

smiths

Smiths Group

Information for Investors



Farnborough International Airshow
22-26 July 2002

www.smiths-group.com

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- Company actions underway to create a platform for future growth.
- Operating profit into operating cash: 80% conversion rate is after capital expenditure.
- Balance sheet strength is underlined by strong credit ratings: Standard & Poor's: A minus. Moody's: A3.
- Cost reduction targets established following TI merger are on track: £50m this year, £80m next.
- Disposal of non-core activities this year has included Marine Seals business and Vacuum & Filtration business in Sealing Solutions. Achieved without dilution of earnings.
- Total R&D, company and customer funded will continue to increase, was £188m in 2001.
- Enlarged aerospace business resulting from merger has been successful at securing larger programmes, eg the in-flight refuelling system for the Boeing 767 Tanker.
- H2 decrease will be less than the 11% drop in H1 performance.

Smiths Group

Creating a platform for growth

Annual revenues of over £3bn (continuing activities) - group operating margins 14-15%

Healthy cash flow



80% operating profits turned into operating cash

Strong balance sheet



£2.6bn shareholder funds (inc. goodwill); £900m net debt

Focus on cost reduction



Restructuring; transfers to low cost areas

Disposals programme



£300m from non-core disposals; more to come

Growing R&D



Increasing emphasis on medical and aerospace

Winning big programmes



Boeing 767 tanker; US Homeland security

- Performing strongly in a tough environment
- Expecting to meet analysts' consensus for 2002

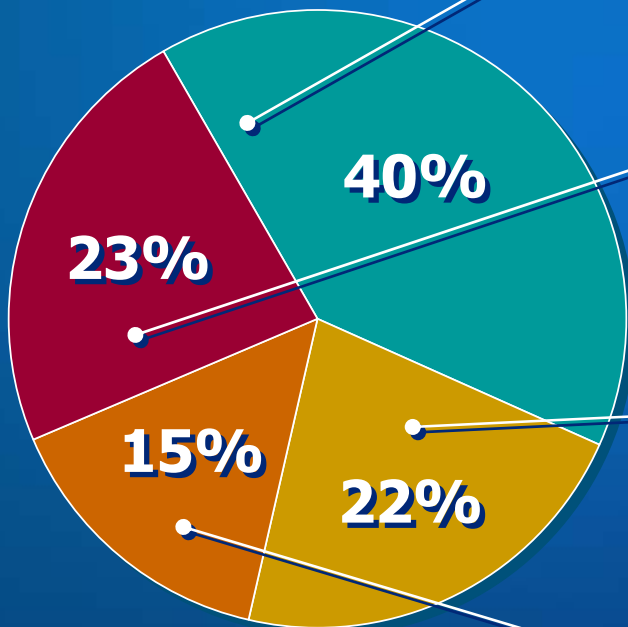
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- Current business interests in four clearly defined market sectors.
- The company will progressively focus on core activities, principally Aerospace and Medical. Plus opportunities in Interconnect.
- Smiths is investing in these areas to achieve organic and acquisitive growth because they are in expanding sectors of the world economy.
- Remaining activities operate with good margins and generate strong cash-flows, and are making a valuable contribution to the overall performance of Smiths.

Smiths Group

Specialised products in four sectors

Aerospace and Medical
now contribute 63%
of Smiths' profits



(pie shows profit contribution
by division for H1 2002)

Aerospace

Advanced avionic systems
and aircraft equipment



Medical

Devices for critical and
intensive healthcare



Seals

Mechanical and
polymer seals



Industrial

Electronic interconnect;
air moving products



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- After recent disposals, Sealing Solutions comprises two strong businesses addressing separate market sectors.
- John Crane has No 1 position in its market, with a 30% market share. Operates globally, and more than half its sales are into the process plant sector, principally oil and gas production. It has a significant aftermarket business.
- Margin improvement continues, benefiting from moving production to Mexico and Czech Republic.
- Polymer Seals also holds a strong market position, with approximately 12% market share in its sector. Current performance affected by downturn in capital goods sector, especially in Germany. Order intake now matches current sales level.
- Overall margins in Sealing Solutions have improved sharply within Smiths Group ownership.

