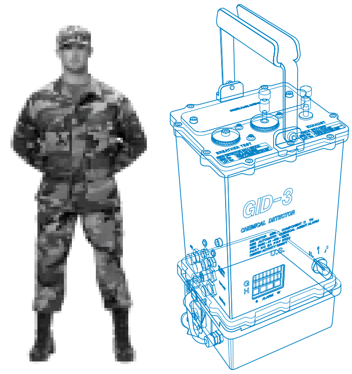
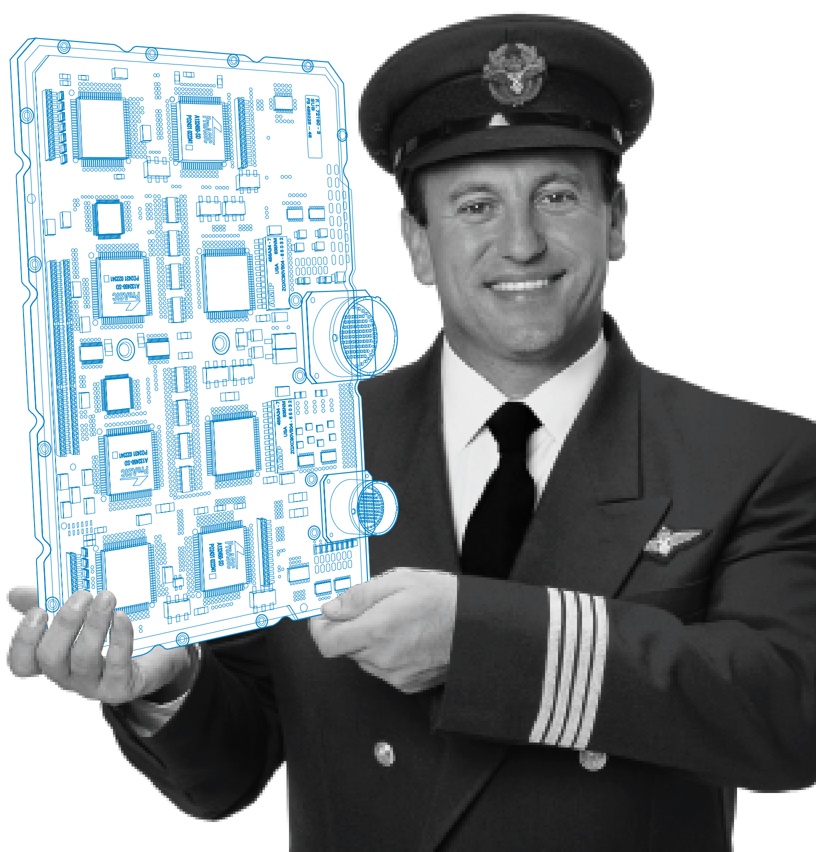
SMITHS GROUP PLC DIRECTORS' REPORT AND FINANCIAL STATEMENTS 2004





CONTENTS

1 DIRECTORS' REPORT
4 CORPORATE GOVERNANCE REPORT
8 DIRECTORS' REMUNERATION REPORT
16 STATEMENT OF DIRECTORS' RESPONSIBILITIES
16 INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SMITHS GROUP PLC
17 CONSOLIDATED PROFIT AND LOSS ACCOUNT
17 STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
18 BALANCE SHEETS
19 CASH-FLOW STATEMENT
20 ACCOUNTING POLICIES
21 NOTES TO THE ACCOUNTS
44 FIVE YEAR REVIEW
IBC FINANCIAL CALENDAR AND DETAILS OF ANNUAL GENERAL MEETING

WWW.SMITHS-GROUP.COM

Front cover:
Top right (Detection):
The ACADA (Automatic Chemical Agent Detection Alarm) detects nerve or blister agents in battle zones

Bottom right (Aerospace):
The Smiths Aerospace Computing and Communications Card is critical to the Boeing 777's new Electrical Load & Maintenance System

Left (Medical):
The Portex Ultra-Perc® tracheostomy kit minimises patient trauma and is convenient for the clinician

Back cover:
Top right (Medical):
The hypodermic Needle-Pro® safety device reduces the risk of needlestick injuries

Top left (Specialty Engineering):
John Crane gas seals have an unmatched ability to operate at high pressures in environments such as offshore oil rigs

Bottom (Specialty Engineering):
Smiths supplies Dyson with a uniquely flexible vacuum hose, which extends to 4.5 metres to cover more ground

DIRECTORS' REPORT

PRINCIPAL ACTIVITIES

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

- integrated aerospace systems, including electronic and actuation systems and precision components, for civil and military aircraft;
- advanced security equipment, using the power of trace detection and x-ray imaging, to detect and identify explosives, chemical and biological agents, weapons and contraband;
- medical devices and critical care equipment aligned to specific therapies, principally airway, pain and temperature management and infusion. Also needle protection, critical care monitoring, women's healthcare and vascular access; and
- mechanical seals used in industries ranging from petrochemical processing to aerospace; interconnect products to connect and protect safety-critical electrical and electronic equipment; air movement systems and components; navigational radar, marine electronics and charts; and rigid tubular and flexible hose assemblies.

The main manufacturing operations are in the UK, the Americas and continental Europe. A review of the development of the Company and its subsidiary undertakings during the 2003/04 financial year is on pages 5 to 18 of the Annual Review 2004 that accompanies this Directors' Report and Financial Statements.

RESULTS AND DIVIDENDS

The results for the year to 31 July 2004 are set out in the Consolidated Profit and Loss Account on page 17. Sales for the year amounted to £2,733m, against £3,056m last year. The profit for the year after taxation and goodwill amortisation amounted to £213m (2003 £112m).

An interim dividend of 8.75p per ordinary share of 25p was paid on 16 April 2004. The directors recommend for payment on 19 November 2004 a final cash dividend on each ordinary share of 18.25p, making a total dividend of 27p for the year.

The retained profit of £61m was transferred to Reserves.

RESEARCH AND DEVELOPMENT

£260m was spent on research and development during the year, of which £137m 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 Smiths' manufacturing businesses is centrally co-ordinated.

CHANGES IN THE COMPANY AND ITS INTERESTS DURING THE YEAR

On 1 August 2003 a new division was created to include Smiths Detection and Smiths Heimann. The move reflected the recent acquisition of Heimann and the potential for growth of these two market-leading businesses, both previously part of Smiths Aerospace. At the same time, the Sealings Solutions and Industrial divisions were merged in the new Specialty Engineering division.

Disposals

On 29 August 2003, the sale of Matzen & Timm to Masterflex AG was completed for €1.35m in cash.

On 30 September 2003, the sale of the Polymer Sealings business to Trelleborg AB was completed for £493m in cash.

On 14 October 2003 the assets of Lapmaster International US and the issued share capital of Lapmaster International Limited were sold for £1.5m in cash.

On 5 January 2004 the business and assets of Icore International UK and the issued share capitals of Icore International, Inc.; Icore International GmbH; and Icore International Limited were sold for £20m in cash.

On 19 March 2004 the business and assets of Sodiamex were sold for €1.6m in cash.

Acquisitions

On 2 February 2004 the issued share capital of Cyrano Sciences, Inc. was acquired for US$15m in cash.

Between December 2003 and March 2004 the minority interests in Smiths Medical Japan Limited were acquired for a total of £16m in cash.

On 30 April 2004 the business and assets of Dynamic Gunver Technologies, LLC and the issued share capital of DGT Europe, LLC were acquired for US$102m in cash.

On 28 May 2004 the issued share capital of Trak Holdings Corp was acquired for US$111.5m in cash.

On 14 June 2004 the business and assets of SensIR Technologies, Inc. were acquired for US$75m in cash.

On 30 June 2004 the issued share capital of DHD Holding Company was acquired for US$55m in cash.

POST BALANCE SHEET EVENTS

There have been no post balance sheet events at the date of this report.

FUTURE DEVELOPMENTS

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

CHARITABLE AND POLITICAL DONATIONS

During the year the Company made donations of £602,000 for charitable purposes including payments totalling £300,000 for the Portex Chair of Paediatric Anaesthesia.

No political donations were made. The Company's policy of not making contributions to any political party will continue. However, as a precautionary measure in the light of the wide definitions in the Political Parties, Elections and Referendums Act 2000, a resolution to permit the Company to make political donations and incur political expenditure will be proposed at the Annual General Meeting. This is explained in the Chairman's letter and Notice of AGM.

DIRECTORS

The directors at the end of the financial year, with the exception of Mr K Orrell-Jones who retired from the Board on 21 September 2004, are shown on page 25 of the accompanying Annual Review 2004. Mr P J Jackson was appointed as a non-executive director on 1 December 2003; the Rt Hon Lord Robertson of Port Ellen was appointed as a non-executive director on 15 February 2004; and Mr D H Brydon was appointed as a non-executive director and Chairman designate on 19 April 2004. Mr Brydon succeeded Mr Orrell-Jones as Chairman on 21 September 2004. On the same day, Mr D J Challen was appointed as a non-executive director and Mr Jackson was appointed as the senior independent director.

REAPPOINTMENT OF DIRECTORS

Messrs Brydon, Challen and Jackson and Lord Robertson will retire in accordance with Article 57, following their appointment by the Board during the year, and, being eligible, will seek reappointment at the AGM.

Sir Nigel Broomfield and Messrs Langston, Lillycrop, Lindh and Thomson have all served for more than 30 months since their previous reappointments and will retire at the AGM, in accordance with Article 57.

They are all eligible for and will seek reappointment at the AGM.

Sir Colin Chandler will retire at the conclusion of the AGM and will not seek reappointment.

DIRECTORS' REMUNERATION REPORT

The Directors' Remuneration Report is on pages 8 to 15. An ordinary resolution to approve the report will be put to shareholders at the AGM.

DIRECTORS' INTERESTS IN CONTRACTS

Details of the executive directors' service contracts are as disclosed in the Service Contracts section of the Directors' Remuneration Report on page 12. Details of the interests of the executive directors in the Company's share option schemes are shown in the Remuneration Report on pages 13 to 15.

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

INTERESTS IN SHARES

As at 21 September 2004 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	Percentage of issued share capital†
The Capital Group Companies, Inc.*	55.2m	9.8%
Franklin Resources, Inc.	61.7m	11.0%
Janus Capital Management, LLC	22.9m	4.1%
Legal & General Group plc	23.5m	4.2%

*includes the interests of Capital Guardian Trust Company in 7.9% of the issued share capital

†percentage of share capital in issue on 21 September 2004

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 are shown on pages 11 and 12.

CORPORATE GOVERNANCE

The report on Corporate Governance is on pages 4 to 7. PricewaterhouseCoopers LLP have reviewed the Company's statements as to compliance with the Combined Code, as appended to the April 2002 edition of the Listing Rules of the UK Listing Authority, to the extent required by the Listing Rules. The results of their review are set out on page 16.

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.

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 35 days (2003 37 days) for the parent Company and 49 days (2003 50 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 minimise, as far as is reasonably practicable, any detrimental effects to the environment of its operations and products. A senior corporate staff director has responsibility for safety, health and environmental matters. The Corporate Responsibility Review appears on pages 26 to 30 of the accompanying Annual Review 2004.

EMPLOYMENT 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 initiatives designed to ease the transition from school to work.

Share option schemes enable employees to acquire an interest in the Company's shares and to align their interests more closely with those of the shareholders.

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, Works Councils and other consultative bodies that allow the views of personnel to be taken into account.

All matters concerning the environment, health and safety are regulated by a newly established Group Environment, Health & Safety Committee, which operates alongside the already established 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. A more detailed statement appears on pages 26 to 30 of the accompanying Annual Review 2004.

AUTHORITY TO ISSUE SHARES

At the AGM shareholders will be asked to renew the authority, given to the directors at the last AGM, to allot relevant securities 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 AGM. The authority proposed will expire on the fifth anniversary of the Meeting unless otherwise renewed. The amount of relevant securities to which this authority relates (£46,811,832 nominal of share capital) represents one third of the share capital in issue on 21 September 2004. The directors have no present intention of exercising this authority except for allotments of shares pursuant to the Company's share option schemes. 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 (including the sale on a non pre-emptive basis of any shares the Company may hold in treasury for cash) provided that the aggregate nominal value of such allotments does not exceed £7,021,774 (approximately 5% of the issued share capital on 21 September 2004).

The directors intend seeking renewal of these authorities annually.

During the year ended 31 July 2004 the following ordinary shares in Smiths Group plc were issued:

- 582,889 shares pursuant to the terms of the Company's shareholder-approved share option schemes; and
- 1,511,978 shares pursuant to the terms of TI Group share option schemes.

AUTHORITY TO PURCHASE SHARES

At the AGM the Company will seek to renew the authority, granted at the last AGM to the directors, to purchase the Company's shares in the market. The authority will be limited to 10% of the share capital in issue on 21 September 2004 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 five business days prior to any purchase. On 21 September 2004 options over approximately 22m shares were outstanding under the Company's share option schemes, representing approximately 3.9% of the then issued share capital. If the authority to purchase shares being sought at the AGM were to be used in full and the purchased shares were cancelled, then the outstanding options would represent approximately 4.3% of the reduced issued share capital.

The directors will exercise the authority only 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. The directors will also give careful consideration to the gearing levels of the Company and its general financial position.

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

Under the Companies (Acquisition of Own Shares) (Treasury Shares) Regulations 2003, any shares purchased under this authority may be cancelled or held as treasury shares. Treasury shares may be subsequently cancelled, sold or used to satisfy applications under share schemes.

The Board will have regard to any guidelines issued by investor groups which may be published at the time of any such purchase regarding the merits of the cancellation of such shares as against holding them as treasury shares.

ANNUAL GENERAL MEETING

The 2004 AGM will be held at the offices of JP Morgan Chase & Co., 60 Victoria Embankment, London EC4Y 0JP on Tuesday 16 November 2004 at 2.30 pm.

In addition to the resolutions described above, resolutions will be proposed to adopt a Performance Share Plan and a Co-Investment Plan.

The reasons for proposing these resolutions are explained in the Chairman's letter and Notice of AGM, sent to all registered shareholders, which may also be found on the Company's website, www.smiths-group.com.

AUDITORS

Resolutions will be proposed at the AGM to reappoint PricewaterhouseCoopers LLP as auditors and to authorise the directors to determine the auditors' remuneration.

SUMMARY FINANCIAL STATEMENT

The Company has produced the Annual Review 2004 (a summary financial statement) which, together with this Directors' Report and Financial Statements 2004, forms the statutory Reports and Accounts for 2004. Shareholders will be automatically sent the Annual Review alone each year unless they elect in writing to receive the statutory Reports and Accounts. Shareholders who wish to receive the statutory Reports and Accounts (free of charge) in future years should write to Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6DA, quoting Reference 0282. The publication of Annual Reviews results in significant savings in the cost of producing the accounts each year.

ELECTRONIC PROXY VOTING

The Company has introduced electronic proxy voting for this year's AGM. Shareholders who are not CREST members can vote on-line for or against (or consciously not vote for) the resolutions to be proposed at the AGM by visiting www.shareview.co.uk. CREST members, CREST personal members and CREST sponsored members should consult the CREST Manual or their sponsor or voting service provider for instructions on electronic proxy appointment and voting. Paper proxy cards also have been distributed to all shareholders with the Notice of AGM as usual. Shareholders who will not be able to attend the AGM on 16 November 2004 in person are encouraged to vote their shares by appointing a proxy and issuing voting instructions (either electronically or by completing and returning their poll cards).

www.smiths-group.com

Electronic copies of the Annual Review 2004, the Directors' Report and Financial Statements 2004 and the Chairman's letter and Notice of AGM will be posted on the Company's website, www.smiths-group.com. The Company's announcements to the Stock Exchange and press releases are available on-line through the website. Shareholding details and practical help on share transfers and changes of address can be found at www.shareview.co.uk.

By Order of the Board

DAVID P LILLYCROP
DIRECTOR AND SECRETARY

765 Finchley Road
London NW11 8DS

22 September 2004

COMPLIANCE WITH THE COMBINED CODE

The Company complied with the Combined Code, as appended to the April 2002 edition of the Listing Rules of the UK Listing Authority, throughout the accounting period covered by this report, except that no senior independent director was recognised. The reason for this non-compliance was that the Board considered that matters of concern could readily be brought to the attention of either Mr Orrell-Jones or Sir Colin Chandler who were Chairman and Deputy Chairman respectively during the period. Sir Colin will retire as a director at the conclusion of the Company's Annual General Meeting on 16 November 2004 and Mr Jackson has been appointed as the senior independent director with effect from 21 September 2004.

A new Combined Code on Corporate Governance (new Code) was introduced in July 2003 and will apply to listed companies with reporting years beginning on or after 1 November 2003. Although the Company is not obliged to report on its compliance with the new Code until next year, it is confirmed that the Company currently complies with all the provisions of the new Code with one exception – that the Chairman is a member of the Remuneration Committee. The Board considers that the Chairman should participate in decisions concerning remuneration of the executive members of the Board.

The new Code requires listed companies to report how the main and supporting principles of the new Code have been applied, giving enough detail to enable shareholders to evaluate the report, and to state whether there has been compliance with the provisions of the new Code, giving an explanation for any points of non-compliance. Reference in this report to principles and provisions are to those of the new Code.

The following headings are taken from the new Code – there are 14 main principles, 21 supporting principles and 48 provisions applying to listed companies.

THE NEW CODE

Directors

The Board

The first main principle requires the Company to have an effective Board which is collectively responsible for its success. Supporting principles describe the Board's role to provide entrepreneurial leadership within a framework of controls that allow risk to be assessed and managed. The Board should set strategic aims and the Company's values, ensuring that obligations to shareholders are met. Non-executive directors have a particular role in overseeing the development of strategy, scrutinising management performance and ensuring the integrity of financial information and systems of risk management. The Board is satisfied that it has met these requirements.

During the last year several important changes have been made to the membership of the Board. Mr Jackson and the Rt Hon Lord Robertson of Port Ellen were appointed as non-executive directors on 1 December 2003 and 15 February 2004 respectively and Mr Brydon joined the Board as Chairman designate on 19 April 2004. Upon the retirement from the Board of Mr Orrell-Jones on 21 September 2004, Mr Brydon succeeded him as Chairman and Mr Challen was appointed as a non-executive director. On the same date Mr Challen, who had been an observer at Board and Board Committee Meetings since 1 June 2004, succeeded Sir Colin Chandler as Chairman of the Audit Committee.

