

**News Release**

London, Wednesday 27 September 2006  
For immediate release

**Smiths Group plc**

765 Finchley Road London NW11 8DS  
T: +44 (0)20 8457 8403 F: +44 (0)20 8458 0680  
www.smiths-group.com

**Smiths reports continued strong growth in sales and headline earnings in 2006, and raises the annual dividend by 8.1%**

Preliminary 2006 results (unaudited)

£m	2006		2005	
	Headline*	Statutory	Headline*	Statutory
Sales	<b>3,523</b>		3,005	
Operating profit	<b>520</b>	<b>161</b>	416	382
Pre-tax profit	<b>492</b>	<b>132</b>	404	366
Basic EPS (p)	<b>64.8p</b>	<b>4.3p</b>	52.8p	48.3p
Annual dividend (pps)	<b>31.35p</b>		29.0p	

*\* In addition to statutory reporting, Smiths Group reports on a headline basis, a measure which shows underlying performance. Headline profit is stated before exceptional items (including impairment of assets), amortisation of acquired intangible assets and financing gains or losses from currency hedging.*

**Summary**

In financial year 2006, Smiths Group sales increased by 17%, of which half came from underlying growth. On a headline basis, operating profit increased by 25%, raising the margin on sales by one percent to 14.8%, pre-tax profit increased by 22% and EPS by 23%. On the same basis, conversion of operating profit into operating cash was at 81%. Statutory earnings were reduced by the decision to write down the carrying value of the company's preference shares in TI Automotive Ltd. Company-funded R&D spend increased by 35% to £193m, reflecting significant investment in new product development which will generate long-term growth. The Board is recommending the final dividend be raised to 21.5p, bringing the total dividend for the year to 31.35p, an increase of 8.1% - marking 36 years of successive increases.

Commenting on the results, Keith Butler-Wheelhouse, Chief Executive said: **“Once again, Smiths has achieved double-digit sales growth while improving the profit margin. We have generated a strong operating cash-flow in 2006 at a time of substantial investment in new product development and in global manufacturing. The dividend increase is a reflection of the Board’s confidence in the outlook for the current year.”**

-0-

Media: Chris Fox  
+44 (0) 20 8457 8403  
chris.fox@smiths-group.com

Investors: Russell Plumley  
+44 (0) 20 8457 8203  
russell.plumley@smiths-group.com

A meeting with analysts will be webcast at 9:00am UK time today on [www.smiths-group.com/prelims2006](http://www.smiths-group.com/prelims2006) and archived there soon after the event. A short interview with the Chief Executive and FD can be seen on the same url or on [www.cantos.com](http://www.cantos.com).

## **Smiths Group: Preliminary Results 2006**

### **Commentary on performance**

#### **Sales**

In the 2006 financial year, Smiths Group sales increased by 17% to £3,523m (2005: £3,005m), with all divisions achieving double-digit growth. Underlying sales, excluding year-on-year acquisition and currency translation effects, grew by 9%, reflecting the gains being derived from the company's "Full Potential" initiatives, and healthy demand in each of its market sectors. The total includes a net contribution of £159m from acquisitions and disposals, notably the additional eight months' sales by Medex. The translation of foreign currency sales at more favourable exchange rates than in 2005, primarily due to the strengthening of the US dollar, contributed £68m.

#### **Headline profits**

In addition to statutory reporting (detailed below), Smiths reports its earnings on a headline basis to provide additional information on underlying trends.

Headline operating profit increased by 25% to £520m (£416m). Underlying operating profit, excluding year-on-year acquisition and currency effects, grew by 11%, benefiting from the company's strategy of focusing on market sectors with high growth potential. The net contribution from acquisitions and disposals was £36m and the contribution from currency translation was £11m. The company's headline net operating margin on sales improved by 100 basis points to 14.8% (13.8%).

The net interest charge on debt for the year amounted to £54m (£23m). The increase was primarily due to the cost of financing acquisitions, including Medex for the full year, although rising US interest rates were also a factor. The interest charge is 9.6 times covered by headline operating profit.

The company recorded a pensions financing gain of £28m (£11m), reflecting the strengthened funding position of the retirement benefit schemes. In accordance with IAS 19, the financing gain is now net of administration costs, which were previously included in the service cost and charged to operating profit.

Headline pre-tax profit increased by 22% to £492m (£404m) and headline EPS by 23% to 64.8p (52.8p). The company's effective tax rate on headline profit for the year was 26%. The Board has recommended a final dividend of 21.5p, an increase of 8.9%, bringing total dividends for the year to 31.35p, an increase of 8.1%. This dividend is covered two times by headline earnings per share and will mark the 36<sup>th</sup> consecutive year that the Smiths dividend has been increased.

## **Smiths Group: Preliminary Results 2006**

### **Statutory profits**

On a statutory reporting basis, operating profit was £161m (£382m), pre-tax profit was £132m (£366m) and earnings per share were 4.3p (48.3p). These results take account of a number of items regarded by Smiths as exceptional in nature or not part of the company's headline performance measures. In total they amount to £360m, of which £325m were non-cash items.

Recognising continued deterioration in the automotive component market, particularly in the US, an impairment review of the preference share investment in TI Automotive has been undertaken, as required by IAS 39.

The preference shares have not yet borne any dividends, and it is considered unlikely that dividends will be paid in the foreseeable future. Similarly, there is no current prospect of the preference shares being redeemed. The Board has also considered whether cash-flows could accrue from the investment in TI Automotive were the enterprise to be sold; such a sale is not currently considered sufficiently probable to take into account any cash-flows which could accrue in such an event.

As a result, the Board has decided to write down the carrying value of the investment in the TI Automotive preference shares from £325m to nil value in the accounts. There is no cash impact from this decision.

As indicated earlier, the further integration of Medex led to a charge of £19m (£10m), including provision for plant closures. There was a (non-cash) charge of £17m (£6m) for the amortisation of acquired intangible assets. The company has also made a provision of £12m for the settlement of an industry-wide class action in the US relating to a product made by Titeflex in the Specialty Engineering division (detailed in Legal Matters). There were financing losses of £3m (2005: £4m) from the impact of derivatives and other financial instruments not hedge accounted under IFRS. The company recorded a profit of £16m (£9m) on the disposal of businesses during the year.

### **Cash and debt**

Smiths generated a strong headline operating cash-flow in 2006. At £420m, it represents an 81% conversion ratio from headline operating profit (2005: 62% on an IFRS basis). Headline operating cash is measured after expenditure on property, plant & equipment and development costs, and before the integration costs of acquisitions and special pension payments. On this basis, the company is now targeting a minimum 75% conversion ratio for the years ahead.

## **Smiths Group: Preliminary Results 2006**

Cash expenditure on exceptional items was £17m (£10m) and, in addition, the company made a £61m special pension contribution (detailed later). Free cash-flow, after interest and tax, was £170m (£147m). Dividend payments were £167m (£155m) during the year and net acquisition/disposal expenditure was £46m (£598m).

