

> Interim report and accounts 2002

smiths

>Smiths is a forward-thinking, focused engineering company with market-leading positions worldwide in its four chosen areas of specialisation.

>HIGHLIGHTS

- > Operating profit of £201m from continuing activities, 11% down
- > Strong cash-flow maintained, profit-to-cash conversion at 80%
- > Growing defence activity is limiting the impact of civil aerospace downturn
- > Rapid restructuring has reduced the cost base in all divisions
- > Sale of marine seals will bring debt to circa £900m
- > Smiths selected by Boeing for 767 tanker refuelling system
- > Dividend maintained at 8.75p
- > More confidence in outlook for second half

>BOARD OF DIRECTORS

Keith Orrell-Jones

Chairman

Keith Butler-Wheelhouse

Chief Executive

Sir Nigel Broomfield

Non-executive Director

Sir Colin Chandler

Deputy Chairman

John Ferrie

Group Managing Director,
Aerospace

John Hignett

Non-executive Director

Julian Horn-Smith

Non-executive Director

Lawrence Kinet

Group Managing Director,
Medical

John Langston

Group Managing Director,
Sealing Solutions

David Lillycrop

General Counsel

Einar Lindh

Group Managing Director,
Industrial

Robert O'Leary

Non-executive Director

Alan Thomson

Financial Director

>INTERIM DIVIDEND

The Board has declared an **Interim Dividend** of 8.75p, unchanged from a year ago, and will consider whether or not to increase the final dividend in the light of circumstances prevailing in six months' time. The interim dividend will be paid on 19 April 2002 to holders of all ordinary shares whose names are registered at the close of business on 22 March. The ex-dividend date will be 20 March.

Commenting on the results, Keith Butler-Wheelhouse, Chief Executive said:

“This was an exceptionally tough six months for many companies. Against challenging circumstances, our 13% first-half margins and 80% profit-to-cash conversion show the resilience of Smiths Group. Meanwhile, we have been focusing on disposals and restructuring so that we can return to growth as the economic cycle starts to recover. Our defence business is already growing strongly and recent acquisitions will help Medical make a bigger contribution. We are now more confident about the outlook for the second half of the year.”

>FINANCIAL PERFORMANCE

Performance of the continuing activities	2002 £m	2001 £m
Turnover	1,491	1,530
Operating profit*	201	226
Interest	(27)	(26)
Pre-tax profit*	174	200
Earnings per share*	22.4p	25.4p
Restructuring charges	8	68
Interim dividend	8.75p	8.75p

*before exceptionals and amortisation

Registrar

Lloyds TSB Registrars

The Causeway

Worthing

West Sussex BN99 6DA, UK

Tel: +44 (0) 1903 502541

www.lloydstsb-registrars.co.uk



8.75p

Dividend maintained at 8.75p

80%

Strong cash-flow maintained, profit-to-cash conversion at 80%

Reported on a fully consolidated basis, including discontinued activities and after exceptionals and amortisation, Smiths Group recorded pre-tax profit of £123 million (2001: £97m) and earnings per share of 14.0p (7.7p) in the first half of the current year, with the prior period bearing one-off merger-related costs. The remainder of this statement focuses on the continuing activities.

For the six months ended 31 January 2002, Smiths Group generated operating profit of £201 million (down 11%), pre-tax profit of £174 million and earnings per share of 22.4p, before exceptional charges and amortisation. The Board has declared an interim dividend maintained at last year's level of 8.75p. On slightly reduced sales of £1.49 billion, the company achieved a profit margin of 13%.

The company maintained its strong record of cash generation, converting 80% of operating profit into operating cash after capital expenditure. On completion of the sale of the marine seals business, net debt will fall to circa £900 million.

Aerospace, largest of the company's divisions, contributed 40% of operating profit. Continued growth and high margins in Medical raised its proportion of profit to 23%, one point ahead of Sealing Solutions. Industrial, most affected by market slowdown, contributed 15% of the total this time.

