INTERIM REPORT AND ACCOUNTS 2003

ENGINEERING GROWTH

2003

smiths

smiths

SMITHS FOCUSES ON ENGINEERING GROWTH THROUGH INNOVATIVE PRODUCT DEVELOPMENT, TARGETED ACQUISITIONS AND CONTINUAL EFFICIENCY IMPROVEMENTS.

HIGHLIGHTS

- Operating profits of £180m (before goodwill), down 1% on a year ago
- EPS of 20.8p on ordinary activities: Interim dividend maintained at 8.75p
- Productivity gains counteract £10m adverse currency and £10m higher R&D
- Operating cash at 88% of operating profit (after capex), and free cash-flow of £92m
- Further progress on disposals and acquisitions to strengthen the business
- Pension schemes substantially well funded, FRS17 adopted

BOARD OF DIRECTORS

KEITH ORRELL-JONES
Chairman

KEITH BUTLER-WHEELHOUSE
Chief Executive

SIR NIGEL BROOMFIELD
Non-executive Director

SIR COLIN CHANDLER
Non-executive Director

JOHN FERRIE
Group Managing Director, Aerospace

JULIAN HORN-SMITH
Non-executive Director

LAWRENCE KINET
Group Managing Director, Medical

JOHN LANGSTON
Group Managing Director, Sealing Solutions

DAVID LILLYCROP
Director & General Counsel

EINAR LINDH
Group Managing Director, Industrial

ROBERT O'LEARY
Non-executive Director

ALAN THOMSON
Financial Director

CHIEF EXECUTIVE

Keith Butler-Wheelhouse commented:

"WHILE THE BUSINESS ENVIRONMENT CONTINUED TO DETERIORATE, WE HELD SALES TO WITHIN 2% AND OPERATING PROFITS TO 1% OF A YEAR AGO, AND DELIVERED PROFITS LARGELY IN CASH. THIS FIRST HALF ACHIEVEMENT, COUPLED WITH CONTINUED PRODUCTIVITY GAINS IN THE SECOND HALF, PROVIDE CONFIDENCE IN OUR OUTLOOK FOR THE FULL YEAR, SUBJECT TO THE OUTCOME OF THE CURRENT GEOPOLITICAL UNCERTAINTIES."

INTERIM DIVIDEND

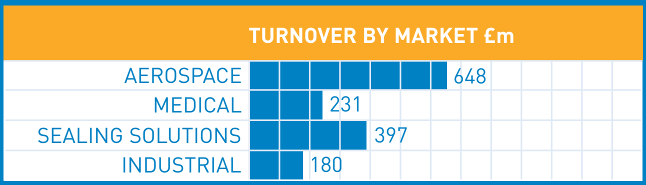
The Board has declared an **Interim Dividend** of 8.75p, unchanged from a year ago, and will consider whether or not to increase the final dividend in the light of circumstances prevailing in six months' time. The interim dividend will be paid on 17 April 2003 to holders of all ordinary shares whose names are registered at the close of business on 21 March. The ex-dividend date is 19 March.

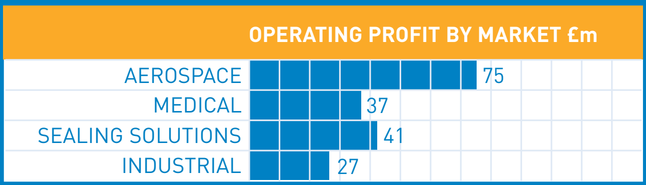
FINANCIAL PERFORMANCE

STATUTORY REPORTING (Reported under FRS17)	**2003 £m**	2002 (restated) £m
TURNOVER	**1,456**	1,588
OPERATING PROFIT	**160**	162
NON-OPERATING EXCEPTIONALS	**16**	(24)
INTEREST AND PENSIONS FINANCING	**(19)**	(21)
PRE-TAX PROFIT	**157**	117
EARNINGS PER SHARE	**20.4p**	13.2p

OPERATING PERFORMANCE (Reported under FRS17)	**2003 £m**	2002 Continuing activities (restated) £m
TURNOVER	**1,456**	1,479
OPERATING PROFIT*	**180**	182
INTEREST AND PENSIONS FINANCING	**(19)**	(14)
PRE-TAX PROFIT*	**161**	168
EARNINGS PER SHARE*	**20.8p**	21.6p
INTERIM DIVIDEND	**8.75p**	8.75p

*before exceptionals and goodwill amortisation





REGISTRAR

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STRONG CASH GENERATION

→ The company maintained its strong record of cash generation, converting 88% of operating profit into operating cash, after capital expenditure.

