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ANNUAL RESULTS 2014/2015
FULL TRANSCRIPT

SLIDE – ANNUAL RESULTS 2014/15

SLIDE – CAUTIONARY STATEMENT

SLIDE – PHILIP BOWMAN

Ladies and gentlemen, good morning and welcome to the 2015 annual results presentation for Smiths Group. Before I begin, can I ask you to check that your wireless devices are turned off?

Allow me to introduce Rob White who has been Interim CFO covering the transition period between the departure of Peter Turner in April and the arrival of Chris O'Shea as our new Finance Director last Friday. As Chris has only been with us such a short time, he is sitting out this presentation. However for those who don't know him from his time at Vesuvius - Chris, might I ask you to stand up so everyone will recognise you going forward? Thanks Chris.

I would also like to take this opportunity to thank Rob for filling the post so ably over the last five months. Rob will be retiring at the end of the month after some eight years with Smiths and I would ask you to join me in wishing him well. He and I will be happy to answer your questions at the end of the session, assisted by the divisional presidents and senior members of the corporate team seated in the front row.

SLIDE – AGENDA

As usual I will start by giving a brief outline of the results before handing over to Rob to review the financials in greater detail. Each of the divisional presidents will then update you on their results before I chair the question and answer session.

SLIDE – RESULTS OVERVIEW

So now to today's results.

Revenue is down 2% amid challenging conditions in some of our markets with growth in Smiths Medical and Flex-Tek more than offset by declines in the other three divisions. However, headline operating profit increased 1% and margins rose 50 basis points to 17.6%.

Earnings per share rose 5% reflecting the higher operating profit leveraged by lower interest and tax charges.

The Board has recommended a 2% increase in the annual dividend to 41 pence per share. Consistent with our policy on underpinning progressive returns to shareholders, the Board has exercised flexibility in applying the 2.5 times cover guidance to take account of short-term impacts such as foreign exchange that affected the business particularly last year. We expect to rebuild cover over the medium term.

Operating cash conversion remained strong at 95% and return on capital rose 30 basis points 16.0%.

Our restructuring programme, *Fuel for Growth*, is on track to deliver £60m of savings by the end of 2017. We have delivered £33m of annualised savings since its launch two years ago. These savings are earmarked to provide the 'fuel' for investment in growth projects.

We have increased our investment in a cross-divisional initiative designated *Engineered for Growth*. And as I described at the interims, this programme is providing fresh momentum in four key areas: sales & marketing, quality improvement, product innovation and expanding our business presence in China. I will return to these themes later.

Finally, our actions to mitigate the pension liabilities in recent years have reduced the accounting deficit to £108m – it lowest reported level since 2008 – despite the continued low interest rate environment.

SLIDE – DIVISIONAL PERFORMANCE HIGHLIGHTS

So with that brief introduction I will now provide an overview of divisional performance.

The decline in oil price over the past year has done John Crane no favours, but the Division nonetheless delivered a resilient performance which benefited from its focus on aftermarket services. Aftermarket revenues grew 4%. However, the first-fit business continued to soften with the slowdown in customer demand reported by our competitors. Margins held up well, benefiting from product mix and cost controls.

Smiths Medical achieved its strongest revenue growth in almost a decade reflecting an excellent performance in infusion pumps, helped by its track record of innovation and some ongoing competitor disruption. Margins were maintained through higher volumes and cost savings despite increased R&D investment and continued pricing pressure across the industry.

The actions taken over the past 18 months in Smiths Detection have stabilised performance – and provide a platform for future profitable growth. Margins recovered after last year's non-recurring charges and were aided by efficiency gains. Encouragingly, we entered FY2016 with a materially stronger order book for delivery in this financial year and beyond. Profitability should benefit not only from higher revenues but also from further cost savings.

Smiths Interconnect continued to face tough trading due to the phasing of certain programmes and delays in customer spending, particularly in telecoms. We saw strong growth in data centres offset by challenging conditions in test and measurement, and connectors. Margins were under pressure from the lower volumes, further exacerbated by the division's high operational gearing.

Flex-Tek delivered another solid performance with growth in residential construction, specialty heating elements and in hoses for aerospace and automotive applications. Increased investment in growth initiatives slightly constrained margins, as did a change in product mix in the construction business.

SLIDE – SAFETY & ENVIRONMENT: FOCUS ON LEADING INDICATORS TO DRIVE FUTURE IMPROVEMENT

Turning now to our safety and environmental record.

This slide shows just how much we have achieved in delivering improvements in our key safety metrics in recent years. The root causes behind a slight rise in the recordable incident rate last year, primarily in one division, have been identified and are being addressed through a focused programme which is already delivering improvements.

Three years ago we introduced a leading safety activities programme to increase employee engagement and reduce injury risks. Our full year goal was to complete at least of 90% of these activities and you can see that in fact we scored 95%.

In terms of environmental metrics, we have again recorded further improvements in greenhouse gases, water and waste with only energy showing a slight increase. We are targeting a 15% reduction in these by the end of FY18 – except for water usage where the target is 10%. We expect further progress as we continue to rationalise our manufacturing footprint and invest in more energy-efficient plant and processes.

So with that overview, I will now hand over to Rob.

SLIDE – ROB WHITE

Thank you Philip and good morning everyone.

SLIDE – HEADLINE PROFIT PROGRESSION 2014 to 2015

I will begin by looking at the main drivers of the profit progression for the Group as a whole.

Starting with last year's PBT of £445m… we have separated out the one-off effect of the £30m of charges in Smiths Detection last year.

Volume decline caused an adverse movement of £22m, with growth in Smiths Medical and Flex-Tek more than offset by declines in Interconnect, Detection and John Crane.

On price/mix, positive gains in John Crane were partially offset by price pressures in Medical and Detection.

Cost inflation was a £24m headwind, principally driven by employment-related cost increases in our larger divisions.

Operational efficiencies in the year amounted to £15m, which includes procurement and other cost initiatives, partly offset by variable cost inflation. These are part of our Group's ongoing efficiency efforts.

We invested an additional £20m in a combination of increased R&D and sales & marketing initiatives. As planned, these were funded by cost savings from our *Fuel for Growth* programme.

Net foreign exchange was a slight positive. Translational FX almost balanced the weakness in the Euro against the US dollar strength. Transactional FX also netted off at Group level with positive movements in Smiths Detection driven by the Euro and US dollar being broadly offset by continued pressures in Smiths Medical – and, in particular, the depreciation of the Japanese Yen against the US dollar.

Finally, interest was a £7m benefit following the repayment of the 250 million dollar bond in May. I will come back to this later.

As usual, we have included the translation foreign exchange "ready reckoner" on the slide, and the divisional causals are also in the appendix.

SLIDE – GROUP CASH CONVERSION

Turning now to cash conversion… At 95%, it was at the top end of our range, a demonstration of our continued strong track record in this area.

Working capital increased – partly reflecting an inventory build to support some of the manufacturing site moves. This will not necessarily reverse in the coming year as we pursue further site rationalisation projects.

As anticipated, capital expenditure also rose slightly – driven mainly by investments to restructure the business as part of the "*Fuel for Growth*" programme and some growth investment in various divisions.

