

# Directors' report

## Principal Activities

The principal activities of the Company and its subsidiaries are the development, manufacture, sale and support of:

- integrated avionics, power management systems and information management systems for civil and military aircraft, and other defence equipment;
- medical devices for anaesthesia and respiratory care and for infusion therapy;
- electrical and electronic interconnect products for use in telecommunication, aerospace, transportation and medical applications, and air movement systems and components.

The main manufacturing operations are in the UK, USA and Europe. A review of the development of the Company and its subsidiary undertakings during the 1999/2000 financial year is contained in pages 10 to 20.

## Results and dividends

The results for the year to 31 July 2000 are set out in the Consolidated Profit and Loss Account on page 40. Sales for the year amounted to £1,463.7m, against £1,323.9m last year. The profit for the year after taxation, minority interests and goodwill amortisation amounted to £177.0m (1999 £163.2m).

An interim dividend of 8.1p per ordinary share of 25p was paid on 17 May 2000 (a scrip dividend share alternative was offered at a cash equivalent price of 713.8p per share). The directors recommend for payment on 13 December 2000 a final dividend on each ordinary share of 15.7p, making a total dividend of 23.8p for the year. A scrip dividend share alternative to the cash dividend may be offered.

The retained profit of £101.7m was transferred to Reserves.

## Research and development

£144m was spent on research and development during the year, of which £63m was funded by the Company and the balance by customers. Each business carries out research and development programmes to suit its own particular market and product needs. Interchange of technology and technical information between businesses in the manufacturing sector is centrally co-ordinated.

## Changes in Company interests during the year

On 4 August 1999 Smiths Industries,

Inc. acquired all the issued share capital of Environmental Technologies Group, Inc. for US\$15m in cash.

On 17 September 1999 the Company moved from being a part of the FTSE 100 Actuarial Index to become a member of the FTSE 250 Index.

On 14 January 2000 Smiths Industries, Inc. acquired all the issued share capital of Sabritec, Inc. for US\$52.4m in cash.

On 28 January 2000 LEA, Inc. acquired all the business and assets of L.E.A. International, Inc. for US\$11.2m in cash.

On 31 January 2000 Smiths Industries Aerospace & Defense Systems, Inc. acquired all the aerospace business and assets of Barber-Colman Aerospace and issued share capitals of Tech Development Inc.; Aerospace Avionics, Inc.; Lambda Advanced Analog, Inc.; and Lambda Novatronics, Inc. for US\$178.3m in cash.

On 14 February 2000 SIEMC Acquisition Corp. acquired all the business and assets of EMC Technology, LLC and Smiths Industries B.V. acquired the issued share capital of Compañia EMC Tecnologia SA for US\$44m in cash.

On 14 March 2000 the Company and Smiths Industries Inc. jointly entered into a US\$100 million borrowing facility with First Union National Bank, Philadelphia.

On 23 March 2000 Smiths Industries Aerospace & Defense Systems, Inc. acquired all the issued share capital of Marconi Actuation Systems, Inc. for US\$98.8m in cash.

On 31 March 2000 Smiths Industries B.V. acquired the issued share capital of Venair-Technik AG for CHF 3.7m in cash.

On 31 March 2000 Tutco Acquisition Corp., Inc. acquired all the business and assets of AeroSonics, Inc. for US\$5.1m in cash.

On 1 May 2000 Smiths Industries Inc. acquired all the issued share capital of Florida RF Labs, Inc. and freehold property for US\$27.1m in cash.

On 15 May 2000 Smiths Industries plc launched a £150 million 7.25% Eurobond.

## Post balance sheet events

On 18 September 2000 the Company announced a proposed merger with TI Group plc. Under the merger terms, TI Group shareholders will receive 0.46

new Smiths Industries ordinary shares for every TI Group share they hold. The proposal is subject to approval by the shareholders of Smiths Industries plc and TI Group plc and various regulatory approvals.

On 26 September 2000 a subsidiary of Smiths Industries Aerospace & Defense Systems, Inc. agreed to purchase the business and assets of the Fairchild Defense division of Orbital Sciences Corporation for US\$100m in cash, subject to regulatory approvals.

## Future developments

The Company will pursue its existing international activities and continue to seek business opportunities in both the UK and overseas.

## Interests in land

Land and buildings were professionally valued as at 31 July 1999. At 31 July 2000 the value of land and buildings is estimated to exceed the book value by around £20m. This valuation has not been reflected in these accounts.

## Charitable and political donations

During the year the Company made donations of £743,000 for charitable purposes including payments totalling £293,000 for the Portex Chair of Paediatric Anaesthesia. No political donations were made.

## Directors

The names of those who were directors at the end of the financial year are listed on pages 28 and 29. Mr L.H.N. Kinet was appointed as an executive director on 1 February 2000; Mr J.M. Horn-Smith was appointed as a non-executive director on 8 February 2000; Dr J. Ferrie was appointed as an executive director on 10 April 2000; Mr N.V. Barber retired as a director on 31 July 2000; Mr G.M. Kennedy retired as a director on 4 August 2000 and Mr A.I.H. Pink resigned as a non-executive director on 26 September 2000.

## Re-appointment of directors

Messrs K.O. Butler-Wheelhouse; K. Orrell-Jones; and R. O'Leary will retire by rotation, in accordance with Articles 73 and 74, and will seek re-appointment at the Annual General Meeting. Mr R.F. Leverton will also retire by rotation at the AGM but

will not seek re-election. Messrs L.H.N. Kinet and J.M. Horn-Smith and Dr J. Ferrie will also retire at the AGM, following their appointment during the year, and seek re-appointment.

## Directors' service contracts

Mr K.O. Butler-Wheelhouse, Mr E. Lindh and Mr A.M. Thomson have service contracts with the Company which are subject to termination by two years' notice, given to expire at any time. Mr L.H.N. Kinet and Dr J. Ferrie each have service contracts with an initial fixed term of two years which then become subject to termination by 12 months' notice.

With the exceptions referred to above, no director had a beneficial interest in any contract to which the Company or its subsidiaries was a party during the year.

## Interests in shares

As at 26 September 2000 the Company had been notified, pursuant to the Companies Act 1985, of the following material or notifiable interests in its issued share capital:

	No. of shares	Per-centage of issued share capital†
Putnam Investments	12,825,378	4.04
Deutsche Bank AG	31,774,480	10.01

†percentage of share capital in issue on 26 September 2000

The Company has not acquired or disposed of any interests in its own shares.

The interests of the directors, their families and any connected persons in the issued share capital of the Company and details of their share options are shown on pages 37 and 38.

## Corporate Governance

The Company complies with the Combined Code derived by the Committee on Corporate Governance, as defined in the Listing Rules of the UK Listing Authority, (the "Code"), except that no senior independent director is recognised as required by A.2.1 of the Code.

Subject to that exception, the Company has complied with the Code throughout the accounting period covered by this Report. Reasons for non-compliance with A.2.1 are given below.

The Board of directors normally meets formally eight times a year to make and review major business decisions and monitor current trading against budgets which it has approved. It additionally exercises control by determining matters specifically reserved to it in a formal schedule which only the Board may change: these matters include the acquisition of companies and major capital expenditure. Once a year the Board meets in conference to consider long-term strategy and industrial developments affecting the Company. Additional meetings are arranged as necessary to deal with urgent items.

There is an agreed procedure for all directors to take independent professional advice at the Company's expense in connection with their duties. They also have access to the advice and assistance of the Company Secretary whose appointment is in accordance with the Code.

Mr L.H.N. Kinet and Dr J. Ferrie were appointed during the year to their first offices as a director of a UK listed company. Arrangements are in place for all directors to receive appropriate training, whether on their appointment or periodically, as necessary.

Mr K. Orrell-Jones, who is the senior non-executive director, is the Chairman. Mr R.F. Leverton is the chairman of the Audit Committee. No other non-executive director has been appointed as "a recognised senior member" for the purposes of A.2.1 of the Code because matters of concern can readily be brought to the attention of either Mr. Orrell-Jones or Mr. Leverton who have clear areas of responsibility. Mr. K.O. Butler-Wheelhouse is the Chief Executive. Following the resignation of Mr A.I.H. Pink as a non-executive director on 26 September 2000, there are now five independent non-executive directors and five executive directors on the Board.

The Board is provided with detailed information on matters to be considered at its meetings and non-executive directors have ready access to the executive directors. Regular site visits are arranged and non-executive directors are encouraged to visit sites independently. During site visits, briefings are arranged and the Board is free to discuss aspects of the business

with employees at all levels.

There is a formal procedure for appointment of all new directors. The Nominations and Remuneration Committee, which is chaired by Mr. Orrell-Jones and is composed of the non-executive directors, makes recommendations to the Board on appointments. Appointments approved by the Board are subject to confirmation by the shareholders at the next AGM.

All directors are subject to retirement by rotation and submit themselves for re-election at intervals of no more than three years: any director who attains the age of 70 is subject to annual re-election. The initial appointment of non-executive directors is for three years: they do not participate in Company bonus, share option or pension schemes.

The Nominations and Remuneration Committee meets at least three times a year. Mr. K.O. Butler-Wheelhouse attends meetings of the Committee by invitation but does not participate in discussions of his own interests. The Committee monitors the performance of the chief executive and other executive directors and has access to all information required for that purpose. The report of the Board on executive remuneration is set out on pages 35 and 36.

The Company maintains a dialogue with institutional shareholders through regular meetings and presentations. At the AGM shareholders are encouraged to ask questions and after the meeting have access to directors and other senior executives. The Company has complied with the Code provisions related to principles C.1 and C.2.

The Board believes that these Reports and Accounts present a balanced and understandable assessment of the Company's position and prospects: the Board has complied with the Code Provisions D.1.1 to D.1.3. A statement by the Auditors appears on page 39.

The Audit Committee's terms of reference accord with the Code. The Committee consists of all the non-executive directors and meets at least three times a year with the chief executive, financial director, director of internal audit and the auditors normally attending meetings. Its chairman is Mr. R.F. Leverton.

*Internal Control.* The Code

introduced a requirement that directors review the effectiveness of the Group's system of internal control. This requirement extends the directors' review to cover all controls including operational, compliance and risk management, as well as financial. Guidance for directors *Internal Control: Guidance for Directors on the Combined Code* (the Turnbull guidance) was published in September 1999. The Directors have adopted the London Stock Exchange's transitional rules and have continued to review and report upon internal financial controls.

The Board accepts its responsibilities for the effectiveness of the Company's system of internal controls. The internal control systems are designed to meet the Company's particular needs and the risks to which it is exposed, and by their nature can provide only reasonable, not absolute, assurance against material loss to the Company or material misstatement in the financial accounts.

In the highly regulated environment of the aerospace and medical industries, procedures are codified in detailed operating procedures manuals and are reinforced by regular educational programmes. This is designed to ensure not only compliance with the regulatory requirements but also with the general principles of business integrity. Compliance with these principles throughout the Company is monitored by the Internal Audit Department referred to below.

A key element in any system is communication and a number of committees exist which enable the executive directors and senior corporate staff to address financial, human resource, risk management and other control issues. Experience is shared by subsidiaries through company-wide seminars.

