It's that time of year again, but about a week earlier than we were in 2011. So, ladies and gentlemen, good morning and welcome to the 2012 annual results presentation for Smiths Group. To avoid interference with the sound system, can I ask you, in time-honored manner, to check that whatever your mobile device is, it's turned off.

Peter Turner, our Finance Director, is alongside me on the other side of the room. The divisional general managers, and some of the senior members of the corporate team, are seated in the front row. And most of you will know Tedd Smith, who is currently leading the John Crane management team as Interim President.

This gives me the opportunity to introduce Pat McCaffrey, who is the Chief Operations Officer at Flex-Tek, but currently managing Flex-Tek in Tedd's absence.

The team will all join Peter and me in answering your questions at the end of the presentation.

As in past presentations, I'd like to start by giving a brief overview of the results, before asking Peter to present the financials in more detail. And, later, I'd like to review the operational progress in each of the divisions, and set out our priorities for the coming year.
These results demonstrate consistent improvement during yet another period blighted by weak economies and difficult markets. I'd particularly highlight the underlying sales growth of 5%, where our focus on targeted investment to accelerate revenue growth is paying off with all five divisions reporting increases.

Headline operating profit and EPS both rose 7%, and this result is after our marked increased investment in growth drivers.

Operating margins improved in all but Smiths Interconnect as a result of volume leverage, better pricing and our continued focus on operational efficiency improvement.

Cash conversion remained extremely strong at 99%, with free cash flow of GBP217 million.

Return on capital employed rose 10 basis points to 16.5%, thanks to the enhanced margins and our efficient capital base.

The recommended total dividend for the year is up 5%, to 38p per share.

**SLIDE – DELIVERING AGAINST OUR OPERATIONAL PRIORITIES**

Our consistent focus on new product development has delivered a significant number of new product launches in the year, helping to drive sales growth.

Our technology leadership depends on continuous innovation, and we increased investment in new products by a further 9% to maintain a strong pipeline of future launches.

Channeling more resources into higher growth regions is also helping to accelerate revenue growth, with sales to emerging markets up 14%; now representing around 15% of total sales, compared with mid-single digits five years ago. This year we increased sales and marketing resources in China, India and Brazil, among other developing markets, which will show higher growth in the medium to long term.
The performance improvement program in Smiths Detection is on track. It delivered GBP15 million in savings in the period, against the three-year target of GBP40 million, as sites were rationalized and operational efficiencies began to take effect.

Cash generation, although greatly improved in recent years, remains a key priority as we continue to invest in growth initiatives. Cash conversion was at the top end of our target range of 90% to 100%.

We completed two acquisitions in the period. Interconnect's offering in Power Management has been significantly expanded by the purchase of Power Holdings. And John Crane's aftermarket capabilities have been enhanced by the purchase of TCE.

We also sold our stake in Cross Match Technologies, as well as some other non-core businesses, including a small optical analysis company. These divestments have reduced complexity and will allow the divisional management teams to focus better on their core businesses.

So today's results show how we've successfully grown revenue in tough trading conditions, while, at the same time, increasing investment in new products in emerging markets to drive future revenue growth. This approach comes at some cost to short-term earnings' progression, but I am confident that this investment will increase shareholder value over the medium term; a theme I'll return to in more detail shortly.

SLIDE – PROMOTING RESPONSIBILITY: AN INCREASED FOCUS IS DELIVERING IMPROVEMENTS

As I've highlighted a number of times previously, providing a safe working environment within all our facilities is one of my key priorities, and one shared by our Board. I'm pleased to report today that the steady reduction in both recordable and lost-time incident rates has continued.

And, in addition, you will also see that we have made excellent progress against a range of environmental metrics, in part reflecting our increased investment in more and better HS&E resources, both people and new energy-efficient plant across the Company.
So, with that brief introduction, I'd now like to hand over to Peter.

Peter Turner - Smiths Group plc - Finance Director

SLIDE – PETER TURNER

Thank you, Philip, and good morning, everyone.

SLIDE – ANNUAL RESULTS 2012

I'll kick off as usual with a slide to summarize the key financials. As Philip said, these are a strong set of results reflecting an improved second-half performance for many of the businesses.

Headline revenue was up 7% on the prior period, benefiting from currency translation and recent acquisitions. On an underlying basis, revenue rose 5%. Headline operating profit, profit before tax and earnings per share were all up 7% on both the reported and underlying basis.

Free cash flow reflects strong operating cash conversion, offset by higher pension contributions as guided at the interims. The headline tax rate in 2012 was 26.5%. We expect this to edge up in the coming year to be around 28%.

The other aspect I'd like to highlight is the statutory numbers. In a moment I'll take you through the various exceptional items we have excluded so that you can gain better insight of the underlying performance.

So let's get into a bit more color on the divisional performance.

SLIDE – UNDERLYING HEADLINE SALES AND PROFIT PERFORMANCE
Starting with John Crane, another robust performance. There's been good growth in both OEM and aftermarket volumes, although the increase has slowed in the second half against a very strong comparative period.

Operating margins are weaker in the second half by about 70 basis points. This was as a result of increased investment in highly competitive OEM projects to secure longer term aftermarket growth, higher sales and marketing expenditure, as well as some cost inflation.

Smiths Medical has seen a stronger second half, boosted by new product launches. If you recall, some infusion pump sales were deferred from the first half ahead of the launch of Medfusion 4000. Increased investment in new product development and the emerging markets expansion, which will support improved growth in the medium term, constrained margin improvement.

Overall, this is a good result, given the challenging operating environment with the squeeze on healthcare budgets and pricing.

Smiths Detection and Smiths Interconnect both delivered a much improved second half, albeit against weak comparative periods.

Detection margins benefited from restructuring savings, although still had some headwinds from low-margin legacy contracts. Margins at Interconnect suffered from adverse price and mix, with strong growth in Microwave partially offset by declines in Connectors and Power.

And finally Flex-Tek, another strong performance with improved growth, driven by US residential construction and aerospace. This, coupled with the changed treatment for legal costs announced at the half year, pushed up margins. As before, we've provided the margin causals for each of the divisions in the appendix.

**SLIDE – PROFIT PROGRESSION 2011 to 2012**
Pulling this all together for the Group, the next slide summarizes the key movements in the year.

We achieved volume growth across all divisions, whilst better pricing in John Crane and Flex-Tek more than offset some pricing pressure in other divisions, particularly Medical and Interconnect. We experienced some adverse mix in Interconnect and Detection.

As Philip mentioned, we took deliberate steps to increase our investment in the drivers of future sales growth. This is focused on building a pipeline of new product launches and increasing levels of sales and marketing, particularly in high-growth markets.