More than half of the company's sales and profits originate from the United States. Business in the US held up

well, particularly in the defence and medical sectors. Demand there for consumer and industrial products reduced, and the slowdown in US domestic air travel began to have some effect on Smiths Aerospace. Business in the UK and continental Europe was generally flat, with the depressed state of the German economy having an impact on Sealing Solutions. Currency variations had little effect on the results, although the decline of the Yen reduced the reported contribution to Medical from the important Japanese market.

Three acquisitions at a combined cost of £51 million were added to the Medical and Interconnect activities. The sale of the John Crane-Lips marine seals business to Wärtsilä was announced in December. Completion is expected shortly, following receipt of the remaining two regulatory approvals, and consequently its sales and profits have been treated as discontinued. Smiths will then have generated £259m from disposals since the start of the financial year. The 2001 sales and profits of these non-core activities were £289m and £25m respectively. The first half disposals gave rise to an exceptional loss of £23 million against book value.

The company incurred exceptional costs of £8 million on restructuring its civil aerospace business and on the forthcoming transfer of production from a US Medical facility to Mexico. Further exceptionals in the range of £35-40 million are expected in the second half to complete the restructuring of civil aerospace,

including the closure of facilities in the UK and US.

The restructuring continues to affect employment. In the first half, 1,600 jobs were lost across all divisions, and a further 450 direct labour jobs were transferred to Mexico and the Czech Republic. In the second half and the early part of next (financial) year, 1,450 jobs will be eliminated and 450 transferred. In total, 1,200 of the job cuts are in the UK.

In last year's accounts, Smiths Group published its pension funding status calculated under FRS 17. On this basis, pension assets exceeded liabilities by £319 million - a funding ratio of 114%. Pension costs charged to operating profit increased by £5 million in the period, reflecting lower investment returns.

Aerospace

	2002 £m	2001 £m
Turnover	639	596
Operating profit	80	84
Margin	13%	14%

On increased sales, Smiths Aerospace recorded a 5% drop in profits, mainly due to a changing mix of programmes. Sales of defence equipment, now half of the total, climbed by 20%, and sales of the still relatively small detection and protection business increased by 50%. These gains outweighed the start of a slowdown in the civil aerospace sector.

The company strengthened its position as a first-tier aerospace supplier by winning defence contracts which will

generate significant revenue through the present decade. Among these, Lockheed Martin selected Smiths as a partner on the F-35 Joint Strike Fighter (JSF). So far, Smiths has secured agreements to supply systems valued at \$1 million per aircraft on the JSF programme, and funded development is already underway.

Although it is clear that the civil aerospace sector will go through a downturn over the next two years, the effect in the half year was less serious than originally expected. Operational difficulties for airlines in the wake of 9/11 affected aftermarket sales, but the reduction in aircraft production is only now starting to affect sales of original equipment. Civil aerospace accounts for 35% of divisional sales, and major restructuring is underway to align capacity with demand. Airline load factors have recently started to improve and this is the first positive indicator for the industry since September.

Within Aerospace, there is a rapidly growing business in detection and protection systems for military and civilian use. These systems provide warning of chemical and biological threats, and detect traces of explosives and narcotics on individuals or in baggage. The requirement for enhanced airport security has generated unprecedented demand, and new products are being added to the range to address these opportunities.

Boeing recently announced the selection of Smiths Aerospace to provide an integrated refuelling system

for the Global Tanker Transport Aircraft (GTTA) programme, based on the Boeing 767 commercial aircraft. Joining this Boeing team provides Smiths with the potential to supply systems and in-service support valued at more than \$1 billion over the next 30 years. This contract exploits the synergy benefits of bringing a range of capabilities from across Smiths Aerospace into an integrated system. Adding to its expertise in this area, the company has reached agreement to acquire Able Corporation of Los Angeles for \$17.5 million plus a deferred amount of up to \$10 million over 5 years. Able will supply the refuelling hose unit within the Smiths system for the GTTA programme.

