

Smiths Group

Meetings with US Investors

November 2005

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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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Net operating margins	2005	2004
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**



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

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

Keeping input costs in check

Sales 2005	£3.0 billion (% of sales)		Current outlook
Payroll	20%	➔	Pay increases recovered by efficiency gains
Purchased materials	30%	➔	Energy & raw material costs rising circa 4% p.a. Half of this is being passed on
Fixed costs	10%	➔	Less significance for Smiths
Production costs	60%		
Gross margin	40%		
S&D	9%	➔	Holding steady
G&A	12%	➔	
R&D	5%	➔	Will reduce under IFRS
Trading expenses	26%		(incl. payroll 12%)
Net margin	14%	➔	Increased volume has positive benefit
Operating profit	£420m		

Material costs are a factor: must be counteracted by volume, pricing and efficiency

Strong organic growth momentum in all four divisions

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Aerospace

Commercial aero recovery, sustained military growth

annual sales

£1.3 billion



Detection

Market opportunities continue to emerge, driven by new technology

annual sales

£0.45 billion



Medical

Rising healthcare spend drives continuous growth

annual sales

£0.75 billion



Specialty Eng.

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

annual sales

£1.0 billion

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

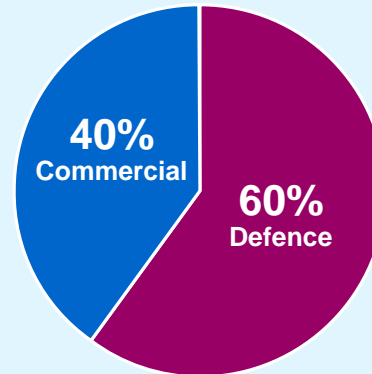
- First-tier supplier
 - to aircraft primes
- Technology investment:
 - Company-funded R&D: 7%
 - Customer-funded R&D: 12%
- Valuable after-market
 - Commercial: in step with RPMs
 - Defence: varies inversely with deployment

Aerospace systems

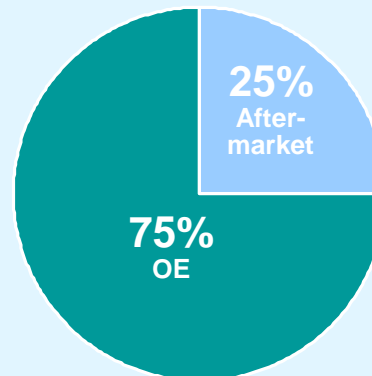
Electronic/mechanical integrated systems