As at 22 September 2004, the Board comprises the Chairman, the Chief Executive, six other executive directors and seven non-executive directors. Mr Jackson is the senior independent director. Biographies of the directors, giving details of their experience and other main commitments, are set out on page 25 of the Annual Review 2004. The wide ranging experience and backgrounds of the non-executive directors ensure that they can debate and constructively challenge management in relation to both the development of strategy and performance against the goals set by the Board.

The Board normally meets formally at least eight times a year to make and review major business decisions and monitor current trading against plans 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, the issue of shares, significant contractual commitments, the review of the effectiveness of risk management processes and major capital expenditure. Once a year the Board meets in conference with a particular focus on long-term strategy and developments affecting the Company. Additional meetings are arranged as necessary to deal with urgent items.

The Board sets the Company's values and standards and has approved a Code of Corporate Responsibility and Business Ethics which is referred to in the Corporate Responsibility Review on page 26 of the Annual Review.

The Chairman meets the non-executive directors without the executive directors present at least three times per annum.

The following table shows the number of scheduled Board and Board Committee meetings held during the year ended 31 July 2004 and opposite each director's name the number of meetings attended.

Number held	Board 8	Audit 4	Remuneration 6	Nomination 6
D H Brydon, Chairman	2(3)*	–	–	–
K Orrell-Jones, Former Chairman	8	–	6	6
K O Butler-Wheelhouse	8	–	–	–
Sir Nigel Broomfield	8	3(3)*	6	6
Sir Colin Chandler	8	4	3(3)*	4(6)*
J Ferrie	8	–	–	–
Sir Julian Horn-Smith	6(8)*	3(3)*	5(6)*	6
P J Jackson	6(6)*	1(1)*	–	–
L H N Kinet	8	–	–	–
J Langston	8	–	–	–
D P Lillycrop	8	–	–	–
E Lindh	8	–	–	–
R W O'Leary	7(8)*	3(4)*	5(6)*	2(3)*
Lord Robertson	4(4)*	1(1)*	–	–
A M Thomson	8	–	–	–

*the figure in brackets indicates the maximum number of meetings the director could have attended in view of the period during which he was a Board or Committee member

–indicates not a member of that Committee in 2003/04

Directors and officers of the Company and its subsidiaries have the benefit of a directors' and officers' liability insurance policy.

Chairman and Chief Executive

Another main principle requires a clear division of responsibilities between the running of the Board and executive responsibility for running the business, so that no one person has unfettered powers of decision.

The Board has met this requirement by establishing clearly defined roles for the Chairman and the Chief Executive. The Chairman is responsible for leadership of the Board, ensuring its effectiveness and setting its agenda. Once agreed by the Board as a whole, it is the Chief Executive's responsibility to ensure delivery of the strategic and financial objectives.

Board balance and independence

The Company complies with the requirement of the new Code that there should be a balance of executive and non-executive directors such that no individual or small group can dominate the Board's decision taking.

In deciding the chairmanship and membership of the Board Committees, the need to refresh membership of the Committees is taken into account.

All of the non-executive directors are considered to be independent and Mr Brydon was, in compliance with the new Code, considered independent at the time of his appointment as Chairman.

Appointments to the Board

The new Code requires there to be a formal, rigorous and transparent procedure for the appointment of new directors, which should be made on merit and against objective criteria. The Nomination Committee fulfils these requirements and its report is set out on page 7.

Information and professional development

Another main principle requires that information of appropriate quality is supplied to the Board in a timely manner and that, in addition to induction programmes on joining the Company, directors should regularly update their skills and knowledge.

The Board is provided with detailed information several days in advance 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.

Newly-appointed directors undergo a structured induction programme to ensure that they have the necessary knowledge and understanding of the Company and its activities. Starting at the time of their appointment, and continuing on an incremental basis over the first six months, they undertake briefing sessions on corporate governance, strategy, stakeholder issues, finance and risk management and HR strategy, as well as meetings and site visits to business locations in the UK, the US and continental Europe. Each director's individual experience and background is taken into account in developing a programme tailored to his own requirements.

Ongoing training is provided as and when necessary. The suitability of external courses is kept under review by the Company Secretary who is charged with facilitating the induction of new directors and with assisting in the ongoing training and development of directors.

All directors have access to the advice and services of the Company Secretary and a procedure is in place for them to take independent professional advice at the Company's expense should this be required.

Performance evaluation

The new Code requires the Board to undertake a formal and rigorous annual evaluation of its own performance and that of its Committees and the directors.

Formal evaluations of the performance of the Board and of the principal Board Committees will be conducted by the Chairman in 2004/05. The process will build on that developed in 2003/04 when the effectiveness of the Board and its Committees was reviewed covering composition, arrangements for and content of meetings, Committee terms of reference, director training and visits to operating sites, access to information and administrative procedures. As in 2003/04, the results of the evaluation will be reported to the Board and agreed recommendations for improvement will be implemented.

Evaluation of the non-executive directors was undertaken by the executive directors in 2003/04 and evaluation of individual directors in their role as members of the Board will be conducted in 2004/05.

The senior independent director will meet the non-executive directors without the Chairman present in order to appraise the Chairman's performance.

Re-election

Under the new Code directors should offer themselves for re-election at regular intervals and there should be a planned and progressive refreshing of the Board.

Non-executive directors are appointed for a specified term of three years and reappointment for a second term is not automatic. In exceptional circumstances and only after rigorous review, a non-executive director may serve for a third term. Directors stand for reappointment by the shareholders at the first AGM following their appointment and subsequently at least every three years. The report from the Nomination Committee set out on page 7 explains the process for selection of directors and succession planning.

Remuneration

Information regarding the Remuneration Committee is set out on page 7 and the Directors' Remuneration Report is on pages 8 to 15.

Accountability and audit

Financial reporting

The Board is required to present a balanced and understandable assessment of the Company's position and prospects, not only in the Directors' Report and Financial Statements but also in the Annual Review (Summary Financial Statement), in interim reports and in price-sensitive announcements. The Board is satisfied that it has met this obligation. A summary of the directors' responsibilities for the financial statements is set out on page 16.

The 'going concern' statement required by the new Code is set out in the Directors' Report on page 2.

Internal control

The new Code requires the Company to maintain a sound system of internal control to safeguard shareholders' investment and the Company's assets. The Board must review the effectiveness of the internal control system at least annually, covering all material controls, including financial, operational and compliance controls and risk management systems, and report to shareholders that they have done so. The Turnbull Report, adopted by the UK Listing Authority, provides guidance for compliance with that part of the new Code.

The Company's internal control is based on assessment of risk and a framework of control procedures to manage risks and to monitor compliance with procedures. The procedures for accountability and control, which accord with the guidance on internal control issued by the Turnbull Committee, are outlined below.

The Board accepts its responsibility for maintaining and reviewing the effectiveness of the Company's internal control systems. These 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.

The Group has an embedded process for the identification, evaluation and management of significant business risks. The process is reviewed through the Audit Committee and monitored by the Group Internal Audit Department. The Company has during the year identified and evaluated the key risks under three categories – strategic; operational; and information – and has ensured that effective controls and procedures are in place to manage these risks.

In the highly regulated environment of the aerospace, medical and detection industries, procedures are codified in detailed operating procedures manuals and are reinforced by regular educational programmes. These are designed to ensure not only compliance with the regulatory requirements but also with the general principles of business integrity.

A key element in any system is communication and a number of committees 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.

Throughout the year the Board has reviewed the effectiveness of internal control and the management of risks at its regular Board meetings. In addition to financial and business reports, the Board has reviewed medium and longer-term strategic plans; capital expenditure and development programmes; management and product development programmes; reports on key operational issues; tax; treasury; risk management; insurance; legal matters; and Audit Committee reports, including internal and external auditor reports.

Audit Committee and Auditors

A principle of the new Code is that the Board should establish formal and transparent arrangements for considering how it should apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the external auditors, PricewaterhouseCoopers LLP. This obligation is satisfied through the work of the Audit Committee which is described on this page.

Relations with shareholders

Dialogue with shareholders

The Company is required to have a dialogue with shareholders, based on the mutual understanding of objectives, and it is the responsibility of the Board as a whole to ensure that a satisfactory dialogue does take place.

The new Code recognises that primary contacts are likely to be by the Chief Executive and the Financial Director but requires the Chairman and senior independent director, and other directors as appropriate, to maintain contact with major shareholders in order to understand their concerns.

The Financial Director and the Director, Investor Relations, communicate with institutional investors through analysts' briefings and extensive investor roadshows in the UK, US and continental Europe, as well as timely Stock Exchange announcements, meetings with management and site visits. Members of the Board, and in particular non-executive directors, are kept informed of investors' views in the main through distribution of analysts' and brokers' briefings. At least twice a year a report is made to the Board on the number and types of meetings between the Company and institutional shareholders. The Chairman is available in the event of shareholder concerns which cannot be addressed through management. At the time of appointment of new non-executive directors they are available to meet shareholders on request.

Constructive use of the AGM

All directors normally attend the Company's AGM and shareholders are invited to ask questions during the meeting and to meet directors after the formal proceedings have ended. Shareholders at the meeting are advised as to the level of proxy votes received including the percentages for and against and the abstentions in respect of each resolution following each vote on a show of hands.

BOARD COMMITTEES

The full terms of reference of the following Board Committees are available upon request and on the Company's website.

Audit Committee

From 1 August 2003 to 9 March 2004 the Audit Committee comprised Sir Colin Chandler, as Chairman of the Committee, Sir Nigel Broomfield, Sir Julian Horn-Smith and Mr O'Leary. With effect from 9 March 2004 the membership of the Audit Committee changed to comprise Sir Colin, who continued to chair the Committee, Mr Jackson, Mr O'Leary and Lord Robertson. Mr Challen joined the Board and succeeded Sir Colin as Chairman of the Committee on 21 September 2004. The membership of the Committee with effect from that date is indicated on page 25 of the Annual Review.

Under its terms of reference, the Committee monitors the integrity of the Company's financial statements and the effectiveness of the external audit process. It is responsible for ensuring that an appropriate relationship between the Company and the external auditors is maintained, including reviewing non-audit services and fees. It also reviews annually the Group's systems of internal control and the processes for monitoring and evaluating the risks facing the Group. The Committee reviews the effectiveness of the internal audit function and is responsible for approving the appointment and removal of the Director, Internal Audit. The Committee will review annually its terms of reference and its effectiveness and recommend to the Board any changes required as a result of such review.

In the year to 31 July 2004, the Audit Committee discharged its responsibilities by reviewing:

- the Group's 2003 financial statements and 2004 interim results statement prior to Board approval and the external auditors' detailed reports thereon;
- the potential impact on the Group's financial statements of the proposed International Financial Reporting Standards;
- the audit fee and non-audit fees payable to the Group's external auditors;
- the external auditors' effectiveness and their plan for the audit of the Group's 2003/04 accounts, which included confirmations of auditor independence and the proposed audit fee, and approving the terms of engagement for the audit;

- an annual report on the Group's systems of internal control and their effectiveness, reporting to the Board on the results of the review and receiving regular updates on key risk areas of financial control;
- the risks associated with major business programmes; and
- the internal audit function's terms of reference, its 2003/04 work programme and regular reports on its work during the year.

The Committee has authority to investigate any matters within its terms of reference, to access resources, to call for information and to obtain external professional advice at the cost of the Company.

No one other than the members of the Committee is entitled to be present at meetings. However, the Chief Executive, Financial Director, General Counsel, Group Financial Controller, Director, Internal Audit and the external auditors are normally invited to attend. Others may be invited to attend by the Committee. At least once a year, there is an opportunity for the external auditors and the Director, Internal Audit, to discuss matters with the Committee without any executive management being present. Both the Director, Internal Audit and the external auditors have direct access to the Chairman of the Committee outside formal Committee meetings.

The Audit Committee has the specific task of keeping under review the nature and extent of non-audit services provided by the external auditors in order to ensure that objectivity and independence are maintained. Under the audit independence policy, approved by the Committee, certain non-audit services may not be provided by the external auditors, certain services require the approval of the Financial Director and other services require the approval of the Chairman of the Committee. Where the cost of the services is expected to exceed £100,000, the engagement will normally be subject to competitive tender. The external auditors have in place processes to ensure their independence is maintained including safeguards to ensure that where they do provide non-audit services, their independence is not threatened. They have written to the Audit Committee confirming that, in their opinion, they are independent.

Remuneration Committee

From 1 August 2003 to 9 March 2004 there was a joint Nominations and Remuneration Committee comprising Mr Orrell-Jones, as Chairman of the Committee, Sir Nigel Broomfield, Sir Colin Chandler, Sir Julian Horn-Smith and Mr O'Leary. With effect from 9 March 2004, the Board resolved to allocate the functions of this Committee to two new committees – the Remuneration Committee and the Nomination Committee. The Remuneration Committee comprised, from that date until 21 September 2004, Sir Julian Horn-Smith, as Chairman of the Committee, Mr Orrell-Jones, Sir Nigel Broomfield and Mr O'Leary. The membership of the Committee with effect from 21 September 2004 is indicated on page 25 of the Annual Review.

The Committee's responsibilities are described in the Directors' Remuneration Report on page 8.

The Committee meets periodically when required but at least three times per annum. No person other than the members of the Committee is entitled to be present at meetings but the Chief Executive is normally invited to attend and external advisers may be invited by the Committee to attend. No executive is present when the Committee considers matters relating to himself or acts in matters relating to himself. The Chairman is absent when his remuneration is under discussion.

The Committee has access to such information and advice both from within the Group and externally, at the cost of the Company, as it deems necessary. It is responsible for appointing any consultants in respect of executive directors' remuneration. The Committee will review annually its terms of reference and effectiveness and recommend to the Board any changes required as a result of such reviews.

Nomination Committee

As mentioned above, with effect from 9 March 2004, the Board resolved to allocate the functions of the Nominations and Remuneration Committee to two new committees – the Remuneration Committee and the Nomination Committee. The Nomination Committee comprised, from that date until 21 September 2004, Mr Orrell-Jones, as Chairman of the Committee, Sir Colin Chandler, Sir Nigel Broomfield and Sir Julian Horn-Smith. The membership of the Committee with effect from 21 September 2004 is indicated on page 25 of the Annual Review.

The Committee leads the process for identifying, and makes recommendations to the Board regarding, candidates for appointment as directors of the Company and as Company Secretary, giving full consideration to succession planning and the leadership needs of the Group. It also makes recommendations to the Board on the composition of the Nomination Committee and the composition and chairmanship of the Audit and Remuneration Committees. It reviews regularly the structure, size and composition of the Board, including the balance of skills, knowledge and experience and the independence of the non-executive directors, and makes recommendations to the Board with regard to any changes.

The Committee meets periodically when required. No person other than members of the Committee is entitled to be present at meetings but the Chief Executive is normally invited to attend and external advisers may be invited by the Committee to attend.

The Committee has access to such information and advice both from within the Group and externally, at the cost of the Company, as it deems necessary. This may include the appointment of external executive search consultants, where appropriate. The Committee will review annually its terms of reference and effectiveness and recommend to the Board any changes required as a result of such review.

The procedures referred to above were used by the Nomination Committee and its predecessor, the Nominations and Remuneration Committee, in the appointment of Messrs Brydon, Challen and Jackson and Lord Robertson as non-executive directors and for the appointment of Mr Brydon as Chairman with effect from 21 September 2004. This included an assessment of the time commitment expected from the director and, for the Chairman, recognising the need for his availability in the event of major corporate action. Independent executive search consultants were used in connection with each appointment. Mr Orrell-Jones, the former Chairman, was not a member of the Nomination Committee panel which recommended to the Board the appointment of Mr Brydon as his successor.

DIRECTORS' REMUNERATION REPORT

INTRODUCTION

The Directors' Remuneration Report is presented to shareholders by the Board. The report complies with the Directors' Remuneration Report Regulations 2002 (the Regulations). A resolution will be put to shareholders at the Annual General Meeting on 16 November 2004 inviting them to approve this report.

In the last few months, the Remuneration Committee has undertaken a comprehensive review of the Company's long-term incentive arrangements in the light of the Group's objectives and priorities, and to reflect developments in best practice in this area. As a result of this review and following consultation with major shareholders, the Remuneration Committee is proposing to introduce two new executive share plans – the Performance Share Plan and the Co-Investment Plan – to replace the executive directors' existing long-term incentive arrangements. Approval of these plans will also be sought at the AGM, and further information on them is set out in this report and in the Chairman's letter and Notice of AGM.

THE COMMITTEE

Until 9 March 2004 there was a joint Nominations and Remuneration Committee comprising Mr Orrell-Jones, as Chairman of the Committee, Sir Nigel Broomfield, Sir Colin Chandler, Sir Julian Horn-Smith and Mr O'Leary. With effect from 9 March 2004, the Board resolved to allocate the functions of this Committee to two new committees – the Remuneration Committee and the Nomination Committee. The Remuneration Committee (the Committee) comprised, from that date, Sir Julian Horn-Smith, as Chairman of the Committee, Mr Orrell-Jones, Sir Nigel Broomfield and Mr O'Leary. On 21 September 2004 Mr Orrell-Jones retired as a member of the Committee, and Messrs Brydon and Challen were appointed to the Committee. The Chairman is absent when his own remuneration is under consideration. The Chief Executive attends meetings of the Committee by invitation; he is absent when his own remuneration is under consideration.

The Committee operates within agreed terms of reference and has responsibility for making recommendations to the Board on the Group's general policy relating to executive remuneration. It also determines, on behalf of the Board, specific remuneration packages for the executive directors (including their annual bonus targets and grants of share options and awards) and for the Chairman. The Committee's terms of reference are available for inspection on the Company's website.

The Committee's constitution and practice during 2003/04 accorded with the relevant provisions of the Combined Code which is appended to the April 2002 edition of the Listing Rules of the UK Listing Authority (the Code), and the Company complied with the Code's provisions relating to directors' remuneration throughout 2003/04. A revised version of the Code, which was published in July 2003, applies to the Company for 2004/05, and the Company will comply with the provisions of the revised Code relating to directors' remuneration throughout 2004/05 (save that, as explained on page 4, the Chairman is a member of the Committee).

