



Interim report  
and accounts  
1999

"This 12% increase is a strong performance for a UK engineering company operating in varied trading conditions. The improvement came almost entirely from organic growth, since recent acquisitions have not yet had a chance to contribute. The outlook for the period ahead is positive, with our US businesses likely to enjoy robust growth, together with our continued emphasis on productivity and cash generation across all our activities."

Keith Butler-Wheelhouse *Chief Executive*

## Interim Dividend

An Interim Dividend of **7.4p** per share (1998: 6.75p) has been declared and will be paid on 4 June 1999 to holders of all ordinary shares whose names are registered at close of business on 6 April 1999.

Copies of the half yearly report are being sent to shareholders and will be made available to the public at the company's registered office, 765 Finchley Road, London NW11 8DS.

By Order of the Board

16 March 1999

Alan Smith, Secretary

## Financial Highlights

1st half comparison	1999 £m	1998 £m	change
Turnover	607	553	+10%
Operating profit	103*	92	+12%
Pre-tax profit	99	89	+11%
Earnings per share	22.0p	19.7p	+12%
Interim dividend	7.4p	6.75p	+10%

\*Before amortisation of goodwill

## Registrar

Lloyds TSB Registrars  
The Causeway  
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West Sussex BN99 6DA



For 26 weeks ended 31 January 1999

# Industries

## Interim Report to Shareholders

Smiths Industries reported a 12% increase in operating profit to £103m (1998: £92m) before goodwill amortisation, and an 11% increase in pre-tax profit to £99m (£89m) for the six months to 31 January. The Board has declared an interim dividend of 7.4p (6.75p), up 10%. A scrip dividend alternative is available to shareholders.

On turnover of £607m (£553m) for the six months, the Company earned an overall margin of 17%, with the improvement in profitability achieved almost entirely through strong organic growth, principally in the Aerospace business. Operating cash-flow of £73m after capital expenditure of £24m remained at a healthy level. The capital spend in this period was higher, due to recent investment in new Aerospace and Industrial production facilities in the US.

The programme of acquisitions to reinforce the Company's presence in its specialist aerospace, medical and industrial markets continued, with £88m spent on purchasing five businesses in the US and UK. The largest of the five, BCI, joined Medical Systems only two weeks before the period end. Initial integration costs prevented the acquisitions from contributing to profit at this stage, but they are expected to be making a positive contribution after funding at the year end. The balance sheet now includes the goodwill inherent in these acquisitions, and this will be amortised over a maximum of 20 years. In this half year the amortisation charge was £0.5m.

Net debt at the end of the period stood at £140m, up from £83m at the start of the year. With total shareholder investment of £1.1 billion including goodwill, the balance sheet remains strong, and interest costs are covered 33 times by operating profit.

Investment in research and development, mainly in Aerospace, but now with an increasing level in Medical Systems, rose by 12% to £63m, including customer and company funded programmes.

On a geographical basis, the Company's activities in the North American market have continued to perform strongly in all three sectors. For the first time, profits from the US accounted for half the total, and this market continues to provide a robust business environment for Smiths Industries products and services. Elsewhere, market conditions have been more variable. Sales and profits made by the Company's UK businesses increased by 11%, helped by higher Aerospace exports to the US, while those in continental Europe rose by 7%. Operations in the Far East reported sharply lower income, and this accounted for the £2m reduction in profits from the Rest of the World. Exports from the UK, mainly medical devices destined for

Japan, have also been affected by this downturn.

The pound remained at a high level, with little translation difference compared with the first half of last year. The continuation of a high rate of exchange for sterling, together with the economic difficulties in the Far East, has caused de-stocking in a number of markets. Medical distributors have been reducing their stocks, as have both distributors and OEMs of UK Industrial products.

An analysis of sales and profits by business activity demonstrates the benefit for Smiths Industries of maintaining a balance across three industry sectors. During the six month period, the Company has been taken forward by a substantial improvement in the Aerospace business, currently riding on a sustained upturn in its industry cycle, while Medical and Industrial have held steady under their more varied trading conditions. As a consequence, Aerospace contributed 37% of total operating profits, compared to 29% in the first half of 1998.

At £38m, **Aerospace** profits improved by 42% on the comparable period, and the margin on sales gained three points to 16%. The business continues to benefit from the current high levels of civil jet production, while recent defence contracts have now entered a growth phase. Operational cost savings also contributed to the better performance, achieved through a re-organisation which has integrated the previously separate civil and defence activities.

