

Smiths Group

The fundamental strengths which drive Smiths' strategy

Alan Thomson, Financial Director
Speaking at the Société Générale Premium Review

Paris, 1 December 2005



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- ▶ **Achieving strong growth across all activities**
- ▶ **Strengthening the core with acquisitions**
- ▶ **Investing in advanced technology**
- ▶ **Improving operational efficiency**
- ▶ **Retaining a conservative balance sheet**
- ▶ **Generating an attractive return on investment**
- ▶ **Focusing on sectors with positive market dynamics**
in Aerospace - in Detection - in Medical - in Specialty Engineering
- ▶ **Pursuing a strategy to reach full potential**

£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%



Acquisition spend
over past 4 years
approx.

£1.1bn

Proceeds of recent
disposals over past
4 years approx.

£900m

Total spend on
acquisitions last year

£595m

Spend to date this year

£30m



Continuing to strengthen the core with acquisitions

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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)





(R&D% of sales)

2002

3% company + 3% customer funded = **6%**

2005

5% company + 5% customer funded = **10%**

total R&D reached almost **£300m** in 2005

Research & Development: the A380

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R&D

reached almost
£300m in 2005

10%

of sales

(company +
customer funded)

Research & Development: the F-35 (JSF)

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R&D

reached almost
£300m in 2005

10%

of sales

(company +
customer funded)