OPERATING PERFORMANCE	2003 £m	Change
SALES	**1,456**	-2%
OPERATING PROFIT*	**180**	-1%
PRE-TAX PROFIT*	**161**	-4%
EPS*	**20.8p**	-4%

*before exceptionals and goodwill amortisation

R&D INCREASED

→ Company funded R&D increased by 18% to £69m in this period, reflecting higher investment in new aerospace programmes, detection equipment and medical devices.

REPORTED ON A FULLY CONSOLIDATED BASIS, INCLUDING NOW DISCONTINUED ACTIVITIES, EXCEPTIONALS AND GOODWILL AMORTISATION, SMITHS GROUP RECORDED PRE-TAX PROFIT OF £157M (2002: £117M) AND EARNINGS PER SHARE OF 20.4P (13.2P) IN THE FIRST HALF OF THE CURRENT YEAR. THE REMAINDER OF THIS STATEMENT FOCUSES ON THE OPERATING PERFORMANCE OF THE COMPANY BEFORE EXCEPTIONALS AND GOODWILL AMORTISATION, TO PROVIDE A MORE CONSISTENT BASIS FOR COMPARISON.

For the six months ended 31 January 2003, Smiths Group generated operating profit of £180m (down 1%), pre-tax profit of £161m and earnings per share of 20.8p, before exceptional items and amortisation of goodwill. The Board has declared an interim dividend maintained at last year's level of 8.75p. On slightly reduced sales of £1.46bn, the company achieved an unchanged profit margin of 12%.

The company maintained its strong record of cash generation, converting 88% of operating profit into operating cash, after capital expenditure. Free cash-flow, after interest, tax and restructuring costs was 16.5p per share. The tax rate was 27.5%, and net debt at the end of the period was £812m.

The flat half-on-half comparison of operating profits masks an improvement in underlying profitability. Included in this six months are the effects of £10m adverse currency translation and £10m of higher R&D costs, all of which have been recovered through greater productivity and the benefit of earlier restructuring.

On a geographical basis, 50% of the company's sales originated in North America. Business in this region (US, Mexico and Canada) grew strongly, although this was masked on translation by a 12 cent decline in the US dollar/pound average exchange rate.

The UK represented 27%, Continental Europe 18% and other countries 5% of total sales.

Progress on acquisitions and disposals moved the company closer to focusing on activities with the best opportunities for growth. The combined effect of M&A activities in this period compared with a year earlier was to increase profits by £4m after interest costs. The acquisition of Heimann Systems GmbH was completed in December for £233m in cash. This world leader in x-ray inspection of airline baggage and containerised freight is highly complementary to the existing Smiths Detection activities. Total proceeds from disposals were £151m after costs, principally from the sale of the Air Movement Group from the Industrial division in December and Lodge from the Aerospace division in November. There was an exceptional gain of £16m on the disposals.

The company incurred no exceptional restructuring charges in the period and does not expect to do so in the full year. Restructuring costs of £5m to improve productivity in all four divisions have been charged against operating profits. This included further transfer of production to lower cost countries, including manufacture of some medical devices, polymer and mechanical seals.

Company funded R&D increased by 18% to £69m in this period, reflecting higher investment in new aerospace programmes, detection equipment and medical devices. Customer funded R&D was maintained at £49m.

The Smiths pension schemes remain substantially well funded, with liabilities closely matched by assets. Measured at 31 July 2002 on an FRS17 basis, there was an after-tax deficit of £52m in the funded schemes on assets of £2.3bn. Approximately 42% of the funds were invested in equities, giving below-average

THE SMITHS PENSION SCHEMES REMAIN SUBSTANTIALLY WELL FUNDED, WITH LIABILITIES CLOSELY MATCHED BY ASSETS.

exposure to stockmarket declines. The company will make cash contributions this year close to the current service cost of the schemes, and the principal Smiths defined benefit pension schemes remain available to current and new employees.

In its 2003 Accounts, Smiths has chosen to adopt the FRS17 Retirement Benefits accounting standard, and the Interim Accounts have been published on this basis. Comparative figures for 2002 have been restated: operating profit for the first half of 2002 has been reduced by £19m and pre-tax profit has been reduced by £6m. Under the new standard, the current service cost of retirement benefits is charged against operating profit and the effect of surplus or deficit in the schemes is shown within "other finance costs/income – retirement benefits" in the Profit & Loss Account. The surplus or deficit in the schemes, net of related taxation, based on the market valuation at the start of the financial year, is shown in the Balance Sheet.

