Independent review report to Smiths Group plc

Introduction
We have been engaged by the company to review the condensed set of financial statements in the Interim report for the period ended 31 January 2009, which comprises the consolidated income statement, consolidated balance sheet, consolidated statement of recognised income and expense, consolidated cash flow statement and related notes. We have read the other information contained in the Interim report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' responsibilities
The Interim report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the Interim report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority. As disclosed in note 1, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this Interim report has been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union.

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

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

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the Interim report for the period ended 31 January 2009 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

PricewaterhouseCoopers LLP
Chartered Accountants
London

24 March 2009

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

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

Consolidated income statement (unaudited)

	Notes	Period ended 31 January 2009 £m	Period ended 2 February 2008 £m	Year ended 31 July 2008 £m
Continuing operations				
Revenue	2	**1,291.6**	1,087.8	2,321.2
Cost of sales		**(705.0)**	(595.9)	(1,265.5)
Gross profit		**586.6**	491.9	1,055.7
Sales and distribution costs		**(186.1)**	(151.9)	(311.8)
Administrative expenses				
– normal activities		**(225.0)**	(191.5)	(396.4)
– provision for John Crane, Inc. litigation	4	**(16.2)**	(5.7)	(49.0)
Profit on disposal of businesses	4	**0.7**	27.0	27.2
Operating profit	2	**160.0**	169.8	325.7
Interest receivable		**8.0**	5.7	2.2
Interest payable		**(28.9)**	(25.5)	(43.2)
Other financing losses	3	**(6.3)**	(5.2)	(6.1)
Other finance income – retirement benefits		**2.4**	20.6	41.7
Finance costs		**(24.8)**	(4.4)	(5.4)
Share of post-tax losses of associated companies				(1.0)
Profit before taxation		**135.2**	165.4	319.3
Comprising				
– headline profit before taxation	3	**166.6**	158.9	380.3
– exceptional items	4			
• profit on disposal of businesses		**0.7**	27.0	27.2
• provision for John Crane, Inc. litigation		**(19.9)**	(8.2)	(53.7)
• other		**5.1**	(2.4)	(13.6)
– amortisation of acquired intangible assets		**(14.7)**	(7.2)	(19.2)
– other financing losses		**(2.6)**	(2.7)	(1.7)
		135.2	165.4	319.3
Taxation	5	**(26.2)**	(32.5)	(75.0)
Profit after taxation – continuing operations		**109.0**	132.9	244.3
(Loss)/profit after taxation – discontinued operations		**(0.1)**	8.5	24.5
Profit for the period		**108.9**	141.4	268.8
Attributable to				
Smiths Group shareholders		**108.6**	141.4	268.5
Minority interests		**0.3**		0.3
		108.9	141.4	268.8
Earnings per share	7			
Basic		**28.0p**	36.5p	69.3p
Basic – continuing operations		**28.0p**	34.3p	63.0p
Diluted		**27.7p**	36.0p	68.5p
Diluted – continuing operations		**27.7p**	33.8p	62.3p
Dividends per share (declared)	6			
– interim		**10.5p**	10.5p	10.5p
– final				23.5p
		10.5p	10.5p	34.0p

Consolidated statement of recognised income and expense (unaudited)

	Notes	**Period ended 31 January 2009 £m**	Period ended 2 February 2008 £m	Year ended 31 July 2008 £m
Exchange gain		**381.6**	78.7	89.5
Fair value gain on acquisition of former associate			0.2	0.4
Taxation recognised on share-based payment				
– current				5.2
– deferred		**(3.1)**	(3.6)	(3.8)
Actuarial losses on retirement benefits		**(412.3)**	(88.2)	(254.5)
Taxation recognised on actuarial losses – deferred		**84.0**	26.9	75.5
Fair value losses				
– on cash-flow hedges		**(15.9)**	(2.2)	(0.5)
– on net investment hedges		**(166.4)**	(40.1)	(47.5)
Net expense recognised directly in equity		**(132.1)**	(28.3)	(135.7)
Profit for the period		**108.9**	141.4	268.8
Total recognised income and expense		**(23.2)**	113.1	133.1
Attributable to				
Smiths Group shareholders	15	**(25.3)**	113.1	132.8
Minority interests		**2.1**		0.3
		(23.2)	113.1	133.1

Consolidated balance sheet (unaudited)

