

Registered Number 480992

**SMITHS DETECTION - WATFORD LIMITED**

**REPORT AND ACCOUNTS  
FOR THE YEAR ENDED 31 JULY 2011**

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# **SMITHS DETECTION - WATFORD LIMITED**

## **REPORT AND ACCOUNTS FOR THE YEAR ENDED 31 JULY 2011**

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# **SMITHS DETECTION - WATFORD LIMITED**

## **DIRECTORS' REPORT**

The directors present their report and the audited accounts of Smiths Detection - Watford Limited ("the Company") for the year ended 31 July 2011

### **BUSINESS REVIEW AND PRINCIPAL ACTIVITIES**

The Company's principal activities in the period were those of the design, manufacture and selling of trace chemical detection products and integrated systems into military and emergency responders markets, and the distribution and service of X-ray detection equipment into critical infrastructure and transportation markets. The company operates within the Detection Division of Smiths Group plc ("the Group"). There have been no material changes in these activities during the period.

The results for the period show sales of £61.7m (2010: £76.6m) and operating profit of £1.8m (2010: £0.3m) for the year.

No dividends were paid in the year ended 31 July 2011 (2010: £nil). The directors do not recommend the payment of a final dividend.

Amounts due to group undertakings include £17,791,891 owed to the holding company which at balance sheet date was repayable on 31 July 2014 or on demand.

### **FUTURE OUTLOOK**

It is not envisaged that the Company will initiate any plans to restructure its principal activity in the forthcoming year. The current level of performance is expected to be maintained.

### **PRINCIPAL RISKS AND UNCERTAINTIES**

The management of the business and the execution of the Company's strategy are subject to a number of risks. The key business risks and uncertainties affecting the Company are markets served by the company, which are particularly influenced by the political landscape, specific events and the perception of the threat of terrorist activity or other security issues. This political landscape and perception is likely to remain variable.

### **FINANCIAL RISK MANAGEMENT**

The Company complies with the Smiths Group plc financial risk management policies. These policies are explained in the treasury section of the Business Review and the Financial Instruments note included in the Group's Annual report which does not form part of this report.

#### **Operational credit risk**

The Company has implemented policies that require appropriate credit checks on potential customers before credit terms are offered. Customer credit limits are set based on credit ratings, past experience and other factors and subject to regular review.

Concentrations of credit risk with respect to trade receivables are limited due to the diverse customer base.

#### **Foreign exchange risks**

The Company makes a proportion of its sales and purchases in foreign currencies, principally US dollars, Euros and Swiss Francs. The resulting foreign exchange risks are managed through natural hedging and financial instruments.

## **SMITHS DETECTION - WATFORD LIMITED**

### **DIRECTORS' REPORT**

#### **KEY PERFORMANCE INDICATORS**

The directors of Smiths Group plc manage the Group's operations on a divisional basis. For this reason, the Company's directors believe that analysis using key performance indicators for the Company is not necessary or appropriate for an understanding of the development, performance or position of the business of Smiths Detection - Watford Limited. The development, performance and position of the Detection Division of Smiths Group plc, which includes the Company, is discussed in the Business review section of the Group's Annual report which does not form part of this report.

#### **DIRECTORS**

The directors who held office during the period (except as noted) are given below:

W R Mawer  
M P Maginnis  
D J Millard

#### **RESEARCH AND DEVELOPMENT**

Products are being continually upgraded to provide greater levels of threat detection, working closely with customers to meet their most demanding requirements. The Company is investing mainly in new chemical detection products.

The Company carries out research and development projects for governments and commercial customers.

#### **TANGIBLE FIXED ASSETS**

**The Company's land and buildings are used for developmental and rental purposes and are not held for resale. The Directors consider that the difference between their market value and the value at which they are included in the balance sheet is not significant enough to be drawn to the attention of the shareholders.**

#### **EMPLOYMENT POLICIES**

It is the Company's policy to provide equal opportunities for employment. The Company continues to be actively involved in all aspects of the training and development of young persons, including initiatives designed to ease the transition from school to work. Disabled people are given full consideration for employment and subsequent training, career development and promotion on the basis of their aptitudes and abilities.

Employees are regularly provided with a wide range of information concerning the performance and prospects of the business in which they are involved by means of Employee Councils, Information and Consultation forums, and other consultative bodies that allow the views of personnel to be taken into account.

Smiths Group plc offers all employees of its subsidiary companies in the US and UK share schemes that enable employees to acquire an interest in Smiths Group plc shares and to align their interests more closely with those of shareholders of Smiths Group plc. The employees of the Company have an opportunity to participate in the UK scheme.

#### **CHARITABLE DONATIONS**

The Company has made donations of £4,559 (2010: £7,994). The donations are made to a variety of UK charities including military and civil charities.