The company does not now expect to receive a dividend on its preference shares in TI Automotive during the current year, although the amount due will be rolled up for payment at a later date. Smiths does not accrue for these dividends.

The company continues to hold the view that litigation relating to asbestos previously used in John Crane Inc products does not represent a material contingent liability.

In January, the company raised US $250m in a private placement of 10-year senior notes with a coupon of 5.45%. The funds have been used to repay bank debt and improve the spread of debt maturity. A substantial part of the new issue was immediately swapped into floating rate debt to take advantage of current low US interest rates.

Of total sales, Aerospace contributed 45%, Medical 16%, Sealing Solutions 27% and Industrial 12%, proportions which were similar to the prior period.

AEROSPACE

SMITHS AEROSPACE IS A FIRST TIER SUPPLIER OF INTEGRATED SYSTEMS TO AIRCRAFT PRIME MANUFACTURERS AND ENGINE BUILDERS, AND IS A WORLD LEADER IN DETECTION TECHNOLOGY. THE MAJORITY OF OUR SALES ARE IN LONG-TERM GROWTH AREAS.

Profits from Smiths Aerospace improved 8%, assisted by a strong performance in Detection helping to offset a sharp deterioration in sales of equipment for civil aircraft. Sales of systems and equipment for Aerospace customers now split almost 60/40 military/civil.

	2003 £m	2002 (restated) £m
TURNOVER	**648**	639
OPERATING PROFIT	**75**	70
MARGIN	**12%**	11%

In response to lower rates of production of new commercial jets, Smiths has downsized its capacity to match. An upturn in this sector is not expected before financial year 2005. Investment is underway on products for new civil aircraft programmes, including the A380. The long-term outlook is for resumed growth in line with air travel. The aftermarket for spares and repairs is holding steady at about 10% below the level prior to September 11, 2001.

In contrast, the market for defence systems remains buoyant, and Smiths is well positioned on many of the front line aircraft in current production. Continuing increases in procurement by the US Department of Defense will drive further sales growth in the years ahead. Military aircraft in current production with a high value of Smiths' equipment include the F-18E/F, the Apache Longbow and the C-17 transporter. A number of important development programmes are underway, both funded by government and financed by the company, including systems for the F-35 Joint Strike Fighter and the Boeing 767 Global Tanker Transport Aircraft.

The division's detection business continues to grow rapidly, due in large part to deliveries of equipment for detecting explosives. First-half Aerospace divisional sales include over 2,700 Ionscan units supplied to the US Transportation Security Agency.

The addition of Heimann has effectively doubled the size of Smiths' involvement in the detection sector and added a highly complementary range of products. The process of US certification for a new X-ray system for automated checking of baggage for explosives is well underway. X-ray inspection of cargo containers is another area where Heimann has a strong market presence. The demand for detection and protection systems for military and civilian use continues to show strong growth worldwide.

MEDICAL

SMITHS MEDICAL IS A LEADING SUPPLIER OF DEVICES USED DURING CRITICAL AND INTENSIVE CARE PROCEDURES AND FOR POST-OPERATIVE CARE DURING RECOVERY. WE FOCUS ON AREAS WHERE WE HAVE A COMPETITIVE EDGE AND WHERE THERE ARE EXCEPTIONAL OPPORTUNITIES.

On a 3% increase in sales, Smiths Medical profits were 15% behind the prior half year. A number of factors specific to this period accounted for the drop, including the costs of launching a new insulin pump

	2003 £m	2002 (restated) £m
TURNOVER	**231**	224
OPERATING PROFIT	**37**	43
MARGIN	**16%**	19%

OPPORTUNITIES FOR GROWTH

→ Progress on acquisitions and disposals moved the company closer to focusing on activities with the best opportunities for growth.

GROUP SALES BY ORIGIN
% of total sales

27	UNITED KINGDOM
50	NORTH AMERICA
18	EUROPE
5	OTHER OVERSEAS

and increased R&D. The benefit of these investments will start to show in the second half.

The Deltec Cozmo ambulatory pump for insulin delivery was successfully introduced to the US market in December 2002. It is selling well to those suffering from the more serious, Type 1, form of diabetes, and purchase is covered largely by healthcare insurance. One-off costs of $5m were incurred for the launch in this period. Conventional ambulatory infusion pumps continued to sell well, also generating good aftermarket revenues, as the homecare market in the US recovers.

Sales of safe closure devices which conform to the US Needlestick Injury Prevention Act of April 2001 have increased. Compliance with the Act is around 50% at present, so there is still considerable opportunity in this sector. The safety range has been extended by the acquisition of the winged infusion set product line from MPS Acacia. An earlier agreement with Medisys has generated valuable sales of a retractable, single-use scalpel, but their Futura retractable needle has not yet been added to the range. The new Gripper Plus, a protected access needle for patients with implanted ports, was introduced in the period.