Medical

	2002 £m	2001 £m
Turnover	224	217
Operating profit	46	43
Margin	20%	20%

Smiths Medical achieved a 7% increase in profit on a modest increase in sales, leaving margins unchanged at 20%. The comparative period last year was exceptionally strong, due to a one-off surge in spending by the UK's National Health Service.

Medical has reorganised into product-specific global business units. The largest, airway management, makes the Portex branded single-use devices which put the company among the world leaders in this market. Other business units focus on needle protection, pain management,





£51m

Three acquisitions at a combined cost of £51 million were added to the Medical and Interconnect activities.

ambulatory and hospital infusion, patient temperature management, critical care monitoring and assisted reproduction.

The division's production is being consolidated into fewer locations, and labour-intensive assembly is being moved to Mexico, where employment will reach nearly 1,000 next year. The efficiency gains realised are funding an increased rate of new product development.

Among recently introduced products are additional applications for the Needle Pro safety device which helps prevent needlestick injuries. Sales of these devices, which are a legal requirement in US hospitals, grew by 50% in this period.

Medical now has a targeted approach to generating new business with the major hospital buying groups in the US, and this has resulted in more firmly established positions with groups including Novation, Premier and Broadlane.

Two recent acquisitions complement existing activities. In November, the company paid £25 million for Bivona Inc, based in Indiana. Bivona specialises in airway management products made of silicone, which are used when the tubes are going to be left in place for longer than usual. In January, the company announced it would pay £18 million (partly deferred) to acquire a product line of anaesthesia procedure kits from Abbott Laboratories. Procedure kits are increasingly preferred by consultants because they save the

hospital from having to provide a set of individual devices for each operation. Smiths Medical's business in Japan is a significant contributor to the performance of the division. Japan Medico is bringing to market a progressively wider range of Smiths products. However, the weaker Yen impacted consolidated sales by £4 million in the period.

Sealing Solutions

	2002 £m	2001 £m
Turnover	410	462
Operating profit	45	51
Margin	11%	11%

Following the disposal of several non-core activities, including marine seals, the Sealing Solutions division now comprises John Crane and the polymer seals business. Sales and profits declined by 11% on a like-for-like basis, leaving margins unchanged at 11%.

John Crane, generating just over half of continuing divisional sales, is the world leader in metal and ceramic rotating seals used in process plant, including the oil & gas, pulp & paper and chemical industries. These are high added-value, engineered seals which generate significant aftermarket revenues.

While John Crane's sales were flat in this period, the benefits of restructuring are now coming through in terms of improved margins. Labour-intensive production has been transferred to lower cost countries, and the product range has been rationalised to focus on the most

profitable applications. John Crane is now in good shape to take advantage of an improving outlook in its major markets.

The decline in divisional sales and profits was largely attributable to poor market conditions facing the polymer seals business. It supplies high-grade rubber and plastic seals for the industrial, automotive and aerospace sectors. Over half of its sales are into the European industrial equipment market, and these were seriously impacted by the decline in capital goods production, particularly in Germany, during this period. A quarter of sales are for automotive applications, and these too have been at lower levels. As with John Crane, restructuring is underway.

Industrial

	2002 £m	2001 £m
Turnover	218	255
Operating profit	30	49
Margin	14%	19%

Sales by the Industrial division were 15% down and profits declined by 39%, against the prior period, which benefited from the telecoms peak. Restructuring has taken place across the division reflecting the present lower levels of activity, and the costs of this have been charged against profits. Overall personnel numbers are 10% lower than a year ago.

The Interconnect businesses serving the wireless telecoms sector were seriously affected by the downturn in this market. Smiths products are mainly used for protection and

connection of electronics in the base stations and transmission towers of mobile networks. Expansion of these networks has slowed while the service providers seek to regain profitability, and customer destocking continued through this period. Twelve months ago, activity was at an unprecedented high. Even at today's levels, the Smiths telecom-related businesses are generating mid-teens margins and a return on investment well above the cost of capital.

