

## Smiths Group Preliminary Results 2006

London, Wednesday 27 September 2006

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



## 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 36<sup>th</sup> 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

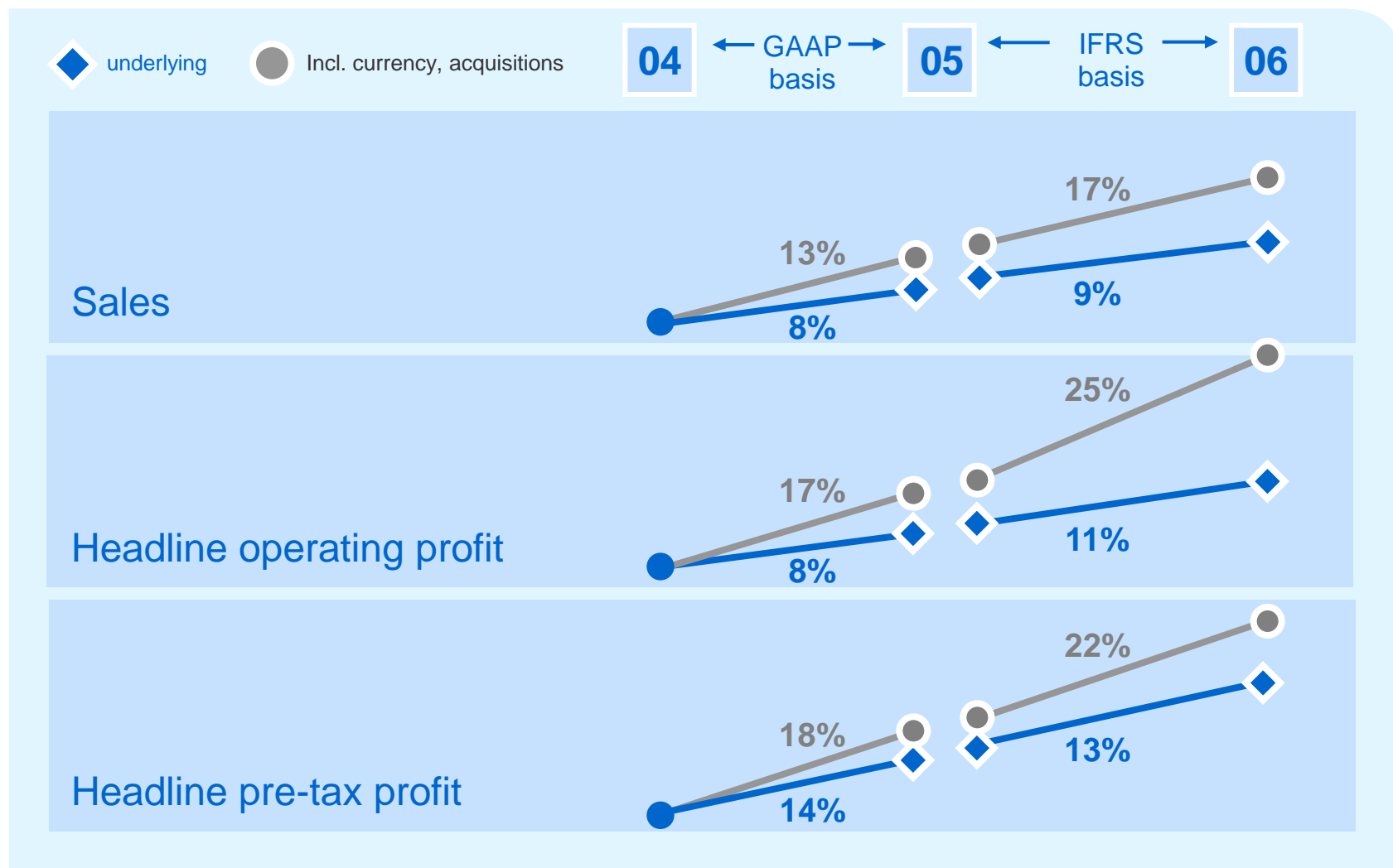
| £m               | 2006         |             | 2005      |           |
|------------------|--------------|-------------|-----------|-----------|
|                  | Headline*    | Statutory   | Headline* | Statutory |
| Sales            | <b>3,523</b> |             | 3,005     |           |
| Operating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

