News Release
London, 16 March 2005
For immediate release

smiths

SMITHS GROUP plc
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Smiths Group: Interim Results
for the six months ended 31 January 2005

Highlights

- Headline profit before tax up 16% at £155m*
- Headline earnings per share up 17% at 20.4p*
- On a statutory basis, profit before tax was £125m and EPS was 15.9p
- At constant currency, all four divisions contributed to sales growth of 11%, headline operating profit growth of 16%
- Medex acquisition scheduled to complete on 21 March
- Interim dividend increased by 6%, to 9.25p
- Momentum expected to be sustained in second half of 2005

* Before goodwill amortisation and exceptional items.

Commenting on the results, Keith Butler-Wheelhouse, Chief Executive said: **"This was a strong first half and we expect to sustain this momentum through the remainder of the year. With all four divisions performing well, Smiths is achieving real underlying growth and gaining the incremental benefit of recent acquisitions. The Medex transaction is scheduled to close early next week and this will have a beneficial impact on the Medical division. We have raised the interim dividend for the first time since 2001, reflecting our positive outlook for the full year."**

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A meeting with analysts will be simultaneously webcast at 9:00am UK time on www.smiths-group.com/interims2005 and archived there shortly after the event.

Reported on a statutory basis

	2005 £m	2004 £m
Sales - continuing	1,344	1,264
- discontinued	-	55
	1,344	1,319
Operating profit		
- continuing	153	141
- discontinued	-	2
- goodwill amortisation	(22)	(21)
- exceptional items	(8)	(10)
	123	112
Pre-tax profit		
- continuing	155	133
- goodwill amortisation	(22)	(21)
- exceptional items	(8)	(7)
	125	105
EPS - continuing	20.4p	17.5p
- statutory basis	15.9p	12.5p

On a statutory basis, including goodwill amortisation and exceptional items, Smiths Group recorded pre-tax profit of £125m (2004: £105m) and earnings per share of 15.9p (2004: 12.5p) for the six months ended 31 January 2005. The remainder of this statement refers to the continuing activities of the company before goodwill amortisation and exceptional items, to provide a more consistent basis for comparison. Results on this basis are referred to as "Headline" in the remainder of this statement.

Headline performance

£m	2005	2004
Sales	1,344	1,264
Headline operating profit	153	141
Headline pre-tax profit	155	133
Headline earnings per share	20.4p	17.5p
Interim dividend	9.25p	8.75p

Smiths Group recorded a 16% increase in headline pre-tax profit and a 17% increase in headline earnings per share for the first half of its 2005 financial year. The improvement combined better operational performance, some benefit from acquisitions and lower financing costs. The Board has raised the interim dividend by 6% to 9.25p.

Sales were 6% higher than for the same period last year and headline operating profit was up by 9%. The company's net margin on the same basis remained at 11%. Smiths earns more than half its profit in the US, and the dollar's decline compared with the first half last year reduced reported sales by £65m and profit by £9m. Measured at constant exchange rates, sales rose by 11% and headline operating profit by 16%. These gains came equally from the underlying business and from the contribution of recent acquisitions.

The momentum established in the second half of last year has been sustained through the first six months of the current financial year. All four divisions of Smiths achieved higher sales and profits on a constant currency basis. Aerospace benefited from the rapid recovery in the commercial sector, Detection made progress beyond the airport market, Medical kept pace with rising demand and Specialty Engineering was boosted by strong growth in Interconnect.

A £3m reduction in net interest on ordinary activities and a £6m pensions financing improvement contributed to the higher pre-tax profit. The company's tax rate on ordinary activities for the period was 26.0% (2004: 26.5%).

Operating cash-flow for the period, after capital expenditure and before exceptional restructuring, was £83m, representing a conversion from headline operating profit of 54%. This conversion rate was lower than usual because of increased investment in aerospace production capacity, and higher stock levels in anticipation of strong sales growth in the second half. By the year end, cash conversion is likely to have risen closer to normal levels. Net debt at the end of the period was £392m, compared to £273m at the start.

