

PRELIMINARY RESULTS 2008/09

FULL TRANSCRIPT

SLIDE – PRELIMINARY RESULTS 2008/09

SLIDE – CAUTIONARY STATEMENT

SLIDE – PHILIP BOWMAN

PHILIP BOWMAN:

Good morning and welcome to the preliminary results presentation for Smiths Group. I am joined by John Langston, our Finance Director. The divisional general managers and some of the corporate functional heads who will join John and me in answering your questions at the end of the presentation are seated in the front row.

To avoid interference with the sound system, can I ask you to check that your mobile phones and blackberries are turned off?

I will start by giving a brief overview of the results and some of the key achievements before John goes through the detailed financials. Later I will review progress in each of the divisions over the past 12 months and then set out priorities for the current year.

Let's now turn to today's results.

SLIDE – BUSINESS HIGHLIGHTS

Since we announced our results last September, financial and economic markets have suffered a severe crisis. Nonetheless, I believe Smiths Group has made solid progress over the year. This reflects, in part, the nature of our portfolio with its broad exposure to different geographies and to markets which are relatively defensive. But it is also down to the significant action we have taken to restructure and to drive out costs while continuing to invest in growth opportunities for when markets improve.

Our reported sales increased by 15%, driven by recent acquisitions and currency translation. On an underlying basis, sales fell by 7%. The declines were across all divisions although the main contributor was Detection where, as previously guided, order flow weakened in ports and borders as contract tenders were delayed.

Headline operating profit increased by 10%, while on an underlying basis, it declined by 13%. John will explain why in his remarks.

A sharper focus on working capital management, particularly inventories and debtors, has delivered a significant improvement in cash generation. Free cash flow increased by £165m to £256m over the year.

We have also taken decisive action to cut pension liabilities, leading to a reduced deficit of £339m – some £125m lower than at the half year.

In line with our policy to rebuild dividend cover to 2.5 times, the Board has recommended an unchanged annual dividend of 34 pence per ordinary share. This also reflects opportunities we see to invest in our businesses and generate value from such investment for our shareholders.

SLIDE – OPPORTUNITIES TO CREATE VALUE – KEY ACHIEVEMENTS

Last September, I set out the priorities for this year in terms of operational improvements and actions to drive Smiths forward. We have made good progress against them and they are summarised here.

- The restructuring initiatives are already delivering savings. The HQ rationalisation has been completed and the divisional programmes are well underway with £17m of savings to date. Excluding acquisitions, overall headcount has reduced by some 6%;
- Our data and information flow is improving as our investment in new business systems begins to provide a common data platform;
- Armed with better data, we have been able to leverage the Group's scale through a new procurement initiative. This delivered £9m of savings in the year and is expected to deliver a further £11m next year;
- The portfolio profitability review of Smiths Medical will have removed some 3,000 SKUs by the end of next month and our exit from the diabetes business is going smoothly;
- We have extended our portfolio and presence through three acquisitions, with two in China;

- Our investment in R&D has increased by 3%, at constant currency, to support new product launches and underpin future growth;
- As I just mentioned, we have taken action to reduce our exposure to post-retirement liabilities;
- At the same time we have significantly improved free cash flow and strengthened the Group's financing through the issue of US\$675m of additional long-term debt, thereby also extending our maturity profile.

Before I hand over to John, I thought I would take a moment to look at our safety record. As you know, we have been very focused on operational improvements, one aspect of which is our safety performance.

SLIDE - SAFETY

Maintaining a safe working environment should be paramount within any company and, while our focus on delivering continued improvements is paying off, there is always scope to do better. Recordable and lost time incident rates have fallen steadily over recent years, and when I joined Smiths I recognised that there were further opportunities to tighten our approach and further raise safety management up the agenda. Quite literally in fact, because meetings of the Board, the Divisional boards and the quarterly business review I conduct around the group now all review health and safety and environmental performance – generally at the beginning of the day's agenda. Our attention has also moved sharply to managing the root cause of incidents which helps prevent them.

With that brief introduction I'll hand over to John...

JOHN LANGSTON:

Thank you Philip and good morning

SLIDE – PRELIMINARY RESULTS 2009

Let me start by reviewing some of the key financial numbers for the Group for 2009. Sales at nearly £2.7bn were 15% up on the prior year. The increase came from currency translation

benefits of £449m and the incremental benefit from acquisitions of £75m. On an underlying basis, sales were 7% down.

Headline operating profit at £418m was 10% up on 2008 benefiting from £77m of currency translation and £20m from the incremental impact of acquisitions. The **underlying** headline operating profit was 13% down, driven largely by a shortfall in Detection.

The operating margin at 15.7% was 70 basis points lower than the prior year.

Headline pre tax profit of £371m was lower than last year on both an underlying and a reported basis despite the benefits from currency translation. The main impact is the significantly reduced pension finance credit, which you will recall I referred to at last year's results presentation. This change alone reduced pre tax profits by £37m. The balance is higher interest cost on debt following the refinancing in May.

The headline tax rate was 24%, with headline earnings per share of 72.4p compared to last year's 74.5p.

For the current year, the expectation is for a headline tax rate of around 25%.

Also disclosed on the slide are the statutory numbers which take account of the items we exclude from headline measures. I will deal with these separately in a few moments but they net out to zero such that the statutory pre tax profit and headline pre tax profit are the same.

The strong free cash flow is a result of working capital efforts across all divisions, but especially Medical.

SLIDE – PROFIT PROGRESS 2008-09

Looking at the profit progression between the two years, you can see that, as was the case at the interims, volume declines in a number of divisions - reduced profits by £90m with Detection accounting for over half of this. Operational efficiencies generated a net benefit of £15m, driven by savings from the restructuring projects and the procurement programme, offset by labour economics. Even in recession we have been able to achieve some price improvements mainly in John Crane and the price benefits added £18m to the pre tax profits. The incremental benefit from acquisitions was £10m. At the pre-tax level exchange translation provided a £73m boost to the reported profits before the increasing financing costs reduced the numbers to £371m.

During the year the US \$ strengthened 21% and the Euro strengthened 14%. Let me remind you that a one cent move in the US\$ has an effect on profit of just over £1.5m; the Euro has an impact of just under £1m for every cent movement.

I'd now like to move on to look at the performance in each Division. Philip will provide more colour on the market sector details as part of his operational review.

SLIDE – SMITHS DETECTION: AFFECTED BY VARIABLE ORDER FLOW

Starting with Detection, as you can see, it had a challenging year. Reported sales fell 2% to £501m and, at £63m, headline operating profit was 32% behind last year. The operating margin fell to 12.6%, which is a reflection of the decline in sales volume and the consequent under recovery of factory overheads due to lower activity levels. The main driver of the volume shortfall was the delay in contracts for ports and borders. The £30m reduction in headline operating profit was largely a result of volume reduction, which cost £47m.

Improved contract mix balanced out with cost inflation and there was a £17m gain from foreign exchange translation.

SLIDE – JOHN CRANE: DELIVERING IMPROVED MARGINS

Turning now to John Crane, results show sales 26% higher at £790m and headline operating profit 38% higher at £143m. The margin continued to improve and is now at 18.1% - 150 basis points ahead of the prior year. Headline operating profit increased by £39m. The effect of volume was to reduce profits by £10m. This volume decline began in H2 as the full impact of global recession was felt. Price increases accounted for £15m; cost savings £6m and acquisitions £14m. Finally, there was a foreign exchange translation benefit of £16m.

