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News release

London, Wednesday 30 September 2009
For immediate release

Preliminary results for the year ended 31 July 2009

	Headline*				Statutory	
	2009 £m	2008 £m	Growth	Underlying#	**2009 £m**	2008 £m
Continuing activities						
Sales	**2,665**	2,321	15%	(7)%	**2,665**	2,161
Operating profit	**418**	381	10%	(13)%	**429**	326
Operating margin	**15.7%**	16.4%	–	–	**16.1%**	14.0%
Pre-tax profit	**371**	380	(2)%	(21)%	**371**	319
Basic EPS	**72.4p**	74.5p	(3)%		**70.8p**	63.0p
Free cash flow	**256**	91				
Dividend	**34.0p**	34.0p			**34.0p**	34.0p

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

#Organic growth at constant currency.

During this period of economic uncertainty, we have delivered headline operating profit ahead of last year reflecting favourable exchange rates, strong organic growth in John Crane, significantly lower corporate overheads, cost reductions in the divisions as well as the benefit of recent acquisitions. Our focus on working capital management has delivered improved cash conversion with free cash-flow increased to £256m.

Our attention has been focused on driving operational efficiencies through our self-help programme and by upgrading our business systems. The restructuring programme that began last year has delivered savings to date of £17m in line with our original plans. Our Group-wide procurement programme also delivered savings of £9m with another £11m planned for next year.

At the same time, we have continued to invest in opportunities to support top-line growth for when markets recover. We have increased our R&D investment to drive the next generation of high margin products. Our targeted acquisition strategy has enhanced the product portfolio and increased our exposure to faster growing markets through three acquisitions, two of which were in China.

The business environment deteriorated dramatically in the past year and, while Smiths Group has not been immune to the economic challenges, it remains well placed to benefit in the longer term from markets with secular growth prospects. I believe there are still significant opportunities to improve the performance of the business. Our priority for the coming year is to deliver further cost saving initiatives and to continue to generate strong free cash-flow whilst investing in future growth.

Philip Bowman
Chief Executive
Smiths Group plc

Highlights

Key developments*

- Strong free cash flow generation of £256m and year end net debt at £885m
- Restructuring programmes delivered cost savings of £17m to date
- Rationalisation of the corporate HQ complete with a 18% underlying decrease in costs
- Better data systems are supporting procurement savings - £9m in the year with a further £11m targeted next year
- Underlying increase in Group R&D investment of 3% to £105m (+22% at reported exchange rates)
- Extended our product portfolio and presence through three acquisitions
- Action to reduce the pension liabilities has resulted in a deficit of £339m, reduced from £464m at 31 January
- US$675m of additional long-term debt capital raised to extend our maturity profile

Business highlights*

Smiths Detection: Reported sales down 2%; underlying sales down 17%

- Restructuring programme underway to deliver greater flexibility to the cost base
- Continued delays to contract tenders, particularly in the ports and borders area, held back sales – although the trend has improved since the year end
- Military business has posted a record year with strong growth from the JCAD programme

John Crane: Reported sales up 26%; underlying sales down 1%

- Aftermarket sales held up while first-fit (OEM) sales have declined as customers reduce their capex spend
- Restructuring initiatives delivered £6m savings
- Acquisition of Orion provides North American base for John Crane Bearing Technology

Smiths Medical: Reported sales up 19%; underlying sales down 2%

- Sales and profit adversely affected by our exit from the diabetes market
- Sales of single-use devices have held up better than hardware
- Operational improvements have reduced customer backorders to a five year low
- Extended presence in China through acquisition of syringe pump company

Smiths Interconnect: Reported sales up 22%; underlying sales down 5%

- Several long-term military programmes have delivered underlying revenue growth offset by lower sales to wireless
- Margins constrained by restructuring costs, mix and lower volumes
- Increased wireless telecom capabilities in Asia through acquisition in China

Flex-Tek: Reported sales up 8%; underlying sales down 15%

- Sales continue to be affected by the recession in US residential construction although market share increased
- Sales of components to the aircraft industry were broadly stable
- Rationalisation programme and other pricing and cost initiatives helping preserve margins

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

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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 30 September. A recording of the webcast is available later that day. A live audio broadcast of the presentation is also available by dialling:

UK: 0800 358 1448

International: +44 (0)20 8609 0581

US/Canada: +1 866 388 1925

An audio replay is available for seven days on the following numbers (access PIN 270572#):

UK: 0800 358 2189

International: +44 (0)20 8609 0289

US/Canada: +1 866 676 5865

Photography

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

Statutory reporting

Statutory reporting takes account of all items excluded from headline performance. On a statutory basis, pre-tax profit from continuing operations was £371m (2008: £319m) and earnings per share were 70.8p (2008: 63.0p). The items excluded from headline performance comprise gains of £70m arising from changes to the post-retirement benefits; amortisation of acquired intangible assets of £35m (2008: £19m); £24m in respect of restructuring corporate and divisional headquarters (2008: £4m), £22m in connection with John Crane, Inc. asbestos litigation (2008: £54m); profit on disposal of businesses and property of £15m (2008: £27m) and financing losses of £4m (2008: £2m).

Chief Executive's review

The past year has been marked by significant economic instability affecting most companies across the world. Although Smiths Group has not been immune from the associated challenges, we have continued to make solid progress in driving operational improvements and better cash generation. The breadth of our portfolio and its exposure to a wide range of end markets and geographies has provided both resilience in these testing times and support for sales and profit growth.

Many parts of Smiths Group have benefited from the defensive nature of their end markets or have been able to respond quickly in cutting costs to preserve margins and increase cash generation. John Crane has succeeded in growing its underlying margins through cost savings despite its sales of original equipment coming under pressure during the year. At the same time, two-thirds of John Crane's sales are in aftermarket servicing which has proved more resilient. We have made further progress in improving the supply chain in Smiths Medical and in reshaping its product portfolio. Although demand for medical devices increases steadily as populations age and become more prosperous, reduced hospital capital budgets and our exit from the diabetes market curtailed Smiths Medical's hardware revenues during the year. However, sales of single-use consumable items have been more robust. Smiths Detection is driven by security risks that demand increased protection and detection capability. However, as previously announced, its order flow was significantly lower this year – particularly in the ports and borders segment – as some governments have delayed projects or airport operators have reviewed their infrastructure plans. Smiths Interconnect has benefited from continued growth in its largest end market which serves several long-term military programmes, while investment by telecom wireless infrastructure providers has slowed. Flex-Tek is exposed to more cyclical markets such as US housing and domestic appliances, but it has also made solid progress in preserving margins through cost management and pricing.

A year ago, I outlined several opportunities for Smiths Group to improve performance progressively over a three-year period and generate value for shareholders. We have made excellent progress towards these goals:

- The restructuring programme announced last year has delivered savings in the year of £17m which reflects the successful implementation of several initiatives;
- The improvement of our business systems to support better data-driven decision-making is on schedule, with ERP programmes progressing well in Smiths Detection, John Crane and Smiths Medical;
- Our investment in better operational data is enabling us to leverage our scale more effectively across the Group with a new procurement initiative which delivered £9m of savings in the year;
- We have strengthened the product portfolio and extended our geographic reach through three acquisitions;
- Smiths Medical is rationalising its portfolio of low-margin and loss-making products with the first 3,000 to be eliminated by the end of October 2009;
- We have also significantly increased our investment in R&D to drive future growth through new product initiatives;
- While the pension deficit increased in the year as a result of falling stock markets, we have taken positive action to reduce our liabilities by limiting our exposure to post-retirement benefit obligations; and
- Our balance sheet has been strengthened through the issue of $675m of long-term debt while we have also substantially increased free cash-flow.

At the end of last year we launched a major restructuring programme across the Group which has delivered savings of £17m in the year. The reorganisation of the corporate HQ is now complete and, as a result, we have delivered savings of £5m. To date we have delivered overall annualised savings of £17m and have spent £28m, with £24m in the year. Together, the programmes are expected to produce annual savings of £50m when completed in 2011, slightly ahead of the £47m originally forecast. The total cost of delivering these programmes is expected to be £45m, lower than the £48m originally planned.

Our investment in better information systems to enhance data flow and speed up decision-making is starting to deliver results. ERP systems are currently being deployed in Detection, John Crane and Medical where, in the past year, we achieved successful implementations at a total of 36 sites across these divisions. As a result, we are on track to complete the on-going projects during the current financial year.

Improved data at a Group and divisional level is creating opportunities to leverage the Group's scale through Group-wide procurement initiatives. In the year, this programme delivered £9m savings from IT, utilities, freight, packaging, ceramics and injection moulding, among others. Looking ahead, there are further opportunities in these areas as well as travel, raw materials, printed circuit boards and many others. Overall, the programme is expected to deliver further savings of £11m in the current financial year and enhance margins across the business.

Over the past two years, we have made 10 acquisitions, five of which have been in Asia, and all of which have helped to build our portfolio through a combination of adding complementary technologies, supporting geographic expansion or leveraging existing infrastructure. During this year, Smiths Medical acquired a Chinese syringe pump manufacturer, Zhejiang Zheda Medical Instrument Co. Ltd, which gives us access to the fast-growing Chinese healthcare market. Smiths Interconnect purchased Shenzhen Dowin Lightning Technologies, a manufacturer of power and signal protection devices operating mainly in the wireless telecoms market. John Crane also extended the presence and capabilities of its engineered bearings offering through the acquisition in May of Orion Corporation, a leading US designer and manufacturer of hydrodynamic bearings.

We have also begun a programme to enhance profitability of the Smiths Medical portfolio by reviewing our customer base and range of stock-keeping units (SKUs). The analysis has already highlighted significant opportunities in pricing, minimum order quantities, customer management and complexity reduction. An early decision from this review was our decision in March 2009 to exit the diabetes business. At the same time, we are working through a programme to reduce the number of low margin, low volume products, which will help improve the overall profitability of the Smiths Medical portfolio over time.

Our investment in research and development is a key priority as we seek to deliver new product launches and higher levels of organic revenue growth. We are focusing our investment on growth areas that will deliver superior returns. R&D investment for the Group increased by 3%, at constant currency, to £105m; or 22% at reported exchange rates. In Detection, we launched an advanced people-screener which uses patented millimetre-wave technology to reveal a far wider range of threat items than currently possible with traditional technologies. In Medical, we have extended the launch of CADD®-Solis, a leading ambulatory infusion pump, to new markets.

The pension deficit increased during the year as stock markets and asset values have fallen. The impact has been further exaggerated by the downward pressure on yields driven by government quantitative easing programmes. The timing of our interim results made us among the first of what has been many companies to break the news about the deteriorating pension position. As a result, our share price reacted particularly adversely following our interim results. However, since then we have successfully reduced the Company’s exposure to these liabilities by closing the defined benefit pension plan in the US and capping our obligations for post-retirement healthcare benefits in the UK and US. Consultation is underway to close the defined benefit pension plan in the UK during the new financial year.

During the year, we have significantly improved our cash generation and strengthened the balance sheet. The maturity profile of our debt was extended through the issue of long-term debt capital: $175m through a US private placement with a fixed nine-year maturity and via a US bond offering with two tranches of $250m, with a fixed maturity of five and 10 years respectively. This followed a thorough review of the Group’s financing strategy with the objective of extending the maturity of its debt and reducing its dependency on the banking market.

Last September, we set out ranges for sales growth and margins for each of the divisions based on what we believed the businesses could achieve over the medium term in a financial and commercial environment consistent with that of recent years. Since then, the global economy has slowed significantly and, while our businesses are comparatively well placed, it will be harder to operate within these ranges in the near term. In the current environment, the sales growth targets will be more difficult to achieve than the margin targets where we have greater control over delivering cost reductions and efficiencies. However, we remain committed to improving performance and delivering shareholder value consistent with achieving these ranges as the financial markets stabilise and world economies return to growth.

Outlook

Our priority for the coming year is to deliver the cost saving initiatives and build on the improvements in cash-flow while investing in future growth through R&D and expansion in developing markets. Whilst we have yet to see any real evidence of increased demand across our business, we are now better positioned to benefit from improved levels of activity when world economies return to more normal levels of growth. Meanwhile, Smiths Detection has had a positive start to the year although we are cautious about how the current economic environment may affect the timing of orders from governments, given that some of their finances remain under significant pressure. Even though John Crane sales have slowed, primarily due to lower OEM sales, margins should continue to improve through its restructuring and efficiency initiatives. Smiths Medical margins should also benefit from the restructuring and cost reduction measures implemented last year while sales will continue to be affected by the exit from diabetes. Several long-term military programmes support over a third of Smiths Interconnect sales while the wireless telecoms and other industrial sectors are likely to continue to be challenging. Flex-Tek sales will be affected by the US residential construction market while its focus on cost control will help maintain margins and make it strongly leveraged to any recovery.

Sales
Sales increased by £344m to £2,665m. Currency translation on overseas sales contributed £449m of this increase while the net impact of acquisitions and disposals increased sales by £75m. On an underlying basis, excluding the effects of currency translation and acquisitions and disposals, sales fell by £180m, or 7%. This £180m underlying decline in sales was driven by:

- Smiths Detection down £99m reflecting the variable nature of the order flow, in particular with lower sales from the ports and borders market;
- Flex-Tek down £38m driven by the recession in US residential construction and domestic appliances, offset in part by growth in sales of fuel and hydraulic hoses to aerospace customers;
- Smiths Medical down £16m as a result of lower diabetes sales following our decision to exit the business and reduced hardware sales;
- Smiths Interconnect down £17m reflecting a slowdown in sales of components and subsystems to the wireless telecoms industry partially offset by continued growth in several military programmes; and
- John Crane down £10m because of lower sales of original equipment.

Profit
Headline operating profit rose £37m to £418m. Headline operating margin decreased by 70 basis points to 15.7% (2008: 16.4%). The increase in headline operating profit comprises £77m from favourable currency translation, £20m from the net impact of acquisitions and disposals made during the year, offset by a £60m, or 13%, decrease in underlying headline operating profit. The main drivers of this £60m underlying decline are:

- John Crane up £9m reflecting the benefit of its restructuring initiatives;
- Corporate centre costs lower by £6m, offset by;
- Smiths Detection down £47m driven by lower volumes and the associated lower cost absorption;
- Smiths Interconnect down £13m as a result of lower volumes, adverse mix and restructuring costs;
- Flex-Tek down £8m reflecting lower volumes; and
- Smiths Medical down £7m reflecting lower volumes driven by diabetes and lower hardware sales as well as increased R&D costs.

Operating profit on a statutory basis, after taking account of the items excluded from the headline figures, was £429m (2008: £326m).

The net interest charge increased to £52m (2008: £41m) which reflects the higher interest costs on the newly refinanced debt. There was a reduced pensions financing gain of £5m (2008: £42m) as a result of the worsening funding position of the company's retirement benefit schemes. As a result, the headline profit before tax decreased by £9m to £371m. On an underlying basis, headline profit before tax fell by 21%.

On a statutory basis, after taking account of items excluded from the headline figure, the profit before tax remained unchanged at £371m.

The Group's tax rate on headline profit for the period was 24% (2008: 24%). Headline earnings per share decreased by 3% to 72.4p (2008: 74.5p).

Cash generation
Strong cash generation this year resulted in a free cash-flow of £256m (2008: £91m). Substantially improved headline operating cash of £435m (2008: £273m) represented 104% (2008: 72%) of headline operating profit. The improvement was a result of reduced investment in working capital, particularly inventories and debtors, and lower net capital expenditure. Although net debt increased by £114m to £885m, the increase resulted from foreign exchange translation and net investment hedges.

Dividend policy
In March 2008, the Board announced its intention to rebuild dividend cover to around 2.5 times in the medium term. In line with previous guidance, the Board has recommended an unchanged final dividend of 23.5p per share, making a total dividend for the year of 34.0p per share. Looking ahead, our focus will remain on rebuilding dividend cover as we invest in organic growth and acquisitions while maintaining a prudent approach to balance sheet financing. The final dividend will be paid on 20 November to shareholders registered at the close of business on 23 October. The ex-dividend date is 21 October.

Business review

Smiths Detection

	2009 £m	2008 £m	Reported growth#	Underlying growth
Sales	**501**	509	(2)%	(17)%
Headline operating profit	**63**	93	(32)%	(43)%
Headline operating margin	**12.6%**	18.3%		
Statutory operating profit	**63**	93		

Reported sales declined 2%, or £8m, reflecting a currency benefit of £91m offset by a decrease in underlying sales of £99m, or 17%. As previously announced, this reflects the increasingly variable nature of the order flow of this largely government contracting business. The majority of this decline is caused by the ports and borders segment which has seen repeated delays to several contract tender processes underway in different markets. In addition, the prior period benefited from a large Russian contract. Excluding ports and borders, underlying sales for Smiths Detection declined by 5%. This decline reflects lower sales primarily in transportation and non-security, offset by strong growth in the military area which has had its best ever year.

The fall in sales volumes together with the associated lower cost absorption is the principal driver of the lower margins and the 43% (£47m) decline in underlying headline operating profit. We are taking action to address the cost base and have begun a restructuring project that will rationalise our manufacturing facilities. We have announced the closure of a satellite site in Wiesbaden, the consolidation of two existing New Jersey sites into a new facility and the closure of two UK sites. We are currently assessing opportunities for further site rationalisation. We have already reorganised the business into Security & Inspection, which will focus on airports, ports and borders and critical infrastructure, and Military and Emergency Response.

Underlying sales in transportation fell by 19% which reflects good growth in the US offset by weaker sales in EMEA. US sales have benefited from the introduction of a new generation of airport checkpoint explosive detection systems which, unlike conventional systems, can capture multiple views of carry-on bags in a single sweep. The systems also include software algorithms that help the operator detect potential threat items and they can easily be upgraded to meet future threats. Airports in Europe and other markets have been slower to adopt the new technology while trials are still underway, and the current economic downturn has prompted governments and airport operators to review the timing of some projects.

The ports and borders market has seen a 59% underlying decline in sales following a strong performance in the first six months of last year which benefited from a large contract in Russia. Average contract size has grown over recent years as governments have become more co-ordinated in their approach to border security and customs revenue protection. As a result, the sales profile in this business has become more variable and the working capital requirement has also increased. Our leading-edge technology leaves us well placed to benefit from long-term growth prospects. For instance the US has mandated that 100% of arriving cargo be scanned by 2012. We continue to tender on some substantial projects in several markets. In July 2009, we won a $10.6m order for mobile, high-energy cargo screeners. Since the year end, we have won confirmed orders for a further £20m from several different markets.

Military sales enjoyed their strongest year on record with underlying sales up 42% through the ongoing JCAD programme. We received further orders from the US Department of Defense amounting to $179m during the year. The lightweight JCAD is an advanced chemical point detector designed to help safeguard troops by automatically detecting, identifying and quantifying both chemical warfare agents and toxic industrial chemicals. We also won a $19m contract from the US Army for Meteorological Measuring Set-Profiler (MMS-P) systems, taking the total programme value to over $89m to date. The MMS-P gathers real-time meteorological data to assist the accuracy of military operations.

The implementation of a new ERP system began during 2008 and will complete by the end of calendar year 2009. This single system replaces 14 legacy business software systems and provides a common information platform to support data-driven decision-making. Sixteen sites representing 70% of sales have now gone live with the new system. Investment to date has been £24m. We anticipate that once complete the project will generate efficiencies in working capital of £11m and annual cost savings of £8m.

