Ladies and gentlemen, good morning and welcome to the interim results presentation for Smiths Group for the six months to the end of January. To avoid interruptions, can I ask you to check that your wireless devices are turned off?

Peter Turner, our Finance Director, is alongside me. The divisional general managers and some of the senior members of the corporate team are seated in the front row. Allow me to take the opportunity to introduce Duncan Gillis, who joined us in October to lead John Crane. Duncan, could I ask you to stand up and be counted? Thank you.

I have decided to change the format of the presentation today. As usual, I will start by giving a brief overview of the results before asking Peter to present the financials in more detail. Since we have Duncan with us for the first time today I have asked him to give a short presentation on his initial views on John Crane and its prospects after five months in post. I also thought it would be interesting for you to receive an update directly from Srini Seshadri on our investment in strategic growth initiatives and other recent developments in Medical. In fact, we may invite divisional presidents to present at future results if there are developments of particular interest. After Srini’s presentation, I will review the operational progress in the remaining divisions and set out our priorities for the rest of the year.

As usual, all of the team will join Peter and me in answering your questions at the end of the session.

So starting with the key messages for today’s presentation………

First, these are resilient results in a persistently tough trading environment. We have grown profit and returns despite significantly increasing our investment in future growth.
Second, we have made good progress against our strategic objective to position the business for stronger revenue growth. We have channelled greater resources into sales and marketing in high growth markets such as China, India and Brazil. Emerging market sales grew 9% and now account for 15% of Group revenues.

Third, we have again increased our funding of new product development – this time by 8% - to maintain our technology leadership. This investment has increased by almost 60 percent over the past five years and is delivering a rich pipeline in new products – some of which you will hear about in today's presentation. These new products will support revenue and margin growth over the medium to long term.

Fourth, we are continuing to deliver operational efficiency improvements which are enhancing margins or being used to fund the growth initiatives that I have just described. We delivered a further £4m of savings from the Smiths Detection performance improvement programme as sites were rationalised and operational efficiencies took effect. In other divisions, the last six months have seen a process of continuous improvement through value engineering, optimising our manufacturing footprint, procurement efficiencies and organisational change.

Fifth, we have continued to raise the bar in terms of talent in order to drive these initiatives forward. The team today is stronger than it was a year ago and very much stronger than it was three years ago. We continue to refine the rigorous processes we have developed to assess talent and are investing more into preparing and monitoring personal development plans.

And sixth, we continue to identify further opportunities to generate value for our shareholders. Today's results show how we have successfully grown revenue in tough trading conditions while at the same time increasing investment in new products and emerging markets to drive future revenue growth. While this approach comes with some cost to short term earnings progression, we are convinced that it is the best way to generate sustainable increases in shareholder value over the medium term – a theme I'll return to in more detail shortly.

**SLIDE – RESULTS HIGHLIGHTS**

These results again demonstrate our consistent approach to driving value. I would particularly highlight the underlying sales growth of 6% - one of the best performances in recent years. Our investment in growth initiatives is paying off with all five divisions reporting increases.

Headline operating profit rose 5% as a result of volume leverage, better pricing, and our continued focus on operational improvements and restructuring. Margins were higher in all but Smiths Medical where we invested an additional £10m in emerging markets and new product development which impacted margins.
EPS grew 1% - rather slower than operating profit because of adverse foreign exchange movements, a higher effective tax rate and the divestment of Crossmatch Technologies in the second half of last year.

Cash conversion remained strong at 88%, with free cash flow of £71m. Return on capital employed rose 70 basis points to 16.7%.

The interim dividend is up 6% to 12.5 pence, reflecting the strong cash conversion in the period.

**SLIDE – PROMOTING RESPONSIBILITY: AN INCREASED FOCUS IS DELIVERING IMPROVEMENTS**

As I have highlighted a number of times previously, providing a safe working environment within all our facilities is one of my key priorities - and one shared by our Board. I am pleased to report today that the steady reduction in recordable incident rate continues and we experienced only a marginal rise in the lost time rate as a result of two additional injuries in the period.

In addition, you will also see we continue to make excellent progress against a range of environmental metrics, in part reflecting our increased investment in more and better HS&E resources – both people and new energy-efficient plant - across the Company.

So with that introduction, I will now hand over to Peter.

**SLIDE – PETER TURNER**

Thank you Philip and good morning everyone.

**SLIDE – INTERIM RESULTS 2013**

I’ll start as usual with a slide to summarise the key financials.

As Philip said, these are a solid set of results, with underlying growth in revenue and operating profits, and continued progress on our cash and return objectives.

Headline revenue was up 4% on the prior period. Excluding the net impact of adverse currency translation and recent acquisitions, underlying revenues rose 6%.

Headline operating profit increased 5% on an underlying basis. Margins were ahead in all businesses except Medical where they were affected by the additional investment of £10m. As a result, overall margins were held at 17.1%.

The headline tax rate was 27.5% - and we expect this rate to be sustained for the full year.
So let’s get into a bit more colour on the underlying performance at a divisional level.

**SLIDE – UNDERLYING HEADLINE SALES AND PROFIT PERFORMANCE**

John Crane delivered further growth although the rate slowed during the period as demand from first-fit customers fell. Margins improved because of better pricing in the aftermarket and procurement efficiencies. Duncan will give more colour on the outlook later.

Smiths Medical has delivered revenue growth despite a tough trading environment with adverse pricing and pressure on healthcare budgets. As I mentioned earlier, margins declined reflecting our decision last year to step up our investment significantly in the emerging markets and new product development. We are targeting cost savings to fund this investment but these savings were obscured in the first half, in part by some one-off costs.

Smiths Detection and Smiths Interconnect both delivered a better first half, albeit against a weak comparator period. Detection margins benefited from the additional volumes and restructuring savings, although still had headwinds from one-off costs of £5m for restructuring and some legal expenditure. Margins at Interconnect were up on the increased volumes and operational efficiencies.

And finally Flex-Tek – another strong performance, with growth driven by US residential construction and aerospace customer demand. Strong operational gearing and better pricing pushed up margins.

As before, we have provided margin causals for each of the divisions in the appendix.

**SLIDE – PROFIT PROGRESSION 2012 to 2013**

Pulling this all together for the Group… the next slide summarises the key movements in the period. We achieved volume growth across all divisions while better pricing in John Crane and Flex-Tek more than offset some pricing pressure in Medical and some adverse mix.

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

This increased investment was partly funded by operational efficiencies from a range of initiatives including the restructuring programme in Smiths Detection. We also experienced some wage-related cost inflation.

The sale of our interest in Crossmatch Technologies in July reduced the profit from associates by £4m.
Currency volatility has increased since the year end. We experienced adverse currency translation with the weaker Euro and US dollar which resulted in a pre-tax profit of £223m.

Since the end of the first half, the Euro and dollar have both strengthened against sterling so it is worth reminding you that a one cent move in the US$ has an effect on operating profit of almost £2m; the Euro has an impact of almost £1m for every cent movement.

**SLIDE – GROUP CASH CONVERSION**

Turning now to cash conversion – at 88%, this is slightly better than our usual first half performance reflecting the reduced outflow for working capital.

Our guidance for the full year remains in the range of 90-100%.

Cash generation remains a key priority for the Group. It provides the resources to reinvest in our businesses for future growth, as well as to grow the dividend, subject to maintaining a healthy balance sheet and the on-going constraints of our legacy liabilities.

