

Smiths Group

CSFB Aerospace & Defence Conference 2005

London, Wednesday 28 September 2005

Presentation by: Alan Thomson, Financial Director



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Smiths achieved strong growth in 2005

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£m	2005	2004	reported growth
Sales	3,017	2,678	+13%
Operating profit	420	360	+17%
Profit before tax	413	350	+18%
Earnings per share	54.3p	45.9p	+18%
Dividend	29.0p	27.0p	+7.4%

The dividend was increased for the 35th consecutive year

All four divisions contributed double-digit growth in 2005

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Sales (£m)	2005	growth at constant currency
Aerospace	1,158	+18%
Detection	367	+17%
Medical	563	+19%
Specialty Engineering	929	+10%
Total	3,017	+16%
Operating profit (£m)		
Aerospace	118	+22%
Detection	67	+21%
Medical	108	+23%
Specialty Engineering	127	+16%
Total	420	+20%

Higher volumes and improved productivity generated better margins

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	2005	2004
Net operating margins		
Aerospace	10.2%	9.9%
Detection	18.2%	17.5%
Medical	19.2%	18.8%
Specialty Engineering	13.7%	13.0%
	<hr/> 13.9%	<hr/> 13.4%

Cash-flow conversion was below target in 2005

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Operating profit/operating cash:

67%

Higher capex:

Higher working capital:

- Investment in capacity and low-cost manufacturing
- Concentration of sales in June/July
- Timing of defence contract payments
- Higher inventory to safeguard supply





Conversion target for 2006:

80%

Even when expanding rapidly, Smiths generates a healthy cash-flow

£m	Operating cash-flow	Free cash-flow
2005	280 (after capex)	147 (before acquisitions/dividends)

Smiths made good progress on acquisitions in 2005

	For example	
To establish a significant presence in an adjacent market	Medex (safety devices)	
To extend the product range	Integrated Aerospace (undercarriages)	
To widen the geographical reach	Sevit (Italian medical distributor)	
To acquire emerging technologies	Farran (millimetre-wave detection)	
Acquisitions were added in all four divisions	total spend	£595m
Progress continues in 2006	spend to date	£30m

The synergies from the Medex acquisition will be achieved across Smiths Medical

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		2005 (£m)	2006 (£m)	2007 (£m)	2008 (£m)
Synergies:	Sales/marketing				
	Back office/distribution				
	Manufacturing				
Profit impact		1	Circa 8	13 - 16	18 - 25
One-off costs		10	20 - 25	15 - 20	0 - 5
Overall profit		45			55
			Synergies		25
					80

£80m in 2008 - well above cost of capital

Technology leadership:

Increased commitment to R&D is generating incremental sales



Aerospace:
open architecture
integrated avionics
systems for Boeing 787



Detection:
Sentinel explosive
screening portal



Medical:
Cozmonitor insulin
delivery pump/monitor



Specialty Engineering:
phased array antenna for
aircraft Satcom

	% 2005 of sales Company funded	% 2005 sales Customer funded
Aerospace	7%	12%
Detection	7%	2%
Medical	3%	-
Specialty Engineering	2%	-
total	5% (£144m)	5% (£152m)

Strong organic growth momentum in all four divisions

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Aerospace

Commercial aero recovery, sustained military growth

annual sales

£1.2 billion



Detection

Market opportunities continue to emerge, driven by new technology

annual sales

£0.4 billion



Medical

Rising healthcare spend drives continuous growth

annual sales

£0.7 billion



Specialty Eng.