## **SMITHS DETECTION - WATFORD LIMITED**

### **DIRECTORS' REPORT**

#### **POLICY AND PRACTICE ON PAYMENT OF CREDITORS**

The Company's policy and practice is to pay creditors promptly in accordance with agreed terms of business. Trade creditors in the balance sheet at 31 July 2011 represent an average of 47 days of purchases (2010 35 days)

#### **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

#### **INDEPENDENT AUDITORS AND DISCLOSURE OF INFORMATION TO AUDITORS**

Each person who is a director at the date of approval of this report confirms that

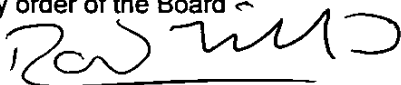
(a) so far as the directors are aware, there is no relevant audit information (that is, information needed by the Company's auditors in connection with preparing their report) of which the Company's auditors are unaware, and

(b) the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office.

By order of the Board ~



D J Millard  
Director

22 September 2011

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SMITHS DETECTION - WATFORD LIMITED**

We have audited the financial statements of Smith Detection - Watford Limited (the "Company") for the year ended 31 July 2011 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

### **Respective responsibilities of directors and auditors**

As explained more fully in the Directors' Responsibilities Statement set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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 the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Directors' Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 July 2011 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

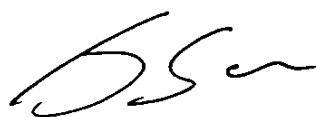
### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.



**Jaskamal Sarai (Senior Statutory Auditor)**  
For and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London

22 September 2011

# SMITHS DETECTION - WATFORD LIMITED

## PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 JULY 2011

	Notes	Year ended 31 July 2011 £'000	Year ended 31 July 2010 £'000
<b>Turnover</b>	2	61,731	76,565
Cost of sales		<u>(44,456)</u>	<u>(56,519)</u>
<b>Gross profit</b>		17,275	20,046
Sales and distribution costs		(4,941)	(6,138)
Administrative expenses		<u>(10,544)</u>	<u>(13,572)</u>
<b>Operating profit</b>	3	1,790	336
Interest receivable and similar income	6	3	79
Interest payable and similar charges	7	<u>(855)</u>	<u>(2,152)</u>
<b>Profit/(loss) on ordinary activities before taxation</b>		938	(1,737)
Tax on profit/(loss) on ordinary activities	8	<u>(166)</u>	<u>550</u>
<b>Profit/(loss) for the financial year</b>	18	<u>772</u>	<u>(1,187)</u>

There is no material difference between the profit/(loss) for the financial year stated above and the profit/(loss) calculated on a historical cost basis

The profit/(loss) for the financial year arose from continuing activities

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 JULY 2011

	Notes	Year ended 31 July 2011 £'000	Year ended 31 July 2010 £'000
Profit/(loss) for the financial year		772	(1,187)
Fair value losses on cash flow hedges	15	(236)	(347)
Deferred tax on fair value gains	8	<u>64</u>	<u>100</u>
<b>Total recognised gains/(losses)</b>		<u>600</u>	<u>(1,434)</u>

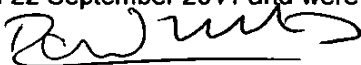
**SMITHS DETECTION - WATFORD LIMITED**

Registered Number 480992

**BALANCE SHEET AS AT 31 JULY 2011**

	Notes	31 July 2011 £'000	31 July 2010 £'000
<b>Fixed assets</b>			
Intangible fixed assets	9	559	746
Tangible fixed assets	10	<u>7,119</u>	<u>24,301</u>
		7,678	25,047
<b>Current assets</b>			
Stock	11	13,684	7,992
Debtors			
- falling due within one year	12	16,513	16,955
- falling due after one year	12	-	2,413
Derivative financial instruments			
- falling due within one year	15	178	720
- falling due after one year	15	-	-
Cash at bank and in hand		<u>118</u>	<u>1,205</u>
		30,493	29,285
<b>Creditors (amounts falling due within one year)</b>	13	(28,680)	(46,061)
Derivative financial instruments	15	<u>(36)</u>	<u>(530)</u>
		(28,716)	(46,591)
<b>Net current assets/(liabilities)</b>		<u>1,777</u>	<u>(17,306)</u>
<b>Total assets less current liabilities</b>		9,455	7,741
<b>Creditors (amounts falling due after more than one year)</b>	14	(1,439)	(22)
Derivative financial instruments	15	-	-
Provisions for liabilities	16	<u>(334)</u>	<u>(492)</u>
		(1,773)	(514)
<b>Net assets</b>		<u>7,682</u>	<u>7,227</u>
<b>Capital and reserves</b>			
Called up share capital	17	77	77
Share premium account	18	630	630
Capital reserve	18	1,055	1,200
Hedge reserve	18	30	266
Profit and loss account	18	<u>5,890</u>	<u>5,054</u>
<b>Total shareholders' funds</b>	19	<u>7,682</u>	<u>7,227</u>

The financial statements and related notes on pages 5 to 24 were approved by the board of directors on 22 September 2011 and were signed on its behalf by

