

smiths

Smiths Group

At the SG Cowen Global Aerospace Conference, New York
Wednesday, February 12, 2003



Alan Thomson, Financial Director
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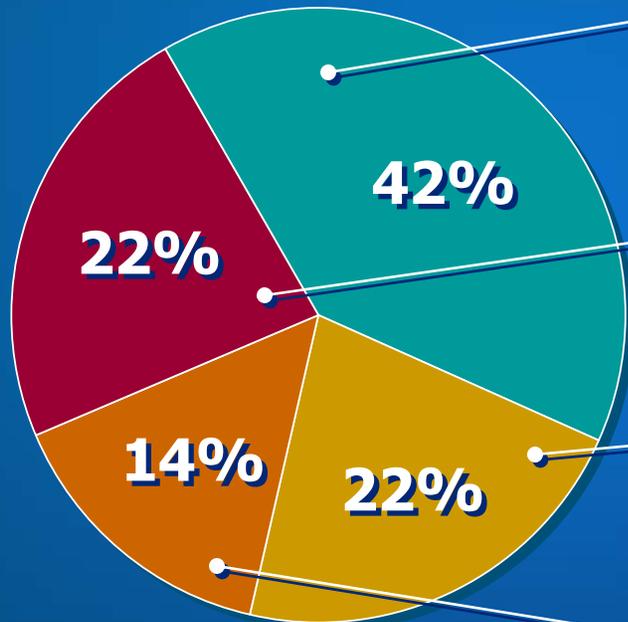
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Smiths Group

The UK's leading engineering company

Operating in four focused market sectors



divisional split of 2002 EBITA:
total £452m

Aerospace

Advanced avionic systems and aircraft equipment



Medical

Devices for critical and intensive healthcare



Sealing Solutions

Mechanical and polymer seals



Industrial

Electronic interconnect and ducting/hosing



Sales - £3bn

Market cap - £4.0bn

Employees - 33,000

▶ 50% of revenues generated in US

Performing strongly in the current economic climate

£m (continuing activities)

Sales

2002

3,070

Operating profit*

452

Operating cash-flow*

473

Pre-tax profit*

406

EPS*

52.3p

Dividend

25.5p

Net debt

(725)

Smiths' fundamentals

Strong market niches



High margins



Cash-generation



Good dividends



Balance-sheet strength



* before exceptional charges and goodwill amortisation

increased for 30th consecutive year

Company guidance for 03 at AGM

"Performance this year should be close to that achieved in 2002, although likely to be more weighted towards the second half."

Analysts' consensus for 03 : EPS circa 50p

Sustaining good margins ■ Generating a strong cash-flow ■ Driving down debt

Margins

Group margin 2002: 15%

Divisional margins

Aerospace	14%
Medical	20%
Seals	12%
Industrial	15%

Cash-flow

Operating profit: £452m
 Operating cash: £473m (after capex) cash conversion **105%**

Free cash-flow - **£315m**
 (after restructuring, interest & tax)

56p per share

Debt

Net debt £1.8bn



Dec 2000
 (formation of Smiths Group)

Interest cost £116m

£1.1bn



July 2001

Interest cost £57m

£0.7bn



July 2002

High level of cash generation, plus disposal proceeds, continue to drive down debt

Re-focusing Smiths on the best opportunities for growth

Getting on with the disposal of non-core and poor performers

Businesses sold since Dec 2000

Proceeds £470m

Annual sales £440m

Margins 10%

Proceeds: 11 x operating profits

Mainly in the capital goods sector -

marine seals
vacuum & filtration
ventilation equipment

Finding valuable additions to strengthen the core activities

Businesses acquired since Dec 2000

Acquisition costs £360m

Annual sales £240m

Margins 14%

Costs: 11 x operating profits

Mainly in the fast-growing detection equipment sector -

Barringer (explosive detection)
Heimann (x-ray detection)

Company objectives:

- Maintain the “quantum” of profits through the transition
- Build a platform for growth

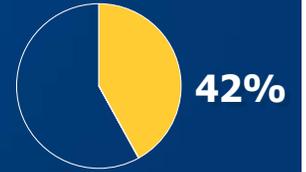
Management actions underway to improve current performance

