smiths
bringing technology to life

# News release

## London, Wednesday 24 March 2010
## For immediate release

**Interim results for the six months ended 30 January 2010**

| | Headline* | | | | Statutory | |
|---|---|---|---|---|---|---|
| | **2010 £m** | 2009 £m | Growth | Underlying# | **2010 £m** | 2009 £m |
| **Continuing activities** | | | | | | |
| Sales | **1,279** | 1,292 | (1)% | (5)% | **1,279** | 1,292 |
| Operating profit | **207** | 185 | 12% | 7% | **186** | 160 |
| Operating margin | **16.2%** | 14.3% | – | – | **14.5%** | 12.4% |
| Pre-tax profit | **178** | 167 | 7% | 4% | **148** | 135 |
| Basic EPS | **34.7p** | 32.5p | 7% | | **28.7p** | 28.0p |
| Free cash flow | **133** | 104 | | | | |
| Dividend | **10.5p** | 10.5p | | | **10.5p** | 10.5p |

*In addition to statutory reporting, Smiths Group reports its continuing operations on a headline basis. Headline profit is before exceptional items, amortisation of acquired intangible assets, profit/loss on disposal of businesses and financing gains/losses. Free cash flow is described in the Financial review.

#Organic growth at constant currency.

# Highlights

- Headline operating profit margin improved by 190 basis points to 16.2% - highest first half margin for 10 years
- Operational efficiency initiatives delivered margin improvements across all divisions
- Cash conversion increased to 111% (2009:83%) of headline operating profit
- Free cash-flow increased 28% (£29m) to £133m
- Restructuring programme generated savings of £10m; £27m to date
- Procurement initiatives delivered savings of £6m
- Company funded R&D increased by 6% to £43m
- Portfolio and presence extended through the purchase of IDI, a connectors company for Smiths Interconnect, subject to regulatory approvals

"Our operational improvement and restructuring programme has delivered enhanced margins across all divisions – reaching a 10-year high. Continued focus on cash conversion, increased free cash-flow by 28% to £133m. We have also increased investment in new product development to support future growth and ensure that we are well positioned for an economic recovery. Our strategy of targeted acquisitions is underlined by the recent acquisition of Interconnect Devices, Inc., which will strengthen Smiths Interconnect's product portfolio and further increase our presence in China.

"Looking to the balance of the year, Smiths Group is well placed to build on these results to deliver further improvement in margins and returns while continuing to generate strong free cash-flow."

**Philip Bowman**
**Chief Executive**
**Smiths Group plc**

# Divisional highlights*

**Smiths Detection: Sales up 11% and headline operating profit up 56%; margin 14.5%**

- Double digit sales growth driven by ports and borders and military markets
- Margins improved by 430 basis points to 14.5% with increased volumes and improved overhead recovery
- Military business posted strong growth from the long-term JCAD programme
- Order book supports sustained growth although stretched government finances may impact the timing of order call-offs

**John Crane: Sales down 15% and headline operating profit down 8%; margin 17.9%**

- Margins improved by 110 basis points to 17.9%, benefiting from management action to improve operational efficiency
- Restructuring initiatives delivered £6m savings, lifting the total to date to £12m
- Sales declined as customers substantially reduced investment in OEM equipment
- Book-to-bill ratio of over 100% supports an improved sales performance in the second half

**Smiths Medical: Sales down 1% and headline operating profit up 9%; margin 20.9%**

- Excluding diabetes, sales grew 2%; hardware sales up 5% and disposable items up 1%
- Increased volumes and cost management initiatives have increased margins 180 basis points to 20.9%
- Portfolio profitability review has reduced complexity and is delivering price and margin benefits
- Supply chain and customer service improved by performance initiatives

**Smiths Interconnect: Sales down 9% and headline operating profit down 5%; margin 16.0%**

- Margins improved by 30 basis points through restructuring, manufacturing efficiencies and procurement savings
- Acquisition of Interconnect Devices, Inc. subject to regulatory approvals, expands the product offering and increases our exposure to China
- Launch of new broadband antenna for commercial aircraft will generate second half sales

**Flex-Tek: Sales down 14% and headline operating profit down 14%; margin 9.8%**

- Sales affected by the recession in US residential construction although volumes have stabilised in recent months
- Sales of components to the aircraft industry have softened
- Site rationalisation programme and other pricing and cost initiatives help increase margins by 10 basis points

**Figures are at constant currency and exclude the impact of acquisitions and disposals*

**Statutory reporting**

Statutory reporting takes account of all items excluded from headline performance. On a statutory basis, pre-tax profit from continuing operations was £148m (2009: £135m) and earnings per share were 28.7p (2009: 28.0p). The items excluded from headline performance comprise gains of £4m arising from changes to the post-retirement benefits; amortisation of acquired intangible assets of £19m (2009: £15m); £5m in respect of restructuring corporate and divisional headquarters (2009: £8m), £8m in connection with John Crane, Inc. asbestos litigation (2009: £20m); profit on disposal of businesses and property of £4m (2009: £14m) and financing losses of £6m (2009: £3m).

**Contact details**

### Investor enquiries

Peter Durman, Smiths Group
+44 (0)20 7808 5535
+44 (0)7825 145336
peter.durman@smiths.com

### Media enquiries

Colin McSeveny, Smiths Group
+44 (0)20 7808 5534
colin.mcseveny@smiths.com

Anthony Cardew, Cardew Group
+44 (0)20 7930 0777
anthony.cardew@cardewgroup.com

### Presentation

The presentation slides and a live webcast of the presentation to analysts are available at www.smiths.com/results at 09.00 (UK time) on Wednesday 24 March. A recording of the webcast is available later that day. A live audio broadcast of the presentation is also available by dialling:

UK: 0808 238 7377

International: +44 (0)20 7906 8557

US/Canada: +1 866 546 4358

An audio replay is available for seven days on the following numbers (access PIN 259609#):

UK: 0800 376 5689

International: +44 (0)20 7075 6589

US/Canada: +1 866 286 6997

### Photography

Original high-resolution photography is available to the media, please contact Colin McSeveny (contact details above).

# Chief Executive's review

Smiths Group has made good progress against a challenging economic backdrop and is benefiting from its focus on operational improvements and better cash generation. The cost-saving initiatives that began some 20 months ago have enabled us to deliver strong margin improvement in spite of the tough trading environment. The overall strength and breadth of our portfolio has provided resilience in terms of sales and profitability. We have continued to invest in the drivers of future sales growth. This investment in research and development, in new product launches and in acquisitions positions the Group to benefit from improved levels of activity when world economies show more signs of growth.

The Group's performance has benefited from our swift action in cutting costs to preserve margins and increase cash generation as well as the defensive nature of some of our end markets. Smiths Detection has had a much improved six months with many of the contracts that were delayed during last year coming to fruition. As a result, margins have rebounded rapidly, particularly in the ports and borders area, and the order book is ahead of the same period last year. The performance improvement programme we started two years ago has strongly boosted Smiths Medical's results. The business has returned to sales growth, adjusting for the discontinued diabetes business, and margins have improved by 180 basis points to 21%. John Crane has grown its underlying margins through cost savings despite sales coming under pressure during the period. As expected, its sales have declined reflecting the late cycle nature of the business and the particularly strong comparator period. However, the book-to-bill ratio is now above 100% and the growing order book points to a return to volume growth in the second half. Margins in Smiths Interconnect have benefited from the restructuring programme begun last year. Flex-Tek is heavily exposed to the US housing and domestic appliances markets which have continued to be challenging although there are some signs that the declines are flattening. Its cost reduction and site rationalisation programme has helped preserve margins.

As a multi-industry group, our strategy is to deliver shareholder value by enhancing margins through a relentless drive for operational improvement across all our businesses; generating strong cash flows with better balance sheet management; and improving returns on capital. Clear opportunities remain for Smiths Group to improve performance progressively and generate further value for shareholders.

The major restructuring programme has delivered further savings of £10m in the period and has helped increase margins. To date we have delivered overall annualised savings of £27m and have spent £33m, with £5m in the period. Together, the programmes are expected to produce annual savings of £50m when completed in 2011. The total cost of delivering these programmes is expected to be £45m.

We have been investing in new information systems, which are progressively enhancing information flow and facilitating faster data-based decision-making. In the past six months, we completed the implementation of ERP systems at Smiths Detection and Smiths Medical. We are on track to complete a similar project outside the Americas in John Crane by the end of July this year. These new systems now provide the Company with improved data at Group and divisional levels which in turn is creating opportunities to leverage the Group's scale through Group-wide procurement initiatives. In the period, this programme delivered £6m savings from IT, raw materials, machine parts, utilities, and freight, among others. Overall, the programme has delivered £15m of annualised savings to date.

We have continued to enhance the portfolio through a targeted acquisition programme. Over the past two and a half years, we have made 12 acquisitions, half with a presence in faster growing Asian markets, and all of which have helped build our portfolio through a combination of adding complementary technologies, supporting geographic expansion or leveraging existing infrastructure. In March, Smiths Interconnect announced its intention to acquire, subject to regulatory approvals, Interconnect Devices, Inc., a leading connector company with an international presence, and a strong base in North America and China. In October, Smiths Interconnect acquired Channel Microwave, a California-based microwave components business focused on the defence and homeland security markets.

A key driver of future sales and margin growth is the launch of new products which can command higher margins and deliver superior returns. We increased company funded investment in R&D by 6% to £43m and were successful in securing a further £6m of customer-funded investment to bring our total spend to £49m. Sales in Smiths Medical benefited from the continued success of our next-generation ambulatory smart pump, CADD®-Solis, which is now being rolled out to new markets. We continue to develop eqo, our body image scanner, with airport and regulatory trials underway to improve security and passenger experience. Smiths Interconnect has developed a new broadband antenna, KuStream, for commercial aircraft, which will benefit second half sales.

**Outlook**

We will continue to drive margin expansion through operational improvement and cost saving initiatives. At the same time, we are investing in the long-term growth drivers through R&D, acquisitions and expansion in faster growing developing markets. The Group is well-positioned to benefit from a recovery, although delivering sales growth is likely to remain challenging in the short to medium term given continued economic uncertainties. A continued focus on better working capital management should support the generation of strong free cash flow and an improved return on invested capital. The first six months provide a solid foundation for the full year.

**Sales**

Sales decreased by 1%, or £13m, to £1,279m. Currency translation gains on overseas sales were £35m and the net impact of acquisitions and disposals increased sales by £18m. On an underlying basis, excluding the effects of currency translation and acquisitions and disposals, sales fell by £66m, or 5%, despite strong growth in Smiths Detection (up £27m). The decline in sales was driven principally by lower volumes at Smiths Medical (down £5m); Smiths Interconnect (down £14m); Flex-Tek (down £16m); and John Crane (down £58m).

**Profit**

Headline operating profit rose £22m to £207m. Headline operating margin increased by 190 basis points to 16.2% (2009: 14.3%). The increase in headline operating profit comprises £5m from favourable currency translation, £3m from the net impact of acquisitions and disposals made during the year, and a £14m, or 7%, increase in underlying headline operating profit. The main drivers of this £14m underlying improvement were improved volumes at Smiths Detection (up £14m); cost saving initiatives at Smiths Medical (up £7m); lower corporate centre costs (reduced by £1m); offset by lower volumes at Smiths Interconnect (down £1m); Flex-Tek (down £2m); and John Crane (down £5m).

Operating profit on a statutory basis, after taking account of the items excluded from the headline figures, was £186m (2009: £160m).