SLIDE – SMITHS MEDICAL: MOMENTUM IMPROVING

Smiths Medical saw reported sales 19% higher at £834m and headline operating profit 17% higher at £164m. The operating margin was 19.7%, just slightly below the prior year.

Underlying sales were down 2%, with half of this being accounted for by the decision to exit the diabetes market announced in March. The balance reflected lower hardware sales as hospital capital budgets adjusted to reflect the current economic times.

Headline operating profit increased by £24m. Currency translation benefit was £27m; acquisition benefit was £4m with price and operational efficiencies at £7m. Offsetting this was the adverse impact of the lower volume.

SLIDE – SMITHS INTERCONNECT: GOOD GROWTH FROM MILITARY

Smiths Interconnect sales at £318m are 22% higher than 2008 and the headline operating profit at £56m is 3% higher. The operating margin has reduced to 17.4%. The Interconnect business has seen a solid performance in the Military side of its business but a more difficult year in both wireless and industrial sectors has caused both volume and mix impacts of £9m.

Operational costs that are £3m higher largely reflect £2m of restructuring costs -taken above the line. This is not related to the major restructuring projects that we announced last year.

Again foreign exchange and the acquisitions in Asia contributed £14m benefit between them.

SLIDE – FLEX-TEK: FACING CHALLENGING MARKETS

Last but not least, the Flex-Tek performance amidst significant market declines has seen reductions in underlying sales, profits and margin. The margin at almost 10% is, I believe, a good performance in very trying markets.

Headline operating profits fell £2m on the back of a 15% decline in underlying sales. The decline led to a volume impact of £14m principally in the sectors driven by US housing and domestic appliances.

Some early action to improve pricing and the continued efforts on operational efficiencies have clawed back half of that downturn and benefits from foreign exchange has led to the headline operating profit of £22m.

SLIDE – RECONCILIATION: HEADLINE OPERATING PROFIT/ STATUTORY PROFIT

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

In simple terms there was a £46m benefit from exceptional operating items offset by £35m of amortisation of acquired intangible assets.

Changes to our post retirement benefits led to £70m of exceptional gains. Benefits under the US pension plan ceased to accrue from the end of April. The curtailment gain arising from this decision amounted to £19m. In the second half of the year we also took steps to limit the company's exposure to the costs of post retirement healthcare in both US and UK. We have capped the amount of the company's future contributions and the resultant past service benefit provided £51m of exceptional gain, £42m of which is in respect of the US.

The restructuring referred to on this slide is the continuation of the programme we announced last year. I'll say more about this in a moment.

The remaining £2.5m and £12.7m relate to the John Crane asbestos litigation.

You will recall that we have a discounted provision on the balance sheet and each year we reflect changes to the discount rate through operating profit. The lower US risk free rates this year contribute £2.5m to the cost as shown here. The £12.7m comprises £2.1m in respect of the litigation with the insurers; the remaining £10.6m relates to an increase in the provision. As you know, the adverse judgment provision takes a rolling 10 year view and the charge reflects the addition of a further year, together with the effect of updated experience.

The amortisation of acquired intangible assets of £35m is higher than last year, reflecting recent acquisition activity.

SLIDE – EXCEPTIONAL ITEMS: RESTRUCTURING PROGRAMME

Now moving to the restructuring programme we announced last year. We have incurred costs to date of £28m. The total planned costs will now be £45m, £3m better than originally estimated and the savings will be £3m higher at £50m.

You will see that the current year benefited from £17m of savings. We expect a further £17m of benefits to be delivered in this year as we proceed towards the £50m of expected annualised savings.

SLIDE – IMPROVED OPERATING CASH

Let me turn now to cash generation. The operating cash flow was substantially stronger this year at £435m, a conversion rate of 104% of headline operating profit. The improvement is a combination of both working capital management and reduced net capital expenditure.

The working capital improvements are seen in both inventory reduction and improvements in trade receivables, both of which have received considerable focus during this year. Obviously, the volume reduction has had some impact but, notwithstanding this, I am pleased at the efforts that have been made across the divisions and which will continue in the new financial year.

SLIDE – NET DEBT INCREASED BY £114M

You can see that the net debt increased by £114m from £771m last year to £885m at the end of this year. This increase is, to some extent, a function of exchange rates. Free cash flow at £256m more than covered the dividend and our acquisitions during the year. However a combination of foreign exchange translation and a cash outflow on rolling over net investment hedges increased the net debt to the £885m figure. The cash outflow on net investment hedges this year was £90m – included in the £93m financing line – and there will be an additional £28m in this financial year.

SLIDE – STRONG BALANCE SHEET UNDERPINS OUR PLANS

I thought it would be helpful to show you briefly how our debt maturity has extended over the year as a result of the private placement we announced at the Interims and the \$500m Yankee bond issue in May. In essence we have a debt profile which now extends weighted average life of debt to 5.4 years, interest cover of 8 times headline operating profit, and undrawn committed bank facilities of over £600m.

SLIDE – PENSIONS

Finally, I want to spend a short time looking at the pensions position. You will have seen from the accounts how the pension deficit moved from the £11m at last year to £339m at this year end. Let me remind you that at the time of our half year results, the pension deficit was £464m and I want to deal with the £125m improvement since then.

As you can see from the slide, asset performance since January has been relatively good and has helped offset the change in liabilities. We also made our normal second half contribution of £40m. The change in liabilities reflects not only the lower discount rates and changed mortality assumptions but also experience gains arising from using the new census data underpinning the triennial valuation. Finally, there was benefit of £70m in respect of the actions taken to cease pension accrual in the US and to cap the post retirement healthcare liabilities.

Looking ahead, the finance income credit next year is now thought to be of the order of one million pounds. Whilst this is lower than the current year, it is actually better than we had been expecting a few months ago driven by asset value and curtailments.

At the interims, I indicated that we were in negotiation with the Trustees of the UK Pension Plans. These negotiations following the triennial review are still ongoing and I am therefore unable to state a final amount of the additional contributions to recover the deficit. When the amount is agreed I will advise you.

SLIDE – FINANCIALS: CONCLUSION

Summing up, I think there are three key messages from the results.

1. In a difficult economic environment we have generated £256m of free cash this year – a much better result than last year.
2. Despite the recession we have continued to invest in the “self help” restructuring as well as investing in acquisitions to strengthen our portfolio.
3. Following the debt raising we have a strong balance sheet – and substantial undrawn credit facilities.

So, all in all, a healthy platform for future growth and driving returns.

And now I will hand back to Philip for his operational review of the Divisional performance.

PHILIP BOWMAN:

SLIDE – PHILIP BOWMAN

Thank you, John.

SLIDE – OPPORTUNITIES TO CREATE VALUE

Last September, we set out ranges for sales growth and margins for each of the divisions based on what we believed the businesses could achieve over the medium term in a financial and commercial environment consistent with that of recent years. Since then we have seen a fundamental discontinuity in the performance of world economies. Whilst Smiths portfolio of businesses, with its broad exposure to different markets and geographies, is better placed than many to withstand economic downturn, the slides presented by John show the extent of the volume related impact of falling demand over the past year. We do not resile from the targets that we set last November but inevitably, in the current environment, it will take longer to achieve them. In particular top line revenue growth will be harder to deliver than improved margins - where we have greater control over driving cost reductions and operating efficiencies.