Engine components

High-technology fabrication in advanced materials

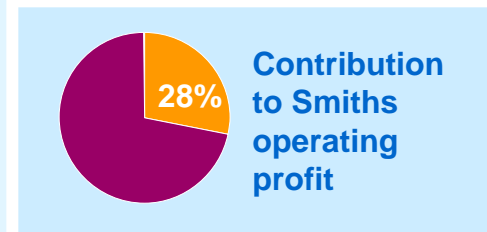


2005 sales



2005 sales

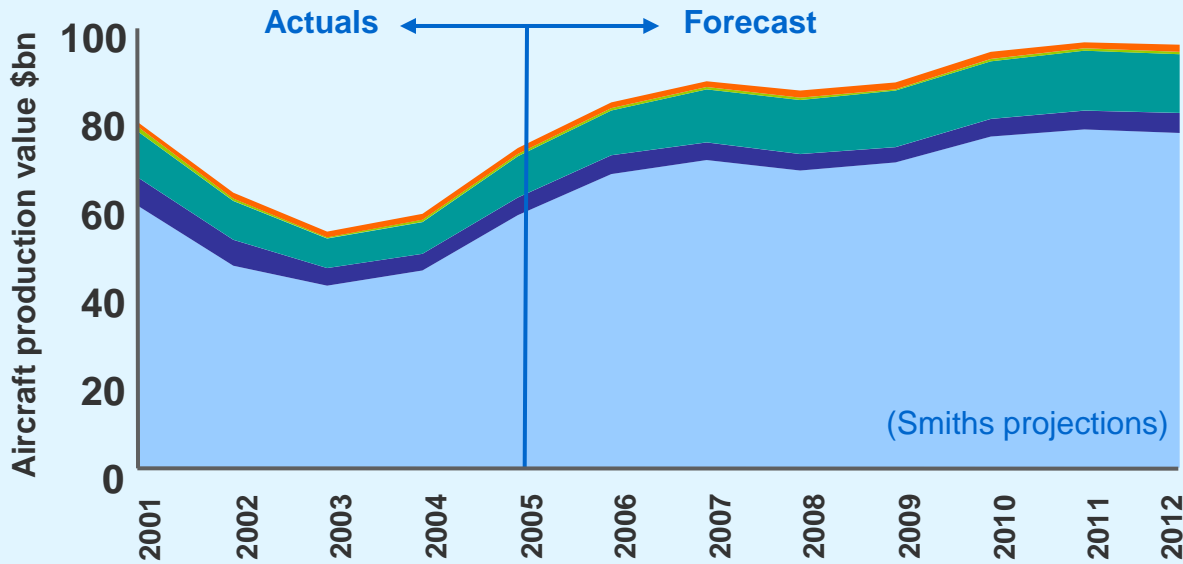
2005	£m	At constant currency
Sales	1,158	+18%
Op. profit	118	+22%
Margin	10%	



Smiths Aerospace:

Significant growth in the commercial aircraft sector

Global commercial market



Capabilities on large commercial aircraft



Systems supplied by Smiths



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

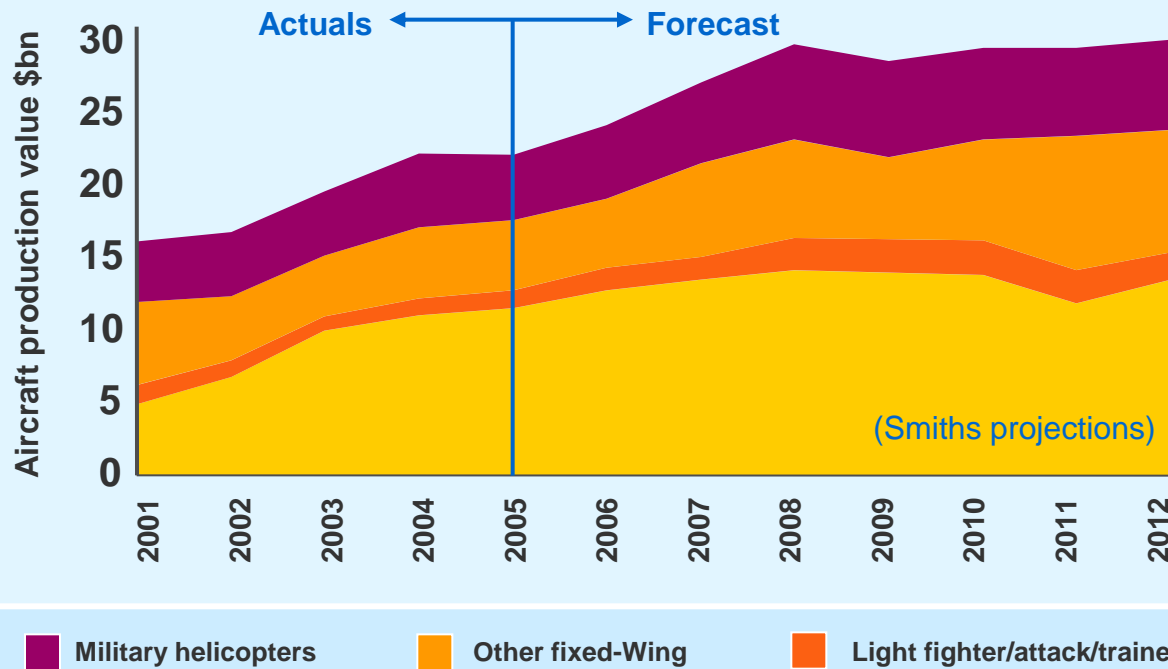
Smiths is increasing market share, opportunities in later years for new narrow-bodies

Smiths Aerospace:

Continuing strong performance in the defence sector

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Global military market



Capabilities on fighters:



Systems supplied by Smiths



Smiths will increase its market share when market levels off

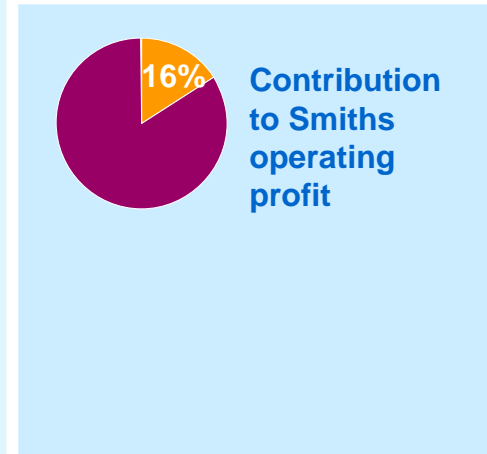
Smiths Detection:

Rapid evolution in a fast-growing market

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- Continued expansion of homeland defence
- Smiths is a world-wide market leader
- Widest range of products/applications
- Technology innovator:
 - Company-funded R&D: 7%
 - Customer-funded R&D: 2%
- After-market now developing
 - Already 10% of sales

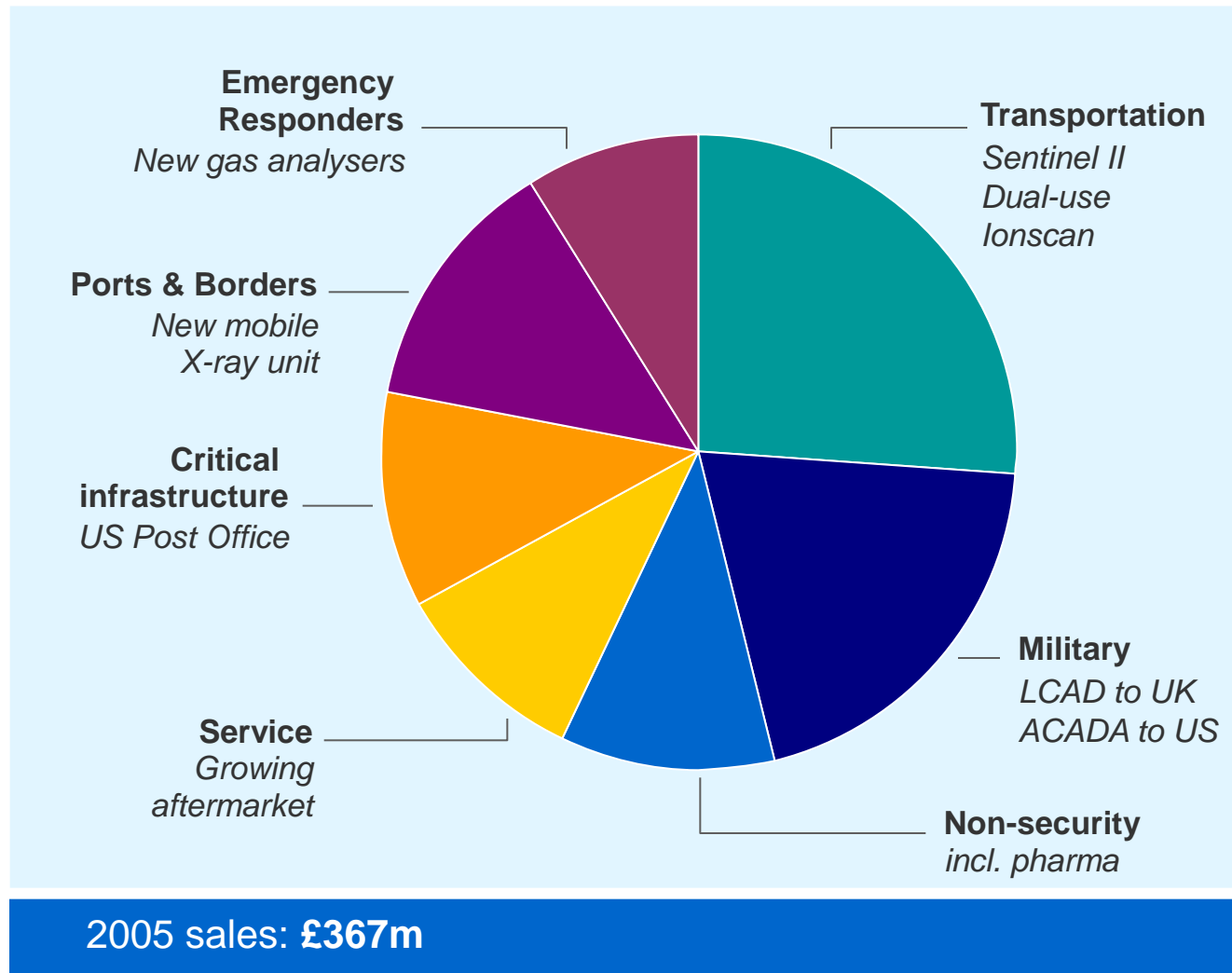
2005	£m	At constant currency
Sales	367	+17%
Op. profit	67	+21%
Margin	18%	