Niche markets, incl. oil & gas / military / electronics telecoms

annual sales

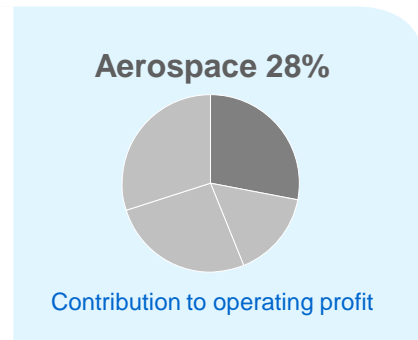
£0.9 billion

Growth driven by positive market conditions and Smiths ability to outperform competitors

Smiths Aerospace

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£m	2005	reported growth	at constant currency
Sales	1,158	+15%	+18%
Headline operating profit	118	+18%	+22%
<i>Margin</i>	10%		



- Commercial sales up 25%
 - higher OE build rates
 - aftermarket driven by RPMs
- Defence sales increased by 9%
- Good mix of commercial & defence development programmes

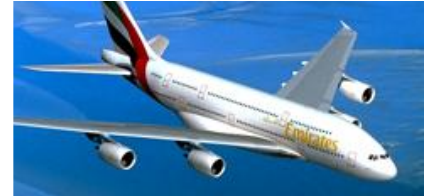
Boeing 787



US 101



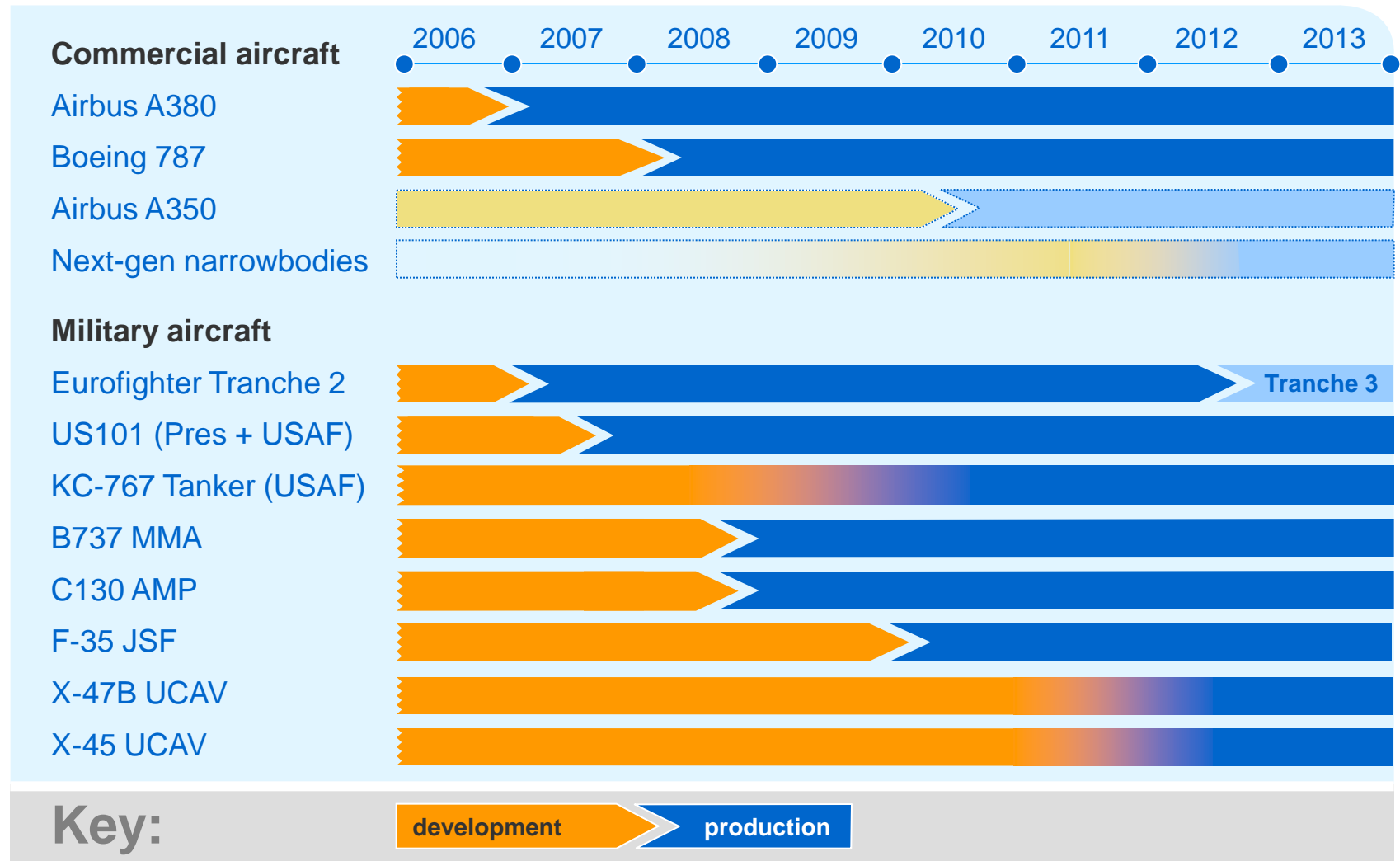
A380



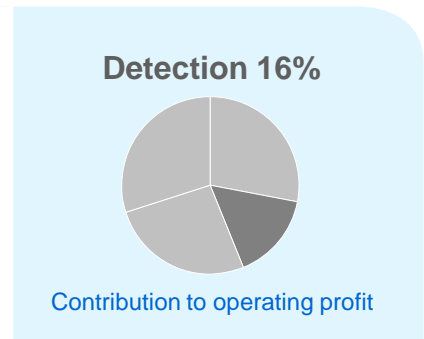
Smiths Aerospace:

Commitment to R&D and recent programme wins ensure long-term growth

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£m	2005	reported growth	at constant currency
Sales	367	+16%	+17%
Headline operating profit	67	+20%	+21%
<i>Margin</i>	18%		



- Smiths technologies used for the widest range of applications
- Transportation sector benefiting from re-equipment with latest products
- Strong growth in military sales, including ACADA and LCAD
- X-ray systems at Ports & Borders also used to prevent smuggling
- High investment in R&D and acquiring technologies, including millimetre wave
- Service revenues now coming through