The Committee meets regularly and takes advice from both inside and outside the Group on a range of matters, including the scale and composition of the total remuneration package payable to people with similar responsibilities, skills and experience in comparable industrial companies which are UK-based but which, like Smiths, have extensive operations outside the UK.

During the year the Committee received material assistance and advice from the Chief Executive and from the General Counsel (who is also Secretary to the Committee). In addition the Committee received material assistance and advice from:

- Towers Perrin, remuneration consultants; and
- Freshfields Bruckhaus Deringer, solicitors.

Towers Perrin, who also provided remuneration and pensions advice to the Company during the year, were appointed by the Committee. Freshfields Bruckhaus Deringer, who were appointed by the Company, also advised the Group on various discrete legal matters during the year.

The remuneration of directors is set out in tables on pages 10 and 11.

REMUNERATION POLICY

The Committee believes that the individual contributions made by the executive directors are fundamental to the successful performance of the Company.

The Committee has adopted a remuneration policy (which will continue to apply during 2004/05) with the following objectives:

(a) performance-related remuneration should seek to align the interests of executive directors with those of shareholders;

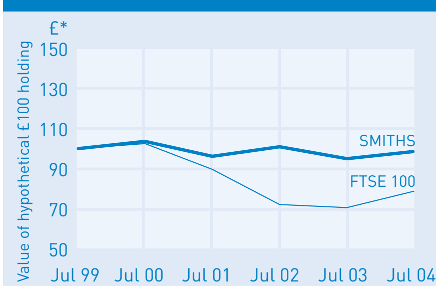
(b) a significant proportion of remuneration should be based on operational and financial performance both in the short and long term, as well as the individual contributions made by the executive directors; and

(c) the remuneration packages for executive directors should be competitive in terms of market practice in order to attract and retain executive directors of the highest calibre.

The Committee has been guided by these objectives in developing the new share plans which will be operated subject to obtaining shareholder approval at the AGM.

The following graph shows the Company's total shareholder return (TSR) performance over the past five years. As required by the Regulations, the Company's TSR is compared to a broad equity market index. The index chosen here is the FTSE 100 Index which provides an effective indication of the TSR performance of other leading UK-listed companies.

FIVE YEAR HISTORICAL TSR PERFORMANCE



*Growth in the value of a hypothetical £100 holding over five years. FTSE 100 comparison based on 30 trading day average values.

ELEMENTS OF REMUNERATION

Executive directors' remuneration comprises: basic salary, benefits in kind, annual bonus and pension benefits. In addition, executive directors and senior executives currently participate in certain share-based incentive schemes, comprising the Smiths Industries 1982 SAYE Share Option Scheme, the Smiths Industries 1995 Executive Share Option Scheme (the 1995 Scheme) and the Smiths Industries Senior Executive Deferred Share Scheme (the Deferred Share Scheme). The annual bonus element, participation in the Deferred Share Scheme, which provides for a share match (see below), and participation in the 1995 Scheme are linked to performance. The Committee regards participation in share-based incentive schemes as a key element in the executive directors' remuneration packages. The new share plans will increase the proportion of total remuneration which is determined by reference to the Company's long-term performance, as well as achieving a closer linkage between performance and reward.

Provided that the new share plans are approved by shareholders at the AGM, it is proposed that the first grant of awards under the Performance Share Plan will be made to executive directors shortly after that meeting, and that no further grants will then be made to them under the 1995 Scheme. It is proposed that the first grants under the Co-Investment Plan will be made in October 2005 (that is, in respect of the 2004/05 financial year), and that no further grants will then be made under the Deferred Share Scheme. Further information on the new share plans is set out below.

SALARY AND BENEFITS IN KIND

Salaries are reviewed annually for each director; at the August 2003 review all directors' salaries increased by 3%. The Committee takes into account individual performance and experience, the size and nature of the role, the relative performance of the Company, pay policy within the Company and the salaries in comparable industrial companies. Benefits include a fully expensed company car (or an allowance in lieu), health insurance and, where appropriate, relocation and education expenses.

BONUSES

Executive directors are eligible to participate in an annual bonus plan based on a combination of corporate financial goals and individual achievements. The theoretical maximum level of bonus for meeting financial goals is 100% (Chief Executive 115%) of salary. In 2002/03, with the intention of enhancing shareholder value, the Company conducted a major review from which restated strategic priorities resulted. In order to intensify the focus of executive directors on actions in support of those priorities an element of bonus directly geared to such actions was introduced in 2003 for a two year period. The strategic element of bonus has a maximum level of 60% (Chief Executive 75%) of salary.

For the financial year 2005/06 it is proposed that the maximum annual bonus level should reduce to 100% (Chief Executive 120%) of salary. The Committee intends to review this level annually to ensure that it remains appropriately competitive.

Under the Deferred Share Scheme (referred to above), executive directors may elect to use their after-tax bonus to acquire the Company's shares at the prevailing market price. Provided that a director retains them (and remains in service) for three years he may exercise an option to acquire a number of matching shares for a nominal sum at the end of the three year period. The number of matching shares that may be awarded is determined by the Committee at the end of the year in which the bonus is earned by reference to annual bonus, and other corporate financial, criteria. The number of matching shares awarded may be up to, but no more than, 100% of the number of shares the executive director acquires with his after-tax bonus. In respect of bonus earned in the year to 31 July 2004, the full amount of the shares so acquired is available for matching.

It is proposed that, after operation in October 2004 in relation to 2003/04 bonuses, no further awards will be made under the Deferred Share Scheme. Instead, executive directors (and other senior executives) will be eligible to participate in the Co-Investment Plan. Under this plan, participants will be able to invest up to the full amount of their annual bonus or, if greater, 25% of salary (in both cases, on an after-tax basis) in shares in the Company. If the participant remains in service for three years, he will, subject to the Company satisfying a performance condition, be eligible to receive a one-for-one matching share award (based on the pre-tax amount of deferred bonus). The initial performance condition is that the Company's average return on capital employed over the performance period should exceed the Company's weighted average cost of capital over the same period by an average margin of at least 1% per annum. The Committee regards this condition as appropriate as it is a test of the operating efficiency of the Company. There will be no retesting of this performance condition.

PENSIONS

The Company operates a number of different pension arrangements for executive directors, generally reflecting the individual's pension arrangements at the time he was appointed to the Board. In some cases, the Company pays monthly salary supplements, of a percentage of salary approved by the Committee at the time of appointment, to enable the director to make his own pension provision. For other directors, final salary schemes provide a pension of up to two-thirds of final pensionable salary. Where Inland Revenue limits apply, the difference between the pension payable on the cap and the target pension is, after taking into account any retained benefits from previous employment, provided by the Company. Details of the salary supplement payments and other pension provisions are set out in the tables on pages 10 and 11.

Directors' annual bonus payments and any gains under share option schemes are not pensionable.

SHARE OPTIONS AND PERFORMANCE SHARES

The Company operates a number of share option schemes for executive directors and other employees.

The Smiths Industries 1995 Executive Share Option Scheme, which was approved at the AGM in 1995 and amended in 2001, covers approximately 350 executives. Awards are approved by the Committee. It has been the Committee's policy that the value of shares over which options are granted to executive directors in any year should not normally exceed twice base salary. Options granted under the 1995 Scheme may only be exercised after three years if a performance requirement, determined by the Committee, has been met. Since 2002 the performance requirement has been that the growth in the Company's normalised earnings per share over the three financial years beginning immediately prior to the option grant must exceed the increase in the UK Retail Prices Index over the same period by 3% per annum (for options up to one times base salary) and by 4% per annum (for the excess up to two times base salary). The Committee selected this performance condition for the 1995 Scheme because it serves to align directors' interests with those of shareholders by linking the reward available to participants with the achievement of significant earnings growth by the Company.

If a performance requirement is not satisfied at the end of the third year, the performance period may be extended for up to two further years so that performance is tested over a four-year period at the end of the fourth year and a five-year period at the end of the fifth year.

For executive directors and a limited number of senior executives, it is proposed that the Performance Share Plan (PSP) will replace the 1995 Scheme (which will continue in operation for other executives). The Committee intends that the maximum value of share awards initially made under the PSP will be 150% of base salary. However, the Committee has power in exceptional circumstances (such as the recruitment of an executive director) to make share awards up to a maximum value of 300% of base salary. Awards will be released after three years to the extent a performance condition is met. One-third of the award will be subject to a TSR target relative to other FTSE 100 companies (excluding financial companies and investment trusts). For full vesting, the Company's TSR must be at or above the 75th percentile over the three year performance period. 25% of the award will vest if the Company's TSR is at median. Awards will vest on a straight-line pro rata basis between median and 75th percentile. The remaining two-thirds of the award will be subject to an earnings per share (EPS) growth target (which will be measured before exceptional items and goodwill amortisation). For the three-year cycle commencing in 2004/05, full vesting will occur if the compound annual growth in EPS is equivalent to 12% per annum. 25% vesting will occur if the compound annual growth in EPS is equivalent to 5% per annum, with vesting on a straight-line basis between 5% and 12%.

The Committee considers the use of two measures, in these proportions, is appropriate. The TSR performance measure is dependent on the Company's relative long-term share price performance, and therefore brings a market perspective to the PSP. This is balanced by a key internal measure, EPS growth, which is critical to our long-term success and ties in with the Group's strategic goals. The Committee has determined these initial threshold and maximum vesting levels after considering the Company's historic performance, future plans and on the basis of external advice. The Committee considers that the achievement of compound annual EPS growth of 12% per annum is a suitably demanding target for maximum vesting in the light of the Group's diverse business. These target levels will be kept under periodic review by the Committee. There will be no retesting of either the TSR or EPS performance measures.

If shareholder approval is not obtained for the two new plans, the Committee intends to continue to operate the Deferred Share Scheme and the 1995 Scheme on a similar basis to 2003/04.

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 that 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 2004, executive directors exercised share options and at 31 July 2004 held unexercised options as described in the table on pages 13 to 15.

There were no changes in the options held by directors between 31 July 2004 and 21 September 2004, save that Messrs Kinet, Langston and Lindh exercised SAYE options as described on page 12. The Register of Directors' Interests (which is open to inspection) contains full details of directors' shareholdings and options to acquire shares in the Company.

REMUNERATION

The total remuneration of directors, excluding the value of shares to which certain directors may become entitled under the Deferred Share Scheme and also defined benefit pension arrangements, was as follows:

	2004 £000	2003 £000
Fees, salaries and benefits	**3,839**	3,639
Performance-related bonuses	**2,541**	1,545
Gain from exercise of share options	**–**	7
Incremental loss from deferred share scheme exercises	**(42)**	(63)
Payments in lieu of pension contribution	**609**	591
	6,947	5,719

The emoluments of the directors are set out below:

	Fees/salary 2004 £000	Fees/salary 2003 £000	Benefits 2004 £000	Bonus 2004 £000	Payments in lieu of pension contribution 2004 £000	Total emoluments 2004 £000	Total emoluments 2003 £000
Former Chairman							
K Orrell-Jones	**240**	210	**22**	**–**	**–**	**262**	237
Chief Executive							
K O Butler-Wheelhouse	**757**	735	**61**	**777**	**379**	**1,974**	1,682
Executive directors							
J Ferrie	**366**	355	**70**	**354**	**146**	**936**	784
L H N Kinet	**335**	325	**172**	**251**	**84**	**842**	705
J Langston	**335**	325	**34**	**252**	**–**	**621**	568
D P Lillycrop	**319**	310	**57**	**286**	**–**	**662**	530
E Lindh	**335**	325	**23**	**321**	**–**	**679**	493
A M Thomson	**407**	395	**36**	**300**	**–**	**743**	611
Non-executive directors							
Sir Nigel Broomfield	**40**	30	**–**	**–**	**–**	**40**	30
D H Brydon (appointed 19/04/04)	**23**	–	**–**	**–**	**–**	**23**	–
Sir Colin Chandler	**80**	65	**–**	**–**	**–**	**80**	65
J M Hignett (retired 12/11/02)	**–**	10	**–**	**–**	**–**	**–**	10
Sir Julian Horn-Smith	**42**	30	**–**	**–**	**–**	**42**	30
P J Jackson (appointed 01/12/03)	**27**	–	**–**	**–**	**–**	**27**	–
R W O'Leary	**40**	30	**–**	**–**	**–**	**40**	30
Lord Robertson (appointed 15/02/04)	**18**	–	**–**	**–**	**–**	**18**	–
	3,364	3,145	**475**	**2,541**	**609**	**6,989**	5,775

1. Shares which may be awarded under the Deferred Share Scheme are as set out in the directors' share options table on pages 13 to 15.

2. Mr Butler-Wheelhouse waives a small part of his payment in lieu of pension contribution in return for an equivalent contribution to the Smiths Industries Pension Scheme.

PENSIONS

	Age at 31 July 2004	Accrued entitlement at 31 July 2003 £000	Directors' contributions during the year £000	Additional pension earned during the year (excluding any increase for inflation) £000	Transfer value of accrued benefits at 31 July 2004 (A) £000	Transfer value of accrued benefits at 31 July 2003 (B) £000	The amount of (A – B) less contributions made by the director in 2004 £000	Accrued entitlement at 31 July 2004 £000
J Langston	54	125	6	12	2,094	1,802	286	141
D P Lillycrop	48	105	6	8	1,320	1,155	159	116
E Lindh	59	218	21	12	4,308	3,853	434	236
A M Thomson	57	152	26	21	3,057	2,542	489	177

An executive director's normal retirement age is 60. An early retirement pension, based on actual service completed, may be paid after age 50 and may be 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 lesser of (i) in the case of Messrs Lindh and Thomson, 5% per annum compound and, in the case of Messrs Langston and Lillycrop, 7% per annum compound and (ii) the annual increase in the Retail Prices Index. 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 2004	Ordinary shares of 25p 31 July 2003
Sir Nigel Broomfield	**103**	103
D H Brydon	**12,000**	0*
K O Butler-Wheelhouse	**212,685**	156,715
Sir Colin Chandler	**8,778**	8,778
J Ferrie	**51,939**	32,911
Sir Julian Horn-Smith	**6,682**	6,682
P J Jackson	**0**	0*
L H N Kinet	**9,968**	2,152
J Langston	**81,361**	63,270
D P Lillycrop	**70,043**	67,144
E Lindh	**91,410**	68,887
R W O'Leary	**0**	2,642
K Orrell-Jones	**3,226**	3,226
Lord Robertson of Port Ellen	**0**	0*
A M Thomson	**72,014**	62,178

*indicates holding at date of appointment

These interests include beneficial interests of the directors and their families in the Company's shares held in PEPs, ISAs, trusts and holdings through nominee companies. Except as reported below, none of the directors has disclosed any non-beneficial interests in the Company's shares.

Mr J Langston and Mr D P Lillycrop also both have a technical interest in 438,569 ordinary shares in the Company as discretionary beneficiaries under the TI Group Jersey Employee Share Trust and the TI Group Employee Share Trust. These shares may be transferred to employees who exercise options granted under the TI Group share option schemes. In addition, Mr Langston has a contingent interest in 125,000 ordinary shares and Mr Lillycrop has a contingent interest in 100,000 ordinary shares, arising from contractual arrangements entered into following the merger of TI Group plc with the Company, which are expected to vest on or after 27 September 2004.

The Company has not been notified of any changes to the holdings of the directors, their families and any connected persons between 31 July and 21 September 2004 other than the exercise, on 4 August 2004, of options under the Smiths Industries 1982 SAYE Share Option Scheme by Messrs Kinet, Langston and Lindh, who each acquired 1,593 shares. Mr D J Challen held 2,000 shares on his appointment as a director on 21 September 2004.

SHARE OWNERSHIP

It is the Company's policy that executive directors should over time acquire a shareholding with a value equal to at least one and a half years' gross salary.

SERVICE CONTRACTS

The Company's policy is that executive directors are employed on terms which include a one year rolling period of notice and provision for the payment of predetermined damages in the event of termination of employment in certain circumstances.

Mr Butler-Wheelhouse is employed under a service contract with the Company dated 26 September 2001. Mr Butler-Wheelhouse's contract is for an indefinite term ending automatically on his anticipated normal retirement date (age 62, increased from age 60 in November 2003), but may be terminated by 12 months' notice given by the Company or six months' notice given by Mr Butler-Wheelhouse. The Company may at its discretion elect to terminate the contract by making a payment in lieu of notice equal to:

(a) the salary Mr Butler-Wheelhouse would have received during the notice period;

(b) an amount equal to 50% of the maximum bonus potential that Mr Butler-Wheelhouse was entitled to receive under the executive bonus scheme for the then current bonus year;

(c) the annual cost to the Company of providing all other benefits to which Mr Butler-Wheelhouse is entitled under his contract, which has been pre-agreed as 10% of basic salary; and

(d) one year's payment in lieu of pension contribution.

Messrs Langston, Lillycrop, Lindh and Thomson are all employed under service contracts with the Company dated 26 September 2001. Each service contract is for an indefinite term ending automatically on the anticipated normal retirement date (age 60), but may be terminated by 12 months' notice given by the Company or six months' notice given by the director concerned. The Company may at its discretion elect to terminate the contract by making a payment in lieu of notice on the same terms as those applicable to Mr Butler-Wheelhouse, save that the payment at item (d) is replaced by an amount to secure one year's pensionable service in the appropriate pension scheme(s). In addition, for Mr Langston and Mr Lillycrop, the Company has given its irrevocable consent to early payment of their pension from age 50 and without actuarial reduction from age 55.

Mr Kinet is employed under a service contract with the Company dated 24 January 2000. Mr Kinet's contract is for an indefinite term ending automatically on his anticipated normal retirement date (age 60), but may be terminated by 12 months' notice given by either the Company or Mr Kinet.

Dr Ferrie is employed under a service contract with the Company dated 31 January 2000. Dr Ferrie's contract is for an indefinite term ending automatically on his anticipated normal retirement date (age 60), but may be terminated by 12 months' notice given by the Company or six months' notice given by Dr Ferrie.

