

Smiths Group Preliminary Results 2006

London, Wednesday 27 September 2006

**Presentation by: Keith Butler-Wheelhouse, Chief Executive
John Langston, Finance Director**



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Key points from the 2006 results

Chief Executive speaking



Another year of strong top and bottom line growth



Cash generation at high levels



Dividend raised for 36th year



Higher R&D is driving long-term growth



Global reach: low cost manufacturing and closer to customers



Product range extended; significant orders secured



Preference shares in TI Auto written down

Preliminary results 2006

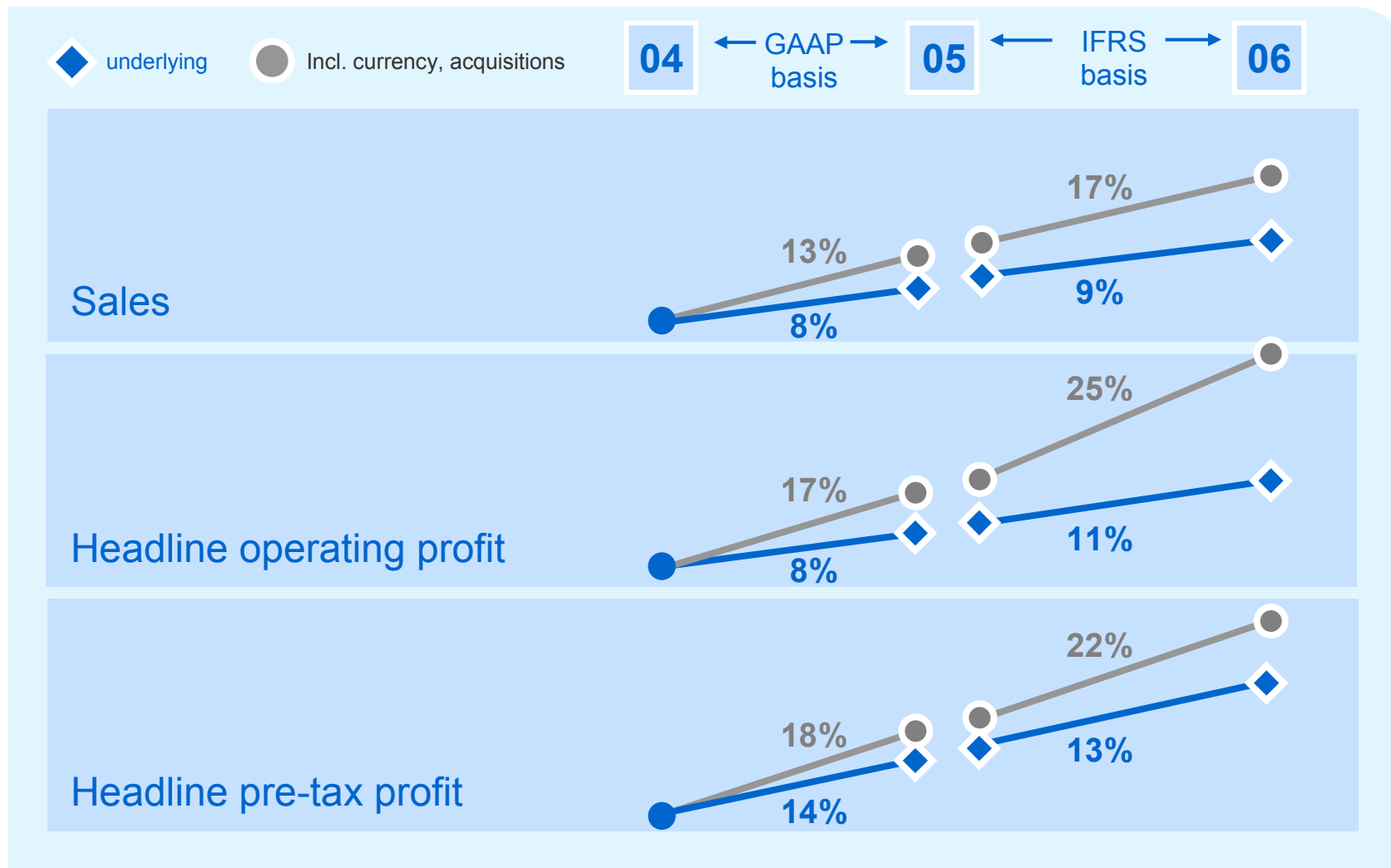
£m	2006		2005	
	Headline*	Statutory	Headline*	Statutory
Sales	3,523		3,005	
Operating profit	520	161	416	382
Pre-tax profit	492	132	404	366
Basic EPS (p)	64.8p	4.3p	52.8p	48.3p

** In addition to statutory reporting, Smiths Group reports on a headline basis, a measure which shows underlying performance. Headline profit is stated before exceptional items (including impairment of assets), amortisation of acquired intangible assets, profit/loss on disposal and financing gains or losses from currency hedging.*