The net interest charge increased to £31m (2009: £21m) which reflects the higher coupon on bonds issued during fiscal 2009 as part of a programme to extend debt maturities. There was a reduced pensions financing gain of £1m (2009: £2m). As a result, the headline profit before tax increased by £11m to £178m (2009: £167m). On an underlying basis, headline profit before tax grew by 4%.

On a statutory basis, after taking account of items excluded from the headline figure, the profit before tax increased £13m to £148m.

The Group's tax rate on headline profit for the period was 24% (2009: 24%). Headline earnings per share increased by 7% to 34.7p (2009: 32.5p).

**Cash generation**

Strong cash generation this year resulted in free cash-flow of £133m (2009: £104m). Substantially improved headline operating cash of £230m (2009: £154m) represented 111% (2009: 83%) of headline operating profit. The improvement resulted from better working capital management, particularly inventories and debtors, and lower net capital expenditure. Although net debt increased by £30m to £915m, this was driven principally by foreign exchange movements.

**Dividend**

The Board has declared an interim dividend of 10.5p per share in line with last year. Looking ahead, our focus will remain on rebuilding dividend cover as we invest in organic growth and bolt-on acquisitions while maintaining a prudent approach to balance sheet financing. The interim dividend will be paid on 23 April to shareholders registered at the close of business on 6 April. The ex-dividend date is 31 March.

# Business review

## Smiths Detection

| | 2010 £m | 2009 £m | Reported growth | Underlying growth |
|---|---|---|---|---|
| Sales | **266** | 233 | 14% | 11% |
| Headline operating profit | **39** | 24 | 62% | 56% |
| Headline operating margin | **14.5%** | 10.2% | | |
| Statutory operating profit | **38** | 24 | | |

Reported sales grew 14%, or £33m, reflecting an underlying increase in sales of £27m (11%) and a currency benefit of £6m. The growth in underlying sales has come primarily from the ports and borders and military businesses offset by a small decline in transportation and other segments.

The growth in sales volumes and the associated enhancement in overhead cost recovery was the principal driver for the 430 basis point improvement in margins to 14.5%. Margins also benefited from lower material and freight costs following the actions taken as part of our Group-wide procurement initiative. We began a restructuring programme towards the end of last year to reduce the cost base and introduce more flexibility so we can respond more quickly to variations in order flow. This will be achieved through the rationalisation of several manufacturing facilities. We anticipate that we will incur around £2.6m of restructuring costs in the year, of which some £1.2m was spent in the first half, which will generate savings in the current year of around £1.6m with further savings of £4m expected in 2011.

Underlying sales in transportation fell 5% because of delays in orders to the second half. However, there has been good demand for airport equipment and the order book has benefited from several large contract wins. These have included a contract for advanced X-ray systems to upgrade Canada's existing airport checkpoints; an order from the US Transportation Security Administration to supply portable liquid detection scanners for its Bottle Liquid Scanner programme and a contract to supply baggage screening equipment for three of Australia's leading airports. The attempted terror attack on an aircraft on 25 December has prompted many airports to review their security arrangements. This has resulted in an increase in orders for explosive trace equipment such as the Ionscan 500DT which is highly effective at detecting minute traces of explosive materials and can be easily deployed at airports. Many governments and airports are also considering the deployment of body imaging systems and we have installed our millimetre-wave system, eqo, as part of a number of trials. Eqo uses electronic, real-time imaging in a standard checkpoint layout to detect weapons or explosives concealed under layers of clothing without physical contact.

Sales to ports and borders market delivered a 92% underlying increase in sales following a weak performance in the first half last year. The market experienced widespread contract delays during the previous financial year as government customers reviewed their expenditure plans against backdrop of a deteriorating economy and strained finances. Several new contract wins supported strong sales growth during the period, including projects in Russia and Saudi Arabia. For example, we won an order for 13 high-energy, X-ray scanners in Saudi Arabia to inspect inbound and outbound containers and trucks for contraband, weapons, explosives and narcotics. The long-term outlook for ports and borders remains strong as governments improve their border security. Our leading edge technology positions us well for this demand.

Our Military business posted another strong performance with underlying sales up 30%, driven largely by the Joint Chemical Agent Detector (JCAD) programme for the US Department of Defense. The lightweight JCAD is an advanced chemical point detector designed to help safeguard troops by automatically detecting both chemical warfare agents and toxic industrial chemicals.

Implementation of a new ERP system was completed on schedule at the end of calendar year 2009. This single system replaces 14 legacy business software systems and provides a common information platform to support data-driven decision-making. Investment to date has been £25m. We have delivered annualised cost savings of £5m against our target of £8m and working capital efficiencies of £3m compared with a target of £11m.

### Research and development

Smiths Detection has maintained its leadership in the sector through a consistent commitment to product innovation developed by in-house R&D, government-funded research and via partnerships and licences. Company funded R&D increased by 4% to £16m or 5.9% of sales (2009: 6.5% of sales). This includes £4m of capitalised projects. Smiths Detection actively seeks customer and government support for R&D which totalled £4m in the period (2009: £7m). Total R&D spend was £20m (2009: £22m) or 7.4% of sales.

The principal focus for R&D investment continues to be X-ray for a variety of applications, including baggage scanning at airports and cargo screening at ports and borders. In December, we entered an agreement with Analogic to develop the next generation of high-speed Explosive Detection Systems (EDS) for screening checked airport baggage. The new system will incorporate the complementary expertise of each company in multi-energy x-ray technology and three-dimensional Computed Tomography (CT). The development cost will be absorbed within Smiths Detection's ongoing R&D spend over the next two to three years.

We are also looking to enhance the privacy features of eqo, our body imaging system, by developing software upgrades that enable the system to alarm automatically on detecting any threat items beneath clothes, so greatly reducing the need for visual inspections. These upgrades could be easily installed in the eqo systems that are already deployed.

Our global leadership in chemical trace detection supported the development of a new chemical sensor nose cone for the US Army's Raven unmanned aerial vehicle. A recent successful demonstration showed how the detector could provide effective standoff detection and identification to warn troops against an attack using hazardous chemicals while also tracking the chemical vapour plume autonomously.

**Outlook**

Smiths Detection has had a strong start to the year and order book is expected to support continued growth in the second half, although government finances may affect the timing of order call-offs. However, Military sales are likely to flatten in the second half due to the phasing of orders. Longer term, the sector is expected to deliver sustained growth and Smiths Detection is well-positioned through its leading-edge technologies. We will continue to invest in new product development to maintain our market leadership while restructuring the business to cut costs and support margin improvement.

## John Crane

| | **2010 £m** | 2009 £m | Reported growth | Underlying growth |
|---|---|---|---|---|
| Sales | **358** | 393 | (9)% | (15)% |
| Headline operating profit | **64** | 66 | (3)% | (8)% |
| Headline operating margin | **17.9%** | 16.8% | | |
| Statutory operating profit | **52** | 40 | | |

John Crane delivered 110 basis points of margin improvement to almost 18% despite a 15% (£58m) decline in underlying sales. These margins demonstrate the cost saving benefits from the global restructuring programme, the procurement initiative and better systems. The lower underlying sales reflect both the late cycle nature of the business and the particularly strong comparator period. It is driven by lower orders for first-fit original equipment and reduced aftermarket sales, mainly in the general industrial and chemical sectors as manufacturing volumes fell and in the upstream energy sector where a large contract was delayed into the second half. Reported sales fell 9% after a £11m benefit from currency translation and £12m contribution from recent acquisitions.

Headline operating profit gained from currency translation (£2m) and from acquisitions (£1m). The underlying decline in headline operating profit of £5m, or 8%, stems from lower volumes offset by the benefits delivered from our cost-saving initiatives. The restructuring programme launched in August 2008 to create one global John Crane division is progressing on schedule. As a result, there is tighter global co-ordination of corporate functions while sales and service operations have been kept close to customers in regional organisations. We have also gained from moving manufacturing to lower-cost countries in Eastern Europe, Asia and Mexico. These changes are delivering improved customer service, quicker delivery, and lower costs. In the period, we spent £4m and delivered savings of £6m so that annualised savings to date now total £12m. Overall, the project is on track to deliver annual savings of £25m.

Our mechanical seals, seal support systems and couplings product lines have performed in line with our expectations, reflecting their late cycle characteristics. The first-fit original equipment sales declined by some 16% as the recession prompted customers to curtail capital expenditure. At the same time, sales from aftermarket servicing fell 7%. However, the aftermarket for oil, gas & petrochemicals, our largest end market, proved more robust with sales slipping only 2% as we continue to benefit from the infrastructure investment made by customers over recent years. The aftermarket for other sectors such as general industrial and the chemical and pharmaceutical sector was in aggregate down by 12%.

The more recently established product lines in engineered bearings and specialist filtration systems have benefited from the acquisition of Orion Corporation, completed in May 2009. This added a US-based designer and manufacturer of hydrodynamic bearings for the oil and gas and industrial power markets. Orion complements and extends John Crane Bearing Technology, a business unit formed following the acquisition of Sartorius Bearing Technology in October 2007. It establishes John Crane as one of the leading manufacturers in the hydrodynamic bearings sector. In line with our original plans, we expect to build the aftermarket sales for these products over time by leveraging our existing global network of sales and service centres and our unrivalled expertise in aftermarket servicing.

John Crane Production Solutions, our energy services business, won a major contract to upgrade and maintain Romania's oil wells by providing pump repair services and equipment for Petrom's 8000-plus wells. The contract for pump repair services began on 1 December 2009. John Crane has worked with Petrom since 2007, delivering significant benefits to them in terms of increased output, improved reliability and lower costs. This new contract expected to generate annual revenues of about £14m. Overall, John Crane Production Solutions volumes declined in the first half as a result of lower sales in the US Permian basin and due to the second-half phasing of the Petrom contract.

Implementation of a new ERP system across Europe, Middle East, Africa and Asia is on schedule to complete in July 2010. Markets in Europe, the Middle East and Asia are now live representing approximately 80% of total project completion. Investment to date has been £23m out of a projected total of £24m. The project is expected to generate annual cost savings of £10m. To date, the project has realised £5m of savings.

We have continued to extend our market-leading sales and service network. The Manchester UK service centre was upgraded and moved in August to larger custom-built facilities. In Houston, we have opened a larger couplings facility to support customers in the Americas together with an expansion of our largest service centre in the Americas which will be active from the start of April. In addition to 50% more space to meet increasing service demands, this facility will also house a dedicated hands-on customer training area. In New Zealand, we will open a new service centre in the summer to support a new aftermarket servicing contract.

**Research and development**
John Crane maintains its industry leadership through a constant commitment to product development. We are expanding our bearing and coupling test capabilities which will help accelerate the launch of new products, including the development of the next generation of high-speed composite couplings. We have also continued to invest in new products to serve the rapidly emerging supercritical $CO_2$ sealing needs of the enhanced oil recovery and carbon capture markets. Other recent product developments include a new bearing for use on power generation turbines that lowers energy consumption; an advanced steam turbine bearing for a large turbine upgrade programme and a new three way ball valve for use with our filtration systems that can better cope with low temperature cryogenic duties associated with downstream gas production.

**Outlook**
John Crane's order book has continued to grow which supports a return to sales growth in the second half although, in line with previous guidance, it is unlikely to offset fully the first half declines. However, there is scope to deliver continued margin expansion through the various cost saving initiatives that are underway.