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

Turning now to return on capital employed …

As you can see we’ve made progress across Flex-Tek, John Crane and Smiths Detection reflecting their improved profitability.

Smiths Medical was lower due to the investment in growth initiatives while Smiths Interconnect was affected by the investment of the additional capital following the acquisition of PDI last year.

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

I’ll now give some detail on the items that reconcile headline operating profit to the statutory numbers.

Starting with the exceptionals at the operating profit level which amounted to a net charge of £15m in the period…

- The £5m restructuring charge was for the Detection cost-saving programmes. I’ll say more about this in a moment.

- There was also a £10m charge relating to the John Crane Inc. asbestos litigation. Overall, the litigation experience has been in line with that of recent years.
• We also rolled forward the provision for Titeflex litigation relating to insurance subrogation claims. Like the John Crane provision, this is a rolling 10-year discounted provision which is reviewed every six months.

• There was also a £1m settlement gain from the closure of a small pension scheme.

The amortisation of acquired intangible assets was £23m.

I would also like to remind you that we are continuing to strip out the pension finance income from headline PBT. This amounted to £6m in the period.

**SLIDE – EXCEPTIONAL ITEMS: RESTRUCTURING PROGRAMME DELIVERING BENEFITS**

Now let’s review the Detection restructuring programme in more detail...

You will recall that the plan was to deliver £40m of savings for £40m of costs over three years – as shown on the top left hand corner of the slide. We have continued to make progress with a further £4m of savings delivered, bringing savings to date to £19m – shown in the green bar across the centre. However, some areas have not progressed as quickly as we would have liked. For example, the progress on enhancing the proportion of locally sourced components for our new US and Asian manufacturing facilities has been hindered by the ability to find suitable sourcing for some components. It has also taken longer than we originally expected to agree the social restructuring plan in Germany. As a result the total programme is now targeting £36m of savings, albeit with a lower cost of £33m, completing at the end of fiscal 2015.

Looking back on our progress to date, there have been significant achievements over the past 18 months – as listed on this slide.

In particular, a number of sites in North America, including the Morristown office, have closed. X-ray manufacturing is now realigned closer to customer needs with three hubs: an expanded Edgewood site for the Americas; the new facility in Malaysia to service the fast growing Asia-Pac airline market; and a streamlined Wiesbaden plant where agreement has now been reached to remove 170 roles.

It is also worth noting that we have succeeded in delivering these changes while growing the business and building the order book.

**SLIDE – PENSIONS: DEFICIT DECLINES TO £382M, DRIVEN BY ASSET PERFORMANCE**

Moving to the balance sheet, and first turning to pensions... you will see the net deficit has fallen since last year... giving a movement of £238m to £382m.... Partially offsetting this, we now have £74m built up in the escrow which is invested in gilts.
The deficit movement has been driven primarily by a recent improvement in UK asset performance and higher US discount rates.

Cash contributions in the period totalled £41m. Looking to the full year, the cash contributions are likely to amount to around £90m as detailed on the slide.

As you know, the process for the latest triennial reviews for the UK schemes is underway, although negotiations are unlikely to conclude until the summer. We will provide an update at that time.

**SLIDE – STRONG BALANCE SHEET SUPPORTS INVESTMENT**

Now moving to net debt... free cash flow of £71m was offset by outflows of £103m for the final dividend payment and some foreign exchange translation. This resulted in an increase in net debt of £64m to £855m.

Given my earlier comments on cash conversion and the pension payments, we expect net debt to be around £750m at the year end, subject to M&A activity and future FX movements.

You will have also seen that back in October we successfully issued a $400 million bond, with a 10-year maturity and a fixed coupon of 3 ⅝%. This financed the repayment of the private placement of $250m in January 2013.

At which point I will hand back to Philip.

**SLIDE – PHILIP BOWMAN**

Thank you, Peter.

**SLIDE – DELIVERING SHAREHOLDER VALUE – TWO KEY THEMES**

As I said earlier, today’s results highlight the significant opportunities that exist for us to deliver further shareholder value. I believe there are two main drivers.

First, we continue to invest heavily in accelerating revenue growth over the medium term. In particular:

- We are increasing our exposure to higher growth, emerging markets by investment in sales and manufacturing capabilities in China, Brazil, and India – as well as other developing markets. The rate of sales growth there easily outpaced the rest of the group.

- We have increased our commitment to invest in new product development and innovation across the divisions.
We have reshaped our sales profile, reducing our historically heavy reliance on government-funded customers in favour of the more dynamic commercial sector which now accounts for around 65% of Group sales.

We also continue to look for bolt-on acquisitions that fit our strategic criteria to enhance value.

The second way to deliver shareholder value is through further operational improvements to fund growth and drive returns. Opportunities exist across all our businesses, although their scale varies by division. In some it is basically a process of continuous improvement where benefits will be largely reinvested to accelerate growth. In others, such as Smiths Detection, a more radical approach to re-engineer the cost base and improve margins is underway. Cross-functional working parties have been set up to ensure that innovation, best practice and common processes are increasingly shared. These initiatives are delivering improvements in quality, value engineering, and in the effectiveness of our spend on new product development.

Cash conversion must always be a priority for any business – more so perhaps in Smiths Group due to the considerable cash cost of legacy liabilities. Fortunately our businesses require limited fixed capital which, through good stewardship, allows the delivery of strong cash conversion. Without this cash conversion, we cannot fund our investment in organic growth drivers, bolt-on acquisitions and sustain a progressive dividend policy. I was therefore very pleased that our efforts improved cash conversion relative to the same period last year.

As ever in a listed company, it is a balancing act between investing for long-term competitive advantage versus delivering short-term growth in reported earnings. The Board reassesses this balance on a regular basis.

SLIDE – DUNCAN GILLIS

Moving now to the divisions; Duncan Gillis brings to John Crane a great track record in growing multinational businesses with high exposure to emerging markets. His background in performance-driven cultures ideally equips him to take this great business to the next level of development. As I said earlier, once you have heard about John Crane, Srini will present more detail on Medical’s performance. So Duncan, over to you…

Thank you Philip, and good morning…

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

Let me first say how delighted I am to be here today. I think John Crane is a great business with lots of opportunities – a theme I will return to in a few minutes. But first let me summarise what are a set of solid results.
Underlying revenue rose 3% and headline operating margin is up 90 basis points. Higher aftermarket and first-fit original equipment revenue fuelled the underlying growth, driven primarily by the oil and gas, and chemical sectors.

Aftermarket revenue grew 4% on increased demand from rotating equipment—such as seals, bearings and couplings—that together, represent about 90% of our revenue. Pipeline expansion projects from the increase in shale oil activity in North America were a key contributor to this growth. We saw a 4% sales increase in the oil and gas segment while sales in the chemical and pharmaceutical segment increased by more than 6%. Revenue from first-fit original equipment rose a modest 1% as customer investments in new capital projects slowed.

The rise in margins to 21.8% includes increased investment in first-fit projects and higher spend in sales, marketing and new product development -- investments that will help position us to capture growth in the medium term.

**SLIDE – JOHN CRANE: INVESTMENTS POSITION JOHN CRANE FOR FUTURE GROWTH**

Moving to our operational update... Emerging markets and fast growth businesses remain a key area for us, representing over 21% of sales. We have the largest global service network of its kind and continue to expand it. In the first half, new service centres opened in South Korea and the U.S.