This increased investment was funded by operational efficiencies from a range of initiatives, including the restructuring program in Smiths Detection and value engineering in Medical. We also experienced some wage-related cost inflation.

Along with the other movements that you can see set out here, this resulted in a pre-tax profit of GBP497 million for the year.

We saw a small negative currency impact, caused by the weakening euro in the last few months of the year, which mostly offset the dollar gains. If the current rates continue, the euro is likely to have an adverse impact this coming year on Detection and John Crane, which both have slightly greater euro exposure.

Just a reminder that a $0.01 move in the US dollar has an effect on operating profit of almost GBP2 million, and the euro has an impact of almost GBP1 million for every EUR0.01 movement.

**SLIDE – GROUP CASH CONVERSION**

Turning now to cash conversion - at 99% this was at the top end of our guidance of 90% to 100% range. This guidance remains in place for the coming year.
You can see the main change year on year is the improvement in working capital performance. CapEx was in line with last year, and we expect it to move closer to the depreciation charge in the coming year.

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 ongoing constraints of our legacy liability.

**SLIDE – IMPROVED RETURNS ON CAPITAL FROM FLEX-TEK, JOHN CRANE, MEDICAL AND DETECTION**

Return on capital employed is the last of our four key financial metrics.

As you can see, we’ve made progress across all of the divisions, except Smiths Interconnect which was affected by the lower profits and the investment of the additional capital following the acquisition of PDI in October. The definition of capital employed has been adjusted for both years to exclude the litigation provisions.

In summarizing our performance against the four financial metrics, you can see good overall progress on sales, cash and returns. We have achieved these results whilst increasing our investment for future growth through new products and emerging market expansion.

**SLIDE – RECONCILIATION: HEADLINE OPERATING PROFIT/STATUTORY PROFIT**

I will now give some detail on the items that reconcile headline operating profit to the statutory numbers, starting with the exceptionals at the operating profit level, which amounted to a net charge of GBP85 million in the period. Some of these I covered at the half year.

- The GBP15 million restructuring charge was a combination of both the Group-wide and Detection cost-saving programs, and I'll say more about this in a moment.

- There was also a GBP40 million charge relating to the John Crane Inc. asbestos litigation. GBP10 million of this stems from a reduction in the US risk-free rate which
affects the discounted value of the provision. Most of the balance is due to its rolling 10-year nature, where the provision is topped up every six months. Overall, the litigation experience is in line with that of recent years.

- The next item was mentioned at the half year and relates to insurance subrogation claims at Titeflex, part of Flex-Tek. This, too, is a rolling discounted 10-year provision, which resulted in an exceptional charge of GBP55 million.

- The next GBP8 million charge was also reflected at the interims, and reflects our decision to change the basis for estimating the accrual for rebates to distributors in Smiths Medical. This one-off change has been prompted by the availability of better data and estimation techniques, which have highlighted the accrual should have been GBP8 million higher.

- The GBP31 million credit relates to various acquisition disposal items, but primarily to a GBP27 million profit on the disposal of Cross Match Technologies announced in July.

The amortization of acquired intangible assets totaled GBP62 million, of which GBP11 million related to an impairment charge for the PDI acquisition in Interconnect because it had not performed in line with our original expectations. Why is this?

First, the acquisition and integration process has disrupted the sales and bid win rate. Second, the data center market has flattened, whilst the alternative energy market has faced headwinds. As a result, competitors have been more aggressive on price to drive sales to offset declines in other parts of their business. Philip will talk later about the actions we're taking to enhance performance here.

Turning to pensions, as you know, we're now stripping out the GBP24 million of pension finance income from headline PBT in order to give a better view of the underlying performance.
We expect to implement the new IAS 19's accounting standard in 2014. However, if we apply these to these numbers on a pro-forma basis, the GBP24 million credit would switch to a GBP13 million charge. There'd be no other changes to our accounts from that new standard.

We've also reviewed our UK deferred tax assets relating to revenue losses and deferred capital allowances, and our ability to recover them against our expectations for UK taxable profits over the short term.

Given the size of the UK pension deficit, it is less likely we will be able to recover these tax assets in the near term. As a result we have written off GBP38 million of UK tax assets in these accounts. However, these tax allowances remain fully available to the Group should the UK tax base improve.

SLIDE – EXCEPTIONAL ITEMS: RESTRUCTURING PROGRAMME DELIVERING BENEFITS

Now moving to the restructuring programme in more detail, where we continue to make good progress, first with the Group-wide scheme, shown in the top half of the slide. You’ll see that we generated GBP14 million of savings in the period with the program largely complete, having delivered its GBP17 million of benefits at a cost of GBP55 million.

On the Detection performance improvement program we have delivered GBP15 million of our savings against our 2014 target of GBP40 million. We expect further savings of GBP11 million in the coming year. We've incurred costs of GBP20 million, of which GBP13 million has been treated as exceptional.

SLIDE – PERFORMANCE IMPROVEMENT PROGRAMME – ACHIEVEMENTS TO DATE

Allow me to give you a flavor of what we've achieved in improving performance at Detection.

We achieved a global net headcount reduction of around 8% through actions such as the closure of the Morristown site in New Jersey. The opening of a new X-ray production plant in
Malaysia helps align our manufacturing footprint much more closely with customer needs, particularly in the fast growing aviation market in Asia.

A focus on costs has resulted in greater efficiencies in materials and component sourcing, whilst scrap, re-work and warranty liabilities are all down.

**SLIDE – PENSIONS: DEFICIT INCREASED TO £620M, DRIVEN BY LOWER DISCOUNT RATES**

Now moving to the balance sheet and first turning to pensions, you'll see the net deficit has increased since last year [giving] a movement of GBP421 million to GBP620 million. Partially offsetting this we now have GBP58 million built up in the escrow, which invested in gilts.

The movement in the period has been driven primarily by a reduction in the rates at the long end of the corporate bond curve, which results in a significant increase in the discounted liabilities.

Cash contributions to the funded schemes totaled GBP115 million. Looking to the coming year, the likely cash contributions to the schemes could amount to around GBP90 million, with a GBP36 million payment to the Smiths Industries pension scheme in line with our normal contributions; a GBP16 million payment to the TI Group pension scheme, consistent with our agreed 10-year funding plan; and a contribution of around GBP38 million to the US and other smaller schemes.

In addition, we continue to contribute the monthly GBP2 million to the escrow accounts on behalf of the Smiths Industries pension scheme.

