BANK OF NOVA SCOTIA
Form FWP
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(To Prospectus dated February 1, 2017,
Prospectus Supplement dated February 13, 2017 and
Product Prospectus Supplement EQUITY INDICES
SUN-1 dated February 23, 2017)

Subject to Completion
Preliminary Term Sheet dated November 22, 2017

Pricing Date*	December , 2017
Settlement Date*	December , 2017
Maturity Date*	December , 2020
Units	principal amount per unit
CUSIP No.	

* Subject to change based on the actual date the notes are priced for initial sale to the public (the "pricing date")

Autocallable Market-Linked Step Up Notes Linked to the Russell 2000® Index

§ Maturity of approximately three years, if not called prior to maturity

§ Automatic call of the notes per unit at $10 plus the applicable Call Premium ([$0.80 to $0.90] on the first Observation Date, and [$1.60 to $1.80] on the final Observation Date) if the Index is flat or increases above 100% of the Starting Value on the relevant Observation Date

§ The Observation Dates will occur approximately one year and two years after the pricing date
§ If the notes are not called, at maturity:
§ a return of 30% if the Index is flat or increases up to the Step Up Value
§ a return equal to the percentage increase in the Index if the Index increases above the Step Up Value
§ 1-to-1 downside exposure to decreases in the Index, with up to 100% of your principal at risk
§ All payments are subject to the credit risk of The Bank of Nova Scotia
§ No periodic interest payments
§ In addition to the underwriting discount set forth below, the notes include a hedging-related charge of $0.075 per unit. See "Structuring the Notes"
§ Limited secondary market liquidity, with no exchange listing
§ The notes are unsecured debt securities and are not savings accounts or insured deposits of a bank. The notes are not insured or

guaranteed by the Canada Deposit Insurance Corporation (the "CDIC"), the U.S. Federal Deposit Insurance Corporation (the "FDIC"), or any other governmental agency of Canada, the United States or any other jurisdiction

The notes are being issued by The Bank of Nova Scotia ("BNS"). There are important differences between the notes and a conventional debt security, including different investment risks and certain additional costs. See "Risk Factors" and "Additional Risk Factors" beginning on page TS-7 of this term sheet and "Risk Factors" beginning on page PS-7 of product prospectus supplement EQUITY INDICES SUN-1.

The initial estimated value of the notes as of the pricing date is expected to be between $9.39 and $9.66 per unit, which is less than the public offering price listed below. See "Summary" on the following page, "Risk Factors" beginning on page TS-7 of this term sheet and "Structuring the Notes" on page TS-14 of this term sheet for additional information. The actual value of your notes at any time will reflect many factors and cannot be predicted with accuracy.

None of the U.S. Securities and Exchange Commission (the "SEC"), any state securities commission, or any other regulatory body has approved or disapproved of these securities or determined if this Note Prospectus (as defined below) is truthful or complete. Any representation to the contrary is a criminal offense.

	Per Unit	Total
Public offering price(1)	$10.00	$
Underwriting discount(1)	$ 0.20	$
Proceeds, before expenses, to BNS	$ 9.80	$

(1) For any purchase of 500,000 units or more in a single transaction by an individual investor or in combined transactions with the investor's household in this offering, the public offering price and the underwriting discount will be $9.95 per unit and $0.15 per unit, respectively. See "Supplement to the Plan of Distribution" below.

The notes:

Are Not FDIC Insured	Are Not Bank Guaranteed	May Lose Value

Merrill Lynch & Co.
December , 2017

Autocallable Market-Linked Step Up Notes
Linked to the Russell 2000® Index, due December , 2020

Summary

The Autocallable Market-Linked Step Up Notes Linked to the Russell 2000® Index, due December , 2020 (the "notes") are our senior unsecured debt securities. The notes are not guaranteed or insured by the CDIC or the FDIC, and are not, either directly or indirectly, an obligation of any third party. The notes will rank equally with all of our other unsecured senior debt. Any payments due on the notes, including any repayment of principal, will be subject to the credit risk of BNS. The notes will be automatically called at the applicable Call Amount if the Observation Level of the Market Measure, which is the Russell 2000® Index (the "Index"), is equal to or greater than the Call Level on the relevant Observation Date. If the notes are not called, at maturity, the notes provide you with a Step Up Payment if the Ending Value of the Index is equal to or greater than the Starting Value, but is not greater than the Step Up Value. If the Ending Value is greater than the Step Up Value, you will participate on a 1-for-1 basis in the increase in the level of the Index above the Starting Value. If the Ending Value is less than the Starting Value, you will lose all or a portion of the principal amount of your notes. Any payments on the notes will be calculated based on the $10 principal amount per unit and will depend on the performance of the Index, subject to our credit risk. See "Terms of the Notes" below.