Smiths spent £61m on acquisitions during the half year. In November, the company acquired Integrated Aerospace Inc, a privately-owned, California based supplier of specialist landing gear systems, for £57m. In December, the company acquired Tianjin Timing Seals Co Ltd in China, for £3m, and this is now part of John Crane in Specialty Engineering. Both acquisitions are performing in line with expectations.

In December, Smiths announced it would acquire Medex Inc, a leading US medical device company for a total of £490m, including some £160m of assumed debt. Medex brings a product range which is highly complementary and considerably increases Smiths' presence in the safety devices sector. Having received regulatory clearance from all necessary authorities, completion is scheduled for 21 March. Meanwhile the integration of Medex has been planned in detail and will lead to both revenue and cost synergy benefits.

Two smaller acquisitions have been made since the end of the first half. Irish company Farran Technology Ltd was acquired in February for £16m, of which £3m is performance related. Its millimetre wave expertise will be used in future Smiths Detection products. The acquisition of the US Seal product line from Superior Essex Inc, for £6m has been announced today. It makes replacement mechanical seals which complement the John Crane range.

Company funded R&D increased by £6m to £72m. Customer-funded projects increased at a similar rate, to £63m in this period. Together, they represent 10% of sales.

Productivity continues to improve. A two-year restructuring programme, commenced last year, has led to charges of £39m, including £8m during this period. The payback from this programme is matching expectations and the efficiencies gained are contributing to current performance. In addition, the company has absorbed increased costs for plastics, metals, energy and transport without margin impact.

Smiths generated 54% of its sales by origin in North America (US, Canada and Mexico), and 62% of its profit. UK sales by origin were 23% of the total, including £231m in exports. By division, Aerospace generated 38% of Smiths Group sales, Detection 11%, Medical 18% and Specialty Engineering 33% in this period.

Smiths Aerospace

£m	2005	2004
Sales	514	457
Headline operating profit	39	33
Margin	*8%*	*7%*

Smiths Aerospace has entered a period of strong growth which is likely to be sustained for a number of years, driven by a recovery in the commercial aviation sector and rising sales of military systems. In the first six months of 2005, sales were 17% and headline profits 24% higher on a constant currency basis. Whilst margins moved ahead by one point in the first half, the division continues with its normal bias towards the second half. Compared with a year earlier, company-funded R&D was £3m higher.

The upward trend is the result of a number of positive factors. Boeing and Airbus are raising their production rates, especially of narrow-bodied aircraft, and hence demand for Smiths' aircraft systems is higher. Similarly, the engine makers are placing more orders on the company's engine component business. Meanwhile, the commercial aftermarket which, for Smiths, was initially slow to recover, is now growing firmly in step with airline traffic.

In this period, the initial systems for the A380 were delivered, while work on the B787 Dreamliner, now less than two years from first flight, is on schedule.

The military part of Smiths' business continues to perform strongly, with current front-line programmes on which the company has valuable shipsets all sustained at high levels. In the longer term, whilst the US government is seeking to reduce defence expenditure, Smiths' high capture rate of new programmes in recent years, combined with increasing international demand, provides the basis for sustained growth in military business.

Smiths has recently delivered avionics equipment for the first F-35 Joint Strike Fighter, which is expected to make its initial flight in 2006. Similarly, the company has delivered the first hardware and software for the C-130 AMP, a programme to modernise up to 500 of the US AirForce's now elderly transporters.

Recent awards will help sustain military business in the longer term. Smiths is teamed with Lockheed Martin on the US101 Presidential helicopter fleet, and Northrop Grumman has selected the landing gear system for the X-47B J-UCAS unmanned aircraft from recently acquired Integrated Aerospace. In Europe, the partner nations have reached agreement on the production of Tranche 2 of Eurofighter, for which Smiths supplies a number of systems.

Construction has commenced on the second phase of the Smiths Aerospace plant in Suzhou, China, which will double capacity to 130,000 sq ft by 2006. In Poland, a plant acquired with DGT has been expanded and is now delivering engine components to Pratt & Whitney.