Research and development

Smiths Detection has maintained its leadership in the sector through a consistent commitment to product innovation developed by in-house R&D, government-funded research and through partnerships and licences. Company-funded R&D increased by 21% to £35m or 6.9% of sales (2008: 5.6% of sales). This includes £10m of capitalised projects. Smiths Detection actively seeks customer and government support for R&D which totalled £10m in the period (2008: £9m). Total R&D spend was £45m (2008: £38m) or 8.9% of sales.

The principal focus for R&D investment continues to be X-ray for a variety of applications, including baggage scanning at airports and cargo screening at ports and borders. The next generation of cargo screening equipment is able to discriminate between different materials in a single pass. Our airport checkpoint explosive detectors are currently undergoing trials for the software that would allow automatic detection of suspect liquids in carry-on baggage.

We have also launched an advanced people-screener which for the first time uses electronic, real-time imaging in a standard checkpoint layout to detect weapons or explosives concealed under layers of clothing without physical contact. The new system, called 'eqo', is based on patented millimetre-wave technology.

Our techniques in chemical and trace detection have continued to develop and have supported the launch of several new products during the year including the High-Performance Radioisotope Identifier (HPRID) and the Multi-Mode Threat Detector (MMTD).

Diagnostics continues to be an area of focus with development of a portable biological detection system that enables veterinarians to carry out rapid on-site diagnosis of animal diseases. The same technology is now being developed for clinical applications such as the detection and identification of MRSA, *clostridium difficile* and other infectious diseases.

Outlook

Smiths Detection has had a positive start to the year although we are cautious about how the current economic environment may affect the timing of orders from governments, given that some of their finances remain under significant pressure. Longer term, we believe that the sector is set for sustained growth and Smiths Detection will benefit from its leadership position and the roll-out of innovative products. As a result, we shall continue to invest in research and development to launch new products while restructuring the business to lower costs and support margin improvement.

John Crane

	2009 £m	2008 £m	Reported growth#	Underlying growth
Sales	**790**	626	26%	(1)%
Headline operating profit	**143**	104	38%	7%
Headline operating margin	**18.1%**	16.6%		
Statutory operating profit	**106**	47		

John Crane's reported sales rose 26% and headline operating profit increased by 38%. Sales benefited from currency translation (£109m) and from acquisitions (£65m) while underlying sales declined by 1% (£10m) reflecting a lower level of orders for original equipment (OE). Orders began to slow from January 2009, which has caused underlying sales to decline by 7% in the second half compared with a growth of 6% in the first half.

Demand for aftermarket servicing has remained robust and underlying sales remained in line with last year. Within the aftermarket, underlying sales in our largest segment, oil, gas and petrochemical, has continued to grow at 5% as it continues to benefit from the infrastructure investment made by customers over recent years; while the aftermarket for other sectors such as general industrial were down 10% and the chemical and pharmaceutical sector has fallen by 8%. Underlying original equipment sales have declined 3% year on year, reflecting lower sales to the general industrial and chemical sectors offsetting continued growth in our engineered original equipment for bespoke applications, particularly for oil, gas and petrochemical customers.

Headline operating profit benefited from currency translation (£16m) and from acquisitions (£14m), leaving an underlying growth rate of 7%. Margins improved by 150 basis points to 18.1% reflecting the benefits of the restructuring programme which launched at the end of last financial year.

The restructuring programme to create one global John Crane division by integrating the two previous regional organisations is well underway. Corporate functions such as finance, IT, human resources, legal, engineering and product line management are now co-ordinated globally. Sales and service functions have been kept close to customers in regional organisations. Certain manufacturing has been moved to countries in Eastern Europe, Asia and Mexico. These changes are facilitating improved customer focus, quicker decision-making, better delivery, lower cost and more effective communications. In the period, we spent £9m and delivered savings of £6m. Overall, the project is expected to deliver annual savings of £25m.

Implementation of a new ERP system is well underway, with 20 regions across Europe, Middle East and Africa all successfully online. This represents approximately 70% of total project completion. Roll-out is now in progress in India and Asia Pacific regions, with 11 implementations to complete before the end of the project in July 2010. Investment to date has been £22m out of a projected total of £24m. The project is expected to generate annual cost savings of £10m. Since inception the project has realised £4m of savings.

During the year, John Crane has continued to expand its industry-leading, global network of service centres. Current developments are focused on key growth markets. In the Middle East, four new facilities were opened, including a wet seal service centre in Bahrain and a service, sales, manufacturing and training facility in Damman, Saudi Arabia. In Asia Pacific, another four service centres have been opened. This year saw expanded service capability in Rayong, Thailand to serve the petrochemical and oil and gas markets; a new facility in Darwin, Australia to service the oil and gas and minerals mining markets. In China a new service centre opened in Du Shanzi servicing the North West of the country together with a state-of-the-art wet and gas seal service facility in Tianjin, China, part of the recently opened John Crane China facility.

In the past year we continued our acquisition strategy to expand the product portfolio with complementary technologies for similar customers that can leverage the global sales and service network, and build an upstream energy services business. In May 2009 we acquired Orion Corporation, which added a leading US-based designer and manufacturer of hydrodynamic bearings for the oil and gas and industrial power markets. Orion complements and extends John Crane Bearing Technology, a business unit formed following the acquisition of Sartorius Bearing Technology in October 2007. Moreover, it adds complementary products and a manufacturing, sales and service base in North America to supplement existing European operations, and establishes John Crane as one of the leading manufacturers in the hydrodynamic bearings sector. Training and development activity for the John Crane sales force is well underway to promote and sell the product range through John Crane's extensive network. The overall integration process is continuing to progress well and John Crane Bearing Technology was successfully migrated onto the global ERP system in November 2008.

In the upstream energy sector, the John Crane Production Solutions business unit was formed this year to capitalise on the synergies of the CDI Energy Services and Fiberod acquisitions.

Expanding the range of products offered, John Crane Production Solutions launched an Automated Prime Mover (APM) product line which provides auxiliary power to well sites. The product is aimed at geographical areas which are remote from developed power grids, by providing interim power to drilling companies while they wait for power to be run to their wells. APM use will increase oil field production and also meets new carbon emissions standards. John Crane Production Solutions continues to expand international applications, with active opportunities in Indonesia, Romania, India and Mexico.

Outlook

John Crane's strength and revenue in aftermarket sectors will continue to be enhanced through additional investments in both locations and services offered. The overall order book for the aftermarket and original equipment is below that of the same period last year, primarily because of lower original equipment orders. As a result, we anticipate that overall sales will decline during the first half of the new financial year, particularly against a strong comparator period. In spite of this pressure on sales, there is scope to deliver continued margin expansion as a result of cost controls and the restructuring programme that is underway.

Smiths Medical

	2009 £m	2008 £m	Reported growth#	Underlying growth
Sales	**834**	703	19%	(2)%
Headline operating profit	**164**	140	17%	(4)%
Headline operating margin	**19.7%**	19.8%		
Statutory operating profit	**148**	119		

At reported exchange rates, Smiths Medical's sales grew 19% while headline operating profit increased by 17%. Reported sales benefited from currency translation (£139m) and acquisitions (£7m) which, if excluded, give an underlying sales decline of 2%. Sales were affected by our decision to exit the diabetes market which reduced revenue by £9m. Excluding all diabetes sales, underlying sales declined by 1% in the year. Headline operating profit benefited from currency translation (£28m) and acquisitions (£4m). Operating profit margins declined slightly; underlying profit slipped 4%. Our ongoing cost reduction efforts began to show their full effects in the second half, although we do not expect to benefit fully from these actions until the new financial year.

In the overall medical device market, the economic downturn has adversely affected hospital capital budgets, although we are now seeing a gradual improvement in some parts of the world. Excluding diabetes, hardware sales were down 5% while sales of our disposable products were flat. The outbreak of H1N1 'swine' flu, caused some hospitals to limit access so they could focus on caring for people affected by H1N1. However, Smiths Medical was unaffected because most of our products are vital for healthcare staff and some are used in the treatment of flu.

We have continued to deliver operational improvements which, in conjunction with the beginning of a hardware market recovery and stabilisation of disposable sales, has helped deliver a stronger second half. Customer backorders have been halved since last year enabling further improvements to customer service, thus boosting our customer recovery and retention efforts. Finally, we cut headcount in Smiths Medical by around 1000 throughout the year. These actions will help improve margins in the coming year.

In Medication Delivery, underlying sales declined by 4% for the year. Excluding diabetes, sales were only slightly down reflecting an improvement during the last six months from increased sales of CADD®-Solis pumps. The planned exit from the diabetes business has gone well, with the decline in sales in line with expectations. Elsewhere, deferrals of purchases of our infusion systems by some large customers have continued, most notably in Canada, although we expect those sales to recover. Sales of our next-generation ambulatory smart pump, CADD®-Solis, grew during the second half in North America and are gaining considerable traction in other English-speaking markets. The pump will be available in other languages in the new fiscal year.

Vital Care underlying sales declined by 3%, but delivered a stronger performance in the second half from our temperature management franchise. We also saw small increases in sales of our respiratory products because of the H1N1 flu outbreak. Our tracheostomy business delivered strong growth and we plan to undertake a new e-business initiative to support our custom tracheostomy products.

Safety Devices underlying sales grew by 2%, driven by a number of OEM agreements, co-branded sales, and an increase in our base business. In some markets, particularly outside the US, we continue to see competitive pressure from lower-cost safety catheters, which has slowed the growth rate of this franchise. However, we see an opportunity for safety products to be taken up more widely in the EU since the EU parliament agreed a move toward their adoption.

Our product portfolio review has led to a number of strategic decisions that will improve margins. On pricing, we have identified £6m in improvements in our product 'tail', and have already delivered £3m in the year across the total portfolio. We plan to eliminate 3,000 SKUs, effective 31 October, with no negative responses from customers to date. This will simplify the business and provide opportunities to sell alternative products. We are rolling out a more sophisticated account management system globally to improve customer profitability.

Efficiency improvements and cost reductions are protecting business performance during the current downturn and positioning the business for greater margin growth as conditions improve. The North American restructuring programme is now virtually complete with the three former operational units now managed under a single management team. Though primarily intended to ensure one face to the customer, we have been able simultaneously to drive business efficiencies.

Implementation of our global ERP business systems is on track for completion by March 2010 and is within budget. Virtually all of the products we sell already flow through the ERP system at some point in the supply chain. Additionally, we have rolled out a strategic global sales data warehouse. The ERP project remains on track to deliver annual savings of £15m, and is providing better transparency to key information, thus enabling more data-driven business decisions.

Business developments

Our acquisition in November 2008 of Zhejiang Zheda Medical Instrument Co. Ltd ("ZDMI"), now known as Smiths Medical Zhejiang (SMZ), has exceeded our expectations (contributing £7m in the year). We plan to make SMZ a low-cost R&D base for the development of hospital infusion products for China and other international markets.

Research and development

Our R&D spend was £29m (2008: £26m) or 3.5% of sales (2008: 3.7%). However, a more important measure is the amount of sales from products launched in the last three years, which is up 12% year-on-year. Our new, focused approach has significantly improved the efficiency of our R&D spend and has helped us execute nearly all of our planned product launches on time and within budget.

Our highest-profile new product launches have met or exceeded our expectations. This includes smartX®, the first wireless blood pressure monitoring device; Uniperc®, a tracheostomy device for people with large necks; and CADD®-Solis infusion pump and associated medication error prevention software. During the second half, we launched a new set of disposable circuits for our Pneupac ventilators; the SACETT endotracheal tube, which is designed to help prevent ventilator-associated pneumonia; and the Stimulating Plexus Needle in our peripheral nerve block line. Each of these new products fills a gap in, or extends, one of our strong product lines. Early signs from these recent launches have been positive.

Outlook

Smiths Medical will focus on its performance improvement programme through a number of initiatives. The SKU, portfolio and customer profitability reviews will reduce complexity, while cutting overheads. R&D will help drive top-line growth through new product launches. The underlying revenue momentum achieved in the second half is expected to continue but will be held back by the exit from the diabetes market. Margins should improve as we benefit from the cost initiatives taken to date.

Smiths Interconnect

	2009 £m	2008 £m	Reported growth[#]	Underlying growth
Sales	**318**	261	22%	(6)%
Headline operating profit	**56**	54	3%	(20)%
Headline operating margin	**17.4%**	20.7%		
Statutory operating profit	**51**	51		

Reported sales for Smiths Interconnect increased by 22%, or £57m, driven by currency translation (£60m) and acquisitions (£15m). On an underlying basis, excluding the benefits of currency translation and acquisitions, sales fell 5% due to declines in sales of components to the wireless infrastructure market as well as the rail, industrial and automation markets in Europe. In particular, sales of our lightning and surge protection equipment declined against the same period last year which benefited from some significant short-term contracts. Sales to the military and aerospace markets have remained strong, medical sales were flat, while the industrial, rail and automation markets have become more challenging.

Headline operating profit increased by 3%. Excluding the benefit of currency translation (£12m) and acquisitions (£3m), headline profit declined by 20%, or £13m. Margins were adversely affected by one-off restructuring charges (£2m), lower volumes and an adverse mix effect on gross margins caused by lower wireless sales.

On an underlying basis, sales into military, aerospace and space applications increased 9% during the year. The growth came from a good mix of new research and development activities; projects transitioning from development to the initial production phase; and ongoing volume production projects such as our Mobile Directional Antenna Systems and connectors for the Eurofighter programme.

We achieved several new wins on intelligence, surveillance and reconnaissance (ISR) and communications programmes, including being selected to provide:

- an airborne antenna system for a high-frequency data link enabling air-to-ground transfer of battlespace information;
- a frequency and time reference module that will enable a network-centric radio system to connect different tactical ground, airborne and satellite communications terminals together providing total radio/network compatibility on-the-move and in variable terrain; and
- a direction-finding antenna system to support upgrades to shipboard Electronic Warfare systems.

Good progress was also made on securing key positions on major Satcom programmes within the US Department of Defense including a new win supporting a major UAV platform. We also continued high rate deliveries of telemetry and situational awareness systems for several major UAV programs such as the Shadow, Raven and Warrior.

In the area of Force Protection, high-volume manufacture of microwave filter components for systems which counter improvised explosive devices remained a strong contributor to sales. We further developed our business providing transient voltage protection devices against the potential effects of High Altitude Electromagnetic Pulse (HEMP) and Electromagnetic Pulse (EMP) weapons with several new programme wins. In addition, we were selected to provide an ultra-low noise frequency source for a next-generation integrated countermeasures system which will provide self-protection capabilities to US Navy aircraft.

In space, we were awarded a contract to develop millimetre-wave components for a joint NASA and JAXA (Japan) satellite used to monitor the earth's weather patterns. Sales to commercial aerospace declined in the period as production rates slowed.

Wireless telecommunications sales were buoyed by the full-year effect of the acquisitions of Allrizon and Triasx, as well as Dowin, the Shenzhen-based manufacturer of power and signal protection devices which was acquired in April 2009. Excluding the impact of exchange rates and acquisitions, sales to the wireless market reduced by 21%, mainly because strong prior-year sales of lightning and surge protection solutions for the roll-out of the WiMAX broadband network in the US were not repeated this year. Furthermore, there was a general softening of demand from new infrastructure deployments.

With the notable exception of the 3G network build-outs in China, most operators cut back new network capital expenditure and focused on improving the performance of their existing networks, which is supporting demand for our network optimisation products. Sales of our portable passive intermodulation analysers grew strongly, particularly in the US, as operators recognised the benefits the instrument provides in identifying network performance issues.

Other wireless telecoms developments included gaining positions to supply resistive devices to the Chinese equipment manufacturers and increasing sales of millimetre-wave point-to-multipoint antennas.

Sales to the medical, rail and automation markets declined 12% on an underlying basis. Adverse market conditions were partially offset by new product launches and programme wins in the medical sector, although the industrial markets in Europe were particularly difficult.

Business developments

Smiths Interconnect executed numerous restructuring projects during the year, targeting cost savings and also increasing the percentage of manufacturing in low-cost economies. This included the combination of two US businesses with the majority of manufacturing transferring to our Mexico facility and the retention of a satellite engineering office. In addition, substantial reductions in work force were completed in Italy, Ireland, California and Florida, and short-time working was introduced in Germany and France. All of these projects started to pay back during the year and will help margin improvements in the coming year.

In April, Smiths Interconnect completed the purchase of Dowin, a Chinese manufacturer of power and signal protection devices, operating mainly in the wireless telecoms market and based in Shenzhen. This move complements our existing protection portfolio and provides a platform in Asia where we expect further investment in the roll-out of wireless infrastructure. This is the third acquisition in Asia made by Interconnect in the past two years.

Outlook
Short-term market conditions are expected to remain challenging for automation, rail and medical applications, as well as wireless telecommunications where demand has slowed after the initial surge of demand to support 3G infrastructure. Defence revenues are expected to continue to grow and the restructuring actions taken during the year are expected to generate some margin improvement.

In the longer term, Smiths Interconnect's continued focus on the technologies that support the future strategic direction of defence spending will deliver robust performance in the event of an overall reduction in military budgets. Furthermore, in the next two to three years wireless telecommunications operators are expected to increase significantly capital investment to deploy high-speed next-generation networks requiring specialist network optimisation capabilities such as ours to support high-data rate applications.

Flex-Tek

	2009 £m	2008 £m	Reported growth#	Underlying growth
Sales	**222**	206	8%	(15)%
Headline operating profit	**22**	24	(10)%	(27)%
Headline operating margin	**9.9%**	11.8%		
Statutory operating profit	**18**	24		

On a reported basis, Flex-Tek's sales rose 8%, or £16m, driven by currency translation (£51m) and the acquisition of Fast Heat (£3m), offset by a fall in underlying sales of £38m, or 15%. This decline reflects the impact of the deep recession in the US residential construction markets as well as significantly softer demand in the household appliances and industrial goods markets.

Headline operating profit declined by 10%, or £2m, stemming from an £8m fall in underlying operating profit, partly offset by a £6m benefit from currency translation. As a result, margins narrowed by 190 basis points. The underlying decline in operating profit is caused mainly by lower volumes (£15m) and offset by £4m from the cost-saving initiatives.

Softer sales of components and services to civil aviation were balanced by steady demand in commercial and military markets, resulting in flat aerospace revenues versus the prior year. The group has also benefited from production efficiency gains and, through a focus on tight cost control, has been able to improve margins.

Heat Solutions underlying sales declined by 16% mainly due to lower sales of gas piping and HVAC ducting in the US construction market. The recession in the US market has prompted a 44% fall in housing starts in the year compared with the same period last year. Sales of heating elements to appliance manufacturers were slightly down but offset by full-year sales from the acquisition of Fast Heat, resulting in flat sales compared to the previous year. Against this background, sales fell at a lower rate than the market, indicating that we have successfully gained share in a challenging trading environment. In addition, a sharper focus on low-cost manufacturing and combined product marketing programmes have helped preserve margins.

Underlying sales of flexible hose assemblies from the Flexible Solutions division were down 23% resulting from softer demand in the US floorcare and general industrial markets.

Flex-Tek's new facilities in Asia continue to expand. We are in the process of widening the range of products delivered from our Changshu, China, facility to include high-pressure tubing for aerospace and industrial applications. Our Aerospace tubing plant in Bangalore, India, should be well positioned to benefit from recent announcements by the Indian government regarding increased defence spending.

Business developments
The challenges in the housing and domestic appliance markets have prompted Flex-Tek to identify opportunities 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. During the year, Flex-Tek has closed a factory near Glasgow, Scotland, and announced the closure of a heating element facility in Elmhurst, Illinois, which will complete by the end of the 2009 calendar year.