Our earlier investments in the Middle East and Africa are starting to pay off. Year-to-date sales for this region, compared to prior year, increased over 10%, reflecting strengthened customer relationships. We also delivered significant growth in China where first half sales were up over 13%. Growth in Australia has accelerated, increasing by more than 20% as it benefits from offshore natural gas discoveries.

During the period, investment in new products and engineering rose by 16% in line with our commitment to increase investment by about 15% annually. We expect this to drive medium-term growth.

We remain focused on addressing customers’ growing demands in sometimes challenging operating situations, while supporting reduced environmental impact and energy efficiency. Building our R&D infrastructure will be important as we see opportunities to expand our presence in select regions to meet local requirements. Clearly, growing and retaining global engineering talent will be a key contributor to building our R&D infrastructure, which will also help us remain a market leader in engineered technology.
Looking ahead to the second half, John Crane’s order book has continued to grow, albeit modestly. The increase is primarily driven by higher margin end-user orders which were slightly more than 4% above prior period, helped by the shale oil activity that I already mentioned.

Underlying revenues in the second half will run at similar levels to the equivalent period last year due to a cautious outlook by our first-fit customers. We believe the softening of first fit sales will continue at least through the end of this fiscal year.

Second half revenue will depend on sustained maintenance and repair activity in our key end markets and continued customer investments in capital-intensive projects across high-growth regions.

Margins should continue to benefit from productivity efforts, partially offset by strategic investments in longer-term growth opportunities and increased investments in growth markets.

Looking beyond this fiscal year, we anticipate continued revenue increases from emerging markets and growth businesses. Of course, our large installed base of products delivers higher-margin aftermarket services and helps ensure more stable cash flows. Finally, shale oil extraction remains underdeveloped globally. Our order book should be strengthened for many years ahead as customers tap into these shale fields.

Let's turn now to my initial impressions of the business and some of the opportunities…

Throughout my recruitment process, I was impressed by the global team’s strong customer service ethic. During my first few months, this was supported by positive quantitative and qualitative customer feedback. We use NPS, or net promoter score, as a key measure of our achievements with customers and we’re strongly positive around the world. In North America, for example, we have an NPS of plus 62 percent. That’s one of the strongest I’ve ever experienced…

As you’d expect, over the past few months I visited many of our customers around the world—Saudi Aramco, PEMEX in Mexico City, OMV Petrom in Bucharest, BP Amoco in South Texas, Petro China and SINOPEC in Beijing, to name a few aftermarket customers. I also visited first fit customers such as Sulzer Pumps, Solar Turbo and Deep Blue Pumps in China. Qualitatively, our commitment to customer service was reinforced during my initial customer meetings. The business has a fairly robust pipeline of contract activity. We recently signed large, multi-year contracts with Shell, OMV Petrom, and Bahrain’s national oil company, BABCO, among others.
It would be remiss to not speak about our people. I’ve visited about 20 sites and spoken with many employees across all levels of the organisation. In these interactions I learned we have generally strong operating leadership—sharply focused on meeting customer requirements and local demand. We are also driving operational improvements, and some of the benefits are being reinvested in the business.

I’ll finish by discussing opportunities to further increase value in John Crane. I share Philip’s vision of reinforcing its position as a truly world-class company.

We’re currently evaluating our business strategy and expect to adjust the direction moving forward. Opportunities to reorganise the business are being examined, with an aim toward making further improvements in customer service while capturing some productivity gains.

Other productivity improvement options, such as in-factory operations and purchased goods & services, will be reviewed to help improve margins. These options could also fund additional organic growth investments in fast growing geographic markets & businesses, new product development, and marketing and sales. We will also continue to evaluate opportunities for further bolt-on acquisitions in our core business and adjacencies to enhance our offering to customers.

I am sure that you will be keen to hear further details about our plans and, on closing, I invite you to our investor day currently scheduled for December. We will then be able to share more about our business strategy and implementation progress.

SLIDE – SRINI SESHADRI

Thank you. I will now hand over to Srini and Smiths Medical…

SLIDE – SMITHS MEDICAL: DELIVERING SALES GROWTH EMERGING MARKETS AND CONSUMABLE

Thank you Duncan….. Despite a tough operating environment, Smiths Medical increased headline revenue by 2% mainly due to our expansion in fast-growing markets and a resilient performance in consumables which make up almost 85% of revenue.

Sales of Safety devices were flat with growth in sharps offset by revenue declines in catheters. However interest in safety-related medical products remains high in the developed world, partly due to tightening legislation, and is also growing in developing markets.

Medication delivery sales rose slightly with modest revenue growth in hardware and a flat performance in disposables. Capital budget constraints remain challenging and have been affecting infusion market growth. However, our Medfusion and CADD pipelines are promising and we anticipate accelerated growth in H2.
Sales in Vital care increased 4% despite continued sluggish procedure volume and pricing pressures in developed countries. The increase reflected improvements across most product ranges apart from veterinary and kitting.

Margins declined as we invested an additional £7m in sales and marketing in emerging markets and £3m in new product development. It is probably worth standing back a moment to set this in context. You will recall that five years ago our focus was on operational improvement, cutting costs, reducing back-orders and creating a robust foundation to take the business forward. Since that time, we have improved margins by over 500 basis points and the business is in far better shape. However, the one area that has remained elusive over this period is sales growth. This is partly for market reasons, partly because of our own SKU rationalisation programme to cut low margin products, but also because our historic footprint and portfolio was not geared to growth opportunities. We took a decision last year to address this by stepping up investment. We invested an additional £10m, largely in the second half of last year, which we were able to fund through cost savings. In the first half of this year, we saw the annualised effect of this investment resulting in a further £10m. Our objective remains that we will seek to fund this investment through cost savings although I would admit that we did not achieve that in the first half as we were hit by some one-off costs.

I would now like to spend a few moments looking at this investment programme...

**SLIDE – SMITHS MEDICAL: INVESTING IN GROWTH OPPORTUNITIES – EMERGING MARKETS**

While developed markets are still tough, emerging economies promise the opportunity to grow through leveraging our broad product portfolio. We have accelerated our investment and presence in these markets over the past 18 months, adding almost 300 commercial and support staff mainly in China, Brazil, India, and Southeast Asia.

However, the pace of fully executing this strategy is inevitably constrained by the lengthy product registration process in some markets and the time taken to train staff.

While acknowledging more work remains to be done, we are already beginning to see the fruits of this strategy, with sales growth of 12% in emerging markets in the first half. This is a significant improvement over historical growth rates.

In particular, growth in China of 17% and Brazil, 18%, has helped push up revenues from emerging markets to 11% of our total sales, up from 10% in the prior period.

**SLIDE – SMITHS MEDICAL: INVESTING IN GROWTH OPPORTUNITIES – NEW PRODUCT LAUNCHES**
New products also generate higher sales and profit growth over the long term and investment in R&D rose 16% to 4.4% of revenues. Supporting this investment is our initiative to streamline the organisation, upgrade talent, and improve processes. We have also grown our product development team in Shanghai by more than 20% this year.

We saw strong growth from Medfusion 4000 last year and, although this has slowed in H1 as hospital budgets were constrained, it is well positioned for future growth.

The recent FDA clearance of the CADD-Solis VIP ambulatory pump, already successfully introduced in Europe, opens the key US market and we continue to see good sales traction from our Graseby syringe pumps in China and other emerging markets.

FDA clearance was also gained for our ViaValve blood control safety catheter in North America. While in Europe, we received CE approval for a new Jelco catheter, Intui!V, which is well positioned to benefit from EU safety legislation effective this year.

