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News release

London, Wednesday 23 March 2011
For immediate release

Interim results for the half year ended 29 January 2011

	Headline* 2011 £m	Headline* 2010 £m	Growth	Underlying#	Statutory 2011 £m	Statutory 2010 £m
Continuing activities						
Sales	**1,372**	1,279	7%	2%	**1,372**	1,279
Operating profit	**239**	207	15%	9%	**208**	186
Operating margin	**17.4%**	16.2%	120 bps	–	**15.2%**	14.5%
Pre-tax profit	**224**	178	25%	18%	**189**	148
Basic EPS	**42.1p**	34.7p	21%		**35.7p**	28.7p
Free cash-flow	**70**	133	(47)%			
Dividend	**11.25p**	10.5p	7%		**11.25p**	10.5p
Return on capital employed	**17.3%**	14.9%	240 bps			

*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, costs of acquisitions and financing gains/losses from currency hedging. Free cash-flow and return on capital employed are described in the Financial review.

#Organic growth at constant currency.

Highlights

- Strong financial performance with sales up 7% and headline operating profit up 15%
- Headline operating margin up 120 basis points to 17.4%
- Company funded R&D increased by 14% to £49m
- Restructuring programme generated savings of £6m; £45m to date from £70m target
- Cash generation strong – apart from £32m working capital investment for Detection
- Dividend returns to growth, up 7%
- Return on capital employed up 240 basis points to 17.3%

"These figures demonstrate the benefit of our self-help initiatives and operational improvements across the Group. The business has performed well against a tough but steadily improving economic environment. First half margins have reached new highs as a result of volume leverage, better pricing and our focus on operational improvement and restructuring. Sales benefited from organic growth and recent acquisitions, despite order delays in Smiths Detection, a tougher trading environment and SKU rationalisation holding back Smiths Medical. Cash conversion has remained strong apart from the investment in Smiths Detection working capital to support second half deliveries. Return on capital employed increased 240 basis points to 17.3%.

"Looking ahead, we are enhancing our focus on top-line growth through increased investment in new product development, improved sales and marketing effectiveness, building our footprint in emerging markets, and targeted acquisitions. At the same time, we remain focused on delivering further savings from our restructuring and other initiatives. Cash conversion and improving returns continue to be key priorities and we remain confident of meeting expectations for the full year."

Philip Bowman
Chief Executive
Smiths Group plc

Divisional highlights*

Smiths Detection: Sales down 9% and headline operating profit down 11%; margin down to 13.9%

- Revenue was constrained by the variable order flow in military and ports & borders
- Company-funded R&D up 9% to 7.0% of sales; development projects for new products remain on track
- Technology leadership in air cargo screening and liquid detection positions us well for future opportunities
- Several new contracts secured and order book supports an improved second half; tender activity remains high

John Crane: Sales up 12% and headline operating profit up 18%; margin up to 19.0%

- Margins improved by 110 basis points to 19.0%, benefiting from increased volumes and efficiency initiatives
- Restructuring initiatives delivered £2m savings in the period, with the total to date of £19m
- Sales driven by growth in aftermarket, as well as original equipment revenue, particularly by oil and gas sector
- Strengthening order book points to second half sales growth

Smiths Medical: Sales down 2% and headline operating profit up 5%; margin up to 22.6%

- Margins enhanced 170 basis points to 22.6% through cost management and restructuring initiatives
- Portfolio profitability reviews, value engineering and restructuring continuing to deliver margin benefits
- Tough operating environment given budget pressures as well as procedure rates down due to unemployment
- Investment in new product development up 12% to 3.7% of sales

Smiths Interconnect: Sales up 7% and headline operating profit up 15%; margin up to 18.1%

- Margins improved by 210 basis points through higher volumes and cost efficiencies
- Growth across all end markets despite more challenging conditions in the military sector
- Integration of Interconnect Devices, Inc. complete and accretive to margins
- Several new contract wins and further roll-out of broadband antenna for commercial aircraft

Flex-Tek: Sales up 8% and headline operating profit up 27%; margin up to 11.6%

- Improved volumes and continued cost efficiencies contributed to a 180 basis point increase in margins
- Sales growth achieved across residential construction, aerospace and industrial sectors
- Flex-Tek remains strongly geared to a recovery in US housing

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

Statory reporting

Statutory reporting takes account of all items excluded from headline performance. On a statutory basis, pre-tax profit from continuing operations was £189m (2010: £148m) and earnings per share were 35.7p (2010: 28.7p). The items excluded from headline performance comprise amortisation of acquired intangible assets of £22m (2010: £19m); £5m of exceptional restructuring costs (2010: £5m), £5m in connection with John Crane, Inc. asbestos litigation (2010: £8m); acquisition costs of £1m (2010: nil) and financing losses of £2m (2010: £6m loss).

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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 23 March. A recording of the webcast is available later that day. A live audio broadcast of the presentation is also available by dialling (no access code required):

UK toll free: 0800 368 1985

International: +44 (0)20 3140 0820

US/Canada toll free: 1 866 978 9967

An audio replay is available for seven days on the following numbers (access PIN 376061#):

UK toll free: 0800 368 1890

International: +44 (0)20 3140 0698

US/Canada toll free: 1 877 846 3918

Photography

Original high-resolution photography is available to the media from http://www.smiths.com/images.aspx.

Chief Executive's review

Our focus on self-help initiatives and operational improvements across the Group has continued to boost margins to new levels. At the same time, we increased investment in future growth drivers, such as company-funded research and development, up 14% and a higher spend on sales and marketing and customer service. Sales growth for the Group benefited from the strength and breadth of our diversified portfolio of leading edge, technology-driven businesses that serve a broad range of geographies and markets. Looking ahead, we have businesses that are well placed in markets with long-term structural growth. The businesses provide many attractive investment opportunities to deliver superior returns and drive further growth. There also remains significant potential to improve margins by driving the businesses harder and delivering further operational efficiencies and cost savings beyond the substantial progress already achieved.

These results reinforce the progress we have made against our objectives. John Crane's revenues benefited from a strengthening order book which delivered growth in aftermarket services and original equipment sales across its end markets, particularly the oil and gas sector. Margins were enhanced by the higher volumes and further savings from its various cost reduction programmes. At Smiths Interconnect, strong sales of specialist connector components to the medical, rail, automation and test markets, as well as growth in components and subsystems for wireless telecoms and commercial aerospace markets, more than offset the pressure from some delayed defence projects. The acquisition of IDI last year had an accretive effect on margins which were also improved by higher volumes and further benefits from cost control measures. Flex-Tek delivered revenue growth across most of its end markets, which in turn supported higher margins as a result of its strong operational gearing. As previously guided, Smiths Detection experienced delays to several orders across a number of sectors which caused first half sales declines and affected margins. However, the order book for the non-military markets has continued to grow and tender activities remain high which supports a more positive outlook for the second half. Smiths Medical has continued to deliver margin improvements while also increasing investment in the future growth drivers, such as new product development (up 12%) and sales and marketing. This has also been achieved in a tough operating environment, particularly the mature markets in the US and Europe, where budget pressures have constrained capital purchases and unemployment has reduced procedure rates. A focus on product profitability and SKU rationalisation has benefited margins but adversely affected sales.

The major restructuring programme which we began in 2008 has delivered further savings of £6m in the period. To date, we have generated savings of £45m against our total planned savings of £70m when completed in 2012/13. As announced in September 2010, these targeted savings include a further tranche of cost initiatives from the rationalisation of certain 'back-office' functions to reduce overheads across the Group by £20m. We have also continued to leverage our investment in improved information systems as well as the Group's scale through more effective procurement. In the period, we achieved material cost savings which, along with pricing initiatives, have more than offset rising input cost inflation.

We have maintained technology leadership in many areas through a firm commitment to new product development and innovation, which in turn is a key driver of future sales and margin growth as new products typically command higher margins and deliver superior returns. We raised company-funded investment in R&D by 14% to £49m and were successful in securing a further £7m of customer-funded investment to bring our total spend to £56m, or 4.0% of sales (2010: 3.8%). This long-term investment is delivering results. For example, in Canada we launched a new syringe pump with wireless networking, Medfusion™ 4000, which we expect to extend into other markets in the coming months, as well as a new version of the successful CADD®-Solis pump. In Smiths Detection, the development of a next generation explosives detection system for screening airport checked baggage, in cooperation with Analogic Corporation is meeting all our programme milestones. John Crane has continued to make progress on its portfolio of environmentally-focused zero and low emission seals and on extending the high pressure capabilities of its compressor dry gas seals.

To support growth opportunities in emerging markets, we established a direct sales presence in India for both Smiths Detection and Smiths Medical. Smiths Detection already has a prominent presence in India with its systems deployed at more than 125 sites. The development of a direct sales and marketing team for Smiths Medical in India builds on an existing distributor presence and supports further direct investment to drive further growth in this important market.

The Group continues to focus on improving returns on capital across all divisions by enhancing margins while operating an efficient capital base. This has delivered a significant improvement in headline return on capital employed, up 240 basis points to 17.3%.

Sales
Sales increased by 7%, or £93m, to £1,372m. Currency translation gains on overseas sales contributed £36m and the net impact of acquisitions and disposals increased revenue by £27m. On an underlying basis, excluding currency translation and acquisitions, sales grew £30m. This increase was driven primarily by strong growth at John Crane (up £43m), Smiths Interconnect (up £10m) and Flex-Tek (up £8m) and offset by underlying sales declines in Smiths Detection (£24m) and Smiths Medical (£9m).

Profit
Headline operating profit rose £32m to £239m. Headline operating margin increased by 120 basis points to 17.4% (2010: 16.2%). The increase in headline operating profit comprises £7m from favourable currency translation, £6m from the net impact of acquisitions and disposals made last year, and a £19m, or 9%, increase in underlying headline operating profit. The main drivers of this £19m improvement were higher volumes and cost savings at John Crane (up £12m), manufacturing and overhead efficiencies at Smiths Medical (up £4m), increased volumes and procurement savings at Smiths Interconnect (up £4m), and higher volumes and prices at Flex-Tek (£3m), partly offset by lower volumes at Smiths Detection (down £4m). Corporate centre costs were held in line with last year.