Smiths Detection:

Growth is coming from the wide range of market sectors

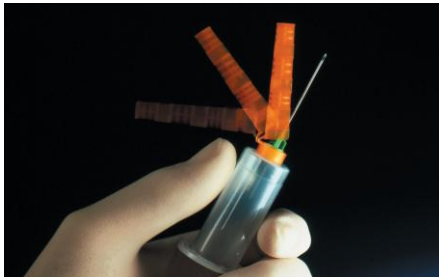
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Smiths Medical:

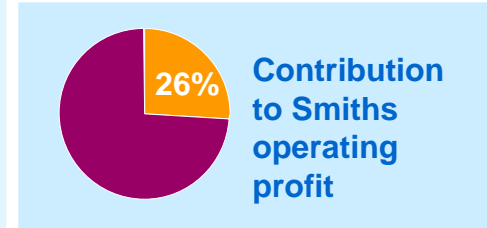
Benefiting from increased spending on healthcare

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- Strong niche positions in medical devices sector
- Products supplied for in-hospital use and for recovery beyond the hospital environment
- Single-use products avoid risk of cross infection
- Medication delivery products generate valuable after-market in consumables
- World-wide distribution, strong in US, Europe and Japan
- Integration of Medex going well, synergies being achieved

2005	£m	At constant currency
Sales	563	+19%
Op. profit	108	+23%
Margin	19%	



Smiths Medical:

In specialised markets, with strong niche positions

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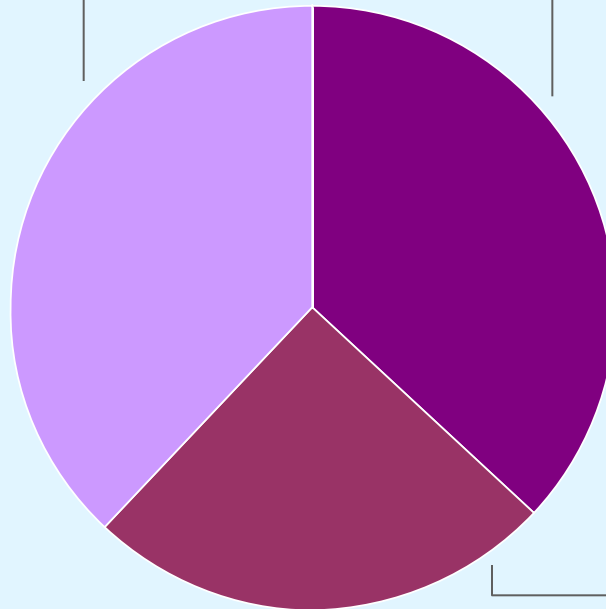
Medication Delivery

*Performing strongly,
helped by Cozmo*



Critical Care

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



2005 sales

(proforma 12 months of Medex)