As you know, these schemes are closed to future accrual and have funding plans in place. The process for the latest triennial reviews for UK schemes is underway, although we are unlikely to know the outcome for some time. We will provide an update when the discussions are concluded.
Now moving to net debt. Free cash flow of GBP217 million was offset by outflows of GBP144 million for dividends and the net impact of acquisitions and disposals of GBP120 million. This resulted in an increase in net debt of GBP62 million to GBP791 million.

Given my earlier comments on cash conversion and pension payments, we expect net debt to be between GBP700 million and GBP750 million at the year end, subject to M&A activity and FX movements.

We have a strong balance sheet with good cash generation to invest in growth opportunities, whilst managing legacy liabilities and funding shareholder returns, which is a great point to hand back to Philip.

Philip Bowman - Smiths Group plc - Chief Executive

Peter, thank you for going through the numbers.

We've made solid progress over the past four years in a challenging trading environment and the results today demonstrate that we continue to see significant opportunities to drive shareholder value.

Throughout the rest of this presentation I'd like to highlight some of the key actions we're taking and will continue to take to deliver this.

First, we've continued to invest heavily in the drivers of medium-term revenue and profit growth. In all our businesses we remain committed to new product development and innovation. We've introduced a consistent gate-driven approach to new product development
across all our divisions, which is delivering a higher quality new product pipeline and improving the effectiveness of our investment.

We're also stepping up our investment in higher growth markets by expanding our sales and manufacturing capabilities in the Middle East, Asia and South America. As I mentioned earlier, we saw a 14% growth in emerging market sales this year.

Second, there remains further scope to drive operational improvement across all our businesses, although the scale of the opportunity varies by division.

In Smiths Medical and Flex-Tek it is more about a process now of continuous improvement, where benefits will be largely reinvested to accelerate growth. In Smiths Detection we're taking more of a step change to re-engineer the cost base and improve margin.

In John Crane, despite very materially improved performance over the past four years we still see real opportunities to growth this business and further improve profitability over the medium term, albeit with some short-term cost to put in place the necessary enablers.

We'll continue to try and balance efficiency savings between reinvestment to drive future growth, investment to enhance margins and returns and earnings progression. As a listed company, it is a constant balancing act between investments for long-term competitive advantage versus short-term return.

Third, we've set up cross-functional working groups to ensure that innovation, best practice and a consistent approach to processes are shared across all the divisions. Gains in quality control and value engineering are already being seen, particularly in new product development, and we aim to extend the collaboration to other areas, such as sales and marketing.

The objective is simple; to build a set of shared core competencies that can be applied to any new acquisitions as well as to our existing businesses.
Fourth, cash conversion remains an absolute priority. Strong operating cash flows underpin our investment in organic growth drivers and bolt-on acquisitions, as well as allowing us to meet the considerable cash cost of legacy liabilities while still funding a progressive dividend policy.

Fifth, each year we raise the bar in terms of talent in the organization in order to drive these initiatives forward. The team today is stronger than it was this time last year and much stronger than it was two years ago.

We've introduced more rigor and consistent process to assess talent and to put more resources into preparing and monitoring personal development plans.

A new leadership development program for senior managers is now underway to complement the existing scheme for more junior managers. This is an ongoing process, which has already resulted in significant changes in many parts of the business.

Finally, we'll continue to focus on the allocation of capital across the divisions to drive improved returns. There is scope for value-enhancing acquisitions that add complementary technologies, open up new markets and leverage our existing sales and marketing infrastructure. Equally, we will evaluate opportunities to realize value through disposals, subject to market conditions.

Trading conditions in some of our businesses may remain challenging. However, you will see in the next few slides that we're continuing to invest and that there are still many opportunities within our control where we can drive shareholder value and return.

Moving, then, to the individual divisions.

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

Revenue at John Crane rose 9%, driven by strong growth across all sectors, particularly oil and gas. Margins increased 50 basis points to 21.6% and aftermarket revenue, predominantly
from rotating equipment, such as seals and couplings, grew 9%, while sales at John Crane Production Solutions rose 8% on the back of increased activity in US onshore oil and gas production.

Revenue from first-fit original equipment was 9% higher as customers continued to invest in new capital projects. Increased activity, particularly in oil, gas and petrochemicals, was seen globally and we're continuing to invest in targeted OEM projects, despite a highly competitive pricing environment, to ensure a robust pipeline of annuity-style aftermarket revenue.

**SLIDE – JOHN CRANE: INVESTING IN FUTURE GROWTH: NEW PRODUCTS & MARKETS**

Investment in new products rose by 8% as we focus on developing products to meet customer demand in areas such as reduced environmental impact, energy efficiency and condition monitoring. Planned acceleration of this investment strategy is likely to lead to an increase in new product investment by some 15% a year over the next few years within John Crane.

Our continued drive into emerging markets is delivering results with a 14% increase in sales. These faster growth regions now represent over 20% of John Crane revenue and our sales and service network continues to expand to support new customers in these geographies. New service centers have opened in Turkey, Western Australia and Alaska, and the greatly expanded Dubai facility was officially opened in February 2012.

Our product diversification strategy is paying off, with new product lines in hydrodynamic bearings, power transmission couplings and filtration systems delivering underlying growth of 10% this year. And this was augmented by the acquisition of TCE, which enhances our aftermarket offerings for bearings.

**SLIDE – JOHN CRANE: OUTLOOK**

John Crane's order book should support continued sales growth in the first half of fiscal 2013 against the strong comparator period last year. However, the outlook beyond that remains
uncertain, given the economic turbulence in Europe and slowdown in several major economies around the world.

Margins, however, will benefit from ongoing operational efficiency efforts, offset by strategic investment in longer term growth opportunity, such as the expansion of our sales and service network, targeted large projects and an increased footprint in growth market.

SLIDE – SMITHS MEDICAL: DELIVERING SALES GROWTH FROM NEW PRODUCTS AND MARKETS

Turning to Smiths Medical, despite a tough operating environment, Smiths Medical grew revenue by 2%, mainly as a result of successful new product launches and an expanded footprint in emerging markets. The benefits of the higher volumes and operational efficiencies were largely reinvested for growth through expanded sales teams in emerging markets and increased spend on new product development. However, margins still rose to 23.5%.

Sales of safety devices increased 4%, primarily due to the strong performance of safety needles and arterial blood sampling devices. Interest in both safety needles and catheter products remains high in the developed world, and is growing in emerging markets.

Medication delivery sales bounced from a 3% first-half decline to an increase of 4% for the full year, as sales of our CADD-Solis pumps grew strongly. Revenue from infusions systems also showed robust growth, boosted by the launch of the Medfusion 4000 pump, and I think it's fair to say that some of the first-half decline was caused by customers deferring purchases ahead of this launch.