Naturally, our immediate focus is on implementing the restructuring initiatives, improving our data systems, and grinding out operational efficiencies. At the same time, we have not neglected investment opportunities that will drive future growth. In spite of current challenges, we have continued to increase our investment in R&D, as well as expanding our facilities, particularly in developing markets and through acquisition opportunities.

These are the themes that you will see running throughout the presentation today.

I would like to begin by reviewing developments at a Group level and within the corporate centre before covering the divisions in turn.

SLIDE – INVESTING IN BETTER INFORMATION SYSTEMS AND LEVERAGING SCALE

All current ERP programmes across the group are on schedule and within budget. We implemented 'go-lives' at no fewer than 36 locations across the Group with minimal disruption. All are on track for completion by the end of the current financial year.

This vast improvement in data flow enables us to identify opportunities to leverage the Group's scale. As you can see the number of suppliers serving multiple divisions makes this fertile territory. Armed with this data, we have delivered savings of £9m through tighter supply agreements for freight, utilities, and packaging among others. We foresee scope for an additional £11m in the current year – these savings are incremental to those from the restructuring and ERP programmes previously announced.

Moving to the divisions and starting with Smiths Detection...

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

Detection's performance this year was weaker than we had anticipated – even at the half year.

Underlying sales declined by 17%. This result was driven by a steep decline of 59% in the ports and borders segment - albeit against a strong comparable which was boosted by a large contract in Russia. The main reason was stretched government finances, which led to the deferral of tenders and contract awards. Meanwhile average contract size has continued to grow as governments have become more co-ordinated in their approach to border security and customs revenue protection.

This was partly offset by excellent growth in the military segment where underlying sales rose 42% to their highest ever annual total. Detection's main US military facility in Edgewood has been expanded almost 50% to meet the demand created by the JCAD programme and vehicle integration projects.

Underlying sales in the transportation segment fell by 19%. Revenues in the US were in line with the previous year and benefited from the roll-out of the new generation of checkpoint explosive detection systems, ATIX, and continued federal funding of infrastructure investment. However, reduced passenger traffic caused airport operators in Asia, the Middle East and Europe to defer expenditure plans.

Encouragingly, orders booked in the first two months of the current year are significantly higher than a year ago; particularly in the cargo screening segment where we have already received confirmed orders worth £20m.

SLIDE – SMITHS DETECTION: DELIVERING OPERATIONAL EFFICIENCIES

Earlier this calendar year Chris Gane was appointed to the new role of Chief Operating Officer. He is charged with improving the supply chain, rationalising the number of sites and improving margins. Initial actions include plans to close two small sites in the UK and a satellite site in Wiesbaden as well as the consolidation of two sites in New Jersey.

We are assessing options for further site rationalisation with the objective of cutting fixed costs further while increasing flexibility in our cost base to allow us to respond more effectively to volatile order flow.

SLIDE – SMITHS DETECTION: INVESTING IN FUTURE GROWTH THROUGH R&D

Even though sales have fallen, we have increased our investment in R&D to maintain our pipeline of technology-leading products. Company-funded R&D increased to £35m or almost 7% of sales. Customer support for R&D amounted to £10m in the period taking total R&D investment to £45m (almost 9% of sales).

New chemical and trace detection product launches included:

- the High-Performance Radioisotope Identifier which scans for radio-active substances typically found in so-called dirty bombs;
- the Multi-Mode Threat Detector which identifies explosives, toxic industrial chemicals and narcotics; and
- a new Lightweight Chemical Detector for military use.

Diagnostics is another focus of our R&D efforts and we have developed a portable biological detection system that enables vets to carry out rapid on-site diagnosis of animal diseases, which is currently being trialled in Europe. More recently we have secured funding to develop MRSA and H1N1 screening capabilities.

Similarly, trials continue for 'eqo', an advanced people-screener which uses patented millimetre-wave technology to detect metallic and non-metallic threats items concealed under clothing.

Our continued investment in R&D reflects our confidence in the medium-term prospects for the business.

SLIDE – SMITHS DETECTION: OPERATIONAL PRIORITIES

Looking ahead, the operational priorities for Smiths Detection are as follows:

- To implement the cost reduction initiatives I have already summarised;
- To continue roll-out of aviation checkpoint and cargo-screening equipment;
- To direct our R&D to support the launch of new generation of security products; and
- To complete the ERP programme to drive future efficiencies.

We have had a positive start to the year with several confirmed orders. However, future visibility remains uncertain as government finances remain constrained which may affect the timing of order call-offs and contract tenders. In the longer term, Detection will benefit from its market leadership, advanced technologies, cost reduction opportunities and the ever-increasing need for security solutions to meet evolving threats.

Turning now to John Crane...

SLIDE – JOHN CRANE: IMPROVING MARGINS WHILE OEM ORDERS HAVE SLOWED

Underlying revenue declined by 1% reflecting a slowdown in original equipment sales in the second-half – in line with previous guidance. The aftermarket proved more resilient with a small underlying decline. Within the aftermarket, underlying sales to our largest segment – oil, gas and petrochemicals – continued to grow at 5% reflecting recent infrastructure investment. However, aftermarket revenues in other sectors fell by around 10%.

John Crane has continued to expand its industry-leading, global network of service centres, currently focusing on key growth markets such as the Middle East and Asia. Four new service facilities were opened in each of these regions this year.

SLIDE – JOHN CRANE: ADDRESSABLE MARKET EXPANDED THROUGH ACQUISITIONS

Over the past two years, we have made five acquisitions in John Crane. These have expanded our product portfolio with complementary technologies and extended geographic reach. This has doubled our addressable market from about £2 billion for our traditional mechanical seals and couplings to over £4 billion with filters, bearings and our upstream products. These also enable us to further leverage our global sales and service network.

In the upstream sector, John Crane Production Solutions was formed to capitalise on our recent acquisitions, which are both delivering double digit growth.

Most recently, in May 2009, we acquired Orion Corporation, a leading US-based designer and manufacturer of hydrodynamic bearings for the oil and gas and industrial power markets. Orion added complementary products and a manufacturing, sales and service base in North America to supplement our existing European operations. Training and development of the expanded sales force is underway and we are already starting to see orders and sales coming through this channel. Financial performance is ahead of expectations.

SLIDE – JOHN CRANE: IMPROVING CUSTOMER SERVICE AND REDUCING COSTS

The initiative to create one global John Crane by integrating the two previous regional organisations is progressing well. The restructuring programme is on track with £6m of savings delivered to date.

Sales and service functions have been deliberately kept as close as possible to our customers while some manufacturing has been moved to low-cost countries in Eastern Europe, Asia and Mexico. We have consolidated our portfolio of part numbers which have historically been managed regionally – an action which should release working capital this year.

These changes are leading to improved customer focus, quicker decision-making, better delivery, and more effective communications.

SLIDE – JOHN CRANE: OPERATIONAL PRIORITIES

Priorities for the current year are:

- Pushing through the global restructuring and margin improvement programme;
- Expanding the footprint of our network of service centres, particularly in high growth regions;
- Completion of the ERP systems rollout by June 2010;
- Strengthening the business through further acquisitions that suitably complement our geographic footprint or portfolio of technologies.

In terms of outlook, John Crane is a late cycle business and the overall order book is currently below that of the same period last year, primarily because of lower original equipment orders. As a result, we anticipate that overall sales will decline during the first half of the new financial year, particularly against a strong comparator period. In spite of this pressure on sales, we expect to deliver continued margin expansion as a result of the ongoing restructuring programme.

Turning now to Smiths Medical...

