

ANNUAL RESULTS 2010/11

FULL TRANSCRIPT

SLIDE – ANNUAL RESULTS 2010/11

SLIDE – CAUTIONARY STATEMENT

SLIDE – PHILIP BOWMAN

Ladies and gentlemen, good morning and welcome to the preliminary results presentation for Smiths Group. To avoid interference with the sound system, can I ask you to check that your mobile phones and Blackberries are turned off?

Peter Turner, our Finance Director, is sitting at the table alongside me and the divisional general managers and some of the senior members of the corporate team are seated in the first couple of rows. You probably know them all, except perhaps for Mal Maginnis. Mal, do you want to stand up briefly? Mal will take full responsibility for running Smiths Detection on 1 January, following a handover. They will join Peter and me in answering your questions at the end of the session.

I will start by giving a brief overview of the results and some of the key achievements of the past year before asking Peter to present the detailed financials. Later, I will review the operational progress in each of our divisions and then set out priorities for the current year.

Turning to the annual results...

SLIDE – BUSINESS HIGHLIGHTS

We continued to make progress across our key financial metrics, despite a difficult economic environment that still shows very few signs of sustained recovery. With

margins at new highs, these results again underline the significant benefits delivered by our focus on operational improvements.

Sales grew 3% and headline operating profit rose 5% helped by organic growth in John Crane, Interconnect and Flex-Tex, as well as recent acquisitions. These gains were partly offset by a disappointing performance from Smiths Detection and the impact of SKU rationalisation and a tougher trading environment at Smiths Medical.

Margins rose 40 basis points to 18.2%, driven mainly by volume leverage, better pricing and our maintained focus on operational efficiencies. Headline EPS grew 10%, reflecting the underlying growth and the benefit of a higher pension finance credit.

We generated strong cash flows with cash conversion at 95% in line with the guidance we set out last year. Free cash flow was just under £240million.

Having reached our target dividend cover of around 2.5 times, the Board has adopted a progressive dividend policy for future payouts - subject to maintaining approximately this level of cover. The final dividend of 25p brings the annual dividend to 36.25p, representing a 7% increase on last year.

Return on capital again improved - up 40 basis points to 17.0%.

SLIDE – OPERATIONAL HIGHLIGHTS

We continued to enhance our performance through investing in the drivers of top-line growth and focusing on operational efficiencies.

During the year, we launched a range of new products and have a strong product pipeline to support further launches in the coming year. Product development generates future growth in a technology business like Smiths and we continue to increase our investment, up 5% to £99m.

We have also invested £10m more in sales and marketing across the divisions to support these growth plans.

We added two acquisitions, both to enhance our emerging market exposure for Detection -- in India and Brazil. We also agreed to acquire Power Holdings, which transforms Smiths Interconnect's offering in the area of power management quality. We will also expand John Crane's aftermarket capabilities for its bearings business through the acquisition of Turbo Components Engineering.

I do recognise that Smiths Detection has underperformed this year and that is one of the factors that led to the management change. We have undertaken a comprehensive review of the business and I will give you more details later in the presentation. It is perhaps worth stressing that, Detection apart, this is a good performance by the Group overall in difficult trading conditions.

The major Group restructuring programme, which we launched some three years ago, has delivered further savings of £15m in the last year. To date, we have generated savings of £56m against our target of £70m when these initiatives are completed in 2013.

SLIDE – SAFETY REMAINS OUR TOP PRIORITY, RESULTING IN CONTINUED IMPROVEMENT

As I have highlighted before, a safe working environment is a key priority within all our facilities and I am pleased to report that the steady reduction in both recordable and lost time incident rates continues.

Last year was our safest on record. We outperformed our reduction targets in recordable and lost-time incidents and we are determined to deliver further improvements.

With that brief introduction, I will now hand over to Peter who will take you through the detailed financials. Peter.....

SLIDE – PETER TURNER

Thank you Philip and good morning.

SLIDE – ANNUAL RESULTS 2011

There are four aspects of these results that I would particularly like to highlight today.

- First is the sales growth which has benefited from both organic growth and acquisitions.
- Second, the continued improvement in margins – driven by the ongoing efficiency savings.
- Third, the strong cash performance, which is in line with our guidance.
- Finally, the further improvement in the Group's return on capital employed.

So let me start by reviewing some of the key financial numbers.

Sales at £2.84bn were up 3% on the prior period. Currency translation was broadly neutral. The good performance of our acquisitions, in particular IDI, contributed almost 2%, or £45m. Underlying sales rose £30m, or 1%.

John Crane, Smiths Interconnect and Flex-Tek all reported underlying sales growth in the year, albeit that Interconnect was not as strong in the second half.

Headline operating profit at £517m was up 5%, or £25m, with £8m coming from acquisitions, offset by £2m of adverse currency translation. The underlying headline operating profit rose 4% or £19m, on the back of the higher volumes, better pricing and the benefit of cost savings. John Crane, Medical and Flex-Tek were notable contributors.

Headline pre-tax profit increased by 12% to £486m, which also benefited from an increased pension financing credit of £23m.

The headline tax rate rose to 25%, versus 24% last year, as a result of changes in the profit mix across our countries of operations, offset in part by the favourable conclusion of recent tax audits. Looking ahead, we anticipate the tax rate is likely to increase over time to a rate of around 26-28%.

Headline earnings per share grew 10%, to 92.7p.

SLIDE – PROFIT PROGRESSION 2010 to 2011

This slide summarises the key movements in headline profit before tax between the two periods. You can see that better volumes pushed up profit by £13m. This was primarily in John Crane, Interconnect and Flex-Tek, partially offset by volume declines in Detection and Medical.

We also achieved pricing benefits of £12m, driven by the aftermarket in John Crane and by the recovery of input cost inflation in Flex-Tek. However, partly offsetting this, we experienced adverse mix from the rapid growth in slightly lower margin areas. The majority came from growth in the upstream Production Solutions part of John Crane; with the rest from lower military sales in Detection and from certain Interconnect programmes.

We increased our investment in sales and marketing by £10m to drive future growth.

Our operational efficiencies delivered £18m of benefits from lower overheads and manufacturing improvements, such as value engineering and site rationalisation.

The incremental profit from our acquisitions was £7m, net of finance costs.

These results also received a £4m boost from foreign exchange impacts, with £6m of transaction gains offset by adverse translation of £2m.

The increased pension financing credit and slightly lower debt finance charge gave a £24m benefit, which along with a £3m higher contribution from associates, resulted in a pre-tax profit of £486m.

During the period, the average rates for the US\$ and Euro both weakened against sterling by 2%.

I'd now like to look at the financial performance in each Division before handing back to Philip to give further colour on the operational performance.

SLIDE – SMITHS DETECTION: VARIABLE ORDER FLOW AFFECTING SALES AND MARGINS

Starting with Smiths Detection... Reported sales fell 11% to £510m. On an underlying basis, sales declined 13%, reflecting lower sales in military and ports and borders. As outlined previously, this reflects delays caused by uncertainty in government budgets and a transition between products in the military sector, as well as the impact of some regulatory delays.

Underlying profit fell 27% primarily reflecting a combination of lower volumes and associated cost under-recovery in our operations, as well as adverse mix from lower military sales. We benefited from lower overheads, mainly performance-related incentives, by £8m. The acquisition of our Indian distributor contributed £1m resulting in headline operating profit for the year of £66m. Philip will give more detail later on the actions we are taking to improve future performance.