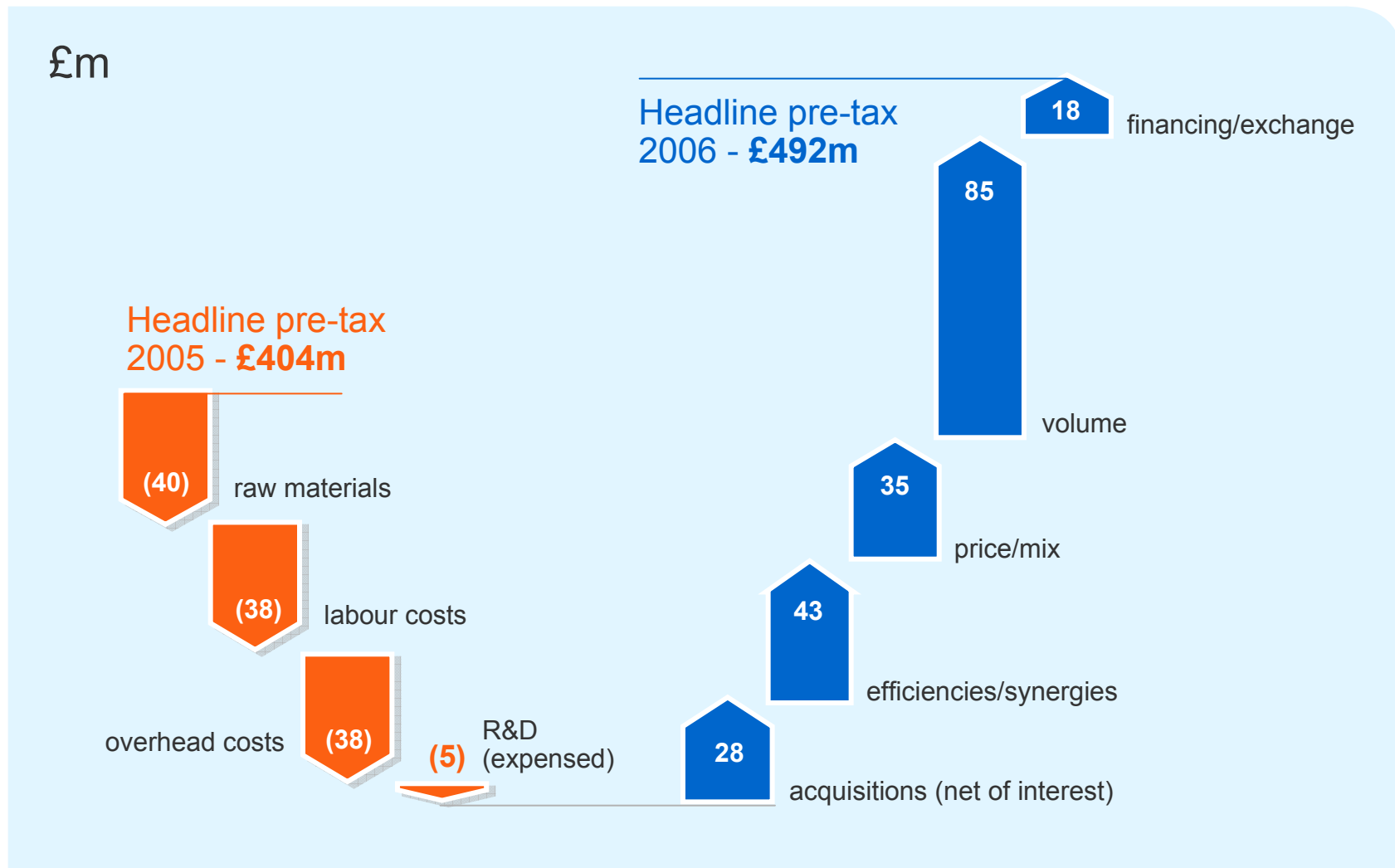
Headline performance

£m	2006	
Sales	3,523	+17%
Operating profit	520	+25%
<i>Margin</i>	14.8%	up from 13.8%
Pre-tax profit	492	+22%
Basic EPS (p)	64.8p	+23%
Annual dividend (pps)	31.35p	+8.1%
Op. profit/op. cash (after capex)	81%	up from 62%

Driving for Full Potential: growth on prior year



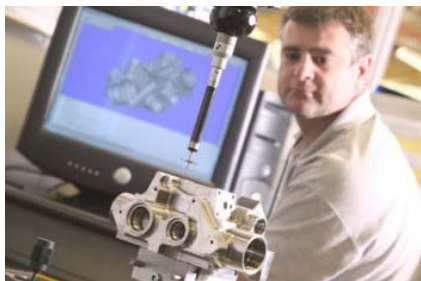
Profit progression across the year



Developing technology to help customers succeed

Research & Development

Company-funded R&D	(£m)	% of sales
Aerospace	125	9.6%
Detection	23	5.5%
Medical	25	3.4%
Specialty Engineering	20	1.9%
	<u>193</u>	<u>5.5%</u>
Company-funded R&D increased by £50m in 2006		
Customer-funded R&D	159	4.5%



Investing to improve productivity and extend global reach

£m	2006	2005
Capex (property, plant & equipment)	111	100
Depreciation	81	72



Bangalore



North Carolina

New and extended plants: programmes underway in 2006



Bangalore - John Crane



Suzhou - Aerospace



St Petersburg - Detection



Tennessee - Detection



Maryland - Detection



North Carolina - Aerospace

Objectives: Lower cost manufacturing • Securing new business • Entering fast-growing markets

