

Smiths Group

Meeting with UK Shareholders' Association

Smiths Group HQ, London, Wednesday 5th April 2006

Presentation by: **Alan Thomson**, Financial Director
Russell Plumley, Director, Investor Relations



Smiths Group: Interim Results 2006

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(for six months ended 31 January)

(£m)	2006	2005	
Sales	1,590	1,338	+19%
Headline operating profit	194	158	+22%
<i>Margin</i>	12.2%	11.8%	
Headline pre-tax profit	183	155	+18%
Headline EPS	24.4p	20.4p	+18%
Interim dividend	9.85p	9.25p	+6.5%

Smiths is now in its second year of strong growth

Full Potential score card: How are we doing on the fundamental strengths?

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1

Operating in sectors of high growth

2

Delivering constant improvement

3

Reaching deep into global markets

4

Developing technology to help customers succeed

5

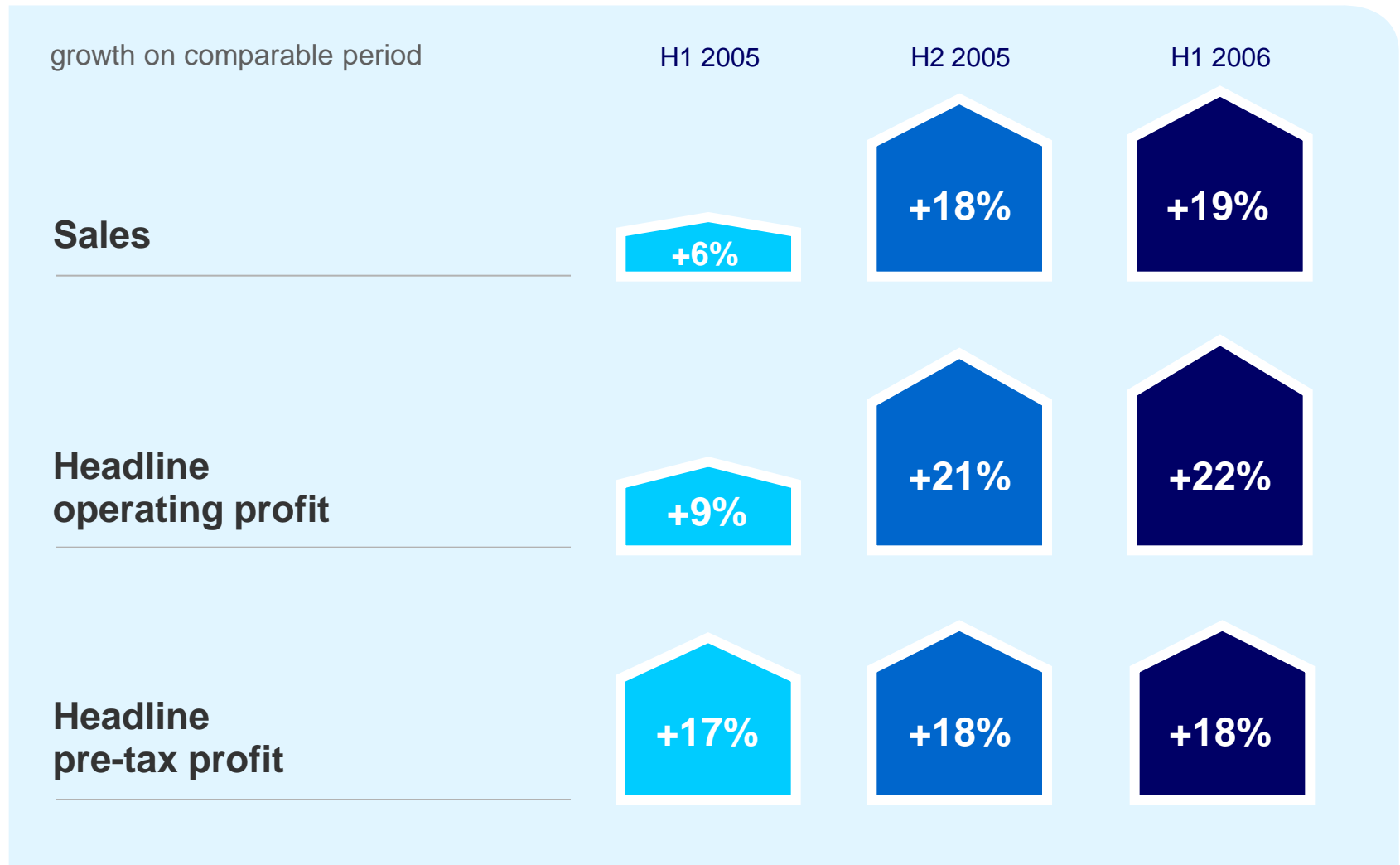
Improving our business mix

6

Doing business the right way

Driving towards Full Potential

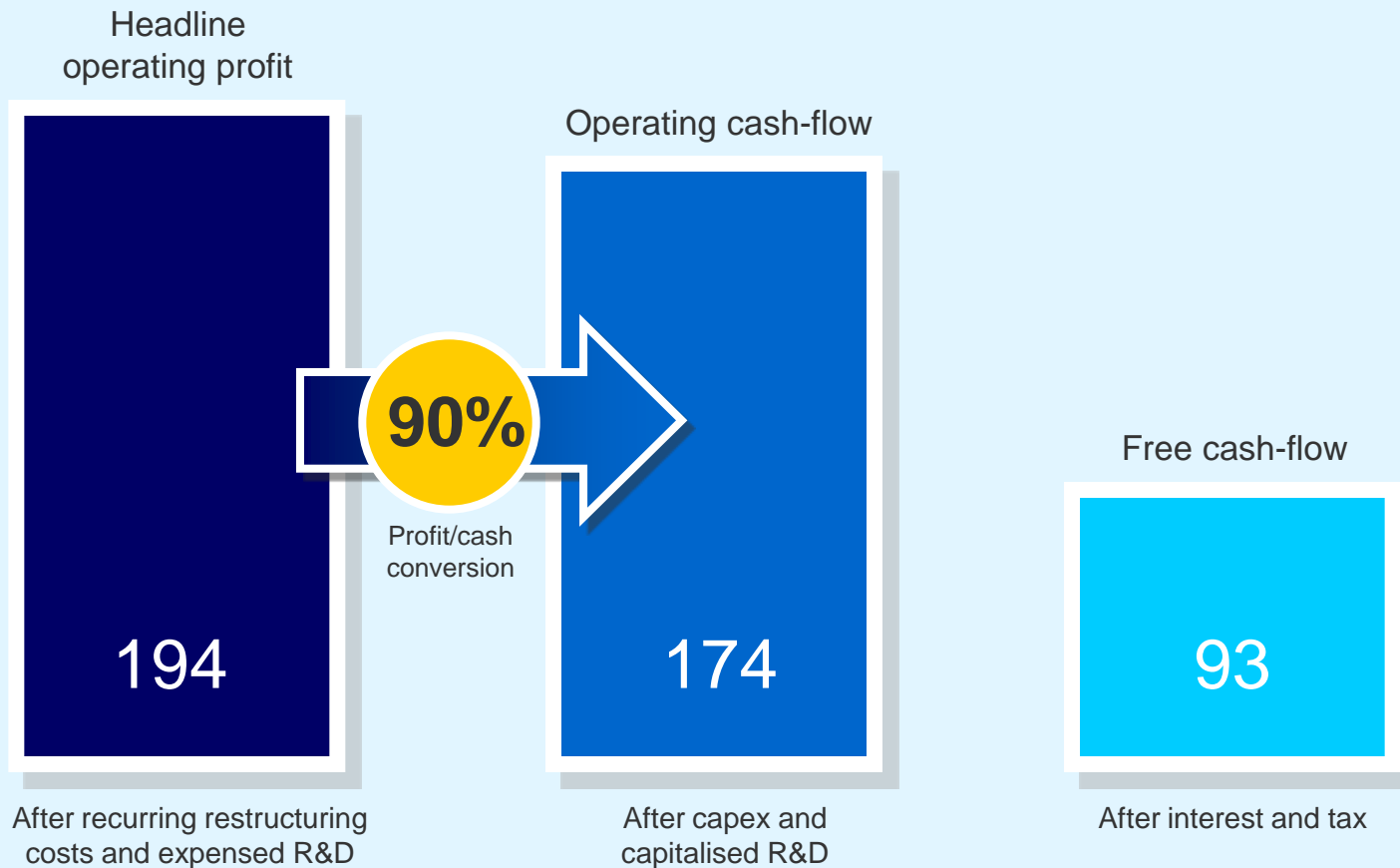
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Generating a strong cash-flow