Outlook
Flex-Tek faces continued uncertainty in the US residential construction, household appliance and industrial markets. It will continue to rationalise its portfolio of sites and reduce costs in order to deliver future value when these markets improve. The initiatives to date have made Flex-Tek a leaner business, which is strongly leveraged to a recovery in US housing – when that occurs. It will continue to seek growth opportunities in sectors outside residential construction and in developing markets.

Financial review

Earnings per share
Basic headline earnings per share from continuing activities were 72.4p (2008: 74.5p), a decline of 3%. This reflects an increased headline operating profit offset by higher interest costs on the newly refinanced debt. and a lower pensions financing gain as a result of the worsening funding position of the company's retirement benefit schemes.

On a statutory basis, the basic earnings per share from continuing activities were 70.8p (2008: 63.0p).

Exceptional and other items relating to continuing activities excluded from headline profits
These items had no net impact in the year compared with a charge of £61m in 2008. They comprised:

- Gains of £70m arising from the actions taken to reduce liabilities associated with the pensions and post-retirement healthcare benefits;
- £24m (2008: £4m) in respect of restructuring corporate and divisional headquarters. This is part of a programme which is expected to cost approximately £45m;
- £22m (2008: £54m) in connection with John Crane, Inc. asbestos litigation;
- Amortisation of intangible assets acquired in business combinations of £35m (2008: £19m). The amortisation relates principally to technology and customer relationships; and
- Profit on disposal of businesses and property of £15m (2008: £27m).
- Financing losses amounted to £4m (2008: £2m). These represent the results of derivatives and other financing instruments which are not hedge accounted under IFRS.

Exceptional items in 2008 included Medex integration costs of £9m.

Cash generation
Strong cash generation this year resulted in a free cash-flow of £256m (2008: £91m). Substantially improved headline operating cash of £435m (2008: £273m) represented 104% (2008: 72%) of headline operating profit. The improvement was a result of reduced investment in working capital, particularly inventories and debtors, and lower net capital expenditure.

On a statutory basis, net cash inflow from continuing operations was £332m (2008: £198m).

Net cash expenditure on exceptional items was £32m, compared to £26m in the previous year. The Group made special pension contributions of £34m (2008: £34m). Free cash-flow from continuing operations (after interest and tax but before acquisitions. dividends and net investment hedges) was £256m (2008: £91m).

Dividends paid in the year on ordinary shares amounted to £132m, compared with £131m in 2008.

Interest and other financing costs
Interest payable on debt, net of interest earned on cash deposits, was £52m compared with £41m in 2008. Interest costs were covered 8 times covered by headline operating profits.

The Group accounts for pensions using IAS19. As required by this standard, a finance credit is recognised reflecting the expected return on pension scheme assets and a finance charge is recognised reflecting the unwinding of the discount on the future pension liability. The net financing credit was £5m in 2009 compared with a net financing credit of £42m in 2008.

Net debt
Net debt at 31 July 2009 was £885m, up from £771m in 2008. The increase in net debt was the result of exchange rate changes, which resulted in a cash outflow of £90m on net investment hedges and a £28m translation increase in currency-denominated net debt.

During the year a £90m cash outflow, which increased net debt, occurred on the rollover of short term derivative net investment hedges caused by weaker sterling. These derivative hedges swapped sterling bonds into primarily US dollar and euro liabilities to hedge the significant translation exposure on US dollar and euro assets. If the bonds had been denominated in US dollars and euro, the same increase in reported debt would have occurred - reported not as a cash outflow but as an adverse translation effect. The financing strategy launched during 2009 with the raising of $675m of long term dollar bonds will replace these derivative investment hedges and more effectively match long term currency assets and liabilities.

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

Smiths invested a total of £105m in R&D on continuing operations, equivalent to 4% of sales. Of that total, £15m was funded by customers. The comparative figures for 2008 were £85m and £13m. Under IFRS, certain of these development costs are capitalised. The gross capitalisation is shown as an intangible asset. Where customers contribute to the costs of development, the contribution is included as deferred income and disclosed within trade and other payables.

Accounting policies
The accounts in this report are prepared under International Financial Reporting Standards (IFRS), as adopted by the European Union (EU). The accounting policies used in preparing these accounts are set out below.

Significant judgements, key assumptions and estimates
Applying accounting policies requires the use of certain judgements, assumptions and estimates. The most important of these are set out on below.

Taxation
The headline tax charge of £89m for 2009 represented an effective rate of 24% on the headline profit before taxation - unchanged from last year. The Group continues to take advantage of global manufacturing, research and development and other tax incentives, the tax-efficient use of capital and tax compliance management. On a statutory basis, the tax charge on continuing activities was £95m (2008: £75m).

Return on shareholders' funds
The after-tax headline return on shareholders' funds for continuing operations, including goodwill set-off against reserves, was 16.5% (2008: 16.7%).

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 31 July 2009 and evaluating liabilities at year-end AA corporate bond interest rates.

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

Company contributions to the funded defined benefit pension plans totalled £53m (2008: £56m). Company contributions included special UK contributions of £13.1m in respect of special covenant payments (2008: £17m comprising £13m of special covenant payments and £4m arising from the sale of Smiths Aerospace). During the year, the trustees of the TI Pension Scheme invested a further £249m in annuities that are matched with specific liabilities of the fund.

The retirement benefit position was:

	31 July 2009	31 January 2009	31 July 2008
Funded plans			
UK plans – funding status	**95%**	94%	106%
US plans – funding status	**72%**	64%	89%
Other plans – funding status	**75%**	77%	81%

	31 July 2009	31 January 2009	31 July 2008
Surplus/(deficit)			
Funded plans	**(254)**	(330)	102
Unfunded plans	**(85)**	(134)	(113)
Total surplus/(liability)	**(339)**	(464)	(11)

Full details of the retirement benefits are shown in note 10.

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

	2009	**2008**	
Average rates:			
US dollar	**1.58**	2.00	Dollar strengthened 21%
Euro	**1.16**	1.35	Euro strengthened 14%
Year-end rates:			
US dollar	**1.67**	1.98	Dollar strengthened 16%
Euro	**1.17**	1.27	Euro strengthened 8%

Financial information

The financial information in this preliminary announcement which comprises the consolidated income statement, consolidated statement of recognised income and expense, consolidated balance sheet, consolidated cash-flow statement, accounting policies and related notes does not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006.

The statutory accounts for the year ended 31 July 2008 have been filed with the Registrar of Companies. The auditors have reported on those accounts and on the statutory accounts for the year ended 31 July 2009, which will be filed with the Registrar of Companies following the Annual General Meeting. Both the audit reports were unqualified and did not contain any statement under sections 237 or 498 of the Companies Act 1985 and 2006 respectively.

Consolidated income statement

	Notes	Year ended 31 July 2009 £m	Year ended 31 July 2008 £m
Continuing operations			
Revenue	1	**2,664.6**	2,321.2
Cost of sales		**(1,447.5)**	(1,265.5)
Gross profit		**1,217.1**	1,055.7
Sales and distribution costs		**(370.5)**	(311.8)
Administrative expenses		**(419.7)**	(445.4)
Profit on disposal of businesses	4	**1.6**	27.2
Operating profit	2	**428.5**	325.7
Comprising			
– headline operating profit	3	**417.5**	380.6
– exceptional items, amortisation of acquired intangibles and other financing gains and losses	3	**11.0**	(54.9)
		428.5	325.7
Interest receivable		**2.1**	2.2
Interest payable		**(54.4)**	(43.2)
Other financing (losses)/gains		**(10.9)**	(6.1)
Other finance income – retirement benefits		**5.1**	41.7
Finance costs	5	**(58.1)**	(5.4)
Share of post-tax profits/(losses) of associated companies	14	**0.4**	(1.0)
Profit before taxation		**370.8**	319.3
Comprising			
– headline profit before taxation	3	**370.7**	380.3
– exceptional items, amortisation of acquired intangibles and other financing gains and losses	3	**0.1**	(61.0)
		370.8	319.3
Taxation	6	**(94.9)**	(75.0)
Profit after taxation – continuing operations		**275.9**	244.3
(Loss)/profit after taxation – discontinued operations	7	**(5.9)**	24.5
Profit for the period		**270.0**	268.8
Attributable to:			
Smiths Group shareholders		**269.5**	268.5
Minority interests		**0.5**	0.3
		270.0	268.8
Earnings per share	9		
Basic		**69.3p**	69.3p
Basic – continuing operations		**70.8p**	63.0p
Diluted		**68.6p**	68.5p
Diluted – continuing operations		**70.1p**	62.3p

Consolidated statement of recognised income and expense

	Notes	Year ended 31 July 2009 £m	Year ended 31 July 2008 £m
Exchange gain		**189.2**	89.5
Fair value gain on acquisition of former associate			0.4
Taxation recognised on share-based payment			
– current	6		5.2
– deferred	6	**(4.0)**	(3.8)
Actuarial losses on retirement benefits	10	**(429.9)**	(254.5)
Taxation recognised on actuarial losses – deferred	6	**94.3**	75.5
Fair value (losses)/gains:			
– on cash-flow hedges	20	**0.4**	(0.5)
– on net investment hedges	20	**(58.6)**	(47.5)
Net expense recognised directly in equity		**(208.6)**	(135.7)
Profit for the period		**270.0**	268.8
Total recognised income and expense	26	**61.4**	133.1
Attributable to:			
Smiths Group shareholders		**59.9**	132.8
Minority interests		**1.5**	0.3
		61.4	133.1

Consolidated balance sheet

	Notes	2009 £m	2008 £m
Non-current assets			
Intangible assets	12	**1,500.3**	1,253.2
Property, plant and equipment	13	**318.0**	296.3
Investments accounted for using the equity method	14	**11.2**	9.1
Financial assets – other investments		**7.8**	3.6
Retirement benefit assets	10	**39.2**	174.2
Deferred tax assets	6	**164.7**	96.2
Trade and other receivables	16	**21.3**	14.6
Financial derivatives	21	**13.9**	1.4
		2,076.4	1,848.6
Current assets			
Inventories	15	**413.6**	380.3
Trade and other receivables	16	**553.6**	565.4
Cash and cash equivalents	17	**91.7**	132.5
Financial derivatives	21	**40.7**	6.5
		1,099.6	1,084.7
Total assets		**3,176.0**	2,933.3
Non-current liabilities			
Financial liabilities:			
– borrowings	19	**(752.2)**	(720.7)
– financial derivatives	21	**(6.7)**	(0.1)
Provisions for liabilities and charges	22	**(226.5)**	(200.6)
Retirement benefit obligations	10	**(378.2)**	(184.7)
Deferred tax liabilities	6	**(66.5)**	(64.3)
Trade and other payables	18	**(25.1)**	(27.5)
		(1,455.2)	(1,197.9)
Current liabilities			
Financial liabilities:			
– borrowings	19	**(224.4)**	(182.4)
– financial derivatives	21	**(38.9)**	(21.5)
Provisions for liabilities and charges	22	**(77.2)**	(70.0)
Trade and other payables	18	**(399.8)**	(420.7)
Current tax payable		**(117.7)**	(122.6)
		(858.0)	(817.2)
Total liabilities		**(2,313.2)**	(2,015.1)
Net assets		**862.8**	918.2
Shareholders' equity			
Share capital	25	**145.9**	145.5
Share premium account	26	**306.6**	303.6
Capital redemption reserve	26	**5.8**	5.8
Revaluation reserve	26	**1.7**	1.7
Merger reserve	26	**234.8**	234.8
Retained earnings	26	**251.3**	253.7
Hedge reserve	26	**(87.1)**	(29.2)
Total shareholders' equity		**859.0**	915.9
Minority interest equity		**3.8**	2.3
Total equity		**862.8**	918.2

Consolidated cash-flow statement

	Notes	Year ended 31 July 2009 £m	Year ended 31 July 2008 £m
Net cash inflow from operating activities	27	**332.1**	198.1
Cash-flows from investing activities			
Expenditure on capitalised development		**(22.5)**	(19.8)
Expenditure on other intangible assets		**(17.4)**	(16.1)
Purchases of property, plant and equipment		**(57.4)**	(64.2)
Disposals of property, plant and equipment		**19.8**	2.7
Investment in financial assets		**(6.6)**	(3.4)
Proceeds from sale of financial assets			1.1
Acquisition of businesses	28	**(103.3)**	(149.7)
Disposal of Aerospace	7	**(1.9)**	(6.3)
Disposals of businesses		**(0.2)**	43.2
Net cash-flow used in investing activities		**(189.5)**	(212.5)
Cash-flows from financing activities			
Proceeds from exercise of share options	26	**4.1**	21.0
Purchase of own shares			(20.7)
Dividends paid to equity shareholders	8	**(132.0)**	(131.4)
Cash paid to shareholders under B share scheme			(16.4)
Cash outflow from matured derivative financial instruments		**(89.9)**	
Increase in new borrowings		**495.8**	135.9
Reduction and repayment of borrowings		**(357.9)**	(11.0)
Net cash-flow used in financing activities		**(79.9)**	(22.6)
Net increase/(decrease) in cash and cash equivalents		**62.7**	(37.0)
Cash and cash equivalents at beginning of period		**(40.0)**	3.1
Exchange differences		**(3.0)**	(6.1)
Cash and cash equivalents at end of period	17	**19.7**	(40.0)
Cash and cash equivalents at end of period comprise:			
– cash at bank and in hand		**84.0**	122.5
– short-term deposits		**7.7**	10.0
– bank overdrafts		**(72.0)**	(172.5)
		19.7	(40.0)
Included in cash and cash equivalents per the balance sheet	17	**91.7**	132.5
Included in overdrafts per the balance sheet	17	**(72.0)**	(172.5)
	17	**19.7**	(40.0)

The consolidated cash-flow statement includes cash-flows relating to discontinued operations. See note 7 for details of these cash-flows.

Accounting policies

Basis of preparation

The accounts have been prepared in accordance with the Companies Act 2006 applicable to companies reporting under International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations, as adopted by the European Union in response to the IAS regulation (EC 1606/2002), under the historic cost convention modified to include revaluation of certain financial instruments, share options and pension assets and liabilities, held at fair value as described below.

The accounting policies adopted are consistent with those of the previous financial period except that the Group has adopted:

- 'IFRS 8: Operating segments', which has required changes to the segment information disclosures in note 1.
- 'IFRIC 14: The limit on a defined benefit asset, minimum funding requirements and their interaction' which provides guidance on recognising pension scheme surpluses as assets. Adopting this standard did not affect the assets recognised at 31 July 2008 in respect of pension schemes.

Significant judgements, key assumptions and estimates

The preparation of the accounts in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the accounts and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates. The key estimates and assumptions used in these consolidated financial statements are set out below.

Revenue recognition

The timing of revenue recognition on long-term funded contracts depends on the assessed stage of completion of contract activity at the balance sheet date. This assessment requires the expected total contract revenues and costs to be estimated based on the current progress of the contract.

Revenue of £46.9m (2008: £63.3m) has been recognised in respect of contracts in progress at the year end with a total expected value of £145.6m (2008: £197.5m). A 5% increase in the proportion of the contract activity recognised in the current year would have increased operating profit by an estimated £0.2m (2008: £0.6m).

Impairment

Goodwill is tested at least annually for impairment in accordance with the accounting policy for goodwill set out below. The recoverable amounts of cash generating units are determined based on value in use calculations. These calculations require the use of estimates including projected future cash-flows and other future events. See note 12 for details of the critical assumptions made and disclosures on the sensitivity of the impairment testing to these key assumptions.

Provisions for liabilities and charges

The consolidated financial statements include a provision for litigation of £185.4m (2008: £163.7m).

As previously reported, John Crane, Inc., a subsidiary of the Company, is currently one of many co-defendants in litigation relating to products previously manufactured which contained asbestos. Provision has been made for the future defence costs which the Group is expected to incur and the expected costs of future adverse judgments against John Crane, Inc. However, because of the significant uncertainty associated with the future level of asbestos claims and of the costs arising out of the 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 revisions from time to time if new information becomes available as a result of future events. See note 22 for details.

Retirement benefits

The consolidated financial statements include costs in relation to, and provision for, retirement benefit obligations. The costs and the present value of any related pension assets and liabilities depend on such factors as life expectancy of the members, the salary progression of current employees, the returns that plan assets generate and the discount rate used to calculate the present value of the liabilities. The Group uses previous experience and impartial actuarial advice to select the values of critical estimates. The estimates, and the effect of variances in key estimates, are disclosed in note 10.

Taxation

The Group has recognised deferred tax assets relating to UK losses of £111m (2008: £94m). The recognition of assets pertaining to these losses involves judgement by management as to the likelihood of realisation of these deferred tax assets and this is based on a number of factors, which seek to assess the expectation that the benefit of deferred tax assets will be realised, including appropriate taxable temporary timing differences and it has been concluded that there are sufficient taxable profits in future periods to support recognition.

Further detail on the Group's deferred taxation position is included in note 6.

The accounts have been prepared in accordance with the accounting policies, as described below.

Basis of consolidation

The consolidated accounts incorporate the financial statements of the Company and its subsidiary undertakings, together with the Group's share of the results of its associates.

Subsidiaries are all entities over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which this power is transferred to the Company to the date that control ceases.

Associates are entities over which the Group has significant influence but does not control, generally accompanied by a share of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method.

Foreign currencies

The Company's presentational currency is sterling. The results and financial position of all subsidiaries and associates that have a functional currency different from sterling are translated into sterling as follows:

- assets and liabilities are translated at the rate of exchange at the date of that balance sheet;
- income and expenses are translated at average exchange rates for the period; and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, the cumulative amount of such exchange differences is recognised in the income statement as part of the gain or loss on sale.

Exchange differences arising on transactions are recognised in the income statement. Those arising on trading are taken to operating profit; those arising on borrowings are classified as finance income or cost.

Revenue

Revenue from the sale of goods is recognised when the risks and rewards of ownership have been transferred to the customer, which is usually when title passes.

Revenue from services is recognised in accounting periods in which the services are rendered, by reference to completion of the specific transaction, assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Revenue is measured at the fair value of the consideration received, net of trade discounts and sales taxes.

Long-term funded contracts

Where the outcome of a contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date. The Group uses the 'percentage of completion method' to determine the appropriate amount to recognise in a given period. The assessment of the stage of completion is dependent on the nature of the contract, but will generally be based on the estimated proportion of the total contract costs which have been incurred to date. If a contract is expected to be loss-making, a provision is recognised for the entire loss.

Employee benefits

Pension obligations and post-retirement benefits

The Group has both defined benefit and defined contribution plans.

For defined benefit plans the liability for each scheme recognised in the balance sheet is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in full in the period in which they occur, outside of the income statement and are presented in the statement of recognised income and expense. Past service costs are recognised immediately in the income statement, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortised on a straight-line basis over the vesting period.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. Contributions are expensed as incurred.

The Group also has certain post-retirement healthcare schemes which are accounted for on a similar basis to the defined benefit plans.

Share-based compensation

The Group operates a number of equity-settled and cash-settled share-based compensation plans.

The fair value of the shares or share options granted is recognised as an expense over the vesting period to reflect the value of the employee services received.

The fair value of options granted, excluding the impact of any non-market vesting conditions, is calculated using established option pricing models, principally binomial models. The probability of meeting non-market vesting conditions, which include profitability targets, is used to estimate the number of share options which are likely to vest.

For cash-settled share-based payment a liability is recognised based on the fair value of the payment earned by the balance sheet date. For equity-settled share-based payment the corresponding credit is recognised directly in reserves.

In accordance with the transitional provisions of 'IFRS 2: Share-based payment', no charge has been recognised for grants of equity instruments made before 7 November 2002.

