

Smiths Interconnect Investor Day – Tampa, Florida

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FULL TRANSCRIPT

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PRESENTATION

SLIDE 3 – PETER TURNER, SMITHS GROUP, FINANCE DIRECTOR

Peter Turner - Smiths Group - Finance Director

Good morning and welcome to Tampa for today's presentation and site tour by the Smiths Interconnect team. It's good to see so many of you with us today and thank you for taking the time to join us. We appreciate in these days of volatile markets and pressure on travel budgets, this trip represents a significant investment of your time.

With that in mind, we decided to run the investor days for Smiths Interconnect and Smiths Medical back to back to make these as efficient as possible. Together, these two businesses represent 43% of the Group sales and with their high margins, around half the Group's operating profit. So, over the next two days, you'll see a significant proportion of the Smiths Group business.

As you know, I joined Smiths Group around two months ago and have been spending my time getting to know the business and visiting some of the sites. In this time, I've been able to see how each of the businesses are contributing to the Group's strategies of driving operational improvements through our self-help programs to improve margins, delivering better cash generation, whilst investing in the future growth of the business.

Over the next two days, you'll hear more about our investment in new product development and in targeted acquisitions, which are both helping to extend the product offering and increase our exposure to faster growing markets, particularly in Asia.

SLIDE 4 – OBSERVATIONS ON SMITHS INTERCONNECT: AN ATTRACTIVE BUSINESS MODEL

So, turning to Smiths Interconnect -- when joining the Group, I could see that Smiths Interconnect is a very strong business, and this view has only been reinforced by the time I have spent with the management team. However, I don't believe that its strengths have been fully appreciated by the investment community and other commentators. It was, after all, until relatively recently hidden away within Specialty Engineering. Only in the last two years has it enjoyed a higher profile.

Its products are also components of subsystems, so they tend to be hidden away, but are critical to the operation of wireless networks or merged with communications. The technologies involved are also quite complex and probably harder for people to appreciate than our other parts of the portfolio. There is a tendency for it also to be thought of as a connector business, although its breadth of technologies is, in fact, much wider.

So, today's an ideal opportunity for Smiths Interconnect to set out its strategy and strengths in more detail. You will see that Smiths Interconnect has some fascinating leading edge technology that gives it strong positions in attractive niche markets. These markets, like many served by the Smiths Group, typically have strong underlying growth characteristics, be it servicing the military and aerospace markets or meeting the ever-increasing demand for wireless telecommunications.

As a result, the business has demonstrated a strong growth track record over time. It enjoys these market positions because of the strengths of its technologies and its close relationships with its customers based over the years on good products and excellent service. Our strong market positions have been established through consistent investment in research and development to remain at the leading edge of our customers' demands. This has built us a reputation for quality engineering and innovation.

In addition to its strong track record for organic growth, the business has also capitalized on the opportunity to expand its market position through acquisitions. Smiths Interconnect operates in a fragmented market with many opportunities for consolidation. Our acquisition strategy has pursued three objectives. Firstly, to add complementary technologies or products. Secondly, to extend our geographic reach, particularly in growth markets in Asia. And lastly, to leverage our existing infrastructure. Over the past two years, Smiths Interconnect has made five acquisitions which have addressed all three of these objectives.

We've added valuable new products in advanced technologies in our key technology areas, with a particular focus on connectors, protection and wireless telecoms. The recent acquisition of IDI is the largest made by the Group in recent years and has materially increased the size of Smiths Interconnect. You will see today that through a combination of organic growth and acquisitions, Smiths

Interconnect has more than doubled in size over the last 10 years. It's now fast approaching the size of Smiths Detection. We will continue to seek value enhancing acquisitions which meet our acquisition criteria.

Like other parts of the Smiths portfolio, there are also opportunities to improve margins through operational efficiencies. We have undertaken various restructuring initiatives over the past two years and the margins are leveraged to volume growth. Overall, this is a great business, with growth opportunities even in these uncertain times and with strong cash generation characteristics.

SLIDE 5 – KEY THEMES FOR TODAY

So, why are we holding this event here today in Tampa? It's an opportunity to provide you with a much closer look at Smiths Interconnect. We issued our interim management statement only five weeks ago, so we'll not be providing a further update on current trading or in any other parts of the Smiths Group today.

The objectives for today's session are to outline the business strategy for Smiths Interconnect and to examine some of the dynamics and drivers of future growth. We will explore Smiths Interconnect's end markets in greater detail and its competitive position within them. We'll examine the strengths of Smiths Interconnect's technology and its business model.

As I remarked earlier, Interconnect's acquisition strategy has substantially expanded the business and there remain further opportunities. We will take a closer look at some of our recent acquisitions and explain the value they have brought to the Smiths Interconnect business.

We are here in Tampa because this gives you a chance to see one of our manufacturing sites firsthand. This is one of Smiths Interconnect's largest facilities and will give you an insight to some of the work for the military market. However, we've also brought technologies and products from the other parts of the business so you can see the strength of its technologies and the breadth of its portfolio.

We also wanted to give you a chance to meet more of the management team. Most of you will know Ralph Phillips, who heads up the business and I'm sure most of you will have met at least some of the team over dinner last night. However, I'll ask Ralph to introduce his team formally in a moment. You'll have several opportunities during the Q&A session, site tour and breaks during the day to get to know the team and ask questions. Please do take advantage of these. I'm sure you'll find today's visit illuminating and helpful to your understanding of the business.

Thank you for your attention and Ralph, over to you.

SLIDE 6 – RALPH PHILLIPS, PRESIDENT, SMITHS INTERCONNECT

Ralph Phillips - Smiths Interconnect - President

Thank you, Peter. Good morning. Before we get started, there are some housekeeping items I need to cover. Restrooms are located straight out this hallway on the right-hand side, and you'll find men's and women's restrooms on your immediate right side. Please limit your access to the hallways to and from the restrooms. This facility is a secured site, as classified by the US Department of Defense. Therefore, except for accessing the restrooms, all visitors must be escorted by TRAK Microwave personnel at all times.

During the facility tour, you are reminded that no cameras or mobile phones containing cameras are allowed in the production areas. Please leave the devices with your personal belongings here in the auditorium and retrieve them upon your return. The auditorium will be secured at all times with personnel surveillance while you're touring the factory. There is no emergency alarm exercise planned for today, but in case of an alarm, you are to exit the building using the main hallway, through the reception area, and assemble on the far side of the parking lot next to the sign marked East.

Before we get into the detailed presentation, I thought I would give you some of my background. Before joining Smiths, I spent 23 years in engineering companies, principally in aerospace and defense, with companies that became the navigation system division of Northrop Grumman. My functional background was engineering, program management, and business development.

I left Northrop in 2001 and joined a private equity firm for a couple of years, helping run and turn around a small company, TECOM Industries. I helped sell TECOM, as well as TRAK, a facility here and a facility in the UK, to Smiths in 2004. I integrated TECOM for the next two years and ran the TECOM as well as the Microwave Subsystems group.

I became the president of Interconnect two years ago at the time Interconnect became a stand-alone division. You'll see that this is a common background amongst many of our senior managers. Many who came through acquisition and had previously operated in large Tier 1 companies, and in addition have operated successfully within small, entrepreneurial, privately held companies. I think that gives Interconnect a unique combination of talent and perspective.

SLIDE 7 – WELCOME TO TRAK MICROWAVE, TAMPA

I'd like to welcome you to TRAK Microwave. TRAK Microwave is one of our premier companies, with an excellent reputation for leading edge design, manufacture and test of high-performance microwave and millimeter wave components, assemblies, and even complete subsystems. You're going to see today as much of the facility as we can show, following one of the DOD rules, and you'll see products from TRAK as well as its sister companies from other technology groups.

SLIDE 8 – INVESTOR DAY AGENDA

Our agenda for today, as you've already have heard from Peter, Smiths Group Financial Director, I will be supported by five of my colleagues, who I will introduce shortly. Our schedule is to continue the presentations until around 09.45, and we'll have a break at that time. We should finish the presentation around 10.45, leaving plenty of time for Q&A for myself and my panel of experts.

At 11.30, we're planning a site tour, and we'll break into six groups for product demonstrations. As the groups should be quite small, there'll be plenty of opportunity to ask questions about the products. At 13.00, we'll have a short buffet lunch and plan to return to the airport at 14.00.

SLIDE 9 – SMITHS INTERCONNECT

For those of you who may not know us well, Smiths Interconnect is a recognized leader in technically differentiated electronic components and subsystems, providing power, signal, and microwave solutions. Our products connect, protect, and control critical systems for the global wireless, telecommunications, defense, aerospace, medical, rail, and industrial markets.

SLIDE 10 – SMITHS INTERCONNECT: AN ATTRACTIVE INVESTMENT CASE

Peter Turner already mentioned the key themes for today. Our goals are a little more basic. We want to dispel the notion that Smiths Interconnect is a complicated business. We will deconstruct the business into its basic parts so you can understand better, and even more importantly, appreciate it.

While that will include discussion of such things as strategy, market dynamics, and growth rates, it is more important for you to understand how our products are different, and that we really do operate in a market that has barriers to entry, and that we win customers with our innovation and entrepreneurial spirit. At the end of the day, you will hopefully know what a hyperboloid contact is, and maybe even a spring probe. You may even actually hold one in your hands or take one home to your kids.

You will know that in the future, your airline flights will include internet, TV, and even videoconferencing. You may not be happy about that, but that's a different story. You will know which products your cell phone operator might use to improve the local cell site if it keeps dropping your phone calls, and you'll feel safer knowing that power glitches won't interfere with that critical MRI. And finally, via the 11 case studies that highlight the key things Peter mentioned, our real goal for today is for you to walk away with confidence knowing that Smiths Interconnect is a very good investment.

Smiths Interconnect is a market leader in specialty electronics and RF products, with numerous strong brands, whether you're talking connectors via Hypertac, Sabritec, and now IDI, RF and power protectors via PolyPhaser or Transtector, or microwave and antenna products via TRAK, Millitech, TECOM, and others. All of our brands are recognized worldwide.

We will show you today how we differentiate our products, and explain and even show you how those products have high barriers to entry, both from their design and manufacture, and qualification, as well as a regulatory framework of our marketplace. Interconnect operates in very diverse end markets. Although common in many characteristics, they range from defense and aerospace, to telecommunications, to multiple test markets, all the way to medical electronics. Many of these markets either in total or in our particular segment are experiencing strong growth characteristics.

A key point today that we will make several times is that Interconnect combines the best of an entrepreneurial culture you would find in a small company, yet we leverage the scale and resources and controls of a FTSE 100 plc. Smiths Interconnect has traditionally had excellent margins, and while they have suffered somewhat over the last two years, we have the infrastructure in place and the restructuring mostly behind us to take advantage of that leverage as volume increases.

We also have a strong track record of creating value organically through our innovative R&D and new product development programs. We will show you several case studies today that reinforce this. In addition, we have an excellent track record of creating value through acquiring companies, both at buying at the right time and via the synergies as we integrate with our other companies and existing infrastructure.

And lastly, today we operate in a largely unconsolidated market for global electronics, leaving us with tremendous opportunities for further acquisitions. The Smiths Interconnect targets that will be discussed several times today are sales growth of 6% to 10% and margins of 21% to 23%.

SLIDE 11 – SMITHS INTERCONNECT OVERVIEW

Continuing with the overview of Smiths Interconnect, our financial performance in 2009 with sales of GBP318 million, profit of GBP55 million, and a margin of 17.4%. Since 2005, our sales have grown over 80%, with a CAGR of over 16%, driven by acquisitions, initially Lorch and Millitech, and then in the past two years, thru 2009 we added three companies, Triasx, Allrizon, and Downin.

Organically, we've grown over 11% in that period, underpinned by strong mil/aero sales across all of our technologies. This growth rate for 2005 and 2008 compares pretty well with our targeted growth rates we just explained. Profit growth by more than 63% since 2005 for the CAGR of 8.7%.

As you can see, in the last year margins were impacted by the global downturn, yet the business has stayed very profitable. Later on in the presentation, we will compare that margin to some of our competitors in the various markets that we operate. In addition, we will make the case for returning to those margins generated between 2005 and 2008.

SLIDE 12 – BUILT THROUGH A SUCCESSFUL PHASED ACQUISITION PROGRAMME

Interconnect has been built via phased acquisition program. Interconnect started with the establishment of Hypertac UK, a connector company. The initial phase of acquisition began in the late '80s and stretched over nearly 10 years, with our expansion into the microwave cable adjacency, and then adding scale to our connector group. At this point, we were truly an interconnect company with connectors and cable product only.

The second phase began in 1997 with a strategy to build on our cable presence in the fast-growing telecommunications market, we quickly added eight companies in both protection and microwave products, predominantly geared towards servicing telecommunications customers. There was a lull in the early 2000s as we digested our previous acquisitions and as the telecom market had a major correction.

The third phase started in 2004 by expanding on our microwave products capability, as we moved into the military and defense adjacency with a series of five acquisitions, allowing us to capitalize on the post 9/11 events, and the emphasis on global security, and the heavy defense spending that followed. This phase was recently extended with the sixth acquisition of Channel Microwave this past year.