Financial update

Finance Director speaking

Currency (translation benefit)	sales	£68m
	headline operating profit	£11m
Acquisitions/disposals (contrib. in 2006)	sales	£159m
	headline operating profit	£36m
Margins (<i>gross margin</i>)		40%
Interest (charge)		(54)
Effective headline tax rate		26%
Pensions financing (admin costs now included)		£28m
Post balance sheet events		

Operating cash conversion

£m	2006
Headline operating profit	520
Share based payments	16
Property, plant & equipment (net of depreciation)	(18)
Development costs & other intangibles (net of amortisation and deferred income)	(81)
Changes in working capital	(17)
Operating cash-flow	420
Conversion rate	81%

Movement in net debt

£m	2006
Net debt at start of period	(931)
Operating cash (after capex etc)	420
Interest and tax	(159)
Special pension contribution	(61)
Exceptionals	(17)
	<u>183</u>
Dividends	(167)
Acquisitions/disposals/new business	(65)
Financing & exchange	57
	<u>8</u>
Change in net debt	
Net debt at end of period	(923)

Post-retirement benefits

£m	2006	2005
Funded pension schemes		
- UK	140	18
- US	(62)	(124)
Surplus/(deficit)	78	(106)
Unfunded, and post-retirement healthcare (UK &US)	(118)	(131)
Other countries	(20)	(18)
Net post-retirement (liability)/asset	(60)	(255)
Smiths' net pension position improved by £195m in 2006		
of which: - additional cash contrib. in UK	61	• scheme mergers in UK
- actuarial gains	94	• strong equity returns (+) • higher corporate bond rates (+) • revised UK mortality assumptions (-)
- financing/exchange	40	

Developing technology to help customers succeed: Research & Development: 1

Cash investment £m	2006	of sales	2005	of sales
Company-funded				
Charged to P&L	108		101	
Added to B/S	85		42	
	193	5.5%	143	4.8%
Customer-funded				
Charged to P&L (and recovered)	141		126	
Added to B/S	18		26	
	159	4.5%	152	5.0%
Total cash	352	10.0%	295	9.8%

Developing technology to help customers succeed: Research & Development: 2

P&L charge £m	2006	2005
R&D charge	108	102
Amortised	14	12
Deferred income released	(6)	(7)
Total P&L charge in year	116	107
Balance sheet movement £m		
Company-funded	84	42
Customer-funded	18	26
	102	68
Less amortisation	(14)	(12)
Deferred income movement	(18)	(12)
Balance sheet reclassification	7	-
Net movement	77	44

Deferred income
received (24)
Released 6

Deferred income
received (19)
Released 7

Preliminary results 2006

Items included in Statutory Results

Write-down of TI Automotive preference shares
(non-cash item)

£325m

Further integration of Medex

£19m

Provision for settlement of class action

£12m

Profit on disposals

£16m

Amortisation of acquired intangibles
(non-cash item)

£17m

Financing losses

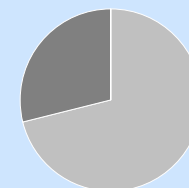
£3m

Smiths Aerospace: performance in 2006

Chief Executive speaking

£m	2006	reported growth	excl. currency, acquisitions
Sales	1,300	+13%	+10%
Headline operating profit	152	+15%	+11%
<i>Margin</i>	11.7%		

Aerospace **29%**



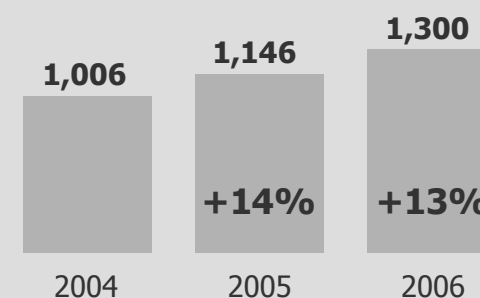
Contribution to headline op. profit

- Second year of strong sales growth
- Margin expansion restrained by higher R&D expense
- Company-funded R&D: 10% of sales
- Customer-funded R&D: 11% of sales
- Continuing to win business on new programmes:
More than \$16bn over last 5 years

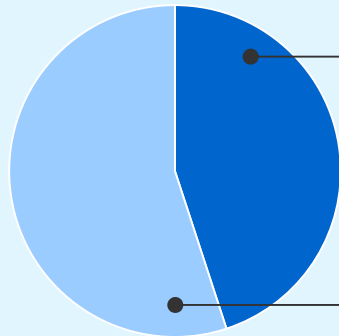
Boeing 787



Sales £m



Smiths Aerospace: markets and business segment analysis

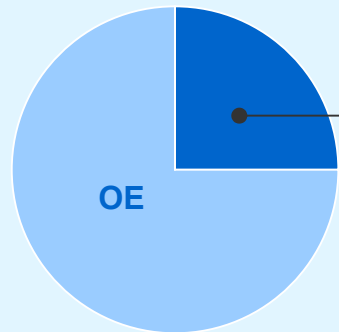


Commercial

- Strong growth of existing business
- A380 development completed
- B787 development on track for 1st flt Summer 2007