  
D J Millard  
Director



# **SMITHS DETECTION - WATFORD LIMITED**

## **NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 JULY 2011**

### **1. ACCOUNTING POLICIES**

#### **Basis of preparation**

The accounts have been prepared for Smith Detection - Watford Limited (the "Company") in accordance with the Companies Act 2006 and all applicable accounting standards in the United Kingdom (UK GAAP)

These accounts have been prepared on a going concern basis and under the historical cost convention as modified to include revaluation of certain financial instruments

There is no uncertainty regarding the Company's ability to repay its liabilities as they fall due. Amounts due to group undertakings include £17,791,891 owed to the holding company which at balance sheet date was repayable on 31 July 2014 or on demand

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Company operates

#### **Cash flow statement**

A cash flow statement in accordance with "FRS 1 (Revised 1996) Cash flow statements" has not been prepared because all the voting rights of the Company are ultimately controlled by Smiths Group plc, which presents a cash flow for the Group within its consolidated accounts

#### **Research and development**

Expenditure on research and development is charged to the profit and loss account in the year in which it is incurred with the exception of amounts recoverable from third parties

#### **Tangible fixed assets**

Tangible fixed assets are stated at historical cost less accumulated depreciation and any recognised impairment losses

Land is not depreciated. Depreciation is provided on other assets estimated to write off the depreciable amount of relevant assets by equal annual instalments over their estimated useful lives. In general, the rates used are

- Freehold and long leasehold buildings – 2%,
- Short leasehold property – over the period of the lease,
- Plant and machinery – 10% to 20%,
- Motor vehicles – 25%, and
- Tools and other equipment – 10% to 33%

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount

No interest is capitalised as part of tangible fixed assets

## **SMITHS DETECTION - WATFORD LIMITED**

### **NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 JULY 2011**

#### **1. ACCOUNTING POLICIES (continued)**

##### **Stock**

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

##### **Provisions**

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

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

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

##### **Trade and other debtors**

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

##### **Cash**

Cash includes cash at bank and in hand less any bank overdrafts.

##### **Financial assets**

Financial assets are initially recognised at transaction price when the Company becomes party to contractual obligations. The transaction price used includes transaction costs unless the asset is being fair valued through the profit and loss account.

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

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

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

## **SMITHS DETECTION - WATFORD LIMITED**

### **NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 JULY 2011**

#### **1. ACCOUNTING POLICIES (continued)**

##### **Financial liabilities**

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

Borrowings are classified due within one year unless the Company has an unconditional right to defer settlement of the liability for at least one year after the balance sheet date.

##### **Derivative financial instruments and hedging activities**

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

Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the profit and loss account.

##### **Fair value of financial assets and liabilities**

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

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

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

##### **Cash flow hedge**

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

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

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

##### **Financial guarantees**

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

At each subsequent balance sheet date an estimate is made of the payments which will be required under the guarantee in accordance with 'FRS 12 Provisions, contingent liabilities and contingent assets'. The guarantee is then valued at the higher of its initial value less revenue recognised to date and the best estimate of the total payments which will be required under the contract.

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

# **SMITHS DETECTION - WATFORD LIMITED**

## **NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 JULY 2011**

### **1. ACCOUNTING POLICIES (continued)**

#### **Leases**

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

#### **Revenue**

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

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

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

#### **Long-term funded contracts**

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

#### **Pension obligations**

The Company's principal arrangements are provided through the independent Smiths Industries Pension Scheme, which is a defined benefit scheme. The Company is unable to identify its share of the underlying assets and liabilities of the scheme, and accordingly accounts for its contributions to the scheme as if it were a defined contribution scheme in accordance with 'FRS 17 Retirement benefits'.

#### **Share based compensation**

The Group operates a number of equity settled share based compensation plans and Smiths Group plc has made grants under these plans to Group employees working for the Company.

The fair value of the shares or share options granted is recognised as an expense over the vesting period to reflect the value of the employee services received. The corresponding credit is treated as a capital contribution from the parent company.

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

In accordance with the transitional provisions of 'FRS 20 Share based Payment', no charge had been recognised for grants of equity instruments made before 7 November 2002.

#### **Foreign currencies**

Foreign currency transactions are recorded at the exchange rate ruling at the date of transaction and monetary assets and liabilities denominated in a foreign currency are retranslated at the closing exchange rate at the balance sheet date.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions, and from the retranslation of monetary assets and liabilities denominated in foreign currencies, are recognised in the profit and loss account.

## **SMITHS DETECTION - WATFORD LIMITED**

### **NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 JULY 2011**

#### **1. ACCOUNTING POLICIES (continued)**

##### **Current taxation**

The tax on profit on ordinary activities includes amounts paid or received for Group relief in respect of tax losses claimed and surrendered in the current period. All current tax liabilities have been assumed by Smiths Group plc, the ultimate parent Company.

##### **Deferred taxation**

Deferred tax is recognised in respect of timing differences that have originated but not reversed at the balance sheet date. Timing differences are the difference between the Company's taxable profits and its results as disclosed in the financial statements, arising from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred assets are recognised only when their recovery is considered probable.

Deferred tax is not discounted.