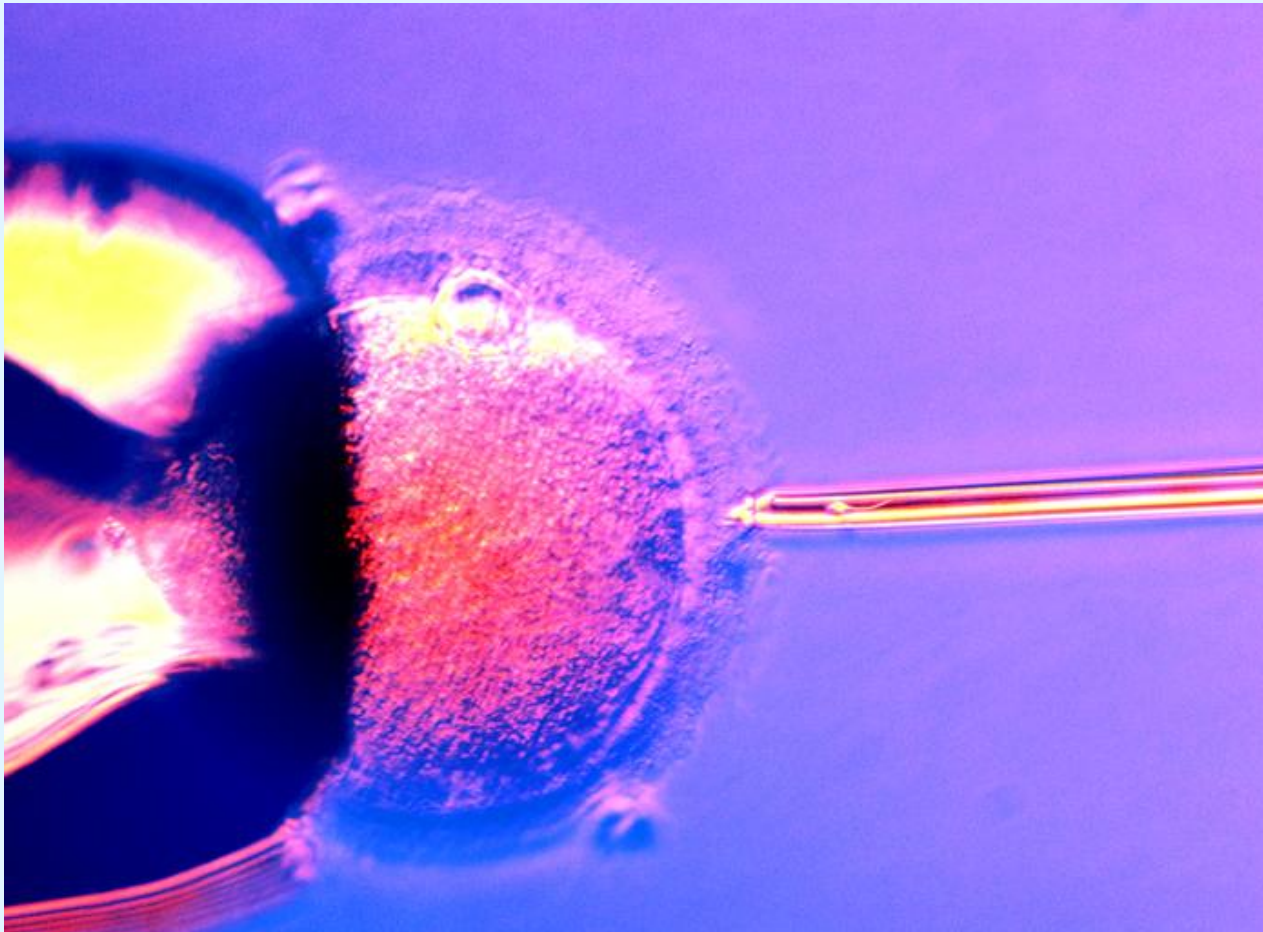
R&D

reached almost
£300m in 2005

10%

of sales

(company +
customer funded)



R&D

reached almost
£300m in 2005

10%

of sales

(company +
customer funded)

Research & Development: the Cozmo insulin delivery pump smiths



R&D

reached almost
£300m in 2005

10%

of sales

(company +
customer funded)



Improving operational efficiency: Production in Tijuana, Mexico

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Improving operational efficiency:
Smiths Aerospace plant at Suzhou near Shanghai, China

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Current net debt: circa £1bn

Credit ratings A-/A3

Positive dividend policy

Adequate resource for reinvestment

Negligible pensions deficit

Smiths' investment criteria:

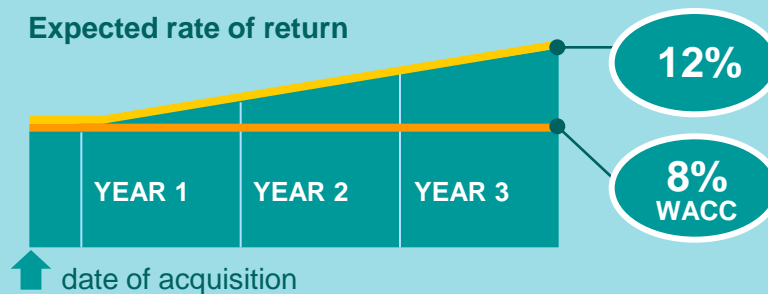
12%

after-tax return on total investment

1 Company's overall ROI (including goodwill)

2 Acquisitions

Expected rate of return



12%

8% WACC

3 Research & Development

4 Capital programmes

Focusing on sectors with positive market dynamics

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Aerospace, Detection, Medical & Specialty Engineering