The Company has an Internal Audit Department. The Director of Internal Audit who is responsible to the Chairman of the Audit Committee, has reported to the Audit Committee upon the Company's internal control processes.

The internal financial control system includes the following key features, which have been designed and established over a number of years to provide internal financial control appropriate to the Company's businesses:

- the approval of comprehensive budgets by the Board and the monthly monitoring

of performance against budget;

- a detailed investment approval process requires Board approval of all major capital projects;
- the Audit Committee's consideration of any significant control matters;
- appointment of experienced and professional staff by recruitment and promotion.

The Audit Committee has reviewed the effectiveness of the Company's system of internal financial control. In addition to consideration of reports from the Director of Internal Audit and from the Company's external auditors, the Committee has reviewed the results of an internal self-assessment exercise which required the heads of all the business units of each operating group to report through their operating groups to the Chief Executive.

The Board has modified existing risk management and internal control processes to implement the Turnbull guidance and has procedures in place, such that they can fully comply with the guidance for the accounting period commencing 1 August 2000. During the financial year to 31 July 2000, the Board reviewed the identification and evaluation of strategic, operation and information risks to the Company, the procedures and controls for managing the risks and the adequacy of Board monitoring of the risk management process.

*Going Concern.* The Board's review of the accounts, budgets and forward plans, together with the internal control system, lead the directors to believe that the Company has ample resources to continue in operation for the foreseeable future. The accounts are therefore prepared on a going concern basis.

*Auditors.* PricewaterhouseCoopers have reviewed the Company's statements as to compliance with the Code to the extent required by the Listing Rules of the UK Listing Authority. The results of their review are set out on page 39.

### **Year 2000 Readiness Disclosure**

The Company's Year 2000 compliance programme was a success, with all Company supported and critical business systems operating unaffected by the millennium transition and the leap year. The total cost of compliance was around £9 million.

### **Economic and Monetary Union (EMU)**

The introduction of the euro will affect the Company whether or not the UK participates in EMU. Our businesses operate in eight of the first wave countries and we expect the growing use of the euro within the UK for transactions with organisations in other European countries. The Company is taking steps to ensure that it is well placed to conduct relevant activities in euros.

### **Policy on payment of creditors**

The Company's policy and practice is to pay creditors promptly in accordance with agreed terms of business. The average time taken to pay an invoice was 36 days for the parent company and 55 days for the group as a whole (calculated in compliance with the Companies Act 1985 (Directors' Report) (Statement of Payment Practice) Regulations 1997).

### **Environment**

The Company seeks to ensure that its operations and products cause the minimum reasonably achievable detriment to the environment. Care is taken to limit discharges of environmentally harmful substances and to dispose of waste in a safe manner. The Company is a founder member of VALPAK. Contingency arrangements and plans exist to reduce the risk of and limit the effect of any accidental spillage. Where sites occupied by the Company have been found to be contaminated by past industrial practices, programmed clearance has been undertaken in co-operation with the appropriate regulatory authorities. A senior corporate staff director has responsibility for safety, health and environmental matters: three full-time managers report to that director and co-ordinate and monitor the safety, health and environmental activities of the Company.

### **Personnel policies**

It is the Company's policy to provide equal opportunities for employment and to give the fullest consideration to employment prospects for the disabled. The Company continues to be actively involved in all aspects of the training and development of young persons, including government sponsored schemes and unit initiatives designed to ease the transition from school to work.

Share option schemes enable employees to participate financially in the affairs of the Company.

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

All matters concerning the environment, health and safety continue to be regulated by preventative, investigatory and consultative systems; issues relevant to the Company pension scheme are likewise covered by means of structured committees, including representation from recognised trade unions.

### **Authority to issue shares**

At the Annual General Meeting shareholders will be asked to revise the authority, given to the directors at the Annual General Meeting in November 1999, to allot shares for the purposes of section 80 of the Companies Act 1985 so as to reflect the increase in the Company's issued share capital since the last Annual General Meeting. The authority proposed will expire on the fifth anniversary of the Meeting, unless otherwise renewed. The ordinary resolution is set out in the Notice of AGM.

Also in the Notice is the special resolution to renew the power granted to directors under section 95 of the Companies Act 1985. The new authority sought will be on substantially similar terms to those attaching to the existing authority and will expire on the fifth anniversary of the Meeting unless otherwise renewed. It will permit the directors to allot equity securities for cash:

- in connection with a rights issue *pro rata* to the rights of the existing shareholders;
- pursuant to the terms of any share scheme approved by the shareholders in General Meeting; and
- for any other purpose provided that the aggregate nominal value of such allotments does not exceed £3,965,191 (approximately 5% of the issued share capital).

The directors intend to seek renewal of these authorities annually.

During the period ended 31 July 2000, a total of 1,903,053 ordinary shares were issued pursuant to the terms of

shareholder-approved share schemes and 1,771,700 shares were issued under the Scrip Dividend Share Alternative scheme.

### **Authority to purchase shares**

At the Annual General Meeting the Company will seek to renew the authority, granted in general meeting on 16 November 1999, to make market purchases of its shares, as defined in section 163 of the Companies Act 1985. The authority will be limited to not more than 5% of the issued share capital and will be renewed annually. The maximum price that may be paid under the authority will be limited to 105% of the average of the middle market quotations of the Company's shares, as derived from the London Stock Exchange Daily Official List, for the ten business days prior to any purchase.

The directors will only exercise the authority if they are satisfied that any purchase will increase the earnings per share of the ordinary share capital in issue and will be in the interests of the shareholders.

No shares have ever been purchased or contracted for or the subject of any option under the expiring or any prior authority.

### **Dividend – share alternative**

A scrip dividend share alternative plan was approved at the 1997 Annual General Meeting which authorised the directors to offer a share alternative ("scrip dividend") to shareholders (i.e. the option to elect to receive new shares instead of all or part of the dividend in cash). The authority enables the directors to offer a share alternative in respect of any dividends that may be declared during a period of five years from the date of the meeting. The authority conforms to the provisions of Article 114 of the Company's Articles of Association.

The directors will only exercise the authority if it appears to them to be in the best interests of the Company. The share alternative will not be offered to shareholders resident in territories or subject to jurisdictions where the share alternative would be illegal or where compliance with local laws or regulations would be unduly onerous.

Subject to approval of the recommended dividend at the AGM, a scrip dividend share alternative to the final dividend for 1999/2000 will be

offered. Eligible shareholders who are entitled to the final dividend (i.e. eligible shareholders on the register on the dividend record date of 13 October 2000) will receive details of the share alternative and election procedures through the post. Information relating to the scrip dividend will also be posted on the Company's website. If a share alternative is offered in respect of any future dividend, eligible shareholders at the time will be given the opportunity to elect to receive shares instead of cash. Elections to receive a share alternative may be made for a specific dividend only or for all future dividends for which a share alternative is offered, at the shareholder's discretion.

### **Auditor**

Resolutions will be proposed at the Annual General Meeting to re-appoint PricewaterhouseCoopers as auditor and to authorise the directors to determine the auditor's remuneration.

### **Personal Equity Plans and Individual Savings Accounts**

The Company's corporate and single company PEPs are managed by Cogent Investment Services (Helpline tel: 020 7452 1357).

The Company's ISA is managed by Lloyds TSB Registrars (ISA Helpline tel: 0870 24 24 244 websites: www.lloydstsb-registrars.co.uk and www.shareview.co.uk).

### **Dematerialisation of shares**

On 17 March 1997 the Company's shares became tradable in uncertificated form through CREST. Shareholders who wish neither to become members of CREST nor to transfer their holdings into nominee companies may continue to hold their shares and deal in them in certificated form. Further information on the opportunities presented by and the effects of dematerialising shares can be obtained from CRESTCo Limited, 33 Cannon Street, London EC4M 5SB (tel: +44 (0)20 7849 0000 website: www.crestco.co.uk).

By Order of the Board  
**Alan Smith**  
Secretary  
26 September 2000  
London NW11 8DS

## Statement of Directors' responsibilities

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and the group at the end of the year, and of the profit or loss of the group for that period. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts;
- prepare the accounts on the going concern basis unless it is inappropriate to assume that the Company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention of fraud and other irregularities.

## Directors' emoluments and interests

### Report on Directors' Remuneration

The Committee of the Board referred to on page 31 determines the remuneration of executive directors including their annual bonus targets and grants of share options. Its constitution and practice accord with Section B of the Combined Code, as defined in the Listing Rules of the UK Listing Authority (the Code).

The Committee seeks to maintain a competitive programme which enables the Company to attract and retain the highest calibre of executive. The Committee consults with the Chief Executive and has access to external remuneration consultants, which enables wide-ranging comparisons to be made. In reviewing its remuneration policy, the Committee has given full consideration to Section B of the Code and considers that there are no matters which should be submitted for approval to this year's Annual General Meeting, at which the Chairman of the Committee will be present to answer questions.

**Salaries** are reviewed annually. The Committee takes into account individual performance and experience, the size and nature of the job, the relative performance of the Company, pay policy within the Company and the salary available in comparable companies. Benefits include a company car, pension, health insurance and, where appropriate, relocation expenses, generally in line with benefits available for executives in similar positions in other international aerospace and engineering companies.

**Bonuses** are based on successful performance and are only paid on the achievement of carefully considered targets which have been approved by the Board. All bonuses are capped. Under a deferred share scheme, established in 1992, senior executives may use their after-tax bonus to buy the Company's shares at the prevailing market price; if they retain those shares for three years they may exercise options over a matching number of shares for a nominal sum. Income tax is payable on the market value of the matching shares when the option is exercised. In November 1999 executive directors participated in the scheme in respect of their 1999 bonuses and were granted options over shares to the values listed in a table on page 38.

The remuneration of directors is set out in tables on page 36.

The annual bonus and any gains under share option schemes are not pensionable. Company car benefits, which are subject to income tax and for which a cash alternative is available, are pensionable.

**Pensions.** The Company pays monthly salary supplements, as money purchase contributions, to some of the directors. For the other directors, a final salary scheme provides a pension of up to two thirds of final salary (including pensionable benefits), subject to Inland Revenue limits. Where Revenue limits apply, the difference between the pension payable on the cap and that payable on two thirds of final salary is, after taking into account any pension transfers, made good by the Company through an unfunded unapproved retirement benefit scheme. Details of the money purchase contributions and the pension provisions are set out in the tables on pages 36 and 37.

**Contract Terms.** Three directors have two-year rolling contracts. The Committee considered it would be inequitable to reduce this term without compensation and believes it to be in the best interest of the Company to maintain the stability of the Board. The two executive directors appointed during the year both relocated from the United States. As this involved substantial domestic upheaval, the Committee approved contracts which have an initial fixed term of two years followed by a one-year rolling period of notice. The Company remains committed to phasing out two-year rolling contracts. The Committee accepts and will apply the principle of mitigation of damages on termination of a contract.

