

ANNUAL RESULTS 2009/2010

FULL TRANSCRIPT

SLIDE – ANNUAL RESULTS 2009/10

SLIDE – CAUTIONARY STATEMENT

SLIDE – PHILIP BOWMAN

Ladies and gentlemen, good morning and welcome to the annual results presentation for Smiths Group. To avoid interference with the sound system, can I ask you to check that your mobile phones and Blackberries are turned off?

Some of you have already met Peter Turner who was appointed as Finance Director when John Langston retired at the end of May. For those who haven't, let me introduce Peter at this, his first results presentation at Smiths Group.

Divisional general managers and some of the corporate functional heads are seated in the front row and will join Peter and me in answering your questions at the end of the session.

As in previous presentations, I will start by giving a brief overview of the results and some of the year's key achievements before asking Peter to present the detailed financials. Later I will review the operational progress in each of our divisions and then set out priorities for the year ahead.

Let's now turn to the fiscal 2010 results.

SLIDE – BUSINESS HIGHLIGHTS

The numbers demonstrate just how effectively our programmes have driven improvements in operational efficiency during very tough economic conditions.

Increasingly, the five key metrics against which I judge our progress are: revenue growth, margin expansion, cash conversion, return on capital employed, and safety. I will come back to

our safety performance in a moment, so let me start with the other four metrics where I believe we made good headway during the year.

Reported revenues grew 4% helped by currency translation and by acquisitions. On an underlying basis sales were flat, reflecting a much improved second half during which they grew 5% -compared with a 5% decline in the first half of the fiscal year.

Profit margins expanded across all five businesses and at 17.8% reached a 10 year high – despite the very challenging economic environment. This achievement reflects our continued focus on executing a range of cost-saving initiatives and our on-going drive to raise operational effectiveness. Margins would have been stronger still had we not deliberately increased investment in new product development as well as sales and marketing infrastructure.

Our sharper focus on working capital management delivered another strong cash performance with free cash-flow up 29% to £331m.

In line with the policy we set out two years ago to rebuild dividend cover, the annual dividend remains unchanged at 34 pence per share. We are now close to our target cover of 2.5 times. So, going forward, we expect to be in a position once again to adopt a progressive dividend policy for future payouts whilst maintaining this prudent level of cover.

We have also improved the Company's return on capital by 190 basis points to 16.6%.

SLIDE – RESULTS BENEFITED FROM KEY OPERATIONAL ACHIEVEMENTS

We have continued to make good progress against the priorities I first set out two years ago, in terms of operational improvements and actions to drive Smiths Group forward. In summary:

- Restructuring initiatives have delivered further savings of £24m, taking the cumulative benefits to £41m to date. This is well ahead of our original plans and the result of a lot of hard work by the teams across the five divisions and the corporate centre.
- We have now identified a further phase of savings totalling approximately £20m which we expect to deliver over the next two years. Peter will give you further details of our plans for those savings in a moment.
- Portfolio profitability reviews have substantially improved pricing and margins, particularly in Smiths Medical and John Crane.

- Improved data systems are supporting our global procurement project which generated savings of £11m in the year, or cumulative savings of £20m to date. This is in line with the plans when we set up this initiative.
- Better working capital management, particularly of inventories and creditors, combined with lower capital expenditure helped to raise free cash flow to £331m. Headline operating cash rose sharply to £565m, representing 115% of profit.
- We extended our portfolio and geographic presence with two acquisitions in Interconnect – both businesses have largely been integrated and are performing ahead of our investment appraisals;
- Company-funded investment in R&D rose 5% to £93m and we are beginning to see evidence that the enhanced investment in technology over the past several years and the launch of new products, supported by strengthened sales and marketing investment, is delivering benefits to the revenue line.

SLIDE – SAFETY IS DELIVERING CONTINUED IMPROVEMENTS

As I have highlighted in previous presentations, we believe in providing a safe working environment within all our facilities.

Health and safety is discussed on the agenda at every meeting of our company and divisional Boards. This degree of focus over the past several years has helped us make very good progress even as we set ourselves increasingly tougher targets. As you can see on the screen, over the past year recordable and lost time incident rates have again fallen.

We have adopted a process of continuous improvement which allows us to explore how we can do better. Current initiatives include greater root cause analysis of incidents, improved risk assessment processes, and enhanced monitoring of near misses.

So with that brief introduction, I'd now like to hand over to Peter who will take you through the detailed numbers.

SLIDE – PETER TURNER

Thank you Philip and good morning

SLIDE – ANNUAL RESULTS 2010

I believe these are a strong set of results delivered against a difficult economic backdrop. There are two aspects I would particularly like to highlight today.

- First is the significant contribution from the operational improvement programmes and their positive impact on margins.
- Second, the strong cash performance driven by a focus on working capital management.

These are the key drivers of our improving returns on capital employed.

Let me start by reviewing some of the key financial numbers of the Group.

Sales at £2.77bn were up 4% on the prior year, driven by currency translation gains of £59m and the benefit of acquisitions of £48m. Adjusting for these effects, underlying sales were in line with last year.

Headline operating profit at £492m was 18% up on 2009, with both currency translation and acquisitions each helping by £8m. The underlying headline operating profit was 14% up, driven by growth in Smiths Detection and the benefit of cost saving initiatives in all the other divisions.

Headline pre-tax profit of £435m was higher than last year, despite increased the interest costs associated with the debt refinancing over the last two years.

The headline tax rate was 24%, with headline earnings per share up 17%, to 84.6p.

As previously signalled, we expect the tax rate to rise over time. This is because of our increased profitability, particularly in the US where there are higher rates of corporation tax. As a result, we expect a tax rate for 2011 of between 26-27%.

You will also note the statutory numbers which take account of the items we exclude from headline measures. I will deal with these separately in a few moments.

The strong free cash flow is the result of a focus on working capital by all divisions.

SLIDE – PROFIT PROGRESSION 2009 to 2010

As I mentioned in my introduction we have made significant progress with the various self-help programmes that Philip has outlined on a number of occasions.

Looking at the profit progression between the two periods, you can see the volume decline reduced profit by £14m. This was primarily in John Crane, but was partly offset by volume growth in Detection.

However, the most striking point on this slide is the extent to which we have successfully addressed these declines through swift and effective action to cut costs.

- Manufacturing improvements, such as value engineering and a move to low cost countries, contributed £23m to the profit growth.
- We successfully lowered material costs by £15m, largely as a result of the Group-wide focus on leveraging our scale in procurement.
- We've also lowered overheads and other costs to save another £9m.
- Even with a very challenging economy, we have been able to achieve some £14m of price improvements, the majority of which were in John Crane and Medical.
- The incremental improvement from our profit on acquisitions – Orion, IDI, Dowin and Channel Microwave – was £5m, net of finance costs.
- These results also received a £21m boost from foreign exchange impacts. This comprised £8m from currency translation and £13m from transactions – primarily John Crane and Smiths Medical.
- Increased financing costs of £9m resulted in a pre-tax profit of £435m.

Looking to 2011, the interest charge on our debt is likely to remain around £60m. This is because the interest rates on our bonds are fixed and there's no significant interest benefit from our cash on deposit.

During the period, the average exchange rate for the US\$ strengthened by about 1% against sterling whilst the Euro strengthened 2%. Let me remind you that a one cent movement in the US\$ has an effect on profit of just over £1.5m; and the Euro has an impact of just under £1m for every cent movement.

I'd now like to look at the financial performance of each Division before handing over to Philip to give further colour on the operational performance.

SLIDE – SMITHS DETECTION: STRONG GROWTH IMPROVING MARGINS

Starting with Smiths Detection, you can see it delivered a strong performance against a weak comparator period. Reported sales grew 15% to £574m and, at £90m, headline operating profit was 43% up on last year. Operating margin improved 310 basis points to 15.7%, which reflects the increased volumes and the associated improvement in the recovery of factory overheads.

The £27m improvement in headline operating profit, was largely as a result of the higher volumes which contributed £23m. We also achieved some savings from manufacturing efficiencies and better procurement. We increased our R&D investment by £2m and there was a £3m gain from foreign exchange rate and currency.