Needle protection, pain management and patient monitoring products contributed to increased sales in the US and UK, helped by new products such as the Digit fingertip blood/oxygen analyser. The Bivona silicone product line acquired last year has benefited greatly from being added to the Portex range of airway management devices.

Among other specialised healthcare products, the Pneupac emergency resuscitators have secured sizeable orders from civil and military authorities in the UK. Production of the Omnifuse hospital infusion pump is being outsourced from the UK to Malaysia.

Outside the US and UK, Smiths Medical had mixed performance from its affiliate and distributor operations. Sales in continental Europe were down as healthcare costs came under increasing pressure and cuts in healthcare reimbursement in Japan affected prices of a number of airway products.

Medical R&D increased from £7m to £9m in the period, and is now 4% of sales. This has resulted in a more rapid flow of new product introductions, several of which will become available in the months ahead. In a continuing productivity drive, further manufacturing has been transferred to Mexico, where the division now employs nearly 1,200 people.

Although margins were lower than usual for the first six months, the outlook for the remainder of the year is positive, with more typical margins expected in the second half.

SEALING SOLUTIONS

SEALING SOLUTIONS IS A WORLD LEADER IN THE DESIGN OF HIGH-PERFORMANCE MECHANICAL AND POLYMER SEALS FOR A WIDE RANGE OF APPLICATIONS, INCLUDING OIL AND GAS, PETROCHEMICAL, PROCESSING PLANTS, MOBILE HYDRAULIC MACHINERY AND PULP AND PAPER.

In Sealing Solutions, profits were maintained year-on-year on slightly reduced sales, and market share was effectively increased in both mechanical and polymer seals. The division has continued to gain productivity benefits from recent restructuring, including transfer of production to lower cost locations in Mexico and Eastern Europe.

	2003 £m	2002 (restated) £m
TURNOVER	**397**	407
OPERATING PROFIT	**41**	41
MARGIN	**10%**	10%

THE COMPANY'S CONFIDENCE IN THE FULL YEAR OUTLOOK IS SUPPORTED BY CONTINUED PROGRESS ON PRODUCTIVITY AND SALES IN DIFFICULT MARKET CONDITIONS.

After disposals during the prior year, Sealing Solutions now comprises two focused activities, John Crane and Polymer Seals, each with a strong position in its specialised sector.

John Crane is the world leader in rotating engineered seals principally used for high pressure pumping applications in process plant. Half of its business is in the oil and gas sector, where increasingly the business model is to secure long-term supply and maintenance agreements with the major companies. The aftermarket, repairing or replacing the company's own or competitors' seals, accounts for 50% of sales.

High oil prices in recent months have led to an increase in exploration and lifting of crude, but longer term, may have an impact on investment in refining and processing.

A global agreement to manage the seals requirements of Chevron/Texaco is generating incremental sales. A new joint venture has been set up in Russia to service the compressor seals for Gazprom. In Latin America, despite problems in Venezuela, sales grew strongly, driven by increased oil and gas production in Mexico and Brazil.

Beyond oil and gas, John Crane's markets in pulp and paper, chemical and pharmaceutical production saw little growth. Lower margins in high volume automotive applications are being addressed by the move to a standardised product design.

Polymer Seals supplies engineered plastic and rubber seals for a wide range of industrial applications. Its business is closely related to the capital equipment sector, with Europe as the largest market. It achieved a steady performance compared to a year ago, in still depressed conditions.

Customer destocking is now complete and Polymer's book-to-bill ratio has levelled out. Lean initiatives mean that even small sales increases will be reflected in higher margins. There has been an improvement in business with a number of customers, including US defence contractors, medical equipment suppliers and Scandinavian truck makers.

INDUSTRIAL

INDUSTRIAL IS FOCUSED ON SPECIALISED MARKET SECTORS, INCLUDING INTERCONNECT WHICH SUPPLIES ELECTRONIC CONNECTORS AND COMPONENTS FOR DEFENCE, TRANSPORT AND TELECOMMUNICATIONS; AND THE DUCTING AND HOSING OPERATIONS.

A substantial disposal during the half year was the principal cause of a reduction in Industrial division sales of 14% and profits of 5%. The Air Movement Group's performance was included for only four months in this period, accounting for £16m of the reduction in sales.

	2003 £m	2002 (restated) £m
TURNOVER	**180**	209
OPERATING PROFIT	**27**	28
MARGIN	**15%**	13%

The continuing activities achieved a considerably better performance than a year ago, contributing to a two point improvement in margins for the division. The cash conversion from profits was 100%.