Six directors will be proposed for re-election at the AGM. Mr L.H.N. Kinet and Dr J. Ferrie were appointed as executive directors on 1 February and 10 April 2000, respectively; their service contracts have an initial fixed term of two years followed by a one-year rolling notice period. Mr K.O. Butler-Wheelhouse has a two-year rolling contract. Mr K. Orrell-Jones; Mr R.W. O'Leary; and Mr J.M. Horn-Smith are non-executive directors and do not have service contracts but Mr K. Orrell-Jones' appointment as Chairman is subject

to 12 months notice of termination.

**Non-executive directors** were paid a total of £138,000 in fees in the year to 31 July 2000: 20% of their fees (after deduction of tax) was applied in the purchase of Company shares: they have no service contracts and are not eligible for bonuses or participation in share schemes and no pension contributions are made on their behalf.

The remuneration of the non-executive directors is determined by the Board within the limits set out in the articles of association.

### Directors' interests in the Company's shares

The interests of directors in the issued share capital of the Company are set out in a table on page 37.

The executive share option scheme approved at the Annual General Meeting in 1995 covers approximately 325 executives. Awards are approved by the Committee. In awarding share options the Committee has regard to guidelines published by investor protection committees, the individual performance of participants and any evidence that the scheme has encouraged option holders to become shareholders. Options granted under the 1995 Scheme may only be exercised after three years if a performance requirement has been met: that requirement is that the increase in the total shareholder return of the Company, over a period of three years from the date of grant, must exceed the average increase in total shareholder return achieved by the companies comprising the General Industrials Sector of the FTSE Actuaries Index over the same period.

The Save-As-You-Earn share option scheme, which is open to all UK employees with 12 months' service, is subject to UK legislation as to the amount which can be saved. Participants save a fixed sum per month for three or five years and may use the sum generated by their savings contracts to exercise the options which are usually granted at a 20% discount to the market price.

In the year to 31 July 2000, executive directors exercised share options and at 31 July 2000 held unexercised options as described in a table on page 38.

## Directors' emoluments and interests continued

There were no changes in the options held by directors between 31 July 2000 and 26 September 2000. The Register of Directors' Interests (which is open to inspection) contains full details of directors' shareholdings

and options to subscribe for shares in the company.

Subject to the overriding requirements of the Company, the Committee is prepared to allow executive directors to accept external

appointments where it considers that such appointments will contribute to the directors' breadth of knowledge and experience. Directors are permitted to retain fees associated with such appointments.

### Remuneration

The Standing Committee of the Board referred to on page 26 determines the remuneration of Executive Directors, including their annual bonus targets and share options. A report from the Standing Committee is set out on pages 31 and 32.

The total remuneration of directors, excluding defined benefit pension arrangements, is as follows:

	2000 £000	1999 £000
Fees, including Chairman's additional remuneration	238	180
Salaries and benefits	2,006	1,493
Performance related bonuses	958	562
Gain from exercise of share options	118	392
Money purchase pension contributions	303	215
	<b>3,623</b>	<b>2,842</b>

The emoluments of the directors are set out below:

	Fees		Salary		Bonus		Benefits		Deferred share scheme contributions		Money purchase pension contributions		Total	
	2000 £000	1999 £000	2000 £000	1999 £000	2000 £000	1999 £000	2000 £000	1999 £000	2000 £000	1999 £000	2000 £000	1999 £000	2000 £000	1999 £000
<b>Chairman</b>														
K. Orrell-Jones	125	92					12						137	92
<b>Chief Executive</b>														
K.O. Butler-Wheelhouse			470	430	244	172	27	17	103	115	235	215	1,079	949
<b>Executive Directors</b>														
N.V. Barber (retired 31.7.00.)			313	260	163	104	57	22					533	386
J. Ferrie (appointed 10.4.00.)			82		70		6				33		191	
G.M. Kennedy (retired 4.8.00.)			275	245	143	98	54	17		70			472	430
L.H.N. Kinet (appointed 1.2.00.)			138		70		10				35		253	
E. Lindh			265	245	138	98	25	17	59	66			487	426
A.M. Thomson			250	225	130	90	22	15	54	60			456	390
<b>Non-Executive Directors</b>														
P. Hollins	25	13											25	13
J. Horn-Smith (appointed 8.2.00.)	13												13	
R.F. Leverton	25	25											25	25
R.W. O'Leary	25	25											25	25
A.I.H. Pink	25	25											25	25
	<b>238</b>	<b>180</b>	<b>1,793</b>	<b>1,405</b>	<b>958</b>	<b>562</b>	<b>213</b>	<b>88</b>	<b>216</b>	<b>311</b>	<b>303</b>	<b>215</b>	<b>3,721</b>	<b>2,761</b>

The deferred share scheme amounts relate to the previous year's bonus.

The payments to Mr K. Orrell-Jones comprise £25,000 director's fees and £100,000 special remuneration as Chairman. Mr N.V. Barber and Mr G.M. Kennedy purchased motor cars from the Company for £30,777 and £15,833 respectively.

The pension benefits earned by the executive directors were:

	Age at 31 July 2000	Directors' contributions during the year £000	Additional pension earned during the year (excluding any increase for inflation) £000	Accrued entitlement at 31 July 2000 £000
N.V. Barber	61	14	25	195
G.M. Kennedy	59	14	26	197
E. Lindh	55	13	17	151
A.M. Thomson	53	12	20	103

An executive director's normal retirement age is 60. An early retirement pension, based on actual service completed, may be paid after age 50, subject to a reduction on account of early payment. On death a spouse's pension of two-thirds of the director's pension (or for death-in-service his prospective pension at age 60) is payable. All pensions in excess of the Guaranteed Minimum Pension (GMP) are guaranteed to increase at the rate of 5% per annum compound or the annual increase in the Retail Price Index, if less. There has, however, been a long-standing practice of granting additional discretionary increases on pensions in excess of the GMP to bring them into line with price inflation.

### Directors' interests in the Company's shares

	Ordinary shares of 25p	
	31 July 2000 £000	31 July 1999 £000
N.V. Barber	119,810	116,497
K.O. Butler-Wheelhouse	36,542	23,888
J. Ferrie	0	0*
P.T. Hollins	511	162
J.M. Horn-Smith	5,000	0*
G.M. Kennedy	85,995	73,672
L.H.N. Kinet	0	0*
R.F. Leverton	2,750	2,355
E. Lindh	23,215	15,946
R.W. O'Leary	3,315	2,882
K. Orrell-Jones	3,155	2,782
A.I.H. Pink	2,062	1,724
A.M. Thomson	28,841	21,957

\*indicates share interest at appointment

The Company has not been notified of any changes to the beneficial holdings of the directors, their families and any connected persons between 1 August and 26 September 2000.

## Directors' emoluments and interests continued

Directors' share options:

	Scheme	Options held on 31 July 2000		Weighted average	Options exercised				Options granted			
		Number	Number		Exercise price	Date exercised	Number	Exercise price	Market price†	Date of grant	Number	Exercise price
K.O. Butler-Wheelhouse	B	291,107	274,301	832.45p					1/10/99	16,806	858.50p	1/10/2009
	C	2,578	2,578	669.00p								
	D	35,284	23,443	0.10p					3/11/99	11,841	0.10p	3/10/2006
N.V. Barber <small>(Note: retired 31 July 2000)</small>	B	29,659	29,659	823.00p								
	C	2,729	2,729	632.00p								
	D	5,926	11,837	0.10p	17/5/00	5,911	0.10p	861.50p				
J. Ferrie	B	55,424	0*	765.00p					11/4/00	55,424	765.00p	11/4/2010
	C											
	D											
G.M. Kennedy <small>(Note: retired 4 August 2000)</small>	B	54,501	54,501	875.70p								
	C	1,582	3,312	612.00p	5/7/00	3,312	430.20p	861.50p	11/5/00	1,582	612.00p	4/2/2001
	D	11,508	18,424	0.10p	6/4/00	6,916	0.10p	762.00p				
L.H.N. Kinet	B	59,733	0*	750.00p					31/3/00	59,733	750.00p	31/3/2010
	C											
	D											
E. Lindh	A	16,851	16,851	451.00p								
	B	146,677	78,045	806.90p					1/10/99	32,001	858.50p	1/10/2009
									31/3/00	36,631	750.00p	31/3/2010
	C	3,409	3,409	572.00p								
	D	29,880	23,140	0.10p					3/11/99	6,740	0.10p	3/10/2006
A.M. Thomson	A	62,500	62,500	480.00p								
	B	121,920	97,130	802.44p					1/10/99	24,790	858.50p	1/10/2009
	C	3,015	3,015	572.00p								
	D	23,771	17,581	0.10p					3/11/99	6,190	0.10p	3/10/2006

### Key:

- A. The Smiths Industries (1984) Executive Share Option Scheme
- B. The Smiths Industries 1995 Executive Share Option Scheme
- C. The Smiths Industries 1982 SAYE Share Option Scheme
- D. The Smiths Industries Senior Executive Deferred Share Scheme

\* Options held at date of appointment (L.H.N. Kinet – 1 February 2000; J. Ferrie – 10 April 2000)

† Mid-market closing quotation from the London Stock Exchange Daily Official List or actual sale price if shares sold on date of acquisition.

### Notes:

The high and low market prices of the ordinary shares during the period 1 August 1999 to 31 July 2000 were 642p and 1000.5p respectively. The mid-market price on 31 July 1999 was 869p and on 31 July 2000 was 915p.

All options held on 31 July 2000 were granted at exercise prices less than the market price on that date except for options granted under the Smiths Industries 1995 Executive Share Option Scheme on 17 October 1997 (Exercise price 934p/share).

No options lapsed during the period 1 August 1999 to 31 July 2000. No options have been granted or exercised or have lapsed between 1 August and 26 September 2000.

There are no performance criteria for the Smiths Industries (1984) Executive Share Option Scheme or The Smiths Industries Senior Executive Deferred Share Scheme apart from market price. The Smiths Industries 1995 Executive Share Option Scheme is subject to performance criteria based on total shareholder return of the Company versus the total return of the General Industrials Sector of the FTSE All Shares Index.

Deferred Share Scheme options were granted on 3 November 1999 at an Exercise Price of 0.1p per share and match shares purchased in the market by the grantee on that day. At 31 July 2000 the Deferred Share Scheme held 232,607 shares for the benefit of senior executives (including the directors as disclosed above). The market value of these shares at that date was £2.128m and dividends of approximately £49,977 were waived in the year in respect of the shares.

Special provisions permit early exercise of SAYE Options in the event of retirement; redundancy; death; etc.

No other Director held any options over the Company's shares during the period 1 August 1999 to 31 July 2000.

Full details of the Directors' shareholdings and options are contained in the Register of Directors' Interests in Shares (which is open to inspection).

## Auditors' report

We have audited the financial statements on pages 40 to 56 which have been prepared under the historical cost convention (as modified by the revaluation of certain fixed assets) and the accounting policies set out on page 56.

### Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report. As described on page 34, this includes responsibility for preparing the financial statements, in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the United Kingdom Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by

law or the Listing Rules regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

We review whether the statement on page 31 reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the company's corporate governance procedures or its risk and control procedures.

### Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation

of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group at 31 July 2000 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers  
Chartered Accountants and  
Registered Auditors  
London  
26 September 2000

## Consolidated profit and loss account

Note	Ordinary activities before goodwill amortisation	Goodwill amortisation	Year ended 31 July 2000	Ordinary activities before goodwill amortisation	Goodwill amortisation	Year ended 31 July 1999
	£m	£m	£m	£m	£m	£m
<b>Turnover</b>						
	<b>1,385.7</b>		<b>1,385.7</b>	1,323.9		1,323.9
	<b>78.0</b>		<b>78.0</b>			
1 & 2	<b>1,463.7</b>		<b>1,463.7</b>	1,323.9		1,323.9
	<b>(841.4)</b>		<b>(841.4)</b>	(762.8)		(762.8)
	<b>622.3</b>		<b>622.3</b>	561.1		561.1
	<b>(346.4)</b>	<b>(10.3)</b>	<b>(356.7)</b>	(313.6)	(3.0)	(316.6)
<b>Operating profit</b>						
	<b>259.7</b>	<b>(4.9)</b>	<b>254.8</b>	247.5	(3.0)	244.5
	<b>16.2</b>	<b>(5.4)</b>	<b>10.8</b>			
<b>Profit on ordinary activities before interest</b>						
	<b>275.9</b>	<b>(10.3)</b>	<b>265.6</b>	247.5	(3.0)	244.5
	<b>(9.6)</b>		<b>(9.6)</b>	(7.0)		(7.0)
<b>Profit on ordinary activities before taxation</b>						
	<b>266.3</b>	<b>(10.3)</b>	<b>256.0</b>	240.5	(3.0)	237.5
	<b>(79.9)</b>	<b>1.6</b>	<b>(78.3)</b>	(74.0)		(74.0)
<b>Profit on ordinary activities after taxation</b>						
	<b>186.4</b>	<b>(8.7)</b>	<b>177.7</b>	166.5	(3.0)	163.5
	<b>(0.7)</b>		<b>(0.7)</b>	(0.3)		(0.3)
<b>Profit for the financial year</b>						
	<b>185.7</b>	<b>(8.7)</b>	<b>177.0</b>	166.2	(3.0)	163.2
	<b>(75.3)</b>		<b>(75.3)</b>	(67.9)		(67.9)
<b>Retained profit for the year</b>						
	<b>110.4</b>	<b>(8.7)</b>	<b>101.7</b>	98.3	(3.0)	95.3
<b>Earnings per share</b>						
	<b>59.0p</b>	<b>(2.8p)</b>	<b>56.2p</b>	53.5p	(1.0p)	52.5p
	<b>58.7p</b>	<b>(2.8p)</b>	<b>55.9p</b>	53.0p	(1.0p)	52.0p

## Statement of total recognised gains and losses

	2000 £m	1999 £m
Profit for the financial year attributable to shareholders	<b>177.0</b>	163.2
Exchange adjustments	<b>23.2</b>	4.4
Taxation recognised on exchange gains:		
Current – UK	<b>(2.7)</b>	
Deferred – USA	<b>(6.6)</b>	
	<b>190.9</b>	167.6

There is no material difference between the profit on ordinary activities or retained profit for the year stated above, and their historical cost equivalents.

Notes on pages 43 to 55 form part of these accounts.

## Balance sheets

Note	Consolidated		Company	
	31 July 2000 £m	31 July 1999 £m	31 July 2000 £m	31 July 1999 £m
<b>Fixed assets</b>				
	<b>328.8</b>	91.5		
	<b>261.4</b>	231.5	<b>47.9</b>	48.3
	<b>0.2</b>	0.2	<b>778.0</b>	582.3
	<b>590.4</b>	323.2	<b>825.9</b>	630.6
<b>Current assets</b>				
	<b>7.0</b>			
	<b>247.7</b>	203.9	<b>38.4</b>	37.4
	<b>409.9</b>	351.3	<b>96.1</b>	104.0
	<b>48.3</b>	93.4	<b>19.3</b>	47.6
	<b>712.9</b>	648.6	<b>153.8</b>	189.0
	<b>(477.1)</b>	(446.1)	<b>(180.7)</b>	(216.8)
<b>Net current assets/(liabilities)</b>				
	<b>235.8</b>	202.5	<b>(26.9)</b>	(27.8)
Total assets less current liabilities				
	<b>826.2</b>	525.7	<b>799.0</b>	602.8
	<b>(260.3)</b>	(99.2)	<b>(175.8)</b>	(26.3)
	<b>(67.1)</b>	(68.0)	<b>(11.9)</b>	(16.5)
<b>Net assets</b>				
	<b>498.8</b>	358.5	<b>611.3</b>	560.0
<b>Capital and reserves</b>				
	<b>79.3</b>	78.4	<b>79.3</b>	78.4
	<b>119.7</b>	91.1	<b>119.7</b>	91.1
	<b>3.3</b>	3.3	<b>0.6</b>	0.6
			<b>180.5</b>	180.5
	<b>287.6</b>	179.5	<b>231.2</b>	209.4
<b>Shareholders' equity</b>				
	<b>489.9</b>	352.3	<b>611.3</b>	560.0
	<b>8.9</b>	6.2		
<b>Capital employed</b>				
	<b>498.8</b>	358.5	<b>611.3</b>	560.0

The accounts on pages 40 to 56 were approved by the Board of directors on 26 September 2000 and were signed on its behalf by:



Keith Orrell-Jones



Alan M Thomson

## Cash-flow statement

		Year ended 31 July 2000 £m	Year ended 31 July 1999 £m
<b>Reconciliation of operating profit to net cash inflow from operating activities</b>			
Operating profit		265.6	244.5
Goodwill amortisation		10.3	3.0
Depreciation		38.4	35.6
Increase in stocks		(13.9)	(2.6)
Increase in debtors		(26.3)	(28.1)
Decrease in creditors		(13.5)	(9.0)
<b>Net cash inflow from operating activities</b>		<b>260.6</b>	<b>243.4</b>

## Cash-flow statement

	Note	Year ended 31 July 2000 £m	Year ended 31 July 1999 £m
<b>Net cash inflow from operating activities</b>		<b>260.6</b>	243.4
Returns on investments and servicing of finance	22		(8.1)
Tax paid		(71.8)	(70.4)
Capital expenditure	14A	(43.0)	(48.4)
		<b>145.8</b>	116.5
Acquisitions and disposals	25	(272.1)	(98.7)
Equity dividends paid		(56.5)	(37.0)
Management of liquid resources	21	59.5	6.2
Financing	21	145.9	43.6
Increase in cash		<b>22.6</b>	30.6
<b>Reconciliation to net debt</b>			
Net debt at 1 August 1999		(93.4)	(82.8)
Increase in cash		22.6	30.6
Decrease in liquid resources	21	(59.5)	(6.2)
Increase in debt financing	21	(137.6)	(34.5)
Net deposits acquired with acquisitions			5.0
Exchange variation		(17.4)	(5.5)
<b>Net debt at 31 July 2000</b>	21	<b>(285.3)</b>	(93.4)

Notes on pages 43 to 55 form part of these accounts.

## Notes to the accounts

	Turnover		Profit		Assets	
	2000 £m	1999 £m	2000 £m	1999 £m	2000 £m	1999 £m
<b>1 Analyses of turnover, profit and assets</b>						
<b>Market</b>						
Aerospace	583.4	528.5	108.0	98.5	313.9	103.1
Medical Systems	418.8	376.2	85.5	76.0	214.4	198.4
Industrial	461.5	419.2	82.4	73.0	246.9	144.2
	<b>1,463.7</b>	1,323.9	<b>275.9</b>	247.5	<b>775.2</b>	445.7
Goodwill amortisation			(10.3)	(3.0)		
Operating profit			265.6	244.5	775.2	445.7
Net interest/net borrowings			(9.6)	(7.0)	(285.3)	(93.4)
Profit before tax/net assets			<b>256.0</b>	237.5	<b>489.9</b>	352.3
<b>Geographical origin</b>						
United Kingdom	595.3	603.6	96.4	101.9	124.1	123.1
USA	751.7	612.2	161.5	124.3	571.1	248.7
<i>US dollars</i>	<b>\$1,187.7m</b>	<i>\$1,004.0m</i>	<b>\$255.1m</b>	<i>\$203.9m</i>	<b>\$856.7m</b>	<i>\$402.9m</i>
Europe	128.2	135.0	8.4	14.3	42.3	36.9
Other overseas	91.4	76.5	9.6	7.0	37.7	37.0
Inter-company	(102.9)	(103.4)				
	<b>1,463.7</b>	1,323.9	<b>275.9</b>	247.5	<b>775.2</b>	445.7
Goodwill amortisation			(10.3)	(3.0)		
Operating profit			265.6	244.5	775.2	445.7

The above segmental analyses include the following contributions from acquisitions made during the year:

	2000 £m	1999 £m
<b>Market</b>		
Aerospace	56.9	11.7
Medical Systems		12.7
Industrial	21.1	9.1
	<b>78.0</b>	33.5
Goodwill amortisation		(5.4)
	<b>10.8</b>	0.8
<b>Geographical origin</b>		
United Kingdom		2.5
USA	77.4	29.8
Europe	0.6	1.2
	<b>78.0</b>	33.5
Goodwill amortisation		(5.4)
	<b>10.8</b>	0.8

## 2 Analysis of turnover by destination

	2000 £m	1999 £m
United Kingdom	328.5	313.2
USA	694.0	598.7
Europe	242.2	237.6
Japan	79.5	66.9
Other overseas	119.5	107.5
	<b>1,463.7</b>	1,323.9

## 3 Cost of sales

Cost of sales of £841.4m includes £46.3m in respect of acquisitions made during the year.

## Notes to the accounts continued

	2000 £m	1999 £m
<b>4 Operating expenses</b>		
Continuing operations:		
Distribution costs	156.7	141.0
Administrative expenses	174.1	160.6
Goodwill amortisation	4.9	
	<b>335.7</b>	301.6
Acquisitions:		
Distribution costs	5.0	6.5
Administrative expenses	10.6	5.5
Goodwill amortisation	5.4	3.0
	<b>21.0</b>	15.0
Total operating expenses	<b>356.7</b>	316.6

	2000 £m	1999 £m
<b>5 Operating profit is after charging</b>		
Goodwill amortisation	10.3	3.0
Depreciation of fixed assets	38.4	35.6
Research and development expenditure	63.3	53.9
Operating leases – Land and buildings	13.1	9.0
– Other	2.9	4.0
Auditors – Audit fees: Parent company	0.1	0.1
Other	1.4	1.2
– Other fees: Acquisitions and disposals	1.2	0.5
Other	0.1	0.2
Restructuring and redundancy costs	1.7	0.4
Year 2000 related expenditure		1.7

Other fees totalling £1.3m paid to the auditors include £1.2m capitalised to goodwill. Of the £1.3m, £0.1m (1999 £0.1m) was incurred in respect of the UK.

	2000 £m	1999 £m
<b>6 Net interest</b>		
Interest receivable	3.9	7.5
Other financing gains	4.9	
Interest payable:		
Bank loans and overdrafts repayable within 5 years	(10.9)	(8.5)
Other loans repayable within 5 years	(5.7)	(6.0)
Other loans repayable in more than 5 years	(1.8)	
	<b>(9.6)</b>	(7.0)

### 7 Profit attributable to the parent company

Profits for the financial year of £91.0m (1999 £74.7m) were recorded in the accounts of Smiths Industries plc. The directors have taken advantage of the exemption afforded by s230 of the Companies Act 1985 not to present a separate profit and loss account for the parent company.