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£m H1 2006



Aerospace: China, Poland

Medical: Mexico, Malaysia

John Crane: Czech Republic, India, Mexico, China

Flex-Tek: Malaysia

Interconnect: China, Costa Rica

John Crane has the most significant presence in India of all Smiths' businesses.

- 185 employees by financial year-end
- New 45,000 sq ft facility in Bangalore
- Design, manufacture, service
- Local market and export



Research & Development

£m (for six months ended 31 January)	2006	of sales	2005	of sales
Company-funded				
Charged to P&L	62		58	
Added to Balance Sheet	33		14	
	95	6%	72	5%
Customer-funded				
No impact on P&L	70	4%	63	5%
Total	165	10%	135	10%

Total R&D increased in line with sales

Improving our business mix: acquisitions in H1 2006

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Spend

Millitech

Microwave components

Spec. Eng.

£19m



Lorch Microwave

Microwave filters

Spec. Eng.

£15m



Livewave

Wide-area sensor networking

Detection

£9m



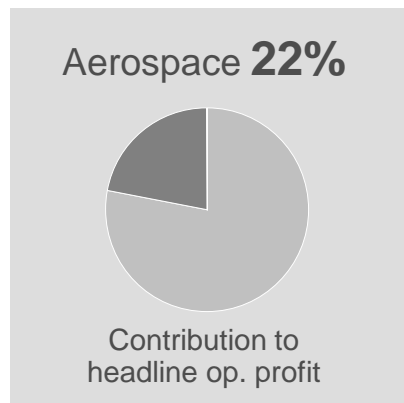
Farnam

Heating elements

Spec. Eng.