Interconnect business in other sectors was less severely affected. Sales of connectors for defence use, including Eurofighter and a number of US programmes, continued to grow. This was offset by a decline in general industrial applications. Sales by the air movement businesses including Vent-Axia were flat. The flexible ducting and hosing businesses performed well, although their products for household goods were affected by reduced consumer spending in the US.

In December the company paid £8 million to acquire Summitek, a US company specialising in test and measurement equipment used in the wireless communications industry.

Prospects

Smiths Group is now more confident about the outlook for the second half of the year. The first half shortfall of 11% in operating profit was less than indicated in November, and the second half decline is expected to be similar or less. Recent disposals have helped increase the focus on the core activities, with the defence and

healthcare sectors now providing the greatest opportunities for growth. The company remains on track to achieve the merger-related savings outlined a year ago, and further restructuring is in hand to address the civil aerospace downturn. With a robust balance sheet and strong cash generation, Smiths is in good shape to take advantage of any improvement in its markets.



> PROFIT AND LOSS ACCOUNT

INTERIM RESULTS 2002 - unaudited



		6 months ended 31 January 2002				
	Note	Ordinary Activities £m	Discontinued Businesses £m	Goodwill Amortisation £m	Exceptional Items £m	Total £m
Continuing operations		1,486.8				1,486.8
Acquisitions		4.3				4.3
Discontinued businesses			96.6			96.6
Turnover	1	1,491.1	96.6			1,587.7
Continuing operations		199.7		(18.4)	(7.6)	173.7
Acquisitions		1.1		(0.4)		0.7
Discontinued businesses			6.3			6.3
Operating profit		200.8	6.3	(18.8)	(7.6)	180.7
Exceptional items - Loss on disposal of businesses	2				(23.4)	(23.4)
Merger costs	2					
Write-down of goodwill on future anticipated disposals	2					
Profit before interest and tax		200.8	6.3	(18.8)	(31.0)	157.3
Net interest payable		(27.3)	(6.9)			(34.2)
Profit / (loss) before taxation		173.5	(0.6)	(18.8)	(31.0)	123.1
Taxation		(48.6)	0.2	1.8	2.1	(44.5)
Profit / (loss) after taxation		124.9	(0.4)	(17.0)	(28.9)	78.6
Minority interests		(0.7)				(0.7)
Profit / (loss) for the period		124.2	(0.4)	(17.0)	(28.9)	77.9
Dividends	3	(48.6)				(48.6)
Retained profit / (loss)		75.6	(0.4)	(17.0)	(28.9)	29.3
Earnings per share	4					
Basic		22.4p	(0.1p)	(3.1p)	(5.2p)	14.0p
Fully-diluted		22.3p	(0.1p)	(3.1p)	(5.2p)	13.9p

6 months ended 31 January 2001					Year ended 31 July 2001				
Ordinary Activities £m	Discontinued Businesses £m	Goodwill Amortisation £m	Exceptional Items £m	Total £m	Ordinary Activities £m	Discontinued Businesses £m	Goodwill Amortisation £m	Exceptional Items £m	Total £m
1,530.1				1,530.1	3,177.1				3,177.1
	948.6			948.6		1,781.1			1,781.1
1,530.1	948.6			2,478.7	3,177.1	1,781.1			4,958.2
225.9		(23.9)	(67.6)	134.4	499.8		(34.6)	(115.8)	349.4
	90.4		(17.7)	72.7		151.5	(14.1)	(17.7)	119.7
225.9	90.4	(23.9)	(85.3)	207.1	499.8	151.5	(48.7)	(133.5)	469.1
			(53.8)	(53.8)				(286.0)	(286.0)
								(54.2)	(54.2)
								(125.0)	(125.0)
225.9 (26.3)	90.4 (29.8)	(23.9)	(139.1)	153.3 (56.1)	499.8 (59.1)	151.5 (57.1)	(48.7)	(598.7)	3.9 (116.2)
199.6 (59.9)	60.6 (18.2)	(23.9) 2.6	(139.1) 21.0	97.2 (54.5)	440.7 (127.9)	94.4 (28.3)	(48.7) 3.6	(598.7) 60.5	(112.3) (92.1)
139.7 (0.6)	42.4	(21.3)	(118.1)	42.7 (0.6)	312.8 (1.1)	66.1 (0.5)	(45.1)	(538.2)	(204.4) (1.6)
139.1 (109.1)	42.4	(21.3)	(118.1)	42.1 (109.1)	311.7 (199.5)	65.6	(45.1)	(538.2)	(206.0) (199.5)
30.0	42.4	(21.3)	(118.1)	(67.0)	112.2	65.6	(45.1)	(538.2)	(405.5)
25.4p 25.3p	7.7p 7.7p	(3.9p) (3.9p)	(21.5p) (21.5p)	7.7p 7.6p	56.4p 56.2p	11.9p 11.8p	(8.2p) (8.1p)	(97.4p) (97.0p)	(37.3p) (37.1p)