	2000 £m	1999 £m
<b>8 Taxation</b>		
Taxation on the profit for the year:		
UK corporation tax at 30% (1999 – 30.67%)	30.9	37.1
Double taxation relief	(3.3)	(3.2)
	<b>27.6</b>	33.9
Deferred taxation	6.1	2.8
Overseas taxation	44.6	37.3
	<b>78.3</b>	74.0

	2000 £m	1999 £m
<b>9 Dividends</b>		
Ordinary interim paid 8.1p per share (1999 7.4p)	25.4	23.1
Ordinary final proposed 15.7p per share (1999 14.25p)	49.9	44.8
	<b>75.3</b>	67.9

As stated in note 27, scrip dividends amounting to £13.7m were taken up from the 1998/9 final and 1999/2000 interim dividends.

	2000	1999
<b>10 Earnings per share</b>		
Separate figures are given for earnings per share related to the weighted average number of shares in issue:		
Basic	<b>315,011,488</b>	310,932,199
Effect of dilutive share options	<b>1,568,652</b>	2,558,478
Fully-diluted	<b>316,580,140</b>	313,490,677

### 11 Post-retirement benefits

Smiths Industries operates a number of pension schemes throughout the world. The two major schemes are located in the UK and USA and are of the defined benefit type, with assets held in separate trustee-administered funds.

Contributions to these schemes are made on the advice of independent qualified actuaries, using in the UK the Projected Unit method and in the USA the Entry Age Normal method. The aim is for the benefits to be fully funded during the scheme members' working lives.

For both schemes the regular pension cost is assessed using the Projected Unit method. The latest actuarial assessments were as at 31 March 1998 for the UK scheme and 1 August 1999 for the USA scheme.

At these dates the market value of the schemes' assets was £729m for the UK and \$284m for the USA, and the aggregate funding levels of the principal schemes were 125% and 127% respectively. The funding levels were determined by comparing the market value of the funds' assets with the value of benefits accrued to date. Allowance was made for future annual salary increases at approximately 5% and, for the UK schemes, for pension increases of approximately 3%. The future investment return assumed in assessing the present value of future benefits was 6% p.a. for UK pensioner liabilities and 7% p.a. for UK active member liabilities and a discount rate of 7.75% p.a. was used for the USA. These rates were derived from prevailing yields on government stocks and high quality fixed interest investments.

The regular pension cost is assessed at each actuarial valuation and applied until the next valuation. The variation from regular pension cost, which recognises the excess of assets over liabilities of the pension schemes, is spread over the average remaining working life of relevant employees, generally between 10 and 15 years.

A prepayment of £40.4m is included in debtors, this being the excess of the amount funded over the accumulated pension cost.

The pension costs of the other schemes operated by the Company were assessed in accordance with local practice. The Company provides a defined contributions (401K) plan for its USA employees, and operates post retirement healthcare benefit plans, principally at Grand Rapids in the USA. The cost of the post retirement healthcare benefits is assessed by independent qualified actuaries and is fully accrued (see note 23). The major assumptions used are interest rate 7.25% p.a. and medical cost inflation 7% p.a., ultimately reducing to 5% p.a.

	2000 £m	1999 £m
<b>12 Employees</b>		
Staff costs during the year:		
Wages and salaries	379.1	334.8
Social Security	35.9	32.3
Company pension costs	0.6	4.9
	<b>415.6</b>	372.0
The average number of persons employed was:	2000	1999
Aerospace	5,740	5,248
Medical Systems	4,568	4,332
Industrial	5,213	4,888
	<b>15,521</b>	14,468

Details of directors' remuneration are given on pages 36 to 38.

## Notes to the accounts continued

	2000 £m	1999 £m
<b>13 Intangible fixed assets</b>		
Goodwill:		
Cost		
At 1 August 1999	<b>94.5</b>	
Acquired during the year	<b>225.6</b>	94.5
Exchange adjustments	<b>22.7</b>	
At 31 July 2000	<b>342.8</b>	94.5
Depreciation		
At 1 August 1999	<b>3.0</b>	
Charge for the year	<b>10.3</b>	3.0
Exchange adjustments	<b>0.7</b>	
At 31 July 2000	<b>14.0</b>	3.0
<b>Net book value at 31 July 2000</b>	<b>328.8</b>	91.5

	Land and buildings £m	Plant and machinery £m	Fixtures, fittings, tools and equipment £m	Total £m
<b>14 Tangible fixed assets</b>				
<b>Consolidated</b>				
<b>Cost or valuation</b>				
At 1 August 1999	140.1	179.2	224.0	543.3
Exchange adjustments	4.5	9.2	5.5	19.2
Additions	7.9	16.4	26.5	50.8
Acquisitions	5.0	19.7	7.7	32.4
Disposals	(5.7)	(10.0)	(10.7)	(26.4)
At 31 July 2000	151.8	214.5	253.0	619.3
<b>Depreciation</b>				
At 1 August 1999	32.8	123.5	155.5	311.8
Exchange adjustments	1.3	6.1	4.0	11.4
Charge for the year	3.5	12.1	22.8	38.4
Acquisitions	0.9	11.3	4.0	16.2
Eliminated on disposals	(1.4)	(8.0)	(10.5)	(19.9)
At 31 July 2000	37.1	145.0	175.8	357.9
<b>Net book value</b>				
<b>At 31 July 2000</b>	<b>114.7</b>	<b>69.5</b>	<b>77.2</b>	<b>261.4</b>
At 1 August 1999	107.3	55.7	68.5	231.5
<b>Company</b>				
<b>Cost or valuation</b>				
At 1 August 1999	30.2	14.7	68.5	113.4
Additions	0.2	0.9	5.9	7.0
Transfers	1.6		0.2	1.8
Disposals	(1.6)	(0.2)	(3.3)	(5.1)
At 31 July 2000	30.4	15.4	71.3	117.1
<b>Depreciation</b>				
At 1 August 1999	2.7	11.1	51.3	65.1
Transfers	0.3		0.1	0.4
Charge for the year	0.5	0.7	6.1	7.3
Eliminated on disposals	(0.5)	(0.2)	(2.9)	(3.6)
At 31 July 2000	3.0	11.6	54.6	69.2
<b>Net book value</b>				
<b>At 31 July 2000</b>	<b>27.4</b>	<b>3.8</b>	<b>16.7</b>	<b>47.9</b>
At 1 August 1999	27.5	3.6	17.2	48.3

	Consolidated		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
<b>14 Tangible fixed assets continued</b>				
Land and buildings				
Cost	<b>144.5</b>	132.8	<b>29.8</b>	29.6
Valuation 1974	<b>7.3</b>	7.3	<b>0.6</b>	0.6
	<b>151.8</b>	140.1	<b>30.4</b>	30.2
Freehold	<b>135.5</b>	126.9	<b>30.2</b>	30.0
Long leasehold	<b>4.4</b>	4.4	<b>0.2</b>	0.2
Short leasehold	<b>11.9</b>	8.8		
	<b>151.8</b>	140.1	<b>30.4</b>	30.2

If land and buildings had not been revalued they would have been included at the following amounts:

Cost	<b>147.8</b>	136.1	<b>29.8</b>	29.6
Aggregate depreciation	<b>36.3</b>	32.0	<b>3.0</b>	2.7

The Company's properties were revalued on the basis of open market valuation in 1974, and that valuation was incorporated into the financial statements. These values have been retained under the transitional provisions of FRS15, but the directors do not intend to adopt a policy of annual revaluations in the future. A quinquennial external revaluation of the Company's properties was carried out as at 31 July 1999 which disclosed a surplus of £20.0m over 31 July 2000 book values, as noted in the Directors' Report on page 30.

	2000 £m	1999 £m
<b>A Net capital expenditure:</b>		
Additions during the year	<b>50.8</b>	50.4
Less: proceeds of disposals	<b>(7.8)</b>	(2.0)
	<b>43.0</b>	48.4

	2000 £m	1999 £m
<b>15 Capital commitments</b>		
Estimated commitments not included in the accounts:		
Company	<b>1.1</b>	2.1
Subsidiaries	<b>5.1</b>	4.3
	<b>6.2</b>	6.4

	Consolidated		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
<b>16 Investments and advances</b>				
At cost less amounts written off:				
Subsidiary companies			<b>778.0</b>	582.3
Unlisted investments	<b>0.2</b>	0.2		
	<b>0.2</b>	0.2	<b>778.0</b>	582.3
Investments in subsidiaries:				
Shares at cost			<b>521.2</b>	553.1
Due from subsidiaries			<b>401.4</b>	200.4
			<b>922.6</b>	753.5
Due to subsidiaries			<b>(144.6)</b>	(171.2)
			<b>778.0</b>	582.3

The Company's principal subsidiaries and their countries of incorporation are:

England	USA
Smiths Industries Aerospace & Defence Systems Limited*	Smiths Industries, Inc.*
Graseby Dynamics Ltd	Smiths Industries Aerospace & Defense Systems, Inc.
SIMS Portex Limited*	Actuation Systems, Inc.
SIMS Graseby Limited	SIMS Portex, Inc.
Eschmann Bros & Walsh Limited*	SIMS Deltec, Inc.
Smiths Industries Industrial Group Limited*	SIMS BCI, Inc.
Air Movement (Holdings) Limited*	SIMS Level 1, Inc.
<b>Europe</b>	Flexible Technologies, Inc.
SIMS Deltec Graseby Vertriebs GmbH (Germany)	Tutco, Inc.
FRB Connectron SA (France)	Hypertronics Corporation
Interconnectron GmbH (Germany)	Icore International, Inc.
Flexiplas SA (Spain)	PolyPhaser Corporation
<b>Japan</b>	Transtector Systems, Inc.

Japan Medico Co. Limited (62%)

All subsidiaries marked \* are 100% owned by the Company direct. The others are 100% owned through intermediate holding companies, with the exception of Japan Medico, which is 62% owned by the Company. Shareholdings are of ordinary shares, ordinary stock units or common stock. All subsidiaries operate in their country of incorporation.