**Smiths Medical**

| | **2010 £m** | 2009 £m | Reported growth | Underlying growth |
|---|---|---|---|---|
| Sales | **414** | 403 | 3% | (1)% |
| Sales (excluding diabetes) | **407** | 384 | 6% | 2% |
| Headline operating profit | **86** | 77 | 12% | 9% |
| Headline operating margin | **20.9%** | 19.1% | | |
| Statutory operating profit | **77** | 69 | | |

Underlying sales declined 1% due to our exit from diabetes which reduced revenue by £12m; excluding diabetes, underlying sales grew 2%. At reported exchange rates, Smiths Medical's sales grew 3% (£11m), which reflects gains from currency translation (£14m) and acquisitions (£2m), while headline operating profit increased by 12% (£9m). Headline operating margins increased by 180 basis points, reflecting a strong underlying growth in profit of £7m; a currency benefit of £1m and profit from acquisitions of £1m. Margins benefited from the various cost saving initiatives to address overheads, material costs and other manufacturing efficiencies. The portfolio profitability review that we began last year delivered price improvements and better margins across the product range.

The momentum established in the second half of last year has continued with underlying hardware sales up 5%, excluding diabetes, while sales of our disposable products grew 1%. These results demonstrate the significant progress made through the performance improvement programme that was introduced two years ago to address the serious supply chain and operational challenges facing the business. Among many operational metrics, we have seen a marked step up in on-time delivery and customer service, as well as reduced customer backorders. At the same time, there has been some recovery in the hardware market and stabilisation of disposable sales. This follows a tough period last year when the economic downturn squeezed hospital budgets and prompted distributor destocking. We have also seen an increase in accompanying disposable sales in proportion to hardware sales improvements.

In Medication Delivery, excluding diabetes, underlying sales were up 6% from increased sales of our next-generation CADD®-Solis ambulatory smart pumps as they are rolled out to new markets and gain traction in existing markets. Deferrals of purchases of our infusion systems by some large customers have continued, although we expect those sales to recover. Sales of CADD®-Solis pumps grew in North America and are gaining ground in other English-speaking markets. The pump will be available in other languages later this financial year, pending necessary regulatory approvals.

Vital Care underlying sales grew 1% mainly through a continued good performance by our temperature management franchise, which represents a positive turnaround in performance. We also benefited from growth in our respiratory products due in part to preparations made by various organisations for potential H1N1 flu outbreaks. Our tracheostomy business delivered strong growth as well as improved margins. Our obstetrics and gynaecology products continue to deliver strong growth as we benefit from our market-leading presence in a niche market. Due to the narrow nature of several of our Vital Care markets, we are developing eCommerce plans to efficiently increase revenue, while improving order accuracy and reducing the cost of sales.

Underlying sales of Safety Devices were flat, driven by aggressive pricing from competitors, particularly in lower-cost safety catheters in certain European markets. However, our sharps safety business grew significantly during the first half of the year, due to several large orders in support of H1N1 prevention.

We continued to manage our product portfolio aggressively to improve profitability and reduce complexity. By the end of October 2009, we had simplified our business by successfully eliminating some 3,000 SKUs; this has provided opportunities to convert customers to alternative products. In the second phase of our portfolio review, we are looking at our product line holistically. We will delete additional low-performing SKUs, as appropriate, while pursuing additional up-selling and cross-selling opportunities, and price increases. We are rolling out a more sophisticated account management system globally to improve customer profitability. At the same time, we have continued to optimise our manufacturing footprint to deliver an efficient supply chain. In October, we announced the closure of a manufacturing facility at Waukesha, Wisconsin, which specialised in our BCI and SurgiVet product lines; those products will be manufactured in our St Paul, Minnesota facility. The transition is progressing according to plan and will be complete by the financial year end. We also rationalised two distribution centres – in Otay Mesa, California, and Cherwell, UK – merging them into existing distribution centres. The restructuring of our North American operations has produced £1m of savings to date with further benefits expected in the second half to meet the original £3m target.

Implementation of our global ERP business systems was completed at the end of February. The project is on track to generate annualised benefits in excess of £15m. The new systems are already providing far greater transparency of key data across the business. This is enabling faster, data-driven decision making that will improve our quality and customer satisfaction to support revenue and margin growth.

**Research and development**

We continued to increase the proportion of sales from products launched in the last three years, up 21% on the same period last year. This metric demonstrates that we are directing our R&D investment more effectively and are executing more of our product launches on time and within budget. Our R&D spend was £14m (2009: £14m) or 3.4% of sales (2009: 3.4%) and we plan to increase our R&D investment during the second half.

During the first half, we extended the reach of a number of products into new markets, including CADD®-Solis pumps, the UniPerc™ tracheostomy range, LockIt Plus™ catheter securement devices and SuctionPro™ 72 closed suction systems. We also executed a global launch of our new, full range of convective warming blankets, which have been well received in all of our key markets.

**Outlook**

Smiths Medical anticipates that the positive sales momentum from the first half will continue, although the exit from diabetes will constrain overall underlying performance to a similar level to last year. Margins will benefit from the price increases and cost reduction initiatives achieved to date, which will be offset in part by a planned increase in R&D investment and sales and marketing in the second half.

**Smiths Interconnect**

| | **2010 £m** | 2009 £m | Reported growth | Underlying growth |
|---|---|---|---|---|
| Sales | **146** | 152 | (4)% | (9)% |
| Headline operating profit | **23** | 24 | (2)% | (5)% |
| Headline operating margin | **16.0%** | 15.7% | | |
| Statutory operating profit | **21** | 22 | | |

Reported sales for Smiths Interconnect declined by 4%, or £6m. This reflects a 9% (£14m) underlying fall in sales offset by the gains from currency translation (£4m) and acquisitions (£4m). The lower underlying sales are primarily due to the continued slowdown in investment in wireless infrastructure and weaker sales of components to the rail, industrial and automation markets in Europe. Sales to the military and aerospace markets have proved more resilient although these also slipped slightly as some military projects were delayed until the second half.

Headline operating profit margins improved slightly to 16% in spite of declining sales volumes. Reported headline operating profit declined by 2%. Excluding the £1m benefit from currency translation and acquisitions, underlying headline profit declined by 5%. The improved margins were driven by lower overheads as a result of the restructuring undertaken last year, manufacturing efficiencies and lower material costs from the Group-wide procurement initiative. Smiths Interconnect has benefited from a range of restructuring projects and from increasing the percentage of manufacturing in low-cost economies. These have included the combination of two US businesses with the majority of manufacturing transferring to our Mexico facility and the retention of a satellite engineering office. In addition, we delivered cost savings through headcount reductions at various sites and short-time working in Germany and Italy.

On an underlying basis, sales into military, aerospace and space applications fell by 3% as a result of a general slowdown in the commercial aerospace sector and some specific military programmes declining, particularly counter IED, and the phasing of some military projects towards the second half. Ongoing production projects remained strong including EMP protection, secure communications systems, antenna systems relaying situational awareness information of UAVs, and specialist connectors for fighter aircraft and ground vehicles.

The awareness of the potential impact of High Altitude Electromagnetic Pulse (HEMP) and Electromagnetic Pulse (EMP) weapons continued to develop and provided new growth opportunities for our transient voltage protection devices for both mobile platforms and strategic facilities. In addition, we were selected to provide RF protection for a military secure wireless network programme.

For ground-based systems, our high power connectors were selected for hybrid electric drive applications for future combat vehicles programmes and our miniature circular connectors are being used on several future soldier programmes.

Our microwave and millimetre wave businesses continued to support multiple secure military communications-on-the-move, ISR and electronic warfare applications including completing the development phase of a significant shipboard communications programme for which the production contract is expected to be finalised in the second half.

In support of in-flight connectivity applications for both commercial and military aircraft, we provide various antenna solutions communicating with either satellites or ground stations. Of particular note, our new KuStream broadband satellite antenna system was selected by a major US airline to provide in-flight connectivity supporting applications such as TV, movies, internet, e-mail, and other in-flight entertainment (IFE) services.

Space continued to be a small but growing sector with good successes across many of our businesses, particularly connectors for US, European and Japanese space agencies and millimetre wave products used in weather pattern monitoring and satellite communication applications.

Wireless telecommunications sales benefited from the acquisition of Dowin in April 2009. Excluding the impact of exchange rates and acquisitions, sales to the wireless market fell by 16% as most network operators continued to constrain their capital investment in new infrastructure deployments.

Two significant bright spots were passive intermodulation and backhaul applications where our equipment can significantly improve network performance. We have leveraged the global presence of Smiths Interconnect to drive growth in our recent Australian acquisition, Triasx. Sales of our leading passive intermodulation test solutions continued to grow strongly in the US and there are also encouraging signs of generating some traction in Europe and Asia. In addition, we experienced strong demand for both antenna and protection products in support of backhaul requirements for US 4G networks, both LTE and WiMax.

Sales to the medical, rail and automation markets declined 9% on an underlying basis as markets stabilised but remained challenging. In medical, we have been successful in penetrating new accounts and broadening our product offering, most noticeably with our new contact used in implantable medical devices such as pacemakers, neurostimulators and circulation pumps.

In rail, customer demand is beginning to pick up as European and US investment projects in signalling, high speed rail links and metro systems start to roll out. In addition, there are good opportunities emerging for our microwave, protection and connector offerings for rail communication systems.

**Research and development**

Smiths Interconnect increased company funded R&D by 21% to £8m or 5.3% of sales (2009: 4.2% of sales). We actively seek customer and government support for R&D which totalled £2m in the period (2009: £2m) bringing total R&D spend to £10m (2009: £8m) or 6.6% of sales.

Our investment has focused on maintaining our leading position in passive intermodulation test solutions and next generation timing systems in support of the evolution of tactical communication networks. The increased investment also supported the launch of the new KuStream antenna to be used on commercial aircraft for broadband wireless communications.

**Business developments**

In March, Smiths Interconnect announced its intention, subject to regulatory approvals, to acquire Interconnect Devices, Inc. (IDI), a leading designer and manufacturer of highly engineered, application-specific connectors using a proprietary spring probe contact technology. It focuses on mission critical applications for semi-conductor and circuit-board testing, and connectors for military, medical, homeland security and industrial test markets. With a major plant in Suzhou, China, IDI will complement and extend Smiths Interconnect's connector product portfolio and its geographic reach. Their combined strengths will allow Smiths Interconnect to leverage existing scale and provide customers with a far wider range of solutions encompassing multiple connector technologies. IDI employs around 560 people, more than half at its Suzhou plant, and runs a specialist engineering centre in Gilbert, Arizona.

In October, we completed the acquisition of the assets of Channel Microwave, a relatively small designer and manufacturer of microwave components that complements our Lorch and TRAK businesses.

**Outlook**
Sales to military and aerospace customers are expected to grow in the second half based on the order book strength, the production ramp up of the new KuStream antenna, and our continued focus on the strategically important segments of communications, ISR and force protection. Investment in wireless infrastructure continues to be constrained but there are signs that network operators will start investing in new networks or upgrades which will drive demand for our production and filter based products that enhance network performance. There are also early indicators of less challenging trading conditions for automation, rail and medical applications. Margins will continue to benefit from previous and ongoing cost saving initiatives and increased volume.

## Flex-Tek

| | **2010 £m** | 2009 £m | Reported growth | Underlying growth |
|---|---|---|---|---|
| Sales | **96** | 111 | (14)% | (14)% |
| Headline operating profit | **9** | 11 | (13)% | (14)% |
| Headline operating margin | **9.8%** | 9.7% | | |
| Statutory operating profit | **8** | 9 | | |

Flex-Tek's reported sales declined 14%, or £15m, because of a £16m (14%) drop in underlying sales which was offset by £1m from currency translation. This decline reflects the recession in the US construction markets as well as significantly softer demand in the household appliances and industrial goods markets. The aerospace market is also weaker than last year.

Headline operating profit margins advanced slightly by 10 basis points to 9.8% highlighting the continued progress in cutting costs and site rationalisation. The underlying decline in operating profit of £2m was caused by lower volumes of £6m offset by £4m of lower costs in materials, freight and overheads as well as some improvement in pricing.