£4m





A380



Eurofighter



Engine Components

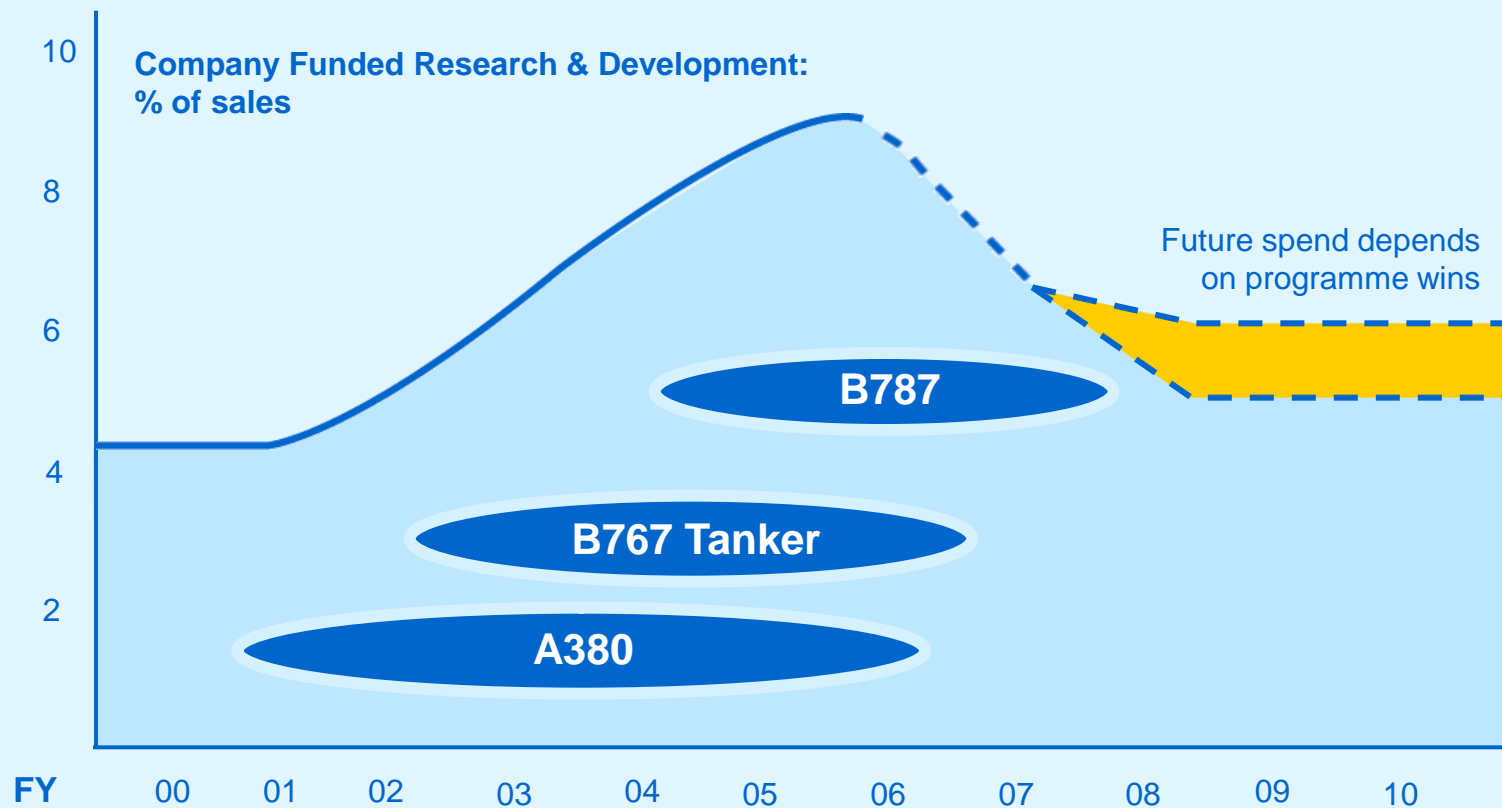


£m	H1 2006	
Sales	559	+10%
Headline operating profit	43	-4%
<i>Margin</i>	8%	

- Sales growth in all sectors
- Profit impacted by:
 - development costs (expensed)
 - currency transaction effects
- Commercial aircraft production at high level
- Aftermarket business growing: Aviall will be positive
- QDR provides re-assurance on US defence programmes

Investing in the future of Smiths Aerospace

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Today's major development programmes will drive future growth

Significant investment in new programmes

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A380

- Smiths supplies landing gear actuation and high-lift systems
- New category of aircraft, incremental business for Smiths
- Development completed this year
- Firm orderbook: development has been capitalised



B767 Tanker

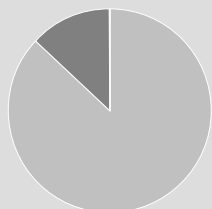
- Smiths supplies refuelling system and mission management
- Scope change payments received from Boeing in H1 2006
- RAND study confirmed USAF needs to acquire new tankers
- US defence budget includes initial funding
- Development costs are being expensed