## Notes to the accounts continued

	Consolidated		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
<b>17 Stocks</b>				
<b>Stocks comprise:</b>				
Raw materials and consumables	89.5	66.2	2.4	3.2
Work in progress	79.2	67.5	31.9	31.4
Finished goods	93.0	83.5	11.8	12.8
	261.7	217.2	46.1	47.4
Less: Payments on account	(14.0)	(13.3)	(7.7)	(10.0)
	247.7	203.9	38.4	37.4

	Consolidated		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
<b>18 Debtors</b>				
<b>Amounts falling due within one year:</b>				
Trade debtors	302.8	247.2	44.3	51.1
Amounts recoverable on contracts	31.2	29.6	6.2	6.9
Amounts owed by subsidiaries			3.7	2.8
Other debtors	5.7	5.4	1.1	1.6
Prepayments and accrued income	13.2	14.6	3.2	5.9
	352.9	296.8	58.5	68.3
<b>Amounts falling due after more than one year:</b>				
Other debtors	10.3	5.4		
Deferred taxation (note 19)	6.3	13.4		
Pensions prepayment	40.4	35.7	37.6	35.7
	409.9	351.3	96.1	104.0

	Consolidated				Company	
	Full provision basis		Provided		2000 £m	1999 £m
	2000 £m	1999 £m	2000 £m	1999 £m		
<b>19 Deferred taxation</b>						
<b>Deferred taxation:</b>						
Accelerated capital allowances	(11.5)	(10.1)	(11.5)	(10.1)	(6.2)	(5.4)
Post-retirement benefits	10.1	9.3	10.1	9.3		
Short-term and other timing differences	19.7	25.3	7.7	14.2	(1.4)	1.1
	18.3	24.5	6.3	13.4	(7.6)	(4.3)
<b>Movements during the year:</b>						
At 1 August 1999			13.4	13.1	(4.3)	3.6
Exchange adjustments			1.6	(1.0)		
Acquisitions			0.4	3.7		
Charge for the year			(6.1)	(2.8)	(0.6)	(1.2)
Other			(3.0)	0.4	(2.7)	(6.7)
At 31 July 2000			6.3	13.4	(7.6)	(4.3)

No provision has been made for potential taxation which could arise on the remittance to the United Kingdom of retained overseas earnings, as no remittances are envisaged in the foreseeable future which could give rise to a material liability. There are no material unprovided deferred tax liabilities of the Company.

	Consolidated		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
<b>20 Creditors</b>				
<b>Amounts falling due within one year:</b>				
Bank loans and overdrafts	107.8	112.1	23.6	61.9
Short-term loans	8.2	8.2	4.5	4.6
Total short-term indebtedness (note 21)	116.0	120.3	28.1	66.5
Trade creditors	97.4	86.2	18.7	20.0
Bills of exchange payable	1.4	1.3		
Amounts owed to subsidiaries			1.5	4.6
Other creditors	18.4	16.2	4.0	3.5
Proposed dividend	49.9	44.8	49.9	44.8
Corporate taxation	42.5	36.1	23.7	20.1
Other taxation and social security costs	9.8	9.2	1.8	0.7
Accruals and deferred income	141.7	132.0	53.0	56.6
	477.1	446.1	180.7	216.8
<b>Amounts falling due after more than one year:</b>				
Term loans (note 21)	217.6	66.5	150.8	4.6
Deferred taxation (note 19)			7.6	4.3
	217.6	66.5	158.4	8.9
Other creditors	42.7	32.7	17.4	17.4
	260.3	99.2	175.8	26.3

## 21 Borrowings and net debt

The disclosures made in notes 21 and 22 should be read in conjunction with the discussion of the Company's objectives, policies and strategies with regard to financial instruments in the Financial Review on page 23. After taking into account the various interest rate contracts entered into by the Company, the effective currency and interest rate exposure of the Company's borrowings as at 31 July 2000 were as follows:

	Fixed borrowings			Floating borrowings £m	Total 2000 £m	Total 1999 £m
	Weighted average		Amount £m			
	Interest rate	Years fixed				
<b>Currencies:</b>						
Sterling	7.08%	16	151.2	7.7	158.9	13.0
US Dollar	9.20%	1	16.7	125.9	142.6	132.6
EMU participants	8.34%	2		7.8	7.8	7.5
Japanese Yen				24.3	24.3	33.3
Other						0.4
			167.9	165.7	333.6	186.8
Cash and deposits					48.3	93.4
<b>Net debt</b>					285.3	93.4
<b>Maturity:</b>						
On demand/under one year			3.5	112.5	116.0	120.3
One to two years			0.1	0.6	0.7	2.3
Two to five years			16.7	52.6	69.3	64.2
Over five years			147.6		147.6	
			167.9	165.7	333.6	186.8

The Company's policy is to keep a broadly equal mix between fixed and floating rate debt after taking into account interest rate contracts.

## Notes to the accounts continued

### 21 Borrowings and net debt continued

The floating-rate borrowings are related to LIBOR and bank funding rates in the USA, and to LIBOR and bank base rates in Japan. Borrowings in continental Europe are based mainly on EURIBOR.

The borrowings of all non-UK operations are in local currencies to provide a structural hedge against foreign currency movements on the overseas assets.

The medium-term borrowings (less than 5 years) are principally an issue of US\$100m Senior Notes maturing in 2002. Interest rate swaps cause the effective interest rate to be 7.83% variable on US\$75m, and 8.34% fixed on the remainder.

The long-term borrowings (greater than 5 years) of £147.6m (1999 £nil) relate entirely to unsecured £150m 7.25% bonds maturing in 2016 less issue costs and discount. A forward starting interest rate swap causes the effective interest rate to be 7.03% fixed.

	Cash and deposits £m	Borrowings		Net debt £m
		Under one year £m	Over one year £m	
<b>Reconciliation of movement in net debt</b>				
At 1 August 1999	93.4	(120.3)	(66.5)	(93.4)
Net cash inflow	13.4	7.6	1.6	22.6
Other movements	(59.5)	10.0	(147.6)	(197.1)
Exchange variation	1.0	(13.3)	(5.1)	(17.4)
<b>At 31 July 2000</b>	<b>48.3</b>	<b>(116.0)</b>	<b>(217.6)</b>	<b>(285.3)</b>
			<b>2000</b>	<b>1999</b>
<b>Financing</b>			<b>£m</b>	<b>£m</b>
Net increase in borrowings (above)			<b>137.6</b>	34.5
Share issues			<b>8.3</b>	9.1
Total financing			<b>145.9</b>	43.6

Management of liquid resources resulted in a reduction in cash and deposits as shown above, which together with the total financing and cash inflows has largely been invested in acquisition spend in the year.

#### Borrowing facilities

The Company has no committed undrawn borrowing facilities at 31 July 2000, although as noted in the Financial Review, the Company has a number of uncommitted facilities and overdraft lines.

### 22 Financial instruments

#### A) Fair values of financial assets and liabilities

We use financial instruments to raise finance for our operations and manage the related financial risks. The Company's financial instruments comprise borrowings, cash and liquid resources, interest rate and currency contracts. Short-term debtors and creditors have been excluded from all the following disclosures, other than the currency risk disclosures. The Company's policy forbids trading in financial instruments.

Set out below is a year-end comparison of the book value and current fair value of the Company's financial instruments by category. Fair values of interest rate swaps, currency swap and forward currency contracts are based on the market price of comparable instruments at the balance sheet date. Where market prices are not available, the fair value has been calculated by discounting cash-flows at prevailing interest and exchange rates.

	2000 Book value £m	2000 Fair value £m	1999 Book value £m	1999 Fair value £m
Cash	<b>48.3</b>	<b>48.3</b>	93.4	93.4
Borrowings: hedge against Yen income	<b>(3.1)</b>	<b>(3.6)</b>	(15.4)	(17.7)
other short-term	<b>(112.9)</b>	<b>(112.9)</b>	(104.9)	(104.9)
long-term element	<b>(217.6)</b>	<b>(221.4)</b>	(66.5)	(69.5)
Net debt – book value/fair value	<b>(285.3)</b>	<b>(289.6)</b>	(93.4)	(98.7)
Derivative financial instruments:				
Interest rate swaps		<b>1.1</b>		2.0
Currency swaps	<b>(4.7)</b>	<b>(0.4)</b>	(3.6)	(4.5)
Forward currency contracts		<b>(9.5)</b>		(0.5)
Net financial liabilities – book value/fair value	<b>(290.0)</b>	<b>(298.4)</b>	(97.0)	(101.7)

As described in the Financial Review, the Company's policy is to hedge all material contractually committed future sales using forward exchange contracts and currency options. The transactions to which the forward currency contracts relate are mainly expected to occur in 2001 and 2002.

Sales under a supply contract to our subsidiary Japan Medico have been covered by borrowing against the contract in Yen. The proceeds are converted to Sterling such that the income from supplies to Japan Medico for the year to 31 July 2000 was fully hedged. These borrowings have reduced as future sales are to be covered by forward exchange contracts.

Currency swaps were entered into by the Company during the year to hedge the foreign currency exposure arising on Balance sheet translation in accordance with our Treasury policy.

### 22 Financial instruments continued

	Unrecognised total net losses £m	Deferred total net gains £m	Total 2000 £m	Total 1999 £m
<b>B) Hedges</b>				
Net gains/(losses) on hedges:				
At 1 August 1999	(4.7)		<b>(4.7)</b>	0.3
Arising in 2000	(8.4)	4.7	<b>(3.7)</b>	(5.0)
<b>At 31 July 2000</b>	<b>(13.1)</b>	<b>4.7</b>	<b>(8.4)</b>	(4.7)

#### Of which:

Expected to be included in 2001 income	(5.9)	0.3	<b>(5.6)</b>	(0.5)
Expected to be included in 2002 income or later	(7.2)	4.4	<b>(2.8)</b>	(4.2)

The unrecognised losses on hedges at 31 July 2000 largely relate to forward currency contracts which have devalued as a result of the strengthening of the US dollar. However, all the gains and losses on the hedging transactions are expected to be matched by losses and gains on the hedged transactions or positions. There are no material gains or losses on hedging instruments within the consolidated balance sheet.

#### C) Interest management

The net interest cashflow is analysed below:

	2000 £m	1999 £m
Interest received	<b>3.9</b>	7.5
Financing gains	<b>12.3</b>	
Interest paid	<b>(16.2)</b>	(15.6)
Net interest	<b>0.0</b>	(8.1)

Financing gains include the proceeds received on closing currency and interest rate contracts no longer required following the issue of the EuroSterling bond and in accordance with the Company's policy for balance sheet hedging as explained in the Financial Review. The cash financing gains are being amortised over the financial lives of the relevant debt instruments.

#### D) Financial Assets

	Bank balances and cash £m	Short-term deposits £m
Sterling	14.5	2.1
US Dollar	12.4	0.3
Euro currencies	3.3	3.6
Yen	6.7	1.5
Other	3.9	–
	<b>40.8</b>	<b>7.5</b>
Weighted average interest rate on interest bearing balances	5.6%	3.8%

The bank balances and cash comprise £27m in respect of short-term balances earning interest, £7m in respect of balances which are non-interest earning and £7m held as compensating credits against our Yen term loans. Short-term deposits are invested for periods with maturity under one year.

#### E) Currency exposures

##### Transactions

More than three-quarters of the Company's sales are to markets outside the UK. In part, these are served by our local subsidiaries. In respect of export sales it is the Company's policy to hedge all material transactions against fluctuations in exchange rates. The extent to which the Company has monetary assets and liabilities in currencies other than in their local currency has been examined. Taking into account the effect of forward contracts and other derivative instruments, the Company had no material financial exposure to foreign exchange gains or losses on monetary assets and monetary liabilities denominated in foreign currencies at 31 July 2000.

##### Translation

Overseas profits are not hedged for translation exposure but foreign exchange effects are muted by translating profits at the average exchange rates for the year. Furthermore, overseas earnings are in part hedged by the interest expense on foreign borrowings used to hedge the overseas assets.