The economic terms of the notes (including the Call Premiums and Call Amounts) are based on our internal funding rate, which is the rate we would pay to borrow funds through the issuance of market-linked notes, and the economic terms of certain related hedging arrangements. Our internal funding rate is typically lower than the rate we would pay when we issue conventional fixed rate debt securities. This difference in funding rate, as well as the underwriting discount and the hedging related charge described below, will reduce the economic terms of the notes to you and the initial estimated value of the notes on the pricing date. Due to these factors, the public offering price you pay to purchase the notes will be greater than the initial estimated value of the notes.

On the cover page of this term sheet, we have provided the initial estimated value range for the notes. This range of estimated values was determined by reference to our internal pricing models, which take into consideration certain factors, such as our internal funding rate on the pricing date and our assumptions about market parameters. For more information about the initial estimated value and the structuring of the notes, see "Structuring the Notes" on page TS-14.

Terms of the Notes

Issuer:	The Bank of Nova Scotia ("BNS")	Call Settlement Dates:	Approximately the fifth business day following the applicable Observation Date, subject to postponement if the related Observation Date is postponed, as described on page PS-20 of product prospectus supplement EQUITY INDICES SUN-1.
Principal Amount:	$10.00 per unit	Call Premiums:	[$0.80 to $0.90] per unit if called on the first Observation Date (which represents a return of [8.00% to 9.00%] over the principal amount) and [$1.60 to $1.80] per unit if called on the final Observation Date (which represents a return of [16.00% to 18.00%] over the principal amount). The actual Call Premiums will be determined on the pricing date.

Term:	Approximately three years, if not called	Ending Value:	The closing level of the Market Measure on the calculation day. The scheduled calculation day is subject to postponement in the event of Market Disruption Events, as described beginning on page PS-21 of product prospectus supplement EQUITY INDICES SUN-1.
Market Measure:	The Russell 2000® Index (Bloomberg symbol: "RTY"), a price return index	Step Up Value:	130% of the Starting Value.
Starting Value:	The closing level of the Market Measure on the pricing date	Step Up Payment:	$3.00 per unit, which represents a return of 30% over the principal amount.
Observation Level:	The closing level of the Market Measure on the applicable Observation Date.	Threshold Value:	100% of the Starting Value.
Observation Dates:	On or about January , 2019 and December , 2019, approximately one and two years after the pricing date. The Observation Dates are subject to postponement in the event of Market Disruption Events, as described on page PS-20 of product prospectus supplement EQUITY INDICES SUN-1.	Calculation Day:	Approximately the fifth scheduled Market Measure Business Day immediately preceding the maturity date.
Call Level:	100% of the Starting Value	Fees and Charges:	The underwriting discount of $0.20 per unit listed on the cover page and the hedging related charge of $0.075 per unit described in "Structuring the Notes" on page TS-14.
Call Amounts (per Unit):	[$10.80 to $10.90] if called on the first Observation Date and [$11.60 to $11.80] if called on the final Observation Date. The actual Call Amounts will be determined on the pricing date.	Calculation Agent:	Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S").

Autocallable Market-Linked Step Up Notes
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Determining Payment on the Notes
Automatic Call Provision

The notes will be called automatically on an Observation Date if the Observation Level on that Observation Date is equal to or greater than the Call Level. If the notes are called, you will receive $10 per unit plus the applicable Call Premium.