Operating profit on a statutory basis, after taking account of the items excluded from the headline figures, was £208m (2010: £186m).

The net interest charge on debt declined to £29m (2010: £31m) which reflects reduced average levels of debt. The pensions financing credit increased to £12m (2010: £1m). As a result, headline profit before tax increased by £46m to £224m (2010: £178m). On an underlying basis, headline profit before tax grew by 18%.

On a statutory basis, after taking account of items excluded from the headline figure, profit before tax increased £41m to £189m (2010: £148m).

The Group's tax rate on headline profit for the period was 26% (2010: 24%). Headline earnings per share increased by 21% to 42.1p (2010: 34.7p).

Cash generation
We have continued to generate strong cash-flows from four of the five businesses. However, in Smiths Detection, the strong order book to support second half growth has required an additional investment in working capital of £32m. As a result, headline operating cash of £186m (2010: £230m) represented 78% (2010: 111%) of headline operating profit. Excluding the additional investment in Smiths Detection working capital of £32m, the headline operating cash conversion would have been 91%. Free cash-flow declined £63m to £70m (2010: £133m).

Net debt increased £43m to £880m as a result of working capital investment and dividends of £92m.

Dividend
Having reached our target dividend cover of around 2.5 times last year, the Board has adopted a progressive dividend policy for future payouts while maintaining this prudent level of cover. This policy will enable us to retain sufficient cash-flow to finance our investment in the drivers of growth.

The Board has declared an interim dividend of 11.25p per share, an increase of 7%. The interim dividend will be paid on 21 April to shareholders registered at the close of business on 1 April. The ex-dividend date is 30 March.

Outlook
While the economic outlook remains uncertain, we are enhancing our focus on top-line growth through increased investment in new product development, improved sales and marketing effectiveness, building our footprint in emerging markets, and targeted acquisitions. At the same time, we remain focused on delivering further savings from our restructuring and other initiatives. Cash conversion and improving returns continue to be key priorities and we remain confident of meeting expectations for the full year.

Business review

Smiths Detection

	2011 £m	2010 £m	Reported growth	Underlying growth
Sales	**248**	266	(7)%	(9)%
Headline operating profit	**34**	39	(11)%	(11)%
Headline operating margin	**13.9%**	14.5%	(60) bps	
Statutory operating profit	**33**	38		
Return on capital employed	**13.0%**	11.3%	170 bps	

Reported sales declined 7%, or £18m, reflecting currency translation of £5m and an acquisition benefit of £1m, offset by a decrease in underlying sales of £24m. The fall in underlying sales primarily reflects the timing of a number of large military programmes, in particular the introduction of the next generation chemical agent detector for the JCAD (Joint Chemical Agent Detector) programme in the US. Excluding sales to the military, underlying sales were broadly stable. However, the order book for these non-military markets has continued to grow and new business enquiries and tender activity remain high.

Operating margins fell by 60 basis points to 13.9% as headline operating profit declined by £4m on an underlying basis. The fall in sales volumes is the principal driver for the lower margins.

Underlying sales in transportation were relatively stable in the first half of the year. Several large contracts have been secured and other opportunities will support a stronger second half. These include a US$43.5 million contract from the Transportation Security Administration (TSA) for Advanced Technology X-ray systems to be deployed at airport checkpoints across the United States. We also received a C$19 million order from the Canadian Air Transportation Security Authority (CATSA) to provide advanced X-ray systems for use at airport baggage checkpoints. Following a similar C$27 million purchase in November 2009, CATSA's new order is the latest in the phased replacement of traditional single-view X-ray systems with advanced multi-view scanners in airports across Canada.

Our investment in leading-edge technologies positions the business well for future deployments to meet new regulations and legislation. For example, the air cargo screening incident in Yemen last October has caused governments to review their current regulations, which, in the short term, has caused delays to orders. However, in the medium term, we offer the broadest range of equipment to meet a wide variety of applications, with 16 different X-ray machines and other technologies on the TSA's approved technology list. During the period, our advanced aTiX™ scanners were certified by the EU for liquid threat detection at airport security checkpoints. Compliance with the EU's Liquid Explosive Detection Systems Standard 2 Type C means the X-ray systems can be used to scan multiple liquid, aerosol or gel containers simultaneously in trays at carry-on baggage checks without requiring the containers to be opened.

Underlying sales in the ports and borders market declined 16% as a result of delays to several anticipated orders, but the order book is strong compared to prior years and demonstrates a significant return to activity. The contract delays are due to government customers reviewing their expenditure plans against a backdrop of deteriorating economies and strained finances. During the period we secured an order from Japan for five high-energy cargo inspection systems. Despite the contract delays in the first half of the year, the long-term outlook for ports and borders remains strong as governments improve their border security and customs revenue protection. For instance, the US Congress has mandated that 100% of inbound cargo be scanned by August 2012. Our leading-edge technology positions us well to meet this demand.

Our military business saw underlying sales fall by 39% as a result of a cyclical transition between mature and new programmes, as well as the return of US government military expenditure to more normal funding levels following recent conflicts. Major opportunities for military programmes in the US, Europe and Asia remain strong ahead of a switch to a new generation of advanced chemical detectors, expected during the second half. However, we achieved several other contract wins in multiple programmes including Canadian and German contracts. The LCD, (Lightweight Chemical Detector), helps safeguard troops by automatically detecting chemical warfare agents and toxic industrial chemicals.

Critical infrastructure grew 32% as a result of a number of contracts including supplying equipment for the Commonwealth Games in India and to the Federal Protective Services in the US.

Good progress was made against a number of contractual milestones in our collaboration with Novartis to develop a molecular diagnostics system for clinical applications in infectious disease testing.

Business developments

To support growth opportunities in the Indian market, Smiths Detection established a new sales, marketing and service company to consolidate its prominent position in this important market. As part of this, Smiths Detection acquired the detection sales, distribution and service business of Veecon IPA Gastchnik Limited for an initial consideration of US$9m from existing resources, with potential for further consideration of US$8m. This business has acted as a distributor for Smiths Detection and helped build a market leading presence in this important market. Our systems are deployed in India's major airports and at more than 125 sites ranging from government, police and court buildings to hotel chains and religious temples. The Indian business is an important development opportunity for Smiths Detection with a solid current presence and a very strong opportunity book.

Research and development

Smiths Detection has continued to increase its investment in new product development 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 9% to £17m or 7.0% of sales (2010: 5.9% of sales). This includes £9m of capitalised projects. Smiths Detection actively seeks customer and government support for R&D which totalled £4m in the period (2010: £4m). Total R&D spend was £21m (2010: £20m) or 8.8% of sales.

The main focus for R&D investment continues to be on X-ray for a variety of applications, including checkpoint and baggage scanning at airports and cargo screening at ports and borders. Our next generation explosives detection system development project with Analogic, which leverages the complementary expertise of each company in multi-energy X-ray technology and three-dimensional computed tomography (CT), continues to progress according to plan and is on track to meet its major development milestones.

We are enhancing the privacy features of our advanced body imager, eqo™, by developing software upgrades that enable the system to alarm automatically on detecting threat items beneath clothes, so greatly reducing the need for visual inspections. These upgrades can be easily installed in the eqo™ systems already deployed. Customer feedback from trials has been positive with its real-time imaging and small footprint, which allows it to fit easily into a standard checkpoint layout, both seen as real advantages.

Our global leadership in biological and chemical trace detection supported the development of several new products in the period. These included a new version of the LCD, enhancements to the chemical analysis products and further development of advanced platforms.

Outlook

After a slow start to the year, Smiths Detection's non-military order book is ahead of last year driven primarily by demand from the transportation and ports & borders markets to help support an improved performance in the second half. Military sales will be dependent on deployment of the latest chemical detection capability provided by the new generation LCD 3.3. Smiths Detection remains well placed to benefit from future growth opportunities, although government finances remain under pressure in many markets which may affect the timing and profile of orders. Longer term, we expect continued demand for leading-edge technology solutions for threat detection and identification. Smiths Detection will continue to invest in new product development to maintain market leadership.

John Crane

	2011 £m	2010 £m	Reported growth	Underlying growth
Sales	**412**	358	15%	12%
Headline operating profit	**79**	64	22%	18%
Headline operating margin	**19.0%**	17.9%	110 bps	
Statutory operating profit	**68**	52		
Return on capital employed	**24.0%**	19.8%	420 bps	

John Crane grew sales by 15%, or £54m, reflecting an underlying increase in sales of £43m (12%) against a relatively weak comparator period, as well as a currency benefit of £11m. The growth in underlying sales has come from aftermarket services, particularly in the oil and gas sector, and from first-fit original equipment. Headline operating profit gained from underlying growth of £12m and currency translation of £2m, resulting in margins up 110 basis points. This margin improvement reflects the higher sales volumes, improved pricing on aftermarket sales and the cost saving opportunities from the global restructuring programme, which has now entered its third year. These positive effects were partly offset by adverse mix as a result of the strong growth in John Crane Production Solutions (JCPS), our upstream energy services business. Return on capital employed improved 420 basis points to 24.0% as a result of the improved profitability.

The restructuring programme launched in August 2008 to create one global John Crane division is progressing on schedule. These changes are delivering improved customer service, quicker delivery, and lower costs. In the period, we spent £1m and delivered savings of £2m. Overall, the project is on track to deliver annualised savings of £25m.

Overall aftermarket sales grew 17% on an underlying basis driven primarily by the oil and gas sector with particular support from JCPS, our upstream energy services business, which doubled its sales. JCPS benefited from a major contract to upgrade and maintain Romania's oil wells by providing pump repair services and equipment for Petrom's 9000-plus wells. As a lead indicator, US onshore drilling activity is up 26% year on year and key oil basins are up as much as 50% over the same period. Aftermarket sales of rotating equipment (seals, seal support systems, couplings, bearings and filtration) increased 8% with growth across all sectors with particular strength in the oil, gas and petrochemical and distribution sectors as new distributors were added.

