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SMITHS GROUP INVESTOR DAY – 28 June 2011

Smiths Group Presentation by Philip Bowman

SLIDE – TITLE

Good morning and welcome to Smiths Group's investor day. It is very good to see so many of you here.

SLIDE – AGENDA

We have a full agenda today with presentations by key individuals from the management teams of all five of our divisions. I will start by giving an overview from a Group perspective setting the context for the divisional presentations.

The majority of my presentation will focus on the progress we have made against our strategic priorities over the past three years. This progress is key to setting the foundations for our strategy for the next three years and how we will drive further value from this portfolio of attractive businesses. It creates the framework for the next part of the presentation where I will set out our priorities for the next three years.

I will conclude with our view of the investment case for Smiths Group, and an overview of the objectives for the rest of today's activities.

SLIDE – SMITHS GROUP OVERVIEW

First of all, a brief overview of the Group as it stands today...

SLIDE – SMITHS GROUP: FIVE DIVISIONS IN LONG-TERM GROWTH MARKETS

Smiths Group is a diversified industrial business, structured as five divisions that operate across a wide range of products and sectors:

- **Detection** is the market leader in the supply of threat detection equipment**;**
- **John Crane** is the market leader in mechanical seals for pumps and compressors for the oil and gas industry;
- **Smiths Medical** has some strong niche positions in medical devices;
- **Smiths Interconnect** supplies components and subsystems for various communications applications in the military, aerospace and wireless sectors; and
- **Flex-Tek** manufactures heating elements and ducting for US housing, domestic appliances and aerospace sectors.

Last year, sales of £2.8bn generated an operating profit margin of 17.8%

We have global exposure with some 23,500 employees in over 50 countries.

The US is our largest single market with more than 50% of sales, with Europe around 25%, including just 4% in the UK.

SLIDE – A DIVERSIFIED PORTFOLIO WITH SOME COMMON CHARACTERISTICS

While it is a diversified portfolio, there are some common characteristics…

Our businesses are all exposed to markets with long-term underlying growth dynamics and I will come back to this in a moment. They also typically have strong market positions.

We have leading edge technologies and service levels that command high margins and create strong opportunities for repeat revenues.

There is a high degree of customer intimacy and many of our products are customized to meet specific applications – both aspects of which typically support high margins.

Our core competency is product engineering – or the practical application of advanced technologies. We are able to take complex technologies and package them in products which are easy to use – such as our pumps in Smiths Medical – or are rugged and can withstand harsh environments, such as our chemical agent detection equipment for the military.

We have expertise in small-batch, low-cost manufacturing. You will hear later how we have enhanced this by moving manufacturing to lower cost environments and through other efficiencies.

We are not a heavy industrial business and so have a low capital intensity and high cash conversion. This frees us to invest in R&D and other growth opportunities.

SLIDE – SMITHS BUSINESS MODEL – ACTIONS TO DRIVE LONG-TERM SHAREHOLDER VALUE

When I joined Smiths Group, some three and a half years ago, I set out the following strategic objectives to generate value.

Driving top-line growth through:
- Research and development to deliver new products,
- Expanding our footprint in emerging markets, and
- Improving our sales and marketing effectiveness.

We have enhanced our intrinsically high margins through operational improvement and a self-help program. Our focus on cash generation allows us to reinvest free cash in the business.

We have also sought to drive improved returns on capital through rigorous allocation of capital within and across the portfolio. We have delivered a return on capital employed consistently above WACC and there remain further opportunities to improve against this measure and to invest to generate returns.

At the same time, we have targeted improvements in workplace safety and to minimize the impact of our activities on the environment.

SLIDE – THE LAST THREE YEARS – PROGRESS AGAINST STRATEGIC PRIORITIES

I will start by reviewing our progress against these strategic priorities over the past three years.

First, let's look at sales growth…

SLIDE – ORGANIC SALES GROWTH: STRONG PORTFOLIO WITH LONG-TERM GROWTH PROSPECTS

As I mentioned earlier… all our businesses are exposed to long-term growth.

Detection is driven by demand for security equipment to combat terror threats – which regrettably are unlikely to diminish. We have to caveat that this is a lumpy business subject to the timing of regulations and budgets – something you will hear more about in the Detection presentation later.