Smiths Aerospace: Commercial

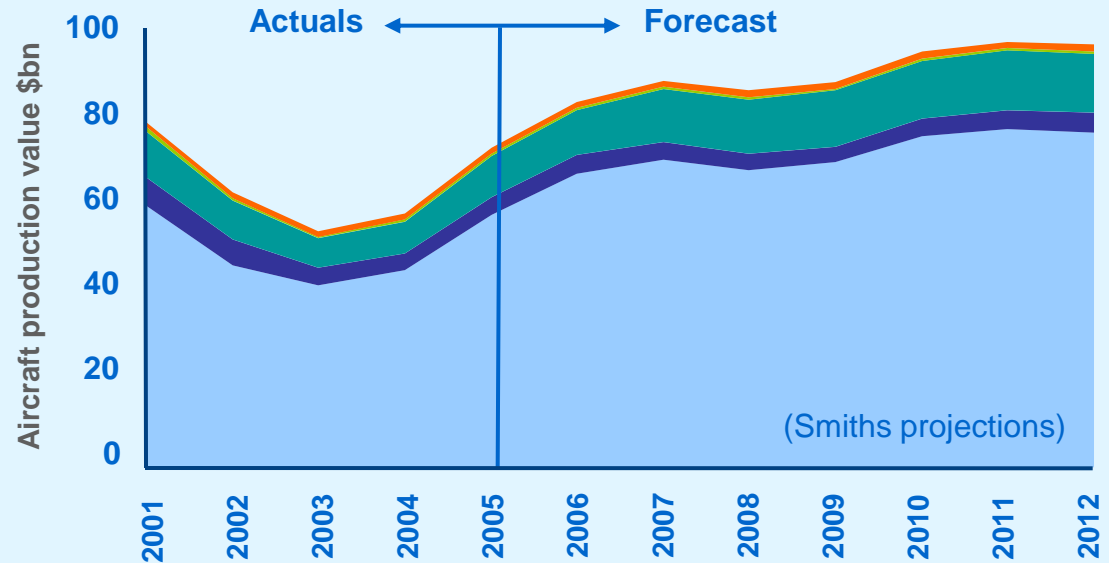
40%
of total sales



commercial

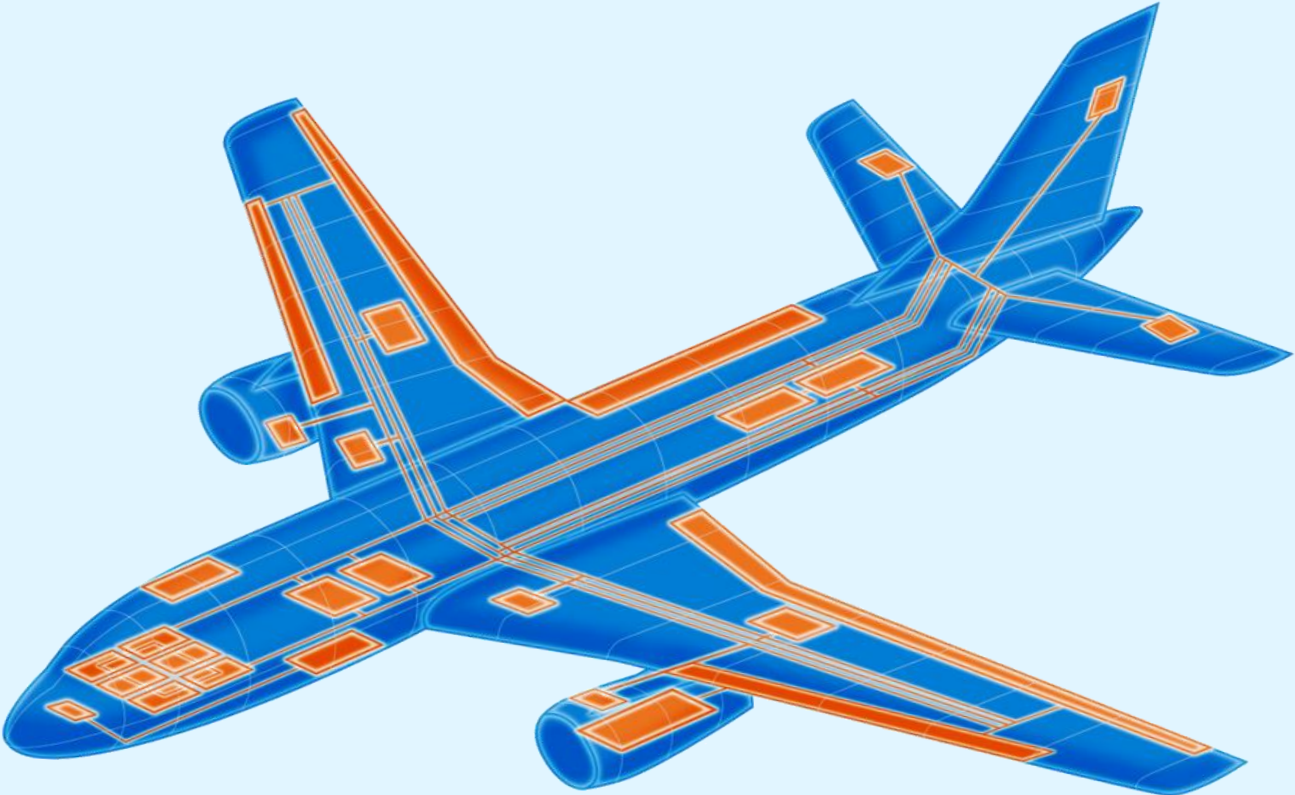
Smiths Aerospace 2005 sales: £1,158m

Global commercial market



- Civil helicopters
- Exec/Utility turboprops
- Business jets
- Regional transports
- Commercial jets

Systems supplied by Smiths for commercial aircraft



Commercial

Military