>SUMMARISED BALANCE SHEET

INTERIM RESULTS 2002 - unaudited

	Note	31 January 2002 £m	31 January 2001 £m	31 July 2001 £m
Fixed assets				
Intangible assets		708.4	923.0	678.3
Tangible assets		607.8	1,017.5	620.1
Investments and advances - Automotive		325.0	18.9	325.0
Other		13.2	9.2	12.1
		1,654.4	1,968.6	1,635.5
Current assets				
Stocks		576.9	663.4	567.6
Debtors		837.4	1,255.6	918.6
Cash at bank		201.8	120.6	117.2
		1,616.1	2,039.6	1,603.4
Creditors : amounts falling due within one year		(1,058.4)	(1,435.1)	(1,181.4)
Net current assets		557.7	604.5	422.0
Total assets less current liabilities		2,212.1	2,573.1	2,057.5
Creditors : amounts falling due after one year		(1089.6)	(1,586.2)	(970.2)
Provisions for liabilities and charges		(228.9)	(256.1)	(234.9)
Net assets		893.6	730.8	852.4
Capital and reserves				
Share capital and share premium account		287.6	277.3	285.0
Reserves		592.5	439.5	554.7
Shareholders' equity	7	880.1	716.8	839.7
Minority equity interests		13.5	14.0	12.7
Capital employed		893.6	730.8	852.4

Comparative figures for provisions for liabilities and charges and reserves have been restated on the adoption of FRS 19 to include an additional deferred taxation provision of £26m relating to past tax benefits derived from goodwill acquired before 1 August 1998 and written-off against reserves under accounting policies in force at that time.

>SUMMARISED CASH-FLOW STATEMENT

INTERIM RESULTS 2002 - unaudited

	Note	6 months ended 31 January 2002 £m	6 months ended 31 January 2001 £m	Year ended 31 July 2001 £m
Operating profit (before restructuring and merger costs)		188.3	292.4	602.6
Goodwill amortisation		18.8	23.9	48.7
Depreciation		46.6	69.8	139.3
(Increase) / decrease in stocks		(31.0)	(28.3)	(34.4)
(Increase) / decrease in debtors		52.4	(22.8)	(71.7)
Increase / (decrease) in creditors		(59.1)	(5.3)	19.5
Other non-cash items			(2.8)	(3.0)
Operating cash-flow before restructuring costs		216.0	326.9	701.0
Restructuring costs		(26.0)	(30.9)	(74.2)
Operating cash-flow after restructuring costs		190.0	296.0	626.8
Merger costs			(49.6)	(54.2)
Returns on investments and servicing of finance		(28.6)	(50.8)	(117.9)
Tax paid		(19.6)	(60.7)	(115.6)
Capital expenditure and financial investment		(50.4)	(105.7)	(188.0)
Acquisitions and disposals	5	(3.7)	(95.4)	400.9
Deferred consideration re prior-year acquisitions			(26.3)	(32.3)
Equity dividends paid		(90.4)	(122.8)	(171.3)
Management of liquid resources		(38.4)	195.2	193.6
Financing		93.5	(123.1)	(448.2)
Increase / (decrease) in cash		52.4	(143.2)	93.8
Increase / (decrease) in short-term deposits		38.4	(195.2)	(193.6)
(Increase) / decrease in other borrowings		(92.2)	127.9	452.8
Loan note issues (net of repayments)		0.7	2.2	3.5
Term debt of acquisitions assumed			(0.5)	
Term deposits acquired with acquisitions				19.0
Debt de-consolidated on disposals				19.1
Exchange variations		(6.9)	(22.8)	(48.7)
(Increase) / decrease in net debt		(7.6)	(231.6)	345.9
Net debt at beginning of period		(1,119.8)	(1,465.7)	(1,465.7)
Net debt at end of period	6	(1,127.4)	(1,697.3)	(1,119.8)