The fourth phase, building in all of our technologies, began the process to globalize Interconnect's market presence and take advantage of the fastest growing and emerging economies. In the last two years, we've acquired three companies with strong market, engineering, and operational footprints in the Asia-Pacific region.

We've now moved into the fifth phase of acquisitions within Interconnect, one that is building on the scale and breadth of Interconnect to drive value creation. That strategy will include companies from all three of our technology groups. Our most recent acquisition, IDI, was acquired in April of this year. We'll give you an update on the acquisition and its integration later in the presentation.

SLIDE 13 – EVOLUTION OF SMITHS INTERCONNECT

Over the last four years, Interconnect has changed modes from one that was solely managed at the company level to one also managed within cohesive business units, aggregated by technology, what we will refer to today as technology groups. While we intend to continue our strong organic growth, we also intend to compound our value creation by leveraging our growing scale.

Each tech group examines both the front end of the business as well as the operational aspects to look for opportunities to not only create value through synergies, but also in the optimum allocation of resources, including capital, R&D, sales and marketing, to the highest value markets and opportunities. And further, our tech group leadership is chartered to look for opportunities across the tech groups, and across Smiths Group as a whole. As we go through the balance of the presentation, our tech group leaders will highlight how this process is driving value, again with specific case study examples.

SLIDE 14 – SMITHS INTERCONNECT ORGANISATION

So, now let me introduce the Interconnect organization. Operationally, running our Connectors Group is Roland Carter, headquartered in the UK. He's temporarily in Kansas and enjoying the Midwestern lifestyle. Microwave Defense managed by Kent Whitney, headquartered in Massachusetts US. Microwave Telecom managed by Jacqui McLaughlin, headquartered in the UK. And Protection Group managed by Shawn Thompson, headquartered in Idaho in the US.

Functionally, I'm going to introduce those who are in attendance. Mike Hansen, our Financial Director, also on our panel and will be available for Q&A. Legal counsel with Jay Angelo in the back. Jay will be one of our tour guides. Strategy and M&A, Shaun Caraccio, also in the back, not on our panel, but will be available for Q&A and part of the tour.

And finally, another person I want to introduce who could not join us today is our Investor Director Michael Herlihy, the Smiths Group General Counsel. Michael's an active member of our management team and our direct link to the executive committee. So in essence, our management team has two links to Smiths headquarters, through our own functional organizations and through our advocate as a business.

SLIDE 15 – SMITHS INTERCONNECT FACT FILE

So, before I turn the podium over to the tech group presidents to provide you details of the businesses, I'd like to give you an overview of Interconnect in total. Our sales are broken down with IDI and without IDI. And I'll speak to with IDI, which is the current situation. We're currently 45% mil/aero, 26% wireless telecom, and 29% other, including medical, semiconductor, test, rail, and various other markets.

Our sales by geography are 65% in the US, 17% in the EU, 7% in China, and 11% rest of the world. We have 33 facilities and over 100,000 square meters, or 1.1 million square feet of area, with 25% of that area in low cost regions, supporting emerging markets. We currently have more than 4,000 employees, over 35% in low cost regions, and over 1,000 employees in China.

Working on our R&D and customer funded development projects, our staffs include 550 engineers and scientists. Over 30% of those are outside the US. Supporting our customers via sales, application engineering, program management, we have more than 20% of our employees in customer facing positions.

SLIDE 16 – SMITHS INTERCONNECT GLOBAL PRESENCE

Interconnect truly is a global business. As you can see from the map, we have facilities on five continents. We have good coverage in the emerging Chinese and Indian economies. And over the past eight years, we've established jointly operated low cost manufacturing centers in China, Costa Rica, Mexico, and Tunisia. Each LCM, or low cost manufacturing center, supports multiple business locations and two support multiple tech groups. It is also common for our LCMs to share resources and local best practices with the other Smiths Group divisions.

SLIDE 17 – SMITHS INTERCONNECT: PROVIDING SPECIALIST ELECTRONICS PRODUCTS

Before reviewing the products and end markets at Smiths Interconnect, I want to explain some more general points about the markets we serve. The overall electronics product market is well over GBP100 billion and comprise many end use applications such as defense, telecom, medical, computer, and automotive. Basically, electronics is used everywhere.

Within each of these end markets, there are varying degrees of commoditization and specialization. Some end markets tend to one end of the spectrum or the other. For example, space, where virtually all components are specialized, and consumer products, where everything is a commodity. But most end markets have a mixture of both commodity and specialized applications.

For example, in automotive, connectors used in a production car are pretty standard, and commoditized due to the higher quantities and the lower performance requirements. Whereas connectors used in a Formula One car or NASCAR are more specialized, due to the lower quantities and the higher performance requirements.

A key part of understanding our business is to recognize that we only serve the specialist portion of the overall electronics product market. The reason for this becomes clear when you consider the characteristics generally associated with the specialist market. The highly engineered nature of many customer requirements provides the opportunity to differentiate ourselves technically.

The barriers to entry are generally higher, and the markets are often highly regulated by government or commercial standards bodies, such as NASA, DOD, FAA, and the FCC. Our markets tend to be less capital intensive, as we typically are higher mix and lower volume. And the long term nature of many of our programs enables us to develop strong and deep customer relationships, which we then leverage to provide added value with bundled and/or subsystem approaches. Financially, these characteristics, which will be recurring themes in our technology group case studies you will hear later, lead to strong margins and higher return on capital.

SLIDE 18 – A BROAD RANGE OF TECHNOLOGIES FOR MULTIPLE MARKETS

This chart highlights the broad range of our technologies relative to the various end markets. It also demonstrates the market synergy we have across technologies, and we attempt to leverage whenever possible. For example, all of our technologies address the defense sector, and therefore we share market, program, and customer information across our businesses to ensure that we maximize our content with any potential customer or program opportunity. Similarly, our protection and microwave telecom groups work closely together in assessing opportunities within the wireless telecoms market.

The lighter blue bars show opportunities for us to pursue adjacencies. I would like to highlight those in the spring probes column and in the semiconductor row, as these highlight potential sales synergy opportunities related to our recent acquisition of IDI. Some markets are purposely not targeted for certain technologies due to the high level of commoditization. A clear example of this is connectors within the wireless telecom sector, which we have consciously decided not to pursue because the highly commoditized nature, despite our strong position in this market for microwave and protection products.

There's also a further and more subtle message in this chart that our products, and more importantly our resources, can move from market to market as customer demands vary. By way of example, one of our companies, TECOM Industries, today has nearly 80% of its products delivered to military or defense customers, yet in 2001 it was nearly 80% commercial. And in two years time, TECOM is projected to be a 50-50 military commercial mix.

SLIDE 19 – MARKET GROWTH DRIVERS

There is no doubt that the demand for specialist electronics products is growing. Across the various end markets that we address, there are common themes and some specific drivers. The proliferation of electronic systems and the ever increasing need for

connectivity is pervasive. For example, sending messages or video information to a soldier in a conflict zone, or receiving e-mail on your BlackBerry while on a high-speed train, or an implantable medical electrical device, electronics and connectivity are all around us.

There are also more specific growth drivers for the larger markets we address. In defense, situational awareness, force protection, smart weapons are all key areas that have a high content of technologies that we offer. In short, products help create and transmit information and in the military world, information and the awareness it provides is power.

In wireless, the main driver is the demand for more and higher data rate applications that we access whenever we are via our smart phones, our tablets, and our wireless laptops. So, whether it's video conferencing while in an airport lounge, or updating social network pages from a bar, we as consumers really are expecting everything everywhere at any time. Taking a blended or weighted average approach, in our estimation, these market dynamics and drivers will grow our addressable market in the range of 4% to 6% over the next three years.

SLIDE 20 – CORE MARKETS: DEFENCE

I would like now to explore a little more detail the situation we face in our core markets of defense and wireless telecoms, which counts for almost two-thirds of our business. The defense market driven by post 9/11 events has been exceedingly strong over the last eight years. Our view is that top line spending will be reined in as economic realities and budget pressures mount.

However, there are three factors which will keep our organic growth stronger than defense spending as a whole and also our competition. First, we already have won key positions on US military programs that are now entering production and my team will highlight some of these key programs in the following presentations and during the facility tour.

Second, our technologies are critical in network centricity, battle space awareness, and force protection, which are recognized as the priority areas for US defense spending. As we saw in the last downturn in the 1980s, these critical areas slowed less and much later in defense spending than the defense budget as a whole. And finally, we see strong pressures for increases in international defense spending, particularly in areas such as India, Middle East, where we tend to leverage Smiths' scale and global presence to capture share.

SLIDE 21 – CORE MARKETS: TELECOMS

Turning to the wireless telecom market, I've already discussed the overriding demand for data-hungry applications that are accessible at all times. I'm reminded by this every morning when my 13-year-old daughter video calls her friends before breakfast to check out what each one is wearing that day. I'm torn between being the guy paying the bill, and thinking about the demand it is placing on the networks, and the potential for our products.

The wireless telecom infrastructure continues to play catch-up with the demand for speed and capacity. We currently have multiple generations of networks, from 2.5G to 3G to 3.5G, and we're now on the cusp with significant investments in fourth generation networks needed to support mobile broadband applications.

Addressing network performance issues such as dropped calls, patchy coverage, and capacity constraints is becoming increasingly critical to operators around the world. And the causes are becoming more prevalent, such as interference with other systems, whether that's digital TV, rail communications, or the coexistence of the various generations of mobile networks, summarized as network optimization. This is an area of focus for Smiths Interconnect, and Jacqui McLaughlin will discuss later in her presentation.

Another area that will drive specific demand for Smiths Interconnect products is microwave and millimeter wave radio link backhaul. Again, the ultimate driver is the increase in mobile data consumption and experts agree that this will increase exponentially over the next few years.

Finally, another driver for wireless telecoms market is the continuing industrialization of the developing geographies. Whether it's building out new networks or improving the infrastructure they already have, you only have to look at the large US and European mobile operators currently seeking to invest in India, South America, Africa, and the Middle East to confirm where they see the potential for revenue growth.

SLIDE 22 – COMPETITIVE LANDSCAPE BY TECHNOLOGY

Before handing over to my colleagues, who will discuss the more detailed competitive dynamics as part of their technology group presentations, I'd like to make a couple of observations about the competitive landscape from a more macro perspective. The first is that the overall market is very fragmented. There have been varying degrees of consolidation in some of the technologies, but there remains lots of opportunities for Smith Interconnect to grow both organically and acquisitively.

You also see from this chart that there are no competitors that address the same broad range of technology as Smiths Interconnect. We consider this to be a significant advantage to us. As I discussed earlier, the commonality of our end markets across business gives us the opportunity to leverage information, the customer relationships, to maximize our content or share of the customer's wallet. You will shortly see and hear about several examples of this, as we now head into the technology group presentations.

SLIDE 23 - CONNECTORS

First, I'd like to introduce Roland Carter, the Managing Director of our Connector Technology Group, to give you better insight into the connector products, markets, and customers. Roland has been with Smiths for more than 20 years, working in both Smiths Medical and Smiths Interconnect. Roland worked with Smiths Interconnect headquarters for several years before taking over the Connectors Group. He's currently on dual assignment, assigned to IDI during the acquisition transition.

SLIDE 24 – OVERVIEW

Roland Carter - Smiths Interconnect - Managing Director - Connector Technology Group

Good morning. Thank you, Ralph. The Connector Technology Group offers a wide range of electromechanical and fiber optic solutions for Interconnect technologies, in essence, electrical connectors. These serve a very broad range of niche applications that have common requirements of ruggedness, reliability, and high quality. Combined with the proposition of selling on value rather than price, these characteristics essentially define the specialist sector of the connector market in which we operate.

Our end markets are disparate and include defense, rail traction, space, medical, industrial, commercial aerospace, and now semiconductor test, with the recent acquisition of Interconnect Devices, IDI. Within these markets our strong brands; Hypertac, Sabritec, and IDI are recognized for technological leadership, responsiveness, and customer service.

SLIDE 25 – PRODUCTS AND CAPABILITIES

Our technical capabilities and product offerings are focused on three main technological areas. Firstly, our two-piece pin and socket high reliability connectors which utilize the exceptional performance of the hyperboloid contact technology. This is suitable from the challenging needs of miniaturized high speed to the robust demands of high power.

It adds value to our customers through the high current carrying capabilities, resistance to wear, low insertion force, and specifically our ability to package it into a vast array of standard bespoke housings. Essentially, it continues to be the world's most reliable and flexible electrical connector system.

The second capability is spring probes, our recently acquired complementary technology for one-piece compression mount connectors in demanding environments. These contacts provide superior performance due to our engineering knowledge and manufacturing excellence. This, associated with our rapid response, and again, the ability to house and package these solutions, delivers value to our customers whilst translating into good margins for us.

The third leg is our capability in complex connector technologies, including filter, high speed data transmission, and fiber optics. These allow us to package completely tailored solutions, which can be a complex delivery of a single technology, or a hybrid of multiple technologies. Our excellence in delivering solutions in a robust and compact package often leads us into sole source positions for our customers, solving their technical challenges through our engineering capacity and capability.

SLIDE 26 – LOCATIONS, MARKETS AND GROWTH DRIVERS

Locations, markets, and growth drivers. In order to successfully support our global customers with our specialist solutions, we have developed a global footprint of sales and engineering resources. This is underpinned with a focused manufacturing base, allowing us to utilize our economies of scale, automation, and low cost labor, as and where appropriate.