SLIDE – JOHN CRANE: VOLUMES AND PRICE DRIVE MARGIN; INVESTING IN SALES

Moving to John Crane... Sales growth has been strong with underlying sales up 13%, driven by growth in aftermarket services and first fit OEM sales, particularly for the oil and gas sector.

On an underlying basis, headline operating profit grew 15% to £189m. The better volumes and associated operational gearing increased profit by £35m. Pricing initiatives, particularly for aftermarket services, contributed £16m. However, as

expected, the faster growth in both the lower margin upstream energy services business and first-fit OEM contributed some £10m of adverse mix.

We increased our investment in sales & marketing by £9m. We also continue to see savings from the restructuring benefits although these were offset by increased overheads of £6m – some of which is for performance-related incentives.

SLIDE – SMITHS MEDICAL: EFFICIENCIES DELIVER MARGIN IMPROVEMENTS

Smiths Medical saw reported sales 2% lower at £838m but headline operating profit up 7% at £196m. The margin progression was strong, improving 190 basis points to 23.4%.

Underlying sales were down 3% with more than half the decline relating to our portfolio rationalisation activities, which also had a positive impact on margins. The rest of the underlying decline stems from the tough trading environment, particularly in safety devices and vital care products.

Headline operating profit rose £12m. The drop in volumes cut profit by £14m. The mix benefit from increased sales of infusion pumps and temperature management products more than offset some modest price pressure and added a net £6m. We increased our investment in new product development and sales and marketing by £4m while a range of operational efficiency measures and lower overheads contributed £22m of profit. Foreign currency gains added a further £2m.

SLIDE – SMITHS INTERCONNECT: HIGHER VOLUMES OFFSET BY ADVERSE PRICE AND MIX

Smiths Interconnect's sales increased £39m or 12%. This was driven by acquisitions of £33m, offset by adverse currency translation of £3m. Underlying sales were up £9m, or 3%.

The higher volumes came from connector sales to the medical, rail, automation and test markets, as well as growth in the wireless telecoms sector. However, these were offset

by sales declines to the military customers, who are mainly in the US – which were affected by the Continuing Resolution and lower defence spending. We experienced some price pressure in the telecom sector, while some recent contract wins in aerospace have elements on which we receive only a pass-through margin which has caused an adverse mix of £5m.

Restructuring and other cost saving initiatives have delivered £2m of additional profit.

Increased investment in sales and marketing and R&D had an impact of £2m

The acquisitions of IDI and Channel Microwave added £7m.

SLIDE – FLEX-TEK: VOLUMES AND PRICING OFFSET INFLATION PRESSURES TO GROW MARGINS

And finally, Flex-Tek... Reported sales rose 4% to £221m or 6% on an underlying basis, reflecting growth in sales to aerospace and construction customers. Flex-Tek again made great progress on margins, up 140 basis points to 12.5%.

Reported headline operating profit was ahead 18%, or £4m. The better volumes contributed £4m while pricing improvements generated £4m of incremental profit.

However, raw material inflation, particularly in nickel, fibreglass and stainless steel, caused an adverse impact of £6m.

We have continued to benefit from Flex-Tek's relentless focus on restructuring and other operational efficiencies which supported another £2m of profit.

SLIDE – DELIVERING IMPROVED RETURNS ON CAPITAL

Last September, we reported for the first time the return on capital employed for each division.

As Philip mentioned, Group returns increased 40 basis points driven by strong advances in Flex-Tek, John Crane and Smiths Medical. Returns are calculated on a rolling 12-month average for the capital base and returns in Smiths Interconnect were affected by the inclusion of a full year of capital following the significant investment in IDI in April last year. IDI has performed very well, in line with our expectations of a 12% post-tax return by year three. We will see a similar impact on Interconnect returns from the acquisition of Power Holdings. This is an inevitable consequence as we invest to drive future growth opportunities.

Smiths Detection's returns reflect the disappointing profit performance this year, but the delivery of the division's performance improvement plan will restore these returns to more acceptable levels.

We have consistently delivered returns ahead of our cost of capital and this reinforces the potential we have for attractive investment opportunities to drive growth and returns for shareholders.

SLIDE – RECONCILIATION: HEADLINE OPERATING PROFIT/ STATUTORY PROFIT

Let me now move to the reconciliation of headline operating profit to the statutory numbers.

The key differences between headline operating profit and statutory are exceptional items and the amortisation of acquired intangibles.

Starting with the exceptionals which amounted to a charge of £29m in the period...

- The £16m restructuring charge was the continuation of the programme announced in 2008. I'll say more about this in a moment.
- There was also a £28m charge relating to the John Crane, Inc. asbestos litigation. There are a number of components to this charge. One of them is the change in the provision for legal defence costs which was established in 2007 on a 20-year basis, counting down to 16 years currently. However, we have now

decided to calculate this provision on the same timeframe as for adverse judgments, by using the same external expert for both. This means we are now using a 10-year time horizon because the expert does not consider the probable expenditure can be reasonably estimated beyond ten years. This resulted in the charge which comprised:

- £12m from movements in discounting, arising from changes in the discount rate and the shorter time horizon, as I have just outlined;
- £9m for an increased provision for legal defence costs, reflecting slightly higher legal fees; and
- £6m for an increased provision for adverse judgments.

As a result, the provision for adverse judgment and defence costs will both be based on a 10-year rolling view.

- Offsetting these costs, we had a £10m benefit from changes to certain early retirement terms in the UK;
- There was also a £6m benefit from business disposals, including the release of a provision in connection with the diabetes business, which was initially charged as an exceptional item.

The amortisation of acquired intangible assets of £50m is higher than last year, reflecting the impact of recent acquisitions.

SLIDE – EXCEPTIONAL ITEMS: RESTRUCTURING PROGRAMME DELIVERING BENEFITS

Now moving to the restructuring programme in more detail. We have continued to make good progress with more benefits to come.

Looking at the foot of the table here, you'll see that we generated £15m of savings in the period. This brings the annualised savings to £56m against our target of £70m. Phase 1 is almost complete except for £1m of John Crane savings which we expect to

come through in the coming year. We expect to deliver £10m of savings in 2012, with the remainder due in 2013.

In terms of costs, we have incurred £52m to date and have reduced our estimate of total planned costs from £64m to £62m. We expect to incur £7m of costs in 2012 with the remainder the following year.

SLIDE – CASH CONVERSION – INVESTMENT IN WORKING CAPITAL FOR DETECTION

As Philip mentioned, cash conversion has continued to be strong with a much improved second half performance, and in line with our guidance of between 90 and 100% for the year.

The main movement is in working capital - as you can see we have a £47m outflow. Working capital benefited last year from certain one-off initiatives.

Cash generation remains a key priority for the Group, providing the resources to reinvest in our businesses for future growth, as well as to grow the dividend, subject to maintaining a healthy balance sheet and the constraints of our legacy liabilities. We are focused on delivering sustained strong cash generation for the coming year – aiming again for a conversion level of 90% or higher.

SLIDE – NET DEBT DECREASED BY £108M DRIVEN BY STRONG OPERATING CASH-FLOW

The operating cash of £489 combined with slightly higher cash spend on interest and tax resulted in free cash flow of £236m.

Dividends at £136m were slightly higher than last year reflecting the increased interim dividend which, along with other items, resulted in a fall in net debt of £108m to £729m.