##### **Dividends**

Dividends are recognised as a liability in the period in which they are authorised. Interim dividends are recognised when they are paid, and final dividends are recognised when they have been approved by shareholders at the Annual General Meeting.

##### **Related Party Disclosures**

The Company has taken advantage of the exemption provided by Paragraph 3(c) of 'FRS 8 Related party disclosures' not to disclose transactions with entities that are part of Smiths Group plc.

# SMITHS DETECTION - WATFORD LIMITED

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 JULY 2011

### 2. TURNOVER

The Company operates in one business segment. The analysis of turnover by geographical area is as follows

	Year ended 31 July 2011 £'000	Year ended 31 July 2010 £'000
United Kingdom	20,735	16,332
USA	21,063	39,236
Sweden	5,277	465
Canada	3,832	9,774
Germany	3,336	1,954
Poland	1,074	1,112
Australia & New Zealand	1,097	282
Europe- Other	3,173	4,879
Other overseas	2,144	2,531
	<u>61,731</u>	<u>76,565</u>

### 3. OPERATING PROFIT

Operating profit is stated after charging/(crediting)

	Year ended 31 July 2011 £'000	Year ended 31 July 2010 £'000
Wages and salaries	14,252	15,632
Social security costs	1,400	1,588
Other pension costs	647	811
Share based compensation (note 24)	(145)	554
Employee costs	16,154	18,585
Depreciation of property, plant and equipment	1,033	4,141
Amortisation of intangible assets	187	186
Loss on disposal of tangible fixed assets	26	12
Impairment losses recognised in the period on		
- debtors	19	340
Reversals of impairment losses previously recognised on		
- debtors	(49)	(65)
Research and development expenses	2,839	5,033
Operating leases		
- land and buildings	159	269
- plant and machinery	132	9
Foreign exchange loss	223	378
Fees charged by PricewaterhouseCoopers LLP		
- statutory audit fee	69	106
Charitable donations	5	8

# SMITHS DETECTION - WATFORD LIMITED

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 JULY 2011

### 4. DIRECTORS' REMUNERATION

	Year ended 31 July 2011 £'000	Year ended 31 July 2010 £'000
Aggregate emoluments	634	744
Aggregate amount receivable under long term incentive schemes	-	-
Company contributions in respect of defined contribution pension schemes	24	27

The directors provide services both to the Company and a number of other related Smiths Group plc entities. Aggregate emoluments therefore represent an allocation of the directors' total remuneration. Retirement benefits are accruing to three directors (2010 three) under a defined contribution pension scheme. During the period two directors (including the highest paid director) (2010 two) exercised options over shares of Smiths Group plc and two directors (including the highest paid director) (2010 none) received shares of Smiths Group plc under long term incentive schemes.

#### Highest paid director

	Year ended 31 July 2011 £'000	Year ended 31 July 2010 £'000
Aggregate emoluments	467	575
Company contributions in respect of defined contribution pension schemes	13	13

### 5. EMPLOYEE INFORMATION

The average monthly number of persons employed by the Company was

	Year ended 31 July 2011 Number	Year ended 31 July 2010 Number
Engineering	83	83
Production	141	145
Selling and distribution	41	31
Administration	28	20
	293	279

The employee numbers disclosed include those directors who work for the Company. No employees (2010 none) were employed outside the United Kingdom.

### 6. INTEREST RECEIVABLE AND SIMILAR INCOME

	Year ended 31 July 2011 £'000	Year ended 31 July 2010 £'000
Interest receivable on cash and deposits	3	9
Foreign exchange gains	-	70
	3	79

# SMITHS DETECTION - WATFORD LIMITED

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 JULY 2011

### 7. INTEREST PAYABLE AND SIMILAR CHARGES

	Year ended 31 July 2011 £'000	Year ended 31 July 2010 £'000
Interest payable on overdraft and bank loans	12	22
Interest payable to group undertakings	837	1,774
Foreign exchange losses	6	-
Ineffective cash flow hedges	-	356
	<u>855</u>	<u>2,152</u>

### 8. TAX ON LOSS ON ORDINARY ACTIVITIES

	Year ended 31 July 2011 £'000	Year ended 31 July 2010 £'000
<b>Analysis of tax charge/(credit)</b>		
<b>Current tax</b>		
Group relief (receipt)/payment	(885)	394
<b>Total current tax</b>	(885)	394
<b>Deferred tax</b>		
Origination and reversal of timing differences	1,051	(944)
<b>Tax on loss on ordinary activities</b>	<u>166</u>	<u>(550)</u>

The tax for the period is different from the standard rate of corporation tax in the UK. The differences are explained below