<ul style="list-style-type: none"> ■ Restructuring for commercial aerospace downturn <ul style="list-style-type: none"> ▶ £40m exceptional charge taken last year 	<ul style="list-style-type: none"> ■ 10% workforce reduction ■ 6 plants closing in US ■ Costs fully recovered from savings in 2004 														
<ul style="list-style-type: none"> ■ Moving labor-intensive production to low-cost regions <ul style="list-style-type: none"> ▶ Medical ▶ Sealing Solutions 	 <p>US to Mexico</p> <p>UK to Eastern Europe</p>														
<ul style="list-style-type: none"> ■ Driving lean initiatives throughout the organisation 	<ul style="list-style-type: none"> ■ Supply chain management ■ Working capital reduction ■ Cost-base reduction ■ Productivity improvements 														
<ul style="list-style-type: none"> ■ Stepping up R&D <ul style="list-style-type: none"> ▶ Aerospace ▶ Medical <p>(all costs written off against profits during the year)</p> 	<table border="1"> <thead> <tr> <th>R&D - £m</th> <th>2001</th> <th>2002</th> <th>2003</th> </tr> </thead> <tbody> <tr> <td>Company funded</td> <td>91</td> <td>116</td> <td rowspan="3">Company funded R&D will continue to rise</td> </tr> <tr> <td>Customer funded</td> <td>97</td> <td>96</td> </tr> <tr> <td>Total</td> <td>188</td> <td>212</td> </tr> </tbody> </table>	R&D - £m	2001	2002	2003	Company funded	91	116	Company funded R&D will continue to rise	Customer funded	97	96	Total	188	212
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Achieving profitable organic growth

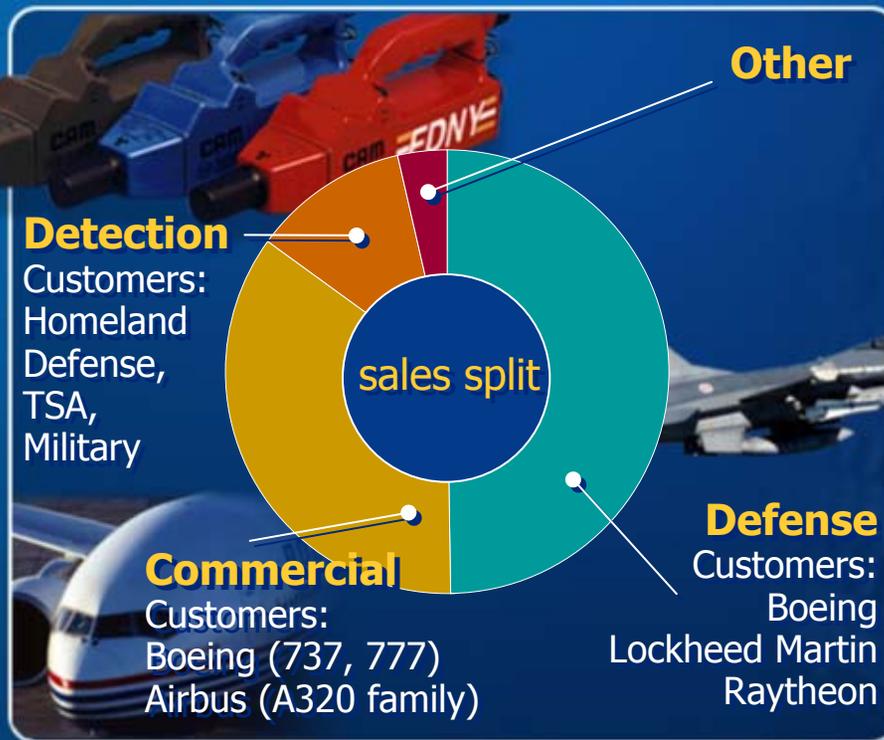
Smiths Aerospace

A first tier supplier to the world's major aircraft and engine manufacturers



contrib. to O2 op. profit

£m	2002	
Turnover	1,345	+3%
Operating profit	191	-9%
Margin	14%	



Outlook

growth in defense and detection will lessen the impact of downturn in commercial aerospace

Commercial Aerospace - market trends

Will recover from steep downturn

Airbus A380

Smiths has secured a strong position. Shipset over \$1million. Company-funded development underway