Sealing Solutions

A world leader in the design of high-performance mechanical and polymer seals

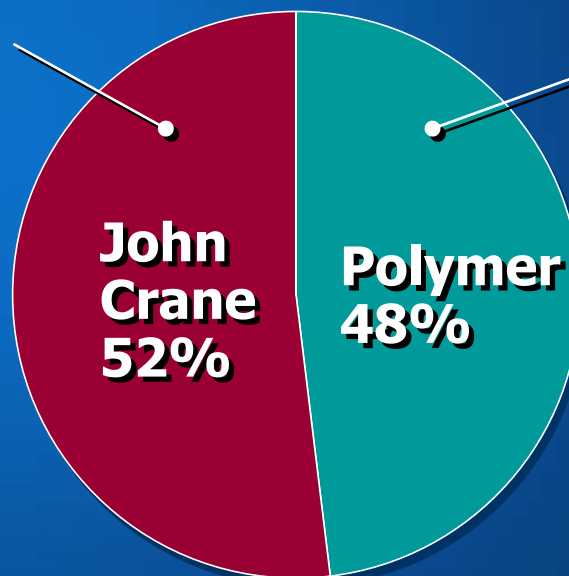


■ H1 2002 sales - £410m ■ Op profits - £45m ■ Margin - 11%

Clear no.1 global supplier of metal/ceramic rotating seals

for

oil & gas, chemical,
pulp & paper
and other process plant



(continuing profit contribution)

Equal no.2 global supplier of rubber/plastic seals

for

industrial, aerospace,
automotive applications



- Rapid restructuring is raising John Crane margins
- Production transferring to Mexico and Czech Republic
- Non-core disposals
 - Vacuum & Filtration
 - Marine

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- Industrial: high margin, cash-generative business making products for a range of specialised applications.
- Principally a supplier of “Interconnect” equipment – high grade components used to connect and protect safety-critical electronic circuits.
- Widely used in aerospace and defence. For example, to connect avionics racks into the airframe and to protect the aircraft’s electronic systems.
- Many other applications, including medical electronics, railway signalling and rolling stock, mobile phone base stations.
- This division also has businesses involved in air moving, ducting and hosing, used in a wide range of industrial and consumer applications.

Smiths Industrial

Electronic interconnect; air moving products



■ H1 2002 sales - £218m ■ Op profits - £30m ■ Margin - 14%

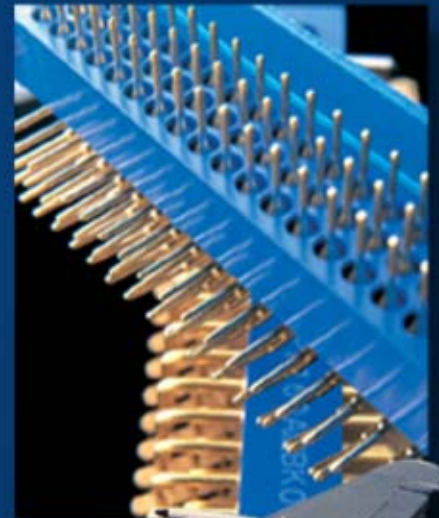
Principal activity: Interconnect -

the connection and protection of safety-critical electronic circuits

- Multi-pin connectors
- Microwave cable assemblies
- Surge suppression
- Lightning strike protection

for

- Aerospace & defence
- Medical electronics
- Railroad signalling
- Cellphone infrastructure



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- Smiths Medical is a premium business, with margins of 20% sustained over many years. Will remain one of the company's core activities.
- Operating in a dynamic market. Demand for medical devices and equipment is growing steadily at 6% per annum, little affected by economic cycles.
- Growth is sustained by the ageing of populations in the developed countries.
- Smiths is among the market leaders in its areas of specialisation. 60% of the business originates in the US, backed up by strong market presence in Europe and Japan, and a worldwide distribution network.
- Innovation is the key driver of future growth. New products achieve highest margins. Examples are needle safety devices (now required by law in US) and an insulin pump for diabetics (to be introduced shortly).

