

SMITH BARNEY SECTOR SERIES INC. BIOTECHNOLOGY FUND

RESEARCH SERIES | ANNUAL REPORT | OCTOBER 31, 2001



Smith Barney
Mutual Funds

Your Serious Money. Professionally Managed.SM

NOT FDIC INSURED • NOT BANK GUARANTEED • MAY LOSE VALUE



Annual Report • October 31, 2001

SMITH BARNEY BIOTECHNOLOGY FUND

CITIGROUP ASSET MANAGEMENT LTD.

Citigroup Asset Management Ltd. ("CAM") is the subadviser to the Fund. The Fund's management team follows a systematic and rigorous approach designed to provide appropriate exposure to the market sector.

FUND OBJECTIVE

The Fund seeks long-term capital appreciation. The Fund normally invests at least 80% of its assets in securities of companies principally engaged in, but not limited to, the research, development, application, manufacture and distribution of various biotechnological and bio-medical products, services, processes and related technologies.

FUND FACTS

FUND INCEPTION
August 31, 2000

	CLASS A	CLASS B	CLASS L
NASDAQ	SMBAX	SBBBX	SBBTX
INCEPTION	8/31/00	8/31/00	8/31/00

Smith Barney Biotechnology Fund* Average Annual Total Returns October 31, 2001

	Without Sales Charges ⁽¹⁾		
	Class A	Class B	Class L
One Year	(31.88)%	(32.35)%	(32.35)%
Since Inception†	(36.34)%	(36.82)%	(36.82)%

	With Sales Charges ⁽²⁾		
	Class A	Class B	Class L
One Year	(35.29)%	(35.74)%	(33.70)%
Since Inception†	(39.07)%	(39.00)%	(37.37)%

* Since the Fund focuses its investments on companies involved in the biotechnology industries, an investment in the Fund may involve a greater degree of risk than an investment in other mutual funds with greater diversification.

⁽¹⁾ Assumes reinvestment of all dividends and capital gain distributions, if any, at net asset value and does not reflect deduction of all applicable sales charges with respect to Class A and L shares of the applicable contingent deferred sales charges ("CDSC") with respect to Class B and L shares.

⁽²⁾ Assumes reinvestment of all dividends and capital gain distributions, if any at net asset value. In addition, Class A and L shares reflect the deduction of the maximum sales charge of 5.00% and 1.00%, respectively; and Class B shares reflect the deduction of a 5.00% CDSC, which applies if shares are redeemed within one year from initial purchase. Thereafter, this CDSC declines by 1.00% per year until no CDSC is incurred. Class L shares also reflect the deduction of 1.00% CDSC, which applies if shares are redeemed within the first year of purchase.

† Inception date for Class A, B and L shares is August 31, 2000.

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Your Serious Money. Professionally Managed.SM

Investment Products: Not FDIC Insured • Not Bank Guaranteed • May Lose Value

YOUR INVESTMENT IN THE SMITH BARNEY BIOTECHNOLOGY FUND

The Fund offers investors the opportunity to participate in the long-term growth potential of the biotechnology sector. The Fund's management team comprises a seasoned group of investment and research professionals who follow a systematic, rigorous approach designed to provide appropriate exposure to the biotechnology sector.



Discoveries and Improvements Spur Increased Growth

An accelerated pace of discovery and improvements in development and testing processes have led to significant growth opportunities for many biotechnology companies.



Diversification in a Targeted Sector*

The Fund offers investors a way to participate in a broad range of companies in the biotechnology sector, both in the U.S. and abroad. The Fund's investments may include companies involved in many different areas, including the research, development, application, manufacture and distribution of various biotechnological and biomedical products, services, processes and related technologies.



The Benefits of Exhaustive Fundamental Securities Analysis— The Research Series

While most investors recognize that certain sectors drive the economy, we believe it is much more difficult to determine which companies within a particular sector, such as biotechnology, will outperform their competitors over time. The Research Series is a selection of funds built on a foundation of substantial buy-side research. Our team of experienced professionals seeks to offer you an opportunity to invest in the companies it believes are best positioned within their respective industries—companies that may offer growth potential over the long term.

Yet, when investing in a sector fund, it is important to understand that these funds may experience a significant amount of volatility, particularly in the short-term. Investors should maintain a long-term investment horizon, and should remember that sector funds may be appropriate as part of an overall portfolio that has more conservative investments.

*Please note that because the Fund invests in a single industry, its shares do not represent a complete investment program and the value of its shares may fluctuate more than shares invested in a broader range of industries.

Dear Shareholder:

Enclosed herein is the annual report for the Smith Barney Sector Series Inc.—Smith Barney Biotechnology Fund (the “Fund”) for the twelve-month period ended October 31, 2001. In this report, we summarize what we believe to be the period’s prevailing economic and market conditions and outline our investment strategy. A detailed summary of the Fund’s performance can be found in the appropriate sections that follow. We hope you find this report to be useful and informative.

Special Shareholder Notice of Fund Name Change and Performance Benchmark Change

On July 18, 2001, the Board of Directors of Smith Barney Sector Series Inc. voted to change the name of Smith Barney Global Biotechnology Fund, which became effective on October 1, 2001, as follows:

Former Name: Smith Barney Global Biotechnology Fund
New Name: Smith Barney Biotechnology Fund

The name change more accurately reflects the Fund’s holdings, which are predominantly (approximately 90%) invested in U.S. securities. The elimination of “Global” from the Fund’s name does not preclude investment by the Fund in non-U.S. securities.

In light of the Fund’s emphasis on U.S. biotechnology sector, on October 17, 2001 the Fund has changed its performance benchmark from the Morgan Stanley Capital International All-World Index (“MSCI All-World Index”)¹ to the Dow Jones U.S. Total Market Biotechnology Index (the “Index”).