	Notes	31 January 2009 £m	2 February 2008 £m	31 July 2008 £m
Non-current assets				
Intangible assets	10	**1,614.1**	1,100.5	1,253.2
Property, plant and equipment	11	**358.4**	283.8	296.3
Investments accounted for using the equity method		**12.5**	10.3	9.1
Financial assets – other investments		**8.3**	0.2	3.6
Retirement benefit assets	8	**55.6**	306.6	174.2
Deferred tax assets		**163.7**	135.6	96.2
Trade and other receivables		**22.1**	17.3	14.6
Financial derivatives		**9.2**	3.7	1.4
		2,243.9	1,858.0	1,848.6
Current assets				
Inventories		**476.7**	382.2	380.3
Trade and other receivables		**650.4**	496.5	565.4
Cash and cash equivalents	12	**195.4**	142.6	132.5
Financial derivatives		**14.1**	6.8	6.5
		1,336.6	1,028.1	1,084.7
Total assets		**3,580.5**	2,886.1	2,933.3
Non-current liabilities				
Financial liabilities:				
– borrowings	12	**(978.6)**	(639.9)	(720.7)
– financial derivatives		**(0.7)**	(0.2)	(0.1)
Provisions for liabilities and charges	13	**(253.2)**	(166.7)	(200.6)
Retirement benefit obligations	8	**(519.8)**	(184.9)	(184.7)
Deferred tax liabilities		**(6.7)**	(130.3)	(64.3)
Trade and other payables		**(36.2)**	(23.0)	(27.5)
		(1,795.2)	(1,145.0)	(1,197.9)
Current liabilities				
Financial liabilities:				
– borrowings	12	**(191.9)**	(177.6)	(182.4)
– financial derivatives		**(100.3)**	(29.7)	(21.5)
Provisions for liabilities and charges	13	**(86.9)**	(88.0)	(70.0)
Trade and other payables		**(435.3)**	(375.8)	(420.7)
Current tax payable		**(153.0)**	(139.1)	(122.6)
		(967.4)	(810.2)	(817.2)
Total liabilities		**(2,762.6)**	(1,955.2)	(2,015.1)
Net assets		**817.9**	930.9	918.2
Shareholders' equity				
Share capital		**145.9**	145.5	145.5
Share premium account		**306.6**	302.9	303.6
Capital redemption reserve		**5.8**	5.7	5.8
Revaluation reserve		**1.7**	1.7	1.7
Merger reserve		**234.8**	234.8	234.8
Retained earnings		**330.7**	261.7	253.7
Hedge reserve		**(212.0)**	(23.5)	(29.2)
Total shareholders' equity	15	**813.5**	928.8	915.9
Minority interest equity		**4.4**	2.1	2.3
Total equity		**817.9**	930.9	918.2

Consolidated cash-flow statement (unaudited)

	Notes	**Period ended 31 January 2009 £m**	Period ended 2 February 2008 £m	Year ended 31 July 2008 £m
Net cash inflow from operating activities	16	**131.7**	64.3	198.1
Cash-flows from investing activities				
Expenditure on capitalised development		**(9.7)**	(8.4)	(19.8)
Expenditure on other intangible assets		**(7.3)**	(7.4)	(16.1)
Purchases of property, plant and equipment		**(28.9)**	(25.9)	(64.2)
Disposal of property, plant and equipment		**17.3**	2.0	2.7
Investment in financial assets		**(0.1)**		(3.4)
Proceeds from sale of financial assets			1.0	1.1
Acquisition of businesses		**(39.7)**	(18.8)	(149.7)
Disposal of Aerospace		**(0.1)**	(5.1)	(6.3)
Disposals of businesses		**(0.6)**	42.2	43.2
Net cash-flow used in investing activities		**(69.1)**	(20.4)	(212.5)
Cash-flows from financing activities				
Proceeds from exercise of share options		**3.6**	17.3	21.0
Purchase of own shares			(20.7)	(20.7)
Dividends paid to equity shareholders		**(91.1)**	(90.8)	(131.4)
Cash paid to shareholders under B share scheme				(16.4)
Cash outflow from matured derivative financial instruments		**(44.9)**		
Increase in new borrowings		**198.6**	99.3	135.9
Reduction and repayment of borrowings		**(65.0)**	(47.6)	(11.0)
Net cash-flow used in financing activities		**1.2**	(42.5)	(22.6)
Net increase in cash and cash equivalents		**63.8**	1.4	(37.0)
Cash and cash equivalents at beginning of period		**(40.0)**	3.1	3.1
Exchange differences		**(1.2)**	(0.4)	(6.1)
Cash and cash equivalents at end of period		**22.6**	4.1	(40.0)
Cash and cash equivalents at end of period comprise				
– cash at bank and in hand		**182.8**	124.4	122.5
– deposits		**12.6**	18.2	10.0
– bank overdrafts		**(172.8)**	(138.5)	(172.5)
		22.6	4.1	(40.0)