SLIDE – SMITHS MEDICAL: DELIVERING OPERATIONAL IMPROVEMENTS

Underlying sales fell by 2%. Excluding the diabetes business, sales slipped just 1%. This reflects a stronger second half with better underlying sales momentum – partly because customers destocked in the first half and partly as we won back customers as the supply chain stabilised. Across the medical devices market as a whole, hospital capital budgets were squeezed by the economic downturn though there are recent signs of a gradual improvement in some parts of the world. Excluding diabetes, hardware sales were down 5% while disposable items, which represent 80% of sales, were flat.

In Medication Delivery, the planned exit from the diabetes business has gone smoothly, with a decline in sales in line with expectations. Sales of our next-generation ambulatory smart pump, CADD®-Solis, grew during the second half in North America and the product is gaining considerable traction in new markets.

Vital Care sales fell 3% although there was some improvement in the second half. Declines in temperature management sales have reversed in the last six months and we saw small increases in sales of our airway products because of the H1N1 flu outbreak.

Full-year sales of our Safety Devices grew 2%, driven by a number of OEM agreements, co-branded sales, and an increase in our core business. A future opportunity for our products in the EU has emerged as the European Parliament has now agreed in principle on a move toward adoption of safety syringes.

SLIDE – SMITHS MEDICAL: WELL POSITIONED FOR FUTURE SUCCESS

We have continued to deliver operational improvements. Backorders have been halved since last year to a five year low – and on a larger sales base than five years ago. We were able to improve customer service, thus boosting our customer recovery and retention efforts.

Cost-saving initiatives have led to a reduction in headcount of around 1,000, or 11% which will help improve margins in the coming year.

The strategic product portfolio review we began last year has delivered about £3m in pricing benefits, and the first 3,000 of SKUs will be eliminated by the end of next month. The diabetes exit is on track and accounted for a drop in revenue of around £8m, with a further £13m expected for this year.

SLIDE - SMITHS MEDICAL: INVESTING IN GROWTH OPPORTUNITIES

Sales of products launched in the last three years have risen strongly as a more focused approach to R&D investment begins to pay off. We have also completed virtually all of our planned product launches on time and within budget.

Our highest-profile new product launches have met or exceeded expectations and each fills a gap in, or extends, one of our strong product lines. Some key second half launches are listed on this slide.

Our expansion in growth markets is also surpassing expectations. Smiths Medical China was acquired in November 2008 and has easily beaten sales and profit targets. We plan to make this a low-cost R&D base for the development of hospital infusion products for China and other international markets.

SLIDE – SMITHS MEDICAL: OPERATIONAL PRIORITIES

The key areas of business focus for Medical in current year are to:

- Exploit further gains from the SKU and customer profitability reviews;
- Complete the ERP implementation on schedule and maximise the supply chain improvements;
- Continue to cut business complexity and reduce costs; and
- Optimise the R&D spend across the portfolio and launch new products specifically targeted at growth markets.

Excluding diabetes, underlying sales should begin to improve, building on the momentum established in the second half. Margins should also benefit from the cost initiatives from the past year. We will continue to seek growth through new product launches with the focus always on margin improvement and cash generation. We are keeping a close eye on the emerging healthcare reforms in the US although these proposals remain at an early stage and it is impossible to assess their potential impact, if any.

Now turning to Smiths Interconnect...

SLIDE – INTERCONNECT: GOOD GROWTH FROM MILITARY; WIRELESS SLOWER

Underlying sales declined by 5% reflecting weakness in the wireless infrastructure market. However, military/aerospace sales grew 9% with new wins in a number of surveillance and communications-related programmes.

We have also consolidated key positions on important Department of Defense satellite communications projects including a major UAV platform. Sales also benefited from our high-volume manufacture of filter components to protect against improvised explosive devices.

The year's decline in wireless sales stemmed from softening demand for new infrastructure projects coupled with the unusually large contracts for lightning and surge protection equipment which boosted last year's numbers

The rail medical and automation sector also proved challenging particularly in Europe. This was only partly offset by product launches and programme wins in the medical sector.

SLIDE – INTERCONNECT: STRENGTHENING THE BUSINESS

Restructuring is also starting to shrink the cost base through the move towards manufacturing in low-cost economies. For instance, two of Interconnect's US protection businesses were combined and most of the manufacturing transferred to our Mexico facility. In addition, headcount was cut in both the US and various European locations. All of these projects have already started to pay back during the year and will help margin improvements in the coming year.

In April, Smiths Interconnect completed the purchase of Dowin, a Chinese manufacturer of power and signal protection devices operating mainly in the wireless telecoms market. This move complements our existing protection portfolio and provides a platform in Asia where we expect further investment in the roll-out of wireless infrastructure. It is the third acquisition in Asia made in the past two years. Allrizon and Triasx have both been successfully integrated and their combined trading performance is ahead of expectations driven by strong sales of interference testing devices.

SLIDE – INTERCONNECT: OPERATIONAL PRIORITIES

In the current year, Interconnect's operational priorities will be:

- Continued tight management of the cost base;
- Integration of the recent acquisitions and readiness to exploit any further opportunities to enhance technology or geographic reach, particularly in such growth markets as Asia Pacific; and
- Delivering key commitments to our customers to ensure we maintain momentum on major projects.

We foresee continued growth in military communications, a priority area for defence spending even if overall budgets flatten or decline. Our other markets look likely to remain difficult in the near future though wireless operators are expected to invest heavily in deploying next generation networks. These will need the kind of specialist capabilities we can offer to support high-speed data applications.

Turning finally to Flex-Tek...

SLIDE – FLEX-TEK: FACING CHALLENGING MARKETS; GROWTH IN AEROSPACE

Flex-Tek performed well despite the extremely difficult US housing market – and succeeded in holding overall margins at 10% despite an underlying 15% drop in sales.

Revenue from its Aerospace division slipped only slightly with weaker sales to the business jet market offset by steady demand in the commercial and military markets.

Heat Solutions sales declined by 16% mainly due to lower sales of gas piping and air-conditioning units. The deep recession in the US market has prompted a 44% fall in housing starts in the year. Against this background, we have continued to successfully gain share.

Sales of flexible hose assemblies from the Flexible Solutions division fell 23% because of weak demand in the US floor-care and general industrial markets.

Flex-Tek's restructuring which has included rationalising plants and moving manufacturing to lower-cost regions, has delivered £4m in savings to date and helped preserve margins.

SLIDE – FLEX-TEK: OPERATIONAL PRIORITIES

Flex-Tek will explore ways of expanding its product portfolio, particularly outside the construction area. It will also focus on the high growth markets in Asia where it has already expanded its range of products delivered from its China facility.

The restructuring programme will remain a key focus. The outlook for US residential construction remains challenging but the cost reduction initiatives have made Flex-Tek a leaner business, strongly leveraged to a recovery in the US housing and appliance markets.

SLIDE – SMITHS GROUP – OPPORTUNITIES TO CREATE VALUE

Despite commentators pointing to some signs that the worst of the downturn may be over, we still face a period of considerable economic uncertainty.

There is significant excess capacity in most economies. Banks are cutting back on loans, and consumers and businesses are borrowing less. Tax rises proposed in a number of countries will further slow recovery while unemployment in many countries has yet to peak.

We at Smiths can do little to influence these macro factors but what we can do is to ensure that the businesses in our portfolio are in the best possible shape to take advantage of recovery whenever it may come. We have worked hard over the past year to do just this.