Interconnect, comprising a range of connectors and microwave components used in critical electronic circuits, has benefited from recent substantial restructuring, with a strong improvement in profitability. Defence business was up sharply.

The ducting and hosing operations, largely US based, had a weaker first half, experiencing a drop in demand for consumer related products including hoses for vacuum cleaners and heating elements for clothes driers.

PROSPECTS

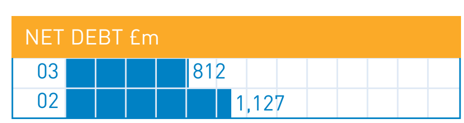
The company's confidence in the full-year outlook is supported by continued progress on productivity and sales in difficult market conditions. These market share gains will not be made at the expense of margins. The spread of activities across different market sectors will help provide a resilient performance, subject to the outcome of the current uncertain geopolitical situation.

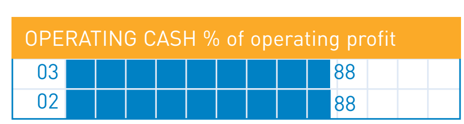
DIVIDEND

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 17 April 2003 to holders of all ordinary shares whose names are registered at the close of business on 21 March.
The ex-dividend date is 19 March.

FINANCIAL STATEMENTS

The financial statements (Profit & Loss Account, Summarised Balance Sheet, Cash-Flow Statement and Notes to the Accounts) have been prepared in accordance with the accounting policies set out in the company's accounts for the year ended 31 July 2002. The company has adopted FRS17 (Retirement Benefits) in these Interim Accounts. Figures relating to last year are abridged. Full accounts for Smiths Group plc to 31 July 2002, on which the auditors made an unqualified report, have been delivered to the Registrar of Companies.





PROFIT AND LOSS ACCOUNT

INTERIM RESULTS 2003 - unaudited

	Note	Ordinary activities £m	Goodwill amortisation £m	Exceptional items £m	Total £m
		6 months ended 31 January 2003			
Continuing operations		**1,425.4**			**1,425.4**
Acquisitions		**30.2**			**30.2**
Discontinued businesses					
TURNOVER	2	**1,455.6**			**1,455.6**
Continuing operations		**173.0**	**(18.4)**		**154.6**
Acquisitions		**6.9**	**(1.8)**		**5.1**
Discontinued businesses					
OPERATING PROFIT		**179.9**	**(20.2)**		**159.7**
Profit / (loss) on disposal of businesses	3			**16.5**	**16.5**
PROFIT BEFORE INTEREST AND TAX		**179.9**	**(20.2)**	**16.5**	**176.2**
Net interest payable		**(18.0)**			**(18.0)**
Other finance (costs) / income – retirement benefits		**(1.4)**			**(1.4)**
PROFIT BEFORE TAXATION		**160.5**	**(20.2)**	**16.5**	**156.8**
Taxation		**(44.1)**	**1.8**		**(42.3)**
PROFIT AFTER TAXATION		**116.4**	**(18.4)**	**16.5**	**114.5**
Minority interests		**(0.5)**			**(0.5)**
PROFIT FOR THE PERIOD		**115.9**	**(18.4)**	**16.5**	**114.0**
Dividends	4	**(48.9)**			**(48.9)**
RETAINED PROFIT		**67.0**	**(18.4)**	**16.5**	**65.1**
Earnings per share	5				
Basic		**20.8p**	**(3.3p)**	**2.9p**	**20.4p**
Diluted		**20.7p**	**(3.3p)**	**2.9p**	**20.3p**