Sentinel II



Ionscan 500 DT

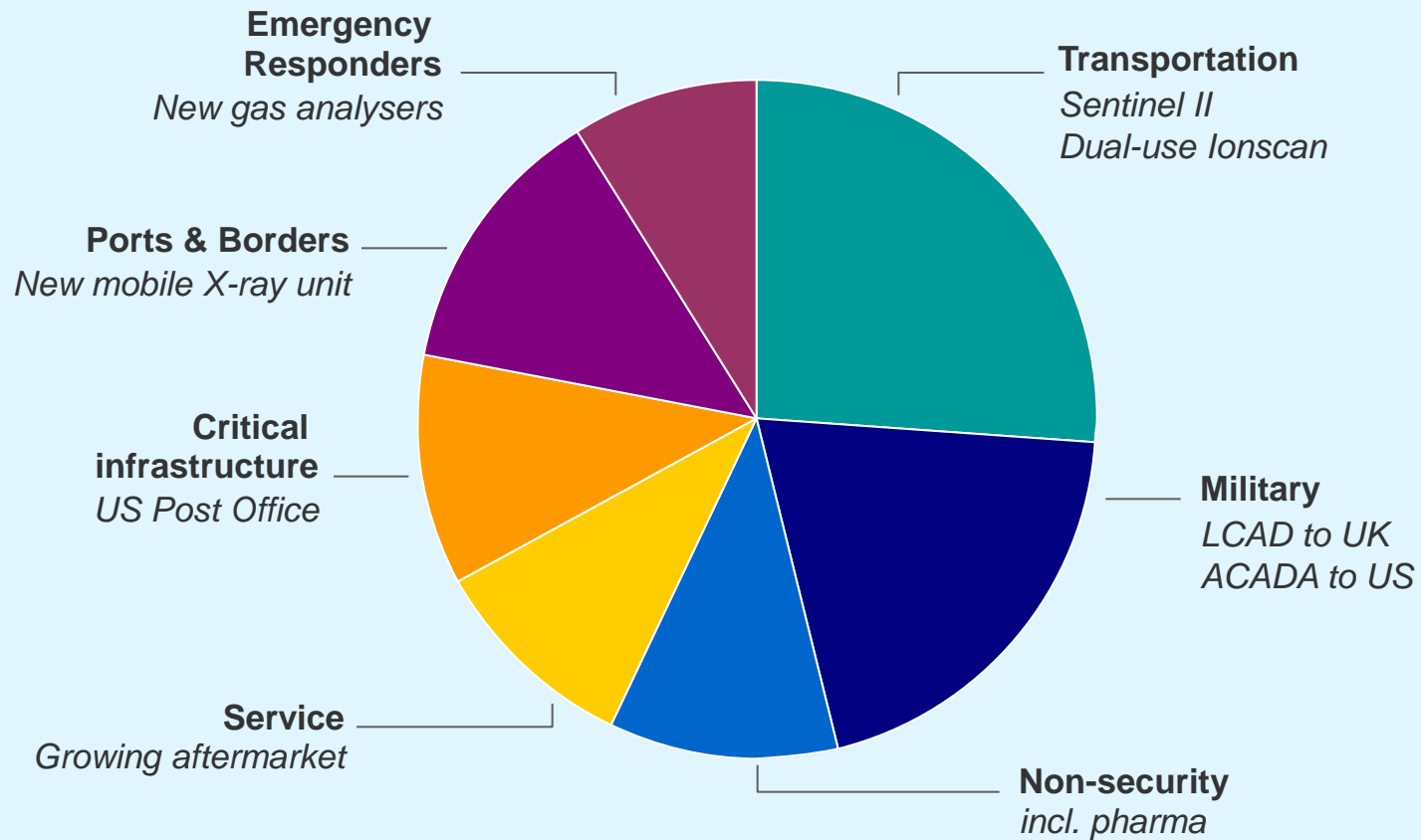