Net debt at the year-end amounted to £923m (£931m), of which, after currency swaps, some 42% is US dollar denominated and some 62% is at variable rates of interest.

### **Research & Development**

As an applied technology company, Smiths "Full Potential" strategy is to develop engineered solutions that best meet customer requirements. Investment in Research & Development drives future performance and is a measure of the company's commitment to achieving long-term organic growth. In 2006, company-funded R&D amounted to £193m (£143m), or 5.5% of total sales, of which £108m was charged against operating profit in the year, making a total charge of £116m for the year, after amortisation and deferred income. Additional customer-funding of development programmes increased to £159m (£152m). Under IFRS, certain development costs are capitalised and then amortised against deliveries to customers. The net effect of this accounting treatment in 2006 was to add £77m (£43m) to the balance sheet. Major development programmes included the Boeing 787 and Airbus A380 commercial jets, which have been capitalised, and the Boeing 767 Global Tanker, which has been expensed. As these aircraft move closer towards production, related R&D is expected to decline.

### **Retirement benefits**

The company's funded pension schemes around the world moved into an overall surplus of £75m in 2006, from a deficit of £109m in the prior year. Including post retirement healthcare and unfunded pension schemes, the overall post-retirement liabilities represent a net £60m deficit on the balance sheet compared with a £255m deficit in the prior year. During the year, scheme mergers took place involving several small underfunded schemes in the UK, and the company contributed £61m in cash to facilitate these mergers. Also during the year, UK mortality assumptions were updated, including an allowance for future longevity increases. Altogether, the company contributed £110m (£52m) to the funded pension schemes.

## Smiths Group: Preliminary Results 2006

### Operating review

Productivity has continued to improve as Smiths establishes new, lower cost production facilities in emerging markets throughout the world. Sales per employee, averaged through the year, reached £112,000 (£105,000). At the year-end, the company employed 31,800 (30,600), including 14,600 in the US and 7,300 in the UK. The US is the company's largest market, accounting for 54% of total sales by origin and 61% of headline operating profit. Direct exports worldwide from the UK were £587m (£529m).

### Smiths Aerospace

£m	2006	2005
Sales	1,300	1,146
Headline operating profit	152	132

Smiths Aerospace sales increased by 13%, or 10% excluding currency and acquisition effects, reflecting strong underlying growth across the business. The headline operating margin on sales remained steady, with the benefit from higher volumes offset by higher R&D investment.

Smiths Aerospace Systems designs, manufactures and provides in-service support for digital, electrical and mechanical systems for military and commercial aircraft. Smiths Aerospace Components supplies high-value machined and fabricated components to the principal engine manufacturers. Military sales across Smiths Aerospace account for 54% and commercial for 46%, with the aftermarket generating a quarter of total sales.

Sales in the commercial sector grew by more than 25%, driven by increased production rates of Boeing 737 and 777, and Airbus A320 aircraft. Production of passenger jets continues to rise, as airlines seek to replace their fleets with newer, more efficient aircraft in the face of higher fuel prices. Smiths has a strong position on the aircraft and engines that are benefiting from this trend.

Looking ahead, the company will be supplying high-value equipment for the A380, and for the B 787, which is scheduled to enter service in 2008. Smiths has been selected by Boeing to provide the thrust reverser for the B 747-8 and to support its GoldCare service solution for the operators of the B 787. Long-term agreements were reached with GE Aviation to supply components for commercial and military engines, including one to machine critical parts used across the full range of GE engines, and with Rolls Royce, for the Trent 1000.

## **Smiths Group: Preliminary Results 2006**

Sales in the military sector grew by 5%, reflecting the strong position Smiths has on the key programmes in current production, including the F/A-18 E/F, Eurofighter Typhoon, F/A-22, C-17, C-130J and Apache Longbow helicopter.

While US defence procurement is expected to level off in the years ahead, US exports and spending by other governments will assure modest market growth. The company's involvement in military development programmes continues at a high level, particularly on the C-130AMP, F-35 JSF and B767 Global Tanker. The latter programme has experienced some schedule changes and additional investment in meeting the initial commitments for Italy and Japan. Meanwhile, the selection process for replacing the US tanker fleet has now commenced, and this is expected to offer a significant opportunity.

Key defence contracts awarded during the year included the large-area cockpit display and the next-generation health & usage monitoring system (HUMS) for the UK's Future Lynx helicopter. The Smiths Aerospace HUMS was also chosen for the South Korean helicopter programme.

The aftermarket is important in both commercial and military sectors. Demand is driven by aircraft utilisation. Airline traffic grew by 6% in 2006, while usage of military aircraft remained stable. The performance of Smiths in the aftermarket reflected these trends. During the year, the company formed a partnership with Aviall Services to distribute the complete range of Smiths spare parts for commercial aircraft. The agreement will improve working capital efficiency, and covers sales forecast at \$2billion over the next 10 years, taking advantage of Aviall's specialist global network and advanced logistics.

Company-funded R&D amounted to 10% of sales in 2006, of which some 42% was expensed. Smiths Aerospace has, over the past three years, invested heavily in R&D and in low-cost production facilities to secure positions on future aircraft and drive revenue growth. This investment has generated business on new aircraft with much higher "shipset" values than on the applications they will replace. Customer-funded R&D in Smiths Aerospace was 11% of sales.

The division is expecting to see further strong growth in the commercial aircraft sector during the current year. In the longer term, recent successful selection on new commercial and military programmes should ensure a positive outlook for Smiths Aerospace.

## Smiths Group: Preliminary Results 2006

### Smiths Detection

£m	2006	2005
Sales	412	367
Headline operating profit	77	69

Sales in Smiths Detection grew by 12%, or 13% on an underlying basis, with a currency translation gain offset by a small disposal. The headline operating margin on sales declined by 20 basis points, to 18.6%, reflecting a varying business mix from one year to the next. While sales to military customers were lower in this period, across the broad range of commercial applications they grew strongly.

Smiths Detection is a prime contractor, responsible for design, manufacture and implementation of systems and equipment to detect and identify explosives, weapons, contraband and dangerous substances. It has an unrivalled range of technologies, including trace detection, X-ray, millimetre wave, infra-red and biological analysis.

Some 85% of sales are made direct to governments around the world, including defence, homeland security and customs & immigration departments. Its products serve transportation, ports & borders, critical infrastructure, military and emergency response markets. The technology is also adapted for selected industrial applications. These markets are particularly influenced by specific events and the perception of the threat from terrorism or other security issues. Consequently, they remain variable, with the company required to respond quickly when incidents occur.

Sales to transportation and airport authorities account for one-third of the division's total, and new business secured in this period will sustain growth ahead. Airport operators around the world continue to acquire Smiths equipment, including in this period those in Thailand, China, Malaysia, Singapore, India, Pakistan, Japan, Australia and New Zealand. Smiths recently won a contract to supply security systems for the new Terminal 3 at Dubai airport. In addition, Smiths Detection equipment is now being used on the New York and Prague subways and has been trialled at a commuter station in Maryland, and on the London underground.

