the LTIP without the prior approval of shareholders in general meeting unless the amendment is minor and made to benefit the administration of the LTIP, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment. Key features are: who can be a participant, the limits on the number of shares which can be issued under the LTIP, 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.

Additional schedules to the rules can be established to operate the LTIP outside the UK. These schedules can vary the rules of the LTIP to take account of any securities, exchange control or taxation laws or regulations.

# Explanatory notes to the Notice of Annual General Meeting

continued

## **Satisfaction of awards**

An award may be satisfied with new issue shares, a transfer of treasury shares or shares purchased in the market.

## **Limits on the issue of shares**

In any ten-year period, the Company may not grant awards under the LTIP or any other share plan adopted by the Company or any other company under the Company's control if such grant would cause the number of shares issued under the plans to exceed 10% of the Company's issued ordinary share capital at the proposed date of grant.

In addition in any ten-year period, the Company may not grant options or awards under the LTIP or any discretionary share plans adopted by the Company or any other company under the Company's control if such grant would cause the number of ordinary shares issued under the plans to exceed 5% of the Company's issued ordinary share capital at the proposed date of grant.

The satisfaction of awards with treasury shares will be treated as an issue of ordinary shares for the purposes of the above limits for so long as institutional shareholder guidelines recommend this. If awards are satisfied by a transfer of existing ordinary shares, the percentage limits stated above will not apply.



# 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 22 November 2011 at 2.30pm  
Light refreshments only will be served.