Hazmat kit



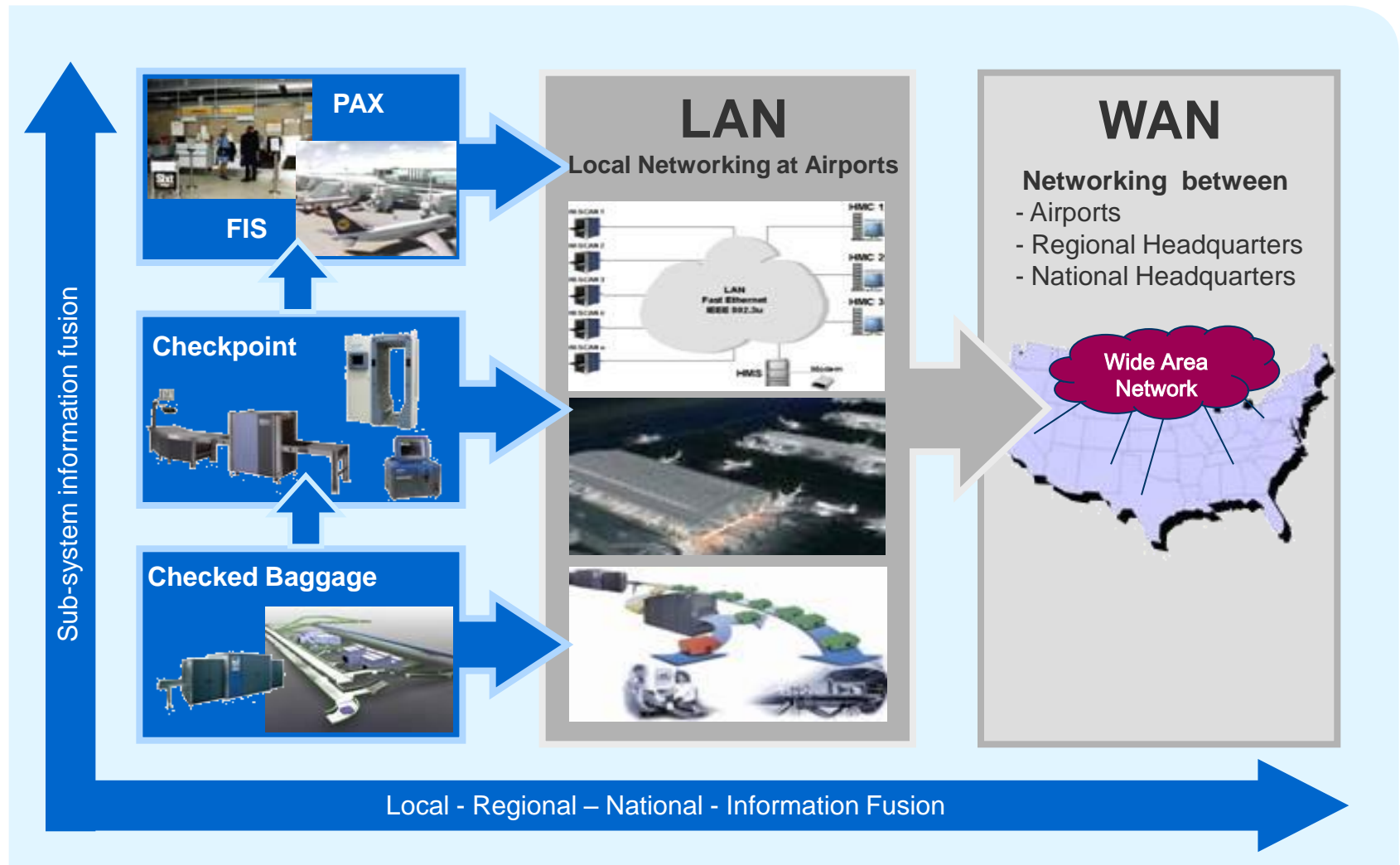
Smiths Detection:

Growth is coming from the wide range of market sectors

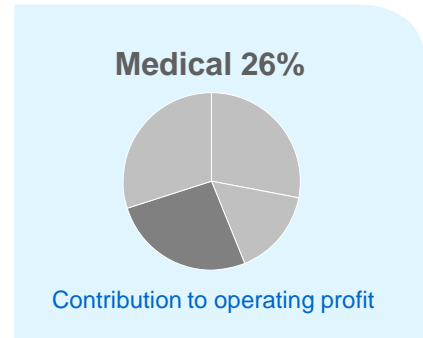


2005 sales: £367m

Smiths Detection: System integration and networking will be the next step



£m	2005	reported growth	at constant currency
Sales	563	+16%	+19%
Headline operating profit	108	+18%	+23%
<i>Margin</i>	19%		



- Excluding Medex and currency, sales grew 4%, profits 3%
- Base business held back by supply issues
- New products introduced in each sector
- Strong US Cozmo sales; now launched in 8 countries

Protect IV catheters



Cozmo



Digit



Smiths Medical:

In specialised markets, with strong niche positions

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Medication Delivery

*Performing strongly,
helped by Cozmo*



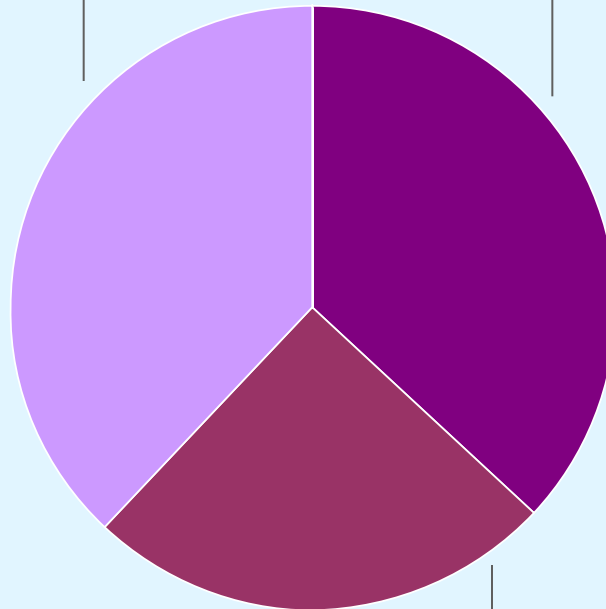
Critical Care

*Benefiting from new products,
and integration of Medex.
Supply issues have been resolved*



Safety Devices

*Conversion from conventional devices
sustains growth of
combined Smiths/Medex range*