We have registered multiple safety product ranges in Brazil, China and India, where we are engaging our customers on the benefits of adopting safety devices. As with our other product ranges, we are already seeing early signs of success from our emerging markets strategy, with robust sales growth in markets such as China, India and parts of South America.

We remain convinced that while there has been some short term pressure on margins this investment in new markets and new products is absolutely right for the future prospects of Medical.

**SLIDE – SMITHS MEDICAL: OUTLOOK**

Looking to the second half, developed markets are likely to remain challenging in the short term, but our strong pipeline of innovative products, broad portfolio offering, and increasing success in emerging markets is expected to drive sales growth. While we will continue to seek cost saving initiatives and operational enhancements, such as value engineering, we expect profitability to decline this year. This is largely due to the US medical device tax which is expected to cost around £4m this year, and around £8m in a full year. In addition, we have stepped up investment in new product development and emerging market sales to position the business for future growth.

I will now hand you back to Philip…

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

Thank you Srini. Let’s now turn to Smiths Detection… Sales grew 19% and margins rose 270 basis points to 12%, driven by a continued recovery in activity levels. particularly in the market segments of
transportation and ports and borders. Margins improved mainly because of higher volumes and the effect of fixed cost savings.

In Transportation, sales rose 40% helped by a major contract for X-ray and trace security equipment from the new Doha regional hub airport and smaller orders from several European airports.

A strong performance from Critical Infrastructure last year was reversed as customers grew increasingly nervous about US budget negotiations and the threat of the “fiscal cliff”. However, this market still shows considerable long term growth opportunities and our product portfolio and sales force deployment have been optimised to build our presence over the next few years.

Sales in Ports and Borders rose 41% thanks mainly to a programme of security improvement at more than 20 Brazilian ports and other smaller contracts in emerging markets. Increasingly, customs authorities are recognising the lucrative revenue capture characteristics of the cargo scanners.

Underlying Military sales grew an encouraging 14% despite the general downward trend in defence budgets. The improvement reflected the continuation of major contracts and acceptance of some of our US military programmes as well as sales to the UK’s Ministry of Defence. An additional order of $21m was received from the US military for JCAD.

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

Smiths Detection is committed to maintaining a competitive edge in its key technologies, as evidenced by the number of recent product launches. Company funded new-product development held steady at £17m, a figure pushed up to £20m when customer funded projects are included. This equates to 8% of revenues.

Recently launched products included the CIP-300, a low energy X-ray scanner specifically designed for the fast and efficient screening of cars and light vehicles.

And the XCT, a hybrid X-ray-Computed Tomography scanner for checked baggage which has received certification from the EU authorities and is undergoing evaluation by the TSA.

Our increasing focus on faster-growing markets continues to pay dividends with revenue up 14% to account for 19% of total sales.

The Doha order is the biggest single airport contract Smiths Detection has ever won and a regional support office has just opened in Saudi Arabia to help expand our presence in the Middle East and North Africa.
I have talked in the past about the major opportunity in aftermarket servicing for Detection. A greater focus has delivered a 5% growth in aftermarket revenue. We have grown spare parts sales so distributors now have spares close at hand and can be more responsive to customer needs. We have significantly enhanced our training offering, having recently trained 28,000 individuals from customers and distributors... the enhanced knowledge has lowered the number of service interventions and therefore our costs. We have significantly improved our contract renewal rate which is now in excess of 95%. I remain convinced that growth in aftermarket service will provide a rich area of opportunity for Detection over the medium term.

**SLIDE – SMITHS DETECTION: OUTLOOK**

We expect to deliver a similar level of sales in the second half as the same period last year, subject — as ever — to the timing of delivery orders and any new budget constraints. The order book remains healthy and will benefit from an increased emphasis on higher margin contracts and a longer term focus on pipeline management. Headline operating margins will continue to benefit from our on-going restructuring initiatives.

Turning next to Smiths Interconnect…

**SLIDE – SMITHS INTERCONNECT: SALES AND MARGINS IMPROVE AGAINST A WEAK COMPARATOR**

Sales grew 4% against a weak comparator period as strong growth in both Microwave and Connectors was partially offset by a weakness in the Power business unit. Margins rose on the back of better volumes and cost savings.

In Connectors, underlying revenues increased 7%, reflecting a recovery in demand from medical customers and strong growth in commercial aerospace and space applications. Military benefited from our success in several programmes such as customised connectors for the data storage systems of a new fighting vehicle.

Microwave performed strongly with sales up 13% as new defence contract wins and volume increases on major production programmes drove our growth. There was also a strong contribution from cable assemblies for testing of new devices. Telecom sales declined against a strong comparator period. However, due to some good progress in growing Chinese sales, overall demand held up for our PIM test instruments.

Underlying sales in the Power business fell by 21%, mainly due to difficult market conditions facing PDI and a slowdown in US orders for power and EMP protection devices. The enterprise data centre sector – typically facilities operated in-house by large enterprises such as banks – was hit by a fall in capital investment. However, this was offset by strong demand in the co-location sector where PDI won its single largest order since acquisition. Demand in the alternative energy sector weakened
further and we have yet to see any sign of a recovery. We launched a number of strategic initiatives
aimed at accelerating the turnaround of PDI and these are delivering increased tender activity and,
more importantly, tender win rates.

SLIDE – SMITHS INTERCONNECT: INVESTING IN NEW PRODUCTS AND EMERGING
MARKETS

Product development remains a priority at Interconnect as it focuses on opportunities in higher growth
markets and those with the best returns. Company-funded R&D spend increased 3% to £11m, but the
customer-funded portion fell sharply because of constraints in US defence budgets.

Funds were channelled towards reinforcing Interconnect’s market-leading position in specialist
technologies. Some recent product initiatives are listed on the slide.

Smiths Interconnect’s increased exposure to faster-growing, emerging markets was underlined by a
21% rise in revenues which now represent around 15% of total sales.

SLIDE – INTERCONNECT: OUTLOOK

We are cautious about the full year outlook given the uncertainty in most of Interconnect’s end-
markets. In defence we anticipate that the market will decline in both the US and Europe as the
impact of sequestration and other spending cuts affect the supply chain. That said, we will continue to
focus our efforts on sectors which we consider may be less impacted due to their strategic
importance,

Interconnect has successfully repositioned itself to ensure that over two thirds of revenue now comes
from non-government funded markets. Whilst we are well placed to exploit the long-term growth
opportunities in the wireless telecoms, semiconductor test, and data centre market sectors, the timing
of any enduring recovery in these sectors still remains uncertain.

Finally to Flex-Tek…

SLIDE – FLEX-TEK: STRONG GROWTH FROM FLUID MANAGEMENT & CONSTRUCTION;
MARGINS BENEFIT

Flex-Tek’s revenue rose 11%, driven by strong sales growth in aerospace components and in US
residential construction. Margins improved as a result of higher volumes and price increases.

In Fluid Management, sales of components to major aerospace companies like Airbus, Boeing, GE
and Rolls-Royce helped push sales up 11%. Revenues from the US automotive market for fuel and
brake applications also grew strongly.
Construction revenue rose 26% as we boosted our market share by cross-selling our range of product lines to the US distribution market. Demand has been buoyed by an 18% increase in the annual rate of new single family home starts.

Heat Solutions revenues were marginally down with weaker HVAC sales to household appliances partly offset by a better performance elsewhere.

