Interim Results

16.03.2016

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Andy Reynolds Smith
Chief Executive

Agenda

- H1 Performance review
  - Andy Reynolds Smith
- H1 Financial performance
  - Chris O'Shea
- Initial observations
  - Andy Reynolds Smith
- Question & Answer session

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H1 results overview

Revenue*

£1,372m

-3%

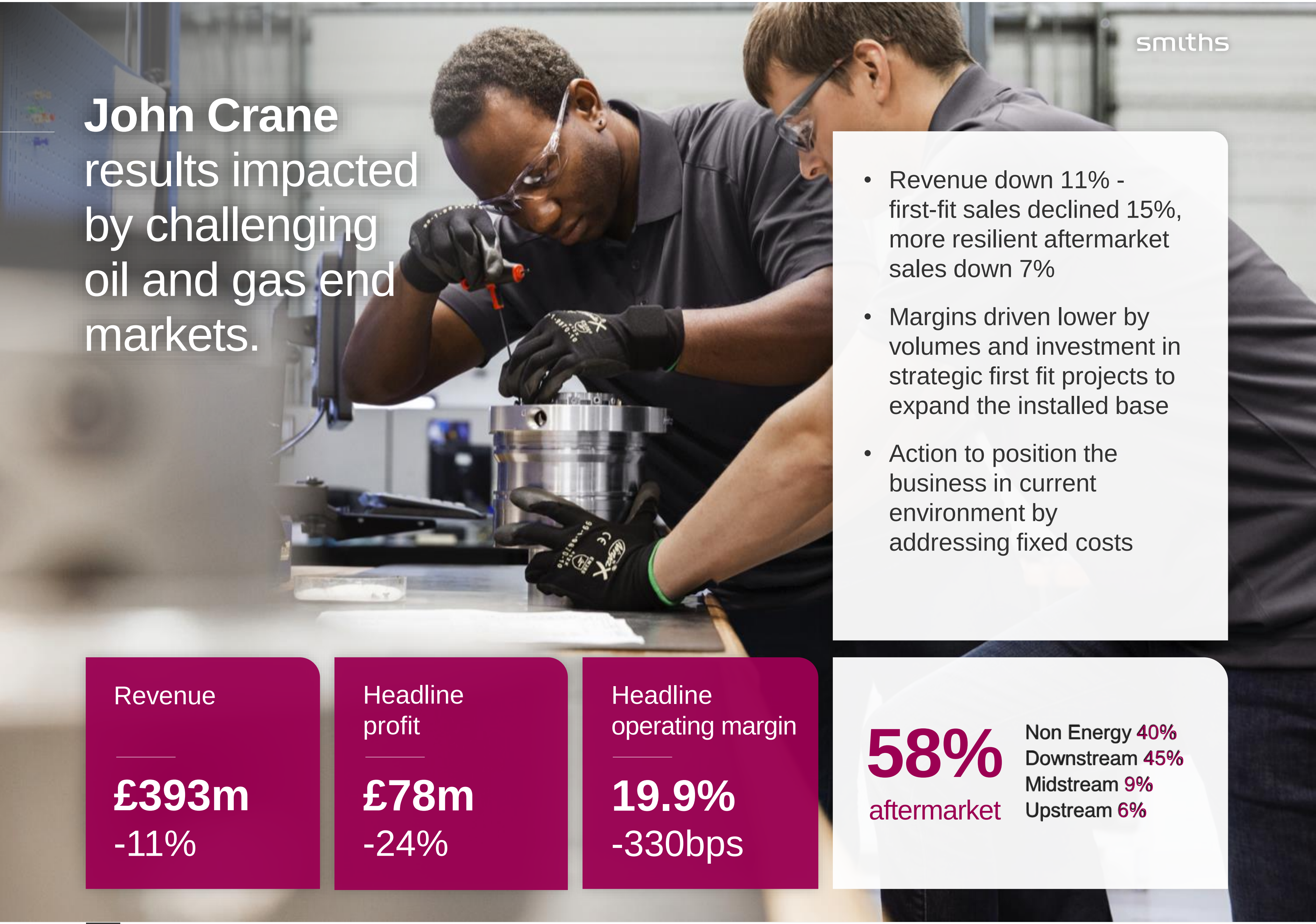
Headline operating profit

£217m

-6%

- Revenue and headline operating profit in line with expectations
- John Crane impacted by challenging oil and gas markets; aftermarket revenues more resilient
- Continued growth at Smiths Medical
- Good profit growth at Smiths Detection
- Interim dividend 13.25 pence per share

* On an underlying basis



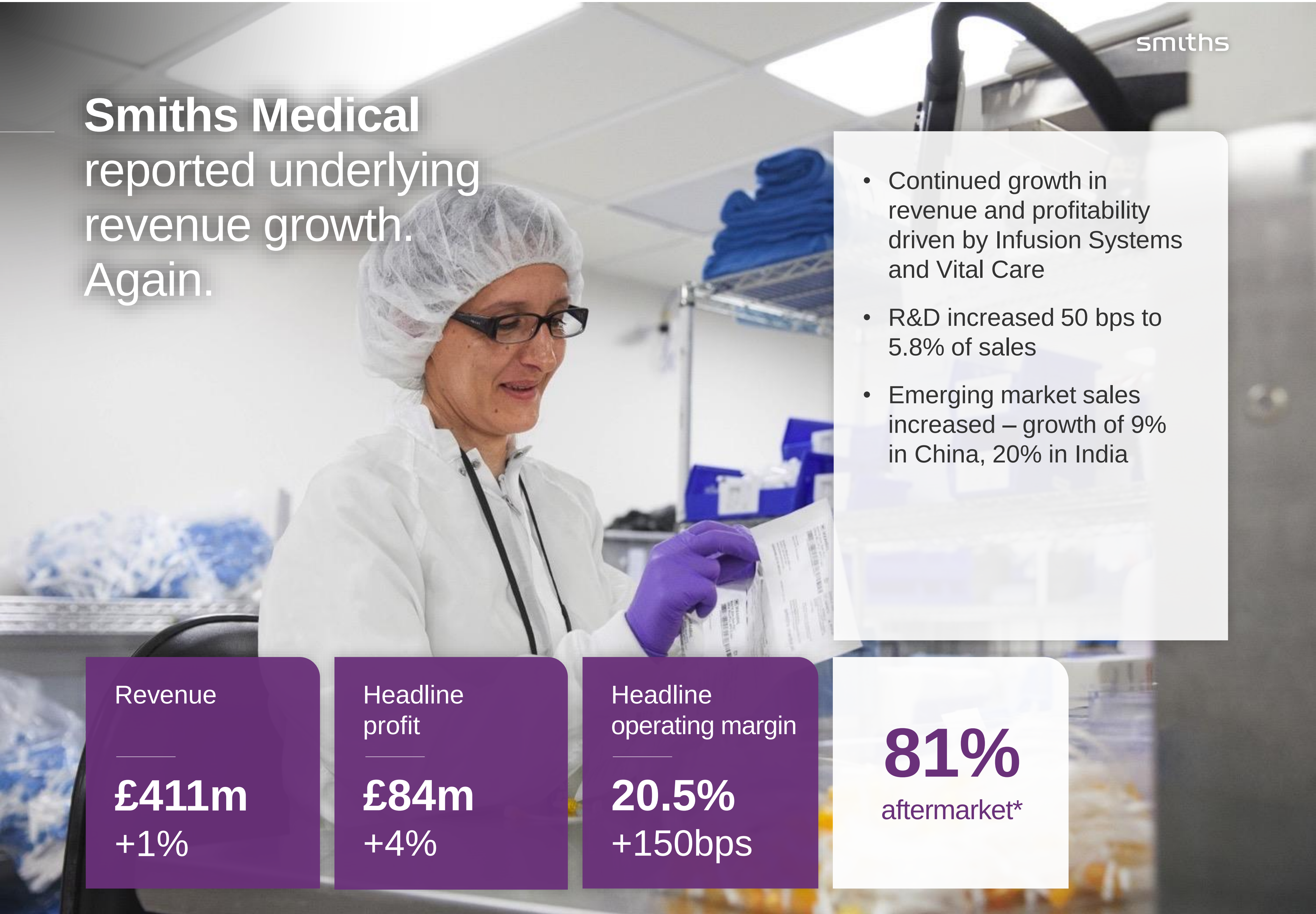
John Crane results impacted by challenging oil and gas end markets.

