

www.smithsdetection.com

**smiths
detection**
bringing technology to life

**Smiths
Detection**
New York
June 28, 2011



This document contains certain statements that are forward-looking statements. They appear in a number of places throughout this document and include statements regarding our intentions, beliefs or current expectations and those of our officers, directors and employees concerning, amongst other things, our results of operations, financial condition, liquidity, prospects, growth, strategies and the business we operate. By their nature, these statements involve uncertainty since future events and circumstances can cause results and developments to differ materially from those anticipated. The forward-looking statements reflect knowledge and information available at the date of preparation of this document and unless otherwise required by applicable law the Company undertakes no obligation to update or revise these forward-looking statements. Nothing in this document should be construed as a profit forecast. The Company and its directors accept no liability to third parties in respect of this document save as would arise under English law.

Introduction to Smiths Detection

Philip Bowman

Observations on Smiths Detection

Operates in growth markets – phasing heavily affected by external influences

Changed market & competitive landscape requiring improved responsiveness

Strong technology position – need to align investment with customer needs

Need for focus on processes, management data & personal capabilities

Strong actions required on fixed costs, operational improvements & margins

Opportunities through government relations and increased after-sales activity

Immediate key initiatives

Reviewing organization and processes to match customer requirements

Better management information systems to support specific functions

Program to reduce fixed costs substantially

Value engineering project will reduce product costs and strengthen margins

Exciting growth opportunities with fluctuating cycles
- addressing operational challenges will deliver better financial performance

Business profile



The world leader in the provision of Government regulated systems to detect and identify CBRNE* materials and other dangerous or illegal objects, for homeland security and the military

Market leadership based on:

- 65,000 X-ray inspection systems deployed worldwide
- 186,000 chemical agent detectors delivered
- 10,000 explosives trace detectors deployed worldwide

* CBRNE – Chemical, biological, radiological, nuclear and explosive materials

Chemical



Biological



Radiation



Nuclear



Explosive

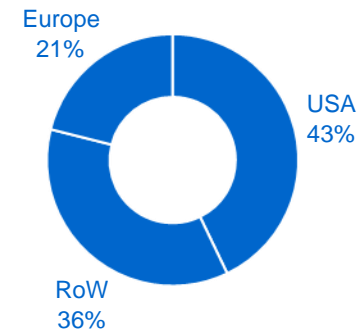
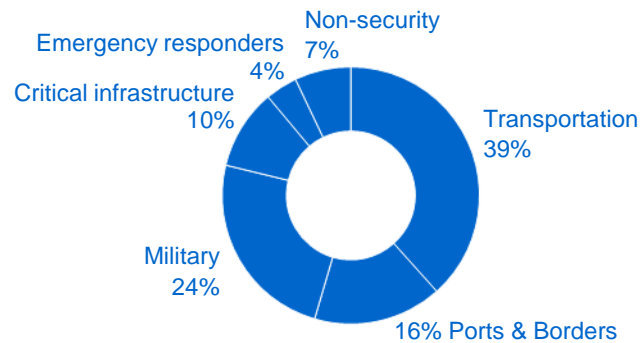


The market

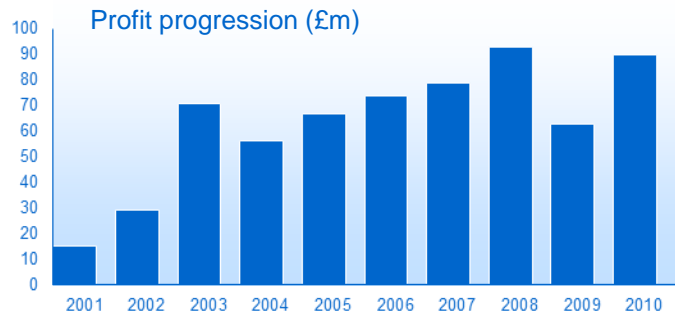
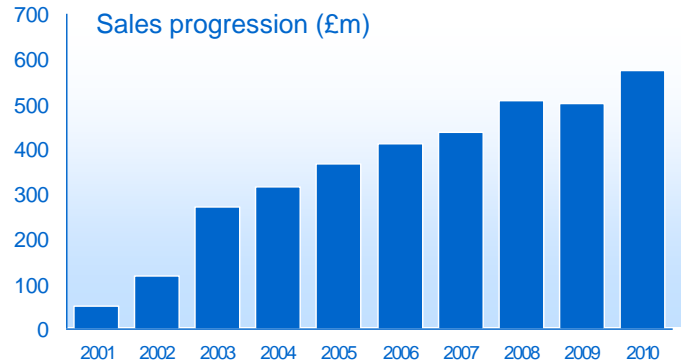


- Serving an addressable market of more than £4bn, growing at 7%
- Most markets event-driven, characterized by unpredictability
- Growth & resilience driven by changing threats, legislation and new technologies
- Purchasing decisions are made on reliability, technology, service and price
- An increasingly global market