In the year ahead, we will continue to focus in three areas:

First, improved operational efficiencies. Our restructuring projects are ahead of schedule and, once complete, will deliver £50m of annualised savings. At the same time, the benefits of our investment in new business systems are being felt as we gain better data to drive decision making. An example is the work we are doing to leverage scale across procurement where we expect incremental annual savings of £20 million by the end of the current year.

Second, cash generation. Four of our five divisions are strongly cash generative. Through initiatives last year we drove cash conversion across the group up from 72% to 104% generating an extra £165m. There is scope to further reduce working capital as a percentage of sales and focus on cash conversion will again be a key priority this year.

Third, investment for future growth. Despite difficult markets conditions, we will continue to increase our investment in targeted R&D to launch new products where we see market opportunity. A particular priority is Medical where a number of products are in the latter stages of their life cycle. In parallel we will continue to make bolt-on acquisitions to strengthen our product portfolio or build our presence in high growth developing markets

To conclude, it has been a very tough year in which we have made good progress on operational improvements which provide a solid foundation for future growth when economic activity picks up. Our businesses remain committed to achieving the sales and margin targets we set last September. I remain confident we will deliver value for shareholders through the improved performance of our five divisions and, ultimately, the reallocation of capital within our portfolio of businesses.

SLIDE – SMITHS SLIDE

BUILD – QUESTIONS AND ANSWERS

That brings to an end the formal presentation. John and I, along with other members of the senior management team, would now be happy 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?

Thank you once again for joining us this morning.

ANDREAS WILLI: Andreas Willi from JP Morgan. A question on Detection and then one on pricing. You talked about more restructuring, more conciliation of facilities in Detection. Should we expect special charges for that in the current financial year? And the second question, you seem more positive on the order intake. Is that a guidance that sales will be up in 2010 over 2009 from what you see now? In general on the business, you still seem to see it as a structural growth business beyond the current difficulties. Where do you take that confidence from that it's not

just a cyclical business that goes up and down, based on government funding and terrorism incidents? Why is it still a structural growth business? On pricing in general, most of your divisions had positive pricing this year. Maybe you could give us a bit more information to what degree that is sustainable, have we last year on year price increases now and therefore should pricing become more difficult as we go forward?

PHILIP BOWMAN: Okay, three questions there and I'm going to ask Stephen in a moment to respond on the outlook for the Detection market. Srimi, I thought I'd give you the challenge on pricing from a Medical perspective and perhaps, Paul, you might comment on that as well.

In terms of restructuring within Detection, in the same way as, for example, within Interconnect where we consolidated two plants during the year, we charged that against our normal operating profit. That depressed results by a couple of million pounds this year and we get the benefits of that. Clearly we started to get them this year; we'll get more next year.

In terms of Detection, until such time as we conclude on what changes we're going to make to the plant footprint - if any I suppose I have to add to that but I think we will be making some - I can't tell you what the cost will be. Clearly, we are looking to maximise the payback on any changes we make.

In terms of the comments I made in my presentation on the start for the year in Detection, I think what we were saying is that certainly in the first two months the order flow has been much more encouraging than it was at the start of the fiscal year we are reporting on today but, Stephen, you

might like to give a little bit more colour round that and also why you still think this is a business area replete with secular growth.

STEPHEN PHIPSON: Let's split it down into a couple of different sectors, because we're operating in the civilian counterterrorism sector and we're operating in the defence CBR&E sector. First of all in defence, you've seen a great growth this year. We expect that to continue. We see ten-year programmes as military organisations, particularly the US but also in terms of the European defence authorities, move towards a more mobile force, being able to take those forces abroad, being able to project their presence. In doing so they have a duty to protect those troops and in terms of chemical warfare agents and biological warfare agents that we produce as the leader in the world at doing that they're getting smaller, they're getting more transportable. We're in the lead with that. I see a lot of growth going forward and I see a lot of programmes coming in going forward. We're at the early stages of these small chemical detectors that people actually have on their uniforms as they go into battle. So prior to this point most point detectors that were produced were in large trucks and we've moved those towards more transportable systems and you can see some examples of that outside here today. So I think the defence one, which is a long cycle business, we can see the trends in that business. Even with cutbacks the defence of those troops as they're in the frontline is very important so they can move them from country to country. So we see that as a very solid programme going forward.

On the counterterrorism side, the other part of the business, aviation security, border security, the larger part of the business up until now, again, we're at a fairly early stage. I mean, the aviation security

checkpoint systems, if you look at most of the systems that are out there, haven't really changed for 15 years. Your experience of going through checkpoints was largely the same. The introduction of the automatic explosive detection systems that we've got over the past 12 months in the US and in the UK that you see as you go through them, we expect that to be -- once certified, once all the systems are certified and in place and the benefits are realised in improving passenger throughput, we expect to be able to sell those systems across the world into other regulated markets. So we see a large upgrade programme there.

And we also see the fact that new threats, as Philip said, are evolving constantly. The idea of imaging at checkpoints, we have not seen checkpoints use those yet. That will come as governments try to improve the infrastructure and make sure that they continue to prevent events like 9/11 recurring. There's a lot of interest in making sure these technology solutions are the way forward. So that's important.

In terms of cargo, we saw this year it was quite an easy cut for most governments to make. What they really did was delay the programmes. No programmes were actually cut; they just pushed them out. We've seen, as Philip said, that restarting and the push there is that we're still at a very early stage, something like 10% of world cargo is scanned. We still have the requirement by 2012 in the US to have 100% cargo screening for US imports. In reality, that's probably going to translate into a physical 50% check on most cargo containers, so we still have a lot of demand in the system to come in terms of improving that.

And we're also seeing in many countries around the world the evolution of customs authorities into a border protection agency. The US is a good example, CBP; in Russia we're seeing that. We're starting to see

that happening in places like Latin America where the systems will be used not just for contraband detection but also for the detection of explosives and radioactive traffic materials.

Governments are publishing more and more strategies publicly about how to secure the critical national infrastructure that underpins the driver and the funding that's behind our business. So we still think this business is at a fairly early stage and there's a lot more maturity and growth left in the market going forward.

PHILIP BOWMAN: Stephen, thank you very much for that. Srimi, do you want to talk a little bit about pricing as you see it in Medical and how we got price rises away last year?

SRINI SESHADRI: I think it really comes down to data integrity and data intensity. So, as most of you will recall, Medical inherited something like 17 different underlying systems which we have now largely replaced with Oracle. We have a whole lot of more visibility at the SKU level that we never had before. We've been able to mine that, both in terms of looking at these 3,000 SKU reductions but also using that as a way of understanding what kind of price we can drive on a SKU level. We also get to see similar markets, same products, similar markets and what prices we're getting, and any historical anomalies in terms of lower price we're able to correct it. So that's how we did in the previous year.

We expect to see of a similar magnitude of price improvement in this fiscal year as well. I just think there's an enormous amount of opportunity, especially because there are a huge number of products where we are unique in some ways and therefore that allows some potential for participating in the value that we create for customers.

PHILIP BOWMAN: Srini, thank you for that. Paul, do you want to talk a little bit about John Crane?