- Revenue down 11% - first-fit sales declined 15%, more resilient aftermarket sales down 7%
- Margins driven lower by volumes and investment in strategic first fit projects to expand the installed base
- Action to position the business in current environment by addressing fixed costs

Revenue	Headline profit	Headline operating margin
£393m	**£78m**	**19.9%**
-11%	-24%	-330bps

58% aftermarket

Non Energy **40%**
Downstream **45%**
Midstream **9%**
Upstream **6%**



Smiths Medical reported underlying revenue growth. Again.

- Continued growth in revenue and profitability driven by Infusion Systems and Vital Care
- R&D increased 50 bps to 5.8% of sales
- Emerging market sales increased – growth of 9% in China, 20% in India

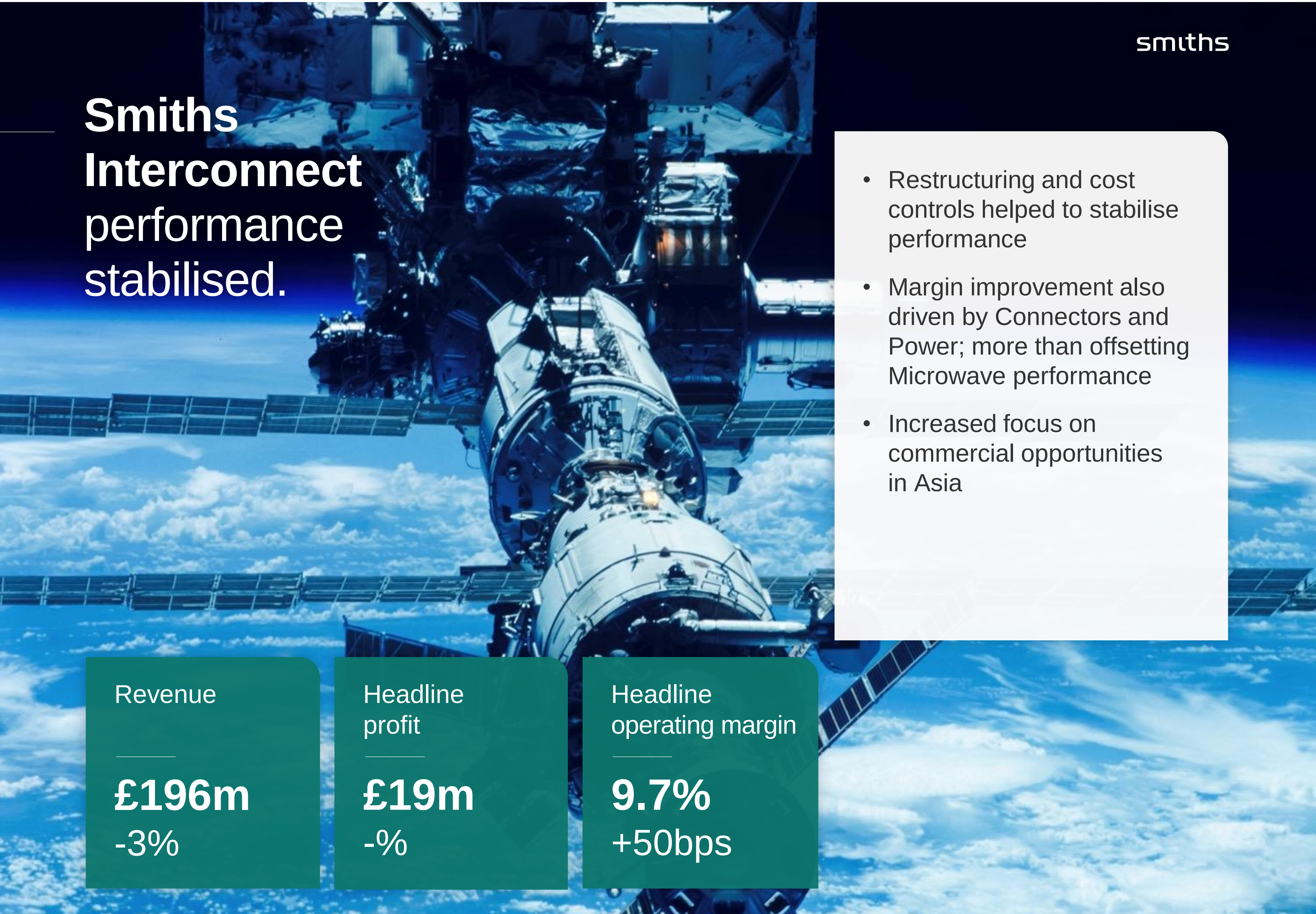
Revenue	Headline profit	Headline operating margin	
£411m +1%	**£84m** +4%	**20.5%** +150bps	**81%** aftermarket*

* Consumables and disposables

Smiths Detection management actions delivered profitable growth.

