

Smiths Group

Interim Results 2006

London, Wednesday 15 March 2006

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Interim Results 2006

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Chief Executive speaking

£m (for six months ended 31 January)	2006	2005	
Sales	1,590	1,338	+19%
Operating profit			
- headline*	194	158	+22%
- statutory	188	158	+19%
Pre-tax profit			
- headline*	183	155	+18%
- statutory	179	162	+11%
Basic EPS (p)			
- headline*	24.0p	20.4p	+18%
- statutory	23.7p	21.2p	+12%
Dividend (pps)	9.85p	9.25p	+6.5%

* excludes non-operational and exceptional items

Highlights of the period

- Sales increased by 19% to £1,590m in the first half of the year
- Headline operating profit up 22% to £194m, headline EPS up 18% to 24.0p
- Statutory operating profit up 19% to £188m, EPS up 12% to 23.7p
- Cash conversion at 90% in the first half, with working capital reduced
- Company-funded R&D at 6% of sales, driving future growth and returns
- Interim dividend increased by 6.5% to 9.85p
- Aerospace sales up 10% with continued investment for future returns
- Strong sales and profit growth in Detection, with technology base broadened
- Underlying sales growth of 6% in Medical; Medex integration on track
- Increased sales and margins in Specialty Engineering

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

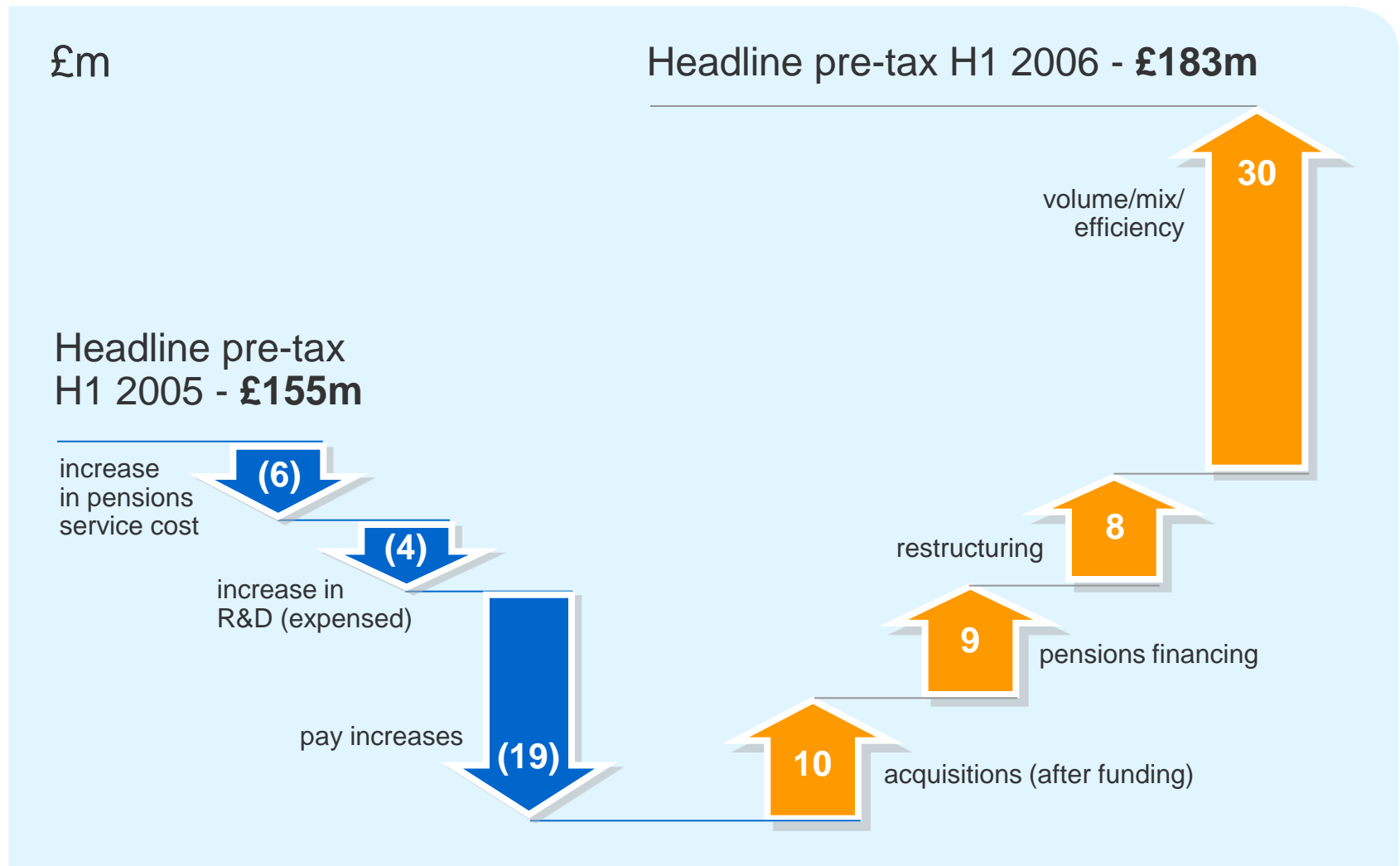
Doing business the right way

Driving towards Full Potential

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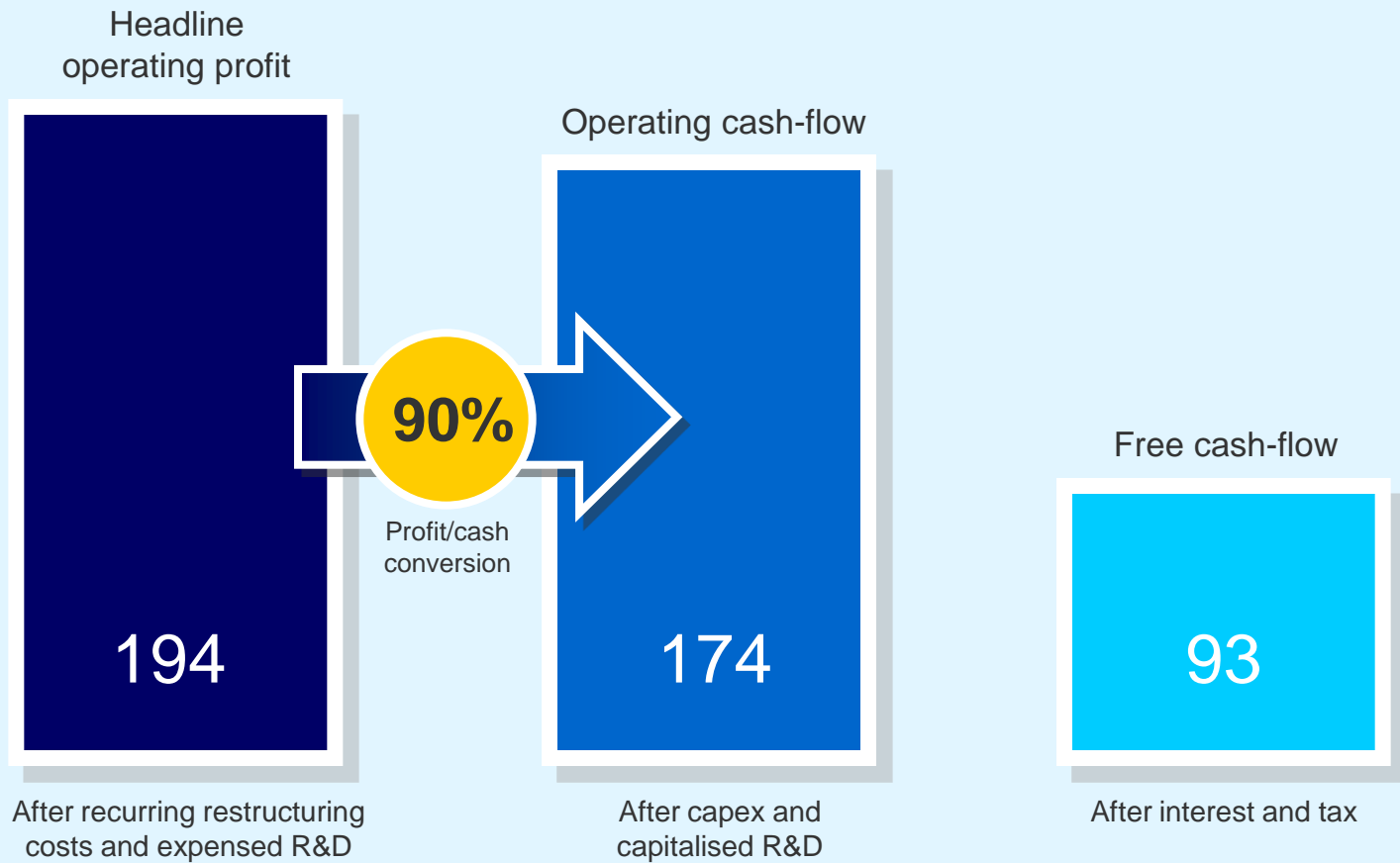


Profit progression in the half-year



Generating a strong cash-flow

£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 by 22%

Improving our business mix: acquisitions in this period

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



Financial Director speaking		£m
Currency:	Translation benefit: sales headline operating profit	36 5
Restructuring:	Now in headline P&L:	(14)
Exceptional & other items:	Total costs:	(4)
Acquisitions:	Contribution in this period: sales headline operating profit:	113 25
Margins:	<i>Gross margin:</i>	40%
Interest:	Cost:	(27)
Pensions:	Service cost/financing:	3
Effective headline tax rate:		26%