Defence

- Growth sustained in 2006
- Tanker delays meant continued R&D expense



Aftermarket

- Commercial in line with traffic growth
- incremental sales anticipated from Aviall deal
- Defence flat in 2006



Digital & Power



Engine components



Mechanical Systems

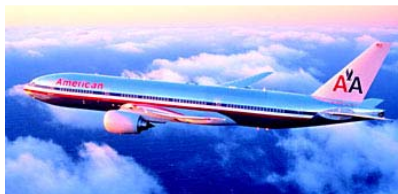
Smiths Aerospace: business outlook

- Continued strong growth in commercial sector
- Defence procurement in US levelling off; global growth sustained
- Smiths R&D (capitalised & expensed) starts to diminish
- Major development programmes begin transition to production

Market outlook:

- Sustained commercial demand
- Steady military growth (worldwide)

Boeing 777



Eurofighter



Boeing 787

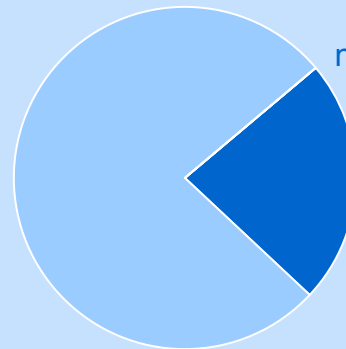


F-35 JSF



Momentum
business

Business on
new programmes
secured in the
past 5 years



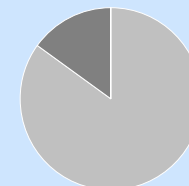
Forecast Aerospace OE sales 2011

smiths

Smiths Detection: performance in 2006

£m	2006	reported growth	excl. currency, acquisitions
Sales	412	+12%	+13%
Headline operating profit	75	+11%	+10%
<i>Margin</i>	18.6%		

Detection **15%**



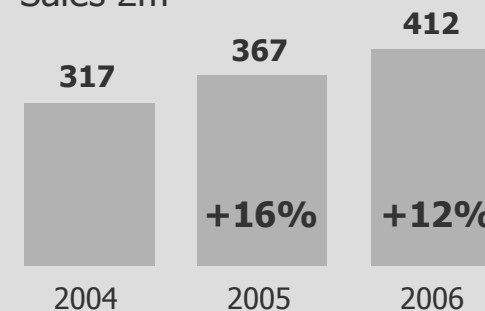
Contribution to headline op. profit

- Second year of strong sales growth
- Security remains at top of the agenda
- Strong order intake in 2006
- Company-funded R&D at 5% of sales
- Customer-funded R&D at 2% of sales
- New manufacturing facilities to meet Russian, US needs