- Value engineering and programme management initiatives delivered revenue and margin benefit
- Strong performance in Ports & Borders, with progress in Military; offset by weakness in Transportation and Critical Infrastructure
- R&D at 5.1% of sales reflects disciplined approach to new product development

Revenue	Headline profit	Headline operating margin	
£240m	**£30m**	**12.4%**	**38%**
+4%	+38%	+210bps	aftermarket



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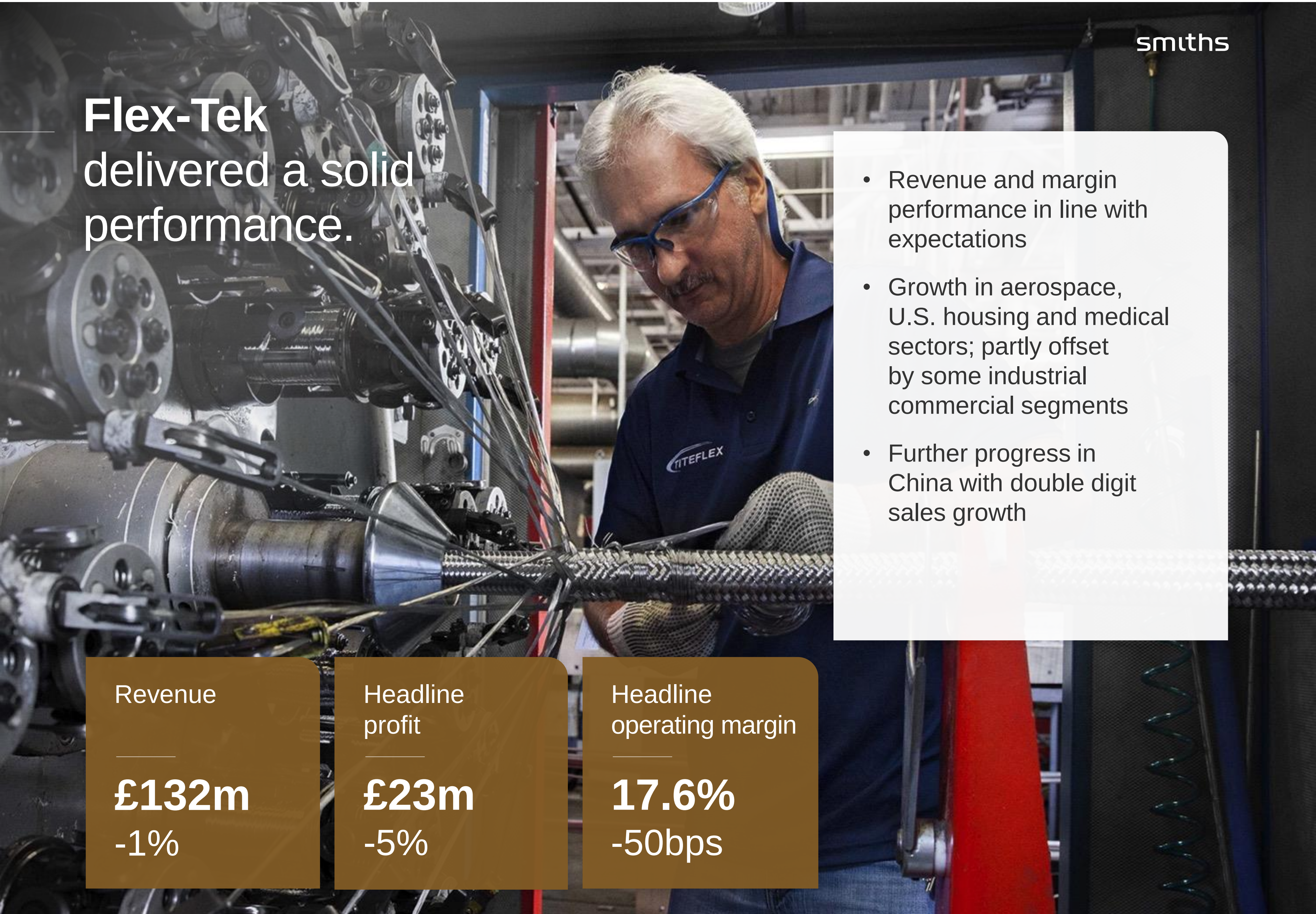
Smiths Interconnect performance stabilised.

- Restructuring and cost controls helped to stabilise performance
- Margin improvement also driven by Connectors and Power; more than offsetting Microwave performance
- Increased focus on commercial opportunities in Asia

Revenue	Headline profit	Headline operating margin
£196m	**£19m**	**9.7%**
-3%	-%	+50bps



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Flex-Tek delivered a solid performance.

- Revenue and margin performance in line with expectations
- Growth in aerospace, U.S. housing and medical sectors; partly offset by some industrial commercial segments
- Further progress in China with double digit sales growth

Revenue	Headline profit	Headline operating margin
£132m	**£23m**	**17.6%**
-1%	-5%	-50bps

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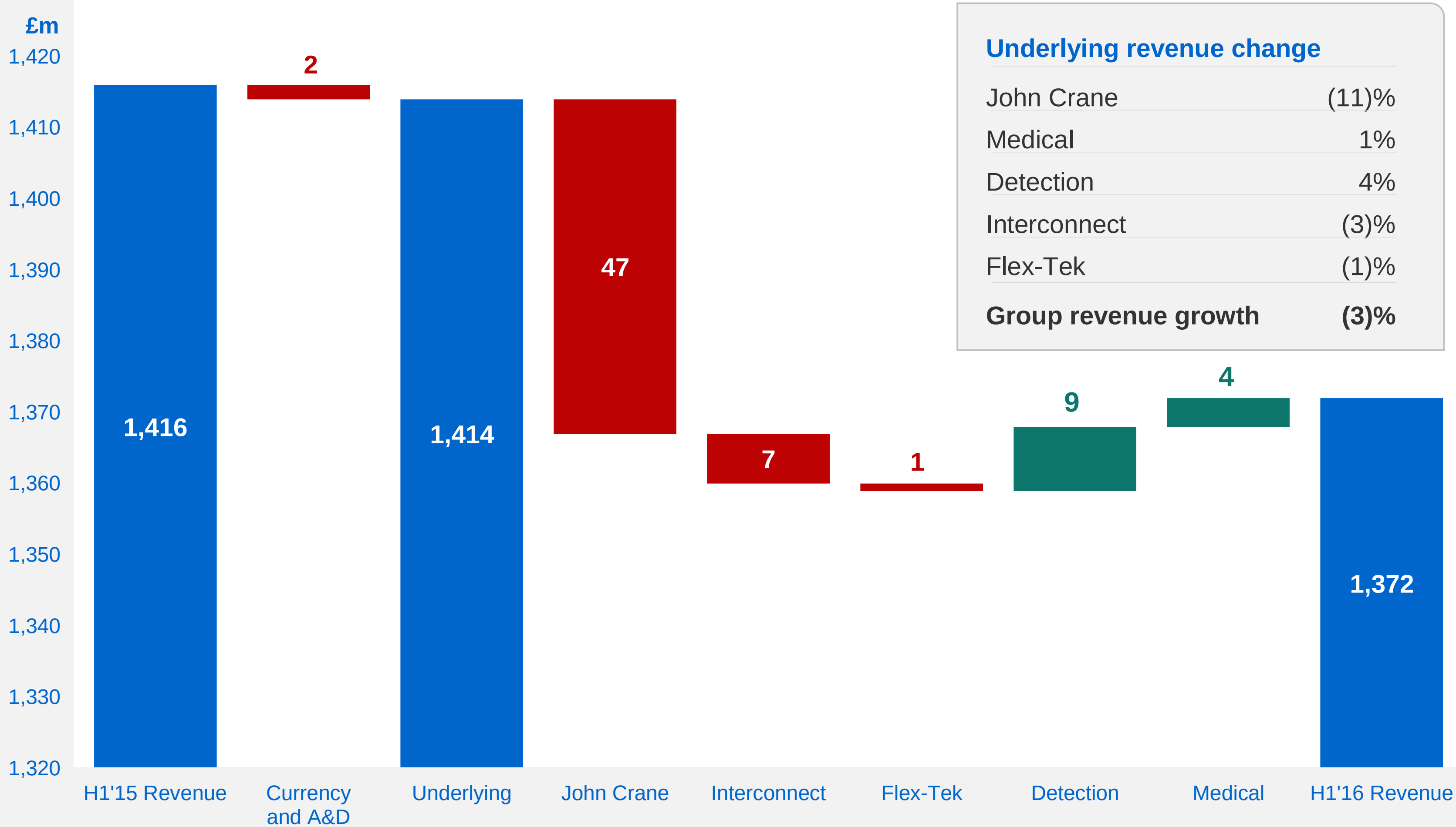
Chris O'Shea
Chief Financial Officer