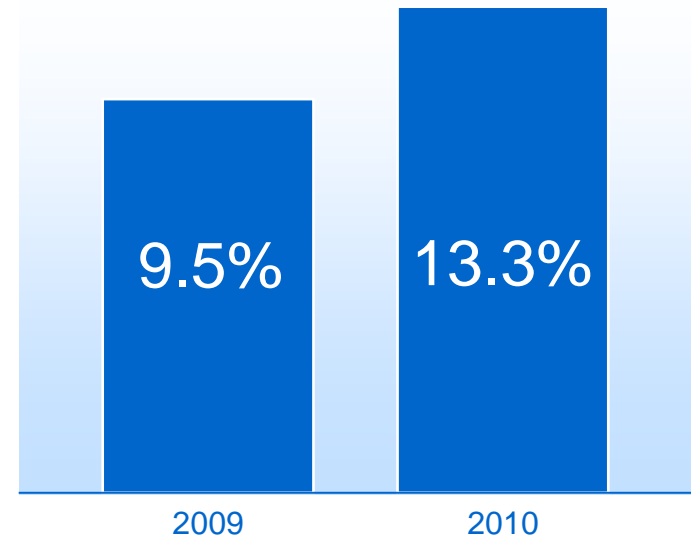
Sales revenues 2010: £574m



Financial performance



ROCE



Annual fluctuations in an event driven business

Our response to the challenge

Targeting growth
drivers in the
detection sector



Strategy
Duncan Emery

Maintaining
R & D investment
levels to compete
more effectively



**Business
Management Group**
Mal Maginnis

Improving
customer
intimacy &
managing sales
complexity



Sales
Cherif Rizkalla

Driving
efficiencies
to reduce
operating
costs



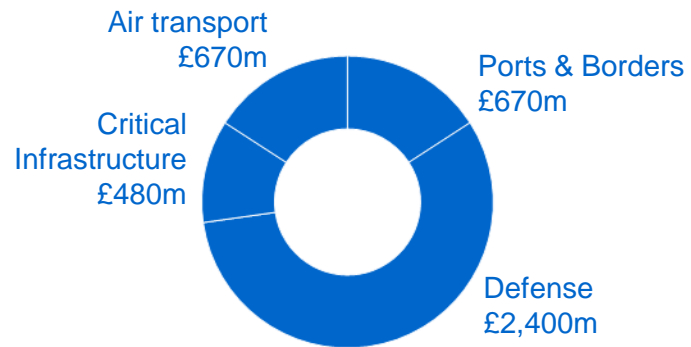
Operations
John Burton

The market and growth drivers

Duncan Emery

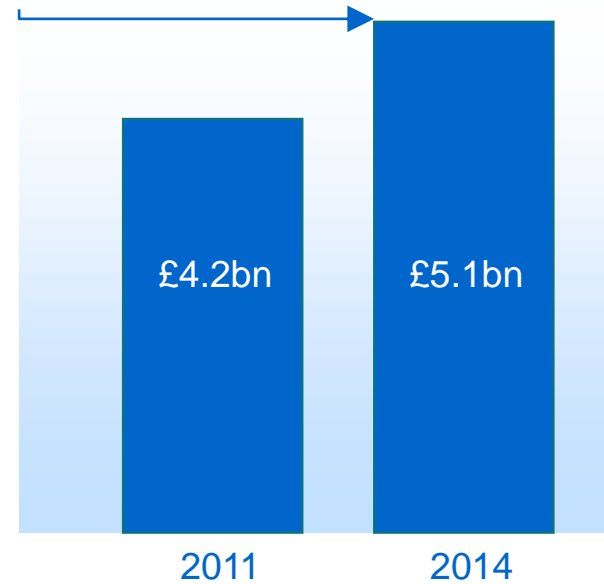