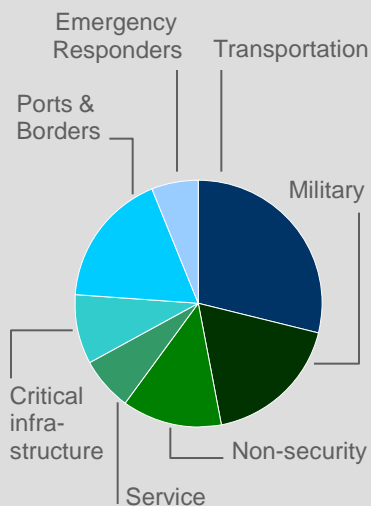
B787 Dreamliner

- Smiths supplies common core system, landing gear actuation and high-lift systems
- Meeting Boeing's milestones
- Scope of CCS is being extended
- Firm orderbook: development being capitalised
- CCS has opportunities on other aircraft

Detection **13%**



Contribution to
headline op. profit



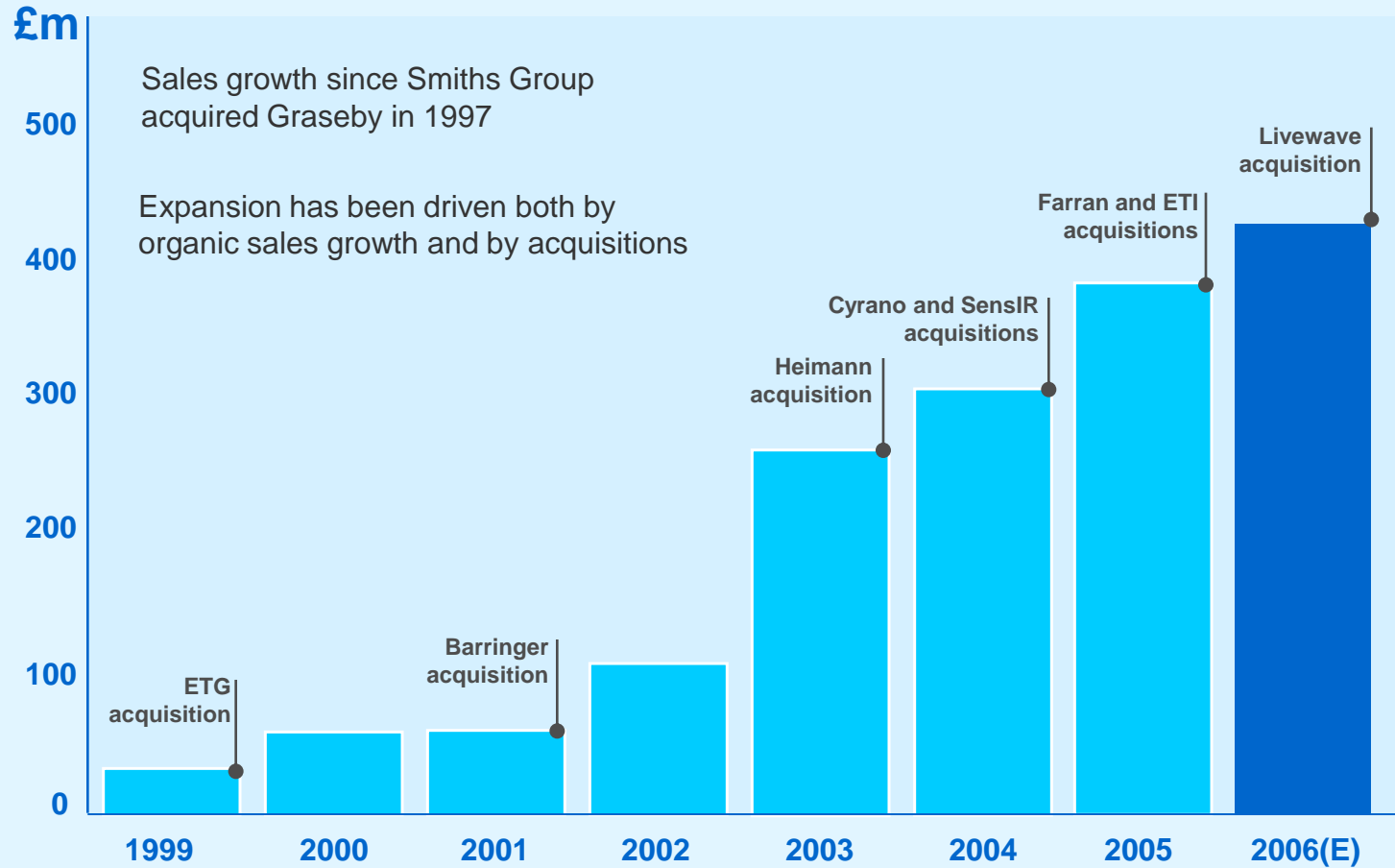
annualised sales split

£m	H1 2006	
Sales	171	+12%
Headline operating profit	25	+12%
Margin	14%	

- Strong performance from all sectors of the business
- First Sentinels delivered to TSA
- Military deliveries running at a high level
- Opportunities in food processing
- High level of product development ensures competitive advantage
- Acquisition of Livewave brings wide-area networking capability
- Ports & Borders business growing strongly






Smiths Detection: The story so far: Organic growth and acquisitions

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Smiths Detection: Developing the capability Using a variety of investment vehicles

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		Examples	