	Year ended 31 July 2011 £'000	Year ended 31 July 2010 £'000
Profit/(loss) on ordinary activities before taxation	<u>938</u>	<u>(1,737)</u>
UK corporation tax at 27 33% (2010 28%)	256	(486)
Effects of		
Expenses not deductible for tax purposes	16	(103)
Accelerated capital allowances	(981)	1,162
Additional tax allowances	(197)	-
Adjustment to tax in respect of prior period	111	(118)
Other timing differences	(90)	(61)
	<u>(885)</u>	<u>394</u>
Group relief surrendered (from)/to fellow subsidiary		
- current year	(996)	512
- prior year	111	(118)
Group relief (receipt)/payment	<u>(885)</u>	<u>394</u>
<b>Total current tax</b>	<u>(885)</u>	<u>394</u>



# SMITHS DETECTION - WATFORD LIMITED

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 JULY 2011

### 8. TAX ON LOSS ON ORDINARY ACTIVITIES (continued)

#### Deferred taxation

	Year ended 31 July 2011 £'000	Year ended 31 July 2010 £'000
Accelerated capital allowances	1,394	2,474
Fair value gains and losses on financial instruments	(8)	(72)
Other timing differences	40	11
Total provision for deferred taxation	<u>1,426</u>	<u>2,413</u>
Opening balance	2,413	1,369
Deferred tax (charged)/credited in the profit and loss account	(1,051)	944
Deferred tax credited to reserves	<u>64</u>	<u>100</u>
Closing balance	<u>1,426</u>	<u>2,413</u>

The Finance (No 2) Act 2010 included legislation to reduce the main rate of corporation tax from 28% to 26% from 1 April 2011. Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 23% by 1 April 2015.

### 9. INTANGIBLE FIXED ASSETS

	Intangibles £'000
<b>Cost</b>	
At 1 August 2010	932
Additions	-
At 31 July 2011	<u>932</u>
<b>Accumulated amortisation</b>	
At 1 August 2010	186
Charge for the year	187
At 31 July 2011	<u>373</u>
<b>Net book value</b>	
At 31 July 2011	<u>559</u>
At 31 July 2010	<u>746</u>

# SMITHS DETECTION - WATFORD LIMITED

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 JULY 2011

### 10. TANGIBLE FIXED ASSETS

	Freehold land and buildings £'000	Plant and machinery £'000	Fixtures, fittings, tools, motor vehicles and other equipment £'000	Total £'000
<b>Cost or valuation</b>				
At 1 August 2010	3,954	3,656	29,722	37,332
Additions	300	289	159	748
Disposals*	-	(37)	(22,409)	(22,446)
At 31 July 2011	4,254	3,908	7,472	15,634
<b>Accumulated Depreciation</b>				
At 1 August 2010	110	2,257	10,664	13,031
Charge for the year	13	229	791	1,033
Disposals*	-	(37)	(5,512)	(5,549)
At 31 July 2011	123	2449	5,943	8,515
<b>Net book amount</b>				
At 31 July 2011	4,131	1,459	1,529	7,119
At 31 July 2010	3,844	1,399	19,058	24,301

\* Fixed asset disposals include £21,515,751 SAP assets, sold to Smiths Detection Group Limited at the SAP assets book value of £16,819,528. Cash proceeds of £16,819,528 were received from Smiths Detection Group Limited.

## SMITHS DETECTION - WATFORD LIMITED

### NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 JULY 2011

#### 11. STOCKS

	2011 £'000	2010 £'000
Raw materials	6,040	2,700
Work in progress	3,294	1,225
Finished goods	4,350	4,067
	<u>13,684</u>	<u>7,992</u>

#### 12. DEBTORS

	2011 £'000	2010 £'000
<b>Amounts falling due within one year</b>		
Trade debtors	11,554	12,998
Amounts owed by group undertakings	3,324	3,367
Current tax asset	996	-
Other debtors	-	10
Prepayments and accrued income	639	580
	<u>16,513</u>	<u>16,955</u>
<b>Amounts falling after more than one year</b>		
Deferred taxation (note 8)	-	2,413
	<u>-</u>	<u>2,413</u>

Amounts due from group undertakings are unsecured, interest free and repayable on demand

#### 13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2011 £'000	2010 £'000
Trade creditors	5,724	5,350
Amounts due to group undertakings	17,928	33,467
Taxation and social security costs	353	498
Accruals and deferred income	4,007	6,601
Payments on account	668	145
	<u>28,680</u>	<u>46,061</u>

Amounts due to group undertakings include £17,791,891 owed to the holding company, Smiths Detection Group Limited, which at balance sheet date is repayable on 31 July 2014 or on demand. Interest is charged at LIBOR plus 3.0%.

# SMITHS DETECTION - WATFORD LIMITED

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 JULY 2011

### 14. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2011 £'000	2010 £'000
Amounts due to group undertakings	-	-
Accruals and deferred income	13	22
Deferred tax liabilities (Note 8)	1,426	-
	<u>1,439</u>	<u>22</u>

### 15. DERIVATIVE FINANCIAL INSTRUMENTS

#### Foreign exchange risk

##### Transactional currency exposure

The Company has transactional currency exposure arising from sales or purchases in currencies other than their functional currency, predominantly US dollars. In accordance with Smiths Group policy the Company hedges net exposures to agreed sales or purchases using forward foreign exchange contracts. This policy minimises the risk that the profits generated from the transaction will be affected by foreign exchange movements which occur after the price has been determined.