H1 Financial performance

Resilient financial performance

(£m)	H1 2016	H1 2015	Underlying growth	Reported growth
Revenue	**1,372**	1,416	(3)%	(3)%
Operating profit	**217**	232	(6)%	(6)%
Operating margin	***15.8%***	*16.4%*	*(60) bps*	*(60) bps*
Headline free cashflow	**174**	132		32%
ROCE	**15.4%**	15.4%	-	-
Basic EPS	**35.2p**	38.5p	-	(9)%
Dividend per share	**13.25p**	13.0p	-	2%

Group revenue fell 3% on an underlying basis…



Underlying revenue change	
John Crane	(11)%
Medical	1%
Detection	4%
Interconnect	(3)%
Flex-Tek	(1)%
Group revenue growth	**(3)%**

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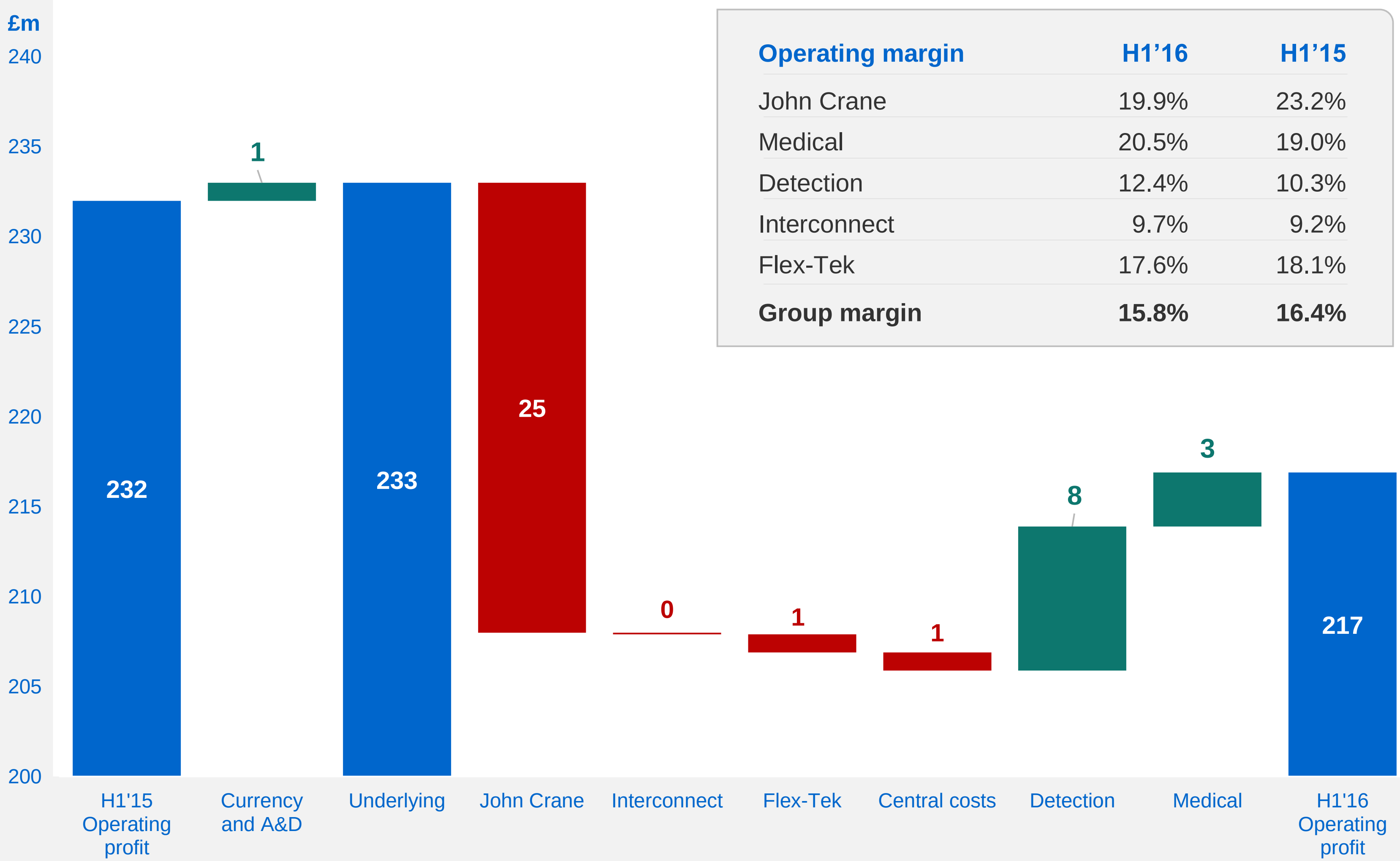
…whilst profitability remained resilient