Operating cash conversion

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(for six months ended 31 January)

£m	2006
Headline operating profit	194
Property, plant & equipment (net of depreciation)	(6)
Capitalised development costs (net of amortisation)	(43)
Software	(2)
Changes in working capital	31
Operating cash-flow	174
Conversion rate	90%

Movement in net debt

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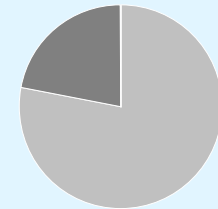
(for six months ended 31 January)

£m	2006
Net debt at start of period	(931)
Operating cash (after capex etc)	174
Interest and tax	(75)
Exceptionals	(6)
Free cash-flow	93
Dividends	(111)
Acquisitions/disposals/new business	(39)
Financing & exchange	18
Change in net debt	(39)
Net debt at end of period	(970)

Chief Executive speaking

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

Aerospace **22%**



Contribution to headline op. profit

- 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

A380



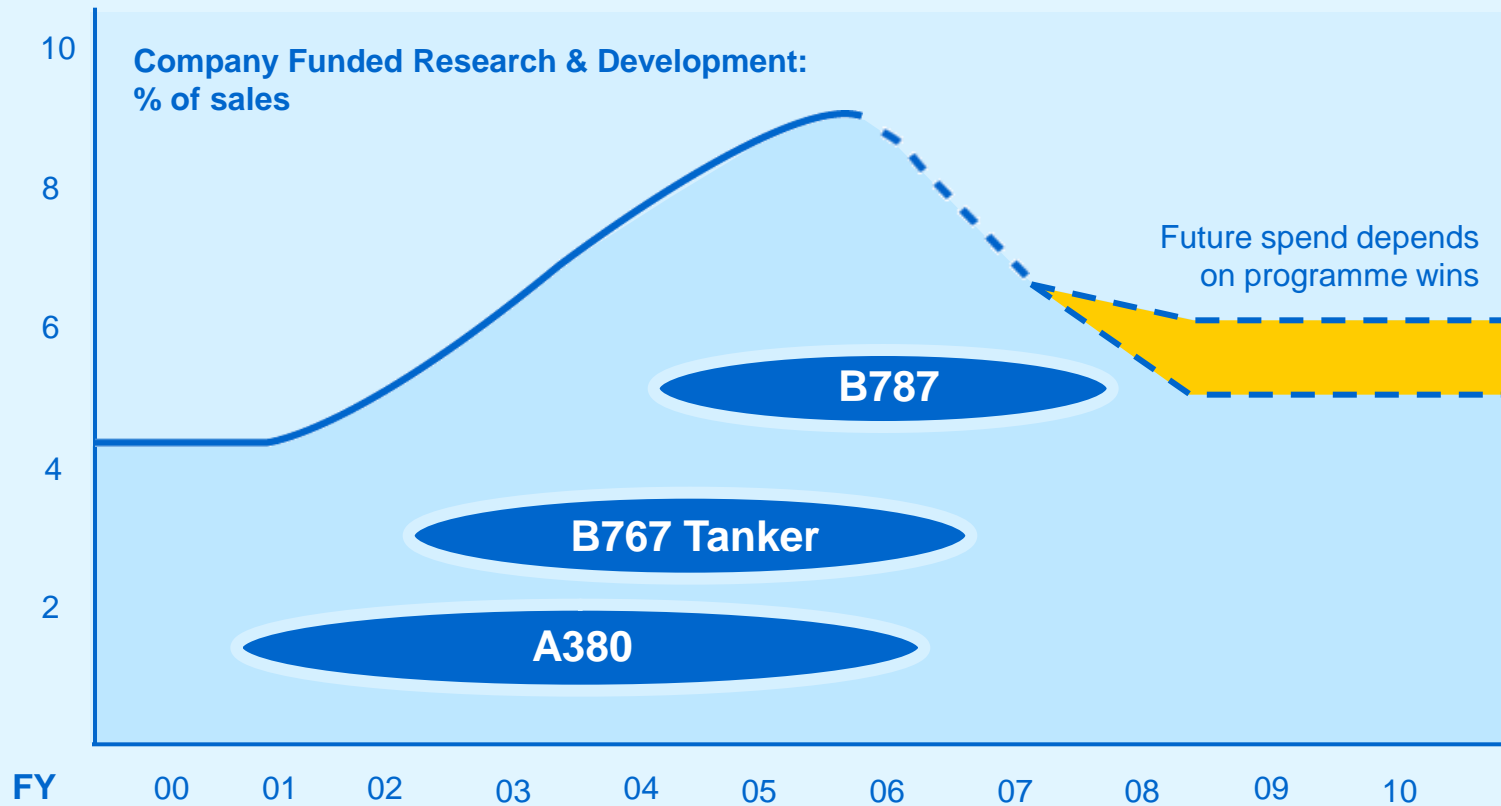
Eurofighter



Engine Components



Investing in the future of Smiths Aerospace



Today's major development programmes will drive future growth

Significant investment in new programmes

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



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

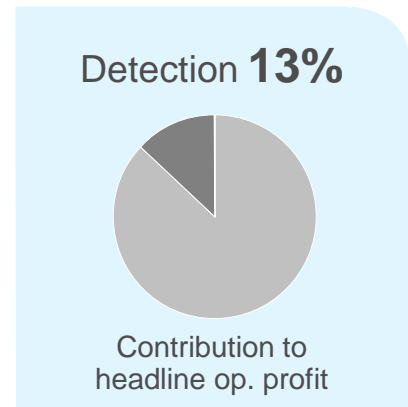


- Smiths supplies common core system, landing gear actuation and high-lift systems
- Meeting Boeing's milestones
- Scope of CCS is being extended
- Firm orderbook: development being capitalised
- CCS has opportunities on other aircraft

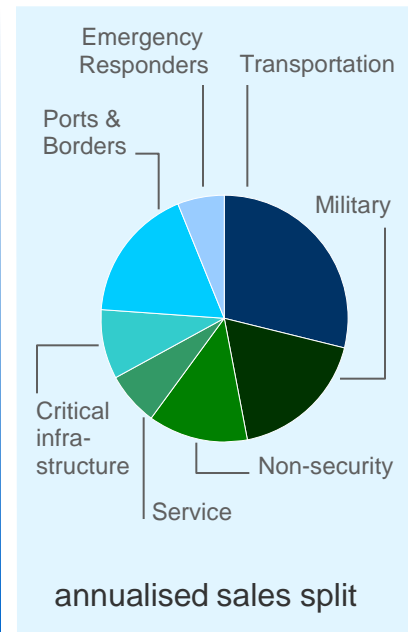
Smiths Detection

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£m	H1 2006	