We have four engineering sales offices in the USA, with the main manufacturing site in Mexico. This is replicated in Europe, with four engineering sales sites and the manufacturing site in Tunisia. Our largest manufacturing site is based in Suzhou, China, and we have a small facility in India. Through these, we cover the world and also serve the local markets as appropriate.

The overriding driver behind the growing demand for our products is the proliferation of electronics. The need for smaller, faster, and more rugged and reliable connectivity for many systems plays to our technological strengths. This is true in all our end markets, and particularly in our larger markets of defense, semiconductor test, and medical, which collectively account for two-thirds of our revenue.

The USA continues to be our most significant market, and we have a strong position in Europe. Asia is a potential area for market expansion, particularly now that the IDI acquisition has brought us significant manufacturing and engineering footprint in the region.

SLIDE 27 - CUSTOMERS

Customers -- as you'd expect from our market diversity, we have a wide, but high quality customer base. And therefore, we have relatively low risk from both a concentration and credit perspective. As a component supplier, our sales and engineering teams are highly flexible and interface with various levels in the supply chain, from Tier 1 suppliers who design and produce complete systems, through to contract manufacturers.

We support both direct and indirect routes to market, but whether it is our own internal sales resource or our extended team of third party sales representatives and distributors, the sales model revolves around offering a technologically superior solution to the customer. Or put more simply, we sell on overall value to the customer, not price. This agile business model allows us to support our customers when they have challenges in their design process. The focused model allows us to act locally but with the support of the global entity.

SLIDE 28 – COMPETITIVE POSITION

Competitive position -- our value proposition approach differentiates us from the very large connector companies such as Tyco, Molex, and Foxconn. However, we do encounter competition from the specialized divisions of significant connector houses, as well as small companies specialized in a specific connector technology or application.

We outperform both these approaches in our niche by having the abilities of the global player, but still being able to provide highly responsive local support to our customers. Furthermore, our manufacturing operations in lower cost economies enable us to remain competitive, even when we meet the most commercially astute opposition. Our model also performs well when compared to the capital investment of the large connector houses, and the stock carried by both large and smaller houses.

SLIDE 29 – CASE STUDY 1: INNOVATION (FUTURE SOLDIER CONNECTIVITY)

I'm now going to turn to three case studies to highlight some of the capabilities, and differentiators of our connector technology group, and demonstrate how we create value. The first is an innovation theme and relates to multiple future soldier programs that are currently underway in many countries around the world.

It was identified by our sales and marketing departments that there was a worldwide drive to provide the soldier on the ground with far more data and sensors and to effectively connect them to the battle space awareness information grid. The types of equipment to be connected range from day and night vision to radio communications to health monitoring and optical and thermal sighting systems.

This means there's a requirement for a huge quantity of lightweight and rugged connectors that will continue to operate in extremely harsh environments, but also with easy, safe, and reliable disconnection in emergencies. We recognized the need, thoroughly

researched the market, and consolidated the disparate specifications from the individual country programs. We then used our expertise in both understanding the applications and designing robust and rugged connectors that technically outperform the competition.

This resulted in the creation of two product ranges which meet the challenging demands of a wide range of customers. The combined volume of the multiple programs has benefited us and the customers, allowing for a cost effective value proposition. We've already been selected for US, UK, French, Italian, Indian programs, and are currently bidding on 29 programs in 11 countries. Furthermore, in addition to being a multimillion pound opportunity for future soldier programs, we are already seeking opportunities to sell these new platform products into adjacent applications, such as Homeland Security and first responders.

SLIDE 30 – CASE STUDY 2: MARKET ADJACENCY (PACKAGE-ON-PACKAGE TESTING)

The second case study highlights our ability to differentiate through innovation and technology. As we are all aware, Smart phones are becoming ubiquitous. The industry analysts are indicating that the growth will continue over the next five years, with a CAGR of approximately 25%. Many of these phones and related consumer items, such as tablets and portable media players, rely on specific chipsets, where chips are stacked one on another.

This presents a significant challenge in testing due to the need to line up multiple contacts on different planes. We have already very strong relationships with the key players who produce these semiconductors, and this, when associated with our ability to innovate and robustly deliver cutting-edge technology, allows us to satisfy their requirements where others have struggled.

Our design created from our engineering heritage and product development allowed our customers to become more efficient, differentiating them in the market because we could compensate for the accuracy issues they were experiencing elsewhere in the process. This has led three of the top five producers of these chipsets to utilize our technology. We anticipate at least a 25% share of this multimillion pound market. Last year, GBP1 million was booked and the rate of booking has in fact increased this year.

SLIDE 31 – CASE STUDY 3: VALUE CREATING ACQUISITION (IDI)

The third case study illustrates Interconnect's proven ability to leverage scale, resources, and geographic reach. Having identified IDI as having complementary products, a similar value proposition, and analogous engineering heritage, we successfully completed the acquisition in April. Since then, we have used our global reach to commence sales in Europe, a previously, virtually unexploited area for IDI. Already, the first POs have been cut. Also, the transition planning has begun to deliver operational savings, utilizing our well proven low-cost manufacturing site in Mexico.

In addition, the operational footprint that IDI brought to Smiths is allowing us to crystallize and refocus our Southeast Asian efforts. We anticipate that this will be a significant growth engine building on our modest start. Hypertac products have already been approved by our customers for manufacture at the new IDI site. This acquisition has delivered very well in the first few months, and the broad integration objectives will be finished by the end of the financial year. And I am confident that we can deliver the expected value and the synergies as well as the core business.

SLIDE 32 - SUMMARY

In summary, Connectors offers our customers a broad, but deep capability and high reliability connector technologies. We ensure as much stability in our model as possible through addressing a diverse gambit of end markets. Our model is a lean, but global footprint and this allows us to stay linguistically and culturally aligned with our customers.

The growth opportunities are available because of new products, new customer programs, as well as generic market trends for more rugged electronics and all pervasive information, as well as being driven by our own geographic expansions. Finally, but importantly, the margins are sustainable due to the value that we deliver to the customers and the significant reason that we continue to achieve this is our ability to differentiate technically through our engineering base.

Thank you.

SLIDE 33 – MICROWAVE DEFENCE

Ralph Phillips - *Smiths Interconnect - President*

I'd like to introduce Kent Whitney, President of the Microwave Defense Technology Group, succeeding me last year. Kent joined Smiths via acquisition five years ago. He spent 20 years with Raytheon, one of our largest customers, before he left to run a small company, Millitech, that he helped sell to Smiths. Sound familiar? And he has over 37 years in RF and millimeter wave marketplace. Kent?

SLIDE 34 - OVERVIEW

Kent Whitney - *Smiths Interconnect - President - Microwave Defense Technology Group*

Good morning, ladies and gentlemen. As shown in this overview slide, microwave components and systems are utilized in a wide variety of application. The term millimeter wave simply refers to even higher frequency components and subsystems which are utilized for the same applications. The majority of products in the Defense Group are used for DOD and government, such as FAA and NASA applications.

In this market, we specialize in areas of communications, sensors, and force protection. These applications have continuing growth rates higher than the general defense market. In addition, due to market demand for our innovative technology, we are seeing growing content in the high-end commercial market.

SLIDE 35 – PRODUCTS AND CAPABILITIES

I'd like to start off with an overview of our products. The first of our products shown are military antennas and antenna systems. This is our largest single business area. Since the primary purpose of microwave signals is to be transmitted or received in some manner, our antenna products cover virtually every application.

Strategically, we have concentrated in the area of broadband, high frequency communications, particularly in mobile or on the move applications. This is not only an area that has and will continue to have robust demand, but plays directly into our technical strengths. We have antenna design teams that have been judged world-class in direct to DOD next generation SATCOM proposals. In addition, we are one of the very few companies that combined the microwave expertise with the electromechanical and software skills required for fully integrated turnkey solutions used in the very difficult, next generation high data rate mobile and moving applications.

The group has a long legacy in the commercial antenna market as well, with a variety of products covering many applications. Strategically, recognizing the demand for on the move high data rate communication capabilities in the commercial market, we invested to create industry leading technology in the airborne communications market. These are exciting breakthrough products, and you will see an example of one of these antenna systems outside, as well as featured in the case study later in the presentation.

In order to transmit out of an antenna or receive a signal from an antenna, a transmitter, a receiver, or the combination, a unit called a transceiver is required. For communications, these devices translate to a lower frequency, which is more usable by a computer to create a video or internet connection we are all familiar with. Virtually all other applications require a transceiver as well. As you will see as we progress through our products, this is the next in the chain of our building blocks that create and support both our systems and our customers' systems.

Since we are positioned at the high end of the market with the most challenging requirements, including space, there are natural barriers to entry for anyone without our skill set and tools. Once designed into systems, the extensive qualification required at the system level virtually precludes competition, resulting in long, stable and profitable programs.

SLIDE 36 – PRODUCTS AND CAPABILITIES (CONTINUED)

Next slide, please. At the heart of all the systems are the frequency sources which generate the electric waves that the information we use everyday rides on. As has been the theme throughout, our market is the high end, which demands the cleanest sources in the toughest environments to achieve the data rates, images, tracking, and climate information required. System qualification, again, effectively limits competition.

In these high-performance systems, precise timing down to the nanosecond is required to optimize performance. This is a specialty of our group and we are a leader in the industry. Many timing systems are required to synchronize with the timing on GPS satellites. For military applications with GPS timing, it is important that the signal from the GPS cannot be jammed. Our products provide that capability, the same barriers to entry and long term stability after qualification exists with our timing products.

To varying degrees, all of our companies have microwave component content that we sell direct to the market. These are the products, when combined, make up the subsystems previously described. In many cases, we utilize these parts to open the door to higher levels of integration, with increased value to the customer and more content for Smiths Interconnect. Conversely, we build our subsystems utilizing parts from across companies to maximize revenue.

SLIDE 37 – LOCATIONS, MARKETS AND GROWTH DRIVERS

I would like to now address our locations, market, and growth drivers. We have seven locations, five in the US, one in the UK, and one in Ireland. Our market is 79% defense and government, including space, 8% aerospace, 5% commercial space, 4% wireless telecom.

Sales are 90% in the US. The increased need for situational awareness, driven by the conflicts of today and the military's vision for future needs, are a match for the high frequency, high precision capability that are the Microwave Defense's specialty. High resolution radar images, forced protection sensors, or high-bandwidth communications are examples of growing needs that fit our niche perfectly.

Most of our military products are concentrated in the command control, communications, intelligence, surveillance, and reconnaissance, or C4ISR budget, which has been and will continue to significantly outpace the growth of the overall DOD budget. In the on the move commercial communications market, our technical capabilities are just beginning to support pent-up demand.

SLIDE 38 - CUSTOMERS

Our largest customers are the major aerospace primes in the industry. We have strong long term relationships with customers and are viewed as critical teammates on many of their largest programs. Due to qualification restrictions, these high dollar, long term programs will be a platform for future growth, with derivatives providing increased opportunities. This stable revenue and diverse product base allows us to target high growth adjacent opportunities as well.

SLIDE 39 – COMPETITIVE POSITION

Moving onto competitive position. We have seen some consolidation among competitors. However, the market in general remains highly fragmented. With a few exceptions, most of the competitors focus in one or two of the specialized microwave areas. This prevents them from entering the highly integrated subsystems solution business that adds value for our customers and revenue for the Group.

It also limits the breadth of technical differentiation that is the key to success in this industry. By retaining our individual company structures while working cooperatively for content and efficiency, we have retained the responsiveness and entrepreneurial culture that is highly valued by our large, very capable, but occasionally bureaucratic customers.

SLIDE 40 – CASE STUDY 1: INNOVATION (BROADBAND-ON-THE-MOVE)

To highlight some of our capabilities, I have provided three case studies in the following slides. As we have all seen, market demand for connectivity has skyrocketed over the past decade. In certain cases, the opportunity has been limited by a cost effective and

reliable technology that would provide a service at a price point required by users. For commercial airborne, high data rate communications, enabling products had to be developed to fit this criteria.

Although much lower capability products have come to the market, the ultimate demand was to supply performance just like at the office or home. Recognizing this pent-up demand, we surveyed the market, targeted opportunities, and invested the R&D for the adaptable building blocks. We then targeted and captured the largest in-flight entertainment antenna contract ever awarded, and the first ever to supply to the flying public the performance of a home or office connection with KuStream system, which is the one shown up in the upper right here.

Installations have begun with the entire Southwest fleet rollout planned over the next two years. In varying quantities, derivatives of the product are already being purchased. It is important to note that as attractive as on the move connectivity is in the commercial market, it is an absolute necessity in the military market. The demand will be increasing to unprecedented levels with the launching of two entirely new constellations of DOD satellites.

Because of our position as one of the leaders in on the move technology, the military has funded us substantial research dollars for a variety of applications. In addition, a military derivative of KuStream is in process. Due to commercial volumes, this will supply the military a proven product at a very attractive price point to fill immediate critical communications needs.