## **Smiths Group: Preliminary Results 2006**

The ports & borders business supplies large X-ray systems to check containers in transit. Turkey, Abu Dhabi and Oman placed orders to screen shipments through borders and airports. The Belgian customs are deploying new fixed and mobile scanners at Zeebrugge and Antwerp. The company is also now under contract to provide mobile cargo X-ray systems (HCV) to the US Customs & Border Protection Agency.

In the military sector, a number of existing contracts were winding down in this period, while several important programmes, including the Chem-Bio Protective Shelter, were only just beginning. Smiths is well placed to benefit from forthcoming military programmes such as the US Department of Defense requirement for a new generation of chemical detectors.

Critical infrastructure and systems provision are growing sectors for Smiths Detection. A contract was received from Thai Airways for a fully-integrated security system for its own facilities at the new Suvarnabhumi Airport in Bangkok. Under this programme, software from the new Livewave acquisition will be used to integrate the security hardware.

Technology enhancement remains a high priority for Smiths Detection, whether by company-funded R&D or by acquisition. These have yielded a pipeline of new products. A new Hi-Scan X-ray system for airport security checkpoints will help to identify and pinpoint explosives in carry-on baggage. A new desktop system (500DT), able to detect drugs and explosives simultaneously, was launched and has been certified by the Transportation Security Agency (TSA) in the US. Company-funded R&D was equivalent to 5% of sales in the year, and customer funding added a further 2%. Smiths Detection employs over 400 scientists and engineers identifying and developing new technologies.

To strengthen the business mix, Livewave Inc was acquired in October 2005 for £10m. Livewave has developed software systems which network sensors and video cameras to remote viewing stations. Livewave's technology enables Smiths Detection to provide a complete package of sensors, ranging from X-ray to chemical detectors and CCTV in a single system, linked to a central command and control capability.

In June, Smiths Detection opened a manufacturing facility in St Petersburg. It will assemble X-ray equipment, and is also a base for both sales and technical support staff to serve the growing Russian security market.

In August 2005, Smiths Heimann Biometrics GmbH was merged with Cross Match Technologies Inc in exchange for 43% of the issued share capital of that company. This investment is accounted for on an equity basis.

## Smiths Group: Preliminary Results 2006

Looking ahead, tendering activity is at a high level, giving good confidence in growth for the current year. Trading performance in a particular period depends on the contracts secured, which can be large and irregular. During the year, Smiths Detection will absorb an increase in R&D expense and the revenue costs of starting up new plants in key market locations.

### Smiths Medical

£m	2006	2005
Sales	737	563
Headline operating profit	138	88

Smiths Medical sales increased by 31%, helped by the inclusion of Medex for a full twelve months, compared to four in 2005. The underlying sales growth of the division was 6%, in line with market trends. The margins on sales improved to 18.7%. The prior year's profit included the one-time £14m IFRS adjustment to the value of stock acquired with Medex, so the like-for-like margin improvement was 60 basis points. The integration of Medex has continued on track, and the incremental synergies of £7m achieved in 2006 are reflected in the division's overall performance.

Smiths Medical focuses on improving medical outcomes. Its products deliver medication, including chemotherapy, pain relief and insulin. They provide vital care, such as managing airways and fluids during and after surgical procedures, as well as monitoring vital signs. And they keep people safe, through providing safety devices for drawing blood samples, giving injections and delivering intravenous drugs. Its customers are hospitals and other healthcare providers worldwide. Most territories are serviced through wholly-owned local sales and distribution companies.

The dynamics of the medical device and equipment market are mainly driven by the demographics of ageing populations and rising personal wealth in highly developed countries, and the consequent increase in healthcare spending. The world market for products of the type supplied by Smiths amounts to some \$7billion per annum and is growing consistently at an annual rate of 5-6%.

## Smiths Group: Preliminary Results 2006

Sales of single-use devices moved ahead. In January, Smiths Medical signed a three-year agreement with Novation, which offers contracting services to 2,500 hospitals throughout the US, under which the company will be one of the two suppliers of customised kits which provide all the necessary products for clinicians to perform regional anaesthesia. In addition, two major contracts were secured with Premier Purchasing Partners, a group purchasing organisation, for disposable anaesthesia and temperature management products. The company's temperature management products continued to increase their share of the market, and during the year the temperature probe product range doubled in size, re-affirming its market leadership.

Safety devices continued to sell well in the US. The combined Smiths and Medex products has improved the range's competitive strength and is generating incremental sales. During the year, strong growth was seen in sales of infusion pumps, especially the Medfusion™ 3500 syringe pump and its integrated PharmaGuard® medication safety software. The extended range of disposable items used in conjunction with insulin delivery pumps has generated additional sales.

Spending on R&D rose by £7m to £25m, representing 3.4% of sales. There were a number of important new product launches in 2006. The ADVANTIV® safety catheter and the Needle-Pro® EDGE™ hypodermic were designed in response to continuing awareness of needle-stick injuries and consequent health risk. New respiratory products launched included the Portex® adjustable flange tracheostomy tube, the Portex® Thermovent® T2 heat & moisture exchange device, and the PressureEasy® cuff pressure controller. The line of anaesthesia offerings added a new carbon dioxide absorbent, SODASORB® LF, and a single-use bougie for difficult intubations. Smiths Medical also launched a new range of advanced embryo replacement catheters, the Sure-Pro™ and Sure-Pro Ultra™ in response to the changing needs of fertility specialists.

Regarding the integration of Medex, in both Europe and the US the formerly separate Medex units have merged with the existing Smiths Medical operations, generating customer service and marketing synergies. In addition, R&D programmes have been aligned throughout the business. Manufacturing integration is in progress and is expected to deliver cost reduction from 2007. During the year, Smiths Medical announced that manufacturing would cease at three facilities, in Duluth (Georgia), Wampsville (New York) and Hythe (Kent), and that facilities in Mexico and Ohio would be expanded. The closure of manufacturing at Hythe is the largest of these measures, and will take two years to complete. With the acquisition synergies now being achieved across Smiths Medical, the separation of the performance of Medex and the original Smiths business is no longer appropriate.

## Smiths Group: Preliminary Results 2006

Reorganisation of the division's global distribution system is also under way. Working with logistics specialists, a European centre has been established in Holland to serve all markets outside the US, eliminating six national warehouses.

In September 2005, at the request of the German competition authorities, the company disposed of its pressure monitoring product line in Germany for £6m, a business which had generated sales of £11m in year ending 31 July 2005.

Looking ahead, the company will continue to develop a global healthcare device business focused on improving the outcome for patients, through more effective medication delivery and vital care provision, while ensuring the safety of medical practitioners. Smiths Medical is well placed to make further progress in the coming year, with consistent market growth, the full benefit of synergies and efficiency gains in operations and manufacturing.

### Specialty Engineering

£m	2006	2005
Sales	<b>1,074</b>	929
- of which, John Crane	<b>518</b>	463
Headline operating profit	<b>153</b>	127
- of which, John Crane	<b>69</b>	63

Sales by the Specialty Engineering division increased by 16%, or 9% on an underlying basis, excluding currency translation and acquisitions. The division's margin improved by 70 basis points to 14.3% as a direct benefit of the higher sales achieved across its operations.