Forward foreign exchange contracts are only documented and accounted for as hedges when it is considered to be cost effective given the additional administration.

At 31 July 2011 the Company had outstanding foreign exchange contracts relating to US dollars with a nominal value of £nil (2010: £nil) which were being used to manage transactional foreign exchange exposures, but not accounted for as cash flow hedges. These contracts are classified as "held for trading".

##### Cash-flow hedging

At 31 July 2011, the Company had outstanding foreign currency contracts designated as hedging instruments in cash flow hedges of future foreign currency sales and purchases with a nominal value of £3m (2010: £8m). US dollar/sterling contracts accounted for £2m (2010: £6m) of these contracts. The fair value of the hedging instruments is disclosed in the derivative table overleaf.

The majority of hedged transactions will be recognised in the income statement in the same period as the cash flows are expected to occur, with the only differences arising as a result of normal commercial credit terms on sales and purchases. Of the foreign exchange contracts designated as hedging instruments, 100% (2010: 100%) are for periods of 12 months or less.

The movements relating to cash flow hedging recognised directly in reserves during the period are summarised in the table below.

	Year ended 31 July 2011 £'000	Year ended 31 July 2010 £'000
Net cash flow hedge gains deferred in reserves at start of period	266	613
Losses on effective cash flow hedges recognised in reserves during the period	660	(969)
Gains removed from reserves and recognised in the profit and loss account during the period	<u>(896)</u>	<u>622</u>
Net cash flow hedge gains deferred in reserves at end of period	<u>30</u>	<u>266</u>

# SMITHS DETECTION - WATFORD LIMITED

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 JULY 2011

### 15. FINANCIAL INSTRUMENTS (continued)

#### Financial derivatives

The tables below set out the nominal amount and fair value of derivative financial instruments held by the Company

At 31 July 2011	Contract or underlying	Fair value		Net £'000
	nominal amount £'000	Assets £'000	Liabilities £'000	
Foreign exchange contracts (cash flow hedges)	2,892	178	(36)	142
Foreign exchange contracts (not hedge accounted)		-	-	-
Total financial derivatives	2,892	178	(36)	142
Balance sheet				
Current assets				
Creditors amounts falling due within one year		178	(36)	142
Creditors amounts falling due after more than one year		-	-	-
Total financial derivatives		178	(36)	142

At 31 July 2010	Contract or underlying	Fair value		Net £'000
	nominal amount £'000	Assets £'000	Liabilities £'000	
Foreign exchange contracts (cash flow hedges)	26,563	720	(530)	190
Foreign exchange contracts (not hedge accounted)	-	-	-	-
Total financial derivatives	26,563	720	(530)	190
Balance sheet				
Current assets				
Creditors amounts falling due within one year		720	(530)	190
Creditors amounts falling due after more than one year		-	-	-
Total financial derivatives		720	(530)	190

#### Fair value of financial instruments

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

Forward foreign exchange contracts are valued using market valuations at the balance sheet date  
Embedded derivatives are valued using the net present value of discounted cash flows and market prices for forward foreign exchange contracts

All financial instruments are recognised on the balance sheet at a value which is not materially different from their fair value

# SMITHS DETECTION - WATFORD LIMITED

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 JULY 2011

### 16. PROVISIONS FOR LIABILITIES

	Warranty provision and product liability £'000	Property £'000	Reorganisation £'000	Total £'000
At 1 August 2010	492	-	-	492
Utilised during the period	(762)	(48)	(147)	(957)
Charged to profit and loss account	706	68	186	960
Released to profit and loss account	(161)	-	-	(161)
At 31 July 2011	275	20	39	334

Warranty provisions are made to cover the anticipated cost of repair or replacement of goods returned within the contractual warranty period of one year

Property provisions are made to cover the cost of work to bring the condition of premises in line with contractual conditions on termination of lease agreements and are expected to be utilised within the next financial year

Reorganisation provisions are reorganisation costs incurred during the financial year and are expected to be utilised within the next financial year

### 17. CALLED UP SHARE CAPITAL

	2011 £'000	2010 £'000
<b>Authorised</b>		
80,000 ordinary shares of £1 each	80	80
<b>Allotted and fully paid</b>		
76,771 ordinary shares of £1 each	77	77

### 18. RESERVES

	Share premium account £'000	Capital reserve £'000	Hedge reserve £'000	Profit and loss account £'000	Total £'000
At 1 August 2010	630	1,200	266	5,054	7,150
Profit for the financial year	-	-	-	772	772
Other recognised (losses)/gains for the period	-	-	(236)	64	(172)
Share Based Payments (note 24)	-	(145)	-	-	(145)
At 31 July 2011	630	1,055	30	5,890	7,605