Gains and losses arising on net investments overseas and the financial instruments used to hedge the currency exposures are recognised in the statement of total recognised gains and losses.

## Notes to the accounts continued

### 23 Operating lease commitments

At 31 July 2000 the Company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings £m	Others £m
Expiring in less than one year	1.5	0.4
Expiring between one and five years	8.0	2.1
Expiring after five years	6.4	
	<b>15.9</b>	<b>2.5</b>

### 24 Provisions for liabilities and charges

	At 1.8.99 £m	Exchange adjustments £m	Profit and loss account		Acquisitions £m	Utilisation £m	At 31.7.00 £m
			Provisions £m	Releases £m			
<b>Consolidated</b>							
Post-retirement healthcare	26.5	1.9	1.5		0.4	(2.4)	<b>27.9</b>
Service guarantees and product liability	14.0	0.6	7.0	(0.5)	1.9	(5.3)	<b>17.7</b>
Reorganisation	9.3	0.2	2.8	(1.1)	0.9	(6.7)	<b>5.4</b>
Property	12.7	0.3	0.1	(1.5)	1.6	(1.8)	<b>11.4</b>
Litigation	5.5		1.3	(1.2)	0.7	(1.6)	<b>4.7</b>
	68.0	3.0	12.7	(4.3)	5.5	(17.8)	<b>67.1</b>
<b>Company</b>							
Post-retirement healthcare	2.8						<b>2.8</b>
Service guarantees and product liability	4.5		3.8			(2.7)	<b>5.6</b>
Reorganisation	3.9		0.8			(3.9)	<b>0.8</b>
Property	3.7			(1.4)			<b>2.3</b>
Litigation	1.6			(1.2)			<b>0.4</b>
	16.5		4.6	(2.6)		(6.6)	<b>11.9</b>

#### Post-retirement healthcare

The Company has contractual commitments to provide private healthcare after retirement to a significant number of employees, mostly in the USA. The annual charge against profits and the amount of the provision carried forward are based on actuarial assessments of the Company's discounted future obligations.

#### Service guarantees and product liability

Service guarantees and warranties over the Company's products typically cover periods of between one and three years. Provision is made for the likely cost of after-sales support based on the recent past experience of individual businesses.

#### Reorganisation

Significant parts of the Company's operations, especially in Aerospace and Industrial, have been undergoing a phased restructuring programme over the past four years. Full provision is made for schemes approved and committed by the end of each financial year. This year's balance relates mainly to Aerospace sites in the USA, and Industrial businesses in the UK and Europe.

#### Property

As stated in the Accounting Policies on page 56, where a property is vacant, or sub-let under terms such that rental income is insufficient to meet all outgoings, the Company provides for the anticipated future shortfall up to termination of the lease. Provision is also made for the cost of reinstatement work on leased properties where there is an obligation under the lease, and the costs can be reasonably estimated. Where evidence of contamination is found on property in the Company's occupation, provision is made for estimated remedial costs pending action on the affected site.

#### Litigation

The Company has on occasion been required to take legal action to protect its patents and other business intellectual property rights against infringement, and to similarly defend itself against proceedings brought by other parties. Provision is made for the anticipated fees and associated costs, based on professional advice as to the likely duration of each case.

### 25 Acquisitions

During the year under review the Company acquired the issued share capitals of Environmental Technologies Group, Inc. (ETG), a number of businesses from Invensys plc, and Marconi Actuation Systems, Inc. (MASI) for Aerospace, and Sabritec, Inc., LEA International, Inc. (LEA), EMC Technology, LLC (EMC), AeroSonics, Inc., Venair Technik AG (Venair), and Florida RF Labs, Inc. (RF Labs) for Industrial. Details of the consideration paid, book values of retained assets at the dates of acquisition, and adjustments to reflect the Company's assessments of fair values are set out below. These fair values are provisional, and will be finalised in subsequent financial statements.

	Dates of acquisition £m	Consideration £m	Goodwill £m	Net assets £m
ETG	4.8.99	9.5	7.4	2.1
Invensys businesses	31.1.00	111.0	90.0	21.0
MASI	23.3.00	62.4	55.2	7.2
Sabritec	14.1.00	32.5	28.4	4.1
LEA	28.1.00	7.0	6.5	0.5
EMC	14.2.00	27.8	22.7	5.1
AeroSonics	31.3.00	3.3	2.4	0.9
Venair	31.3.00	1.4	0.7	0.7
RF Labs	1.5.00	17.2	12.3	4.9
		272.1	225.6	46.5

The most significant acquisition during the year was the collection of businesses acquired from Invensys, the provisional assets and fair value adjustments thereto being as follows:

	Book value £m	Revaluation £m	Consistency of accounting policy £m	Fair value £m
<b>Invensys</b>				
Fixed assets	10.5	(2.3)	(2.4)	5.8
Assets held for resale	6.5			6.5
Stock	11.4	(1.3)	(3.4)	6.7
Debtors	11.1		(0.1)	11.0
Creditors	(4.6)	(1.7)	(1.1)	(7.4)
Provisions	(1.6)	(0.3)	(0.1)	(2.0)
Taxation	0.4			0.4
Net assets acquired	33.7	(5.6)	(7.1)	21.0
Goodwill				90.0
Consideration				111.0
Satisfied by:				
Cash				111.0

The reasons for the fair value adjustments are set out on page 54.

The provisional assets and fair value adjustments for the remaining acquisitions made during the year are summarised below.

	Book value £m	Revaluation £m	Consistency of accounting policy £m	Fair value £m
<b>Other</b>				
Fixed assets	12.8	(1.0)		11.8
Stock	17.5	(0.6)	(3.4)	13.5
Debtors	13.5	2.2	(0.2)	15.5
Creditors	(7.9)	(4.0)	(0.2)	(12.1)
Provisions	(2.4)	(0.7)	(0.4)	(3.5)
Taxation	0.3			0.3
Net assets acquired	33.8	(4.1)	(4.2)	25.5
Goodwill				135.6
Consideration				161.1
Satisfied by:				
Cash				161.1

The reasons for the fair value adjustments are set out on page 54.

## Notes to the accounts continued

### 25 Acquisitions continued

Ongoing reviews of the businesses acquired during the year have identified the following principal revaluation and accounting policy adjustments:

Fixed assets – the write-down of obsolete plant and machinery and the write-off of intangible assets in line with Company policy.

Assets held for resale – held at cost of acquisition pending disposal.

Stock and work in progress – reduction of book value to net realisable value where lower than cost, or subject to write-down where stock levels exceed anticipated future requirements.

Debtors – write up of ETG pension prepayment debtor to reflect the underlying pension fund surplus.

Creditors – full recognition of contract costs, and adjustments for employee holiday pay and other costs under-accrued.

Provisions – revision of service guarantee, void property cost and ongoing litigation fee provisions in line with Company policy.

In accordance with the provisions of FRS10 – Goodwill and Intangible Assets, 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 year was £10.3m. Goodwill relating to acquisitions up to 1 August 1998 was charged to reserves.

### 26 Called up share capital

	Shares	Issued capital £m	Consideration £m
At 1 August 1999	313,540,548	78.4	
Exercise of share options	1,903,053	0.5	8.3
Issues of scrip dividend shares	1,771,700	0.4	13.7*
At 31 July 2000	317,215,301	79.3	

\*equivalent cash dividends

The authorised capital at 31 July 2000 consisted of 400,000,000 shares of 25p each.

At 31 July 2000 the following options had been granted and were still outstanding:

	Date issued	Number of shares	Subscription prices	Dates normally exercisable	
<b>SAYE</b>	1993	65,159	278.0p	1998/2000	
	1994	182,613	392.0p	1999/2001	
	1995	337,199	384.0p	2000/2002	
	1996	826,788	572.0p	2001/2003	
	1997	1,199,689	632.0p	2000/2004	
	1998	959,685	669.0p	2001/2005	
	1999	691,877	721.0p	2002/2006	
	2000	1,371,437	612.0p	2003/2007	
	<b>Executive</b>	1991	8,000	250.0p	1994/2001
		1993	27,521	347.0p	1996/2003
1993		48,015	395.0p	1996/2003	
1994		164,509	451.0p	1997/2004	
1995		62,500	480.0p	1998/2005	
1995		219,317	632.0p	1998/2005	
1996		509,450	823.0p	1999/2006	
1997		654,058	934.0p	2000/2007	
1998		1,129,172	765.0p	2001/2008	
1999		1,127,513	858.5p	2002/2009	
2000	1,368,304	750.0p	2003/2010		
2000	55,424	765.0p	2003/2010		

	Share premium account £m	Revaluation reserve £m	Other reserves £m	Profit and loss account £m
<b>27 Share premium account and reserves</b>				
Consolidated:				
At 1 August 1999	91.1	3.3		179.5
Premium on allotments	28.6			(7.5)
Retained profit				101.7
Exchange rate changes (net of tax on recognisable gains)				13.9
<b>At 31 July 2000</b>	<b>119.7</b>	<b>3.3</b>		<b>287.6</b>
Company:				
At 1 August 1999	91.1	0.6	180.5	209.4
Premium on allotments	28.6			(5.4)
Retained profit				15.7
Exchange rate changes				11.5
<b>At 31 July 2000</b>	<b>119.7</b>	<b>0.6</b>	<b>180.5</b>	<b>231.2</b>

The retained profit of the Company represents a profit for the year of £91.0m less dividends payable of £75.3m.

During the year the Company received £15.8m on the issue of shares in respect of the exercise of options awarded under various share option schemes. Employees paid £8.3m for the issue of these shares and the balance of £7.5m comprised contributions to the qualifying employee share ownership trust (QUEST) from undertakings within the Company. The trust has been included within the Company and consolidated financial statements.

1,771,700 shares at market values totalling £13.7m were taken up by shareholders as a scrip alternative to cash dividends.

Goodwill relating to acquisitions made before 1 August 1998 and written off to reserves amounted to £811.6m.