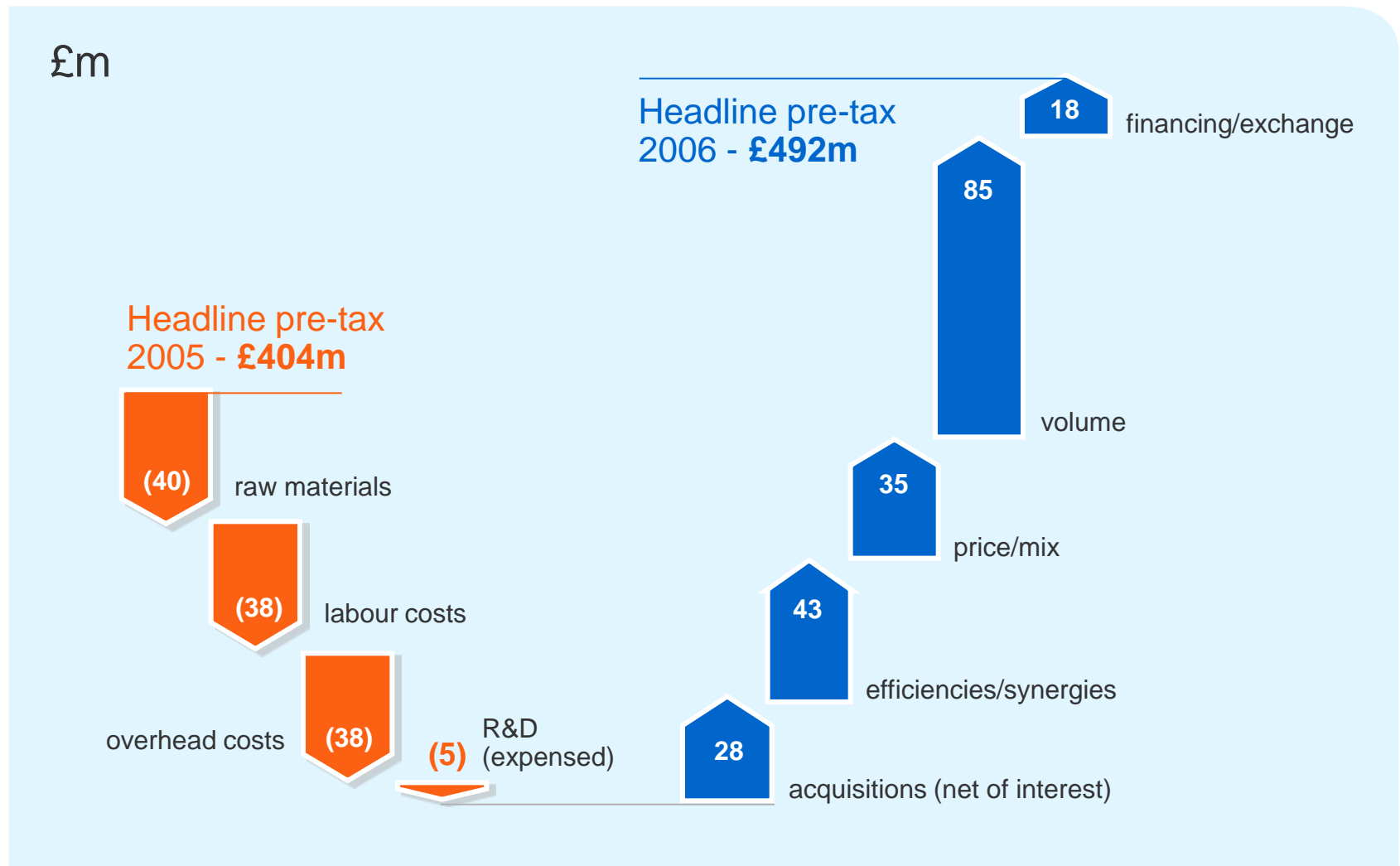
## Headline performance

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

# Driving for Full Potential: growth on prior year



# Profit progression across the year

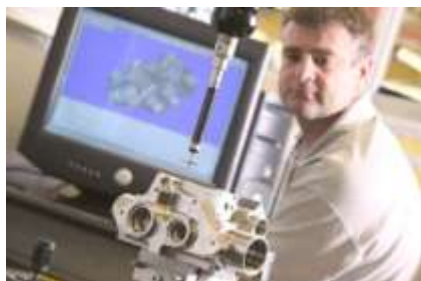


## Developing technology to help customers succeed Research & Development

| Company-funded R&D    | (£m)      | % of sales |
|-----------------------|-----------|------------|
| Aerospace             | 125       | 9.6%       |
| Detection             | 23        | 5.5%       |
| Medical               | 25        | 3.4%       |
| Specialty Engineering | 20        | 1.9%       |
|                       | <hr/> 193 | <hr/> 5.5% |

**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  
headline operating profit

£68m  
£11m

**Acquisitions/disposals**  
(contrib. in 2006)

sales  
headline operating profit

£159m  
£36m

**Margins** (*gross margin*)

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<br>(net of amortisation and deferred income) | (81)       |
| Changes in working capital   | (17)       |
| Operating cash-flow  | 420        |
| <b>Conversion rate</b>   | <b>81%</b> |

## 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                  | 8            |
| Net debt at end of period           | <u>(923)</u> |

## 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 (+)<br>• higher corporate bond rates (+)<br>• revised UK mortality assumptions (-) |
| - financing/exchange                       | 40 |  |

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

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

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

| P&L charge £m                         | 2006  | 2005  |
|---------------------------------------|---|---|
| R&D charge                            | <b>108</b>  | 102   |
