

SUMMARY DIRECTORS' REMUNERATION REPORT

REMUNERATION POLICY

The Remuneration Committee (the Committee) believes that the individual contributions made by the executive directors are fundamental to the successful performance of the Company.

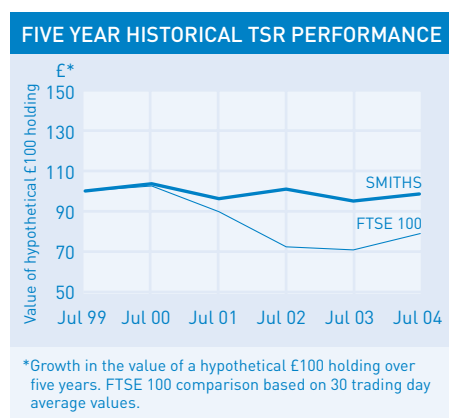
The Committee has adopted a remuneration policy (which will continue to apply during 2004/05) with the following objectives:

- performance-related remuneration should seek to align the interests of executive directors with those of shareholders;
- a significant proportion of remuneration should be based on operational and financial performance both in the short and long term, as well as the individual contributions made by the executive directors; and
- the remuneration packages for executive directors should be competitive in terms of market practice in order to attract and retain executive directors of the highest calibre.

In the last few months, the Committee has undertaken a comprehensive review of the Company's long-term incentive arrangements in the light of the Group's objectives and priorities, and to reflect developments in best practice in this area. As a result of this review and following consultation with major shareholders, the Committee is proposing to introduce two new executive share plans – the Performance Share Plan (the PSP) and the Co-Investment Plan (the CIP) – to replace the executive directors' existing long-term incentive arrangements. Approval of these plans will also be sought at the Annual General Meeting, and further information on them is set out in the Chairman's letter and Notice of AGM.

The following graph shows the Company's total shareholder return (TSR) performance over the past five years. As required by the regulations, the Company's TSR is compared to a broad equity market index. The index chosen here is the FTSE 100 Index which

provides an effective indication of the TSR performance of other leading UK-listed companies.



ELEMENTS OF REMUNERATION

Executive directors' remuneration comprises: basic salary, benefits in kind, annual bonus and pension benefits. In addition, executive directors and senior executives currently participate in certain share-based incentive schemes, comprising the Smiths Industries 1982 SAYE Share Option Scheme (the SAYE Scheme), the Smiths Industries 1995 Executive Share Option Scheme (the 1995 Scheme) and the Smiths Industries Senior Executive Deferred Share Scheme (the DSS). The annual bonus element, participation in the DSS, which provides for a share match (see below), and participation in the 1995 Scheme are linked to performance and the Committee regards them as key elements in the executive directors' remuneration packages. The new share plans will increase the proportion of total remuneration which is determined by reference to the Company's long-term performance, as well as achieving a closer linkage between performance and reward.

Provided that the new share plans are approved by shareholders at the AGM, it is proposed that the first grant of awards under the PSP will be made to executive directors shortly after that meeting, and that no further grants will be made to them under the 1995 Scheme. It is proposed that

the first grants under the CIP will be made in October 2005 (that is, in respect of the 2004/05 financial year), and that no further grants will then be made under the DSS.

If shareholder approval is not obtained for the two new plans, the Committee intends to continue to operate the DSS and the 1995 Scheme on a similar basis to 2003/04.

Options granted under the 1995 Scheme may only be exercised after three years if a performance requirement, determined by the Committee, has been met. Since 2002 the performance requirement has been that the growth in the Company's normalised earnings per share over the three financial years beginning immediately prior to the option grant must exceed the increase in the UK Retail Prices Index over the same period by 3% per annum (for options up to one times base salary) and by 4% per annum (for the excess up to two times base salary). The Committee selected this performance condition for the 1995 Scheme because it serves to align directors' interests with those of shareholders by linking the reward available to participants with the achievement of significant earnings growth by the Company. If a performance requirement is not satisfied at the end of the third year, the performance period may be extended for up to two further years so that performance is tested over a four-year period at the end of the fourth year and a five-year period at the end of the fifth year.

Share options granted under the SAYE Scheme are linked to a savings contract and are not subject to performance targets.

The value of the matching share element under the DSS is derived from annual bonus, and other corporate financial, criteria and is therefore performance-related. The vesting of matching shares is not dependent on satisfaction of a further performance condition.

SALARY AND BENEFITS IN KIND

Salaries are reviewed annually for each director; at the August 2003 review, all directors' salaries increased by 3%. The

Committee takes into account individual performance and experience, the size and nature of the role, the relative performance of the Company, pay policy within the Company and the salaries in comparable industrial companies. Benefits include a fully expensed company car (or an allowance in lieu), health insurance and, where appropriate, relocation and education expenses.

BONUSES

Executive directors are eligible to participate in an annual bonus plan based on a combination of corporate financial goals and individual achievements. The theoretical maximum level of bonus for meeting financial goals is 100% (Chief Executive: 115%) of salary. In 2002/03, with the intention of enhancing shareholder value, the Company conducted a major review from which restated strategic priorities resulted. In order to intensify the focus of executive directors on actions in support of those priorities an element of bonus directly geared to such actions was introduced in 2003 for a two-year period. The strategic element of bonus has a maximum level of 60% (Chief Executive: 75%) of salary.