Smiths Aerospace: Military

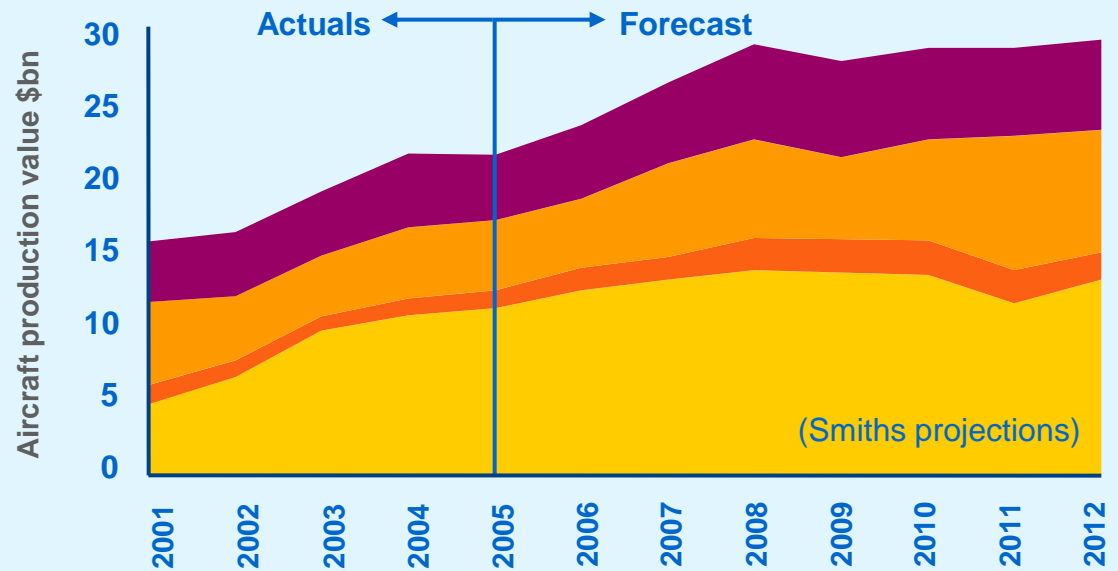
60%
of total sales



military

Smiths Aerospace 2005 sales: £1,158m

Global military market



Military helicopters

Other fixed-Wing

Light fighter/attack/trainer

Heavy fighter

Systems supplied by Smiths for military aircraft

Commercial

Military





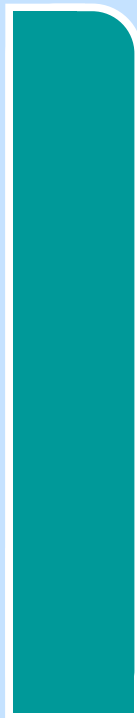
Focusing on sectors with positive market dynamics