| Amortised                             | <b>14</b>   | 12  |
| Deferred income released              | <b>(6)</b>  | (7)   |
| <b>Total P&amp;L charge in year</b>   | <b>116</b>  | 107   |
| <b>Balance sheet movement £m</b>      |   |   |
| Company-funded                        | <b>84</b>   | 42  |
| Customer-funded                       | <b>18</b>   | 26  |
|                                       | <b>102</b>  | 68  |
| <b>Less amortisation</b>              | <b>(14)</b>   | (12)  |
| <b>Deferred income movement</b>       | <b>(18)</b>   | (12)  |
|                                       | <div style="border: 1px solid blue; border-radius: 10px; padding: 5px; display: inline-block;">                     Deferred income received (24)<br/>Released 6                 </div> | <div style="border: 1px solid gray; border-radius: 10px; padding: 5px; display: inline-block;">                     Deferred income received (19)<br/>Released 7                 </div> |
| <b>Balance sheet reclassification</b> | <b>7</b>  | -   |
| <b>Net movement</b>                   | <b>77</b>   | 44  |

## 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

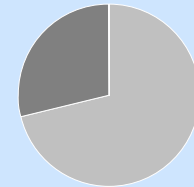
**£3m**

# Smiths Aerospace: performance in 2006

## Chief Executive speaking

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

Aerospace **29%**



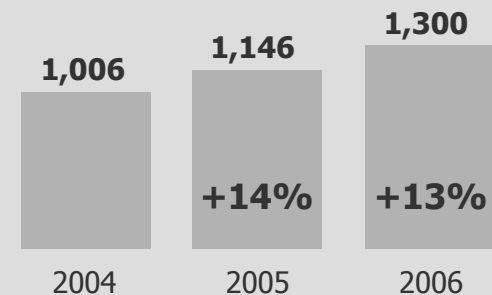
Contribution to headline op. profit

- 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

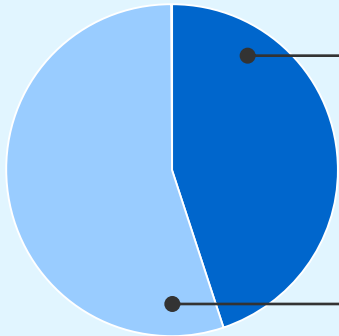
Boeing 787



Sales £m



# Smiths Aerospace: markets and business segment analysis

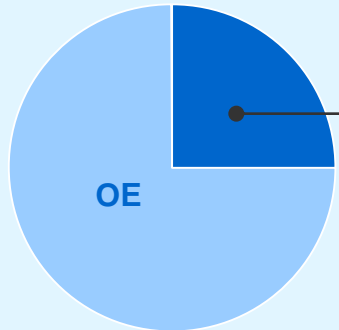


## Commercial

- Strong growth of existing business
- A380 development completed
- B787 development on track for 1<sup>st</sup> 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