First-fit original equipment delivered underlying sales growth of 4% as customers stepped up their investment in new capital projects. Particularly strong activity was seen in the oil, gas and petrochemical sectors in the Middle East, Latin America, China and Australia. The level of bid revision activity has also increased notably against the previous comparator period due to the commencement of previously delayed projects. In the short-term, investment in these capital projects may bring about pressure on margins but will support aftermarket sales growth, as well as market share gains and margin strength longer term.

Significant enhancements to our market-leading sales and service network have been completed including the opening of a new ‘state of the art’ HQ, manufacturing and service centre in Dammam, Kingdom of Saudi Arabia. We are planning to exploit further growth opportunities in the Middle East through the second half with the expansion of the Dubai HQ facility to provide increased manufacturing, service and training capabilities for the region. A new Indufil facility has opened in Texas, providing users of Indufil equipment in the Americas with local technical and commercial support. Manufacturing of the well-known ‘Safematic’ product line has been introduced in China in response to key pulp and paper customer requirements in the region. Targeted developments in China will continue with the introduction of a new metal bellows seal product line, developed specifically to meet the needs of the local market.

John Crane Production Solutions is experiencing increased demand for fibreglass sucker rod products, particularly from markets outside the US which are showing interest in the operational benefits of these lightweight alternatives to traditional steel products. As a result, we are planning to increase production capacity by 50%, which will support the expansion of this growing product line by August 2011.

Research and development

Research and Development programs continue to make progress in the areas of environmentally focused zero and low emission seals, advanced materials for seals and couplings, expansion of the performance range limit for compressor dry gas seals to extreme high pressures and engineered point solutions to targeted specific application services. Recently commercialised new product introductions include the launch of a non-contacting supercritical CO_2 pump seal utilised in enhanced oilfield recovery and a line of high duty American Petroleum Institute compliant couplings.

John Crane Production Solutions will introduce to the market a high temperature version of its fibreglass rods for lifting oil from wells. This solution will offer more cost effective solutions for our customers in new markets previously inaccessible due to well temperature.

Outlook

John Crane has a strong order book which will support sales growth for the full year, although the rate of growth is likely to ease into the second half against a strong comparator period. Margins will benefit from the higher volumes and from the remainder of the cost saving initiatives to be delivered in the second half. We will seek to reinvest some of these benefits into growth opportunities as markets continue to improve and we may experience some pricing pressure on original equipment projects and an adverse mix effect as the sales growth in first-fit original equipment accelerates. However, securing these original equipment projects will help to drive higher aftermarket sales over the longer-term.

Smiths Medical

	2011 £m	2010 £m	Reported growth	Underlying growth
Sales	**418**	414	1%	(2)%
Sales (excluding diabetes)	**413**	407	2%	(2)%
Headline operating profit	**94**	86	9%	5%
Headline operating margin	**22.6%**	20.9%	170 bps	
Statutory operating profit	**85**	77		
Return on capital employed	**16.0%**	13.9%	210 bps	

Reported sales grew 1%, or £4m, benefiting from £13m of currency translation, while underlying sales declined 2% (£9m), of which £2m related to the exit from the diabetes market. The like-for-like sales decline was driven primarily by slowing in the safety devices and vital care segments which offset growth in medication delivery sales. A continued focus on product profitability and stock-keeping unit (SKU) rationalisation also had an adverse impact on sales but enhanced margins. As a result, excluding diabetes, hardware sales grew 1% while single-use consumables declined 2%. Headline operating margins increased by 170 basis points to 22.6%, with underlying profit growth of 5% (£4m) and currency translation also contributing £4m. Margins benefited from various cost saving initiatives such as manufacturing efficiency and value engineering projects, improved sourcing and overhead reductions as well as the benefit of positive mix and improved pricing in select markets. We reinvested some of these benefits in sales and marketing and new product development to drive future growth.

These results have been achieved despite a tough operating environment for medical device companies in many markets around the world. The US and European markets were particularly challenging given their maturity and the added pressure of healthcare cost reform, unemployment and reduced insurance coverage, which have cut procedure rates and constrained hospital capital purchases in many markets. Furthermore, we saw slower sales to large distributors in light of a weaker traditional flu season in some markets.

Emerging markets continue to be a source of growth as the quality of and access to healthcare improves. We continue to expand our efforts and presence in emerging markets which now represent about 9% of our sales and are growing at double digit rates in some cases. While we have had a presence in India for years, we recently established an operating entity which includes a direct sales and marketing team to complement our distributor model. We will continue to invest in India and other attractive emerging markets to consolidate our success.

In medication delivery, underlying revenue grew 4% (excluding diabetes) from increased sales of our recently launched and market leading CADD®-Solis ambulatory smart pumps and continued strong sales of our Medfusion™ syringe pumps and Pharmguard® software. We have seen share gains in ambulatory pump sales due to the superior capabilities of the CADD®-Solis pump and through the efforts of our dedicated sales and clinical team.

Vital care underlying sales declined 2% in the face of a weaker than usual flu season, together with pressures on healthcare expenditure in a number of European markets. Sales of our kitting products in Germany have also declined as a result of our focus on rationalising unprofitable SKUs and improving gross margins. Meanwhile, our tracheostomy business has performed well, benefiting from new product introductions, such as UniPerc™ and Bivona silicone tracheostomy tubes, which account for more than 25% of our sales in the airway franchise. Our general anaesthesia franchise also achieved growth through good performance in the US and through our international distributors.

Underlying sales of safety devices fell 6%, driven by a challenging competitive environment and reduced demand following a strong flu demand last year, particularly in preparation for H1N1. Although trading conditions are tough, interest in safety products remains high in developed markets and is growing in developing markets. In May 2010, the European Commission adopted a Directive, with the aim of "achieving the safest possible working environment for healthcare workers through prevention from sharps injuries." EU members are beginning to seek products that adhere to these guidelines, and Smiths Medical is positioned to capitalise on this opportunity.

We have continued to eliminate SKUs, building on last year's effort to simplify our offering and improve profitability while successfully converting customers to alternative products where possible. We will continue to evaluate our portfolio for further streamlining and profit improvement opportunities. In addition, we are continuing to invest in sales & marketing, with a particular emphasis on increasing our customer-facing resources. Our new global sales structure and investment in business intelligence and training tools have improved both the effectiveness of our selling efforts and our ability to identify systematically significant opportunities to accelerate penetration in priority product categories by market. We expect these organisational changes to drive up-selling and cross-selling activities.

We also continue to optimise our manufacturing and distribution footprint to deliver a more efficient supply chain. During the year we rationalised a distribution centre in Milan, Italy, merging it into our central European distribution centre in Nijmegen, The Netherlands. Additional initiatives to optimise our distribution network and drive further cost reductions for the second half and beyond are currently underway. We have aggressively pursued variable cost productivity initiatives which have significantly reduced production costs in the last year with opportunities to capture further benefits in the future. In addition, the ERP implementation completed last year is now enabling data-driven decisions which enhance operational performance and customer satisfaction in support of revenue and margin growth.

Research and development

Our R&D spend increased 12% to £16m (2010: £14m) or 3.7% of sales (2010: 3.4%). We launched the Medfusion® 4000 in Canada, and expect to roll out into our European and US markets in the coming months. This platform adds wireless capability and interoperability to our strong syringe pump platform supported by medication safety software – improving workflow, pump management and clinical decision making. In addition, we have recently released the CADD®-Solis VIP in Canada, extending this market-leading ambulatory platform into the non-hospital and homecare markets. Similarly, this product will be released in additional markets globally over the next 18 months. Together, these innovative systems have further strengthened our leadership in medication delivery. In addition to infusion innovation, we have also introduced other new safety device products including the CT Marker for ports, Gripper® Micro range extension and within vital care, the Pneupac® paraPAC Plus. However, the introduction of new extended procedures to the FDA's product approval process has caused some delays to new product launches in the US market.

Outlook

The long-term outlook for medical devices remains attractive although developed markets are likely to be challenging in the short term as squeezed healthcare budgets and unemployment continue to put downward pressure on price and volumes. However, we expect to see continued growth in emerging markets. We will also seek to introduce new products in the second half and into next year which will help to drive long term sales growth. Our organisational changes and increased emphasis on customer-facing resources will also improve sales effectiveness in the near term, including emerging market growth. Furthermore, there are additional opportunities to drive operational improvements to support continued margin expansion. We will reinvest some of these savings into sales and marketing and new product development efforts to accelerate longer term growth.

Smiths Interconnect

	2011 £m	2010 £m	Reported growth[#]	Underlying growth
Sales	**186**	146	28%	7%
Headline operating profit	**34**	23	44%	15%
Headline operating margin	**18.1%**	16.0%	210 bps	
Statutory operating profit	**27**	21		
Return on capital employed	**17.4%**	17.4%		

Reported sales for Smiths Interconnect increased by 28% or £40m. Adjusting for the positive impact of acquisitions (£26m) and currency translation (£4m), underlying sales increased by 7% or £10m. Sales benefited from the diversity of end markets and despite more challenging conditions in military and aerospace, all market segments achieved underlying growth, particularly medical, rail, automation and test.

Headline operating profit margin improved 210 basis points to 18.1% as the reported headline operating profit increased 44%. Excluding the benefit from currency translation (£1m) and acquisitions (£6m), underlying headline profit increased by 15%. Margins were driven by improved volumes, an accretive impact from acquisitions, the benefits of prior year restructuring and the continuation of cost control measures. We continue to drive improvements in manufacturing efficiencies and transfer manufacturing to facilities in low-cost economies. Furthermore, procurement savings are more than offsetting input cost inflation.

On an underlying basis, sales into military, aerospace and space applications increased 3%, despite a headwind in the defence market. Strong demand for our connector, antenna systems and surge protection capabilities more than offset a slowdown in bookings for microwave components and subsystems arising from uncertainty in future funding for new and existing programmes. The US Department of Defense funding has reduced significantly in the absence of an approved budget for Fiscal Year 2011, and the combination of the Continuing Resolution and the withdrawal of troops from Iraq and Afghanistan has delayed upgrade programmes for counter IED systems incorporating our microwave technology.

The potential threat from an electro-magnetic pulse (EMP) weapon or natural event such as a solar flare is gaining further recognition and raising demand for our transient voltage protection devices. During the period, we secured and completed a $4.6m contract from the US Air Force Global Strike Command to supply our advanced hardened technology to protect Minuteman Weapon Systems. Our surge protection devices are now being used to protect electrical and communications systems used in military ground vehicles, naval applications, aircraft and facilities.