# SMITHS DETECTION - WATFORD LIMITED

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 JULY 2011

### 19. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Year ended 31 July 2011 £'000	Year ended 31 July 2010 £'000
Opening shareholders' funds	7,227	8,107
Profit for the financial period	772	(1,187)
Other recognised losses for the period	(172)	(247)
Share Based Payment (note 24)	(145)	554
Closing shareholders' funds	<u>7,682</u>	<u>7,227</u>

### 20. CONTINGENT LIABILITIES

- (a) Guarantees and performance bonds given by banks to third parties on behalf of the Company amounted to £70,000 (2010 £140,000)
- (b) The Company has a contingent liability under a composite banking arrangement with other companies in the group, limited to the amount standing to the credit of the Company's own bank account
- (c) The Company is registered with H M Revenue and Customs as a member of the Smiths Group plc for VAT group purposes and as a result is jointly and severally liable on a continuing basis for amounts owing by the group for unpaid VAT

### 21. OPERATING LEASE COMMITMENTS

At 31 July 2011, the Company had annual commitments under non-cancellable operating leases as follows

	Land and Buildings		Other	
	Year ended 31 July 2011 £	Year ended 31 July 2010 £	Year ended 31 July 2011 £	Year ended 31 July 2010 £
On contracts expiring				
Within one year	6,510	129,764	9,613	-
After one and within five years	-	-	14,540	8,558
After five years	-	-	-	-
Total	<u>6,510</u>	<u>129,764</u>	<u>24,153</u>	<u>8,558</u>

### 22. CAPITAL COMMITMENTS

	Year ended 31 July 2011 £'000	Year ended 31 July 2010 £'000
Contracts placed for future capital expenditure not provided in the accounts	<u>334</u>	<u>260</u>
Future capital expenditure authorised by directors but not contracted and not provided in the accounts	<u>509</u>	<u>126</u>

## **SMITHS DETECTION - WATFORD LIMITED**

### **NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 JULY 2011**

#### **23. PENSIONS**

Staff of the Company participated in the Smiths Industries Pension Scheme and the TI Group Pension Scheme, which are defined benefit pension plans based in the UK. With effect from 1 January 2006, a number of employees of the Company who are members of this scheme became employees of the ultimate parent Company, Smiths Group plc, and now perform their services under contract from that Company. These pension schemes were closed with effect from 31 October 2009. The Company provides a defined contribution pension plan for its employees.

The assets of the Smiths Industries Pension Scheme are held in a separate trustee-administered fund and the pensions costs are assessed in accordance with the advice of independent, professionally-qualified actuaries. Further details of these pension plans, the actuarial assumptions used and the latest actuarial valuations can be found in the consolidated accounts of Smiths Group plc for the year ended 31 July 2011.

The pension cost for the Company in respect of the defined benefit pension plans was £nil (2010 £295,000). This represents contributions payable to Smiths Group plc which is responsible for making contributions to the pension funds on behalf of the Group as a whole. The Company contributions are set with respect to the current service period only, so the Company has accounted for these contributions as if the scheme was a defined contribution scheme. In 2012 the Company does not expect to make any payments in respect of the defined benefit pension plans.

The total expense recognised in the income statement in respect of defined contribution pensions was £641,000 (2010 £516,000).

#### **24. SHARE BASED COMPENSATION**

The Company's ultimate parent company operates share schemes and plans for the benefit of employees of the Group. The nature of the principal schemes and plans, including general conditions, is set out below.

##### **Smiths Group Sharesave Scheme (SAYE)**

The SAYE scheme is an HM Revenue & Customs-approved all-employee savings-related share option scheme which is open to all UK employees, including directors, with 12 months' service or more. Participants enter into a contract to save a fixed amount per month of up to £250 in aggregate for three or five years and are granted an option over shares at a fixed option price, set at a 20% discount to market price at the date of invitation to participate. In the case of five-year savings contracts, participants can elect to delay maturity of the contract until its seventh anniversary. The number of shares comprising the option is determined by the monthly amount saved and the bonus paid on maturity of the savings contract. Options granted under the SAYE scheme are not subject to any performance conditions.

##### **Smiths Industries 1995 Executive Share Option Scheme (95 ESOS)**

Options granted under the 95 ESOS can only be exercised after three years if a performance requirement, determined by the Remuneration Committee, has been met. Options granted under the 95 ESOS up to 2001 are subject to performance testing based on total shareholder return of the Group versus the total return of the General Industrials Sector of the FTSE All Shares Index. Options granted from 2002 are subject to a performance test based on growth in the Group's earnings per share. If the performance requirement is not satisfied at the end of the third year, the performance period may be extended for up to two further years so that performance is tested over a four-year period at the end of the fourth year and a five-year period at the end of the fifth year. The performance requirement is that the growth in the Group's normalised earnings per share over the three/four/five financial years beginning immediately prior to the option grant must exceed the increase in the UK Retail Prices Index over the same period by 3% per annum (for options up to one times base salary) and by 4% per annum (for the excess up to two times base salary). Executive directors received their final grants of options under the 95 ESOS in October 2003. From 2004 senior executives, including directors, have received awards under the PSP (see below). Grants under the 95 ESOS continue to be made to other executives.