Revenues in Flexible Solutions rose 4% as the success of our new sleep apnoea products more than offset continued weakness in the floor-care market.

**SLIDE – FLEX-TEK: OUTLOOK**

In the second half we expect further growth, albeit against a stronger comparator period and continued uncertainty in the household appliance sector. Margins will benefit from higher volumes but face pressure from increased investment in new product development, competitive pricing and anticipated commodity price inflation.

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

Looking ahead to the second half, the backdrop is demanding given a combination of the impact of the US medical device tax, slower demand in some of the market sectors serviced by John Crane, and the likelihood of further government spending cuts. However, despite these challenges, there remain significant opportunities to generate value for shareholders over the medium term.

Our focus remains on accelerating top-line growth while continuing to build on our progress against the key metrics of margin, cash conversion and return on capital. This will be supported by increased and more effective funding of new product development.

Today’s results have shown how emerging markets now account for a steadily increasing share of our global revenues, a trend that will be supported by continued investment in sales and marketing resources in these faster-growing economies.

Despite the substantial cash demands of our legacy liabilities, our balance sheet has strengthened materially over the past five years. We continue to scan the horizon for acquisitions or indeed disposals that will further optimise capital allocation across our portfolio and generate enhanced value for our shareholders.

So in summary, we have used the prolonged downturn to strengthen the Company. A continued focus on delivering both further improvements in operational efficiency and targeted investment in growth initiatives is positioning us to accelerate revenue and value growth for our shareholders in the medium term.
That brings the formal presentation to an end. Peter and I, along with other members of the senior management team, would 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.

Andrew Carter - RBC Capital Markets - Analyst

Morning. It's Andrew Carter from RBC. Could I ask three questions please? First of all in terms of things like the sequester and the uncertainty about budgets in North America, is there any sign that any of the businesses saw any kind of, I almost think pre-buy or using of budgets at the back end of last year, because I notice obviously the strength in Detection, but I was interested to see some of the strength in Medical at Interconnect? And I'd also be interested in the answer on that on Medical as well.

Moving on just to the pension, and I recognize that the triennial review hasn't been completed, but there has been quite a lot of speculation that some of the discussions that the UK authorities have been talking about might benefit companies with pensions such as Smiths'. Could you give us a little bit of an update on that?

And the final one was just in terms of M&A. I think about a year ago you were talking quite a lot about potentially acquisitions and disposals. There seems to be a little bit less of that in your discussion today. I wondered if you could give an update there on your plans.

Philip Bowman - Smiths Group plc - Chief Executive

Okay. Three questions there. The one on pensions I'm going to pass to Andrew Lappin who heads of Government Affairs team. I'll answer the one on M&A. And perhaps if I could ask Srini, Mal and Mark to comment on the first one about sequester, please. So Srini, do you want to go first?

Srini Seshadri - President, Smiths Medical

Sure. We have not detected any advanced buying due to the sequester in the Medical business.

Philip Bowman - Smiths Group plc - Chief Executive

That was -- you asked the question; you got the answer.
Mal Maginnis - President, Smiths Detection

In Detection obviously most of our programs are programs of record. So we've seen those contracting officers continue with confidence in what they've been doing. The biggest issue of the sequester for us has been contracting officers' nervousness about what budget they'll be authorized to do going forward, and that's been the major impact.

Philip Bowman - Smiths Group plc - Chief Executive

Okay. And Mark?

Mark Reckitt - President, Smiths Interconnect

In Interconnect we haven't seen much of a pre-buy. Don't forget Interconnect is a second- or third-tier supplier to a lot of defense contractors. So a lot of what's happening in the marketplace takes a while before it filters through to us.

Philip Bowman - Smiths Group plc - Chief Executive

Thank you Mark very much. In terms of pensions, I'm going to ask Andrew to say whether the time we've expended traipsing the corridors of the Cabinet office, the DWP and the Treasury are likely to produce any fruits. But I'm always skeptical.

Andrew Lappin - Smiths Group plc - Director, Government Relations

I think in the current environment it's hard to see any early resolution to those issues. Certainly the consultation announced in the pre-budget report back in December, the call for evidence that came from that was at the lower end of ambition and has been fairly categorically rejected on those terms by most of the stakeholders who have responded. And I think as you see gilt yields recover, the risk of locking in some of the weakness over the longer term will cause problems for pension funds like ourselves. So I don't see any early resolution on it. And any relief that does come will be minimal.

Philip Bowman - Smiths Group plc - Chief Executive

Andrew, thank you for that. Question of M&A and one of emphasis, I think the story today was very much about two things. It was about firstly the investment we're making for revenue growth, the fact that that is beginning to deliver. And secondly the fact that we still have the opportunity, I believe, to deliver some significant operational efficiencies and use that either to enhance earnings or for more investment in growth. So it was very much what I would refer to today as an organic story.

I commented we continue to look at the -- scan the horizon for acquisitions. That's just as true. We have not been -- I would say in the first half we didn't deliver any, but that does not show a lack of will in any way. And clearly the comment I made about the shape of the balance sheet, we are in a better
position to be able to afford those acquisitions and fund them than we were five years ago or even
two years ago.

Next question. Please, third row.

**Rami Myerson - UBS - Analyst**

Rami Myerson from UBS. Three questions. First on John Crane. You've mentioned shale gas a few
times and I'd be interested to hear exactly how big the exposure is to upstream because in the past
I've understood that John Crane has been -- has more exposure to downstream. And potentially the
second derivative of shale gas, are you seeing older refineries actually coming back to be re-serviced
and returned to action or not to be retired given the fact that energy's become cheaper in the US.

Second question is on -- Srini, on Medical. Thinking about the different moving parts of H2, talking
about stronger deliveries because of the launch of new products despite a tough comp from last year,
thinking about potentially more volumes from ObamaCare, shouldn't we be slightly more optimistic on
the outlook for H2 compared to a very cautious outlook?

And thinking about Interconnect and it does appear that some of the end markets are also slightly
more optimistic. Data centers and wireless CapEx all seem to be quite optimistic, and I'm curious why
as well. There seems to be very -- a lot of caution there for H2.

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

Very good. Three questions there. The first one I'll pass to Duncan in terms of shale gas. What's
John Crane's exposure? And also I think the question of what is happening with refineries in the US
as a result. So Duncan, please.

**Duncan Gillis - President, John Crane**

Thank you. In the fiscal year '12 we had orders of around $10m from shale-gas-related activities. And
much of that was realized in the first half of this year. Looking out, we have visibility over the next few
years to $30m to $40m worth of opportunities out there related to shale in the US. So we feel like that
would be a pretty important part of our business incrementally going forward.

In terms of the refineries, if you just take a look at our aftermarket business and the growth there, I
think it speaks for itself in terms of customers continuing to prolong the life of equipment and make
investments in that equipment and we are seeing some of the benefit, as is the industry. And we don't
expect that to change at all.

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

Thank you Duncan. Srini, second half and why are you not pinning your hopes on a big boost in
revenue from ObamaCare?
Srini Seshadri - President, Smiths Medical

A couple of I hope relatively straightforward things. One is our business, as we've made very, very clear over the last few years, is a very interventional products business. So it's highly allied to surgical procedures. We don't expect to see a huge bump from ObamaCare because of surgical procedures which are largely covered by Medicare and so on and so forth already. We know this because when the same kind of program was put in, in Massachusetts we didn't see a huge jump in procedure volumes. So that's number one.