Smiths Detection: Growth is coming from the wide range of market sectors

2005 sales £367m

Transportation

Sentinel II Dual-use Ionscan



Military

*LCAD to UK
ACADA to US*



Ports & Borders

*New mobile
X-ray unit*



Non-security *incl. pharma*



Critical infrastructure *US Post Office*



Service *Growing aftermarket*



Emergency Responders *New gas analysers*





- Emergency Responders
- Service
- Critical infrastructure
- Non-security
- Ports & Borders
- Military
- Transportation

Smiths Detection: Military protection

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Emergency Responders

Service

Critical infrastructure

Non-security

Ports & Borders

Military

Transportation

Smiths Detection: wider market applications, e.g: Ports & Borders

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Emergency Responders

Service

Critical infrastructure

Non-security

Ports & Borders

Military

Transportation

Smiths Detection: growing aftermarket

Smiths equipment already used in 3,500 out of the world's 4,000 airports

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Emergency
Responders

Service

Critical
infrastructure

Non-security

Ports & Borders

Military

Transportation

Smiths Medical: Healthcare costs and ageing populations

Healthcare costs are rising

Healthcare costs as % of GDP

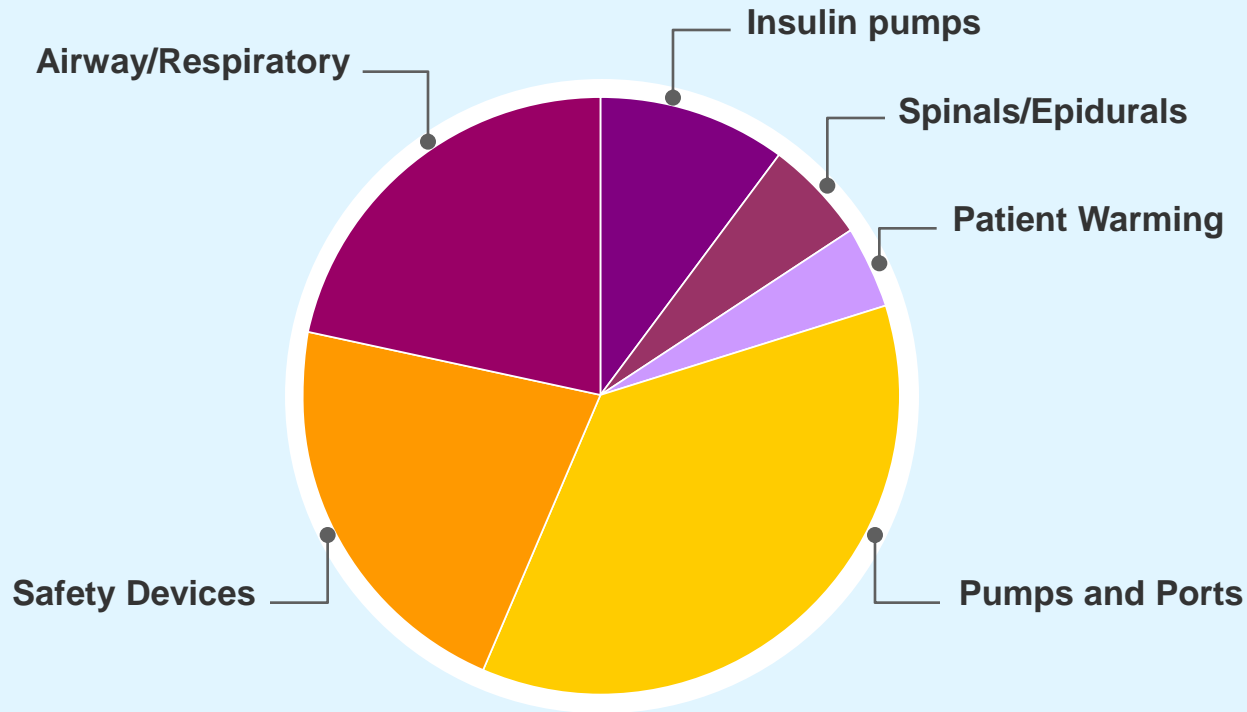
	1993	2003
US	13%	15%
France	9%	10%
UK	7%	8%