In the US, the principal Aerospace unit was re-located to new premises in Grand Rapids, Michigan and this was carried out with minimal disruption for customers, including the major US airlines who have been taking delivery of retrofit Flight Management Systems to upgrade their older Boeing aircraft in current service. The Product Support division has been performing strongly, also doing good business with airline operators in the US.

Among its range of integrated avionic systems, Aerospace is building a world leadership in the new technology of Health and Usage Monitoring Systems (HUMS), which help predict and prevent equipment failure. While the first use is for military helicopters, HUMS is expected to find applications in a wide range of rotary and fixed wing aircraft. To strengthen its position, the Company acquired Stewart Hughes in the UK and Signal Processing Systems in California, two businesses with recognised capabilities in this field, for a total of £14m.

The electronic delivery of navigation charts and other maritime information to ships via satellite is another area of new business opportunity for Aerospace. Chartco - a joint venture with Fugro of the Netherlands to address this

market - commenced trading during this period. Also within Aerospace, the chemical agent detection business has been securing valuable follow-on orders from the US Department of Defense under the ACADA programme to equip American front-line forces.

The prospects for Aerospace remain very positive, strengthened by firm contracts on a number of key military programmes and a healthy demand for retrofit and upgrade of both civil and defence aircraft in current service.

In **Medical Systems**, profits of £33m were similar to last year, on a modest increase in sales, resulting in a margin of 19%. The principal restraining factors on growth in this first half of the year were reductions in demand in the Far East and consequent distributor de-stocking in recognition of lower sales in the present economic climate.

In the US, Medical Systems has made good progress. Sales of single-use procedural kits by SIMS Portex have increased as individual hospitals and clinicians have re-asserted their preference for the recognised advantages of the company's products. At the same time, the medical businesses in the US have continued to face keen pricing levels dictated by the central buying organisations. Significant productivity improvements are being achieved as a result of the recent re-location of SIMS Portex in Keene, New Hampshire, to a new purpose-built plant.

The infusion therapy business in the US remains ahead of the competition in the advanced technologies it can offer. SIMS Level 1 has established its blood warming equipment as the system of choice in the country's leading emergency rooms, and the supply of proprietary disposable tubes provides a sustained aftermarket. The ambulatory drug delivery pumps from SIMS Deltec are now in widespread use, and this is also generating an increasing demand for disposable items, while export volumes are rising rapidly as sales to healthcare providers in other advanced nations accelerate.

The strategy of adding complementary product lines through acquisitions continues: at the end of the period, Smiths Industries completed the purchase of BCI in the US at a cost of £50m. The BCI products monitor vital signs, principally by means of non-invasive pulse oximetry. These hand-held or portable units are already widely used in out-patient care centres and smaller hospitals.

In the UK, the performance of SIMS Portex was restrained by lower shipments to Far East markets. Sales to continental Europe improved, while the UK domestic market is now showing the first signs of regaining some momentum with renewed government commitment to the NHS, and this should also be of benefit to Eschmann Equipment, supplying operating room equipment. SIMS Graseby in the UK and US now benefits from close cooperation with SIMS Deltec on product development and marketing. Significant R&D is being spent on infusion pump technology.

Medical Systems is weathering well the impact of high sterling and Far Eastern economic downturn. World demand for its product categories continues to expand at around 6% per annum and this provides the opportunity for further growth.

In **Industrial**, profits at £32m were level with last year,

on sales which improved by 6%, leading to a small reduction in margins, to 16%. Here, too, the geographical variations in the economic climate were a significant factor in the overall performance. The businesses trading in the US continued to enjoy a healthy level of demand from their customers in consumer, commercial and defence sectors. On the other hand, the slowdown in construction, machinery and semi-conductor sectors affected the performance of the UK and continental European businesses.

Broadly, Industrial can be divided into Air Handling, which includes ducting, hoses and ventilation equipment, and Interconnect, which makes highly-engineered connectors, protection systems, transmission cable and conduit for electrical and electronic applications.

A substantial part of Interconnect is focused on the aerospace and defence sectors, and customers including Boeing, Airbus, Lockheed Martin and Raytheon provide a strong orderbook. Production of proprietary Hypertac connectors for Eurofighter is becoming an important source of revenue. Towards the end of this period, two US acquisitions were added to the Interconnect division at a cost of £24m: Transtector makes surge protection devices for sensitive electrical equipment such as telecoms transmitters, and Entraco makes cable assemblies for hazardous environments in military and civil transport.