The Index is a market cap weighted index based on the Biotechnology sector. The Index is a subset of the Dow Jones U.S. Total Market Index which is a market cap weighted index based on a 95% representation of the United States market value as a whole.*

The average annual total returns for the one- and five-year periods ended December 31, 2000 for the Dow Jones U.S. Total Market Biotechnology Index were positive 22.99% and 30.52%, respectively. The cumulative return for the period August 31, 2000 (inception date) through December 31, 2000, for the Dow Jones U.S. Total Market Biotechnology Index was negative 16.41%.

Performance Update

For the year ended October 31, 2001, the Fund’s Class A shares, without sales charges returned negative 31.88%. In comparison, the Dow Jones U.S. Total Market Biotechnology Index (“the Index”) returned negative 29.58% for the same period, while the MSCI All-World Index returned negative 25.15% for the same period. Please note that past performance is not indicative of future results.

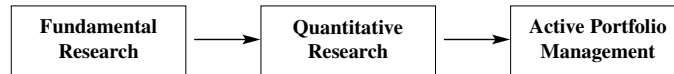
Investment Strategy

We seek to differentiate ourselves from the traditional approach to investment management in a number of ways that we believe can add value to clients’ portfolios. Our management style can best be described as disciplined, yet flexible. Our global reach and local expertise enable us to nurture research teams with direct access to the regions and industries they cover. Our research organization is centered on a team approach to equity research and selection by covering hundreds of companies and working closely together, both within and across industry teams, to reach a prudent consensus.

¹ The MSCI All-World Index represents the performance of markets in both the developed and the emerging markets in Africa, Asia, Australia, Europe, North America and South America. Please note that an investor cannot invest directly in an index.

* Please note that an investor cannot invest directly in an index.

A THREE-STEP RESEARCH PROCESS



Each stock analyst builds intensive, detailed company models that anticipate a particular company’s financial performance. These models are based on the company’s competitive position within the industry, its quality of product offerings, and its costs and risks. They detail the analyst’s assumptions for potential profitability for the company going forward, and provide some of the necessary information to forecast company fundamentals and make stock recommendations. Our analysts strive for consistency in industry and accounting assumptions, which in turn can allow for better comparisons of earnings forecasts.

Our research can add value to active portfolio management by providing timely, unbiased information for our decision-making processes. Our team combines on-site company visits with exhaustive research in order to uncover the companies that we believe have:

- superior products or services
- outstanding managements
- solid balance sheets
- market leadership
- leading innovation

In our opinion, these strengths can create real value and lead to strong earnings and sales growth, which ultimately drives stock prices.

Our valuation framework is based on the Dividend Discount Model (“DDM”), which allows for estimation of returns to fair value; that is, the DDM compares a company’s future discounted dividend stream to its current stock price. We believe this is a valuable, consistent method with which to value securities. The DDM-based valuation process, in our view, provides a common yardstick that helps analysts and portfolio managers compare the relative valuation of one company’s stock to another. The equity analyst then carefully considers the DDM valuation along with other fundamental factors to produce an investment rating for a company’s stock.

We believe our extensive biotechnology experience enables us to form a full understanding of the subtleties of the therapeutic markets and the applications of clinical data. With this in-depth understanding, we are able to identify what we deem to be solid companies with compelling, long-term prospects. The strategy for the Fund is to invest in a diversified portfolio of biotechnology companies across the different disciplines that make up this sector. We evaluate companies on four criteria: profitability (i.e., current or near-term), partnerships, products and pipeline. The higher a company rates on each of these criteria, the larger the position we will take in the company.

In contrast to many other biotechnology funds, we focus on the longer-term outlook for each company, and subsequently have lower turnover² than other, more “theme-driven” funds. The sector tends to be U.S.-based. Consequently the Fund is made up of almost 90% U.S. stocks.

² Turnover is a measure of the Fund’s trading activity during its previous fiscal year, expressed as a percentage of its average total assets. There is no assurance that the Fund will maintain its current level of turnover.

Market and Fund Review

The year 2001 was a rocky one for the biotechnology industry. Shares of most indices peaked at the start of the third quarter of 2000 and then traded off by roughly 50% over the following two quarters. By mid-year 2001, a partial recovery occurred in the sector, only to be completely erased at the one-year anniversary of the former peak.

Continuing this theme of volatility, just two months after the September 11th terrorist attacks, the biotechnology sector increased in value by almost 50% from its year 2001 lows. The Fund tracked these sector-wide price swings throughout the period.

The broad rotations out of the biotechnology sector after the third quarter of 2000 were a reversal of what had been an explosive increase in valuations—increases that we believe did not reflect any underlying changes in the sector. The rotations out of the biotechnology industry continued as general economic uncertainties persisted. Investors became less willing to invest in companies with distant future earnings streams, preferring less risky stocks that had the capacity to generate current cash flow. As the U.S. Federal Reserve Board (“Fed”) cut key short-term interest rates throughout the period, healthcare stocks initially suffered as investors moved toward economically sensitive companies, shunning stable, long-term growth opportunities.

After September 11, 2001, the biotechnology sector experienced a rebound due to its historical nature as a defensive sector. The sector is considered defensive, largely due to the fact that consumers need to purchase healthcare products in times of peace as well as in times of war. Furthermore, investors became enamored with the prospect that biotechnology companies would become a cornerstone in the fight against bioterrorism.

The Fund has always been broadly diversified within the biotechnology sector. In the past few months, however, we took more aggressive positions based on our analysts’ best ideas in order to take advantage of improving valuations. The Fund purchased securities of Medimmune Inc., Genentech Inc., Abgenix Inc. and Millennium Pharmaceuticals. We either reduced or eliminated the Fund’s holdings in Immunex Corp., Serono SA, Biogen Inc. and Human Genome Sciences Inc. The decision to sell these stocks was driven primarily by deteriorating fundamentals and risk control considerations.

Market and Fund Outlook

Our long-term outlook for the biotechnology sector is optimistic. We believe most biotechnology companies’ fundamentals have vastly improved from where they were in the in the early 1990’s. Although the sector is still very young, since 1994 sales have increased more than 250%, research and development investments have increased nearly 200%, and both the number of products in clinical trials and the number of alliances with pharmaceutical partners have risen by more than 300%. These trends have resulted in more biotechnology products on the market. Today, many of the sector’s most important companies are larger, well capitalized and liquid.