John Crane is driven by global energy requirements which creates the demand for mechanical seals and related equipment for oil and gas production.

Smiths Medical benefits over the long term from the healthcare requirements of ageing populations and measures to improve patient outcomes as well as safety legislation.

Interconnect benefits from the growth in demand for wireless communications through new generations of networks, as well as military and commercial aerospace projects.

Flex-Tek is driven by US residential construction and aerospace demand.

In September 2008, we set out sales growth targets for each of our divisions as shown on this slide. With the benefit of hindsight, the timing was unfortunate given the downturn. We have not resiled from the targets but we recognize it is likely to take us longer to achieve them. I expect to update these targets during the course of the next financial year.

SLIDE – SALES GROWTH: TARGETING UNDERLYING SALES GROWTH

This slide shows progress across the divisions against these targets.

All our businesses were affected by the severe global downturn during 2009 and the first half of our fiscal 2010.

Three of them – John Crane, Interconnect and Flex-Tek – are back to meeting or exceeding their growth targets in the first half. We are currently behind in Smiths Detection and Smiths Medical.

Smiths Detection's performance reflects the lumpy sales profile of this largely government contracting business.

The medical device space is also facing some trading challenges. In the US, unemployment has lowered insurance cover levels and affected procedure rates. In Europe, austerity measures have squeezed healthcare spend. The Medical team will talk more about this in a moment.

So what actions have we taken to enhance sales growth?

SLIDE – ORGANIC SALES GROWTH: INVESTING IN INCREASED R&D

A key driver of sales growth and margins is new product development – the life blood of a technology business like Smiths.

We have increased R&D investment consistently over the years – despite the downturn – both company-funded and through securing funding from customers.

This investment has resulted in several new product launches and a product pipeline for the coming year…

Some examples of new products are on this slide.

In Smiths Detection, we have recently launched Radseeker – a new radioactive isotope identifier which is part of the product display. We are working on a revolutionary checked baggage screener which combines the strengths of CT and multi-view X-ray for the first time. To our knowledge, no one else is working on this type of combination.

In Smiths Medical, we have launched various versions of our infusion pumps, CADD-Solis and Medfusion 4000. And we have more in the pipeline for launch into new markets in the coming year.

In John Crane, we continue to develop seals that are able to cope with the challenging demands of the ultra low temperatures and high pressures needed for carbon capture.

SLIDE – SALES GROWTH: INVESTING IN GROWING MARKETS

There are also opportunities through investment in growth markets… I see three key aspects to this investment and have given some examples here:

Organic investment to expand our global footprint. For example, in developing John Crane's service centers in the Middle East, Asia and Latin America. Or with Smiths Medical which has successfully invested in sales capabilities in China and India.

Our M&A program is focused on emerging markets – overall, half of our recent acquisitions have a significant presence in emerging markets.

We are also improving our sales and marketing effectiveness. For example, Smiths Medical has moved to a global structure which now allows sharing of best practice and tools across all its markets. This is opening up new markets for some products where we have not previously maximized the opportunity to sell our wider portfolio.

SLIDE – ENHANCING MARGINS THROUGH OPERATIONAL EFFICIENCIES

Turning now to operational efficiencies… There are still opportunities to improve margins in a number of areas:

The major restructuring program that is currently underway, is on track to deliver £70m in savings. £45m has been saved to date with a further £25m to be delivered over the next two years. We are now focusing on the rationalization of back-office functions: HR, Finance, and IT support.

We have also invested to improve the quality of business systems. ERP projects have been completed in the three larger divisions and the full benefits of these programs have yet to be delivered.

For example, using data to leverage the Group's scale, we have already made more than £20m in annual savings. These savings, coupled with pricing, are more than offsetting raw material inflation.

SLIDE – ENHANCING MARGINS: TARGETING IMPROVED OPERATING MARGINS

The benefit of these initiatives can be seen clearly in the margin performance of the divisions.

We are within the margin ranges for John Crane, Smiths Medical and Flex-Tek and have made particularly good progress in John Crane and Medical.

We have more to do on Detection and Interconnect, both requiring a combination of sales growth and further benefits from operational improvement.