Sales of components and services to aerospace customers began to decline in the period with a particular weakness in the market for regional aircraft and business jets. Although sales were down 16%, margins declined slightly with the lower volumes being partially offset by production efficiency gains and cost cutting.

Heat Solutions underlying sales fell 14% mainly due to lower sales of gas piping and HVAC ducting in the US construction market, although sales have stabilised in the most recent months. This reflects the pattern in underlying housing starts which began the period in decline but have begun to show some growth since November 2009. The US residential construction market has been helped recently by the Homebuyer Tax Credit Program, particularly as builders have increased housing inventories to support demand ahead of the tax credit expiring at the end of April 2010. Sales of heating elements to appliance manufacturers were slightly down. Against this challenging trading environment, Heat Solutions sales fell at a lower rate than the market, pointing to an increase in market share. In addition, a sharper focus on low-cost manufacturing and combined product marketing programmes have helped preserve margins.

Underlying sales of flexible hose assemblies from the Flexible Solutions division were down 16% resulting from softer demand in the US floorcare and general industrial markets. However, sales in this business have shown some improvement in recent months.

**Business developments**
Flex-Tek has continued to rationalise its manufacturing portfolio and deliver efficiency improvements. The programme is part of the wider Group restructuring and is expected to deliver annualised savings of £9m. In the first six months, we delivered a further £3m of savings which bring the cumulative annualised savings to £7m. We have recently announced the rationalisation of a manufacturing facility Springfield, Massachusetts which will deliver further benefits under this programme.

**Outlook**
The US residential construction, household appliance and industrial markets are still challenging although there have recently been some early signs of improvement in US housing starts. The aerospace sector is likely to remain difficult. Flex-Tek will continue to drive savings through site rationalisation and cost cutting programmes which will preserve margins. The initiatives to date have made Flex-Tek a leaner business, strongly leveraged to a recovery in US housing.

# Financial review

**Earnings per share**
Basic headline earnings per share from continuing activities were 34.7p (2009: 32.5), a growth of 7%. This reflects an increased headline operating profit partially offset by higher interest costs on the refinanced debt and a lower pensions financing gain as a result of the worsening funding position of the company's retirement benefit schemes.

On a statutory basis, the basic earnings per share from continuing activities were 28.7p (2009: 28.0p).

**Exceptional and other items relating to continuing activities excluded from headline profits**
These items amounted to a charge of £30m compared with a charge of £31m in 2009. They comprised:

- Gains of £4m arising from the actions taken to reduce liabilities associated with the pensions and post-retirement healthcare benefits;
- £5m (2009: £8m) in respect of restructuring corporate and divisional headquarters. This is part of a programme which is expected to cost approximately £45m;
- £8m (2009: £20m) in connection with John Crane, Inc. asbestos litigation;
- Amortisation of intangible assets acquired in business combinations of £19m (2009: £15m). The amortisation relates principally to technology and customer relationships; and
- Profit on disposal of businesses and property of £4m (2009: £14m).
- Financing losses amounted to £6m (2009: £3m). These represent the results of derivatives and other financing instruments which are not hedge accounted under IFRS.

**Cash generation and net debt**
Strong cash generation in the period resulted in a free cash-flow of £133m (2009: £104m) based on cash from continuing operations after interest and tax but before acquisitions, financing activities and dividends. Substantially improved headline operating cash of £230m (2009: £154m) represented 111% (2009: 83%) of headline operating profit. The improvement was a result of reduced investment in working capital, particularly inventories and debtors, and lower net capital expenditure.

On a statutory basis, net cash inflow from continuing operations was £164m (2009: £132m).

Dividends paid on ordinary shares amounted to £92m, compared with £91m in 2009.

Net debt at 30 January 2010 was £915m, up from £885m as 31 July 2009. The increase in net debt was principally the result of exchange rate movements (£30m).

**Interest and other financing costs**
Interest payable on debt, net of interest earned on cash deposits, was £31m compared with £21m in 2009. Interest costs were covered 6.7 times covered by headline operating profits.

The Group accounts for pensions using IAS19. As required by this standard, a finance credit is recognised reflecting the expected return on pension scheme assets and a finance charge is recognised reflecting the unwinding of the discount on the future pension liability. The net financing credit was £1m in 2010 compared with a net financing credit of £2m in 2009.

**Research and development**
Investment in research and development (R&D) drives future performance and is a measure of the Group's commitment to the future organic growth of the business.

Smiths invested a total of £49m in R&D on continuing operations, equivalent to 3.8% of sales. Of that total, £6m was funded by customers. The comparative figures for the first half of 2009 were £49m and £9m. Under IFRS, certain of these development costs are capitalised. The gross capitalisation is shown as an intangible asset. Where customers contribute to the costs of development, the contribution is included as deferred income and disclosed within trade and other payables.

**Taxation**
The headline tax charge of £43m for 2010 represented an effective rate of 24% on the headline profit before taxation - unchanged from last year. The Group continues to take advantage of global manufacturing, research and development and other tax incentives, the tax-efficient use of capital and tax compliance management. On a statutory basis, the tax charge on continuing activities was £36m (2009: £26m).

**Retirement benefits**
As required by IFRS the balance sheet reflects the net surplus or deficit in retirement benefit plans, taking assets at their market values at 30 January 2010 and evaluating liabilities at period-end AA corporate bond interest rates.

We have taken action to reduce the Company's liabilities in respect of retirement benefits. From 31 October 2009, the UK-defined benefit pension schemes were closed to future accrual. The principal US defined benefit pension plan was closed with effect from 30 April 2009, after which no further benefits have accrued. In addition, future benefits accruing under the US and UK post-retirement healthcare schemes were substantially reduced; for most members, the Company has capped its contributions at 50% of the 2009/10 premium.

The retirement benefit position was:

| | **30 January 2010** | 31 July 2009 | 31 January 2009 |
|---|---|---|---|
| Funded plans | | | |
| UK plans – funding status | **98%** | 95% | 94% |
| US plans – funding status | **73%** | 72% | 64% |
| Other plans – funding status | **76%** | 75% | 77% |

| | **30 January 2010 £m** | 31 July 2009 £m | 31 January 2009 £m |
|---|---|---|---|
| Surplus/(deficit) | | | |
| Funded plans | **(208)** | (254) | (330) |
| Unfunded plans | **(86)** | (85) | (134) |
| Total surplus/(liability) | **(294)** | (339) | (464) |

Full details of the retirement benefits are shown in note 8.

**Exchange rates**

The results of overseas operations are translated into sterling at average exchange rates. The net assets are translated at period-end rates. The principal exchange rates, expressed in terms of the value of sterling, are shown in the following table.

| | **30 January 2010** | **31 January 2009** | | 31 July 2009 |
|---|---|---|---|---|
| Average rates: | | | | |
| US dollar | **1.63** | 1.64 | Unchanged | 1.58 |
| Euro | **1.12** | 1.20 | Euro strengthened 6% | 1.16 |
| Period end rates: | | | | |
| US dollar | **1.60** | 1.45 | Dollar weakened 10% | 1.67 |
| Euro | **1.15** | 1.13 | Euro weakened 2% | 1.17 |

**Risks and uncertainties**

The principal risks and uncertainties affecting the business activities of the Group were identified on pages 42 to 45 of the Annual Report for the year ended 31 July 2009, a copy of which is available at the Company's website at www.smiths.com. The key risks and uncertainties were summarised under the following headings:

- Competition, innovation and major projects
- Raw materials
- Contractual arrangements and inability to supply
- Targeted cost savings
- Global political and economic conditions
- Intellectual property
- Acquisitions and disposals
- Controls and information technology
- Legislative and regulatory
- Litigation and product liability
- Environmental and external events
- Financial
- Pension funding
- Human resources
- Insurance.

In the view of the Board, the risks and uncertainties affecting the Group for the remaining six months of the financial year continue to be those set out in the above section of the Annual Report. In the last six months, the outlook for the global economy has remained uncertain, which may affect adversely the Group's performance in the second half of the year relative to the same period last year. There may be other effects, such as changes in the fiscal and regulatory policies in the countries where the Group conducts its business.

# Statement of directors' responsibilities

The Interim report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the Interim report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority. The Disclosure and Transparency Rules ("DTR") require that the accounting policies and presentation applied to the half-yearly figures must be consistent with those applied in the latest published annual accounts, except where the accounting policies and presentation are to be changed in the subsequent annual accounts, in which case the new accounting policies and presentation should be followed, and the changes and the reasons for the changes should be disclosed in the Interim report, unless the United Kingdom Financial Services Authority agrees otherwise.

The directors confirm that this condensed set of financial statements has been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting' as adopted by the European Union, and that the interim management report herein includes a fair review of:

- the important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements as required by DTR 4.2.7;
- the principal risks and uncertainties for the remaining six months of the year as required by DTR 4.2.7; and
- related party transactions that have taken place in the first six months of the current financial year and changes in the related party transactions described in the previous annual report that have materially affected the financial position or performance of the group during the first six months of the current financial year as required by DTR 4.2.8.

The directors of Smiths Group plc are listed in the Smiths Group plc Annual report for the year ended 31 July 2009, with the exception of Peter Jackson who retired on 17 November 2009.

For and on behalf of the Board of Directors:

**John Langston**
**Finance Director**

23 March 2010

# Independent review report to Smiths Group plc

**Introduction**

We have been engaged by the company to review the condensed set of financial statements in the Interim report for the period ended 30 January 2010, which comprises the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in equity, consolidated cash-flow statement and related notes. We have read the other information contained in the Interim report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

**Directors' responsibilities**

The Interim report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the Interim report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this Interim report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

**Our responsibility**

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the Interim report based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of the Disclosure and Transparency Rules of the Financial Services Authority and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

**Scope of review**

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the Interim report for the period ended 30 January 2010 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

**PricewaterhouseCoopers LLP**
Chartered Accountants
23 March 2010
London

**Notes**

(a) The maintenance and integrity of the Smiths Group plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

(b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Consolidated income statement (unaudited)

| | Notes | Period ended 30 January 2010 £m | Period ended 31 January 2009 £m | Year ended 31 July 2009 £m |
|---|---|---|---|---|
| **Continuing operations** | | | | |
| Revenue | 2 | **1,279.0** | 1,291.6 | 2,664.6 |
| Cost of sales | | **(684.9)** | (705.0) | (1,447.5) |
| Gross profit | | **594.1** | 586.6 | 1,217.1 |
| Sales and distribution costs | | **(178.0)** | (186.1) | (370.5) |
| Administrative expenses | | **(234.0)** | (241.2) | (419.7) |
| Profit on disposal of businesses | 4 | **3.6** | 0.7 | 1.6 |
| **Operating profit** | | **185.7** | 160.0 | 428.5 |
| Comprising | | | | |
| – headline operating profit | 3 | **207.1** | 185.1 | 417.5 |
| – exceptional items, amortisation of acquired intangibles and other financing gains and losses | 3 | **(21.4)** | (25.1) | 11.0 |
| | | **185.7** | 160.0 | 428.5 |
| Interest receivable | | **0.3** | 8.0 | 2.1 |
| Interest payable | | **(31.1)** | (28.9) | (54.4) |
| Other financing losses | | **(8.9)** | (6.3) | (10.9) |
| Other finance income – retirement benefits | | **0.8** | 2.4 | 5.1 |
| Finance costs | | **(38.9)** | (24.8) | (58.1) |
| Share of post-tax profits of associated companies | | **1.4** | | 0.4 |
| **Profit before taxation** | | **148.2** | 135.2 | 370.8 |
| Comprising | | | | |
| – headline profit before taxation | 3 | **178.5** | 166.6 | 370.7 |
| – exceptional items, amortisation of acquired intangibles and other financing gains and losses | 3 | **(30.3)** | (31.4) | 0.1 |
| | | **148.2** | 135.2 | 370.8 |
| Taxation | 5 | **(35.9)** | (26.2) | (94.9) |
| **Profit after taxation – continuing operations** | | **112.3** | 109.0 | 275.9 |
| **Loss after taxation – discontinued operations** | | **(2.4)** | (0.1) | (5.9) |
| **Profit for the period** | | **109.9** | 108.9 | 270.0 |
| **Attributable to** | | | | |
| Smiths Group shareholders | | **109.5** | 108.6 | 269.5 |
| Non-controlling interests | | **0.4** | 0.3 | 0.5 |
| | | **109.9** | 108.9 | 270.0 |
| **Earnings per share** | 7 | | | |
| Basic | | **28.1p** | 28.0p | 69.3p |
| Basic – continuing operations | | **28.7p** | 28.0p | 70.8p |
| Diluted | | **27.9p** | 27.7p | 68.6p |
| Diluted – continuing operations | | **28.5p** | 27.7p | 70.1p |
| **Dividends per share (declared)** | 6 | | | |
| – interim | | **10.5p** | 10.5p | 10.5p |
| – final | | | | 23.5p |
| | | **10.5p** | 10.5p | 34.0p |