Notes to the Interim report (unaudited)

1 Basis of preparation

The condensed interim financial information covers the six month period ended 31 January 2009 and has been prepared under International Financial Reporting Standards (IFRS) as adopted by the European Union, in accordance with International Accounting Standard 34 'Interim Financial Reporting' and the Disclosure and Transparency Rules of the Financial Services Authority. It is unaudited but has been reviewed by the auditors and their report is attached to this document.

The interim financial information does not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006. It should be read in conjunction with the statutory accounts for the year ended 31 July 2008, which were prepared in accordance with IFRS as adopted by the European Union and have been filed with the Registrar of Companies. The auditors' report on these statutory accounts was unqualified and did not contain a statement under Section 237(2) or (3) of the Companies Act 1985.

Accounting policies

The condensed interim financial information has been prepared on the basis of the accounting policies applicable for the year ending 31 July 2009. These accounting policies are consistent with those applied in the preparation of the financial statements for the year ended 31 July 2008, except for the adoption of 'IFRS 8: Operating Segments'. Adoption of this standard has required changes to the segment information disclosures in note 2.

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

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.

Smiths divisions design and manufacture the following products:

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

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

Intersegment sales and transfers are charged at arms length prices.

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

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

Period ended 2 February 2008

	Smiths Detection £m	John Crane £m	Smiths Medical £m	Smiths Interconnect £m	Flex-Tek £m	Other £m	Total £m
Revenue	222.0	282.8	346.3	121.1	99.6	16.0	1,087.8
Divisional headline operating profit	35.0	40.7	66.8	23.3	10.5	0.8	177.1
Corporate headline operating costs							(19.0)
Headline operating profit	35.0	40.7	66.8	23.3	10.5	0.8	158.1
Divisional exceptional operating items (note 4)	(0.1)	(6.1)	(2.4)	(0.1)		27.6	18.9
Amortisation of acquired intangible assets	(0.2)	(0.6)	(5.5)	(0.9)			(7.2)
Operating profit	34.7	34.0	58.9	22.3	10.5	28.4	169.8
Exceptional finance costs – adjustment to discounted provision (note 4)		(2.5)					(2.5)
Net finance costs – other							(1.9)
Share of post tax losses of associate companies	(0.4)	0.4					
Profit before taxation							165.4

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 of associate companies	(1.4)	0.4					(1.0)
Profit before taxation							319.3

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

Period ended 31 January 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	**102.3**	**100.0**	**209.2**	**30.7**	**33.3**	**475.5**
Investments in associates	**12.5**					**12.5**
Working capital assets	**331.7**	**316.4**	**308.5**	**106.5**	**73.9**	**1,137.0**
Operating assets	**446.5**	**416.4**	**517.7**	**137.2**	**107.2**	**1,625.0**
Derivatives, tax and retirement benefit assets						**242.6**
Goodwill and acquired intangibles						**1,488.9**
Corporate assets						**28.6**
Cash						**195.4**
Total assets						**3,580.5**

Notes to the Interim report (unaudited) continued

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

	Smiths Detection £m	John Crane £m	Smiths Medical £m	Smiths Interconnect £m	Flex-Tek £m	Total £m
						Period ended 2 February 2008
Property, plant, equipment, development projects and other intangibles	71.7	71.1	155.3	24.8	25.2	348.1
Investments in associates	10.3					10.3
Working capital assets	263.2	216.3	270.9	77.7	57.2	885.3
Operating assets	345.2	287.4	426.2	102.5	82.4	1,243.7
Derivatives, tax and retirement benefit assets						452.7
Goodwill and acquired intangibles						1,013.4
Corporate assets						33.7
Cash						142.6
Total assets						2,886.1

	Smiths Detection £m	John Crane £m	Smiths Medical £m	Smiths Interconnect £m	Flex-Tek £m	Total £m
						Year ended 31 July 2008
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

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. Normal restructuring costs are charged against profits.