For the financial year 2005/06 it is proposed that the maximum annual bonus level should reduce to 100% (Chief Executive: 120%) of salary. The Committee intends to review this level annually to ensure that it remains appropriately competitive.

Under the DSS, executive directors may elect to use their after-tax bonus to acquire the Company's shares at the prevailing market price. Provided that a director retains them (and remains in service) for three years he may exercise an option to acquire a number of matching shares for a nominal sum at the end of the three-year period. The number of matching shares that may be awarded is determined by the Committee at the end of the year in which the bonus is earned by reference to annual bonus, and other corporate financial, criteria. The number of matching shares awarded may be up to, but no more than, 100% of the number of shares the executive director acquires with his after-tax bonus. In respect of bonus earned in the year to 31 July 2004, the full amount of the shares so acquired is available for matching.

It is proposed that, after operation in October 2004 in relation to 2003/04 bonuses, no further awards will be made under the DSS. Instead, executive directors (and other senior executives) will be eligible to participate in the CIP. Further information on the CIP is set out in the Chairman's letter and Notice of AGM.

PENSIONS

The Company operates a number of different pension arrangements for executive directors, generally reflecting the individual's pension arrangements at the time he was appointed to the Board. In some cases, the Company pays monthly salary supplements, of a percentage of salary approved by the Committee at the time of appointment, to enable the director to make his own pension provision. For other directors, final salary schemes provide a pension of up to two-thirds of final pensionable salary. Where Inland Revenue limits apply, the difference between the pension payable on the cap and the target pension is, after taking into account any retained benefits from previous employment, provided by the Company. Directors' annual bonus payments and any gains under share option schemes are not pensionable.

REMUNERATION

The total remuneration of directors, excluding the value of shares to which certain directors may become entitled under the DSS and also defined benefit pension arrangements, was as follows:

	2004 £000	2003 £000
Fees, salaries and benefits	3,839	3,639
Performance-related bonuses	2,541	1,545
Gain from exercise of share options	-	7
Incremental loss from deferred share scheme exercises	(42)	(63)
Payments in lieu of pension contribution	609	591
	6,947	5,719

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The emoluments of the directors are set out below:

	Fees/salary		Benefits	Bonus	Payments in lieu of pension contribution	Total emoluments	
	2004 £000	2003 £000	2004 £000	2004 £000	2004 £000	2004 £000	2003 £000
Former Chairman							
K Orrell-Jones	240	210	22	-	-	262	237
Chief Executive							
K O Butler-Wheelhouse	757	735	61	777	379	1,974	1,682
Executive directors							
J Ferrie	366	355	70	354	146	936	784
L H N Kinet	335	325	172	251	84	842	705
J Langston	335	325	34	252	-	621	568
D P Lillycrop	319	310	57	286	-	662	530
E Lindh	335	325	23	321	-	679	493
A M Thomson	407	395	36	300	-	743	611
Non-executive directors							
Sir Nigel Broomfield	40	30	-	-	-	40	30
D H Brydon (appointed 19/04/04)	23	-	-	-	-	23	-
Sir Colin Chandler	80	65	-	-	-	80	65
J M Hignett (retired 12/11/02)	-	10	-	-	-	-	10
Sir Julian Horn-Smith	42	30	-	-	-	42	30
P J Jackson (appointed 01/12/03)	27	-	-	-	-	27	-
R W O'Leary	40	30	-	-	-	40	30
Lord Robertson (appointed 15/02/04)	18	-	-	-	-	18	-
	3,364	3,145	475	2,541	609	6,989	5,775

1. Shares which may be awarded under the deferred share scheme are as set out in the directors' share options table on page 37.

2. Mr Butler-Wheelhouse waives a small part of his payment in lieu of pension contribution in return for an equivalent contribution to the Smiths Industries Pension Scheme.

PENSIONS

	Age at 31 July 2004	Accrued entitlement at 31 July 2003 £000	Directors' contributions during the year £000	Additional pension earned during the year (excluding any increase for inflation) £000	Transfer value of accrued benefits at 31 July 2004 (A) £000	Transfer value of accrued benefits at 31 July 2003 (B) £000	The amount of (A - B) less contributions made by the director in 2004 £000	Accrued entitlement at 31 July 2004 £000
J Langston	54	125	6	12	2,094	1,802	286	141
D P Lillycrop	48	105	6	8	1,320	1,155	159	116
E Lindh	59	218	21	12	4,308	3,853	434	236
A M Thomson	57	152	26	21	3,057	2,542	489	177

An executive director's normal retirement age is 60. An early retirement pension, based on actual service completed, may be paid after age 50 and may be subject to a reduction on account of early payment. On death a spouse's pension of two-thirds of the director's pension (or for death-in-service his prospective pension at age 60) is payable. All pensions in excess of the Guaranteed Minimum Pension (GMP) are guaranteed to increase at the lesser of (i) in the case of Messrs Lindh and Thomson, 5% per annum compound and, in the case of Messrs Langston and Lillycrop, 7% per annum compound and (ii) the annual increase in the Retail Prices Index. There has, however, been a long-standing practice of granting additional discretionary increases on pensions in excess of the GMP to bring them into line with price inflation.