Internal R & D	£21m invested in 2004/5. Increasing	Sentinel trace portal 6046si X-Ray, 6040aTiX GasID, EPBD, JCAD	
Customer-funded R & D	£8m won in 2004/5. Increasing	Next generation EDS systems, Rail screening; Rugged explosives detection	
Technology acquisitions	£25m over the last 18 months	Farran - Millimetre Wave portal ETI - Bio sensor LiveWave - Networks	
Partnerships / Licensing	>£2m committed over the last 18 months	Raman spectroscopy Biological agent identification	
Venture capital	£3.3m committed over 2-3 years	Paladin Capital Group – strategic investor	

Smiths Detection: Driving growth in key markets

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Transportation



Military



Critical infrastructure



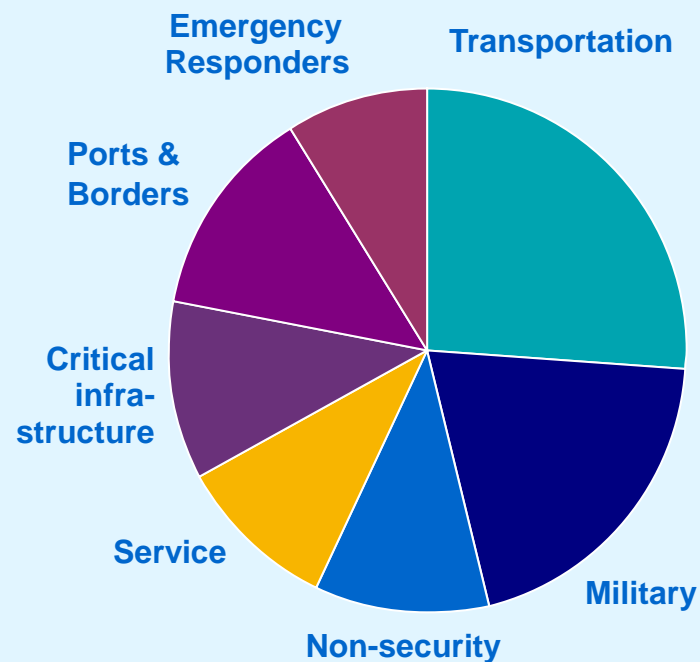
Ports and borders



Emergency responders



Smiths Detection Sales by sector 2005



Market drivers

- Increased security screening
- Manifest verification
- Contraband detection

Market growth

- >10% growth in container shipping since 2002
- US Container Security Initiative
- Multiple international programmes