Capitalised development costs fell as we are now expensing more of our Detection R&D spend than in the past, and the amortisation charge has increased as some of the larger development programmes such as XCT have been completed.

Overall, this is a consistently strong cash performance and cash generation remains a key focus for the Group.

SLIDE – RECONCILATION: HEADLINE OPERATING PROFIT TO STATUTORY PROFIT

I'll now provide some background 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 £49m in the period…

The £38m restructuring charge relates mainly to the *Fuel for Growth* programme. I will give some more detail on this shortly.

There was also a £19m charge associated with the John Crane Inc. asbestos litigation. As we said last year, this has now reverted to the trend of around £20-25m in a typical year. In addition, there has been no material change in our claims experience over the past year.

We also rolled forward our provision for Titeflex litigation for product claims. This amounted to £8m and, like John Crane, is a rolling 10-year discounted provision reviewed every six months.

We had a £14m gain from the changes we made in August last year to the US pension plans.

The ongoing amortisation of acquired intangibles was £33m. And, as we reported at the interim results, we have a £27m goodwill impairment charge for John Crane Production Solutions, the artificial lift business which has suffered from the big drop in oil prices.

SLIDE – FUEL FOR GROWTH – DRIVING EFFICIENCIES TO SUPPORT GROWTH INVESTMENT

Philip mentioned that our *Fuel for Growth* programme is on track and this slide presents the costs and savings by division.

The two columns on the left-hand side set out the costs and annualised savings incurred to date and the expectations for the whole programme are on the right. The overall expectations of savings and costs remain unchanged although we delivered slightly ahead of our original plan this year with £33m of annual savings. The restructuring focuses on three areas: manufacturing footprint optimisation; organisational effectiveness; and the upgrading of information systems. For example, during the year, Smiths Detection and Smiths Medical both closed three sites in North America while Smiths Interconnect continued to consolidate its manufacturing sites in its connectors business.

To date, we have incurred costs of £66m, which have been treated as exceptional.

SLIDE – SUCCESSFUL €600M BOND ISSUE UNDERPINS STRONG FINANCIAL PROFILE

In May we had a successful €600m bond issue with a 1.25% coupon for eight years. This is part of our ongoing refinancing strategy. We used the proceeds to repay the balance on the revolving credit facility following last year's bond refinancing. It also pre-finances the 150m sterling bond due in June 2016.

SLIDE – GUIDANCE – FINANCIAL ITEMS

So, finally looking ahead to the coming year. Here is a summary of some of the key financial items.

We expect the headline tax rate to be in the range of 25.5-26.5% for the year and cash conversion will be between 85 and 95% - slightly below our usual run-rate reflecting our plans to invest more capital to restructure and grow the business.

Philip will be covering the pension contributions later in the presentation.

The interest charge is expected to be somewhere in the mid-50s due to short term carry costs of the new bond and FX. It should fall again in FY17 once we repay the 150m sterling bond in June this year.

I will now hand you back to Philip.

SLIDE – PHILIP BOWMAN

Thank you, Rob.

SLIDE – ENGINEERED FOR GROWTH – PROGRESS UPDATE

At the interim results, I highlighted a new investment programme to accelerate medium-term revenue growth. It is a cross-divisional programme funded from the savings generated by our restructuring.

This initiative is about gaining real momentum in four specific areas: sales & marketing excellence; quality improvement; customer-led innovation; and expansion in China. We are driving cross-divisional collaboration and the sharing of best practice.

We have established a Sales & Marketing Council to improve customer insight, market segmentation and sales pipeline management with a common set of leading indicators.

A newly launched global Sales Academy held four training sessions this year – reaching 170 sales leaders across Europe, the Americas and Asia. Participant feedback has been extremely positive and a further seven courses are scheduled to take place in the coming year.

A cross-divisional Quality Council has been established and we have defined consistent quality metrics and reviewed the sources of quality issues. The divisions have implemented quality improvement plans. Aside from the direct financial benefits to margins, there is of course the equally important long-term benefit of enhanced customer satisfaction.

We have consistently increased spend on new product development over recent years. Our challenge is to generate an appropriate return on the investment and accelerate our speed to market. Another key area is talent development, to ensure we attract, retain and encourage the best engineers. To support this, we have introduced innovation awards to celebrate excellence in three areas: new markets, new process and new technologies.

I have said on a number of occasions that Smiths was slow to enter China – and we still see it as a huge opportunity despite the recent concerns over the economy. We are building our presence there by allowing the divisions to work together more closely in the Chinese market and truly leverage the Group's strengths.

This year we established a corporate office that has begun to provide key local expertise in legal, government affairs and commercial practice for all of the divisions. A newly appointed President of Greater China is providing a focus to co-ordinate and leverage the Group's activities presence and scale.

You will hear some examples of these initiatives in action during the divisional reviews.

Before I hand over to Duncan Gillis to present more analysis of John Crane's performance… I thought we would have a break from the PowerPoint slides to watch a short video which was produced for the senior management conference earlier this year. It showcases the impressive range of global markets we serve and the critical role that Smiths products – most often hidden from view – play in our everyday lives. What we make and do benefits millions of people around the world, every hour and every day.

VIDEO – SMITHS 365 VIDEO

SLIDE – DUNCAN GILLIS

Thank you and good morning.

SLIDE - JOHN CRANE: RESILIENT PERFORMANCE FROM FOCUS ON AFTERMARKET SERVICES

John Crane delivered a solid performance in a challenging market, exemplifying the strength of our business model. Sales growth from aftermarket services were offset by weaker demand from first-fit customers. Underlying revenue fell 2%... and margins were about flat as our cost-saving program mitigated the impact of the decline in first-fit volume. At the end of the year, our order book was robust, only slightly below the previous year's record high.

Similar to last year, our full year operating margins were inflated... this year by about 90 basis points due to some one-time events, so the normalised full year operating margin was 23.9 percent.

Full year underlying aftermarket revenue rose 4%, illustrating the strength of end-customer demand. This part of our business generates more than half of John Crane's revenue and is driven by continuing strong demand for our services as refineries operate at full capacity. Key renewals and new aftermarket service contracts were signed with customers across the diverse mix of processing industries including pulp and paper, chemical, food, and, of course, energy services. Despite the challenging markets, we were able to realize modest price increases in our aftermarket business.

Underlying sales to first-fit customers fell 9% as market pressures caused by the fall in energy prices affected both volume and pricing across most geographies. While we continue to see delays globally in oil and gas projects which have not yet secured funding, John Crane's overall project win-rate is higher than in the previous period, reflecting our concerted effort to expand our installed base.

First-fit sales were also affected by declines in the upstream business due to especially severe conditions in this market, however tight cost controls helped soften the impact on margins.

You will note from the slide that we have re-classified revenues for the upstream energy services business from aftermarket to first-fit. The upstream business demonstrates cyclical characteristics that are more closely aligned with the first-fit business.

SLIDE – JOHN CRANE: A STRONG PLATFORM FOR VALUE CREATION

Emerging markets continued to provide a strong platform for growth, rising 5% on an underlying basis and now representing 24% of sales. The largest increases came from across Latin America, including Mexico, Colombia and Chile. We also saw strong growth in additional countries not included in our definition of emerging markets – our business in Saudi Arabia, for example, grew 10% and this remains a growth market for us along with the broader Persian Gulf area.