SLIDE – JOHN CRANE: DELIVERING IMPROVED MARGINS

Moving to John Crane, margins improved by 260 basis points in spite of declining sales. In line with our guidance, reported sales were down 1%, having benefited by £40m from currency and acquisitions. On an underlying basis, sales fell 5% reflecting the lower capital investment by customers in a number of our markets. However, an improving order book delivered underlying sales growth in the second half of 4% against first half decline to 15%.

On an underlying basis, headline operating profit grew 9% to £163m. The lower volumes reduced profit by £26m. However, this was offset by operational efficiencies from John Crane's major restructuring programme and other initiatives which contributed £25m. We also achieved £8m of price benefit, primarily in aftermarket servicing. Acquisitions added £3m of profit and currency gains another £10m.

SLIDE – SMITHS MEDICAL: SHOWING STRONG MARGIN IMPROVEMENT

Smiths Medical saw reported sales 3% higher at £858m and headline operating profit 12% higher at £184m. The operating margin was 21.5%, some 180 basis points higher than the prior year.

Underlying sales were flat because of the exit from diabetes, but excluding diabetes, underlying sales rose 2%.

Headline operating profit increased £20m. The reduction in volumes, which largely reflects the diabetes exit, reduced profit by £4m. Pricing initiatives, including actions taken as part of the portfolio profitability review, added £3m. A range of operational efficiency measures have contributed £12m of profit. The benefit from last year's Chinese pump acquisition brought an additional £1m of profit. Foreign currency gains contributed £8m.

SLIDE – SMITHS INTERCONNECT: RESTRUCTURING DELIVERING MARGIN IMPROVEMENTS AND EXTENDED

Smiths Interconnect margin has improved 80 basis points to 18.2% as it benefits from the restructuring initiatives begun last year. Reported sales at £340m are up 7% or £22m. This is driven by acquisitions of £25m and currency translation of £5m. Underlying sales were down £8m, or 3%.

The lower volumes were driven by weak wireless telecoms and industrial sectors which offset growth on the military and aerospace side.

Restructuring and other initiatives such as procurement savings has delivered £5m of additional profit.

The acquisitions of IDI, Dowin and Channel Microwave have now been substantially integrated and have added £4m.

SLIDE – FLEX-TEK: DRIVING COST EFFICIENCIES TO PRESERVE MARGINS

Finally, Flex-Tek.....Flex-Tek faced another year of challenging markets with declines in sales. However, they delivered another good margin performance, up 120 basis points, despite underlying sales being down 6%.

Reported headline operating profit was 7%, or £2m ahead. The lower sales volumes reduced profit by £4m.

However, the procurement savings project generated £2m of additional profit and a relentless focus on other operational efficiencies, including site rationalisation, supported another £4m of profit.

SLIDE – RECONCILIATION: HEADLINE OPERATING PROFIT/ STATUTORY PROFIT

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

The key differences between headline operating profit and statutory are exceptional items and the amortisation of acquired intangibles.

Starting with the exceptionals...

- The £8m restructuring charge is the continuation of the programme announced in 2008. I will say more about this in a moment.
- Further to the action we took last year to reduce the pension liabilities, we closed the UK-defined benefit pension schemes to any future accrual. This led to £4m of exceptional gain in the first half.
- A further £9m gain relates to the sale of surplus property and the sale of businesses including John Crane Automotive in 2007.
- There was £1m of acquisition costs which now have to be charged to profit under IFRS3.
- The remaining £18m relates to the John Crane asbestos litigation. This comprises around £8m for the provision for adverse legal judgment. This is in line with our normal experience of rolling forward this 10 year provision for another 6 months. It also includes some £4m in respect of litigation costs and £5m from movements and discounting due to changes in interest rates.

The amortisation of acquired intangibles at £42m is higher than last year, reflecting the impact of recent acquisitions.

SLIDE – EXCEPTIONAL ITEMS: RESTRUCTURING PROGRAMME IS AHEAD OF PLAN

Now moving to the restructuring programme we announced two years ago. We have incurred costs to date of £36m.

You'll see that we have accelerated some of the benefits into these results so we have delivered £24m of savings, £7m ahead of our original plan of £17m. This brings the annualised savings to £41m out of the target of £50m. We expect a further £9m of benefits to be delivered in 2011.

As Philip mentioned earlier, we have found opportunities to extend this restructuring programme with additional savings of around £20m; the majority of which will be delivered over the next two years. We expect £5m of savings in the coming year.

The savings are to be realised from the rationalisation of certain 'back-office' functions to reduce overheads from the globalisation of our business, now our key systems are implemented.

£13m of costs will be incurred in the current year which will be treated as an exceptional item.

SLIDE – IMPROVED OPERATING CASH

Turning to cash generation which has continued to be strong... Operating cash flow was £565m; representing a substantial increase on the £435m achieved last year. This represents a conversion rate of 115% of headline operating profit. The improvement is a combination of both working capital management and reduced net capital expenditure. The lower capital expenditure mainly relates to the end of our investment in ERP systems, which have also driven a higher depreciation charge.

We achieved a working capital inflow principally as a result of inventory reduction. Obviously, the volume movements have had some impact here, but I am still pleased with the progress we have made. However, by its very nature, we recognise it will be difficult to sustain a cash conversion in excess of 100%.

SLIDE – STRONG FREE CASH FLOW REDUCED NET DEBT

This strong cash performance has reduced net debt since last July by £48m to £837m.

Free cash flow of £331m more than covered the dividend payment of £133m and on acquisition costs of £112m. The movement in net debt is also after adverse foreign exchange translation of £42m. This is a particularly strong cash performance.

We are also supported by a sound balance sheet, good credit facilities and a long-term debt maturity profile.

Looking to the year ahead, I expect that the year end net debt will be below £800m, assuming current exchange rates and before additional acquisition activity.

SLIDE – PENSIONS: FUNDING AGREEMENT REACHED WITH UK TRUSTEES

Finally pensions. You will note the pensions deficit has reduced from the £339m last year to £305m.

Asset performance has been relatively good which, combined with the contributions, has more than offset the change in the liabilities, which were driven by a lower discount rate.

As announced in July, we reached a funding agreement with the Trustees of the UK Pension Plan, following completion of the triennial valuations of the schemes. It is structured to give certainty to the pensions trustees while maximising flexibility for the Company.

In these results, we made contributions to the defined benefit schemes of £51m. In respect of the Smiths Industries Pensions scheme, we also made a £25m investment in index-linked gilts which will be held in an escrow account.

Looking to the year ahead, we estimate scheme contributions to be around £65m and the escrow investment, £2m.

The finance income credit for the coming year is expected to be around £22m, reflecting the higher asset base and lower discount rates.

SLIDE – FINANCIALS: CONCLUSION

There are three key messages I'd like to highlight from today's results.

1. Firstly, they demonstrate the significant progress made with the "self help" restructuring programme which has delivered enhanced margins. As part of these savings we are investing in the drivers of future growth such as R&D and sales & marketing.
2. Secondly, we have continued to deliver excellent cash performance.
3. Thirdly, we have a strong balance sheet in place to fund future growth.

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

Now I'd like to hand back to Philip for his operational review of the Divisional performance.

SLIDE – PHILIP BOWMAN

Peter, thank you very much indeed.

SLIDE – SMITHS GROUP: OPERATIONAL PRIORITIES

Over the past two years, we have pursued a consistent strategy of operational improvement, better working capital management to drive cash flows, and reinvestment of those cash flows in future growth opportunities. We have made good progress against these objectives in the past year.

Across the Company, a strengthened team has worked hard to accelerate some of the restructuring initiatives and operational improvements to deliver some of our cost savings ahead of plan and push margins higher.

During the year, we substantially completed the three major ERP implementations in Smiths Medical, Smiths Detection and in John Crane (outside the Americas). We are seeing many positive changes flowing from this investment but I still see opportunity to drive further benefits from these systems over the next 18 to 24 months.