Redemption Amount Determination

If the notes are not automatically called, on the maturity date, you will receive a cash payment per unit determined as follows:

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The terms and risks of the notes are contained in this term sheet and in the following:

§ Product prospectus supplement EQUITY INDICES SUN-1 dated February 23, 2017: http://www.sec.gov/Archives/edgar/data/9631/000110465917011241/a17-4372_4424b5.htm

§ Prospectus supplement dated February 13, 2017: http://www.sec.gov/Archives/edgar/data/9631/000110465917008642/a17-4372_1424b3.htm

§ Prospectus dated February 1, 2017: http://www.sec.gov/Archives/edgar/data/9631/000119312517027656/d338678d424b3.htm

These documents (together, the "Note Prospectus") have been filed as part of a registration statement with the SEC, which may, without cost, be accessed on the SEC website as indicated above or obtained from MLPF&S by calling 1-800-294-1322. Before you invest, you should read the Note Prospectus, including this term sheet, for information about us and this offering. Any prior or contemporaneous oral statements and any other written materials you may have received are superseded by the Note Prospectus. Capitalized terms used but not defined in this term sheet have the meanings set forth in product prospectus supplement EQUITY INDICES SUN-1. Unless otherwise indicated or unless the context requires otherwise, all references in this document to "we," "us," "our," or similar references are to BNS.

Investor Considerations

You may wish to consider an investment in the notes if:	The notes may not be an appropriate investment for you if:
§ You are willing to receive a return on your investment capped at the applicable Call Premium if the relevant Observation Level is equal to or greater than the Call Level.	§ You want to hold your notes for the full term.
§ You anticipate that the notes will be automatically called or that the Index will not decrease from the Starting Value to the Ending Value.	§ You believe that the notes will not be automatically called and the Index will decrease from the Starting Value to the Ending Value.
§ You are willing to risk a substantial loss of principal and return if the notes are not automatically called and the Index decreases from the Starting Value to the Ending Value.	§ You seek principal repayment or preservation of capital.
§ You are willing to forgo the interest payments that are paid on conventional interest bearing debt securities.	§ You seek interest payments or other current income on your investment.
§ You are willing to forgo dividends or other benefits of owning the stocks included in the Index.	§ You want to receive dividends or other distributions paid on the stocks included in the Index.
§ You are willing to accept a limited or no market for sales prior to maturity, and understand that the market prices for the notes, if any, will be affected by various factors, including our actual and perceived creditworthiness, our internal funding rate and fees and charges on the notes.	§ You seek an investment for which there will be a liquid secondary market.

§ You are willing to assume our credit risk, as issuer of the notes, for all payments under the notes, including the Redemption Amount.

§ You are unwilling or are unable to take market risk on the notes or to take our credit risk as issuer of the notes.

We urge you to consult your investment, legal, tax, accounting, and other advisors before you invest in the notes.

Autocallable Market-Linked Step Up Notes
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Hypothetical Payout Profile and Examples of Payments at Maturity

The graph below is based on hypothetical numbers and values. The graph below shows a payout profile at maturity, which would only apply if the notes are not called on any Observation Date.

Autocallable Market-Linked Step Up Notes

This graph reflects the returns on the notes based on the Threshold Value of 100% of the Starting Value, the Step Up Payment of $3.00 per unit and the Step Up Value of 130% of the Starting Value. The green line reflects the returns on the notes, while the dotted gray line reflects the returns of a direct investment in the stocks included in the Index, excluding dividends.

This graph has been prepared for purposes of illustration only.

The following table and examples are for purposes of illustration only. They are based on hypothetical values and show hypothetical returns on the notes, assuming the notes are not called on any Observation Date. They illustrate the calculation of the Redemption Amount and total rate of return based on a hypothetical Starting Value of 100, a hypothetical Threshold Value of 100, a hypothetical Step Up Value of 130, the Step Up Payment of $3.00 per unit and a range of hypothetical Ending Values. The actual amount you receive and the resulting total rate of return will depend on the actual Starting Value, Threshold Value, Ending Value, Step Up Value, whether the notes are called on an Observation Date, and whether you hold the notes to maturity. The following examples do not take into account any tax consequences from investing in the notes.

For recent actual levels of the Market Measure, see "The Index" section below. The Index is a price return index and as such the Ending Value will not include any income generated by dividends paid on the stocks included in the Index, which you would otherwise be entitled to receive if you invested in those stocks directly. In addition, all payments on the notes are subject to issuer credit risk.

