



SMITHS INDUSTRIES

Aerospace · Medical Systems · Industrial

Interim Report 1997

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In the half-year to 1 February 1997, Smiths Industries reported pre-tax profits, before exceptionals, of £80.2 million, compared to £69.5 million for the same period in 1996, and earnings per share before exceptionals of 17.6p (1996:15.4p). The Directors have declared an interim dividend of 6.15p, an increase of 10 per cent. An exceptional gain of £4 million was realised from the disposal of surplus property.

The company's operating profits rose 16 per cent to £81.4 million (£70.4m) on sales of £495.3 million (£466.2m), principally due to a better performance from the Aerospace and Industrial groups. The increase came equally from the ongoing business and from acquisitions made in the past twelve months. A stronger pound had some impact on exporting from the UK, and Medical Systems sales were held back as a consequence. Translation of overseas earnings into Sterling was also affected, reducing reported profits by £2 million on a comparative basis.

All three operating groups increased their profits, and the overall margin on sales increased by one percent to 16 per cent of sales. Operating cash-flow during the period was £53 million (£62.6m). Working capital was increased by the inclusion of acquisitions and the build-up in Aerospace output.

The **Industrial** group made good progress in the half-year. Two UK acquisitions, Air Movement Group, now part of the Vent-Axia division, and Adaptaflex, part of Flex-Tek, contributed to the interim results for the first time, and lived up to expectations. The Flex-Tek division, which operates internationally, performed strongly, while the recently-formed Hypertac Interconnect division benefited from rationalisation of its products and manufacturing.

Medical Systems is the largest contributor to profits, and improved its already good margins during a period when sales of single-use products and capital equipment made in the UK for world markets were affected by adverse currency movements. More than half of the Medical Systems businesses are based in the United States, and these performed satisfactorily. Deltec's recently launched 'Prizm' pump for patients receiving treatment beyond the hospital environment has been well received. A new production centre for single-use devices is nearing completion on schedule in New Hampshire. In Japan, the distribution companies are being brought progressively closer into the group's operations.

The **Aerospace** group saw a rapid improvement in both profits and margins.

The upturn in demand for commercial aircraft and the return to profitability of more airlines is benefiting both Civil Systems and Product Support divisions. A new, integrated centre for civil avionics just completed at Cheltenham gives added capability to respond to the positive market opportunities. The defence business has also been increasing its deliveries as the order book becomes firmer. It continues to achieve notable 'wins' in procurement contests, including a valuable order to equip the Hawk aircraft for the Royal Australian Air Force. In spite of the upturn, the continuing improvement in efficiency by cost reduction and rationalisation remains a key objective. Just before the end of the period, the acquisition of Leland Electrosystems was completed for £17 million. A leading US manufacturer of electrical power generating systems for aircraft, it is a natural fit with the group's existing power management products.

This interim period marks the first six months in which Keith Butler-Wheelhouse has been Chief Executive in succession to Sir Roger Hurn. The Board is pleased to note that this transition has been achieved smoothly and considers that the company will continue to benefit from a positive outlook for its businesses in all three areas of operation.

Interim Dividend

An interim dividend of **6.15p** per share (1996: 5.6p) has been declared and will be paid on 6 June 1997 to holders of all ordinary shares whose names are registered at close of business on 25 April 1997.