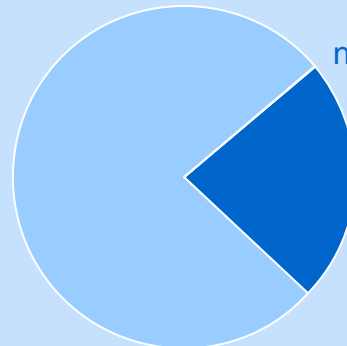


F-35 JSF



Momentum  
business

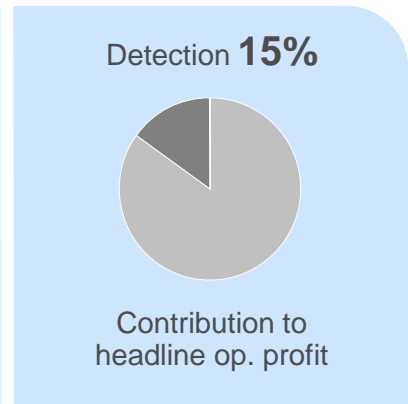
Business on  
new programmes  
secured in the  
past 5 years



Forecast Aerospace OE sales 2011

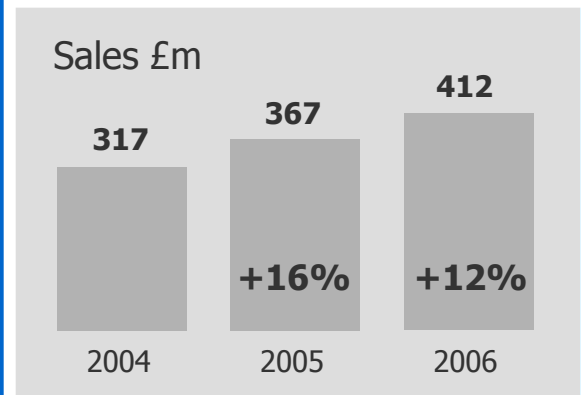
## Smiths Detection: performance in 2006