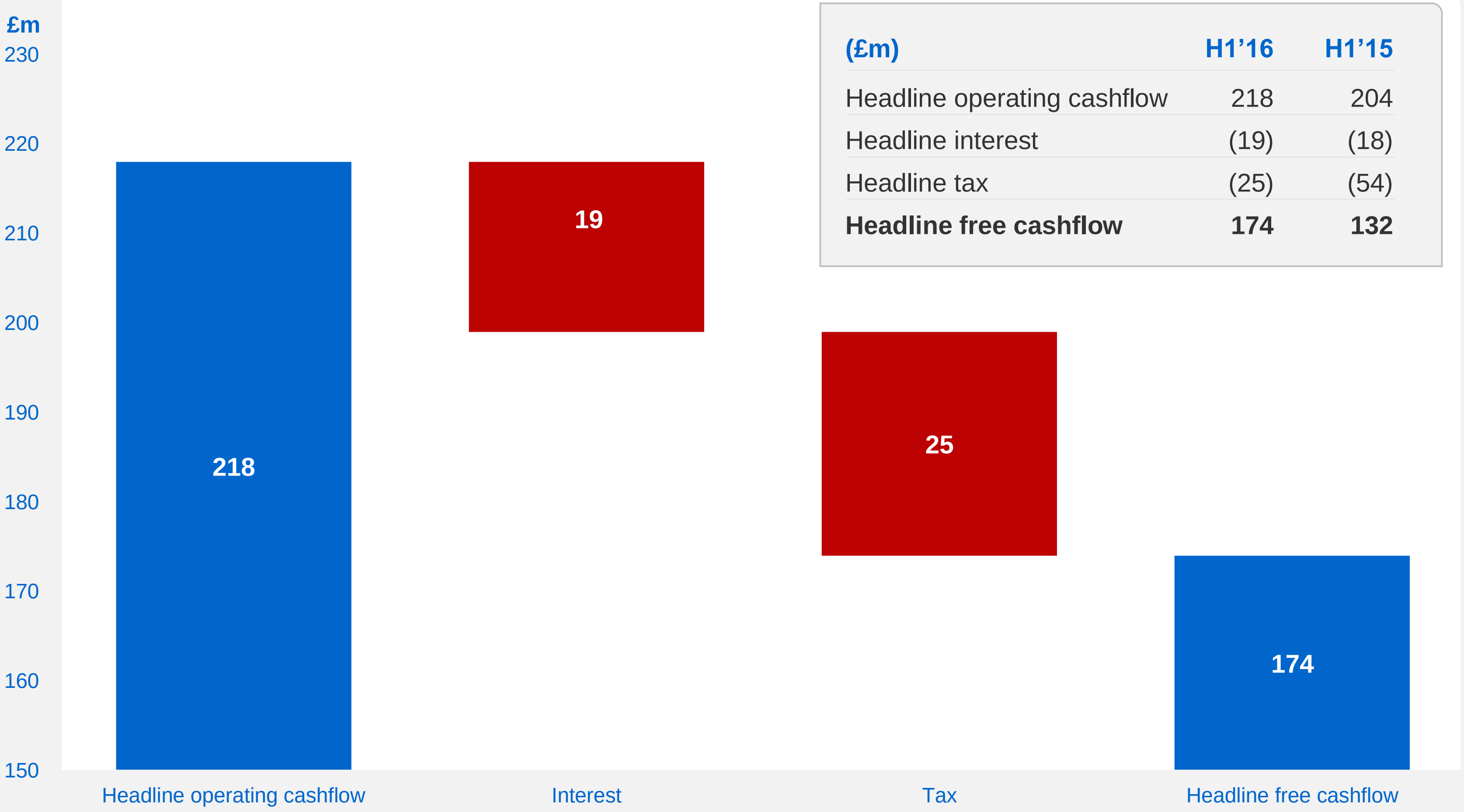
Operating margin	H1’16	H1’15
John Crane	19.9%	23.2%
Medical	20.5%	19.0%
Detection	12.4%	10.3%
Interconnect	9.7%	9.2%
Flex-Tek	17.6%	18.1%
Group margin	**15.8%**	**16.4%**

Cash conversion exceeded 100%...