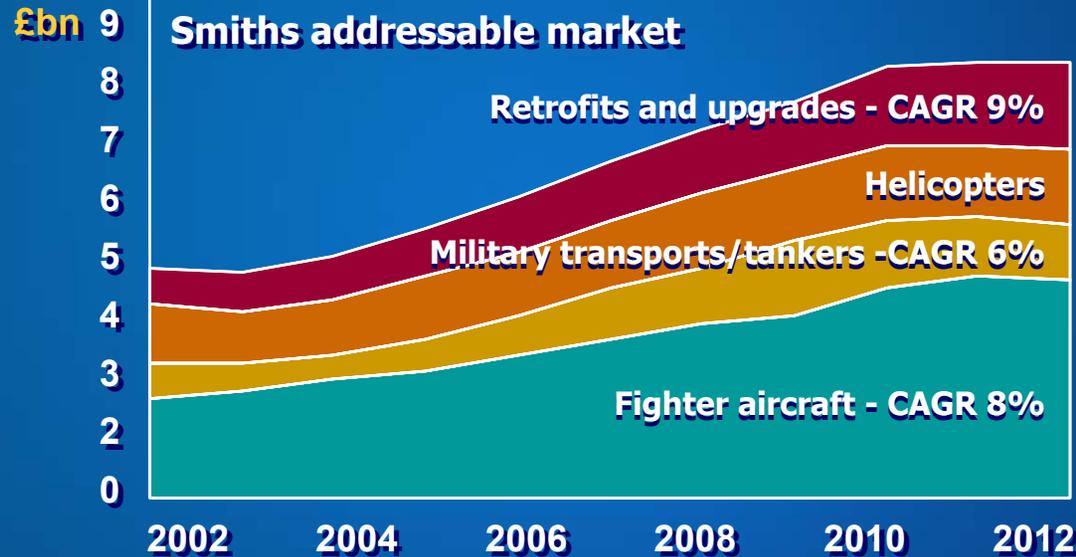
- 9/11 led to a 40% decline in commercial aircraft build rates
- Some airlines will disappear
- Recovery is expected to begin in late 2004/5
- Airbus winning market share in this period

Opportunities ahead

- Boeing will launch 757/767 replacement
- Airbus A380 now in development

Military Aircraft - market trends

Strong growth in military spending - particularly in US



Defense

- Sustained growth throughout next ten years
- Investing in new programmes
- Systems integration capability

B767 Global Tanker
 Smiths is integrator of in-flight refuelling system. Shipset of \$3.5m, up to 500 aircraft potential

Joint Strike Fighter

Smiths is one of Lockheed's first-tier suppliers for the F-35. Over \$1m shipset awarded to date



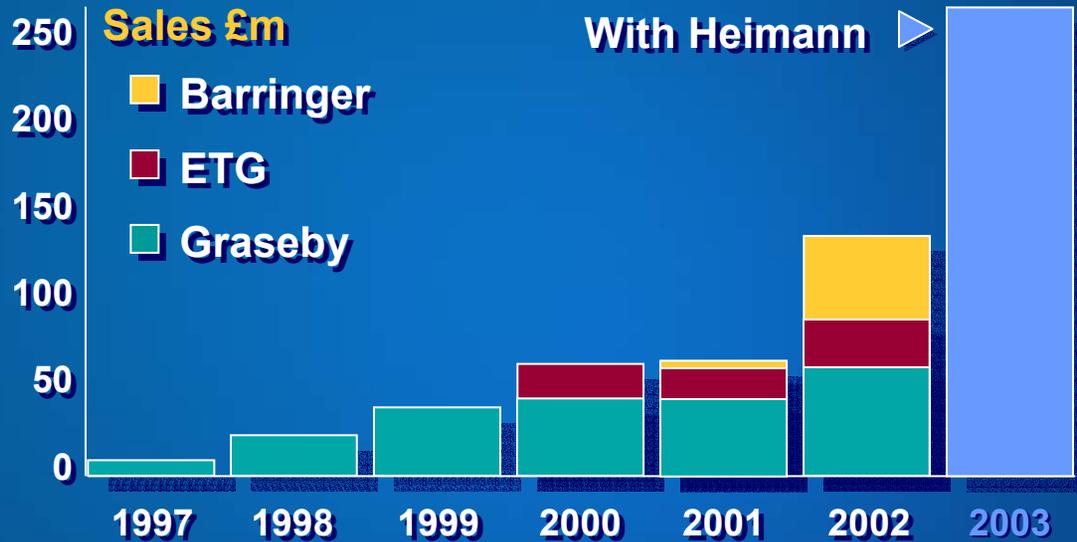
Smiths well positioned on fighter aircraft, tankers, transports & UAVs including