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 are not offset by exchange gains and losses on trading transactions.

	Period ended 31 January 2009 £m	Period ended 2 February 2008 £m	Year ended 31 July 2008 £m
Other financing gains and losses			
Financing gains and losses on financial instruments	**(2.6)**	(2.7)	(1.4)
Exceptional finance costs – adjustment to discounted provision (note 4)	**(3.7)**	(2.5)	(4.7)
Other financing gains/(losses)	**(6.3)**	(5.2)	(6.1)
Financing gains and losses in operating profit			
Financing gains and losses on financial instruments			(0.3)
	(6.3)	(5.2)	(6.4)

Financing gains and losses on financial instruments in other financing gains and losses represent the exchange gains and losses on intra-group financing and the results of derivatives and other financial instruments which are used to manage these exchange exposures.

4 Exceptional items

Items which are material either because of their size or their nature, or which are non-recurring, are presented within their relevant consolidated income statement category, but highlighted separately on the face of the income statement. The separate reporting of exceptional items helps provide a better picture of the 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;
- significant goodwill or other asset impairments;
- income and expenditure relating to John Crane, Inc. asbestos litigation; and
- other particularly significant or unusual items.

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

	Period ended 31 January 2009 £m	Period ended 2 February 2008 £m	Year ended 31 July 2008 £m
Operating items			
Restructuring of corporate and divisional headquarters	**(8.4)**		(4.5)
Integration of acquisitions		(2.4)	(9.1)
Profit on disposal of businesses	**0.7**	27.0	27.2
Profit on disposal of property	**13.5**		
Litigation			
– Provision for John Crane, Inc. litigation (note 13)	**(16.2)**	(5.7)	(49.0)
	(10.4)	18.9	(35.4)
Financing items			
Exceptional finance costs – adjustment to discounted provision (note 13)	**(3.7)**	(2.5)	(4.7)
	(14.1)	16.4	(40.1)

On 3 June 2008 the Company announced a number of changes to its corporate centre and divisional headquarters. The total cost of this restructuring including redundancy, relocation and consolidation of manufacturing, is considered exceptional by virtue of its size. It is now expected to amount to approximately £48m over the period to 2010, of which £8.4m has been charged in the current period.

The profit on disposal of businesses represents adjustments to provisions in respect of prior year disposals.

The profit on disposal of property relates to the sale of land in Basingstoke.

The operating charge in respect of John Crane, Inc. litigation comprises £8.6m arising from movements in discounting due to changes in US interest rates (period ended 2 February 2008: £5.7m), £6.5m in respect of increased provision for adverse legal judgments and £1.1m in respect of legal fees in connection with litigation against insurers.

5 Taxation

The interim tax charge of 19.4% is calculated by applying the estimated effective headline tax rate of 24.0% for the year ending 31 July 2009 to headline profit before tax and then taking into account the tax effect of non-headline items in the interim period.

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

	Period ended 31 January 2009		Period ended 2 February 2008		Year ended 31 July 2008	
	Continuing operations £m	**Tax rate**	Continuing operations £m	Tax rate	Continuing operations £m	Tax rate
Profit before taxation	**135.2**		165.4		319.3	
Taxation	**(26.2)**	**19.4%**	(32.5)	19.6%	(75.0)	23.5%
Adjustments						
Non-headline items excluded from profit before taxation (note 7)	**31.4**		(6.5)		61.0	
Taxation on non-headline items	**(13.8)**		(7.2)		(16.3)	
Headline						
Headline profit before taxation	**166.6**		158.9		380.3	
Taxation on headline profit	**(40.0)**	**24.0%**	(39.7)	25.0%	(91.3)	24.0%

Notes to the Interim report (unaudited) continued

6 Dividends

The following dividends were declared and paid in the period:

	Period ended 31 January 2009 £m	Period ended 2 February 2008 £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	90.8
Ordinary interim dividend 10.50p for 2008 paid 25 April 2008			40.6
	91.1	90.8	131.4

An interim dividend of 10.5p per share (2008: 10.5p) was declared by the Board on 24 March 2009 and will be paid to shareholders on 24 April 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 the close of business on 3 April 2009.