6 months ended 31 January 2002 (restated)					Year ended 31 July 2002 (restated)				
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
1,479.3				1,479.3	3,070.1				3,070.1
	108.4			108.4		153.4			153.4
1,479.3	108.4			1,587.7	3,070.1	153.4			3,223.5
182.2		(18.8)	(7.6)	155.8	418.8		(50.5)	(43.7)	324.6
	6.1			6.1		9.3	(0.2)		9.1
182.2	6.1	(18.8)	(7.6)	161.9	418.8	9.3	(50.7)	(43.7)	333.7
			(23.4)	(23.4)				(24.3)	(24.3)
182.2	6.1	(18.8)	(31.0)	138.5	418.8	9.3	(50.7)	(68.0)	309.4
(27.3)	(6.9)			(34.2)	(46.4)	(11.1)			(57.5)
12.7				12.7	25.5				25.5
167.6	(0.8)	(18.8)	(31.0)	117.0	397.9	(1.8)	(50.7)	(68.0)	277.4
(46.9)	0.2	1.8	2.1	(42.8)	(111.4)	0.5	3.8	16.1	(91.0)
120.7	(0.6)	(17.0)	(28.9)	74.2	286.5	(1.3)	(46.9)	(51.9)	186.4
(0.7)				(0.7)	(1.3)				(1.3)
120.0	(0.6)	(17.0)	(28.9)	73.5	285.2	(1.3)	(46.9)	(51.9)	185.1
(48.6)				(48.6)	(142.2)				(142.2)
71.4	(0.6)	(17.0)	(28.9)	24.9	143.0	(1.3)	(46.9)	(51.9)	42.9
21.6p	(0.1p)	(3.1p)	(5.2p)	13.2p	51.2p	(0.2p)	(8.4p)	(9.3p)	33.3p
21.5p	(0.1p)	(3.1p)	(5.2p)	13.1p	51.1p	(0.2p)	(8.4p)	(9.3p)	33.2p

Note: Results for the periods ended 31 January 2002 and 31 July 2002 have been restated following the adoption of FRS17–Retirement Benefits.

SUMMARISED BALANCE SHEET

INTERIM RESULTS 2003 - unaudited

	Note	31 January 2003 £m	31 January 2002 (restated) £m	31 July 2002 (restated) £m
FIXED ASSETS				
Intangible assets		**827.1**	708.4	638.3
Tangible assets		**528.6**	607.8	563.9
Investments and advances - Automotive		**325.0**	325.0	325.0
Other		**10.9**	13.2	11.6
		1,691.6	1,654.4	1,538.8
CURRENT ASSETS				
Stocks		**508.2**	576.9	474.5
Debtors		**657.3**	694.3	613.1
Cash at bank		**92.3**	201.8	109.5
		1,257.8	1,473.0	1,197.1
Creditors: amounts falling due within one year		**(818.4)**	(1,026.5)	(912.0)
NET CURRENT ASSETS		**439.4**	446.5	285.1
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,131.0**	2,100.9	1,823.9
Creditors: amounts falling due after one year		**(895.4)**	(1,088.8)	(728.9)
Provisions for liabilities and charges		**(118.8)**	(135.8)	(113.8)
NET ASSETS EXCLUDING PENSION ASSETS / LIABILITIES		**1,116.8**	876.3	981.2
Pension assets		**84.4**	267.0	84.7
Retirement benefit liabilities		**(218.6)**	(113.2)	(213.4)
NET ASSETS		**982.6**	1,030.1	852.5
CAPITAL AND RESERVES				
Share capital and share premium account		**305.2**	287.6	303.3
Reserves		**665.8**	729.0	537.3
SHAREHOLDERS' EQUITY	9	**971.0**	1,016.6	840.6
Minority equity interests		**11.6**	13.5	11.9
CAPITAL EMPLOYED		**982.6**	1,030.1	852.5

Note: Balance Sheets at 31 January 2002 and 31 July 2002 have been restated following the adoption of FRS17–Retirement Benefits.

SUMMARISED CASH-FLOW STATEMENT

INTERIM RESULTS 2003 - unaudited

	Note	6 months ended 31 January 2003 £m	6 months ended 31 January 2002 (restated) £m	Year ended 31 July 2002 (restated) £m
OPERATING PROFIT (before exceptional restructuring costs)		**159.7**	169.5	377.4
Non-cash items:				
Goodwill amortisation and impairment		**20.2**	18.8	50.7
Depreciation		**42.8**	46.6	91.5
Retirement benefits		**15.5**	14.7	29.0
(Increase) / decrease in stocks		**(12.3)**	(31.0)	18.7
(Increase) / decrease in debtors		**(25.9)**	50.1	48.5
Increase / (decrease) in creditors		**(8.3)**	(52.7)	(32.8)
NET CASH INFLOW FROM NORMAL OPERATING ACTIVITIES		**191.7**	216.0	583.0
Restructuring costs		**(13.8)**	(26.0)	(59.2)
NET CASH INFLOW FROM OPERATING ACTIVITIES		**177.9**	190.0	523.8
Returns on investments and servicing of finance		**(17.2)**	(28.6)	(56.5)
Tax paid		**(35.3)**	(19.6)	(52.8)
Capital expenditure and financial investment		**(33.4)**	(50.4)	(100.0)
Acquisitions and disposals	6, 7	**(84.1)**	(3.7)	180.9
Equity dividends paid		**(93.4)**	(90.4)	(139.1)
Management of liquid resources		**(1.7)**	(38.4)	0.1
Financing		**71.4**	93.5	(124.3)
(DECREASE) / INCREASE IN CASH		**(15.8)**	52.4	232.1
Increase / (decrease) in short-term deposits		**1.7**	38.4	(0.1)
(Increase) / decrease in other borrowings		**(75.3)**	(92.2)	139.8
Loan note issues (net of repayments)		**0.7**	0.7	2.0
Term deposits acquired with acquisitions		**4.8**		
Exchange variations		**(2.9)**	(6.9)	20.8
(INCREASE) / DECREASE IN NET DEBT		**(86.8)**	(7.6)	394.6
Net debt at beginning of period		**(725.2)**	(1,119.8)	(1,119.8)
NET DEBT AT END OF PERIOD	8	**(812.0)**	(1,127.4)	(725.2)