### 28 Movements in shareholders' equity

	2000 £m	1999 £m
Profit for the year	<b>177.0</b>	163.2
Dividends	<b>(75.3)</b>	(67.9)
	<b>101.7</b>	95.3
Exchange variations	<b>23.2</b>	4.4
Taxation recognised on exchange gains:		
Current – UK	<b>(2.7)</b>	
Deferred – USA	<b>(6.6)</b>	
Share issues	<b>22.0</b>	32.2
Goodwill on acquisitions		(1.3)
Net increase in shareholders' funds	<b>137.6</b>	130.6
Shareholders' funds:		
At 1 August 1999	<b>352.3</b>	221.7
<b>At 31 July 2000</b>	<b>489.9</b>	352.3

### 29 Contingent liabilities

	2000 £m	1999 £m
The Company has guaranteed the 8.34% Senior Notes 2002 privately placed by a subsidiary	<b>66.7</b>	61.7



## Five year review

	2000 £m	1999 £m	1998 £m	1997 £m	1996 £m
<b>Turnover</b>	<b>1,463.7</b>	1,323.9	1,198.5	1,076.2	1,008.4
<b>Operating profit (before goodwill amortisation)</b>	<b>275.9</b>	247.5	224.2	194.6	168.1
<b>Goodwill amortisation</b>	<b>(10.3)</b>	(3.0)			
<b>Operating profit (after goodwill amortisation)</b>	<b>265.6</b>	244.5	224.2	194.6	168.1
<b>Net interest</b>	<b>(9.6)</b>	(7.0)	(6.1)	(2.5)	(2.7)
<b>Profit before exceptional items</b>	<b>256.0</b>	237.5	218.1	192.1	165.4
<b>Exceptional items</b>				(0.5)	5.0
<b>Profit before taxation</b>	<b>256.0</b>	237.5	218.1	191.6	170.4
<b>Profit after taxation</b>	<b>177.7</b>	163.5	149.6	132.6	117.8
<b>Minority interests</b>	<b>(0.7)</b>	(0.3)	(1.4)	(0.9)	
<b>Shareholders' equity</b>	<b>489.9</b>	352.3	221.7	240.4	211.8
Represented by:					
Intangible fixed assets	<b>328.8</b>	91.5			
Tangible fixed assets	<b>261.6</b>	231.7	215.4	198.8	190.6
Net current assets	<b>184.8</b>	122.5	89.1	83.6	49.5
Net debt	<b>(285.3)</b>	(93.4)	(82.8)	(42.0)	(28.3)
Funds employed	<b>489.9</b>	352.3	221.7	240.4	211.8
Goodwill charged to reserves	<b>824.9</b>	814.6	810.3	693.9	648.2
<b>Shareholder investment</b>	<b>1,314.8</b>	1,166.9	1,032.0	934.3	860.0
<b>Ratios</b>					
Operating profit before goodwill amortisation: turnover (%)	<b>18.8</b>	18.7	18.7	18.1	16.7
Taxation before goodwill amortisation and exceptional items (%)	<b>30.0</b>	30.8	31.4	32.0	33.0
After tax return on average shareholder investment (%)	<b>15.0</b>	15.1	15.1	14.6	13.5
<b>Cash-flow</b>					
Cash-flow from operating activities	<b>260.6</b>	243.4	240.5	203.9	183.2
Less capital expenditure (net)	<b>(43.0)</b>	(48.4)	(36.9)	(42.9)	(32.0)
Operating cash after capital expenditure	<b>217.6</b>	195.0	203.6	161.0	151.2
Free cash-flow (before acquisitions and dividends, after capital expenditure)	<b>145.8</b>	116.5	132.1	98.1	98.7
<b>Free cash-flow per share (p)</b>	<b>46.3</b>	37.5	43.0	32.2	32.6
<b>Earnings per share before goodwill amortisation and exceptional items (p)</b>	<b>59.0</b>	53.5	48.2	42.5	36.6
<b>Dividends</b>					
Pence per share	<b>23.80</b>	21.65	19.65	17.85	16.20
Times covered before goodwill amortisation	<b>2.5</b>	2.4	2.4	2.4	2.2
<b>Number of employees (000's)</b>					
UK	<b>6.9</b>	7.0	6.9	6.4	6.5
Overseas	<b>9.6</b>	7.9	7.2	6.9	6.3
	<b>16.5</b>	14.9	14.1	13.3	12.8

## Analysis of ordinary shareholders

14 September 2000

Class of Shareholder	No. of Holders	No. of Shares	% of total Listed Shares
Insurance Companies	9	11,613,483	3.66
Pension Funds	10	1,034,159	0.33
Banks	20	788,125	0.25
Nominees	7,469	283,362,335	89.29
Limited Companies and other Corporate Bodies	2,223	5,231,151	1.65
Individuals	10,169	15,290,144	4.82
<b>Total</b>	<b>19,900</b>	<b>317,319,397</b>	<b>100.00</b>

## Financial calendar

### 2000

#### September

18 Preliminary announcement of results for 1999/2000

#### October

09 Ordinary shares final dividend ex-dividend date  
13 Ordinary shares final dividend record date  
27 Scrip dividend share alternative offer letter posted†

#### November

14 Annual General Meeting  
22 Scrip dividend share alternative election closing date†

#### December

13 Ordinary shares final dividend payment date  
13 Scrip dividend share alternative allotment date†

### 2001

#### February

05 London Stock Exchange standard settlement period changes to T+3 days

#### March

14 *provisional* 2000/2001 interim results announced  
21 *provisional* Ordinary shares interim dividend ex-dividend date  
23 *provisional* Ordinary shares interim dividend record date

#### April

06 *provisional* Scrip dividend share alternative offer letter posted†

#### May

04 *provisional* Scrip dividend share alternative election closing date†  
25 *provisional* Ordinary shares interim dividend payment date  
25 *provisional* Scrip dividend share alternative allotment date†

#### July

31 Smiths Industries financial year end

#### September

26 *provisional* Preliminary announcement of results for 2000/2001

#### October

03 *provisional* Ordinary shares final dividend ex-dividend date  
05 *provisional* Ordinary shares final dividend record date

#### November

13 *provisional* Annual General Meeting

†subject to the directors' decisions to recommend a final dividend and offer a share alternative; the approval of the final dividend at the AGM on 14 November 2000; and other conditions  
‡subject to the directors' decisions to declare an interim dividend and offer a share alternative – details of any Scrip Dividend Share Alternative for the 2001 Final Dividend will be announced in 2001

#### Smiths Industries plc

765 Finchley Road London NW11 8DS  
Tel: +44 (0) 20 8458 3232  
Fax: +44 (0) 20 8458 4380  
E-mail: [plc@smiths-industries.com](mailto:plc@smiths-industries.com)  
[www.smiths-industries.com](http://www.smiths-industries.com)

# The senior management of Smiths Industries

## Chairman

**Keith Orrell-Jones**

## Chief Executive

**Keith Butler-Wheelhouse**

## Executive Directors

**John Ferrie**

Group Managing Director,  
Aerospace

**Lawrence Kinet**

Group Managing Director,  
Medical Systems

**Einar Lindh**

Group Managing Director,  
Industrial

**Alan Thomson**

Financial Director

## Corporate Staff

**David Flowerday**

Financial Controller

**Peter Mason**

Director, Corporate Finance

**Anne Minto OBE**

Director, Human Resources

**Russell Plumley**

Director,  
Corporate Communications

**Alan Smith**

(Associate Director)  
Secretary & Solicitor

**Robin Taunt**

Director, Business  
Development

**Michael Walls**

Director, Internal Audit

## Aerospace

**John Ferrie**

Group Managing Director

**Brian Knight**

Director & Group Controller

**Ron Albrecht**

President,  
Electro-Mechanical Systems

**Phil Collins**

Director, Technology

**George Donovan**

VP Government Liaison, USA

**Paul Edwards**

VP Strategic Development

**Robert Ehr**

President,  
Information Management Systems

**Michael Jones**

Director,  
Operational Support

**John Legg**

Managing Director,  
Customer Services

**Bill Mawer**

Director of Marketing

**Nick Wilton**

Managing Director,  
Vehicle Management Systems

## Medical Systems

**Lawrence Kinet**

Group Managing Director

**Donald Broad**

Director & Group Controller

**Tony Beran**

President, RSP

**Malcolm Carlisle**

Director, Regulatory Affairs &  
Legal Adviser

**Howard Donnelly**

President, SIMS Level 1

**Martin Jamieson**

Managing Director,  
SIMS Portex Ltd

**Frank Katarow**

President, SIMS BCI

**Ron Kendrew**

Managing Director,  
SIMS Graseby

**Hitoshi Mikami**

President,  
Japan Medico

**Jeff Spielman**

President, SIMS Portex, Inc.

**James Stitt**

President, SIMS Deltec

## Industrial

**Einar Lindh**

Group Managing Director

**Graham Hardcastle**

Director & Group Controller

**Roger Ellis**

Director,  
Business Development

**Stephen Phipson**

Managing Director,  
Interconnect –  
Communications

**Kevin Sargeant**

Ventilation Systems

**Tedd Smith**

President, Flex-Tek

**David Spencer**

Managing Director,  
Cable Management Systems

# Index

Accounting policies	56	Future developments	30
Acquisitions	22,53	Geographical sales	43
Acquisitions and disposals	30	Governance, corporate	31
Aerospace, at a glance	4	Graduate recruitment	24
Aerospace, business review	10	Growth opportunities	5
AGM, notice of	insert	Health and safety	25
Analyses of turnover by destination	43	Hedges	51
Analyses of turnover, profit and assets	43	Highlights of the year	5
Analysis of ordinary shareholders	59	Impact of exchange rates	21
At a glance	4	Individual savings accounts	33
Auditors' report	39	Industrial, at a glance	4
Authority to issue shares	33	Industrial, business review	18
Authority to purchase shares	33	Intangible fixed assets	46
Balance sheets	41	Interest management	51
Borrowings and net debt	49	Interest rate management	23
Building the future through our people	24	Interests in company shares	31
Business review	10	Interests in land	30
Called up share capital	54	Investing in talent	24
Capital commitments	47	Investments and advances	47
Career development	24	Liquidity management	23
Cash-flow statement	42	Management	60
Chairman's statement	6	Marketplace	4
Changes in company interests	30	Medical, at a glance	4
Charitable and political contributions	30	Medical, business review	14
Chief Executive's review	7	Movements in shareholder equity	55
Consolidated profit and loss account	40	Net interest	44
Contingent liabilities	55	Notes to the accounts	43
Corporate governance	31	Operating expenses	44
Cost of sales	43	Operating lease commitments	52
Creditors	49	Payment of creditors	32
Currency exposure	51	Pensions	23
Currency management	23	Personal equity plans	33
Debtors	48	Personnel policies	32
Dematerialisation of shares	33	Post balance sheet events	30
Directors, emoluments and interests	35	Post-retirement benefits	45
Directors, interests in company shares	35	Principal activities	30
Directors, main board	29	Principal subsidiaries	47
Directors, non-executive	29	Product areas	4
Directors, re-appointments	30	Profit attributable to parent company	44
Directors, remuneration	35	Provisions for liabilities and charges	52
Directors, responsibilities	34	Reconciliation of movement in net debt	50
Directors, service contracts	31	Research and development	30
Directors, share options	38	Scrip dividend	33
Dividends	45	Senior management	60
Dividends, share alternative	33	Share premium accounts and reserves	55
Earnings per share	45	Shareholders, analysis of ordinary	59
Economic and Monetary Union (EMU)	32	Shares, authority to issue	33
Employees	24,45	Shares, authority to purchase	33
Employees, career development	24	Shares, dematerialisation of	33
Employees, numbers	45	Statement of value added	57
Employees, staff costs	45	Stocks	48
Employees, training and development	24	Strategy	2
Environment	26,32	Tangible fixed assets	46
Exchange rates, impact of	21	Taxation	44
Fair values of financial assets and liabilities	50	Taxation, deferred	48
Financial assets	51	Total recognised gains and losses	40
Financial calendar	59	Training and development	24
Financial controls	22	Year 2000 readiness disclosure	32
Financial highlights	1		
Financial instruments	23,50		
Financial performance	1		
Financial review	21		
Financing and treasury	23		
Five year review	58		