And populations are ageing

% of population over 65 years

	2003	2025
US	13%	17%
France	16%	22%
UK	15%	20%





global market **\$7bn** – growing steadily at **5%** per annum

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*



2005 sales £563m

(product split is proforma 12 months of Medex)

Safety Devices

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



Smiths Medical: The Cozmo pump delivers insulin automatically for Type 1 diabetics

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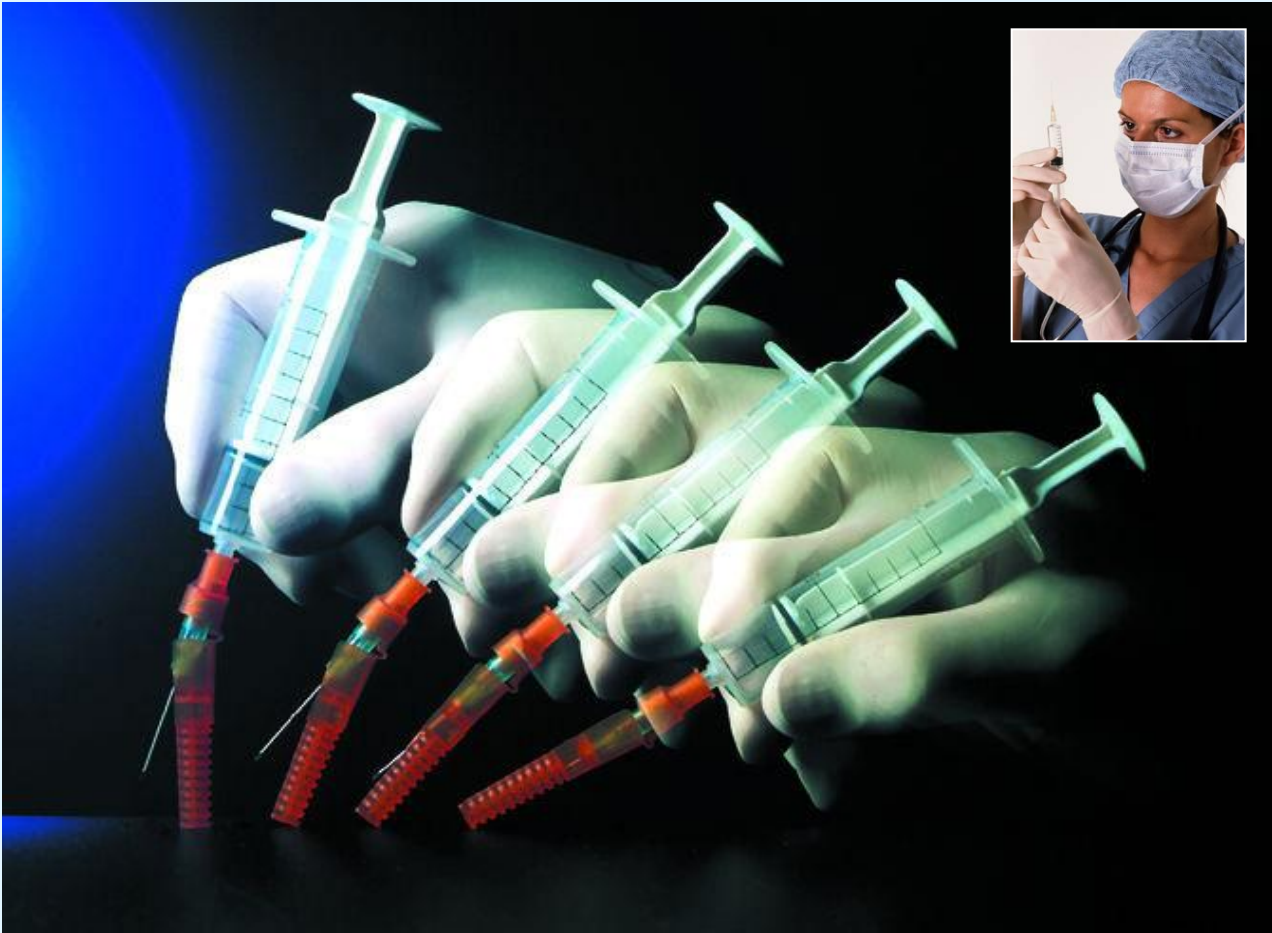