Within Specialty Engineering, John Crane provides mechanical rotating seals and associated equipment and services used in process industries. Interconnect supplies components and sub-systems for connecting, protecting and controlling critical electronic and radio frequency systems. Flex-Tek provides ducting and hosing for a wide range of applications, mainly for heating & ventilation and domestic equipment. Marine Systems supplies marine electronics and charts.

## **Smiths Group: Preliminary Results 2006**

John Crane's largest markets are the oil and gas sector, the petrochemical and other process industries. Maintenance and support form a large part of total demand, with new projects providing an income stream many years after equipment installation.

Its markets have been particularly strong in 2006, specifically within the oil and gas sector in the US, Latin America and Asia Pacific. Better global market conditions, combined with the benefits of focusing on enhanced customer service, drove an underlying increase in sales of 8%, with a headline operating margin of 13.4%, after spending £7m on restructuring in Europe and USA.

John Crane has won several projects which will secure future revenue streams, including the Minatitlin process plant for Pemex in Mexico and the Qatar gas refinery. In the UK, a new Technology Centre is being installed in Slough, capable of testing gas seals at extreme pressures, which will give a competitive advantage.

In February, John Crane opened a manufacturing, service and support centre in Bangalore, India. In December, the 33% minority held by local partners in John Crane Tianjin, China was purchased for £1m, increasing John Crane's presence in the wet seal sector in the region, a market which is growing. The business is now working closely with John Crane Timing, also based in Tianjin.

After the year-end, in August 2006 the company completed the disposal of John Crane's Safematic bearing lubrication business to SKF for £16m. It had sales of £15m in 2006. In the same month, the acquisition of the Italian pressure sealing company Comet was completed for £4m. Its sales for the year to December 2005 were £5m.

Interconnect's largest markets are aerospace, defence and wireless telecommunications. Within aerospace and defence, its products include antenna systems, connectors, cable assemblies and frequency sources. In the wireless telecommunications sector, it supplies devices to protect base stations from power surges, as well as coaxial cables and electronic components. Across all of these applications, Interconnect achieved strong growth in 2006.

Continuing the progress on improving the business mix, in September, Smiths acquired Millitech for £19m, boosting Interconnect's presence in the millimetre wave technology sector. In January, the business and assets of Lorch Microwave were purchased for £15m, bringing increased capability in microwave filters.

## **Smiths Group: Preliminary Results 2006**

Major contracts secured during the year included an agreement to manufacture the award-winning Tarsier runway debris monitoring systems in the US, won by Millitech shortly after its acquisition, and satellite communications equipment for the Boeing 787, won by Tecom.

Flex-Tek serves mainly domestic appliance manufacturers and the US construction industry. It performed well in 2006, with the house-building market in North America remaining robust. It was strengthened by the acquisition of Farnam Custom Products in August 2005 for £4m. Marine Systems, comprising Kelvin Hughes and Chartco, also performed well. The electronic charts business made good progress.

Specialty Engineering's outlook is for further growth in the year ahead, helped by the continued upturn in the investment cycles for oil & gas and telecoms infrastructure.

### **Legal matters**

As previously reported, John Crane, Inc (John Crane) a subsidiary of the company, is one of the many co-defendants 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 John Crane 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 John Crane, the products were safe. John Crane ceased manufacturing products containing asbestos in 1985.

John Crane 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, John Crane has been dismissed before trial from cases involving approximately 128,000 claims over the last 27 years. John Crane is currently a defendant in cases involving approximately 162,000 claims. Despite these large numbers of claims, John Crane has had final judgments against it, after appeals, in only 55 cases, amounting to awards of some US \$52.6m over the 27 year period.

To date these awards, the related interest and all material costs of defending these claims have been met directly by insurers. Since the year end John Crane has secured the commutation of certain insurance policies, resulting in anticipated proceeds of approximately \$54 million. While substantial insurance will remain in place, it is likely that John Crane will in future meet defence costs directly, seeking appropriate contribution from insurers thereafter.

No provision relating to this litigation has been made in the company's accounts.

## **Smiths Group: Preliminary Results 2006**

Along with three other companies, Titeflex Corporation, a US subsidiary, has settled a class action with respect to its corrugated stainless steel tubing product in the US. The settlement is a compromise of disputed claims and does not imply any admission of liability. Titeflex stands by the safety of this product, and has entered into this agreement solely to avoid the future expense, disruption and burden of protracted litigation. The exceptional charge of £12m covers all legal fees and administrative costs, and a conservative estimate for a contribution to certain homeowners towards remedial costs connected with the tubing.

### **AGM**

The Annual General Meeting of the company will be held at the Banqueting Suite, Lord's Cricket Ground, Grace Gate, St John's Wood Road, London NW8 8QN on Tuesday, 21 November 2006 at 12.00 midday. If approved at the meeting, the recommended final dividend on the ordinary shares will be paid on 24 November to shareholders registered on the close of business on 3 November. The ex-dividend date will be 1 November.

### **Changes to the Board**

Sir Kevin Tebbit, KCB, CMG was appointed a non-executive director in June. Sir Kevin has had a distinguished career serving widely in policy, management and finance posts in the Foreign & Commonwealth Office, NATO and finally the UK Ministry of Defence, where he was Permanent Under-Secretary of State from July 1998 to his retirement in November 2005.

Robert O'Leary, who joined the Board in 1997, died in August, following an illness throughout which he had continued to play an active role. Lord Robertson of Port Ellen resigned in February, after two years, due to his other commitments. Sir Julian Horn-Smith will be retiring at the AGM, after almost seven years.

**Prospects**

**The markets for Smiths products remain robust, and the outlook for 2007 is for continued sales growth. The company is starting to reap the rewards of recent investments in R&D and low cost manufacturing, and the benefits are expected to show in a further improvement in the operating margin. While the growth in reported earnings may be tempered by the effect of a weaker dollar, the Board is confident that Smiths is well-positioned to make further progress in the year ahead.**

**Tables attached**

- Income statement
- Statement of recognised income & expense
- Balance sheet
- Cash-flow statement
- Notes to the accounts

Copies of the Annual Review 2006, or if they have requested it, the Annual Report & Accounts 2006, will be sent to shareholders in the week commencing 23 October, and both will be available at the registered office of Smiths Group plc, 765 Finchley Road, London NW11 8DS.