Number two. While we are very, very optimistic about these two new products that we've introduced specifically in infusion, we find that the capital budget constraints remain very, very challenging. So while we have very good new products launched, we're in great shape from best-in-breed kind of a point of view, but we are facing some real budget constraints right now.

Philip Bowman - Smiths Group plc - Chief Executive

And finally, Mark, why you're so conservative in your outlook for Interconnect.

Mark Reckitt - President, Smiths Interconnect

It's my natural position. I think a lot of the Interconnect businesses are relatively short-cycle business and it's difficult to predict exactly what's going to happen. Let me give you the example of the connectors for the medical industry. We had a very strong first half this year against a very weak first half the year before versus a very strong first half the year before that. And that's pretty typical of what we see in sectors like medical, telco and rail. And so given everything that we're seeing -- you mentioned the sequester; we're also seeing weakness in industrial markets in Europe particularly -- I think it's sensible for us to remain cautious until we see that business actually coming through.

Philip Bowman - Smiths Group plc - Chief Executive

Thank you Mark. Next question. There we are.

Mark Davies Jones - Agency Partners - Analyst

Thank you. Mark Davies Jones from Agency Partners. Two questions, please. Firstly back to you, Philip. On the development of the growth markets within your business, do you think this organic development is sufficient? Are there any of the business lines that require a step change in their position in emerging territories and are there things one could buy if you wish to go down that route?

And then the second question is on Medical again. Philips yesterday were talking about the challenges of the US situation currently and suggesting a worsening of pricing behavior in that market as a result. Are you seeing that and is that one reason why you're not able to pass on the costs associated with the excise tax currently?
Okay. Srini, would you like to start on the pricing one?

Certainly all of the medical markets that, whether it's Philips or us, we're in very, very competitive situations. There are well established competitors. It's not that easy to pass pricing on. Having said that, our performance in this year is actually better than what many other companies have done. I remain cautiously optimistic that through a combination of pricing, variable cost productivity and much better mix management from a product line point of view, we can ameliorate quite a bit of the medical device tax effect.

In terms of your question about the growth markets, clearly we have made a major statement in terms of Medical, increasing our spend on an annual basis by some GBP20m over the last 12 months. I think if you look at other businesses, we've approached it slightly differently.

Five years ago the US were our largest customer for Smiths Detection. Given all the uncertainties over the last 24 months in the US, the level of procurement activity, for example from the transportation security side of homeland security, has been very, very minimal. So we have actually rebalanced that business. And a lot of the success in the first half of this year came from the Middle East, as we said in the presentation, it came from South America and it also came out of Asia. And I think yes, we are putting more resource, for example, we commented on the opening of an office in Saudi Arabia. We'll be, I think, emulating that in a number of other territories, but that's perhaps not the same sort of step change as you saw in Medical.

I don't know whether, Duncan, you'd like to comment at all about John Crane?

As I said, we are taking a look at the business strategy and had more to say about the topic in general in December at our Investor Day. I think it's safe to assume that we'll be investing in a select group of emerging markets and at different levels of investment, looking to those markets to drive growth over time. And I think we'll probably be able to talk more about that in December.

Thank you. I think you also asked the question as to whether M&A might be a way of accelerating that, and that clearly is a possibility. It could be particularly in areas of the world where historically we have had a very low market penetration and we need a kick start. Whether that would be a straight acquisition, whether it might be some form of joint venture, I've got an open mind, but certainly we would look at those opportunities.
Thanks. It's Alexander Virgo, Berenberg. On Medical, if you adjust for the investments in both product and headcount, you're looking at a 24%, 25% margin. What sort of timeframe are we looking to get back to that in terms of how soon do you see the spend declining and how much or how quickly we'll see a benefit of that coming through on the top line in terms of emerging markets?

I think there are a couple of issues. There was the emerging market issue, but there are also other headwinds we had in the first half of this year. One of those is the fact of changes in EU legislation, the REACH legislation, the RoHS legislation; the cost of making legacy products compliant with that legislation is significant, and that was a drag on the first half of the year and that will continue probable for another 12 to 18 months. So you've got an example there.

One of the other things which I think doesn't come out from the results but is an insight, given the delays we had and everyone has had in the US in getting infusion products through the FDA, we commissioned a program in the US to effectively re-life one of our legacy products in the US so it gave us some optionality. That again comes at a cost of doing that and that had an impact again in the first half of this year, and we're going to continue that program through to completion so that will continue to have an impact in the second half.

In terms of the emerging market investment, we I think always said that the payback on that was going to take some significant period of time. If I think back to other businesses where we have gone into markets like that, Allied Domecq, where we went into the Chinese market, we went into it with a clear view that we would not make any profit out of it for five years. We built a position but it was quite painful along the way. I don't think it will be quite that extreme, but certainly when we went down this path I said to the Board, don't look for any payback in much less than three years.

So I think it's going to continue to have an impact on margins. But I think it has to be the right thing to do to get our products into these markets given the pressures we're seeing in some of the developed markets.

Okay. Thanks. And then just on Detection, pulling back to the overall benefits you expect from the cost-saving programs there, is that a reflection or an admission of defeat, if you like, in terms of the quality of supply chain you can find in low-cost countries or emerging markets?
Curiously I think we've experienced more difficulties doing local sourcing in the US than so far we've found in Malaysia. So it has been a US issue. I think we will resolve most of it over time. But there are certain components that go into many of the machines which are effectively sourced in Europe. And there is no comparable product available in the US. So what we're looking at is can we arrange, for example, a licensing arrangement to allow for them to be manufactured over there.

So I don't think it's an admission of defeat. I think it's probably a reflection that actually the challenge was a bit harder than we thought. I think we will get there. We do need to get there. And I'm actually quite pleased with the progress we've made. But nevertheless there are some challenges there.

Next question. In the middle, up row five or six.

Thank you. It's Alex Toms from Bank of America Merrill Lynch. Three questions and they're follow-ups actually from some previous questions. First of all on Medical, how should we think about med-tech tax? Is this just a one-off impact in perhaps a 12-month period and then life continues for Medical as was or actually could there be a change in competitive dynamics as a result in that industry?

Second question also on Medical, what sort of margins do you make in emerging markets currently?

And a third question, on John Crane, how do you think the market share has trended over time? Thanks.

Okay, Alex. In terms of the impact of the medical devices tax, I'm going to pass this to Srini. But it's a bit I think rather like asking the question of what happens with the banks' deposit tax in Cyprus, assuming it's ever implemented, what will the law of unintended consequences generate from that. So Srini, against that backdrop.

If I heard a sense that you're asking me to speculate on whether this will lead to industry consolidation, I think there are people far better qualified than I to do that. I think the industry has to face into this tax and figure out ways through pricing, through variable cost productivity, through base cost productivity to deal with it. This is a cost just like every other cost. And to the extent that we can lobby to repeal this particular unfair tax, we're going to do everything we can in our power to do that.

Okay. We then move on to the two other questions. In terms of John Crane, Duncan?
Duncan Gillis - President, John Crane

It's a little bit of a tricky question depending how you want to measure market share. I think take a look at the installed base over the past 12 months or so, it's pretty flat in terms of our share. If you go back a little bit further, it's flat, maybe down a little bit as we've lost a couple of big projects where pricing was just more competitive than we chose to take advantage of. If you'd measured based on transactions, they may be gaining a little bit of share in the aftermarket through some of the -- through the great service network that we have around the world. So again it depends on the metric you want to use.