# Consolidated statement of comprehensive income (unaudited)

| | Notes | **Period ended 30 January 2010 £m** | Period ended 31 January 2009 £m | Year ended 31 July 2009 £m |
|---|---|---|---|---|
| Profit for the period | | **109.9** | 108.9 | 270.0 |
| Exchange gains | | **68.7** | 381.6 | 189.2 |
| Actuarial gains/(losses) on retirement benefits | | **34.6** | (412.3) | (429.9) |
| Taxation recognised on actuarial movements | | **(0.7)** | 84.0 | 94.3 |
| Fair value (losses)/gains | | | | |
| – deferred in the period | | **(35.2)** | (186.0) | (66.6) |
| – reclassified to income statement | | **(0.4)** | 3.7 | 8.4 |
| **Total comprehensive income** | | **176.9** | (20.1) | 65.4 |
| **Attributable to** | | | | |
| Smiths Group shareholders | | **176.1** | (22.2) | 63.9 |
| Non-controlling interests | | **0.8** | 2.1 | 1.5 |
| | | **176.9** | (20.1) | 65.4 |

# Consolidated balance sheet (unaudited)

| | Notes | 30 January 2010 £m | 31 January 2009 £m | 31 July 2009 £m |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Intangible assets | 9 | **1,538.1** | 1,614.1 | 1,500.3 |
| Property, plant and equipment | 10 | **308.9** | 358.4 | 318.0 |
| Investments accounted for using the equity method | | **13.1** | 12.5 | 11.2 |
| Financial assets – other investments | | **8.1** | 8.3 | 7.8 |
| Retirement benefit assets | 8 | **81.2** | 55.6 | 39.2 |
| Deferred tax assets | | **180.2** | 163.7 | 164.7 |
| Trade and other receivables | | **23.8** | 22.1 | 21.3 |
| Financial derivatives | | **12.5** | 9.2 | 13.9 |
| | | **2,165.9** | 2,243.9 | 2,076.4 |
| **Current assets** | | | | |
| Inventories | | **416.4** | 476.7 | 413.6 |
| Trade and other receivables | | **559.5** | 650.4 | 553.6 |
| Cash and cash equivalents | 11 | **76.9** | 195.4 | 91.7 |
| Financial derivatives | | **30.4** | 14.1 | 40.7 |
| | | **1,083.2** | 1,336.6 | 1,099.6 |
| Assets held for sale | | **9.7** | | |
| **Total assets** | | **3,258.8** | 3,580.5 | 3,176.0 |
| **Non-current liabilities** | | | | |
| Financial liabilities: | | | | |
| – borrowings | 11 | **(807.9)** | (978.6) | (752.2) |
| – financial derivatives | | **(0.8)** | (0.7) | (6.7) |
| Provisions for liabilities and charges | 12 | **(232.1)** | (253.2) | (226.5) |
| Retirement benefit obligations | 8 | **(374.8)** | (519.8) | (378.2) |
| Deferred tax liabilities | | **(70.5)** | (6.7) | (66.5) |
| Trade and other payables | | **(24.9)** | (36.2) | (25.1) |
| | | **(1,511.0)** | (1,795.2) | (1,455.2) |
| **Current liabilities** | | | | |
| Financial liabilities: | | | | |
| – borrowings | 11 | **(184.2)** | (191.9) | (224.4) |
| – financial derivatives | | **(15.7)** | (100.3) | (38.9) |
| Provisions for liabilities and charges | 12 | **(72.1)** | (86.9) | (77.2) |
| Trade and other payables | | **(401.7)** | (435.3) | (399.8) |
| Current tax payable | | **(112.8)** | (153.0) | (117.7) |
| | | **(786.5)** | (967.4) | (858.0) |
| **Total liabilities** | | **(2,297.5)** | (2,762.6) | (2,313.2) |
| **Net assets** | | **961.3** | 817.9 | 862.8 |
| **Shareholders' equity** | | | | |
| Share capital | | **146.3** | 145.9 | 145.9 |
| Share premium account | | **310.7** | 306.6 | 306.6 |
| Capital redemption reserve | | **5.8** | 5.8 | 5.8 |
| Revaluation reserve | | **1.7** | 1.7 | 1.7 |
| Merger reserve | | **234.8** | 234.8 | 234.8 |
| Retained earnings | | **380.1** | 330.7 | 251.3 |
| Hedge reserve | | **(122.5)** | (212.0) | (87.1) |
| Total shareholders' equity | | **956.9** | 813.5 | 859.0 |
| Non-controlling interests' equity | | **4.4** | 4.4 | 3.8 |
| **Total equity** | | **961.3** | 817.9 | 862.8 |

# Consolidated statement of changes in equity (unaudited)

| | Share capital and share premium £m | Other reserves £m | Retained earnings £m | Hedge reserve £m | Equity shareholders' funds £m | Non-controlling interest £m | Total equity £m |
|---|---|---|---|---|---|---|---|
| At 31 July 2009 | 452.5 | 242.3 | 251.3 | (87.1) | 859.0 | 3.8 | 862.8 |
| Profit for the period | | | 109.5 | | 109.5 | 0.4 | 109.9 |
| Other comprehensive income: | | | | | | | |
| Exchange gains | | | 68.1 | 0.2 | 68.3 | 0.4 | 68.7 |
| Actuarial gains on retirement benefits net of tax | | | 33.9 | | 33.9 | | 33.9 |
| Fair value gains and losses | | | | (35.6) | (35.6) | | (35.6) |
| **Total comprehensive income for the period** | | | 211.5 | (35.4) | 176.1 | 0.8 | 176.9 |
| Transactions relating to ownership interests: | | | | | | | |
| Exercises of share options | 4.3 | | 0.6 | | 4.9 | | 4.9 |
| Taxation recognised on share-based payment | | | 1.7 | | 1.7 | | 1.7 |
| Purchase of own shares | 0.2 | | (0.2) | | | | |
| Dividends | | | | | | | |
| – equity shareholders | | | (91.6) | | (91.6) | | (91.6) |
| – non-controlling interest | | | | | | (0.2) | (0.2) |
| Share-based payment | | | 6.8 | | 6.8 | | 6.8 |
| **At 30 January 2010** | **457.0** | **242.3** | **380.1** | **(122.5)** | **956.9** | **4.4** | **961.3** |

| | Share capital and share premium £m | Other reserves £m | Retained earnings £m | Hedge reserve £m | Equity shareholders' funds £m | Non-controlling interest £m | Total equity £m |
|---|---|---|---|---|---|---|---|
| At 31 July 2008 | 449.1 | 242.3 | 253.7 | (29.2) | 915.9 | 2.3 | 918.2 |
| Profit for the period | | | 108.6 | | 108.6 | 0.3 | 108.9 |
| Other comprehensive income: | | | | | | | |
| Exchange gains | | | 380.3 | (0.5) | 379.8 | 1.8 | 381.6 |
| Actuarial losses on retirement benefits net of tax | | | (328.3) | | (328.3) | | (328.3) |
| Fair value gains and losses | | | | (182.3) | (182.3) | | (182.3) |
| **Total comprehensive income for the period** | | | 160.6 | (182.8) | (22.2) | 2.1 | (20.1) |
| Transactions relating to ownership interests: | | | | | | | |
| Exercises of share options | 1.5 | | 2.1 | | 3.6 | | 3.6 |
| Taxation recognised on share-based payment | | | (3.1) | | (3.1) | | (3.1) |
| Purchase of own shares | 0.2 | | (0.2) | | | | |
| Conversion of B shares | 1.7 | | | | 1.7 | | 1.7 |
| Dividends paid to equity shareholders | | | (91.1) | | (91.1) | | (91.1) |
| Share-based payment | | | 8.7 | | 8.7 | | 8.7 |
| **At 31 January 2009** | **452.5** | **242.3** | **330.7** | **(212.0)** | **813.5** | **4.4** | **817.9** |

# Consolidated cash-flow statement (unaudited)

| | Notes | **Period ended 30 January 2010 £m** | Period ended 31 January 2009 £m | Year ended 31 July 2009 £m |
|---|---|---|---|---|
| **Net cash inflow from operating activities** | 14 | **163.6** | 131.7 | 332.1 |
| **Cash-flows from investing activities** | | | | |
| Expenditure on capitalised development | | **(10.6)** | (9.7) | (22.5) |
| Expenditure on other intangible assets | | **(4.0)** | (7.3) | (17.4) |
| Purchases of property, plant and equipment | | **(21.6)** | (28.9) | (57.4) |
| Disposal of property, plant and equipment | | **6.1** | 17.3 | 19.8 |
| Investment in financial assets | | | (0.1) | (6.6) |
| Acquisition of businesses | | **(10.9)** | (39.7) | (103.3) |
| Disposal of Aerospace | | | (0.1) | (1.9) |
| Disposals of businesses | | **2.8** | (0.6) | (0.2) |
| **Net cash-flow used in investing activities** | | **(38.2)** | (69.1) | (189.5) |
| | | | | |
| **Cash-flows from financing activities** | | | | |
| Proceeds from exercise of share options | | **4.9** | 3.6 | 4.1 |
| Dividends paid to equity shareholders and non-controlling interests | | **(91.8)** | (91.1) | (132.0) |
| Cash outflow from matured derivative financial instruments | | **(25.1)** | (44.9) | (89.9) |
| Increase in new borrowings | | **31.1** | 198.6 | 495.8 |
| Reduction and repayment of borrowings | | **(32.0)** | (65.0) | (357.9) |
| **Net cash-flow used in financing activities** | | **(112.9)** | 1.2 | (79.9) |
| | | | | |
| **Net increase in cash and cash equivalents** | | **12.5** | 63.8 | 62.7 |
| Cash and cash equivalents at beginning of period | | **19.7** | (40.0) | (40.0) |
| Exchange differences | | **(2.1)** | (1.2) | (3.0) |
| Cash and cash equivalents at end of period | | **30.1** | 22.6 | 19.7 |
| Cash and cash equivalents at end of period comprise | | | | |
| – cash at bank and in hand | | **70.8** | 182.8 | 84.0 |
| – deposits | | **6.1** | 12.6 | 7.7 |
| – bank overdrafts | | **(46.8)** | (172.8) | (72.0) |
| | | **30.1** | 22.6 | 19.7 |

# Notes to the Interim report (unaudited)

## 1 Basis of preparation

The condensed interim financial information covers the six month period ended 30 January 2010 and has been prepared under International Financial Reporting Standards (IFRS) as adopted by the European Union, in accordance with International Accounting Standard 34 'Interim Financial Reporting' and the Disclosure and Transparency Rules of the Financial Services Authority. It is unaudited but has been reviewed by the auditors and their report is attached to this document.