## Smiths Group: Preliminary Results 2006

### Consolidated Income Statement (unaudited)

	Period ended 5 August 2006	Year ended 31 July 2005
	£m	£m
Revenue (Note 2)	3,522.9	3,005.4
Cost of sales	(2,111.2)	(1,814.7)
Gross profit	1,411.7	1,190.7
Sales and distribution costs	(354.7)	(283.3)
Administrative expenses: Normal activities	(587.8)	(534.1)
Impairment of financial asset	(325.0)	
Profit on disposal of businesses (Note 20)	16.4	8.7
<b>Operating profit (Note 2)</b>	<b>160.6</b>	<b>382.0</b>
Interest receivable	4.2	15.0
Interest payable	(58.4)	(38.2)
Other financing losses	(0.5)	(4.2)
Other finance income – retirement benefits	27.6	11.3
Finance costs	(27.1)	(16.1)
Share of post-tax losses of associated companies	(1.1)	
<b>Profit before taxation</b>	<b>132.4</b>	<b>365.9</b>
Comprising:		
headline profit before taxation (Note 3)	492.1	403.8
exceptional operating items (Note 4)	(14.5)	(28.0)
amortisation of acquired intangible assets	(16.9)	(5.7)
financing losses	(3.3)	(4.2)
impairment of financial asset	(325.0)	
	132.4	365.9
Taxation (Note 5)	(108.2)	(94.1)
<b>Profit for the period attributable to equity shareholders of the parent company</b>	<b>24.2</b>	<b>271.8</b>
<b>Earnings per share (Note 7)</b>		
Basic	4.3p	48.3p
Diluted	4.2p	48.2p
<b>Dividend per share</b>		
Interim	9.85p	9.25p
Final	21.5p	19.75p

### Consolidated Statement of Recognised Income and Expense (unaudited)

	Period ended 5 August 2006	Year ended 31 July 2005
	£m	£m
Exchange (loss) / gain	(112.7)	50.2
Taxation recognised on exchange losses		
- current		5.9
- deferred	(7.4)	
Actuarial gains/(losses) on retirement benefit schemes	94.5	(23.4)
Taxation recognised on actuarial gains/losses - deferred	(24.0)	11.8
Fair value gains/(losses):		
- on cash flow hedges	33.4	
- on net investment hedges	(4.0)	
Net (cost)/income recognised directly in equity	(20.2)	44.5
Profit for the period	24.2	271.8
Total recognised income and expense for the period attributable to equity shareholders of Smiths Group plc	4.0	316.3
Effect of change in accounting policy (IAS 32 and IAS 39)	2.9	

## Smiths Group: Preliminary Results 2006

### Consolidated Balance Sheet (unaudited)

	5 August 2006 £m	31 July 2005 £m
<b>Non-current assets</b>		
Intangible assets (Note 9)	1,530.6	1,481.7
Property, plant and equipment	497.8	502.8
Investment accounted for using the equity method	14.0	
Financial assets – other investments (Note 10)	0.8	328.5
Retirement benefit assets (Note 8)	183.7	134.6
Deferred tax assets	92.3	117.8
Trade and other receivables (Note 12)	16.8	24.7
Financial derivatives	6.2	
	<b>2,342.2</b>	2,590.1
<b>Current assets</b>		
Inventories (Note 11)	558.4	564.2
Trade and other receivables (Note 12)	724.4	720.5
Cash and cash equivalents (Note 14)	120.6	60.9
Financial derivatives	26.1	
<b>Total assets</b>	<b>3,771.7</b>	3,935.7
<b>Non-current liabilities</b>		
Financial liabilities:		
Borrowings (Note 14)	(862.3)	(937.7)
Financial derivatives	(4.4)	
Provisions for liabilities and charges (Note 15)	(26.5)	(26.4)
Retirement benefit obligations	(235.8)	(371.2)
Deferred tax liabilities	(49.7)	(19.9)
Trade and other payables (Note 13)	(114.8)	(133.2)
	<b>(1,293.5)</b>	(1,488.4)
<b>Current liabilities</b>		
Financial liabilities:		
Borrowings (Note 14)	(185.0)	(54.0)
Financial derivatives	(4.9)	
Provisions for liabilities and charges (Note 15)	(81.8)	(64.1)
Trade and other payables (Note 13)	(699.5)	(684.6)
Current tax payable	(144.1)	(160.8)
<b>Total liabilities</b>	<b>(2,408.8)</b>	(2,451.9)
<b>Net assets</b>	<b>1,362.9</b>	1,483.8
<b>Shareholders' equity (Note 17)</b>		
Share capital	141.8	140.9
Share premium account	224.1	197.5
Revaluation reserve	1.7	1.7
Merger reserve	234.8	234.8
Retained earnings	734.0	908.9
Hedge reserve	26.5	
<b>Total shareholders' equity</b>	<b>1,362.9</b>	1,483.8

## Smiths Group: Preliminary Results 2006

### Consolidated Cash-Flow Statement (unaudited)

	Period ended 5 August 2006 £m	Year ended 31 July 2005 £m
<b>Net cash inflow from operating activities (Note 18)</b>	<b>389.1</b>	319.3
<b>Cash flows from investing activities</b>		
Expenditure on capitalised development	(102.0)	(67.4)
Expenditure on other intangible assets	(25.1)	(14.3)
Purchases of property, plant and equipment	(111.2)	(99.9)
Disposals of property, plant and equipment	12.2	9.3
Acquisitions of businesses (Note 19)	(54.2)	(410.0)
Disposals of businesses (Note 20)	8.3	0.5
<b>Net cash flow used in investing activities</b>	<b>(272.0)</b>	(581.8)
<b>Cash flows from financing activities</b>		
Proceeds from issue of ordinary share capital	27.3	14.6
Dividends paid to equity shareholders (Note 6)	(167.0)	(154.5)
Increase in new borrowings	73.5	287.7
Reduction and repayment of borrowings	(115.9)	(249.3)
<b>Net cash flow used in financing activities</b>	<b>(182.1)</b>	(101.5)
<b>Net decrease in cash and cash equivalents</b>	<b>(65.0)</b>	(364.0)
Cash and cash equivalents at 1 August	11.9	421.0
Exchange differences	2.0	(45.1)
<b>Cash and cash equivalents at end of period</b>	<b>(51.1)</b>	11.9
Cash and cash equivalents at end of period comprise:		
Cash at bank and in hand	102.3	51.1
Short-term deposits	18.3	9.8
Bank overdrafts	(171.7)	(49.0)
	<b>(51.1)</b>	11.9

# Smiths Group: Preliminary Results 2006

## 1 Accounting policies

### Basis of preparation

These accounts are the first accounts following the implementation of IFRS as adopted by the EU. The information for the year ended 31 July 2005, previously reported to shareholders under UK Generally Accepted Accounting Principles (UK GAAP) has been restated to conform to IFRS. IAS 32 and IAS 39 have been adopted, as permitted, prospectively from 1 August 2005. Accordingly financial instruments in the year to 31 July 2005 are recorded on the UK GAAP basis.

On 21 November 2005 the Group published an explanatory report entitled 'Smiths Group: Transition to International Financial Reporting Standards (IFRS)', available on the Group's website [www.smiths.com](http://www.smiths.com). This document sets out the key differences between UK GAAP and IFRS for the Group, including the Group's application of the first-time adoption exemptions under IFRS, reconciliations of its income statement for the year ended 31 July 2005 and balance sheets at 1 August 2004 and 31 July 2005, together with its principal accounting policies under IFRS.