PAUL COX: Certainly. I would point out a couple of kind of global features around our business, and I'll come on to two particular channels, but in particular one thing to keep in mind is no customer is more than 2% of our business. So, to a certain extent price pressures that do come do seem to come in very small batches. The other is we've been embarking on, in this global restructuring programme, an ability to now both get a handle on our pricing globally, so we have a global product line management system, as well as a global procurement side. So just take this on to the two channels. The OEM market is where we'll receive the most price pressure. They're the people who'll get the most requests for re-bids and price-downs as commodity prices come down. Of course our strategy and our aim there is to resist and, of course, pass any of that pressure on down to our main suppliers, and we've been relatively successful with that. Last year we saw a nice boost of activity in the OEM and obviously the price came along with that so you saw that in result. Our strategy on two-thirds of our business, which is our aftermarket side, is effectively to ride the ability for us to do the globalisation of our supply chain but also to continually improve our service. If we continually improve our service levels we are able to get price. So that's the main focus in that channel and that's effectively what we did last year and we'll continue to do this year, although I would anticipate that the OEM will be a rougher ride this year relative to the price pressures they're getting as well.

PHILIP BOWMAN: Thank you very much. Next question. Yes, in the middle, second row.

MARTIN WILKIE: Thanks, it's Martin Wilkie from Deutsche Bank. A couple of questions. First of all on free cash flow. You mentioned about building on free cash flow generation into fiscal 2010. If you could just give us an idea as to how much of the improvements in working capital have already been achieved and how much is still to come. What sort of cash generation, as a percentage of operating profit, could we think about over the next couple of years?

Then secondly, coming on to the pension deficit, obviously quite a big reduction there. I know you can't talk about the triennial review quite yet, but could you give us a sense of a timescale, you know, can you expect to give an update on that with the half year numbers, or do we have to wait now another 12 months?

PHILIP BOWMAN: I think in terms of the second question, the one thing I've learned over 20-plus years in business is that anything to do with pensions moves at a glacial pace, and the triennial review date was 31 March, we are sitting here nearly at the last day of September. I suspect we might have something to say by the time we stand up in March next year, but equally it could go beyond that. So at this stage I would say we haven't really started the skirmish or the negotiations in any form of anger yet. In terms of working capital, I think it is a very difficult -- it is a fair question to ask, but a difficult one for me to answer. We are still beginning to get the benefits of better data as the ERP systems come in and as we drop a data warehouse across them to enable us to interrogate more effectively. You saw in last year, particularly in

Medical, we were able to drive down inventories as the supply chain was stabilised. We had good results also in improving collection on receivables.

The big question I think we have this year, and really is one - I look at Stephen - last year actually our cash conversion was held back by Detection. I talked about four of our five businesses have very good cash generative characteristics. Because of the slow-down we had a build up of inventory within the Detection business. As the orders have come in, and continue to come in, we should be able to clear that inventory and that should go right the way through the delivery, the billing and the collection cycle before the end of the year.

The one thing I don't know is we could obviously end up, towards the end of this year, with a plethora of new orders, in which case we would need to build up some working capital on that side, but what I am trying to do is certainly to target the guys within the business around 90% plus conversion of profit into cash. I would like to do better than that and I believe there's probably another 18 months or so where, if we really squeeze, we can do better than that without actually damaging the business. But it has been a major exercise, we've put a lot of effort into this, people are much more focused on cash, and I think that shows in the results for the year just ended. And I think the acid test - and I think I can say this - is whenever you deliver a good cash result at the end of the year you hold your breath to see what happens in the first month of the new year, and actually the cash conversion in the first month of the new year was over 100%, so it says to me actually what we're doing is sustainable.

Next question. Yes, second row from the back. I am sorry, the lights are in my eyes, it's very hard for me to see anybody.

VIDYA ADALA: Hi, this is Vidya Adala from Morgan Stanley. I have two questions on Detection. Your comment that order book levels have actually gone up year on year, could you help us understand what kind of sales visibility you have for fiscal 2010 from your current order book, that is how much of the orders can actually be converted to sales?

The second question is on John Crane. In the new fiscal year now have you seen any improvement in economic activity or, given that it is a late cycle business, it continues to be at the low levels as second half 2009?

PHILIP BOWMAN: I think I will distribute those questions in a predictable direction.

Stephen, would you like to talk a little bit about Detection, and that gives Paul time to prepare his comments on the question on John Crane.

STEPHEN PHIPSON: Sure. On the orders we've received so far, which has been a great improvement really on where we were during most of the second half of last year, the visibility that gives us is a good strong visibility for the year in military, so we've got a lot of the military backlog booked already, so we're quite happy with that profile, looking as it did last year. And, as Philip mentioned, we've got quite a good uptake, a substantially improved position in our cargo scanning business, on the large contracts for cargo scanning. A number of our major government customers that bought virtually nothing last year have started to re-buy again. It gives us good confidence for the first half.

My word of caution, and the same caution that Philip expressed, is that we need to see this continue a little longer than the first two months to make sure that we can underpin our plans for this whole year, but I would say to you that the first half is looking quite good at this point.

PHILIP BOWMAN: Stephen, thank you for that. Paul, John Crane, a more difficult story.

PAUL COX: A more difficult story. As referred to before, we are a late cycle business, and so we are behaving as you might imagine a late cycle business might behave in the late cycle. We have a lower order book and, as referred to in the presentation that both John and Philip touched on, we are guiding -- you know that our first half is going to be relatively challenging compared to a very strong first half last year, because we have lower order book, predominantly in the OEM segment. We are hearing good things with regard to people having project pipelines, we've had several meetings with different national oil companies lately where they talk about the projects they've got in their pipelines and they're very interesting. It's a question of timing when those come forward.

We are seeing a high level of quoting activity, which gives us a lot of encouragement, but in terms of the proverbial green shoots, they haven't come through the ground completely into the sales picture or the order backlog yet.

PHILIP BOWMAN: Thank you for that. Next question.

RODNEY BRIDGE: Rodney Bridge from Société Générale. Really just a little bit on the philosophy of R&D. I couldn't help but notice that pharmacies -- your sort of Medical business is now running at half the level of R&D to sales of Detection, and indeed it even came down slightly this year. Is that something you're happy with? Is that something that you feel that the Medical business can sustain itself long term at that level of R&D?

And just a second question also, I think when you joined Smiths some time ago you said that after a couple of years you would start talking perhaps about the structure of the business and future strategy. Should we still be expecting that?

PHILIP BOWMAN: Taking the second question first, I think almost the final comment I made this morning was talking about confidence and delivering value, both through operational improvement, but also ultimately by making changes to the allocation of capital within the portfolio, and I think the answer to that is, yes, it is still on the agenda, this has not been a market where M&A has been an attractive proposition, particularly from the sell side. We have taken a decision very clearly to focus on improving the business. I said when I came in I thought it would take probably three years to do that; we are halfway through that process, I think we have made a lot of progress, we will make further progress this year. We will wait and see what happens in terms of economies and in terms of the finance markets before we address anything to do with portfolio. In terms of R&D, Srini, I think, is anxious to answer your question.

SRINI SESHADRI: I don't know what numbers you're looking at, because we increased R&D expenditure in the fiscal year 2009, and we expect to increase it further in 2010. As we've tried to lay out what could be externally a complex business, we try to break it down into the three categories of delivering medication, providing vital care, and safety. If you look at the "delivering medication" business, the R&D expenditure, as a percent of sales, is actually up in the 9%-10%, so that's very comparable, that's the nature of that business.

On the contrary, if you look at the safety business, that's characterised by very long cycle, sticky customer, and user interface kind of characteristics, based on which, this is like asking whether Johnson & Johnson spends 10% of sales on their band-aid business; that's a sales and marketing kind of a business. So if I can make a similar connection to it, in the safety business it's not so R&D intensive as it is factory automation and large automated facility intensive. So the characteristics of the business are quite different within Medical, and I think we've done a pretty good job of comparing to the key competitors in each of those segments, and I'm very confident that now we are very much in the pack in terms of expenditure as a percent of sales.