SLIDE – STRONG BALANCE SHEET SUPPORTS INVESTMENT IN ACQUISITIONS AND GROWTH

We have refinanced all our debt over the past three years, giving us a current average maturity of 4.9 years. We have an \$800m committed bank facility which is currently undrawn.

This gives us a strong balance sheet to finance our investment plans.

Looking to the coming year, we have agreed to buy TCE for \$20m and Power Holdings Inc. for \$235m, subject to regulatory approvals. These acquisitions will be funded from existing liquid resources, as you see here.

Assuming current exchange rates and before any further acquisition activity, I expect that the year-end net debt will be around £900m, also reflecting higher pension contributions in the coming year.

SLIDE – PENSIONS: DEFICIT REDUCED TO £199M, HELPED BY IMPROVED ASSET RETURNS

Turning to pensions, you will see that the net pension deficit has fallen by £106m to £199m since last July.

This has been driven primarily by a strong asset performance which, combined with the contributions, has more than offset the change in the liabilities.

As you know these schemes are closed to future accruals and we have agreed 10-year funding plans with the UK Trustees. Steps have also been taken to improve the Schemes' matching of assets and liabilities. For example, last week the TI Trustees invested a further £147m in annuities to mitigate longevity risk, which follows similar purchases in 2008 involving assets of around £500m.

The finance income credit for last year was £24m and we expect this to be maintained at this level for the coming year. However, I also want to remind you that, as

announced at the half year, we will exclude this item from our headline pre-tax profit to give a clearer picture of underlying performance – starting with the 2012 half year results. Pro-forma figures for 2011 are provided in note 3 to the accounts.

In terms of cash contributions to the schemes next year, these could amount to around £110m with:

- A £36m payment to the Smiths Industries Pension Scheme (in line with our normal contributions last year).
- A contingent payment of £50m in May 2012 to the TI Group Pension Scheme – consistent with our agreed 10 year funding plan. This is dependent on the funding position over the coming quarters.
- A contribution of around £24m to the US and other smaller schemes.

In addition, we are making the monthly £2m contribution to the escrow account on behalf of the Smiths Industries Pension Scheme.

SLIDE – FINANCIALS: CONCLUSION

In conclusion, there are four key messages I'd like to highlight from today's results.

- First, is the sales growth that we have achieved from both organic growth and from our bolt-on acquisitions. The acquisitions we have already announced will help to drive our future growth.
- Second, is the continued progress we have made on expanding margins through our self-help initiatives – and there is more to come from these programmes, particularly in Smiths Detection.
- Third, is a strong cash performance in line with our guidance. This will remain a continued focus for delivery in 2012

- Finally, is the focus on returns. We have a portfolio of attractive businesses to invest in, and a strong balance sheet to support our investment plans.

We have a business with good market positions and leading edge technologies that deliver strong cash flows for driving future growth and returns.

And with that, I'd like to hand back to Philip for his operational review of divisional performance.

SLIDE – PHILIP BOWMAN

Peter, thank you very much.

SLIDE – CREATING SHAREHOLDER VALUE THROUGH LONG-TERM PROFITABLE GROWTH

As I said earlier, we have made good progress in the four key financial metrics against which we manage the business to generate value for our shareholders. Our success in sales growth, margins, cash generation and return on capital employed, despite the economic headwinds, underline the attractive investment proposition offered by Smiths Group.

Our businesses are typically exposed to markets with long-term growth characteristics and high barriers to entry. Furthermore, we have significant opportunities to invest in future growth drivers such as new product development, network expansion or complementary acquisitions.

Our advanced technology platform helps enhance margins. Technology leadership, combined with an intimate knowledge of our customers' needs, allows us to commercialise our technology for competitive advantage.

In addition, over the past three years margins have been boosted through our self-help programme and focus on operational efficiency. Further efficiency gains are in our sights and we will reinvest more of these savings to drive long term revenue growth.

We set out sales growth and margin targets in September 2008 just before the sharp downturn in global economies made achieving the original target ranges increasingly challenging, particularly for sales growth.

We will review the targets during the current fiscal year, although I have to say that the immediate economic uncertainty makes it challenging to set new targets today. Meanwhile we will continue to strive to deliver improvements in both sales growth and margins.

SLIDE – CREATING SHAREHOLDER VALUE THROUGH LONG-TERM PROFITABLE GROWTH

Turning to cash, our businesses generate strong cash-flows and have relatively low capital investment requirements. Improved working capital management has enhanced the cash generation characteristics over the past four years. In the year, cash conversion was 95%, in line with our guidance.

The businesses generate attractive returns above the cost of capital. As Peter said, returns on capital have progressed again this year, reflecting improved profitability and efficient use of capital. We can generate value by investing in these businesses and through the disciplined allocation of capital between them.

As I said in June at our Investor Day in New York, there are benefits to simplifying the portfolio over time. We intend to manage our portfolio more actively through a combination of acquisitions that satisfies our strategic and financial objectives and disposals that realise additional value for our shareholders - subject of course to suitable market conditions. At the same time, we will seek to minimise value leakage by actively managing the legacy issues from pension plans and the historic product liability litigation, as Peter highlighted earlier. This more active portfolio management has been evident recently with the announcement of two acquisitions and a small disposal of the food inspection business of Smiths Detection.

I do firmly believe that there are still considerable opportunities to generate value. We are committed to delivering these benefits to improve returns for shareholders.

So let us move on to discuss the operational developments in each of the divisions, starting with Smiths Detection...

SLIDE – SMITHS DETECTION: VARIABLE ORDER FLOW HAS AFFECTED SALES

Underlying sales at Smiths Detection fell 13%, illustrating the variable order flow of this largely government contracting business.

Transportation revenues declined 4% due to order delays caused primarily by budget uncertainty in the US and regulatory delays in the EU – particularly associated with the lifting of the liquids and gels ban and setting new standards for the security of air cargo. However, we secured several large airport security contracts in the US, Canada and Germany, among other markets.

Sales in ports and borders fell 17%, again largely through delays in anticipated orders as pressure on government budgets continued.

Our military business saw underlying revenues fall 42% as US military spending reverted to more normal levels after troop withdrawals. It was also affected by a transition to a new generation of advanced chemical detectors. However, we recently made our first \$30m delivery of these new detectors under the JCAD programme.

Critical infrastructure grew 37% as a result of a number of contracts including supplying equipment for the Commonwealth Games in India, and for a range of US Federal Protective services.

SLIDE – SMITHS DETECTION: PERFORMANCE IMPROVEMENT UNDERWAY

Overall this is a disappointing performance. So what are the issues in Smiths Detection?

It operates in markets with good long-term growth trends. However these are heavily influenced by events, replacement cycles and government-related regulation and spending.

The market has changed considerably in recent years and it is imperative that we adapt to evolving customer needs and changing procurement processes.

Our strong positions across a range of technologies should be tailored more to customer requirements, and we must improve our use of business information to support these changes. Fixed costs, as I have said a number of times before, are also too high.

To address these issues, we have begun a comprehensive improvement programme that is targeting at least £40m of annualised savings by fiscal 2014. We are expecting to deliver £15m of those savings during the current fiscal year. Overall, the programme is expected to cost £40m, of which £33m will be treated as an exceptional item over three years and a £7m charge against headline operating profit in the current fiscal year.

We have already begun cutting the size of the workforce and discretionary spending has been severely curtailed. A site rationalisation programme is also underway.

Specific operational initiatives have been implemented that will include more efficient materials sourcing and a value engineering project similar to the successful one we have implemented in Smiths Medical over the past several years. We will also leverage our investment in our global ERP system to improve decision-making and lower costs.