Overall, the good progress is also seen in the Group margins…

SLIDE – ENHANCING MARGINS: PROGRESS IN GROUP MARGINS

This slide shows how self-help initiatives are delivering results in the face of a tough sales environment. Margins have continued to improve, hitting new highs last year at 17.8%.

Our recent IMS demonstrated that we have continued to make good progress on margins which creates a solid foundation for margin improvement in the full year results.

SLIDE – FOCUS ON CASH AND BALANCE SHEET: IMPROVED OPERATING CASH CONVERSION

At the same time as driving the businesses forward we have been focusing on working capital management – particularly inventories and debtors. Far better data has helped this process and we have delivered a high level of operating cash conversion and improved cash flow per share.

Our target is for 90% conversion or above this year, although the first half results were affected by a decision to invest in working capital in Smiths Detection. The trading statement we issued on 8 June showed that we are back on track again with an unwinding of the working capital in Detection.

SLIDE – STRONG BALANCE SHEET PROVIDES FINANCING CAPACITY FOR GROWTH

We have also made good progress in strengthening the balance sheet over the past three years. The key points I would highlight are:

We have refinanced all our borrowings – mainly through long-term bonds – so we are now very much less reliant on bank debt. At the same time, we have also matched the currency of our debt more closely with our assets and earnings – most of our new debt is in US$ and Euros. The average maturity of our debt is now 5.4 years and we have no refinancing due in the next two years. We also have committed bank facilities of US$800m which are undrawn.

We target a net debt to EBITDA of around 1.5 to 2 times and, as at the end of last financial year, we were at 1.5 times. We are also committed to maintaining a solid investment grade credit rating. We recently saw our ratings outlook move from negative to stable as a result of the significantly improved financial performance and an improved pension funding position.

This solid balance sheet and strong cash flows underpin our plans for future growth.

SLIDE: HIGH RETURNS ON CAPITAL AND DISCIPLINED CAPITAL ALLOCATION: IMPROVED RETURNS

We have focused on return on capital as a key metric… and in September, we reported returns for each division for the first time.

This chart shows ROCE for the 12 month period to end of January for 2010 and 2011.

We have made good progress across the Group with advances in all divisions except Smiths Interconnect which remained in line with last year. In reality, Interconnect's return was a good result, considering the significant capital investment in IDI in April last year. This reflects the strong margins in IDI and the performance from Interconnect overall.

We have delivered returns consistently ahead of our cost of capital and this reinforces the potential we have for attractive investment opportunities to drive growth and value for shareholders.

SLIDE – CAPITAL ALLOCATION: TARGETED ACQUISITION STRATEGY OVER PAST FOUR YEARS

We have also invested in a targeted acquisitions strategy… to strengthen the portfolio.

We have made 14 acquisitions in the past four years – amounting to some £420m of acquisition costs. We have focused that investment on delivering the greatest returns with some £200m spent on growing John Crane and around £170m for Smiths Interconnect. In John Crane, we took a decision to double our addressable market through acquisitions. You will hear more about this later. Smiths Interconnect operates in a fragmented market with plenty of opportunities to act as a consolidator.

Our acquisition strategy has followed three key objectives as set out across the top of the slide:

We seek to add complementary technologies and products. So for example, in John Crane, we have added bearings and filters which, as you will see later, are physically adjacent to our core mechanical seals and have scope to develop a similar aftermarket revenue stream.

Or, in the case of Smiths Interconnect, IDI brought a completely new range of spring probe connectors to complement our existing offering.

As I mentioned earlier, we also aim to extend our geographic footprint – particularly in emerging markets – through acquisitions. For example, in Smiths Detection we have bought our distributors in Brazil and India so that we can take greater control of our sales presence in these important markets. We have significantly expanded our presence in China for Interconnect with four of our five acquisitions having a presence in China.

We also seek to leverage our existing scale and infrastructure through acquisition. For example, the John Crane acquisitions of regionally focused business are benefited from the global sales access provided by John Crane’s extensive network of more than 200 sales and service centers.

These are the strategic criteria but we also have a disciplined approach to financial criteria…

SLIDE – CAPITAL ALLOCATION: BOLT-ON ACQUISITIONS FOLLOW STRICT FINANCIAL CRITERIA

We evaluate acquisitions against several financial criteria. We seek businesses that will generate sales growth and margins that will support our divisional targets. Similarly, we also seek businesses that have strong cash flows and are able to enhance the Group’s highly cash generative characteristics.