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

By Order of the Board
Alan Smith, Secretary

8 April 1997

REGISTRAR
Lloyds Bank Registrars
The Causeway
Worthing
West Sussex BN99 6DA

	26 weeks ended 1 February 1997 £m	26 weeks ended 3 February 1996 £m	52 weeks ended 3 August 1996 £m
PROFIT AND LOSS ACCOUNT			
TURNOVER			
Continuing operations	488.6	466.2	1008.4
Acquisitions	6.7	—	—
	495.3	466.2	1008.4
OPERATING PROFIT			
Continuing operations	80.6	70.4	168.1
Acquisitions	0.8	—	—
Profit elimination on stock	—	—	(9.1)
	81.4	70.4	159.0
Ceewood Housing Ltd	—	—	14.2
Profit on property sales	4.0	—	0.3
Loss on sale of businesses	—	—	(0.4)
	85.4	70.4	173.1
PROFIT BEFORE INTEREST	85.4	70.4	173.1
Net interest payable	(1.2)	(0.9)	(2.7)
	84.2	69.5	170.4
PROFIT BEFORE TAXATION	84.2	69.5	170.4
Taxation	(26.5)	(22.9)	(52.6)
	57.7	46.6	117.8
PROFIT AFTER TAXATION	57.7	46.6	117.8
Minority interest	(0.1)	—	—
Dividends	(18.8)	(16.9)	(49.1)
	38.8	29.7	68.7
RETAINED PROFIT	38.8	29.7	68.7
EARNINGS PER SHARE (EPS)			
Before exceptional items	17.6p	15.4p	36.6p
After exceptional items	18.9p	15.4p	38.9p
DIVIDENDS PER SHARE			
	6.15p	5.6p	16.2p

NOTES:

- EPS is calculated on the average of shares in issue for each period - 26 weeks ended 1 February 1997: 304, 426, 309; 26 weeks ended 3 February 1996: 301, 957, 372; 52 weeks ended 3 August 1996: 302, 386, 924
- The accounts for the 52 weeks ended 3 August 1996 are abridged. Full accounts for that period on which the auditors made an unqualified report have been delivered to the Registrar of Companies.

	26 weeks ended 1 February 1997		26 weeks ended 3 February 1996	
ANALYSES OF TURNOVER AND PROFIT	Turnover £m	Profit £m	Turnover £m	Profit £m
MARKET ANALYSIS				
Aerospace	184.1	22.9	171.4	17.2
Medical Systems	142.2	31.9	145.9	31.6
Industrial	169.0	26.6	148.9	21.6
Ordinary activities total	495.3	81.4	466.2	70.4
Net interest		(1.2)		(0.9)
		80.2		69.5
Exceptional items		4.0		
		84.2		69.5
GEOGRAPHICAL ANALYSIS				
United Kingdom	233.3	37.2	203.1	31.8
USA*	217.2	34.9	220.6	30.3
Europe	60.8	5.7	65.6	6.5
Other overseas	12.4	3.6	6.1	1.8
Inter-company	(28.4)		(29.2)	
	495.3	81.4	466.2	70.4
<i>*US Dollars</i>	\$349.7m	\$56.2m	<i>\$344.1m</i>	<i>\$47.3m</i>

	1 February 1997 £m	3 February 1996 £m	3 August 1996 £m
SUMMARISED BALANCE SHEET			
FIXED ASSETS	191.8	177.5	190.6
WORKING CAPITAL			
Stocks	166.4	152.4	150.7
Debtors	253.5	224.9	248.7
	419.9	377.3	399.4
Creditors	(258.0)	(230.0)	(277.3)
	161.9	147.3	122.1
NET BORROWINGS	(27.8)	(13.5)	(28.3)
CORPORATE & DEFERRED TAXATION	(39.1)	(37.0)	(24.9)
PROVISIONS FOR LIABILITIES AND CHARGES	(43.8)	(52.4)	(47.7)
	243.0	221.9	211.8
CAPITAL AND RESERVES			
Share capital and share premium account	110.9	101.0	105.5
Reserves	788.3	716.0	754.5
Goodwill reserve	(656.2)	(595.1)	(648.2)
SHAREHOLDERS' FUNDS	243.0	221.9	211.8

	26 weeks ended 1 February 1997 £m	26 weeks ended 3 February 1996 £m	52 weeks ended 3 August 1996 £m
SUMMARISED CASH-FLOW STATEMENT			
Profit before exceptional items	80.2	69.5	165.4
Depreciation	16.1	15.6	30.5
	96.3	85.1	195.9
Fixed asset expenditure	(19.7)	(20.9)	(40.7)
Proceeds of asset sales	5.8	2.1	8.7
Working capital movements	(29.4)	(3.7)	(14.9)
CASH FROM OPERATIONS	53.0	62.6	149.0
Tax paid	(11.2)	(4.4)	(50.3)
Dividends paid	(32.4)	(28.2)	(45.2)
Share issues	5.4	1.4	5.9
CASH-FLOW	14.8	31.4	59.4
Distribution from Ceewood Housing Ltd			14.8
Acquisitions (net of disposals)	(18.7)	(39.8)	(98.3)
NET OUTFLOW FOR THE PERIOD	(3.9)	(8.4)	(24.1)
Exchange rate movements	4.4	(5.9)	(5.0)
(INCREASE) / DECREASE IN BORROWINGS	0.5	(14.3)	(29.1)