As you are aware, there will also be new leadership with Mal Maginnis fully taking over from 1 January. His wide experience of the company and security industry, both as supplier and customer, will help in our drive for increased profitability and improved competitiveness.

SLIDE – SMITHS DETECTION: INVESTING IN FUTURE GROWTH THROUGH NEW PRODUCTS

Strong investment in R&D has helped Smiths Detection stay at the cutting edge of technology. Company-funded investment fell by 1%, although increased as a percentage of revenue to 6.9%.

In a major product launch, Smiths Detection moved directly into the increasingly important market of combating radiological and nuclear threats. It introduced RadSeeker, a handheld detector that helps resolve the problem of distinguishing genuine radiological and nuclear threats from naturally occurring background radiation sources.

Our arrangement with Analogic to develop the next generation of high-speed systems for screening checked airport baggage is progressing well and data-collection trials are beginning now in some airports.

We have a strong pipeline of new product launches planned during for the current fiscal year, spread across the key product groups.

SLIDE – SMITHS DETECTION: OUTLOOK

Primarily a government contracting company, Smiths Detection is directly affected by security regulations and government budgets as well as terrorist incidents. As I have said before, revenue, profit and working capital will all fluctuate materially.

Although the sales environment is likely to remain challenging in the near term, margins should benefit from our performance improvement programme.

However, longer term we believe the sector is set for sustained growth and that Smiths Detection is well placed to benefit from its leadership position.

Turning now to John Crane.

SLIDE – JOHN CRANE: DELIVERING SALES GROWTH, IMPROVING MARGINS AND RETURNS

Sales rose 14%, reflecting higher orders for first-fit original equipment and increased aftermarket sales across all end markets.

Aftermarket sales grew 13% driven primarily by strong demand in the upstream oil and gas sector, particularly from John Crane Production Solutions. Sales for this upstream energy services business advanced 68% as a result of higher activity levels in US onshore energy production and the full year effect of a contract to upgrade Petrom's 9000-plus wells in Romania.

The aftermarket in rotating equipment increased 5% with growth across all sectors; particularly in oil, gas and petrochemical, and distribution.

First-fit original equipment sales rose 14% as customers spent more on new projects, particularly in the oil, gas and petrochemical sectors in the Middle East, Latin America and Asia.

SLIDE – JOHN CRANE: INVESTING IN FUTURE GROWTH

We continued to invest in infrastructure enhancement to expand our market-leading sales and service network, particularly in emerging markets in order to capitalise on new growth opportunities.

During the past year, a new 'state of the art' manufacturing and service centre was opened in Saudi Arabia.

In China, manufacturing of the 'Safematic' product line has been introduced in response to key pulp and paper customer requirements.

Our bearings offering will be expanded by the acquisition of Houston-based Turbo Components which services, repairs and builds replacement bearings and seals used in

critical rotating equipment. We will continue to look for attractive acquisition opportunities in adjacent markets.

SLIDE – JOHN CRANE: OUTLOOK

John Crane's book to bill ratio remains strong and should support continued sales growth in the first half of the coming year. Full year sales growth will depend largely on the performance of market economies and the level of customer investment in capital projects.

Margins will benefit from cost-saving initiatives, offset by the impact of our strategic investments in longer term growth opportunities. These include the expansion of our sales and service network, large strategic OEM projects and increasing our presence in emerging markets.

Turning to Smiths Medical...

SLIDE – SMITHS MEDICAL: DELIVERING MARGIN GROWTH IN A CHALLENGING MARKET

Underlying sales declined 3%, of which the majority related to portfolio rationalisation initiatives which lowered sales but boosted margins. The rest of the decline was caused by difficult trading conditions that affected the safety devices and vital care segments, offsetting growth in medication delivery sales.

In Medication Delivery, excluding diabetes, underlying revenue grew 1% from increased sales of our range of CADD®-Solis ambulatory smart pumps both in North America and Europe. This success has helped us gain market share.

Underlying revenue from our Vital Care franchise declined by 3%, mainly due to a weaker flu season than the prior year which was distorted by high H1N1-related sales. There were also lower sales in patient monitoring, and kitting, all of which have been subject to our SKU rationalisation.

However, our core airway and temperature management businesses grew slightly in flat markets.

Underlying sales of safety devices declined 4%, driven by a challenging competitive environment and negative trends in the number of procedures.

SLIDE - SMITHS MEDICAL: INVESTING IN GROWTH OPPORTUNITIES

We see two key growth opportunities for Smiths Medical: new, high-margin products and increased penetration of emerging markets where both the quantity and quality of healthcare opportunities are rapidly increasing.

Investment in new product development remains a priority and an increase of 3% last year gave a total spend of £31m. This investment has been targeted on the highest impact products, improving the level of project execution and R&D effectiveness.

We launched two significant new medication delivery products into Canada: the CADD® Solis VIP ambulatory pump and Medfusion™ 4000 wireless syringe pump.

Recent FDA clearance for Medfusion™ 4000 will allow us to launch in the US this fiscal year. Products launched in the last three years now represent some 10% of revenues and we expect to grow this as others come on stream in the near future.

Over the past year, we have reorganised to create a global, matrix organisation to cut costs and improve customer focus and enhance market penetration. This has also increased our sales and marketing resources and improved effectiveness by allowing us better to share tools and best practice.

We have increased our exposure to emerging markets which now represent around 9% of sales. Revenues in a number of these are growing in double digits. We have strengthened our presence in the important Indian market by establishing an operating entity which includes a direct sales and marketing team. Investment in China also increased, focusing on expanding it as a regional manufacturing base. This facilitated

the launch of Graseby 2000, a new low cost infusion pump, designed and manufactured in China specifically for the emerging markets.

We have also delivered efficiencies from our supply chain, with the rationalisation of our European distribution operations.

SLIDE – SMITHS MEDICAL: OUTLOOK

While long-term prospects for Medical remain attractive, the immediate outlook, particularly for developed markets, is likely to remain challenging as healthcare cost controls and unemployment put pressure on both capital investment and the number of medical procedures.

However our R&D pipeline is strong and we will seek to drive sales growth through new product introductions in 2012 and beyond, coupled with an increased emphasis on high growth Asian markets.

There are further opportunities to drive operational improvements to support our success in expanding margins. We will reinvest more of these savings into sales and marketing and new product development to accelerate long-term growth.

Next... Smiths Interconnect...

SLIDE – SMITHS INTERCONNECT: DELIVERING GROWTH DESPITE DEFENCE PRESSURES

Underlying sales rose 3%, reflecting growth across all its market segments except defence, which slowed in the second half.

Sales to military and aerospace customers lost the strong momentum reported in the first six months and were down 5% for the year due to a combination of the Continuing Resolution in the US and troop withdrawals. However, protection technology was a

bright spot with significant growth in sales to the military seeking to combat the potential threat from an electro-magnetic pulse.

We completed a contract from the US Air Force for our advanced counter-EMP technology to protect its Minuteman missile systems. Our microwave defence business won a \$16m order to supply a US Navy satellite communication programme with technology which allows up to five times the current bandwidth.

Underlying sales in wireless rose 3% on the back of new technology deployments in a few specific networks – 4G in the US and 3G in India. However, growth is still constrained by network operators limiting capital investment.

Underlying revenues across rail, medical, automation and test equipment customers rose 20% with strong demand for our high reliability connectors in a range of medical applications.