In December 2010, our Millitech business was awarded a $16m contract to supply the Antenna Pedestal for the US Navy Multiband Terminal (NMT) satellite communication programme which provides a powerful and reliable new capability at up to five times the current bandwidth while using smaller, lighter and more energy efficient systems. The contract covers the first production year and contains five further production year options.

In commercial aerospace, demand for our connector products was stimulated by production rate increases by Boeing and Airbus. Our KuStream broadband satellite antenna system is now installed on over 70 aircraft and has accumulated over 50,000 flight hours enabling in-flight connectivity and applications such as live-TV, movies, internet and e-mail to millions of passengers. It has been selected by two other airlines and is undergoing trials with several others. In addition, variants of the original KuStream system have been developed including a smaller version to provide TV services for a regional jet application and another for US military aircraft.

Underlying sales to the wireless communications market increased 2%. Infrastructure spend was focused on new technology deployments within specific geographies such as LTE 4G in the US and WCDMA 3G in India, and hotspots of activity such as network improvement projects in Australasia. However, more generally, growth was constrained by network operators controlling capital expenditures and consolidation within the equipment manufacturers sector.

The adoption of our Passive Intermodulation (PIM) test instrument, which helps optimise cell tower performance, continued to gain global credibility with further contract wins in the US as well as our first recorded sales in China and India. Wireless telecommunications demand for our RF and power protection products remained flat while reductions in government budgets affected sales of our timing products used in public safety and first responder network applications. Microwave components and cable assembly sales grew as a result of new contract wins with Chinese equipment manufacturers.

Sales to the medical, rail, test and automation markets increased substantially with underlying growth of 24%. We experienced strong demand for our range of high reliability connectors, particular in the areas of cardiac mapping and MRI systems, and for power protection products for radiotherapy and radiosurgery systems. The rail market remained stable with many projects in the planning and development phases, but not yet transitioning to production. Test and industrial markets strengthened considerably with a strong sales recovery in our industrial connector offering and contract wins for our frequency extender test equipment products that leverage our leading high frequency engineering capabilities.

Research and development

Company-funded R&D in the first half was £10m or 5.4% of sales (2010: 5.3% of sales). We continue to seek actively customer and government support for R&D which totalled £2m in the period (2010: £2m) bringing total R&D spend to £12m (2010: £10m) or 6.6% of sales.

Investments were spread across all areas of the business but focused on sectors of future growth potential. Notable projects included further development of our capabilities in airborne broadband antenna systems, passive intermodulation test equipment, electromagnetic pulse protection devices and satellite communications terminals.

Business developments

The integration of Interconnect Devices, Inc. (IDI), acquired in April 2010, is now essentially complete. The designer and manufacturer of highly engineered, application-specific connectors using a proprietary spring probe contact technology is delivering ahead of expectations. The products complement the existing connector product portfolio and the business extends our geographic reach through its operations and sales channels in China and South East Asia. Specific examples include a major contract win for IDI connectors for a European radar system and a consolidated Asian sales organisation driving growth across our range of connector capabilities. Smiths Interconnect operates in a fragmented industry and we continue to seek value enhancing acquisition opportunities. During the period, we evaluated several further acquisitions but withdrew as prices made returns insufficiently attractive.

We remain focused on cost control and further improving margin performance. In the first half, we began restructuring our European connector businesses by concentrating manufacturing into a centre of excellence in Tunisia. We also brought together a number of our microwave wireless telecommunications businesses under a single management team which culminated with the launch of a new brand, Kaelus. This rationalisation will provide a single face to customers and simplify our business interactions in this fast moving sector.

Outlook

In the short term, the defence market, particularly in the US, is likely to be challenging. Although budgets will remain under pressure for the foreseeable future, we remain focused on strategically important sectors such as satellite communications programmes, C4ISR and force protection.

In wireless telecommunications, the drive to enhance network performance and increase capacity to support wireless demand will fuel demand with many operators currently trialling or commencing the build out of new LTE 4G networks although ongoing technology evolution is critical to achieve a position of sustainable growth in this market.

As a whole, market conditions in medical, rail, test and automation are expected to remain positive but returning to more normal growth rates. Despite input cost pressure, margins will continue to benefit from increased volume, ongoing restructuring, further transitioning to lower cost manufacturing facilities and sourcing initiatives.

Flex-Tek

	2011 £m	2010 £m	Reported growth	Underlying growth
Sales	**107**	96	12%	8%
Headline operating profit	**12**	9	32%	27%
Headline operating margin	**11.6%**	9.8%	180 bps	
Statutory operating profit	**11**	8		
Return on capital employed	**20.6%**	15.9%	470 bps	

Flex-Tek's reported sales grew 12%, or £11m, because of an £8m (8%) improvement in underlying sales and £3m from currency translation. This improvement has been driven by growth across most business areas with a pick up in revenue in the US residential construction market, albeit against a low base, and higher sales of heating elements and aerospace components. Headline operating profit margins increased by 180 basis points to 11.6% as a result of the increased volumes and associated operational gearing as well as the benefit of further cost cutting and site rationalisation. The underlying increase in operating profit of £3m was caused by the net effect of higher volumes, pricing, and the benefits of our cost saving initiatives, all of which more than offset raw materials inflation. Return on capital employed improved by 470 basis points driven both by profitability improvement and reductions in working capital.

Following a reorganisation last year, we now manage the business as four technology groups: Fluid Management (formerly Smiths Tubular Systems Aerospace); Construction; Heat Solutions and Flexible Solutions.

In Fluid Management, sales of components to aerospace customers improved 11% on an underlying basis, helped by improving volumes and price increases. The order book for our commercial aviation OEM business remains strong and we have gained market share in our overhaul & repair service segment. In addition, we saw success with new product introductions to the natural gas vehicle market in the US.

Sales to the construction market improved 13% as the US housing market began to show modest signs of a slight uptick. The US Bureau of the Census is forecasting a slightly better 2011 with estimated US housing starts for the year to end of February at 596,000 versus 580,000 in 2010. We have gained market share in the ducting segment and the introduction of our new gas piping has been well received.

Heat Solutions underlying sales grew 11%, as sales of heating elements to appliance manufacturers improved. Appliance manufacturers are projecting low single digit growth in 2011 due to slightly improved consumer confidence figures.

Underlying sales of flexible hose assemblies from the Flexible Solutions division were down 6%, reflecting weak demand in the US floorcare balanced by improving demand in the general industrial markets.

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 year, we delivered a further £1m of savings which bring the cumulative annualised savings to £9m. Flex-Tek has successfully completed the rationalisation of two facilities in the north eastern US.

Now that the restructuring programme is largely complete, we are looking increasingly at investment opportunities to grow the top-line. This includes new product development and potential bolt-on acquisitions to generate additional growth and build on the strength of the management team.

Outlook

The US residential construction, household appliance and aerospace markets have shown modest improvement. As a result, Flex-Tek is expected to deliver further sales growth into second half although the comparator will become slightly tougher. Flex-Tek will benefit from these increased volumes and the associated operational gearing as well as from some further savings generated by the site rationalisation and cost cutting programmes, which will enhance margins. While input cost inflation may place pressure on margins, Flex-Tek remains strongly leveraged to a recovery in US housing.

Financial review

Earnings per share
Basic headline earnings per share from continuing activities were 42.1p (2010: 34.7p), a growth of 21%. This reflects an increased headline operating profit and a higher pensions financing credit which have been partly offset by a higher tax rate.

On a statutory basis, the basic earnings per share from continuing activities were 35.7p (2010: 28.7p).

Exceptional and other items relating to continuing activities excluded from headline profits
These items amounted to a charge of £35m compared to a charge of £30m in 2010. They comprised:

- Amortisation of intangible assets acquired in business combinations of £22m (2010: £19m). The amortisation relates principally to technology and customer relationships;
- A charge of £5m (2010: £8m) in connection with John Crane, Inc. asbestos litigation;
- A charge of £5m (2010: £5m) in respect of restructuring. This is part of a programme which is expected to cost approximately £64m by the end of 2012, of which £42m has now been charged;
- Acquisition costs of £1m (2010: nil); and
- Financing loss of £2m (2010: £6m loss). These represent exchange movements on derivatives and other financing instruments not hedge accounted under IFRS.

During the same period last year, these items also included a £4m profit on disposal of businesses and a £4m gain arising from the closure of the principal UK defined benefit pension schemes.

Cash generation and net debt
We have continued to generate strong cash-flows from four of the five businesses. However, in Smiths Detection, the strong order book to support second half growth has required an additional investment in working capital of £32m. As a result, headline operating cash of £186m (2010: £230m) represented 78% (2010: 111%) of headline operating profit. Excluding the additional investment in Smiths Detection working capital of £32m, the headline operating cash conversion would have been 91%. Free cash-flow declined £63m to £70m (2010: £133m). Free cash-flow is stated after interest and tax but before acquisitions, financing activities and dividends.

On a statutory basis, net cash inflow from continuing operations was £107m (2010: £164m).

Net debt increased £43m to £880m as a result of working capital investment and dividends of £92m.

Interest and other financing costs
Interest payable on debt, net of interest earned on cash deposits, was £29m compared with £31m in 2010. This reduction reflects lower average levels of debt. Interest costs were covered more than 8 times 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 £12m (2010: £1m). With effect from 1 August 2011, we propose to report headline pre-tax profit excluding this item. The headline measures are intended to report the underlying performance of the Group excluding factors which are outside management control.

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.

We invested a total of £56m in R&D (2010: £49m) on continuing operations, equivalent to 4.0% of sales (2010: 3.8%). Of that total, £49m was funded by the Company compared with £43m in 2010, an increase of 14%. We actively seek funding from customers to support R&D and this amounted to £7m (2010: £6m). Under IFRS, certain of these development costs are capitalised, and this amounted to £16m in the period (2010: £11m). 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 £58m represented an effective rate of 26% on the headline profit before taxation (2010: 24%). The higher rate is caused by our increased profitability, particularly in profits derived from the US where there are higher underlying rates of corporation tax, offset by the favourable conclusion of recent tax audits. On a statutory basis, the tax charge on continuing activities was £48m (2010: £36m).