7 Earnings per share

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

	Period ended 31 January 2009 £m	Period ended 2 February 2008 £m	Year ended 31 July 2008 £m
Profit/(loss) for the period			
– continuing	**108.7**	132.9	244.0
– total	**108.6**	141.4	268.5
Average number of shares in issue during the period	**388,556,061**	387,070,514	387,446,186

Diluted earnings per share are calculated by dividing the profit attributable to equity shareholders by 391,369,103 (period ended 2 February 2008: 393,138,707; period ended 31 July 2008: 391,851,712) ordinary shares, being the average number of ordinary shares in issue during the period, adjusted by the dilutive effect of share options.

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

	Period ended 31 January 2009		Period ended 2 February 2008		Year ended 31 July 2008	
	Continuing operations £m	EPS (p)	Continuing operations £m	EPS (p)	Continuing operations £m	EPS (p)
Attributable to equity shareholders of the Parent Company	**108.7**	**28.0**	132.9	34.3	244.0	63.0
Exclude						
– exceptional operating items (note 4)	**10.4**		(18.9)		35.4	
– amortisation of acquired intangible assets	**14.7**		7.2		19.2	
– financing gains – charged to administrative expenses					0.3	
– exceptional finance cost – adjustment to discounted provision (note 4)	**3.7**		2.5		4.7	
– charged to financing	**2.6**		2.7		1.4	
	31.4		(6.5)		61.0	
less tax on non-headline items	**(13.8)**		(7.2)		(16.3)	
	17.6	**4.5**	(13.7)	(3.5)	44.7	11.5
Headline	**126.3**	**32.5**	119.2	30.8	288.7	74.5
Headline EPS – diluted (p)		**32.2**		30.3		73.7

8 Post-retirement benefits

Smiths operates a number of defined benefit plans throughout the world. The principal schemes are in the United Kingdom and in the United States and are of the defined benefit type, with assets held in separate trustee-administered funds. The principal changes to the assumptions used in updating the valuations for defined benefit pension plans are as follows:

	31 January 2009		2 February 2008		31 July 2008	
	UK	**US**	UK	US	UK	US
Rate of increase in salaries	**3.8%**	**3.8%**	4.3%	3.8%	4.1%	3.8%
Rate of increase in pensions in payment	**3.3%**	**n/a**	3.3%	n/a	3.6%	n/a
Rate of increase in deferred pensions	**3.3%**	**n/a**	3.3%	n/a	3.5%	n/a
Discount rate	**6.6%**	**6.4%**	6.2%	6.3%	6.6%	6.8%
Inflation rate	**3.3%**	**3.3%**	3.3%	2.8%	3.6%	3.3%

An operating charge of £11.7m and an interest credit of £2.4m have been recognised in the six month period to 31 January 2009 in respect of defined benefit pension and post-retirement healthcare plans.

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

The amounts recognised in the balance sheet were as follows:

	31 January 2009 £m	2 February 2008 £m	31 July 2008 £m
Market value of funded plan assets	**2,637.1**	3,245.7	2,959.9
Present value of funded scheme liabilities	**(2,966.0)**	(3,000.9)	(2,856.5)
Unfunded pension plans	**(59.0)**	(55.8)	(54.4)
Post-retirement healthcare	**(74.8)**	(64.9)	(58.0)
Unrecognised asset due to surplus restriction	**(1.5)**	(2.4)	(1.5)
Net retirement benefit asset	**(464.2)**	121.7	(10.5)
Retirement benefit assets	**55.6**	306.6	174.2
Retirement benefit liabilities	**(519.8)**	(184.9)	(184.7)
Net retirement benefit asset	**(464.2)**	121.7	(10.5)

9 Acquisitions

On 10 November 2008 the Medical division acquired the entire share capital of Zhejiang Zheda Medical Instrument Co. Ltd a manufacturer of medical instruments based in Hangzhou, China. The acquisition will trade as Smiths Medical Zhejiang.

The values set out below are provisional pending finalisation of the fair values attributable, and will be finalised in subsequent periods.

	Book value £m	Fair value adjustments £m	Provisional fair value £m
Non-current assets			
– Intangible assets		**19.1**	**19.1**
– Property, plant and equipment	**0.6**		**0.6**
Current assets			
– Cash and cash equivalents	**6.6**		**6.6**
– Other current assets	**2.0**	**(0.1)**	**1.9**
Current liabilities			
– Other current liabilities	**(2.1)**		**(2.1)**
Net assets acquired	**7.1**	**19.0**	**26.1**
Goodwill on current year acquisitions			**18.3**
Goodwill adjustment on prior year acquisitions			**(0.4)**
			44.0

Cash paid during the period – current year acquisitions	**43.6**
Direct costs relating to current year acquisitions	**0.8**
Deferred consideration adjustments on prior year acquisitions	**(0.4)**
Total consideration	**44.0**

Notes to the Interim report (unaudited) continued

9 Acquisitions continued

The fair value adjustments in respect of intangible assets are due to the recognition of £15.2m in respect of customer relationships and £3.9m in respect of technology. The fair value adjustments are provisional, based on management's best estimates.