## 2 Segment information

### Analysis by business segment

For management purposes, the Group is organised into four business segments — Aerospace, Detection, Medical and Specialty Engineering. These business segments are the basis on which the Group reports its primary segment information. For reporting purposes Specialty Engineering is analysed into two segments: John Crane and Specialty - Other.

Period ended 5 August 2006

	Aerospace	Detection	Medical	John Crane	Specialty - Other	Total
	£m	£m	£m	£m	£m	£m
<b>Revenue</b>	<b>1,299.7</b>	<b>411.8</b>	<b>737.0</b>	<b>518.4</b>	<b>556.0</b>	<b>3,522.9</b>
<b>Headline operating profit</b>	<b>152.4</b>	<b>76.5</b>	<b>137.5</b>	<b>69.4</b>	<b>84.0</b>	<b>519.8</b>
<b>Exceptional operating items</b>	<b>(1.7)</b>	<b>5.4</b>	<b>(17.2)</b>	<b>5.6</b>	<b>(6.6)</b>	<b>(14.5)</b>
<b>Amortisation of acquired intangible assets</b>	<b>(3.9)</b>	<b>(0.4)</b>	<b>(11.2)</b>	<b>(0.3)</b>	<b>(1.1)</b>	<b>(16.9)</b>
<b>Financing losses</b>	<b>(1.0)</b>	<b>(0.3)</b>	<b>(0.6)</b>	<b>(0.4)</b>	<b>(0.5)</b>	<b>(2.8)</b>
	<b>145.8</b>	<b>81.2</b>	<b>108.5</b>	<b>74.3</b>	<b>75.8</b>	<b>485.6</b>
<b>Impairment of financial assets</b>						<b>(325.0)</b>
<b>Operating profit</b>						<b>160.6</b>
<b>Net finance costs</b>						<b>(27.1)</b>
<b>Share of post-tax losses of associated companies</b>						<b>(1.1)</b>
<b>Profit before taxation</b>						<b>132.4</b>
<b>Taxation</b>						<b>(108.2)</b>
<b>Profit for the period</b>						<b>24.2</b>

Year ended 31 July 2005

	Aerospace	Detection	Medical	John Crane	Specialty - Other	Total
	£m	£m	£m	£m	£m	£m
<b>Revenue</b>	<b>1,146.2</b>	<b>366.5</b>	<b>563.3</b>	<b>463.2</b>	<b>466.2</b>	<b>3,005.4</b>
<b>Headline operating profit</b>	<b>132.4</b>	<b>69.0</b>	<b>87.7</b>	<b>62.5</b>	<b>64.1</b>	<b>415.7</b>
<b>Exceptional operating items</b>	<b>(11.4)</b>		<b>(25.3)</b>	<b>2.4</b>	<b>6.3</b>	<b>(28.0)</b>
<b>Amortisation of acquired intangible assets</b>	<b>(1.1)</b>		<b>(4.6)</b>			<b>(5.7)</b>
<b>Operating profit</b>	<b>119.9</b>	<b>69.0</b>	<b>57.8</b>	<b>64.9</b>	<b>70.4</b>	<b>382.0</b>
<b>Net finance costs</b>						<b>(16.1)</b>
<b>Profit before taxation</b>						<b>(365.9)</b>
<b>Taxation</b>						<b>(94.1)</b>
<b>Profit for the year</b>						<b>271.8</b>

## Smiths Group: Preliminary Results 2006

### 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 impairments (Note 4);
- 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 – these represent the results of derivatives and other financial instruments which do not fall to be hedge accounted under IAS 39 and do not form part of the Group's financing strategy. The application of IFRS accounting principles makes this item potentially volatile, and it is therefore excluded to give a clearer picture of the underlying performance.

### 4 Exceptional operating 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 within the line "exceptional operating items". 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
- Significant goodwill or other asset impairments

An analysis of the items presented as exceptional in these accounts is given below:

	Period ended 5 August 2006	Year ended 31 July 2005
	£m	£m
Integration of acquisitions	(18.7)	(10.4)
Patent dispute settlement		(14.9)
Class action settlement	(12.2)	
Profit on disposal of businesses (Note 20)	16.4	8.7
Impairment of goodwill		(11.4)
	(14.5)	(28.0)

#### *Period ended 5 August 2006*

Restructuring costs in connection with the integration of Medex amounting to £18.7m (2005: £10.4m) have been incurred in the period.

Along with three other companies, Titeflex Corporation, a US subsidiary, has settled an industry wide class action with respect to its corrugated stainless steel tubing product in the US. The settlement is a compromise of disputed claims and does not imply any admission of liability. The company stands by the safety of this product, and has entered into this agreement solely to avoid the future expense, disruption and burden of protracted litigation. The exceptional charge of £12.2m covers all legal fees and administrative costs, and an estimate for a contribution to certain homeowners towards remedial costs connected with the tubing.

Profit on disposal of businesses includes £11.2m relating to the release of provisions made in respect of prior-year disposals, the warranties and attendant issues for which they were created having been satisfactorily resolved.

#### *Year ended 31 July 2005*

£14.9m was charged to exceptional operating items in respect of a patent dispute relating to the Cozmonitor insulin pump.

Profit on disposal of businesses of £8.7m included a total of £12.1m arising from settlement and curtailment gains in respect of pension and other retirement benefits. In addition two small product lines with a net asset value of £2.6m were sold during 2005 for net cash proceeds of £0.5m. This gave rise to a loss of £3.4m after provisions in the year ended 31 July 2005.

£11.4m was charged to exceptional operating items in relation to the impairment of goodwill in respect of an Aerospace business acquired in 2000.

## Smiths Group: Preliminary Results 2006

### 5 Taxation

	Period ended 5 August 2006 £m	Year ended 31 July 2005 £m
<b>The taxation charge for the year comprises:-</b>		
Current income taxation	93.5	101.2
Deferred taxation	14.7	(7.1)
<b>Total taxation expense in the income statement</b>	<b>108.2</b>	<b>94.1</b>

#### Reconciliation of the total tax charge

The tax expense on the profit for the year is different than the standard rate of corporation tax in the UK of 30% (2005: 30%). The difference is reconciled as follows:

	Period ended 5 August 2006 £m	Year ended 31 July 2005 £m
<b>Profit before tax</b>	<b>132.4</b>	<b>365.9</b>
Notional taxation expense at UK rate of 30% (2005: 30%)	39.7	109.8
Effect of overseas taxation	(9.2)	1.4
Local incentives	(15.1)	(15.2)
Impairment of financial asset	97.5	0.0
Tax effect of other non-headline items	(7.5)	(1.3)
Other	2.8	(0.6)
<b>Total taxation expense in the income statement</b>	<b>108.2</b>	<b>94.1</b>

Comprising:	Taxation on headline profit	126.0	106.8
	Tax relief on non headline loss	(17.8)	(12.7)
		<b>108.2</b>	<b>94.1</b>

### 6 Dividends

	Period ended 5 August 2006 £m	Year ended 31 July 2005 £m
<b>The following dividends were declared and paid in the period:</b>		
Ordinary final dividend of 19.75p for 2005 (2004: 18.25p) paid 18 November 2005	111.3	102.5
Ordinary interim dividend of 9.85p for 2006 (2005: 9.25p) paid 21 April 2006	55.7	52.0
	<b>167.0</b>	<b>154.5</b>

The final dividend for the period ended 5 August 2006 of 21.5p per share was declared by the Board on 27 September 2006 and will be paid to shareholders on 24 November 2006. 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 3 November 2006.