SERVICE CONTRACTS

The Company's policy is that executive directors are employed on terms which include a one year rolling period of notice and provision for the payment of predetermined damages in the event of termination of employment in certain circumstances.

NON-EXECUTIVE DIRECTORS

Non-executive directors (excluding the Chairman) were paid fees totalling £270,000 in the year to 31 July 2004. Their remuneration is determined by the Board in accordance with the Articles of Association. During the year, the basic fee was increased from £30,000 per annum to £40,000 per annum (the first increase since August 2000). The non-executive directors are not eligible for bonuses or participation in share schemes and no pension contributions are made on their behalf. The non-executive directors serve the Company under letters of appointment and do not have contracts of service or contracts for services.

DIRECTORS' SHARE OPTIONS

Director	Scheme	Options held on	Options held on	Weighted average	Options exercised 2003/04					Options granted 2003/04				
		31 July 2004	31 July 2003		Exercise price	Date exercised	Number	Exercise price	Market price at date of grant	Market price at date of exercise†	Date of grant	Number	Exercise price	Expiry date
K O Butler-Wheelhouse	95 ESOS	1,017,084	790,834	748.77p							01/10/03	226,250	669.00p	01/10/13
	SAYE	2,964	2,964	554.00p										
	DSS	113,661	86,229	0.10p	25/05/04	17,964	0.10p	810.20p	699.00p	24/10/03	45,396	0.10p	24/09/10	
J Ferrie	95 ESOS	426,923	317,923	725.54p							01/10/03	109,000	669.00p	01/10/13
	SAYE	2,775	2,775	608.00p										
	DSS	51,939	32,911	0.10p						24/10/03	19,028	0.10p	24/09/10	
L H N Kinet	95 ESOS	412,164	312,164	726.37p							01/10/03	100,000	669.00p	01/10/13
	SAYE	3,388	1,593	564.03p						05/05/04	1,795	525.00p	01/02/08	
	DSS	9,968	2,152	0.10p						24/10/03	7,816	0.10p	24/09/10	
J Langston	95 ESOS	319,123	219,123	713.54p							01/10/03	100,000	669.00p	01/10/13
	SAYE	3,388	1,593	564.03p						05/05/04	1,795	525.00p	01/02/08	
	DSS	27,238	9,147	0.10p						24/10/03	18,091	0.10p	24/09/10	
	TI 90 ESOS	104,030	104,030	1,021.58p										
	TI 99 ESOS	258,237	258,237	706.44p										
D P Lillycrop	95 ESOS	307,641	212,141	714.31p							01/10/03	95,500	669.00p	01/10/13
	SAYE	2,724	2,724	605.41p										
	DSS	43,792	29,573	0.10p						24/10/03	14,219	0.10p	24/09/10	
	TI 90 ESOS	125,919	128,378	1,025.23p										
	TI 99 ESOS	274,223	274,223	703.02p										
E Lindh	84 ESOS	8,851	8,851	451.00p										
	95 ESOS	490,921	390,921	746.68p							01/10/03	100,000	669.00p	01/10/13
	SAYE	3,388	1,593	564.03p						05/05/04	1,795	525.00p	01/02/08	
	DSS	28,925	26,658	0.10p	17/03/04	10,128	0.10p	810.20p	655.00p	24/10/03	12,395	0.10p	24/09/10	
A M Thomson	84 ESOS	62,500	62,500	480.00p										
	95 ESOS	511,848	390,098	735.87p							01/10/03	121,750	669.00p	01/10/13
	SAYE	2,775	2,775	608.00p										
	DSS	65,962	55,102	0.10p	07/07/04	4,849	0.10p	840.00p	703.50p	24/10/03	15,709	0.10p	24/09/10	

Key

84 ESOS	The Smiths Industries (1984) Executive Share Option Scheme	DSS	The Smiths Industries Senior Executive Deferred Share Scheme
95 ESOS	The Smiths Industries 1995 Executive Share Option Scheme	TI 90 ESOS	The TI Group (1990) Executive Share Option Scheme
SAYE	The Smiths Industries 1982 SAYE Share Option Scheme	TI 99 ESOS	The TI Group 1999 Executive Share Option Scheme

† Mid-market closing quotation from the London Stock Exchange Daily Official List.

Options granted under the Smiths Industries 1995 Executive Share Option Scheme up to 2001 are subject to performance testing based on total shareholder return of the Company versus the total return of the General Industrials Sector of the FTSE All Shares Index. Options granted from 2002 are subject to a performance test based on growth in the Company's earnings per share exceeding the UK RPI Index plus 3% per annum (for options up to one time base salary) and 4% per annum (for the excess up to two times salary). There are no further performance criteria for the Smiths Industries (1984) Executive Share Option Scheme or The Smiths Industries Senior Executive Deferred Share Scheme or the TI Group Executive Share Option Schemes.