SLIDE 41 – CASE STUDY 2: ENTREPRENEURIAL CULTURE (FORCE PROTECTION)

The next case study provides us with an example of how our fast reacting entrepreneurial culture can aid in capturing large opportunities. We all understand the dangers that improvised explosive devices, IEDs, have presented to soldiers. Because of that, products have been fielded to jam the radio signals that trigger the explosives.

Although Smiths had content at the component level, the first generation subsystems used in these devices were supplied by competitive companies, which already had positions in the market, and were perceived as the only ones able to meet the unprecedented demand at the time. Because of the evolving threat, a major modification was required to an existing system, with over 20,000 fielded units.

Realizing the opportunity, a potential alternative, highly integrated design approach to the modification was presented to the customer. The design provided improved performance at a lower cost. The customer was interested, however, a prototype was required in a matter of months to solidify the opportunity.

Due to our flexibility and entrepreneurial culture, we were able to immediately turn on development, free up the right people, and supply a prototype in a tremendously condensed schedule. This has resulted in an initial award of 50% of the contract, with an expectation of an increased percentage due to the cost effective design, as more units are cycled back from the field.

SLIDE 42 – CASE STUDY 3: CUSTOMER RELATIONSHIPS (NAVAL SATCOM)

The last case study highlights how our responsive performance has led to partnering relationships with our customers. Approximately 10 years ago, the US began to field communication satellites at millimeter wave frequencies to take advantage of the high data rate capabilities that come with higher frequencies. At the time, due to unique millimeter wave capabilities, a contract to manufacture the antenna-only portion was awarded.

Over time, our position was leveraged to manufacture the entire antenna pedestal system, and eventually integrate and ship directly to the Navy customer. As data rate demands increased, two new satellite constellations were funded for development, and a third generation all-encompassing naval SATCOM system was solicited for procurement. As a result of our successes together, we became team members with our customer and played an important role in the competitive selection process.

Past performance is a key selection criteria and we were graded very highly. Our customer won the contract, and the initial systems have been supplied for qualification. From leveraging our unique capabilities, to growing the value through support to our customer, to having the depth to support a customer on a major government contract, we have grown a simple antenna contract into one of the major future opportunities in Interconnect.

SLIDE 43 - SUMMARY

In summary, the Microwave Defense Group uses discriminating technology to capture and increase content. We are viewed as teammates by our blue-chip customers, who appreciate our small company flexibility, combined with our large company resources and financial stability. We are a US centric group concentrating in growth areas of C4ISR and on the move connectivity. We have the luxury of long term stable programs to use as a base to grow content, as well as target adjacencies such as the KuStream system.

Thank you very much for your time.

SLIDE 44 – INVESTOR DAY AGENDA

Ralph Phillips - *Smiths Interconnect - President*

Well, next up on the agenda is a break, and we have 15 minutes. We're actually running quite a bit ahead of schedule and take the break now, okay. As we're talking too fast I think. We'll try to slow it down when the questions start coming. Okay?

(BREAK)

PRESENTATION

Ralph Phillips - *Smiths Interconnect - President*

SLIDE 45 – MICROWAVE TELECOMS

I'd like to introduce Jacqui McLaughlin, Managing Director of our Microwave Telecom Technology Group. Jacqui came to Smiths in the same acquisition as I did, from TRAK, about six years ago. She has 25 years in the microwave products market. Jacqui has also been instrumental in expanding our footprint in China. She was a country general manager for three years and lived in China for three years.

Jacqui McLaughlin - *Smiths Interconnect - Managing Director - Microwave Telecom Technology Group*

Zao chen hao. Sorry, good morning. I'd like to start by clarifying what we do in the telecom sector. Telecoms is a broad description, which could be interpreted as everything from computer LAN networks to home telephones. We, however, are involved with the microwave technologies, as required by the wireless networks that allow mobile phones and other such devices to communicate.

SLIDE 46 - OVERVIEW

Expanding on that, wireless radio networks surround all of us and are known as the cellular or the mobile network. On this slide in the very bottom, central image is trying to depict the concept of a cellular network which consists of a series of communicating towers which talk to handsets, talk to each other, and talk to the landlines.

The market for network infrastructure is maturing and rapidly evolving. 15 years ago, the driver was coverage. Five years ago the driver was coverage on emerging geographies. Now, the dominating drivers are network capacity, network efficiency, network speed, and above all else, a return on the investment for the ongoing annual spend of something like \$120 billion in network CapEx. We supply some very sophisticated products and solutions used in these wireless networks, where our focus is about maximizing or optimizing the network performance.

SLIDE 47 – PRODUCTS AND CAPABILITIES

Moving onto detail a little more clearly what our products and capabilities are, I will reference the classic cellular network tower image. At the top of the towers are the antennas, which transmit signals to and from the handsets and also the antennas that allow the tower-to-tower communications. The latter is where we have an important product offering. We have developed a strong market share in tower-to-tower or backhaul radio links due to our ability to offer short lead times and highly flexible deliveries, coupled with some industry leading products in the very highest capacity broadband networks.

Further down the tower, we have a range of products which we refer to as network optimization products. These either improve the signal from the base radio stations or allow a number of radio stations to be combined. Such products are vital in today's environment of cluttered and congested networks. From New Delhi to New York, operators need more signals to be transmitted from less tower infrastructure. Our brand is recognized here as an innovator, particularly for high data rate networks.

The final product offering shown is a test instrument, which evaluates the RF path from the base radio station to and through the antenna at the top. Our product is actually a world's first. Launched some three years ago, it is revolutionizing the industry and the operator's ability to know that their network is good. I will return to the product later in the presentation, but it has already enabled operators to make unprecedented improvements in their networks.

SLIDE 48 – PRODUCTS AND CAPABILITIES (CONTINUED)

All around us, we are surrounded by radio frequency, or RF signals, TV, radio, mobile phones, emergency service signals, to name a few. In this congested world of signals, it is frequency filters that are used to confine and define the signals based on government controlled frequency spectrum allocation. Without frequency systems, there would be widespread interference, preventing any one system working effectively.

Rather than address the mass margin challenged applications, we engineer the spoke solutions, with highly customer facing organizations as required by the more technologically challenging parts of the networks, such as backhaul radios, infill and in-building applications. One strategic action we have taken in these products was to invest in a holistically Chinese entity where we have a channel to the China market and also low cost R&D to complement our low cost manufacturing.

Within the core radio base station at the base of the tower, we supply high performance components. These are specialized components which are offered under market recognized brands, where we have limited competition as a result of an extensive heritage of tacit process and product expertise, which has created significant barriers to new entrants or emerging market reverse engineering.

And finally, before we developed the test instrument of the previous slide for the system level testing, we were again the innovators in creating an instrument for product level testing, and this enabled an industry-wide product improvement. We remain the industry recognized standard for ensuring an accurate and reliable measurement of an RF performance parameter which is increasingly vital in high data rate communications.

SLIDE 49 – LOCATIONS, MARKETS AND GROWTH DRIVERS

The offerings described on the previous pages have a fairly even sales distribution between four areas, okay. There is the components for the core radio base stations, there's backhaul radio link products, network optimization products, and test instrumentation. Only the first of these can be related to the readily available data on radio base stations. The remaining applications are driven by the explosive growth in demand from consumers and enterprises alike for data, and lots of it, on the move.

The iPhone has been described as a lifestyle changer and this may be debatable, but it is absolutely certain that the iPhone and similar devices are demanding better, faster networks. Every flick in the screen is a surf command, demanding data bits from a band limited network. In 2009, AT&T quoted that data traffic on their 3G network had grown 5,000% in the previous three years.

The overall spend on telecoms infrastructure has flattened in many mature markets. However, there remain very strong growth opportunities for Interconnect, as the spend is redirected from coverage to new high data rate networks and to network optimization to combat the effects of aging equipment and the health and environmental concerns of old congested towers.

In addition to improving network capacity, data on the move is pushing the air interface regulators to rethink the allocation of frequency spectrum. This frequency re-farming, such as the digital dividend, represents for us new demand for high performance filters. Finally, geographically, we also have opportunities to expand, having established a significant base in China, but also in the currently weak region of Europe. Here, our revolutionary test instrument is fast tracking market penetration.

SLIDE 50 - CUSTOMERS

There will be no surprises in our customer list, from the regionally centric operators who need network optimization products and test instruments to the global OEM giants who provide the core infrastructure and user component offerings. In addition, we serve the smaller players, such as the backhaul radio link OEMs and network installers, who ultimately supply to either the operators or the OEMs. To all, we have a common model -- be technically intimate and extremely responsive. A model which is built on having strong customer facing technically astute teams in all the key regions.

SLIDE 51 – COMPETITIVE POSITION

Our competition for products can be summarized as really two types. Firstly, those that are geared for addressing the high volume applications of the core radio base station network. That includes the two industry consolidators, Powerwave and CommScope, and the emerging Chinese entrants. All have business models geared for scale and do battle under the most severe price pressures from the OEMs. They only compete with us when they endeavor to address the operator sector for optimization products, where agile business models with leading technology are required.

The second group of competitors are those that are better geared to our niche and have significantly smaller organizations. They can be fast and flexible, but tend to be very geographically constrained. A final note on test instruments. Our competition tend to focus purely on instrumentation. Our portfolio of network products ensures us a constant exposure to the end application, which is enabling us to stay at the front of the market on instrument feature set.

SLIDE 52 – CASE STUDY 1: PIONEERING APPLICATION (PORTABLE PIM)

In the way of practical case studies to demonstrate our capabilities, I will start with a test instrument which we refer to as portable PIM, and which has been mentioned earlier within this presentation. It is genuinely a groundbreaking tool, which is giving operators a completely new and cost effective way of ensuring their networks are of the highest quality.

This is a benefit for return on voice calls, but an absolute prerequisite for networks carrying high speed data traffic. Before this product was taken to market, operators did not know the full RF performance of the chain of products in the tower. They relied on product level specs and system drive tests, i.e. technicians driving about in a van, assessing signals in the area.

Following a rapid courtship and acquisition of a high tech Australian company, we have launched the product on the US market and sold GBP15 million within the first two years. The product is now opening doors with operators in Europe, India and China, with customer quotes such as dropped calls have gone from 7% to 0.5%, and simply it's a miracle box. To date, we believe the box is being used to ensure the network performance of only 2% of the globally deployed cellular network sites.

SLIDE 53 – CASE STUDY 2: LEVERAGING RESOURCES (GLOBALISATION)

The second case study has a similar theme in terms of globalization of a small acquired entity. Using Smiths relationships and customer contacts, we have been able to take some excellent network optimization products, currently sold into a region accounting for only 8% of global CapEx, to one absorbing 23%.

Additionally, we have been able to leverage our now significant resources in China, where we have a very strong, efficient manufacturing base, which is well suited to support the growth we expect from expanding our addressed market. Initial successes have been significant, with the first major project addressed presenting potential sales of GBP60 million over three years. The project has also resulted in a new range of products specific to the needs of the US 4G LTE, that is Long Term Evolution standard, which importantly is broadly accepted, will be the dominant global standard for future high data rate networks.

SLIDE 54 – CASE STUDY 3: APPLYING KNOW HOW TO NICHE (GSM-R)

Finally, this last example demonstrates our ability to identify and target adjacent market niches leveraging our core technology to different applications. In Europe and a few other smaller continents, the rail networks were allocated for their driver communications and signaling information, some frequency spectrum adjacent to the public mobile networks.

We have leveraged the customer relationships of the Connector business unit to gain access to an industry which is lacking in any real understanding of how other communication systems could impact their somewhat basic networks. To quantify the issue, a survey of rail operators across Europe has identified at least nine countries where the problem is such that high speed trains can be stopped short of major stations due to the train signaling info being blocked by public phone networks.

The issue is fairly early stage, but based on our system level understanding, we have developed some filtering products which are being used to support the work of the European Union's air interface governing bodies investigative committee to demonstrate a practical solution.

SLIDE 55 - SUMMARY

So, to conclude my section of the presentation, in the wireless telecom sector Smiths brands are renowned for offering excellent technical solutions based on industry leading engineering teams. We are positioned globally to address a truly global market. We're on a path of significant growth driven by high capacity, high speed networks to address data on the move and also highly congested frequency spectrum which needs filtering controls.

Our strategy of focusing on new technologies, new applications and network performance optimization shields us from the commoditization price pressures. As a result, we have and will continue to yield industry leading margin performance.

Thank you.

SLIDE 56 - PROTECTION

Ralph Phillips - Smiths Interconnect - President

Thank you, Jacqui. I'd now like to introduce Shawn Thompson, the President of our Protection Technology Group. Shawn also came to us through acquisition of Transtector around 12 years ago. He has nearly 25 years in the power and signal protection marketplace.

Shawn Thompson - Smiths Interconnect - President - Protection Technology Group

Thanks. Good morning. The Protection Technology Group provides exactly that, protection. We provide power and signal integrity for communication and critical electronic systems. Based on the lightning storm we all witnessed last night, I don't think I could have provided a better introduction to our marketplace and the destructive nature that lightning plays on our electronic systems.

SLIDE 57 - OVERVIEW

To provide an overview, these electronic systems have permeated nearly every global marketplace, and have increased in their sophistication. But this sophistication increases their vulnerability to a variety of threats, beginning with power surges and signal disruptions from lightning. Add to the picture an inconsistent power levels from an aging power grid that is burdened with increasing power demands and the threat of electromagnetic pulses, EMP, from high energy weapons, and you'll have a better idea of the risks our customers' equipment faces.