Strong cash conversion

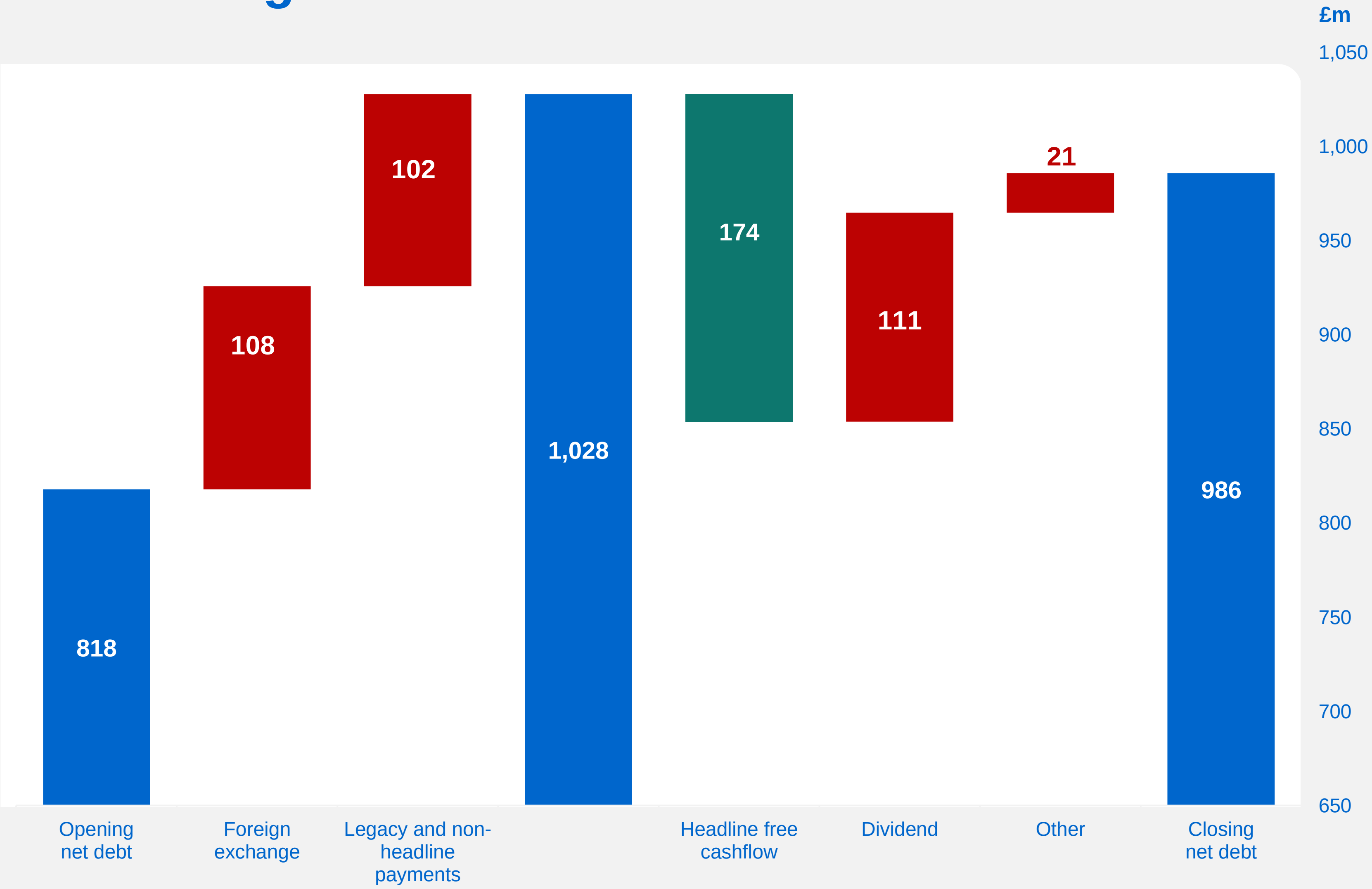
101%

…resulting in an 32% improvement in headline free cashflow



(£m)	H1'16	H1'15
Headline operating cashflow	218	204
Headline interest	(19)	(18)
Headline tax	(25)	(54)
Headline free cashflow	**174**	**132**

Net debt higher due to final dividend and FX



The Group has a good range of debt maturities

Weighted average debt facilities maturity

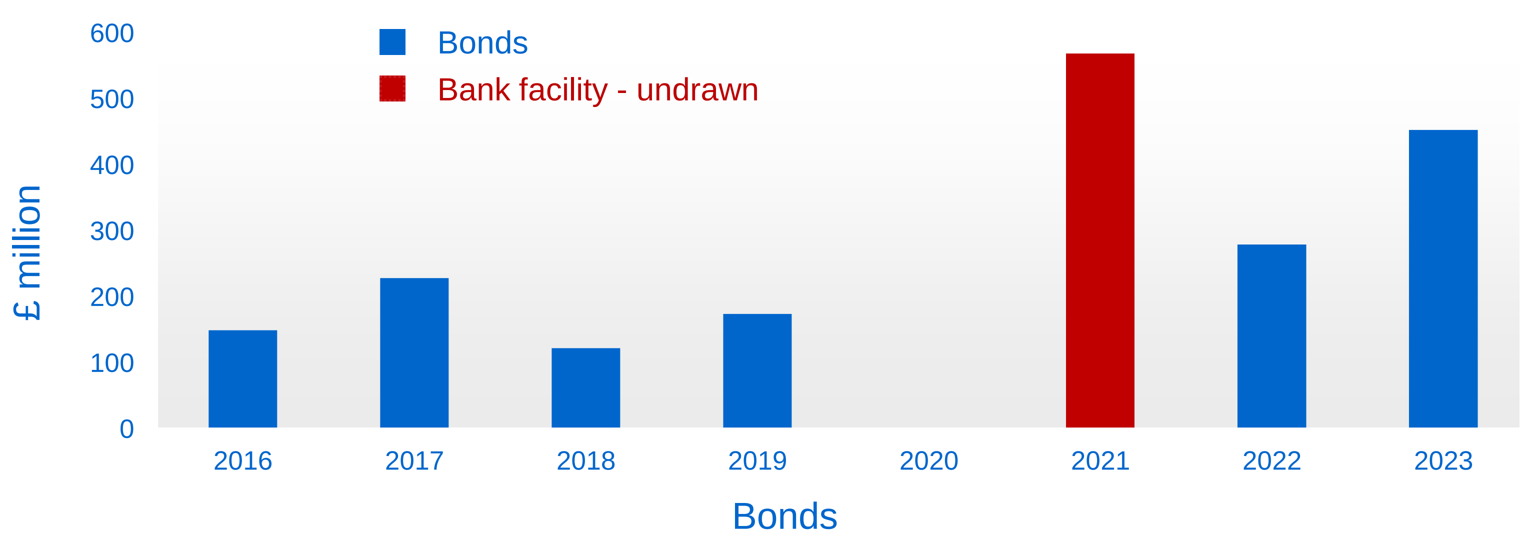
4.6 years

Weighted average interest rate

4.03%

Credit ratings

BBB+/Baa2 stable



Substantial progress made on pensions

Pension funding exercise concluded

- Significantly lower deficits
- Schemes de-risked
- Enhanced free cash flow
- Certainty of funding over the next 3 years
- FY16 pension cash contributions of £124m is £27m less than previously stated

Annual cash contributions

Y/E July (£m)	**2015**	**2016**	**2017**	**2018**
SIPS	60	39	24	24
TIGPS	16	11	3	3
US	27	74	23	23
Total	**103**	**124**	**50**	**50**

A strong financial framework

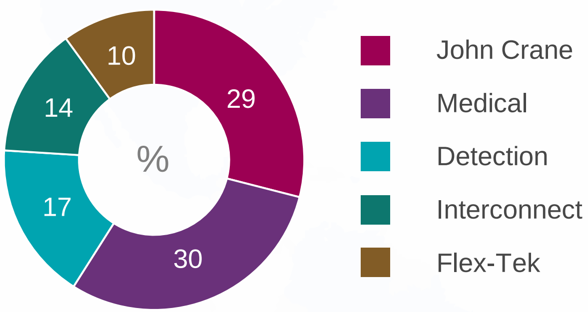
Intelligent cost control	Reduce costs to invest in growth generating activities
Use assets more efficiently	Opportunity to improve utilisation
Optimal working capital investment	Reduce inventory and invest cash in growth
Relentless focus on cash generation	Cash as a key measure of underlying performance
Disciplined capital allocation	Deploy capital to maximise risk-adjusted returns

Andy Reynolds Smith
Chief Executive

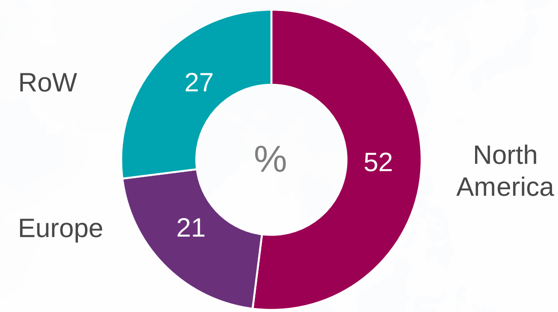
Initial observations

Smiths Group today

Revenue by division



Revenue by destination



Employees worldwide	Engineers & scientists	Sites worldwide
23,000	**3,000**	**350**