Market development

Detection market sector - 2011



Market growth forecast

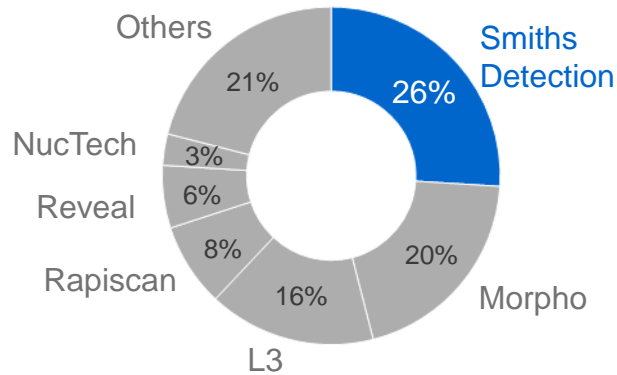
CAGR = 7%



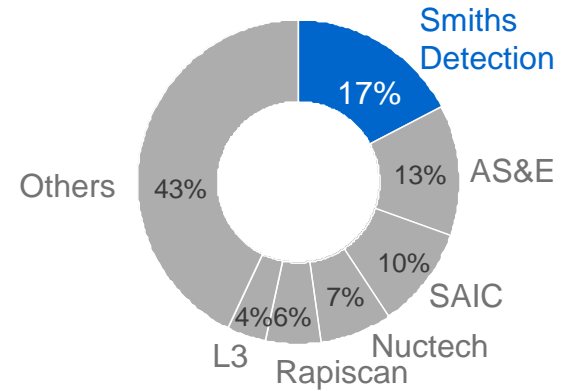
Source: internal analysis

Strong positions in key markets

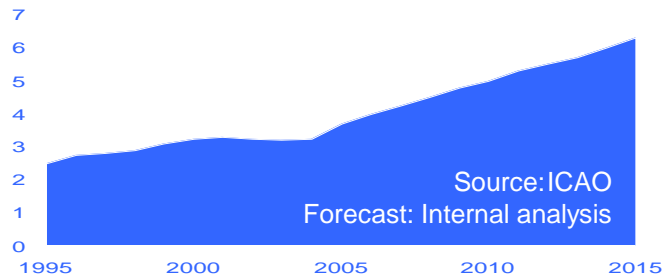
Air Transport (Market 2010: £639m)



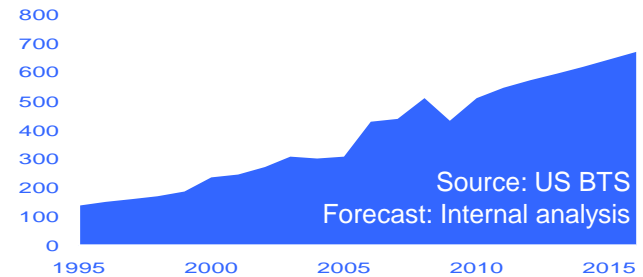
Ports & Borders (Market 2010: £520m)



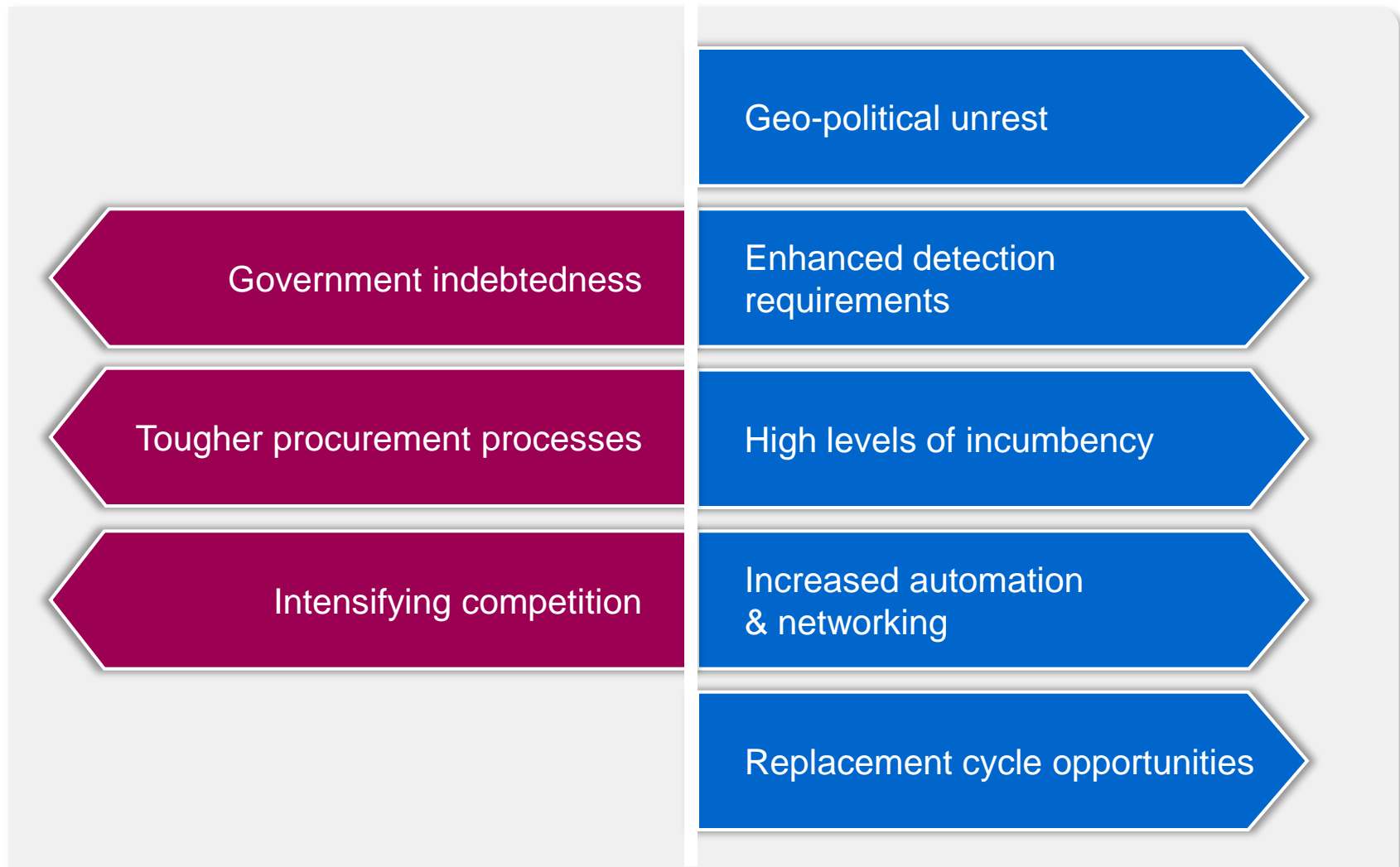
Air Passenger Traffic RPKs trillions



World Container Traffic TEU millions



Market dynamics – the growth drivers



Market dynamics – Replacement cycle opportunities

U.S. Aviation:

- Advanced Technology program upgrades – checkpoint X-ray systems, 450 airports
- Checked baggage, ~1,200 post 9/11 lobby systems, replacement by inline CT
- Trace detectors life-cycle replacement. Potential 3,000+ units
- Body scanners, AIT systems replacing 2,200 walk through metal detectors

European aviation:

- Checked baggage – EDS replacement to meet new EU standards ~140 airports
- Checkpoint systems 7-10 year replacement cycle, mostly next generation equipment

Asia Pacific aviation:

- Airports follow EU or TSA guidelines, esp. for flights to those regions
- Replacement of more than 200 checked baggage systems anticipated

Key additional customers (US):

CBP: Cargo inspection - 5 year phasing out of 74 truck-mounted gamma systems

Marshals (USMS) 5 year renewal policy – approx \$3m annual replacement

Federal Protective Service: 5 year renewal policy – In 3rd of 5 year contract (\$22m to date)

Postal Inspection: Upgrading chemical identifiers to new standard. \$4m

Market dynamics- regulatory drivers

	USA	EU
Air cargo screening	<p>100% screening - cargo planes from August 2010. (Certified Cargo Screening Program)</p> <p>- Cargo on passenger flights by 31 December 2011</p>	<p>Policy introduction planned summer 2011</p>
Passenger screening (body scanners)	<p>1250 AIT systems by end 2012. TSA driving for automated threat recognition</p>	<p>Definition of legislation for Oct/Nov 2011 policy</p>
Liquids detection	<p>TSA technology roadmap</p>	<p>Removal of restriction on liquids in hand baggage planned April 2013</p>
Other initiatives	<p>Maritime - screening for rad/nuc/explosives, 2012 deadline deferred</p>	<p>Security industry strategy under development</p> <p>Cargo screening (cross border) under review</p>


Strong government relations activity to influence policy decisions

Investing in new products

Mal Maginnis

Leveraging scale across a broad range of technologies

Markets served by Smiths Detection

	Chemical		Biological	Rad/Nuc	Explosives		
Markets							
Transportation	████████					████████████████████	████████████████████
Ports & Borders	████████			████████████████████			████████
Critical Infra.	████████████████████		████████			████████████████████	████████████████████
Military	████████		████████				████████
Emergency Response	██						████████

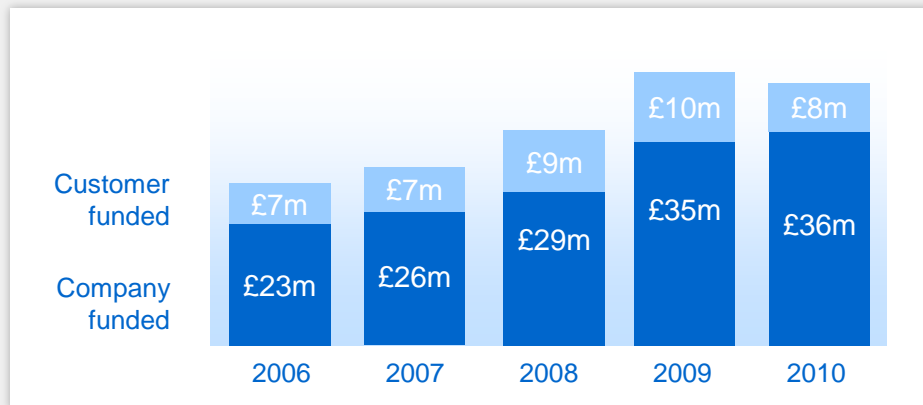
Common characteristic – high barriers to entry:

- * Technology regulation by governments
- * Certification/QA - long process
- * Continuous R&D investment required, delivering high level IP
- * High service levels

Investing for the future to enhance capability

Company-funded R&D investment 2010 - £36m

- Company funded investment is 6.2% of sales
- Customer funding of £8m makes total expenditure £44m (7.6% of sales)
- Continued investment in performance improvement and product cost reduction
- Programs mostly address specific issues, often government initiated



Technology to Products – our core competency



- Continuous development of core technologies
- Working with customers, technology companies, national laboratories, university research groups
- Our product engineering strengths:
 - Ruggedization & reliability
 - Lowering false alarm rates
 - Simplification of operation in sophisticated instruments
 - Maximizing sensitivity
 - Lifecycle cost-effectiveness

Working with partners:

- **Analogic** – CT technology for checked baggage screening
- **Symetrica** – Radiological technology for RadSeeker
- **Varian** – X-ray accelerators

Bringing new products to market – X-ray screening systems

aTiX – first system for automatic explosives detection in hand baggage

- US deployment under TSA 'Advanced Technology' program
- Approved to EU Standard 2 Type C (liquids detection)
- Multi-view scanning for increased accuracy
- Platform based solution with software upgrades – cost effective for customers