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



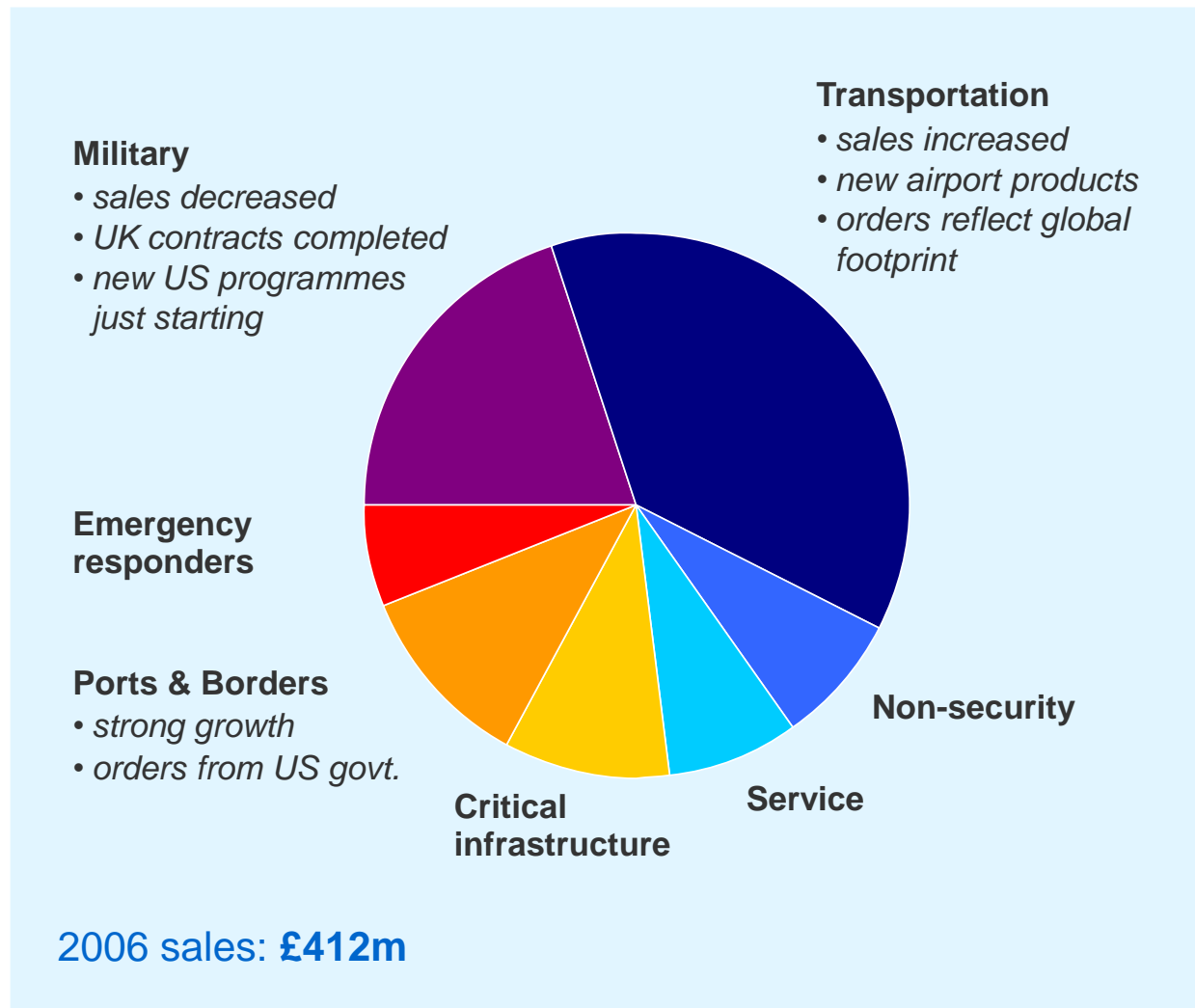
- Second year of strong sales growth
- Security remains at top of the agenda
- Strong order intake in 2006
- Company-funded R&D at 5% of sales
- Customer-funded R&D at 2% of sales
- New manufacturing facilities to meet Russian, US needs

Hazmat kit



# Smiths Detection:

Growth is coming from the wide range of market sectors



Port & Borders



Transportation

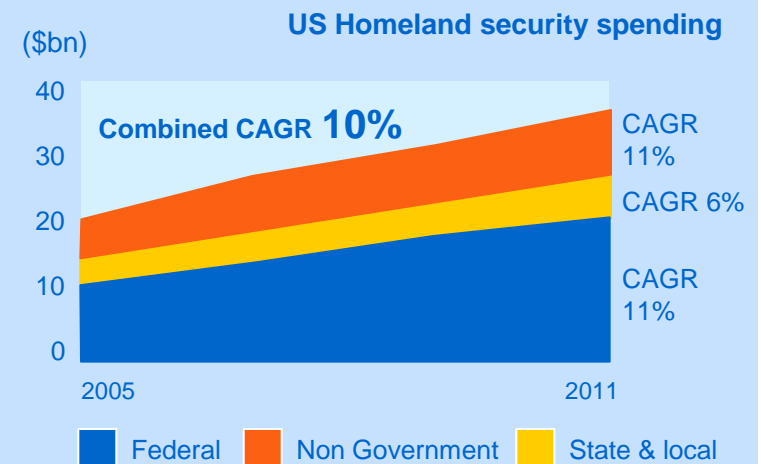


Military

## Smiths Detection: business outlook

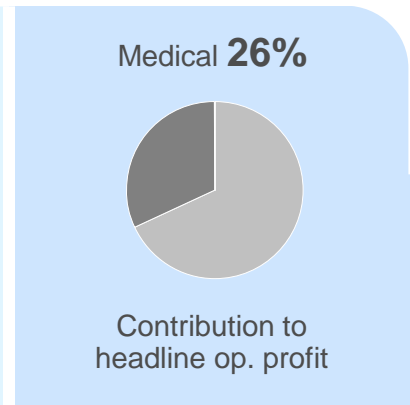


- Continued strong sales growth
- Ports & Borders fastest-growing sector
- Airport re-equipment cycle gets underway
- Military to regain momentum from US opportunities
- Investment continues in 2007:
  - higher R&D expense
  - higher revenue expense on new factory start-ups