We increased investment in innovation by 17%, underlining our commitment to address future market needs through engineered solutions and technology advances. The AURA 220 Gas Seal was introduced, representing the next generation of advanced gas seal technology. Customer trials are underway for our new Predictive Diagnostics System which reduces customers’ costs by predicting their maintenance needs and minimizing operational disruption. We also unveiled an advanced fiberglass sucker rod that increases production, improves load strength and reduces lifting costs.

We continue to strengthen our aftermarket services in strategic locations around the world, and in the past two years have upgraded about 10% of our 230 service centers. Singapore, Dubai, Saudi Arabia, Egypt, Kuwait and the US have all seen centers opened or upgraded.

Constraints on our rotating equipment production, reported last year, have been resolved through increased machining capacity and output in our lower cost factories, resulting in a reduced reliance on higher cost sub-contracted manufacturing.

SLIDE – JOHN CRANE: OPERATING IN SUSTAINED CHALLENGING MARKET CONDITONS

John Crane's strong focus on the aftermarket, which generates 56% of total revenue, should support a continued resilient performance in the current low oil price environment. Our bias towards mid- and downstream applications in oil and gas also helps, with refineries and petrochemical plants running at full capacity because of the low-priced feed stocks.

We also have experience in managing the business through cyclical downturns. We implemented a comprehensive action plan to help reduce the pressure on margins that includes a cost-reduction program to address both overheads and discretionary spend. We are continuing to review additional opportunities for further cost efficiencies.

I'll re-emphasize that pricing has been mixed. Pricing in our aftermarket business was favorable, while our first fit business experienced a negative impact.

We plan to continue investing in growth drivers aligned with our long-term strategy, with a focus on commercial excellence, innovation, and IT infrastructure. We will of course also continue to review commitments based on the market outlook.

While not immune, I believe our robust business model means we remain better placed than many to endure a lower oil price environment.

SLIDE – JOHN CRANE: OUTLOOK

Looking ahead, we expect global energy markets to remain challenging for the coming year, with depressed oil prices and significant market uncertainty. Absent any improvement in conditions, and despite the strength of our order book at year end, revenue is expected to decline further. At this time, we believe it is more probable than not that full year margins will be able to remain in the lower half of our previously disclosed target range.

I will now hand over to Jeff.

Thank you Duncan and good morning.

SLIDE – SMITHS MEDICAL: STRONG GROWTH FROM INNOVATION INVESTMENT IN INFUSION SYSTEMS

I am very pleased to share our results with you today. We delivered strong underlying sales growth, highlighted by robust performance in Infusion Systems, a return to growth in Vital Care, and a stabilisation of our Vascular Access and Specialty Products businesses. As expected, the growth rate slowed in the second half, but was still good at 2%. Margins held firm at almost 20% and headline operating profit rose 2% to £166m on higher volumes and productivity, despite increased R&D investment, adverse price and transactional FX.

Before summarising our performance by segment, you will note that we have now reclassified our revenues into four segments from three, consistent with how we have re-organized into four business units. Prior year financial performance has also been re-classified to allow for direct comparison.

Infusion Systems sales rose 11% on a strong performance in ambulatory infusion, particularly the continued success of our CADD product line, which benefitted from numerous recent-year product introductions, more targeted sales execution and some competitor disruption. The first in a series of new infusion systems launches in China also proved successful.

Vascular access sales were flat with healthy growth in sharps safety and conventional catheters in emerging markets, offset by general softness in developed markets.

Vital Care sales rose 2%, driven by bronchial hygiene and silicon tracheostomy with particularly strong growth in China and India.

Specialty Products sales were flat as growth in in-vitro fertilization and diabetes was offset by weakness in patient monitoring and animal health.

Overall, our performance in FY15 improved over FY14 in each of our four business units and each of our three geographical regions. This is an early indication that our focus on Culture & People, on Strategy, and on improving our Operating Model is leading to better performance.

SLIDE – SMITHS MEDICAL: BUILDING A PLATFORM FOR CONTINUED GROWTH

As I said at the Interims in March, we are starting to build a solid foundation for a more competitive, higher growth, higher margin business. The full year results bear this out.

Investment in new products was up 17% to 5.4% from 4.8% in the prior year. We continue to prioritise product programs that we expect to deliver the strongest returns, developing a more robust and more comprehensive pipeline of new product innovations for the future.

Our vitality index -- sales from products launched in the last three years -- improved to 9% from 7%, mainly reflecting strong sales in ambulatory infusion, but also reflecting the fact that much of the benefit of our increased investment in innovation will materialize in the 2-3 year horizon. Launches during this past year included innovations in our Medfusion 4000 range of syringe pumps; the new Graseby C6 and F6 infusion systems in China, and the single-pack Acapella PEP therapy device to capitalise on global growth opportunities in bronchial hygiene.

In the past year, R&D has been greatly improved. In addition to new leadership, we have invested in our culture and people with a strong focus on prioritization, program discipline and execution, process optimisation and productivity. All have made a positive impact. In turn, we are very excited about the new product pipeline that is building and the innovation offensive that will follow. This should lead to much improved portfolio competitiveness and higher sustainable growth rates in the long run.

Despite challenging conditions, sales in developing markets rose 8%. Our China business reversed its 2014 decline of 7%, achieving 14% growth due in large part to our focus on additional product registrations, new product launches, and improved sales alignment and incentives. India grew 23% as our move to a hybrid sales model continues to deliver strong results.

Our ongoing *Fuel for Growth* restructuring programme is expected to generate £23m of benefits by the end of FY17. This year, we completed the transfer and closure of our Rossendale and Rockland manufacturing facilities as well as our Keene distribution centre. We also closed our US commercial centre in Norwell, consolidating into our new world headquarters and R&D centre in Minneapolis. This facility will bring together numerous functions, particularly Global Product Management, Global Marketing, and Global R&D. This will reinforce and accelerate our innovation and growth agenda by improving collocation, collaboration, and knowledge transfer in the business. We also delivered a 5% improvement in indirect headcount and a 100 basis point improvement in SG&A during the year.

SLIDE – OUTLOOK

Looking ahead, trading conditions in developed markets are likely to stabilise in the medium term, but with on-going challenges from healthcare cost controls and price pressures. We expect to maintain growth in developing markets, where we continue to invest. Infusion Systems should continue to deliver solid returns, although the competitor disruption experienced this year will not continue and growth is expected to moderate toward more normal levels. Lastly, we will continue to pursue improvements in both COGS and SG&A, and while we anticipate improvement in our operating margin, some savings will be re-invested in additional revenue growth drivers.

I will now hand over to Richard.

SLIDE – RICHARD INGRAM

Thank you Jeff and good morning.

SLIDE – SMITHS DETECTION: MARGIN RECOVERY; ACTIONS ARE STABILISING PERFORMANCE

Profitability at Smiths Detection recovered strongly but market conditions remained challenging and helped push down underlining revenue by 7%. A margin rise of 710 basis points stemmed from our programme of restructuring and cost saving initiatives, helped by the absence of last year’s one-off charges. A number of major programmes were also delayed, with a corresponding impact on performance in some of our end markets.