Our key markets and the applications we focus in are found in the communication, transportation, oil and gas, medical, and military sectors. We take a systems-wide approach to each of their varied protection scenarios, offering a broad range of products with patented technology.

SLIDE 58 – PRODUCTS AND CAPABILITIES

Next, I'd like to talk about our products and capabilities. Our product suite functions first and foremost as a shield, a protective barrier between the equipment and the point of entry for any of these various destructive threats that might be encountered. Radio frequency protectors act as a shield of protection between the coaxial cables running up the communication tower and the tower top electronics, such as antennas, remote radios, and GPS receivers. Our experienced and innovative technology, with the use of precision tuned cavity filters for RF protection, establishes us as a leader in the industry.

We also provide protection products for AC and DC power and data signal lines. Our AC products can be found at the main entrance to facilities as well as individual critical equipment. AC protection products are strictly regulated by electrical codes, industry standards, within specific geographic regions. Our engineers are leaders and decision-makers within these standard committees, and design our products to meet these requirements.

Our DC surge protection products address low-voltage applications, with indoor and outdoor configurations protecting equipment and signal communication between remote terminals and network interfaces. The Protection Group's data line products protect internet access, as well as voice and video communication signals to ensure reliability for the ever increasing bandwidth demands.

Our integrated power and signal cabinets goes a step further by incorporating protection inside these enclosures that have multiple functions. Located at the network point of entry, or remote equipment shelters, these power cabinets can be built to suit customers' needs for housing generator hookups, breakers, and other customer equipment alongside our power and signal products.

SLIDE 59 – PRODUCTS AND CAPABILITIES (CONTINUED)

Building on our success of integrated cabinets, we also diversified our offering to include DC power distribution. The global communication market is in a continuous need for increased power due to increasing demand and data appetite. Our products provide high amperage power distribution contained in the industry's smallest footprint. This patented small design enables our customers to retrofit existing facilities with only minor restructuring and even less down time. It is unmatched by our competitors, and is specified by companies such as Alcatel Lucent, Ciena, AT&T, and Cisco.

The Protection Technology Group also addresses electromagnetic pulses generated by modern high energy weapons. We combine our power and signal protection expertise with filtering technology to harden electronics against EMP effects in secure government facilities, battlefield applications, as well as focusing on increasing commercial EMP concerns.

Our full system approach to power and signal protection includes power conditioning products that regulate the power between two specific points. This type of equipment can be found most commonly on the input side, to critical diagnostic medical equipment such as CTs, MRIs, and linear accelerators used in cancer care treatment. Our ability to quickly respond to customer requirements allows us to be included in the regulatory testing phase, giving us an advantage over our competitors.

SLIDE 60 – LOCATIONS, MARKETS AND GROWTH DRIVERS

Now, let's talk about our markets and our growth drivers. Our sales and engineering and manufacturing team are positioned in four key geographic areas, North America, China, India, and Europe. We have distributors and representative resellers in over 25 countries. Sales by market show our focus on areas of high growth potential.

Although communication is traditionally our largest segment, the military sector continues to strengthen our earnings through numerous multiyear program awards. Rail, medical, and energy markets also indicate significant opportunities due to infrastructure upgrades and alternative energy sources. Historically, North America has been our primary market for the Protection Group. This is due to US compliance of our products, and focus and escalation of our military sector.

Our Asia revenue is on the rise, with a share of 24%, accredited largely to the acquisition of Dowin in China. In addition to providing expansion into the Asia markets, Dowin's product platform is geared for growth in India and Europe due to compliance and technological requirements.

The primary growth driver for our business is the increased utilization of sensitive electronics and their sophistication. Infrastructure upgrades, degrading power grids, increased lightning strikes, and the threat of electromagnetic pulses all provide growth opportunities for the Protection Group.

SLIDE 61 - CUSTOMERS

It all starts with our customers and the channels to market. Our global customer base is diverse, encompassing communication, transportation, oil and gas, medical, and military sector.

The applications for our technologies are as extensive as the electronics and the networks that we protect. We have developed long term strategic partnerships with these customers by offering a solution-based products approach paired with engineering, support, on-site facility audits, and consulting capabilities. We address multiple channels to market, including network operators, integrators, government and government prime contractors, OEMs, and a worldwide network of distributors.

SLIDE 62 – COMPETITIVE POSITION

Any successful business understands and knows their competitors. Our competitive landscape is fragmented. We compete with small, privately held companies serving specific markets in their geographic regions, as well as divisions from within large global conglomerates. Our brands hold a dominant position in the marketplace. PolyPhaser is consistently ranked in the US as one of the top three RF manufacturers, while Transtector performs strongly against competition, and is listed as one of the top five global transient voltage surge suppression hardware producers.

What sets us apart from both large and small competitors is, first, our innovative use of technology. Second, our complete end-to-end product solutions. Third, our compliance with industry standards and regulatory requirements specific to each geographical region. And fourth, our engineering service and customer support, both before and after the sale.

SLIDE 63 – CASE STUDY 1: MARKET DIVERSIFICATION (MILITARY EMP)

I spoke about market diversification earlier. Let me give you an example of how we entered into the military EMP market. Historically, the Protection Technology Group had a narrower telecommunication focus. Following a customer request geared toward a military application, we identified an opportunity to broaden the markets that we serve.

Our research vetted the growth potential of this military market and its applications, so we strengthened our capabilities, added the necessary security clearances, as well as procedures. We leveraged the strength of the other Smiths Interconnect companies, who were already serving these military markets in other capacities. Military is now our fastest growing market segment.

In the last three years, we have tripled our revenue and experienced double digit compound annual growth. We are now a partner of choice with prime government contractors and our reach into this market continues to grow into new agencies, as our expertise expands and our reputation spreads.

SLIDE 64 – CASE STUDY 2: OPERATIONAL LEVERAGE

In addition to diversifying our markets, we also seize opportunities to leverage our strength from within. Through operational consolidation of two of our US-based companies, PolyPhaser and Transtector, we were able to align our organizational infrastructure and capitalize on product synergies, brand recognition, global customer bases, and markets, thus enabling us to strengthen margins, expand our market share, and broaden our product offering through these consolidated operations.

We utilized Interconnects established global manufacturing footprint, China, India, and Mexico, as well as the United States, resulting in GBP2 million in ongoing annual savings. We have increased market share with a combined brand identity, and have maintained not only our customer loyalty, but have increased it.

SLIDE 65 - SUMMARY

The key points that I'd like to leave with you today about the Protection Technology Group is our innovative technology and our diverse product offering. Our global growth sectors are driven by increasing demands from sophisticated electronics. We are a customer centric and solution driven business, and our strong margins are sustained through product differentiation and operational leverage.

Thank you for your time.

SLIDE 66 – MIKE HANSEN, VP FINANCE, SMITHS INTERCONNECT

Ralph Phillips - Smiths Interconnect - President

Thank you, Shawn. I'd now like to introduce Mike Hansen, Smiths Interconnect Financial Director. You'll notice from his accent that he's neither from the US or the UK. Another value creation opportunity or synergy within Smiths is to offer career opportunities, talent management, and sharing of best practices across the group. Mike has been at Smiths, started in 1999 with John Crane in South Africa, and has worked with Smiths on four continents. He's been a Financial Director of Smiths Interconnect since 2004.

Mike Hansen - Smiths Interconnect - Finance Director

Good morning, everyone. I will now take you through a few slides addressing some of the financial aspects of our business.

SLIDE 67 – POSITIONED FOR GROWTH

As you have already heard thus far from some of my colleagues, we believe Smiths Interconnect is well positioned for growth. We start from a view that our addressable market is growing in the 4% to 6% range. We have positions on several significant programs that are now entering production, where we have an established technological advantage.

In our markets, there are certainly barriers to entry for new entrants, which in turn has strengthened our position. We have invested strongly in new product development to support future growth, and we invest in R&D at rates higher than the industry average. Through globalization, we now have more opportunities to sell our products and geographic markets that we had not fully explored previously.

Interconnect, because of the way we are structured, has the flexibility to align resources with higher growth markets and hence take advantage of high margin business. In short, prior to the economic downturn, we consistently achieved the target growth range for our business of 6% to 10%, and I'm referring to sales. And we are well positioned to return to these rates in the medium term and subject to favorable economic conditions.

SLIDE 68 – VALUE CREATION: OPTIMISING RESOURCES

Across all aspects of the business, a cornerstone of our management philosophy is to optimize the use of resources and assets to ensure we create the maximum value.

Talking about the front end of the business, and as mentioned earlier, R&D is a fundamental building block for future growth. We invest in new product development opportunities where we can generate good margins. We use risk adjusted NPV's as a method of evaluating which R&D projects will create the most value, and apply our resources accordingly. We optimize our sales channels and utilize a common Customer Relationship Management system to drive shared opportunities where we can maximize Interconnect content.

Operationally, we have been actively expanding our global footprint, and have increased the percentage of manufacturing in low cost economies. As an example, currently a quarter of our workforce is based in China. Our model is to share facilities, where feasible, amongst our technology groups, where we can minimize fixed cost spend while still achieving the needs of each company. Sharing operational best practice and leveraging cost helps us to drive manufacturing efficiencies and sourcing opportunities even further.

SLIDE 69 – MARGIN IMPROVEMENT OPPORTUNITIES

As mentioned earlier by Ralph, Interconnect's operating margin goals are in the range of 21% to 23%. Through the economic downturn, we have lost a few points of margin, and we are currently in the 17% to 18% range. But we have plans in place to return to the target range in the medium term. On the left side of this chart, you will see pressures and opportunities that are of an ongoing nature.

Despite pressures on competitive pricing in emerging markets and on input costs, we have worked hard at mitigating these through cost saving initiatives and have delivered strong margins in tough trading conditions. This you will further see when I discuss comparative metrics.

As we look forward, we have ongoing opportunities through new products and programs, operational efficiencies through Low Cost Manufacturing, as well as sourcing, cost saving and corporate initiatives. In addition, we have a number of one-off issues, which will provide further margin improvement impetus. These include the non-repetition of acquisition related retention costs, some further fixed cost reduction initiatives, and the accretive impact of our acquisition of IDI.

SLIDE 70 – STABLE BALANCE SHEET AND STRONG CASH FLOW

As we turn to the balance sheet, it is fair to say that Interconnect is characterized by low capital investment, certainly when compared with the more commodity sector businesses, and good working capital management. In this area, inventory gets a lot of focus. We are predominantly a build-to-order business. We encourage Vendor Managed Inventory, and on certain programs, we get advance payments.

As most of our customers base is blue-chip, we have low bad debt exposure. Like inventory, receivables are closely managed, with receivable days varying across geographies. Across our division, we continually drive cash conversion, consistently achieving a conversion which runs north of 90% of profits.

SLIDE 71 – COMPARATIVE METRICS

We wanted to highlight some results of our activities and management processes by including some comparative metrics. We have selected three strong competitors in each of our technology groups, and have benchmarked these against working capital, Capex, and operating margin measures. Looking at working capital as a percentage of sales, Connectors have a few competitors who are marginally ahead of us, with the other three technology groups having strong positions.

In looking at Capex as a percentage of sales, this still compares us with our competitors who are in the same niche markets, not commodity players. And as such, we are in the upper end, which shows our commitment to invest in our respective companies and also for future growth. Operating margin as a percentage of sales indicates the leading position that the technology groups command when benchmarked against key competitors. We trust this clearly demonstrates the takeaway message on this slide of strong asset management, and excellent margins.

SLIDE 72 – BUILDING THE BUSINESS THROUGH TARGETED ACQUISITIONS

Acquisitions have been a key part of the development of our business, and therefore, before handing back to Ralph to conclude the presentation, I wanted to review briefly both the history and the potential for further acquisitive growth. We have an excellent track record of acquiring complementary technology focused businesses, successfully integrating them, and of importance, creating value. As a whole, our acquisitions have significantly exceeded expectation, and the Group's return on investment criteria.

During the last 12 months, we have completed two acquisitions, each at opposite ends of the scale of our M&A activity. In October 2009, we acquired Channel Microwave, a small bolt-on business that enables us to become the worldwide market leader in microwave ferrite devices for defense applications.

As you are most certainly aware, some 10 weeks ago, we completed the acquisition of IDI, the largest transaction in Interconnect history. As you heard from Roland earlier, IDI provides very complementary connector technology, global manufacturing, and significant synergy potential. Our acquisition and integration process is well practiced, and both projects are running smoothly. Furthermore, I am delighted to add that both businesses are performing strongly and ahead of expectation for the current financial year.

Turning to the future, we believe the fragmented markets provide significant opportunity to undertake further acquisitions for all our technology segments. We have identified adjacent products, markets, and geographies that could double our addressable markets to around GBP12 billion. Our criteria are closely aligned to those of the Group, as outlined by Peter during his introduction. And so, to sum up, we as a management team seek opportunities where we can create shareholder value, both organic and acquisitive.

With that, I would like to hand you back to Ralph. Thank you.