Smiths Medical

Specialised devices and equipment for critical and intensive care



Profit contrib.

■ H1 2002 sales - £224m ■ Op profits - £46m ■ Margin - 20%

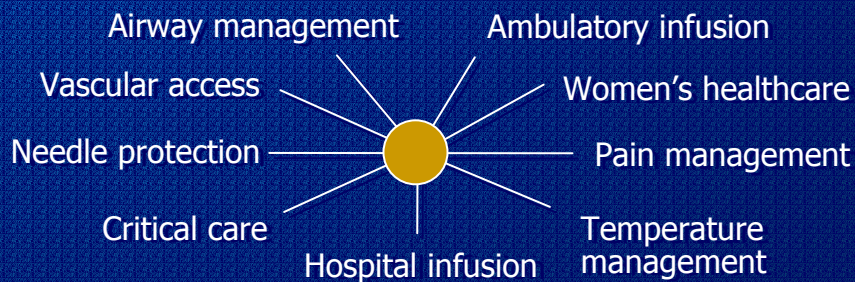


Specialised healthcare equipment - infusion, blood warming and monitoring



Single-use devices - an essential part of new procedures

- in a dynamic market
- Market leader with premium products
- Medical technology innovator
- Organic and acquisitive growth



Ambulatory insulin pump helping diabetics



Safe needle closure preventing needlestick injuries

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- Smiths Aerospace is the largest of the company's four divisions, contributing 40% of profits.
- It is a first tier supplier of systems and equipment for military and civil aircraft. It also generates significant aftermarket revenues from spares, repair and overhaul of aircraft already in service.
- Defence business is growing strongly at present, and this will continue throughout out this decade. Smiths is a major supplier to the big defence programmes which are currently ramping up production of front line military aircraft.
- The commercial aerospace sector of the market is currently in a downturn, expected to persist through 2003 and part of 2004. The company's activities in this area are being rationalised to "right size" the business for expected demand.
- Smiths Detection is growing rapidly. Originally a military business, it has recently extended into the area of civil protection against explosives, chemical and biological threats. Airport security is the primary concern.

Smiths Aerospace

One of the world's leading aerospace equipment suppliers



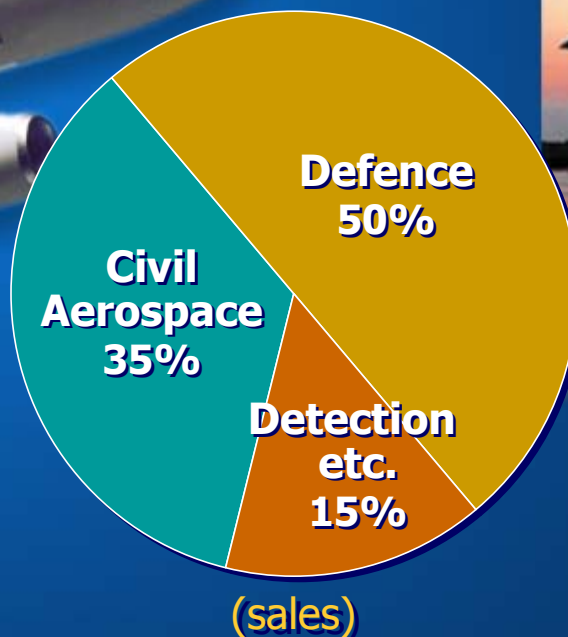
Profit contrib.

■ H1 2002 sales - £639m

■ Op profits - £80 m

■ Margin - 13%

- Top tier supplier
- Systems integrator
- Commitment to R&D
- 60% of business in high growth markets



Original equipment - 70%
Aftermarket (airlines, airforces) - 30%



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- Smiths' capability as a systems integrator has been considerably enhanced by combining TI's Dowty with Smiths Aerospace.
- The produce range is categorised into Electronic Systems, Actuation Systems and Precision Components. They are supported by a free-standing business unit providing Customer Services to end users.
- The company's products are widely installed on current aircraft, and recent programme wins have increased its presence on the key future aircraft now in the development phase.
- Long term partnerships, and strategic supplier relationships, have been established with the leading aircraft manufacturers.