Smiths Detection

£m	2005	2004
Sales	153	143
Headline operating profit	21	18
Margin	*13%*	*12%*

In the relatively short time since it was established, Smiths Detection has reached a market-leading position in the supply of detection equipment to military, homeland security and customs authorities. The increasing breadth of the business offers a wider range of detection and identification technologies than its competitors, and benefits from a truly global sales footprint.

In the first half of this year, sales were up 10% and headline profit up 22% on a constant currency basis. The timing of large orders and deliveries, coupled with the effect of US government spending cycles, continues to impact the performance of the division considerably from one reporting period to the next. Sales to government bodies tend to be skewed to the second half of Smiths' year, and deliveries are expected to increase during the balance of the year.

While aviation security is still the largest market, at a third of divisional sales, it is now well balanced by other applications including military, first responder/hazmat teams, critical infrastructure, ports & borders and non-security applications. The ports & borders market is growing rapidly. Smiths makes very large X-ray units capable of quickly inspecting freight containers without opening them. Whilst initially they were used to prevent transhipment of contraband, recent growth has come equally from the drive to eliminate terrorist threats in cargo. Deliveries to New Zealand Customs and a new contract with the Australian government have been among the most significant applications of this technology during the half year. Additionally, the prison authorities in New South Wales ordered equipment to prevent illicit or threatening items being smuggled into prisons.

Military business continues to grow, confirming Smiths as a world leader in chemical agent detectors. In the US, the company has secured a valuable follow-on order from the Department of Defense under the Automated Chemical Agent Detector and Alarm (ACADA) programme. In Holland, an order for chemical agent detectors has been won from the Royal Netherlands Army and in the UK, the Ministry of Defence has awarded Smiths a £20m contract for the Lightweight Chemical Agent Detector (LCAD), which can be worn by troops.

With R&D now at 8% of sales, investment is focused on new-generation biological detection capability, high frequency imaging systems and a stream of new products which will keep Smiths at the forefront of the detection industry. Recent additions to the range include: X-ray equipment which provides aviation-level security to public buildings, schools and business mailrooms; an Ionscan desktop trace detection machine that searches simultaneously for narcotics and explosives; and an upgraded Sentinel II walk-through explosives detection portal, which has been deployed at some of the busiest US airports. Smiths is also working with the US Transportation Security Administration (TSA) on pilot programmes to scan passenger documents for signs of explosives and to improve aircargo screening, using trace detection equipment.

In this period, the division secured new orders for airport security equipment, both trace and X-ray, from authorities in Algeria, Australia, Korea, Mexico and Senegal, and from Luton Airport in the UK.

Smiths Medical

£m	2005	2004
Sales	237	234
Headline operating profit	39	39
Margin	*17%*	*17%*

With more than two thirds of its profit generated in North America, the reported performance of Smiths Medical is significantly affected by the translation impact of the US dollar's decline compared with a year earlier. While appearing steady year-on-year as reported, on a constant currency basis sales grew by 6% and headline profit by 7%. Growth would have been higher but for the withdrawal from third-party products in Japan.

Over the past six months the focus has been on operational improvement to give the division a competitive advantage. Individual business units have been brought within an integrated structure for manufacturing, and this will be extended to administration and supply chain management. Production is being concentrated in fewer locations and the majority of assembly work is carried out in Tijuana, Mexico.

In the single-use sector, Smiths has continued to benefit from strong demand for devices which prevent accidental needlestick injuries. Hospitals in the US are still some way from being fully compliant with the requirement to use safety products, and the transition is driving above-average growth rates. Smiths is installing additional capacity and will shortly introduce a new generation, low dead space hypodermic NeedlePro, the LDS Edge, which maintains technical leadership for the highly-respected Portex brand.

Single-use airway management, critical care and assisted reproduction devices are all achieving organic sales growth. DHD Healthcare has received the US Food & Drug Administration's 510(k) approval to launch the innovative Aquinox heated airway humidification device, an early benefit from this acquisition made last June.