Hazmat kit

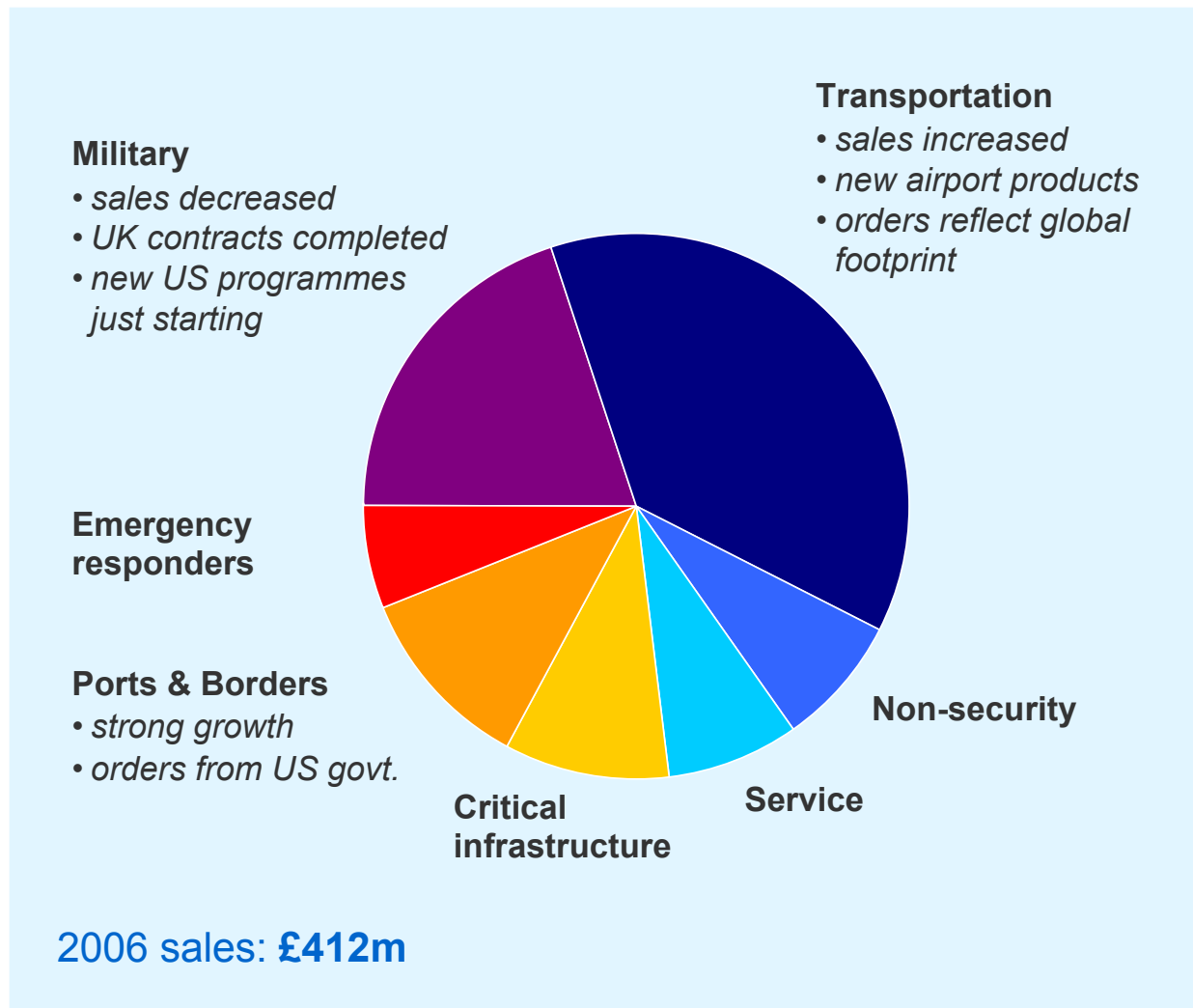


Sales £m



Smiths Detection:

Growth is coming from the wide range of market sectors



smiths



Port & Borders



Transportation

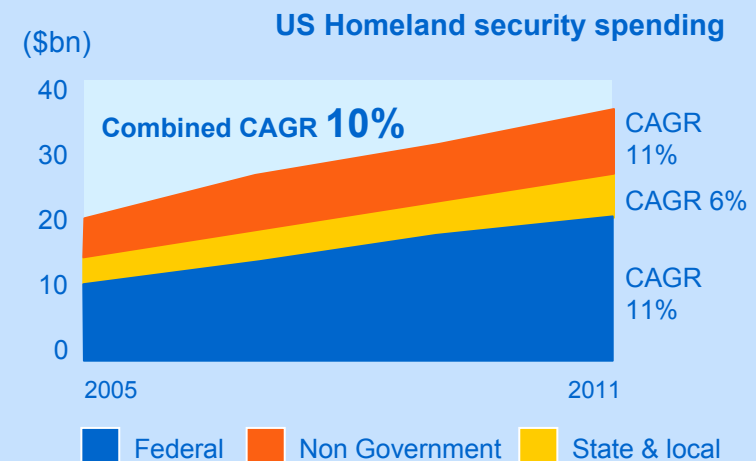


Military

Smiths Detection: business outlook



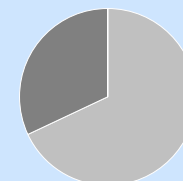
- Continued strong sales growth
- Ports & Borders fastest-growing sector
- Airport re-equipment cycle gets underway
- Military to regain momentum from US opportunities
- Investment continues in 2007:
 - higher R&D expense
 - higher revenue expense on new factory start-ups



Smiths Medical: performance in 2006

£m	2006	reported growth	excl. currency, acquisitions
Sales	737	+31%	+6%
Headline operating profit	138	+57%	+7%
<i>Margin</i>	18.7%		

Medical **26%**



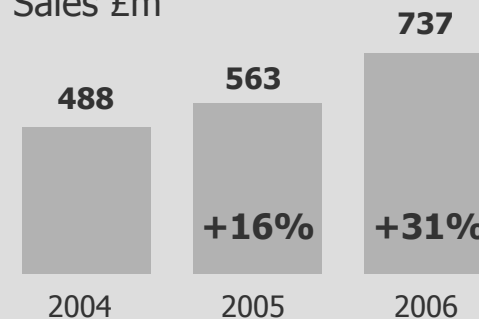
Contribution to headline op. profit

- Underlying growth in step with the market
- Like-for-like margin improved by 0.6%
- R&D now 3.4%, increased by £7m: strong product pipeline
- Medex integration on track, plant rationalisation underway
- Global distribution network being rationalised