Ending Value	Percentage Change from the Starting Value to the Ending Value	Redemption Amount per Unit	Total Rate of Return on the Notes
0.00	-100.00%	$0.00	-100.00%
50.00	-50.00%	$5.00	-50.00%
75.00	-25.00%	$7.50	-25.00%
80.00	-20.00%	$8.00	-20.00%
90.00	-10.00%	$9.00	-10.00%
100.00(1)(2)	0.00%	$13.00(3)	30.00%
105.00	5.00%	$13.00	30.00%
110.00	10.00%	$13.00	30.00%
120.00	20.00%	$13.00	30.00%
130.00(4)	30.00%	$13.00	30.00%
140.00	40.00%	$14.00	40.00%
143.00	43.00%	$14.30	43.00%
150.00	50.00%	$15.00	50.00%
160.00	60.00%	$16.00	60.00%

(1) This is the hypothetical Threshold Value.
(2) The hypothetical Starting Value of 100 used in these examples has been chosen for illustrative purposes only, and does not represent a likely actual Starting Value for the Market Measure.
(3) This amount represents the sum of the principal amount and the Step Up Payment of $3.00.
(4) This is the hypothetical Step Up Value.

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Redemption Amount Calculation Examples

Example 1
The Ending Value is 90.00, or 90.00% of the Starting Value:

Starting Value:	100.00
Threshold Value:	100.00
Ending Value:	90.00

Redemption Amount per unit

Example 2
The Ending Value is 110.00, or 110.00% of the Starting Value:

Starting Value:	100.00
Step Up Value:	130.00
Ending Value:	110.00

Redemption Amount per unit, the principal amount plus the Step Up Payment, since the Ending Value is equal to or greater than the Starting Value, but less than the Step Up Value.

Example 3
The Ending Value is 143.00, or 143.00% of the Starting Value:

Starting Value:	100.00
Step Up Value:	130.00
Ending Value:	143.00

Redemption Amount per unit

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Risk Factors

There are important differences between the notes and a conventional debt security. An investment in the notes involves significant risks, including those listed below. You should carefully review the more detailed explanation of risks relating to the notes in the "Risk Factors" sections beginning on page PS-7 of product prospectus supplement EQUITY INDICES SUN-1, page S-2 of the prospectus supplement, and page 6 of the prospectus identified above. We also urge you to consult your investment, legal, tax, accounting, and other advisors before you invest in the notes.

§ If the notes are not automatically called, depending on the performance of the Index as measured shortly before the maturity date, your investment may result in a loss; there is no guaranteed return of principal.

§ Your return on the notes may be less than the yield you could earn by owning a conventional fixed or floating rate debt security of comparable maturity.

§ If the notes are called, your investment return is limited to the return represented by the applicable Call Premium.

§ Your investment return may be less than a comparable investment directly in the stocks included in the Index.

§ Payments on the notes are subject to our credit risk, and actual or perceived changes in our creditworthiness are expected to affect the value of the notes. If we become insolvent or are unable to pay our obligations, you may lose your entire investment.

§ Our initial estimated value of the notes will be lower than the public offering price of the notes. Our initial estimated value of the notes is only an estimate. The public offering price of the notes will exceed our initial estimated value because it includes costs associated with selling and structuring the notes, as well as hedging our obligations under the notes with a third party, which may include MLPF&S or one of its affiliates. These costs include the underwriting discount and an expected hedging related charge, as further described in "Structuring the Notes" on page TS-14.

§ Our initial estimated value of the notes does not represent future values of the notes and may differ from others' estimates. Our initial estimated value of the notes is determined by reference to our internal pricing models when the terms of the notes are set. These pricing models consider certain factors, such as our internal funding rate on the pricing date, the expected term of the notes, market conditions and other relevant factors existing at that time, and our assumptions about market parameters, which can include volatility, dividend rates, interest rates and other factors. Different pricing models and assumptions could provide valuations for the notes that are different from our initial estimated value. In addition, market conditions and other relevant factors in the future may change, and any of our assumptions may prove to be incorrect. On future dates, the market value of the notes could change significantly based on, among other things, the performance of the Index, changes in market conditions, our creditworthiness, interest rate movements and other relevant factors. These factors, together with various credit, market and economic factors over the term of the notes, are expected to reduce the price at which you may be able to sell the notes in any secondary market and will affect the value of the notes in complex and unpredictable ways. Our initial estimated value does not represent a minimum price at which we or any agents would be willing to buy your notes in any secondary market (if any exists) at any time.