CT Technology for checked baggage

- Current development project for next generation high-speed explosives detection system
- Partnering with Analogic since December 2009
- To meet US certification requirement
- Combines multi-energy X-ray technology with 3D computed tomography
- Excellent program progress - achieving all milestones



Bringing new products to market - RadSeeker

R&D investment leading to a major opportunity

- Highly sensitive. Handheld Radiation Detector
- Increases accuracy in finding and identifying rad-nuc threats
- Development: 2006-2011 – DNDO awarded Smiths Detection \$13.7m funding for next-generation radiation detection and identification systems
- Only product of its type currently approved by DNDO
- Partnered with Symetrica (UK) for advanced spectrum processing and identification.
- Markets: Customs inspection, border protection, emergency response, and radiological facilities/ personnel monitoring.
- Market size - est. up to £700m in 2012 across our core markets



Serving the defense market

- Intensive R & D projects leading to major program wins
 - LCD successfully developed and selected by several armed forces, including DoD
 - Selected for JCAD program, the US Army's standard chemical agent detector
 - Orders to date - \$350 million
-
- Major program – CBPS (Chemical Biological Protective Shelter) for DoD
 - Highly mobile, self contained collective protection system as working area for medical, combat services
 - Integrated systems a core growth area
 - Program management activity developed to match customers' changing needs



Managing profitable sales

Cherif Rizkalla

Global sales presence

- Largest market – USA, primarily direct to Government sales
- Direct sales in 48 countries; sales reps/agents in 167 countries

Future expansion:

- Emerging markets - taking control of agents as businesses achieves significant scale. Allows us to anticipate and influence large opportunities
- FY 2011 - Assumed ownership of Indian and Brazilian distributors

India

- Significant opportunities long-term.
- Recent major contracts: Delhi Airport, Commonwealth Games

Brazil

- Building on strong installed base - 1300 systems
- Future opportunities eg: FIFA World Cup 2014; Olympics 2016.



Customer intimacy

- Considerable focus on working with the customer, fully understanding the requirement to propose the most effective solution
- Need to show we offer full value where price is not the determining factor - our technical superiority becomes the primary selection criterion.

- In Ports & Borders, early influencing of the technical specification and customer buy-in to our value proposition have an impact.
- Military market – selling process combines with government relations influencing to demonstrate technology advantages and secure funding

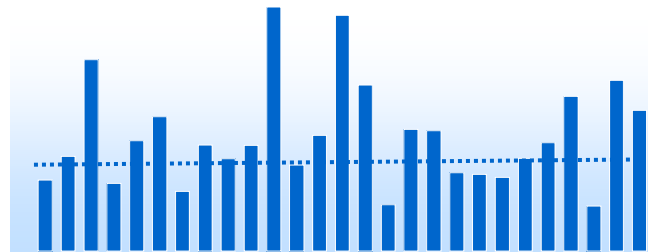


Managing the order book

- 60% of revenue is derived from large contracts with long timescales, subject to contractual variables
- Mitigation through:
 - Product launches to core markets
 - Emphasis on smaller customer contracts, especially in Critical Infrastructure market
 - Expansion into emerging markets
 - Increasing Service activity – already 17% of sales revenue - steady revenue generation and more predictable

Variability of
monthly order
intake

Recent 27 month cycle



Driving efficiencies and improving returns

John Burton

Initiatives to enhance margins and working capital

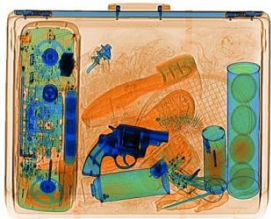
Manufacturing & Supply Chain Rationalization