Exceptional items

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

- profits/(losses) on disposal of businesses;
- spend on the integration of significant acquisitions and other major restructuring programmes;
- significant goodwill or other asset impairments;
- income and expenditure relating to John Crane, Inc. asbestos litigation; and
- other particularly significant or unusual items.

Exceptional items are excluded from the headline profit measures used by the Group. The basis of calculation of these measures is explained in note 3.

Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of, has been abandoned or meets the criteria to be classified as held for sale.

Discontinued operations are presented on the income statement as a separate line and are shown net of tax.

Assets and businesses held for sale

Assets and businesses classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Impairment losses on initial classification as held for sale and gains or losses on subsequent re-measurements are included in the income statement. No depreciation is charged on assets and businesses classified as held for sale.

Assets and businesses are classified as held for sale if their carrying amount will be recovered or settled principally through a sale transaction rather than through continuing use. The asset or business must be available for immediate sale and the sale must be highly probable within one year.

Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary at the date of acquisition.

Goodwill arising from acquisitions of subsidiaries after 1 August 1998 is included in intangible assets, tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill arising from acquisitions of subsidiaries before 1 August 1998 was set against reserves in the year of acquisition.

Goodwill is tested for impairment at least annually. Any impairment is recognised immediately in the income statement. Subsequent reversals of impairment losses for goodwill are not recognised.

Research and development

Expenditure on research and development is charged to the income statement in the year in which it is incurred with the exception of:

- amounts recoverable from third parties; and
- expenditure incurred in respect of the development of major new products where the outcome of those projects is assessed as being reasonably certain as regards viability and technical feasibility. Such expenditure is capitalised and amortised straight line over the estimated period of sale for each product, commencing in the year that sales of the product are first made.

Other intangible assets

The identifiable net assets acquired as a result of a business combination may include intangible assets other than goodwill. Any such intangible assets are amortised straight line over their expected future lives.

The estimated useful lives are as follows:

Patents, licences and trademarks	Up to 20 years
Technology	7 to 12 years
Customer relationships	Up to 7 years

The assets' useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and any recognised impairment losses.

Land is not depreciated. Depreciation is provided on other assets estimated to write off the depreciable amount of relevant assets by equal annual instalments over their estimated useful lives. In general, the rates used are: Freehold and long leasehold buildings – 2%; Short leasehold property – over the period of the lease; Plant, machinery, etc. – 10% to 20%; Motor vehicles – 25%; Tools and other equipment – 10% to 33%.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

No borrowing costs are capitalised as part of property, plant and equipment.

Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost, less any appropriate provision for estimated irrecoverable amounts. A provision is established for irrecoverable amounts when there is objective evidence that amounts due under the original payment terms will not be collected.

Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand and highly liquid interest-bearing securities with maturities of three months or less.

In the cash-flow statement cash and cash equivalents are shown net of bank overdrafts, which are included as current borrowings in liabilities on the balance sheet.

Provisions

Provisions for warranties and product liability, disposal indemnities, restructuring costs, vacant leasehold property and legal claims are recognised when: the Company has a legal or constructive obligation as a result of a past event; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are discounted where the time value of money is material.

Where there are a number of similar obligations, for example where a warranty provision has been given, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Taxation

The charge for taxation is based on profits for the year and takes into account taxation deferred because of temporary differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is provided in full using the balance sheet liability method. A deferred tax asset is recognised where it is probable that future taxable income will be sufficient to utilise the available relief. Tax is charged or credited to the income statement except when it relates to items charged or credited directly to equity, in which case the tax is also dealt with in equity.

Deferred tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary differences is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax liabilities and assets are not discounted.

Financial assets

The classification of financial assets depends on the purpose for which the assets were acquired. Management determines the classification of an asset at initial recognition and re-evaluates the designation at each reporting date. Financial assets are classified as: loans and receivables or financial assets where changes in fair value are charged (or credited) to the income statement.

Financial assets are initially recognised at transaction price when the Group becomes party to contractual obligations. The transaction price used includes transaction costs unless the asset is being fair valued through the income statement.

The subsequent measurement of financial assets depends on their classification. Loans and receivables are measured at amortised cost using the effective interest rate method. Financial assets where changes in fair value are charged (or credited) to the income statement are subsequently measured at fair value. Realised and unrealised gains and losses arising from changes in the fair value of the ‘financial assets at fair value through the income statement’ category are included in the income statement in the period in which they arise.

Financial assets are derecognised when the right to receive cash-flows from the assets has expired, or has been transferred, and the Company has transferred substantially all of the risks and rewards of ownership.

Financial assets are classified as current if they are expected to be realised within 12 months of the balance sheet date.

Financial liabilities

Borrowings are initially recognised at the fair value of the proceeds, net of related transaction costs. These transaction costs, and any discount or premium on issue, are subsequently amortised under the effective interest rate method through the income statement as interest over the life of the loan, and added to the liability disclosed in the balance sheet. Related accrued interest is included in the borrowings figure.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least one year after the balance sheet date.

Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising any resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged.

Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement.

Fair value hedge

Changes in the fair values of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair values of the hedged assets or liabilities that are attributable to the hedged risk.

Cash-flow hedge

The effective portions of changes in the fair values of derivatives that are designated and qualify as cash-flow hedges are recognised in equity. The gain or loss relating to any ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged items will affect profit or loss (for instance when the forecast sale that is hedged takes place). If a forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a liability, the gains and losses previously deferred in equity are transferred from equity reserves and included in the initial measurement of the cost of the asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Net investment hedge

Hedges of net investments in foreign operations are accounted for similarly to cash-flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity; the gain or loss relating to any ineffective portion is recognised immediately in the income statement.

When a foreign operation is disposed of gains and losses accumulated in equity related to that operation are included in the income statement.

Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at their fair value. Unrealised gains and losses on these embedded derivatives are recognised in the income statement.

Fair value of financial assets and liabilities

The fair values of financial assets and financial liabilities are the amounts at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods are used to estimate the fair values of the financial instruments:

- cash, trade receivables and payables and floating rate borrowings – the carrying value is a good approximation of the fair value;
- fixed rate borrowings – quoted market prices of equivalent instruments; and
- forward exchange contracts, currency swaps, interest rate instruments and embedded derivatives – net present value of the future cash-flows, calculated using market data at the balance sheet date (principally exchange rates and yield curves).

Borrowings are carried on the balance sheet at amortised cost adjusted for fair value interest rate hedging. The fair value of fixed rate borrowings is only used for supplementary disclosures.

Financial guarantees

Financial guarantees are initially recognised at the fair value of the consideration received.

At each subsequent balance sheet date an estimate is made of the payments which will be required under the guarantee in accordance with 'IAS 37: Provisions, contingent liabilities and contingent assets'. The guarantee is then valued at the higher of its initial value less revenue recognised to date and the best estimate of the total payments which will be required under the contract.

Any gains or losses on the contract are recognised in the income statement.

Dividends

Dividends are recognised as a liability in the period in which they are authorised. The interim dividend is recognised when it is paid and the final dividend is recognised when it has been approved by shareholders at the Annual General Meeting.

Recent accounting developments

The following standards and interpretations have been issued by the IASB and are likely to affect future annual reports and accounts.

An amendment to 'IAS 23: Borrowing costs' was issued in March 2007 and will be implemented by the Group from 1 August 2009. This eliminates the option, currently used by the Group, of expensing all borrowing costs when they are incurred. As retrospective adoption is not required, there will be no changes to the information previously reported when this standard is adopted. The impact of the new policy on future reported performance is expected to be limited.

An amendment to 'IFRS 2: Share-based payment' was issued in January 2008 and will be implemented by the Group from 1 August 2009. This provides a definition of vesting conditions and specifies the accounting treatment for non-vesting conditions. It is not expected to have a material effect on the share-based payment charge recognised in the Group accounts because only a small proportion of awards under employee share schemes is affected by failures to comply with non-vesting conditions.

'IFRS 3: (Revised) business combinations' and 'IAS 27: (Revised) consolidated and separate financial statements' were issued in January 2008 and will be implemented by the Group from 1 August 2009. Implementing IFRS 3 (revised) will significantly change the recognition of goodwill, acquisition costs and contingent consideration relating to acquisitions. However it only applies to acquisitions made after it has been adopted. IAS 27 (revised) requires different accounting treatment for minority interest but it is not expected to affect the Group's financial results or position materially.

'IAS 1: (Revised) Presentation of financial statements' was issued in January 2008 and will be implemented by the Group from 1 August 2009. This requires the reconciliation of movements in equity to be presented as a primary financial statement and increased disclosures when there is a restatement of comparatives.

'IFRIC 15: Agreements for the construction of real estate' was issued on 3 July 2008 and will be implemented by the Group from 1 August 2009. The Group is not involved in the construction or sale of residential real estate. However a review of contract accounting has been undertaken to establish whether or not the same principles apply to any transactions undertaken by the Group. The impact of adopting this interpretation is not expected to be material.

Notes to the accounts

1 Segment information

Analysis by operating segment

From 1 August 2008 the Group has been organised into five divisions: Smiths Detection, John Crane, Smiths Medical, Smiths Interconnect and Flex-Tek. Prior period disclosures have been amended to conform to the new structure. The "Other" division comprises the Marine Systems business which was sold on 8 November 2007 and the Specialty Engineering divisional office which was disbanded on 31 July 2008.

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 products;
- 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 arms length prices.

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

							Year ended 31 July 2008
	Smiths Detection £m	John Crane £m	Smiths Medical £m	Smiths Interconnect £m	Flex-Tek £m	Other £m	Total £m
Revenue	509.3	625.8	703.4	260.6	206.1	16.0	2,321.2
Divisional headline operating profit	93.3	103.8	139.6	54.0	24.3	0.8	415.8
Corporate headline operating costs							(35.2)
Headline operating profit	93.3	103.8	139.6	54.0	24.3	0.8	380.6
Divisional exceptional operating items (note 4)	0.1	(51.0)	(9.4)	(1.3)	(0.1)	28.3	(33.4)
Corporate exceptional operating items (note 4)							(2.0)
Amortisation of acquired intangible assets	(0.4)	(5.5)	(11.3)	(2.0)			(19.2)
Financing losses			(0.4)		0.1		(0.3)
Operating profit	93.0	47.3	118.5	50.7	24.3	29.1	325.7
Exceptional finance costs – adjustment to discounted provision (note 4)		(4.7)					(4.7)
Net finance costs – other							(0.7)
Share of post-tax (losses)/profits of associate companies	(1.4)	0.4					(1.0)
Profit before taxation							319.3

Divisional headline operating profit is stated after charging/(crediting) the following items:

								Year ended 31 July 2009
	Smiths Detection £m	**John Crane £m**	**Smiths Medical £m**	**Smiths Interconnect £m**	**Flex-Tek £m**	**Other £m**	**Reconciling items £m**	**Total £m**
Depreciation	**8.8**	**12.8**	**28.7**	**6.5**	**4.5**		**0.9**	**62.2**
Amortisation	**7.6**	**2.9**	**8.8**	**0.7**	**0.1**		**35.1**	**55.2**
Other non-cash items								
– share-based payment	**0.6**	**2.5**	**0.7**	**0.1**	**0.1**		**4.0**	**8.0**
– goodwill and other asset impairments			**0.6**				**3.4**	**4.0**

								Year ended 31 July 2008
	Smiths Detection £m	John Crane £m	Smiths Medical £m	Smiths Interconnect £m	Flex-Tek £m	Other £m	Reconciling items £m	Total £m
Depreciation	7.6	9.6	26.3	4.5	4.2		1.0	53.2
Amortisation	4.0	1.5	5.4	0.5	0.1		19.5	31.0
Other non-cash items								
– share-based payment	1.2	1.6	2.0	0.8	0.4		6.9	12.9
– goodwill and other asset impairments			0.3					0.3

The reconciling items are central costs, amortisation of acquired intangible assets and charges which qualify as exceptional.

The capital expenditure for each division is:

	Smiths Detection £m	John Crane £m	Smiths Medical £m	Smiths Interconnect £m	Flex-Tek £m	Other £m	Reconciling items £m	Total £m
Capital expenditure year ended 31 July 2009	**26.6**	**19.0**	**33.7**	**7.3**	**4.7**		**6.0**	**97.3**
Capital expenditure year ended 31 July 2008	32.0	21.5	37.3	5.6	2.4		1.3	100.1

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

						31 July 2009
	Smiths Detection £m	**John Crane £m**	**Smiths Medical £m**	**Smiths Interconnect £m**	**Flex-Tek £m**	**Total £m**
Property, plant, equipment, development projects and other intangibles	**101.9**	**101.0**	**180.9**	**30.0**	**26.6**	**440.4**
Investments in associates	**11.2**					**11.2**
Working capital assets	**300.2**	**266.2**	**262.3**	**96.3**	**58.9**	**983.9**
Operating assets	**413.3**	**367.2**	**443.2**	**126.3**	**85.5**	**1,435.5**
Derivatives, tax and retirement benefit assets						**258.5**
Goodwill and acquired intangibles						**1,373.5**
Corporate assets						**16.8**
Cash						**91.7**
Total assets						**3,176.0**
Working capital liabilities	**(141.5)**	**(115.7)**	**(100.0)**	**(47.2)**	**(25.8)**	**(430.2)**
Corporate and non-headline liabilities						**(298.4)**
Derivatives, tax and retirement benefit liabilities						**(608.0)**
Borrowings						**(976.6)**
Total liabilities						**(2,313.2)**

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

						31 July 2008
	Smiths Detection £m	John Crane £m	Smiths Medical £m	Smiths Interconnect £m	Flex-Tek £m	Total £m
Property, plant, equipment, development projects and other intangibles	85.3	82.8	158.7	24.9	24.7	376.4
Investments in associates	9.1					9.1
Working capital assets	292.5	249.3	261.2	85.7	63.3	952.0
Operating assets	386.9	332.1	419.9	110.6	88.0	1,337.5
Derivatives, tax and retirement benefit assets						278.3
Goodwill and acquired intangibles						1,151.9
Corporate assets						33.1
Cash						132.5
Total assets						2,933.3
Working capital liabilities	(145.3)	(118.8)	(90.5)	(46.5)	(29.2)	(430.3)
Corporate and non-headline liabilities						(288.5)
Derivatives, tax and retirement benefit liabilities						(393.2)
Borrowings						(903.1)
Total liabilities						(2,015.1)

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

Analysis of revenue

The Group's statutory revenue is analysed as follows:

	Year ended 31 July 2009 £m	Year ended 31 July 2008 £m
Sale of goods	**2,460.9**	2,077.8
Contracts	**67.4**	132.1
Services	**136.3**	111.3
	2,664.6	2,321.2

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 year ended 31 July 2009	**181.9**	**53.1**	**131.6**	**27.5**	**67.4**	**39.4**	**500.9**
Revenue year ended 31 July 2008	190.9	114.9	76.1	24.0	57.9	45.5	509.3

John Crane	Original equipment manufacture				Aftermarket	Total
	£m	Oil, gas and petrochemical £m	Chemical and pharmaceutical £m	Distributors £m	General industry £m	£m
Revenue year ended 31 July 2009	**295.6**	**296.1**	**71.8**	**48.6**	**77.7**	**789.8**
Revenue year ended 31 July 2008	224.1	219.4	66.3	39.9	76.1	625.8

Smiths Medical	Medication delivery £m	Vital care £m	Safety devices £m	Total £m
Revenue year ended 31 July 2009	**237.3**	**335.2**	**261.0**	**833.5**
Revenue year ended 31 July 2008	202.8	287.3	213.3	703.4

Smiths Interconnect	Telecom £m	Military and Aerospace £m	Rail, Medical and Automation £m	Total £m
Revenue year ended 31 July 2009	**95.9**	**154.8**	**67.4**	**318.1**
Revenue year ended 31 July 2008	80.6	116.4	63.6	260.6

Flex-Tek	Aerospace £m	Flexible Solutions £m	Heat Solutions £m	Total £m
Revenue year ended 31 July 2009	**59.7**	**49.0**	**113.6**	**222.3**
Revenue year ended 31 July 2008	49.0	52.5	104.6	206.1

Analysis by geographical areas

The Group's revenue by destination and non-current operating assets by location are shown below:

	Revenue		Intangible assets, property plant and equipment and investments accounted for using the equity method	
	Year ended 31 July 2009 £m	Year ended 31 July 2008 £m	**2009 £m**	2008 £m
United Kingdom	**115.8**	148.3	**143.9**	146.9
Germany	**148.4**	140.0	**335.7**	311.6
France	**98.2**	89.1	**15.1**	12.5
Other European	**333.9**	357.2	**126.4**	123.2
United States of America	**1,287.6**	1,003.2	**1,056.8**	875.2
Canada	**98.9**	83.2	**15.5**	14.9
Mexico	**24.5**	21.1	**6.8**	7.1
Japan	**106.1**	73.8	**19.8**	14.6
China	**70.6**	59.1	**74.0**	19.1
Rest of the World	**380.6**	346.2	**35.5**	33.5
	2,664.6	2,321.2	**1,829.5**	1,558.6

2 Operating profit is stated after charging

	Year ended 31 July 2009 £m	Year ended 31 July 2008 £m
Research and development expense	**66.7**	52.7
Operating leases		
– land and buildings	**21.7**	20.2
– other	**9.4**	7.9

	Year ended 31 July 2009 £m	Year ended 31 July 2008 £m
Audit services		
Fees payable to the Company's auditors for the audit of the parent company and consolidated accounts	**0.5**	0.5
Fees payable to the Company's auditors and its associates for other services:		
– the audit of the Company's subsidiaries, pursuant to legislation	**3.4**	3.5
– other services pursuant to legislation	**0.1**	
	4.0	4.0
Tax services		
– compliance services		0.1
– advisory services	**0.2**	0.1
Services in relation to corporate acquisition and disposal transactions		
– due diligence		0.1
All other services	**0.3**	0.2

Other services relate to one-off projects.

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	Year ended 31 July 2009 £m	Year ended 31 July 2008 £m
Operating profit		**428.5**	325.7
Exclude:			
– exceptional operating items	4	**(45.6)**	35.4
– amortisation of acquired intangible assets	12	**34.6**	19.2
– other financing gains and losses			0.3
Non-headline items in operating profit		**(11.0)**	54.9
Headline operating profit		**417.5**	380.6
Finance costs		**(58.1)**	(5.4)
Exclude:			
– exceptional finance costs	4	**7.1**	4.7
– other financing gains and losses	5	**3.8**	1.4
Non-headline items in finance costs		**10.9**	6.1
Headline finance costs		**(47.2)**	0.7
Profit before taxation		**370.8**	319.3
Non-headline items in operating profit		**(11.0)**	54.9
Non-headline items in finance costs		**10.9**	6.1
Headline profit before taxation		**370.7**	380.3
Profit after taxation – continuing operations		**275.9**	244.3
Exclude:			
– non-headline items in profit before taxation		**(0.1)**	61.0
– tax on excluded items	6	**6.1**	(16.3)
		6.0	44.7
Headline profit after taxation – continuing operations		**281.9**	289.0

4 Exceptional items

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

	Year ended 31 July 2009 £m	Year ended 31 July 2008 £m
Operating items		
Restructuring of corporate headquarters and divisional reorganisation	**(23.7)**	(4.5)
Gains on changes to post-retirement benefits	**70.3**	
Integration of acquisitions		(9.1)
Profit on disposal of businesses	**1.6**	27.2
Profit on disposal of property	**12.6**	
Litigation:		
– provision for John Crane, Inc. asbestos litigation (note 22)	**(15.2)**	(49.0)
	45.6	(35.4)
Financing items		
Exceptional finance costs – adjustment to discounted provision (note 22)	**(7.1)**	(4.7)
	38.5	(40.1)

Year ended 31 July 2009

In the current year £23.7m has been charged in respect of the restructuring of corporate centre and divisional reorganisation including an impairment charge of £3.1m has been recognised in respect of affected properties. The total costs are expected to amount to approximately £45m over the period to 2010.