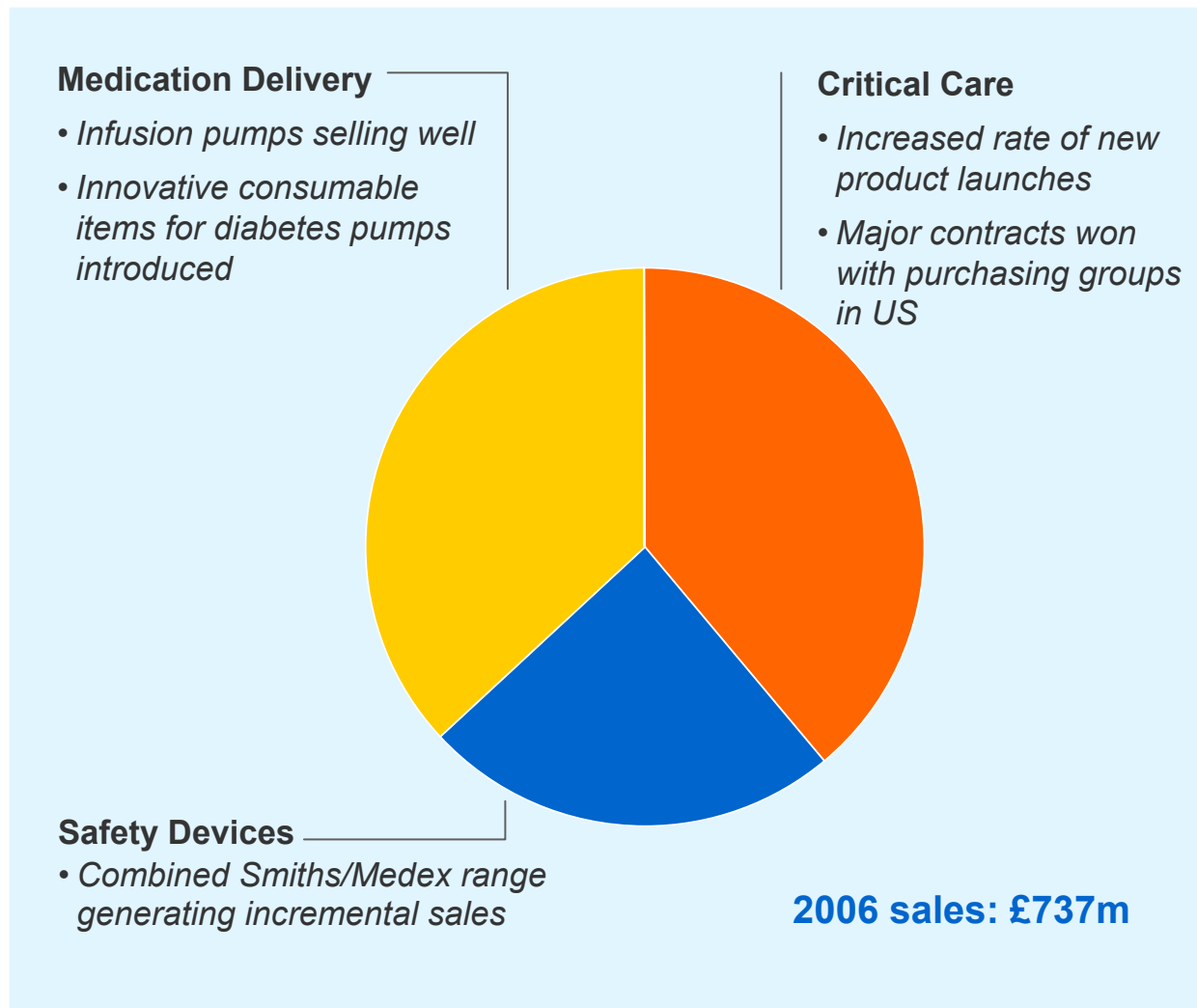
Digit



Sales £m



Smiths Medical: market and business sector analysis



Medication Delivery



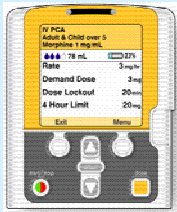
Critical Care



Safety Devices

New medical products

Medication Delivery

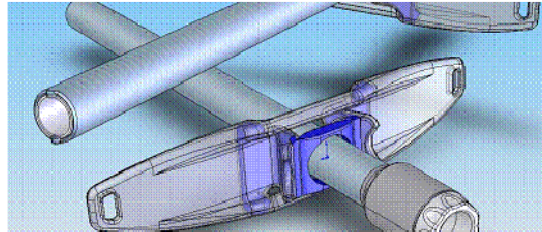


CADD

Next generation ambulatory pump

- Medication error minimisation
- 30% smaller than current pump, Prizm
- Extensive user feedback on interface design

Critical Care



Tracheostomy for obese patients

- Worldwide franchise in tracheostomy
- Allows simpler bedside procedure (safety & cost)

Safety Devices



JELCO

Needle protection range expansion

- Fixed needle syringe for allergy, insulin & TB

IV Catheters

- Next generation passive catheter
- Significant capex investment in automation

Continuing innovation across the product range

Smiths Medical: business outlook

- Underlying sales growth maintained
- Synergies and returns from Medex acquisition will be achieved
- Margin will benefit from synergy gains
- Continuous cost reduction from:

Operating efficiencies

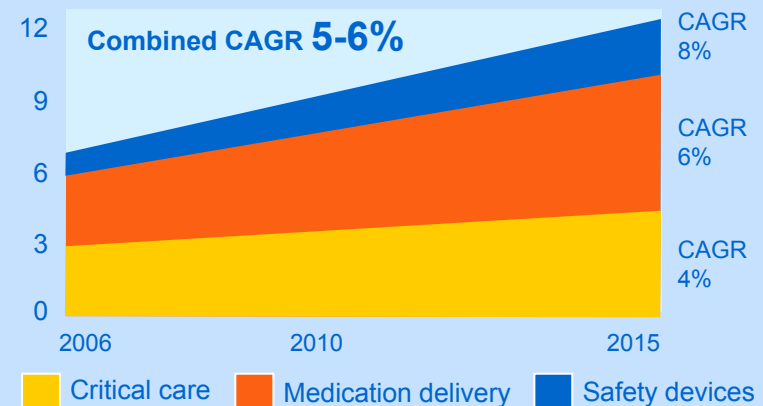
- common, unified information
- standardised processes
- rationalised supply chain