Safety Devices

Critical Care

Medication
Delivery

Smiths Medical: NeedlePro helps prevent needle-stick injury **smiths**



Safety Devices

Critical Care

Medication Delivery

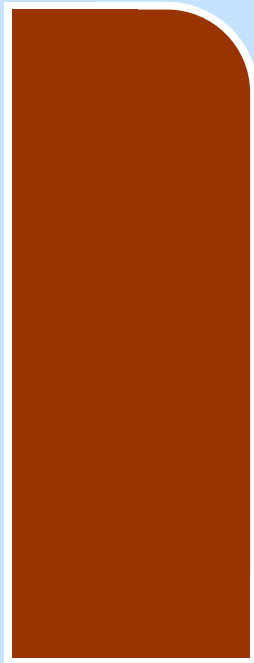


Specialty Engineering

John Crane

Rotating mechanical seals used in pumping applications, incl. oil & gas

2005 sales £929m



Interconnect

Protection and connection of complex electronic circuits



Flex-Tek

Ducting a hosing for industrial and consumer durable products



Marine

Radar displays and electronic charts for shipping





Marine

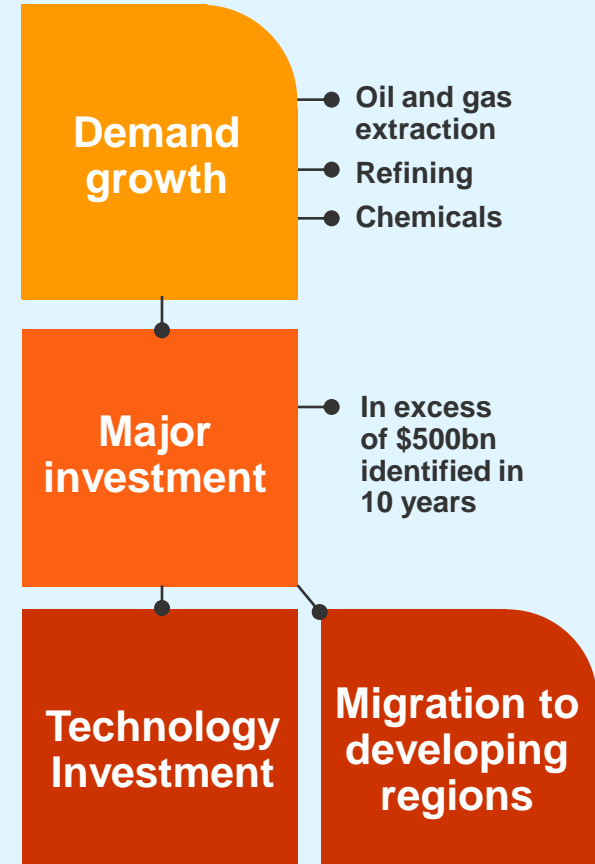
Flex-Tek

Interconnect

John Crane



Market drivers



Specialty Engineering: Interconnect: components used in military communications

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Marine

Flex-Tek

Interconnect

John Crane

Specialty Engineering: Interconnect: applications in telecoms

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Marine

Flex-Tek

Interconnect

John Crane



Pursuing a strategy to reach full potential

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Six fundamental strengths which drive Smiths' strategy

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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