The Group has closed the US defined benefit pension plan. With effect from 30 April 2009, no further benefits will accrue under this plan and a curtailment gain of £19.4m has arisen. In addition the cost of post-retirement healthcare provision in both the UK and US has been reduced by requiring greater beneficiary contributions. As a result a past service benefit of £50.9m has arisen.

The operating charge of £15.2m in respect of John Crane, Inc. asbestos litigation comprises £10.6m in respect of increased provision for adverse legal judgments, £2.5m arising from movements in the discounting due to changes in US interest rates and £2.1m in respect of legal fees in connection with litigation against insurers.

Year ended 31 July 2008

On 3 June 2008 the Company announced a number of changes to its corporate centre and divisional organisation. The total cost of this restructuring, including redundancy, relocation and consolidation of manufacturing, was considered exceptional by virtue of its size.

In addition, restructuring costs in connection with the integration of Medex amounting to £9.1m were incurred in the period.

The operating charge of £49.0m in respect of John Crane, Inc. asbestos litigation comprised a £40.0m provision for the expected costs of future asbestos judgments, £5.2m in respect of adverse legal judgments (net of insurer contributions previously lodged as collateral) and £3.8m arising from movements in the discounting due to changes in US interest rates (see note 22).

5 Net finance costs

	Year ended 31 July 2009 £m	Year ended 31 July 2008 £m
Interest receivable	**2.1**	2.2
Interest payable		
– bank loans and overdrafts	**(17.4)**	(19.6)
– other loans	**(37.0)**	(23.6)
Interest payable	**(54.4)**	(43.2)
Other financing (losses)/gains		
– fair value losses on hedged debt	**(5.6)**	(4.0)
– fair value gains on fair value hedge	**5.6**	4.0
– net foreign exchange losses	**(3.8)**	(1.4)
– exceptional finance costs – adjustment to discounted provision	**(7.1)**	(4.7)
Other financing losses	**(10.9)**	(6.1)
Retirement benefits		
– return on plan assets	**204.1**	217.3
– interest cost	**(199.0)**	(175.6)
Retirement benefits	**5.1**	41.7
Net finance costs	**(58.1)**	(5.4)

6 Taxation

	Continuing Year ended 31 July 2009 £m	Continuing Year ended 31 July 2008 £m	**Discontinued Year ended 31 July 2009 £m**	Discontinued Year ended 31 July 2008 £m
The taxation charge for the year comprises				
– current taxation	**65.7**	67.0		
– deferred taxation	**29.2**	8.0	**0.2**	2.3
Total taxation expense in the income statement	**94.9**	75.0	**0.2**	2.3
Current taxation				
– UK corporation tax				
– foreign tax	**65.7**	67.0		
– discontinued tax				
	65.7	67.0		

Reconciliation of the total tax charge

The tax expense on the profit for the period is different from the standard rate of corporation tax in the UK of 28% (2008: 29.3%). The difference is reconciled as follows:

	Continuing Year ended 31 July 2009 £m	Continuing Year ended 31 July 2008 £m	**Discontinued Year ended 31 July 2009 £m**	Discontinued Year ended 31 July 2008 £m
Profit before tax	**370.8**	319.3	**(5.7)**	26.8
Notional taxation expense at UK rate of 28% (2008: 29.3%)	**103.8**	93.7	**(1.6)**	7.9
Effect of overseas taxation	**10.6**	8.2		
Compliance benefits	**(16.8)**	(12.4)		
Local incentives	**(8.8)**	(16.1)		
Tax effect of other non-headline items	**6.1**	1.6		
Tax effect of Aerospace sale			**1.8**	(5.6)
	94.9	75.0	**0.2**	2.3
Comprising				
– taxation on headline profit	**88.8**	91.3		
– tax on non-headline profit/(loss)	**6.1**	(16.3)		
– tax on sale of discontinued operations			**0.2**	2.3
Total taxation expense in the income statement	**94.9**	75.0	**0.2**	2.3

	Year ended 31 July 2009 £m	Year ended 31 July 2008 £m
Tax on items charged/(credited) to equity		
Current tax credit		
– share-based payment		(5.2)
		(5.2)
Deferred tax (credit)/charge		
– retirement benefit schemes	**(94.3)**	(75.5)
– share-based payment	**4.0**	3.8
	(90.3)	(76.9)

Deferred taxation

	Excess tax depreciation on fixed assets and goodwill £m	Share-based payment £m	Retirement benefit obligations £m	Capitalised development expenditure £m	Other £m	Total £m
At 31 July 2007	(72.1)	15.7	(55.2)	(10.2)	97.8	(24.0)
Credit/(charge) to income statement	9.7	0.3	(31.3)	(1.6)	12.6	(10.3)
Charge to equity		(3.8)	75.5			71.7
Other					6.0	6.0
Disposals					(12.8)	(12.8)
Exchange adjustments	(1.9)		0.5	(0.2)	2.9	1.3
At 31 July 2008	(64.3)	12.2	(10.5)	(12.0)	106.5	31.9
Deferred tax assets	(2.6)	0.3	19.7	(4.6)	83.4	96.2
Deferred tax liabilities	(61.7)	11.9	(30.2)	(7.4)	23.1	(64.3)
At 31 July 2008	(64.3)	12.2	(10.5)	(12.0)	106.5	31.9
Credit/(charge) to income statement	8.0	(4.3)	(35.8)	(4.0)	6.7	(29.4)
Charge to equity		(4.0)	94.3			90.3
Other	(4.1)					(4.1)
Exchange adjustments	(8.0)		3.0	(1.6)	16.1	9.5
At 31 July 2009	**(68.4)**	**3.9**	**51.0**	**(17.6)**	**129.3**	**98.2**
Deferred tax assets	(4.9)	3.9	50.6	(8.9)	124.0	164.7
Deferred tax liabilities	(63.5)		0.4	(8.7)	5.3	(66.5)
At 31 July 2009	**(68.4)**	**3.9**	**51.0**	**(17.6)**	**129.3**	**98.2**

Included in Other above is a deferred tax liability of £4.0m (2008: £9.3m) relating to unremitted overseas earnings. No additional tax liabilities have been recognised because the Group is in a position to control the timing of other temporary differences and it is probable that such differences will not reverse in the future. Other deferred tax also includes the tax benefits of losses carried forward amounting to £31.3m (2008: £26.7m).

The Group has not recognised deferred tax assets relating to tax losses of £78.3m (2008: £102.2m), due to uncertainty as to their recoverability. The expiry date of operating losses carried forward is dependent upon the law of the various territories in which the losses arise. A summary of expiry dates for losses in respect of which restrictions apply is set out below.

Restricted losses

	2009 £m	Expiry of losses	2008 £m	Expiry of losses
Territory				
– Americas	**10.7**	**2019-2025**	10.7	2019-2025
Total restricted losses	**10.7**		10.7	
Unrestricted losses:				
– operating losses	**67.6**	**No expiry**	91.5	No expiry
Total	**78.3**		102.2	

7 Discontinued operations

On 5 May 2007, the Group sold its Aerospace operations to General Electric Company. The Aerospace operations sold comprised the previously reported Aerospace business segment and a US microwave company. The disposal group was treated as a discontinued operation in the 2007 Annual Report and Accounts.

Profit on disposal of operation

	Year ended 31 July 2009 £m	Year ended 31 July 2008 £m
Total consideration		6.1
Provisions and disposal costs	**(5.7)**	17.1
Provision for settlement loss		3.6
Pre-tax (loss)/profit on disposal	**(5.7)**	26.8

Cash received from disposal of Aerospace operations	**0.2**	3.0
Disposal costs	**(2.1)**	(9.3)
Net cash outflow on disposal	**(1.9)**	(6.3)

Provisions and disposal costs includes exchange gains and losses on disposal provisions.

The £6.1m consideration recognised in the year ended 31 July 2008 arose from the finalisation of the working capital adjustment. The provisions and disposal costs movement for the year ended 31 July 2008 included £4.3m other finance income relating to retirement benefits and £12.7m relating to the reassessment of the carrying value of other assets and liabilities

Financial information for the Aerospace operations after Group eliminations is presented below.

Results from discontinued operations

	Year ended 31 July 2009 £m	Year ended 31 July 2008 £m
(Loss)/profit on disposal	**(5.7)**	26.8
Attributable tax charge (note 6)	**(0.2)**	(2.3)
(Loss)/profit for the period	**(5.9)**	24.5
Earnings per share from discontinued operations – pence		
Basic	**(1.5p)**	6.3p
Diluted	**(1.5p)**	6.2p

Cash-flows from discontinued operations

	Year ended 31 July 2009 £m	Year ended 31 July 2008 £m
Profit before taxation (including profit on disposal of Aerospace operations)	**(5.7)**	26.8
Profit on disposal of discontinued operations	**5.7**	(26.8)
Net cash inflow from operating activities		

	Year ended 31 July 2009 £m	Year ended 31 July 2008 £m
Investing activities	**(1.9)**	(6.3)
	(1.9)	(6.3)

8 Dividends

The following dividends were declared and paid in the period:

	Year ended 31 July 2009 £m	Year ended 31 July 2008 £m
Ordinary final dividend of 23.50p for 2008 (2007: 23.50p) paid 21 November 2008	**91.1**	90.8
Ordinary interim dividend of 10.5p for 2009 (2008: 10.5p) paid 24 April 2009	**40.9**	40.6
	132.0	131.4

The final dividend for the year ended 31 July 2009 of 23.5p per share was declared by the Board on 29 September 2009 and will be paid to shareholders on 20 November 2009. 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 23 October 2009.

9 Earnings per share

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

	Year ended 31 July 2009 £m	Year ended 31 July 2008 £m
Profit attributable to equity shareholders for the year		
– continuing	**275.4**	244.0
– total	**269.5**	268.5
Average number of shares in issue during the year	**388,786,063**	387,446,186

Diluted earnings per share are calculated by dividing the profit attributable to ordinary shareholders by 392,591,613 (2008: 391,851,712) ordinary shares, being the average number of ordinary shares in issue during the period adjusted by the dilutive effect of employee share schemes. For the year ended 31 July 2009 options over 5,017,907 (2008: 1,376,331) shares were excluded from this calculation because their effect was anti-dilutive for continuing operations.

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

	Year ended 31 July 2009		Year ended 31 July 2008	
	£m	EPS (p)	£m	EPS (p)
Profit attributable to equity shareholders of the Parent Company	**275.4**	**70.8**	244.0	63.0
Exclude:				
Non-headline items and related tax (note 3)	**6.0**	**1.6**	44.7	11.5
Headline	**281.4**	**72.4**	288.7	74.5
Headline EPS – diluted (p)		**71.7**		73.7

10 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. The Group also provides a defined contribution (401K) plan for its US employees. The US defined benefit pension plan was closed with effect from 30 April 2009, from which date no further benefits have accrued. In addition, future benefits accruing under the US and UK post-retirement healthcare schemes were substantially reduced; for most members the company will contribute 50% of the 2009 premium and the member will pay the remainder of the premium.

Pension costs are assessed in accordance with the advice of independent, professionally-qualified actuaries. The most recent actuarial valuations of the two principal UK schemes were performed using the Projected Unit Method as at 31 March 2006. The most recent valuations of the six principal US pension and post-retirement healthcare plans were performed at 1 January 2008. These valuations have been updated by independent qualified actuaries in order to assess the liabilities of the schemes as at 31 July 2009. Scheme assets are stated at their market values. Contributions to the schemes are made on the advice of the actuaries with the objective that the benefits be fully funded during the scheme members' average working lives.

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

	UK	US	2009 Other	UK	US	2008 Other
Rate of increase in salaries	**3.8%**	**n/a**	**3.1%**	4.1%	3.8%	3.7%
Rate of increase in pensions in payment	**3.3%**	**n/a**	**1.4%**	3.6%	n/a	1.4%
Rate of increase in deferred pensions	**3.3%**	**n/a**	**0.6%**	3.5%	n/a	0.7%
Discount rate	**5.9%**	**6.0%**	**5.9%**	6.6%	6.8%	6.0%
Inflation rate	**3.3%**	**n/a**	**1.7%**	3.6%	3.3%	2.5%
Healthcare cost increases	**5.0%**	**n/a**	**3.0%**	5.0%	*	3.8%

*8% p.a. reducing 0.5% p.a. to 5% in 2014

The assumptions used are estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily occur in practice. For countries outside the UK and USA these are disclosed as a weighted average.

The mortality assumptions used in the principal UK schemes are based on the new SAPS All Birth year tables with relevant scaling factors based on recent actual mortality experience of members within each. They allow for future improvements in life expectancy in line with 80% and 60% of the long cohort for males and females respectively with an annual 1% underpin. The mortality assumptions used in the principal US schemes are based on the most recent mortality study table produced for retired pensioners in the US (RP 2000 table). The table selected allows for future mortality improvements and applies an adjustment for job classification (blue collar versus white collar). The assumptions give the following:

Expected further years of life	UK		US	
	Male	Female	Male	Female
Member who retires next year at age 65	22	24	19	21
Member, currently 45, when they retire in 20 years time	24	25	19	21

The assets in the scheme and the expected rates of return as at 31 July 2009 were:

2009	UK schemes Long-term rate of return	UK schemes Value £m	US schemes Long-term rate of return	US schemes Value £m	Other countries Long-term rate of return	Other countries Value £m	Total £m
Equities	**8.2%**	**1,113.1**	**8.8%**	**198.6**	**9.3%**	**7.8**	**1,319.5**
Government bonds	**4.5%**	**242.5**	**4.3%**	**68.5**	**4.6%**	**3.5**	**314.5**
Corporate bonds	**5.9%**	**267.1**	**6.0%**	**44.2**	**7.7%**	**2.5**	**313.8**
Insured liabilities	**5.9%**	**490.1**	**6.0%**	**1.8**	**n/a**		**491.9**
Property	**7.2%**	**137.8**	**n/a**		**2.9%**	**0.2**	**138.0**
Other	**5.0%**	**163.1**	**3.0%**	**21.4**	**5.0%**	**12.9**	**197.4**
Total market value		**2,413.7**		**334.5**		**26.9**	**2,775.1**
Present value of funded scheme liabilities		**(2,531.8)**		**(462.6)**		**(33.2)**	**(3,027.6)**
Deficit		**(118.1)**		**(128.1)**		**(6.3)**	**(252.5)**
Unfunded pension plans		**(36.0)**		**(4.9)**		**(18.7)**	**(59.6)**
Post-retirement healthcare		**(6.2)**		**(18.0)**		**(0.7)**	**(24.9)**
Present value of unfunded obligations		**(42.2)**		**(22.9)**		**(19.4)**	**(84.5)**
Unrecognised asset due to surplus restriction						**(2.0)**	**(2.0)**
Net pension liability		**(160.3)**		**(151.0)**		**(27.7)**	**(339.0)**
Post-retirement assets		**39.2**					**39.2**
Post-retirement liabilities		**(199.5)**		**(151.0)**		**(27.7)**	**(378.2)**
Net pension liability		**(160.3)**		**(151.0)**		**(27.7)**	**(339.0)**

2008	UK schemes Long-term rate of return	UK schemes Value £m	US schemes Long-term rate of return	US schemes Value £m	Other countries Long-term rate of return	Other countries Value £m	Total £m
Equities	8.2%	1,165.8	8.8%	187.5	8.8%	7.1	1,360.4
Government bonds	4.8%	445.1	5.3%	83.8	6.6%	4.9	533.8
Corporate bonds	6.6%	258.4	6.8%	25.8	7.1%	1.8	286.0
Insured liabilities	6.6%	271.4	6.8%	1.5	n/a		272.9
Property	7.2%	188.7	n/a		3.2%	0.2	188.9
Other	5.8%	289.0	6.0%	17.9	5.0%	11.0	317.9
Total market value		2,618.4		316.5		25.0	2,959.9
Present value of funded scheme liabilities		(2,468.8)		(357.0)		(30.7)	(2,856.5)
Surplus/(deficit)		149.6		(40.5)		(5.7)	103.4
Unfunded pension plans		(34.3)		(3.7)		(16.4)	(54.4)
Post-retirement healthcare		(15.2)		(42.0)		(0.8)	(58.0)
Present value of unfunded obligations		(49.5)		(45.7)		(17.2)	(112.4)
Unrecognised asset due to surplus restriction						(1.5)	(1.5)
Net pension asset/(liability)		100.1		(86.2)		(24.4)	(10.5)
Post-retirement assets		174.2					174.2
Post-retirement liabilities		(74.1)		(86.2)		(24.4)	(184.7)
Net pension asset/(liability)		100.1		(86.2)		(24.4)	(10.5)

Other assets in the UK and US comprise cash and current assets.

During 2009 the Trustees of the TI Pension Scheme invested £249.3m (2008: £250.0) in annuities which are matched with specific liabilities of the scheme.

The scheme assets do not include any of the Group's own financial instruments, nor any property occupied by, nor other assets used by, the Group. The expected rates of return on individual categories of scheme assets are determined by reference to relevant industries. The overall rate of return is calculated by weighting the individual rates in accordance with the anticipated balance in the scheme's investment portfolios.

Amounts recognised in the income statement – continuing and discontinued operations

	Year ended 31 July 2009				Year ended 31 July 2008			
	Funded defined benefit pension schemes			Unfunded pension/post-retirement healthcare plans	Funded defined benefit pension schemes			Unfunded pension/post-retirement healthcare plans
	UK £m	US £m	Other £m	£m	UK £m	US £m	Other £m	£m
Current service cost	**9.4**	**7.4**	**1.6**	**2.5**	11.3	7.6	1.3	2.4
Past service (gain)/cost				**(51.5)**		1.0	0.1	
Settlement losses					20.7			
Curtailment gains		**(19.4)**			(1.1)			
Total charge/(credit)	**9.4**	**(12.0)**	**1.6**	**(49.0)**	30.9	8.6	1.4	2.4
Expected return on pension scheme assets	**(174.0)**	**(28.3)**	**(1.8)**		(199.5)	(24.5)	(1.5)	
Interest on pension scheme liabilities	**158.8**	**30.0**	**2.2**	**8.0**	148.3	23.0	1.5	6.7
Net return	**(15.2)**	**1.7**	**0.4**	**8.0**	(51.2)	(1.5)		6.7
Total (credited)/charged to income statement	**(5.8)**	**(10.3)**	**2.0**	**(41.0)**	(20.3)	7.1	1.4	9.1

The actual return on scheme assets was a loss of £141.3m (2008: loss of £124.5m).

The past service gain of £51.5m includes £41.9m relating to benefit changes in the US post-retirement healthcare plans, £9.0m relating to benefit changes in the UK post-retirement healthcare plans and £0.6m relating to the withdrawal of a UK Christmas bonus scheme. £50.9m of this gain is recorded under exceptional operating items in the income statement.

The curtailment gain of £19.4m relates to the closure of the US defined benefit scheme.

The operating cost is charged as follows:

	Year ended 31 July 2009 £m	Year ended 31 July 2008 £m
Cost of sales	**4.0**	6.6
Sales and distribution costs	**3.3**	5.0
Administrative expenses	**13.0**	12.1
Discontinued operations		20.7
Exceptional operating items	**(70.3)**	
Profit on disposal of business/curtailment gain		(1.1)

In 2008 the pension settlement relating to the active Aerospace employees was completed, resulting in a £20.7m settlement charge to discontinued operations.