Transportation, which accounts for about half our revenues, fell 5% reflecting the prior year benefit from the large Doha Airport contract. However recent contract wins including Abu Dhabi and London's Heathrow airports helped strengthen the order book for delivery mainly in FY 2016.

Ports and borders declined 34% amid weaker contract activity particularly in EMEA and North America. We did however observe very strong tendering activity in this segment in the last quarter of our fiscal year.

Underlying revenue from military and emergency responders fell 14% as defence budgets remained constrained. However, we continued to win long-term contracts principally from the US Department of Defense, including a $27m order for mobile medical shelters and a $23m option on the existing JCAD chemical agent detector programme.

Critical infrastructure performed well, rising 13% on the back of strong demand from the US and Middle East with New York courts and Saudi government ministries ordering a wide range of X-ray equipment.

SLIDE – SMITHS DETECTION: STRATEGIC INITIATIVES ARE DELIVERING BUSINESS IMPROVEMENTS

Our ongoing business stabilisation plan continues to build momentum. The aftermarket – with a 9% increase - now accounts for more than a third of our overall revenues.

Recent contract wins such as Heathrow and Abu Dhabi are helping to expand our installed base. These orders are increasingly supported by multi-year service agreements, further building our aftermarket and service revenue potential.

We are clearly seeing evidence that our business improvement initiatives are transforming the operations. The cost base has been reduced and stronger management controls are in place – including better programme management and a more rigorous bid evaluation strategy for tenders. This has led us, on occasions, to walk away from tenders where the terms are too onerous. Despite this more cautious approach, we have an expanding order book and a sound platform for growth.

To reduce our global footprint, three North American sites have been closed and our product portfolio is also being streamlined with R&D focused more tightly on a smaller number of potentially more attractive prospects.

Reflecting this, company-funded R&D fell to 5.3% of sales as some major capitalised development programmes, such as XCT, reached their conclusion and moved into production.

The new IONSCAN 600 explosives trace detector is set to extend the success of a system that has enhanced aviation security over the last 15 years. An order for Spanish airports was received last month for almost 300 of the latest IONSCANs. We are also placing a greater focus on software development opportunities. For example, this year we launched Checkpoint.Evo, a software solution that greatly enhances airport inspection and integration capabilities.

SLIDE – SMITHS DETECTION: OUTLOOK

Recent contract wins and the improved order book are expected to deliver increased revenues in the coming year. Headline operating margins should be broadly maintained as the benefits of ongoing cost reduction initiatives are balanced by investment in operational excellence and future revenue growth.

I will now hand over to Roland for Smiths Interconnect.

SLIDE – SMITHS INTERCONNECT: ROLAND CARTER

Thank you Richard and good morning.

SMITHS INTERCONNECT: RESULTS AFFECTED BY TOUGH TRADING CONDITIONS AND ORDER TIMING

Smiths Interconnect's underlying revenue fell 9% mainly due to weaker demand from key customers and programme slowdowns in our major end markets.

Margins came under pressure because of the negative operational gearing effect of the lower volumes and adverse mix as revenue declined in the higher margin sectors.

Looking at our business units - underlying revenue at Connectors fell 4% as defence sales were hit by the prolonged slowdown of the Eurofighter programme and one of our biggest medical customers losing market share and cutting inventories. In semiconductor test, Asian chip manufacturers grew at the expense of our western customers. Commercial aerospace revenues remained stable in spite of reduced demand from a Chinese project, currently in flight testing.

Microwave revenue fell 19% due to dramatic reductions in demand from major customers, only marginally offset by growth in defence as US budgets stabilised. A test and measurement customer cut its volumes of high-performance cable assemblies. And a US telecoms operator slowed network investment. This significantly reduced demand for our wireless telecoms products.

Underlying revenue at Power grew 5% as data centre sales increased on the back of healthy demand, particularly in the US. We won contracts with existing colocation customers, and attracted new enterprise customers in financial services and IT. The power protection markets remained soft, especially in US telecoms - again as customer spending slowed.

SLIDE – SMITHS INTERCONNECT: FOCUSED ON GROWTH INITIATIVES AND EFFICIENCES

Our programme of cost optimisation continues and margins improved the second half because of restructuring and a steady focus on procurement, value engineering and improving operational efficiencies. For example in Connectors, we consolidated our factories and back-office facilities in the Americas.

Company funded R&D was broadly maintained at 5.4% of sales, focused on higher-growth sectors. We launched a new high-speed data connector for aerospace and defence applications. Also we introduced two further semiconductor test sockets to address the emerging wafer testing market.

We made good progress on next-generation airborne satellite communication systems, now entering the initial qualification phase. Investments in data centre products focused on PowerHub2, a new power distribution unit. And a lower rated busway offering for emerging markets.

We continue to increase our investment in emerging markets, particularly China. However, during the period, revenues were impacted reduced demand for cable assemblies. And delays in the aircraft programme mentioned earlier.

SLIDE – INTERCONNECT: OUTLOOK

So, looking to the year ahead, individual programme and customer dynamics are expected to continue to affect demand. Commercial markets, particularly aerospace and data centres, are still looking positive although semi-conductor appear to be slowing. Defence budgets have stabilised. In telecoms, US operator capex is recovering and Australian spend is expected to continue.

Margins should stabilise as restructuring benefits and operational efficiencies outweigh increased investment, pricing pressure, and cost inflation.

Thank you.

I'll now hand over to Tedd.

SLIDE – FLEX-TEK: TEDD SMITH

Thank you Roland and good morning.

SLIDE – FLEX-TEK: GROWTH FROM US CONSTRUCTION & SPECIALTY HEATING; STRONG MARGIN BOOST

Flex-Tek's revenues grew again. The 4% increase was helped by sustained growth in the US home construction market, good demand for specialty heating elements, and a pick-up in demand for aerospace hoses. Despite increased volumes, margins were slightly down because of adverse product mix and higher investment in marketing and product development.

Fluid Management revenues rose 2% on growth in commercial airframe and automotive applications with sales of our 5000 psi hose products particularly strong. We are starting to see new aircraft platforms ramp up production volumes which is beginning to drive demand.

Construction revenue was up 6%, supported by growing demand for HVAC ducting and flexible gas piping products as well as an increase in single family home starts. However, sales of gas piping product slowed in the final quarter reflecting a change in product mix.

Revenues from Heat Solutions rose 8% on the back of increased sales of specialty heating elements with China showing strong growth. This more than offset the flat demand in the appliance sector.

Flexible Solutions saw revenue decline 3% as higher sales in medical hose products and the US industrial market were more than offset by continued weakness in floor care.

SLIDE – FLEX-TEK: INCREASED INVESTMENT IN NEW PRODUCTS AND SALES & MARKETING

Our increased R&D investment – up 13% – is proving highly effective at gaining approvals on products for next-generation airplanes and new heating technologies.

Healthy growth in Fluid Management is generated by demand from quieter, more fuel-efficient aircraft for our light-weight, ultra-strong hoses. Sales opportunities for our specialty heating elements continue to emerge in higher margin markets. Our investment in additional sales and marketing capabilities is effectively complementing the proven strength of the businesses and management.

We also plan to expand our facility in Laconia to support the anticipated growth in aerospace applications. In addition it will deliver efficiencies, support quality improvements, and allow us to enhance our dedicated R&D resource to really drive innovation.