The goodwill is attributable to the future growth opportunities which can be generated through Smiths Medical's global sales network.

From the date of acquisition to 31 January 2009 the acquisitions contributed £2.0m to revenue, £1.2m to headline profit before taxation and £1.2m to profit before taxation. If Smiths had acquired the assets at 1 August 2008, the acquisitions would have contributed £3.9m to revenue and £2.4m to profit for the period.

10 Intangible assets

	Goodwill £m	Development costs £m	Acquired intangibles £m	Other £m	Total £m
Cost					
At 31 July 2008	1,071.8	73.5	212.8	94.3	1,452.4
Exchange adjustments	283.1	21.3	69.4	13.5	387.3
Business combinations	18.3		19.1		37.4
Adjustments to prior year business combinations	(0.4)				(0.4)
Additions		9.7		7.3	17.0
At 31 January 2009	**1,372.8**	**104.5**	**301.3**	**115.1**	**1,893.7**
Amortisation					
At 31 July 2008	82.1	18.8	50.6	47.7	199.2
Exchange adjustments	20.7	5.6	17.1	13.1	56.5
Charge for the period		5.4	14.7	3.8	23.9
At 31 January 2009	**102.8**	**29.8**	**82.4**	**64.6**	**279.6**
Net book value at 31 January 2009	**1,270.0**	**74.7**	**218.9**	**50.5**	**1,614.1**
Net book value at 2 February 2008	907.9	46.2	105.5	40.9	1,100.5
Net book value at 31 July 2008	989.7	54.7	162.2	46.6	1,253.2

11 Property, plant and equipment

	Land and buildings £m	Plant and machinery £m	Fixtures, fittings, tools and equipment £m	Total £m
Cost				
At 31 July 2008	171.4	389.9	189.2	750.5
Exchange adjustments	36.3	101.6	35.9	173.8
Reclassification		4.9	(4.9)	
Business combinations	0.4	0.2		0.6
Additions	4.4	14.7	9.8	28.9
Disposals	(2.7)	(8.1)	(4.1)	(14.9)
At 31 January 2009	**209.8**	**503.2**	**225.9**	**938.9**
Depreciation				
At 31 July 2008	60.7	258.5	135.0	454.2
Exchange adjustments	15.6	65.8	25.8	107.2
Reclassification		3.8	(3.8)	
Charge for the period	3.1	16.7	10.5	30.3
Disposals	(0.3)	(7.5)	(3.4)	(11.2)
At 31 January 2009	**79.1**	**337.3**	**164.1**	**580.5**
Net book value at 31 January 2009	**130.7**	**165.9**	**61.8**	**358.4**
Net book value at 2 February 2008	104.2	130.9	48.7	283.8
Net book value at 31 July 2008	110.7	131.4	54.2	296.3

12 Cash and borrowings

The net debt figure includes accrued interest and the fair value adjustments relating to hedge accounting.

	31 January 2009 £m	2 February 2008 £m	31 July 2008 £m
Cash and cash equivalents			
Net cash and deposits	**195.4**	142.6	132.5
Short-term borrowings			
Bank overdrafts including impact of cash pooling gross up	**(172.8)**	(138.5)	(172.5)
Bank and other loans	**(3.8)**	(4.3)	(3.8)
B shares		(18.5)	(1.7)
Interest accrual	**(15.3)**	(16.3)	(4.4)
	(191.9)	(177.6)	(182.4)
Long-term borrowings			
7.875% Sterling Eurobond 2010	**(149.7)**	(149.6)	(149.6)
7.25% Sterling Eurobond 2016	**(148.9)**	(148.8)	(148.8)
5.45% US$ Private Placement 2013	**(181.5)**	(130.7)	(127.4)
Floating Rate Revolving Credit Facility 2012 (multi-currency)	**(411.4)**	(128.0)	(210.2)
EIB Sterling R. & D. Loan 2010	**(70.0)**	(70.0)	(70.0)
Bank and other loans	**(17.1)**	(12.8)	(14.7)
	(978.6)	(639.9)	(720.7)
Borrowings	**(1,170.5)**	(817.5)	(903.1)
Net debt	**(975.1)**	(674.9)	(770.6)