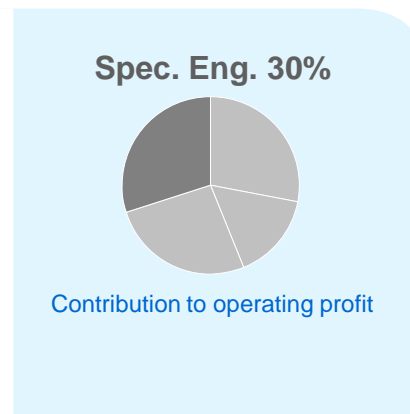
2005 sales

(proforma 12 months of Medex)

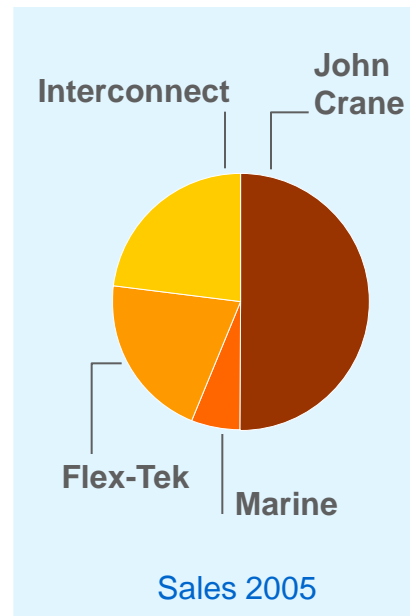
Specialty Engineering

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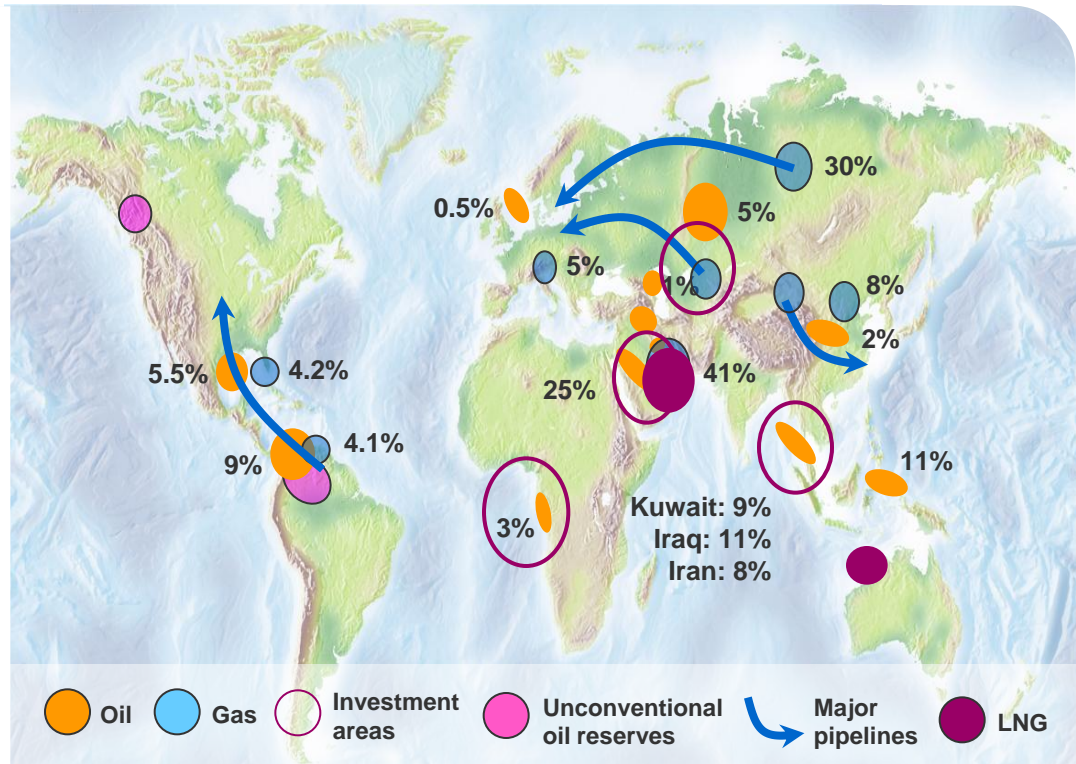
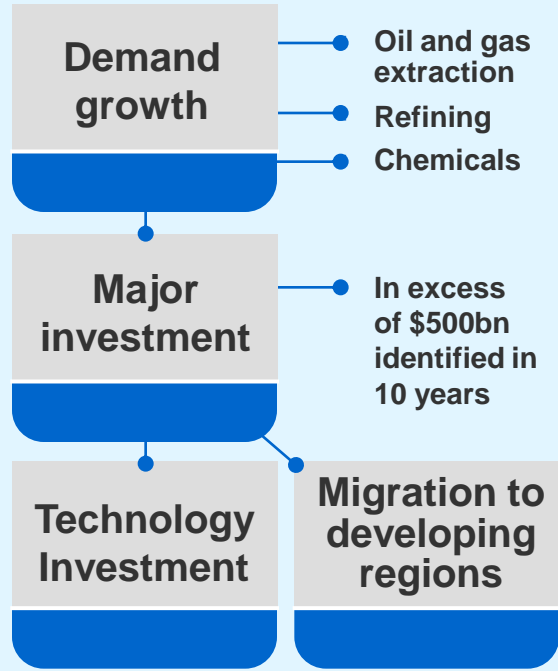
£m	2005	reported growth	at constant currency
Sales	929	+7%	+10%
Headline operating profit	127	+12%	+16%
<i>Margin</i>	14%		