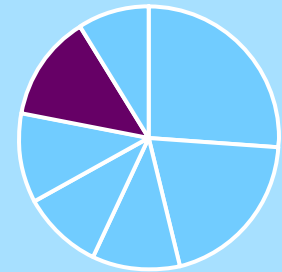
Developing technologies

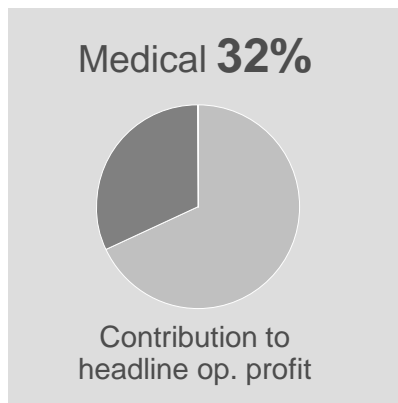
- Threat image projection
- Material discrimination
- Radiation detection

Major programs recently announced

- US >\$20 million
- Belgium €10 million
- Abu Dhabi

Ports and Borders





Protect IV catheters



Srini Seshadri



£m	H1 2006	
Sales	355	+50%
Headline operating profit	61	+60%
Margin	17%	

- Underlying 6% sales growth
- Medex contributed £21m profit
- Margins improved by 1%
- Sales ahead in critical care, safety and medication delivery
- Significant orders for single-use devices from US hospital groups
- Temperature monitoring sales grew strongly
- Distribution system being rationalised

The integration of Medex is on track

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Sales & marketing integrated

Back office functions transferred to a single shared-services centre for US

Financing and tax synergies achieved

Closure of two US and one large UK plant announced

Pace of integration steps up in second half

Synergy benefits across Smiths Medical:

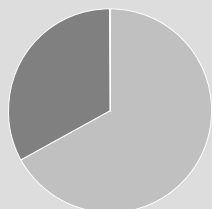
- rising to £25m per annum by end of 2008

Medex integration costs:

- total expected to be £50m
- £13m charged to date



Spec. Eng. **33%**



Contribution to
headline op. profit

£m

H1 2006

Sales

504

+14%

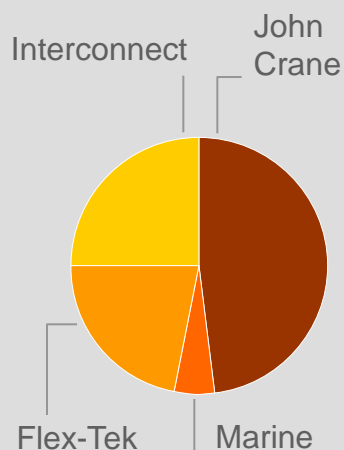
Headline operating profit

65

+21%

Margin

13%



annualised sales split

- Strong growth in:
 - John Crane
 - Interconnect
 - Flex-Tek
- Valuable acquisitions: Millitech, Lorch Microwave
- Marine steady in this period

Deliver Full Potential for each of our four businesses

- Interconnect**
- Technology based groups/scaleable organisation
 - Medical expansion
 - Acquisitions