Of all these, we are most focused on driving returns. Typically, we are looking for a 12% post-tax return in the third year of ownership – this supports the Group’s pre-tax returns of around 17% that you saw earlier. Looking at our track record of these acquisitions, those that have been in the portfolio for three years or more are performing in line with an overall 12% post-tax return.

SLIDE – PROMOTING RESPONSIBILITY: A FOCUS ON SAFETY IS DELIVERING IMPROVEMENTS

At the same time as improving our financial metrics, I believe it is important to promote a culture of responsibility throughout the business. One of the first things I did was to make health, safety and environmental management a priority. These topics are now discussed at the start of all our management meetings.

This degree of focus has helped us to make good progress in recent years. We have delivered continuous improvement in our safety record with reductions in the lost time and recordable incident rates. Similarly, we have been able to deliver reductions in greenhouse gas emissions, waste generation and water consumption, among other metrics. Many of the easier opportunities for improvement have already been taken and it is becoming increasingly challenging to make significant advances. However, with a focus on root cause analysis and greater use of predictive indicators, we are determined to deliver further improvements.

SLIDE – THE NEXT THREE YEARS

Over the past three years, we have delivered significant improvement in margins, cash generation and returns – against a challenging economic backdrop. We have also sharpened the financial discipline within the business and reshaped the balance sheet and financing.

I now want to examine how we are using these achievements as the foundation for continued improvement. There remain significant opportunities to generate value for shareholders.

SLIDE – ACTIONS TO DRIVE LONG-TERM SHAREHOLDER VALUE – A CHANGE IN EMPHASIS

This slide sets out how we are going to continue to deliver value over the next three years as we move into the next phase of the Group's development.

The operational priorities that have served us so well will remain in place, but the emphasis will change as we move forward.

I have highlighted on previous occasions that we are now increasingly focused on driving top-line growth. As I also mentioned earlier, we have continued to invest despite the poor economic environment and we are beginning to capitalize on this investment. We see further opportunities to invest in order to accelerate sales growth, and to enhance margins and returns.

We have made substantial progress on delivering cost savings and improving margins – particularly in John Crane, Smiths Medical and Flex-Tek. There is more to do across the Group – particularly in Smiths Detection where we have not made as much progress as the other divisions. We have still to deliver the full benefits from our £70m restructuring program as well as the benefits of other initiatives such as the product profitability reviews and procurement savings. These will help us improve our margins against the targets we set.

However, also it is important to recognize that we have harvested much of the low-hanging fruit and as we move forward, the savings are likely to become more about continuous improvement. At the same time, we will balance margin improvement with reinvesting savings in sales growth initiatives.

The actions we have taken to improve working capital management have transformed the cash generation of the Group. We will remain focused on cash generation and on maintaining an efficient balance sheet. This will support progressive dividend growth.

We will also deliver improved returns through a focus on profitability and a disciplined approach to capital allocation. The focus over the last three years has been on bolt-on acquisitions rather than portfolio management. Moving forward, there is likely to be a greater emphasis on realizing value through active portfolio management – and I will come back to this point on my next slide. However, we continue to see opportunities to invest in value generating acquisitions which meet the criteria that I set out earlier.

We have made good progress on our responsibility agenda but there is scope for further improvements here as well.

SLIDE – CAPITAL ALLOCATION: INCREASED EMPHASIS ON PORTFOLIO MANAGEMENT

As Chief Executive, I have made it very clear that there is potential value to be realized in actively managing the portfolio and in having a disciplined approach to capital allocation. I have said on numerous occasions that this is a portfolio of attractive businesses but one for which there is limited strategic rationale. It is highly unlikely that anyone would design this portfolio from scratch. There are also limited synergies or overlap between the divisions, which are largely run autonomously.