Smiths Aerospace

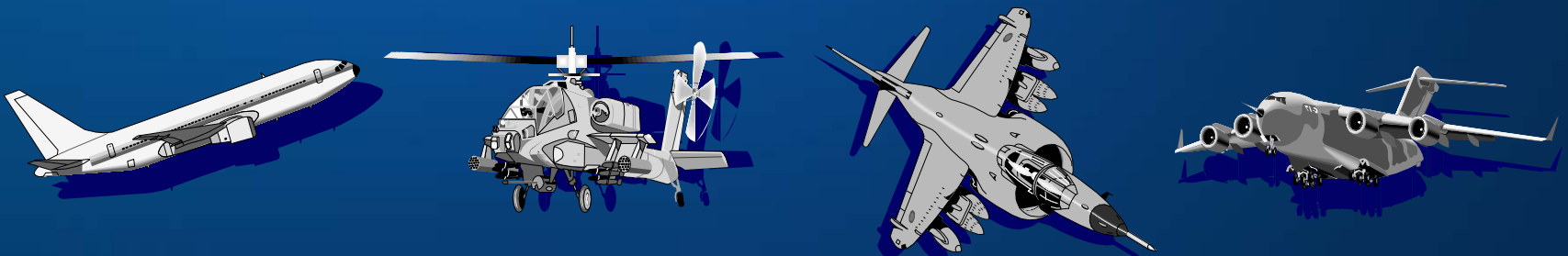
Supplying integrated systems to prime manufacturers of civil and military aircraft

► Areas of expertise

- Electronic systems
- Actuation systems
- Precision components
- Customer services

► Customers and selected aircraft programmes

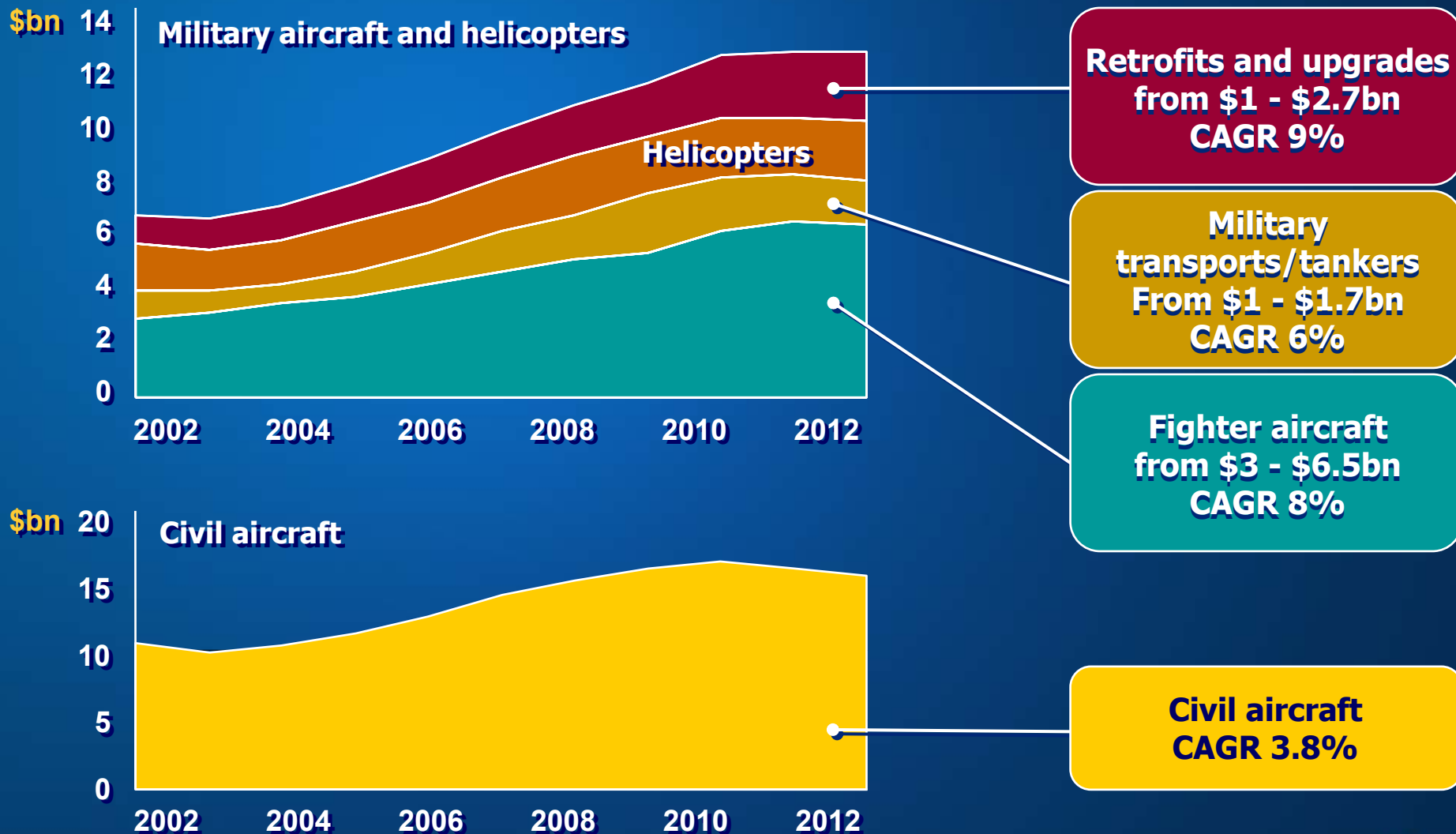
Boeing Commercial	B777, B737, B767-400ER
Airbus	A320 family, A330/340, A380
Lockheed Martin	F-16, F-22, F-35(JSF), C-130
Boeing Military	F-18E/F, AH-64D, C-17, 767GTTA
Raytheon	T-6A
Embraer, Bombardier	Regional jets