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 £118.6m at 31 January 2009 (2 February 2008: £98.8m; 31 July 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 January 2009 £m**
Net cash and cash equivalents	(40.0)	(1.2)	63.8					**22.6**
Other short-term borrowings	(9.9)	(0.1)	0.3		(9.2)		(0.2)	**(19.1)**
Long-term borrowings	(720.7)	(116.6)	64.7	(198.6)	(0.2)	(7.4)	0.2	**(978.6)**
Net debt	(770.6)	(117.9)	128.8	(198.6)	(9.4)	(7.4)		**(975.1)**

The net cash inflow includes £6.6m of cash acquired with new subsidiary undertakings.

Borrowing facilities

At the balance sheet date the Group had undrawn credit facilities of £248.6m which expire in 2012. In February the Group raised additional long term debt, increasing the undrawn credit facilities, see note 18.

Notes to the Interim report (unaudited) continued

13 Provisions for liabilities and charges

	At 31 July 2008 £m	Exchange adjustments £m	Provisions charged £m	Provisions released £m	Discounting £m	Utilisation £m	**At 31 January 2009 £m**
Warranty provision and product liability	46.2	7.4	10.8	(3.6)		(9.0)	**51.8**
Reorganisation	9.8	2.4	2.3			(3.1)	**11.4**
Property	3.5	0.1	0.6	(0.2)		(0.2)	**3.8**
Disposal	47.4						**47.4**
Litigation	163.7	57.6	16.9	(0.9)	3.7	(15.3)	**225.7**
	270.6	67.5	30.6	(4.7)	3.7	(27.6)	**340.1**

Analysed as:

	31 January 2009 £m	2 February 2008 £m	31 July 2008 £m
Current liabilities	**86.9**	88.0	70.0
Non-current liabilities	**253.2**	166.7	200.6
	340.1	254.7	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

Reorganisation provisions include £5.4m relating to the corporate and divisional headquarters restructuring (see note 4) and £6.0m costs relating to restructuring supply arrangements following the automotive seals disposal, which are expected to be spread over the next six years.

Litigation

John Crane, Inc.

John Crane, Inc. ("JCI") is one of many co-defendants in litigation relating to 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 substantial excess liability insurance remains in place, the exact scope of the cover is currently the subject of litigation in the US. An adverse judgment at first instance from the Circuit Court of Cook County, Illinois is currently under appeal. In the meantime JCI is meeting defence costs directly, but intends to seek appropriate contribution from insurers in due course. 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 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. JCI has resisted every case in which it has been named and will continue its robust defence of all asbestos-related claims based upon this 'safe product' defence. As a result of its defence policy, JCI has been dismissed before trial from cases involving approximately 165,000 claims over the last 30 years. JCI is currently a defendant in cases involving approximately 130,000 claims. JCI has had final judgments against it, after appeals, in only 74 cases, amounting to awards of some US$78m over the 30 year period.

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

- The periods over which the costs can be reliably estimated. Projections used range between 10 and 20 years.
- The future trend of legal costs allowing for 3% cost inflation.
- The rate of future claims.
- The rate of successful resolution of claims.
- The average level of judgments.

The provision is based on past history and allows for decreasing costs based on published tables of asbestos incidence projections. In the light of the significant uncertainty associated with asbestos claims, there can be no guarantee that the assumptions used to estimate the provision will be an accurate prediction of the actual costs that may be incurred and, as a result, the provision may be subject to revision from time to time as more information becomes available.

13 Provisions for liabilities and charges continued

John Crane, Inc. continued

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

	31 January 2009 £m	2 February 2008 £m	31 July 2008 £m
Gross provision	**251.8**	142.2	185.9
Discount	**(50.5)**	(39.0)	(47.0)
Discounted pre-tax provision	**201.3**	103.2	138.9
Deferred tax	**(52.3)**	(39.2)	(37.5)
Discounted post-tax provision	**149.0**	64.0	101.4

The movement in discounting on this provision comprises £8.6m relating to the change in the discount rate, which is recognised in exceptional operating items (note 4), and £3.7m relating to the unwinding of the discounting, which is recognised in exceptional finance costs (note 3). Movements in exchange rates in the period have increased the gross provision by £68.7m and the discounted pre-tax provision by £52.7m.