I also recognized when I joined the Company that this was a portfolio of under-managed but fundamentally good assets with significant scope for value enhancement through a program of self-help and improved financial discipline across the Group. Our priority has been, and will continue to be, on improving these businesses for the benefit of our shareholders. At the same time, the economic and financial markets have not been conducive to optimizing value creation through disposals. In short, it should have been a better time to be a buyer than a seller. I was surprised that the downturn did not cause more assets to become available. Furthermore, as the economy picked up, financing markets improved for private equity. This, combined with the level of cash on industrial balance sheets, has meant that competition for available assets has remained strong – and this has been reflected in pricing. This has caused us to withdraw from several acquisitions as prices made returns insufficiently attractive. However, we will continue to seek opportunities while maintaining our disciplined approach to evaluating returns.

Substantial operational progress has enhanced the valuation of our businesses and there remains significant scope to do more. However, we also have a duty to weigh these benefits against other value creation opportunities. There is scope to create a more focused portfolio through a targeted program of acquisitions and disposals.

As well as managing this portfolio of assets, we have to manage a portfolio of liabilities alongside it. By liabilities, I mean our debt, our defined benefit pension schemes and the legacy product liability issues in John Crane, Inc., around asbestos. These liabilities are a drain on our current cash flows and we have to consider how we can mitigate their impact on future value creation.

In the case of pensions… we have several schemes in the UK and North America, comprising almost 79,000 pensioners. Of these, over 90% are no longer associated with any part of the current portfolio, since they worked for businesses which Smiths has sold over the last several decades. Therefore, in the event of a disposal, it is not possible to attribute the pension liabilities to the sale and this puts a constraint on a break-up of the whole Group.

We have made good progress in tidying up the pension liabilities by closing the schemes and through capping our obligations for post retirement healthcare. This has contributed to a gradually improving funding position over the past two years. The accounting deficit at the end of January stood at around £120m but, of course, the trustees tend to take a more cautious view on the assumptions and the total buy-out value would be very considerably higher than this.

Part of the issue, as with many companies with defined benefit pension plans, is that real bond yields are at historic lows, which has caused the liabilities to increase significantly. It is also important to understand that any contributions to the UK plans cannot be recovered by the Company once they are made. This is why we have structured our 10-year UK funding plans so the majority of the additional payments are being made into an escrow account. This structure provides certainty to the pensions trustees while maximizing flexibility for the Company.

If real bond yields return to more normal historic levels and we see, say a 150 basis point to 200 basis point increase in real yields, then the pension funding position would be very significantly improved. I am not alone in hoping that this would have happened by now. Perhaps we need to await an event, such as a debt default by Greece, to cause real bond yields to revert to historic mean levels.

The asbestos litigation relates to various sealing products that John Crane, Inc., or JCI, a US subsidiary of John Crane, ceased making in 1985. JCI resists all claims based on a “safe product” defense because the asbestos was encapsulated in a manner, based on tests conducted on its behalf, that the products were safe. In our six monthly accounts, we disclose details of the recent claims experience. You will also see in the accounts that provisions have been established for the litigation defense costs and for the cost of adverse judgments. The provision for adverse judgments is a rolling provision that is updated every six months. This is based on modeling by independent experts over the next ten years – the longest that they can reliably look ahead – although it is likely that JCI will still be fighting claims for a significantly longer tail period. These provisions are based on past history and, while the level of adverse judgments has been relatively low, there is always uncertainty associated with the future level of claims and litigation costs.

Both pensions and asbestos are issues that we will continue to manage actively in order to minimize their impact on value creation.

Notwithstanding these legacy liabilities, this is a portfolio of attractive assets which still has significant opportunities for value creation through a combination of improved sales growth, better margins, cash and returns. As markets improve, so does the opportunity to realize value through a more active approach to portfolio management – both through acquisitions and disposals.

SLIDE – SMITHS GROUP INVESTMENT CASE

I would now like to briefly summarize the investment case for Smiths Group.

SLIDE – INVESTMENT CASE FOR SMITHS GROUP

Smiths Group has a portfolio of fundamentally good businesses which have strong market positions in sectors that are well-placed for long-term profitable growth.

Our leading edge technologies and, in some cases, high aftermarket or consumables content, confer competitive advantage and create barriers to entry. Together, these help to support the Group's intrinsically high margins. We still see further scope to enhance these margins through operational improvement and self-help.

Our businesses have a low capital intensity and strong cash generation which allows us to reinvest in the business and fund progressive dividend growth. All our businesses generate returns ahead of our WACC and we have the financial discipline and opportunities to invest in these high returning businesses to generate returns for shareholders.