There are no specific termination provisions in Mr Kinet's or Dr Ferrie's service contracts. In case of early termination, the Company may be liable to pay an amount in damages, having regard to salary and other benefits the executive would have received had he served out his notice period and taking into account the executive's duty to mitigate his loss.

EXTERNAL APPOINTMENTS

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 director's breadth of knowledge and experience. Directors are permitted to retain fees associated with such appointments.

The total amounts of fees earned in the year to 31 July 2004 by Mr Butler-Wheelhouse, Dr Ferrie, Mr Lindh and Mr Thomson in respect of non-executive directorships elsewhere were £41,952, £5,538, £24,000 and £38,851, respectively.

NON-EXECUTIVE DIRECTORS

Non-executive directors (excluding the Chairman) were paid fees totalling £270,000 in the year to 31 July 2004. Their remuneration is determined by the Board in accordance with the Articles of Association. During the year, the basic fee was increased from £30,000 per annum to £40,000 per annum; this was the first such increase since August 2000 and took account of an increased time commitment as well as market trends. The non-executive directors are not eligible for bonuses or participation in share schemes and no pension contributions are made on their behalf. The non-executive directors serve the Company under letters of appointment and do not have contracts of service or contracts for services.

AUDITABLE PART

The directors' remuneration tables and accompanying notes on pages 10 and 11, the directors' pensions table and accompanying notes on page 11, and the directors' share options table on pages 13 to 15 have been audited.

The Remuneration Report has been approved by the Board and signed on its behalf by:

SIR JULIAN HORN-SMITH

22 September 2004

DIRECTORS' SHARE OPTIONS

		Options held on 31 July 2004	Options held on 31 July 2003	Option data					Options exercised 2003/04				
		Number	Number	Performance test	Exercise price	Grant date	Vesting date*	Expiry date	Exercise date	Number	Exercise price	Market price at date of grant**	Market price at date of exercise†
K O Butler-Wheelhouse	95 ESOS	68,043	68,043	A	823.00p	25/10/96	25/10/99	25/10/06					
		83,540	83,540	A	934.00p	17/10/97	17/10/00	17/10/07					
		122,718	122,718	A	765.00p	21/10/98	21/10/01	21/10/08					
		16,806	16,806	A	858.50p	01/10/99	01/10/02	01/10/09					
		53,230	53,230	A	807.00p	01/12/00	01/12/03	01/12/10					
		47,800	47,800	A	790.00p	19/04/01	19/04/04	19/04/11					
		86,849	86,849	B	806.00p	09/04/02	09/04/05	09/04/12					
		86,848	86,848	C	806.00p	09/04/02	09/04/05	09/04/12					
		112,500	112,500	B	654.00p	02/10/02	02/10/05	02/10/12					
		112,500	112,500	C	654.00p	02/10/02	02/10/05	02/10/12					
		113,125	0	B	669.00p	01/10/03	01/10/06	01/10/13					
		113,125	0	C	669.00p	01/10/03	01/10/06	01/10/13					
	SAYE	2,964	2,964		554.00p	08/05/03	01/08/08	01/02/09					
	DSS	0	17,964		0.10p	04/12/00	04/12/03	04/11/07	25/05/04	17,964	0.10p	810.20p	699.00p
		38,758	38,758		0.10p	22/11/01	22/11/04	22/10/08					
		29,507	29,507		0.10p	24/10/02	24/10/05	24/09/09					
		45,396	0		0.10p	24/10/03	24/10/06	24/09/10					
J Ferrie	95 ESOS	55,424	55,424	A	765.00p	11/04/00	11/04/03	11/04/10					
		31,895	31,895	A	807.00p	01/12/00	01/12/03	01/12/10					
		42,700	42,700	A	790.00p	19/04/01	19/04/04	19/04/11					
		39,702	39,702	B	806.00p	09/04/02	09/04/05	09/04/12					
		39,702	39,702	C	806.00p	09/04/02	09/04/05	09/04/12					
		54,250	54,250	B	654.00p	02/10/02	02/10/05	02/10/12					
		54,250	54,250	C	654.00p	02/10/02	02/10/05	02/10/12					
		54,500	0	B	669.00p	01/10/03	01/10/06	01/10/13					
		54,500	0	C	669.00p	01/10/03	01/10/06	01/10/13					
	SAYE	2,775	2,775		608.00p	10/05/01	01/08/06	01/02/07					
	DSS	22,438	22,438		0.10p	22/11/01	22/11/04	22/10/08					
		10,473	10,473		0.10p	24/10/02	24/10/05	24/09/09					
		19,028	0		0.10p	24/10/03	24/10/06	24/09/10					
L H N Kinet	95 ESOS	59,733	59,733	A	750.00p	31/03/00	31/03/03	31/03/10					
		33,308	33,308	A	807.00p	01/12/00	01/12/03	01/12/10					
		42,700	42,700	A	790.00p	19/04/01	19/04/04	19/04/11					
		38,462	38,462	B	806.00p	09/04/02	09/04/05	09/04/12					
		38,461	38,461	C	806.00p	09/04/02	09/04/05	09/04/12					
		49,750	49,750	B	654.00p	02/10/02	02/10/05	02/10/12					
		49,750	49,750	C	654.00p	02/10/02	02/10/05	02/10/12					
		50,000	0	B	669.00p	01/10/03	01/10/06	01/10/13					
		50,000	0	C	669.00p	01/10/03	01/10/06	01/10/13					
	SAYE	1,593	1,593		608.00p	11/05/01	01/08/04	01/02/05					
		1,795	0		525.00p	05/05/04	01/08/07	01/02/08					
	DSS	2,152	2,152		0.10p	24/10/02	24/10/05	24/09/09					
		7,816	0		0.10p	24/10/03	24/10/06	24/09/10					
J Langston	95 ESOS	42,700	42,700	A	790.00p	19/04/01	19/04/04	19/04/11					
		38,462	38,462	B	806.00p	09/04/02	09/04/05	09/04/12					
		38,461	38,461	C	806.00p	09/04/02	09/04/05	09/04/12					
		49,750	49,750	B	654.00p	02/10/02	02/10/05	02/10/12					
		49,750	49,750	C	654.00p	02/10/02	02/10/05	02/10/12					
		50,000	0	B	669.00p	01/10/03	01/10/06	01/10/13					
		50,000	0	C	669.00p	01/10/03	01/10/06	01/10/13					
	SAYE	1,593	1,593		608.00p	11/05/01	01/08/04	01/02/05					
		1,795	0		525.00p	05/05/04	01/08/07	01/02/08					
	DSS	9,147	9,147		0.10p	24/10/02	24/10/05	24/09/09					
		18,091	0		0.10p	24/10/03	24/10/06	24/09/10					
	TI 90 ESOS	14,264	14,264		1,097.82p	02/04/97	02/04/00	02/04/07					
		18,691	18,691		1,219.80p	08/09/97	08/09/00	08/09/07					
		14,756	14,756		1,026.67p	13/03/98	13/03/01	13/03/08					
		4,918	4,918		849.79p	06/08/98	06/08/01	06/08/08					
		51,401	51,401		943.31p	11/03/99	11/03/02	11/03/09					
	TI 99 ESOS	61,485	61,485		907.23p	24/05/99	24/05/02	24/05/09					
		98,376	98,376		661.23p	06/03/00	06/03/03	06/03/10					
		98,376	98,376		626.16p	31/03/00	31/03/03	31/03/10					

		Options held on 31 July 2004	Options held on 31 July 2003	Option data					Options exercised 2003/04				
		Number	Number	Performance test	Exercise price	Grant date	Vesting date*	Expiry date	Exercise date	Number	Exercise price	Market price at date of grant**	Market price at date of exercise†
D P Lillycrop	95 ESOS	42,700	42,700	A	790.00p	19/04/01	19/04/04	19/04/11					
		37,221	37,221	B	806.00p	09/04/02	09/04/05	09/04/12					
		37,220	37,220	C	806.00p	09/04/02	09/04/05	09/04/12					
		47,500	47,500	B	654.00p	02/10/02	02/10/05	02/10/12					
		47,500	47,500	C	654.00p	02/10/02	02/10/05	02/10/12					
		47,750	0	B	669.00p	01/10/03	01/10/06	01/10/13					
		47,750	0	C	669.00p	01/10/03	01/10/06	01/10/13					
	SAYE	1,539	1,539		645.00p	09/05/02	01/08/07	01/02/08					
		1,185	1,185		554.00p	08/05/03	01/08/08	01/02/09					
	DSS	20,697	20,697		0.10p	22/11/01	22/11/04	22/10/08					
		8,876	8,876		0.10p	24/10/02	24/10/05	24/09/09					
		14,219	0		0.10p	24/10/03	24/10/06	24/09/10					
	TI 90 ESOS	0	2,459		846.74p	19/04/94	19/04/97	19/04/04					
		2,459	2,459		1,058.18p	15/04/96	15/04/99	15/04/06					
		11,067	11,067		1,121.20p	09/09/96	09/09/99	09/09/06					
		15,248	15,248		1,097.82p	02/04/97	02/04/00	02/04/07					
		19,675	19,675		1,219.80p	08/09/97	08/09/00	08/09/07					
		23,364	23,364		1,026.67p	13/03/98	13/03/01	13/03/08					
		17,953	17,953		849.79p	06/08/98	06/08/01	06/08/08					
		36,153	36,153		943.31p	11/03/99	11/03/02	11/03/09					
	TI 99 ESOS	61,731	61,731		907.23p	24/05/99	24/05/02	24/05/09					
		106,246	106,246		661.23p	06/03/00	06/03/03	06/03/10					
		106,246	106,246		626.16p	31/03/00	31/03/03	31/03/10					
E Lindh	84 ESOS	8,851	8,851		451.00p	21/10/94	21/10/97	21/10/04					
	95 ESOS	4,905	4,905	A	632.00p	20/12/95	20/12/98	20/12/05					
		18,814	18,814	A	823.00p	25/10/96	25/10/99	25/10/06					
		19,311	19,311	A	934.00p	17/10/97	17/10/00	17/10/07					
		35,015	35,015	A	765.00p	21/10/98	21/10/01	21/10/08					
		32,001	32,001	A	858.50p	01/10/99	01/10/02	01/10/09					
		36,631	36,631	A	750.00p	31/03/00	31/03/03	31/03/10					
		40,903	40,903	A	807.00p	01/12/00	01/12/03	01/12/10					
		29,400	29,400	A	790.00p	19/04/01	19/04/04	19/04/11					
		37,221	37,221	B	806.00p	09/04/02	09/04/05	09/04/12					
		37,220	37,220	C	806.00p	09/04/02	09/04/05	09/04/12					
		49,750	49,750	B	654.00p	02/10/02	02/10/05	02/10/12					
		49,750	49,750	C	654.00p	02/10/02	02/10/05	02/10/12					
		50,000	0	B	669.00p	01/10/03	01/10/06	01/10/13					
		50,000	0	C	669.00p	01/10/03	01/10/06	01/10/13					
	SAYE	1,593	1,593		608.00p	10/05/01	01/08/04	01/02/05					
		1,795	0		525.00p	05/05/04	01/08/07	01/02/08					
	DSS	0	10,128		0.10p	04/12/00	04/12/03	04/11/07	17/03/04	10,128	0.10p	810.20p	655.00p
		11,610	11,610		0.10p	22/11/01	22/11/04	22/10/08					
		4,920	4,920		0.10p	24/10/02	24/10/05	24/09/09					
		12,395	0		0.10p	24/10/03	24/10/06	24/09/10					
A M Thomson	84 ESOS	62,500	62,500		480.00p	18/04/95	18/04/98	18/04/05					
	95 ESOS	20,569	20,569	A	632.00p	20/12/95	20/12/98	20/12/05					
		22,989	22,989	A	823.00p	25/10/96	25/10/99	25/10/06					
		21,590	21,590	A	934.00p	17/10/97	17/10/00	17/10/07					
		31,982	31,982	A	765.00p	21/10/98	21/10/01	21/10/08					
		24,790	24,790	A	858.50p	01/10/99	01/10/02	01/10/09					
		31,598	31,598	A	807.00p	01/12/00	01/12/03	01/12/10					
		26,250	26,250	A	790.00p	19/04/01	19/04/04	19/04/11					
		44,665	44,665	B	806.00p	09/04/02	09/04/05	09/04/12					
		44,665	44,665	C	806.00p	09/04/02	09/04/05	09/04/12					
		60,500	60,500	B	654.00p	02/10/02	02/10/05	02/10/12					
		60,500	60,500	C	654.00p	02/10/02	02/10/05	02/10/12					
		60,875	0	B	669.00p	01/10/03	01/10/06	01/10/13					
		60,875	0	C	669.00p	01/10/03	01/10/06	01/10/13					
	SAYE	2,775	2,775		608.00p	10/05/01	01/08/06	01/02/07					
	DSS	0	4,849		0.10p	20/10/97	20/10/00	20/09/04	07/07/04	4,849	0.10p	840.00p	703.50p
		7,272	7,272		0.10p	17/11/98	17/11/01	17/10/05					
		6,190	6,190		0.10p	03/11/99	03/11/02	03/10/06					
		9,555	9,555		0.10p	04/12/00	04/12/03	04/11/07					
		16,584	16,584		0.10p	22/11/01	22/11/04	22/10/08					
		10,652	10,652		0.10p	24/10/02	24/10/05	24/09/09					
		15,709	0		0.10p	24/10/03	24/10/06	24/09/10					

Key

84 ESOS	The Smiths Industries (1984) Executive Share Option Scheme
95 ESOS	The Smiths Industries 1995 Executive Share Option Scheme
SAYE	The Smiths Industries 1982 SAYE Share Option Scheme
DSS	The Smiths Industries Senior Executive Deferred Share Scheme
TI 90 ESOS	The TI Group (1990) Executive Share Option Scheme
TI 99 ESOS	The TI Group 1999 Executive Share Option Scheme

Performance tests

A	Total Shareholder Return of the Company versus the Total Return of FTSE General Industrials Index
B	EPS growth versus UK RPI Index + 3% per annum
C	EPS growth versus UK RPI Index + 4% per annum

* The Vesting Dates shown above in respect of options granted under the Smiths Industries 1995 Executive Share Option Scheme are subject to the relevant performance test being passed.

** Market price of a Smiths share at date of grant (if different from exercise price). The exercise price of options under the Smiths Industries 1982 SAYE Share Option Scheme is set at 20% less than the mid-market closing price of a Smiths share on the business day preceding the date of grant. The market prices for Deferred Share Scheme options are actual prices paid for the matching shares purchased by the optionholders.

† Mid-market closing quotation from the London Stock Exchange Daily Official List.

Notes

The high and low market closing prices of the ordinary shares during the period 1 August 2003 to 31 July 2004 were 800p and 606p respectively.

The mid-market price on 31 July 2003 was 732p and on 31 July 2004 was 730p.

Of the 4.341m shares under options granted to directors under the executive and savings-related share option schemes operated by the Company, 2.113m shares were granted at exercise prices above the market price of a Smiths Group share on 21 September 2004 (724.5p) and 2.228m shares were at exercise prices below the market price on that date.

None of the options listed above was subject to any payment on grant.

An option granted to Mr D P Lillycrop under the TI Group (1990) Executive Share Option Scheme lapsed on 19 April 2004; no other options held by any director lapsed during the period 1 August 2003 to 31 July 2004.

Messrs Kinet, Langston and Lindh each exercised their 10 May 2001 Issue SAYE options on 4 August 2004; otherwise no options have been granted or exercised or have lapsed during the period 31 July to 21 September 2004.

Options granted under the Smiths Industries 1995 Executive Share Option Scheme up to 2001 are subject to performance testing based on total shareholder return of the Company versus the total return of the General Industrials Sector of the FTSE All Shares Index. Options granted from 2002 are subject to a performance test based on growth in the Company's earnings per share exceeding the UK RPI plus a fixed percentage. There are no further performance criteria for the Smiths Industries (1984) Executive Share Option Scheme, The Smiths Industries Senior Executive Deferred Share Scheme or the TI Group Executive Share Option Schemes.

Deferred Share Scheme options were granted on 24 October 2003 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 2004 the trustee of the Deferred Share Scheme held 677,989 shares for the benefit of senior executives (including the directors as disclosed above). The market value of these shares at that date was £4.959m and dividends of approximately £151,325 were waived in the year in respect of the shares.

Special provisions permit early exercise of 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 2003 to 31 July 2004.

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; and
- 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 the Group 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SMITHS GROUP PLC

We have audited the financial statements which comprise the consolidated profit and loss account, the balance sheet, the cash-flow statement, the statement of total recognised gains and losses and the related notes, which have been prepared under the historical cost convention and the accounting policies set out in the statement of accounting policies. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the Directors' Remuneration Report ('the auditable part').

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors' responsibilities for preparing the Statutory Reports and Accounts, comprising the Annual Review 2004 and the Directors' Report and Financial Statements 2004, in accordance with applicable United Kingdom law and accounting standards, are set out in the statement of directors' responsibilities. The directors are also responsible for preparing the directors' remuneration report.

Our responsibility is to audit the financial statements and the auditable part of the directors' remuneration report in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the auditable part of the Directors' Remuneration Report have been properly prepared in accordance with the Companies Act 1985. 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 regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the Statutory Reports and Accounts and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Annual Review 2004, the Directors' Report, the unaudited part of the Directors' Remuneration Report, the Statement of Directors' Responsibilities and the Five Year Review.