- ▶ F/A-18 E/F
- ▶ JSF
- ▶ Eurofighter
- ▶ F-22
- ▶ C130J
- ▶ 767 GTTA



Smiths Detection

Rapid growth in response to an emerging market



- Market leader in detection systems
- Rapid market growth post 9/11 will continue
- Recent acquisition of Heimann Systems strengthens the portfolio

Trace detection

Explosives, narcotics, chemical agents



X-ray

From small mail packages to full-size containers



Biological agent detection

For military and commercial use



Smiths Medical

A high margin business with good prospects in a dynamic world market



contrib. to 02 op. profit

Airway Management

among the world leaders in single-use devices

Other specialized products

strong growth in market niches

Sales split

Infusion

extending the range into new markets

£m

2002

Turnover

480

+6%

Operating profit

97

+4%

Margin

20%

Innovation:

The key to continued organic growth

Higher R&D is increasing the rate of new product introduction: examples

Safe needle closure devices:

Avoid needle-stick injuries to health-care staff: use now mandated in US hospitals

Deltec Cozmo pump:

Delivers insulin more effectively to diabetics. Now selling strongly in US market

Sealing Solutions

Major restructuring, including moving production to low cost countries, is improving profitability



contrib. to 02 op. profit

Polymer Seals

sales, profits have been affected by downturn in European capital goods sector



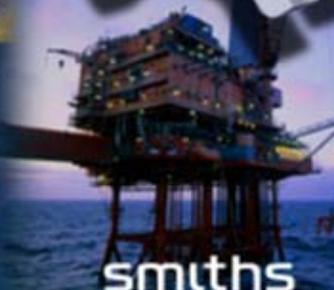
Asbestos:
no material contingent liability

John Crane

on steady sales, margins are improving, as manufacturing moves to low cost countries

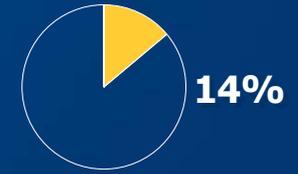
Significant disposals in 2002 have refocused this division into two, cash-generative businesses

£m	2002	
Turnover	822	-8%
Operating profit	100	-4%
Margin	12%	



Industrial

Profit-to-cash conversion at over 100%



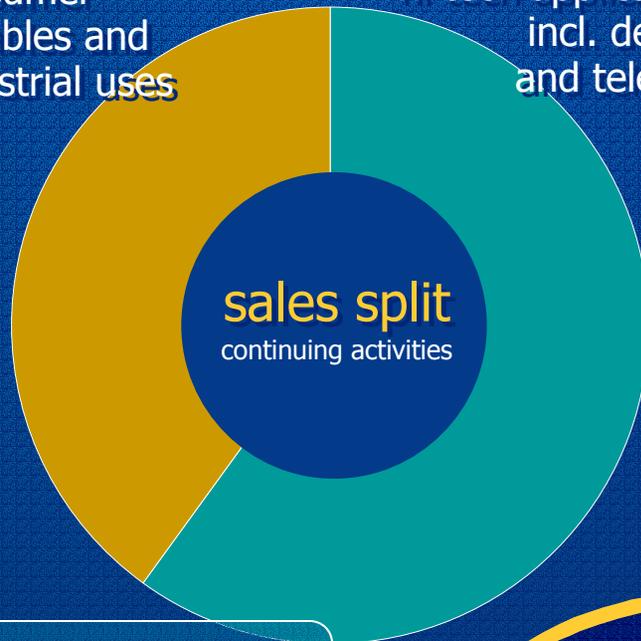
contrib. to 02 op. profit

Flexible Ducting

flexible hoses/
ducting for
consumer
durables and
industrial uses

Interconnect

electronic connection
and protection for
hi-tech applications,
incl. defense
and telecoms



Recent significant disposal: ventilation businesses sold for £125m in Dec 02

this division supplies highly engineered specialist products to a diverse customer base