Philip Bowman - Smiths Group plc - Chief Executive

And I think it depends a lot on geography.

And Srini, margins in emerging markets for medical consumables?

Srini Seshadri - President, Smiths Medical

I don’t think we report margins by region. But I will say that if you look at our Americas/EMEA/Asia Pacific broad three regions, we get comparable margins in those three regions.

Philip Bowman - Smiths Group plc - Chief Executive

Thank you Srini for that. Next question. Thank you.

Alasdair Leslie - Societe Generale - Analyst

Yes, thank you. Good morning. It’s Alasdair Leslie from Societe Generale. A couple of questions, please. Firstly just on John Crane, looking at the EBIT bridge, the price/mix again, plus 10m in H1. I think that followed on from a very strong number in H2 last year as well, but significantly higher compared to the previous year. So I was just wondering how sustainable that level is going forward. I appreciate there’s a lot of mix in there from aftermarket, but given the demand environment is perhaps weakening going forward and may be a little bit more competitive on the OE side, should we think of - - how should we think of that evolving through H2?

And then similarly just on the incremental investments in H1, I think 1m in John Crane, should that accelerate as we move into H2 and perhaps next year as well, going back to the comments on emerging market investments?

And then just a second question on Medical, quite a few questions there already. But just looking at the margin development perhaps in H2, a lot of moving parts. But historically Medical has had very strong seasonality in margins H1 versus H2. Should we expect that again this year or should we perhaps expect something similar to last year when margins were flat sequentially?
I'm going to pass your question on Medical margin to Peter.

Peter Turner - Smiths Group plc - Finance Director

Very good. I think in terms of medical margins, as you say, typically we do see stronger margins in the second half. Second half of last year was clearly depressed by some of the investment that we made, starting in the second half of last year. So a number of moving pieces. I would see us making progress H2 over H1 this year in terms of margins. But I think as we say, unlikely to get back to a full-year margin comparable to 2012.

In terms of John Crane, certainly I would anticipate that the level of investment will rise going forward. But remember some of the comments that Duncan made to the effect that he can see operational efficiency opportunities which clearly could be used to fund that increased investment.

In terms of sustainability and pricing, Duncan, I think that's one for you, please.

Duncan Gillis - President, John Crane

On the price/mix question, we've got two different dynamics going on. We're seeing pricing pressure in our first fit or OEM business. And in addition to that the growth has slowed, as I mentioned, in the first half, 1% growth. The other side of that is we've had low single-digit price increases in -- or price gains in our aftermarket business with stronger volumes. So as we look forward, we could probably expect to see some margin expansion from that combination, although it'll be modest because of the severity of the price pressure in the first fit customer business.

Thank you, Duncan. Yes, in the second row.

Juho Lahdenpera - Nomura - Analyst

Good morning. It's Juho Lahdenpera from Nomura. I've got just two questions, please. I'll go back to the pricing in Medical. One of the things that just looking over a few more years, you've had negative pricing trends there over quite a number of years. And they seem to be getting a little bit more worse now, particularly in the western markets. And I guess just thinking about it in the future, wouldn't you have to do quite a bit of work just to sustain them? But to improve the margins, is that a question where -- will your pricing pressures there, are you expecting them to get worse or stay negative or to be flat in the future? That's question number one.
And question number two is on pensions. You've had quite a big decline in the underfunding, and that was a reason what you mentioned earlier for some of the hesitation for disposals. If the pension underfunding and the underlying funding deficit declines as the accounting deficit, is it less of a headwind for you now or would it have to come down further?

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

Okay. First one in terms of Medical pricing, Srini, please.

**Srini Seshadri - President, Smiths Medical**

It's not only in the period that you're referring. I've been in this medical industry since 1989. I haven't seen a year in which price pressures weren't just a fact of life. So negative 1% to negative 3% price pressure has been the case for a very, very long time in multiple parts of the medical device business.

Having said that, the antidote to that, one of the reliable antidotes is the product development. So part of what we have to continue to do, and that's in fact why we have improved and increased the amount of investment, is to continue to come up with the very good new products with strong branding and establish the value of those products, and that's what we intend to do.

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

I think in terms of the pension deficit, yes, we have said that the scale of the deficit clearly has an impact on the ease of making any significant changes to the portfolio. Clearly it's encouraging to see that the accounting deficit reduced in the first half of the year, though one is somewhat nervous because of course that is largely a result of the performance of the equity markets over the last three or four months rather than any underlying change in the long bond yield in terms of gilts. So I think we have some way to go before we're anywhere near getting what I would refer to as a get-out-of-jail free card.

But the key to that, as I've always said, I think will be when we start seeing the discount rate becoming less crippling than it has been. And a lot of that's down to quantitative easing, which even finally the Bank of England was prepared to admit. But clearly we do have a government in the UK which, having issued vast amounts of debt, has a remarkably vested interest in not seeing interest rates rise.

And I think one of the reasons, and Andrew talked of the fact that the call for evidence in terms of the valuation of liabilities of pension funds doesn't seem to be going anywhere is because the Treasury does not want to do anything which could in any way reduce the demand for gilts and therefore might potentially allow interest rates to rise. So I think I would say it is encouraging sign, but we've got a long way to go because of course the accounting calculation for deficit doesn't actually have much to do with reality. And I know I now have to wash my mouth out with soap.
Any other questions? Sandy?

Sandy Morris - Jefferies - Analyst

It is Sandy from wherever. My porridge got cold on Sunday while I read this article. So if we were starting with a mess, which is presumably zero, and you were now just trying to say where you think the Company's at, if 10 is where you would love it to be, where do you think we are? Five, six, seven, eight?

Philip Bowman - Smiths Group plc - Chief Executive

If I go back to five years ago and I just think what greeted me when I arrived, the Medical business greeted me with, I think, three product recalls in the first three months and the only people who phoned me were irate customers of Smiths Medical. The John Crane business was about half the size it is today in terms of profit. Flex-Tek was struggling manfully with what was happening in the US. It was losing money, believe it or not, on the aerospace part of the business. So a lot of things have changed. But it was a relatively low base.

What I say to the guys comprising the senior management team is we have come a long way. We've improved our margins. We've got much more focus on top-line growth, which has to be important. But are we a world-class company? And the answer to that is we have got a long way to go before we're truly a world-class company. We've got two world-leading companies in detection and the areas they operate. They are the world leader. The same is true of John Crane. So we've got some very good raw material. But are our processes there? Are we really generating the new products that we need to? Are we as intimate with our customers as we need to? The answer is no.

So I think if I was ranking this, and I think I had a tutor who was a Jesuit priest when I was at Cambridge, and clearly his alphabet did not include an alpha in any way at all, and I probably suffered from that. But I would say needs further improvement. I'd say we might be a six, but I think we've got a long way to go still.

Sandy Morris - Jefferies - Analyst

It was just idle curiosity. I generally got the effort prize. At the risk of being a bit boring, and I suspect the answer will be we'll tell you in December, but if we just go to John Crane, once upon a time it felt like the order book was extending out and we were getting a little bit more visibility into the second half. Now we just seem to be easing off a little bit. Now I know everyone is seeing it go quiet and uncertain and is struggling for top line. But I'm just curious whether we had a cancellation.