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- Over the next 10 years, Smiths' addressable market will grow at 5% compound annual growth rate.
- Despite the current, relatively short-term slowdown, the civil sector is forecast to grow at nearly 4% over the period.
- Military market sectors will grow at between 6% and 8% according to the type of aircraft. Smiths is well-positioned in each of these sectors.

Smiths addressable market - growth rates

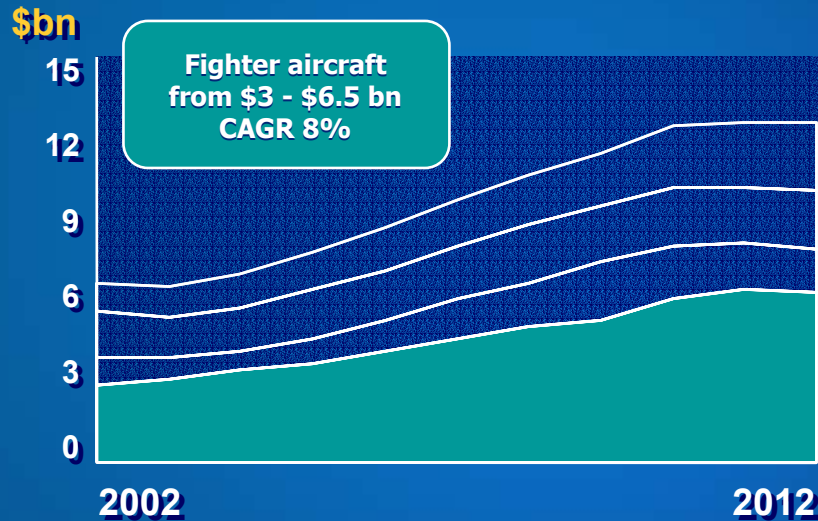


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- More specifically, military fighter production will grow at 8% per annum over the next ten years.
- Smiths is supplying high-value shipsets to the main fighter programmes which are already in production or will enter production later in the decade.
- The ten year revenues are indicated in each case.