Review Report

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

We have reviewed the interim financial information for the 26 weeks ended 1 February 1997, set out on pages 3 and 4 which is the responsibility of, and has been approved by, the directors. Our responsibility is to report on the results of our review.

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

On the basis of our review:

- in our opinion the interim financial information has been prepared using accounting policies consistent with those adopted by Smiths Industries plc in its financial statements for the 52 weeks ended 3 August 1996, and
- we are not aware of any material modifications that should be made to the interim financial information as presented.

CLARK WHITEHILL
PRICE WATERHOUSE
Chartered Accountants
London
8 April 1997

Board of Directors

SIR ROGER HURN

Chairman

KEITH BUTLER-WHEELHOUSE

Chief Executive

NORMAN BARBER

Chairman, Aerospace group

GEORGE KENNEDY CBE

Chairman, Medical Systems group

ROGER LEVERTON

EINAR LINDH

Chairman, Industrial group

KEITH ORRELL-JONES

ALAN PINK

ALAN THOMSON

Financial Director

SIR PETER THOMPSON

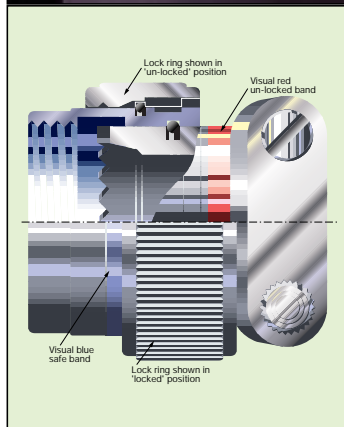
Secretary

ALAN SMITH



New avionics centre

A new product development and manufacturing centre has been completed for Civil Systems UK, part of the Aerospace group, following a £15 million investment. The new building at Cheltenham comes on stream at a time when the demand for commercial airliners is increasing and it will help the group to take full advantage of new market opportunities. Designed with the help of the 550 people who will occupy its 100,000 sq. ft. area, the two-storey building has an open plan style with integrated design, development, manufacturing and administration areas making control and utility systems, instruments and displays. The building will be officially opened in June.



Industrial product innovation

Icore International, which is part of the Industrial group, identified a requirement for a lightweight self-locking feature on circular electrical connectors and accessories, widely used in the aerospace industry. Icore engineers responded by developing Optilock, for use in safety critical applications such as aircraft engines and other areas where high levels of vibration can cause vital connections to work loose and compromise the electrical integrity of a system. Optilock is a device which is simple to operate compared to traditional methods of securing connectors and accessories and will therefore provide major benefits to users, saving installation time and cost. It has been successfully tested by Boeing, is in use at Bombardier, and is under consideration by other aircraft manufacturers world-wide.



Improving patient care

SIMS Deltec joined the Medical Systems group in 1994 and has added considerably to the growth of the group in North America. It operates a strong programme of product innovation and the latest addition to its range of infusion pumps, which provide patients with regular doses of medication, is the Prizm VIP pump. This combines the functions of four existing pumps in one device. It also stores a 500-event patient history and can be interrogated remotely by a doctor or nurse through a telephone link. These compact pumps are used mainly for non-hospitalised patients, giving them unhindered mobility by delivering highly accurate doses of medication intravenously, via a catheter.



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765 Finchley Road London NW11 8DS

Tel: +44 (0) 181 458 3232

Fax: +44 (0) 181 458 4380

E-mail: plc@smithsind.co.uk

www.smithsind.com