## Smiths Group: Preliminary Results 2006

### 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 5 August 2006	Year ended 31 July 2005
	£m	£m
Profit for the period	24.2	271.8
Average number of shares in issue during the period	565,359,484	562,445,323

Diluted earnings per share are calculated by dividing the profit attributable to ordinary shareholders by 569,733,560 (2005: 563,667,777) 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 earnings per share and headline earnings per share is as follows:

	Period ended 5 August 2006		Year ended 31 July 2005	
	£m	EPS (p)	£m	EPS (p)
Profit attributable to equity shareholders of the Parent Company	24.2	4.3	271.8	48.3
Exclude:				
integration of acquisitions	18.7		10.4	
disposal of businesses	(16.4)		(8.7)	
patent dispute settlement			14.9	
class action settlement	12.2			
impairment of goodwill			11.4	
amortisation of acquired intangible assets	16.9		5.7	
financing losses	2.8		4.2	
- charged to administrative expenses				
- charged to financing	0.5			
impairment of financial asset	325.0			
	359.7		37.9	
less tax	(17.8)		(12.7)	
	341.9	60.5	25.2	4.5
Headline	366.1	64.8	297.0	52.8
Headline EPS – diluted (p)		64.3		52.7

### 8 Post retirement benefits

	2006		2005	
	UK £m	USA £m	UK £m	USA £m
Funded pension plans-market value of assets	2,770.4	332.8	2,546.9	343.9
Funded pension plans surplus/(deficit)	140.3	(61.5)	17.8	(123.3)
Unfunded plans and post retirement healthcare liabilities	(48.9)	(68.8)	(49.7)	(81.4)
Retirement benefits – net assets/(liabilities)	91.4	(130.3)	(31.9)	(204.7)

In addition there are pension liabilities of £13.2m in respect of other countries.

## Smiths Group: Preliminary Results 2006

### 9 Intangible assets

	2006	2005
	£m	£m
Goodwill	1,107.9	1,152.6
Development costs	254.2	171.7
Acquired intangibles		
- Patents	35.5	40.8
- Technology	51.7	57.4
- Customer Relationships	31.7	31.7
Other (incl. software)	49.6	27.5
	1,530.6	1,481.7

### 10 Non current financial assets

	2006	2005
	£m	£m
TI Automotive Limited preference shares		
- At 1 August 2005	325.0	325.0
- Impairment charge in period	(325.0)	
		325.0
Other trade investments	0.8	3.5
	0.8	328.5

Recognising continued deterioration in the automotive market particularly in the US, an impairment review of the preference share investment in TI Automotive has been undertaken, as required by IAS 39.

The preference shares have not yet borne any dividends and it is considered unlikely that dividends will be paid in the foreseeable future. Similarly there is no current prospect of the preference share interest being redeemed. The Board has also considered the possibility that cash flows could accrue from the investment in TI Automotive were the enterprise to be sold; such a sale is not currently considered sufficiently probable to take into account any cash flows which could accrue in such an event.

As a result, the directors have decided to write down the carrying value of the investment in the TI Automotive preference shares from £325m to nil value in these accounts. There is no impact on cash-flow from this decision.

### 11 Inventories

	2006	2005
	£m	£m
<b>Inventories comprise</b>		
Raw materials and consumables	164.7	161.3
Work in progress	196.3	190.6
Finished goods	218.8	234.4
	579.8	586.3
Less: payments on account	(21.4)	(22.1)
	558.4	564.2

### 12 Trade and other receivables

	2006	2005
	£m	£m
<b>Non-current</b>	16.8	24.7
<b>Current</b>		
Long-term contract balances	126.2	100.5
Less: attributable progress payments	(120.5)	(84.9)
Amounts due from customers for contract work	5.7	15.6
Trade receivables	657.3	652.9
Other debtors	9.5	12.1
Prepayments and accrued income	51.9	39.9
	724.4	720.5

## Smiths Group: Preliminary Results 2006

### 13 Trade and other payables

	2006 £m	2005 £m
<b>Non-current</b>	<b>114.8</b>	133.2
<b>Current</b>		
Trade creditors	252.2	214.7
Bills of exchange payable	3.3	2.7
Other creditors	63.0	49.9
Other taxation and social security costs	23.0	23.7
Accruals and deferred income	358.0	393.6
	<b>699.5</b>	684.6

### 14 Borrowings and net debt

	2006 £m	2005 £m
<b>Cash and cash equivalents</b>		
Net cash and deposits*	120.6	60.9
<b>Borrowings</b>		
- On demand/under one year		
- Net overdrafts and loans	(177.7)	(54.0)
- One to two years	(0.5)	(0.3)
- Two to five years	(575.6)	(636.1)
- Over five years	(290.0)	(301.3)
	<b>(1,043.8)</b>	(991.7)
<b>Net debt</b>	<b>(923.2)</b>	(930.8)
Borrowings – valuation adjustments**		
Interest accrual	(7.3)	
Fair value of swapped debt	3.8	
<b>Total borrowings per balance sheet</b>	<b>(1,047.3)</b>	(991.7)

\* IAS 32 requires that cash and overdraft balances within cash pooling systems be reported gross in the balance sheet amounting to £83.6m. In line with the transitional rules of IFRS 1, the Company has adopted IAS 32 on a prospective basis from 1 August 2005.

\*\* IAS 39 requires that the carrying value of borrowings includes accrued interest, and the fair value of any interest rate or currency swaps held to hedge the borrowings. In line with the transitional rules of IFRS 1, the Company has adopted IAS 39 on a prospective basis from 1 August 2005.

The Company's measure of 'net debt' is stated before these adjustments.

### 15 Provisions for liabilities and charges

	2006 £m	2005 £m
Warranty provision and product liability	68.6	51.6
Reorganisation	16.7	9.2
Property	10.4	12.1
Litigation	12.6	17.6
	<b>108.3</b>	90.5

Analysed as:

	2006 £m	2005 £m
Current liabilities	81.8	64.1
Non-current liabilities	26.5	26.4
	<b>108.3</b>	90.5

## Smiths Group: Preliminary Results 2006

### 16 Contingent liabilities

In common with many other enterprises of similar size, the Company and its subsidiaries are from time to time engaged in litigation in respect of a variety of commercial issues.

As previously reported, John Crane, Inc ("John Crane"), a subsidiary of the Company, is one of many co-defendants 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 John Crane 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 John Crane, the products were safe. John Crane ceased manufacturing products containing asbestos in 1985.

John Crane 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, John Crane has been dismissed before trial from cases involving approximately 128,000 claims over the last 27 years. John Crane is currently a defendant in cases involving approximately 162,000 claims. Despite these large numbers of claims, John Crane has had final judgements against it, after appeals, in only 55 cases, amounting to awards of some US\$52.6m over the 27 year period.