Smiths growth in military fighter production

10 year sales



F/A-18 E/F
weapons systems,
utilities, hydraulics,
engine components
Smiths - \$1bn



Eurofighter - avionics,
utilities, hydraulics,
engine components
Smiths - \$900m



JSF - avionics, utilities,
hydraulics, engine
components
Smiths - \$800m



F22 - power, actuators,
video, stores management
Smiths - \$500m

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- New technology is the main driver in securing business growth. The company is investing heavily in R&D and is also benefiting from funded military development contracts.
- There are significant trends emerging in the way future aircraft will be developed, and Smiths is well-positioned to benefit from these, including:
 - greater use of electronics on aircraft
 - a move to composite structures
 - and higher levels of systems integration
- The prime manufacturers are devolving increased responsibility for systems development to their chosen partners among the first tier suppliers, offering greater risk/reward opportunities to companies like Smiths.

Technology trends

Smiths has the necessary technologies, many developed from funded military programmes

Integrated avionics. Commercial off the shelf computing

Migration from C130AMP to civil programmes

New generation of power system technology

Developed on JSF - migrate to civil

Composite structures

Capital investment in place from C17 programme

More electric actuation

Smiths has necessary technology

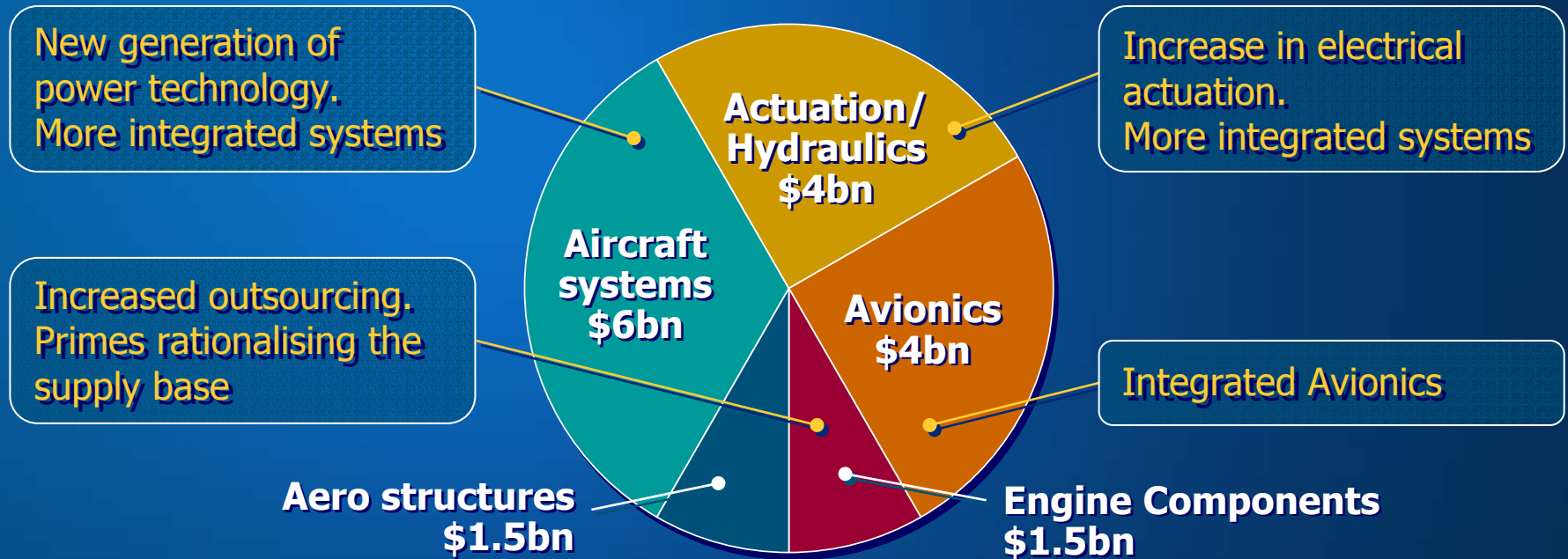
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- Looking at the addressable market, defined by Smiths' own areas of expertise, there are also important trends emerging:
- Greater systems integration again features strongly.
- Business partnerships with the major customers are being strengthened through more effective supply chain management.
- Lockheed Martin has included Smiths as one of only seven members of its Strategic Supplier Alliance Program.
- BAE Systems signed up Smiths as the first participant in its new Supply Chain Strategy.
- Boeing has appointed Smiths as systems integrator on major programmes, including the 767 tanker and the C-130 avionics modernisation programme.

