

smiths

Smiths Group

**At the Dresdner Kleinwort Wasserstein
Capital Goods Conference**



London, Tuesday, 18th March 2003

Alan Thomson, Financial Director

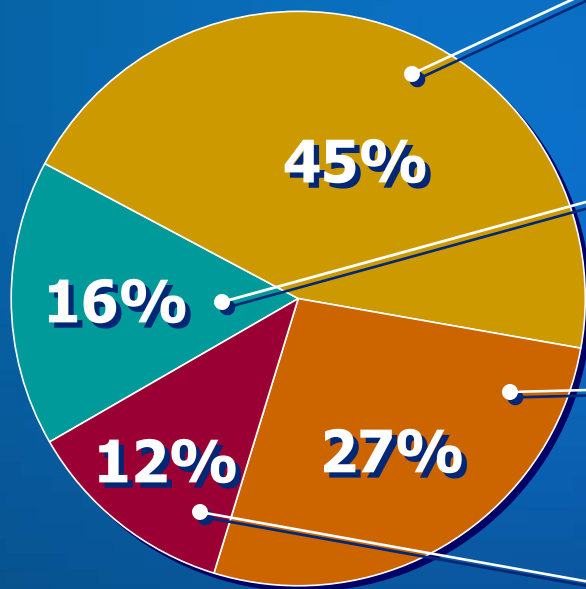
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Smiths Group

The UK's leading engineering company

Operating in four focused market sectors



divisional split of H1/03 sales
total £1.46bn

Aerospace

Advanced avionic systems and aircraft equipment



Medical

Devices for critical and intensive healthcare



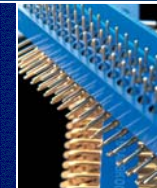
Sealing Solutions

Mechanical and polymer seals



Industrial

Electronic interconnect and ducting/hosing



Annual Sales - £3bn Employees - 33,000

▶ 50% of revenues generated in US

Performing strongly in the current economic climate

Interim Results for 6 months ended 31 January 2003

£m reporting under FRS17
(before exceptionals & amortisation)

	H1/03	cf H1/02
Sales	1,456	-2%
Operating profit	180	-1%
Margins	12%	~
Operating cash-flow	158	-1%
Pre-tax	161	-4%
EPS	20.8p	-4%
Dividend	8.75p	~

free cash-flow of
16.5p per share

Smiths' fundamentals

Strong market niches

High margins

Cash-generation

Good dividends

Balance-sheet strength

Net debt: £812m - from £725m at start of period

Smiths - the current topics of interest

Second half performance this year

Recovering margins in Medical

Sustaining high growth in Detection

Pensions, and moving to FRS17

Dividend policy

Further progress on acquisitions/disposals

Re-focusing Smiths on the best opportunities for growth

Finding valuable additions to strengthen the core activities

Acquired since Dec 2000

Acquisition costs	£360m
Annual sales	£240m
<i>Margins</i>	<i>14%</i>

Costs: 11 x operating profits

Mainly in the fast-growing detection equipment sector

Acquisition in H1/03

	cost	contrib. for
Heimann ▶	£233m	2 months

Getting on with the disposal of non-core and slow growth businesses

Sold since Dec 2000

Proceeds	£470m
Annual sales	£440m
<i>Margins</i>	<i>10%</i>

Proceeds: 11 x operating profits

Mainly in the capital goods sector

Disposals in H1/03

	proceeds	contrib. for
AMG ▶	£125m	4 months
Lodge ▶	£33m	3 months

exceptional gain £16m

Smiths Aerospace

A first tier supplier to the world's major aircraft and engine manufacturers

£m

H1/2003

cf H1 2002

Turnover

648

+1%

Operating profit

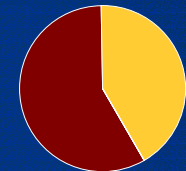
75

+8%

Margin

12%

42%



contrib. to
H1/03 op. profit

- Strong growth in detection can be sustained
- Military business will continue to grow steadily
- R&D will continue to increase, incl. military