SLIDE – INTERCONNECT: INVESTING IN GROWTH DRIVERS

Early this month, Smiths Interconnect agreed to acquire Power Holdings, Inc. – or PDI – for \$235m. PDI is a leading designer and manufacturer of power distribution, conditioning and monitoring systems. Its purchase will transform Interconnect's existing power technology group.

The acquisition also fits the Group strategy of adding complementary technologies and products, and will allow Interconnect to expand into the fast-growing markets of data centres and alternative energy applications.

The integration of IDI, acquired in April 2010, is now complete and the business is performing in line with expectations, delivering growth in both sales and margins.

Interconnect operates in fragmented markets and we continue to look for value-enhancing acquisitions that will deliver long-term growth.

Company-funded R&D, which continues to rise, was targeted across all our technology areas. More than a third of revenues now come from products or technologies developed in the past three years.

SLIDE – INTERCONNECT: OUTLOOK

The outlook for Government funded sectors, particularly the US defence market, is expected to remain challenging. However, we continue to focus on strategically important sectors such as communications and ISR – in addition to being well positioned on several major long-term programmes.

Wireless infrastructure spend should grow as operators start to fund the next generation of communication networks. Market conditions in medical, rail, test and automation are expected to be more difficult than in fiscal 2011.

Margins may face some pressure as volumes decline in certain sectors, although this will be offset in part by restructuring benefits and operational efficiencies. Smiths Interconnect will also benefit from the integration of Power Holdings.

Finally to Flex-Tek - the business that *again* generated the greatest percentage of profit growth...

SLIDE – FLEX-TEK: MARGINS BENEFIT FROM OPERATIONAL LEVERAGE

Flex-Tek delivered a £9m, or 4%, increase in reported sales despite difficult trading conditions. Revenues were boosted primarily by an increase in sales of components to the OEM aerospace market and US residential construction sector. These were partly offset by declines in sales in Flexible Solutions.

Headline operating profit margins rose 140 basis points as a result of increased sales, operational gearing and price increases.

Fluid management sales grew 16% through improved volumes and pricing with a healthy increase in revenue from aerospace components and a bigger share in the overhaul and repair service segment.

In Construction, revenues rose 10% as the US housing market finally showed some faint signs of life although this growth came mainly in the first half and prospects for the sector are still uncertain.

In Heat Solutions, sales were flat after 11% growth in the first half, the result of the ending of a US federal rebate to consumers who traded in their old appliances for new.

Meanwhile Flexible Solutions saw a 7% decline reflecting the weak US market for floorcare, only partially offset by improved demand for our respiratory care hoses.

SLIDE – FLEX-TEK: OUTLOOK

Our order book for aerospace customers reflects a positive trading environment supported by strong orders for the new generation of fuel-efficient aeroplanes. The momentum in this sector should continue well into the coming year.

The US residential construction and household appliance markets are expected to remain uncertain with no significant growth projected. However any upturn in these markets will generate accelerated earnings for the business as a result of the recent restructuring initiatives.

Returning then to the performance and prospects for the Group as a whole...

SLIDE – SMITHS GROUP – INVESTMENT CASE FOR SMITHS GROUP

Smiths Group has a portfolio of fundamentally strong businesses with good market positions in sectors that are well-placed for long-term profitable growth.

Our leading edge technologies and, in some cases, the high aftermarket or consumables content, afford us valuable competitive advantage.

Together, these help to support the Group's intrinsically high margins and there remains further scope to enhance these margins through operational improvement and self-help.

Our businesses have a low capital intensity and strong cash generation which allows us to reinvest in the business and fund progressive dividend growth.

We generate returns ahead of our cost of capital and we have the financial discipline and opportunities to invest in these high returning businesses to generate value for shareholders.

SLIDE – SMITHS GROUP – OPERATIONAL PRIORITIES FOR 2012

Looking ahead to the rest of the year, trading conditions across most markets remain challenging to say the least. Pressure on government spending is likely to continue to constrain some of our businesses, such as Detection, Medical and Interconnect. However, we have strong order books for those business areas without major government exposure, such as John Crane.

We will also focus on delivering the benefits from the comprehensive improvement programme now underway in Smiths Detection and the remainder of our previous restructuring initiatives.

A sharper focus on driving top-line growth through increased R&D and expanded product pipelines across all the divisions leaves us better placed to benefit from any economic upturn. Our performance will also be supported by our expanded investment in sales and service networks and greater penetration of emerging markets.

As I commented earlier, we still have the opportunity to generate further savings from restructuring. Greater operational efficiency allows us not only to deliver improved margins, profits and cash flow – but also to reinvest more into the drivers of long-term growth.

A focus on cash generation remains a priority to help fund these growth initiatives and further targeted bolt-on acquisitions that will enhance shareholder value – as well as a progressive dividend.

We have a solid foundation not only to survive the economic downturn but also to generate future growth and improved returns for shareholders.

That is the end of the formal presentation. Peter and I, along with other members of the divisional and corporate management teams, will be pleased to take any questions. Can I just remind you, in terms of housekeeping, to wait for the microphone so everyone else in the audience can hear your question, and also to identify yourself and the company you represent? Thank you once again for joining us and I turn it over to the floor for questions.

MARTIN WILKIE Good morning. It is Martin Wilkie from Deutsche Bank with a couple of questions please. Firstly on the Detection business, you have announced some additional cost savings this morning. If we look at those as a percentage of sales and you have proved the accrued benefits it would, theoretically, get you back towards the margin targets that you had originally set for that business. Is that the right way to look at those targets? Should we see essentially those savings getting you back towards the profitability levels that you had in the past, at a new lower level of volume? That was question number one.

The second one was just on Medical where you have obviously seen SKU rationalization on organic growth again. Just remind us the pattern of that SKU rationalization should that come to an end over the next year or so? Thank you.

PHILIP BOWMAN: Thank you for those two questions. I will start by responding to the one on Detection and perhaps pass to Mal for further colour on that. Srimi, I am going to ask you to answer the one on SKU rationalization.

I think in terms of Detection there are a number of steps we can take fairly quickly to reduce the cost base. We started doing that after the change of management in May. Certainly the running rate of costs is down quite a bit compared with where it was even four months ago.

In terms of the more fundamental restructuring, we are looking at a period of around two to three years to deliver that. The question of course is whether all of the benefits of that are going to drop to the bottom line or whether we choose to reinvest some of those. I think, at this stage certainly, the focus very much is of taking the cost out and improving our efficiency. I would give a very good example - I tried to do in the presentation - comparing the Smiths Medical where value engineering has been a source of major margin improvement over the course of the last several years. Mal, do you want to add a little more? If you take the microphone.

MAL MAGINNIS: Thank you, Philip. The key issue for us at the moment is to concentrate on these efficiencies. We have clearly identified them over the last two months, while working with Philip. We have a lot of work that we can do at the moment which will restore those margins. At the same time I have to be cautious to make sure I do

not affect the operations of the business and the market space, which is the second part of my focus.

We also have the point that Philip mentioned to you which is about our extremely strong product pipeline. We have outstanding technology and that product pipeline will also allow us to start to restore that margin back to where it was. Thank you.

PHILIP BOWMAN: Thank you for that. Srimi?

SRINI SESHADRI: I think in the next year or so there is still going to be a little bit of a drag due to SKU rationalization because we are getting more and more insight on SKU profitability both by the SKU item itself but by region as well. There is still some work to go that will improve the profitability of the business but the majority of our effort is actually aimed at organic growth. A whole bunch of new product pipelines are beginning to show up. There was an issue with the slowness of FDA clearances but, as you have seen, Medfusion 4000 is out and CADD-Solis VIP we can hope is out in the near future, so a lot of the focus is going to be on organic growth now.