Vital care sales were flat, reflecting sluggish procedure volumes in developed countries, and reimbursement pricing pressure in Japan. On the positive side, our assisted reproduction business posted strong growth, mirrored, to a lesser degree by general anesthesia products and patient monitoring products, as well as some other segments.
As indicated earlier, we're stepping up investment in major growth drivers of Smiths Medical. Our total R&D spend increased 9% to represent 3.9% of sales.

We've had a significant boost from the US launch of Medfusion 4000 in February and the introduction of a CADD-Solis VIP ambulatory pump in Europe. This has helped consolidate our leadership in the syringe and ambulatory pump market.

FDA clearance was gained for our new ViaValve Safety Catheter in North America, while in Europe we have CE clearance for a similar Jelco model.

We've registered multiple safety product ranges in Brazil, China and India, where we are engaging our customers on the benefits of adopting safety devices.

A new range of Graseby pumps, developed in our China facility, has also been successfully launched in targeted emerging markets, where we have added around 250 additional sales heads during the year.

We're already seeing early signs of success from this strategy, with robust sales growth in markets such as China, India and parts of South America.

We believe that developed markets are likely to remain challenging in the short term, as healthcare cost controls and unemployment put pressure on price and on volumes. However, this should be offset by our increased focus on emerging markets, particularly in Asia, which should help contribute to sales growth in 2013 and beyond.

In the US, which represents about half our sales, the medical device excise tax of 2.3% is expected to constrain growth and margins. However, we will seek to offset the impact, primarily through operational improvements and increased focus on higher margin products.
Our R&D pipeline is strong, and we'll seek to drive sales growth through the emerging markets and new product introductions.

**SLIDE – SMITHS DETECTION: IMPROVING SALES TREND; MARGINS BENEFIT FROM RESTRUCTURING**

Turning to Smiths Detection, revenue grew 3% and margins rose 50 basis points to 13.3%. The improvement was driven by a marked second-half recovery in revenue as the Transportation, Critical Infrastructure and Ports and Borders sectors all showed good growth. This more than offset declines in the Military and Emergency Responder sectors.

Transportation sales increased 12%, with new contracts for security equipment at a number of European airports, including Berlin and Vienna, and upgrades to existing scanners, particularly by the TSA in the US.

A greater focus on sales to the Critical Infrastructure sector saw underlying revenue grow an impressive 21%, as a result of higher revenues from Brazil, and a number of freight contracts.

Underlying sales in Ports and Borders grew 7%, thanks to major orders for high-energy cargo scanners from Brazil, India, Azerbaijan and Nigeria.

Sales fell 31% in the Military sector, mainly down to cuts in defense budgets as the number of conflicts involving US and international forces continues to fall.

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

Smiths Detection is committed to driving growth by developing its main technologies, products and systems. Testament to this is a 7% increase in Company-funded spending on new products. In fact this year sees the most product launches in the history of this business.

These include the XCT explosive scanner for hold baggage, which has recently received certification from the EU authority, and this certification opens the product up for sale across
at least 43 countries that rely on ECAC certification. Other key launches are listed on the slide.

We also continue to focus on emerging markets, which, after a 10% sales rise, now account for some 16% of total revenues in Detection. The new production facility for X-ray systems in Johor Bahru, Malaysia, has just opened, and this 100,000 square foot plant will supply its advanced systems directly to what is the world's fastest growing air transport market, and be able to respond quickly to customer requirements in the Asian region.

**SLIDE – SMITHS DETECTION: OUTLOOK**

The current order book is comfortably ahead of that at the same time last year, and is expected to support sales growth in fiscal 2013. But, as I've said many times before, budget constraints may affect the timing and the profile of future sales growth in a division that is heavily exposed to changes in government procurement priorities.

Headline operating margins are expected to continue to benefit from the restructuring initiatives that are underway as part of a performance-improvement plan that I announced last year. An increased focus on servicing the aftermarket should also help support revenue growth in the medium term.

**SLIDE – SMITHS INTERCONNECT: CHALLENGING TRADING ENVIRONMENT AFFECTED MARGINS**

Turning then to Smiths Interconnect, sales grew 3%, largely on the back of a much improved second-half performance, particularly in Microwave. However, this was partially offset by the impact of tough trading conditions in both Connectors and Power. Margins slipped 310 basis points, hit by a combination of unfavorable pricing and mix, and the impact from the acquisition of PDI.

There was significant organizational change during the year with the creation of three distinct business units -- Microwave, Power Management and Connectors -- with strengthened
management teams. This change is not without cost, but the improved talent and focus should lead to enhanced performance in the medium term.

In Connectors, underlying revenue fell 10%, mainly because of a fall in sales to military, general industrial and semiconductor testing customers, and this was partly offset by sales to rail customers, which grew significantly.

The Microwave business performed strongly, with sales up 20%. In wireless telecommunications, despite a difficult environment, we successfully leveraged our technical and commercial capabilities to outperform the market.

Although the defense sector remains weak, the second half showed some improvement as we continued to focus on technologies prioritized by the military, such as unmanned aerial vehicle applications.

The addition of PDI to Power Management more than doubled sales, but, on an underlying basis, they fell 12% because of a strong comparative period and tough market conditions in China.

In addition, we experienced soft demand in the North American wireless telecoms market.

PDI has transformed the existing Power Protection Group with a new range of products and high-growth opportunities, fitting our strategic criteria of adding complementary technologies, and leveraging existing sales networks. It also focuses on higher growth end markets, such as data centers.

Peter outlined some of the challenges we've faced. We believe the market remains attractive, and the Interconnect team is committed to improving the performance of PDI during fiscal ’13. Their action plan includes refocusing the sales force to better leverage existing relationship and to expand into new end markets, and targeted geographies.
Innovation is, again, a key to Interconnect's growth; and the proportion of sales from products or technologies developed in the last three years now totals more than 30%. Company-funded product development rose 9% to GBP23 million. Investment focused on higher growth sectors offering the best returns. And some recent key projects are listed on the slide.

Our increased exposure to faster growing emerging markets was underlined by a 27% increase in revenue, which now represents around 16% of Interconnect’s total sales.

In terms of outlook, despite a positive ratio of orders for sales in the year and a stronger order book, many of our markets do remain challenging. Although we're relatively well placed in key technology sectors, the military market faces a serious headwind. Similarly, this year's growth in wireless telecommunications will provide a tough comparator in an essentially flat market.

The commercial markets of semiconductor test and data centers are expected to be more robust, but will also be hindered by macroeconomic conditions and consumer spending patterns.