A sharp focus on better working capital management and cash generation has helped fund our investment in future growth. You will hear examples of our investment in new product launches from all of the divisions when I review their performance. Meanwhile our recent acquisitions are expanding our scale as well as both our portfolio of technologies and our geographic reach, particularly in faster growing markets.

SLIDE – OPERATIONAL IMPROVEMENT IS DELIVERING RESULTS

Progress against these objectives is evident in these four metrics: sales, margins; cash-flow and return on capital employed.

Reported sales have grown despite one of the most hostile trading climates in living memory, helped by acquisitions and foreign exchange. However, all the businesses returned to underlying growth in the second half of the year – albeit against generally weak comparators.

As I have already mentioned, operating margin reached a ten-year high and this chart shows how margins rebounded as the benefits from our cost saving initiatives and operational efficiencies took effect.

Cash conversion has also improved significantly over the past two years reflecting a far more focused approach to management of working capital.

The final graph demonstrates how our delivery of improved margins and more efficient use of capital has impacted positively on our return on capital employed. This is an important measure and you will note that, for the first time, we have provided returns on capital data for each of the divisions – and a clear definition of how we have calculated this metric.

I firmly believe that there are still considerable opportunities for operational improvement in Smiths Group and we remain committed to delivering these to improve returns for shareholders. However, over the next year our attention will turn increasingly towards delivering sustainable growth in the top line, although clearly our ability to do this will be heavily influenced by how economic conditions develop over the coming months.

After that general overview, I'd now like to highlight the operational developments in each of the divisions, starting with Smiths Detection...

SLIDE – SMITHS DETECTION: SALES GROWTH AND MARGIN IMPROVEMENT

The improved trend we saw in the first half performance carried into the second six months to give a very marked improvement in results for the year, over what had been a difficult fiscal 2009.

Underlying revenues grew by 13%, driven by the ports and borders sector in particular and a strong second half in transportation. Margins improved 310 basis points to 15.7%, helped by the higher volumes.

Underlying revenues in transportation rebounded strongly – up 19% after orders delayed in the first half came to fruition. Solid contract wins were achieved in the US, Middle East, Germany,

India, and Canada. Demand for X-ray and explosive trace detection systems increased following the failed Christmas Day bomb attempt on the Delta flight approaching Detroit. Deployment of body imagers has also been accelerated and our Ego device, which uses non-ionising millimetre waves, has now been deployed at a number of airports including Heathrow and Gatwick. Our leading-edge technology leaves Smiths Detection well placed to address the far-reaching changes under way in the aviation security market. We also benefited from the legislative requirement for screening 100% of all US air cargo which commenced in August of this year.

Sales in the Ports and Borders sector grew by 66% as delays in orders caused by constrained government budgets and the economic downturn finally eased. The largest markets included Russia, Japan and notably Saudi Arabia where we sold 13 high-energy cargo scanners to the government.

Our military business, with underlying revenues up 4%, continued to be driven mainly by the long-term JCAD programme for advanced chemical point detectors with the US Department of Defence. There were similar, but smaller programmes with the Canadian and German military.

SLIDE – SMITHS DETECTION: CONTINUING TO INVEST FOR THE FUTURE THROUGH R&D

Strong investment in R&D has helped Smiths Detection maintain its industry leadership, and company funded investment rose 3% to £36m or 6.2% of sales. Customer-funded projects brought total spend in the year to £44m or 7.6% of sales.

The agreement with Analogic, announced last December, to develop the next generation of high-speed systems for screening checked airport baggage is progressing well. All interim milestones have been met in developing a hybrid, multi-view X-Ray and three-dimensional CT system that harnesses the strengths of both different technologies.

Novartis Diagnostics is another focus of our R&D efforts and progress following the recently announced collaboration and licence agreement is encouraging. The agreement will leverage our expertise in point-of-care DNA analysis and pathogen identification with the clinical trials capacity and global market reach of Novartis.

We have already received positive feedback on Ego during its airport trials. The product is also currently being evaluated by the TSA. Ego's revolutionary design was recognised when it was

named joint winner of the Equipment and Technology Award, sponsored by the UK's Aerospace, Defence and Security trade organisation.

We are in the process of developing software to address privacy concerns common to all body imagers. This is a tough technical challenge but the objective is to produce an "auto-detect" software upgrade, which can easily be loaded onto existing systems and which will eliminate the need for most operator visual checks by allowing the system to alarm automatically on suspicious items.

New product launches also included a sensor nose cone for the US Army's Raven drone aircraft which can provide standoff detection of a chemical attack.

SLIDE – SMITHS DETECTION: OPERATIONAL PRIORITIES

Looking ahead, the operational priorities for Smiths Detection are:

- To continue investment in developing innovative new products in order to drive long-term value creation;
- To accelerate development of Ego in particular to meet the ever-evolving demands for aviation checkpoint security;
- To build on our recent contract wins in the airport checkpoint and high-energy cargo screening markets; and
- To continue implementing the cost reduction initiatives and introduce more flexibility into the division's cost base.

Smiths Detection has begun the year with a strong order book, helped by some recent large orders from the TSA, which should support continued growth. The management team has been strengthened with a number of new senior appointments over the past six months. However, government finances remain under pressure which may affect the timing and the profile of orders. We expect growth to be driven primarily by the transportation and ports and borders sectors, while military revenues may flatten following a period of strong growth. Investment in new product development will remain an absolute priority in order to support Detection's market leadership.

Turning then to John Crane...

SLIDE – JOHN CRANE: MARGINS BENEFITING FROM RESTRUCTURING PROGRAMME

John Crane's margins improved 260 basis points to reach an all-time high of almost 21% despite a 5% fall in underlying revenues. This increase is attributable largely to savings generated by the global restructuring programme, ERP implementation, and more effective procurement. Margin performance is now within the target range which we set out two years ago.

Lower underlying revenues reflect weaker orders for first-fit original equipment. However, a recovery in the oil, gas, and petrochemical sectors, transformed a 15% first-half decline into a 4% increase in the second half.

In the aftermarket as a whole, revenue rose 1%, as oil, gas and petrochemical-related demand for rotating equipment such as seals, bearings and filters grew in the second half.

Sales at John Crane Production Solutions, the upstream energy services business, fell by 10%, reflecting a temporary dip in activity in Romania and lower US onshore gas and oil production. However, a major contract for pump repair services with Petrom for Romania's oil wells was signed late in 2009 and is expected to generate annual revenues of some £14m in FY2011.

First-fit original equipment sales fell 15% as our customers reacted to recessionary pressures by curtailing capital expenditure. This particularly affected our new product lines of bearings and filters which, until we fully build aftermarket channels, will be more exposed to the capital spending cycle.

SLIDE – JOHN CRANE: DRIVING EFFICIENCIES AND INVESTING IN FUTURE GROWTH

The restructuring programme launched in 2008 to create one global John Crane is on track and delivering sizeable gains. It generated £12m of savings in the year lifting the cumulative total to £19m. When complete this year, the project should deliver £25m in annualised savings.

This project has moved sales and servicing closer to our customers and delivered savings through the relocation of some manufacturing to lower cost countries.

We continued to invest in the expansion of our service networks with the opening of new service centre facilities in the US, in Poland, in Singapore and in New Zealand.

Our industry leadership can be maintained only through continued investment in new products and we have spent £10m on a range of new developments, from advanced seals and bearings to monitoring and testing technologies.

These include advanced seals for the enhanced oil recovery and carbon capture markets; energy-efficient bearings; and a sophisticated filtration valve capable of withstanding ultra-low temperatures.

SLIDE – JOHN CRANE: OPERATIONAL PRIORITIES

Priorities for the current year are:

- To continue expanding the footprint of our network of service centres, particularly in high growth markets;
- To complete the global restructuring which has already delivered substantial benefits; and
- To consolidate the benefits following completion of the SAP implementation outside the Americas.

John Crane has continued to grow its order book since the year end which should support better sales growth this year. However delivery of this will depend on the economy and the propensity of major customers to make further investment in capital equipment. Margins should continue to benefit from cost savings although we will seek to reinvest more of the benefits each year in growth opportunities.