Lean Enterprise

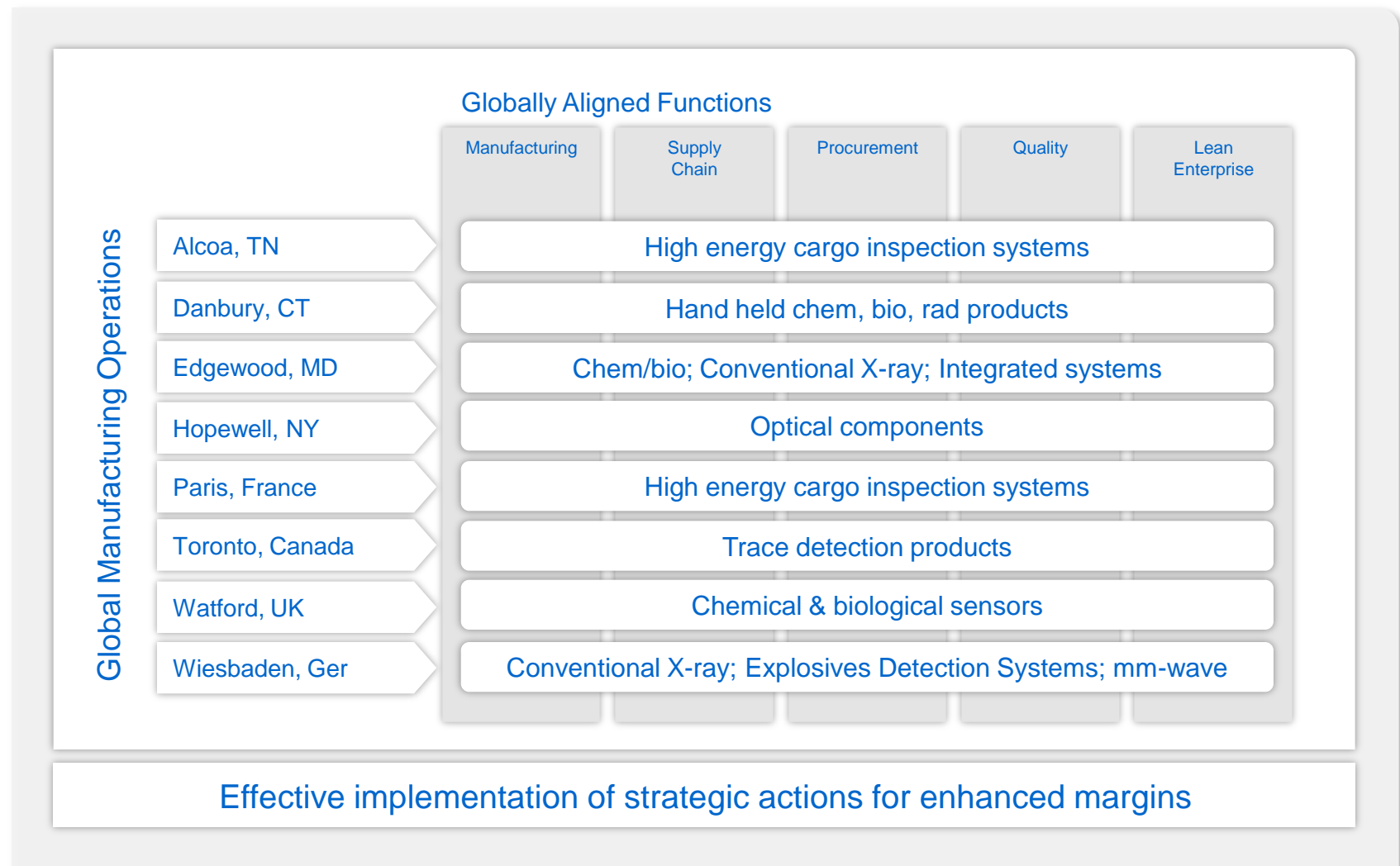
Global inventory

Global ERP system: Data driven performance improvement

Formalized continuous improvement framework



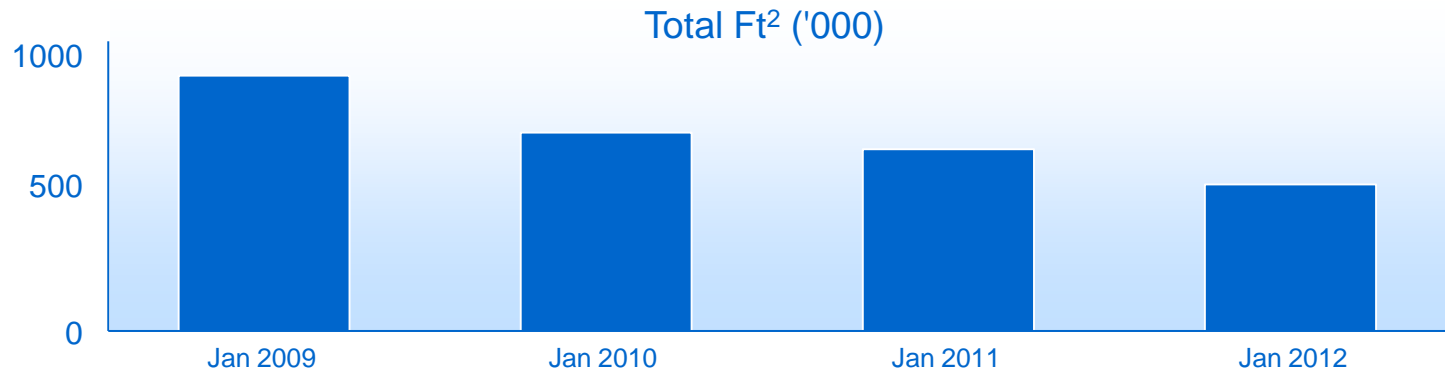
Global Approach to Operations



Operations - Initiatives to enhance margins

Manufacturing & Supply Chain Rationalization Strategy

- Fewer facilities - more world class facilities
- Projected 40% reduction in manufacturing operations footprint
- Five year plan from 2012 to achieve structural cost savings
- Leverage world class supply chain capabilities