Medication delivery and patient monitoring equipment also contributed to Smiths Medical's growth. The Deltec Cozmo insulin pump is selling strongly in the US. Now offered with a combined blood/glucose monitor, developed in partnership with Abbott Laboratories, the Cozmonitor has a distinct competitive advantage. Additionally, pump users will shortly be offered the new Cleo introducer, which allows them to place the disposable insulin catheter more securely under their skin. The opportunities beyond the US are still opening up, and Cozmo has been launched in another eight countries, starting with those where reimbursement is available. Ambulatory and hospital infusion, pain management, vital signs and vascular access products continue to sell well, combining original equipment with the valuable supply of disposables. A new emergency resuscitator for first responders, the Pneupac VR1, has just been launched. It is the first to be powered by the ambulance's own oxygen supply, eliminating the need for batteries.

In Japan, where Smiths Medical is the market leader in anaesthesia and respiratory care, the low margin third party products have been dropped, warehousing has been outsourced, and seven locations will soon be reduced to a single, purpose-built facility, resulting in efficiency gains.

Specialty Engineering

£m	2005	2004
Sales	440	430
Headline operating profit	54	51
Margin	*12%*	*12%*

Specialty Engineering delivered a strong first half performance, with sales up by 9% and headline profit by 14% on a constant currency basis. All businesses achieved higher sales and profits in constant currency and, overall, Specialty Engineering contributed 36% of Smiths' headline operating profit, entirely in cash and after absorbing £3m in restructuring costs.

John Crane is a truly global operation and its performance varied by region. In the Americas, it moved ahead strongly, securing an important contract in the US to supply seals for the grain processing plants operated by Archer Daniels Midland, and benefiting from good business in Venezuela. In the rest of the world, the pattern was mixed: while business in Europe and Asia, including China, was strong, the important Middle East market for oil & gas production continued to suffer from political instability.

Recent John Crane initiatives are starting to show a return: orders are being received from Gazprom via the joint venture established in Russia; long-term shared success contracts for aftermarket business are being secured on the Performance Plus contract basis, now comprising 32 contracts in 12 countries; and customer specifications are being matched more swiftly by involving the software centre co-located with the Indian subsidiary in Bangalore. Significantly, John Crane has generally been able to pass on its higher raw material costs.

Interconnect's sales and profits increased in this period, driven by positive market dynamics in the military, aerospace and telecoms sectors. The microwave components business is performing particularly well. Its products are finding new applications in integrated defence communications systems and in medical electronics, including hospital scanners. A new, highly-advanced silicon dioxide cable has recently been added to the range. Sales of electronic connectors and filters were also ahead, although there has been some softness in the European market while awaiting orders for Tranche 2 of Eurofighter.

Recent acquisitions have been quickly integrated, and the extended product range gives Smiths a competitive advantage in meeting more complex specifications.

Flex-Tek is performing well and, with higher sales to both HVAC and domestic appliance customers, margins have improved. Increased raw material costs, particularly steel and nickel, have been offset by productivity gains and, with a Malaysian plant now fully operational, Flex-Tek remains competitive in an industry well used to global component sourcing. The Vac-U-Store hose, which can be fully retracted into the body of a vacuum cleaner, has secured its first application, and there is great interest from other customers.

The Marine business improved its profitability as a result of increased naval business, although sales for commercial shipping were flat.

International Financial Reporting Standards

Progress continues on the transition towards International Financial Reporting Standards (IFRS), under which 2005/2006 results will be reported. The first time Smiths will report under IFRS will be on the interim Accounts to 31 January 2006.

The Board

On 20 January, Einar Lindh retired after 28 years' service with the company, including nine years on the Board, most recently as Group Managing Director, Specialty Engineering.

Prospects

Smiths is building on its strong market positions, benefiting from investment in new product R&D, productivity gains and recent acquisitions. With broadly favourable market environments, Smiths is capitalising on available opportunities to generate continuing growth.