We also have an option to realize value through a more active approach to portfolio management.

During the course of today, I hope that we can demonstrate these points to you.

SLIDE – INVESTOR DAY AGENDA

So to conclude… I would like to set out the objectives for the day.

SLIDE – KEY OBJECTIVES FOR TODAY

We decided to hold this event in New York as we want to raise our profile to the US investor community. Over half our sales come from the US and four of our divisions are headquartered here. We launched a sponsored ADR program last October and we would like to attract more US investors.

I hope today's event will provide you with a better overview of each division, their strategy, value drivers and strong market positions. Each divisional presentation will highlight the opportunities for revenue growth and outline the scope for further operational improvement to enhance margins.

You will have seen the product displays at the back of the room. Please take this opportunity to learn more about our products and their competitive advantages. There will be members of the divisional management teams at the displays during the breaks when you will be able to ask questions and see the products demonstrated.

This brings me to my final point – this is also an opportunity to showcase the strength of our management team and for you to get to know them better. There are various times throughout the day for questions and we now have a few minutes for some questions before I hand over to the Medical team for their presentation.

However, may I just remind you to wait for the microphone and preface your questions with your name and the company you represent?

The first question, please…

QUESTIONS AND ANSWERS

MARTIN WILKIE - DEUTSCHE BANK

Thank you. Good morning. It's Martin Wilkie from Deutsche Bank with a couple of questions.

In terms of the portfolio management that you've talked about could you talk about the process as to how you're thinking about that portfolio review? Obviously you turned down a bit for Medical a few months ago, partly it seems because that was an unsolicited bid. And that does suggest, therefore, that you want to be almost setting a timetable, but you could let us know is there a point in the future, or a strategy review, or something like that that's going to capitalize you reviewing the portfolio?

And then, secondly, and related to it, are the liabilities a hard dependency or is a pension buyout or a partial pension buying or something like that a key dependency to that review? Or is it really a parallel process? Thank you.

PHILIP BOWMAN – CEO – SMITHS GROUP

I think in terms of the question, firstly about the pension deficit that is something that has occupied a lot of our time over the course of the past several years. There is no doubt that it is a source of potential value leakage on any disposal. And frustratingly clearly if we were to pay significant amounts of money into the scheme and real bond yields then increased we would find ourselves effectively in a position where we couldn't recoup that. What we have been focused on is clearly to reduce the liabilities as much as we can, both through investment performance and through addressing some of the benefits.

I think what I would say to you is that we have been looking over certainly the last year more closely at the possibility of how actually any divestment of any of the businesses would operate in the face of those pension liabilities. We have, I think, some good plans in order to address that. It's not straightforward. It's not simple. As I go back to what I said in my opening remarks, if you could give us some real increase in real bond yields the whole process would become a great deal simpler.

I think there are ways around this, but it's not straightforward and it's not without value leakage to some extent. I think in terms of a timetable, I'm not going to clearly commit to what that timetable is. I think all I would say to you is that we have focused very much, as I've said at some length, on operational improvement over the last three and a half years. I think these are better businesses. I think they would command better prices than they would have done three years ago. The fact that I'm talking today, I think probably for the first time, about more active portfolio management gives at least some insight into our thinking.

Yes, third row over towards the window.

ALEX TOMS – BANK OF AMERICA MERRILL LYNCH

Yes. Hi, it's Alex Toms from Bank of America Merrill Lynch, a couple of questions from me. The change in emphasis in terms of portfolio management, can you just describe what that means on a day-to-day basis in terms of how you think or how you've changed your viewpoint?

And the second question - is there any sort of number on a potential buyout for the pension?

PHILIP BOWMAN – CEO – SMITHS GROUP

I think in terms of the pension fund I'll pass that to Peter Turner, who is our expert on pensions. And if someone could give Peter a microphone, please?

PETER TURNER – SMITHS GROUP – FINANCE DIRECTOR

Thanks, Alex. I think in terms of the buyout number that we haven't given a specific number. As you know, it's a fairly liquid market in terms of the buyout market. I think in terms of buy ins you'll have seen from our accounts we have about GBP500 million of bought in annuities in terms of the buy in market. I think the closest I can give you is if you look at the accounts you will see in the notes the sensitive in terms of liabilities, so we give a 25 basis point sensitivity for the liabilities for every 25 basis points movement in the liabilities in terms of discounting. That equates to roughly a GBP117 million movement in the discounted liabilities.