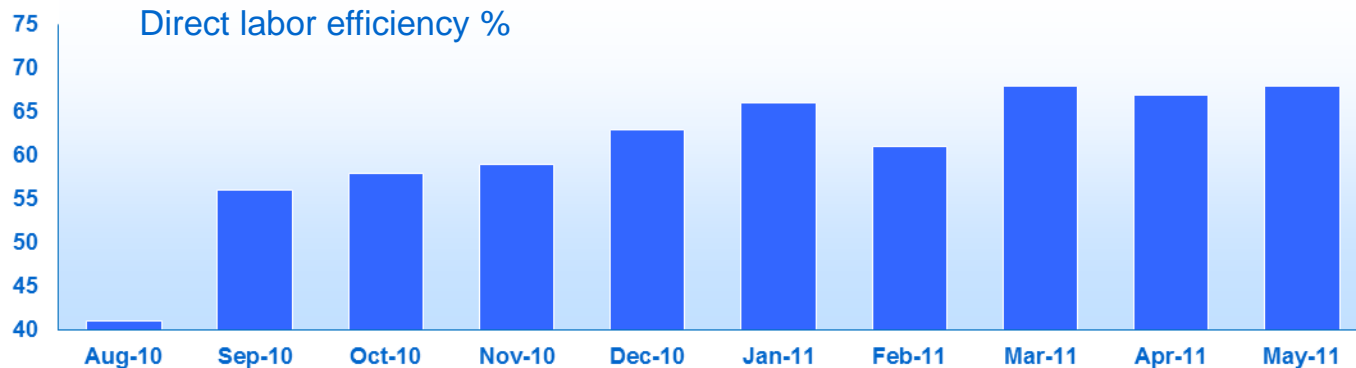


Increased focus on further optimization potential

Operations - Initiatives to enhance margins

Lean Enterprise through:

- Positive effect of globalization
 - More team work
- Continuous Improvement from lean thinking
 - Elimination of waste
- Standardization
 - Bringing products to market faster
- People Involvement
 - Training, development & communications
- Quality
 - Raising first-time acceptance rates



Sustainable Structural Improvement

Key Focus Areas

- Procurement

- Group Leveraging
- Low Cost Country Sourcing
- Commodity management

- Raw Materials

- Shorter lead times for deliveries
- Kanban

- Value Engineering

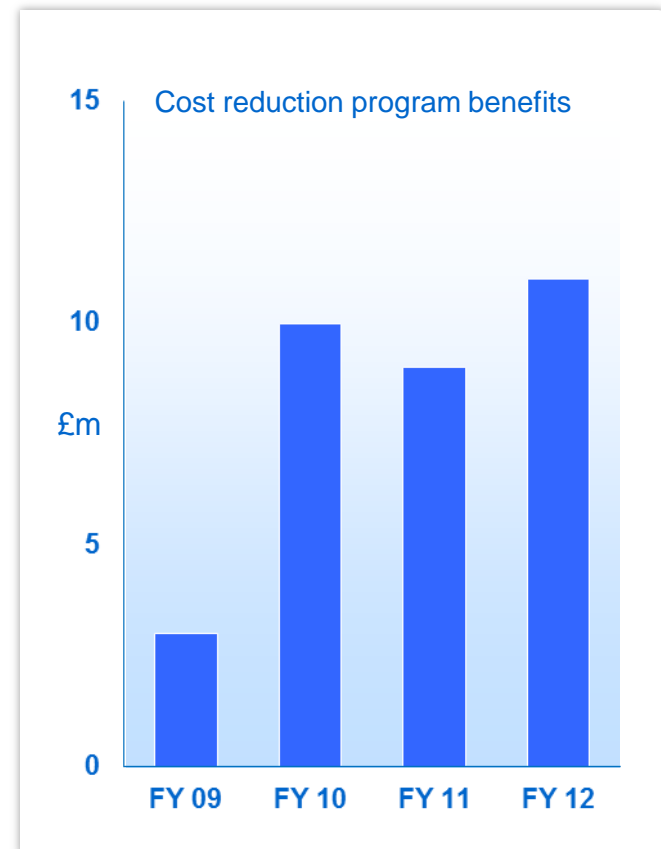
- Reviewing processes
- Challenging established practices

- Service Inventory

- Network optimization
- Logistics outsourced to world-class vendor

- Supply Chain

- Sales & Operations Planning



Summary

Philip Bowman

Increasing our market share - actions

Disciplined market approach; increased government relations activity

New product pipeline; speed and flexibility in product development

Better understanding customer requirements & goals

Improving operational effectiveness to deliver enhanced margins

Summary – An attractive investment case

Market leader in a growth sector with high barriers to entry

Business underpinned by leading edge technology

Positive outlook, driven by events, changing risks and new technologies

Resilience through diversity of markets, customers and global spread

Strong focus on cost reductions and margin improvement

Smiths Detection growth range.* Sales: 10-12%** Margins: 17-20%

*Range of underlying growth over 3 year period

**Organic growth at constant currency

www.smithsdetection.com

**smiths
detection**
bringing technology to life

Questions and answers



Appendices

Core technology streams



Chemical & Biological Sensors (chem/bio)



Conventional X-ray Systems (CXS)



Cargo Inspection Systems (CIS)



Explosives Detection Systems (EDS)



Trace, Radiation & Nuclear products (TRC)



Integrated Systems (INT)



Millimetre-Wave Systems (MMW)

Concentrating on 7 key existing technologies and product areas

Smiths Detection has true global presence

Global HQ, Watford UK



Central team:
(Technology/
Strategy/ Business
Development/
Projects/Admin)