Air Handling includes the fans and ventilation business established mainly in the UK around the core Vent-Axia unit. It experienced a slow-down in demand, especially for the large extractors used in industrial and office premises. The other main area of business is in flexible hoses and ducting, which are made at plants throughout Europe and in the US. While orders levelled out in the UK and declined on the Continent, Flexible Technologies in the US enjoyed strong growth, both for vacuum cleaner hoses and HVAC ducting. Similarly, Tutco, making heating elements for the best-known US brands of domestic appliances, continues to perform very well.

While Industrial, to a greater extent than Aerospace and Medical, is subject to the effect of general economic conditions, it achieves margins comparable to those other two activities and will continue to benefit from a strong outlook in the US and for aerospace and defence equipment. It has been positioning itself to benefit quickly from economic recovery in the UK and Europe.

In February, Peter Hollins, 51 and a British subject, joined **The Board** as a non-executive director. He is the Chief Executive of British Energy plc, the nuclear power generator, a post he has held since February 1998. His previous career includes senior management posts with ICI and with European Vinyls Corporation in Brussels. He joins the Company's Senior Appointments & Remuneration Committee and the Audit Committee.

Looking ahead, **Prospects** remain positive. Through both organic and acquisitive growth, the company is confident that it can deliver continued increases in earnings.

# Profit and loss account

## Half-Year Results - Unaudited

	Note	26 weeks ended 31 January 1999 £m	26 weeks ended 31 January 1998 £m	52 weeks ended 1 August 1998 £m
<b>Turnover</b>				
Continuing operations		599.2	553.1	1198.5
Acquisitions		7.5		
	1	<b>606.7</b>	553.1	1198.5
<b>Operating profit</b>				
Continuing operations		102.9	91.9	224.2
Acquisitions		(0.2)		
- trading		(0.2)		
- goodwill amortisation		(0.5)		
		<b>102.2</b>	91.9	224.2
Net interest payable		(3.1)	(2.6)	(6.1)
<b>Profit before taxation</b>		<b>99.1</b>	89.3	218.1
Taxation		(30.7)	(28.1)	(68.5)
<b>Profit after taxation</b>		<b>68.4</b>	61.2	149.6
Minority interests		(0.1)	(0.6)	(1.4)
<b>Profit for the period</b>		<b>68.3</b>	60.6	148.2
Dividends	2	(23.1)	(20.8)	(60.8)
<b>Retained profit</b>		<b>45.2</b>	39.8	87.4
<b>Earnings per share</b>	3			
Basic		22.0p	19.7p	48.2p
Fully-diluted		21.9p	19.5p	47.8p
<b>Dividends per share</b>		<b>7.4p</b>	6.75p	19.65p

### Notes:

These financial statements have been prepared in accordance with accounting policies set out in the Company's accounts for 52 weeks to 1 August 1998, as amended by the latest accounting standards relating to the treatment of intangible assets and earnings per share. Figures reproduced relating to that period are abridged; full accounts on which the auditors made an unqualified report have been delivered to the Registrar of Companies.

# Summarised balance sheet

Half-Year Results - Unaudited

	Note	31 January 1999 £m	31 January 1998 £m	1 August 1998 £m
<b>Tangible assets</b>				
Fixed assets		225.6	206.6	211.4
Assets held for resale	4		42.0	4.0
<b>Intangible assets</b>				
Goodwill	4	78.0		
<b>Current assets</b>				
Stocks		209.0	188.6	187.0
Debtors		315.6	287.4	297.7
Cash at bank and on deposit		88.2	52.0	96.9
		612.8	528.0	581.6
Creditors: amounts falling due within one year		(454.2)	(410.6)	(408.9)
Net current assets		158.6	117.4	172.7
Total assets less current liabilities		462.2	366.0	388.1
Creditors: amounts falling due after one year		(98.1)	(122.9)	(99.4)
Provisions for liabilities and charges		(69.5)	(58.9)	(62.3)
		294.6	184.2	226.4
<b>Capital and reserves</b>				
Share capital and share premium account		154.3	125.2	134.4
Reserves		134.4	54.5	87.3
Shareholders' equity	6	288.7	179.7	221.7
Minority equity interests		5.9	4.5	4.7
Capital employed		294.6	184.2	226.4

Note:

Provisions for liabilities and charges have been reclassified in accordance with the latest accounting standards to include certain provisions previously included in creditors. The comparative figures for 31 January 1998 have been restated accordingly.