Dividend

The Board has declared an interim dividend of 9.25p an increase of 6%, and the first time the interim dividend has been increased for four years. The level of increase for the full year will be considered in six months' time. The interim dividend will be paid on 27 April 2005 to holders of all ordinary shares whose names are registered at the close of business on 29 March. The ex-dividend date will be 23 March.

Tables attached

- Profit & loss account
- Statement of total recognised gains and losses
- Summarised balance sheet
- Cash-flow statement
- Notes to the accounts

Copies of the interim report will be sent to shareholders shortly, and will be available at the company's registered office, 765 Finchley Road, London NW11 8DS.

PROFIT AND LOSS ACCOUNT (unaudited)

		6 months ended 31 January 2005			
		Ordinary activities	**Goodwill amortisation**	**Exceptional items**	**Total**
	Note	£m	£m	£m	£m
Continuing operations		1,339.2			1,339.2
Acquisitions		5.2			5.2
Discontinued businesses					
Turnover	2	**1,344.4**			**1,344.4**
Continuing operations		152.2	(21.6)	(7.6)	123.0
Acquisitions		0.9	(0.5)		0.4
Discontinued businesses					
Operating profit		**153.1**	**(22.1)**	**(7.6)**	**123.4**
Exceptional items -					
Exceptional property profit					
Profit/(loss) on disposal of businesses					
Profit before interest and tax		**153.1**	**(22.1)**	**(7.6)**	**123.4**
Net interest payable		(5.9)			**(5.9)**
Other finance income – retirement benefits		7.5			7.5
Profit before taxation		**154.7**	**(22.1)**	**(7.6)**	**125.0**
Taxation		(40.2)	2.2	2.3	(35.7)
Profit after taxation		**114.5**	**(19.9)**	**(5.3)**	**89.3**
Dividends	4	(52.0)			(52.0)
Retained profit		**62.5**	**(19.9)**	**(5.3)**	**37.3**
Earnings per share	5				
Basic		20.4p	(3.6p)	(0.9p)	15.9p
Diluted		20.3p	(3.6p)	(0.9p)	15.8p

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES (unaudited)

	2005
	£m
Profit for the period year attributable to shareholders	89.3
Exchange loss	(8.7)
	80.6

PROFIT AND LOSS ACCOUNT (unaudited)

		6 months ended 31 January 2004				
	Note	**Ordinary activities** £m	**Discontinued Businesses**	**Goodwill amortisation** £m	**Exceptional items** £m	**Total** £m
Continuing operations		1,263.7				1,263.7
Acquisitions						
Discontinued businesses			55.0			55.0
Turnover	2	**1,263.7**	**55.0**			**1,318.7**
Continuing operations		140.7		(18.9)	(9.6)	112.2
Acquisitions						
Discontinued businesses			2.2	(1.9)		0.3
Operating profit		**140.7**	**2.2**	**(20.8)**	**(9.6)**	**112.5**
Exceptional items -						
Exceptional property profit						
Profit/(loss) on disposal of businesses					2.6	2.6
Profit before interest and tax		**140.7**	**2.2**	**(20.8)**	**(7.0)**	**115.1**
Net interest payable		(8.8)	(2.4)			(11.2)
Other finance income – retirement benefits		1.2				1.2
Profit before taxation		**133.1**	**(0.2)**	**(20.8)**	**(7.0)**	**105.1**
Taxation		(35.3)		1.8	(1.6)	(35.1)
Profit after taxation		**97.8**	**(0.2)**	**(19.0)**	**(8.6)**	**70.0**
Dividends	4	(49.1)				(49.1)
Retained profit		**48.7**	**(0.2)**	**(19.0)**	**(8.6)**	**20.9**
Earnings per share	5					
Basic		17.5p		(3.4p)	(1.6p)	12.5p
Diluted		17.5p		(3.4p)	(1.6p)	12.4p

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES (unaudited)

	2004 £m
Profit for the period year attributable to shareholders	70.0
Exchange loss	(35.0)
	35.0

PROFIT AND LOSS ACCOUNT (unaudited)