£m	2002	
Turnover	422	-13%
Operating profit	65	-31%
Margin	15%	



Smiths Group

The outlook for the company in 2003

Financial factors

Interest

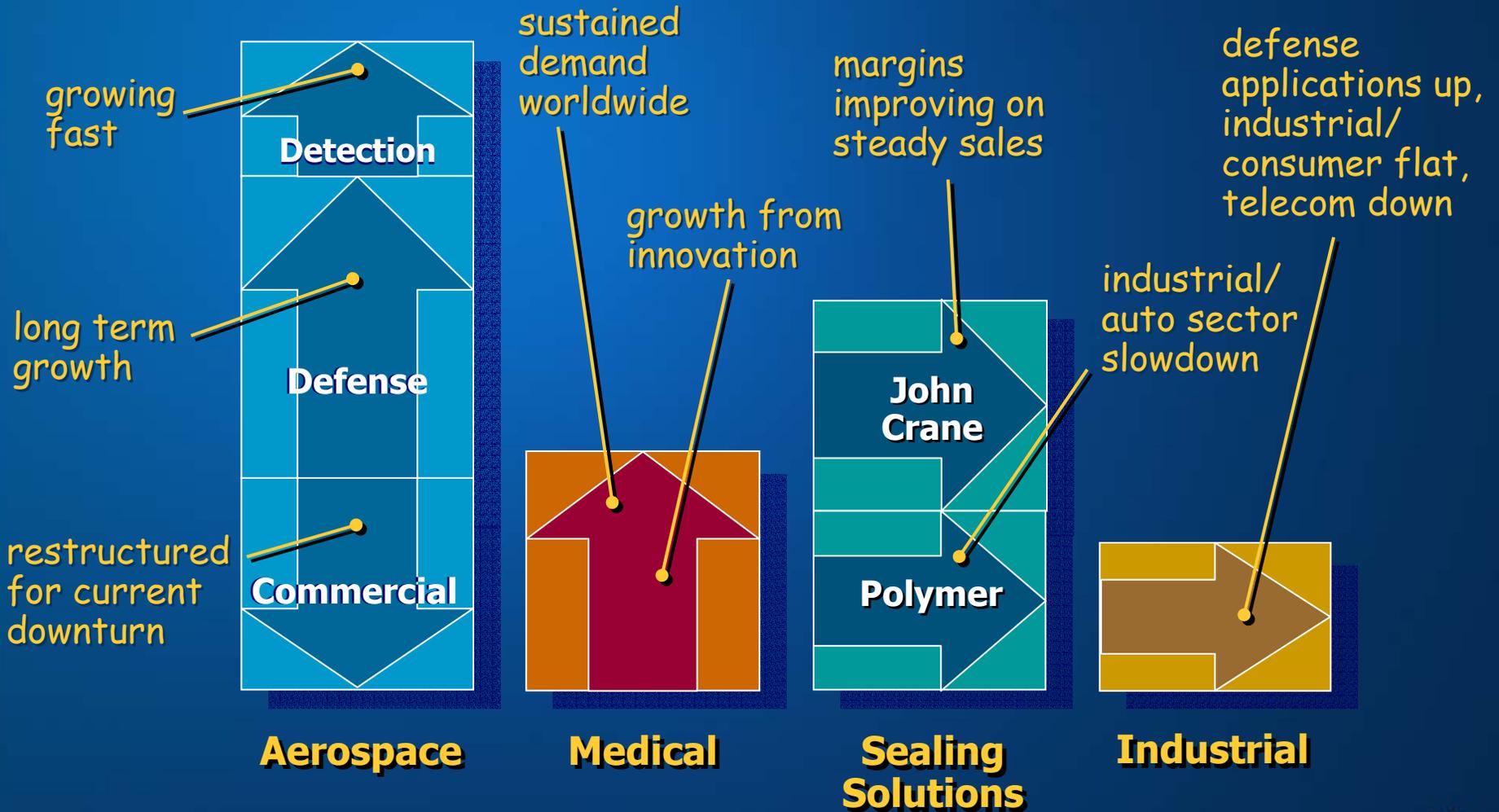
positive effect

Pensions

negative effect

Currency

negative effect



Smiths Group

Fundamental strengths

High margins



**Premium products,
strong market niches**

Healthy cash-flow



**Pays down debt,
funds bolt-ons**

Strong balance sheet



**Interest 10x covered,
no off balance sheet items**

Commitment to R&D



**Technology leadership,
innovative products**

Lean enterprise



**Continuous cost-cutting,
supply chain management**

Focusing on growth



**In Aerospace, Detection
and Medical**

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