John Crane will continue to leverage its global sales and service network to promote the newly acquired products such as hydrodynamic bearings and specialist filtration systems and build on the learnings since these product ranges were acquired.

Turning next to Smiths Medical...

SLIDE – SMITHS MEDICAL: DELIVERING POSITIVE SALES MOMENTUM AND MARGIN GROWTH

The positive momentum in revenues which began in early 2009 has been maintained. Excluding the discontinued diabetes franchise, underlying sales grew 2%. Margins expanded by 180

basis points to 21.5%, within our target range, and reflected the successful cost-saving initiatives and portfolio profitability review.

In Medication Delivery, revenues rose 5% with sales of our ambulatory smart pump, CADD®-Solis, performing particularly well in North America. It has also gained considerable traction in additional markets including Europe where multi-language versions were successfully launched in February.

Earlier this month, Smiths Medical signed a cooperation agreement with Hospira to co-promote their infusion pump ranges and develop medical management software applications. This will allow Smiths Medical to expand the reach of its industry-leading syringe pumps into more hospital areas.

Vital Care sales grew 2% mainly through a sustained good performance in our temperature management franchise. We also benefited from increased demand for respiratory products partly due to the preparations for the H1N1 flu virus. The tracheotomy business also performed well with the specialist UniPerc kit winning a prestigious US medical design award.

Our safety needle product lines gained from the H1N1 vaccination programme and a major OEM partnership.

Looking across Smiths Medical, our previous regional organisation was restructured this year to create global management teams for sales and marketing and product management. This initiative has not only provided efficiencies but creates a more coherent customer-facing organisation.

SLIDE - SMITHS MEDICAL: INVESTING IN GROWTH OPPORTUNITIES

Our improved focus on new product development is delivering results with a 16% increase in sales from products launched in the last three years. This focus has also helped ensure that more of our product launches are completed on time and within budget.

These new launches continue to meet or exceed our expectations. We've extended the reach of a number of our products into new markets. These include the CADD-Solis pump, UniPerc tracheotomy tubes and the Lockit Plus catheter.

We also completed the launch of a new, full range of convective warming blankets which have been well received in all our key markets.

SLIDE – SMITHS MEDICAL: OPERATIONAL PRIORITIES

The key imperatives for the current year are growth, globalisation and new products. We will focus on:

- building on opportunities opened by the new global organisation in sales & marketing and product management.
- increasing our investment in new product development and the launch of new products, particularly those targeted at faster growing markets.
- delivering further efficiencies to support the increase in funding for R&D and sales & marketing.

We expect underlying sales momentum to continue albeit constrained by our exit from diabetes. However the potential impact of government healthcare cuts across the globe may adversely affect the growth rate. Margins should benefit from ongoing restructuring and cost reduction initiatives as well as from our increased ability to make data-driven decisions on portfolio and customer profitability. These benefits will be partly offset by increased investment in new product development, sales infrastructure particularly in faster growing markets, and in marketing spend.

Turning now to Smiths Interconnect...

SLIDE – SMITHS INTERCONNECT: DELIVERING MARGIN GROWTH; LAUNCHING NEW PRODUCTS

Despite a 3% fall in underlying sales, margins continued to improve by 80 basis points to 18.2% as benefits were delivered from improved operational efficiency, headcount reductions and procurement initiatives. The lower revenue figure reflects slowing investment in wireless infrastructure and weaker sales of components to the general industrial markets in Europe.

Overall revenue was boosted in the second half by sales growth in the military and aerospace markets, rising 3% against a first half decline of 9%.

A key contributor to this improvement was the successful launch of the KuStream advanced broadband antenna system which enables airline passengers to access high data rate

applications including internet, cell-phone services, live television and movies. Production deliveries of the \$30m Southwest Airlines order have started and the system is currently being considered by other US and international airlines.

While the military market showed signs of becoming more challenging with some programmes declining or being delayed, our particular areas of focus – EMP protection, ultra-secure communications systems, and antennas for UAVs – remained relatively robust.

Underlying sales in wireless fell 13% as network operators limited investment in new infrastructure and pricing pressure increased, particularly in emerging markets. However, sales of test equipment designed to improve network performance gained traction during the period. We have already been chosen by one major US carrier to provide both network enhancing filter products and RF and power surge protection in preparation for their 4G rollout.

Sales in rail, medical, automation fell 7%. This is stronger performance from last year driven by an improving trend in the second half. We have benefited from the growing sales of new connector products that support a range of medical systems.

SLIDE – INTERCONNECT: INVESTING IN GROWTH DRIVERS

The integration of Interconnect Devices, Inc. (IDI), which brings a completely new range of spring probe connectors to the portfolio, is essentially complete after less than six months. Buoyed by the resurgent circuit-board and semi-conductor test markets, the business has consistently performed ahead of our investment appraisal. The acquisition of IDI, with a major plant in China and a largely untapped market in Europe, expands our geographic exposure. Integration of Channel Microwave is also complete, complementing our microwave components business that is focused on the defence and homeland security markets.

R&D is the lifeblood of a business like Interconnect and we are fully committed to increasing investment in new product development. Total spend rose 17% to £21m while underlying company-funded R&D was up 15% to £15m.

Specific investments included the launch of the KuStream antenna, passive intermodulation test solutions, new filtering products to support 4G networks and microwave components for counter-IED systems.

SLIDE – INTERCONNECT: OPERATIONAL PRIORITIES

With integration of IDI all but complete, Interconnect's operational priorities for the current year are:

- Delivery of the benefits from our recent acquisitions;
- Continued development of new products geared towards long-term value creation;
- Fulfilling key customer commitments to ensure we are well positioned for follow-on contracts in major programmes;
- Implementing additional restructuring to drive further operational efficiencies

While the military and aerospace sector is likely to come under increased budget pressure, we should benefit from our focus on high priority areas for defence spending and the likely demand for KuStream.

Although the timing of orders remains uncertain, wireless infrastructure spend should grow as operators start to fund the next generation of communication networks. Smiths Interconnect's products are well suited to help operators optimise performance in an increasingly congested frequency spectrum.

IDI will continue to benefit from the buoyant market in test applications for semiconductor and circuit-boards.

Finally, margins overall should continue to improve through restructuring benefits, cost-savings and increased volumes.

So, turning finally to Flex-Tek...

SLIDE – FLEX-TEK: RESTRUCTURING ENHANCES MARGINS IN TOUGH SALES ENVIRONMENT

Flex-Tek continues to perform well against difficult trading conditions. Its successful restructuring programme helped increase margins to 11.1% - within the target range. The trading environment has improved slightly during the year. A 14% first-half decline in underlying sales gave way to a second-half increase of 3% resulting in a 6% decline for the year. Savings generated from restructuring totalled £8m to date, including £4m in the year.

While the struggling US residential construction and domestic appliance market began to show signs of revival during the second half, a downturn in component sales and services to the OEM aerospace market gathered pace. Regional aircraft and business jets were particularly badly hit and underlying sales to aerospace fell 16%.

Revenue in the heat solution group was another tale of two halves. A 14% fall in the first six months, because of lower sales of gas piping and air-conditioning units, was not quite offset by a second half rebound resulting in an annual decline of 3%.

Revenue from Flexible Solutions ended flat despite a 16% fall in the first half because of continued weak demand for hose assemblies from the US floor-care and general industrial markets.

SLIDE – FLEX-TEK: INVESTMENT IN NEW PRODUCT DEVELOPMENT

As in the other divisions, Flex-Tek has been focusing its R&D efforts on products that promise long-term value creation.

FlashShield is an advanced version of its flexible gas piping that minimises the risk of damage from high energy electric storms. It uses a mix of metal mesh and polymer to help dissipate the energy generated by a lightning strike.

Flex-Tek's expertise in flexible tubing has allowed it to enter a new market – that of harsh environment conduits which insulate fibre optic cables from naturally occurring hydrogen. This gas can cause darkening of the optic fibres and the loss of signal bandwidth.