PHILIP BOWMAN: Srimi, thank you for that. Next question. Next to you in the second row.

ANDREW CARTER: Morning. It is Andrew Carter from RBC. Two questions please. On John Crane in terms of what has been going on more recently

in the oil and gas industry I wondered if you could just talk to us a little bit about the latest things that you have been hearing from your customers etc to try to give us an idea on the outlook there please? Then, the second one perhaps to the Finance Director, was in terms of the asbestos situation there was an awful lot of very technical numbers put up there relating, I think, to discount rates and stuff. I cannot really understand what is going on.

Could you possibly just tell us whether there has actually been any real change in what you think is happening as regards asbestos and whether or not there is going to be any difference in the kinds of cash payments that we are likely to see over the next couple of years please?

PHILIP BOWMAN: I might make a couple of comments on the asbestos and then pass to Paul Crane on John Crane, and Michael Herlihy, our General Counsel, I think can add a couple of words on asbestos. When I came into this business we had a provision for the costs of litigating and defending these claims. We had no provision for the cost of any adverse judgements. In, I think, the first year I was here I persuaded the Board that we should have a provision for adverse judgements. We certainly had enough historical data to be able to model that and we went to an external expert who does this work for a number of companies with asbestos exposure and we created a ten year estimate of what the liability would be, and

that has been updated regularly every six months. It is a bit complicated by change in discount rates but that is another issue. We were left with a rather strange situation where the forecast period for the legal costs was very different to the one for the adverse judgements and I think what we have done this year is simply to bring the two of those into line. Clearly, if you are looking at changing the length of a period you are also going to be having an effect in terms of discount.

In terms of the underlying situation with the litigation I think that is one perhaps for Michael Herlihy to respond to if someone could give him a microphone please.

MICHAEL HERLIHY: Thank you, yes. In terms of the provisioning, as a mere lawyer I would not presume to comment on the mysteries that underpin that.

In terms of the actual experience of the litigation if the question is has the experience this year been any different to a year ago or the year before that? No, it is substantially the same. Is the outlook any different? Do we feel differently about the litigation today from the way we felt at this meeting last year? No, I do not think so. We have good days and bad days. We win cases and lose cases down in the trenches but, overall, I think the outlook is substantially as it was this time a year ago.

PHILIP BOWMAN: Michael, thank you very much for that clarification. Paul, the mood in the oil and gas industry I think is your specialized subject!

PAUL COX: Recall the first slide that was up around forward looking statements. This would be a forward looking statement. I was in a major show last week and I would say the sentiment was very positive obviously subject to people being able to get financing and the like. I would say all of our customers continue to be pushing ahead on their plans. I was talking both to the OEMs as well as our end users and the sentiment is very strong at the moment, but obviously these things can change; they have changed in the past. I would also note that the upstream side of the business has continued to go forward very rapidly and as long as the oil gas prices remain at reasonable economic levels and that the demands are still there, I do not expect that they are going to change.

PHILIP BOWMAN: Paul, thank you for that. Next question. Fourth row back on my left.

ADRIAN DE SUSANNE: Thank you. Adrian de Susanne from Société Générale. Two quick questions. The first one on the outlook you gave in the statement saying that you see further pressure on Government spending going forward. Can you remind us what is your group exposure to Government spending overall as a percentage of

revenues, to have a clearer view? Especially on the US and Europe, that could help. Also, you said you could gain further operational efficiencies in the future. Maybe the names of the divisions where you can see further efficiencies going forward or where you can expect further efficiencies going forward? Thank you.

PHILIP BOWMAN: I think in terms of operational efficiencies what I would say is, clearly, if you look back over the past three and a half years we have undertaken a lot of work within John Crane, delivered very good improvements there, Ted Smith and his management team at Flex-Tek have done a first class job in terms of taking cost out of there and reducing the fixed cost base, and we have done a significant amount of work in Medical, particularly through value engineering which, again, you can see in the margins.

Interconnect has also done a fair amount of work. It has not been highlighted in these presentations as much; I think probably because it was one of the smaller divisions although one that has grown quite rapidly.

The area where there has not been a lot of work in terms of the cost basis is Detection. I said that probably this time last year and I said it again at the interims. We now have a very clear plan of what we are going to do in terms of that so that is certainly the focus.

I think in other businesses we are moving more towards what I would refer to as a process of continuous improvement, rather than big initiatives. There are a number of things underway. We talked last time, and it is underway, of rationalizing back office activities, particularly finance and human resources around the group. That programme is underway. There are other initiatives that we identify as we go forward. The one big programme we are talking about is in Detection, but that does not mean there will not be continuous work in the other businesses as well.

In terms of exposure to Government I will pass that across to Peter.

PETER TURNER: Thanks, Philip. Overall our exposure to Governments is around 40% to 45% of the business. I think, as we highlight, particularly Smith Detection and parts of Interconnect and Medical I guess are our businesses where we see that exposure at the highest. In terms of mix of the business geographically, just over half the business is in North American, about 25% in Europe and the rest spread around the rest of the world, so that gives you a sense of the mix.

ADRIAN DE SUSANNE: Thank you.

PHILIP BOWMAN: Next question. In the middle please. Fifth row back.

RODDY BRIDGE: Thank you. Three questions if I may. It is Roddy Bridge from Evolution. Firstly on Interconnect we had some talk of pricing pressure there. I was wondering if we could have a little more detail about where this is coming from and how to deal with it? Secondly, on John Crane, I would be very interested to hear a little bit of outlook for mix which I think could be quite important going forwards. You are talking about increasing marketing and I know you're after market has been very strong. I am obviously wanting a little steer on which way margins are going here. Thirdly, a general question. You talked in the presentation etc about active portfolio management and one obviously gathers this is subject to market conditions. Perhaps we could have a little update on your feelings about the opportunities and threats that you have on that front at the moment?

PHILIP BOWMAN: I think in terms of portfolio management, candidly, if one looks at high yield debt markets which of course are the historic friends of private equity, they have been, to a large extent, on holiday or closed for a fair amount of time. Certainly coupons have gone up and leverage multiples have come down. That is not particularly pernicious. I think, in corporates, a lot of corporates still have high liquidity. Certainly, at the moment, I think you can see by our action we have been more focused on acquiring than looking to divest and I think that is certainly going to be the case for the first half of next year until we see what happens with Europe and the

Eurozone and whether there is a solution to that or whether we just limp on kicking the can further and further down the road with politicians trying to defy economics.

In terms of the John Crane question, Paul would you like to talk a little bit about how you see the mix between after-market and OEM moving?

PAUL COX: We have effectively identified three major streams which are our after-market and rotating equipment, our after-market components that are in the upstream are John Crane Production Solutions and our OEM work. Right now we are seeing a bit more in terms of capital investment in OEMs so we anticipate that we will have a little bit heavier OEM mix in the near term but there are some offsets to that in terms of prices we go after in the after-market. We are getting more in terms of leveraging benefit in JCPS as we get more volume and we do have the last part of our restructuring benefits so we will get the full year benefit of in this year, so there are some offsets to that.

PHILIP BOWMAN: Paul, thank you. Ralph, I think the question is one of pressure on pricing but, while you are on your feet, you might talk a little bit more about the latest business that we have acquired, subject to regulatory consents, and why you think that is a good addition to the Interconnect portfolio?