SLIDE – FLEX-TEK: OUTLOOK

Both the underlying demand in the aerospace market and increasing output rates of the primary OEMs continue to be positive indications for the Fluid Management business.

US residential housing numbers are expected to show modest improvement, although higher interest rates and stricter lending practices could hinder anticipated growth rates.

Improved general economic conditions should benefit Heat Solutions and Flexible Solutions growth in specialty applications, as will the continued economic development in China.

I will now hand you back to Philip.

SLIDE – PHILIP BOWMAN - CONCLUSION

Thank you Tedd.

After I had been with Smiths for some three months I recall commenting to the then Chairman, Donald Brydon, that I seemed to have spent most of my time working for the pension fund trustees and Plaintiffs' Bar – rather than our providers of equity. The legacy liabilities of pensions and product liability litigation have constrained the development of the Company over the past eight years – whether by way of a drain on management time, the significant annual cash outflow or by impeding changes to our portfolio of businesses.

Whilst the Plaintiffs' Bar will always be with us, absent meaningful tort reform in the USA, John Crane Inc. and Titeflex Inc. have made enormous strides in managing their legacy product liabilities more proactively and reducing the cash drain to the Company. In this context I would like to thank our General Counsel, Michael Herlihy, for his counsel, wisdom, cynicism and tireless support – without which progress would have been much more limited.

SLIDE – PENSIONS: FROM SURPLUS TO RECORD DEFICIT

Turning to pensions, the Aerospace division represented some 40% of the revenue of Smiths Group in 2007. The subsequent disposal left the remaining 60% of the Company bearing the full burden of the legacy pension liability which was not mitigated as part of the divestment process. The divestment was quickly followed by the financial crisis and the impact of quantitative easing.

Against this backdrop it is worth looking at what has happened to the pension deficit over time.

The red line on this chart shows the accounting deficit which was actually a small surplus in 2007. A combination of historically low discount rates, a fall in equity markets, increased longevity assumptions, among other factors, all contributed to a deterioration in the deficit to a record £620m in 2012.

This was in spite of the substantial cash contributions that we were making at the time. In total, since 2008, we have contributed £750m either directly to the pension schemes or to the SIPS escrow account.

However, alongside these contributions and behind the scenes, we have also been systematically taking actions in conjunction with the trustees to reduce the liabilities and de-risk the assets.

SLIDE – ACTIONS TO ADDRESS PENSION LIABILITIES AND LOWER ACTUARIAL DEFICITS

This next slide summarises these actions.

In 2009, we closed the main UK and US defined benefit pension schemes for future accruals and we reduced the burden from post-retirement healthcare plans.

As a result, we have seen curtailment and past service gains of £91m over the last eight years.

Looking at the actuarial valuations in each of the main schemes…

We have agreed de-risking triggers with the UK pension trustees. For example, the Smiths Industries scheme began an asset de-risking programme in March 2013 where we switched assets to index-linked gilts and agreed a new strategy to allocate assets to diversified investments. The preliminary results of the triennial review for this largest pool of liabilities, though yet to be finalised between Company and Trustees, indicate an actuarial deficit of just over £300m compared to £535m in March 2012. Netting off the current value of the escrow fund, the technical deficit is down to around £150m.

At the more mature TI scheme, the trustees embarked on an annuity buy-in programme in 2008 which took place over four tranches. All pensioners up to the last tranche in September 2013 are insured by these annuities. Since then, there has been further asset de-risking covering new retirees and 40% of the deferred members. The April 2015 actuarial deficit is still under discussion with TI trustees but we expect a significant reduction from the £117m deficit from the 2012 review.

In the US plan, we began to move assets to a 'liability-driven investment' strategy in October 2013. In August last year, we offered a 'cash-out' programme to deferred members. We had a 57% take-up by members and achieved a $170m reduction in liabilities.

After the year-end we contributed a further £32m into the US plan to support to buy-out of liabilities for all 5,600 retirees and reduced liabilities by a further $500m. Overall, funding liabilities for the US plan have fallen over the past year from $900m to around $350m.

SLIDE – ACCOUNTING DEFICIT DECREASED £134M to £108M

All this work behind the scenes has led to an IFRS net deficit of £108m at 31 July, 2015 – well down on the figure at the half year. The improvement was largely driven by asset returns augmented by Company contributions.

The triennial reviews for the two UK schemes are now underway. Based on existing agreements with the trustees, we expect cash contributions for the coming year to increase to around £127m. This is higher than in fiscal 2015 because we have already made a one-off £32m contribution to the US scheme since the year end. However, the final figure will depend on negotiations with the trustees over the next few months.

Given the reduction in IFRS deficit over 2012, the news here is likely to be good rather than bad.

In summary, it has been a long haul in a tough operating environment. It has taken a lot of management time and I would like to recognise our Director of Pensions, Allan Whalley, for his very real contribution. The actuarial deficits for the two UK schemes are showing significant reductions. Just as importantly, the changes we have made in asset/liability management have greatly reduced the Value at Risk – or volatility of the deficit. After eight years, a small actuarial deficit remains, but future cash demands will fall and the deficit is finally no longer a significant constraint to simplifying and focusing the portfolio.

SLIDE – QUESTIONS AND ANSWERS

This is my last results meeting at Smiths Group and I would like to thank the Smiths team and all our various stakeholders for all their support, challenge, encouragement and friendship over the past eight years.

I would like to wish Andy and Chris well as they prepare to lead Smiths into the next phase of its development.

Rob and I, along with other members of the senior management team, will now be pleased to take any questions. In terms of housekeeping, may I just remind you to wait for the microphone and preface your questions with your name and the company you represent?

Once again, thank you for joining us this morning.

QUESTIONS AND ANSWERS

Nick Wilson: Good morning, it's Nick Wilson from Haitong. A couple of questions on John Crane and one on Interconnect, please. On John Crane, you mentioned the order book was below year on year, how much please, or a scale? And do you think it's possible, again, to grow after-market revenues in 2016? And then, just on Interconnect, I want to drill a bit more into the microwave side down 19% and telecoms in particular. Is it a change as we switch more to fibre at the expense of more traditional copper cabling, or is it an impact driven by industry consolidation? I just want to try and work out whether this is more structural or more one-off in terms of individual customer exposure.

Philip Bowman: Thank you for those three questions. Before passing the first two to Duncan, I think I'd just make one overarching observation in terms of John Crane. Clearly what happens in 2016 and beyond depends very much on what happens to the oil price, given the extent of John Crane's exposure to the oil and gas industry. I don't think it's our task here today to try and second-guess what the oil price is going to be, there are an enormous number of experts out there who produce forecasts, most of them have actually proved to be pretty wrong over the last year, and I think from that perspective I would simply say that our crystal ball is still in the repair shop. But against that, which I think is a significant uncertainty, very few predicted the Saudis did what they were going to do, the question of how long they're going to maintain that I think is an interesting question. The damage being done to Russia, to Venezuela, and a number of other countries, is interesting, but the one thing one can't lose sight of, of course, is the Saudi's requirement for cash, despite their very considerable reserves, is significant and is going to become, in my view, a more pressing issue as we go forward. So with that sort of general disclaimer, Duncan, would you like to pick up the specifics please?