The Group continues to take advantage of global manufacturing, research and development and other tax incentives, the tax-efficient use of capital and effective tax compliance management.

Return on capital employed

The return on capital employed (ROCE) is calculated over a rolling 12-month period and is the percentage that headline operating profit comprises of monthly average capital employed. Capital employed comprises total equity adjusted for goodwill recognised directly in reserves, net post-retirement benefit assets and liabilities and net debt (see note 1 to the accounts). The ROCE was 17.3% (2010: 14.9%).

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 29 January 2011 and evaluating liabilities at period-end AA corporate bond interest rates.

The tables below disclose the net status across a number of individual plans. Where any individual plan shows a surplus under IAS 19, this is disclosed on the balance sheet as a retirement benefit asset. The IAS 19 surplus of any one plan is not available to fund the IAS 19 deficit of another plan.

The net pension deficit has reduced to £119m at 29 January 2011 from £305m at 31 July 2010. The reduction reflects asset returns in respect of UK funded schemes and a reduction in US bond rates.

The accounting basis under IAS 19 does not necessarily reflect the funding basis agreed with the Trustees and should the schemes be wound up while they had members, they would need to buy out the benefits of all members. The buyouts would cost significantly more than the present value of scheme liabilities calculated in accordance with IAS 19.

The retirement benefit position was:

	29 January 2011	31 July 2010	30 January 2010
Funded plans			
UK plans – funding status	**104%**	98%	98%
US plans – funding status	**78%**	71%	73%
Other plans – funding status	**70%**	69%	76%

	29 January 2011 £m	31 July 2010 £m	30 January 2010 £m
Surplus/(deficit)			
Funded plans	**(29)**	(216)	(208)
Unfunded plans	**(90)**	(89)	(86)
Total surplus/(liability)	**(119)**	(305)	(294)
Retirement benefit assets	**151**	80	81
Retirement benefit liabilities	**(270)**	(385)	(375)
	(119)	(305)	(294)

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.

	29 January 2011	30 January 2010		31 July 2010
Average rates:				
US dollar	**1.57**	1.63	Dollar strengthened 4%	1.57
Euro	**1.18**	1.12	Euro weakened 5%	1.14
Period end rates:				
US dollar	**1.58**	1.60	Dollar strengthened 1%	1.57
Euro	**1.16**	1.15	Euro weakened 1%	1.20

Other events

On 14 January 2011, Smiths Group confirmed that it had received an approach for Smiths Medical which it rejected. The value offered was £2.45 billion in cash, as a best and final offer, subject inter alia, to extensive due diligence and completion of financing. The Board carefully considered this approach with its advisers and concluded that it would not be in the interests of shareholders to pursue discussions on the basis of an indication at this price level. In reaching this conclusion, the Board took into account the quality and highly cash generative nature of Smiths Medical, both standalone and in the context of the Group as a whole.

Risks and uncertainties

The principal risks and uncertainties affecting the business activities of the Group were identified on pages 52 to 54 of the Annual Report for the year ended 31 July 2010, 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:

Risks specific to the nature of Smiths Group businesses

- Competition, innovation and major projects
- Raw materials
- Contractual arrangements and inability to supply
- Global political and economic conditions
- Targeted cost savings
- Acquisitions and disposals
- Legislative and regulatory
- Pension funding
- Litigation and product liability

Other risks common in international manufacturing companies

- Intellectual property
- Controls and information technology
- Environmental and external
- Financial
- 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. Since the Annual Report, events in the Middle East, North Africa and Japan have created significant uncertainty for the world economy. The risk of input cost inflation has increased, which may be exacerbated by geopolitical events, and could affect adversely the Group's performance in the second half. However, the Group is continuing to deliver savings through its procurement initiatives that leverage the Group's scale which, combined with pricing improvements, will help to mitigate these inflationary effects. Continued constraints on government budgets are likely to put pressure on public sector spending such as healthcare, defence and homeland security. 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 2010, and there have been no changes in the membership of the board.

For and on behalf of the Board of Directors:

Peter Turner
Finance Director

22 March 2011

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 29 January 2011, 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 half-yearly financial 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 half-yearly financial report for the six months ended 29 January 2011 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
22 March 2011
London

(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 29 January 2011 £m	Period ended 30 January 2010 £m	Year ended 31 July 2010 £m
Continuing operations				
Revenue	2	**1,371.7**	1,279.0	2,769.6
Cost of sales		**(734.5)**	(684.9)	(1,476.3)
Gross profit		**637.2**	594.1	1,293.3
Sales and distribution costs		**(192.4)**	(178.0)	(369.7)
Administrative expenses		**(236.4)**	(234.0)	(491.0)
Profit on disposal of businesses	4		3.6	3.3
Operating profit		**208.4**	185.7	435.9
Comprising				
– headline operating profit	3	**238.7**	207.1	492.4
– exceptional items, amortisation of acquired intangibles	3	**(30.3)**	(21.4)	(56.5)
		208.4	185.7	435.9
Interest receivable		**0.9**	0.3	3.6
Interest payable		**(29.8)**	(31.1)	(65.1)
Other financing losses		**(4.7)**	(8.9)	(5.4)
Other finance income – retirement benefits		**12.0**	0.8	2.3
Finance costs		**(21.6)**	(38.9)	(64.6)
Share of post-tax profits of associated companies		**1.8**	1.4	1.8
Profit before taxation		**188.6**	148.2	373.1
Comprising				
– headline profit before taxation	3	**223.6**	178.5	435.0
– exceptional items, amortisation of acquired intangibles and other financing gains and losses	3	**(35.0)**	(30.3)	(61.9)
		188.6	148.2	373.1
Taxation	5	**(48.3)**	(35.9)	(78.9)
Profit after taxation – continuing operations		**140.3**	112.3	294.2
Profit/(loss) after taxation – discontinued operations	6	**34.1**	(2.4)	16.4
Profit for the year		**174.4**	109.9	310.6
Attributable to				
Smiths Group shareholders		**173.8**	109.5	310.0
Non-controlling interests		**0.6**	0.4	0.6
		174.4	109.9	310.6
Earnings per share	8			
Basic		**44.4p**	28.1p	79.5p
Basic – continuing operations		**35.7p**	28.7p	75.3p
Diluted		**44.0p**	27.9p	78.9p
Diluted – continuing operations		**35.4p**	28.5p	74.8p
Dividends per share (declared)	7			
– interim		**11.25p**	10.5p	10.5p
– final				23.5p
		11.25p	10.5p	34.0p

Consolidated statement of comprehensive income (unaudited)

	Notes	Period ended 29 January 2011 £m	Period ended 30 January 2010 £m	Year ended 31 July 2010 £m
Profit for the period		**174.4**	109.9	310.6
Other comprehensive income				
Exchange gains		**16.0**	68.7	81.4
Actuarial gains/(losses) on retirement benefits		**150.4**	34.6	(15.2)
Taxation recognised on actuarial movements		**(30.0)**	(0.7)	12.2
Fair value gains/(losses)				
– on available for sale financial assets		**1.2**		0.2
– deferred in the period on cash-flow and net investment hedges		**(8.6)**	(35.2)	(41.6)
– reclassified to income statement		**1.2**	(0.4)	(0.3)
Total other comprehensive income		**130.2**	67.0	36.7
Total comprehensive income		**304.6**	176.9	347.3
Attributable to				
Smiths Group shareholders		**303.8**	176.1	345.9
Non-controlling interests		**0.8**	0.8	1.4
		304.6	176.9	347.3

Consolidated balance sheet (unaudited)

	Notes	29 January 2011 £m	30 January 2010 £m	31 July 2010 £m
Non-current assets				
Intangible assets	10	**1,639.6**	1,538.1	1,638.6
Property, plant and equipment	11	**290.4**	308.9	302.7
Investments accounted for using the equity method		**15.2**	13.1	13.6
Financial assets – other investments		**28.6**	8.1	27.0
Retirement benefit assets	9	**151.0**	81.2	80.3
Deferred tax assets		**154.8**	180.2	194.2
Trade and other receivables		**32.7**	23.8	33.8
Financial derivatives		**7.8**	12.5	10.8
		2,320.1	2,165.9	2,301.0
Current assets				
Inventories		**431.9**	416.4	390.0
Trade and other receivables		**613.3**	559.5	578.9
Cash and cash equivalents	12	**136.8**	76.9	172.9
Financial derivatives		**8.3**	30.4	15.5
		1,190.3	1,083.2	1,157.3
Assets held for sale			9.7	
Total assets		**3,510.4**	3,258.8	3,458.3
Non-current liabilities				
Financial liabilities				
– borrowings	12	**(993.4)**	(807.9)	(995.0)
– financial derivatives		**(2.4)**	(0.8)	(1.1)
Provisions for liabilities and charges	13	**(214.4)**	(232.1)	(230.8)
Retirement benefit obligations	9	**(270.3)**	(374.8)	(385.6)
Deferred tax liabilities		**(77.0)**	(70.5)	(77.8)
Trade and other payables		**(35.0)**	(24.9)	(27.3)
		(1,592.5)	(1,511.0)	(1,717.6)
Current liabilities				
Financial liabilities				
– borrowings	12	**(22.9)**	(184.2)	(14.7)
– financial derivatives		**(6.9)**	(15.7)	(14.9)
Provisions for liabilities and charges	13	**(67.0)**	(72.1)	(70.4)
Trade and other payables		**(418.6)**	(401.7)	(428.2)
Current tax payable		**(78.9)**	(112.8)	(112.7)
		(594.3)	(786.5)	(640.9)
Total liabilities		**(2,186.8)**	(2,297.5)	(2,358.5)
Net assets		**1,323.6**	961.3	1,099.8
Shareholders' equity				
Share capital		**147.0**	146.3	146.5
Share premium account		**326.5**	310.7	315.3
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		**738.5**	380.1	519.5
Hedge reserve		**(136.2)**	(122.5)	(128.8)
Total shareholders' equity		**1,318.1**	956.9	1,094.8
Non-controlling interest equity		**5.5**	4.4	5.0
Total equity		**1,323.6**	961.3	1,099.8