We review whether the Corporate Governance statement in the Directors' Report reflects the Company's compliance with the seven provisions of the Combined Code issued in June 1998 specified for our review by the Listing Rules of 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 or Group'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 and the auditable part of the Directors' Remuneration Report. 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 and the auditable part of the Directors' Remuneration Report 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 2004 and of the profit and cash-flows of the Group for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- those parts of the Directors' Remuneration Report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP
Chartered Accountants and
Registered Auditors
London

22 September 2004

NOTES

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

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

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Note	Year ended 31 July 2004 Ordinary activities £m	Discontinued businesses £m	Goodwill amortisation £m	Exceptional items £m	Total £m	Year ended 31 July 2003 Ordinary activities £m	Discontinued businesses £m	Goodwill amortisation £m	Exceptional items £m	Total £m
Continuing operations		2,649.4				2,649.4	2,629.2				2,629.2
Acquisitions		29.0				29.0					
Discontinued businesses			55.0			55.0		426.9			426.9
Turnover	1 & 2	2,678.4	55.0			2,733.4	2,629.2	426.9			3,056.1
Continuing operations		356.6		(35.6)	(30.9)	290.1	371.9		(32.4)		339.5
Acquisitions		3.5		(1.5)		2.0					
Discontinued businesses			2.2	(1.9)		0.3		51.9	(11.7)		40.2
Operating profit	4	360.1	2.2	(39.0)	(30.9)	292.4	371.9	51.9	(44.1)		379.7
Exceptional items											
– exceptional property profit	5				12.1	12.1					
– profit on disposal of businesses	5				7.8	7.8				14.5	14.5
– write-down of goodwill on anticipated future disposal										(137.0)	(137.0)
Profit before interest and tax		360.1	2.2	(39.0)	(11.0)	312.3	371.9	51.9	(44.1)	(122.5)	257.2
Net interest payable	6	(13.0)	(2.4)			(15.4)	(20.3)	(17.3)			(37.6)
Other finance income/(costs) – retirement benefits	6	3.2				3.2	(2.2)				(2.2)
Profit/(loss) before taxation		350.3	(0.2)	(39.0)	(11.0)	300.1	349.4	34.6	(44.1)	(122.5)	217.4
Taxation	8	(92.8)		4.4	1.2	(87.2)	(94.3)	(9.4)	3.9	(5.3)	(105.1)
Profit/(loss) after taxation		257.5	(0.2)	(34.6)	(9.8)	212.9	255.1	25.2	(40.2)	(127.8)	112.3
Minority interests							(0.5)	(0.3)			(0.8)
Profit/(loss) for the period		257.5	(0.2)	(34.6)	(9.8)	212.9	254.6	24.9	(40.2)	(127.8)	111.5
Dividends	9	(151.6)				(151.6)	(145.4)				(145.4)
Retained profit/(loss)		105.9	(0.2)	(34.6)	(9.8)	61.3	109.2	24.9	(40.2)	(127.8)	(33.9)
Earnings/(loss) per share	10										
Basic		45.9p		(6.2p)	(1.7p)	38.0p	45.6p	4.5p	(7.2p)	(22.9p)	20.0p
Diluted		45.8p		(6.2p)	(1.7p)	37.9p	45.5p	4.5p	(7.2p)	(22.9p)	19.9p

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	2004 £m	2003 £m
Profit for the financial year attributable to shareholders	212.9	111.5
Exchange (loss)/gain	(45.0)	14.7
Taxation recognised on exchange (losses)/gains:		
Current – United Kingdom	(0.4)	5.3
Deferred – United States		3.7
FRS17 – Retirement Benefits:		
Actuarial gains/(losses) on retirement benefit schemes – gross	145.5	(258.6)
Deferred tax (charge)/credit related thereto	(39.3)	73.4
	273.7	(50.0)

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 20 to 43 form part of these accounts.

BALANCE SHEETS

	Note	Consolidated 31 July 2004 £m	Consolidated 31 July 2003 (restated) £m	Company 31 July 2004 £m	Company 31 July 2003 £m
Fixed assets					
Intangible assets	13	**728.2**	830.2		
Tangible assets	14	**423.5**	557.6	**26.1**	64.0
Investments and advances – TI Automotive Limited preference shares	16	**325.0**	325.0		
– other	16	**2.3**	2.8	**2,276.3**	2,104.1
		1,479.0	1,715.6	**2,302.4**	2,168.1
Current assets					
Stocks	17	**423.5**	489.5		62.3
Debtors – amounts falling due within one year	18	**620.4**	662.6	**15.8**	113.1
– amounts falling due after more than one year	18	**9.2**	10.8	**3.7**	2.5
Cash at bank and on deposit	21	**449.2**	82.0	**168.2**	89.9
		1,502.3	1,244.9	**187.7**	267.8
Creditors: amounts falling due within one year	20	**(1,077.1)**	(912.7)	**(594.5)**	(580.1)
Net current assets/(liabilities)		**425.2**	332.2	**(406.8)**	(312.3)
Total assets less current liabilities		**1,904.2**	2,047.8	**1,895.6**	1,855.8
Creditors: amounts falling due after more than one year	20	**(499.6)**	(754.4)	**(309.7)**	(558.4)
Provisions for liabilities and charges	24	**(120.0)**	(116.0)	**(5.5)**	(20.8)
Net assets excluding pension assets/liabilities		**1,284.6**	1,177.4	**1,580.4**	1,276.6
Pension assets	11	**72.7**	25.3		
Retirement benefit liabilities	11	**(234.8)**	(333.7)	**(39.9)**	(38.7)
Net assets including pension assets/liabilities		**1,122.5**	869.0	**1,540.5**	1,237.9
Capital and reserves					
Called up share capital	27	**140.3**	139.8	**140.3**	139.8
Share premium account	28	**183.0**	170.0	**183.0**	170.0
Revaluation reserve	28	**1.7**	2.6	**0.5**	0.5
Merger reserve	28	**234.8**	234.8	**180.5**	180.5
Profit and loss account	28	**562.7**	310.0	**1,036.2**	747.1
Shareholders' equity	29	**1,122.5**	857.2	**1,540.5**	1,237.9
Minority equity interests			11.8		
Capital employed		**1,122.5**	869.0	**1,540.5**	1,237.9

The consolidated balance sheet at 31 July 2003 has been restated to reflect the requirements of the Urgent Issues Task Force Abstract 38 (see note 29).

The accounts on pages 17 to 43 were approved by the Board of Directors on 22 September 2004 and were signed on its behalf by:

KEITH BUTLER-WHEELHOUSE
CHIEF EXECUTIVE

ALAN M THOMSON
FINANCIAL DIRECTOR

CASH-FLOW STATEMENT

	Note	Year ended 31 July 2004 £m	Year ended 31 July 2003 £m
Reconciliation of operating profit to net cash inflow from operating activities			
Operating profit		**292.4**	379.7
Exceptional items		**30.9**	
Operating profit before exceptional items		**323.3**	379.7
Goodwill amortisation		**39.0**	44.1
Depreciation		**72.1**	88.9
Retirement benefits		**(22.9)**	(4.6)
Increase in stocks		**(2.4)**	(1.6)
Increase in debtors		**(78.8)**	(55.8)
Increase in creditors		**52.6**	15.8
Net cash inflow from normal operating activities		**382.9**	466.5
Exceptional restructuring expenditure		**(23.0)**	(22.8)
Net cash inflow from operating activities		**359.9**	443.7

Cash-flow statement

	Note	Year ended 31 July 2004 £m	Year ended 31 July 2003 £m
Net cash inflow from operating activities		**359.9**	443.7
Returns on investments and servicing of finance	22c	**10.5**	(26.1)
Tax paid		**(61.5)**	(60.8)
Capital expenditure (less asset sale proceeds)	14	**(53.9)**	(86.3)
		255.0	270.5
Acquisitions and disposals	25 & 26	**291.4**	(92.0)
Equity dividends paid		**(145.6)**	(142.5)
Management of liquid resources	21	**(383.7)**	2.3
Financing	21	**21.2**	(68.7)
Increase/(decrease) in cash		**38.3**	(30.4)
Reconciliation to net debt			
Net debt at 1 August		**(715.1)**	(725.2)
Increase/(decrease) in cash		**38.3**	(30.4)
Increase/(decrease) in short-term deposits	21	**383.7**	(2.3)
(Increase)/decrease in other borrowings	21	**(10.9)**	73.4
Loan note repayments	21	**2.9**	1.2
Term debt acquired with acquisitions			(13.1)
Exchange gain/(loss)		**28.4**	(18.7)
Net debt at 31 July	21	**(272.7)**	(715.1)

Notes on pages 20 to 43 form part of these accounts.

ACCOUNTING POLICIES

ACCOUNTING CONVENTION
The accounts have been prepared in accordance with the Companies Act 1985, as amended and with all applicable financial reporting and accounting standards under the historical cost convention modified to include the revaluation of certain properties.

BASIS OF CONSOLIDATION
The consolidated financial statements include those of the parent company and its subsidiary undertakings.

The results of subsidiaries acquired during the year are consolidated from the date of acquisition. Disposals are consolidated until the date of disposal.

Up to 1 August 1998, goodwill arising on consolidation was set against reserves in the year of acquisition. Goodwill impairment on prospective disposals is recognised through the Profit and Loss Account.

Goodwill arising from acquisitions after 1 August 1998 is capitalised at cost, and amortised on a straight-line basis over an estimated useful economic life of up to 20 years.

TURNOVER
Turnover represents the invoiced amount of goods sold and services provided during the year, after the deduction of trade discounts and sales related taxes, and the value of work undertaken during the year on long-term contracts.

RESEARCH AND DEVELOPMENT
Expenditure, other than that recoverable from third parties, is written off in the year in which it is incurred.

FIXED ASSETS
Depreciation is provided at rates estimated to write off the relevant assets by equal annual amounts over their expected useful lives. In general, the rates used are: Freehold and long leasehold buildings – 2%, Short leasehold property – over the period of the lease, Plant, machinery, etc. – 10% to 20%, Motor vehicles – 25%, Tools and other equipment – 10% to 33%.

Fixed assets held under finance leases are capitalised and depreciated in accordance with the Company's depreciation policy. The capital element of future lease payments is included in creditors.

Payments made under operating leases are charged to the profit and loss account as incurred over the term of the lease.

FREEHOLD PROPERTIES
These financial statements include certain properties at 1974 valuation, less depreciation on the enhanced values calculated in accordance with the policy set out above. The directors have decided to invoke the transitional provisions of FRS15 – Tangible Fixed Assets, and do not intend to revalue these properties every year.

LEASED PROPERTIES
Where a leasehold property is vacant, or sub-let under terms such that the rental income is insufficient to meet all outgoings, provision is made for the anticipated future shortfall up to termination of the lease.

STOCKS
Stocks and work in progress are valued at cost, including related production overheads, reduced to estimated net realisable value where appropriate. Profit is taken on long-term contracts by reference to the work completed. Provision for losses is made as soon as they are recognised.

FINANCIAL INSTRUMENTS
Financial assets are recognised in the balance sheet at the lower of cost and net realisable value. Discounts, premia and related costs of issue are charged or credited to the profit and loss account over the life of the asset or liability to which they relate.

The Company uses derivative financial instruments to hedge its exposure to fluctuations in interest rates and foreign exchange rates.

Receipts and payments on interest rate instruments are recognised on an accruals basis over the life of the instrument.

Foreign currency assets and liabilities covered by forward contracts are translated at the contract rates of exchange. Other assets and liabilities in foreign currencies are translated at closing rates.

FOREIGN CURRENCIES
The profit and loss accounts of overseas subsidiaries are translated into sterling at average rates of exchange for the year.

Exchange adjustments arising from the retranslation of opening net assets in overseas subsidiaries and their results for the year at closing rates, and the translation of foreign currency borrowings to match overseas investments, are taken to the statement of total recognised gains and losses. All other exchange gains and losses are taken to the profit and loss account.

TAXATION
Deferred tax is recognised in respect of timing differences that have originated but not reversed as at the balance sheet date. Timing differences are differences between the Group's taxable profits and its results as disclosed in the financial statements, arising from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is recognised in respect of the retained earnings of overseas subsidiaries and associates only to the extent that, at the balance sheet date, dividends have been declared or an obligation is present to distribute past earnings. Deferred tax is not recognised on any fixed assets that have been revalued unless there is a binding agreement to sell the asset.

POST-RETIREMENT BENEFITS
For defined benefit schemes, the cost of benefits accruing during the year in respect of current and past service is charged against operating profit. The expected return on the schemes' assets and the increase in the present value of the schemes' liabilities arising from the passage of time are included in other finance income. Actuarial gains and losses are recognised in the statement of total recognised gains and losses. The balance sheet includes the surplus/deficit in schemes taking assets at their year-end market values and liabilities at their actuarially calculated values discounted at year-end AA corporate bond interest rates.

Amounts charged in respect of defined contribution schemes are the contributions payable in the year.

NOTES TO THE ACCOUNTS

1 ANALYSES OF TURNOVER, PROFIT AND ASSETS (ORDINARY ACTIVITIES)

	Turnover		Profit		Assets	
	2004 £m	2003 £m	2004 £m	2003 £m	2004 £m	2003 (restated) £m
Market						
Aerospace	**1,005.8**	998.2	**99.7**	105.5	**520.6**	587.5
Detection	**317.1**	273.3	**55.6**	70.6	**330.8**	311.1
Medical	**487.7**	486.1	**91.6**	87.9	**341.2**	385.4
Specialty Engineering	**867.8**	871.6	**113.2**	107.9	**364.7**	451.7
	2,678.4	2,629.2	**360.1**	371.9	**1,557.3**	1,735.7
Discontinued businesses	**55.0**	426.9	**2.2**	51.9		145.0
	2,733.4	3,056.1	**362.3**	423.8	**1,557.3**	1,880.7
Goodwill amortisation			**(39.0)**	(44.1)		
Exceptional items			**(11.0)**	(122.5)		
Net interest/net borrowings			**(15.4)**	(37.6)	**(272.7)**	(715.1)
Retirement benefits – net finance income/(costs)			**3.2**	(2.2)		
– net liabilities					**(162.1)**	(308.4)
Profit before tax/net assets			**300.1**	217.4	**1,122.5**	857.2
Geographical origin						
United Kingdom	**784.9**	762.3	**46.0**	52.6	**306.7**	522.5
North America	**1,472.6**	1,513.3	**221.0**	241.4	**923.5**	847.8
Europe	**471.7**	399.6	**69.5**	58.0	**268.4**	322.9
Other overseas	**188.6**	165.1	**23.6**	19.9	**58.7**	42.5
Inter-company	**(239.4)**	(211.1)				
	2,678.4	2,629.2	**360.1**	371.9	**1,557.3**	1,735.7

Operating profit from continuing activities after exceptional items amounted to £292.1m (2003 £339.5m) after charging goodwill amortisation of £37.1m (2003 £32.4m) and exceptional items of £30.9m (2003 £nil).

Net assets for 2003 have been restated after deducting £5.4m relating to the Company's own shares held by Employee Ownership Plan (ESOP) Trusts (note 16).

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

	Turnover £m	Profit £m
Market		
Aerospace	**15.8**	**1.7**
Detection	**4.4**	**0.4**
Medical	**1.3**	**0.5**
Specialty Engineering	**7.5**	**0.9**
	29.0	**3.5**
Geographical origin		
United Kingdom	**2.3**	**0.1**
North America	**26.8**	**3.4**
Europe	**0.2**	
Inter-company	**(0.3)**	
	29.0	**3.5**

Goodwill amortisation of £39.0m comprised:

	Continuing activities £m	Acquisitions £m	Discontinued businesses £m	2004 Total £m	2003 Total £m
Aerospace	11.0	0.5		**11.5**	13.2
Detection	13.5	0.5		**14.0**	9.4
Medical	3.8	0.1		**3.9**	3.9
Specialty Engineering	7.3	0.4	1.9	**9.6**	17.6
	35.6	1.5	1.9	**39.0**	44.1

2 ANALYSIS OF TURNOVER BY DESTINATION (ORDINARY ACTIVITIES)

	2004 £m	2003 £m
United Kingdom	**333.4**	319.5
North America	**1,458.7**	1,497.0
Europe	**497.1**	477.3
Japan	**89.2**	95.0
Other overseas	**300.0**	240.4
	2,678.4	2,629.2
Discontinued businesses	**55.0**	426.9
	2,733.4	3,056.1

3 ANALYSIS OF COSTS

	Ordinary activities £m	Discontinued businesses £m	Goodwill amortisation £m	Exceptional items £m	2004 Total £m	2003 Total £m
Cost of sales						
Continuing operations	1,583.2			7.1	**1,590.3**	1,568.4
Acquisitions	20.9				**20.9**	
	1,604.1			7.1	**1,611.2**	1,568.4
Discontinued businesses		34.2			**34.2**	247.1
	1,604.1	34.2		7.1	**1,645.4**	1,815.5
Sales and distribution costs						
Continuing operations	279.3			1.1	**280.4**	286.1
Acquisitions	1.7				**1.7**	
	281.0			1.1	**282.1**	286.1
Discontinued businesses		7.2			**7.2**	51.1
	281.0	7.2		1.1	**289.3**	337.2
Administrative expenses						
Continuing operations	430.3		35.6	22.7	**488.6**	435.2
Acquisitions	2.9		1.5		**4.4**	
	433.2		37.1	22.7	**493.0**	435.2
Discontinued businesses		11.4	1.9		**13.3**	88.5
	433.2	11.4	39.0	22.7	**506.3**	523.7

4 OPERATING PROFIT IS AFTER CHARGING

	2004 £m	2003 £m
Goodwill amortisation	**39.0**	44.1
Depreciation of fixed assets	**72.1**	88.9
Research and development expenditure	**136.8**	129.7
Operating leases – land and buildings	**21.9**	21.6
– other	**8.7**	8.6
Amounts paid to PricewaterhouseCoopers LLP:		
Audit fees – parent	**0.1**	0.1
– other	**3.4**	3.8
Other assurance services – due diligence	**0.3**	
– vendor assistance	**0.2**	0.7
– other	**0.2**	0.1
Taxation – compliance services	**0.2**	0.2
– advisory services	**2.1**	0.2
Other fees	**0.1**	

5 EXCEPTIONAL ITEMS

a) Operating

Exceptional restructuring costs:

	2004 £m	2003 £m
Aerospace	**15.2**	
Detection	**3.1**	
Medical	**12.6**	
	30.9	

A restructuring programme has been initiated which will give rise to exceptional charges spread over 2004 and 2005, of which £30.9m has been charged in this period. The costs relate to improving competitiveness in Aerospace; the rationalisation of distribution and manufacturing in Medical; and the complete integration of the X-ray and trace detection activities in Detection.

b) Non-operating

	2004 £m	2003 £m
Exceptional property profit	**12.1**	
Gain on disposal of businesses (note 26)	**7.8**	14.5
	19.9	14.5

6 NET INTEREST PAYABLE

	2004 £m	2003 £m
Interest receivable	**17.5**	3.3
Other financing gains	**9.3**	7.5
Interest payable:		
Bank loans and overdrafts repayable within five years	**(7.0)**	(14.1)
Other loans repayable within five years	**(10.1)**	(12.7)
Other loans repayable in more than five years	**(25.0)**	(21.5)
Finance leases	**(0.1)**	(0.1)
	(15.4)	(37.6)
Other finance income/(costs): retirement benefits		
Expected return on pension scheme assets	**163.4**	152.7
Interest on retirement benefit liabilities	**(160.2)**	(154.9)
	3.2	(2.2)

Interest is allocated to discontinued businesses on the basis of net proceeds receivable.