Duncan Gillis: Certainly. Nick, the order book was down 4%, or £6 million year on year at constant FX. And in terms of after-market revenue growth, it's going to be tougher for fiscal year 16 than it was in fiscal year 15. One way to think about revenue overall at John Crane is, the last time we had a major downturn was during the global financial crisis, as you all know, and during that period, after we hit the trough, for the one-year period following the trough, the business was down in total 5% on the top-line. The trough – the current trough, I'll say – occurred in January of this year, and so in the first half of our new fiscal year we're still cycling against a stronger comparator. The other thing I'll say is, during the – following the global financial crisis I think, as most of you know, oil prices spiked back up pretty quickly, so depending upon your assumption for what oil prices will do come January of 2016, that 5% number could be quite different. Thank you.

Philip Bowman: Duncan, thank you. Roland, Interconnect and microwave please.

Roland Carter: Thank you, great question, Nick. So, I think last year was a strong comparator, absolutely. Is there a move towards fibre and [inaudible] applications? Yes. Is that going to be dominating the industry over the next few years? No, this is very much part of the cycle of operators filling in frequencies, so I believe that the offering we have is still relevant for that, and we've seen this fickle nature of telecoms before and so it's specific to our customer by customer aspects.

Philip Bowman: I think I would just add to that they're not that many large telecoms operators in the US, and one of them has made a big acquisition and I think that has impacted their capital spending plans significantly over 2015.

Yes, again, second row please?

Andrew Carter: Morning. It's Andrew Carter from RBC and I actually had three on John Crane please and I wondered if you could make a comparison, but perhaps against the late 1990s, because I wonder whether that's a more interesting in comparison to what we saw with the great financial crisis. I realise it's a long time ago, but is there anything you can say about that? I mean, I guess in particular would be interested if you think the business is actually materially different to what it was back then. And the second one was then just in terms of the price down that you alluded to on the OE side with obviously lots of different companies talking about lots of different levels of price down, some of the thing quite small, but some have been very, very large. Could you give us an idea as to which end of the scale John Crane has experienced any OE? And then, just finally – just I guess for my records, could you remind just what you said about the difference in margin between the OE and the aftermarket revenue in John Crane.

Philip Bowman: Okay, Duncan, please?

Duncan Gillis: In the late 1990s, I was a consultant at McKinsey and Company in Pittsburgh, Pennsylvania, so I can't really tell you a whole lot about how the business has changed. I am sorry about that and that's why we go back to the last financial crisis. That's where most of the institutional memory is. Andrew, in terms of our first-fit pricing, our OE pricing, it is very competitive out there and as we talked before, you know, building our installed base provides an annuity stream for the future and so we are making selective investments, some of those are price investments in order to secure that revenue stream for the future, and we will take a look as the year progresses in terms of what additional investments we make that would really impact fiscal year '17, but it is quite competitive.

The third question was around?

Andrew Carter: Aftermarket margin?

Duncan Gillis: I don't think we've ever disclosed OE and aftermarket margins and we don't do that for competitive reasons as you can imagine.

Philip Bowman: Thank you, Duncan.

Duncan Gillis: You are welcome.

Philip Bowman: Next one along in the second row. It seems to be hotbed of questioning.

Alex Virgo: Alex Virgo, Nomura. Another John Crane, I am afraid. So, I just wanted to ask a couple of questions, maybe just as more clarification than anything else. I think at the interims you mentioned some concerns around customer behaviour on schedule maintenance. You made a reference to refineries running at full capacity and I am just wondering what you are seeing in terms of customer behaviour, whether you can comment on maintenance schedules and the impact of that obviously has in the context of your comment on aftermarket. The second question related to that. You made a point of positive price on aftermarket and I am wondering whether that is in reference to the year we've just had or in reference to negotiations for coming years. So, are you getting positive price on your aftermarket business for the coming year? I understand you had negotiations on that business over the summer so if you could clarify that that would be very helpful. And then, just whether you can add a little bit of regional colour to the year, what's happening? Thank you.

Duncan Gillis: So, the answer Alex to your first question requires regional colour anyways. So, we are seeing different behaviours in different parts of the world. In the US, we are not seeing – and for the Americas we are not seeing a lot of deferrals of maintenance, but what we are seeing are deferrals of refinery and petrochemical facility expansion for the capitals not going into expand the capacity. On the – in the Middle East and Asia we are seeing some of those deferrals – more of those deferrals as customers choose to select the assets and really run to failure in some cases in order to take advantage of the spreads.

Your second question was around the aftermarket, correct, and the pricing. So, here's the back-story. Last year, we made a decision in May of 2014 to take a large price increase, reflective of cost increases that we are seeing primarily around our labour, and we announced that in May to our customers and it was effective in August and that was prior to any significant downturn in crude oil prices, so we were able to realise pretty good price increases this year it's much tougher and we are seeing – we have asked for much smaller price increases. Some of those are going through, some of those we are trading off higher volume commitment for holding pricing. That's as a way to think about that.

And then in terms of additional colour around the world beyond what I said earlier, I would say that the US business had held up quite well last year. Most of Latin America, as I said held up quite well with the exception of one large country where their national oil company had some other problems. The business in Europe was stable in the aftermarket. The business in Middle East and much of Asia was quite attractive last year, okay.

Philip Bowman: Thank you, Duncan. At the moment there is no sign of any further questions, so you may be able to sit down. Someone, yes, repeat.

Alex Virgo: Alex Virgo, Nomura. This one is actually not for Duncan. Couple of questions just on visibility in terms of both Interconnect and Medical; on Interconnect, I hear what you are saying on telecoms, perhaps a comment on the data centre market, actually, given your comments there about positive momentum. And then on Medical, I just wonder whether you can quantify the comments on pricing pressure, and then where should we – which areas of the business should we expect to see the growth pick up on next year if we are expecting to see a moderation and infusion? Thank you.

Philip Bowman: Okay, thank you for those two. Roland, please, data centres.

Roland Carter: Thank you. Thanks, Alex. Data centres, we are seeing continued strong demand in data centres, especially in North America where our major sales are, so we anticipate that should continue. There’s obviously some challenges with the DOE 2016 regulations that we will be coming through on transformers, but we believe we are well placed to deal with those challenges compared to the competition.

Philip Bowman: Thank you Roland. Jeff?

Jeff McCaulley: Price, we've seen pretty persistently about 100 to 150 basis point price pressure in the business and we expect that to continue for the foreseeable future. You know, we do expect that is the new product pipeline really starts to kick in more or so in FY'17 than FY'16, then we will have some positive mix benefits, so longer term we expected an improving price mix outlook, but we won't see much of that in FY'16. We will see very much the same price pressure that we've been seeing. Relative to the outlook on revenues, you know, we will see the ambulatory infusion hardware line begin to decline, but the good news is we will see a favourable offset in the disposables line. The installed base now is much larger as a result of the success that we've had in the hardware sales and the campaign that we ran over the past couple of years. So, we will expect ambulatory infusion to come down a little. That won't be fully recovered by disposals. What we talked about last year was getting stronger in infusion, starting to grow vital care after stabilising at the prior year and stabilising vascular and that's pretty much of what we did this year. We were strong in infusion. We saw growth in the vital care. We expect that to continue pretty much at the same rate.