SLIDE 73 – RALPH PHILLIPS, PRESIDENT, SMITHS INTERCONNECT

SLIDE 74 – SUMMARY: VALUE CREATION OPPORTUNITIES

Ralph Phillips - Smiths Interconnect - President

Summarizing some of the key themes from today, Interconnect has a strong track record of growing organically and is well positioned for future growth in the medium term. Within Interconnect, the key pillars and strength of our businesses includes an entrepreneurial culture. We have shown you today that starts with the management team we hire, how we organize our companies, how we collocate both the creative and commercial minds close to the customers, and then empower them to make decisions and support those customers. This is how we compete effectively with both the large and the small competitors.

Second pillar is our innovation. We spend a robust 5% of our sales on R&D, utilizing a structured process to select projects and then manage them to yield the highest value, both from our own R&D funding and from our customer funding. Our third pillar is scale and optimize resources. This includes everything from best practice sharing, talent management, to leveraging our buying power and our low cost manufacturing centers. With these pillars in place, we intend to drive our growth, both organically and through acquisition and we think this is a winning formula that is proven over time to create significant shareholder value.

SLIDE 75 – SMITHS INTERCONNECT: AN ATTRACTIVE INVESTMENT CASE

Our products that we have shown you today, such as Snap-Tech connectors, KuStream, which you'll see outside shortly, portable PIM instruments, which you'll also see on the tour, and RF protectors, are excellent examples of our market leadership within specialty electronics and RF products.

Hopefully, you've heard from the presentations and see on the tour our products are technically differentiated, and you'll see firsthand from the Tampa factory some of the key barriers to entry. You can also appreciate that these products are supporting numerous and diverse end markets, with strong underlying growth characteristics, such as telecom, which you can experience in your everyday life.

Again, both from our key management's background and from our case studies, you can see that Interconnect combines the best of an entrepreneurial culture, yet everyday we leverage the scale and resources of Smiths, and we're keen to maintain the controls of a large FTSE 100 plc.

We traditionally had excellent margins and we have the infrastructure in place and the restructuring mostly behind us to take advantage of that leverage as volume increases. We have a strong track record of creating value, both organically and acquisitively, and we operate in an unconsolidated market, leaving us other opportunities for further acquisitions.

And finally, Philip Bowman has, on several occasions, described Smiths Group targets for growth and profitability. Within Interconnect, the targets developed by us for which we're committed are sales growth of 6% to 10% and margins of 21% to 23%.

Thank you. Okay?

SLIDE 76 – INVESTOR DAY AGENDA

Peter Durman - Smiths Group, IR Director

Thanks, Ralph and team. We now have some time for Q&A. There'll also be a chance obviously on the tour to ask questions. We've got -- each of the tech groups will have a station on the tour, so there's opportunity to see some of the products and see some of the case studies in a bit more detail.

But we'll now take some questions. If you could wait for a microphone to be brought before you ask your question. And fire away. In the front row, please.

QUESTIONS AND ANSWERS

Martin Wilkie - Deutsche Bank - Analyst

Thanks. Good morning. It's Martin Wilkie from Deutsche Bank. Just a question on your strategy for acquisitions. At some point, will the entrepreneurial growth be limited as you get bigger and bigger? I'm guessing -- how do you see over the next several years moving away from perhaps a more entrepreneurial business model to getting larger and larger -- really trying to sort of balance those two different business models that you've seen over the past few years?

Peter Durman - Smiths Group - IR Director

Ralph, you take that.

Ralph Phillips - Smiths Interconnect - President

I think we're a ways away from having that problem. I think the way we've structured, by having technology groups, we drive that entrepreneurial spirit down to this level, in some cases a step below. At some point, as companies get larger and larger, they tend to become more monolithic. I think we're a ways off before that, before we get there. So, I think there's plenty of opportunity for us to leverage this model for quite a while.

Martin Wilkie - Deutsche Bank - Analyst

I guess the sort of follow-up is how many of your products do you think came out of those sort of more entrepreneurial, smaller business versus how many have come out of the larger entity? Even if -- if we were trying to work out the products that have ended up being a homerun, how many of those have come out of those sort of small entrepreneurial companies?

Ralph Phillips - Smiths Interconnect - President

I would say from the products perspective, probably close to 100% have come out of that. I think really some of the customer relationships, we're leveraging those at the Interconnect level at this point. I can tell you Interconnect headquarters hasn't designed or developed one product since I've been around. But Interconnect headquarters and the tech group leadership has developed new customers for some of those products.

Martin Wilkie - Deutsche Bank - Analyst

Thanks.

Peter Durman - Smiths Group - IR Director

Okay, next, please? If you get this to the back row.

David Larkam - Arden Partners - Analyst

You talk about geographies. Can you talk a bit more about Europe, particularly sort of protection and on the microwave telecom side, where you look to be pretty weak. Are there standards issues that stop you getting involved there or do you need to find an acquisition? How are you going to sort of expand into Europe? Or are the margins just not attractive in that market?

Ralph Phillips - Smiths Interconnect - President

So, you mentioned protection and microwave?

David Larkam - Arden Partners - Analyst

In particular, yes.

Ralph Phillips - Smiths Interconnect - President

Kent, you want to take the microwave subterm, why aren't we stronger in Europe versus the US?

Kent Whitney - Smiths Interconnect - President - Microwave Defense Technology Group

I think you referenced telecoms, which doesn't have to be our specialty. But obviously in the US defense market, the relative spend is really what drives us in the defense market. So between, we do have --

Ralph Phillips - Smiths Interconnect - President

So Jacqui, why don't you take the telecoms side of that.

Jacqui McLaughlin - Smiths Interconnect - Managing Director - Microwave Telecom Technology Group

In telecoms, there isn't so much regulatory blocks, but basically having the right product offerings at the right time. And that's what's changing now with the sort of products we've brought onboard with the Australian acquisition. We now have a lot of products that we can really accelerate into that market. And we have applied some existing Smiths resources in that market, application engineers, salespeople, to try and drive that growth now.

And as mentioned in the earlier presentation, the PIM instrument is really quite an exceptional product to be able to try and open some doors with and then leverage the other product offerings that we have for telecoms as well.

David Larkam - Arden Partners - Analyst

So, you think you can do it organically rather than needing to buy something to enter those markets?

Jacqui McLaughlin - Smiths Interconnect - Managing Director - Microwave Telecom Technology Group

That's our strategy currently, yes.

David Larkam - Arden Partners - Analyst

Thanks.

Ralph Phillips - Smiths Interconnect - President

Shawn, you want to take the protection side of that for Europe?

Shawn Thompson - Smiths Interconnect - President - Protection Technology Group

You bet. On the protection side, it's very much compliances, the codes and standards that the European market has are very different from what we see here in North America. So, that's a big driver to our footprint in Europe versus what we have in the United States. The Dowin acquisition in China provides those compliances and will definitely spur some growth into the European marketplace as well as India.

Peter Durman - Smiths Group - IR Director

Okay. Sandy there in the right.

Sandy Morris - RBS - Analyst

Yes. A few things, if you'll forgive me, but sort of trying to just run through them. When we've lost a couple of points off the margin, one suspects that's because just one or two or three businesses over the Group have been sort of hit particularly hard. I mean, that's normally what causes that sort of thing. So, I don't know if you'd like to flesh that out, whether just one or two businesses caused this in general.

Ralph Phillips - Smiths Interconnect - President

No, I don't think so. I think if you look at the impact of margin being -- largely being volume, I think it's across the board, whereas where we've had a couple points -- lost a couple of points, it hasn't been just one or two businesses. And if it was one or two businesses, it would probably be some other characteristic that would be driving it versus more broadly based.

Sandy Morris - RBS - Analyst

I didn't quite understand that. So, it's just across the board, really?

Ralph Phillips - Smiths Interconnect - President

And it's a fact of having a lot less volume going through.

Peter Durman - Smiths Group - IR Director

Yes, I mean I think the defense side has held up probably a bit better. Obviously, volumes have been a bit stronger there relative to the telecoms and other industrial areas. But I think it's --

Ralph Phillips - Smiths Interconnect - President

Volume related and the mix associated with those programs I think --

Peter Durman - Smiths Group - IR Director

Yes.

Ralph Phillips - Smiths Interconnect - President

-- where we've had that.

Sandy Morris - RBS - Analyst

And then the other one, if you'll forgive me for doing my usual, this company is kind of sort back to front compared to many of the others that we deal with kind of in this space, where most would be defense heavy, get the funding, and then try and work out what you could spend down into the commercial telecoms markets. And that's been done with varying degrees of failure and success over the years, whereas you're actually almost coming at it the other way, and that's a sort of strange model. So, I would imagine that in your attempt for acquisitions and consolidation you might actually focus harder on the defense market.

Ralph Phillips - Smiths Interconnect - President

That's an interesting question. I think the -- it's a little more historical in terms of how the various -- the portfolio has been developed in terms of starting heavy some number of years ago on telecommunications and then buying -- actually buying at the right time in terms of defense spending in 2004. So, I don't think we kind of come at it the same way that you're asking the question.

I think the way we've bought companies, focused primarily on telecommunications, and we've rode that about as hard as we can. If there's an opportunity to take them in the military business, we have and Transtector is a good example. On the other hand, our military companies, I would say today is probably not the right time to go off and buy a company that's focused totally on military. I think that wouldn't be a highlight of our strategy. It's more we would buy somebody who had a piece of their business in military, but not predominantly focused there.

Sandy Morris - RBS - Analyst

Just one more way of sort of coming at this. If we go to that C4ISR part of the budget, which is up 5% or something, but there's huge change within that because you've got traditional programs like -- this is your terminology, not mine, Jitters and WIN-T and everything soldiering on. And WIN-T sounds absolutely up your street if they press ahead with that.

But also, FCS got culled out of that and yet somehow the overall C4ISR budget didn't seem to change. But the critical thing for you is that Jitters and WIN-T are moving into production now out of development. So, your defense business should, in theory, be taking off now. Yes, no, maybe?

Ralph Phillips - Smiths Interconnect - President

Well, it's certainly very strong and we do have positions on both WIN-T, much less on Jitters. But we are -- they're definitely very strong on WIN-T with a couple of different products. That part of our business is doing quite well. It's reflective in what we're projecting here. So, I don't think that -- I guess I'm not quite sure exactly how to answer that, but I think we're doing quite well in our defense business.

Sandy Morris - RBS - Analyst

Yes, I can't actually find the question to ask, never mind the answer. All right, one more go and then I'll let someone else can have a crack at it. When we're looking at your overall business, there's the radio frequency spectrum, which is basically jammed. So, the more applications that come, if you're mean enough to stick broadband on airplanes and everything, God help us, but there's just an inherent demand for your products, filters and everything, just to deal with the interference and so on.

And you must see that across the whole of your product range in every single business. I mean, is that just the way we should look at it? So, until someone comes up with another way of communicating high speed data, and they gave up on TSAT so we're stuck with what we've got, your business should just grow and grow and grow because there's just constantly problems to solve.

Ralph Phillips - Smiths Interconnect - President

We should have added that to our presentation. I think it's a -- no, I think that's actually very true. And actually, several years ago, when we went off and bought Millitech, it was because of the perceived moving up the frequency bands in terms of going L-band, which is 1.2 gigahertz used a lot in the military, was completely saturated during the Gulf War, various versions of that.

They're moving higher and higher and higher frequencies, whether it's radars, whether it's electronic warfare, or whether it's any kind of communication. So, we actually are positioned pretty well there in terms of being very, very strong in the millimeter wave frequencies.

Kent, you want to add something -- anything to that?

Kent Whitney - *Smiths Interconnect - President - Microwave Defense Technology Group*

Well, I liked your question. Yes, we -- I think we're entering a very good time. There's the need for communications. We're positioned very well in the C4ISR budget and the communications end of it, as you saw from the presentation. You mentioned a couple of programs. But at the same time, TSAT is gone, but they're just starting to launch two new constellations of satellites, so that presents lots of opportunities for exactly the products that we need.

So, it's -- we're very encouraged. We're very encouraged looking forward and we're able to cross over both into the commercial and military world in that particular area. Other areas are force protection. Again, we just -- we're positioned where there is a need to as well.

Peter Durman - *Smiths Group - IR Director*

Yes, in the back right there.

Adam Schwartz - *First Manhattan - MD*

Just a question about the long term nature and contracts of the business. Maybe you could break it down between the military side and non-military side. And within that, what in terms of pricing pressures in an environment where budgets are being looked at, how you're able to get from military type business 21% margins and why they aren't structuring contracts on cost plus with you if you're a different part of how you sell. And then, just in terms of if you were to break down in visibility within the military and outside, if the contacts are two and three-year or if they're just kind of rolling basis.

Ralph Phillips - *Smiths Interconnect - President*

I don't -- we don't really have a percentage breakdown on long term contracts versus short term contracts. But I would like to say a couple of things about dealing with the military on pricing and whatnot. Cost plus contracts for products just doesn't exist. Occasionally, a cost plus contract, which are generally lower margin because they're lower risk, are for development type contracts and something that has a lot of change or lots of risk that the government perceives.

The type of products that we produce often times are produced under our own R&D initially, designed and developed that way. So, we own the intellectual property and they have less margin pressure initially because it's something that's developed as a product. In terms of long term contracts, we really have a few of those in the military programs where you'll have a several-year, multiyear contract. And we have a few of those on commercial products as well. But generally, most of our contracts are less than a year.