Other litigation

The Group has on occasion been required to take legal action to protect its patents and other business intellectual property 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. Most of the balance is expected to be utilised within the next five years.

Apart from that relating to John Crane, Inc., none of the other provisions is discounted.

14 Contingent liabilities

As stated in note 13, John Crane, Inc. ("JCI") is involved in numerous law suits pending in the United States in which plaintiffs are claiming damages arising from exposure to, or use of, products containing asbestos.

Provision has been made for the cost of adverse judgments expected to occur within the next ten years. The Group anticipates that asbestos litigation will continue beyond this period; however, because of the uncertainty surrounding the outcome of litigation beyond this period, the cost of adverse judgments cannot be reliably predicted.

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

15 Changes in shareholders' equity

	Period ended 31 January 2009 £m	Period ended 2 February 2008 £m	Year ended 31 July 2008 £m
At beginning of period	**915.9**	903.3	903.3
Exercises of share options	**3.6**	17.3	21.0
Purchase of own shares		(20.7)	(20.7)
Conversion and redemption of B shares	**1.7**		
Total recognised income and expenses for the period	**(25.3)**	113.1	132.8
Dividends paid to equity shareholders	**(91.1)**	(90.8)	(131.4)
Dilution of interest in associated company			(0.9)
Share-based payment	**8.7**	6.6	11.8
At end of period	**813.5**	928.8	915.9

Notes to the Interim report (unaudited) continued

16 Cash-flows from operating activities

	Period ended 31 January 2009 £m	Period ended 2 February 2008 £m	Year ended 31 July 2008 £m
Profit before taxation – continuing operations	**135.2**	165.4	319.3
Profit before taxation – discontinued operations	**(0.1)**	8.9	26.8
	135.1	174.3	346.1
Net interest payable	**20.9**	19.8	41.0
Financing losses/(gains)			
– charged to administrative expenses			0.3
– charged to financing	**6.3**	5.2	6.1
Share of post-tax loss from associate			1.0
Other finance income – retirement benefits	**(2.4)**	(20.6)	(41.7)
Loss/(profit) on disposal of discontinued operation	**0.1**	(8.9)	(26.8)
	160.0	169.8	326.0
Amortisation of intangible assets	**23.9**	12.5	31.0
Profit on disposal of property, plant and equipment	**(13.6)**		(0.3)
Profit on disposal of business	**(0.7)**	(27.0)	(27.2)
Depreciation of property, plant and equipment	**30.3**	24.0	53.2
Impairment of property, plant and equipment			0.3
Share-based payment expense	**8.5**	6.6	12.9
Retirement benefits	**(7.8)**	(5.9)	(37.0)
Increase in inventories	**(7.7)**	(38.9)	(21.4)
Decrease/(increase) in trade and other receivables	**34.7**	30.8	(10.0)
Decrease in trade and other payables	**(57.8)**	(60.2)	(56.9)
(Decrease)/increase in provisions	**(1.7)**	5.3	49.9
Cash generated from operations	**168.1**	117.0	320.5
Interest	**(9.5)**	(10.2)	(48.6)
Tax paid	**(26.9)**	(42.5)	(73.8)
Net cash inflow from operating activities	**131.7**	64.3	198.1

17 Related party transactions

There were no significant changes in the nature and size of related party transactions for the period to those disclosed in the Annual Report for the year ended 31 July 2008.

18 Events after the balance sheet date

On 26 February 2009 the Group completed the raising of additional long-term debt capital from the issue of US$175m of Senior Notes in the US private placement market with a fixed 9 year maturity and a fixed coupon of 7.37%.

During the week beginning 23 February 2009 the Group announced to affected employees its decision to close the US defined benefit pension plans. This decision will take effect from 30 April. From that date no further benefits will accrue under these plans.

The Group has agreed, subject to regulatory approval, to acquire Shenzhen Dowin Lightning Technologies Co., Ltd., a Chinese based manufacturer of power and signal protection devices for Smiths Interconnect. The company had sales of RMB 110m in 2008.

In March 2009 the Group decided to cease manufacturing and selling the Cozmo diabetes pump. In the year ended 31 July 2008 this activity contributed £36m to revenue. This decision will be reflected in the Smiths Medical results for the year ended 31 July 2009.