The interim financial information does not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006. It should be read in conjunction with the statutory accounts for the year ended 31 July 2009, which were prepared in accordance with IFRS as adopted by the European Union and have been filed with the Registrar of Companies. The auditors' report on these statutory accounts was unqualified and did not contain a statement under Section 498(2) or (3) of the Companies Act 2006.

### Accounting policies

The condensed interim financial information has been prepared on the basis of the accounting policies applicable for the year ending 31 July 2010. These accounting policies are consistent with those applied in the preparation of the financial statements for the year ended 31 July 2009, except for the adoption of:

- amendment to 'IAS 23: Borrowing costs';
- amendment to 'IFRS 2: Share-based payment';
- 'IFRS 3: (Revised) business combinations' and 'IAS 27: (Revised) consolidated and separate financial statements';
- 'IAS 1: (Revised) Presentation of financial statements'; and
- 'IFRIC 15: Agreements for the construction of real estate'.

The consolidated statement of changes in equity has been presented as a primary statement as a result of the adoption of IAS 1: (Revised) Presentation of financial statements. There have been no other material changes as a result of adopting these new accounting requirements.

## 2 Analyses of revenue, operating profit and assets by business segment

### Analysis by operating segment

The Group is organised into five divisions: Smiths Detection, John Crane, Smiths Medical, Smiths Interconnect and Flex-Tek. Smiths divisions design and manufacture the following products:

- Smiths Detection – sensors that detect and identify explosives, weapons, chemical agents, biohazards, narcotics and contraband;
- John Crane – mechanical seals, seal support systems, engineered bearings, power transmission couplings and specialist filtration systems;
- Smiths Medical – drug delivery systems, vital care products and safety devices that prevent needlestick injuries and reduce cross infection;
- Smiths Interconnect – specialised electronic and radio frequency products;
- Flex-Tek – engineered components that heat and move fluids, flexible hosing and rigid tubing.

The position and performance of each division is reported monthly to the Board of Directors. This information is prepared using the same accounting policies as the consolidated financial information except that the Group uses headline operating profit to monitor divisional results and operating assets to monitor divisional position. See note 3 for an explanation of which items are excluded from headline measures.

Intersegment sales and transfers are charged at arms length prices.

| | | | | | | Period ended 30 January 2010 |
|---|---|---|---|---|---|---|
| | Smiths Detection £m | John Crane £m | Smiths Medical £m | Smiths Interconnect £m | Flex-Tek £m | Total £m |
| Revenue | **265.6** | **357.7** | **414.0** | **145.7** | **96.0** | **1,279.0** |
| Divisional headline operating profit | **38.5** | **64.2** | **86.3** | **23.4** | **9.4** | **221.8** |
| Corporate headline operating costs | | | | | | **(14.7)** |
| Headline operating profit | **38.5** | **64.2** | **86.3** | **23.4** | **9.4** | **207.1** |
| Divisional exceptional operating items (note 4) | | **(4.8)** | **(0.9)** | | **(1.2)** | **(6.9)** |
| Corporate exceptional operating items (note 4) | | | | | | **4.2** |
| Amortisation of acquired intangible assets | **(0.2)** | **(7.5)** | **(8.4)** | **(2.6)** | | **(18.7)** |
| Operating profit | **38.3** | **51.9** | **77.0** | **20.8** | **8.2** | **185.7** |
| Exceptional finance costs – adjustment to discounted provision (note 4) | | **(3.4)** | | | | **(3.4)** |
| Net finance costs – other | | | | | | **(35.5)** |
| Share of post tax profits of associated companies | **1.4** | | | | | **1.4** |
| Profit before taxation | | | | | | **148.2** |

## 2 Analyses of revenue, operating profit and assets by business segment continued

| | Period ended 31 January 2009 | | | | | |
|---|---|---|---|---|---|---|
| | Smiths Detection £m | John Crane £m | Smiths Medical £m | Smiths Interconnect £m | Flex-Tek £m | Total £m |
| Revenue | 233.3 | 392.7 | 402.5 | 152.0 | 111.1 | 1,291.6 |
| Divisional headline operating profit | 23.8 | 65.8 | 76.8 | 23.9 | 10.8 | 201.1 |
| Corporate headline operating costs | | | | | | (16.0) |
| Headline operating profit | 23.8 | 65.8 | 76.8 | 23.9 | 10.8 | 185.1 |
| Divisional exceptional operating items (note 4) | | (19.6) | (0.7) | | (1.8) | (22.1) |
| Corporate exceptional operating items (note 4) | | | | | | 11.7 |
| Amortisation of acquired intangible assets | (0.3) | (5.9) | (6.7) | (1.8) | | (14.7) |
| Operating profit | 23.5 | 40.3 | 69.4 | 22.1 | 9.0 | 160.0 |
| Exceptional finance costs – adjustment to discounted provision (note 4) | | (3.7) | | | | (3.7) |
| Net finance costs – other | | | | | | (21.1) |
| Share of post tax profits of associated companies | | | | | | |
| Profit before taxation | | | | | | 135.2 |

| | Year ended 31 July 2009 | | | | | |
|---|---|---|---|---|---|---|
| | Smiths Detection £m | John Crane £m | Smiths Medical £m | Smiths Interconnect £m | Flex-Tek £m | Total £m |
| Revenue | 500.9 | 789.8 | 833.5 | 318.1 | 222.3 | 2,664.6 |
| Divisional headline operating profit | 63.1 | 142.8 | 163.9 | 55.5 | 21.9 | 447.2 |
| Corporate headline operating costs | | | | | | (29.7) |
| Headline operating profit | 63.1 | 142.8 | 163.9 | 55.5 | 21.9 | 417.5 |
| Divisional exceptional operating items (note 4) | | (23.8) | 0.5 | | (4.4) | (27.7) |
| Corporate exceptional operating items (note 4) | | | | | | 73.3 |
| Amortisation of acquired intangible assets | (0.5) | (13.3) | (16.6) | (4.2) | | (34.6) |
| Operating profit | 62.6 | 105.7 | 147.8 | 51.3 | 17.5 | 428.5 |
| Exceptional finance costs – adjustment to discounted provision (note 4) | | (7.1) | | | | (7.1) |
| Net finance costs – other | | | | | | (51.0) |
| Share of post tax profits of associated companies | 0.4 | | | | | 0.4 |
| Profit before taxation | | | | | | 370.8 |

The net operating assets of the five divisions are set out below:

| | **30 January 2010** | | | | | |
|---|---|---|---|---|---|---|
| | **Smiths Detection £m** | **John Crane £m** | **Smiths Medical £m** | **Smiths Interconnect £m** | **Flex-Tek £m** | **Total £m** |
| Property, plant, equipment, development projects and other intangibles | **104.4** | **101.4** | **180.7** | **32.3** | **26.3** | **445.1** |
| Investments in associates | **13.1** | | | | | **13.1** |
| Working capital assets | **307.1** | **269.3** | **256.1** | **94.7** | **59.1** | **986.3** |
| Operating assets | **424.6** | **370.7** | **436.8** | **127.0** | **85.4** | **1,444.5** |
| Derivatives, tax and retirement benefit assets | | | | | | **304.3** |
| Goodwill and acquired intangibles | | | | | | **1,405.4** |
| Corporate assets | | | | | | **27.7** |
| Cash | | | | | | **76.9** |
| Total assets | | | | | | **3,258.8** |

## 2 Analyses of revenue, operating profit and assets by business segment continued

31 July 2009

| | Smiths Detection £m | John Crane £m | Smiths Medical £m | Smiths Interconnect £m | Flex-Tek £m | Total £m |
|---|---|---|---|---|---|---|
| Property, plant, equipment, development projects and other intangibles | 101.9 | 101.0 | 180.9 | 30.0 | 26.6 | 440.4 |
| Investments in associates | 11.2 | | | | | 11.2 |
| Working capital assets | 300.2 | 266.2 | 262.3 | 96.3 | 58.9 | 983.9 |
| Operating assets | 413.3 | 367.2 | 443.2 | 126.3 | 85.5 | 1,435.5 |
| Derivatives, tax and retirement benefit assets | | | | | | 258.5 |
| Goodwill and acquired intangibles | | | | | | 1,373.5 |
| Corporate assets | | | | | | 16.8 |
| Cash | | | | | | 91.7 |
| Total assets | | | | | | 3,176.0 |

## 3 Headline profit measures

The Company seeks to present a measure of underlying performance which is not impacted by exceptional items or items considered non-operational in nature. This measure of profit is described as 'headline' and is used by management to measure and monitor performance.

The following items have been excluded from the headline measure:

- exceptional items, including income and expenditure relating to John Crane, Inc. asbestos litigation;
- amortisation of intangible assets acquired in a business combination – the amortisation charge is a non-cash item, and the directors believe that it should be added back to give a clearer picture of underlying performance; and
- other financing gains and losses, which represent the potentially volatile gains and losses on derivatives and other financial instruments which do not fall to be hedge accounted under IAS 39.

| | Notes | **Period ended 30 January 2010 £m** | Period ended 31 January 2009 £m | Year ended 31 July 2009 £m |
|---|---|---|---|---|
| **Operating profit** | | **185.7** | 160.0 | 428.5 |
| Exclude: | | | | |
| – exceptional operating items | 4 | **2.7** | 10.4 | (45.6) |
| – amortisation of acquired intangible assets | 9 | **18.7** | 14.7 | 34.6 |
| Non-headline items in operating profit | | **21.4** | 25.1 | (11.0) |
| **Headline operating profit** | | **207.1** | 185.1 | 417.5 |
| | | | | |
| **Finance costs** | | **(38.9)** | (24.8) | (58.1) |
| Exclude: | | | | |
| – exceptional finance costs | 4 | **3.4** | 3.7 | 7.1 |
| – other financing gains and losses | | **5.5** | 2.6 | 3.8 |
| Non-headline items in finance costs | | **8.9** | 6.3 | 10.9 |
| **Headline finance costs** | | **(30.0)** | (18.5) | (47.2) |
| | | | | |
| **Profit before taxation** | | **148.2** | 135.2 | 370.8 |
| Non-headline items in operating profit | | **21.4** | 25.1 | (11.0) |
| Non-headline items in finance costs | | **8.9** | 6.3 | 10.9 |
| **Headline profit before taxation** | | **178.5** | 166.6 | 370.7 |
| | | | | |
| **Profit after taxation – continuing operations** | | **112.3** | 109.0 | 275.9 |
| Exclude: | | | | |
| – non-headline items in profit before taxation | | **30.3** | 31.4 | (0.1) |
| – tax on excluded items | | **(7.0)** | (13.8) | 6.1 |
| | | **23.3** | 17.6 | 6.0 |
| **Headline profit after taxation – continuing operations** | | **135.6** | 126.6 | 281.9 |

### 4 Exceptional items

Items which are material either because of their size or their nature, or which are non-recurring, are presented within their relevant consolidated income statement category, but highlighted separately on the face of the income statement. The separate reporting of exceptional items helps provide a better picture of the group's underlying performance. Items which may be 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.