Safety Devices

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

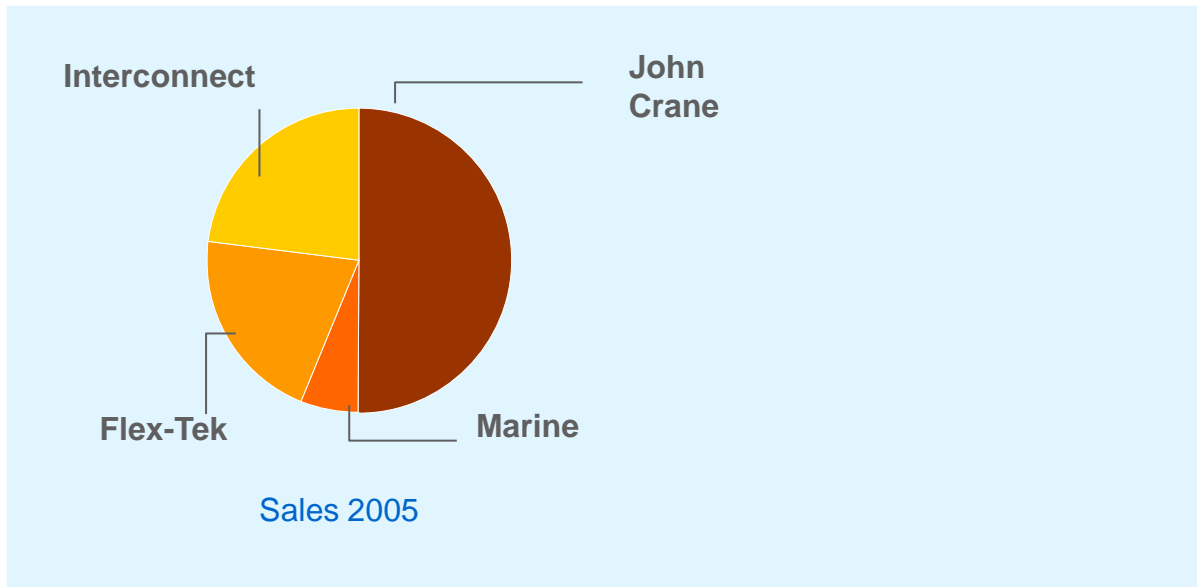


Specialty Engineering

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- Four strong businesses, showing good growth, generating a healthy cash-flow
- Acquisitions are being made to strengthen market positions
- Investment programmes underway to take advantage of Far-East opportunities