To date these awards, the related interest and all material costs of defending these claims have been met directly by insurers. Since the year end John Crane has secured the commutation of certain insurance policies, resulting in anticipated proceeds of approximately \$54 million. While substantial insurance will remain in place, it is likely that John Crane will in future meet defence costs directly, seeking appropriate contribution from insurers thereafter.

No provision relating to this litigation has been made in these accounts other than as disclosed in note 15.

### 17 Movements in shareholders' equity

	As at 31 July 2005 £m	As at 1 August 2004 £m
Shareholders' equity as reported under UK GAAP at 31 July	1,204.8	1,122.5
Amendments to inter-company swap accounting (note 1)	35.4	
	1,240.2	1,122.5
Adjustments to comply with IFRS as reported on 21 November 2005	247.5	158.5
Additional IFRS adjustments:		
- amendments to creditors (note 2)	(5.6)	
- revisions to fair values in respect of prior year acquisitions (note 3)	1.7	
Shareholders' equity under IFRS at 31 July	1,483.8	1,281.0
Change in accounting policy in treatment of embedded derivatives (note 4)	9.7	
Change in accounting policy to adopt IAS 32 and IAS 39	(6.8)	
Shareholders' equity under IFRS at 1 August	1,486.7	1,281.0

#### Note 1

An adjustment to the prior year has been made to amend the accounting of an inter-company swap. The adjustment results in a decrease in creditors of £35.4m and an increase in shareholders' equity of £35.4m.

#### Note 2

During the period since 21 November 2006, the Company has made a minor amendment to its previously published IFRS information as a result of emerging interpretations of standards.

#### Note 3

As allowed by IFRS 3, the fair values of assets and liabilities acquired in prior year acquisitions have been finalised. These adjustments result in an increase of £1.5m, an increase in other assets of £0.2m, and an increase in shareholders' equity of £1.7m.

#### Note 4

The basis for valuing non-closely related embedded derivatives was revised in the year to better represent the contractual cash flows in the relevant contracts.

	Period ended 5 August 2006 £m	Year ended 31 July 2005 £m
At 1 August	1,486.7	1,281.0
Profit for the period	24.2	271.8
Share-based payment	14.5	5.0
Deferred taxation benefit thereon	(2.6)	16.0
Dividends paid to equity shareholders	(167.0)	(154.5)
New share capital subscribed	27.3	14.6
ESOP Trusts – disposal of company shares		5.4
Exchange (losses)/gains	(112.7)	50.2
Taxation recognised on exchange (losses)/gains	(7.4)	5.9
Fair value gains/(losses)		
on cash-flow hedges	33.4	
on net investment hedges	(4.0)	
Actuarial gains/(losses) on retirement benefit schemes	94.5	(23.4)
Deferred taxation benefit thereon	(24.0)	11.8
At 5 August/31 July	1,362.9	1,483.8

## Smiths Group: Preliminary Results 2006

### 18 Cash flow from operating activities

	Period ended 5 August 2006	Year ended 31 July 2005
	£m	£m
Profit before taxation	132.4	365.9
Net interest payable	54.2	23.2
Financing losses - charged to administrative expenses	2.8	
- charged to financing	0.5	4.2
Share of post-tax loss from associate	1.1	
Other finance income – retirement benefits	(27.6)	(11.3)
Impairment of financial asset	325.0	
	<b>488.4</b>	382.0
Amortisation of intangible assets	39.6	39.1
Profit on disposal of property, plant and equipment	(4.4)	
Profit on disposal of business	(16.4)	(8.7)
Depreciation of property, plant and equipment	81.0	71.7
Share-based payment expense	16.3	6.3
Retirement benefits	(61.5)	(20.3)
Increase in inventories	(34.8)	(89.3)
Increase in trade and other receivables	(35.6)	(53.7)
Increase in trade and other payables	70.7	76.0
Other non-cash movements		14.0
Cash generated from operations	543.3	417.1
Interest	(49.5)	(19.9)
Tax paid	(104.7)	(77.9)
<b>Net cash inflow from operating activities</b>	<b>389.1</b>	<b>319.3</b>

### 19 Acquisitions

During the period of 53 weeks ended 5 August 2006 the Company made a number of acquisitions: the issued share capital of Livewave, Inc on behalf of Detection (28 October 2005), the issued share capital of Millitech, Inc (16 September 2005), together with the businesses and assets of Farnam (1 August 2005) and Lorch Microwave LLC (4 January 2006) on behalf of Specialty Engineering. In addition, the Company also acquired the minority interests in subsidiary companies operating in Canada and China.

The values set out below are provisional pending finalisation of the fair values attributable, and will be finalised in the period ending 31 July 2007. All acquisitions are wholly owned.

	Book value £m	Fair value adjustments £m	Provisional fair value £m
Non-current assets:			
- intangible assets	5.0	8.3	13.3
- tangible assets	1.6		1.6
Current assets:			
- cash and cash equivalents			
- other current assets	7.6	(0.4)	7.2
Current liabilities			
- other current liabilities	(2.2)	(0.5)	(2.7)
Minority interests	1.8		1.8
<b>Net assets acquired</b>	<b>13.8</b>	<b>7.4</b>	<b>21.2</b>
Goodwill			30.6
<b>Total consideration</b>			<b>51.8</b>
Consideration satisfied by cash			51.8
Deferred consideration paid on prior-year acquisitions			2.4
<b>Total consideration</b>			<b>54.2</b>

## Smiths Group: Preliminary Results 2006

### 20 Disposals

The most significant disposal transaction during the period was the sale of the Company's interest in Heimann Biometric Systems GmbH to Cross Match Technologies, Inc. in exchange for 43% of the issued share capital in that company, which is regarded as an associate and its results are therefore accounted for on an equity basis.

The Company has also released provisions and accruals held in respect of disposals made in prior years, following determination of the warranties and other liabilities provided for at the time of disposal.

	£m
Shares received in Cross Match Technologies, Inc. – at valuation	13.8
Net cash received	8.3
<b>Net consideration received</b>	<b>22.1</b>

<b>Net assets excluding cash and retained liabilities at date of sale</b>	
Tangible fixed assets	5.8
Inventory	9.9
Debtors	5.9
Creditors	(5.1)
<b>Net assets</b>	<b>16.5</b>
Provision for retained liabilities	0.4
<b>Net assets and retained liabilities</b>	<b>16.9</b>
Surplus of proceeds over net assets, costs and expenses	5.2
Provisions in excess of liabilities settled – now released	11.2
<b>Profit on disposal of businesses</b>	<b>16.4</b>

The above financial statements do not constitute the full financial statements within the meaning of S240 of the Companies Act 1985. Figures relating to the year ended 31 July 2005 are abridged. Full accounts for Smiths Group plc for that period have been delivered to the Registrar of Companies. The auditors' report on those accounts was unqualified and did not contain a statement under S237(2) or S237(3) of the Companies Act 1985.

-ends-