Note: Cash-Flow Statements for the periods ended 31 January 2002 and 31 July 2002 have been restated following the adoption of FRS17-Retirement Benefits.

1 ACCOUNTING POLICIES

With the exception of the adoption of the accounting requirements of Financial Reporting Standard 17–Retirement Benefits "FRS17" (Note 10) there have been no changes to the accounting policies used in preparing the interim financial statements from those used in the annual report and financial statements for 2002.

2 ANALYSES OF TURNOVER AND PROFIT

	6 months ended 31 January 2003		6 months ended 31 January 2002		Year ended 31 July 2002	
	Turnover £m	Profit £m	Turnover £m	Profit £m	Turnover £m	Profit £m
MARKET						
Aerospace	**648.2**	**74.9**	638.7	69.6	1,345.4	171.9
Medical	**230.6**	**36.6**	224.1	43.3	479.9	93.1
Sealing Solutions	**397.4**	**41.7**	407.4	41.1	822.4	93.2
Industrial	**179.4**	**26.7**	209.1	28.2	422.4	60.6
	1,455.6	**179.9**	1,479.3	182.2	3,070.1	418.8
Discontinued businesses			108.4	6.1	153.4	9.3
	1,455.6	**179.9**	1,587.7	188.3	3,223.5	428.1
Goodwill amortisation		**(20.2)**		(18.8)		(50.7)
Exceptional items		**16.5**		(31.0)		(68.0)
Profit before interest and tax		**176.2**		138.5		309.4
Net interest payable		**(18.0)**		(34.2)		(57.5)
Expected return on pension scheme assets		**76.6**		88.1		176.2
Interest on retirement benefit liabilities		**(78.0)**		(75.4)		(150.7)
Profit before taxation		**156.8**		117.0		277.4
GEOGRAPHICAL ORIGIN - CONTINUING ACTIVITIES						
United Kingdom	**427.3**	**23.4**	475.1	34.7	966.2	89.3
North America	**798.0**	**112.8**	802.6	109.6	1,703.8	254.5
Europe	**282.9**	**33.2**	237.5	27.8	496.1	55.4
Other overseas	**86.4**	**10.5**	82.3	10.1	162.3	19.6
Inter-company	**(139.0)**		(118.2)		(258.3)	
	1,455.6	**179.9**	1,479.3	182.2	3,070.1	418.8

The geographical analysis of results has been redefined to show North America as a separate segment due to acquisition and restructuring activities resulting in the Group having more closely linked operations in the USA, Canada and Mexico.

3 EXCEPTIONAL ITEMS

	6 months ended 31 January 2003 £m	6 months ended 31 January 2002 £m	Year ended 31 July 2002 £m
Restructuring and closure costs		(7.6)	(43.7)
Profit / (loss) on disposal of businesses	**16.5**	(23.4)	(24.3)
	16.5	(31.0)	(68.0)

4 DIVIDENDS

An interim dividend of 8.75p per share (2002: 8.75p) has been declared and will be paid on 17 April 2003 to holders of all ordinary shares whose names are registered at close of business on 21 March 2003.

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 2003	6 months ended 31 January 2002	Year ended 31 July 2002
Basic	**558,489,500**	555,903,263	556,496,716
Effect of dilutive share options	**1,857,298**	1,021,646	1,267,591
Diluted	**560,346,798**	556,924,909	557,764,307

6 ACQUISITIONS

During the period, the company acquired the issued share capital of Heimann Systems GmbH for Aerospace for £233m including costs, and the business / assets of a product line from MPS Acacia Inc for Medical for £2m.

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

	£m
Goodwill	**219.7**
Net tangible assets	**15.5**
Consideration	**235.2**

In accordance with the provisions of FRS10, the company amortises goodwill arising on acquisitions after 1 August 1998 on a straight-line basis over a period of up to 20 years.