PHILIP BOWMAN: Srini, thank you for that. I would just emphasise though the comment you made at the beginning is that we are planning to increase the absolute amount we spend on R&D during the course of this year. Yes?

ANDY CHAMBERS: Just following on, on Medical for a moment. Sorry, it's Andy Chambers from MF Global. Can you maybe tell us what you see as risks and potential benefits from the proposed US health reforms?

PHILIP BOWMAN: Srini please.

SRINI SESHADRI: Still very fuzzy. We are monitoring it very carefully, as you can imagine. It seems to be a bit of a toss-up between bringing new patients into the fold versus potential pricing pressure on device manufacturers. As it turns out, 80% plus of our business is more consumable than the classical kind of devices that Baucus might be targeting. I must say that

the news of the last week or two about opposition building to Senator Baucus' bill or proposal is actually quite stiff, and mainly held around the fact that that's the kind of tax that will really stifle innovation in an area which has done a world of good in the last 30 years. So I don't see anything that I can tell you right now that is de facto positive or de facto negative. What I can tell you is the scare on H1N1, for example, has resulted in a \$10 million order from the US Government from the HHS to us, and we see that as a very positive move, both in terms of the government protecting people, as well as the focus on safety products in relation to H1N1 vaccination.

ANDY CHAMBERS: Can I just maybe see if we can get Tedd back next time around as well. Could I maybe ask whether there is any evidence within Flex-Tek of any bottoming out of the declines that we've been seeing for the last couple of years on that side?

PHILIP BOWMAN: Tedd, this is your moment.

TEDD SMITH: I think at this stage, for about the last four to five months, we've seen our industrialised and our construction-based products pretty well stabilised.

ANDY CHAMBERS: I did actually buy myself yet another new Dyson the other month. Is there any evidence the consumer is showing any signs of ...

TEDD SMITH: I think the interesting thing from my perspective is this business peaked in fact in 2006, in the middle of 2006, and if you look at it as being a run-rate business and you look at weekly sales effectively over the period since mid-2006, it is a pretty good line that goes down at a fairly

sharp angle. What we've seen in the last 12 weeks or so is that line has stopped going down and it's occasionally bumping up a little, so it's a very small shoot, if it is a shoot, but at least it's getting no worse.

ANDY CHAMBERS: Can I just maybe finish off by asking, on the asbestos provision, I mean from covering other companies historically I thought we were coming to the point in time where actually litigation claims, etc, should start to peak. But you're saying on a ten-year forward view you will continue to see increased requirement for provision. Is there any prospect that you will not -- that we will see that come to an end in the foreseeable future, or should we just expect that to continue to increase?

PHILIP BOWMAN: I think with a Democratic President in the White House any potential for tort reform is probably non-existent. As we disclose in the annual report, we have been the unwilling recipient of a very large number of claims over the course of the last 25-plus years. The absolute number of claims that are outstanding is reducing quite significantly each year, and that process is continuing. But certainly at the next 15-20 years we are going to continue to be fighting these, but the good news is our track record remains good and the absolute number of cases is declining quite significantly. I don't know if our general counsel Michael Herlihy would like to add anything to that, Michael?

MICHAEL HERLIHY: No, not really. I am pretty sure it remains very much as it was a year ago. What we have done this year is to review our (several words off microphone).

PHILIP BOWMAN: Michael, thank you. Yes, second row from the back.

STEVE EAST: Steve East, Credit Suisse. Just on John Crane. At the Invest Today there was quite an interesting sort of market expansion strategy, you explained what you had been doing. Could you just update us on organically how that is progressing and, secondly, should we expect more acquisitions in that area? You've obviously done some in the last year.

PHILIP BOWMAN: Steve, I mean firstly, in terms of what we were talking about, we were talking really about expanding the addressable profit opportunity, revenue opportunity, by adding filtration, bearings, upstream oil. I'll ask Paul in a second to comment on how those are performing, but we're pleased with those acquisitions, and the answer to your question is, yes, we are actively searching for more bolt-on acquisitions to strengthen our product portfolio, or, as I said, to perhaps increase our exposure to developing markets. But, Paul, would you like to just add a bit more?

PAUL COX: We are continuing to look for other sensible acquisitions, but in the meantime those that we've made in the last 18-24 months, continue to integrate those into the sales force. We're seeing some opportunities flow through, as Philip mentioned, we are already starting to see some of the, what we call, intercompany sales, which means that salespeople are actually selling bearings or filtration systems alongside the seal systems, so we're seeing more penetration there and we'll continue to push on that front. That is effectively what the strategy is around, is to open up the addressable market and then get our share up in those key areas.

PHILIP BOWMAN: Thank you, Paul. Any other questions? Yes, again, one row back I think.

YURI KHODJAMIRIAN: Hi, Yuri Khodjamirian, I'm with Majedie Asset Management. I was wondering if you could comment a bit about the competition you're facing in your particular divisions and markets?

PHILIP BOWMAN: Any particular focus in terms of which divisions?

YURI KHODJAMIRIAN: Particularly Medical and Detection, and Detection in ports and borders, please.

PHILIP BOWMAN: Okay. Srini, would you like to kick off and then pass to Stephen?

SRINI SESHADRI: Certainly. If you look at, again, by the three segments that we talk about at a high level to make life simple, we actually break down the competition, we don't compete 100% with any one company, we compete with pieces of quite a large number of companies. And what we've done in the last year is, at a very granular level, looked at the actual growth rates of those competitors, and I'm happy to tell you that in 2009 fiscal year we have done as well or better than most of our competition. In fact if you look at the hardware and pump kind of business that's in delivering medication, we've actually done much better than a lot of the direct competition, so it just goes to show that, even in a down market, the introduction of a very good new product like CADD-Solis really catches the imagination of the customer, so I think we've done pretty well there.

On the safety as well as the vital care side, with a lot of the supply chain issues of say two years ago, you know that we lost customers along the way, I'm happy to tell you that net gains in terms of wins has really reversed that trend of two years ago, so, once again I think I feel cautiously optimistic that we will be able to fight the good fight in the 2010 year.

PHILIP BOWMAN: Srimi, thank you. Stephen?

STEPHEN PHIPSON: In terms of competition in the ports and borders market for the large cargo scanning systems, we compete with a very small number of American competitors and we compete with one Chinese competitor and we share the leading market share with the Chinese competitor, which is sponsored by the Chinese Government, and we've been concerned, as you will recall, with the number of different types of contract wins and methods that that particular competitor has employed over the past few years, and in fact you will recall that we've got an anti-dumping complaint with the European Commission, which seems to be progressing well, to make sure that those kinds of loans that come in from the Chinese Government don't affect procurement in Europe. But I can tell you that Smiths Detection is by far the market leader in terms of technology, and a lot of the wins that we're getting now, particularly with new governments, the tenders are based on the performance of the systems and we are out in front, and that will continue with our R&D programmes and with the launch of our new product portfolio. So without a doubt we are winning the technology battle and our customers are valuing that more and more as we go through time with these new deployments.

PHILIP BOWMAN: Stephen, thank you. Sandy?