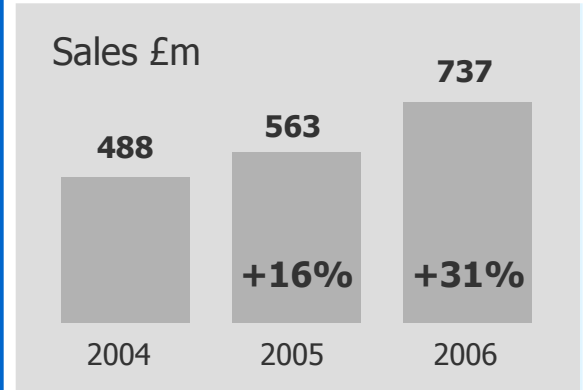


# Smiths Medical: performance in 2006

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



- 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



# Smiths Medical: market and business sector analysis

## Medication Delivery

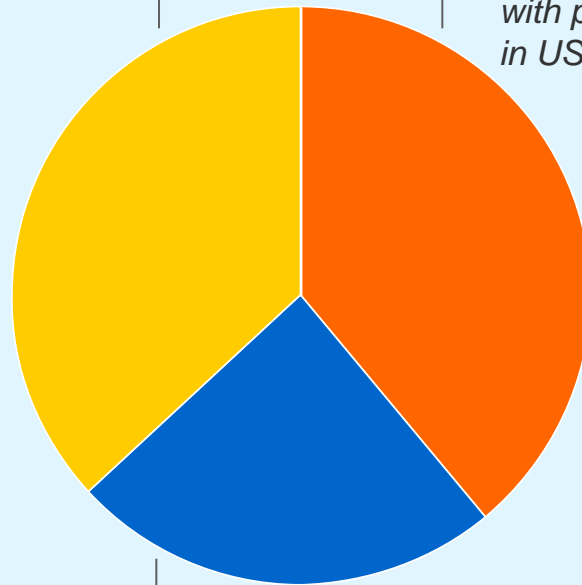
- *Infusion pumps selling well*
- *Innovative consumable items for diabetes pumps introduced*

## Critical Care

- *Increased rate of new product launches*
- *Major contracts won with purchasing groups in US*

## Safety Devices

- *Combined Smiths/Medex range generating incremental sales*



**2006 sales: £737m**



Medication Delivery



Critical Care



Safety Devices

# New medical products

## Medication Delivery

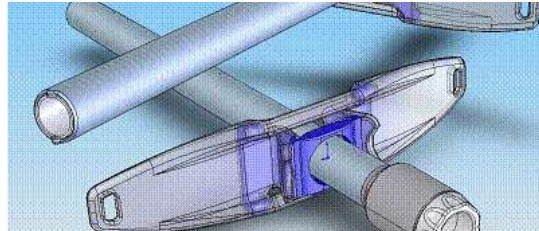


### CADD

#### 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

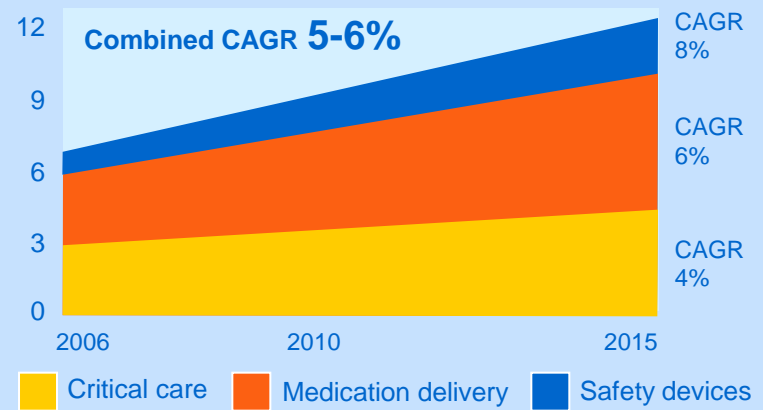
- common, unified information
- standardised processes
- rationalised supply chain