RALPH PHILLIPS: The first point, about 25% of Interconnect is in telecommunications and that is probably our most aggressive pricing market, especially as we move more internationally, especially in South East Asia, there is substantial pricing pressure. One of the things that Interconnect is in that market is a first mover where we have developed some very, very innovative products, brought them to market and, frankly, we get very good margins on those in the early days and, as competitors come on board, they tend to drive those prices down over a period of time. That is probably the most significant piece of pricing pressure that we have in at Interconnect.

Relative to PDI Power Holdings it was a great acquisition for us. As we talked in Investor Day and in Investor Day in the last two years we have really three technology groups within Interconnect. We have power protection, we have connectors and we have microwave technologies. Power protection was our smallest technology group and our strategy was to develop three holistic businesses. By bringing in PDI we have brought in an adjacent product set and that really gives us not just a power protection business but a power quality and a better quality management business of substantial size. Power protection was our smallest technology group; less than 20% of our sales. This brings in an adjacency into that technology group.

Other reasons we liked PDI was it is in a fast growing market of data centres; greater than 10% growth. Very happy with that. It is

also less susceptible to Government funding. About 90% of its sales come to non-Government customers. That, with some significant sales synergies, both on the sales side and sales channel side, is an opportunity to use our low cost manufacturing to support their factory in Southern California and also some cross selling opportunities. That is why we really liked that PDI.

PHILIP BOWMAN: Ralph, thank you very much. Move on to another question.
Sandy please. Second row.

SANDY MORRIS: Sandy from RBS. I apologise; there are a few things to belt through. First is just Tedd. These incentives, I thought, ran out in April 2010 so I never understood why we got a big kicker in the first half, or was that a timing issue? The second bit is on aerospace. Back in 2010 aerospace sales were down 16% because of weakness in regional and business jets was the reason given. They have not gone up at all yet, Ted, and yet you are actually getting really good growth. Perhaps you could remind us about the programmes that are coming on board if you do not mind.

I am now going to pick a fight with a lawyer which is suicide! I think asbestos has changed because I think we are seeing a big net reduction in terms of cases dismissed and the cases outstanding. I agree the settlements. We lost seven cases and it did not seem to cost that much. Moving to ten years. What I

would love to know is is it actually realistic that this thing is going like that now and so ten years is a perfectly reasonable time horizon to work to?

Third. Medical. Srimi, I always get baffled by the volume change and the volume effect on your profits which suggests that there is quite a different impact depending on whether it is safety or pumps or whatever that is moving. Perhaps you could just help me out on that? I will stop there but there is an endless amount I do not know.

PHILIP BOWMAN: Let us try and knock asbestos on the head first so if we could pass the microphone back to Michael Herlihy who I suspect will confound you with data.

MICHAEL HERLIHY: I shall start charging by the hour! I think in terms of the overall number of cases you are absolutely right; there has been a significant reduction. That is has been accelerated by the impact of cases in what is called the MDL, the multi-district litigation, where a new judge appointed to manage that has been much more energetic in moving cases out of that by forcing plaintiffs to either prosecute them or withdraw them.

The good news is, over the long term, clearly this litigation is going to come to an end. We are well into the second half. If you look at the incidents curves we are well past the mid way point. Sadly though I do not believe it is going to be over in ten years. I think

the ten year provisioning is a function, as Philip said, of the expert and his model and his method. We will still have asbestos cases in JCI well beyond ten years but they will be, as I said, in decline.

PHILIP BOWMAN: Michael, thank you for that. Tedd, would you like to respond to the two questions on Flex-Tek?

TEDD SMITH: In terms of the energy credit rebates as long as the signature was on somebody's form I think that months later the installations actually occurred in a lot of cases. That has been our understanding.

In terms of the aerospace question I think the best way to answer that would be that that business is much much better managed from a customer relations point of view at this time as to why the sales quote is different than you might expect.

PHILIP BOWMAN: Tedd, do you want to just talk a little bit about which major air programmes we are on and what we do on them?

TEDD SMITH: We are pretty well into the fluid handling on all the major airframes. Sadly I do not know each one of them, detail-wise, but we are on Airbus, Boeing, Pratt and all the big ones at this point, and feel good about the outlook.

SANDY MORRIS: I know that (*inaudible - no microphone*) your individual businesses are going up and down, and yet you are being really robust in terms of your results. I do not know how integrated your facilities are or how flexible your production lines are but I do not understand how you can have these ups and downs and (*inaudible*) flexible flooring(?) without it hurting you more. Can you help me out?

TEDD SMITH: I think if you look at our fluid management group it is in a much stronger cycle but most of the rest of our group is much more consistent than you might think and actually up in pieces where we have a few pieces that are down. The ratios of profits are different in the groups also. Certainly the higher value added pieces have a much higher margin than would a plant.

PHILIP BOWMAN: Srini, the question about volume --

SRINI SESHADRI: Sandy, one of these days I will have to show you the mind-boggling through the maelstrom matrix we have of 30,000 SKUs by country and by cost to serve. I do not know that there is a simple answer for what you are seeking, the drop down of volume in terms of top line down to the profit line, but it is going to require a combination of which products declined in which regions. We have had some regions which are growing very rapidly in certain product lines and some regions where they were dependent very

heavily on some of those products that are in the SKU rationalization section and so we were able to take those down. I do not know if that is a satisfactory answer but I would be happy to try it off line because I think it is a much longer discussion.

PHILIP BOWMAN: Thank you, Srini. Yes, in the third row please.

RAMI MYERSON: Rami Myerson from UBS. Trying to think about the potential update to growth in margin targets, I think Investor Day was talking about the second half of 2011 and the current statement during 2012. Is the growth target because of the current instability in the markets? Question number one. Question number two; when can we expect to get further disclosure/further details on potential changes to those targets? Also, on the margins, you have done very well, four out of five, hitting the targets. Is there potential here to move the goalposts a little bit to the right to make it a little bit more challenging for the directors here sitting in the front row?

PHILIP BOWMAN: I think the real difficulty at the moment, from where I sit and I think where the guys there sit, is forward visibility as to what is going to happen in the economy and what is going to happen to demand. It is incredibly difficult at the present time. We see volatility in the stock market driven by uncertainty of pretty much unprecedented proportions, certainly over my business career, and against that

background I think it is plain inadvisable to try to update targets at this stage. I did say in New York and I did say at the interims we were looking at updating the targets. It is still certainly my desire to do that during 2012 but I am afraid I am going to have to ask you for a little patience and understanding depending on what happens in terms of the economic activity generally.

I think in terms of do we have the opportunity to move targets to the right, there is always some opportunity to do that. It is more a function of how much of the improvements that we can drive out of these businesses by what I referred to as more now of a process of continuous improvement. We elect to reinvest and underpin growth in future years and that is a debate we continue to have around the businesses.

If I was looking at the way that the gentleman in the front row incentivised we are moving the score card against which performance is measured more towards revenue growth, having been through a significant period of operational efficiency. That is not to say we are going to take our eye off the ball of margins or cash, but growth is important and it is particularly hard to get at the present time, particularly if 40% of your business comes from the Government or is influenced by the Government. Hopefully some time in 2012 but I am not going to make any promises until we have perhaps a bit more visibility.

RAMI MYERSON: Thank you.

PHILIP BOWMAN: Any other questions? Yes, towards the back on the right hand side.