Flex-Tek has joined with Clean Energy in the US to make customised fuel hose assemblies to meet the growing market for converting petrol vehicles to run on natural gas. Clean Energy, the largest provider of LNG for the vehicle market in North America, recently won a contract to convert almost 2,000 AT&T service vehicles using the Flex-Tek product.

SLIDE – FLEX-TEK: OPERATIONAL PRIORITIES

Operational priorities for Flex-Tek in the current year are:

- The roll-out of the new product launches I have just mentioned;

- Further expansion into industrial and appliance markets particularly in high growth regions like Asia; and
- Continued delivery of the benefits from rationalising its manufacturing portfolio and efficiency improvements.

While the aerospace market is likely to remain challenging, US residential construction has shown some tentative signs of improvement.

Our highly effective cost reduction initiatives have made Flex-Tek a leaner, stronger business more strongly leveraged to a recovery in the US housing and appliance markets.

SLIDE – SMITHS GROUP – OPPORTUNITIES TO CREATE VALUE

In conclusion, trading conditions across Smiths Group remain tough and a sustained recovery in most markets still appears uncertain. While Smiths can do little to influence these macro economic factors, today's results show just how much we have done to optimise business performance across our portfolio in areas that are within our direct control. All of our businesses returned to growth in the second half, although maintaining this momentum may be challenging, given the continued economic uncertainties.

The outlook for many of the world economies over the next year and beyond looks testing. It is difficult to predict the impact of the withdrawal of quantitative easing, which has been quickly followed by government spending cuts, increased taxes and, depending on your philosophy, forecasts of a long period of inflation or deflation. Against these uncertainties, our results do underline the benefit of having a diversified portfolio of strong businesses with a mix of defensive and underlying growth characteristics.

We are now much better positioned to benefit from economic recovery when it finally arrives on a sustainable basis. Most importantly, greater operational efficiency allows us not only to deliver improved margins, profits and cash flow – but also to invest more in sales, marketing and new product development to support future growth.

We are committed to driving further operational performance improvements and delivering the remaining benefits from our restructuring programme. While we have identified an additional £20m of savings, we are now increasingly focused on reinvesting some of these benefits to grow the top-line for when economies improve. The focus on cash generation will remain a key

priority so that we can fund growth initiatives and new product development and further targeted bolt-on acquisitions.

We have a very solid foundation for future growth when economic activity improves. I remain confident we will deliver value for shareholders through continued improvement in the performance of our five divisions.

SLIDE – SMITHS SLIDE

SLIDE – QUESTIONS AND ANSWERS

That, ladies and gentlemen, brings us to the end of the formal presentation. Peter and I, along with other members of the senior management team, would now be very pleased to take your questions. Can I just remind you, please wait for the microphone before launching into the question and please preface your comments with your name and the company that you represent.

The second row, right at the end, please.

NICK WILSON: Good morning, it's Nick Wilson from Credit Suisse. I'm just doing some very simple maths, so apologies for that, but your sales grew £105 million, your headline operating profit grew £75 million, so obviously that's a very impressive drop through rate. Of that £75 million, £24 million came from cost and £14 million came from price, so that suggests a very positive mix and also suggests a much better capacity utilisation rate. So, I'm really asking for a bit of guidance in terms of how I should think that drop through rate then moves forward into 2011. Obviously you've talked about further £15 million or so cost restructuring gains, but I'm also thinking about maybe the business mix and further capacity utilisation gains in FY2011.

PHILIP BOWMAN: Nick, thank you for the question. I think that it's probably one of Peter's specialised subjects in terms of drop through. It's an area we've actually spent quite a lot of time looking at, not surprisingly, over the course of the last six months, so I think, Peter, would you like to take that?

PETER TURNER: Yeah. Thanks, Nick. There are a couple of other things in this year just to highlight. Obviously one of them is the foreign exchange impact

which we've clearly benefited from. The second is the procurement savings. So I think in terms of just quick mental maths there, it's probably just a couple of other things to add in. I think, as Philip has clearly outlined, we're looking to reinvest some of this improvement as we drive forward back into R&D, back into sales and marketing, to position us for long-term growth. So, at the headline level you'd expect any growth that we get to deliver drop through which would be improving to margins. Clearly we'll look to reinvest that as we go forward.

PHILIP BOWMAN: Next question, again second row in about the middle, please.

MARTIN WILKIE: Good morning, it's Martin Wilkie from Deutsche Bank. A couple of questions. Firstly, you mentioned some potential pressure from reduced government spending going forward. If you could just outline how much of that is a sort of cautionary or prudent outlook versus genuine areas where perhaps you have already seen some pushback from governments, whether it's in medical, security or military. And then the second question is again we've seen some movement in currency impacts in your results. In the new cost savings that you've announced, is there a realignment of the cost base perhaps to reduce some of this volatility of margins linked to currency?

PHILIP BOWMAN: Thank you for those two questions. I'm going to pass the first one in terms of government spending back to Ralph Phillips and to Stephen Phipson and to Srinu in a second. I think I'd preface that by first saying we are in very, very uncharted waters as to what is going to happen economically. It is difficult in looking ahead with any degree of certainty. We've got two types of business. We've got some run rate businesses, which Flex-Tek would be the prime example or parts of Medical would be the prime example, and we've got other businesses where we really only build to specific orders, like John Crane and like Detection. What we continue to see, I think, in both of those areas of business is volatility, though clearly the second half of the year was much more encouraging than the first half.

What I'll do is pass across to perhaps Ralph, if you would go first, and just talk about what you expect the impact of government spending cuts

to be on your business, but any other observations on what you're seeing in order flow as well.

RALPH PHILLIPS: Military spending or government spending in the second half for Interconnect was very strong and we have seen some slowdown of the basic components that serviced the market as a whole but buoyed by very, very strong spending on programmes that we've won, specifically KuStream and more aerospace side. We expect that dual mode to continue where we have a general spending slowdown of all programmes, especially things that are supporting ongoing operations in Iraq and Afghanistan, but we still have some very strong programming that will come though. So we're cautiously optimistic in Interconnect that those key programmes will keep our growth strong in the military and aerospace sector.

PHILIP BOWMAN: Ralph, thank you for that. Stephen?

STEPHEN PHIPSON: Well, our business is, as you know, a government regulated, government contracting business, and effectively it falls into two different camps. We have our defence business, and our defence business relies a lot on expeditionary force build-up, so that's the focus that we have. So, whilst we're seeing many defence authorities around the world cutting back on the major platforms over the coming years, in terms of expeditionary forces we see that element of defence spending growing over the next five years. So, we're quite confident that in our military business, our defence-related chemical and biological detection business, that we continue to be in a strong position there. We think that's not affected so much. In homeland security, we started off very strongly, good order flow, good contract deals coming through the business, but we've learnt from past experience that that's the one on a macroeconomic level, not on a specific security level, that governments can flex very quickly if they want to. So we're putting that government health warning across the top of the business. It's at the macro level, not at the specific level of security.

PHILIP BOWMAN: Stephen, thank you. I'll pass to Srin.

SRINI SESHADRI: I think the first important point to make is that underlying, if you look at what growth rates ought to be in the Smiths Medical kind of segment, the statements we've made about 3% to 5% growth ought to hold because demographics, you know all the reasons. In the short term, though, what we see are government budget pressures in Japan, in Germany, in the UK and, unlike last year when H1N1, for example, forced some expenditure in respiratory types of products, etc, this year first of all that scare is not there and we are seeing pressure in the US as well. Add to this a little volatility around things that can be delayed, which are the hardware, as you know we're about 80% consumable run rate kind of a business, 15% to 20% hardware kind of business, and that's a lumpy business. It's one of those things that if a hospital has got a set of infusion pumps for, say, five years they can push it out to six years. So that's the cautionary note that's associated that says in the short term all of these governments are under severe pressure. They are going to take short-term kind of action. That could well happen.