Our near-term outlook is also favorable. While the global economy remains in a state of recession, the classic defensive nature of the biotechnology sector should prove favorable to the Fund’s performance. Furthermore, we expect data from biopharmaceutical clinical trials to continue to be released with favorable net outcomes, further supporting valuations of companies in the Fund’s portfolio.

The biggest risk, we believe, is over the medium-term. Because most biotechnology companies’ values are embedded in future growth prospects, and because investors tend to have short-term investment horizons during times of uncertainty, we feel many companies might be perceived as expensive and risky depending on how certain events unfold. We believe small, poorly capitalized and/or earnings-negative biotechnology firms face the greatest risk. Some of the factors that we believe may impact the sector in the future include: the duration and success of the war on terrorism, the outcome of the next U.S. Congressional elections, and the shape that the debate on healthcare reform takes when it re-emerges. Furthermore, investors may realize that the entire biotechnology sector will not be likely to benefit in any sustainable fashion from bioterrorism prevention and response.

Over the long term, our outlook for biotechnology remains positive. The supply of new drugs and science is expected to continue, along with an increase in demand for these drugs by an aging population that consumes more medications for more diseases than past generations. In short, people become patients, patients desire medical therapy, and biotechnology companies will likely become the source of an ever-increasing proportion of that therapy. As usual, however, we expect volatility to remain a part of the biotechnology sector.

Thank you for investing in the Smith Barney Sector Series Inc.—Smith Barney Biotechnology Fund. We look forward to helping you pursue your financial goals in the years ahead.

Sincerely,



Heath B. McLendon
Chairman

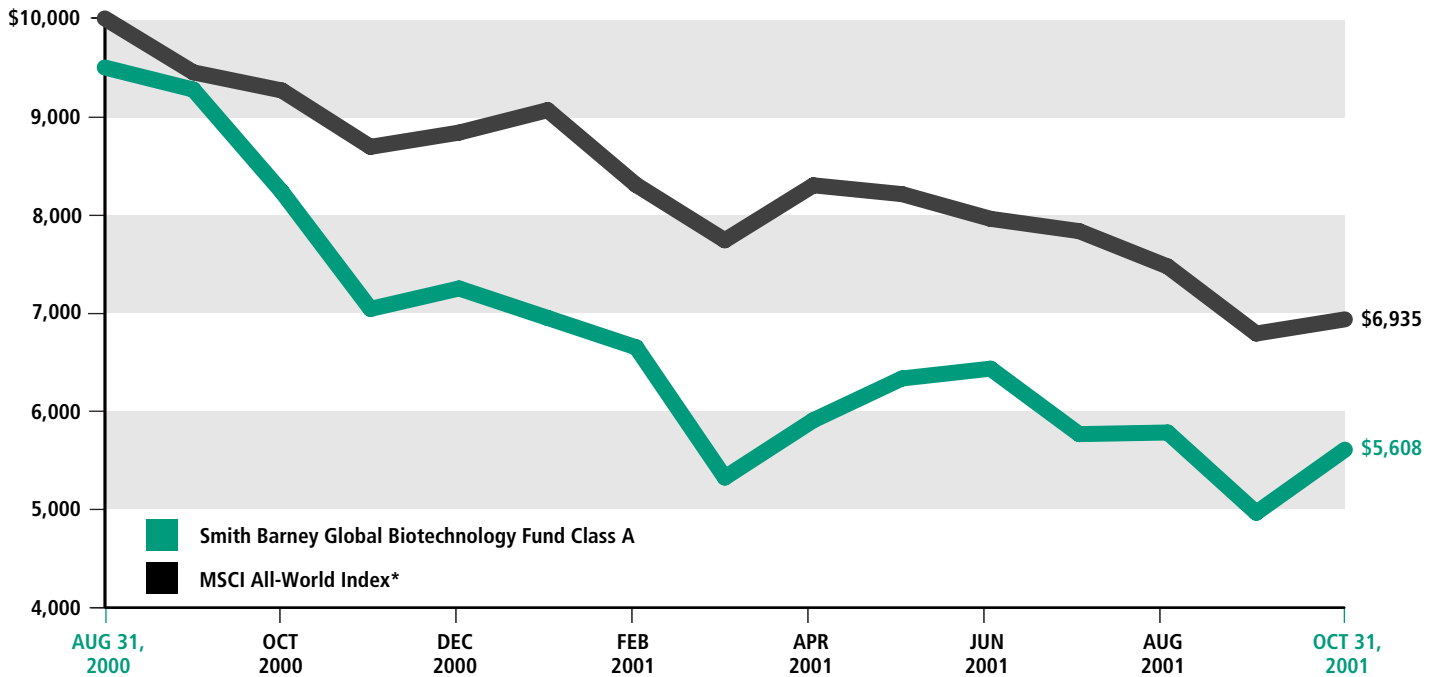
November 7, 2001

The information provided in this commentary represents the opinion of the manager(s) and is not intended to be a forecast of future events, a guarantee of future results or investment advice. Further, there is no assurance that certain securities will remain in or out of the Fund. Please refer to pages 7 through 8 for a list and percentage breakdown of the Fund's holdings. Also, please note that any discussion of the Fund's holdings is as of October 31, 2001 and is subject to change.