Manufacturing strategy

- fewer facilities, all world class
- high volume lines automated
- high labour content in LCCs



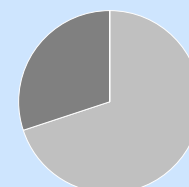
World market for devices & equipment of the type made by Smiths (\$bn)



Specialty Engineering: performance in 2006

£m	2006	reported growth	excl. currency, acquisitions
Sales	1,074	+16%	+9%
- of which, John Crane	518		
Headline operating profit	153	+21%	+13%
- of which, John Crane	69		
<i>Margin</i>	14.3%		

Spec. Eng. **30%**



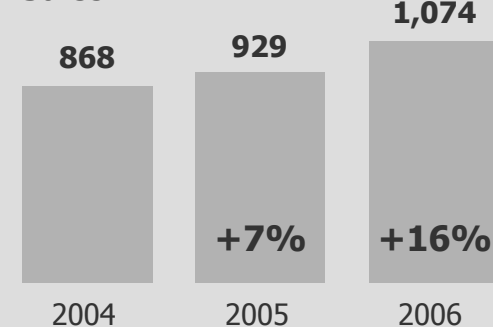
Contribution to headline op. profit

John Crane



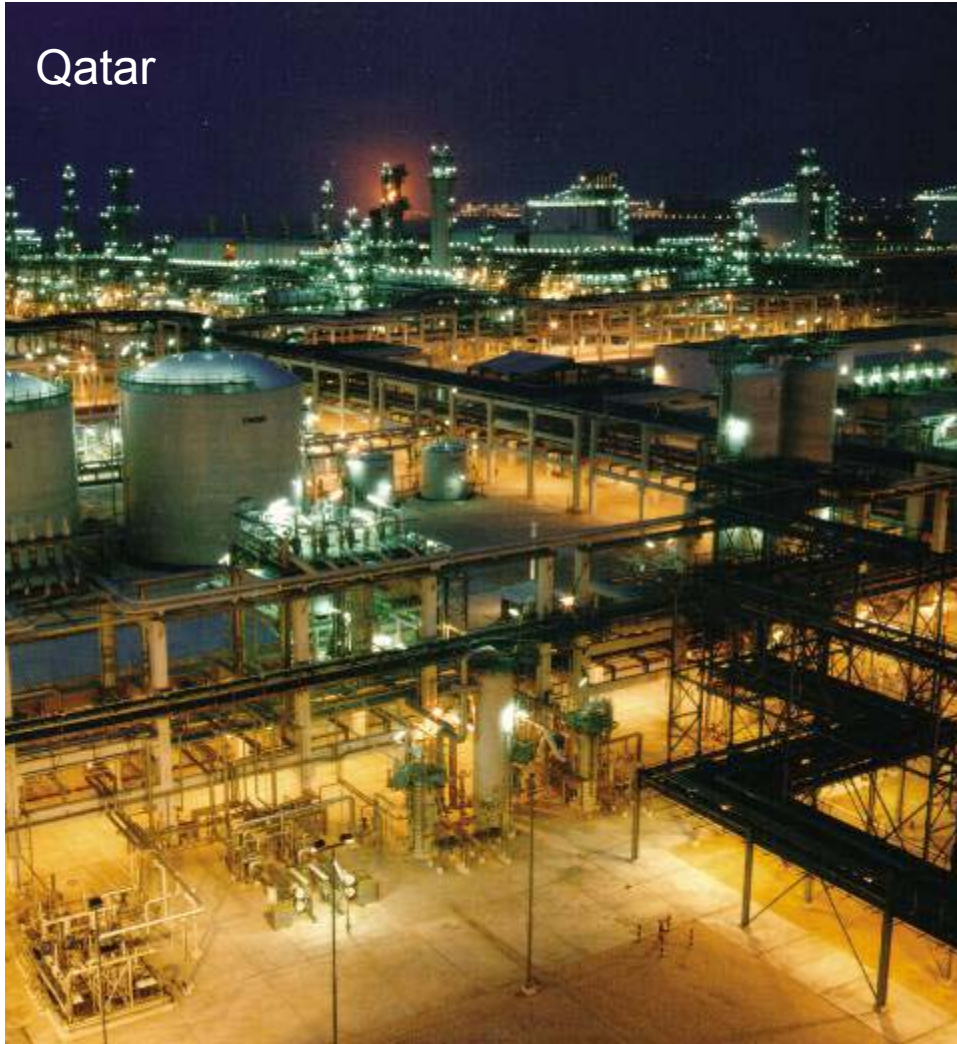
- Good growth across all activities
- Margin improved by 0.7%
- Acquisitions: Millitech, Lorch Microwave, Farnam