ALEX TOMS: Morning everyone. It is Alex Toms from Bank of America Merrill Lynch. A couple of questions from me. First of all on Detection. Can you just give us a feel for what the order book is telling you about growth this year and maybe any interesting regulation that is coming up in the next 24 months? Then the second question is on pensions. Maybe this is a difficult question to answer but I will ask it anyway. If you were to mark to market asset prices as they are at the moment, where would the pension deficit be? Thanks.

PHILIP BOWMAN: Peter, do you want to take the second one?

PETER TURNER: We do not mark to market our pension deficit every day, Alex. It is a long term liability. This is a liability of duration of in excess of a decade so we do not manage and measure that in those sorts of timescales. Clearly we keep an eye on it on a regular basis. The position at the end of August was not actually that different to where it was at the end of July; asset prices had fallen but the liabilities had fallen as well. Clearly it is that net position that is the important piece for the funding.

PHILIP BOWMAN: Thank you for that. Mal, talking about order book and regulatory change?

MAL MAGINNIS: Thank you. With our order book going forward at the moment it says we are given previous advice. It is sitting within its expectations. It is not changing dramatically.

That said though, given the difficult Government environment, I think the challenge for us is to continue to stay very close to them and their programmes and see how things develop. My focus has got to be on getting those new product lines in to meet the changes in regulation and be able to actually deliver that on time to the regulatory shifts.

In regulations you will have seen this year the European Parliament was unable to get itself to actually make the final decision on liquids and gels and that was argued about incessantly. That is planned to come in in 2013 and we have platforms that are excellently positioned to manage that during the period. The changes in US regulations have also remained on track, although are quite complex in nature. Again, our product portfolio is specifically targeted towards that.

What I would say is it is within expectations but is underpinned by very challenging Government funding approach.

PHILIP BOWMAN: Mal, thank you. Any more questions?

GLEN LIDDY: Glen Liddy from JP Morgan Cazenove. On the Medical division when do you get to a tipping point where the new products and underlying growth outweighs the pricing pressure and the reduction in the SKUs and when we do begin to get that growth, do you still get operational leverage on the volumes, given that your margins have improved so much from your own endeavours?

SRINI SESHADRI: The second one is easier to answer than the first so, yes; we will get operational leverage because I think we have done a lot of work to consolidate our entire supply chain as well as factories and so on, so as that growth comes it should translate. According to my boss that tipping point should have been yesterday and our sincere hope is in fact to drive that this year.

PHILIP BOWMAN: In terms of margins we are not operating at full capacity in the plants. We have rationalised a number of plants. We still have the ability to put more volume through those plants so, clearly, in terms of cost recovery, if volumes go up, there is an opportunity. In terms of a tipping point I think it is difficult. I talked in my remarks about the reduction in the number of procedures. That is a real issue that continues to confound us and there are signs, certainly in the second half of the year and continuing, that capital investment is being cut back as pressure there.

I think it is rather like how long is a piece of string but that does not take away from the fact that I keep saying to Srimi it should have happened!

GLEN LIDDY: A follow up question on your military exposure in Detection and Interconnect. Are there any major projects that are likely to be reviewed by Governments over the course of this year and do you have orders for projects but not a concrete delivery schedule for business during the course of this year and next?

PHILIP BOWMAN: Ralph, would you like to take that for Interconnect first?

RALPH PHILLIPS: I think in Interconnect about 33% of our business is military and I would say we have no programmes that I think are going to be reviewed other than maybe JSF which is quite a large programme that is getting lots of scrutiny. We have a top 18 list of big projects that we are tracking that we watch on a regular basis. We have very good visibility over the next few months but I would say that you come to a cliff in terms of funding, "Is there going to be a budget next year with defence or is there going to be a continuing resolution like we had this year?"

We think we are well placed on the programmes we are on. We have pretty good visibility for the fiscal year if there is a defence budget. If the defence budget goes like it was last year where it just goes month to month or week to week, then it becomes very

tough, and you saw the impact of that this year in our H2. We are on good strong programmes. We can see that they are generally well funded. The question is is there going to be the type of chaos we had this year?

PHILIP BOWMAN: Thank you for that. Mal, in terms of Detection?

MAL MAGINNIS: Thanks. I will follow Ralph with, yes, the chaos with the budget continuing resolutions. That would be a concern for us. At the moment though we have got certified products that are within the major military programmes and they are supported by what we have actually achieved already. In the addition to value I see going forward is that those products that have already been certified in key markets are having some good success and strong success in other emerging markets so we have a solid interest level out there; it is just the amount of time it takes for the Government military programmes to actually come through. We are in an excellent position with those actual positions at the moment.

PHILIP BOWMAN: Thank you, Mal. Any further questions? Yes, Sandy would like to come back?

SANDY MORRIS: Really quick. On Detection, that decline in military accounts have been very funny because that is a big contribution business. How

much of that came in the second half, just so we get a slight feel whether the business was maybe not doing that badly in the second half? The second thing is I do not understand the year end working capital position because we normally only see this stock debtors/creditors movement when, say, Detection has got lumpy deliveries coming, so that has got me puzzled. It is not fair if you change the benchmark for these new products in Medical because last year I think you said we were up, there was growth, in products within three years was 16% up on the previous year and now you have said it is 9% or 10% of total sales. Can someone actually give me a like for like progression? I hate to be picky but ...

PHILIP BOWMAN: Sandy, I am sorry we have done that to you. What I would say is we have been working over the course of the last year on looking at how each of our businesses approaches the whole question of new product development to see whether we can - I will not standardize but - take the best bits of what each division does. We have made quite some progress about that. One of the things that that has enabled us to do is to track the so-called vitality index in terms of revenue from products released over the last three years and we are following that now closely for the four major divisions. Ted will be coming into line in due course. That is there.

Srini, do you want to respond to the specifics of Sandy's question?

SRINI SESHADRI: It is very much in line with what we showed you in the first half, Sandy. 16% to 17%. That growth rate has not changed substantially.

PHILIP BOWMAN: The other question? Mal, please, yes.

MAL MAGINNIS: On the military programmes. Sandy, you are right; we were transiting a major military programme in the United States from the first phase of JK into the second phase. We were very pleased to get through all the testing regimes and get to contract before the end of the second half. We also are in the middle of changing to three other programmes which we are in the process of, which left us with the gap in the second half of this year. However, remember that, due to the previous war supplementals, we had a lot of urgent operational requirements in the 2006/07/08 period which have now moved out of the budget and we are back to what I would consider the standard predicted programme of record environment.

PETER TURNER: Can I just pick up Sandy's comment on working capital? In the force of an outflow the two major components are growth in John Crane in terms of the working capital commensurate with the business growing, so I think we are seeing builds in inventories and debtors as the business has expanded. I think we have seen

an improved position in the second half in Smiths Detection but we still have got more work to do candidly, Sandy, to bring the working capital down to reflect the level of the business. I will be working with Mal on that in the year ahead.

SANDY MORRIS: That implies there is still the linear god-knows-what lurking in the inventory (*inaudible*).

PETER TURNER: We have got work to do. I do not see there are any exposures. We have just got work to do to drive that down into cash.

SANDY MORRIS: Thank you.

PHILIP BOWMAN: Any other questions at all? Last opportunity. No, I do not see any more questions so I think it just remains, on behalf of the management team and on behalf of Peter to thank you for your time this morning. Thank you for listening. Thank you for your questions. I hope you found it time worth spending. Thank you very much.