PHILIP BOWMAN – CEO – SMITHS GROUP

Peter, thank you for that. In terms of how does it sort of impact our day-to-day thinking, I'm not sure it necessarily our day-to-day thinking. What I've said is we're continuing to focus on improving the performance of each of the businesses, but clearly we are beginning to strengthen the team, particularly with the appointment of Mark Reckitt at the corporate centre to give us the resources to look at portfolio structure more, in more detail than we had been doing previously.

Yes, on the left over here about four rows back.

RAMI MYERSON – UBS

Hi. Good morning, Rami Myerson, UBS. You mentioned at the beginning of the presentation that you plan during the coming year to give updated growth targets. And are you also thinking about your margin targets as well?

PHILIP BOWMAN – CEO – SMITHS GROUP

Yes. That was very much, sorry, my intention if it was unclear. We are looking. Those targets have been put out now nearly three years ago. We are looking at updating those, and we will do that at some time during the course of next fiscal year.

RAMI MYERSON – UBS

And just relating to that on Group R&D spending you've mentioned that you plan on increasing your investment, so will we see an increase in R&D as a percentage of Group sales over the coming years?

PHILIP BOWMAN – CEO – SMITHS GROUP

I think what we have been doing within the various businesses, and if I take an example is Medical, three years ago we were spending about 2.5% of revenue on new product development. That figure is now close to 4%, and again, across divisions it's quite hard to track in some businesses. For example, John Crane is a lot of it is customer funded effectively within cost of sales, but if you look at the spend for Detection and Medical, and also for Interconnect you'll see that that has been trending up as a percentage of sales. And certainly the objective and intention is to continue that trend.

RAMI MYERSON – UBS

Do you have a level in mind where you think where you think it will --?

PHILIP BOWMAN – CEO – SMITHS GROUP

No. I mean I think I've said--I've on record previously for Medical and saying I would like to get the figure up to somewhere between 4% and 4.5% of revenue. We're beginning to get towards there, but we've got a bit further to go.

I think for Detection the number tends to fluctuate. For example, we're doing the development of the new checked baggage screening equipment at the moment. That's quite expensive, so that contributes, but that depends a little bit on what the development pipeline looks like. In Interconnect, again, we're just simply seeking to raise the level of spend on new product development progressively, so no specific targets other than the one I have think said before about Medical.

RAMI MYERSON – UBS

Thank you.

PHILIP BOWMAN – CEO – SMITHS GROUP

Okay. We've got time for one more question before I pass on to Srini. Does anyone want to ask one final question? Yes, on the left right at the back corner.

SANDY MORRIS – RBS

Good morning, Philip. It's only Sandy.

PHILIP BOWMAN – CEO – SMITHS GROUP

Sorry, I can't--you blend in with the background

SANDY MORRIS – RBS

That's the objective. Wait for the question and you'll understand why.
Just before we all run away on portfolio change in my -- I'm not as young as I used to be, so we can just do this steadily.

We have two divisions, Medical and Interconnect, where we have said in the past and again today the scope for consolidation. And so we can either do it or have it done to us. So when you talk about portfolio change and avoiding leakage it may be that something goes and something comes in initially. Just before we all run away like rabbits saying, hey, hey, can't we just try and get a little bit more insight into what you might be thinking?

PHILIP BOWMAN – CEO – SMITHS GROUP

I think, Sandy, clearly my words were not as clear as they should have been, but what I was saying is that we have a very diverse portfolio. It's not a portfolio that we would probably build again from scratch.

I see advantages both in terms of management, in terms of certainly explaining the business, studying the business in focusing that portfolio more completely, more closely than it has been historically. And that's been my view, frankly, ever since I came into the business.

The point you make is absolutely fair. We can focus it by reducing the number of components, but actually bulking up the components that remain, and that very much could be part of a portfolio strategy. So I think it's a good cautionary point to make, but I do believe that in the medium term I think we do need to focus this business more than it has been focused historically.

Okay. With that thoughtful question from Sandy I'm going to pass over to Srini to present Smiths Medical.