# Cash-flow statement

## Half-Year Results - Unaudited

	Note	26 weeks ended 31 January 1999 £m	26 weeks ended 31 January 1998 £m	52 weeks ended 1 August 1998 £m
<b>Operating profit</b>	1	<b>102.2</b>	91.9	224.2
Depreciation		17.2	16.5	32.2
Goodwill amortisation		0.5		
(Increase) / decrease in stocks		(9.7)	(11.0)	(11.7)
(Increase) / decrease in debtors		(4.4)	(6.8)	(13.4)
Increase / (decrease) in creditors		(8.1)	9.8	9.2
<b>Net cash inflow from operating activities</b>		<b>97.7</b>	100.4	240.5
Returns on investments and servicing of finance:		(2.4)	(3.0)	(6.1)
Tax paid		(22.8)	(10.8)	(65.4)
Capital expenditure and financial investment		(24.4)	(17.6)	(36.9)
Acquisitions and disposals	4	(89.0)	(145.0)	(117.5)
Equity dividends paid		(22.9)	(35.5)	(52.5)
Management of liquid resources		25.9	105.8	40.6
Financing		46.7	(5.6)	15.5
<b>Increase / (decrease) in cash</b>		<b>8.8</b>	(11.3)	18.2
(Reduction) / increase in short-term deposits		(25.9)	(105.8)	(40.6)
(Increase) / decrease in term borrowings		(61.0)	9.6	(13.8)
Loan notes redeemed, less issued		17.1	(0.5)	1.8
Term debt of acquisitions assumed	4	(3.0)	(10.1)	(10.1)
Term deposits of acquisitions acquired	4	8.0		
Exchange variations		(0.7)	1.5	3.7
<b>Increase in net debt</b>		<b>(56.7)</b>	(116.6)	(40.8)
Net debt at beginning of period		(82.8)	(42.0)	(42.0)
Net debt at end of period	5	(139.5)	(158.6)	(82.8)

# Notes to the accounts

## Half-Year Results - Unaudited

	26 weeks ended 31 January 1999			26 weeks ended 31 January 1998		52 weeks ended 1 August 1998	
	Turnover £m	Before Goodwill Amortisation £m	After Goodwill Amortisation £m	Turnover £m	Profit £m	Turnover £m	Profit £m
<b>1 Analyses of turnover and profit</b>							
<b>Market</b>							
Aerospace	236.2	38.0	37.8	200.7	26.7	463.0	77.0
Medical Systems	171.8	32.5	32.4	165.7	33.2	344.4	74.7
Industrial	198.7	32.2	32.0	186.7	32.0	391.1	72.5
	<b>606.7</b>	<b>102.7</b>	<b>102.2</b>	<b>553.1</b>	<b>91.9</b>	<b>1198.5</b>	<b>224.2</b>
Net interest			(3.1)		(2.6)		(6.1)
Profit before taxation			<b>99.1</b>		<b>89.3</b>		<b>218.1</b>
<b>Geographical origin</b>							
United Kingdom	281.5	42.6	42.5	250.9	38.3	556.3	102.6
USA	277.6	51.3	50.9	250.6	43.2	535.5	100.8
<i>US dollars</i>	<i>\$460.9m</i>	<i>\$85.2m</i>	<i>\$84.5m</i>	<i>\$413.5m</i>	<i>\$71.3m</i>	<i>\$883.5m</i>	<i>\$166.3m</i>
Europe	64.6	5.9	5.9	60.2	5.5	124.4	13.1
Other overseas	35.5	2.9	2.9	36.1	4.9	71.6	7.7
Inter - company	(52.5)			(44.7)		(89.3)	
	<b>606.7</b>	<b>102.7</b>	<b>102.2</b>	<b>553.1</b>	<b>91.9</b>	<b>1198.5</b>	<b>224.2</b>

## 2 Dividends

An interim dividend of 7.4p per share (1998 6.75p) has been declared and will be paid on 4 June 1999 to holders of all ordinary shares whose names are registered at close of business on 6 April 1999.