		Year ended 31 July 2004				
		Ordinary activities	**Discontinued Businesses**	**Goodwill amortisation**	**Exceptional items**	**Total**
	Note	£m		£m	£m	£m
Continuing operations		2,678.4				2,678.4
Acquisitions						
Discontinued businesses			55.0			55.0
Turnover	2	**2,678.4**	**55.0**			**2,733.4**
Continuing operations		360.1		(37.1)	(30.9)	292.1
Acquisitions						
Discontinued businesses			2.2	(1.9)		0.3
Operating profit		**360.1**	**2.2**	**(39.0)**	**(30.9)**	**292.4**
Exceptional items -						
Exceptional property profit					12.1	12.1
Profit/(loss) on disposal of businesses					7.8	7.8
Profit before interest and tax		**360.1**	**2.2**	**(39.0)**	**(11.0)**	**312.3**
Net interest payable		(13.0)	(2.4)			(15.4)
Other finance income – retirement benefits		3.2				3.2
Profit before taxation		**350.3**	**(0.2)**	**(39.0)**	**(11.0)**	**300.1**
Taxation		(92.8)		4.4	1.2	(87.2)
Profit after taxation		**257.5**	**(0.2)**	**(34.6)**	**(9.8)**	**212.9**
Dividends	4	(151.6)				(151.6)
Retained profit		**105.9**	**(0.2)**	**(34.6)**	**9.8**	**61.3**
Earnings per share	5					
Basic		45.9p		(6.2p)	(1.7p)	38.0p
Diluted		45.8p		(6.2p)	(1.7p)	37.9p

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES (unaudited)

	2004
	£m
Profit for the period year attributable to shareholders	212.9
Exchange loss	(45.0)
Taxation recognised on exchange gains/losses:	
Current – United Kingdom	(0.4)
FRS17 – Retirement Benefits:	
Actuarial gains/(losses) on retirement benefit schemes - gross	145.5
Deferred tax credit related thereto	(39.3)
	273.7

SUMMARISED BALANCE SHEET (unaudited)

	Note	**31 January 2005 £m**	31 January 2004 £m	31 July 2004 £m
Fixed assets				
Intangible assets		**748.6**	579.8	728.2
Tangible assets		**434.6**	413.5	423.5
Investments and advances:				
Automotive		**325.0**	325.0	325.0
Other		**2.9**	2.1	2.3
		1,511.1	1,320.4	1,479.0
Current assets				
Stocks		**484.9**	416.7	423.5
Debtors		**628.4**	580.7	629.6
Cash at bank		**343.0**	494.2	449.2
		1,456.3	1,491.6	1,502.3
Creditors: Amounts falling due within one year		**(1,045.1)**	(715.5)	(1,077.1)
Net current assets		**411.2**	776.1	425.2
Total assets less current liabilities		**1,922.3**	2,096.5	1,904.2
Creditors: Amounts falling due after one year		**(490.7)**	(713.0)	(499.6)
Provisions for liabilities and charges		**(116.1)**	(114.6)	(120.0)
Net assets excluding pension assets/ liabilities		**1,315.5**	1,268.9	1,284.6
Pension assets		**77.4**	36.4	72.7
Retirement benefit liabilities		**(228.7)**	(321.4)	(234.8)
Net assets		**1,164.2**	983.9	1122.5
Capital and reserves				
Share capital and share premium account		**331.0**	320.6	323.3
Reserves		**833.2**	663.3	799.2
Capital employed	8	**1,164.2**	983.9	1,122.5

CASH-FLOW STATEMENT (unaudited)

