

Financial performance

Interim results 2009

	Headline*				Statutory	
	2009 £m	2008 £m	Growth	Underlying#	2009 £m	2008 £m
Continuing activities						
Sales	1,292	1,088	19%	{3}%	1,292	1,088
Operating profit	185	158	17%	{10}%	160	170
Operating margin	14.3%	14.5%	–	–	12.4%	15.6%
Pre-tax profit	167	159	5%	{17}%	135	165
Basic EPS	32.5p	30.8p	6%		28.0p	34.3p
Free cash flow	104	26				
Dividend	10.5p	10.5p			10.5p	10.5p

*In addition to statutory reporting, Smiths Group reports its continuing operations on a headline basis. Headline profit is before exceptional items, amortisation of acquired intangible assets, profit/loss on disposal of businesses and financing gains/losses from currency hedging. Free cash flow is described in the Financial review. #Underlying figures are at constant currency and exclude the impact of acquisitions and disposals.

Key developments#

- Divisional restructuring programmes underway to reduce costs and improve customer service
- Rationalisation of the corporate HQ completed and greater divisional focus on delivering returns – total restructuring savings to date of £8m
- Upgrade of business systems including ERP for Detection, John Crane and Medical on track
- Underlying increase in Group R&D investment of 11% to £49m (reported increase of 29%)
- Extended our product portfolio and presence through two acquisitions, subject to regulatory approvals
- US\$175m of additional long-term debt capital raised in February to extend our maturity profile
- Strong free cash flow generation

Business highlights#

Smiths Detection

Reported sales up 5%; underlying sales down 11%

- As previously guided, revenue was distorted by variable order flow – particularly in ports and borders
- Strong sales of airport equipment to US and good military growth with orders for JCAD
- Margins adversely affected by currency transaction (£5m) and adverse cost absorption due to reduced volumes

John Crane

Reported sales up 39%; underlying sales up 6%

- Growth driven by ongoing demand from the oil and gas sector and robust aftermarket
- Restructuring initiatives delivered £3m savings
- Upstream energy services business created with CDI and Fiberod

Smiths Medical

Reported sales up 16%; underlying sales down 3%

- Single-use consumables proving more robust than hardware
- Operational improvements have reduced customer backorders to a five year low
- Decision to exit diabetes business informed by SKU and customer profitability review

Smiths Interconnect

Reported sales up 25%; underlying sales down 2%

- Several long-term military programmes have delivered revenue growth
- Offset by lower sales to wireless operators following a large contract last year
- First half margins constrained by restructuring costs

Flex-Tek

Reported sales up 12%; underlying sales down 11%

- Performance affected by deepening recession in US housing and household appliances although market share increased
- Continued growth in sales of components to the aircraft industry
- Rationalisation programme and other cost initiatives helping preserve margins