Peter Durman - *Smiths Group - IR Director*

Do you want to comment on the sort of forward backlog, the average in the sort of range --

Ralph Phillips - *Smiths Interconnect - President*

Yes, currently we really vary our products range from a lead time of two weeks to 10 months. In any one fiscal year we may show up in that fiscal year between 30% and 40% of our sales already in backlog. In fact, as we get ready for the next fiscal year, I think we're kind of right in the middle of that for next year. That'll give you some idea how much -- how much forward visibility we have on our contracts. But again, some businesses are two weeks and some are 10 months. We love the 10 months, the two weeks give us gray hairs.

Peter Durman - Smiths Group - IR Director

Okay. Any more -

Peter Durman - Smiths Group - IR Director

Any more -- that's -- yes, go ahead. At the front row here.

Avi Hoddes - UBS - Analyst

Hi there. Maybe it's very obvious one, but could we rank the different businesses in terms of size versus each other? I mean, you don't versus the competitors, but size versus each other, then the margin across the different businesses versus each other. That's my first question.

My second one, if you forgive me, relates to Cobham, who've been busy on the M&A side over last few years in defense microwave. So, whether you had in interest in, say, Remec or M/A COM, if not, why not? And as a competitor, how you find them in terms of pricing, in terms of quality of product and difference between the two offerings, that'd be quite interesting to know.

Peter Durman - Smiths Group - IR Director

Okay. Well, in terms of the size of the businesses, Mike, do you want to talk about the sort of -- that part of it. And then perhaps, Ralph, do you want to talk about the so-called relationships?

Mike Hansen - Smiths Interconnect - Finance Director

Sure. I'll just address the issue on margins first and generally, we don't disclose margins on our technology groups. We just have margins on the Interconnect business itself. And looking at relative size, connectors is our largest technology group, followed by the defense side on Kent's business, and then by the wireless side and then protection. And relative percentages are about 30% on the connector side, in the 20s on the defense, and then below that bringing up to the total.

Peter Durman - Smiths Group - IR Director

Yes. Wireless is about 12%, isn't it, and protection's about 8%.

Mike Hansen - Smiths Interconnect - Finance Director

Yes, that's right.

Peter Durman - Smiths Group - IR Director

And Ralph, do you --

Ralph Phillips - Smiths Interconnect - President

Repeat again? What -- comparison to Cobham? We do on the microwave side especially compete with quite a few divisions of Cobham.

Avi Hoddes - UBS - Analyst

Yes. So, I mean on that. So, one question is how you find them in competition with respect to the aggressiveness of price difference in a product. What's the difference between the two when you're competing? But also, just going back, whether you had an interest in Remec when they bought that a few years ago. And M/A COM, which is another deal where I think was more in microwave sector recently. And if -- whether you're interested or not and why was that the case, that would be quite interesting.

Ralph Phillips - Smiths Interconnect - President

In terms of competing, I think we compete very, very well against them. For one, I think there's been -- they have gone further in terms of some of their acquisitions than maybe we would have in terms of -- and that can be perceived by the customer as being somewhat competitive. Part of our strategy has been not to compete with our customers and so, we may be perceived stronger there relative to the competition.

In terms of pricing and whatnot, I guess I don't really want to talk too much about it. We think we compete very well against Cobham on a day to day basis, and I think there's at least eight or nine different divisions that we compete with. In terms of the acquisitions, I don't know how much we can say about Remec or M/A COM, or TRAK for that part, in terms of where we've had to compete with Cobham on their acquisitions.

So, I guess -- can we talk much about that?

Peter Durman - Smiths Group - IR Director

Well, I mean, there's not much to say. We obviously look at a lot of acquisitions and things that come through, we screen them. I mean, I don't think we want to get drawn into specific transactions of the past today.

Ralph Phillips - Smiths Interconnect - President

Well, we certainly -- we know Remec quite well and we know M/A COM quite well and --

Peter Durman - Smiths Group - IR Director

Yes, Alex, in the front row there.

Alex Toms - Bank of America-Merrill Lynch - Analyst

Thanks. Hi, it's Alex Toms from Bank of America-Merrill Lynch. A couple of questions. Maybe as a sort of follow-on to Sandy's question. In US telco, the wireless telco business, you do talk about optimization and sort of capacity as being sort of drivers of the business. Can you -- is there a utilization level for the US wireless network that you can think about? Are we -- where are we on that level? How much spare capacity is there before you get a sort of another -- the need to invest a lot more in the network?

And then, the second sort of section of questions, on margins you're talking about 21% to 23%. Is there a timeframe on that at what operating leverages in the Group? And you did mention some further cost cutting. Can you just sort of -- where that may come from? Thanks.

Peter Durman - Smiths Group - IR Director

Okay. Well, I think -- I don't know whether, Ralph, you want to take the wireless, US wireless one.

Ralph Phillips - Smiths Interconnect - President

I think we should hand that one to Jacqui.

Peter Durman - Smiths Group - IR Director

Okay, Jacqui then. And in terms of the margins point, I'll hand that over to Mike in a bit. I think on the margins point, we basically obviously set out our target of 21% to 23%. I mean, the reason the margins dipped down was really volume related. You saw the volumes, and I think the guys have done a good job in terms of restructuring and managing the margins on the back of a number of the self-help initiatives that we've been doing in the division.

In terms of timeframe, inevitably, because margins were affected on the downside by the volumes, and then we need obviously the volumes to pick back up. And I think encouragingly in our lost IMS, we did signal that we expected to get back into underlying growth in the second half. It won't be enough to offset the declines we had in the first half. I think we were down about 9% underlying in the first half. But we should see -- we should see that level of decline reduce in the full year.

And we should exit the year on a positive growth trajectory, which obviously will help to produce -- will help to move -- lift margins back up again. In terms of timing, obviously it's difficult because it will depend on the sort of rate of recovery of some of a number of our end markets. So, that's why we -- today we kind of indicated we expect to get back in the medium term, and it will be -- we'll need to see some volume recovery.

But if Mike wants to add anything to that. But perhaps, Jacqui, do you want to comment first on the --?

Alex Toms - Bank of America-Merrill Lynch - Analyst

What about sort of the leverage? What sort of a leverage should we assume in the business given the cost cutting?

Peter Durman - Smiths Group - IR Director

Well, we -- again, we should see a pretty good drop-through because we have taken costs out. And just as you saw the leverage on the way down, you'll see the leverage obviously, if anything, better on the way back up because of the cost reductions.

Perhaps Mike want to comment on some of the cost initiatives that we've done.

Mike Hansen - Smiths Interconnect - Finance Director

Yes. You'd mentioned restructuring. We've done a number of restructuring programs in the past. Shawn Thompson, in charge of our protection group, alluded to one, which was the merging of PolyPhaser and Transtector, which was successfully accomplished. And as -- on an annual basis, returning some strong positive savings.

There are other areas of opportunity that we continually to look at, but due to the sensitivity of the nature of those activities, we can't talk too much about it or about anything like that at this meeting. But I do expect the operating drop-through to come through as volumes pick up.

And I think, Peter, you covered probably all the comments that I would have made about margins. Our goal, as referred earlier, is to get into the 21% to 23%. We're currently 17% to 18%. As the economies recover, as volumes drop through, we do expect to see that come through quite strongly because of the fact that we have done a lot of initiative work during the lean years of working on gross margins, on sourcing savings, on restructuring savings, and we do expect to reap those rewards as volume returns.

Peter Durman - Smiths Group - IR Director

Jacqui, do you want to --

Ralph Phillips - Smiths Interconnect - President

One more point relative to that, we did invest heavily in our low cost manufacturing center, right as the volume came down. So, that's also an entity that's in place much stronger than it was two years ago. Tunisia and Mexico were both just being put in place as the volume tailed off.

Peter Durman - Smiths Group - IR Director

Okay, Jacqui.

Jacqui McLaughlin - Smiths Interconnect - Managing Director - Microwave Telecom Technology Group

Okay. I guess the easiest answer to the US wireless capacity is that I would suggest it's full. And that's very much a peaky thing, and you get situations. I think it was the latest iPhone release they actually had to ask the room to switch off the devices so that the guy could demonstrate the capability of the product.

We had some meetings about a month ago with one of the leading US operators and their statement was that in 2010, they will significantly increase their CapEx spend relative to 2009. However, it was going to be very much back-ended to the second half of the year. And that was really all about they're trying to make sure that they do well, their 4G launch.

I think it's all very well when you rush out capacity if you don't rush out capacity that's actually of the right quality for the next generation products are coming out. Then, that's when you do get the problems like the iPhone announcement. So, I think the networks currently are well under pressure and under stress with inadequate capacity.

Alex Toms - Bank of America-Merrill Lynch - Analyst

And what should -- will there be a big increase in investment in relation to 4G? Is that --

Jacqui McLaughlin - Smiths Interconnect - Managing Director - Microwave Telecom Technology Group

Yes.

Alex Toms - Bank of America-Merrill Lynch - Analyst

And what sort of timeframe should we think about that one?

Jacqui McLaughlin - Smiths Interconnect - Managing Director - Microwave Telecom Technology Group

4G is starting to roll out. And as I say, the timeframes in the US are between the latter half of calendar '10 and the beginning of calendar '11. I think there'll probably be more activity in calendar '11, but it'll start to happen within the second half of calendar '10.

Alex Toms - Bank of America-Merrill Lynch - Analyst

And when do you see that in your order books? Will you see it -- I mean, is it any time soon?

Jacqui McLaughlin - Smiths Interconnect - Managing Director - Microwave Telecom Technology Group

We're starting to get initial orders on that now. So, the initial small scale rollouts are happening today.

Peter Durman - Smiths Group - IR Director

Okay. Any more frame or -- perhaps Sandy, in the back row.

Sandy Morris - RBS - Analyst

Yes. Sorry, I was just trying to sort of flesh out the picture. Sorry, Jacqui, just on your bit, my only dalliance so far in telecoms test was Spirent, which went to hell in a basket. Could you just explain this PIM product a little bit more and exactly what the edge is?

Jacqui McLaughlin - Smiths Interconnect - Managing Director - Microwave Telecom Technology Group

Right. It's a product that we'll cover in the demonstration, so we can do it a little better there. PIM in itself, which is passive intermodulation -- sorry, I shouldn't bore you with that, it's just a microwave test measurement. It's not in itself groundbreaking. What we did was recognize what it was doing to the radio network and were able to develop device which was rugged enough and robust enough to take out to the field.

And so, really all it does is it looks for discontinuities in your network. And basically, when you're putting together these towers, you're generally using what we might consider as tower monkeys, the guys with very big hands, and they're not really refined to the refinements of very highly tolerance microwave products.

And in putting the systems together, there are mistakes and there are problems. You also get problems from water ingress, the things that happen with age. And basically now, when you're trying to put more sophisticated signals through these towers, then you get problems. It does interfere with high data rate networks in particular. And the product just tells you where it is, allows you to fix the problems, and network performance goes up.

Sandy Morris - RBS - Analyst

Right. Because this -- I mean, we shouldn't keep referring to Cobham because this isn't about Cobham, but I mean Cobham got a lot of demand from these guys to try and fix problems with high data rate stuff because we're just is coming with heavy rain and trees coming into leaf banjacks the quality. Is that what you're testing or are you just testing the hardware?

Jacqui McLaughlin - Smiths Interconnect - Managing Director - Microwave Telecom Technology Group

We're basically testing the whole chain. At the base of your network, there is a radio that's emanating the signals that you have to get up a very tall tower and out of an antenna. And that involves a lot of connection points and every connection point is an opportunity to do it wrong. And we just make sure that it's done properly by a system level test from bottom to top that truly is a reflection of when the RF signals then pass through, they'll pass through well.

Sandy Morris - RBS - Analyst

Right. So, we're not sort of generating traffic to test a network, which is what the Spirant stuff was. We're just testing connectivity.

Jacqui McLaughlin - Smiths Interconnect - Managing Director - Microwave Telecom Technology Group

Yes. I mean if you had a good network, our test instrument wouldn't do anything for you. All of our work in the field has basically pointed to the fact that there's very few good networks out there. The sort of improvements that we can make is that you can reduce your number of base stations needed for an area, but it's actually more about the better quality of signals going through.

So, improvements in things like dropped calls and like that used to be one of the big banners that was carried here in the US. That was what somebody used as their marketing tool, was said we have the fewest dropped calls in America. These are the sort of things that we can be sure the network will be able to do by making sure just the RF itself is in good order.

Sandy Morris - RBS - Analyst

And just going back to sort of Avi's point, I mean various people are frying I think -- or trying to fry the same fish in different ways. And so, certain people have gone off into subsystems. And I think, I happen to believe the right belief that the higher frequencies are going to demand more integrated subsystems to deal with the problems of interference and God knows what.

And you don't seem to be trending that way. You seem to be sort of helping the customer to solve a problem as and when it arises, whereas I think what Avi was driving at, Cobham has sort of leapt ahead. There's a risk they compete with the customer in the short term, but then they've got to win the customer over. And I find that quite a sort of compelling strategy, to go up to the top and have a look down. Are you willing to try that or do you think you can do that anyway?