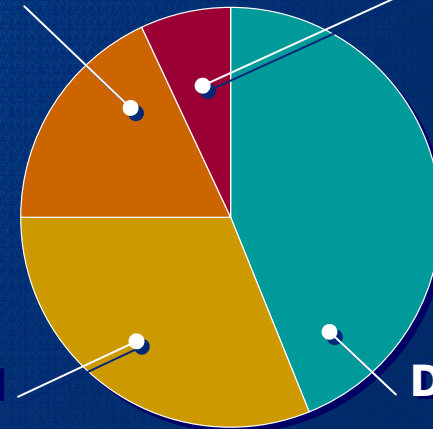
Detection

Other

Civil

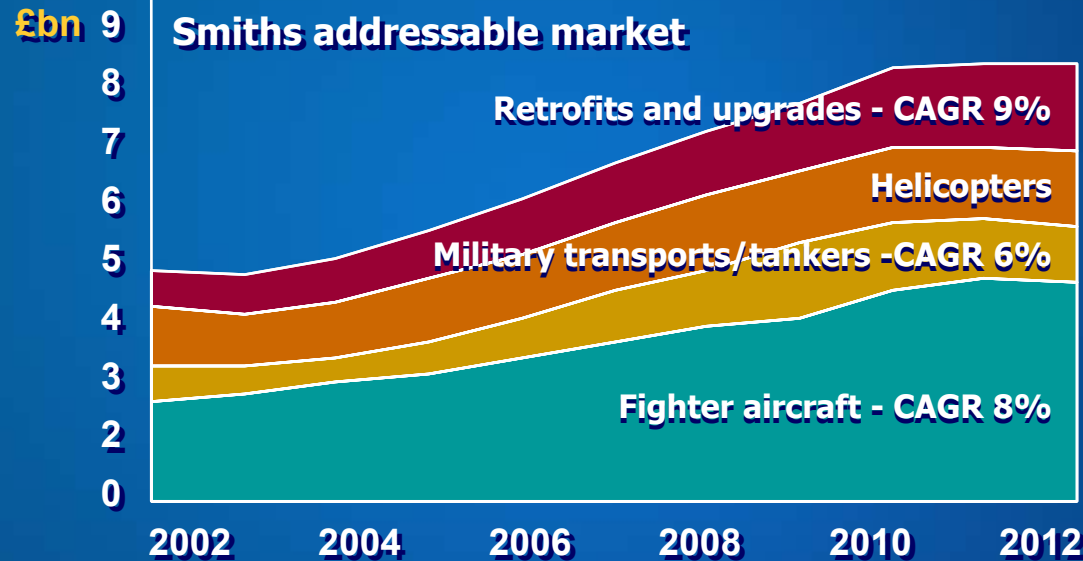
Defence

Sales



Military Aircraft - market trends

Strong growth in military spending - particularly in US



Defence

- Sustained growth throughout next ten years
- Investing in new programmes
- Systems integration capability

B767 Global Tanker

Smiths is integrator of in-flight refuelling system. Shipset of \$3.5m, up to 500 aircraft potential



Joint Strike Fighter

Smiths is one of Lockheed's first-tier suppliers for the F-35. Over \$1m shipset awarded to date



Smiths well positioned on fighter aircraft, tankers, transports & UAVs including

- ▶ F/A-18 E/F
- ▶ JSF
- ▶ Eurofighter
- ▶ F-22
- ▶ C130J
- ▶ 767 GTTA

Smiths Detection

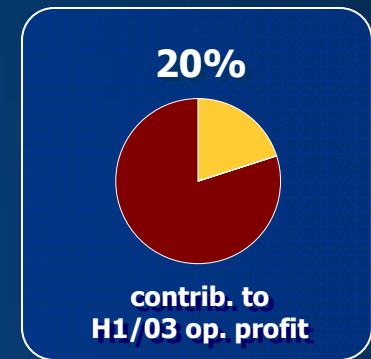


- Current rapid growth is fuelled by meeting TSA requirements
- Next area of opportunity is trace detection for airports beyond the US
- And for automated x-ray of checked baggage for explosives
- Container inspection market driven by terrorism and tax collection
- Military contracts will contribute more in H2/03

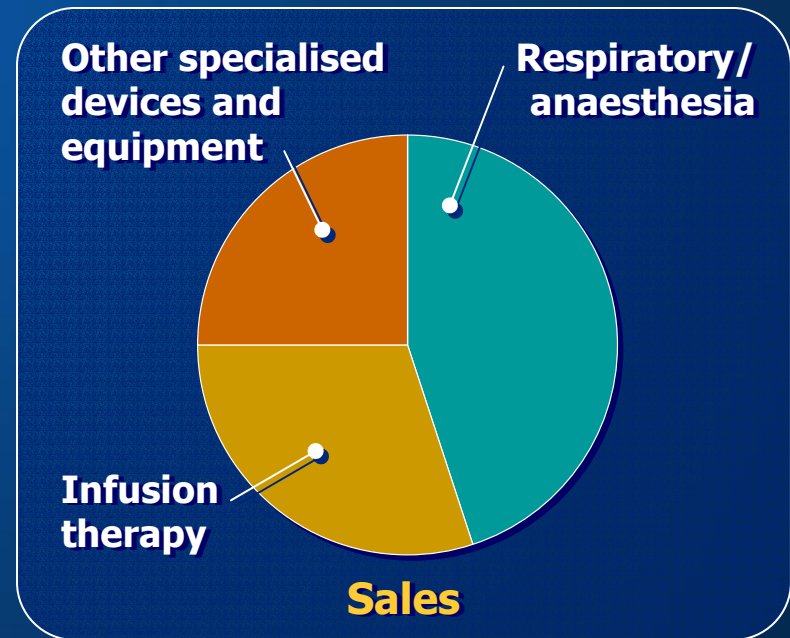
Smiths Medical

A high margin business with good prospects in a dynamic world market

£m	H1/2003	cf H1 2002
Turnover	231	+3%
Operating profit	37	-15%
Margin	16%	



- Margins were down in H1/03, due to specific factors, inc. Cozmo launch
- Second half performance expected to be back on track
- Cost savings from transfer to Mexico are being achieved
- New products are being introduced, R&D increasing to 5% next year