PHILIP BOWMAN: Srin, thank you very much. I think, Martin, in terms of your second question in terms of the manufacturing base and exchange rate fluctuations and the impact of those, we do have a complex supply chain in many of our businesses. Perhaps where we have moved most in the last 12 months to address some of the fluctuations of exchange rates would be in Detection where we have moved a significant amount of production progressively from both the UK and from Germany and some from France into the US, which clearly is our largest market. I think in terms of medical, as we look at the process of rationalising the footprint of our plants, I think we will see some progress in that area there. In terms of John Crane, which clearly was affected this year, Paul might like to comment a little bit about what his plans might be in terms of any changes.

PAUL COX: Well, two-thirds of our business being in the aftermarket actually helps us a good bit because most of the aftermarket business is done very much locally in the market where the repair is needed. With regard to what we've done in the OEM side of it, we've been largely naturally hedged. We've made a set of progressive moves into lower cost and more effective areas for us to compete and also to maintain our margins.

Going forward, we have basically just a continuation of that trend. We've got one year left to go on our restructuring activities and we have a line of sight on the total of 25 million. We're at 19 now; we're going to 25. We have a line of sight to complete that within the year.

PHILIP BOWMAN: Paul, thank you very much indeed. Next question, yes, in the middle about five rows back, please.

ALEX TOMS: Thanks. It's Alex Toms from Bank of America-Merrill Lynch. Can I just -- one question on the additional £20 million of cost savings you've announced today. Where should we see that sitting within the kind of divisional targets you've given previously? Is this in addition to those kind of targets? Is it to make sure that you get to those targets without volume growth? Does it make you more certain of the top of those targets? How should we think about that?

PHILIP BOWMAN: I think what I've tried to say I think at least once before in past presentations is when I came into Smiths and we put together the changes to the management team, we looked at what the opportunities we could see were for driving efficiency benefits. We announced an initial programme. We came back a year later and we said that we'd found some other areas, and you would expect us to go back and have another look, which is exactly what we've done. I said very clearly last year and I said again at the interim that we stand by the targets that we announced even though those targets were announced in a very different world to the one today. I think, to be fair, we do need volume growth. Volume growth would be very helpful, but finding additional cost savings are going to help us certainly move up towards the upper end of the margin targets and you've seen the progress that has actually been made this year in terms of doing that. So, I think I'm not proposing we change the range of those targets but I am saying that when we framed those targets I don't think we ever realised the economy would be so awful, but on the other hand I don't think we recognised these savings would be here either.

NICK WEBSTER: Nick Webster from Barclays Capital. Two points, please. First on Detection and the Ego trials, I just wondered where we were on potential

timing of orders and the potential scale for that. I guess we're now ten months on from the initial sort of bomb attack last Christmas. Secondly, on Medical, where are we again timing wise on the exit from diabetes? How much in terms of revenues? I saw in the announcement there was sort of scope for further SKU reductions. What sort of scale might we see there?

PHILIP BOWMAN: I think I'm going to pass those two really straight to Stephen and to Srin, but Peter might like to make a comment at the end. Stephen, do you want to address the one on Ego, please, where are we and where are all the orders that the politicians said in December would be coming imminently?

STEPHEN PHIPSON: Absolutely. Well, welcome to the world of government contracting and security. The governments did make the big announcements post Detroit about body scanners being deployed everywhere. The technology is still at a fairly early stage, not just ours but all of them that are deployed. The American Government has deployed a few hundred of the generation 1 systems, as we call it, from two of our competitors. They've been deployed without automatic threat recognition software because all of us are still in development. All of us are still working, largely funded by the American Government, on that side of it so that automatically you can find these kinds of threats on the body when you go through the scanning process. Ours is what we call a generation 2 system, a real time imaging system, and the advantages of Ego are that it can fit into a standard checkpoint lane, whereas the competition systems are much larger, take up much larger real estate and struggle to fit into the standard checkpoint lane. So you can deploy them more widely. We're in about 17 trials around the world at the moment. The system is doing well. Most different countries, most regulators, are still in the trial phase. In the UK we're still in the trial phase. We're still finalising specification. So that process is taking a lot longer than the announcement that we saw over the Christmas period. My estimate is it typically takes about three years to get these technologies into the market through the government regulation process. We're about two years into it. I'd like to see some orders coming through for production volumes towards the end of our fiscal year, which is kind of where I'm

sitting, but it won't be huge. It will be a start of that deployment phase and it could well be in Europe that we see the first ones of those. But it's done extremely well in places in Asia, Japan recently was a very good trial for us comparatively to the others, so the trials are ongoing and the development is ongoing. This challenge about finding -- as Philip said in the introductory phase of the presentation, this challenge of developing automatic threat recognition software for body scanners is quite a difficult challenge and all of us are working very hard with the governments to be able to deliver that but it's taking some time to do it.

PHILIP BOWMAN: Stephen, thank you. Srini, do you want to just remind people about where we are on the diabetes exit and also talk a little bit more about the potential for further SKU rationalisation?

SRINI SESHADRI: Yes. On diabetes, as you know there is a warranty period during which we continue to satisfy customers with not only ongoing products but also service of their product line. We have a minimum of at least two years more in which to continue to take care of customers, but even after that we expect there will be a core of customers who will continue to buy their supplies from us. So it will be a tail but it will not go to zero within the next couple of years.

On SKU rationalisation, as you know we announced 3,000 SKUs that we took out last year. That process has gone pretty well basically with predominantly our ability to switch customers on to equivalent products, shall we say. Then what we're working on right now is about another 2,000 or so of which I'd say 800 are probably slated for elimination and probably 1,200 for some kind of price action or profitability action. Some of those actions have to do with the cost side, and we have value engineering programmes associated with them. Some of them have to do with price side and we'll be able to lift prices on a very data-driven basis. So, we are projecting one more time this year just like last year to deliver positive price overall for the year. I'd rather not go into the numbers or all of those kinds of commitments.

PHILIP BOWMAN: Peter, do you want to put parameters around this?

PETER TURNER: I am very happy to. In the 2010 numbers, there's £14 million of revenue from diabetes. So, Srini talked about the profile of how you might see that decline, so I think that helps put a model on the impact as we look forward.

PHILIP BOWMAN: Thank you very much. Next question, yes, on the left-hand side.

AVI HODDES: Avi Hoddes from UBS. Three questions on John Crane, if I may, then one general one. Could you comment on how the order book is building on the OE side, and secondly on aftermarket? My third point on John Crane is you talked about reinvesting some of the savings. Could you talk about how much additional investment perhaps as a percentage of sales you can envisage spending this year versus last year? How significant is that going to be? Then the final question: what's your thinking behind providing capital employed numbers by division? It's a very high level of detail relative to what we're normally accustomed to anywhere.

PHILIP BOWMAN: Okay, Avi, thank you for those questions. I'll ask Peter to address the capital employed question and, Paul, would you like to pick up how the order book is building for OE and aftermarket?

PAUL COX: If you look at our order book, we generally have between two and a half and three months of cover in our order book and that is predominantly OE orders. Our aftermarket orders are for the most part in and out of our door within the month, certainly within six weeks. So, principally when we talk about order book building, we're generally talking about order books around the OEs. When we talk about day rates it's associated with the aftermarket business.

In terms of colour on that, we're seeing a lot of -- we continue to see a lot of quoting activity on the large projects. We are seeing some of the large projects move out, and as we hit the awards on those projects as they're notable, and also as we get permission to tell you about them, we release things principally into the trade press but also we do it through Smiths' website as well. But right now we're continuing to see a lot of quoting activity, we're continuing to see the beginning signs of a return of some of these big projects, but I can't say it's anything dramatic

but it's encouraging that the book to bill ratio continues to be above 100%.

The second question was around ...?

PHILIP BOWMAN: Was around the question of reinvestment, for example, in new service centres or additional research and development.