	Note	**6 months ended 31 January 2005 £m**	6 months ended 31 January 2004 £m	Year ended 31 July 2004 £m
Operating profit (before exceptional restructuring costs)		**131.0**	122.1	323.3
Goodwill amortisation		**22.1**	20.8	39.0
Depreciation		**35.2**	37.4	72.1
Retirement benefits		**(3.6)**	2.8	(22.9)
(Increase) in stocks		**(56.9)**	(14.2)	(2.4)
Decrease/(increase) in debtors		**9.1**	(10.0)	(78.8)
(Decrease)/increase in creditors		**(6.9)**	(2.8)	52.6
Net cash inflow from normal operating activities		**130.0**	156.1	382.9
Exceptional restructuring expenditure		**(9.9)**	(6.2)	(23.0)
Net cash inflow from operating activities		**120.1**	149.9	359.9
Returns on investments and servicing of finance		**6.3**	3.8	10.5
Tax paid		**(43.5)**	(39.5)	(61.5)
Capital expenditure and financial investment		**(47.0)**	(29.9)	(53.9)
Acquisitions and disposals	6	**(57.7)**	490.0	291.4
Equity dividends paid		**(102.5)**	(96.5)	(145.6)
Management of liquid resources		**99.7**	(414.3)	(383.7)
Financing		**2.9**	5.6	21.2
(Decrease)/increase in cash		**(21.7)**	69.1	38.3
(Decrease)/increase in short-term deposits		**(99.7)**	414.3	383.7
Decrease/(increase) in other borrowings		**8.4**	2.5	(10.9)
Loan note repayments			2.7	2.9
Exchange variations		**(5.9)**	20.7	28.4
(Increase)/decrease in net debt		**(118.9)**	509.3	442.4
Net debt at beginning of period		**(272.7)**	(715.1)	(715.1)
Net debt at end of period	7	**(391.6)**	(205.8)	(272.7)

NOTES TO THE ACCOUNTS (unaudited)

1. *Accounting policies*

The accounting policies used in preparing the interim financial statements are consistent with those used in the annual financial statements for 2004.

2. *Analyses of turnover and profit*

	6 months ended 31 January 2005		6 months ended 31 January 2004		Year ended 31 July 2004	
	Turnover £m	**Profit £m**	Turnover £m	Profit £m	Turnover £m	Profit £m
Market						
Aerospace	**514.0**	**38.9**	456.9	33.0	1,005.8	99.7
Detection	**152.9**	**20.5**	142.8	17.8	317.1	55.6
Medical	**236.7**	**39.3**	234.1	39.1	487.7	91.6
Specialty Engineering	**440.8**	**54.4**	429.9	50.8	867.8	113.2
	1,344.4	**153.1**	1,263.7	140.7	2,678.4	360.1
Discontinued businesses			55.0	2.2	55.0	2.2
	1,344.4	**153.1**	1,318.7	142.9	2,733.4	362.3
Goodwill amortisation		**(22.1)**		(20.8)		(39.0)
Exceptional items		**(7.6)**		(7.0)		(11.0)
Profit before interest and tax		**123.4**		115.1		312.3
Net interest		**(5.9)**		(11.2)		(15.4)
Retirement benefits						
Net finance income		**7.5**		1.2		3.2
Profit before taxation		**125.0**		105.1		300.1
Geographical origin						
United Kingdom	**368.0**	**13.4**	366.3	17.2	784.9	46.0
North America	**776.6**	**94.3**	702.9	81.6	1,472.6	221.0
Europe	**227.3**	**32.6**	230.7	31.1	471.7	69.5
Other overseas	**104.8**	**12.8**	85.7	10.8	188.6	23.6
Inter-company	**(132.3)**		(121.9)		(239.4)	
	1,344.4	**153.1**	1,263.7	140.7	2,678.4	360.1

NOTES TO THE ACCOUNTS

3. *Exceptional items*

	6 months ended 31 January 2005 £m	6 months ended 31 January 2004 £m	Year ended 31 July 2004 £m
Operational restructuring	**(7.6)**	(9.6)	(30.9)
Exceptional property profit			12.1
Profit on disposal of businesses		2.6	7.8
	(7.6)	(7.0)	(11.0)

Exceptional restructuring costs of £7.6m (2004: £9.6m) have been charged against operating profit in respect of the continuing programme for improving competitiveness in Aerospace and the rationalisation of distribution in Medical.