We stabilised vascular, but that's really the business we need to start growing, so that's going to be the real focuses here and really be a bit of determinant on how much growth we can deliver overall. I think our range of 03 is still the right range if you look at where the trajectory of the business is and where we are in that range depends a lot about our execution in vascular access and where ultimately we see the continued success in infusion systems.

Alex Virgo: Great.

Philip Bowman: Thanks Jeff. Yes, middle towards the back.

Chris Dyett: Chris Dyett from Investec. I have two questions, please. Firstly, on Medical. Well, obviously people are probably aware of the kind of consolidation within the industry and obviously you made comment about having some benefit in 2015 year and they got together and try to kind of workout where they're going. So, it's two questions; firstly, could you quantify in some kind of form what the benefit was in 2015 you feel? And so secondly, do you feel you're in position to really compete over the medium term given the relative scale of the business compared to the kind of 833 now kind of 800lb kind of gorillas that you face in your market? Second question around John Crane, I see that you don't need a headcount when it's up 500 people. Maybe you could give us an idea of what you're doing in terms of headcounts over the next few months given the kind of deteriorating conditions in the market over the last six?

Philip Bowman: Okay, thank you those. Jeff, do you want to go first?

Jeff McCaulley: So in terms of any benefit of market consolidation, certainly when big companies consolidate you can expect some disruption that's really not the disruption that we've seen in the market over the past couple of years; it's really been more quality driven and some of the quality challenges that our competitors have had. So, I'm not sure we've seen much benefit from consolidation, but certainly, going forward, it's something we have to keep an eye on the other side.

I’m still not a big believer that breadth is that important in healthcare. I think what’s most important is that you deeply understand your customer; their workflow, their clinical needs and you’re the best innovator in their space and that’s very much our agenda as a company and I think that’s why we’ll continue to improve the competitiveness of our business. Certainly, we have to understand the scale of our competitors as they get larger and continue to focus on our own cost structure and we’ve got significant programmes in place to do that with our focus on COGS and SG&A.

So, that’s really, you know, our view of how to continue to keep Smiths Medical strong in a market place where others are looking at consolidation. Certainly, we’re looking at bolt on opportunities ourselves to strengthen our portfolio, so we would expect that to be a part of our offence, going forward.

Chris Dyett: Yeah, thank you.

Philip Bowman: Duncan, headcount in John Crane.

Duncan Gillis: Headcount. Headcount is currently at the lowest point it’s been at over the past four to five years, at the end of August, and we’re relying more upon attrition and managing it through attrition rather than the large scale restructuring that you see announced from some of our competitors and customers.

Chris Dyett: Thank you.

Philip Bowman: Go ahead in the second row, please.

Andrew Carter: Yes, Andrew Carter from RBC again. I had a couple – just quick ones on John Crane. Just in terms of – so customer inventories, could you just talk through whether any customers do choose to hold inventories? And, if that's the case, how bigger an impact could [inaudible] stocking actually be there? And the second one I think, the interim stage I think you talked a little bit about pipelines being reasonably active, and I wonder if you could give a bit of an update on that, maybe there's been some change there? And then the final one – I guess this is going to be slightly difficult to answer, but obviously there's a bit of pressure on the diesel industry over the last couple of days, and I was just wondering, you know, you have seen a couple of share prices seemed to have moved on it but I mean I was wondering whether the move from petrol to diesel, has that possibly been a benefit to John Crane in recent years, and do you think that, you know, it could kind of go the other way?

Philip Bowman: Okay.

Duncan Gillis: There are two types of customer inventories. One is the spares that our customers hold in the event that they have a problem with the CO, and there's no change in that; they've got to hold those spares; either we hold them or they hold them but they got to be held otherwise the site stops operating. The other type of inventory is through that part of our business that goes through distributors. It's a very small part of our business and we're not seeing any changes in stocking levels there. Pipelines, I think last time we spoke I talked about pipelines and gas lines primarily in the United States and they continue to be built out. The main trunks are now done, so it's a lot of the branches going off, but the trunks is still pretty good business – quite good business, and I haven't seen many changes there. In terms of gas to diesel doesn't really have an impact on our business and so I don't expect it's going to matter either way for us as long as there is something – is to keep the engines running.

Philip Bowman: Thank you, Duncan. Yes.

Glen Liddy: Good morning, it's Glenn Liddy from JPMorgan Cazenove. On the medical business, can you give us an update on what progress is being made in China? And, secondly, the R&D spending have been improving and it's delivering the organic growth. How lumpy is the new launch pipeline and do you have a target for your vitality index?

Jeff McCaulley: So, Glenn starting with China. We talked last year that we didn't have a very good year, we declined 7%; we had focused on a number of things – to turn that around we actually put a 7 point strategy in place, but the heart of that strategy was to get important new registrations through the registration process to begin to launch the first series in a series of new product introductions in infusion, and also to focus on improving our sales and marketing effectiveness. In part through additional distributor channels that would allow us to access different tiers of the Chinese market, as well as improving our own sales alignment and incentives. And we saw great improvement through the year delivering 14% growth. Some of that is clearly, you know, helped by a weaker comparator, but I think we really are in a much better place in China now and should continue to see strong growth in China.

Clearly, the China market is slowing. Most medical device companies now are talking growth more in the 8 to 10% range, so what we'll see where China ultimately goes in the long run, but we feel better about what we're doing in China today, there's still more work to do for us to be as large as we think we can be in China. Relative to the pipeline, as you know, we had taken investment back quite a bit. We began to accelerate that two or three years ago. Most of that went into infusion, in the past couple of years greatly accelerated our investment. Some of that continues in infusion, but now it starts to go more broadly across the portfolio, most of that is going to be seen really in FY'17, you'll see some product launches in FY'16, there were some smaller launches in FY'15, you'll see some launches in FY'16; our wireless version of our CADD is an important launch, we'll finish our interoperability platform in the US, which is very important for our hospital-based products.

We'll launch a new disposable pump in the US which is a really important market segment for us that we've not played in the past. We'll start to launch a series of our next generation tracheostomy systems. But it's kind of the [inaudible] and you'll see more in FY'17 and I think by the middle of FY'17, you'll start to see a better cadence – a step function improvement and the cadence of new product development coming out of the medical business. And that's when I think we'll start to have a material impact on our vitality index. We're not at all satisfied with nine; we've talked about 15 to 20, I think we talked about that last year in a bit of banter with Sandy. So, I think that's probably the number we're more interested in; it's something that looks more like 15 to 20% vitality in the business.

Glen Liddy: The aftermarkets growing, is it because of the ageing installed base or is it the sophistication of the new products or your own endeavours to just get people to pay?

Philip Bowman: Richard?

Richard Ingram: I mean a simple answer would be to say all of the above. I think if you look at our installed base and there's still a major variation between our best customers where we exploit the most aftermarket revenue and other channels where we don't; which enables us to believe that we can continue to grow that piece of the business faster than the rest of the business. There's a significant installed base which we believe will come up for renewal and, as it does, we will aim to attach aftermarket revenue contracts to that in order to sustain the performance.

So, you know, I think we've done a better job of marketing in certain markets, but there's still more opportunity in areas which are relatively undeveloped, particularly in Asia-Pacific where we tend to go to markets through distributors, so we don't always yet access the aftermarket.