- All four businesses contributed to growth
- John Crane benefiting from increased investment by oil & gas majors
- And from entering new markets, including China
- Interconnect achieved strong growth, in defence and telecoms

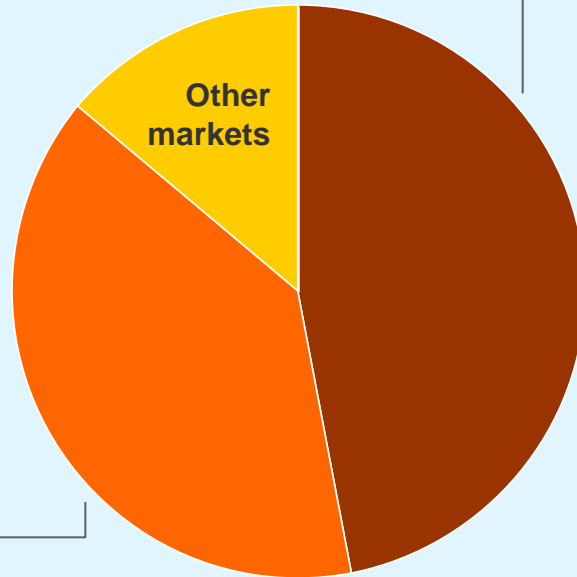


Market Drivers





Telecoms lightning strike protection



2005 sales: £220m

Wireless infrastructure

- *Microwave cables*
- *Lightning protection*
- *Power-surge protection*

Defence and Aerospace

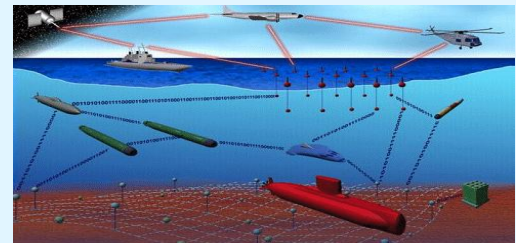
- *EMC protection*
- *Sat-com antennae*
- *Microwave assemblies*



latest acquisition

Millitech

- Millimetre wave assemblies
- Antennae for network-centric warfare
- Adds £15m to Interconnect sales