Smith Barney Biotechnology Fund at a Glance

Growth of \$10,000 Invested in Shares of the Smith Barney Biotechnology Fund vs. MSCI All-World Index

August 31, 2000 (Commencement of Operations) — October 31, 2001



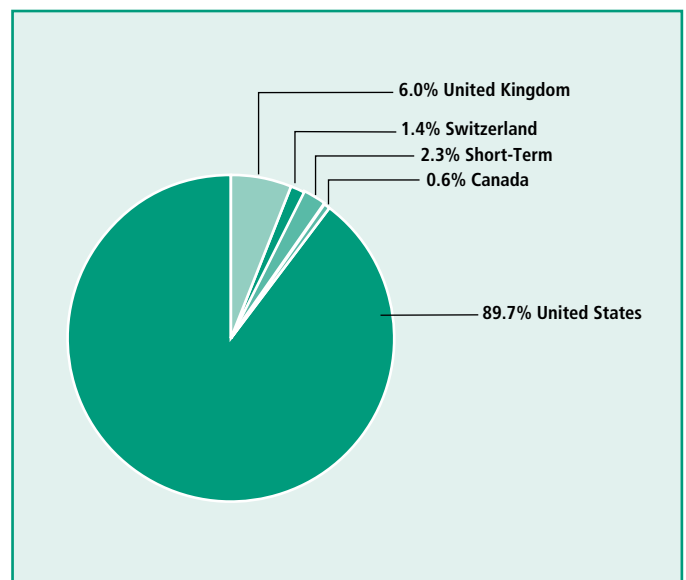
A \$10,000 investment in the Fund made on August 31, 2000 would have declined to \$5,608 with sales charge (as of October 31, 2001). The graph shows how the fund compares to its benchmark for the same period. The graph includes the initial sales charge on the Fund (no comparable charge exists for the index) and assumes all dividends and distributions are reinvested at Net Asset Value.

*The Morgan Stanley Capital International All-World Index ("MSCI All-World") represents the performance of 47 markets in both the developed and the emerging markets in Africa, Asia, Australia, Europe, North America and South America. Please note that an investor cannot invest directly in an index.

Top Ten Common Stock Holdings*

1. Amgen Inc.	21.3%
2. Genentech Inc.	10.4
3. Medimmune Inc.	9.2
4. IDEC Pharmaceuticals Corp.	6.3
5. Genzyme Corp.	5.9
6. Gilead Sciences Inc.	5.1
7. Millennium Pharmaceuticals Inc.	4.2
8. Celltech Group	3.4
9. Abgenix Inc.	3.2
10. Amersham PLC	2.1

Portfolio Breakdown*



* As a percentage of total investments.

SHARES	SECURITY	VALUE
COMMON STOCK — 97.7%		
Canada — 0.6%		
7,730	QLT Inc.* (Biotechnology)	\$ 177,326
Switzerland — 1.4%		
3,634	BB Biotech (Biotechnology)	231,111
214	Serono SA (Pharmaceuticals)	168,944
400,055		
United States — 89.7%		
30,984	Abgenix Inc.* (Pharmaceuticals)	923,013
4,877	Affymetrix Inc.* (Health Care Equipment & Supplies)	146,554
2,910	Albany Molecular Resh Inc.* (Biotechnology)	80,607
6,586	Alkermes Inc.* (Biotechnology)	168,931
106,497	Amgen Inc.* (Biotechnology)	6,051,159
14,106	Aviron* (Biotechnology)	469,730
8,264	Biogen Inc.* (Biotechnology)	454,520
7,301	Bio Technology General Group Corp.* (Biotechnology)	52,202
2,319	CV Therapeutics Inc.* (Pharmaceuticals)	91,461
7,816	Celera Genomics Group-Applera Group* (Biotechnology)	183,676
5,176	Celgene Corp.* (Biotechnology)	170,394
4,240	Cell Genesys Inc.* (Biotechnology)	75,896
3,338	Cell Therapeutics Inc.* (Pharmaceuticals)	100,240
6,606	Chiron Corp.* (Biotechnology)	355,535
7,839	COR Therapeutics Inc.* (Biotechnology)	176,613
3,428	Cubist Pharmaceuticals Inc.* (Pharmaceuticals)	138,148
6,070	Curagen Corp.* (Biotechnology)	140,035
2,841	Enzo Biochemical Inc.* (Biotechnology)	58,297
4,469	Enzon Inc.* (Pharmaceuticals)	276,408
3,469	Gene Logic Inc.* (Biotechnology)	46,485
56,538	Genentech Inc.* (Biotechnology)	2,954,110
30,967	Genzyme Corp.* (Biotechnology)	1,670,670
23,173	Gilead Sciences Inc.* (Pharmaceuticals)	1,457,582
6,193	Guilford Pharmaceuticals Inc.* (Pharmaceuticals)	67,256
13,712	Human Genome Sciences Inc.* (Biotechnology)	584,543
5,724	ICOS Corp.* (Pharmaceuticals)	330,561
29,858	IDEC Pharmaceuticals Corp.* (Biotechnology)	1,790,883
4,283	ImClone Systems Inc.* (Pharmaceuticals)	262,077
5,610	Immunomedics Inc.* (Biotechnology)	102,663
9,378	Incyte Genomics Inc.* (Biotechnology)	139,732
5,541	Invitrogen Corp.* (Biotechnology)	339,885
6,457	Ligand Pharmaceuticals Inc. Cl. B* (Pharmaceuticals)	86,976
3,748	Maxygen Inc.* (Biotechnology)	54,121
8,658	Medarex Inc.* (Biotechnology)	178,355
66,550	Medimmune Inc.* (Biotechnology)	2,611,422
46,725	Millennium Pharmaceuticals Inc.* (Biotechnology)	1,189,618
2,717	Myriad Genetics Inc.* (Biotechnology)	124,982
4,279	Osi Pharmaceuticals Inc.* (Pharmaceuticals)	195,465
2,871	Pharmacyclics Inc.* (Pharmaceuticals)	62,387
10,988	Protein Design Labs Inc.* (Biotechnology)	362,714
3,734	Regeneron Pharmaceuticals Inc.* (Biotechnology)	82,521
4,592	Scios Inc.* (Pharmaceuticals)	106,075
1,941	Transkaryotic Therapies Inc.* (Pharmaceuticals)	73,874

See Notes to Financial Statements.