7 PROFIT ATTRIBUTABLE TO THE PARENT COMPANY

Profits for the financial year of £438.1m (2003 £854.2m) were recorded in the accounts of Smiths Group plc. The directors have taken advantage of the exemption afforded by Section 230 of the Companies Act 1985 not to present a separate profit and loss account for the parent company.

8 TAXATION

	2004 £m	2003 £m
Taxation on the profit for the year		
UK corporation tax at 30% (2003 30%)	39.3	27.8
Double taxation relief	(49.2)	(13.8)
	(9.9)	14.0
Overseas taxation	82.2	76.4
	72.3	90.4
Tax relief on exceptional items – restructuring charges and property disposal (note 5)	(5.8)	
Current taxation	66.5	90.4
Deferred taxation		
On ordinary and discontinued activities	16.1	9.4
On exceptional items – disposal of businesses	4.6	5.3
	20.7	14.7
Tax charge for the year	87.2	105.1

The deferred tax charge for the year arises from the origination and reversal of timing differences.

	2004 £m	2003 £m
Tax reconciliation		
Profit before taxation	300.1	217.4
Effective taxation at 30%	90.0	65.2
Effect of higher overseas rates of tax	8.8	9.9
Effect of reversal of timing differences	(20.7)	(14.7)
Global tax incentives	(13.8)	(11.8)
Tax relief on employee share schemes		(0.3)
Tax effect of exceptional charges	2.2	42.1
Current tax charge for the year	66.5	90.4

9 DIVIDENDS

	2004 £m	2003 £m
Ordinary interim paid 8.75p per share (2003 8.75p)	49.1	48.9
Ordinary final proposed 18.25p per share (2003 17.25p)	102.5	96.5
	151.6	145.4

10 EARNINGS PER SHARE

	2004	2003
Separate figures are given for earnings per share related to the weighted average number of shares in issue:		
Basic	**560,656,310**	558,610,819
Effect of dilutive share options	**893,394**	838,286
Diluted	**561,549,704**	559,449,105

11 POST-RETIREMENT BENEFITS

Smiths operates a number of pension schemes throughout the world. The principal schemes are in the United Kingdom and in the United States and are of the defined benefit type, with assets held in separate trustee-administered funds. From 1 January 2004 the UK schemes introduced a new revalued career average benefit structure for new members.

Pension costs are assessed in accordance with the advice of independent, professionally qualified actuaries. The Group accounts for its pension and other post-retirement benefit costs, principally post-retirement healthcare, in accordance with FRS17 – Retirement Benefits. The most recent actuarial valuations of the two principal UK schemes were performed using the Projected Unit Method as at 31 March 2003 and 5 April 2003. The most recent valuations of the principal US pension and post-retirement healthcare plans were performed at 1 January 2004. These valuations have been updated by independent qualified actuaries for the purposes of FRS17 in order to assess the liabilities of the schemes as at 31 July 2004. Scheme assets are stated at their market values at 31 July 2004.

Contributions to these schemes are made on the advice of the actuaries with the objective that the benefits be fully funded during the scheme members' working lives.

The Group provides a defined contribution (401K) plan for its USA employees.

The disclosures relate to all defined benefit retirement plans in the United Kingdom and the United States. Defined benefit plans in other territories, most of which are unfunded, have net pension liabilities of £14.2m (2003 £27.4m, including £12.5m for Polymer Sealing Solutions, sold in September 2003). No additional disclosure is given in respect of these plans on grounds of their immateriality. The principal assumptions used in updating the valuations are set out below.

	2004		2003		2002	
	UK	USA	UK	USA	UK	USA
Rate of increase in salaries	**3.6%**	**3.75%**	4.2%	4.0%	3.9%	4.2%
Rate of increase in pensions	**2.8%**	**n/a**	2.8%	n/a	2.5%	n/a
Discount rate	**5.7%**	**6.25%**	5.5%	6.5%	6.0%	7.0%
Inflation rate	**2.6%**	**2.75%**	2.7%	3.0%	2.4%	3.3%
Healthcare cost increases	**5.0%**	*****	5.0%	**	5.0%	***

*10% per annum reducing by 1% per annum to 5% per annum in 2010
**10% per annum reducing by 1% per annum to 5% per annum in 2009
***10% per annum reducing by 1% per annum to 5% per annum in 2008

11 POST-RETIREMENT BENEFITS continued

The assets in the schemes and the expected rates of return as at 31 July were:

	2004				2003				2002			
	UK schemes		US schemes		UK schemes		US schemes		UK schemes		US schemes	
	Long-term rate of return	Value £m	Long-term rate of return	Value £m	Long-term rate of return	Value £m	Long-term rate of return	Value £m	Long-term rate of return	Value £m	Long-term rate of return	Value £m
Equities	**8.25%**	**1,124.4**	**9.0%**	**170.1**	8.25%	1,026.0	9.0%	183.9	8.25%	827.9	9.0%	158.1
Government bonds	**5.2%**	**644.3**	**5.25%**	**58.7**	4.8%	622.2	5.5%	46.7	4.9%	810.2	5.5%	38.7
Corporate bonds	**5.7%**	**225.1**	**6.25%**	**58.7**	5.5%	340.6	6.5%	55.5	6.0%	251.1	7.0%	54.6
Property	**7.25%**	**123.0**	**n/a**	**n/a**	7.25%	115.9	n/a	n/a	7.25%	115.8	n/a	n/a
Other	**5.0%**	**145.5**	**3.0%**	**8.2**	3.5%	69.1	3.0%	8.1	4.9%	78.2	3.5%	10.1
Total market value		**2,262.3**		**295.7**		2,173.8		294.2		2,083.2		261.5
Present value of funded pension scheme liabilities		**(2,320.0)**		**(366.1)**		(2,392.7)		(383.5)		(2,075.4)		(354.9)
(Deficit)/surplus		**(57.7)**		**(70.4)**		(218.9)		(89.3)		7.8		(93.4)
Unfunded pension plans		**(27.3)**		**(4.1)**		(26.8)		(4.7)		(19.7)		(4.5)
Post-retirement healthcare		**(18.9)**		**(68.9)**		(20.4)		(93.1)		(15.5)		(78.7)
		(103.9)		**(143.4)**		(266.1)		(187.1)		(27.4)		(176.6)
Related deferred tax asset		**25.5**		**59.7**		73.7		71.1		8.2		67.1
Net pension liability		**(78.4)**		**(83.7)**		(192.4)		(116.0)		(19.2)		(109.5)

At 31 July 2004, the net UK pension liability of £78.4m represented, net of related deferred tax, individual plan surpluses of £72.7m (2003 £25.3m) and deficits of £113.1m (2003 £178.5m) in funded pension plans and unfunded pension/post-retirement healthcare balances of £38.0m (2003 £39.2m). The liability of the US post-retirement healthcare plans has been reduced by US$25m to allow for the federal subsidy, under the US Medicare Prescription Drug Improvement and Modernization Act of 2003, to sponsors of such plans that are actuarially equivalent to Medicare Part D. All US plans were in deficit at 31 July 2003 and 31 July 2004.

The effect of retirement benefits calculated in accordance with FRS17 is included in the financial statements as follows:

Profit and Loss Account

	2004			2003		
	Funded defined benefit pension schemes		Unfunded pension/post-retirement healthcare plans	Funded defined benefit pension schemes		Unfunded pension/post-retirement healthcare plans
	UK £m	US £m	UK & US £m	UK £m	US £m	UK & US £m
Amounts charged to operating profit						
Current service cost	**31.5**	**12.8**	**2.8**	31.3	12.7	2.1
Past service cost/(credit)	**0.4**	**(0.1)**		1.3		0.2
Total operating charge	**31.9**	**12.7**	**2.8**	32.6	12.7	2.3
Exceptional items						
Curtailment gains – on disposal of Polymer	**(13.1)**					
– other disposals	**(0.5)**			(1.5)		
Amounts charged/(credited) to other finance charges						
Expected return on pension scheme assets	**(142.5)**	**(20.9)**		(132.7)	(20.0)	
Interest on pension scheme liabilities	**128.9**	**22.9**	**8.4**	122.6	24.5	7.8
Net financing return	**(13.6)**	**2.0**	**8.4**	(10.1)	4.5	7.8
Total charged to profit and loss account	**4.7**	**14.7**	**11.2**	21.0	17.2	10.1

11 POST-RETIREMENT BENEFITS continued

Analysis of amount recognised in Statement of Total Recognised Gains and Losses (STRGL)

	2004			2003		
	Funded defined benefit pension schemes		Unfunded pension/post-retirement healthcare plans	Funded defined benefit pension schemes		Unfunded pension/post-retirement healthcare plans
	UK £m	US £m	UK & US £m	UK £m	US £m	UK & US £m
Actual return less expected return on pension scheme assets	**14.0**	**10.7**		3.6	8.4	
Experience gains/(losses) arising on the scheme liabilities	**4.2**	**1.4**	**25.6**	29.6	3.9	(6.8)
Changes in assumptions underlying the present value of the scheme liabilities	**103.9**	**(8.5)**	**(5.8)**	(256.0)	(22.8)	(18.5)
Actuarial gains/(losses) recognised in the STRGL	**122.1**	**3.6**	**19.8**	(222.8)	(10.5)	(25.3)

Movement in surplus during the year:

	2004 UK £m	2004 US £m	2004 UK & US £m	2003 UK £m	2003 US £m	2003 UK & US £m
(Deficit)/surplus at beginning of year	**(218.9)**	**(89.3)**	**(145.0)**	7.8	(93.4)	(118.4)
Current service cost	**(31.5)**	**(12.8)**	**(2.8)**	(31.3)	(12.7)	(2.1)
Employer contributions	**43.8**	**20.1**	**6.4**	17.1	29.0	6.1
Past service costs	**(0.4)**	**0.1**		(1.3)		(0.2)
Curtailments	**13.6**			1.5		
Other finance income/(costs)	**13.6**	**(2.0)**	**(8.4)**	10.1	(4.5)	(7.8)
Actuarial gain/(loss) recognised in STRGL	**122.1**	**3.6**	**19.8**	(222.8)	(10.5)	(25.3)
Exchange		**9.9**	**10.8**		2.8	2.7
Deficit at end of year	**(57.7)**	**(70.4)**	**(119.2)**	(218.9)	(89.3)	(145.0)

Cash contributions

The Company contributions to the funded defined benefit pension plans for 2004 totalled £63.9m (2003 £46.1m) and slightly lower contributions will be made in 2005.

History of experience gains and losses

	2004			2003			2002		
	Funded defined benefit pension schemes		Unfunded pension/post-retirement healthcare plans	Funded defined benefit pension schemes		Unfunded pension/post-retirement healthcare plans	Funded defined benefit pension schemes		Unfunded pension/post-retirement healthcare plans
	UK	US	UK & US	UK	US	UK & US	UK	US	UK & US
Difference between the expected and actual return on scheme assets:									
Amount (£m)	**14.0**	**10.7**		3.6	8.4		(307.1)	(61.6)	
Percentage of scheme assets	**1%**	**3%**		0%	3%		(15)%	(22)%	
Experience gains/(losses) on the scheme liabilities									
Amount (£m)	**4.2**	**1.4**	**25.6**	29.6	3.9	(6.8)	54.6	1.6	(9.1)
Percentage of scheme liabilities	**0%**	**0%**	**21%**	1%	1%	(5)%	3%	0%	(8)%
Total amount recognised in Statement of Total Recognised Gains and Losses (STRGL)									
Amount (£m)	**122.1**	**3.6**	**19.8**	(222.8)	(10.5)	(25.3)	(334.8)	(76.3)	(15.9)
Percentage of scheme liabilities	**5%**	**1%**	**17%**	(9)%	(3)%	(17)%	(16)%	(22)%	(13)%

12 EMPLOYEES

	2004 £m	2003 £m
Staff costs during the year		
Wages and salaries	**743.3**	828.7
Social Security	**80.5**	93.1
Pension costs (including defined contribution schemes)	**57.5**	53.3
	881.3	975.1

The average number of persons employed was:

	2004	2003
Aerospace	**9,021**	8,951
Detection	**1,651**	1,312
Medical	**5,299**	4,914
Specialty Engineering (2003 included 5,400 in respect of the Polymer business)	**10,758**	16,233
	26,729	31,410

Details of directors' remuneration are given on pages 8 to 15.

13 INTANGIBLE FIXED ASSETS

	£m
Goodwill	
Cost	
At 1 August 2003	979.2
Acquired during the year	172.6
Adjustments to prior year acquisitions	6.2
Disposals during the year	(240.8)
Exchange adjustments	(61.2)
At 31 July 2004	**856.0**
Amortisation	
At 1 August 2003	149.0
Disposals during the year	(47.6)
Charge for the year	39.0
Exchange adjustments	(12.6)
At 31 July 2004	**127.8**
Net book value at 31 July 2004	**728.2**
Net book value at 1 August 2003	830.2

14 TANGIBLE FIXED ASSETS

	Land and buildings £m	Plant and machinery £m	Fixtures, fittings, tools and equipment £m	Total £m
Consolidated				
Cost or valuation				
At 1 August 2003	299.3	663.9	438.8	1,402.0
Exchange adjustments	(15.6)	(39.8)	(24.1)	(79.5)
Additions	9.2	41.9	29.0	80.1
Acquisitions	1.4	26.7	4.6	32.7
Disposals	(12.1)	(16.7)	(17.6)	(46.4)
Business disposals	(47.0)	(158.7)	(50.9)	(256.6)
At 31 July 2004	235.2	517.3	379.8	1,132.3
Depreciation				
At 1 August 2003	94.4	431.3	318.7	844.4
Exchange adjustments	(6.4)	(26.2)	(17.8)	(50.4)
Charge for the year	6.7	32.3	33.1	72.1
Acquisitions	0.9	19.2	3.2	23.3
Disposals	(5.1)	(15.8)	(16.1)	(37.0)
Business disposals	(14.8)	(97.6)	(31.2)	(143.6)
At 31 July 2004	75.7	343.2	289.9	708.8
Net book value at 31 July 2004	**159.5**	**174.1**	**89.9**	**423.5**
Net book value at 1 August 2003	204.9	232.6	120.1	557.6
Company				
Cost or valuation				
At 1 August 2003	23.7	66.0	101.0	190.7
Additions	0.6	5.6	4.8	11.0
Transfers	3.0	(70.4)	(99.3)	(166.7)
Disposals		(0.9)	(3.3)	(4.2)
At 31 July 2004	27.3	0.3	3.2	30.8
Depreciation				
At 1 August 2003	3.5	42.4	80.8	126.7
Transfers	(0.4)	(45.5)	(83.4)	(129.3)
Charge for the year	0.5	4.0	6.6	11.1
Disposals		(0.8)	(3.0)	(3.8)
At 31 July 2004	3.6	0.1	1.0	4.7
Net book value at 31 July 2004	**23.7**	**0.2**	**2.2**	**26.1**
Net book value at 1 August 2003	20.2	23.6	20.2	64.0

The book values of assets under finance leases included in plant and machinery were:

	Cost £m	Depreciation £m	Net book value £m
2004	**4.2**	**(3.9)**	**0.3**
2003	5.1	(4.5)	0.6

14 TANGIBLE FIXED ASSETS continued

	Consolidated		Company	
	2004 £m	2003 £m	2004 £m	2003 £m
Land and buildings				
Cost	**231.7**	292.9	**27.3**	23.2
Valuation 1974	**3.5**	6.4	**–**	0.5
	235.2	299.3	**27.3**	23.7
Freehold	**213.9**	274.1	**27.1**	23.2
Long leasehold	**1.0**	3.2	**0.2**	0.5
Short leasehold	**20.3**	22.0	**–**	
	235.2	299.3	**27.3**	23.7

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

	Consolidated		Company	
	2004 £m	2003 £m	2004 £m	2003 £m
Cost	**233.0**	295.9	**27.3**	23.2
Aggregate depreciation	**75.2**	93.6	**–**	0.5

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 2004 which disclosed a surplus of £55.3m over 31 July 2004 book values.

	2004	2003
Capital expenditure – cash-flow		
Purchase of tangible fixed assets	**80.1**	94.2
Less: proceeds of disposals (including £18.3m relating to exceptional property disposals)	**(26.2)**	(7.9)
	53.9	86.3

15 CAPITAL COMMITMENTS

	2004 £m	2003 £m
Estimated commitments not included in the accounts		
Company	**–**	3.7
Subsidiaries	**18.0**	8.8
	18.0	12.5

16 INVESTMENTS AND ADVANCES

	Consolidated 2004 £m	Consolidated 2003 (restated) £m	Company 2004 £m	Company 2003 £m
At cost less amounts written off				
Subsidiary companies			**2,276.3**	2,104.1
Unlisted investments				
TI Automotive Limited preference shares	**325.0**	325.0		
Other trade investments	**2.3**	2.8		
	327.3	327.8	**2,276.3**	2,104.1
Investments in subsidiaries				
Shares at cost			**2,525.7**	2,320.0
Due from subsidiaries			**1,125.3**	1,039.2
			3,651.0	3,359.2
Due to subsidiaries			**(1,374.7)**	(1,255.1)
			2,276.3	2,104.1

TI Automotive Limited preference shares arose from the demerger of the former Automotive Systems division from the Group, and are held at cost. They carry a fixed cumulative preference dividend at the rate of 15% per annum. One-third of the dividend is payable on 25 July each year, subject to certain financial conditions having been met. To date, these conditions have not been met, and no dividends have been paid. The preference shares are redeemable, together with unpaid dividends, following full repayment of the outstanding liabilities of TI Automotive Limited under its bank facilities. No dividend accrual has been recognised as at 31 July 2004.