Consolidated statement of changes in equity (unaudited)

	Notes	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 2010		461.8	242.3	519.5	(128.8)	1,094.8	5.0	1,099.8
Profit for the period				173.8		173.8	0.6	174.4
Other comprehensive income								
Exchange gains				15.8		15.8	0.2	16.0
Actuarial gains on retirement benefits net of tax				120.4		120.4		120.4
Fair value gains/(losses)				1.2	(7.4)	(6.2)		(6.2)
Total comprehensive income for the period				311.2	(7.4)	303.8	0.8	304.6
Transactions relating to ownership interests								
Exercises of share options		11.7				11.7		11.7
Purchase of own shares				(8.6)		(8.6)		(8.6)
Dividends								
– equity shareholders	7			(91.9)		(91.9)		(91.9)
– non-controlling interest							(0.3)	(0.3)
Share-based payment				8.3		8.3		8.3
At 29 January 2011		**473.5**	**242.3**	**738.5**	**(136.2)**	**1,318.1**	**5.5**	**1,323.6**

	Notes	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 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 interest								
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	7			(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**

Consolidated cash-flow statement (unaudited)

	Notes	Period ended 29 January 2011 £m	Period ended 30 January 2010 £m	Year ended 31 July 2010 £m
Net cash inflow from operating activities	15	**106.6**	163.6	410.5
Cash-flows from investing activities				
Expenditure on capitalised development		**(15.5)**	(10.6)	(24.3)
Expenditure on other intangible assets		**(2.9)**	(4.0)	(7.6)
Purchases of property, plant and equipment		**(19.6)**	(21.6)	(47.0)
Disposals of property, plant and equipment		**1.5**	6.1	24.8
Investment in financial assets		**(0.2)**		(25.3)
Acquisition of businesses		**(10.9)**	(10.9)	(132.7)
Disposal of Aerospace		**(6.8)**		19.9
Disposals of businesses		**(0.3)**	2.8	1.1
Net cash-flow used in investing activities		**(54.7)**	(38.2)	(191.1)
Cash-flows from financing activities				
Proceeds from exercise of share options		**11.7**	4.9	9.7
Purchase of own shares		**(8.6)**		
Dividends paid to equity shareholders		**(91.9)**	(91.6)	(132.5)
Dividends paid to non-controlling interests		**(0.3)**	(0.2)	(0.2)
Cash outflow from matured derivative financial instruments		**(1.5)**	(25.1)	(1.5)
Increase in new borrowings		**0.9**	31.1	466.8
Reduction and repayment of borrowings		**(0.7)**	(32.0)	(408.4)
Net cash-flow used in financing activities		**(90.4)**	(112.9)	(66.1)
Net (decrease)/increase in cash and cash equivalents		**(38.5)**	12.5	153.3
Cash and cash equivalents at beginning of the period		**172.2**	19.7	19.7
Exchange differences		**2.3**	(2.1)	(0.8)
Cash and cash equivalents at end of the period		**136.0**	30.1	172.2
Cash and cash equivalents at end of the period comprise				
– cash at bank and in hand		**121.0**	70.8	136.3
– short-term deposits		**15.8**	6.1	36.6
– bank overdrafts		**(0.8)**	(46.8)	(0.7)
		136.0	30.1	172.2

Notes to the Interim report (unaudited)

1 Basis of preparation

The condensed interim financial information covers the six month period ended 29 January 2011 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 2010, 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 2011. These accounting policies are consistent with those applied in the preparation of the financial statements for the year ended 31 July 2010, except for the adoption of:

- Amendment to 'IAS 32: Financial instruments: Presentation on classification of rights issues'
- 'IFRIC 19: Extinguishing financial liabilities with equity instruments'
- 'IFRS 2: Share-based payment' – Group cash-settled share-based payment transactions

There have been no material changes as a result of adopting these new accounting requirements.

2 Segment information

Analysis by operating segment

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

- Smiths Detection – sensors that detect and identify explosives, narcotics, weapons, chemical agents, biohazards and contraband;
- John Crane – mechanical seals, seal support systems, engineered bearings, power transmission couplings and specialist filtration systems;
- Smiths Medical – medication delivery systems, vital care products and safety devices that prevent needlestick injuries and reduce cross-infection;
- Smiths Interconnect – specialised electronic and radio frequency components and sub-systems that connect, protect and control critical systems;
- Flex-Tek – engineered components that heat and move fluids and gases, 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 arm's length prices.

						Period ended 29 January 2011
	Smiths Detection £m	John Crane £m	Smiths Medical £m	Smiths Interconnect £m	Flex-Tek £m	Total £m
Revenue	**247.7**	**412.4**	**417.9**	**186.3**	**107.4**	**1,371.7**
Divisional headline operating profit	**34.4**	**78.5**	**94.3**	**33.8**	**12.4**	**253.4**
Corporate headline operating costs						**(14.7)**
Headline operating profit	**34.4**	**78.5**	**94.3**	**33.8**	**12.4**	**238.7**
Divisional exceptional operating items (note 4)	**(0.7)**	**(3.0)**	**(0.8)**	**(0.6)**	**(1.8)**	**(6.9)**
Corporate exceptional operating items (note 4)						**(1.1)**
Amortisation of acquired intangible assets	**(0.6)**	**(7.3)**	**(8.4)**	**(6.0)**		**(22.3)**
Operating profit	**33.1**	**68.2**	**85.1**	**27.2**	**10.6**	**208.4**
Exceptional finance costs – adjustment to discounted provision (note 4)		**(3.0)**				**(3.0)**
Net finance costs – other						**(18.6)**
Share of post-tax profits of associate companies	**1.8**					**1.8**
Profit before taxation						**188.6**

	Smiths Detection £m	John Crane £m	Smiths Medical £m	Smiths Interconnect £m	Flex-Tek £m	Total £m
						Period ended 30 January 2010
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 associate companies	1.4					1.4
Profit before taxation						148.2

	Smiths Detection £m	John Crane £m	Smiths Medical £m	Smiths Interconnect £m	Flex-Tek £m	Total £m
						Year ended 31 July 2010
Revenue	574.1	786.1	857.6	339.9	211.9	2,769.6
Divisional headline operating profit	89.9	162.7	184.2	61.9	23.5	522.2
Corporate headline operating costs						(29.8)
Headline operating profit	89.9	162.7	184.2	61.9	23.5	492.4
Divisional exceptional operating items (note 4)	(0.3)	(22.3)	5.4	(0.9)	(2.3)	(20.4)
Corporate exceptional operating items (note 4)						6.0
Amortisation of acquired intangible assets	(0.4)	(16.2)	(17.3)	(8.2)		(42.1)
Operating profit	89.2	124.2	172.3	52.8	21.2	435.9
Exceptional finance costs – adjustment to discounted provision (note 4)		(7.0)				(7.0)
Net finance costs – other						(57.6)
Share of post-tax profits of associate companies	1.8					1.8
Profit before taxation						373.1

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

	Smiths Detection £m	**John Crane £m**	**Smiths Medical £m**	**Smiths Interconnect £m**	**Flex-Tek £m**	**Total £m**
						29 January 2011
Property, plant, equipment, development projects and other intangibles	**105.6**	**98.3**	**166.1**	**34.3**	**23.6**	**427.9**
Investments in associates	**15.2**					**15.2**
Working capital assets	**331.1**	**302.5**	**258.8**	**116.7**	**63.3**	**1,072.4**
Operating assets	**451.9**	**400.8**	**424.9**	**151.0**	**86.9**	**1,515.5**
Derivatives, tax and retirement benefit assets						**321.9**
Goodwill and acquired intangibles						**1,499.1**
Corporate assets						**37.1**
Cash						**136.8**
Total assets						**3,510.4**
Working capital liabilities	**(166.6)**	**(137.2)**	**(88.3)**	**(47.6)**	**(33.5)**	**(473.2)**
Corporate and non-headline liabilities						**(261.8)**
Derivatives, tax and retirement benefits						**(435.5)**
Borrowings						**(1,016.3)**
Total liabilities						**(2,186.8)**
Average divisional capital employed	**659.1**	**737.8**	**1,202.2**	**415.5**	**128.9**	**3,143.5**
Average corporate capital employed						**(122.4)**
Average total capital employed						**3,021.1**

Non-headline liabilities comprise provisions and accruals relating to exceptional items, acquisitions and disposals.

Capital employed is a non-statutory measure of invested resources. It comprises statutory net assets adjusted to add goodwill recognised directly in reserves in respect of subsidiaries acquired before 1 August 1998 of £815.2m (2010: £815.2m) and eliminate post-retirement benefit assets and liabilities, net of related tax, and net debt.

	Smiths Detection £m	John Crane £m	Smiths Medical £m	Smiths Interconnect £m	Flex-Tek £m	31 July 2010 Total £m
Property, plant, equipment, development projects and other intangibles	103.8	101.4	170.1	35.6	25.0	435.9
Investments in associates	13.6					13.6
Working capital assets	269.0	288.0	256.6	117.9	65.8	997.3
Operating assets	386.4	389.4	426.7	153.5	90.8	1,446.8
Derivatives, tax and retirement benefit assets						300.8
Goodwill and acquired intangibles						1,502.4
Corporate assets						35.4
Cash						172.9
Total assets						3,458.3
Working capital liabilities	(136.5)	(139.4)	(100.5)	(47.9)	(34.2)	(458.5)
Corporate and non-headline liabilities						(298.2)
Derivatives, tax and retirement benefits						(592.1)
Borrowings						(1,009.7)
Total liabilities						(2,358.5)
Average divisional capital employed	674.8	733.3	1,219.0	358.0	127.4	3,112.5
Average corporate capital employed						(154.0)
Average total capital employed						2,958.5

Capital employed is a non-statutory measure of invested resources. It comprises statutory net assets adjusted to add goodwill recognised directly in reserves in respect of subsidiaries acquired before 1 August 1998 of £815.2m (2009: £815.2m) and eliminate post-retirement benefit assets and liabilities, net of related tax, and net debt.