Amounts recognised directly in the consolidated statement of recognised income and expense

Actuarial losses of £429.9m (2008: losses of £254.5m) have been reported in the statement of recognised income and expense. This includes a loss of £0.5m (2008: gain of £0.9m) in respect of unrecognised assets owing to surplus restriction. Cumulative actuarial losses from 1 August 2004 reported in the statement of recognised income and expense are £543.0m (2008: cumulative losses of £113.1m).

Changes in present value of defined benefit obligations

	Year ended 31 July 2009				Year ended 31 July 2008			
	Funded defined benefit pension schemes			Unfunded pension/post-retirement healthcare plans	Funded defined benefit pension schemes			Unfunded pension/post-retirement healthcare plans
	UK £m	US £m	Other £m	£m	UK £m	US £m	Other £m	£m
At beginning of period	**(2,468.8)**	**(357.0)**	**(30.7)**	**(112.4)**	(2,637.6)	(355.0)	(26.6)	(113.7)
Transfers in of territories outside UK and USA								(0.1)
Liabilities assumed on acquisitions							(0.1)	(1.3)
Liabilities transferred on disposal								0.3
Current service cost	**(9.4)**	**(7.4)**	**(1.6)**	**(2.5)**	(11.3)	(7.6)	(1.3)	(2.4)
Interest on obligations	**(158.8)**	**(30.0)**	**(2.2)**	**(8.0)**	(148.3)	(23.0)	(1.5)	(6.7)
Employee contributions	**(0.2)**		**(0.1)**		(0.2)		(0.2)	
Past service cost				**51.5**		(1.0)	(0.1)	
Actuarial gain/(loss) on liabilities	**(31.7)**	**(45.4)**	**3.5**	**(10.4)**	66.7	20.3	0.9	6.7
Curtailment gain		**19.4**			1.1			
Liabilities extinguished on settlements					131.3			
Exchange adjustments	**(0.7)**	**(64.6)**	**(3.9)**	**(12.1)**	(1.3)	(9.7)	(2.7)	(3.8)
Benefits paid	**137.8**	**22.4**	**1.8**	**9.4**	130.8	19.0	0.9	8.6
At end of period	**(2,531.8)**	**(462.6)**	**(33.2)**	**(84.5)**	(2,468.8)	(357.0)	(30.7)	(112.4)

Changes in present value of scheme assets

	Year ended 31 July 2009				Year ended 31 July 2008			
	Funded defined benefit pension schemes			Unfunded pension/post-retirement healthcare plans	Funded defined benefit pension schemes			Unfunded pension/post-retirement healthcare plans
	UK £m	**US £m**	**Other £m**	**£m**	UK £m	US £m	Other £m	£m
At beginning of period	**2,618.4**	**316.5**	**25.0**		2,969.1	327.6	22.2	
Transfers in of territories outside UK and USA								
Expected return on assets	**174.0**	**28.3**	**1.8**		199.5	24.5	1.5	
Actuarial (losses)/gains on scheme assets	**(279.6)**	**(61.9)**	**(3.9)**		(312.1)	(35.4)	(2.5)	
Employer contributions	**38.0**	**12.6**	**2.5**	**9.4**	43.5	10.0	2.6	8.6
Employee contributions	**0.2**		**0.1**		0.2		0.2	
Assets distributed on settlements					(152.0)			
Exchange adjustments	**0.5**	**61.4**	**3.2**		1.0	8.8	1.9	
Benefits paid	**(137.8)**	**(22.4)**	**(1.8)**	**(9.4)**	(130.8)	(19.0)	(0.9)	(8.6)
At end of period	**2,413.7**	**334.5**	**26.9**		2,618.4	316.5	25.0	

Cash contributions

Company contributions to the funded defined benefit pension plans for 2009 totalled £53.1m (2008: £56.1m). Company contributions in 2009 included special covenant payments of £13.1m (2008: £13.1m). In 2008 there was a further special payment of £4.0m arising from the sale of Aerospace. Agreed cash payments in 2010 are £50.6m. Discussions are in progress with the UK pension trustees in respect of additional contributions.

History of schemes

	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Balance sheet					
Present value of defined benefit obligation	**(3,112.1)**	(2,968.9)	(3,132.9)	(3,162.6)	(3,127.4)
Fair value of scheme assets	**2,775.1**	2,959.9	3,318.9	3,111.0	2,890.8
Unrecognised asset due to surplus restriction	**(2.0)**	(1.5)	(2.4)	(0.5)	
(Deficit)/surplus	**(339.0)**	(10.5)	183.6	(52.1)	(236.6)
Post-retirement assets	**39.2**	174.2	333.7	183.7	134.6
Post-retirement liabilities	**(378.2)**	(184.7)	(150.1)	(235.8)	(371.2)
(Deficit)/surplus	**(339.0)**	(10.5)	183.6	(52.1)	(236.6)

	Year ended 31 July 2009 £m	Year ended 31 July 2008 £m	Period ended 31 July 2007 £m	Period ended 5 August 2006 £m	Year ended 31 July 2005 £m
Experience gains/(losses)					
Experience gains/(losses) on scheme liabilities	**100.5**	(6.4)	(57.6)	17.6	0.5
Experience (losses)/gains on scheme assets	**(345.4)**	(350.0)	95.7	76.6	242.9
Movement on restricted surplus	**(0.5)**	0.9	(1.9)	(0.5)	

Experience gains in 2009 include the impact of using the latest member data for the UK triennial valuations which are in progress.

Sensitivity

Valuation of post-retirement schemes involves judgements about uncertain future events. Sensitivities in respect of the key assumptions used to measure the principal pension schemes as at 31 July 2009 are set out below. These sensitivities show the hypothetical impact of a change in each of the listed assumptions in isolation, with the exception of the sensitivity to inflation which incorporates the impact of certain correlating assumptions such as salary increases. While each of these sensitivities holds all other assumptions constant, in practice such assumptions rarely change in isolation and the impacts may offset to some extent.

	Profit before tax for year ended 31 July 2010 £m	Increase/ (decrease) in scheme assets £m	(Increase)/ decrease in scheme liabilities £m
Rate of mortality – 1 year increase in life expectancy	(3.7)	23.3	(87.9)
Rate of mortality – 1 year decrease in life expectancy	4.1	(23.9)	90.1
Rate of inflation – 0.25% increase	(3.8)	7.0	(66.8)
Discount rate – 0.25% increase	(0.1)	(11.1)	104.1
Expected return on scheme assets – 0.25% increase	5.8		
Market value of scheme assets – 2.5% increase	4.0	56.9	(0.1)
Healthcare cost trends – 1% increase			(0.4)
Healthcare cost trends – 1% decrease			0.3

The effect on profit before tax reflects the impact of current service cost, interest cost and expected return on assets.

Defined contribution plans

The Group operates a number of defined contribution plans. The total expense recognised in the income statement in respect of these plans was £15.6m (2008: £13.7m).

11 Employees

	Year ended 31 July 2009 £m	Year ended 31 July 2008 £m
Staff costs during the period		
Wages and salaries	**660.2**	545.8
Social security	**79.5**	67.3
Share-based payment (note 29)	**8.0**	12.9
Pension costs (including defined contribution schemes) (note 10)	**35.1**	36.4
	782.8	662.4

The average number of persons employed was:

	Year ended 31 July 2009	Year ended 31 July 2008
Smiths Detection	**2,400**	2,350
John Crane	**6,600**	6,350
Smiths Medical	**7,400**	8,400
Smiths Interconnect	**3,350**	3,100
Flex-Tek	**2,000**	2,300
Corporate	**50**	100
	21,800	22,600

The employee numbers have been reported in accordance with the new divisional structure which was put in place from 1 August 2008. The comparatives have been amended to conform to the new structure.

Key management

The key management of the Group comprises Smiths Group plc Board directors and Executive Committee members. Their aggregate compensation is shown below. Details of directors' remuneration are contained in the report of the Remuneration Committee.

	Year ended 31 July 2009 £m	Year ended 31 July 2008 £m
Key management compensation		
Salaries and short-term employee benefits	**6.2**	7.6
Cost of post-retirement benefits	**0.6**	1.0
Cost of share-based incentive plans	**1.0**	5.6

No member of key management had any material interest during the period in a contract of significance (other than a service contract or a qualifying third party indemnity provision) with the Company or any of its subsidiaries. Options and awards held at the end of the period by key management in respect of the Company's share-based incentive plans were:

	Year ended 31 July 2009		Year ended 31 July 2008	
	Number of instruments '000	Weighted average price	Number of instruments '000	Weighted average price
CIP	**340**	**-**	306	-
ESOS	**170**	**£8.44**	177	£8.06
PSP	**598**	**-**	795	-
VSP	**949**	**-**		
SAYE	**8**	**£6.90**	9	£8.32

The disclosure above does not include options held by individuals who retired before the year end.

Related party transactions

The Group has entered into a service contract with a company connected to a member of the Executive Committee. Costs of £0.2m were incurred in respect of this arrangement.

12 Intangible assets

	Goodwill £m	Development costs £m	Acquired intangibles £m	Software, patents and intellectual property £m	Total £m
Cost					
At 1 August 2007	921.3	51.2	131.3	76.3	1,180.1
Exchange adjustments	65.4	2.5	5.7	3.3	76.9
Business combinations	87.0		74.5	0.7	162.2
Adjustments to prior year business combinations	(1.7)		1.3	(1.3)	(1.7)
Additions		19.8		16.1	35.9
Disposals	(0.2)			(0.8)	(1.0)
At 31 July 2008	1,071.8	73.5	212.8	94.3	1,452.4
Exchange adjustments	145.1	10.2	32.4	6.2	193.9
Business combinations	50.3		45.0		95.3
Adjustments to prior year business combinations	(0.7)				(0.7)
Additions		22.5		17.4	39.9
Disposals				(1.6)	(1.6)
At 31 July 2009	**1,266.5**	**106.2**	**290.2**	**116.3**	**1,779.2**
Amortisation					
At 1 August 2007	77.0	12.5	29.1	40.2	158.8
Exchange adjustments	5.3	0.7	1.8	2.5	10.3
Adjustments to prior year business combinations			0.5	(0.5)	
Charge for the year		5.6	19.2	6.2	31.0
Disposals	(0.2)			(0.7)	(0.9)
At 31 July 2008	82.1	18.8	50.6	47.7	199.2
Exchange adjustments	9.9	2.6	6.0	7.4	25.9
Charge for the year		10.8	34.6	9.8	55.2
Impairment		0.2			0.2
Disposals				(1.6)	(1.6)
At 31 July 2009	**92.0**	**32.4**	**91.2**	**63.3**	**278.9**
Net book value at 31 July 2009	**1,174.5**	**73.8**	**199.0**	**53.0**	**1,500.3**
Net book value at 31 July 2008	989.7	54.7	162.2	46.6	1,253.2
Net book value at 1 August 2007	844.3	38.7	102.2	36.1	1,021.3

In addition to goodwill, the acquired intangible assets comprise:

	Patents, licences and trademarks £m	Technology £m	Customer relationships £m	Total acquired intangibles £m
Cost				
At 1 August 2007	40.2	55.1	36.0	131.3
Exchange adjustments	1.1	1.9	2.7	5.7
Business combinations (note 28)	12.0	18.8	43.7	74.5
Adjustments to prior year business combinations		1.3		1.3
At 31 July 2008	53.3	77.1	82.4	212.8
Exchange adjustments	9.1	13.5	9.8	32.4
Business combinations (note 28)	1.9	3.8	39.3	45.0
At 31 July 2009	**64.3**	**94.4**	**131.5**	**290.2**
Amortisation				
At 1 August 2007	5.6	11.9	11.6	29.1
Exchange adjustments	0.2	0.7	0.9	1.8
Adjustments to prior year business combinations		0.5		0.5
Charge for the year	2.7	6.1	10.4	19.2
At 31 July 2008	8.5	19.2	22.9	50.6
Exchange adjustments	0.4	2.5	3.1	6.0
Charge for the year	4.9	10.6	19.1	34.6
At 31 July 2009	**13.8**	**32.3**	**45.1**	**91.2**
Net book value at 31 July 2009	**50.5**	**62.1**	**86.4**	**199.0**
Net book value at 31 July 2008	44.8	57.9	59.5	162.2
Net book value at 1 August 2007	34.6	43.2	24.4	102.2

Significant cash generating units

Goodwill is not amortised but is tested for impairment at least annually. Value in use calculations are used to determine the recoverable amount of goodwill held within each cash generating unit (CGU). Value in use is calculated as the net present value of the projected risk-adjusted post-tax cash-flows of the CGU, applying a discount rate based on the Group's post-tax weighted average cost of capital adjusted where appropriate for risks specific to the CGU. This approximates to applying a pre-tax discount rate to pre-tax cash-flows. These forecast cash-flows are based on approved budgets and represent a best estimate of future performance.

The assumptions used in the discounted cash-flow forecasts incorporate past performance, historical growth rates and margins achievable in our key markets. The assumptions used in the impairment testing of significant CGUs are as follows:

	Smiths Medical Critical Care		Smiths Detection Civil	
	2009	2008	**2009**	2008
Net book value of goodwill (£m)	**374.3**	291.5	**316.0**	288.8
Discount rate	**8%**	8%	**8%**	8%
Growth rates	**2.25%**	2.25%	**2.25%**	2.25%
Other key assumptions	– future sales prices and volumes			
	– operating margins			
	– cost structure and productivity			

The first five years of the cash-flow forecasts are based on our annual planning and strategic planning processes. The growth rates used to estimate future performance beyond this period do not exceed the long-term average growth rates for similar projects and do not reflect long-term planning assumptions used by the Group for investment planning.

Sales projections are made with reference to specific customer relationships and product lines.

Sensitivity analysis performed around the base case assumptions has indicated that no reasonable changes in key assumptions would cause the carrying amount of the Smiths Medical Critical Care and Smiths Detection Civil CGUs to exceed their respective recoverable amount.

The balance of the goodwill represents smaller individual amounts which have been allocated to specific operating companies and smaller CGUs. These amounts are tested for impairment at this level.

13 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 2007	155.5	342.9	159.5	657.9
Exchange adjustments	8.4	18.1	10.8	37.3
Reclassification	1.0	(1.8)	0.8	
Business combinations	2.8	2.9	2.2	7.9
Additions	9.9	31.2	23.1	64.2
Disposals	(4.8)	(10.1)	(7.2)	(22.1)
Adjustments to acquisitions and disposals in prior years	(1.4)	6.7		5.3
At 31 July 2008	171.4	389.9	189.2	750.5
Exchange adjustments	18.2	48.4	20.5	87.1
Reclassification	1.3	5.3	(6.6)	
Business combinations	0.5	8.3	0.2	9.0
Additions	9.4	30.1	17.9	57.4
Disposals	(9.5)	(27.4)	(18.3)	(55.2)
At 31 July 2009	**191.3**	**454.6**	**202.9**	**848.8**
Depreciation				
At 1 August 2007	63.1	219.2	114.7	397.0
Exchange adjustments	2.6	12.1	7.7	22.4
Reclassification	0.8	(1.1)	0.3	
Charge for the year	5.4	28.9	18.9	53.2
Impairment charge	0.3			0.3
Disposals	(3.7)	(7.3)	(6.6)	(17.6)
Adjustments to acquisitions and disposals in prior years	(7.8)	6.7		(1.1)
At 31 July 2008	60.7	258.5	135.0	454.2
Exchange adjustments	10.0	29.9	14.7	54.6
Reclassification	0.7	4.6	(5.3)	
Charge for the year	7.2	34.9	20.1	62.2
Impairment charge	3.1	0.7		3.8
Disposals	(2.2)	(25.9)	(15.9)	(44.0)
At 31 July 2009	**79.5**	**302.7**	**148.6**	**530.8**
Net book value at 31 July 2009	**111.8**	**151.9**	**54.3**	**318.0**
Net book value at 31 July 2008	110.7	131.4	54.2	296.3
Net book value at 1 August 2007	92.4	123.7	44.8	260.9

14 Investments accounted for using the equity method

	2009 £m	2008 £m
Investments in associated companies		
At start of period	**9.1**	12.0
Exchange adjustment	**1.7**	2.3
Share of results after tax	**0.4**	(1.0)
Dilution of interest		(0.9)
Acquisition of a controlling interest		(3.3)
At end of period	**11.2**	9.1

The Group acquired a controlling interest in an associate on 21 December 2007, and it has been consolidated as a subsidiary since that date.

The Group's share of the revenue of associates was £19.3m (2008: £17.6m). The total assets of associates are £49.0m (2008: £44.9m) and liabilities are £16.8m (2008: £14.1m). These figures principally represent the performance, assets and liabilities of Cross Match Technologies, Inc., incorporated in the United States. The share of these assets and liabilities attributable to Smiths Group is 34% (2008: 34%).

In 2008 the interest in Cross Match Technologies, Inc. was diluted as a result of warrants and options being exercised in the period.

15 Inventories

	2009 £m	2008 £m
Inventories comprise		
Raw materials and consumables	**145.7**	149.7
Work in progress	**95.3**	68.0
Finished goods	**177.4**	173.5
	418.4	391.2
Less: payments on account	**(4.8)**	(10.9)
	413.6	380.3

The Group consumed £1,990.5m (2008: £1,776.4m) of inventories during the period. £14.9m (2008: £11.8m) was recognised as an expense resulting from the write-down of inventory and £2.0m (2008: £1.5m) was released to the income statement from inventory provisions charged in earlier years but no longer required.

16 Trade and other receivables

	2009 £m	2008 £m
Non-current		
Trade receivables	**13.1**	8.8
Prepayments and accrued income	**2.0**	1.6
Other debtors	**6.2**	4.2
	21.3	14.6
Current		
Trade receivables	**501.0**	509.1
Other debtors	**13.4**	19.8
Prepayments and accrued income	**39.2**	36.5
	553.6	565.4

Trade receivables do not carry interest. Management considers that the carrying value of trade and other receivables approximates the fair value. Trade and other receivables, including prepayments, accrued income and other debtors qualifying as financial instruments are classified as "loans and receivables". The maximum credit exposure arising from these financial assets is £533.3m (2008: £536.7m).

Trade receivables are disclosed net of a provision for bad and doubtful debts. The provision for bad and doubtful debts is based on specific risk assessment and reference to past default experience.

Credit risk is managed separately for each customer and, where appropriate, a credit limit is set for the customer based on previous experience of the customer and third party credit ratings. The Group has no significant concentration of credit risk, with exposure spread over a large number of customers. The largest single customer is the US Federal Government representing less than 8% (2008: 7%) of group revenue.

Ageing of trade receivables

	2009 £m	2008 £m
Trade receivables which are not impaired and not yet due	**414.9**	412.4
Trade receivables which are not impaired and less than three months overdue	**68.9**	79.2
Trade receivables which are not impaired and more than three months overdue	**25.0**	22.6
Gross value of partially and fully provided debtors	**19.8**	14.9
	528.6	529.1
Provision for bad and doubtful debts	**(14.5)**	(11.2)
Trade receivables	**514.1**	517.9

17 Cash and cash equivalents

	2009 £m	2008 £m
Cash at bank and in hand – including impact of cash pooling gross up: £44.0m (2008: £100.6m)	**84.0**	122.5
Short-term deposits	**7.7**	10.0
Cash and cash equivalents	**91.7**	132.5
Bank overdrafts	**(72.0)**	(172.5)
Net cash and cash equivalents	**19.7**	(40.0)

Cash and cash equivalents include highly liquid investments with maturities of three months or less.