§ Our initial estimated value is not determined by reference to credit spreads or the borrowing rate we would pay for our conventional fixed-rate debt securities. The internal funding rate used in the determination of our initial estimated value of the notes generally represents a discount from the credit spreads for our conventional fixed-rate debt securities and the borrowing rate we would pay for our conventional fixed-rate debt securities. If we were to use the interest rate implied by the credit spreads for our conventional fixed-rate debt securities, or the borrowing rate we would pay for our conventional fixed-rate debt securities, we would expect the economic terms of the notes to be more favorable to you. Consequently, our use of an internal funding rate for the notes would have an adverse effect on the economic terms of the notes, the initial estimated value of the notes on the pricing date, and the price at which you may be able to sell the notes in any secondary market.

§ A trading market is not expected to develop for the notes. Neither we nor MLPF&S is obligated to make a market for, or to repurchase, the notes. There is no assurance that any party will be willing to purchase your notes at any price in any secondary market.

- § Our business, hedging and trading activities, and those of MLPF&S and our respective affiliates (including trades in shares of companies included in the Index), and any hedging and trading activities we, MLPF&S or our respective affiliates engage in for our clients' accounts, may affect the market value and return of the notes and may create conflicts of interest with you.
- § The Index sponsor may adjust the Index in a way that may adversely affect its level and your interests, and the Index sponsor has no obligation to consider your interests.
- § You will have no rights of a holder of the securities included in the Index, and you will not be entitled to receive securities or dividends or other distributions by the issuers of those securities.
- § While we, MLPF&S or our respective affiliates may from time to time own securities of companies included in the Index, we, MLPF&S and our respective affiliates do not control any company included in the Index, and have not verified any disclosure made by any other company.
- § There may be potential conflicts of interest involving the calculation agent, which is MLPF&S. We have the right to appoint and remove the calculation agent.

$	516.9 $	477.8 $	465.1 $	329.7	
Property, plant and equipment, net	600.4	600.2	605.1	503.0	503.8
Total assets	2,140.3	2,016.7	2,010.4	1,548.5	1,507.3
Long-term debt, net of current portion	488.7	489.9	619.7	359.1	223.9
Total liabilities	1,085.9	1,082.2	1,190.7	778.5	746.0
Stockholders’ equity	1,054.4	934.5	819.7	770.0	761.3

(a) Includes Restructuring and other charges, net, of $32.8 million (including a $6.0 million one-time purchase accounting adjustment contained in cost of sales, considered to be non-recurring in nature because, although the Company acquired the manufacturing operations of FSG, this adjustment was required by SFAS No. 141 as an elimination of the manufacturing profit of inventory acquired from FSG and sold in the period).

(b) Includes Restructuring and other charges, net, of $12.0 million (including $3.4 million contained in cost of sales).

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ITEM 7. MANAGEMENTS DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Forward-Looking Statements and Risk Factors

You should read the following discussion together with Palls consolidated financial statements and notes thereto and other financial information in this Form 10-K report. The discussions under the subheadings Review of Market Segments and Geographies below are in local currency unless indicated otherwise. Management considers local currency growth an important measure because by excluding the volatility of exchange rates, underlying volume growth is clearer. As used below, ½% indicates that we have rounded the relevant data up or down to the nearest one-half percentage point. Dollar amounts discussed below are in thousands, unless otherwise indicated and except per share dollar amounts. In addition, per share dollar amounts are discussed on a diluted basis.