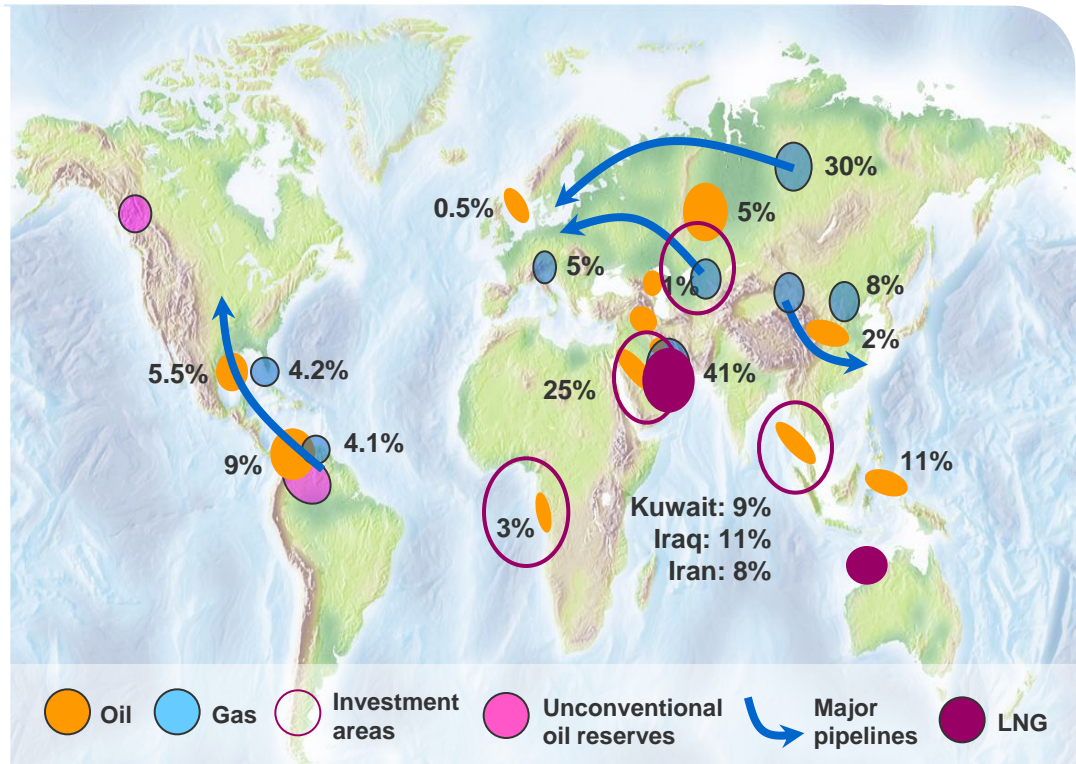
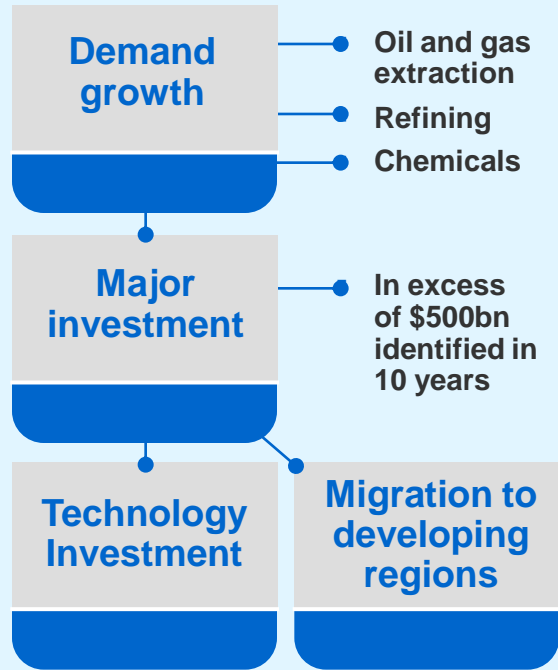
2005	£m	At constant currency
Sales	929	+10%
Op. profit	127	+16%
Margin	14%	



John Crane:

Benefiting from increased investment in the oil and gas sector

Market Drivers

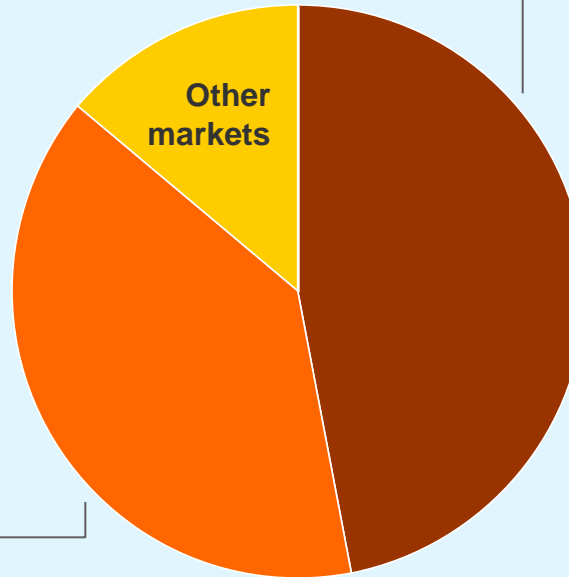


Interconnect:

Highly specialised components for defence and telecoms



Telecoms lightning strike protection



2005 sales: £220m

Wireless infrastructure

- Microwave cables
- Lightning protection
- Power-surge protection

Defence and Aerospace

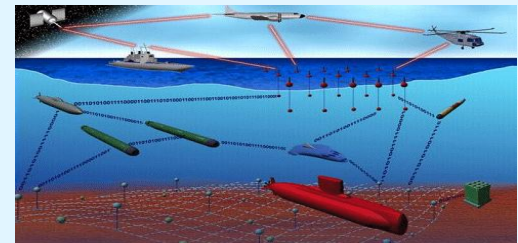
- EMC protection
- Sat-com antennae
- Microwave assemblies



latest acquisition

Millitech

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



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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