>NOTES TO THE ACCOUNTS

INTERIM RESULTS 2002 - unaudited

	6 months ended 31 January 2002		6 months ended 31 January 2001		Year ended 31 July 2001	
	Turnover £m	Profit £m	Turnover £m	Profit £m	Turnover £m	Profit £m
1 Analyses of turnover and profit						
Market						
Aerospace	638.7	79.8	596.4	83.5	1,303.6	208.5
Medical	224.1	46.0	217.2	42.8	452.5	93.3
Sealing Solutions	409.9	45.0	461.5	50.6	913.2	105.4
Industrial	218.4	30.0	255.0	49.0	507.8	92.6
	1,491.1	200.8	1,530.1	225.9	3,177.1	499.8
Discontinued businesses	96.6	6.3	948.6	90.4	1,781.1	151.5
	1,587.7	207.1	2,478.7	316.3	4,958.2	651.3
Goodwill amortisation		(18.8)		(23.9)		(48.7)
Exceptional items		(31.0)		(139.1)		(598.7)
Profit before interest and tax		157.3		153.3		3.9
Net interest		(34.2)		(56.1)		(116.2)
Profit before taxation		123.1		97.2		(112.3)
Geographical origin - continuing activities						
United Kingdom	486.1	51.9	494.5	65.5	1,042.1	119.9
USA	767.0	102.3	752.3	113.6	1,622.7	271.2
<i>US dollars</i>	\$1,112.2m	\$148.3m	<i>\$1,098.4m</i>	<i>\$165.9m</i>	<i>\$2,352.9m</i>	<i>\$393.2m</i>
Europe	238.3	27.8	230.0	31.6	508.2	71.6
Other overseas	124.5	18.8	111.9	15.2	238.9	37.1
Inter-company	(124.8)		(58.6)		(234.8)	
	1,491.1	200.8	1,530.1	225.9	3,177.1	499.8

John Crane Lips has been treated as discontinued. The agreement to sell the business is conditional upon final regulatory approvals, all but two of which have already been obtained, and the remainder are expected shortly.

	6 months ended 31 January 2002 £m	6 months ended 31 January 2001 £m	Year ended 31 July 2001 £m
2 Exceptional items			
Restructuring and closure costs	(7.6)	(85.3)	(133.5)
Merger costs		(53.8)	(54.2)
	(7.6)	(139.1)	(187.7)
Loss on disposal of businesses	(23.4)		(286.0)
Goodwill on anticipated disposals			(125.0)
	(31.0)	(139.1)	(598.7)

The book value of assets sold amounted to £62.6m and net sale proceeds £39.2m (2001 £1,205.9m including goodwill £626.6m; net sale proceeds £919.9m).

>NOTES TO THE ACCOUNTS CONTINUED

3 Dividends

An interim dividend of 8.75p per share (2001: 8.75p) has been declared and will be paid on 19 April 2002 to holders of all ordinary shares whose names are registered at close of business on 22 March 2002.