Medical R&D filling up new product pipeline



◀ Portex Saf-T Wing

Winged needle safety device for blood sampling



▲ Gripper Plus

Deltec's new safety needle for implanted ports



▶ Portex Soft Seal

World's first single-use laryngeal mask for airway management

▶ Digit

BCI's new finger-tip blood/oxygen analyser



▶ Cozmo

Deltec's new ambulatory pump for insulin delivery



Sealing Solutions

Major restructuring, including moving production to low cost countries, is improving profitability

£m

H1/2003

cf H1 2002

Turnover

397

-2%

Operating profit

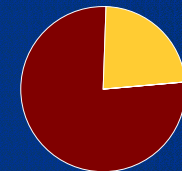
41

+1%

Margin

10%

23%

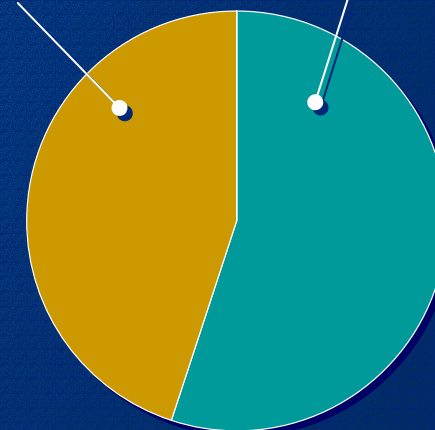


contrib. to
H1/03 op. profit

- Performance of John Crane benefiting from transfer to Mexico
- Margins in this division will be higher in H2
- These companies generate profits and cash which would not be directly replaced by disposal proceeds

Polymer Seals

John Crane

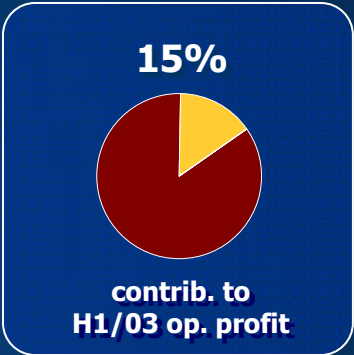


sales

Industrial

Profit-to-cash conversion at over 100%

£m	H1/2003	cf H1 2002
Turnover	180	-14%
Operating profit	27	-5%
Margin	15%	



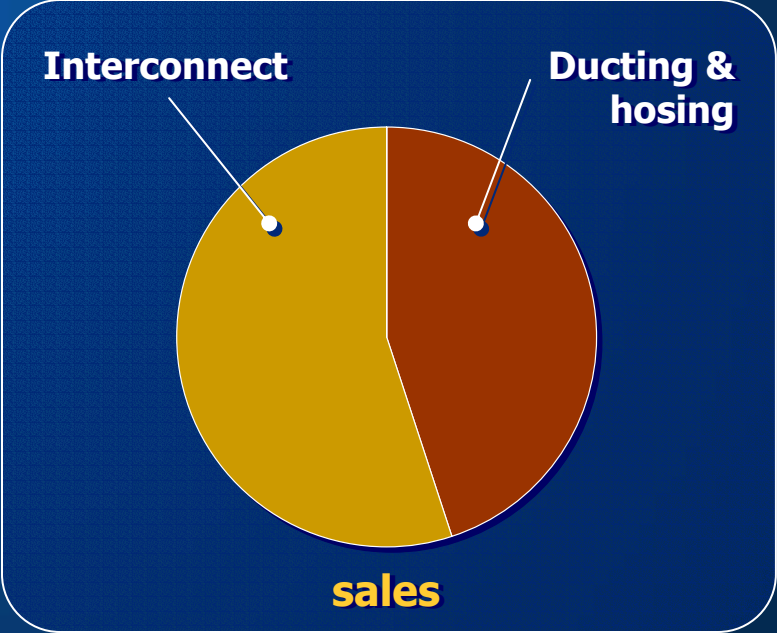
Now comprises two activities -

Interconnect

- Highly engineered products
- Proprietary technology
- Strong market niches

Ducting

- Market leader in US
- Production know-how
- Value added products



Smiths Group

First half profit progression: 2003 versus 2002

£m (contribution to profit)	2003	2002	
Aerospace	75	70	+8%
Medical	37	43	-15%
Sealing Solutions	41	41	+1%
Industrial	27	28	-5%
Operating profit	180	182	-1%



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Factors affecting the current market outlook

Demand for detection equipment will extend rapidly beyond airports

Defence procurement will continue to increase for many years

Civil aerospace has two more lean years before a gradual recovery

World market for medical devices grows at 6% pa, fuelled by product innovation

Capital equipment markets remain flat, but de-stocking now completed

Oil prices affect investment in production and refining (and airline profitability)

War in Iraq will temporarily reduce airline traffic (and aircraft spares)

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