7 DISPOSALS

During the period the company disposed of its Air Movement and Cable Management businesses from Industrial and its Lodge business from Aerospace. The amounts set out below also include adjustments in respect of disposals in prior periods.

	Air Movement £m	Other £m	Total £m
Consideration, net of expenses	**121.2**	**29.9**	**151.1**
Net assets sold / retained liabilities	**(48.1)**	**(12.0)**	**(60.1)**
Surplus over net assets / retained liabilities	**73.1**	**17.9**	**91.0**
Goodwill previously written off directly to reserves	**(66.8)**	**(7.7)**	**(74.5)**
Profit on disposal	**6.3**	**10.2**	**16.5**

8 BORROWINGS AND NET DEBT

	Fixed £m	Floating £m	31 January 2003 £m	31 January 2002 £m	31 July 2002 £m
MATURITY:					
On demand / under one year	**27.6**	**52.0**	**79.6**	314.1	163.7
One to two years	**106.5**	**72.2**	**178.7**	19.9	183.0
Two to five years	**143.5**	**53.5**	**197.0**	697.9	191.5
GREATER THAN FIVE YEARS:					
Bank loans	**0.1**		**0.1**	1.3	
TI Eurosterling bond 2010		**148.6**	**148.6**	148.4	148.5
Smiths US private placement 2013	**61.0**	**91.5**	**152.5**		
Smiths Eurosterling bonds 2016	**147.8**		**147.8**	147.6	148.0
	486.5	**417.8**	**904.3**	1,329.2	834.7
Cash and deposits			**(92.3)**	(201.8)	(109.5)
Net debt			**812.0**	1,127.4	725.2

9 MOVEMENTS IN SHAREHOLDERS' EQUITY	£m	6 months ended 31 January 2003 £m	£m	6 months ended 31 January 2002 £m	£m	Year ended 31 July 2002 £m
Profit for the period		**114.0**		73.5		185.1
Dividends		**(48.9)**		(48.6)		(142.2)
		65.1		24.9		42.9
Exchange variations		**(15.3)**		10.3		(56.4)
Taxation recognised on exchange gains / (losses):						
Current–UK						(1.2)
Deferred–USA		**4.5**				4.5
Share issues		**1.6**		2.0		17.5
Goodwill written back on disposals		**74.5**				149.2
Actuarial loss on retirement benefits						(427.0)
Movement in deferred taxation relating to actuarial loss						131.7
Net increase / (decrease) in shareholders' equity		**130.4**		37.2		(138.8)
Shareholders' equity:						
at 1 August as previously reported	**998.2**		839.7		839.7	
Prior period adjustment - FRS17	**(157.6)**	**840.6**	139.7	979.4	139.7	979.4
AT END OF PERIOD		**971.0**		1,016.6		840.6

10 ACCOUNTING FOR RETIREMENT BENEFITS - FRS17

The company has adopted FRS17 - Retirement Benefits. The current service cost of retirement benefits is charged against operating profit with the expected return on funded pension scheme assets and interest on retirement benefit liabilities shown as "other finance costs / income". The balance sheet shows separately the retirement benefit assets / (liabilities), net of related deferred tax. This represents the net surplus / (deficit) in funded pension plans together with net liabilities of unfunded pension and post-retirement healthcare plans. In accordance with FRS17, assets of the pension schemes are stated at their market values at 31 July each year and liabilities are calculated using the prevailing corporate bond yield at that date as a discount rate.

In arriving at the pension asset and liability balances at 31 January 2003, the balances at 31 July 2002 have been adjusted to reflect the current service cost, expected return on pension assets, interest on retirement benefit liabilities, contributions paid and exchange translation for the period.

Comparative figures for prior periods have been restated with the following effects:

	6 months ended 31 January 2002 £m	Year ended 31 July 2002 £m
Decrease in operating profit	(18.8)	(34.2)
Other finance income – retirement benefits	12.7	25.5
Decrease in taxation	1.7	2.5
Decrease in profit after taxation	(4.4)	(6.2)
Increase / (decrease) in net assets	136.5	(157.6)

REVIEW REPORT

INDEPENDENT REVIEW REPORT TO SMITHS GROUP PLC

INTRODUCTION

We have been instructed by the company to review the financial information which comprises the summarised profit and loss account, summarised balance sheet, summarised cash flow statement and the related notes. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the 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. This report, including the conclusion, has been prepared for and only for the company for the purpose of the Listing Rules of the Financial Services Authority and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 2003.

PricewaterhouseCoopers LLP
Chartered Accountants
London
12 March 2003

Notes:

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

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

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