## 3 Earnings per share

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

	26 weeks ended 31 January		Year ended 1 August
	1999	1998	1998
Basic	309,388,518	306,836,108	307,320,126
Fully - diluted	311,626,349	310,111,234	310,146,904

#### 4 Acquisitions

During the period the Company acquired the business of Signal Processing Systems (SPS) and the issued share capital of Stewart Hughes Ltd. for the Aerospace group, Biochem International Inc. (BCI) for the Medical Systems group, and Transtector Inc. and Engineered Transitions Company Inc. (Entraco) for the Industrial group. 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	Deposits / (Borrowings) assumed £m	Goodwill £m	Net assets £m
SPS	2.11.98	5.1		6.0	(0.9)
Stewart Hughes	28.8.98	8.4		7.6	0.8
BCI	11.1.99	50.3	8.0	37.8	4.5
Transtector	30.11.98	20.3	(3.0)	22.6	0.7
Entraco	30.11.98	4.3		4.5	(0.2)
		88.4	5.0	78.5	4.9
Prior year adjustments :				0.7	
	Specac				
	Disposals	0.6		0.6	
		0.6		1.3	

Specac, which was acquired as part of Graseby PLC in 1997/8, and held for resale at the end of the year, has now been absorbed into the Industrial group. Goodwill written off against reserves at the time has been increased by £0.7m as a result, together with a further £0.6m arising from an adjustment to the consideration received from Thermo for the sale of Graseby product monitoring and environmental businesses.

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. The charge for the period to 31 January 1999 was £0.5m. Goodwill relating to acquisitions up to 1 August 1998 was charged to Reserves.

#### 5 Borrowings and net debt

	Fixed borrowings			Floating borrowings £m	Total 1999 £m
	Rate	Years fixed	Amount £m		
Currencies :					
Sterling	9.2%	1	4.0	4.7	8.7
US dollar	8.3%	3	15.2	148.8	164.0
Euro				9.3	9.3
Other				1.6	1.6
Japanese Yen				44.1	44.1
			19.2	208.5	227.7
Cash and deposits					88.2
<b>Net debt</b>					<b>139.5</b>
Maturity :					
On demand / under one year			3.3	157.2	160.5
One to two years			0.7	3.1	3.8
Two to five years			15.2	48.2	63.4
			19.2	208.5	227.7

#### 6 Movements in shareholders' equity

	26 weeks ended 31 January	1999 £m	1998 £m
Profit for the period		68.3	60.6
Dividends		(23.1)	(20.8)
		45.2	39.8
Exchange variations		3.2	(0.6)
Share issues		19.9	7.1
Goodwill on prior year acquisitions		(1.3)	(107.0)
Net increase (1998 decrease) in shareholders' equity		67.0	(60.7)
Shareholders' equity:			
at 1 August 1998		221.7	240.4
at 31 January 1999		288.7	179.7

# Review report

by the Auditors to the Board of Directors of  
Smiths Industries plc.

We have reviewed the interim financial information for the 26 weeks ended 31 January 1999, set out on pages 5 to 9, which is the responsibility of, and has been approved by, the directors. Our responsibility is to report on the results of our review.

Our review was carried out having regard to the Bulletin 'Review of Interim Financial Information' issued by the Auditing Practices Board. This review consisted principally of applying analytical procedures to the underlying financial data, assessing whether accounting policies have been consistently applied, and making enquiries of group management responsible for financial and accounting matters. The review excluded audit procedures such as tests of controls and verification of assets and liabilities, and was therefore substantially less in scope than an audit performed in accordance with Auditing Standards. Accordingly we do not express an audit opinion on the interim financial information.

## On the basis of our review:

- in our opinion the interim financial information has been prepared using accounting policies consistent with those adopted by Smiths Industries plc in its financial statements for the 52 weeks ended 1 August 1998, and
- we are not aware of any material modifications that should be made to the interim financial information as presented.