SHARES	SECURITY	VALUE
2,191	Trimeris Inc.* (Pharmaceuticals)	\$ 86,985
10,725	Vertex Pharmaceuticals Inc.* (Biotechnology)	262,763
2,292	ViroPharma Inc.* (Pharmaceuticals)	57,369
9,750	XOMA Ltd.* (Biotechnology)	72,832
		25,468,325
United Kingdom – 6.0%		
68,506	Amersham PLC (Health Care Equipment & Supplies)	604,079
4,560	Cambridge Antibody Technology Group* (Pharmaceuticals)	111,421
73,180	Celltech Group PLC* (Health Care)	953,588
7,414	Oxford Glycosciences PLC* (Health Care)	48,466
20	Shire Pharmaceuticals Group PLC* (Pharmaceuticals)	291
		1,717,845
	TOTAL COMMON STOCK (Identified Cost — \$33,630,909)	27,763,551
FACE AMOUNT	SECURITY	VALUE
DISCOUNT NOTE – 2.3%		
\$644,000	State Street Bank & Trust Repurchase Agreement 2.55% due 11/1/01 proceeds at maturity \$644,046 (collateralized by \$644,000 Federal National Mortgage Association 4.53% due 5/23/03; valued at \$644,046)	644,000
	TOTAL INVESTMENTS – 100% (Identified Cost — \$34,274,909)†	\$28,407,551

* Non-income producing security.

† Aggregate cost for federal income taxes substantially the same.

See Notes to Financial Statements.

ASSETS:

Investments, at value (Cost — \$34,274,909)	\$ 28,407,551
Cash	508
Dividend and interest receivable	2,638
Receivable for Fund shares sold	132,438
Other receivable	1,385

Total Assets	28,544,520
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LIABILITIES:

Payable for Fund shares repurchased	11,580
Distribution fees payable	18,772
Management fees payable	3,303
Accrued expenses and other liabilities	74,294

Total Liabilities	107,949
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Total Net Assets	\$28,436,571
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NET ASSETS:

Par value of capital shares	\$ 4,252
Capital paid in excess of par value	45,034,012
Accumulated net investment loss	(1,825)
Accumulated net realized loss from security transactions and foreign currencies	(10,732,605)
Net unrealized depreciation of investments and foreign currencies	(5,867,263)

Total Net Assets	\$28,436,571
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Shares Outstanding:

Class A	1,005,545
Class B	1,301,782
Class L	1,945,173

Net Asset Value:

Class A (and redemption price)	\$6.73
Class B *	\$6.67
Class L **	\$6.67

Maximum Public Offering Price Per Share:

Class A (net asset value plus 5.26% of net asset value per share)	\$7.08
Class L (net asset value plus 1.01% of net asset value per share)	\$6.74

* Redemption price is NAV of Class B shares reduced by a 5.00% CDSC if shares are redeemed less than one year from initial purchase (See Note 2).

** Redemption price is NAV of Class L shares reduced by a 1.00% CDSC if shares are redeemed within the first year of purchase.

See Notes to Financial Statements.

Statement of Operations

For the Year Ended October 31, 2001

INVESTMENT INCOME:

Interest	\$	21,460
Dividends		9,841
Less: Foreign withholding tax		(1,231)

Total Investment Income		30,070
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EXPENSES:

Management fees (Note 2)		283,915
Distribution fees (Note 2)		246,955
Blue Sky fees		85,270
Transfer Agent fees		33,229
Shareholder communications		31,535
Other		22,954
Custody fees		21,130
Legal fees		14,753
Directors' fees		10,410
Audit fees		7,710
Registration fees		7,137

Total Expenses		764,998
Less: Aggregate amount waived by the Manager (Note 2)		(144,649)

Net Expenses		620,349
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Net Investment Loss		(590,279)
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REALIZED AND UNREALIZED LOSS ON INVESTMENTS (NOTE 3):

Realized Loss From:		
Security (excluding short-term securities) and foreign currency transactions		(10,717,644)
Decrease in Net Unrealized Depreciation		(1,226,742)

Net Loss on Investments		(11,944,386)
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Decrease in Net Assets From Operations		\$(12,534,665)
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See Notes to Financial Statements.

Statement of Changes in Net Assets

	Year Ended October 31, 2001	August 31, 2000 (Commencement of Operations) to October 31, 2000
OPERATIONS:		
Net investment loss	\$ (590,279)	\$ (75,412)
Net realized gain (loss)	(10,717,644)	2,095
Decrease in net unrealized depreciation	(1,226,742)	(4,640,521)
Decrease in Net Assets From Operations	(12,534,665)	(4,713,838)
FUND SHARE TRANSACTIONS (NOTE 9):		
Net proceeds from sale of shares	13,636,072	41,165,480
Net asset value of shares issued for reinvestment of dividends	—	—
Cost of shares reacquired	(8,618,352)	(498,126)
Increase in Net Assets From Fund Share Transactions	5,017,720	40,667,354
Increase (Decrease) in Net Assets	(7,516,945)	35,953,516
NET ASSETS:		
Beginning of period	35,953,516	—
End of period*	\$ 28,436,571	\$35,953,516
* Includes accumulated net investment loss of:	\$ (1,825)	\$ (2,318)

See Notes to Financial Statements.

1. Significant Accounting Policies

Effective October 12, 2001, The Smith Barney Global Biotechnology Fund changed its name to Smith Barney Biotechnology Fund. The Smith Barney Biotechnology Fund is a non-diversified investment fund of the Smith Barney Sector Series Inc. (the "Company"), a Maryland corporation. The Company is registered under the Investment Company of 1940, as amended, as an open-end management investment company and consists of this Fund and four other separate investment funds: Smith Barney Financial Services Fund, Smith Barney Health Sciences Fund, Smith Barney Technology Fund and Smith Barney Global Media & Telecommunications Fund. The Fund commenced operations on August 31, 2000.