PAUL COX: Right. There are three principal ways we do reinvestment and one is in the service centres. Now, we're watching where our installed base is going. What we want is service centre installed base. The great thing about this business is between the time we actually ship a product, it goes through the OEM, it goes through the EPC and actually gets installed, commissioned and then needs an aftermarket touch, is generally two to three years, potentially longer. So we have a line of sight, we actually can see what's going on and we want to be there when the end user says, "I'd like a bit of service on this seal or this bearing" or, "I need a new filter". So, those are principally what we're doing right now. A lot of investment -- we've talked about the investment that we've been putting into the Middle East. There's a lot of activity that's still going on in the Middle East so we're looking at expanding our Middle East presence. We're looking at a larger service centre in Dubai right now, continuing to expand what we're doing in Saudi Arabia, and we are making some exploratory forays into Iraq, although I think it's probably several years away before we actually put a physical presence into Iraq. In China and in Asia-Pacific in particular that's another area that we're increasing our focus and our investment in terms of our infrastructure.

The second area we do some work is obviously R&D. We've announced a few products that we're working on today that we've got into trials in terms of carbon capture, carbon storage, and we're continuing to look at those product lines, increasing our areas in bearings as well as into our filtration system. We are looking at some investments which will be both acquisitions as well as potential enhancements to existing service centres to handle bearings because presently we don't do our aftermarket bearings through any other channel other than the OEMs. So we're looking at that. That's an opportunity for us. Then the other investments that we make -- call it

investment, it was a choice of whether or not we want to compete in certain installed base opportunities. So when the going gets tough sometimes, sometimes we have to take a bit of a lower margin challenge on these larger projects. If you're looking at a 600, 700, 800-pump opportunity, people tend to compete and jump pretty high for those opportunities. So, as the capital investment swings go up and into more capital intensity you'll see us going after those larger base, those larger opportunities. So when we have less capital in spend we have less opportunities to invest. So there's a bit of a swing in that and when we talk about investments for growth, investment for growth in the aftermarket side.

PHILIP BOWMAN: Paul, thank you very much. Peter, do you want to talk about return on capital?

PETER TURNER: Yes. Avi, as we've looked at the strategy for what makes a successful diversified industrial company to create value for shareholders, there's four metrics we've identified that are important: sales growth, operating margin, cash conversion, and return on capital employed. Basically, today we're disclosing the divisional return on capital employed data, if you like, to hold our own feet to the fire in terms of enabling people to track our progress against that fourth metric.

PHILIP BOWMAN: Next question, yes, on the right-hand side towards the back.

VIDYA ADALA: Good morning, this is Vidya Adala from Morgan Stanley. My question is actually a follow-up on the R&D question but at the group level. This year you spent £93 million of company funded R&D. What do you think is a more sustainable level, whether it is as a percentage of sales or at the absolute level for Smiths Group as a whole? In terms of return on capital employed, it is very encouraging to see this detail provided, but what do you think is a sustainable or -- I don't really want a target - I know you won't let me pin you down on that - but a more sustainable level for the kind of business that you are? Thank you.

PHILIP BOWMAN: Thank you for those two questions. I think in terms of research and development spend we have not given and we don't publish any specific

guidance on that. What I have said in various presentations previously - in the case of Medical I talked about a range and the fact that we went from below 3% and we are building up towards a figure of 4% or maybe a little bit more than that. You saw the size of increase within Interconnect this year which was quite significant. In the case of Detection, again you saw the increase there. We're not going to give any specific guidance but I would simply say that all my words today and the body language is this is an area that is of crucial importance and we'll continue to invest in. We clearly will keep a weather eye on what's happening in the economy at the same time, but I think it is important to make the point we've continued to build our investment in this area right the way through this cycle and we'll continue to do that going forward. In terms of return on capital employed, you're right, you're not going to pin me down on that at this stage, but I think it is important that we provided the information. Peter is absolutely right, not only do we think it's a metric in terms of delivery against which will help our rating in terms of the market, but secondly, it does actually, for the gentleman sitting in the front row, the fact that we published this metric helps focus him on both the combination of clearly the margin and the capital employed in order to drive those numbers.

Any other questions? Yes, please, Sandy, I think, yes.

SANDY MORRIS: I'm sorry about this but just a few things to pick up on. Sorry, Srin, it's medical. We did actually seem to see a bit of an up-tick in the second half in the more capital bit, sort of temperature management and, indeed, medication delivery. I know level 1 was coming back from a bit of a hiccup. Should I look at them and say, "That's encouraging" despite your caution about government? Do you want me to keep going?

SRINI SESHADRI: I think it is encouraging that on the CADD-Solis implementation especially we have come out with a very good product which, as you know in the medical business, even during tough times, if you come out with the right product at the right time and hit a clinical need properly, customers tend to buy. So, that is encouraging. With regards to temperature management, also you are right, which is; we came back from a low comparator and whether that sustains or not is yet to be seen.

SANDY MORRIS: And then the other slightly stupid little one was did we really have on average 1,000 more employees in Medical this year?

SRINI SESHADRI: We changed our focus. If you recall we went through a pretty bad backorder time in the 2007 type of period. We crunched that backorder away. So all of this is labour in our Mexican factory. We reduced that as we crunched the backorder away, and then as we've gone forward we've gone to a backlog kind of a look, which is; what service level do we need to maintain in our distribution centres worldwide? As we've done that, we've added up the headcount needed to go produce to that backlog number. So I think we've actually made progress. All that's happened in our headcount is a stream that sort of went like that. It's back at 2007 kind of level.

SANDY MORRIS: Well, quite. I just -- it's almost --

SRINI SESHADRI: But it's not 1,000, it's slightly less than that.

SANDY MORRIS: That's the sort of headcount swing we get in our business, not in yours.

SRINI SESHADRI: It depends on what kind of a cycle you've been going through. You know the cycle we went through in 2007-2008.

PHILIP BOWMAN: Srini, I think where Sandy is angling is, is this, as it were, likely to be the ongoing level of headcount or has that been increased as we've addressed specific issues as we've tried to improve the supply chain?

SRINI SESHADRI: We've addressed specific issues and we expect to continue to keep forcing that number down.

SANDY MORRIS: There's just much more gone on in your business than I ever realised, to be honest. I suppose ignorance is bliss.
Then coming over to Crane, and sorry to do this, I must have got the wrong end of the stick at some point because I thought you could more easily access the aftermarket for bearings and filters through your

traditional routes and that, therefore, these were neatly adjacent markets. I think I've misunderstood the challenge that you may face.

PAUL COX: Well, Sandy, it is the same customer base, they are the same service centres, the processes required are different. That is; a seal and a bearing are two different animals. So we do have to get certified processes into our service centres. Roughly half of the aftermarket today for bearings is actually serviced by the OEMs so we have an interesting little dance that we need to do with the OEMs in order to access that aftermarket. The other half is actually done by third parties, none of which are global. So we're going into our aftermarket right now with our products, which is a certain population of our products. Our eyes are actually looking at a larger aftermarket for bearings which is including not only our products but potentially other people's products. So we'd like to become an aftermarket bearings provider but not just for the JCBT and Orion branded bearings in the fullness of time. We're active there, but right now they buy them from the OEMs or they buy them from the third parties, and today we don't have the capability, the babbitting and other capabilities you need in our service centres, to do that and that's where the investment has to come. We're basically doing this on a step by step basis. It's not just a turnkey.

SANDY MORRIS: Okay, right, I get that.

PAUL COX: It will take some time but it is definitely on the radar screen, it is definitely something we're working on. We're having success right now in terms of bringing new customers into our bearings organisation, having new customers into our filter organisation by virtue of the fact that we've got the OEM relationships we have with the seals. So we're starting on the OEM side which is the easier side. The aftermarket side is going to take a little bit more time.

SANDY MORRIS: But can you just extend the packages that you offer to cover the filters and the bearings as well? Is that what you're trying to do with the user?

PAUL COX: Yes, we're looking at basically a one-stop-shop. Without violating some sort of trademark, if I could punch John Crane inside on the side of some

of these skids, I would do that, yes. So that's the direction we're trying to hit.

SANDY MORRIS: Thank you. Then a couple of really boring questions that Hilary wants to know the answers to. On tax, we used to have this rinky-dink arrangement through this Dutch holding company. So I understand --

PHILIP BOWMAN: Is that a technical term, Sandy?