Analysis of revenue

The revenue for the main product and service lines for each division is:

Smiths Detection	Transportation £m	Ports and borders £m	Military £m	Emergency responders £m	Critical infrastructure £m	Non-security £m	Total £m
Revenue period ended 29 January 2011	**97.0**	**42.5**	**37.4**	**11.2**	**41.6**	**18.0**	**247.7**
Revenue period ended 30 January 2010	96.6	50.4	59.5	12.1	30.5	16.5	265.6

	Original equipment manufacture				Aftermarket	Total
John Crane	£m	Oil, gas and petrochemical £m	Chemical and pharmaceutical £m	Distributors £m	General industry £m	£m
Revenue period ended 29 January 2011	**147.0**	**161.5**	**34.7**	**30.3**	**38.9**	**412.4**
Revenue period ended 30 January 2010	134.7	131.6	31.8	24.4	35.2	357.7

Smiths Medical	Medication delivery £m	Vital care £m	Safety devices £m	Total £m
Revenue period ended 29 January 2011	**117.9**	**172.4**	**127.6**	**417.9**
Revenue period ended 30 January 2010	112.5	169.3	132.2	414.0

Smiths Interconnect	Telecom £m	Military and Aerospace £m	Rail, Medical Automation, Test £m	Total £m
Revenue period ended 29 January 2011	**46.5**	**82.7**	**57.1**	**186.3**
Revenue period ended 30 January 2010	43.3	74.3	28.1	145.7

Flex-Tek	Fluid Management £m	Flexible Solutions £m	Heat Solutions £m	Construction £m	Total £m
Revenue period ended 29 January 2011	**33.1**	**17.3**	**29.1**	**27.9**	**107.4**
Revenue period ended 30 January 2010	29.4	17.6	25.3	23.7	96.0

The analysis of Flex-Tek revenue for the period ended 30 January 2010 reflects their current operating structure.

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.

The excluded items are referred to as 'non-headline' items.

	Notes	**Period ended 29 January 2011 £m**	Period ended 30 January 2010 £m	Year ended 31 July 2010 £m
Operating profit		**208.4**	185.7	435.9
Exclude				
– exceptional operating items	4	**8.0**	2.7	14.4
– amortisation of acquired intangible assets	10	**22.3**	18.7	42.1
Non-headline items in operating profit		**30.3**	21.4	56.5
Headline operating profit		**238.7**	207.1	492.4
Finance costs		**(21.6)**	(38.9)	(64.6)
Exclude				
– exceptional finance costs	4	**3.0**	3.4	7.0
– other financing gains and losses		**1.7**	5.5	(1.6)
Non-headline items in finance costs		**4.7**	8.9	5.4
Headline finance costs		**(16.9)**	(30.0)	(59.2)
Profit before taxation		**188.6**	148.2	373.1
Non-headline items in operating profit		**30.3**	21.4	56.5
Non-headline items in finance costs		**4.7**	8.9	5.4
Headline profit before taxation		**223.6**	178.5	435.0
Profit after taxation – continuing operations		**140.3**	112.3	294.2
Exclude				
– non-headline items in profit before taxation		**35.0**	30.3	61.9
– tax on excluded items		**(9.8)**	(7.0)	(25.4)
		25.2	23.3	36.5
Headline profit after taxation – continuing operations		**165.5**	135.6	330.7

4 Exceptional items

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

	Period ended 29 January 2011 £m	Period ended 30 January 2010 £m	Year ended 31 July 2010 £m
Operating items			
Restructuring of corporate headquarters and divisional reorganisation	**(5.4)**	(5.3)	(8.2)
Gains on changes to post-retirement benefits		3.9	3.9
Profit on disposal of businesses		3.6	3.3
Profit on disposal of property			5.5
Costs of acquisitions	**(0.4)**		(1.3)
Litigation			
– provision for John Crane, Inc. asbestos litigation (note 13)	**(2.2)**	(4.9)	(17.6)
	(8.0)	(2.7)	(14.4)
Financing items			
Exceptional finance costs – adjustment to discounted provision (note 13)	**(3.0)**	(3.4)	(7.0)
	(11.0)	(6.1)	(21.4)

Period ended 29 January 2011

The restructuring of corporate headquarters and divisional reorganisation was announced in 2008, and a second phase of this project was introduced in 2010. The total costs of the first phase are expected to be £45m of which £38.5m has been recognised to date, including £2.1m in this period. Costs of £3.3m have been recognised in the period for the second phase of the project, out of an expected total cost of £19m.

The operating charge in respect of John Crane, Inc. litigation comprises £1.7m in respect of increased provision for adverse legal judgments and £0.5m in respect of legal fees in connection with litigation against insurers.

5 Taxation

The interim tax charge of 25.6% is calculated by applying the estimated effective headline tax rate of 26.0% for the year ended 31 July 2011 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 is as follows:

	Period ended 29 January 2011		Period ended 30 January 2010		Year ended 31 July 2010	
	Continuing operations £m	Tax rate	Continuing operations £m	Tax rate	Continuing operations £m	Tax rate
Profit before taxation	**188.6**		148.2		373.1	
Taxation	**(48.3)**	**25.6%**	(35.9)	24.2%	(78.9)	21.1%
Adjustments						
Non-headline items excluded from profit before taxation (note 3)	**35.0**		30.3		61.9	
Taxation on non-headline items	**(9.8)**		(7.0)		(25.4)	
Headline						
Headline profit before taxation	**223.6**		178.5		435.0	
Taxation on headline profit	**(58.1)**	**26.0%**	(42.9)	24.0%	(104.3)	24.0%

6 Discontinued operations

On 5 May 2007, the Group sold its Aerospace operations to General Electric Company ("GE").

	Period ended 29 January 2011 £m	Period ended 30 January 2010 £m	Year ended 31 July 2010 £m
Profit on disposal of operation			
Consideration			19.9
Provisions and disposal costs	**8.7**		
Foreign exchange gains and losses on provisions and disposal costs	**0.4**	(2.4)	(3.5)
	9.1	(2.4)	16.4
Tax on disposal of operation	**25.0**		
	34.1	(2.4)	16.4

The tax credit reflects the resolution of the tax treatment of the disposal profits.

7 Dividends

The following dividends were declared and paid in the period:

	Period ended 29 January 2011 £m	Period ended 30 January 2010 £m	Year ended 31 July 2010 £m
Ordinary final dividend of 23.50p for 2010 (2009: 23.50p) paid 19 November 2010	**91.9**	91.6	91.6
Ordinary interim dividend of 10.5p for 2010 paid 23 April 2010			40.9
	91.9	91.6	132.5

An interim dividend of 11.25p per share was declared by the Board on 22 March 2011 and will be paid to shareholders on 21 April 2011. This dividend has not been included as a liability in these accounts and is payable to all shareholders on the register of Members at close of business on 1 April 2011.

8 Earnings per share

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

	Period ended 29 January 2011 £m	Period ended 30 January 2010 £m	Year ended 31 July 2010 £m
Profit attributable to equity shareholders for the year			
– continuing	**139.7**	111.9	293.6
– total	**173.8**	109.5	310.0
Average number of shares in issue during the year	**391,253,353**	389,544,451	390,034,777

Diluted earnings per share are calculated by dividing the profit attributable to ordinary shareholders by 394,628,373 (period ended 30 January 2010: 391,965,967; year ended 31 July 2010: 392,773,151) ordinary shares, being the average number of ordinary shares in issue during the year adjusted by the dilutive effect of employee share schemes.

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

	Period ended 29 January 2011		Period ended 30 January 2010		Year ended 31 July 2010	
	£m	**EPS (p)**	£m	EPS (p)	£m	EPS (p)
Profit attributable to equity shareholders of the Parent Company	**139.7**	**35.7**	111.9	28.7	293.6	75.3
Exclude						
Non-headline items and related tax (note 3)	**25.2**	**6.4**	23.3	6.0	36.5	9.3
Headline	**164.9**	**42.1**	135.2	34.7	330.1	84.6
Headline EPS – diluted (p)		**41.8**		34.5		84.0

9 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 assets are held in separate trustee-administered funds. Where any individual scheme shows a surplus under IAS 19, this is disclosed on the balance sheet as a retirement benefit asset. The IAS 19 surplus of any one scheme is not available to fund the IAS 19 deficit of another scheme. These schemes are closed, and no further benefits are being accrued. The Group also provides defined contribution plans for its UK and US employees.

The principal assumptions used in updating the valuations are set out below:

	29 January 2011		30 January 2010		31 July 2010	
	UK	**US**	**UK**	**US**	**UK**	**US**
Rate of increase in salaries	**n/a**	**n/a**	n/a	n/a	n/a	n/a
Rate of increase for active deferred members	**4.4%**	**n/a**	4.3%	n/a	4.1%	n/a
Rate of increase in pensions in payment	**3.5%**	**n/a**	3.4%	n/a	3.2%	n/a
Rate of increase in deferred pensions	**3.5%**	**n/a**	3.4%	n/a	3.2%	n/a
Discount rate	**5.6%**	**5.5%**	5.6%	5.8%	5.4%	5.2%
Inflation rate	**3.5%**	**n/a**	3.4%	n/a	3.2%	n/a
Healthcare cost increases	**5.0%**	**n/a**	5.0%	n/a	5.0%	n/a

A current service charge of £2.0m, a past service charge of £0.1m, curtailment gains of £0.2m and an interest credit of £12.0m have been recognised in the six month period to 29 January 2011 in respect of defined benefit pension and post-retirement healthcare plans.

The increase in the value of the plan assets is largely due to good returns in the period on equities.

The amounts recognised in the balance sheet were as follows:

	29 January 2011 £m	30 January 2010 £m	31 July 2010 £m
Balance sheet			
Market value of funded plan assets	**3,230.9**	2,980.9	3,043.1
Present value of funded scheme liabilities	**(3,260.2)**	(3,186.5)	(3,258.5)
Unfunded pension plans	**(66.9)**	(61.6)	(66.0)
Post-retirement healthcare	**(22.3)**	(24.2)	(23.2)
Unrecognised asset due to surplus restriction	**(0.8)**	(2.2)	(0.7)
Net retirement benefit liability	**(119.3)**	(293.6)	(305.3)
Retirement benefit assets	**151.0**	81.2	80.3
Retirement benefit obligations	**(270.3)**	(374.8)	(385.6)
Net retirement benefit liability	**(119.3)**	(293.6)	(305.3)

The retirement benefit asset arises from the rights of the employers to recover the surplus at the end of the life of the scheme. If the pension schemes were wound up while they had members, the schemes would need to buy out the benefits of all members. The buy outs would cost significantly more than the present value of scheme liabilities calculated in accordance with IAS 19: Employee benefits.