Although volumes may decline in some sectors, margins should benefit from prior year restructuring actions and ongoing operational efficiency initiatives.

So finally, to Flex-Tek. Flex-Tek's revenues rose 5%, and margins were up 380 basis points, as a result of the higher volumes and price. The improvements were generated by revenue growth from aerospace components, and the US residential construction market.

Excluding the change in treatment of legal defense costs, profit rose by 18%, highlighting the operational gearing of this division.
In Fluid Management, sales of components to aerospace customers rose 13%, driven by strong demand from major airframe platforms and jet engines.

Construction revenue rose 11%, boosted by gains in market share achieved through cross-selling of ducting flexible piping and heating element product lines to the US distributor market.

Sales at Heat Solutions fell by 9%, pulled down by weakness in the markets for residential heating and air conditioning.

Revenues from Flexible Solutions were flat, reflecting a slight improvement in industrial and medical sectors, offset by continued weakness in the floor-care market.

SLIDE – FLEX-TEK: OUTLOOK

The improved sales rate seen in the second half of the year is expected to continue, and should help us to deliver even better margins. A robust aerospace sales cycle is supporting the order book, and the US housing market appears finally to be showing signs of a revival. We foresee a gradual improvement in the coming year.

There are also signs of a more general improvement in the US economy. The backlog of unsold houses is down, mortgage rates are at a historic low and credit is more widely available; all factors that should work strongly in Flex-Tek's favor.

SLIDE – CONSISTENT PROGRESS IN FINANCIAL METRICS DESPITE TOUGH TRADING CONDITIONS

Returning, then, to the performance and prospects for the Group as a whole. First, let us look at what Smiths Group has achieved in the past four years; a period marked by significant economic uncertainty and trading headwinds.
Headline revenue growth of 4.5%; admittedly helped by internally-funded acquisitions and some currency movement, but in an economic climate hardly conducive to this result.

Operating margin rose 250 basis points, and now stands at 18.2%; a record high, and a reflection of the success of a restructuring and self-help program across all of our divisions.

Cash conversion has greatly improved, averaging at 103% over the period, while return on capital rose 250 basis points to 16.5%; another indication of the consistently delivered improvement seen since August 2009.

Smiths Group has been significantly changed by the actions we've taken to improve performance and drive return. Sales growth has been difficult, but today's results demonstrate that the team can deliver this through increased investment and focus.

To my mind, the market does not reflect this progress in the share price; largely, I believe, due to the impact of legacy liabilities and, in particular, the impact of artificially low bond yields on the legacy defined pension scheme. More than one investor has surprised me over the last six months by remarking that we make an interesting hedge for a bond portfolio. Still, we can live in hope!

**SLIDE – SMITHS GROUP – OPERATIONAL PRIORITIES FOR 2013**

Looking ahead to fiscal 2013, trading conditions are likely, I believe, to remain challenging, given the ongoing pressure on government spending, and the weak state of the global economy.

Our operational focus will remain on accelerating top line growth, whilst continuing to build on the substantial progress we've delivered against the key metrics of margin, cash conversion and return on capital.

Increased and more effective new product development investment has led to a record number of product launches. And we foresee further expansion of new product pipelines across all divisions.
As the mature economies of North America and Europe stagnate, emerging markets now account for a steadily increasing share of our global revenue. And this shift will be supported by greater investment in sales and marketing resources in these faster growing economies.

Optimizing the allocation of capital across our portfolio of businesses remains an opportunity, although one still constrained by our legacy pension liabilities, as governments continue to artificially depress bond yields.

Despite this, we continue actively to scan the horizon for acquisitions or disposals that meet our strategic goals and will enhance shareholder value.

In summary, the operational and structural improvements of the past four years have helped us grow a business, not only fit to weather the current downturn, but also well positioned to deliver future growth to our shareholders.

There remain many opportunities to improve performance further, whilst we invest to accelerate medium-term growth. The second half of fiscal 2012 was significantly stronger than the first and the management team is focused on building on this momentum into the next reporting period.

**SLIDE – QUESTIONS AND ANSWERS**

That concludes the formal part of the presentation. Peter and I, along with the other members of the senior management team, would now be very pleased to take any questions.

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**Philip Bowman - Smiths Group plc - Chief Executive**

And if I could just remind you, if you do wish to ask a question, would you please wait until you receive the microphone from one of the ladies at either end of the room and introduce your question with your name and the company that you represent. Thank you.
Andrew Carter - RBC Capital Markets - Analyst

It's Andrew Carter from RBC. Two questions, please. The first one was, I think a year ago you had talked a little bit about refreshing the divisional sales growth and margin targets. I wondered if there's any update on that, and whether it's something you're still considering?

And the second question was just on the Detection business. And I just wondered if you could perhaps give a bit more information really about the order book, in terms of how much ahead it is year on year.

Also, perhaps discuss a little bit about the geographic split of that order book; and particularly in the euro piece, how much exposure is there within that to the more indebted governments, I guess, where there's some uncertainty.

Philip Bowman - Smiths Group plc - Chief Executive

I'm going to pass the second one on Detection to Mal Maginnis, in a moment, but I would say, we have not quantified the increase in order book. I think I used the words comfortably ahead, and I'm afraid you're going to have to read into that what comfortably ahead means. But Mal will talk about the geographic distribution.

I think in terms of the targets, which we first published about four years ago, we have consistently, I think, said that we will revise those. But we are waiting for a rather more stable economic outlook than we have seen over the last certainly two or three years.

So I think there is still, at the back of my mind, an intention to update those. But, I would have to say, until we have more stable economies, I think it's difficult.

If I give you one example, none of us know, as we stand here today, after the presidential election what the nature of the continuing resolution ultimately will be, but, more importantly, what the fate of sequestration will be.
And against that backdrop, I think putting targets out, particularly for Interconnect and for Detection, is a pretty fraught thing to try and do. So I'm afraid I would ask you to wait a little longer, and if we see a more stable economic outlook then I think we'll come back and revisit that.

Mal, the question on the order book.

Mal Maginnis - Smiths Group plc - President, Smiths Detection

Thank you, Philip. The order book, I'll stay with Philip's answer. I am comfortable with the increase in the order book at this stage. We are a long lead cycle business, so the critical part of our effort over the last 12 months has been to enhance that order book. The positive piece is it's enhanced across the core business, so the Transportation, the Ports and Borders and the Military, the order book is all solid across those areas.

In addition, in our three regions for Europe, America and Asia Pacific/Rest of World, all of the order book is up, which is also a positive issue.

My exposure in the euro part, obviously that's going to be assisted with the establishment of the Malaysian facility and shifting some of our manufacturing outside the eurozone closer to the market, it gives us a more natural hedge.