An analysis of the amounts presented as exceptional items in these financial statements is given below:

| | **Period ended 30 January 2010 £m** | Period ended 31 January 2009 £m | Year ended 31 July 2009 £m |
|---|---|---|---|
| **Operating items** | | | |
| Restructuring of corporate and divisional headquarters | **(5.3)** | (8.4) | (23.7) |
| Gains on changes to post retirement benefits | **3.9** | | 70.3 |
| Profit on disposal of businesses | **3.6** | 0.7 | 1.6 |
| Profit on disposal of property | | 13.5 | 12.6 |
| Litigation | | | |
| – Provision for John Crane, Inc. litigation (note 12) | **(4.9)** | (16.2) | (15.2) |
| | **(2.7)** | (10.4) | 45.6 |
| **Financing items** | | | |
| Exceptional finance costs – adjustment to discounted provision (note 12) | **(3.4)** | (3.7) | (7.1) |
| | **(6.1)** | (14.1) | 38.5 |

On 3 June 2008 the Company announced a number of changes to its corporate centre and divisional headquarters. The total cost of this restructuring including redundancy, relocation and consolidation of manufacturing, is considered exceptional by virtue of its size. It is now expected to amount to approximately £45m, of which £5.3m (period ended 31 January 2009: £8.4m) has been charged in the current period.

The UK defined benefit pension schemes were closed with effect from 31 October 2009 and the curtailment gain of £3.6m arising has been reflected in the income statement. There was also a net gain of £0.3m due to the closure of a small US scheme. In the prior year curtailment gains arose from the closure of the principal US defined benefit pension scheme and reductions in post-retirement healthcare benefits.

The operating charge in respect of John Crane, Inc. litigation comprises £4.1m in respect of increased provision for adverse legal judgments and £0.8m in respect of legal fees in connection with litigation against insurers.

### 5 Taxation

The interim tax charge of 24.2% is calculated by applying the estimated effective headline tax rate of 24.0% for the year ending 31 July 2010 to headline profit before tax and then taking into account the tax effect of non-headline items in the interim period.

A reconciliation of total and headline tax charge – continuing is as follows:

| | **Period ended 30 January 2010** | | Period ended 31 January 2009 | | Year ended 31 July 2009 | |
|---|---|---|---|---|---|---|
| | **Continuing operations £m** | **Tax rate** | Continuing operations £m | Tax rate | Continuing operations £m | Tax rate |
| Profit before taxation | **148.2** | | 135.2 | | 370.8 | |
| Taxation | **(35.9)** | **24.2%** | (26.2) | 19.4% | (94.9) | 25.6% |
| **Adjustments** | | | | | | |
| Non-headline items excluded from profit before taxation (note 3) | **30.3** | | 31.4 | | (0.1) | |
| Taxation on non-headline items | **(7.0)** | | (13.8) | | 6.1 | |
| **Headline** | | | | | | |
| Headline profit before taxation | **178.5** | | 166.6 | | 370.7 | |
| Taxation on headline profit | **(42.9)** | **24.0%** | (40.0) | 24.0% | (88.8) | 24.0% |

## 6 Dividends

The following dividends were declared and paid in the period:

| | Period ended 30 January 2010 £m | Period ended 31 January 2009 £m | Year ended 31 July 2009 £m |
|---|---|---|---|
| Ordinary final dividend of 23.50p for 2009 (2008: 23.50p) paid 20 November 2009 | **91.6** | 91.1 | 91.1 |
| Ordinary interim dividend 10.50p for 2009 paid 24 April 2009 | | | 40.9 |
| | **91.6** | 91.1 | 132.0 |

An interim dividend of 10.5p per share (2009: 10.5p) was declared by the Board on 23 March 2010 and will be paid to shareholders on 23 April 2010. This dividend has not been included as a liability in these financial statements and is payable to all shareholders on the register of Members at the close of business on 6 April 2010.

## 7 Earnings per share

Basic earnings per share are calculated by dividing the profit for the period attributable to equity shareholders of the Parent Company by the average number of ordinary shares in issue during the period.

| | Period ended 30 January 2010 £m | Period ended 31 January 2009 £m | Year ended 31 July 2009 £m |
|---|---|---|---|
| Profit/(loss) for the period | | | |
| – continuing | **111.9** | 108.7 | 275.4 |
| – total | **109.5** | 108.6 | 269.5 |
| Average number of shares in issue during the period | **389,544,451** | 388,556,061 | 388,786,063 |

Diluted earnings per share are calculated by dividing the profit attributable to equity shareholders by 391,965,967 (period ended 31 January 2009: 391,369,103; year ended 31 July 2009: 392,591,613) ordinary shares, being the average number of ordinary shares in issue during the period, adjusted by the dilutive effect of share options.

A reconciliation of basic and headline earnings per share – continuing is as follows:

| | **Period ended 30 January 2010** | | Period ended 31 January 2009 | | Year ended 31 July 2009 | |
|---|---|---|---|---|---|---|
| | **Continuing operations £m** | **EPS (p)** | Continuing operations £m | EPS (p) | Continuing operations £m | EPS (p) |
| Attributable to equity shareholders of the Parent Company | **111.9** | **28.7** | 108.7 | 28.0 | 275.4 | 70.8 |
| Exclude | | | | | | |
| Non-headline items and related tax (note 3) | **23.3** | **6.0** | 17.6 | 4.5 | 6.0 | 1.6 |
| Headline | **135.2** | **34.7** | 126.3 | 32.5 | 281.4 | 72.4 |
| Headline EPS – diluted (p) | | **34.5** | | 32.2 | | 71.7 |

## 8 Post-retirement benefits

Smiths operates a number of defined benefit plans throughout the world. The principal schemes are in the United Kingdom and in the United States and are of the defined benefit type, with assets held in separate trustee-administered funds.

The UK defined benefit pension plans were closed with effect from 31 October 2009. At 30 January 2010 all the principal schemes are closed and no further benefits are being accrued.

The principal changes to the assumptions used in updating the valuations for defined benefit pension plans are as follows:

| | **30 January 2010** | | 31 January 2009 | | 31 July 2009 | |
|---|---|---|---|---|---|---|
| | **UK** | **US** | UK | US | UK | US |
| Rate of increase in salaries | **n/a** | **n/a** | 3.8% | 3.8% | 3.8% | n/a |
| Rate of increase for active deferred members | **4.3%** | **n/a** | n/a | n/a | n/a | n/a |
| Rate of increase in pensions in payment | **3.4%** | **n/a** | 3.3% | n/a | 3.3% | n/a |
| Rate of increase in deferred pensions | **3.4%** | **n/a** | 3.3% | n/a | 3.3% | n/a |
| Discount rate | **5.6%** | **5.8%** | 6.6% | 6.4% | 5.9% | 6.0% |
| Inflation rate | **3.4%** | **n/a** | 3.3% | 3.3% | 3.3% | n/a |

A current service charge of £4.2m, a past service charge of £0.1m, curtailment gains of £4.0m and an interest credit of £0.8m have been recognised in the six month period to 30 January 2010 in respect of defined benefit pension and post-retirement healthcare plans.

Changes in the market value of post-retirement benefit scheme assets were largely due to an increase in global stock market values.

The amounts recognised in the balance sheet were as follows:

| | **30 January 2010 £m** | 31 January 2009 £m | 31 July 2009 £m |
|---|---|---|---|
| Market value of funded plan assets | **2,980.9** | 2,637.1 | 2,775.1 |
| Present value of funded scheme liabilities | **(3,186.5)** | (2,966.0) | (3,027.6) |
| Unfunded pension plans | **(61.6)** | (59.0) | (59.6) |
| Post-retirement healthcare | **(24.2)** | (74.8) | (24.9) |
| Unrecognised asset due to surplus restriction | **(2.2)** | (1.5) | (2.0) |
| **Net retirement benefit liability** | **(293.6)** | (464.2) | (339.0) |
| Retirement benefit assets | **81.2** | 55.6 | 39.2 |
| Retirement benefit liabilities | **(374.8)** | (519.8) | (378.2) |
| **Net retirement benefit liability** | **(293.6)** | (464.2) | (339.0) |

## 9 Intangible assets

| | Goodwill £m | Development costs £m | Acquired intangibles £m | Other £m | Total £m |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 31 July 2009 | 1,266.5 | 106.2 | 290.2 | 116.3 | 1,779.2 |
| Exchange adjustments | 42.3 | 4.0 | 11.7 | 2.4 | 60.4 |
| Business combinations | 1.5 | | 1.6 | | 3.1 |
| Adjustments to prior year business combinations | 0.2 | | | | 0.2 |
| Additions | | 10.6 | | 4.0 | 14.6 |
| Disposals | | | | (0.3) | (0.3) |
| **At 30 January 2010** | **1,310.5** | **120.8** | **303.5** | **122.4** | **1,857.2** |
| **Amortisation** | | | | | |
| At 31 July 2009 | 92.0 | 32.4 | 91.2 | 63.3 | 278.9 |
| Exchange adjustments | 3.0 | 1.4 | 3.7 | 1.9 | 10.0 |
| Charge for the period | | 6.1 | 18.7 | 5.6 | 30.4 |
| Disposals | | | | (0.2) | (0.2) |
| **At 30 January 2010** | **95.0** | **39.9** | **113.6** | **70.6** | **319.1** |
| **Net book value at 30 January 2010** | **1,215.5** | **80.9** | **189.9** | **51.8** | **1,538.1** |
| Net book value at 31 January 2009 | 1,270.0 | 74.7 | 218.9 | 50.5 | 1,614.1 |
| Net book value at 31 July 2009 | 1,174.5 | 73.8 | 199.0 | 53.0 | 1,500.3 |

## 10 Property, plant and equipment

| | Land and buildings £m | Plant and machinery £m | Fixtures, fittings, tools and equipment £m | Total £m |
|---|---|---|---|---|
| **Cost** | | | | |
| At 31 July 2009 | 191.3 | 454.6 | 202.9 | 848.8 |
| Exchange adjustments | 6.3 | 17.6 | 7.1 | 31.0 |
| Business combinations | | 0.1 | | 0.1 |
| Additions | 2.6 | 10.3 | 8.7 | 21.6 |
| Transfers to assets held for sale | (10.8) | | | (10.8) |
| Disposals | (1.0) | (6.7) | (6.7) | (14.4) |
| **At 30 January 2010** | **188.4** | **475.9** | **212.0** | **876.3** |
| **Depreciation** | | | | |
| At 31 July 2009 | 79.5 | 302.7 | 148.6 | 530.8 |
| Exchange adjustments | 2.9 | 12.1 | 5.5 | 20.5 |
| Charge for the period | 3.7 | 18.5 | 9.8 | 32.0 |
| Reversal of impairment | (2.1) | | | (2.1) |
| Transfers to assets held for sale | (1.2) | | | (1.2) |
| Disposals | (0.8) | (6.4) | (5.4) | (12.6) |
| **At 30 January 2010** | **82.0** | **326.9** | **158.5** | **567.4** |
| **Net book value at 30 January 2010** | **106.4** | **149.0** | **53.5** | **308.9** |
| Net book value at 31 January 2009 | 130.7 | 165.9 | 61.8 | 358.4 |
| Net book value at 31 July 2009 | 111.8 | 151.9 | 54.3 | 318.0 |

## 11 Borrowings and net debt

This note sets out the calculation of net debt, an important measure in explaining our financing position. The net debt figure includes accrued interest and the fair value adjustments relating to hedge accounting.

| | **30 January 2010 £m** | 31 January 2009 £m | 31 July 2009 £m |
|---|---|---|---|
| **Cash and cash equivalents** | | | |
| Net cash and deposits | **76.9** | 195.4 | 91.7 |
| **Short-term borrowings** | | | |
| Bank overdrafts including impact of cash pooling gross up | **(46.8)** | (172.8) | (72.0) |
| £113m 7.875% Sterling Eurobond 2010 | **(112.7)** | | (137.7) |
| Bank and other loans | **(3.4)** | (3.8) | (3.7) |
| Interest accrual | **(21.3)** | (15.3) | (11.0) |
| | **(184.2)** | (191.9) | (224.4) |
| **Long-term borrowings** | | | |
| £150m 7.875% Sterling Eurobond 2010 | | (149.7) | |
| £70m EIB Sterling R. & D. Loan 2010 | | (70.0) | |
| £660m Revolving Credit Facility 2012 | **(71.2)** | (411.4) | (36.9) |
| $250m 5.45% US$ Private Placement 2013 | **(165.8)** | (181.5) | (156.5) |
| $250m 6.05% US$ Guaranteed notes 2014 | **(155.0)** | | (148.5) |
| £150m 7.25% Sterling Eurobond 2016 | **(149.1)** | (148.9) | (149.0) |
| $175m 7.37% US$ Private placement 2018 | **(109.2)** | | (104.7) |
| $250m 7.20% US$ Guaranteed notes 2019 | **(154.8)** | | (148.3) |
| Bank and other loans | **(2.8)** | (17.1) | (8.3) |
| | **(807.9)** | (978.6) | (752.2) |
| **Borrowings** | **(992.1)** | (1,170.5) | (976.6) |
| **Net debt** | **(915.2)** | (975.1) | (884.9) |

Cash and overdraft balances in interest compensation cash pooling systems are reported gross on the balance sheet. This gross up increased cash and overdrafts by £23.2m at 30 January 2010 (31 January 2009: £118.6m; 31 July 2009: £44.0m).