4. Dividends

An interim dividend of 9.25p per share (2004: 8.75p) has been declared and will be paid on 27 April 2005 to holders of all ordinary shares whose names are registered at close of business on 29 March 2005.

5. Earnings per share

Separate figures are given for earnings per share related to the average number of shares in issue for each period:

	6 months ended 31 January		Year ended 31 July
	2005	2004	2004
Basic	**561,914,824**	560,171,050	560,656,310
Effect of dilutive share options	**2,366,714**	896,887	893,394
Diluted	**564,281,538**	561,067,937	561,549,704

NOTES TO THE ACCOUNTS

6. ***Acquisitions***

During the period the major acquisition was the issued capital of Integrated Aerospace, Inc. The fair values set out below are provisional, and will be finalised in subsequent financial statements.

	Date of acquisition	Consideration £m	Goodwill £m	Net assets £m
Businesses acquired				
Integrated Aerospace	23.11.04	56.6	47.9	8.7
Other		4.0	1.7	2.3
		60.6	49.6	11.0
Cash received on forward contract		(2.9)		
Net expenditure on acquisitions		57.7		

During the period the Company was in receipt of a cash inflow of £2.9m net of expenses in respect of a hedging transaction related to the acquisition of Medex Inc. This sum will be set against the subsequent cost of acquisition. In accordance with the provisions of FRS 10, the company amortises goodwill arising on acquisitions after 1 August 1998 on a straight-line basis over periods of up to 20 years.

7. ***Borrowings and net debt***

	Fixed £m	Floating £m	31 January 2005 £m	31 January 2004 £m	31 July 2004 £m
Maturity:					
On demand/under one year	4.1	287.9	292.0	47.3	275.4
One to two years	0.3		0.3	206.3	0.4
Two to five years	0.9		0.9	1.0	0.8
Greater than five years:					
Bank loans	11.1		11.1	11.3	10.8
TI Eurosterling bond 2010	149.0		149.0	148.8	148.9
Smiths US private placement 2013	53.2	79.8	133.0	137.3	137.4
Smiths Eurosterling Bond 2016	148.3		148.3	148.0	148.2
	366.9	367.7	734.6	700.0	721.9
Cash and deposits			(343.0)	(494.2)	(449.2)
Net debt	366.9	367.7	391.6	205.8	272.7

NOTES TO THE ACCOUNTS

8. Movement in shareholders 'equity

	6 months ended 31 January 2005 £m	6 months ended 31 January 2004 £m	Year ended 31 July 2004 £m
Profit for the period	89.3	70.0	212.9
Dividends	(52.0)	(49.1)	(151.6)
	37.3	20.9	61.3
Exchange variations	(8.7)	(35.0)	(45.0)
Taxation recognised on exchange gains/(losses):			
Current – UK			(0.4)
Share issues	7.7	10.8	13.2
ESOP Trusts – disposal of company shares	5.4		
Goodwill written back on disposals		130.0	130.0
Actuarial gains and losses on retirement benefits schemes - gross			145.5
Deferred tax charge related thereto			(39.3)
Net increase in shareholders' equity	41.7	126.7	265.3
Shareholders' equity:			
At 1 August	1,122.5	857.2	857.2
	1,164.2	983.9	1,122.5

NOTES TO THE ACCOUNTS

9. Contingent liabilities

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. In addition, John Crane has access to insurance cover which, while it is kept under review, is judged sufficient to meet all material costs of defending these claims for the foreseeable future.

As a results of its defence policy, John Crane has been dismissed before trial from cases involving approximately 102,000 claims over the last 26 years. John Crane is currently a defendant in cases involving approximately 179,000 claims. Despite these large numbers of claims, John Crane has had final judgments against it, after appeals, in only 43 cases, amounting to awards of some US$30m.

These awards, the related interest and all material defence costs have to date been met in full by insurance. No provision relating to this litigation has been made in these accounts.

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. No provision relating to such litigation has been made in these accounts.

Note: As stated in note 1, the above financial statements have been prepared in accordance with the accounting policies set out in the company's accounts for the year ended 31 July 2004. They 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 2004 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.

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