4 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 2002	6 months ended 31 January 2001	Year ended 31 July 2001
Basic	555,903,263	548,963,057	552,770,686
Effect of dilutive share options	1,021,646	1,343,271	2,113,803
Fully-diluted	556,924,909	550,306,328	554,884,489

5 Acquisitions and disposals

During the period the Company acquired the issued share capital of Bivona Inc., and the business and assets of a product line from Abbott Laboratories for Medical, and the issued capital of Summitek Instruments, Inc. for Industrial.

Details of the consideration paid, amounts treated as goodwill and the net assets acquired are set out below. These values are provisional, and following completion of the ongoing review, will be finalised in subsequent financial statements.

	Date of Acquisition	Consideration £m	Goodwill £m	Net assets £m
Bivona	31.10.01	25.6	20.4	5.2
Abbott anaesthesia kit business	20.12.01	18.0	17.0	1.0
Summitek	2.12.01	7.6	6.1	1.5
		51.2	43.5	7.7
Consideration deferred		8.3		
Cash outflow in period		42.9		
Net proceeds of disposals (note 2)		(39.2)		
Net cash outflow		3.7		

In addition to the £18m paid for the Abbott business and assets, the company has undertaken to acquire stocks of raw materials and finished goods at an estimated cost of £3m.

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 a period of up to 20 years. The charge for the period to 31 January 2002 was £18.8m.

>NOTES TO THE ACCOUNTS CONTINUED

6 Borrowings and net debt	Fixed £m	Floating £m	31 January 2002 £m	31 January 2001 £m	31 July 2001 £m
Maturity:					
On demand / under one year	49.7	264.4	314.1	362.4	342.6
One to two years	19.8	0.1	19.9	204.2	90.6
Two to five years	143.0	554.9	697.9	946.7	506.8
Greater than five years:					
Bank loans	1.3		1.3	8.8	1.1
TI Eurosterling bond 2010		148.4	148.4	148.3	148.3
Smiths Eurosterling bonds 2016	147.6		147.6	147.5	147.6
	361.4	967.8	1,329.2	1,817.9	1,237.0
Cash and deposits			(201.8)	(120.6)	(117.2)
Net debt			1,127.4	1,697.3	1,119.8

7 Movements in shareholders' equity	Note	£m	31 January 2002 £m	£m	31 January 2001 £m
Profit for the period			77.9		42.1
Dividends			(48.6)		(109.1)
			29.3		(67.0)
Exchange variations			9.1		(2.9)
Share issues			2.0		25.3
Net increase / (reduction) in shareholders' equity			40.4		(44.6)
Shareholders' equity:					
At 1 August 2001		865.7		787.4	
Prior period adjustment - FRS 19	8	(26.0)		(26.0)	
			839.7		761.4
At 31 January 2002			880.1		716.8

8 Accounting policies

The Company has adopted FRS 19 - Deferred Taxation. As a result, an adjustment of £26m has been made to opening reserves to reflect the deferral of tax relating to goodwill acquired before 1 August 1998, and written-off to reserves under accounting policies in force at that time. The effect on the reported profits of the prior period is not material.



Introduction

We have been instructed by the company to review the interim financial information for the 6 months ended 31 January 2002 (the 'interim report') which comprises the summarised profit and loss account, summarised balance sheet information, summarised cash flow statement and all related notes. (see note 1 below). We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by the directors. The directors

are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and, based thereon,

assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 31 January 2002.

PricewaterhouseCoopers

Chartered Accountants
London
13 March 2002

Note 1

- (a) *The maintenance and integrity of the Smiths Group plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the interim report since it was initially presented on the website.*
- (b) *Legislation in the United Kingdom governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.*

www.smiths-group.com

Registered Office

Smiths Group plc
765 Finchley Road
London NW11 8DS, UK
Tel: +44 (0) 20 8458 3232
Fax: +44 (0) 20 8458 4380
E-mail: plc@smiths-group.com

Incorporated in England No 137013