Other market trends favour Smiths

Supply base rationalisation and move to integrated systems

Addressable market by sector - total addressable market \$17bn per annum



Business Partnerships

Lockheed Martin - Smiths one of only 7 companies on Strategic Supplier Alliance programme

BAE SYSTEMS - Smiths first company to join Supply Chain Strategy Programme

Boeing - Smiths chosen as systems integrator on 767 tanker and C130AMP

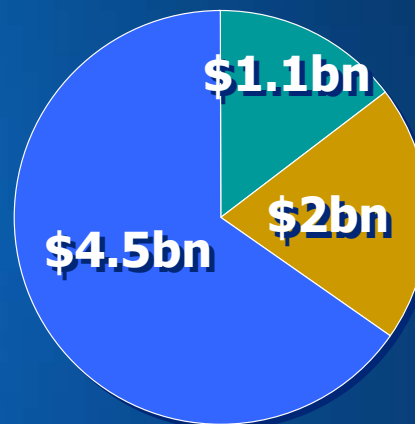
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- Detection is the fastest growing activity in Smiths Group at the present time. It generated £50m revenues in 2001, will generate more than £125m this year and is expected to reach £200m next year.
- It makes systems for detecting threats from nuclear, chemical, biological, explosives and narcotics.
- Military applications include hand-held devices used by soldiers on the battlefield. Products were used successfully in the Gulf War.
- Opportunities for commercial applications have increased greatly since 9/11.
- Equipment to detect explosives being carried through airports, on the person or in baggage, is now in great demand. Present “wandering” systems will be supplemented by walk-through portals and baggage handling equipment.
- The company is a leader in trace detection systems, the most effective technology, using Ion Mobility Spectrography (IMS). This is a \$7billion addressable market over the next 10 years.
- The US Transportation Security Administration is placing orders for 5,000 trace detection machines of the type made by Smiths, for installation at over 400 US airports.
- As well as transportation infrastructure, Smiths Detection systems are appropriate for facilities protection – federal and public buildings. US postal sorting offices will install Smiths’ equipment to warn of bio threats including anthrax.

Detection equipment

A major new market opportunity

**Applications in both
military and
commercial sectors**



Total market size

Detection systems -
next ten years

- Facilities protection - agencies
- Military
- Transportation security

- Equipment for detecting chemical, biological, nuclear, explosive and narcotic threats
- Well established military business in battlefield systems
- Substantial requirement for airport security worldwide - meeting increased threat from terrorism post 9/11
- Additional opportunities in public buildings
- Smiths is investing heavily in a growing market

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- There are several fundamental strengths of Smiths Group.
- The first relates to engineering skills. With a major commitment to R&D, Smiths aims to gain technology leadership in its areas of commercial expertise. This enables the company to command a premium for its products and sustain strong margins.
- Secondly, the company focuses on cash generation, turning 80% of operating profits, after capex, into operating cash. This assured cash-flow funds future development.
- Lastly, Smiths can benefit from significant growth in two key market sectors, aerospace and healthcare. A greater proportion of the company's resources will be focused on the two divisions which serve these markets.



Smiths Group - Fundamental strengths

Sustained profitable growth

▶ Commitment to R&D → technology leadership → premium products → higher margins

▶ Cash generation → 80% conversion rate → Operating profit (after capex) into operating cash

▶ Significant opportunities in growing markets for → Aerospace → Medical

Can perform strongly during tough economic conditions