The significant accounting policies followed by the Fund are: (a) security transactions are accounted for on trade date; (b) securities traded in national securities markets are valued at the closing prices in the primary exchange on which they are traded; securities listed or traded on certain foreign exchanges or other markets whose operations are similar to the U.S. over-the-counter market (including securities listed on exchanges where the primary market is believed to be over-the-counter) and securities for which no sale was reported on that date are valued at the mean between the bid and ask prices. Securities which are listed or traded on more than one exchange or market are valued at the quotations on the exchange or market determined to be the primary market for such securities; (c) securities for which market quotations are not available will be valued in good faith at fair market value by or under the direction of the Board of Directors; (d) securities maturing within 60 days are valued at cost plus accreted discount, or minus amortized premium, which approximates value; (e) the accounting records of the Fund are maintained in U.S. dollars. All assets and liabilities denominated in foreign currencies are translated into U.S. dollars based on the rate of exchange of such currencies against U.S. dollars on the date of valuation. Purchases and sales of securities, and income and expenses are translated at the rate of exchange quoted on the respective date that such transactions are recorded. Differences between income or expense amounts recorded and collected or paid are adjusted when reported by the custodian;

(f) interest income, adjusted for amortization or premium and accretion of discount, is recorded on an accrual basis; (g) dividend income is recorded on the ex-dividend date; foreign dividends are recorded on the ex-dividend date or as soon as practical after the Fund determines the existence of a dividend declaration after exercising reasonable due diligence; (h) dividends and distributions to shareholders are recorded on the ex-dividend date; (i) gains or losses on the sale of securities are calculated by using the specific identification method; (j) direct expenses are charged to each class; management fees and general expenses are allocated on the basis of relative net assets; (k) the character of income and gains to be distributed are determined in accordance with income tax regulations which may differ from generally accepted accounting principles; (l) the Fund intends to comply with the requirements of the Internal Revenue Code of 1986, as amended, pertaining to regulated investment companies and to make distributions of taxable income sufficient to relieve it from substantially all Federal income and excise taxes; (m) the character of income and gains to be distributed in accordance with income tax regulations which may differ from generally accepted accounting principles. At October 31, 2000, reclassifications were made to the Fund's capital accounts to reflect permanent book/tax differences and income and gains available for distribution under income tax regulations. Accordingly, the Fund reclassified \$597,713, from paid in capital, to accumulated net investment loss. Net investment income, net realized gains and net assets were not affected by this adjustment and (n) estimates and assumptions are required to be made regarding assets, liabilities and changes in net assets resulting from operations when financial statements are prepared. Changes in the economic environment, financial markets and any other parameters used in determining these estimates could cause actual results to differ.

In addition, the Fund may enter into forward exchange contracts in order to hedge against foreign currency risk. These contracts are marked-to-market daily, by recognizing the difference between the contract exchange rate and the current market rate as an unrealized respectively.

2. Management Agreement and Other Transactions

Smith Barney Fund Management LLC (“SBFM”), formerly known as SSB Citi Fund Management LLC, a subsidiary of Salomon Smith Barney Holdings Inc. (“SSBH”), which, in turn, is a subsidiary of Citigroup Inc. (“Citigroup”), acts as investment manager to the Fund. The management fee is computed at an annual rate of 0.95% of the average daily net assets. SBFM has delegated the daily management of the Fund to Citigroup Asset Management Ltd., (the “Sub-adviser”), an affiliate of SBFM. For services provided to the Fund, the manager pays the Subadviser a subadvisory fee computed at an annual rate of 0.65% of the Fund’s average daily net assets. The management fees paid amounted to \$283,915, of which \$144,649 was voluntarily waived for the year ended October 31, 2001.

Salomon Smith Barney Inc. acts as the Fund’s distributor. Salomon Smith Barney Inc. (“SSB”), another subsidiary of SSBH, as well as certain other broker-dealers, continues to sell Fund shares to the public as a member of the selling group.

Citi Fiduciary Trust Company (“CFTC”), another subsidiary of Citigroup, acts as the Fund’s transfer agent and PFPC Global Fund Services (“PFPC”) acts as the Fund’s sub-transfer agent. CFTC receives fees and asset-based fees that vary according to the account size and type of account. PFPC is responsible for shareholder recordkeeping and financial processing for all shareholder accounts and is paid by CFTC. For the year ended October 31, 2001, the Fund paid transfer agent fees of \$33,229 to CFTC.

There is a maximum initial sales charge of 5.00% and 1.00% for Class A shares and L shares, respectively. There is a contingent deferred sales charge (“CDSC”) of 5.00% on Class B shares, which applies if redemption occurs within one year from initial purchase and declines thereafter by 1.00% per year until no CDSC is incurred. Class L shares also have a 1.00% CDSC, which applies if redemption occurs within the first year of purchase.

For the year ended October 31, 2001, CDSCs paid to SSB and sales charges received by SSB were approximately:

	Class A	Class B	Class L
CDSCs	\$ —	\$ —	\$14,000
Sales Charges	\$88,000	\$ —	\$46,000

Pursuant to a Distribution Plan, the Fund pays a service fee with respect to Class A, B and L shares calculated at an annual rate of 0.25% of the average daily net assets of each respective class. The Fund also pays a distribution fee with respect to Class B and L shares calculated at an annual rate of 0.75% of the average daily net assets for each class, respectively.

For the year ended October 31, 2001, total Distribution Plan fees incurred were:

	Class A	Class B	Class L
Distribution Plan Fees	\$17,301	\$93,458	\$136,196

All officers and one Director of the Fund are employees of SSB.

3. Investments

During the year ended October 31, 2001, the aggregate cost of purchases and proceeds from sales of investments (excluding short-term securities) were as follows:

Purchases	\$26,682,003
Sales	\$21,826,121

At October 31, 2001, aggregate gross unrealized appreciation and depreciation of investments for Federal income tax purposes were substantially as follows:

Gross unrealized appreciation	\$ 1,008,809
Gross unrealized depreciation	(6,876,167)
Net unrealized depreciation	\$(5,867,358)

4. Forward Foreign Currency Contracts

At October 31, 2001, the Fund had no open forward foreign currency contracts.