# SMITHS DETECTION - WATFORD LIMITED

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 JULY 2011

### 24. SHARE BASED COMPENSATION (continued)

#### Smiths Group Performance Share Plan (PSP)

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

#### Value Sharing Plan (VSP)

The VSP is a one-off long-term incentive plan approved by the shareholders in July 2008 rewarding executives for value creation at Group and Divisional levels over three-year and four-year periods commencing with the financial year 2008/09. Executives with divisional responsibilities will be rewarded for value creation within the division for which they are responsible. The divisional awards will depend on meeting an internal value growth target set for the division in which the participant works.

The participants in the VSP will not be eligible for awards under the Performance Share Plan in 2009/10 or 2010/11.

The following table summarises the options over Smiths Group plc shares issued to employees working for the Company since 7 November 2002.

	SAYE	ESOS	CIP	PSP	VSP	Total	Weighted average exercise price £
Ordinary shares under option							
31 July 2007	141,317	82,000	765	9,537	-	233,619	7.28
Granted	49,382	31,250	-	-	-	80,632	8.69
Exercised	(31,836)	-	-	-	-	(31,836)	5.25
Lapsed	(11,514)	(22,750)	(765)	(9,537)	-	(44,566)	6.96
31 July 2008	147,349	90,500	-	-	-	237,849	8.09
Transferred out	(2,381)	-	-	-	-	(2,381)	7.95
Transferred in	1,812	-	32,237	39,923	-	73,972	0.18
Granted	102,822	-	14,664	-	5,770	123,256	4.75
Exercised	(21,325)	(10,000)	(11,977)	(11,703)	-	(55,005)	3.72
Lapsed	(32,419)	(34,500)	-	(3,050)	-	(69,969)	7.99
31 July 2009	195,858	46,000	34,924	25,170	5,770	307,722	5.65
Transferred out	-	-	(34,924)	(25,170)	-	(60,094)	-
Transferred in	19,608	26,500	-	14,601	5,770	66,479	2.00
Granted	-	-	14,361	-	-	14,361	-
Exercised	(19,621)	(17,750)	-	(1,454)	-	(38,825)	8.09
Adjustment for expected vesting	-	-	-	-	47,606	47,606	-
Lapsed	(24,192)	-	-	(7,827)	-	(32,019)	5.18
31 July 2010	171,653	54,750	14,361	5,320	59,146	305,230	5.40
Transferred out	-	-	-	-	-	-	-
Transferred in	2,967	-	-	-	-	2,967	7.19
Granted	43,532	-	12,396	-	-	55,928	7.43

continued

## SMITHS DETECTION - WATFORD LIMITED

### NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 JULY 2011

#### 24. SHARE BASED COMPENSATION (continued)

Exercised	(27,886)	(1,516)	-	(4,203)	-	(33,605)	7 20
Adjustment for expected vesting	-	-	-	-	(59,146)	(59,146)	-
Lapsed	(8,762)	-	-	(1,117)	-	(9,879)	6 62
31 July 2011	181,504	53,234	26,757	-	-	261,495	6 80

At 31 July 2011 there were nil (2010 14,910) ordinary shares under option in respect of options issued before 7 November 2002. Options were exercised on an irregular basis during the period and the average closing share price of Smiths Group plc over the financial year was 1,240.24p (2010 1,116.00p). There has been no change to the effective option price of any of the outstanding options during the period.

For the purposes of valuing options to arrive at the share-based payment charge, the Binomial option pricing model has been used for most schemes and the Monte Carlo method is used for schemes with total shareholder return performance targets. The key assumptions used in the models for 2011 and 2010 are volatility of 30% (2010 30%) and dividend yield of 3.75% (2010 3.75%). Assumptions on expected volatility and expected option term have been made on the basis of historical data, wherever available, for the period corresponding with the vesting period of the option. Best estimates have been used where historical data is not available in this respect. These generated a weighted average fair value for CIP of £12.40 (2010 £18.89) and VSP/PSP of £12.35 (2010 £11.21).

Included within administrative expenses is an income arising from share-based payment transactions of £145,000 (2010 expense £554,000), all of which relates to equity-settled share-based compensation.

#### 25. RELATED PARTY TRANSACTIONS

The Company has taken advantage of the exemption provided by Paragraph 3(c) of 'FRS 8 Related party disclosures' not to disclose transactions with entities that are part of Smiths Group plc.

#### 26. ULTIMATE PARENT UNDERTAKING

For the year ended 31 July 2011, Smiths Detection - Watford Limited was a wholly owned subsidiary of Smiths Detection Group Limited.

The ultimate parent undertaking and controlling party is Smiths Group plc, which is the parent undertaking of the smallest and largest group to consolidate these financial statements. Smiths Group plc is incorporated in the United Kingdom and registered in England and Wales.

The Annual Report and Accounts of Smiths Group plc may be obtained from the Company Secretary, Smiths Group plc, Cardinal Place, 80 Victoria Street, London, SW1E 5JL.