Ralph Phillips - *Smiths Interconnect - President*

I think we're maybe mixing some markets here. What we do in the test side of telecommunications is really driven by the frequencies that they select --

Sandy Morris - *RBS - Analyst*

Yes, so --

Ralph Phillips - *Smiths Interconnect - President*

-- although PIM instruments and PIM testing is prevalent both in military as well as commercial communications. Any satellite communication antenna that is shipped in the military generally has a PIM. Factory test was key with what Jacqui's doing in the field, is taking that factory test and has come up with a much smaller, lighter, faster product. They can take it out to the field, they can do it on the ground, they can actually do it up at the top of the tower. So, it is very much geared toward the frequencies that they're using.

In terms of what we're doing on the higher frequencies and SATCOM and other things, that's really geared much towards the market that needs that bandwidth and it needs that in the military applications on the move. The military is way ahead relative to that. We do do some things in commercial side on the higher frequency, especially in the backhaul, and we're probably the biggest supplier of millimeter wave backhaul antennas to the telecommunication operators around the world today.

I don't know if that completely answers your question, but it's --

Sandy Morris - *RBS - Analyst*

Well, it sort of does. I mean, it's just SATCOM on warships, great, except the next step seems to be that you integrate that. There's integrated topside program so that you don't clutter up the warship. And I can see how some people are trying to jump ahead and I can understand that strategy as opposed to sort of following. And I guess what I'm trying to say, really, is you can keep solving the problem, which is a fine idea. But whether you need this sort of top-down look might be a debate worth having.

Ralph Phillips - *Smiths Interconnect - President*

I think it depends on also your scale and certainly Cobham has much larger scale than us in the defense business. And L3 has a much larger scale than us in the defense business than we do. We are critical in a lot of those problem -- programs you're talking about. We have key positions on those programs, whether it's US Navy SEWIP, which is the next generation electronic warfare across the entire US Navy. We are the supplier of some key components there to some of the major primes that we've already mentioned.

So, a lot of those programs we're in there. Do we need to be the top-down? I don't think so at our particular scale. As you get bigger and bigger scale, yes, maybe you need that. But today within Interconnect, we don't. We compete very well and we are often on those key programs as a key differentiator to the customer, whether that's the major primes, the big guys or the guys in between.

Sandy Morris - *RBS - Analyst*

And we've got all the INMARSAT approvals and God knows what that anyone could want.

Ralph Phillips - *Smiths Interconnect - President*

We have all that we need. Absolutely.

Peter Durman - *Smiths Group - IR Director*

Okay, who's next? Perhaps in the front row, Mike here.

Mike Fleming - *Pyramis Global Advisors - Portfolio Manager*

On microwave telco, I was interested in the relative financial performance versus some of these peers you're showing us here. Has this been the trend for several years without major competitive moves into your segment? And I guess we can see you're spending more on CapEx. If you benchmark those peers on R&D, are you spending more on R&D as a percentage of sales than everyone else? Is that one way you've been able to protect these margins?

Ralph Phillips - *Smiths Interconnect - President*

Yes. I think the short answer on R&D, the answer is absolutely yes. We try to find enough competitors to actually put that as a chart and we found some, but couldn't find them across all the product areas. But it is in general, we generally spend more on R&D than our competitors. They range three to four. There are some up higher than us. But for the most part, we are higher than our competitors on R&D.

And relative to the first part on --

Peter Durman - *Smiths Group - IR Director*

Competitive position.

Jacqui McLaughlin - *Smiths Interconnect - Managing Director - Microwave Telecom Technology Group*

I guess the margin history has been strong and that really speaks to the approach of not wanting to follow commodities. So, we have been able to stay away from the mass market of the network, if you like. And by doing so, yes, our margins are better than most in the industry.

Ralph Phillips - *Smiths Interconnect - President*

And relative to their CapEx spending, it's really -- it was really driven by some of the acquisitions over the last couple of years. It's really where we've had -- that's why it's -- it really stands out there. And I think probably the other -- some of the other competitors were cutting back over the last year. So, we're -- we've continued to invest.

Peter Durman - *Smiths Group - IR Director*

Okay, next one? David in the front row here.

David Perry - *Goldman Sachs - Analyst*

Mike, just some numbers you threw out before. They were ballpark margins, were they, when you said 30, 20s, 12 and 18?

Mike Hansen - Smiths Interconnect - Finance Director

Yes. No -- those aren't margins, no.

David Perry - Goldman Sachs - Analyst

It doesn't add up to 100.

Mike Hansen - Smiths Interconnect - Finance Director

No, no. It's actually 40% on connectors, it's about --

David Perry - Goldman Sachs - Analyst

-- share of business?

Mike Hansen - Smiths Interconnect - Finance Director

Share of business, yes, share of sales. Yes, it's about 30% more or less. I'm giving you ballpark figures here on defense. And then, the balance split between the wireless and the protection business.

David Perry - Goldman Sachs - Analyst

Because it could have been margins and that would have worked. Okay.

Mike Hansen - Smiths Interconnect - Finance Director

We would have liked it.

David Perry - Goldman Sachs - Analyst

But the interesting thing was it just made me wonder, is that -- could that be the spread between margins right now on, say, telco and defense? I mean, given you took all the hit on the commercial side in the last couple of years and your margin is 17%, 18% last year. Would it be fair to assume telco is low teens and defense is well above 20?

Mike Hansen - Smiths Interconnect - Finance Director

Not necessarily, no. Really, it's a mixed bag across the technology groups and by company.

Peter Durman - Smiths Group - IR Director

And there isn't a huge variation from the mean. I mean, within -- if you look by tech group.

Mike Hansen - Smiths Interconnect - Finance Director

No.

Peter Durman - Smiths Group - IR Director

I mean, there is some a bit higher, some a bit lower, and we vary depending where you are on the cycle. But there's not a -- if you look at sort of the tech group level, there's not a massive variation in margins.

David Perry - Goldman Sachs - Analyst

Okay. And then, just on the growth, the 6% to 10%. Can you split that out, how you see that between the different end markets? Is that defense lower, telco much higher or --?

Ralph Phillips - Smiths Interconnect - President

We don't really -- we don't generally break that out and provide that level of information. I would say near term, we see strong growth in the next fiscal year on the telecommunications side. And that's really driven by some 4G rollouts that are happening. But we generally don't break that up in terms of the growth. Same way we don't break out margins. It's --

Peter Durman - Smiths Group - IR Director

I mean, it also depends a little bit where we are in the cycle and so on as well in terms of near term versus medium term.

Should we take actually Colin in the back row there?

Colin Campbell - Societe Generale - Analyst

Thank you. I just wondered if you could put some more numbers on the opportunity in sourcing savings and also in terms of low cost manufacturing savings. You mentioned you had 25% of your employees in China. Is that a good percentage of terms of your manufacturing, percentage of manufacturing overall? And what are the opportunities in Mexico and Tunisia as well? And then secondly, can you comment more on the Southwest contract? Could that be rolled out to other airlines? Could it become an OE product for Boeing and Airbus and maybe give a rough ship set value of that product?

Peter Durman - Smiths Group - IR Director

Okay, should we -- in terms of the point on the sourcing, et cetera, Mike, perhaps you wanted to cover that? And then in terms of the sort of the Southwest, et cetera, deal with the -- Kent, do you want to talk about that side there?

In terms of -- perhaps before I hand over, in terms of the sourcing side and those financial questions, that's -- just been in context from a Group perspective, that's part of the broader data driven exercise we've had within the businesses. It's something the Smiths Group didn't -- hadn't done in the past on such a coordinated way.

And with better data that we're now getting out of the Group, we allocate -- we identified about GBP20 million in total of savings across the Group. And as of our last numbers, we delivered about GBP15 million of that, and then there will be further opportunities. We've not disclosed or broken it down by division because, of course, actually there were different savings coming across different parts of the Group.

But maybe Mike can give a bit of flavor about the types of things that we've -- that Interconnect have been working on or looking at.

Mike Hansen - Smiths Interconnect - Finance Director

Sure. I mean, generally, based on the Group number that Peter mentioned, we're about just north of 10% of that -- by way of savings. And our savings are driven not just by what we do within the China market, but it's really geographic, and it's a process that we follow very carefully. It's a Group driven initiative. It's -- we have all our operation directors involved and our buyers actively pursuing that.

And what we do is we track that by company, by technology group. And it's something that is real. It's a tangible thing. And that has been one of the -- we've not commented on the drop-through. That's one of the areas that's helping us, and restructuring. And of course, we are moving more and more production to LCMs, into Mexico. And as what I mentioned earlier on one of the restructuring programs that we ran between PolyPhaser and Transtector, with the merger of PolyPhaser into Transtector, Mexico was part of that plan. And that's probably all I would be able to comment on about the LCMs at the moment.

Colin Campbell - Societe Generale - Analyst

What percentage of manufacturing is done in LCMs now?

Ralph Phillips - Smiths Interconnect - President

It's well over 25% I think.

Mike Hansen - Smiths Interconnect - Finance Director

Yes, it's something we don't really -- we don't track it in that way because of the way we set up our technology groups. But I would agree with what Ralph said.

Ralph Phillips - Smiths Interconnect - President

Probably 25% or 26% I would say. It's at least 25% of our employees there. Shaun --

Peter Durman - Smiths Group - IR Director

Shaun, do you want to --

Ralph Phillips - Smiths Interconnect - President

What number would you say?

Shaun Caraccio - Smiths Interconnect - Managing Director of Hypertac UK

(inaudible - microphone inaccessible)

Peter Durman - Smiths Group - IR Director

Did you hear that? Would you say third -- two-fifths he's saying?

Shaun Caraccio - Smiths Interconnect - Managing Director of Hypertac UK

(inaudible - microphone inaccessible)

Peter Durman - Smiths Group - IR Director

Yes. Okay, 35% to 40%.

Colin Campbell - Societe Generale - Analyst

And then Southwest?

Kent Whitney - Smiths Interconnect - President - Microwave Defense Technology Group

As far as the Southwest opportunity, we don't give individual shipset values for a variety, including competitive reasons. We did publicly release that the -- that a partial rollout is ongoing with Southwest and the value of that was about \$30 million. So, that kind of gives you a perspective.

As far as other airlines, we're very hopeful, optimistic, and we feel we have a great product for other airlines. We're already seeing derivatives of this product being rolled out to initially some of the smaller -- some smaller opportunities. But we do hope that it goes across many different airlines eventually.

Ralph Phillips - Smiths Interconnect - President

I think -- let me add to that a little bit. Two airlines have picked a small -- smaller airlines have picked via Row 44, our customer, same antenna, the KuStream. And one large airline is currently doing flight trials with our antenna. And we believe they'll actually -- flight trials on an experimental aircraft and we believe pretty soon they'll be actually buying hardware to put on their aircraft to run a large trial.

Peter Durman - Smiths Group - IR Director

Right. Thanks. Avi in the front row here.

Avi Hoddes - UBS - Analyst

Back to M&A again. Two questions. First of all, what size of opportunity, having done IDI, would you be looking at? What range? And the other one going back to 2007, when Times Microwave went off, from an Interconnect point of view was there any industrial logic to that or was it just something that you had to deal with? And have you had to, like, buy back any of that, since you've bringing back capability, that they had back in, for example, the acquisitions that you've subsequently made?

Peter Durman - Smiths Group - IR Director

Okay. Ralph, you're probably best placed to comment on both of those and --

Ralph Phillips - Smiths Interconnect - President

Okay. I guess on acquisition size, we're not really limited on the small side or the large side. I think --

Peter Durman - Smiths Group - IR Director

No.

Ralph Phillips - Smiths Interconnect - President

-- Channel was probably smaller than we typically would have done, but I think it had -- it was very, very complementary, essentially a product line bolt-on kind of acquisition, but generally on the small side of what we're looking for. IDI was -- is --

Peter Durman - *Smiths Group - IR Director*

At the larger end.

Ralph Phillips - *Smiths Interconnect - President*

It's at the larger end and I think it's working out quite well. And I think that will be a good model for a sizeable acquisition or potential acquisitions going forward.

Peter Durman - *Smiths Group - IR Director*

I mean, a typical acquisition size for the other -- the ones that we've done in sort of China and so on --

Ralph Phillips - *Smiths Interconnect - President*

Generally under GBP20 million per year in terms of what we have done previously, the kind of the ones in China. The TRAK Microwave contingent, which was TRAK here in Tampa, TECOM in California, and TRAK in the UK, was about \$100 million, \$110 million back in 2004. That was the second largest acquisition we've done. IDI I think is a good size.

Peter Durman - *Smiths Group - IR Director*

Yes, indeed. Would you like to comment on --

Ralph Phillips - *Smiths Interconnect - President*

Relative to the Times Microwave, that really -- decision was really taken at the Group level. It had -- it really -- we were quite sad to see it go. Times and a microwave cable company does fit very well with what our product portfolio is. We have our wish list and there are other microwave cable companies and other cable companies that are on that -- our wish list. That would be -- shouldn't be a surprise. We keep in touch with Times as well.

Peter Durman - *Smiths Group - IR Director*

Okay. Any more? I'm just conscious of time. We're hoping to perhaps start the tours a little bit earlier and then, we have a little bit longer. We've got quite a lot to get around on the tour. So, but if there's any more questions before we try to go on the -- start the tour? Any more? No? Okay, well, thanks very much for your questions.