The Company also holds 19.99% of the issued ordinary share capital of TI Automotive Limited. The shares confer 19.99% of the voting rights attaching to ordinary shares, and additionally confer the right to appoint the Chairman and to benefit from compulsory transfer provisions which oblige the other shareholders to sell their shares to a purchaser making an offer accepted by Smiths subject to certain conditions. The ordinary shares are recorded at nil value in these accounts.

The Group previously included under Investments and Advances a number of its own shares held by Employee Share Ownership Plan (ESOP) trusts at a value of £5.4m. Under Urgent Issues Task Force (UITF) Abstract 38, these shares are now treated as a reduction of shareholders' funds (see note 29). The 2003 comparative figures have been adjusted accordingly.

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

England
Smiths Aerospace Limited
Aerostructures Hamble Limited
Smiths Detection – Watford Ltd
Smiths Medical International Limited
John Crane UK Limited
Smiths Group International Holdings Limited

Europe
Smiths Medical Deutschland GmbH (Germany)
Hypertac SA (France)
Hypertac GmbH (Germany)
Heimann Systems GmbH (Germany)

Japan
Smiths Medical Japan Limited

United States
Smiths Technologies North America, Inc.
Smiths Aerospace, Inc.
Smiths Aerospace Components, Inc.
Smiths Detection – Warren, Inc.
Smiths Medical ASD, Inc.
Smiths Medical MD, Inc.
Smiths Medical PM, Inc.
John Crane, Inc.
Flexible Technologies, Inc.
Tutco, Inc.
Hypertronics Corporation
PolyPhaser Corporation
Sabritec, Inc.
Transtector Systems, Inc.

Of the companies set out above, only Smiths Group International Holdings Limited is 100% owned by the Company direct. The others are 100% owned through intermediate holding companies. Shareholdings are of ordinary shares or common stock. All subsidiaries operate in their country of incorporation.

17 STOCKS

	Consolidated 2004 £m	Consolidated 2003 £m	Company 2004 £m	Company 2003 £m
Stocks comprise				
Raw materials and consumables	**128.6**	142.3		5.7
Work in progress	**151.6**	142.9		45.8
Finished goods	**187.4**	244.9		20.4
	467.6	530.1		71.9
Less: payments on account	**(44.1)**	(40.6)		(9.6)
	423.5	489.5		62.3

18 DEBTORS

	Consolidated 2004 £m	Consolidated 2003 £m	Company 2004 £m	Company 2003 £m
Amounts falling due within one year				
Trade debtors	**502.2**	533.7		72.7
Amounts recoverable on contracts	**61.7**	61.6		13.0
Amounts owed by subsidiaries			**1.1**	6.0
Other debtors	**15.7**	23.2	**7.6**	9.3
Prepayments and accrued income	**40.8**	44.1	**7.1**	12.1
	620.4	662.6	**15.8**	113.1
Amounts falling due after more than one year				
Deferred taxation			**3.7**	2.5
Other debtors	**9.2**	10.8		
	629.6	673.4	**19.5**	115.6

19 DEFERRED TAXATION

	Consolidated 2004 £m	Consolidated 2003 £m	Company 2004 £m	Company 2003 £m
Deferred taxation				
Accelerated tax depreciation on fixed assets and goodwill	**(58.8)**	(60.8)	**(11.3)**	(11.5)
Post-retirement benefits			**12.1**	5.4
Short-term and other timing differences	**40.6**	47.2	**2.9**	8.6
Net deferred tax (liability)/asset	**(18.2)**	(13.6)	**3.7**	2.5
Movements during the year				
At 1 August	**(13.6)**	(3.7)	**2.5**	(0.9)
Exchange adjustments	**0.9**	(0.8)		
Acquisitions	**2.6**	0.7		
Disposals	**(0.2)**		**3.1**	
Charge for the year	**(8.6)**	(13.0)	**(1.9)**	3.4
Recognised on exchange gains and losses		3.7		
Other	**0.7**	(0.5)		
At 31 July	**(18.2)**	(13.6)	**3.7**	2.5

20 CREDITORS

	Consolidated 2004 £m	Consolidated 2003 £m	Company 2004 £m	Company 2003 £m
Amounts falling due within one year				
Bank loans and overdrafts	72.8	98.4	149.2	284.4
Finance leases	0.1	0.2		
Short-term loans	202.5	19.7	238.9	
Total short-term indebtedness (note 21)	275.4	118.3	388.1	284.4
Trade creditors	185.8	191.5		31.5
Bills of exchange payable	3.0	2.7		
Amounts owed to subsidiaries			0.9	7.6
Other creditors	24.4	25.1	2.4	3.5
Proposed dividend	102.5	96.5	102.5	96.5
Corporate taxation	135.8	145.8	56.0	64.4
Other taxation and social security costs	20.6	37.4	2.2	10.9
Accruals and deferred income	329.6	295.4	42.4	81.3
	1,077.1	912.7	594.5	580.1
Amounts falling due after more than one year				
Term loans	446.4	678.5	297.1	511.5
Finance leases	0.1	0.3		
Total long-term indebtedness (note 21)	446.5	678.8	297.1	511.5
Other creditors	53.1	75.6	12.6	46.9
	499.6	754.4	309.7	558.4

21 BORROWINGS AND NET DEBT

The analysis of net debt, after taking into account interest rate swaps, is as follows:

As at 31 July 2004	Fixed borrowings: Weighted average Interest rate	Fixed borrowings: Weighted average Years fixed	Fixed borrowings: Amount £m	Floating borrowings £m	Total 2004 £m
Currencies					
Sterling	6.65%	9	303.0	1.4	304.4
US dollar	5.47%	8	55.2	123.8	179.0
Euro	5.29%	18	12.1	208.2	220.3
Japanese Yen				15.1	15.1
Other				3.1	3.1
			370.3	351.6	721.9
Cash and deposits					(449.2)
Net debt					272.7
Maturity					
On demand/under one year			6.2	269.2	275.4
One to two years			0.4		0.4
Two to five years			0.8		0.8
Over five years			362.9	82.4	445.3
			370.3	351.6	721.9

The borrowings are stated before the effect of the Group's net investment currency hedges. These hedges totalling £241m in notional principal mainly protect the value of its US dollar net assets.

21 BORROWINGS AND NET DEBT continued

As at 31 July 2003	Fixed borrowings – Weighted average – Interest rate	Fixed borrowings – Weighted average – Years fixed	Fixed borrowings – Amount £m	Floating borrowings £m	Total 2003 £m
Currencies					
Sterling	7.15%	12	157.8	170.2	328.0
US dollar	5.98%	8	75.0	129.3	204.3
Euro	4.03%	2	164.7	85.4	250.1
Japanese Yen	2.30%	1	7.7	0.3	8.0
Other			0.1	6.6	6.7
			405.3	391.8	797.1
Cash and deposits					(82.0)
Net debt					715.1
Maturity					
On demand/under one year			27.8	90.5	118.3
One to two years			154.1	58.7	212.8
Two to five years			1.6		1.6
Over five years			221.8	242.6	464.4
			405.3	391.8	797.1

The long-term borrowings (greater than five years) of £445m (2003 £464m) relate to the following loans at amortised cost:

	2004 £m	2003 £m
7.875% Sterling bonds 2010	**148.9**	148.7
5.45% US Private placement 2013 ($250m)	**137.4**	155.3
7.25% Sterling bonds 2016	**148.2**	147.9
5.29% Amortising Property loan 2022	**10.8**	11.7
Other	**–**	0.8
	445.3	464.4

Borrowing facilities

The floating rate borrowings are related to LIBOR and bank funding rates in the USA, and to EURIBOR for borrowings in continental Europe.

To provide adequate liquidity committed unused credit facilities of at least £100m (or equivalent free cash) are maintained at all times. In October 2003 the Group cancelled its £500m bank syndicate maturing in July 2004 following receipt of £483m net proceeds from the sale of the Polymer Group. At the year-end the Group had the following unused committed borrowing facilities:

	2004 £m	2003 £m
Expiring within one year	**5.2**	540.0

21 BORROWINGS AND NET DEBT continued

	Cash and deposits £m	Overdrafts £m	Borrowings: Under one year £m	Borrowings: Over one year £m	Net debt £m
Analysis of changes in net debt					
As at 1 August 2003	82.0	(79.6)	(38.7)	(678.8)	(715.1)
Net cash inflow/(outflow)	376.1	45.9	(12.2)	4.2	414.0
Other movements in cash/borrowings			(205.1)	205.1	
Exchange variation	(8.9)	5.5	8.8	23.0	28.4
As at 31 July 2004	**449.2**	**(28.2)**	**(247.2)**	**(446.5)**	**(272.7)**

	2004 £m	2003 £m
Financing		
Increase/(decrease) in term borrowings	**8.0**	(74.6)
Share issues	**13.2**	5.9
Total financing	**21.2**	(68.7)

Management of liquid resources defined as short-term deposits shown in the cash-flow statement comprises an increase of £383.7m in deposits.

22 FINANCIAL INSTRUMENTS

a) Fair values of financial assets and liabilities

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 prices of comparable instruments at the balance sheet date. Short-term debtors and creditors, including those shown in note 21 have been excluded from the following disclosures, other than the currency risk disclosures. Where market prices are not available, the fair value has been calculated by discounting cash-flows at prevailing interest and exchange rates.

	2004 Book value £m	2004 Fair value £m	2003 Book value £m	2003 Fair value £m
Trade investments	**2.3**	**2.3**	2.8	2.8
Cash	**449.2**	**449.2**	82.0	82.0
Borrowings – short-term	**(275.4)**	**(282.5)**	(118.3)	(118.6)
– long-term	**(446.5)**	**(481.5)**	(678.8)	(735.9)
Net debt – book value/fair value	**(270.4)**	**(312.5)**	(712.3)	(769.7)
Derivative financial instruments – interest rate swaps	**0.2**	**4.2**	(0.8)	11.9
– currency rate swaps	**7.6**	**9.6**	5.4	7.0
– forward currency contracts		**13.5**		6.4
Preference shares (note 16)	**325.0**	**325.0**	325.0	325.0
Net financial assets/(liabilities) – book value/fair value	**62.4**	**39.8**	(382.7)	(419.4)

The Company's policy is to hedge all material contractually committed future sales and purchases using forward exchange contracts and currency options. The transactions to which the forward currency contracts relate are mainly expected to occur in 2005 and 2006. Currency rate swaps protect the Group from transaction exposure in line with its policy as set out on page 22 of the Review and interest rate swaps are used to ensure that the Group's debt is broadly evenly split between fixed and floating rate funds.

22 FINANCIAL INSTRUMENTS continued

b) Hedges

	Unrecognised gains £m	Unrecognised (losses) £m	Deferred total net gains £m	Total 2004 £m
Net gains/(losses) on hedges at 1 August 2003	32.4	(11.7)	3.8	**24.5**
Net gains/losses arising in previous years included in 2004 income	(23.7)	7.2	(0.3)	**(16.8)**
Net gains/(losses) not included in 2004 income arising before 1 August 2003	8.7	(4.5)	3.5	**7.7**
Change in market value of hedges not recognised in year	9.0	1.7		**10.7**
Gains and losses arising in 2004 that were not recognised in that year	7.0	(2.4)	2.5	**7.1**
At 31 July 2004	24.7	(5.2)	6.0	**25.5**
Of which:				
Expected to be included in 2005 income	18.9	0.2	2.0	**21.1**
Expected to be included in 2006 income or later	5.8	(5.4)	4.0	**4.4**

	Unrecognised gains £m	Unrecognised (losses) £m	Deferred total net gains £m	Total 2003 £m
Net gains/(losses) on hedges at 1 August 2002	26.9	(9.2)	6.2	23.9
Net gains/losses arising in previous years included in 2003 income	(9.1)	5.9	(2.4)	(5.6)
Net gains/(losses) not included in 2003 income arising before 1 August 2002	17.8	(3.3)	3.8	18.3
Change in market value of hedges not recognised in year	9.8	(0.9)		8.9
Gains and losses arising in 2003 that were not recognised in that year	4.8	(7.5)		(2.7)
At 31 July 2003	32.4	(11.7)	3.8	24.5
Of which:				
Expected to be included in 2004 income	17.7	(7.2)	0.3	10.8
Expected to be included in 2005 income or later	14.7	(4.5)	3.5	13.7

There were no deferred losses in this year or in the previous year.

All the gains and losses on the hedging of foreign currency transactions are expected to be matched by losses and gains on the hedged transactions or positions.

c) Interest management

The net interest cash-flow is analysed below:

	2004 £m	2003 £m
Interest received	**18.2**	3.2
Financing gains	**35.8**	20.4
Interest paid	**(43.5)**	(49.7)
Net interest	**10.5**	(26.1)

The financing gains of £35.8m mainly relate to the impact of the weakening US dollar on the Company's net investment hedging programme.

22 FINANCIAL INSTRUMENTS continued

d) Financial assets

	Preference shares (note 16)		Bank balances and cash		Short-term deposits	
	2004 £m	2003 £m	2004 £m	2003 £m	2004 £m	2003 £m
Sterling	**325.0**	325.0	**12.3**	3.0	**404.8**	17.9
US dollar			**9.7**	9.0	**0.9**	
Canadian dollar			**–**	5.1	**–**	3.0
Euro			**5.3**	9.6	**0.2**	0.6
Yen			**2.1**	10.7	**–**	0.5
Other			**11.6**	19.7	**2.3**	2.9
	325.0	325.0	**41.0**	57.1	**408.2**	24.9
Weighted average interest rate on interest bearing balances			**2.68%**	2.10%	**4.51%**	3.10%

The bank balances and cash comprise £9.3m (2003 £28.4m) in respect of short-term balances earning interest, £31.7m (2003 £21.8m) in respect of balances which are non-interest earning. Short-term deposits are invested for periods with maturity under one year. The floating rate deposits are related to LIBID in the UK.

e) Currency exposures

Transactions

The analysis below shows the net monetary assets and liabilities of the Group companies that are not denominated in their functional currency and therefore give rise to exchange gains and losses in the profit and loss account. The amounts shown in the table take into account the effect of hedging instruments used to manage these exposures.

	2004 Net foreign currency monetary assets/(liabilities)			
Functional currency of Group companies	Sterling £m	US dollar £m	Euro £m	Other £m
Sterling		**3.2**	**4.1**	**1.2**
US dollar	**0.5**		**0.8**	**1.5**
Euro	**(0.1)**	**(0.2)**		**0.3**
Other	**(0.3)**	**0.2**	**(0.1)**	**1.2**
As at 31 July 2004	**0.1**	**3.2**	**4.8**	**4.2**

	2003 Net foreign currency monetary assets/(liabilities)			
Functional currency of Group companies	Sterling £m	US dollar £m	Euro £m	Other £m
Sterling		(4.1)	1.0	0.7
US dollar	0.4		0.3	1.3
Euro	0.4	0.5		(0.5)
Other	0.4	6.6	1.6	3.3
As at 31 July 2003	1.2	3.0	2.9	4.8

Translation

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.

23 OPERATING LEASE COMMITMENTS

At 31 July 2004 the Company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings £m	Others £m
Expiring in less than one year	**2.2**	**2.0**
Expiring between one and five years	**9.8**	**5.0**
Expiring after five years	**7.6**	**0.1**
	19.6	**7.1**

24 PROVISIONS FOR LIABILITIES AND CHARGES

	At 1/8/03 (restated) £m	Exchange adjustments £m	Profit and loss account		Acquisitions £m	Utilisation £m	Disposals £m	At 31/7/04 £m
			Provisions £m	Releases £m				
Consolidated								
Service guarantees and product liability	49.1	(2.9)	26.8	(2.8)	0.9	(22.0)	(1.2)	**47.9**
Reorganisation	14.0		30.9	(0.3)		(25.5)	(0.1)	**19.0**
Property	17.1	(0.3)	6.3	(1.7)		(4.4)	(0.2)	**16.8**
Litigation	22.2	(0.2)	1.0	(3.7)		(1.1)	(0.1)	**18.1**
	102.4	(3.4)	65.0	(8.5)	0.9	(53.0)	(1.6)	**101.8**
Deferred taxation (note 19)	13.6							**18.2**
Total provisions for liabilities and charges	116.0							**120.0**
Company								
Service guarantees and product liability	10.7		4.9			(4.9)	(10.7)	**–**
Reorganisation	2.1		2.2	(0.2)		(1.5)	(2.6)	**–**
Property	7.7		0.7			(2.6)	(0.3)	**5.5**
Litigation	0.3			(0.3)				**–**
	20.8		7.8	(0.5)		(9.0)	(13.6)	**5.5**
Deferred taxation (note 19)								
	20.8							**5.5**

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 Medical, have been undergoing a phased restructuring programme. Full provision is made for reorganisation approved and committed by the end of each financial year. This year's residual balance relates mainly to Aerospace and Medical.

Property

As stated in the accounting policies on page 20, 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 expected 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 similarly to defend itself against proceedings brought by other parties. Provision is made for the expected fees and associated costs, based on professional advice as to the likely duration of each case. Provisions totalling £3.7m were released relating to litigation settled at less than the expected cost.

25 ACQUISITIONS

During the year under review the Company acquired the businesses set out below. The fair values are provisional, and will be finalised in the 2005 accounts.

	Dates of acquisition	Consideration (including associated costs) £m	Goodwill £m	Net assets £m
Businesses acquired				
DGT	30/04/04	56.5	40.2	16.3
Cyrano	02/02/04	7.7	7.5	0.2
SensIR	11/06/04	41.0	39.1	1.9
Smiths Medical Japan – minority interest	31/01/04	16.5	5.8	10.7
DHD Healthcare	30/06/04	29.9	27.2	2.7
TRAK	28/05/04	61.2	52.6	8.6
Other	various	0.2	0.2	
		213.0	172.6	40.4
Additional consideration payable re Able Corp (acquired 2002)		5.7	5.7	
		218.7	178.3	40.4

	Book value £m	Consistency of accounting policy £m	Fair value £m
Assets acquired			
Fixed assets	10.5	(1.1)	9.4
Stocks	24.3	(0.8)	23.5
Debtors	19.8	(1.0)	18.8
Creditors	(23.1)	0.2	(22.9)
Minority interest	10.7		10.7
Provisions	(0.7)	(0.2)	(0.9)
Taxation	1.1	0.7	1.8
Net assets acquired	42.6	(2.2)	40.4
Goodwill			178.3
Consideration – total			218.7
– deferred			(5.6)
– deferred from prior period, now paid			2.3
– satisfied by cash			215.4

Fair values on acquisitions made in 2003 have now been finalised, giving rise to a further addition to capitalised goodwill of £0.5m.