Sales £m



Specialty Engineering: John Crane

Qatar



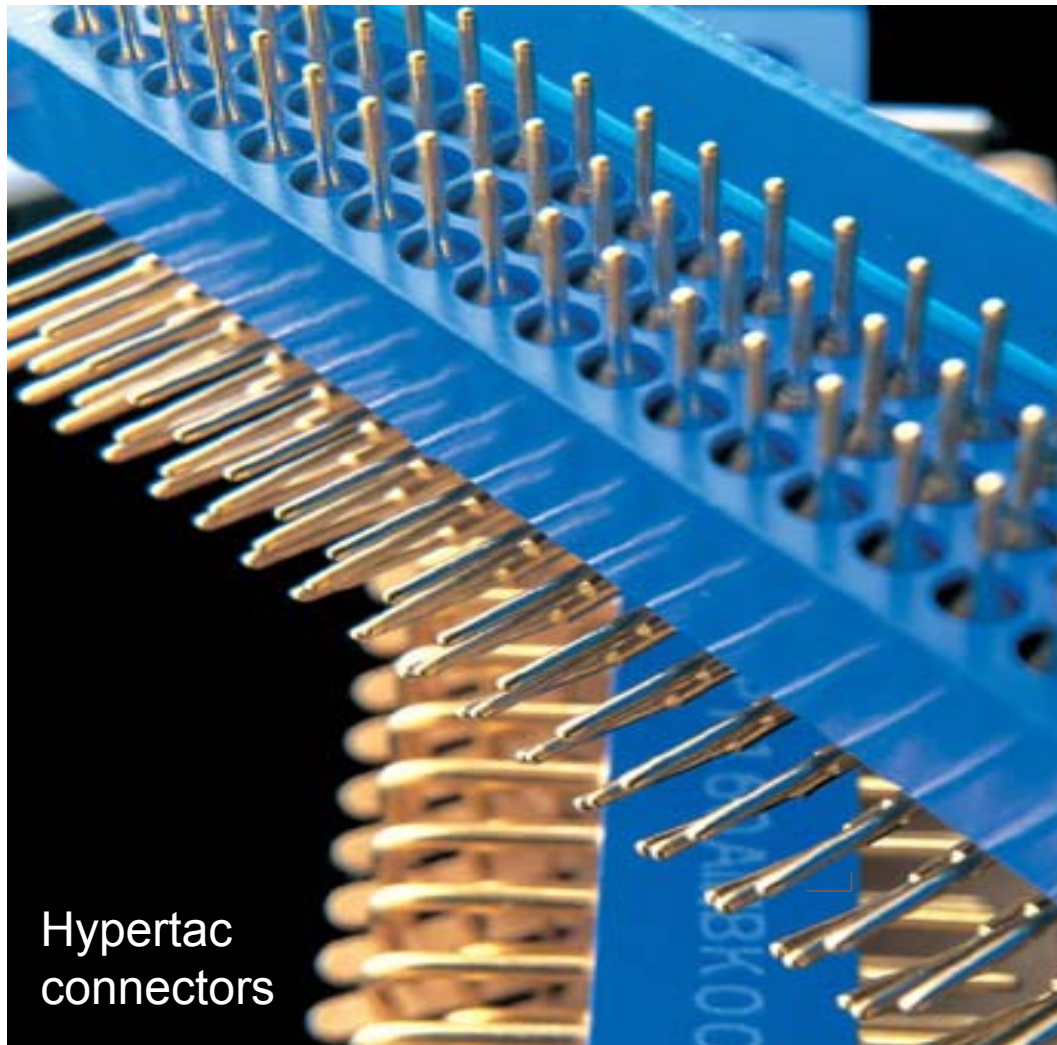
Performance in 2006:

- Strong growth in oil & gas
- Aftermarket benefiting from capacity constraints
- Investment in new test cells
- New plant in Bangalore

Outlook for 2007:

- Continued strong performances in both OE and aftermarket
- Middle East beginning to recover
- Market: long-term capex programmes in oil & gas
- Technology: JC ahead with ultra high pressure seals

Specialty Engineering: excluding John Crane



Hypertac
connectors

smiths

Performance in 2006:

- Interconnect, Flex-Tek and Marine all achieved good growth
- Interconnect benefited from investment in:
 - military communications networks
 - wireless mobile networks
- Interconnect acquisitions extend its capabilities

Outlook for 2007:

- Continued strong performance by Interconnect
- Construction slow-down in US will affect Flex-Tek

Smiths Group: making progress on “Full Potential” initiatives



Operating in sectors of high growth



Delivering constant improvement



Reaching deep into global markets



Developing technology to help customers



Improving the business mix



Doing business the right way



Smiths Group: Prospects

“The markets for Smiths products remain robust, and the outlook for 2007 is for continued sales growth.

“The company is starting to reap the rewards of recent investments in R&D and low cost manufacturing, and the benefits are expected to show in a further improvement in the operating margin.

“While the growth in reported earnings may be tempered by the effect of a weaker dollar, the Board is confident that Smiths is well-positioned to make further progress in the year ahead.”

Smiths Group Preliminary Results 2006

Questions and answers



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