And then I'm a bit sure -- I'm sure the bit that we won't get an answer to until December is do we just focus on the core business now and expand geographically and back off on filters and bearings, or can we sustain this broad front in John Crane, please?
Philip Bowman - Smiths Group plc - Chief Executive

I don't know what Duncan's going to say. I'll tell you what I'm going to say, which is I believe we absolutely have to sustain a broader front. I believe we have opportunity geographically and to take market share. And the comment Duncan made earlier is we have not been growing market share as we would like, though we've been doing quite well in some of the markets where we've been investing. But I do also see considerable opportunity in the other areas. So from my perspective I'll be very interested to see what's said in December, but you might ask Duncan if he'll give you a preview.

Duncan Gillis - President, John Crane

Sandy, I hope you'll join us in December. No, I'm joking. John Crane has a very attractive return on sales, attractive return on capital, throws off cash very nicely. It's all about growing the top line and funding that through increased productivity. And to do that we've got a decent market position in our core business against a couple of strong competitors. There's opportunity to grow that, but there's also going to be a need to work across a broader front. That could be through adjacencies. That could be by focusing on select markets. And I think the specifics of that I'll be able to talk about more in December in a more transparent way because we'll have our ideas more firmly rooted and maybe a little bit of the execution in place.

In terms of the order book, starting in November of last year we started to see a bit of a slowdown, first with our turbo compressor customers in the OEM segment. And it's been a little bit unclear since then. I think in the -- so hence you see the top line flattish that I mentioned earlier for the second half. I think when we come out with the interim we'll probably be able to have a clearer picture on things. It's just a little bit too unclear right now to provide any more guidance than that.

Sandy Morris - Jefferies - Analyst

Yes, I hear what you're saying, what everyone else is saying. Sorry, then I'm going to jump around. I'm just going to do Tedd. Please, Tedd. When we get these nice chunky increases in housing starts, I can understand we then have product that goes into the new build, but instinctively some of the stuff we've seen in the last six months should begin to cascade through into household appliances and floor care and everything over time, you would say. Have you got any sense of that at all?

Tedd Smith - President, Flex-Tek

Sandy, the vacuum cleaner market and the clothes drier market are very different from anything we do in housing in terms of the way that's going. Floor care products over the last 10 years have just continued to depreciate. And I think drier demand, the -- frankly people wanting multiple sources in appliances, the very large companies is a pretty big deal.

The HVAC part that you're probably talking about the most, there is just a huge propensity for people to repair for where they used to be in terms of units that are around $6,000, $7,000 and things like that. And that's a huge change we've seen from the big up-tick years ago that we all know was not
real and then the down-tick that was probably also not real. Those items were consistent every year in
the up and the down. And subsequent to that I just think we have people spending their money very,
very differently. I honestly do, versus gas tubing and supply ducting.

**Sandy Morris - Jefferies - Analyst**

So we just have to rely on aerospace basically and the ducting, the tubing business to keep us going,
you think?

**Tedd Smith - President, Flex-Tek**

I think aerospace has got a good cycle, but I think we're also making a pretty nice transition on
specialty heating elements and we're looking at other Teflon technologies. But the construction
market's very, very difficult. Building material cost going up and things like that.

But I would also say in aerospace, development costs are very, very different than they used to be.
But, and as Philip alluded to, years ago when we actually lost money when he got here, those
businesses weren't spending a dime on development. I would have to tell you right now that the
customer intimacy in that business is hugely changed, hugely changed. And I feel very comfortable
about it on a long-term basis. But you are going to have more investment than some of the quieter,
less-noisy engines right at the moment. But we take a nice, long view on that business.

**Sandy Morris - Jefferies - Analyst**

Thanks. And last one, I promise. I'm not riding to Srini's rescue here because it's simply not in my
nature, but my learned friend at the other end, bizarrely Medical has been better able to resist price
pressure, I think, in the last four or five years than I've ever seen. And I first went there in 1989 too,
Srini, so I empathize. The bit that I'm really curious about is just do we need procedures to recover to
drive investment in hardware? I know we've seen rising procedures historically with hardware flat. Are
the two tied? If the hospitals get busier then everything will get better do you think or are we still just
waiting for this procedures thing to come round?

**Srin Seshadri - President, Smiths Medical**

First of all, thank you for your compliment. I'll take it. But in fact we have worked on pricing processes
a lot over the last four or five years and there has been a step change in the way the Company has
dealt with the historical pricing pressure. So that's one. Number two, a large portion of our business,
especially the consumables volume, is in fact tied to procedure growth. So that's just obvious.

Having said that, technological change does always make a difference in this market. So, for
example, the change from, let's call them non-smart pumps to smart pumps caused us an entire
change in the entire fleet of infusion pumps that are out there. That's going on right now. It's well on
its way, but there's a lot to be done yet. So that is the kicker in terms of growth and that's part of the
reason why we've put so much of our R&D investment into the smart pump technologies. So I do expect that to pay off over the next medium term.

Sandy Morris - Jefferies - Analyst

One quick question. How much -- if we have a product range of 100, how much could we qualify in Brazil, India and China over a two- or three-year period? 10% or 20% of our products?

Srini Seshadri - President, Smiths Medical

It depends on the country. Some are much easier to register than others. But we've gone after about the first most valuable 1,000 SKUs and that's just scratching the surface.

Sandy Morris - Jefferies - Analyst

What have we got? We've got about 10,000, 11,000 SKUs?

Srini Seshadri - President, Smiths Medical

Correct. So there's more juice.

Sandy Morris - Jefferies - Analyst

Thank you.

Philip Bowman - Smiths Group plc - Chief Executive

Very good. I think we've got time for possibly one or two last questions if anyone has some. Couple of the team are heading to the airport to go back and deliver the results for the second half of the year. Anyone have any further questions? Yes, third row.

Jonathan Mounsey - Exane BNP Paribas - Analyst

Hi. It's Jonathan Mounsey from Exane. If I think about Flex-Tek and I look at you've had a good recovery in underlying sales and you've seen a very strong drop-through on that, as you'd said you would. Now that we've seen that recovery in sales and you've got returns which are the highest in the Group, almost 30%, what's the incremental from here? Do we see the drop-through start to decline as the incremental return lower or can we continue to see profit move forward with sales in the way that we have up until now?

And then just secondly on Interconnect. You describe the business in three parts these days. Are those parts entirely separate? Could they be disposed of? Would they be up for sale?

Philip Bowman - Smiths Group plc - Chief Executive

Okay. Tedd, you're the expert on variable margin and drop-through.
Tedd Smith - President, Flex-Tek

I think for the next year, with the development cost we've got trying to really push specialty heating elements and the aerospace business to get on the long-term platforms, I think margins could take a bit of a pause or be flat. But I'm optimistic on a long-term basis on both the return on sales and the return on capital employed.

Philip Bowman - Smiths Group plc - Chief Executive

Thank you Tedd. In terms of Interconnect, what we did is we took a disparate group of businesses with different technologies, different routes to market in many case, and we consolidated them into three business units. And we took the opportunity of doing that to strengthen the management of each of those business units and give them greater focus. So it was a structural change driven by two things, the fact we've made a number of acquisitions over the previous five years, and secondly a desire to, I suppose almost to not only bring more focus but actually more accountability to the management of those businesses and raise the talent within those businesses.

So that was purely an operational issue. Clearly does it make it any easier/more difficult to sell? Probably doesn't make a vast amount of difference. But it was purely done from an operational purpose.

Jonathan Mounsey - Exane BNP Paribas - Analyst

Thanks.

Philip Bowman - Smiths Group plc - Chief Executive

Very good. Thank you all for the questions, thank you all for being here today and we will see you again in September.