5. Option Contracts

Premiums paid when put or call options are purchased by the Fund represent investments, which are marked-to-market daily. When a purchased option expires, the Fund will realize a loss in the amount of the premium paid. When the Fund enters

into a closing sales transaction, the Fund will realize a gain or loss depending on whether the proceeds from the closing sales transaction are greater or less than the premium paid for the option. When the Fund exercises a put option, it will realize a gain or loss from the sale of the underlying security and the proceeds from such sale will be decreased by the amount of the premium originally paid. When the Fund exercises a call option, the cost of the security that the Fund purchases upon exercise will be increased by the premium originally paid.

At October 31, 2001, the Fund had no open purchased call or put options.

When a Fund writes a call or put option, an amount equal to the premium received by the Fund is recorded as a liability, the value of which is marked-to-market daily. When a written option expires, the Fund realizes a gain or loss depending upon whether the cost of the closing transaction is greater or less than the premium originally received, without regard to any unrealized gain or loss on the underlying security, and the liability related to such option is eliminated. When a written call option is exercised the cost of the security sold will be decreased by the premium originally received. When a written put option is exercised, the amount of the premium originally received will reduce the cost of the security which the Fund purchased upon exercise. When written index options are exercised, settlement is made in cash.

The risk associated with purchasing options is limited to the premium originally paid. The Fund enters into options for hedging purposes. The risk in writing a call option is that the Fund gives up the opportunity to participate in any increase in the price of the underlying security beyond the exercise price. The risk in writing a put option is that the Fund is exposed to the risk of loss if the market price of the underlying security declines.

At October 31, 2001, the Fund did not write any options.

6. Futures Contracts

Initial margin deposits made upon entering into futures contracts are recognized as assets. Securities equal to the initial margin amount are segregated by the custodian in the name

of the broker. Additional securities are also segregated up to the current market value of the futures contract. During the period the futures contract is open, changes in the value of the contract are recognized as unrealized gains or losses by “marking-to-market” on a daily basis to reflect the market value of the contract at the end of each day’s trading. Variation margin payments are received or made and recognized as assets due from or liabilities due to broker, depending upon whether unrealized gains or losses are incurred. When the contract is closed, the Fund records a realized gain or loss equal to the difference between the proceeds from (or cost of) the closing transactions and the Fund’s basis in the contract.

The Fund enters into such contracts to hedge a portion of its portfolio. The Fund bears the market risk that arises from changes in the value of the financial instruments and securities indices (futures contracts).

At October 31, 2001, the Fund had no open futures contracts.

7. Repurchase Agreements

The Fund purchases (and its custodian takes possession of) U.S. government securities from banks and securities dealers subject to agreements to resell the securities to the sellers at a future date (generally, the next business day) at an agreed upon higher repurchase price. The Fund requires continual maintenance of the market value of the collateral (plus accrued interest) in amounts at least equal to the repurchase price.

8. Concentration of Risk

The Fund intends to invest at least 80% of its assets in biotechnology related investments. As a result of this concentration policy, which is a fundamental policy of the Fund, the Fund’s investment may be subject to greater risk and market fluctuation than a fund that invests in securities representing a broader range of investment alternatives.

The Fund’s investments in foreign securities may involve risks not present in domestic investments. Since securities may be denominated in a foreign currency and may require settlement in foreign currencies and pay interest or dividends in foreign currencies, changes in the relationship of these for-

Notes to Financial Statements (continued)

eign currencies to the U.S. dollar can significantly affect the value of these investments and earnings of the Fund. Foreign investments may also subject the Fund to foreign government exchange restrictions, expropriation, taxation or other political, social or economic developments, all of which could affect the market and/or credit risk of the investments.

9. Capital Shares

At October 31, 2001, the Fund had 400 million shares of capital stock authorized with a par value of \$0.001 per share.

The Fund has the ability to issue multiple classes of shares. Each share of a class represents an identical interest in the Fund and has the same rights, except that each class bears certain expenses specifically related to the distribution of its shares.

At October 31, 2001, total paid-in capital amounted to the following for each class:

	Class A	Class B	Class L
Total Paid-in Capital	\$10,733,943	\$14,256,813	\$20,645,221

Transactions in shares of each class were as follows:

	Year Ended October 31, 2001		August 31, 2000 (Commencement of Operations) to October 31, 2000	
	Shares	Amount	Shares	Amount
Class A				
Shares sold	519,806	\$ 4,015,254	865,546	\$ 9,646,712
Shares issued on reinvestment	—	—	—	—
Shares reacquired	(373,491)	(2,851,164)	(6,316)	(65,738)
Net Increase	146,315	\$ 1,164,090	859,230	\$ 9,580,974
Class B				
Shares sold	452,685	\$ 3,457,895	1,216,537	\$ 13,558,737
Shares issued on reinvestment	—	—	—	—
Shares reacquired	(337,575)	(2,450,584)	(29,865)	(294,225)
Net Increase	115,110	\$ 1,007,311	1,186,672	\$ 13,264,512
Class L				
Shares sold	802,225	\$ 6,162,923	1,611,305	\$ 17,960,031
Shares issued on reinvestment	—	—	—	—
Shares reacquired	(455,094)	(3,316,604)	(13,263)	(138,163)
Net Increase	347,131	\$ 2,846,319	1,598,042	\$ 17,821,868

10. Capital Loss Carryforward

At October 31, 2001, the Fund had, for Federal income tax purposes, a capital loss carryforward of approximately \$10,017,000, available to offset future capital gains of which \$22,000 expires October 31, 2008 and \$9,995,000 expires October 31, 2009. To the extent that these carryforward losses are used to offset capital gains, it is probable that any gains so offset will not be distributed.