Goodwill arising on acquisitions made in 2004 is being amortised over its estimated useful economic life of 20 years.

26 DISPOSALS

The principal disposal during the year was the Polymer business, which was sold on 30 September 2003. The results of the Polymer business are classified as discontinued operations. The table below shows the details of the transaction.

	£m
Proceeds received net of expenses	483.2
Net assets and retained liabilities at date of sale	
Tangible fixed assets	107.0
Goodwill	188.4
Stocks	50.3
Debtors	95.4
Creditors	(98.1)
Net assets	343.0
Provision for retained liabilities	20.7
Pension curtailment benefit	(13.1)
Net assets and retained liabilities	350.6
Surplus of proceeds over net assets, costs and expenses	132.6

	Polymer £m	Other £m	Total £m
Polymer and other disposals – profit on disposal			
Proceeds less costs	483.2	23.6	506.8
Net assets and retained liabilities	(350.6)	(18.4)	(369.0)
Surplus over net assets/retained liabilities	132.6	5.2	137.8
Goodwill previously set directly against reserves	(257.9)	(9.1)	(267.0)
	(125.3)	(3.9)	(129.2)
Goodwill charged to profit and loss account in the prior period	137.0		137.0
Profit/(loss) on sale	11.7	(3.9)	7.8

27 CALLED UP SHARE CAPITAL

	Shares	Issued capital £m	Consideration £m
At 1 August 2003	559,272,232	139.8	
Exercise of share options	2,094,867	0.5	13.2
At 31 July 2004	**561,367,099**	**140.3**	**13.2**

The authorised capital at 31 July 2003 and 2004 consisted of 800,000,000 shares of 25p each.

At 31 July 2004 the following options had been granted and were still outstanding:

	Date issued	Number of shares	Subscription prices	Dates normally exercisable
SAYE	1997	35,952	632.0p	2000-2004
	1998	128,349	669.0p	2001-2005
	1999	202,918	721.0p	2002-2006
	2000	437,554	612.0p	2003-2007
	2001	1,002,132	608.0p	2004-2008
	2002	639,942	645.0p	2005-2009
	2003	1,410,367	554.0p	2006-2010
	2004	1,311,956	525.0p	2007-2011
Executive	1994	51,259	451.0p	1997-2004
	1995	62,500	480.0p	1998-2005
	1995	112,715	632.0p	1998-2005
	1996	282,029	823.0p	1999-2006
	1997	387,985	934.0p	2000-2007
	1998	740,625	765.0p	2001-2008
	1999	721,170	858.5p	2002-2009
	2000	893,704	750.0p	2003-2010
	2000	55,424	765.0p	2003-2010
	2000	190,934	807.0p	2003-2010
	2001	1,337,391	790.0p	2004-2011
	2002	2,521,931	806.0p	2005-2012
	2002	3,551,000	654.0p	2005-2012
	2003	3,997,150	669.0p	2006-2013
SAYE (rolled over from TI Scheme)	1997	18,324	886.39p	2002-2004
	1998	50,413	719.68p	2001-2005
	1999	99,853	805.07p	2002-2006
	2000	245,257	587.54p	2003-2007
Executive (rolled over from TI Schemes)	1994	9,836	759.33p	2001-2004
	1995	6,394	765.42p	2001-2005
	1995	23,117	875.21p	2001-2005
	1996	43,776	1,058.18p	2001-2006
	1996	29,264	1,121.20p	2001-2006
	1997	90,009	1,097.82p	2001-2007
	1997	197,975	1,219.80p	2001-2007
	1998	206,823	1,026.66p	2001-2008
	1998	123,699	849.79p	2001-2008
	1999	110,917	943.31p	2002-2009
	1999	399,644	907.23p	2002-2009
	1999	157,267	1,103.92p	2002-2009
	2000	350,576	661.23p	2003-2010
	2000	278,644	626.16p	2003-2010
	2000	16,232	672.92p	2003-2010

28 SHARE PREMIUM ACCOUNT AND RESERVES

	Share premium account £m	Revaluation reserve £m	Merger reserve £m	Profit and loss account £m
Consolidated				
At 1 August 2003	170.0	2.6	234.8	315.4
Prior period adjustment – UITF 38				(5.4)
	170.0	2.6	234.8	310.0
Premium on allotments	13.0			(0.3)
Retained profit		(0.9)		62.2
Write-back of goodwill on disposals				130.0
Actuarial gain on retirement benefits				145.5
Deferred tax credit related thereto				(39.3)
Exchange rate changes (including tax on recognised gains)				(45.4)
At 31 July 2004	**183.0**	**1.7**	**234.8**	**562.7**

	2004 £m	2003 £m
Profit and loss account excluding pension and other retirement benefit liabilities (net)	**724.8**	618.4
Pension and other retirement benefit liabilities (net)	**(162.1)**	(308.4)
	562.7	310.0

	Share premium account £m	Revaluation reserve £m	Merger reserve £m	Profit and loss account £m
Company				
At 1 August 2003	170.0	0.5	180.5	747.1
Premium on allotments	13.0			(0.3)
Actuarial loss on retirement benefits				4.2
Deferred tax credit related thereto				(1.3)
Retained profit				286.5
At 31 July 2004	**183.0**	**0.5**	**180.5**	**1,036.2**

	2004 £m	2003 £m
Profit and loss account excluding pension and other retirement benefit liabilities (net)	**1,076.1**	785.8
Pension and other retirement benefit liabilities (net)	**(39.9)**	(38.7)
	1,036.2	747.1

The retained profit of the Company represents a profit for the year of £438.1m less dividends payable of £151.6m.

The Company's profit and loss reserve of £1,036.2m includes £933.1m not available for distribution as dividend.

During the year the Company received £13.5m on the issue of shares in respect of the exercise of options awarded under various share option schemes. Employees paid £13.2m for the issue of these shares and the balance of £0.3m 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.

Goodwill relating to acquisitions made before 1 August 1998 and set against reserves amounted to £1,262.6m (2003 £1,392.6m). Upon subsequent disposal, such goodwill is charged as part of the profit or loss arising thereon.

29 MOVEMENTS IN SHAREHOLDERS' EQUITY

	2004 £m	2003 £m
Profit for the year	**212.9**	111.5
Dividends	**(151.6)**	(145.4)
	61.3	(33.9)
Exchange variations	**(45.0)**	14.7
Taxation recognised on exchange gains/losses:		
Current – United Kingdom	**(0.4)**	5.3
Deferred – United States		3.7
Share issues	**13.2**	5.9
Write-back of goodwill on disposals	**130.0**	211.5
FRS17 – Retirement Benefits:		
Actuarial gains and losses on retirement benefit schemes – gross	**145.5**	(258.6)
Deferred tax (charge)/credit related thereto	**(39.3)**	73.4
Net increase in shareholders' equity	**265.3**	22.0
Shareholders' equity:		
At 1 August (as previously stated)	**862.6**	840.6
Prior year adjustment – UITF 38	**(5.4)**	(5.4)
Shareholders' equity at 1 August (as restated)	**857.2**	835.2
At 31 July	**1,122.5**	857.2

The Urgent Issues Task Force Abstract 38 (UITF 38) was issued in December 2003, requiring shares held by Employee Share Ownership Plan (ESOP) trusts to be treated as a reduction of shareholders' funds, rather than as a fixed asset. In consequence, the figures for Investments and advances – other in note 16 and shareholders' equity above have been reduced by £5.4m for both 2004 and 2003.

30 CONTINGENT LIABILITIES

	2004 £m	2003 £m
The parent company has guaranteed the 5.45% Senior Notes 2013 privately placed by a subsidiary. The remaining US$20m of 8.853% Senior Notes 2003 also guaranteed by the Company were repaid in October 2003.	**137.4**	167.7

As previously reported, John Crane, Inc ('John Crane'), a subsidiary of the Company, is one of many co-defendants in numerous law suits pending in the United States in which plaintiffs are claiming damages arising from exposure to, or use of, products containing asbestos. The John Crane products generally referred to in these cases are ones in which the asbestos fibres were encapsulated in such a manner that, according to tests conducted on behalf of John Crane, the products were safe. John Crane ceased manufacturing products containing asbestos in 1985.

John Crane has resisted every case in which it has been named and will continue its robust defence of all asbestos-related claims based upon this 'safe product' defence. In addition John Crane has access to insurance cover which, while it is kept under review, is judged sufficient to meet all material costs of defending these claims for the foreseeable future.

As a result of its defence policy, John Crane has been dismissed before trial from cases involving approximately 95,000 claims over the last 25 years. John Crane is currently a defendant in cases involving approximately 180,000 claims. Despite these large numbers of claims, John Crane has had final judgements against it, after losing appeals, in only 39 cases, amounting to awards of some US$26m over the 25-year period.

These awards, the related interest and all material defence costs have been met in full by insurance.

No provision relating to this litigation has been made in these accounts.

FIVE YEAR REVIEW

	2004 £m	2003 (restated) £m	2002 (restated) £m	2001* (restated) £m	2000* £m
Turnover – continuing operations	**2,678.4**	2,629.2	2,588.4	2,586.8	2,227.9
– discontinued operations	**55.0**	426.9	635.1	2,371.4	2,425.0
	2,733.4	3,056.1	3,223.5	4,958.2	4,652.9
Operating profit – continuing operations	**360.1**	371.9	364.1	430.4	355.9
– discontinued operations	**2.2**	51.9	64.0	220.9	266.9
	362.3	423.8	428.1	651.3	622.8
Goodwill amortisation	**(39.0)**	(44.1)	(50.7)	(48.7)	(35.5)
Operating profit (after goodwill amortisation)	**323.3**	379.7	377.4	602.6	587.3
Net interest	**(12.2)**	(39.8)	(32.0)	(116.2)	(80.7)
Profit before exceptional items	**311.1**	339.9	345.4	486.4	506.6
Exceptional items	**(11.0)**	(122.5)	(68.0)	(598.7)	(22.6)
Profit before taxation	**300.1**	217.4	277.4	(112.3)	484.0
Profit after taxation	**212.9**	112.3	186.4	(204.4)	325.7
Minority interests		(0.8)	(1.3)	(1.6)	(1.7)
Shareholders' equity	**1,122.5**	857.2	832.6	831.3	787.4
Represented by:					
Intangible fixed assets	**728.2**	830.2	638.3	678.3	851.4
Tangible fixed assets and investments	**750.8**	885.4	892.5	948.8	1,018.8
Net current assets/provisions/retirement benefit liabilities	**(83.8)**	(143.3)	27.0	324.0	382.9
Net debt	**(272.7)**	(715.1)	(725.2)	(1,119.8)	(1,465.7)
Funds employed	**1,122.5**	857.2	832.6	831.3	787.4
Goodwill charged directly to reserves	**1,262.6**	1,392.6	1,604.1	1,753.3	2,223.6
Shareholder investment	**2,385.1**	2,249.8	2,436.7	2,584.6	3,011.0
Ratios					
Operating profit before goodwill amortisation: turnover (%)	**13.3**	13.9	13.3	13.1	13.4
Effective tax rate before goodwill amortisation and exceptional items (%)	**26.5**	27.0	28.0	29.2	30.6
After tax return on average shareholder investment (%)	**11.1**	11.9	11.0	12.5	12.9
Cash-flow					
Cash-flow from normal operating activities	**382.9**	466.5	583.0	701.0	666.6
Less capital expenditure (net)	**(53.9)**	(86.3)	(100.0)	(188.0)	(168.2)
Operating cash after capital expenditure	**329.0**	380.2	483.0	513.0	498.4
Free cash-flow (before acquisitions and dividends, after capital expenditure)	**255.0**	270.5	314.5	205.3	336.5
Free cash-flow per share (p)	**45.5**	48.4	56.5	37.1	61.7
Earnings per share before goodwill amortisation and exceptional items (p)	**45.9**	50.1	51.0	68.3	68.6
Dividends					
Pence per share	**27.0**	26.0	25.5	25.0	23.8
Times covered before goodwill amortisation	**1.7**	1.9	2.0	2.7	2.5
Number of employees (000s)					
United Kingdom	**6.9**	8.5	10.7	13.5	15.1
Overseas	**20.3**	23.8	22.3	24.2	45.7
	27.2	32.3	33.0	37.7	60.8

*Information for 2001 and earlier years has not been restated to reflect the requirements of FRS17.

Shareholders' equity for 2001-03 has been restated to reflect the requirements of UITF38 relating to the Company's own shares held by Employee Share Ownership Plan (ESOP) trusts.

FINANCIAL CALENDAR

2004

	SEPTEMBER
Preliminary announcement of results for 2003/04	22
	OCTOBER
Ordinary shares final dividend ex-dividend date	20
Ordinary shares final dividend record date	22
	NOVEMBER
Annual General Meeting	16
Ordinary shares final dividend payment date	19

2005

	MARCH
2004/05 interim results announced	16 provisional
Ordinary shares interim dividend ex-dividend date	23 provisional
Ordinary shares interim dividend record date	29 provisional
	APRIL
Ordinary shares interim dividend payment date	27 provisional
	JULY
Smiths Group plc financial year-end	31
	SEPTEMBER
Preliminary announcement of results for 2004/05	22 provisional
	OCTOBER
Ordinary shares final dividend ex-dividend date	19 provisional
Ordinary shares final dividend record date	21 provisional
	NOVEMBER
Annual General Meeting	15 provisional
Ordinary shares final dividend payment date	18 provisional

REGISTERED OFFICE
Smiths Group plc
765 Finchley Road
London NW11 8DS
Incorporated in England No 137013

T +44 (0)20 8458 3232
F +44 (0)20 8458 4380
E plc@smiths-group.com
www.smiths-group.com

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

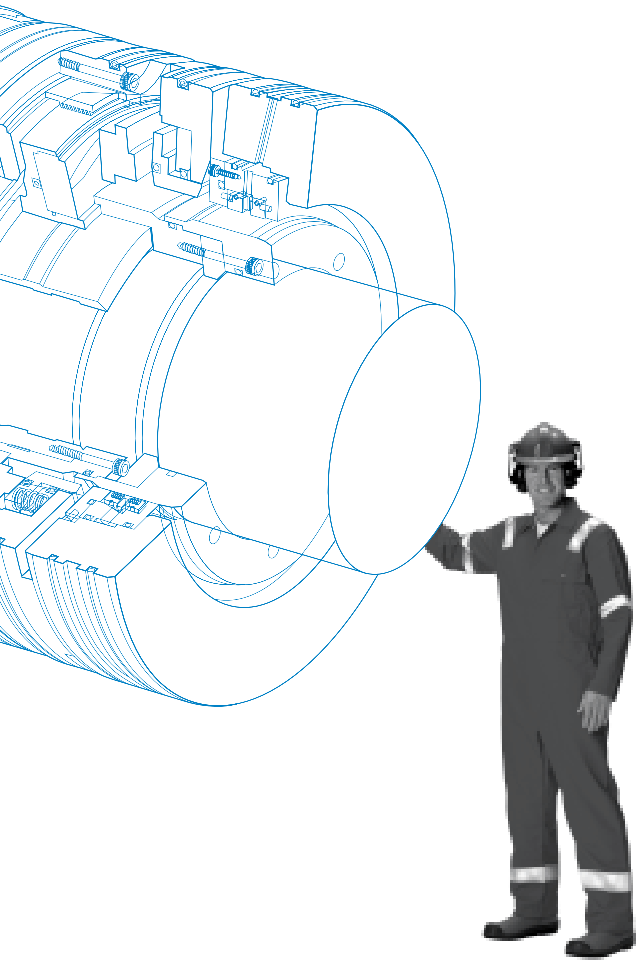
T 0870 600 3970 (United Kingdom)
T +44 (0)1903 502541
www.lloydstsb-registrars.co.uk
www.shareview.co.uk

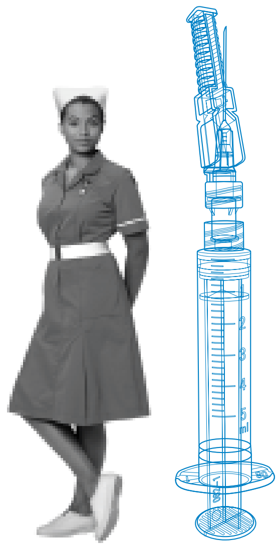
AUDITORS
PricewaterhouseCoopers LLP

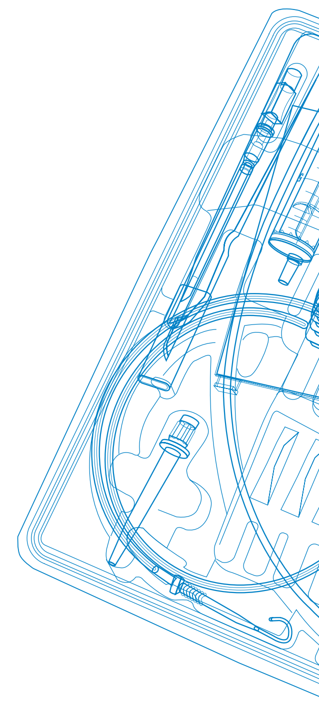
The market value of an ordinary share of the Company on 31 March 1982 for the purposes of capital gains tax was 91.25p (taking into account the sub-division of 50p shares into 25p shares on 14 January 1985).

The 2004 Annual General Meeting will be held at the offices of JP Morgan Chase & Co., 60 Victoria Embankment, London EC4Y 0JP on Tuesday 16 November 2004 at 2.30 pm.

Designed and produced by CGI BrandSense. Printed by royle corporate print. Cover illustrations by Lawrence Templeman. Cover photography by Peter Dazeley.







SMITHS GROUP PLC
765 Finchley Road
London
NW11 8DS
United Kingdom

T +44 (0)20 8458 3232
F +44 (0)20 8458 4380
E plc@smiths-group.com

WWW.SMITHS-GROUP.COM