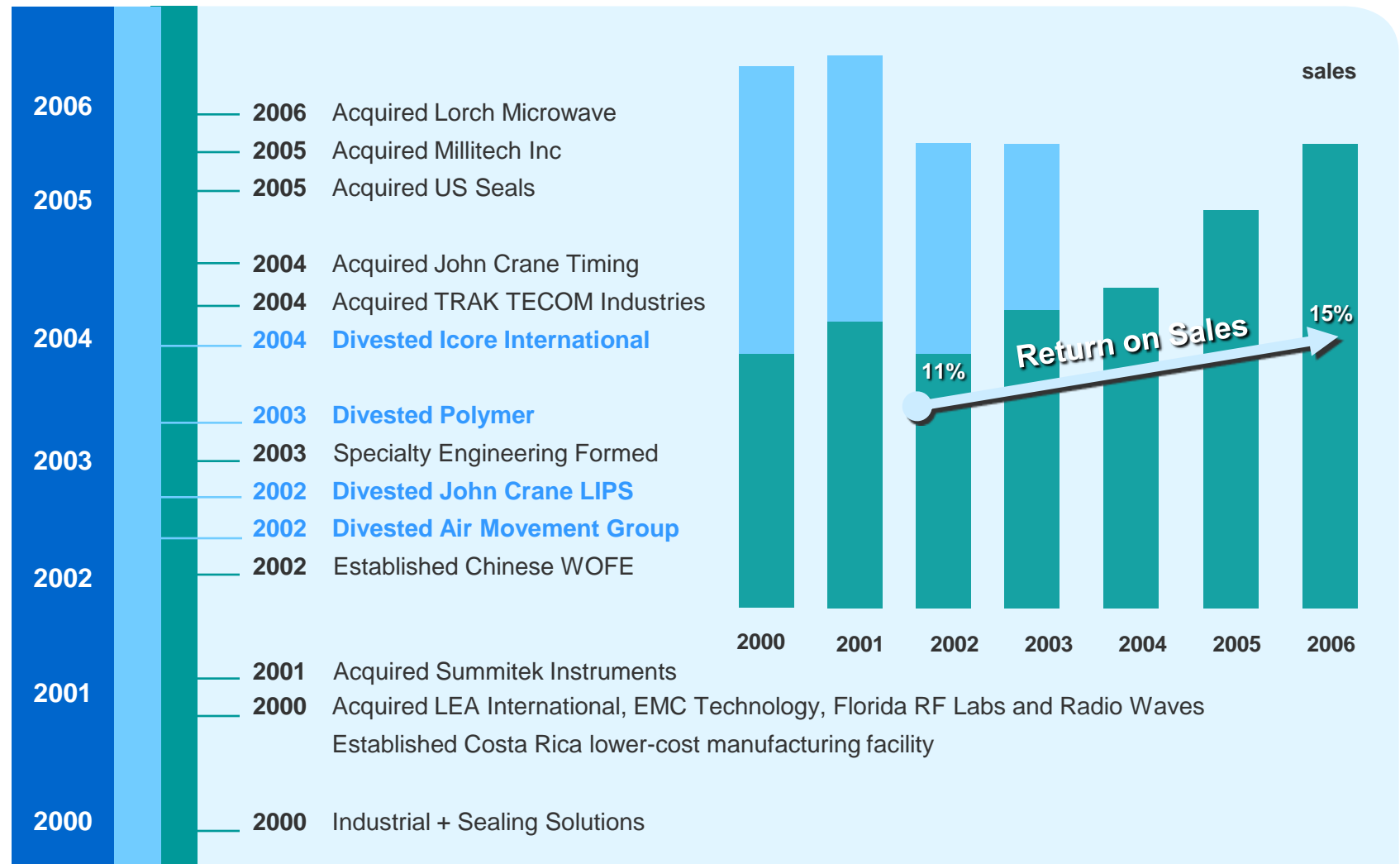
- John Crane**
- Capitalise on increased growth profile
 - Acquire adjacent businesses and leverage global distribution strength
 - Sell peripheral non - core businesses

- Flex-Tek**
- Gastite - grow
 - Aerospace/Industrial - restructure and harvest

- Marine**
- Harvest

Evolution of Specialty Engineering

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Specialty Engineering: John Crane is performing well

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£m	H1 2006	
Sales	245	+12%
Headline operating profit	29	+22%
<i>Margin</i>	12%	

- Benefiting from strong service revenues
- Orderbooks reflect heavy investment by oil majors
- Investing to extend global reach:
 - India
 - Russia
 - China



Smiths Group: Generating an attractive return on investment **smiths**

Smiths'
investment
criteria:

12%

after-tax return
on total investment

1

Company's overall ROI
(including goodwill)

2

Acquisitions



3

Research & Development

4

Capital programmes

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Meeting with UK Shareholders' Association

Questions and answers



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