Financial Highlights

For a share of each class of Capital Stock:

Class A Shares	Year Ended October 31, 2001	August 31, 2000 (Commencement of Operations) to October 31, 2000*
Net Asset Value, Beginning of Period	\$9.88	\$11.40
Income (Loss) From Operations:		
Net investment loss	(0.10)	(0.04)
Net realized and unrealized loss	(3.05)	(1.48)
Total Loss From Operations	(3.15)	(1.52)
Less Distributions From:		
Net investment income	—	—
Net realized gain	—	—
Total Distributions	—	—
Net Asset Value, End of Period	\$6.73	\$9.88
Total Return	(31.88)%	(13.33)%‡
Net Assets, End of Period (000's)	\$6,769	\$8,486
Ratios to Average Net Assets:		
Expenses	1.50%	1.52%†
Net investment loss	(1.40)%	(0.78)%†
Portfolio Turnover Rate	74%	1%

Note: If the Manager of the Fund had not voluntarily waived a portion of their fees, the net investment income (loss) per share and the ratios would have been as follows:

Net investment loss per share	\$(0.14)	\$(0.04)
Ratios:		
Expenses to average net assets	1.98%	3.08%†
Net investment loss to average net assets	(1.88)%	(2.34)%†

* Note: The per share amounts were computed using monthly average of shares during the period.

† Annualized.

‡ Total return is not annualized, as it may not be representative of the total return for the year.

See Notes to Financial Statements.

Financial Highlights (continued)

For a share of each class of Capital Stock:

Class B Shares	Year Ended October 31, 2001	August 31, 2000 (Commencement of Operations) to October 31, 2000*
Net Asset Value, Beginning of Period	\$9.86	\$11.40
Income (Loss) From Operations:		
Net investment loss	(0.16)	(0.05)
Net realized and unrealized loss	(3.03)	(1.49)
Total Loss From Operations	(3.19)	(1.54)
Less Distributions From:		
Net investment income	—	—
Net realized gain	—	—
Total Distributions	—	—
Net Asset Value, End of Period	\$6.67	\$9.86
Total Return	(32.35)%	(13.51)%‡
Net Assets, End of Period (000's)	\$8,687	\$11,705
Ratios to Average Net Assets:		
Expenses	2.25%	2.28%†
Net investment loss	(2.15)%	(1.51)%†
Portfolio Turnover Rate	74%	1%

Note: If the Manager of the Fund had not voluntarily waived a portion of their fees, the net investment loss per share and the ratios would have been as follows:

Net investment loss per share	\$(0.19)	\$(0.05)
Ratios:		
Expenses to average net assets	2.74%	3.84%†
Net investment loss to average net assets	(2.64)%	(3.07)%†

* Note: The per share amounts were computed using monthly average of shares during the period.

† Annualized.

‡ Total return is not annualized, as it may not be representative of the total return for the year.

See Notes to Financial Statements.

Financial Highlights (continued)

For a share of each class of Capital Stock:

Class L Shares	Year Ended October 31, 2001	August 31, 2000 (Commencement of Operations) to October 31, 2000*
Net Asset Value, Beginning of Period	\$9.86	\$11.40
Income (Loss) From Operations:		
Net investment loss	(0.16)	(0.06)
Net realized and unrealized loss	(3.03)	(1.48)
Total Loss From Operations	(3.19)	(1.54)
Less Distributions From:		
Net investment income	—	—
Net realized gain	—	—
Total Distributions	—	—
Net Asset Value, End of Period	\$6.67	\$9.86
Total Return	(32.35)%	(13.51)%‡
Net Assets, End of Period (000s)	\$12,980	\$15,763
Ratios to Average Net Assets:		
Expenses	2.25%	2.28%†
Net investment loss	(2.15)%	(1.51)%†
Portfolio Turnover Rate	74%	1%
<i>Note: If the Manager of the Fund had not voluntarily waived a portion of their fees, the net investment loss per share and the ratios would have been as follows:</i>		
Net investment loss per share	\$(0.19)	\$(0.06)
Ratios:		
Expenses to average net assets	2.74%	3.84%†
Net investment loss to average net assets	(2.64)%	(3.07)%†

* Note: The per share amounts were computed using monthly average of shares during the period.

† Annualized.

‡ Total return is not annualized, as it may not be representative of the total return for the year.

See Notes to Financial Statements.

Independent Auditors' Report

To the Shareholders and Board of Trustees of the Smith Barney Sector Series Inc.:

We have audited the accompanying statement of assets and liabilities, including the schedule of investments, of Smith Barney Biotechnology Fund of Smith Barney Sector Series Inc. ("Fund") as of October 31, 2001, the related statement of operations, the statements of changes in net assets, and financial highlights for year ended October 31, 2001, and for the period August 31, 2000 (Commencement of Operations) through October 31, 2000. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of October 31, 2001, by correspondence with the custodian. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of the Fund as of October 31, 2001, and for the results of its operations, the changes in its net assets and financial highlights for the year ended October 31, 2001 and for the period August 31, 2000 (Commencement of Operations) through October 31, 2000, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

New York, New York
December 12, 2001

DIRECTORS

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Burt N. Dorsett
Elliot S. Jaffe
Stephen E. Kaufman
Joseph J. McCann
Heath B. McLendon, Chairman
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James J. Crisona, Emeritus

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Officer

Lewis E. Daidone
Senior Vice President and Treasurer

Irving P. David
Controller

Christina T. Sydor
Secretary

INVESTMENT MANAGER

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INVESTMENT SUBADVISER

Citigroup Asset Management Ltd.

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Smith Barney Biotechnology Fund

This report is submitted for general information of the shareholders of Smith Barney Sector Series Inc. — Smith Barney Biotechnology Fund, but it may also be used as sales literature when preceded or accompanied by the current Prospectus, which gives details about charges, expenses, investment objectives and operating policies of the Fund. If used as sales material after January 31, 2002, this report must be accompanied by performance information for the most recently completed calendar quarter.

SMITH BARNEY BIOTECHNOLOGY FUND
Smith Barney Mutual Funds
388 Greenwich Street, MF-2
New York, New York 10013

For complete information on any Smith Barney Mutual Funds, including management fees and expenses, call or write your financial professional for a free prospectus. Read it carefully before you invest or send money.

www.smithbarney.com/mutualfunds

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