Sales	171	+12%
Headline operating profit	25	+12%
<i>Margin</i>	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



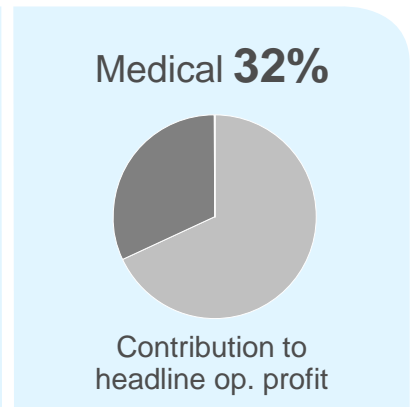


HCV Mobile

- US Government agency will operate HCV mobile systems
- For container inspection at a number of US ports
- Deliveries in second half of calendar 2006
- Designed with radiation detection capability
- Being assembled in the US



£m	H1 2006	
Sales	355	+50%
Headline operating profit	61	+60%
<i>Margin</i>	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 plants 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

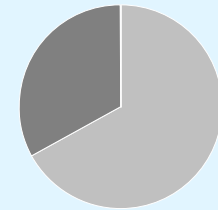


Specialty Engineering

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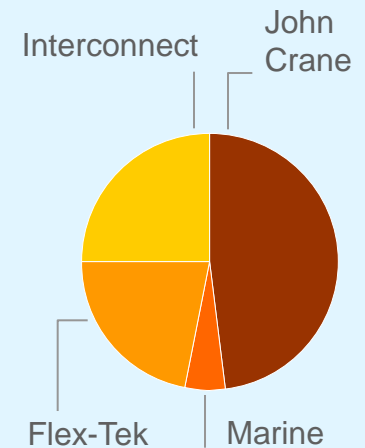
£m	H1 2006	
Sales	504	+14%
Headline operating profit	65	+21%
<i>Margin</i>	13%	

Spec. Eng. **33%**



Contribution to headline op. profit

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



annualised sales split

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: 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	24.0p	20.4p	+18%
Interim dividend	9.85p	9.25p	+6.5%

Smiths is now in its second year of strong growth

“The outlook for the year is positive. Market conditions are favourable, and Smiths continues to benefit from the strength of its competitive positions.

“The company expects to sustain the pace of growth through the second half.

“Continuous investment in the business, selective acquisitions and a focus on cost and capital management will drive future growth and returns.”

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Interim Results 2006

Questions and answers