**11 Borrowings and net debt** continued

## Movements in net debt

| | 31 July 2009 £m | Foreign exchange gains and losses £m | Repayments of borrowings and net cash inflow £m | Drawdown of borrowings and net cash outflow £m | Capitalisation, interest accruals and unwind of capitalised fees £m | Fair value movements from interest rate hedging £m | Change in maturity analysis £m | **30 January 2010 £m** |
|---|---|---|---|---|---|---|---|---|
| Net cash and cash equivalents | 19.7 | (2.1) | 12.5 | | | | | **30.1** |
| Other short-term borrowings | (152.4) | (0.4) | 26.1 | | (10.1) | | (0.6) | **(137.4)** |
| Long-term borrowings | (752.2) | (27.9) | 5.9 | (31.1) | (0.3) | (2.9) | 0.6 | **(807.9)** |
| **Net debt** | (884.9) | (30.4) | 44.5 | (31.1) | (10.4) | (2.9) | | **(915.2)** |

## Borrowing facilities

At the balance sheet date the Group had undrawn credit facilities of £589.6m which expire in 2012.

**12 Provisions for liabilities and charges**

| | At 31 July 2009 £m | Exchange adjustments £m | Provisions charged £m | Provisions released £m | Discounting £m | Utilisation £m | **At 30 January 2010 £m** |
|---|---|---|---|---|---|---|---|
| Warranty provision and product liability | 44.4 | 1.4 | 10.7 | (2.3) | | (9.0) | **45.2** |
| Reorganisation | 15.7 | 0.5 | 1.8 | | | (5.4) | **12.6** |
| Property | 3.5 | | 0.4 | (0.1) | | (0.2) | **3.6** |
| Disposal | 54.7 | 2.1 | | (1.4) | | (0.2) | **55.2** |
| Litigation | 185.4 | 7.5 | 4.4 | (0.1) | 3.4 | (13.0) | **187.6** |
| | 303.7 | 11.5 | 17.3 | (3.9) | 3.4 | (27.8) | **304.2** |

Analysed as:

| | **30 January 2010 £m** | 31 January 2009 £m | 31 July 2009 £m |
|---|---|---|---|
| Current liabilities | **72.1** | 86.9 | 77.2 |
| Non-current liabilities | **232.1** | 253.2 | 226.5 |
| | **304.2** | 340.1 | 303.7 |

## Warranty provision and product liability

Warranties over the Group's products typically cover periods of between one and three years. Provision is made for the likely cost of after-sales support based on the recent past experience of individual businesses.

## Reorganisation

Reorganisation provisions include £9.1m relating to the corporate and divisional headquarters restructuring (see note 4) and £3.4m costs relating to restructuring supply arrangements following the automotive seals disposal, which are expected to be spread over the next six years.

## Litigation

### John Crane, Inc.

John Crane, Inc. ("JCI") is one of many co-defendants in numerous lawsuits pending in the United States in which plaintiffs are claiming damages arising from alleged exposure to, or use of, products previously manufactured which contained asbestos. Until 2006, the awards, the related interest and all material defence costs were met directly by insurers. In 2007, JCI secured the commutation of certain insurance policies in respect of product liability. While JCI has excess liability insurance, the availability of such insurance and scope of the cover are currently the subject of litigation in the United States. An adverse judgment at first instance from the Circuit Court of Cook County, Illinois is currently under appeal. Pending the outcome of that litigation, JCI has begun to meet defence costs directly. Provision is made in respect of the expected costs of defending known and predicted future claims and of adverse judgments in relation thereto, to the extent that such costs can be reliably estimated. No account has been taken of recoveries from insurers as their nature and timing are not yet sufficiently certain to permit recognition as an asset for these purposes.

The JCI products generally referred to in these cases consist of industrial sealing product, primarily packing and gaskets. The asbestos was encapsulated within these products in such a manner that causes JCI to believe, based on tests conducted on its behalf, that the products were safe. JCI ceased manufacturing products containing asbestos in 1985.

JCI is actively monitoring the conduct and effect of its current and expected asbestos litigation, including the most efficacious presentation of its 'safe product' defence, and intends to continue to resist all asbestos claims based upon this defence. Approximately 173,000 claims against JCI have been dismissed before trial over the last 30 years. JCI is currently a defendant in cases involving approximately 125,000 claims. Despite the large number of claims brought against JCI, it has had final judgments against it, after appeals, in only 94 cases over the period, and has had to pay awards amounting to approximately US$87m. JCI has also incurred significant additional defence costs and, whilst the number of claims being filed against JCI and other defendants has been declining, the proportion of mesothelioma claims has increased, and JCI's ability to defend these cases is likely to have a significant impact on its annual aggregate adverse judgment and defence costs.

**12 Provisions for liabilities and charges** continued

John Crane, Inc. continued

The assumptions made in assessing the appropriate level of provision include:

- The periods over which the expenditure can be reliably estimated. Projections used range between 10 and 17 years.
- The future trend of legal costs, allowing for 3% cost inflation.
- The rate of future claims filed.
- The rate of successful resolution of claims.
- The average amount of judgments awarded.

The provision is based on past history and allows for decreasing costs based on published tables of asbestos incidence projections. However, because of the significant uncertainty associated with the future level of asbestos claims and of the costs arising out of related litigation, there can be no guarantee that the assumptions used to estimate the provision will result in an accurate prediction of the actual costs that may be incurred and, as a result, the provision may be subject to potentially material revision from time to time if new information becomes available as a result of future events.

The provision in respect of JCI is a discounted pre-tax provision using discount rates, being the risk-free rate on US debt instruments for the appropriate period. The deferred tax asset related to this provision is shown within the deferred tax balance. Set out below is the gross, discounted and post-tax information relating to this provision:

| | **30 January 2010 £m** | 31 January 2009 £m | 31 July 2009 £m |
|---|---|---|---|
| Gross provision | **217.0** | 251.8 | 213.3 |
| Discount | **(45.6)** | (50.5) | (46.7) |
| Discounted pre-tax provision | **171.4** | 201.3 | 166.6 |
| Deferred tax | **(42.1)** | (52.3) | (45.0) |
| Discounted post-tax provision | **129.3** | 149.0 | 121.6 |

The movement in discounting on this provision comprises £3.4m relating to the unwinding of the discounting, which is recognised in exceptional finance costs (note 3). Movements in exchange rates in the period have increased the gross provision by £9.0m and the discounted pre-tax provision by £7.0m.

Other litigation

The Group has on occasion been required to take legal action to protect its intellectual property and other rights against infringement, and similarly to defend itself against proceedings brought by other parties. Provision is made for the expected fees and associated costs, based on professional advice as to the likely duration of each case.

Apart from that relating to JCI, none of the other provisions is discounted.

**13 Contingent liabilities**

As stated in note 12, John Crane, Inc. ("JCI") is involved in numerous law suits pending in the United States in which plaintiffs are claiming damages arising from exposure to, or use of, products containing asbestos. The JCI products generally referred to in these cases are ones in which the asbestos fibres were encapsulated in such a manner that, according to tests conducted on behalf of JCI, the products were safe. JCI ceased manufacturing products containing asbestos in 1985.

Provision has been made for the cost of adverse judgments expected to occur. The Group anticipates that asbestos litigation will continue beyond the period covered by this provision; however, because of the uncertainty surrounding the outcome of litigation beyond this period, the cost of adverse judgments cannot be reliably estimated.

In addition to the JCI asbestos law suits, other companies within the Group are also involved in product liability and other litigation for which no provision is made due to the inherent uncertainty of the outcome.

## 14 Cash-flows from operating activities

| | Period ended 30 January 2010 £m | Period ended 31 January 2009 £m | Year ended 31 July 2009 £m |
|---|---|---|---|
| Profit before taxation – continuing operations | **148.2** | 135.2 | 370.8 |
| Profit before taxation – discontinued operations | **(2.4)** | (0.1) | (5.7) |
| | **145.8** | 135.1 | 365.1 |
| Net interest payable | **30.8** | 20.9 | 52.3 |
| Financing losses | **8.9** | 6.3 | 10.9 |
| Share of post-tax profit from associate | **(1.4)** | | (0.4) |
| Other finance income – retirement benefits | **(0.8)** | (2.4) | (5.1) |
| Loss on disposal of discontinued operation | **2.4** | 0.1 | 5.7 |
| | **185.7** | 160.0 | 428.5 |
| Amortisation of intangible assets | **30.4** | 23.9 | 55.2 |
| Impairment of intangible assets | | | 0.2 |
| Loss/(profit) on disposal of property, plant and equipment | **0.5** | (13.6) | (11.3) |
| Profit on disposal of business | **(3.6)** | (0.7) | (1.6) |
| Depreciation of property, plant and equipment | **32.0** | 30.3 | 62.2 |
| Impairment of property, plant and equipment | **(2.1)** | | 3.8 |
| Share-based payment expense | **6.8** | 8.5 | 9.4 |
| Retirement benefits | **(17.1)** | (7.8) | (112.5) |
| Decrease/(increase) in inventories | **12.1** | (7.7) | 22.1 |
| Decrease in trade and other receivables | **4.0** | 34.7 | 94.0 |
| Decrease in trade and other payables | **(1.5)** | (57.8) | (79.9) |
| Decrease in provisions | **(13.8)** | (1.7) | (24.9) |
| Cash generated from operations | **233.4** | 168.1 | 445.2 |
| Interest | **(20.7)** | (9.5) | (39.1) |
| Tax paid | **(49.1)** | (26.9) | (74.0) |
| **Net cash inflow from operating activities** | **163.6** | 131.7 | 332.1 |

## 15 Related party transactions

There were no significant changes in the nature and size of related party transactions for the period to those disclosed in the Annual Report for the year ended 31 July 2009.

## 16 Events after the balance sheet date

Subsequent to 30 January 2010, property held for sale was disposed of generating proceeds of £10.5m. The remaining property held for sale is expected to be sold by 31 July 2010.

On 3 March 2010 the Group agreed to purchase Interconnect Devices, Inc. for US$185m, subject to regulatory clearance.