Competence centres:

Manufacturing /R&D

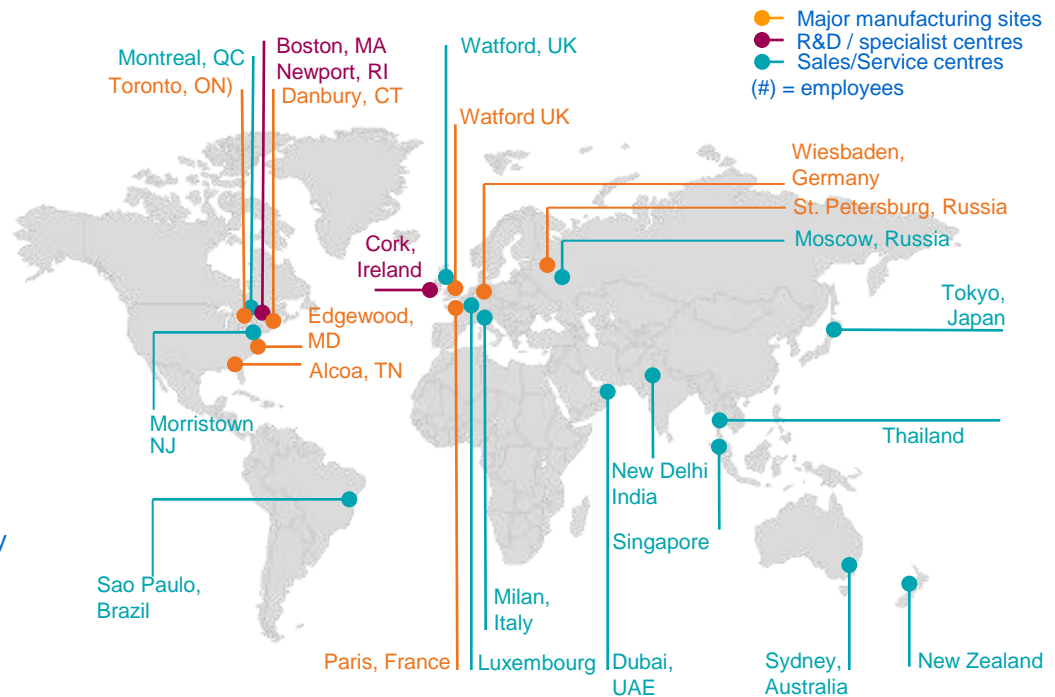
Wiesbaden: Imaging; explosives
Paris: Hi-energy X-ray
Watford: Chem/bio/diagnostics
Edgewood: Chem/bio/integration/X-ray
Toronto: Explosives
Danbury: FT-IR

Manufacturing:

St Petersburg: X-ray
Alcoa: High energy X-rayX-ray

R&D:

Boston: bio
Newport: sensor management
Cork: mm-wave



Total employees July 2010: 2400 globally, including > 400 R&D engineers

Glossary

APAC – Asia Pacific region

AIT – Advanced imaging technologies

ATR – Automated threat recognition

AT – Advanced Technology, the TSA's program for advanced X-ray technologies for improved detection of potential threat items.

BAA – Formerly British Airports Authority

BMG – Business Management Group. Smiths Detection's team responsible for Technology, Products & Programs.

aTiX - Advanced Threat Identification X-ray. Automatic explosives detection system for security checkpoints.

CBRNE: Chemical, biological, radiological, nuclear, explosives

CT - Computed Tomography. Digital processing to generate a 3D image from a series of two-dimensional X-ray images

CBP - Customs & Border Protection (US)

CBPS – Chemical Biological Protective Shelter (US)

DHS – Department for Homeland Security (US)

DNDO - Domestic Nuclear Detection Office (US)

DoD – Department of Defence (US)

EDS - Explosives Detection Systems

EMEA - Europe, Middle East, Africa

ER – Emergency Responders

ERP - Enterprise resource planning (company information systems)

EU – European Union (comprising 27 member states)

FT-IR - Fourier-Transform Infrared spectroscopy. Analytical technique to identify unknown chemicals.

IED – Improvised Explosives Device

IMS - Ion Mobility Spectrometry. instrumental analytical method based on ionization to analyse chemical particles and vapours.

IP – Intellectual Property *also* Internet Protocol

HCV - Heimann Cargo Vision, brand name for high energy x-ray screening systems

JCAD - Joint Chemical Agent Detector program (US)

JPEO – Joint Program Executive Office for Chemical Biological Defense. Part of the US DoD.

Kanban - a scheduling system that tells you what to produce, when to produce it, and how much to produce

mm-wave – Millimetre-wave a spectral signal that passes transparently through lightweight materials

MoD – Ministry of Defence (UK)

P & B - Ports & Borders market sector

QA – Quality assurance

RPKs – Revenue passenger kilometres

RoW – Rest of World

TEU – "Twenty-foot equivalent unit." One TEU represents the cargo capacity of a standard container 20' long, = 12 tons

TSA - Transport Security Administration (US)

USDA – United States Department of Agriculture