So at this stage, in summary, I'm extremely comfortable with where we are with the order book. It's been a major part of the sales force effort during the last year and I'm happy with the balance of that, going forward.

Unidentified Audience Member

(inaudible - microphone inaccessible).

Philip Bowman - Smiths Group plc - Chief Executive

I'm going to ask Srini in a moment to respond to the question on the medical device tax in the US.
In terms of pensions, I think we've been pretty consistent in what we've said, that while quantitative easing continues to hold down bond yields, the likelihood of any major changes to the portfolio is heavily constrained. I think the answer to that is pretty clear.

If one looks at the situation, clearly if we were to make a major sale, the trustees would be looking for a slice of that. We could find ourselves in five years' time, if we see a rise in bond yields, where we would have funds in the pension fund, which we couldn't get out. So, from that perspective, I think it is a real constraint. I've said that consistently, and no reason to change that view.

I think if someone came along and offered us a trophy price for a business then that's something we'd clearly -- any public company has to think about. But I think, at the moment, our efforts are better served by continuing to drive growth and operational efficiency out of the existing businesses and strengthen them where we can.

But, as you saw this year, when we got an opportunity, and I have to say we'd been working on Cross Match for a long time to sell that business, we did so, and we have sold some other peripheral businesses during the year. But the pension fund is clearly an impediment.

Srini?

**Srini Seshadri - Smiths Group plc - President, Smiths Medical**

Obviously, the medical device tax, we don't like it. But, having said that, we have plenty of advance notice, so we are doing everything we can to prevent any kind of a wobble. We've got plans.

You know that we've had a pretty well-established value engineering program, so there will be more cost reductions with respect to that. New product introductions are things that we expect to drive positive mix in terms of margin.

And then, from a pricing point of view, we have ratcheted up our efforts across the board with 27,000 SKUs to go for price wherever possible. So should be [swallowable], if that's a word.
Philip Bowman - Smiths Group plc - Chief Executive

I think the only addition I'd make to that is experience suggests that when tax regimes are changed in any market, it leads to a period of some instability, as competitors work out what their strategies are going to be. So I suspect it is going to be a period of a bit of uncertainty in the marketplace.

I think we've prepared for it. I think Srini and his team have prepared for this as well as they possibly can. But nevertheless, if you change the structure of something in the market, it tends to be disruptive.

Rami Myerson - UBS - Analyst

Rami from UBS. Three questions. On Power Holdings, if you can possibly discuss -- not necessarily just Power Holdings, but I'm sure you've done some thoughts on the process of acquisition and what went wrong. And maybe share with us part of the -- what you've learnt from that thought process, given that portfolio management isn't only about selling businesses but also about buying businesses. Question number one.

Question number two would be regarding John Crane. Growth has slowed down into H2 from very, very strong growth in H1. If you could just provide some idea what is aftermarket, what is OE. And, given this deceleration in growth, what gives you confidence that growth will at least be sustained into H1 or could slow down further?

And Medical has had a very, very strong Q4. Growth is mid-single digit, probably above the top of the target range, and is that sustainable as well? Will the product launches be good enough to maintain mid-single digit growth into 2013 or should we expect slightly weaker growth, given the medical device tax?

Philip Bowman - Smiths Group plc - Chief Executive

Okay, I'll take a crack at answering the first question. I'm going to pass the second one, on John Crane, to Tedd and the medical one, I think, has to go to Srini.
If you look back over the last, roughly, five years, we've made around 15 bolt-on acquisitions. We set ourselves a target that, by the time we get to three years of continuous ownership, that we generate a post-tax return of around 12% on those acquisitions. We are pretty close to that in terms of the numbers for the acquisitions we've had for a full three-year period.

So overall, compared with our cost of capital, which is probably around 6.5% post tax, we are generating some significant value out of those acquisitions.

I think in terms of PDI, what I might ask Mark Reckitt, who's sitting here, to comment on in terms of what lessons we've learnt from that and how we might apply those in any other acquisitions. So Mark, if you'd like to pick up on that, that would be great.

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**Mark Reckitt - Smiths Group plc - Group Strategy Director**

Morning, everyone. PDI was an important acquisition for us and we did a lot of due diligence. What we didn't pick up in due diligence was the extent of the market slowdown for data centers.

Data centers is an inherently good market for the long term. If you think about the organizations that use data centers, they're all in growth, but there was a slight slowdown, as Philip said in his presentation, in the US market.

The decline in the alternative energy market, we did predict. We didn't predict quite the extent of that, which turned out to be more of a collapse than a decline.

Both of those markets are important markets for PDI. In the months immediately following completion, our focus immediately goes to making sure that the business comes up to the standards that we would expect for health, safety, environmental, and all the sorts of business process that go with being part of the corporate, as opposed to a private equity-owned group, which it was.

That, I think, detracted from the commercial focus of the leaders of the business, because, obviously, from our point of view, it's important that we put those standards in place quickly. I'm pleased to say
that the management team is now back focusing on the commercial drivers of the business, and, as both Philip and Peter said, the signs of that coming through are good.

Learnings for the future, Rami, we need to try and do better commercial due diligence. But, more importantly, we've got to put more resource into the business immediately after acquisition to support the management that we take on so that they are able to focus on the commercial drivers of the business, as well as improve the standards to the level that we would expect as a corporate. I hope that answers your question.

Philip Bowman - Smiths Group plc - Chief Executive

Mark, thank you very much for that. If you can pass the microphone down to Tedd and he can respond to the question on John Crane.

Tedd Smith - Smiths Group plc - President, Flex-Tek

The back half at Cranes this year was strong, on top of a very strong year the year before, which had been a previous record. So I would like to describe what happened there as just simply strength to strength. Certain Mid East orders did not repeat; that made the comparison more difficult.

On a go-forward basis, our order books are usually three to four months ahead. It looks fine right now until the end of August.

Philip Bowman - Smiths Group plc - Chief Executive

Tedd, thank you. If you could pass the microphone to Srini and he can comment on the rate of growth in quarter 4.

Srini Seshadri - Smiths Group plc - President, Smiths Medical

The rate of growth, of course, was excellent, and I'm just very pleased with the Medical team for having been able to execute a large bunch of hardware orders, implementations, transfers; all of that went very well.
But, as Philip said, it was a tale of two cities between first half, second half, in terms of delays from the first half into half, anticipating the Medfusion 4000.

Having said that, the pipeline for Medfusion 4000 orders is very strong, so we are very confident about that product line, and showing outside which are also new products in production. So I'm feeling pretty good about what fiscal year '13 and '14 should look like from a new product pipeline point of view. Whether that all translates into the heady days of --

Philip Bowman  -  Smiths Group plc  -  Chief Executive

Next question.