## PriceWaterhouseCoopers

Chartered Accountants and Registered Auditors  
London  
16 March 1999

## Board of Directors

**Keith Orrell-Jones**  
Chairman

**Keith Butler-Wheelhouse**  
Chief Executive

**Norman Barber**  
Chairman, Aerospace

**Peter Hollins**  
Non-executive director

**George Kennedy CBE**  
Chairman, Medical Systems

**Roger Leverton**  
Non-executive director

**Einar Lindh**  
Chairman, Industrial

**Robert O'Leary**  
Non-executive director

**Alan Pink**  
Non-executive director

**Alan Thomson**  
Financial Director

## Recent events

### Aerospace

## Becoming a world leader in HUMS

Among the fast-developing technologies which will play a key part in the growth of **Smiths Industries Aerospace** is electronic Health and Usage Monitoring Systems (HUMS) for helicopters and fixed wing aircraft. We have expanded our international activities in this market with two significant acquisitions this year, Stewart Hughes Ltd, based in Eastleigh, Hampshire, and Signal Processing Systems (SPS) in San Diego, California. Both specialise in the design and development of diagnostic systems which carry out a continuous check of safety-critical components during flight. HUMS provides essential maintenance data and advance warning of potential equipment failures. The world-wide market for these products is estimated to be worth more than \$350 million over the next five years.

Data recording  
Grand Rapids

Signal analysis  
SPS

Vibration  
diagnostics  
MJA Dynamics

Optical sensors  
Rotor track and balance  
Stewart Hughes



### Medical Systems

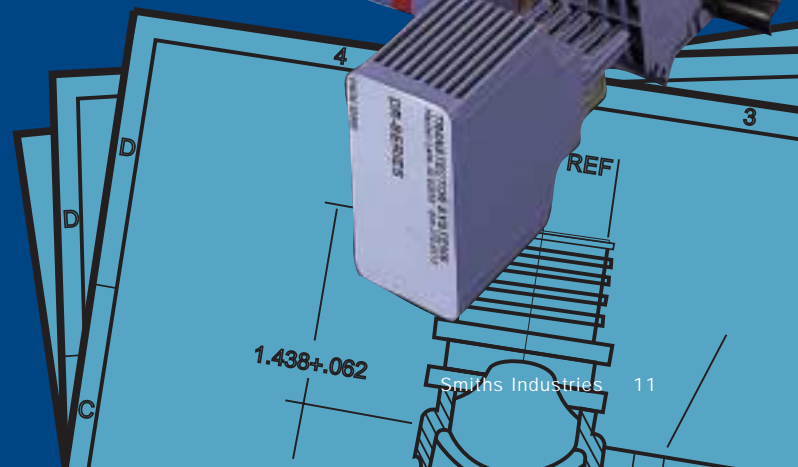
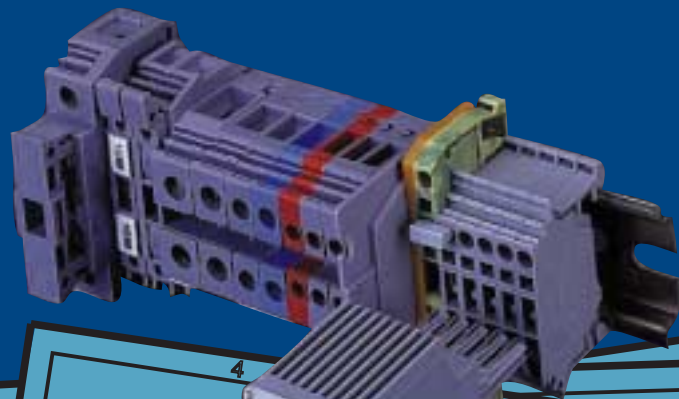
## US market leader in hand-held pulse oximeters joins SIMS

BCI, a major US manufacturer of non-invasive, vital signs monitoring equipment, has joined **Smiths Industries Medical Systems (SIMS)**, strengthening our activities in respiratory care. The use of patient monitoring products is regarded as mandatory in many surgical procedures and critical care situations. BCI is well positioned to offer quality user-friendly products. It is the US market leader in hand-held pulse oximeters, shown here, which measure pulse, pulse strength and oxygen levels in blood. The addition of this Wisconsin-based company gives SIMS new opportunities in sectors of the healthcare industry such as small hospitals and clinics where BCI has become an established supplier.

### Industrial

## Transtector acquisition strengthens Interconnect

The manufacture of Interconnect products is one of our principal **Industrial** activities, now strengthened with the acquisition of Transtector Systems Inc., a leading US supplier of devices to protect sensitive electronic equipment from surges in power. Our wide range of electrical and electronic interconnect products, made in Europe and the USA, is used extensively in the aerospace and defence industries and, increasingly, in the growing telecoms market where Transtector is firmly established. In this sector it complements the activities of two of our Interconnect businesses, PolyPhaser and Times Microwave Systems.





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