### Manufacturing strategy

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



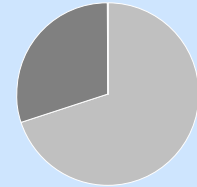
World market for devices & equipment of the type made by Smiths (\$bn)



## Specialty Engineering: performance in 2006

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

Spec. Eng. **30%**



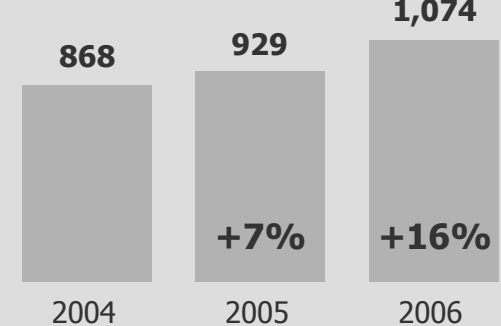
Contribution to headline op. profit

John Crane

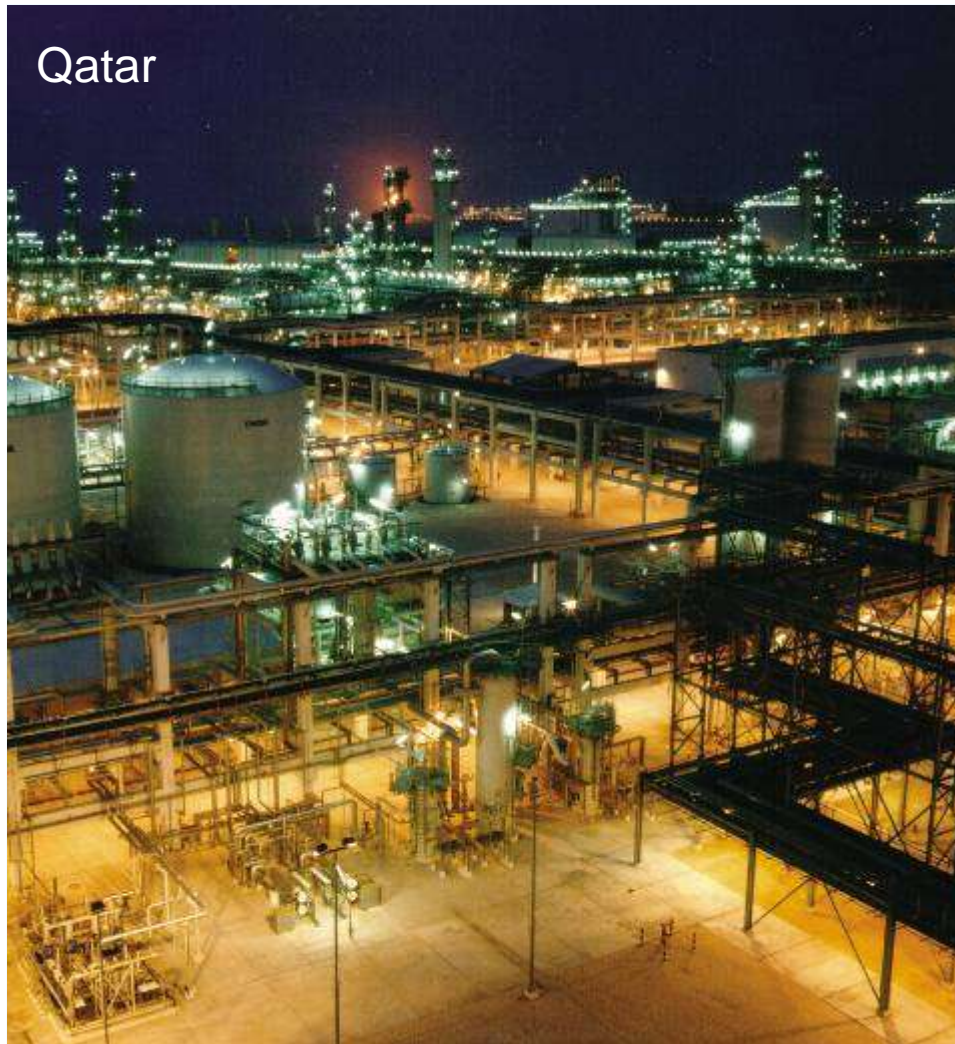


- Good growth across all activities
- Margin improved by 0.7%
- Acquisitions: Millitech, Lorch Microwave, Farnam