Alexander Virgo  -  Berenberg  -  Analyst

Alexander Virgo. A couple of questions, please. On Medical, I wasn't quite clear whether you think you've seen some of the benefits coming through from the investments that you've made there. The strong growth that you've talked about, again, you've referred to delays from H1 into H2, and delivery of those orders.

So just trying to think about when or whether you've seen some of the benefits from the investment in headcount in emerging markets.

On Interconnect, can you give us some idea of the mix of the decline on the defense business in terms of the split between underlying cuts to contracts and the fighting decline, if you like?

And then, lastly, just on the data center point. Is there a structural change going on in the industry with respect to power management and the design of data centers which has driven that softness in the US? And do you think that PDI is positioned well enough to deal with that? Thanks.

Philip Bowman  -  Smiths Group plc  -  Chief Executive

Srini, please.
Srini Seshadri  - Smiths Group plc - President, Smiths Medical

In this year, the emerging markets growth was double digit, so obviously some of the investments that we've made early in the year did pay off, but not all the way through. So more is yet to come and we're pretty confident that we should be maintaining that kind of trajectory going forward in the near future.

Philip Bowman  - Smiths Group plc - Chief Executive

I think it's fair to say, Srini, that a lot of the investment was loaded into the second half of the year, so we would not expect to have seen the full benefit of that by now. Ralph, two questions, please, on Interconnect.

Ralph Phillips  - Smiths Group plc - President, Smiths Interconnect

Okay. First I'll take the mix question. Relative to the second half, we had real strong growth in mill/aero. That wasn't just defense related projects. It was also civil aerospace that mixed in there. And it's really project by project. So you really can't take Interconnect's mix of profitability and look at it on an end-market basis. It really is depending on the individual product or the individual project that we have going at any one time.

We were real happy with the growth in the second half, really driven by five projects within the Microwave space that really drove our profit and our revenue -- our revenue growth and profit growth in the second half. If you recall at H1, we were at a big disadvantage. We were down almost 30% on profit growth year over year.

Relative to data centers, I think the analysis we've been doing relative to PDI in our markets started in the due diligence process and has continued since that time. So we're taking an external view of their markets, talking with those customers, understanding their competitive advantages. We have been reassured by some of the analysis and some of the studies we've done. We feel pretty strong about their markets, about the data center market especially.
Alternative energy, we think, is a little more dependent on government intervention and government fundings. We thought of that. We knew that at the time of the acquisition. It has been hurt maybe a little worse than we anticipated. But, nevertheless, we see strong indications in the data center market, especially in the medium term. And we think they have a good, strong competitive advantage.

**Alex Toms - BofA Merrill Lynch - Analyst**

It's Alex Toms from Bank of America Merrill Lynch. Two questions from me. First of all, can you just talk about why there were the justifications for the changes of management at John Crane and where we are in the process of getting someone in there?

And the second question, on Interconnect. Can you talk about the savings you expect next year? You talked about some restructuring. Thanks.

**Philip Bowman - Smiths Group plc - Chief Executive**

The first question about John Crane, I think, as I said in the presentation, I believe that we still have the opportunity to take this business to another level, despite the progress that has been made.

I talked in the presentation also that we continually, as we strive to move more towards being a world-class company, we raise the bar in terms of talent, and I concluded that it was probably the right time that we had a change in leadership there.

We have been looking both internally and externally, and we will make an announcement over the course of the next few weeks in terms of where we've come down.

Meanwhile, and I think this is particularly important, I think all of you have seen that Tedd and his management team did an incredibly good job at looking at Interconnect, looking at the cost base, looking at opportunities for pricing, and have now moved on into new product development.
There were some fundamental questions I had over John Crane, and Tedd has been working very diligently on that in order to give me some answers on those. And they will be helpful, not only to me but to whoever comes in to run that business next.

So I think that is also part of the process that we're going through at the moment.

Peter, do you want to talk about the Interconnect cost savings, perhaps?

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Peter Turner  -  Smiths Group plc  -  Finance Director

Yes. I think within the year, clearly, as we mentioned at the half year, Ralph and the team have done a good job in taking headcount down. We've taken probably about 5% of the headcount down within Interconnect.

Clearly, we've taken some of those costs above the line in 2012, so we've got the benefit of that not being there as we move into 2013. Overall, we're talking a few million pounds year on year as we move into next year.

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Philip Bowman  -  Smiths Group plc  -  Chief Executive

Next question, please. Yes, Sandy.

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Sandy Morris  -  Jefferies  -  Analyst

I can't recall there being such volatility between the two halves in the different business segments in this Company ever. It's outrageous what's gone on. Specifically, just as a sop to my emotion after a bit of a lecture about semiconductors not being cyclical, what did happen to IDI?

And then I've got a slightly nasty one about asbestos, which is we actually keep making pretty significant progress. I know the trend is ostensibly the same, but we're reducing at the same absolute rate, despite a much lower base of claims outstanding.
And then the rinky-dink one is a bit mischievous, just on the deferred tax. GBP38 million write-down of the deferred tax asset implies, potentially over a number of years, GBP100 million, GBP120 million lower taxable profits in the UK. So unless we're going to stick in a lot more cash to the schemes and are preparing for that, I wouldn't quite understand that.

Philip Bowman  - Smiths Group plc - Chief Executive

Ralph, I think you need to respond to the question on IDI, please.

Ralph Phillips  - Smiths Group plc - President, Smiths Interconnect

Absolutely. I think we talked before about the cyclical part of IDI in the semiconductor business, and, for the most part, in the part that we supply, it's less cyclical because we supply the razor blades in terms of the individual test sockets that they test on. So it's not something that is part of a CapEx investment; it's part of an expense in terms of every part goes through those sockets and they have to replace them after a certain amount of time.

IDI underperformed in the first half, really driven by some supply chain adjustments that came out of the Thai floods. Stabilized in the second half; we actually had a pretty good second within IDI. All three of our business units grew in the second half. Probably the weakest area was in Europe, but all three of our business units grew in the second half.

Philip Bowman  - Smiths Group plc - Chief Executive

Sandy, do you want to follow up?

Sandy Morris  - Jefferies - Analyst

(inaudible - microphone inaccessible).

Ralph Phillips  - Smiths Group plc - President, Smiths Interconnect
You're looking skeptical. All three of the business units, including Connectors, were dramatically -- not dramatically up, but improved in the second half. They didn't dig out of the big hole that we had in the first half.