18 Trade and other payables

	2009 £m	2008 £m
Non-current		
Other creditors	**25.1**	27.5
Current		
Trade creditors	**130.3**	156.7
Bills of exchange payable	**0.4**	1.1
Other creditors	**40.8**	51.0
Other taxation and social security costs	**19.1**	23.1
Accruals and deferred income	**209.2**	188.8
	399.8	420.7

Trade and other payables, including accrued expenses and other creditors qualifying as financial instruments, are accounted for at amortised cost and are categorised as other financial liabilities.

19 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.

	2009 £m	2008 £m
Cash and cash equivalents		
Net cash and deposits (note 17)	**91.7**	132.5
Short-term borrowings		
Bank overdrafts including impact of cash pooling gross up: £44.0m (2008: £100.6m)	**(72.0)**	(172.5)
£139m 7.875% Sterling Eurobond 2010	**(137.7)**	
Bank and other loans	**(3.7)**	(3.8)
B shares		(1.7)
Interest accrual	**(11.0)**	(4.4)
	(224.4)	(182.4)
Long-term borrowings		
£150m 7.875% Sterling Eurobond 2010		(149.6)
£70m EIB Sterling R. & D. Loan 2010		(70.0)
£660m Revolving Credit Facility 2012	**(36.9)**	(210.2)
$250m 5.45% US$ Private Placement 2013	**(156.5)**	(127.4)
$250m 6.05% US$ Guaranteed notes 2014	**(148.5)**	
£150m 7.25% Sterling Eurobond 2016	**(149.0)**	(148.8)
$175m 7.37% US$ Private placement 2018	**(104.7)**	
$250m 7.20% US$ Guaranteed notes 2019	**(148.3)**	
Bank and other loans	**(8.3)**	(14.7)
	(752.2)	(720.7)
Borrowings	**(976.6)**	(903.1)
Net debt	**(884.9)**	(770.6)

Borrowings are accounted for at amortised cost and are categorised as other financial liabilities. See note 0 for a maturity analysis of borrowings. The repayment dates on borrowings repayable after five years range from 2014 to 2022.

Interest of £27.7m (2008: £22.5m) was charged to the consolidated income statement in this period in respect of public bonds.

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 £44.0m at 31 July 2009 (2008: £100.6m).

Movements in net debt

	31 July 2008 £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	**31 July 2009 £m**
Net cash and cash equivalents	(40.0)	(3.0)	62.7					**19.7**
Other short-term borrowings	(9.9)	(0.2)	12.7		(5.1)		(149.9)	**(152.4)**
Long-term borrowings	(720.7)	(24.9)	345.2	(495.8)	(0.3)	(5.6)	149.9	**(752.2)**
Net debt	(770.6)	(28.1)	420.6	(495.8)	(5.4)	(5.6)		**(884.9)**

The net cash inflow includes £7.7m of cash acquired with new subsidiary undertakings.

Secured loans

Loans amounting to £6.5m (2008: £13.2m) were secured by charges on freehold properties with a book value of £11.5m (2008: £11.0m) and loans amounting to £3.4m (2008: £3.1m) were secured on plant and equipment with a book value of £3.3m (2008: £2.8m).

20 Financial risk management

The Group's international operations and debt financing expose it to financial risks which include the effects of changes in foreign exchange rates, changes in debt market prices, interest rates, credit risks and liquidity risks.

Treasury and risk management policies are set by the Board. The policy sets out specific guidelines to manage foreign exchange risk, interest rate risk, credit risk and the use of financial instruments to manage risk. The instruments and techniques used to manage exposures include foreign currency derivatives, debt and other interest rate derivatives. The central treasury function monitors financial risks and compliance with risk management policies. The management of operational credit risk is discussed in note 16.

(a) Foreign exchange risk

Transactional currency exposure

The Group is exposed to foreign currency risks arising from sales or purchases by businesses in currencies other than their functional currency. It is Group policy that, when such a sale or purchase is certain or highly probable, the net foreign exchange exposure is hedged using forward foreign exchange contracts. The net exposure is calculated by adjusting the expected cash-flow for payments or receipts in the same currency linked to the sale or purchase. This policy minimises the risk that the profits generated from the transaction will be affected by foreign exchange movements which occur after the price has been determined.

Hedge accounting documentation and effectiveness testing are only undertaken if it is cost effective.

The following table shows the currency of financial instruments. It excludes loans and derivatives designated as net investment hedges.

					At 31 July 2009
	Sterling £m	**US$ £m**	**Euro £m**	**Other £m**	**Total £m**
Financial assets and liabilities					
Financial instruments included in trade and other receivables	**36.0**	**256.6**	**142.2**	**98.5**	**533.3**
Financial instruments included in trade and other payables	**(34.0)**	**(126.1)**	**(75.9)**	**(37.5)**	**(273.5)**
Cash and cash equivalents	**13.3**	**16.0**	**25.3**	**37.1**	**91.7**
Borrowings not designated as net investment hedges	**(306.5)**	**(22.7)**	**(33.4)**	**(19.1)**	**(381.7)**
	(291.2)	**123.8**	**58.2**	**79.0**	**(30.2)**
Exclude balances held in operations with the same functional currency	**294.0**	**(84.9)**	**(52.4)**	**(77.5)**	**79.2**
Exposure arising from intra-group loans			**(12.0)**	**23.2**	**11.2**
Forward foreign exchange contracts	**70.7**	**(82.3)**	**(2.4)**	**14.0**	
	73.5	**(43.4)**	**(8.6)**	**38.7**	**60.2**

					At 31 July 2008
	Sterling £m	US$ £m	Euro £m	Other £m	Total £m
Financial assets and liabilities					
Financial instruments included in trade and other receivables	40.6	237.4	162.2	96.5	536.7
Financial instruments included in trade and other payables	(49.9)	(121.4)	(86.9)	(40.1)	(298.3)
Cash and cash equivalents	32.7	16.5	48.0	35.3	132.5
Borrowings not designated as net investment hedges	(412.1)	(163.2)	(13.8)	(103.8)	(692.9)
	(388.7)	(30.7)	109.5	(12.1)	(322.0)
Exclude balances held in operations with the same functional currency	389.3	56.4	(35.6)	(62.0)	348.1
Exposure arising from intra-group loans		(15.5)		(11.2)	(26.7)
Forward foreign exchange contracts	48.9	(50.0)	(1.9)	3.0	
	49.5	(39.8)	72.0	(82.3)	(0.6)

Financial instruments included in trade and other receivables comprise trade receivables, accrued income and other debtors which qualify as financial instruments. Similarly, financial instruments included in trade and other payables comprise trade payables, accrued expenses and other creditors which qualify as financial instruments.

Based on the assets and liabilities held at the year end, if the specified currencies were to strengthen 10% while all other market rates remained constant, the change in the fair value of financial instruments not designated as net investment hedges would have the following effect:

	Impact on profit for the year 31 July 2009 £m	Gain/(loss) recognised in reserves 31 July 2009 £m	Impact on profit for the year 31 July 2008 £m	Gain/(loss) recognised in reserves 31 July 2008 £m
US dollar	**4.9**	**5.0**	(0.1)	(3.3)
Euro	**0.2**	**(1.2)**	4.8	(1.0)
Sterling	**1.8**	**5.1**	2.1	2.8

These sensitivities were calculated before adjusting for tax and exclude the effect of quasi-equity intra-group loans.

Cash-flow hedging

The Group uses foreign currency contracts to hedge future foreign currency sales and purchases. At 31 July 2009 contracts with a nominal value of £310.7m (2008: £222.2m) were designated as hedging instruments. In addition, the Group had outstanding foreign currency contracts with a nominal value of £121.7m (2008: £130.1m) which were being used to manage transactional foreign exchange exposures, but were not accounted for as cash-flow hedges. The fair value of the contracts is disclosed in note 21.

The majority of hedged transactions will be recognised in the income statement in the same period that the cash-flows are expected to occur, with the only differences arising as a result of normal commercial credit terms on sales and purchases. Of the foreign exchange contracts designated as hedging instruments 99% are for periods of 12 months or less (2008: 99%).

The movements in the cash-flow hedge reserve during the period are summarised in the table below:

	Year ended 31 July 2009 £m	Year ended 31 July 2008 £m
Brought forward cash-flow hedge reserve at start of period	**1.1**	1.4
Exchange adjustments	**0.3**	0.2
Gains and losses on effective cash-flow hedges recognised in equity	**(8.0)**	(1.0)
Amounts removed from the hedge reserve and recognised in the following lines on the income statement:		
– revenue	**9.6**	0.2
– cost of sales	**(2.8)**	0.3
– administrative expenses	**1.6**	
Carried forward cash-flow hedge reserve at end of period	**1.8**	1.1

Translational currency exposure

The Group has significant investments in overseas operations, particularly in the United States and Europe. As a result, the sterling value of the Group's balance sheet can be significantly affected by movements in exchange rates. The Group seeks to mitigate the effect of these translational currency exposures by matching the net investment in overseas operations with borrowings denominated in their functional currencies, except where significant adverse interest differentials or other factors would render the cost of such hedging activity uneconomic. This is achieved by borrowing primarily in the local currency or in some cases indirectly through the use of forward foreign exchange contracts and cross currency swaps.

Net investment hedges

The table below sets out the currency of loans and swap contracts designated as net investment hedges:

					At 31 July 2009
	Sterling £m	US$ £m	Euro £m	Other £m	Total £m
Loans designated as net investment hedges		**(551.3)**		**(36.9)**	**(588.2)**
Cross-currency swap contracts		**59.9**	**(59.9)**		
Currency swap contracts	**380.8**	**(92.6)**	**(207.4)**	**(80.8)**	
	380.8	**(584.0)**	**(267.3)**	**(117.7)**	**(588.2)**

					At 31 July 2008
	Sterling £m	US$ £m	Euro £m	Other £m	Total £m
Loans designated as net investment hedges		(139.6)	(70.6)		(210.2)
Currency swap contracts	371.4	(150.6)	(163.0)	(57.8)	
	371.4	(290.2)	(233.6)	(57.8)	(210.2)

Currency loans in other currencies hedge the Group's exposure to Canadian dollars and Australian dollars and the swap contracts hedge the Group's exposure to Japanese yen and Chinese renminbi.

Of the contracts designated as net investment hedges, 53% are current and the balance matures over the next four years. The contracts maturing within one year include £150m of contracts maturing on the same day as the 2010 Sterling Eurobond.

The gains and losses that have been deferred in the net investment hedge reserve are shown in the table below:

	Year ended 31 July 2009 £m	Year ended 31 July 2008 £m
Brought forward net investment hedge reserve at start of period	**(30.3)**	17.2
Amounts deferred in the period on effective net investment hedges	**(58.6)**	(47.5)
Carried forward net investment hedge reserve at end of period	**(88.9)**	(30.3)

The fair values of these net investment hedges are subject to exchange rate movements. Based on the hedging instruments in place at the year end, a 10% increase in the value of the US dollar while all other market rates remained constant would lead to a fair value loss of £70.8m (2008: £14.9m) and a 10% increase in the value of the euro while all other market rates remained constant would lead to a fair value loss of £10.7m (2008: £17.4m). These movements would be recognised in equity and fully offset by an opposite movement on the retranslation of the net assets of the overseas subsidiaries. These sensitivities were calculated before adjusting for tax.

During the year the Group de-designated currency swaps which had previously been used to hedge translational currency exposures, and entered into offsetting currency swaps to eliminate any future exchange exposure arising from these contracts. At the balance sheet date, contracts with a nominal value of £436.7m were outstanding. However the net currency profile of these contracts, translating both legs of the contract at the balance sheet rates, is:

	At 31 July 2009				
	Sterling £m	US$ £m	Euro £m	Other £m	Total £m
Currency swap contracts	**(28.6)**				**(28.6)**

(b) Interest rate risk

The Group operates an interest rate policy designed to optimise interest cost and reduce volatility in reported earnings. The Group's current policy is to require interest rates to be fixed for 50% to 80% of the level of net debt. This is achieved primarily through fixed rate borrowings, and also through the use of interest rate swaps. At 31 July 2009 79% (2008: 46%) of the Group's net borrowings were at fixed interest rates, after adjusting for interest rate swaps.

The weighted average interest rate on borrowings and cross-currency swaps at 31 July 2009, after interest rate swaps, is 5.8% (2008: 4.6%).

Interest rate profile of financial assets and liabilities and the fair value of borrowings

The following table shows the interest rate risk exposure of cash and borrowings. The other financial assets and liabilities do not earn or bear interest and for all financial instruments except for borrowings the carrying value is not materially different from their fair value.

	Cash and cash equivalents 31 July 2009 £m	Borrowings 31 July 2009 £m	Fair value of borrowings 31 July 2009 £m	Cash and cash equivalents 31 July 2008 £m	Borrowings 31 July 2008 £m	Fair value of borrowings 31 July 2008 £m
Fixed interest (adjusted for interest rate hedging):						
Less than one year		**(141.4)**	**(146.8)**		(3.8)	(4.0)
Between one and five years		**(152.5)**	**(156.4)**		(203.5)	(207.1)
Greater than five years		**(406.4)**	**(430.6)**		(160.1)	(166.2)
Total fixed interest financial assets/(liabilities) (adjusted for interest rate hedging)		**(700.3)**	**(733.8)**		(367.4)	(377.3)
Floating rate interest financial assets/(liabilities)	**77.1**	**(276.3)**	**(268.9)**	122.1	(535.7)	(535.7)
Total interest bearing financial assets/(liabilities)	**77.1**	**(976.6)**	**(1,002.7)**	122.1	(903.1)	(913.0)
Non-interest bearing assets/(liabilities) in the same category	**14.6**			10.4		
Total	**91.7**	**(976.6)**	**(1,002.7)**	132.5	(903.1)	(913.0)

Interest rate hedging

The Group has designated US$150m interest rate swaps and US$100m cross-currency interest rate swaps which mature on 28 January 2013 as fair value hedges on the US private placement which matures on the same date. This hedges the risk of variability in the fair value of borrowings arising from fluctuations in base rates. The fair values of the hedging instruments are disclosed in note 21. The effect of the swaps is to convert £149.7m (2008: £75.7m) debt from fixed rate to floating rate.

Sensitivity of interest charges to interest rate movements

The Group has exposure to sterling, US dollar and euro interest rates. However the Group does not have a significant exposure to interest rate movements for any individual currency. Based on the composition of net debt and foreign exchange rates at 31 July 2009, and taking into consideration all fixed rate borrowings and interest rate swaps in place, a one percentage point (100 basis points) change in average floating interest rates for all three currencies would have a £2.2m (2008: £4.3m) impact on the Group's profit before tax.

(c) Financial credit risk

The Group is exposed to credit-related losses in the event of non-performance by counterparties to financial instruments, but does not currently expect any counterparties to fail to meet their obligations. Credit risk is mitigated by the Board approved policy of only selecting counterparties with a strong investment grade long-term credit rating for cash deposits, normally at least AA- or equivalent, and assigning financial limits to individual counterparties. In the normal course of business, the Group operates notional cash pooling systems, where a legal right of set-off applies.

The maximum credit risk exposure in the event of other parties failing to perform their obligations under financial assets, excluding trade and other receivables, totals £99.5m at 31 July 2009 (2008: £132.5m). This includes cash of £44.0m (2008: £100.6m) held in interest compensation pools where Smiths has a legal right of set-off. Of the £99.5m, 84% is with banks with at least a AA- credit rating.

At 31 July 2009 the maximum exposure with a single bank for deposits and cash is £24.1m (2008: £12.4m), whilst the maximum mark to market exposure for derivatives is £6.4m (2008: £1.5m). These exposures were with the same bank, which has a AA credit rating.

(d) Liquidity risk

Borrowing facilities

The Board policy specifies the maintenance of unused committed credit facilities of at least £200m at all times to ensure it has sufficient available funds for operations and planned development. The principal £660m revolving credit facility matures in 2012.

At the balance sheet date the Group had the following undrawn credit facilities:

	2009 £m	2008 £m
Expiring within one year		
Expiring between one and two years		
Expiring after two years	**622.8**	449.8
	622.8	449.8

Cash deposits

As at 31 July 2009, £7.7m (2008: £10.0m) of cash and cash equivalents was on deposit with various banks and in money market funds of which £5.9m (2008: £7.2m) was on deposit in the UK.

Gross contractual cash-flows for borrowings

	Borrowings (Note 19) 31 July 2009 £m	Fair value adjustments 31 July 2009 £m	Contractual interest payments 31 July 2009 £m	Total contractual cash-flows 31 July 2009 £m	Borrowings (Note 19) 31 July 2008 £m	Fair value adjustments 31 July 2008 £m	Contractual interest payments 31 July 2008 £m	Total contractual cash-flows 31 July 2008 £m
Less than one year	**(224.4)**	**(0.2)**	**(58.4)**	**(283.0)**	(182.4)		(42.3)	(224.7)
Between one and two years	**(1.6)**		**(47.9)**	**(49.5)**	(150.9)	(0.4)	(41.5)	(192.8)
Between two and three years	**(38.2)**		**(47.7)**	**(85.9)**	(71.3)		(26.4)	(97.7)
Between three and four years	**(157.0)**	**6.8**	**(42.8)**	**(193.0)**	(210.7)	(0.5)	(25.0)	(236.2)
Between four and five years	**(149.0)**	**(1.2)**	**(36.7)**	**(186.9)**	(127.7)	1.2	(14.6)	(141.1)
Greater than five years	**(406.4)**	**(2.5)**	**(101.1)**	**(510.0)**	(160.1)	(1.2)	(34.4)	(195.7)
Total	**(976.6)**	**2.9**	**(334.6)**	**(1,308.3)**	(903.1)	(0.9)	(184.2)	(1,088.2)

The figures presented in the borrowings column include the non-cash adjustments which are highlighted in the adjacent column. The contractual interest reported for borrowings is before the effect of interest rate swaps.

Gross contractual cash-flows for derivative financial instruments

	Receipts 31 July 2009 £m	Payments 31 July 2009 £m	Net cash-flow 31 July 2009 £m	Receipts 31 July 2008 £m	Payments 31 July 2008 £m	Net cash-flow 31 July 2008 £m
Assets						
Less than one year	**592.2**	**(545.3)**	**46.9**	256.4	(247.7)	8.7
Greater than one year	**182.7**	**(217.7)**	**(35.0)**	63.9	(60.1)	3.8
Liabilities						
Less than one year	**460.2**	**(513.7)**	**(53.5)**	379.8	(400.6)	(20.8)
Greater than one year	**256.0**	**(232.7)**	**23.3**	28.1	(28.4)	(0.3)
Total	**1,491.1**	**(1,509.4)**	**(18.3)**	728.2	(736.8)	(8.6)

This table presents the undiscounted future contractual cash-flows for all derivative financial instruments. For this disclosure, cash-flows in foreign currencies are translated using the spot rates at the balance sheet date. The fair values of these financial instruments are presented in note 21.

Gross contractual cash-flows for other financial liabilities

The contractual cash-flows for financial liabilities included in trade and other payables are: £261.9m (2008: £285.8m) due in less than one year, £7.3m (2008: £10.9m) due between one and five years and £4.3m (2008: £1.6m) due after more than five years.