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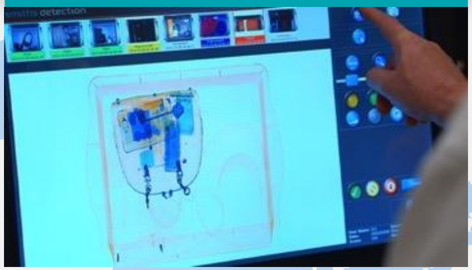
How we look at excellence at Smiths

Technology
Smiths Detection, Wiesbaden

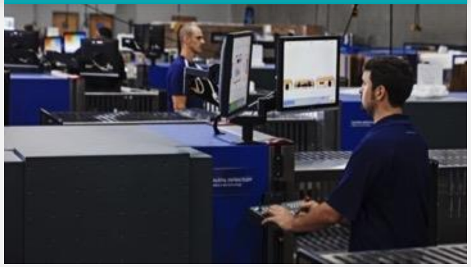


Customer
Smiths Medical, St Paul

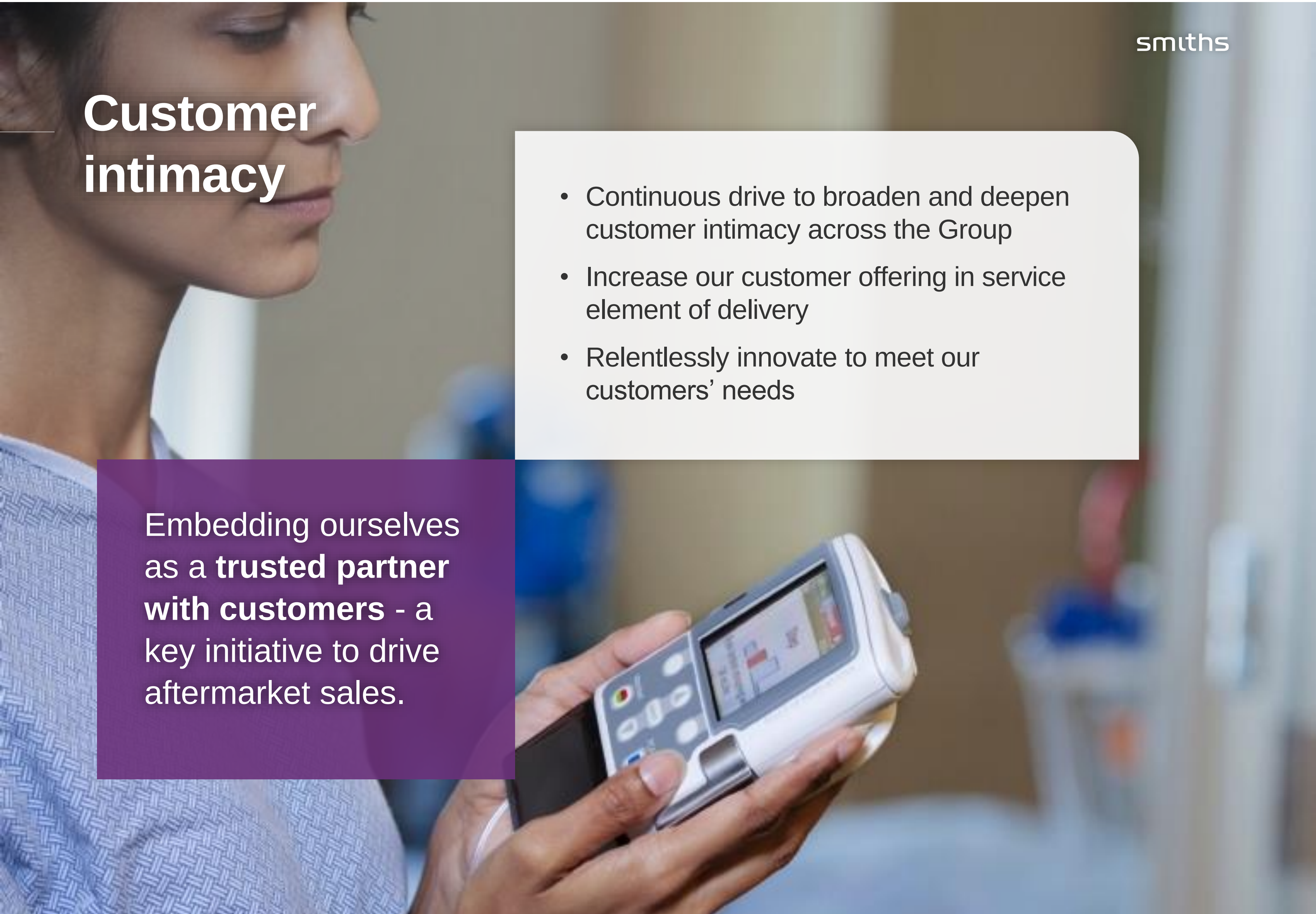
Production
Smiths Interconnect, Shanghai

Supply Chain
Flex-Tek, Tennessee

Programme
Smiths Detection, Wiesbaden



People
John Crane, Tianjin



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Customer intimacy

- Continuous drive to broaden and deepen customer intimacy across the Group
- Increase our customer offering in service element of delivery
- Relentlessly innovate to meet our customers' needs

Embedding ourselves as a **trusted partner with customers** - a key initiative to drive aftermarket sales.

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Increase operational intensity

- Good but can be so much better
- Faster and more agile decision making
- Consistent execution across the portfolio is key
- More efficient, better flow in our operations
- Opportunities to streamline cost base

Considerable scope for **operational improvements** to unlock value.

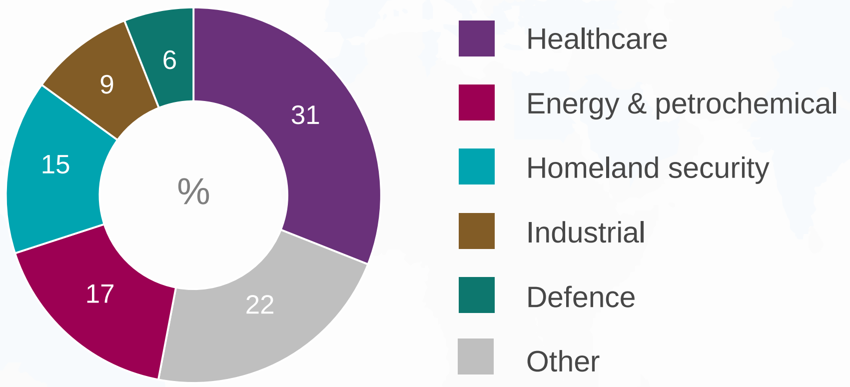
Above market growth

Increasing aftermarket sales can help to smooth revenue profile and benefit margins.