**Philip Bowman - Smiths Group plc - Chief Executive**

Ralph, thank you for that. Michael, would you like to address asbestos?

**Michael Herlihy - Smiths Group plc - General Counsel**

I think, just to stand back for a moment before coming to your specific question, Sandy, as Peter said, the asbestos experience this year was pretty consistent with that of recent years.

To put a bit more color on that, we actually had somewhat less trial activity than we've had for a few years, but continued to invest in our JCI safe product defense, enhanced experts, enhanced scientific testing, improving our roster of local counsel where we feel we can do that.

So it was, as I say, a relatively peaceable year, but one in which we remained very vigilant.

In terms of the long-term future, if you look at the incidents curve for mesothelioma, which is the key driver, meso cases out of shipyards are forecast to run close down to the bottom of the curve by about 2030, I believe. Other non-construction cases go out to 2040 and so.

The more difficult thing to predict is what actually is going to happen with the litigation, and we do think about that and model that. But I think, for practical purposes, all we can really say is, as we always have done, this litigation is going to be with JCI for a considerable time to come; at least, I would say, another 20 years. And in the shorter term, the picture is pretty much as previously reported.

**Philip Bowman - Smiths Group plc - Chief Executive**

Michael, thank you. Sandy, any follow up on that?
Sandy Morris - Jefferies - Analyst

Well, endless. It's not my favorite subject, by any manner of means. So we shouldn't focus too much on the cases outstanding. There's really quite a substantial downward trend.

Michael Herlihy - Smiths Group plc - General Counsel

No I think it would be a mistake to simply project that line as continuing on down, because I think what will probably happen is that, at some point, what you might call the rubbish cases will disappear quicker. And then the actual rate of litigation won't change as steeply as the number of cases does.

Sandy Morris - Jefferies - Analyst

I hate people who sort of quote me from years back, because I'm always wrong, but, generally speaking, despite more meso cases, we're not losing any more. And the cost of settlement doesn't seem, on average, to be creeping up.

Philip Bowman - Smiths Group plc - Chief Executive

Brilliance of the defense team, Sandy, I would like to say. But, as always, there's a range of factors that go into that.

Recent experience has been not bad, but, as you all know, past performance is no guide to future performance, so we remain very vigilant. The strategy is unchanged. The commitment to the JCI safe product defense is unchanged, and I think, for practical purposes, the outlook as we see it today over the next year or two is unchanged.

Sandy Morris - Jefferies - Analyst

And actually -- sorry, it's not for you, Michael, but thank you very much. But just while I've got this thing, while I think of it, just when we could ask about Flex-Tek and it would all look marvelous, Tedd's off doing something else. And so I'm going to pick on the something else.
Original equipment sales in Crane were pretty flat, particularly if we take filters and bearings into account. The second half revenues on OE look as if we did run out of momentum a bit on seals. I don't know if Tedd's willing to answer to that?

**Philip Bowman - Smiths Group plc - Chief Executive**

I think he is.

**Tedd Smith - Smiths Group plc - President, Flex-Tek**

The mix in the aftermarket in the OE through the whole year was pretty even. The only thing that I saw looking back, for the first and the second halves, if you go to APEC and EMEA, yes they were a little -- relatively they were all stronger, but not as strong as like in the Americas.

But in the cross-selling activities, which are really starting to gain some momentum, I think we saw that that was double digit this year. And so I'm pretty optimistic about that.

**Sandy Morris - Jefferies - Analyst**

(inaudible - microphone inaccessible).

**Tedd Smith - Smiths Group plc - President, Flex-Tek**

Each categorization is captured. I mean, we know which is OE and which is aftermarket. And that mix has not changed, in quite a while.

**Philip Bowman - Smiths Group plc - Chief Executive**

Okay Tedd, thank you for that. Peter, I think deferred tax falls to you.

**Peter Turner - Smiths Group plc - Finance Director**
I think if we're looking at the UK tax position, in essence there are a number of moving pieces. In essence, as you know, we've got a relatively small trading footprint here in the UK now. Clearly we've got the funding costs of the Group, both into the PLC and then funding down through the Group. And then, obviously, we've got the pension cash flows.

I think we're looking at the net balance of all those flows when we're looking at the deferred tax position in the UK, relative to our revenue losses.

As I look at the movement year on year, clearly the biggest change in that is the outlook on pensions. If I roll back the clock 12 months, we were sitting here with an accounting deficit around GBP200 million, and we had the funding going into the SI scheme.

Clearly we also had the contingent payment into the TI scheme of GBP50 million, which we've ended up paying this year. And, obviously, given the movement in bond rates over the year, the GBP16 million a year that's already committed to go into the TI scheme in the current funding plan, now looks more likely that it's required.

And, therefore, when I put those pieces together, I decided it more prudent not to recognize the deferred tax asset that we currently hold in the UK.

Sandy Morris - Jefferies - Analyst

(inaudible - microphone inaccessible).

Peter Turner - Smiths Group plc - Finance Director

The escrow funds are basically a 2020 call, so I think it's a long way to go to make a prediction on that.

Timm Schulz-Melander - JPMorgan - Analyst

It's Timm Schulz-Melander at JPMorgan. Just a sort of longer term question on Detection, and the cycle. Is the right way to think about the Transportation business that it sort of runs on a five- or six-
year upgrade cycle, and that the length of that upgrade takes 12, 18 months? What's the right way to think about this on a cyclical sort of basis?

**Philip Bowman - Smiths Group plc - Chief Executive**

Mal, I think that's one for you.

**Mal Maginnis - Smiths Group plc - President, Smiths Detection**

I think that's a really good question on Transportation. Although at the moment it's somewhat depressed in Transportation, obviously with the economy, but there's no doubt that Transportation continues to grow steadily throughout the longer term.

What we're seeing at the moment is the amount of capital investment that occurred from 2001 up until about now has evened off, obviously in America and parts of Europe. But is continuing quite strongly in the emerging markets, which is where our focus has been.

I would say your cycle is probably a little short. I think most of the Transportation cycles are probably out around the eight-year to 10-year mark. You're going to see a lot more replacement effort in the cycle.

And what we're focusing on at the moment is making sure that the product lines have a long-term sustained growth path, and can be upgraded as they're in place as the incumbency. So you see the recent announcement on XCT; I see that as having a solid 10-year-plus product line potential and an upgrade potential in our current fleets. Thank you.

**Philip Bowman - Smiths Group plc - Chief Executive**

Thanks, Mal. Next question, or have we exhausted the list of questions? Looks to me as though we've come to the end of the road. So thank you, all, very much indeed. Thank you for being here this morning. I hope you found the presentation and the Q&A session useful, and we will see you again in six months' time.