SANDY MORRIS: Yeah, it's what happens when you've worked at ABN Amro. I can understand why the geographic mix puts the tax rate up, but is there any risk that that Dutch holding company structure also becomes irrelevant and that we do gravitate up to 30% or so over time? The second boring one is just we had a much better experience, as far as I can see, on asbestos last year than we've had for some time. Is there anything to be encouraged by?

PHILIP BOWMAN: I think I'll take the question on asbestos first. What I'd like to do is recognise, I think, the efforts that Michael Herlihy, our general counsel, has made together with all the team who manage this litigation in the US. What we did was new faces, I guess, new brooms. We said let's look at how we've been defending against this litigation in the US and can we improve the arguments we're marshalling; can we improve the processes we're using? I think it is quite clear that Michael's team have delivered on that. I think equally it's fair to say, Sandy, that anything involving the plaintiffs' bar in the US is unpredictable, but we have certainly put a substantial amount of effort over the last two and a half years into reviewing what we do and I think we now deal with the issues in a more professional way than was the case before. We are marshalling new and different arguments to the ones that we were marshalling historically. Now, whether that's hopeful or not I don't know because you can never tell, particularly with the current administration, but it's an area that's had enormous focus and a lot of effort and Michael deserves recognition for that.

I think in terms of the tax structure I'm going to cede the floor to my friend on the left to answer the question.

PETER TURNER: In terms of tax, Sandy, we recognise it's one of the largest expenses in the company so it's something clearly we've focused on over a long period of time and actively managed. I think we looked to things like R&D tax credits and efficient compliance management to help us manage that rate down. Clearly some of the moves to low cost manufacturing economies have also helped us in terms of exposure to lower tax rates. So we're very conscious it's a large expense for the company. We continue to actively manage that. As I said earlier, despite those efforts we expect that tax rate to rise to 26% to 27% next year, but looking beyond that I think we still need to see what other actions we can still take to continue to manage the expense.

PHILIP BOWMAN: Any other questions? I need one question before we finish for the representative for South Carolina, Mr Smith and Flex-Tek, otherwise again he will refuse to come over. There we are, thank you.

JAMES HUTTON-MILLS: I might have to let someone else ask that question, but I do have --

PHILIP BOWMAN: You've let me down.

JAMES HUTTON-MILLS: Yes, James Hutton-Mills from DPFM. A general question: you've done a terrific job over the last couple of years in terms of cutting cost and boosting margins in the business and generally restructuring. As you look at the business now, just in broad terms, what would you highlight as perhaps two key weaknesses? Is it lack of exposure to EM? Would you say that there's still parts of the businesses, the core businesses, that don't really fit together as part of the group? What would you highlight as the two key weaknesses as you look at the business now?

PHILIP BOWMAN: I think firstly, yes, we have addressed the cost base, we have driven operational efficiency gains, but we've done a lot more than that. We have got much better data systems. We are able now to look very clearly at our pricing and our margins and our profitability for customers and that has certainly been very helpful. We have leveraged our procurement. I think if you look also perhaps one of the biggest changes is we have very significantly strengthened the team of people within the

business and, although it is not apparent from here, there have been a very significant number of changes to the senior team in all of the divisions over the course of the last two years. So we do have a significantly stronger and I think more experienced team than we did have before. I think that is important to recognise.

In terms of areas I think we still need to focus on, I think quite clearly the legacy of this business is one that was originally very UK centric. It then moved into Europe, it then moved into the US, and it has been relatively slow moving into emerging markets. A very clear part of the strategy - and I hope that came across today - is that we are continuing to focus on building our position in those markets. I would be very disappointed if this time next year we weren't able to say we had made further good progress in doing that.

I think the other area that I would say is that we are much more focused today than we were a year ago on looking at opportunities to drive the top line. We know the economic environment has not been the most helpful. We have been investing more over the past three years in terms of new product development. We are putting back in marketing spend that had clearly been cut out many years ago, and we have been going through a process of strengthening our sales organisation and I think we are getting benefits from that. But the two areas, really, the focus very much -- there is more we can do on the operational efficiency side. We've talked about some of those initiatives today. I'm confident we can deliver those. What I want to see is we have more progress in terms of top line revenue and that's the absolute priority within the business at the moment without taking our eye off the challenges of driving through further operational efficiency improvements.

A question on Flex-Tek, please? Towards the back on the right.

RODDY BRIDGE: Maybe we can work it round to Flex-Tek, but I was actually -- first of all, just a little bit of guidance on Detection because -- sorry, it's Roddy Bridge from SG so I can get blamed for it later. The Detection, you've talked about government spending, etc, but I think we can see that this has become a bit of a lumpy business. I was just wondering if we could get any guidance on whether there are any lumps and bumps that we should be aware of in the invoicing pattern coming through in the near future. The other one maybe is where Flex-Tek might come in. You've

talked about return on capital and obviously you're focusing heavily on this, but I was just wondering if you could give us any guidance as to which of the businesses you are now feeling are the ones to start committing more capital to and whether there are any where you can still see yourselves clawing some capital out of it, quite frankly?

PHILIP BOWMAN: I think in terms of the first question on Detection, as you say, as we've become more and more a government contracting business the profile of the business has become much more volatile. Am I aware of any particular factors at the moment that says it's going to be better or worse than the previous year? I don't think I am, but I would simply say that clearly the timing of orders and inevitably the delivery of site acceptance and whatever else does have a big influence and can push you from one half year or one year into the next year. I don't know, Stephen, if you want to add anything to that?

STEPHEN PHIPSON: Just a quick word. Yeah, I think what Philip just said stands. I think the profile of the business is one where governments do take their time about site acceptance test and those sorts of issues, and we do not see any difference this year to the profile that we've had in previous years. I think that's the important message. We don't see anything different. There's nothing significant in terms of unusually large contracts or anything that's unusually risky. There's a better spread in other markets outside of the US which tends to make it easier in many respects, but I don't really expect to see much of a difference in the profile, I think.

PHILIP BOWMAN: Stephen, thank you for that. I think in terms of your question on capital allocation, we did two and a half years ago put in place a capital allocation methodology which is I think quite robust and has been used to guide the quantitative elements of the acquisitions we've made over the past two and a bit years. I think in terms of are there any businesses that we are seeking, as it were, to milk for cash and take cash out of and put into others, the answer is no. I think we are focused -- if any of the five gentlemen in front of me come with a proposition which makes strategic sense and which delivers good returns, we will look at that proposal. But I'm not in the business of picking winners at this stage. We have five businesses. We're working on making them all perform

better and there are opportunities to expand any of those and we will look at those in an objective way as and when they arise.

Yes, Sandy, holding up something I can't see.

SANDY MORRIS: Which is a great tactic. This is Flex-Tek and I forgot to ask this, but at the interim stage we had this lovely little chart of the monthly growth trend in the orders and we've gone positive back in December. If I look at where we were as we go into this first half, if Tedd's ever got a chance to shine it's now because his comps are lousy. So provided that -- sorry, Tedd, I meant to pitch that a bit more kindly, but it was a very positive trend through the first half. I'd just love to know where we've gone.

PHILIP BOWMAN: Well, I think, Sandy, it's a great question because if you hadn't asked it I was going to ask Tedd to hold forth on the trends he saw in each of the four product groups in terms of the market. So, Tedd, would you like to do that, please?

TEDD SMITH: In terms of how we pretty well break our business down it's between aerospace and non-aerospace. Our aerospace gradually improved through the back half of last year and showed improvement in the early stages of 2011. The housing products and the consumer-based products did much better in quarters 3 and 4 and I would have to say my hope is this will be as good in a trajectory in the first half of this year, although I would suspect there might be slight weaker.

PHILIP BOWMAN: Tedd, thank you very much for that. Do we have any further questions? I can't see anyone. So, I would like on behalf of Peter, my colleagues who are here, to thank you for being here this morning. Thank you for the questions and thank you for the presentation. I hope you all have a good day.