Robert Davies: Morning, Robert Davies from Morgan Stanley. I just had three questions, if I could? First one just around oil and gas and maybe you can give us an update on some of the current you see since the end of July. Obviously some of your counterparts have had fairly tough trading even in the last four to six weeks. I'll be quite interested to see if you've seen any big changes recently? Second one is around the growth targets you originally set out of 4% to 6% for that business. How do you think about those targets in the low oil price environment, if we're lower for longer as we head into 2017 and beyond? And then finally you mentioned around the portfolio changes and potential M&A. Where's the sort of balance in terms of the thought process right now in terms of changing the portfolio? Is there any part to your business you'd see as non-core or there's anything that's missing right now that you would like to add? Thanks.

Philip Bowman: Duncan, do you want to talk about the two questions on John Crane?

Duncan Gillis: I guess, and three weeks into September is a tough way for us to get a read because, you know, July/August kind of gets all mixed together. Sometimes some of the August shipments get shipped in July as you get near the end of the year, and then you've got, you know, holiday in much Europe and parts of the US as well. So, little bit difficult – I would say, September through three weeks is looking challenging and so if I take a look at the sort of quarterly trajectory Q1 calendar year '15, Q2 calendar year '15, Q3. It's certainly becoming more challenging as we go forward.

On the growth targets. You know, as I said, the markets are very unpredictable, very difficult to sort of look out without having a sort of view on oil prices and so it's a little hard for us to say right now where we'll be relative to those growth targets overtime without making a lot of assumptions around oil prices which I know – and no matter what assumption I make I do know it will be wrong, I just don't know which direction it will be wrong.

Philip Bowman: Okay, thanks for that. I think in terms of portfolio, I mean the message I was really trying to land today is that I think we have finally got to the end of a process where we are freed from a lot of the constraints that have impeded change over the last few years. In terms of where we're going to invest or what the changes are I think it would be invidious of me to comment given the change of management team. Therefore, I would suggest that you hold yourself patiently to ask Andy and Chris when you're back here in six months' time.

Philip Bowman: Second row.

Michael Blogg: Good morning. Michael Blogg from Investec. Just one financial question with spot rates where they are; currency rates that is. What's the outlook for headwind/tailwind in the coming year, please?

Rob White: Since the year end we've seen the dollar strengthen slightly, we've seen the euro weaken slightly. Frankly, the net effect on our norms is probably pretty balanced, wouldn't really see much of the net headwind or tailwind at this time.

Sandy Morris: Top of the morning. Just a few wee things. Just while we're on that one, you have far more cash flow hedging this year than you had in prior years; so something's going on in terms of your trade flows and we did have this hiccup obviously with exporting to Japan without any hedging. So we have that transaction exposure, where are we now in all of that, please?

Rob White: You're correct, we do – we're cutting significantly more cash flow hedging and, yes, in some sense it's a reaction to what we've seen in the past. As we know we've got a couple of our businesses are particularly highly integrated which means that they manufacture in large centres and, you know, in one part of the world or another and export to other areas; the medical division is one of those and it tends to be a net exporter from the US to the rest of the world and to Japan and that business has struggled with the depreciation in the Japanese yen impacting its transactional FX performance.

This year; over the past year, we have gradually increased our hedging on transactional cash flows with the aim of mitigating the short- to medium-term impact of those sort of FX movements.

Philip Bowman: Hedging maybe defers the inevitable. You know, what one needs to do is to change the flow of goods. We have done lot of work over the last few years. If you compare detection today with detections seven or eight years ago where everything was manufactured in euroland and then sent to the four corners of the earth. We now manufacture in the US, we manufacture in Asia and we still manufacture some in Europe, and the structural currency imbalances have been significantly reduced. So, if you look at medical; the major challenge in medical came from manufacturing in US – as Rob said, selling into Japan – a way of resolving that is of course to manufacture in Japan.

On the other hand, I think you can understand that we're not going to do that. What we've done is we've extended the period, we're hedging those flows from around six months to twelve months, but ultimately you defer what is going to happen, you don't eliminate it.

Sandy Morris: It was quite a headwind.

Philip Bowman: It was a big headwind. Yeah, it was a big devaluation and I suspect that a lot of people don't recognise the scale of our Japanese business.

Sandy Morris: Right, thanks. And Duncan needn't stand up for this because it's just more, you know, big picture stuff. You see the history with Crane was always – it made commodities dark, so we went off market; we did this, we did that and the story to me – if the product portfolio first bit is right, never mind artificial lift, you know, we can't surrender first market share because we then – as you were kind of saying build up an issue for the future. So, we got a stand there and slug it out I suppose is my simplistic approach. Even if we take a bit of pain, we don't want to have that option now; it's different today in Crane to 80s, 90s and early 2000s, no?

Philip Bowman: I don't think there would be any difference of opinion, Sandy. I think we've been slugging it out with more enthusiasm with the best of them over the course of the last three or four years, certainly from when I joined the company. And I think it's absolutely crucial that we maintain our installed base in our market share. I mean, that's where the future revenue comes from and that's very much what we have been doing and I think it's fair to say we have succeeded in growing our market share in most countries over the last five years.

Sandy Morris: So protecting a few million in profit this year is going to cost 10 times that in the future years.

Philip Bowman: I would simply say that this is a debate that has been had a number of times at the Board and the Board is supportive of investing for the future.

Sandy Morris: And then a simple one, when medical knows – and moving all your sales by market randomly right at the end here really unfair. What's in speciality? Is that things like level 1 and all the rest of it?

Jeff McCaulley: No, It's really those things that don't fit nice and neatly, clinically, so in infusion it's a very sensible grouping of products. In vital care it's predominately airway management and temperature management and then vascular access; are the vascular access devices, so what's left? What's left is our in vitro fertilisation, the Wallace product line, our veterinary medicine line; basically BCI, our emergency medicine line, which is our new pack product line, and then our patient monitoring product line.

Sandy Morris: And I'm not trying to sort of pre-empt you because I understand that sort of thing comes through sort of quickly. But when we're doing this fatality index thing and we had so much fun with months ago. But what we seem to have achieved and what we were describing as safety, for example, because it's difficult – I know you've re-categorised and I've got FX washing in and out, but it looks like we have arrested a sort of two/three year decline which is encouraging, no?

Jeff McCaulley: Yes, so I think the good news in the performance of the business last year is that we did see improvements in every one of the lines of business. Whether, you know, you look at last year's segmentation or this year's segmentation, the story is still the same: every region got better. China got better from a negative client to a much more positive rate; vascular access went from declines to being stabilised. Most of the speciality products went from declines to stabilised and in vitro fertilisation actually grew very nicely and certainly vital care went from two years ago, declining last year stabilised or three years ago. I guess now we should say declining two years stabilised this past year, growing, and we expect to see that continue to grow. So, I think there is a – you know, a fundamental improvement in the business. We're still not where we need to be, we're still slightly underperforming our markets. So, I think there's still opportunity for Medical to be even better and that's really the journey we're on as a company, but thank you for noticing.

Philip Bowman: Any other questions? If not, we'll close the session here. Thank you all very much for joining us this morning. That's it.