SANDY MORRIS: It's just Sandy Morris, RBS, and this sort of dovetails with the last one, because when I was trying to wonder what was happening to Detection, I sauntered off and I was looking at some of the contract wins that people like OSI were announcing, and what I thought had happened last year was that one or two people had come late to the baggage screening and cargo screening market and were therefore out to win their reference contract, and although they didn't sort of name names, they weren't that nasty, it did seem that they were coming from you, and I guess that's just something we might have to struggle with. And the second point in Detection is, why is X-ray good for screening air cargo and yet we still haven't got over the barrier of screening whole baggage with X-ray in the States? So does this French propaganda that I have to put up with about Wave 3, or whatever it's called, is that going to go to US peers, or can you crack that quickly enough? And then there's one or two other little things.

PHILIP BOWMAN: There's an opportunity for a very broad dissertation there, Sandy. Stephen, would you like to pick up from that?

STEPHEN PHIPSON: Okay, Sandy, let's try and keep this to the key messages, it's a very long discussion. In terms of our competition announcing cargo wins last year, there were a number. We did win more than they did and OSI and people like that have been in the business as long as we have, they are relatively small compared to us, in both the cargo area and the X-ray area, in terms of their total business. In fact they have won a number of

American contract awards; we still are the provider of choice to CBP in the States. The last contract win went to us and so I think actually the shares are maintained. If anything, the latest market research shows that we've slightly increased our market share, even in a poor year, which is quite interesting.

In the checked baggage side and the air cargo side, we've had a good year in our cargo this year. There are two parts to the air cargo story. In terms of the containers that go in the belly of the planes, there's no technical solution for screening those; X-ray doesn't screen those very effectively because they're very densely packed, it's very difficult to detect explosives in the centre of those containers. What we tend to do is do it at what we call break bulk level, so we do it in the small packages before they're consolidated into those large air cargo containers, and for that we use systems like EDTS, a multi-view X-ray machine, and that's quite good, and the packages are actually relatively small and less cluttered than you get with suitcases, which is an extremely difficult challenge for any technology to effectively deliver 100% screening on those types of systems. So you've got less cluttered smaller packages. We are selling to people like DHL, FedEx, UPS, those sorts of companies, as they start to comply with particularly the US legislation which came in that said by February of this year 50% of air cargo should be screened, they had to delay that to the end of the year because of slow implementation, but we've taken a major share in that part of the business, and that will continue through next year.

So the propaganda you're listening to, I mean the Safran acquisition of GE is about the US certified CT systems that are used for checked baggage in the US and they are used largely in the lobby bay system where you carry your suitcase off and you put it through the machine as

you board the plane. You will recall our systems are largely deployed throughout Europe and Asia on the inline checked baggage systems, they use the high-speed conveyor systems under the airports, and there's still lots of discussion with the EU about what the standards will be going forwards, and there's no real clarity on the timing of that yet, but we are obviously working away to see which way that will go in the future.

PHILIP BOWMAN: I think it's also important, Sandy, we are taking a much more proactive role now than we have historically, and lobbying. We have opened an office in Brussels to lobby the EU, we have strengthened our government affairs capability and we will be making further changes there, because what is clearly important is to influence the form in which legislation or standards are set, and it's an area that we're now giving much more attention to than we would have historically.

SANDY MORRIS: Okay, it's just that they were nasty enough to announce contracts when you weren't announcing any, so it did look like -- even UK Ports and Borders, or something, they won.

STEPHEN PHIPSON: Sandy, we don't win everything, okay, we have competition and they win contracts as well, and they make a big fuss when they win them and sometimes we don't make a big fuss about it.

SANDY MORRIS: Sorry, there is a question mark attached to this Medical thing, which is meant to be a serious question. The R&D seems to be really effective at driving sales this time, and yet this is one of the things -- I know I sound like an old git, I've heard four or five times in the past, and it never

worked, and we would ultimately have a go at it and retrench. What's the difference?

PHILIP BOWMAN: Srimi?

SRINI SESHADRI: I think it's two or three things. As always, there is no one magic bullet. When I got here I discovered that we had something like 17 underlying R&D processes, it was all very site-based, it was all driven by the fact that each of those had come into Smiths Medical at some part of an acquisition. So one thing we started to do three years ago, and then finally got it completed about a year and a half ago, is a common R&D -- what we call a new product introduction (NPI) process. So now there's a phased or tollgate process that is common, the terminology is common, methodology is common. Every time you pass a tollgate it means the same thing, regardless of which business you're in. That allows for a greater degree of control.

Number two, because of the fragmented and acquisitive nature of the way Smiths Medical was constructed, the prioritisation on products, with regards to return on investment, was relatively weak three years ago. It just said each business or each site had to do those things, which improved its capability. Well, we changed all of that, so starting a year and a half ago we've driven a much, much more logical prioritisation process. So in February of this year, for example, we were able to first highlight about 100 projects and then, from a prioritisation point of view, we culled that down to 58 that were left, and those are on a pure, "What will it do competitively?" "What will it do from a return on investment basis?" So I think we have a much, much more robust R&D process today than we did even 18 months ago.

And the next generation of that, I told you that culling down process happened in February, we just did the reprioritisation just in September, a week and a half ago. That again really sits down and looks at, okay, now that we've got these 58, once again, within those 58, where is the highest return going to come from.

So I'm very pleased to tell you that in fact in the last 18 months the growth from new product introduced in the last three years has gone up pretty significantly by double digits. I expect that to continue in 2010 as well because we have visibility to what we're introducing and how we expect it to do.

PHILIP BOWMAN: Srini, thank you for that. I think the simple answer, Sandy, I would say, is we're not doing fundamental research, we're doing product development, and you have to pick where you target the money and where you see the opportunities in the marketplace. It reminds me of some of what I've seen at Smiths. I was on the board of an electronics company many years ago. Before each board meeting I used to turn up and the head of development used to take me into the lab and show me something and say, "Isn't it wonderful?" and I said, "It's absolutely wonderful, John, it's a technical miracle, but how are we going to make any money selling it?" At which point the answer was, "Well, that's not my problem; I've made it". And what I think we're doing more of in Smiths is turning that on its head and saying, "Actually, where are the opportunities in the marketplace and then let's direct our money towards that", and I think that's one of the fundamental changes.

We've been here just over an hour and a half. Unless there's a burning urge for more questions, I propose to take one more and then close the meeting. Yes, the last question.

MARTIN WILKIE: Thanks, it's Martin Wilkie from Deutsche Bank again. Just coming back to your targets, obviously you mentioned the economic environment had made them obviously tougher. Obviously the revenue side is very understandable, but on the margin side, I mean are you still broadly happy that the lower end of that range is achievable by 2011? Is that how we should interpret your comments, or are you saying something different?

PHILIP BOWMAN: I think if I look at, for example, John Crane, we have made significant progress even in this difficult market, and the team there have done a very good job towards moving forward. If you take another business like Flex-Tek, the comment I made is it is going to be very highly leveraged, after the fixed costs we've taken out, to any recovery in the market, so we are, to some extent, economy-dependent on that.

In other businesses we still have further costs that we can take out, particularly in Medical and I believe also over time in Detection. So where I think I am -- what I said was we don't resile from the targets because I still believe the businesses are capable of delivering those.

What I can't forecast is where the economy is going to be in 2011. If the economy gives us a few breaks, I think we should be in those targets and some of them will be not at the bottom end of the range. If the economy gives us no breaks it's going to be tough.

Good. Ladies and gentlemen, thank you very much for your time this morning, I hope you found it useful and thank you for being here.