21 Financial derivatives

The tables below set out the nominal amount and fair value of derivative contracts held by the Group, identifying the derivative contracts which qualify for hedge accounting treatment:

				At 31 July 2009
	Contract or underlying nominal amount			Fair value
	£m	Assets £m	Liabilities £m	Net £m
Foreign exchange contracts (cash-flow hedges)	**310.7**	**10.2**	**(7.8)**	**2.4**
Foreign exchange contracts (not hedge accounted)	**121.7**	**2.3**	**(2.3)**	
Total foreign exchange contracts	**432.4**	**12.5**	**(10.1)**	**2.4**
Currency swaps (net investment hedges)	**470.6**	**32.6**	**(2.4)**	**30.2**
Currency swaps (not hedge accounted)	**436.7**	**3.3**	**(31.9)**	**(28.6)**
Total currency swap contracts	**907.3**	**35.9**	**(34.3)**	**1.6**
Cross-currency swaps (net investment and fair value hedges)	**59.9**		**(1.2)**	**(1.2)**
Interest rate swaps (fair value hedges)	**89.8**	**6.2**		**6.2**
Total financial derivatives	**1,489.4**	**54.6**	**(45.6)**	**9.0**
Balance sheet entries:				
Non-current		**13.9**	**(6.7)**	**7.2**
Current		**40.7**	**(38.9)**	**1.8**
Total financial derivatives		**54.6**	**(45.6)**	**9.0**

	Contract or underlying nominal amount £m	Assets £m	Liabilities £m	Net £m
				At 31 July 2008
				Fair value
Foreign exchange contracts (cash-flow hedges)	222.2	3.8	(2.9)	0.9
Foreign exchange contracts (not hedge accounted)	130.1	1.4	(0.7)	0.7
Total foreign exchange contracts	352.3	5.2	(3.6)	1.6
Cross-currency swaps (net investment hedges)	371.4	1.5	(18.0)	(16.5)
Interest rate swaps (fair value hedges)	75.7	1.2		1.2
Total financial derivatives	799.4	7.9	(21.6)	(13.7)
Balance sheet entries:				
Non-current		1.4	(0.1)	1.3
Current		6.5	(21.5)	(15.0)
Total financial derivatives		7.9	(21.6)	(13.7)

Currency swaps not hedge accounted
These contracts comprise derivatives which were previously part of the net investment hedging programme and matching contracts to eliminate this exposure. There is no further net exposure arising from these contracts. See net investment hedges section in note 20 for details.

Accounting for other derivative contracts
Any foreign exchange contracts which are not formally designated as hedges and tested are classified as 'held for trading' and not hedge accounted.

22 Provisions for liabilities and charges

	At 31 July 2008 £m	Exchange adjustments £m	Provisions charged £m	Provisions released £m	Unwind of provision discount £m	Utilisation £m	**At 31 July 2009 £m**
Warranty provision and product liability	46.2	4.5	24.2	(7.8)		(22.7)	**44.4**
Reorganisation	9.8	1.0	16.9	(1.0)		(11.0)	**15.7**
Property	3.5	0.1	1.0	(0.6)		(0.5)	**3.5**
Disposal	47.4	8.0		(0.3)		(0.4)	**54.7**
Litigation	163.7	29.0	23.7	(10.5)	7.1	(27.6)	**185.4**
	270.6	42.6	65.8	(20.2)	7.1	(62.2)	**303.7**

Analysed as:

	2009 £m	2008 £m
Current liabilities	**77.2**	70.0
Non-current liabilities	**226.5**	200.6
	303.7	270.6

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

Reorganisation
On 3 June 2008 the Company announced a number of changes to its corporate centre and divisional headquarters. The total cost of this restructuring, including redundancy, relocation and consolidation of manufacturing, is expected to amount to approximately £45m over the period to 2010, of which £16.9m has been charged in the current year.

Reorganisation provisions include £4.8m (2008: £4.7m) costs relating to restructuring supply arrangements following the automotive seals disposal. These costs are expected to be spread over the next six years.

Disposal
The disposal provision relates to warranties and other obligations in respect of the disposal of the Marine Systems and Aerospace businesses.

The terms of the disposal of the Aerospace operations included certain obligations for which provision was made in 2007, including £24.3m in respect of costs of transferring aerospace active pensioners. In 2008 the pensioners were transferred, utilising £20.7m of this provision, and the balance of £3.6m was released to the income statement.

Most of the balance is expected to be utilised within the next five 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 168,000 claims against JCI have been dismissed before trial over the last 30 years. JCI is currently a defendant in cases involving approximately 129,000 claims. Despite the large number of claims brought against JCI, it has had final judgments against it, after appeals, in only 82 cases over the period, and has had to pay awards amounting to approximately US$82m. 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 18 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 (note 6). Set out below is the gross, discounted and post-tax information relating to this provision:

	2009 £m	2008 £m
Gross provision	**213.3**	185.9
Discount	**(46.7)**	(47.0)
Discounted pre-tax provision	**166.6**	138.9
Deferred tax	**(45.0)**	(37.5)
Discounted post-tax provision	**121.6**	101.4

Other litigation

The Group has on occasion been required to take legal action to protect its intellectual property and other rights against infringement, and similarly to defend itself against proceedings brought by other parties. Provision is made for the expected fees and associated costs, based on professional advice as to the likely duration of each case. Provisions totalling £10.5m (2008: £2.2m) were released relating to litigation settled at less than the expected cost. Most of the balance is expected to be utilised within the next five years.

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

23 Operating lease commitments – minimum lease payments

The minimum uncancellable lease payments which the Group is committed to make are:

	2009		2008	
	Land and buildings £m	**Other £m**	Land and buildings £m	Other £m
Payments due				
– not later than one year	**25.0**	**9.1**	20.5	7.8
– later than one year and not later than five years	**57.8**	**9.4**	47.0	8.1
– later than five years	**27.0**	**0.1**	20.3	0.1
	109.8	**18.6**	87.8	16.0

24 Contingent liabilities and commitments

John Crane, Inc.

As stated in note 22, 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

At 31 July 2009, contingent liabilities, comprising bonds and guarantees arising in the normal course of business, amounted to £86.0m (2008: £75m).

The Group is currently co-operating with the relevant authorities in investigating certain business conduct issues. Based on the work completed to date, these are not expected to give rise to any material financial exposure.

The Parent Company has arranged two letters of credit to support the Group's pension plans, one for £100.0m and one for £50.0m. At 31 July 2009, total usage of the two facilities was £116.1m (2008: £124.9m).

25 Share capital

	Number of shares	Issued capital £m	Consideration £m
Ordinary shares			
At 31 July 2008	387,879,181	145.5	
Exercise of share options	922,783	0.3	1.5
Conversion of B shares	224,463	0.1	1.7
At 31 July 2009	**389,026,427**	**145.9**	
B shares			
At 31 July 2008	459,157		
Converted	(459,157)		
At 31 July 2009			
Share capital classified as equity at 31 July 2009	389,026,427	145.9	
Share capital classified as debt at 31 July 2009			
Total share capital at 31 July 2009	**389,026,427**	**145.9**	

On 17 April 2008 4,467,437 B shares were purchased and cancelled. On 3 November 2008 the 459,157 remaining B shares were converted into 224,463 ordinary shares.

The authorised capital at 31 July 2009 consisted of:

- 533,333,333 (2008: 533,333,333) ordinary shares of 37.5p each; and
- 600,000,000 (2008: 600,000,000) non-cumulative B shares of 1p each.

At 31 July 2009 all of the issued share capital was in free issue. All issued shares are fully paid.

26 Reconciliation of movements in equity

	Share capital £m	Share premium account £m	Other reserves £m	Hedge reserve £m	Retained earnings £m	Equity shareholders' funds £m	Minority interest £m	Total equity £m
At 1 August 2007	144.6	289.0	242.2	18.6	208.9	903.3		903.3
Exercises of share options	0.9	14.6			5.5	21.0		21.0
Purchase of own shares					(20.7)	(20.7)		(20.7)
Redemption of B shares			0.1		(0.1)			
Acquisition							2.0	2.0
Total recognised income and expenses for the period				(47.8)	180.6	132.8	0.3	133.1
Dividends paid to equity shareholders					(131.4)	(131.4)		(131.4)
Dilution of interest in associated company					(0.9)	(0.9)		(0.9)
Share-based payment					11.8	11.8		11.8
At 31 July 2008	145.5	303.6	242.3	(29.2)	253.7	915.9	2.3	918.2
Exercises of share options	0.1	1.4			2.6	4.1		4.1
Purchase of own shares	0.2				(0.2)			
Conversion of B shares	0.1	1.6				1.7		1.7
Total recognised income and expenses for the period				(57.9)	117.8	59.9	1.5	61.4
Dividends paid to equity shareholders					(132.0)	(132.0)		(132.0)
Share-based payment					9.4	9.4		9.4
At 31 July 2009	**145.9**	**306.6**	**242.3**	**(87.1)**	**251.3**	**859.0**	**3.8**	**862.8**

Other reserves comprise a capital redemption reserve of £5.8m (2008: £5.8m), a revaluation reserve of £1.7m (2008: £1.7m) and a merger reserve of £234.8m (2008: £234.8m).

Retained earnings includes the value of Smiths Group plc shares held by the Smiths Industries Employee Benefit Trust. In the year the Company issued 682,922 shares to the Trust. In 2008, the Trust paid £20.7m to acquire shares in the market. At 31 July 2009 the Trust held 105,932 (2008: 1,095,965) ordinary shares with a market value of £0.8m (2008: £11.5m).

Capital management

Capital comprises shareholders' equity adjusted for goodwill recognised directly in reserves. For the period ended 31 July 2009 the average Group capital was £1,705.7m (2008: £1,728.1m).

The capital structure is based on the directors' judgement of the balance required to maintain flexibility while achieving an efficient cost of capital. The Group has a target gearing, calculated on a market value basis, of approximately 20%. At the balance sheet date the Group had gearing of 26% (2008: 18%).

As part of this process the Group maintains its target of a solid investment grade credit rating by monitoring the factors utilised by ratings agencies and evaluating the impact of potential distributions and future funding requirements. At 31 July 2009 the Group had a credit rating of BBB+/Baa2 – negative outlook (2008: BBB+/Baa2 – stable outlook) with Standard & Poor's and Moody's respectively.

Hedge reserve

The hedge reserve on the balance sheet comprises:	**2009 £m**	2008 £m
Cash-flow hedge reserve	**1.8**	1.1
Net investment hedge reserve	**(88.9)**	(30.3)
	(87.1)	(29.2)

See transactional currency exposure risk management disclosures in note 20 for additional details of cash-flow hedges and translational currency exposure risk management disclosure also in note 20 for additional details of net investment hedges.

27 Cash-flow from operating activities

	Year ended 31 July 2009 £m	Year ended 31 July 2008 £m
Profit before taxation – continuing and discontinued	**365.1**	346.1
Net interest payable	**52.3**	41.0
Financing losses/(gains)		
– charged to administrative expenses		0.3
– charged to financing	**10.9**	6.1
Share of post-tax (profit)/loss from associate	**(0.4)**	1.0
Other finance income – retirement benefits	**(5.1)**	(41.7)
Profit on disposal of discontinued operation	**5.7**	(26.8)
	428.5	326.0
Amortisation of intangible assets	**55.2**	31.0
Impairment of intangible assets	**0.2**	
Profit on disposal of property, plant and equipment	**(11.3)**	(0.3)
(Profit)/loss on disposal of business	**(1.6)**	(27.2)
Depreciation of property, plant and equipment	**62.2**	53.2
Impairment of property, plant and equipment	**3.8**	0.3
Share-based payment expense	**9.4**	12.9
Retirement benefits	**(112.5)**	(37.0)
Decrease/(increase) in inventories	**22.1**	(21.4)
Decrease/(increase) in trade and other receivables	**94.0**	(10.0)
Decrease in trade and other payables	**(79.9)**	(56.9)
(Decrease)/increase in provisions	**(24.9)**	49.9
Cash generated from operations	**445.2**	320.5
Interest	**(39.1)**	(48.6)
Tax paid	**(74.0)**	(73.8)
Net cash inflow from operating activities	**332.1**	198.1

28 Acquisitions

During the period ended 31 July 2009, the Group acquired Zhejiang Zheda Medical Instrument Co. Ltd (10 November 2008) on behalf of Smiths Medical, Shenzen Dowin Lightning Technologies Co., Ltd (24 April 2009) on behalf of Smiths Interconnect and Orion Corporation (13 May 2009) on behalf of John Crane.

From the date of acquisition to 31 July 2009, the acquisitions contributed £16.3m to revenue, £4.8m to headline profit before taxation and £0.6m to profit before taxation. If Smiths had acquired the businesses at the beginning of the financial period, the acquisitions would have contributed £54.3m to revenue and £13.5m to headline profit before tax.

The fair value adjustments in respect of intangible assets are due to the recognition of £36.5m in respect of customer relationships and orders, £2.7m in respect of non-compete agreements, £5.8m in respect of technology and intellectual property. Goodwill represents the value of synergies arising from the acquisitions and future growth opportunities which can be generated through existing sales networks. The adjustments to current assets and liabilities relate to valuation adjustments and are provisional, based on management's best estimates.

The values set out below are provisional pending finalisation of the fair values attributable, and will be finalised in the year ending 31 July 2010. Goodwill and other net assets in respect of prior year acquisitions, as previously reported, have been adjusted as a result of finalising their attributable fair values and changes in the estimated value of contingent considerations. Accordingly, goodwill has decreased by £0.7m.

	Book value £m	Fair value adjustments £m	Provisional fair value £m
Non-current assets			
– intangible assets		45.0	**45.0**
– property, plant and equipment	9.0		**9.0**
Current assets			
– cash and cash equivalents	7.7		**7.7**
– other current assets	20.2	1.0	**21.2**
Non-current liabilities			
– other liabilities		(5.5)	**(5.5)**
Current liabilities			
– other current liabilities	(15.2)	(0.3)	**(15.5)**
Net assets acquired	**21.7**	**40.2**	**61.9**
Goodwill on current year acquisitions			**50.3**
Goodwill adjustments on prior year acquisitions			**(0.7)**
Total consideration			**111.5**
Cash paid during the period – current year acquisitions			**94.5**
Direct costs relating to current year acquisitions			**1.9**
Deferred consideration accrued on current year acquisitions			**15.8**
Adjustments to deferred consideration on prior year acquisitions			**(0.7)**
Total consideration			**111.5**

29 Employee share schemes

The Group operates share schemes and plans for the benefit of employees. The nature of the principal schemes and plans, including general conditions, is set out below:

Smiths Group Performance Share Plan (PSP)

The PSP was introduced in 2004 and replaced the 95 ESOS for executive directors and senior executives. Conditional awards of up to 1.5 times salary (and exceptionally three times salary) are granted annually. The awards will be released following the third anniversary of the date of grant to the extent the PSP's performance tests have been met. One-third of the award is subject to a total shareholder return ('TSR') target relative to other FTSE 100 companies (excluding financial companies and investment trusts). For full vesting, the company's TSR must be at or above the 75th percentile over the three year performance period. 25% of the award will vest if the company's TSR is at median. Awards will vest on a straight-line pro-rata basis between median and 75th percentile. The remaining two-thirds of the award is subject to an earnings per share ('EPS') growth target (measured before exceptional items). Full vesting will occur if the compound annual growth in EPS is equivalent to 12% per annum. 25% vesting will occur if the compound annual growth in EPS is equivalent to 5% per annum, with vesting on a straight-line basis between 5% and 12%. The PSP has been replaced by the VSP (see below).

Value Sharing Plan (VSP)

The VSP is a one-off long-term incentive plan approved by the shareholders in July 2008 rewarding executives for value creation at Group and Divisional levels over three-year and four-year periods commencing with the financial year 2008/09. Corporate participants will be rewarded under the VSP for value creation at a Group level, whereas the executives with divisional responsibilities will be rewarded for value creation within the division for which they are responsible. For the Group scheme, one-third of the award will depend on the growth in Smiths' TSR over and above the median for the companies comprising the FTSE-100 (excluding financial services companies) and the remaining two-thirds of each award will be determined by the growth in internal value in excess of 9.5% a year. The growth in internal value is calculated as follows: adjusted profit before tax ('PBT') times the ratio of PBT to market capitalisation determined at the date of grant plus net equity cash-flows to shareholders. The divisional awards will depend on meeting an internal value growth target set for the division in which the participant works.

The participants in the VSP will not be eligible for awards under the Performance Share Plan in 2008/09 or 2009/10.

Smiths Group Co-Investment Plan (CIP)

Under the CIP, as introduced in October 2005, the executive directors and senior executives are able, if invited, to use their after tax bonus or 25% of their basic salary after tax, whichever is the greater, to invest in the Company's shares at the prevailing market price. At the end of a three year period, if the executive is still in office and provided the performance test is passed, matching shares will be awarded in respect of any invested shares retained for that period. The number of matching shares to be awarded is determined by the Remuneration Committee at the end of the year in which the bonus is earned by reference to annual bonus, and other corporate financial criteria. The maximum award will not exceed the value, before tax, of the bonus or salary invested in shares by the executive. Vesting of matching shares will occur and the matching shares will be released at the end of the three year period if the Group's Return on Capital Employed ('RoCE') over the Performance Period exceeds the Group's weighted average cost of capital ('WACC') over the Performance Period by an average margin of at least 1% per annum.

In July 2008 the CIP was amended. From 2009 participants will be required to invest 50% of their post tax bonus in purchased shares. The performance conditions have been expanded to include an enhanced performance condition of RoCE exceeding WACC by an average margin of 3% per annum. If the enhanced performance condition is met, two matching shares will be issued for every purchased share.

	DSS and CIP	PSP and VSP	Other share schemes	Total	Weighted average price for option plans £
Ordinary shares under option ('000)					
1 August 2007	1,406	2,932	13,378	17,716	£5.98
Granted	245	743	2,477	3,465	£7.32
Exercised	(235)	(645)	(3,614)	(4,494)	£5.67
Lapsed	(9)	(369)	(2,093)	(2,471)	£7.32
31 July 2008	1,407	2,661	10,148	14,216	£6.23
Granted	305	1,604	647	2,556	£1.45
Exercised	(675)	(683)	(584)	(1,942)	£2.18
Lapsed	(47)	(243)	(1,191)	(1,481)	£6.75
31 July 2009	**990**	**3,339**	**9,020**	**13,349**	**£5.83**

Options were exercised on an irregular basis during the period. The average closing share price over the financial year was 832.08p (2008: 1,014.32p). There has been no change to the effective option price of any of the outstanding options during the period.

Range of exercise prices	Total shares under option ('000)	Weighted average remaining contractual life (months)	**Options exercisable at 31 July 2009 ('000)**	Options exercisable at 31 July 2008 ('000)	**Exercisable weighted average exercise price for options exercisable at 31 July 2009**
£0.00 – £2.00	4,329	18	**1**	19	**-**
£2.01 – £6.00	761	46	**5**	2	**£5.40**
£6.01 – £10.00	6,516	58	**2,879**	2,322	**£8.20**
£10.01 – £14.00	1,743	96	**116**	129	**£11.02**

For the purposes of valuing options to arrive at the share-based payment charge, the Binomial option pricing model has been used for most schemes and the Monte Carlo method is used for schemes with total shareholder return performance targets. The key assumptions used in the models for 2009 and 2008 are volatility of 23% (2008: 21%) and dividend yield of 3.75% (2008: 3.75%). Assumptions on expected volatility and expected option term have been made on the basis of historical data, wherever available, for the period corresponding with the vesting period of the option. Best estimates have been used where historical data is not available in this respect. These generated a weighted average fair value for CIP of £6.96 (2008: £9.46) and VSP/PSP of £11.01 (2008: £8.02).

Included within staff costs is an expense arising from share-based payment transactions of £8.0m (2008: £12.9m), of which £9.4m (2008: £11.8m) relates to equity-settled share-based payment.

At 31 July 2009 the creditor relating to cash-settled schemes is £0.2m (2008: £1.5m).