Sales £m



## Specialty Engineering: John Crane



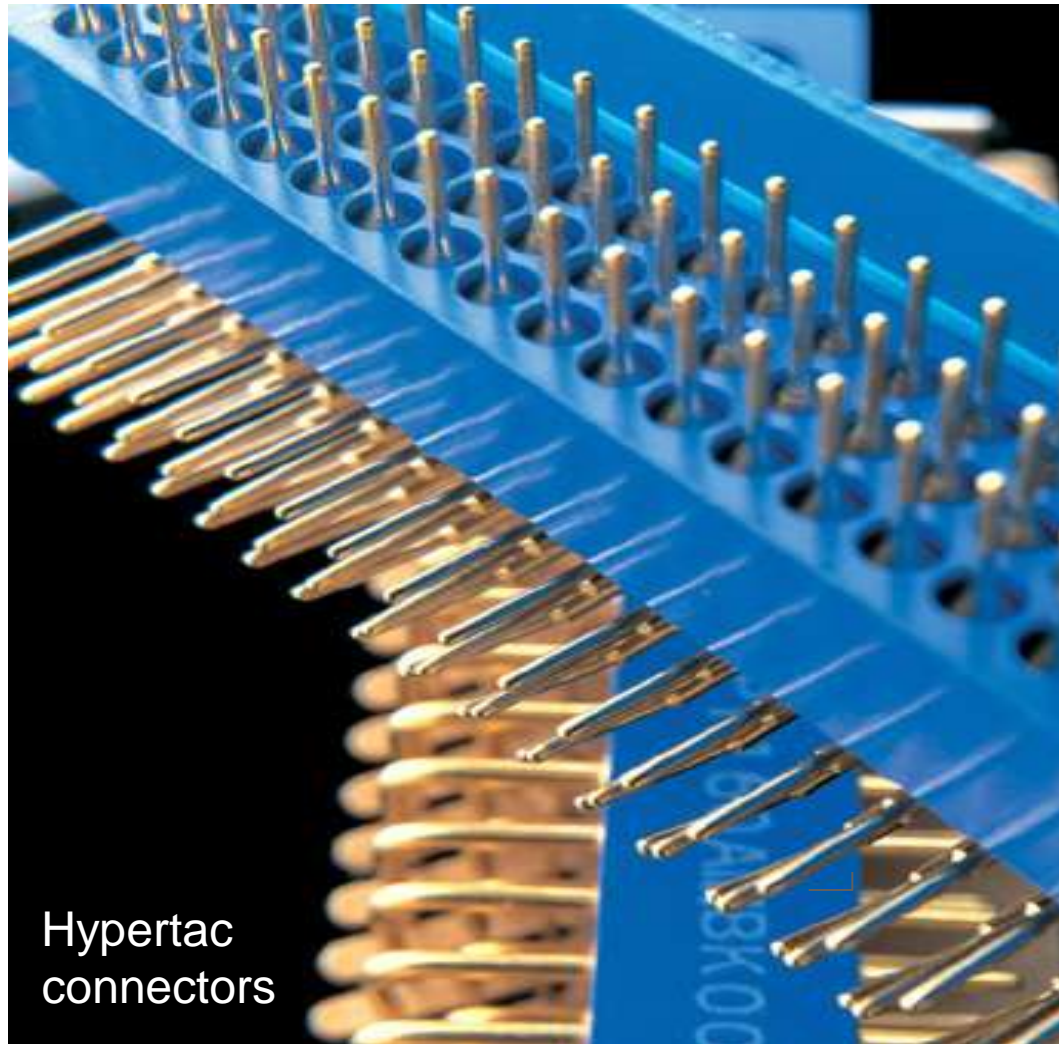
### Performance in 2006:

- 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

### 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