Capital expenditure



growth related to worldwide investment

Working capital



one-off issues now being resolved

Debt levels

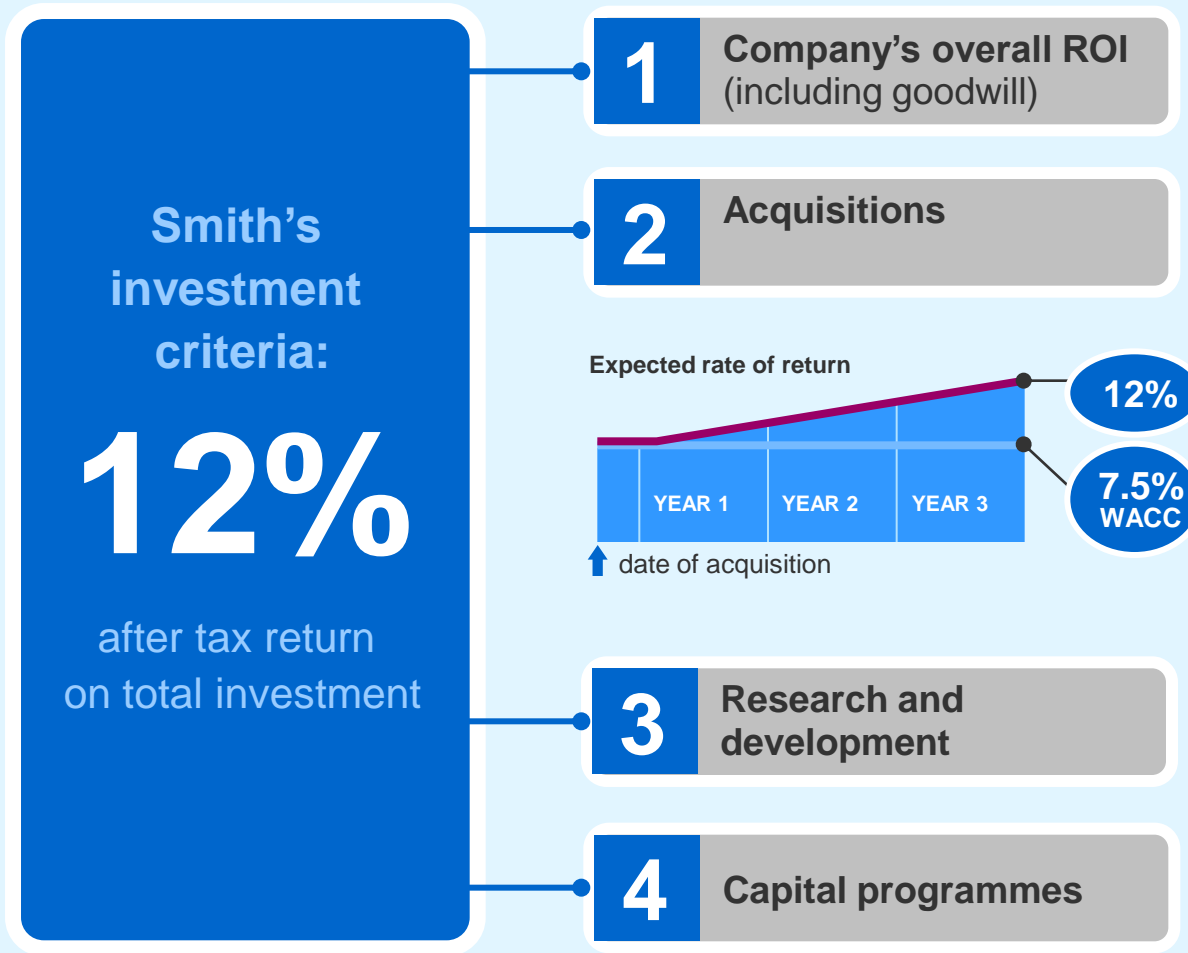


free cash-flow provides resources for further organic/acquisitive growth

Pensions



UK funded plans now in surplus
P&L benefit will increase



Reaching for full potential:

Six fundamental strengths which drive Smiths' strategy

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1

Choosing markets with long term growth where Smiths can outperform

2

Improving productivity, including establishing low-cost manufacturing

3

Building the scale and infrastructure to operate globally

4

Investing heavily in R&D to win technological advantage

5

Acquiring businesses which will generate additional growth

6

Ensuring ethical standards are respected throughout Smiths

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