- Target leadership positions in attractive markets to unlock long-term growth
- 80% of Group revenues come from 5 market sectors
- Only half of our top 28 product lines are growing
- Need to change our approach to focus on attractive markets and capabilities
- Plan to grow above the markets we serve

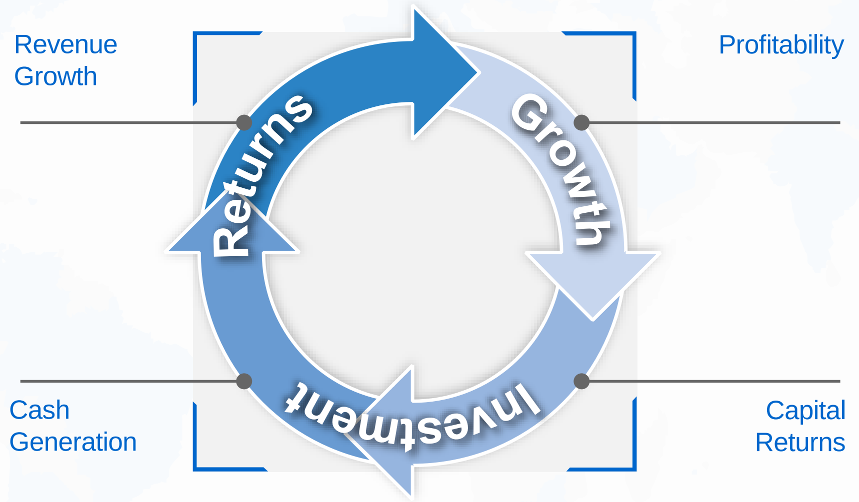
Assessing our market attractiveness and competitiveness

Revenue by market



Squaring the circle

Squaring the circle to optimise growth, investment and returns



Priorities

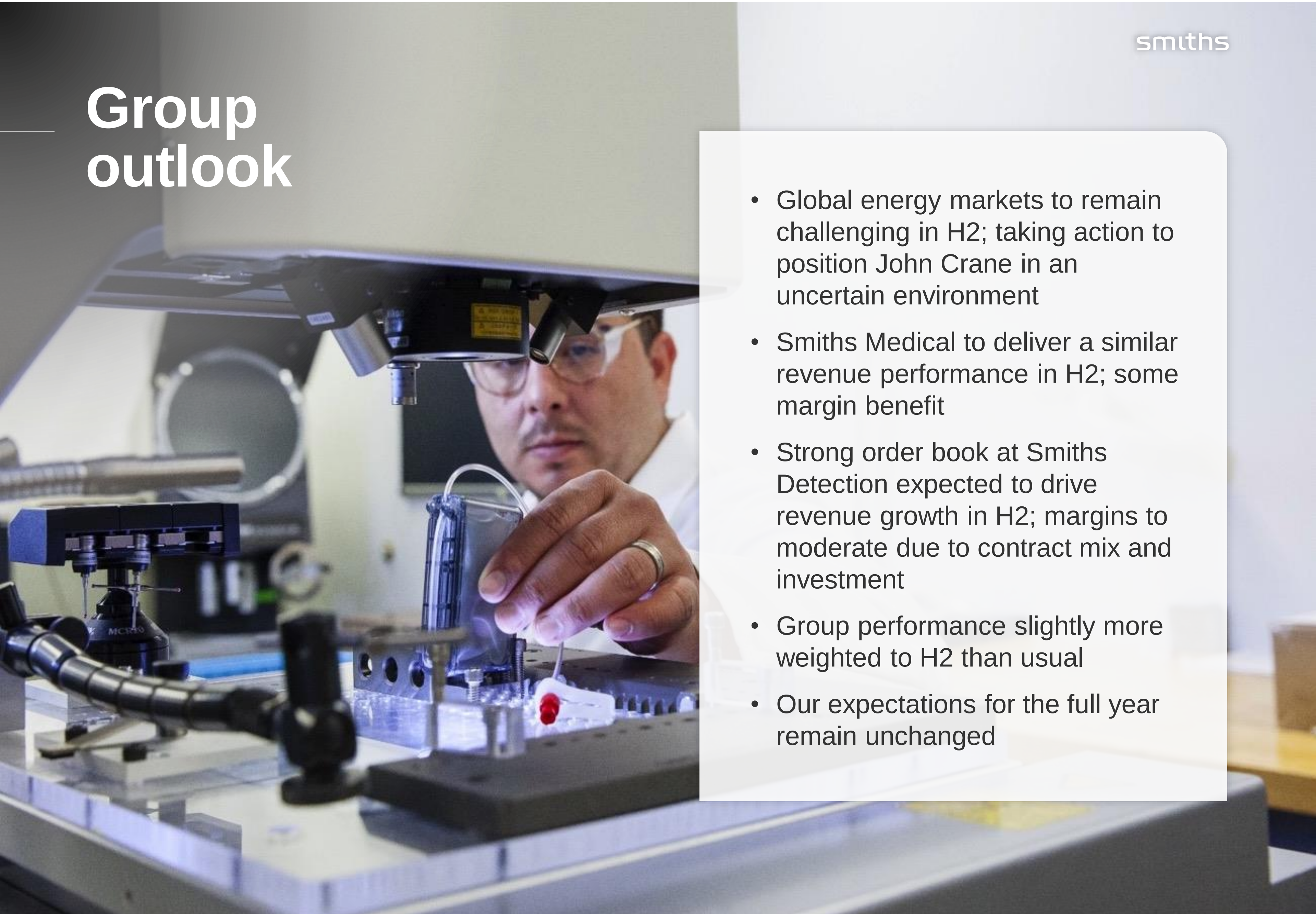
Customer intimacy

Operational intensity

Above market growth

- Drive growth
- Address competitive positioning
- Establish continuous improvement culture
- Extract operational efficiencies to free up cash
- Invest in long-term value creation
- Develop asset light and technology heavy business

Potential to unlock significant value



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Group outlook

- Global energy markets to remain challenging in H2; taking action to position John Crane in an uncertain environment
- Smiths Medical to deliver a similar revenue performance in H2; some margin benefit
- Strong order book at Smiths Detection expected to drive revenue growth in H2; margins to moderate due to contract mix and investment
- Group performance slightly more weighted to H2 than usual
- Our expectations for the full year remain unchanged

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Questions & Answers

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Appendix

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Reconciliation of operating profit

		£m
Headline Operating Profit		**217**
Restructuring programmes	*(15)*	
Litigation provision: John Crane, Inc.	*(2)*	
Litigation provision: Titeflex Corporation	*7*	
Changes to post-retirement benefits	*(10)*	
Amortisation of acquired intangible assets		(9)
Legacy retirement benefits administration		(5)
Statutory operating profit		**183**

Normal full year translational foreign exchange impact

- A 10c movement in USD would have £15m effect on profit

- A 10c movement in EUR would have £5m effect on profit