10 Intangible assets

	Goodwill £m	Development costs £m	Acquired intangibles £m	Software, patents and intellectual property £m	Total £m
Cost					
At 1 August 2010	1,379.5	135.2	355.5	124.9	1,995.1
Exchange adjustments	7.9	(0.2)	0.5	0.4	8.6
Business combinations	8.9		2.4		11.3
Additions		15.5		2.9	18.4
Disposals				(0.5)	(0.5)
At 29 January 2011	**1,396.3**	**150.5**	**358.4**	**127.7**	**2,032.9**
Amortisation					
At 1 August 2010	95.1	48.2	137.5	75.7	356.5
Exchange adjustments	0.4	0.1	0.3	0.3	1.1
Charge for the year		7.9	22.3	5.9	36.1
Disposals				(0.4)	(0.4)
At 29 January 2011	**95.5**	**56.2**	**160.1**	**81.5**	**393.3**
Net book value at 29 January 2011	**1,300.8**	**94.3**	**198.3**	**46.2**	**1,639.6**
Net book value at 30 January 2010	1,215.5	80.9	189.9	51.8	1,538.1
Net book value at 31 July 2010	1,284.4	87.0	218.0	49.2	1,638.6

The increase in goodwill and acquired intangibles relates to distribution operations acquired during the period.

11 Property, plant and equipment

	Land and buildings £m	Plant and machinery £m	Fixtures, fittings, tools and equipment £m	Total £m
Cost or valuation				
At 1 August 2010	187.0	493.6	210.0	890.6
Exchange adjustments	1.0	0.8	2.4	4.2
Additions	3.3	10.5	5.8	19.6
Disposals	(0.9)	(7.7)	(3.4)	(12.0)
At 29 January 2011	**190.4**	**497.2**	**214.8**	**902.4**
Depreciation				
At 1 August 2010	82.5	345.0	160.4	587.9
Exchange adjustments	0.2	0.3	1.8	2.3
Charge for the year	4.3	19.7	8.2	32.2
Disposals	(0.6)	(6.8)	(3.0)	(10.4)
At 29 January 2011	**86.4**	**358.2**	**167.4**	**612.0**
Net book value at 29 January 2011	**104.0**	**139.0**	**47.4**	**290.4**
Net book value at 30 January 2010	106.4	149.0	53.5	308.9
Net book value at 31 July 2010	104.5	148.6	49.6	302.7

12 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.

	29 January 2011 £m	30 January 2010 £m	31 July 2010 £m
Cash and cash equivalents			
Net cash and deposits	**136.8**	76.9	172.9
Short-term borrowings			
Bank overdrafts	**(0.8)**	(46.8)	(0.7)
£139m 7.875% Sterling Eurobond 2010		(112.7)	
Bank and other loans	**(1.4)**	(3.4)	(1.3)
Interest accrual	**(20.7)**	(21.3)	(12.7)
	(22.9)	(184.2)	(14.7)
Long-term borrowings			
£660m Revolving Credit Facility 2012		(71.2)	
$250m 5.45% US$ Private placement 2013	**(165.9)**	(165.8)	(169.1)
$250m 6.05% US$ Guaranteed notes 2014	**(156.9)**	(155.0)	(158.3)
£150m 7.25% Sterling Eurobond 2016	**(149.2)**	(149.1)	(149.1)
€300m 4.125% Eurobond 2017	**(253.0)**		(247.6)
$175m 7.37% US$ Private placement 2018	**(110.4)**	(109.2)	(111.4)
$250m 7.20% US$ Guaranteed notes 2019	**(156.5)**	(154.8)	(158.0)
Bank and other loans	**(1.5)**	(2.8)	(1.5)
	(993.4)	(807.9)	(995.0)
Borrowings	**(1,016.3)**	(992.1)	(1,009.7)
Net debt	**(879.5)**	(915.2)	(836.8)

On 14 December 2010 the £660m Revolving Credit Facility 2012 was refinanced with a new US$800m revolving credit facility. The new facility, which matures in December 2015, is un-drawn.

	29 January 2011 £m	31 July 2010 £m
Unused committed credit facilities:		
Expiring within one year		
Expiring between one and two years		660.0
Expiring after more than two years	**505.0**	
	505.0	660.0

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 £0.4m at 29 January 2011 (30 January 2010: £23.2m; 31 July 2010: £0.2m).

Movements in net debt

	31 July 2010 £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	29 January 2011 £m
Net cash and cash equivalents	172.2	2.3		(38.5)				**136.0**
Other short-term borrowings	(14.0)	(0.1)	0.7		(6.1)	(1.8)	(0.8)	**(22.1)**
Long-term borrowings	(995.0)	(2.8)		(0.9)		4.5	0.8	**(993.4)**
Net debt	(836.8)	(0.6)	0.7	(39.4)	(6.1)	2.7		**(879.5)**

13 Provisions for liabilities and charges

	At 31 July 2010 £m	Exchange adjustments £m	Provisions charged £m	Provisions released £m	Unwind of provision discount £m	Utilisation £m	**At 29 January 2011 £m**
Warranty provision and product liability	37.5	0.6	9.3	(1.7)		(7.1)	**38.6**
Reorganisation	11.4	(0.1)	0.2			(3.4)	**8.1**
Property	4.7		0.2	(0.1)		(1.0)	**3.8**
Disposal	56.2	(0.4)		(0.4)		(7.2)	**48.2**
Litigation	191.4	(1.7)	4.4	(1.4)	3.0	(13.0)	**182.7**
	301.2	(1.6)	14.1	(3.6)	3.0	(31.7)	**281.4**

Analysed as:

	29 January 2011 £m	30 January 2010 £m	31 July 2010 £m
Current liabilities	**67.0**	72.1	70.4
Non-current liabilities	**214.4**	232.1	230.8
	281.4	304.2	301.2

Reorganisation

The restructuring of corporate headquarters and divisional reorganisation was announced in 2008, and a second phase of this project was introduced in 2010. At 29 January 2011 there is a provision of £5.8m (31 July 2010: £8.6m) relating to the two phases of this project.

Reorganisation provisions include £2.3m (31 July 2010: £2.8m) costs relating to restructuring supply arrangements following the automotive seals disposal. These costs 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 195,000 claims against JCI have been dismissed before trial over the last 31 years. JCI is currently a defendant in cases involving approximately 107,000 claims. Despite the large number of claims brought against JCI, it has had final judgments against it, after appeals, in only 100 cases over the period, and has had to pay awards amounting to approximately US$101m. 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.

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 16 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:

	29 January 2011 £m	30 January 2010 £m	31 July 2010 £m
Gross provision	**207.1**	217.0	214.5
Discount	**(38.9)**	(45.6)	(38.8)
Discounted pre-tax provision	**168.2**	171.4	175.7
Deferred tax	**(44.7)**	(42.1)	(47.4)
Discounted post-tax provision	**123.5**	129.3	128.3

Other litigation

The Group has on occasion been required to take legal action to protect its intellectual property and other rights against infringement. It has also had to defend itself against proceedings brought by other parties, including product liability and insurance subrogation claims. Provision is made for any expected costs and liabilities in relation to these proceedings where appropriate, though there can be no guarantee that such provisions (which may be subject to potentially material revision from time to time) will accurately predict the actual costs and liabilities that may be incurred.

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

14 Contingent liabilities and commitments

John Crane, Inc.

As stated in note 13, 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.

Other contingent liabilities and commitments

In the ordinary course of its business, the Group is subject to litigation such as product liability claims, employee disputes and other kinds of lawsuits, and faces different types of legal issues in different jurisdictions. The high level of activity in the US, for example, exposes the Group to the likelihood of various types of litigation commonplace in that country, such as 'mass tort' and 'class action' litigation, and legal challenges to the scope and validity of patents. These types of proceedings (or the threat of them) are also used to create pressure to encourage negotiated settlement of disputes. Any claim brought against the Group (with or without merit), could be costly to defend. These matters are inherently difficult to quantify. In appropriate cases a provision is recognised based on best estimates and management judgement but there can be no guarantee that these provisions (which may be subject to potentially material revision from time to time) will result in an accurate prediction of the actual costs and liabilities that may be incurred. There are also contingent liabilities in respect of litigation for which no provisions are made.

15 Cash-flow from operating activities

	Period ended 29 January 2011 £m	Period ended 30 January 2010 £m	Year ended 31 July 2010 £m
Operating profit – continuing	**208.4**	185.7	435.9
Operating profit – discontinued			
	208.4	185.7	435.9
Amortisation of intangible assets	**36.1**	30.4	67.6
Loss/(profit) on disposal of property, plant and equipment		0.5	(3.1)
Profit on disposal of business		(3.6)	(3.3)
Depreciation of property, plant and equipment	**32.2**	32.0	65.7
Impairment of property, plant and equipment		(2.1)	(2.1)
Share-based payment expense	**8.3**	6.8	10.3
Retirement benefits	**(23.7)**	(17.1)	(56.1)
(Increase)/decrease in inventories	**(38.5)**	12.1	46.1
(Increase)/decrease in trade and other receivables	**(27.3)**	4.0	(16.5)
Increase/(decrease) in trade and other payables	**1.2**	(1.5)	27.0
Decrease in provisions	**(13.7)**	(13.8)	(21.8)
Cash generated from operations	**183.0**	233.4	549.7
Interest	**(26.2)**	(20.7)	(52.8)
Tax paid	**(50.2)**	(49.1)	(86.4)
Net cash inflow from operating activities	**106.6**	163.6	410.5

16 Related party transactions

The related party transactions in the period were consistent with the nature and size of transactions disclosed in the Annual Report for the year ended 31 July 2010.