The matters discussed in this Annual Report on Form 10-K may contain forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. These statements are based on current Company management expectations and are subject to risks and uncertainties which could cause actual results to differ materially. Such risks and uncertainties include, but are not limited to the matters discussed below under the caption Critical Accounting Policies and Estimates, as well as: fluctuations in foreign currency exchange rates; regulatory approval and market acceptance of new technologies; changes in product mix and product pricing and in interest rates and cost of raw materials; the Companys success in enforcing its patents and protecting its proprietary products and manufacturing techniques; global and regional economic conditions and legislative, regulatory and political developments; and domestic and international competition in the Companys global markets.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States. These accounting principles require us to make certain estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements, as well as the reported amounts of revenues and expenses during the periods presented. Although these estimates are based on managements knowledge of current events and actions we may undertake in the future, actual results may differ from estimates. The following discussion addresses our most critical accounting policies, which are those that are most important to the portrayal of our financial condition and results, and that require judgment. See also the notes accompanying the consolidated financial statements, which contain additional information regarding our accounting policies.

Purchase Accounting and Goodwill

Determining the fair value of certain assets and liabilities acquired in a business combination in accordance with SFAS No. 141 is judgmental in nature and often involves the use of significant estimates and assumptions. There are various methods used to estimate the value of tangible and intangible assets acquired, such as discounted cash flow and market multiple approaches. Some of the more significant estimates and assumptions inherent in the two approaches include: projected future cash flows (including timing); discount rate reflecting the risk inherent in the future cash flows; perpetual growth rate; determination of appropriate market comparables; and the determination of whether a premium or a discount should be applied to comparables. There are also judgments made to determine the expected useful lives assigned to each class of assets and liabilities acquired.

Goodwill is measured as the excess of the cost of acquisition over the sum of the amounts assigned to identifiable assets acquired less liabilities assumed. The Company performs goodwill impairment tests on an annual basis. In response to changes in industry and market conditions, the Company could be required to strategically realign its resources and consider restructuring, disposing of, or otherwise exiting businesses, which could result in an impairment of goodwill. Based on impairment tests performed, there was no impairment of goodwill in fiscal 2004 and 2003.

Revenue Recognition

Revenue is recognized when title and risk of loss have transferred to the customer and when contractual terms have been fulfilled. Long-term contracts are accounted for under the percentage of completion method based upon the ratio of costs incurred to date compared with estimated total costs to complete them. The cumulative impact of revisions to total estimated costs is reflected in the period of the change, including anticipated losses. Such revisions could result in a material adjustment in the period of the change.

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Allowance for Doubtful Accounts

We evaluate our ability to collect outstanding receivables and provide allowances when collection becomes doubtful. In performing this evaluation, significant estimates are involved, including an analysis of specific risks on a customer-by-customer basis. Based upon this information, management reserves an amount believed to be uncollectible. If the historical data we use to calculate the allowance provided for doubtful accounts does not reflect the future ability to collect outstanding receivables, additional provisions for doubtful accounts may be needed and the future results of operations could be materially affected.

Inventories

Inventories are valued at the lower of cost (principally on the first-in, first-out method) or market. The Company records adjustments to the carrying value of inventory based upon assumptions about historic usage, future demand and market conditions. These adjustments are estimates which could vary significantly, either favorably or unfavorably, from actual requirements if future conditions, customer inventory levels or competitive conditions differ from our expectations.

Recoverability of Available-for-Sale Investments

Other than temporary losses relating to available-for-sale investments are recognized in earnings when management determines that the recoverability of the cost of the investment is unlikely. Such losses could result in a material adjustment in the period of the change. Management considers numerous factors, on a case-by-case basis, in evaluating whether the decline in market value of an available-for-sale security below cost is other than temporary. Such factors include, but are not limited to, (i) the length of time and the extent to which the market value has been less than cost; (ii) the financial condition and the near-term prospects of the issuer of the investment; and (iii) whether the Company's intent to retain the investment for the period of time is sufficient to allow for any anticipated recovery in market value.

Pension Plans

The Company sponsors pension plans in various forms covering substantially all employees who meet eligibility requirements. Several statistical and other factors that attempt to anticipate future events are used in calculating the expense and liability related to those plans for which the benefit is actuarially determined (i.e., defined benefit plans). These factors include assumptions about the discount rate, expected return on plan assets and rate of future compensation increases as determined by the Company, within certain guidelines. In addition, the Company's actuarial consultants also use subjective factors, such as withdrawal and mortality rates, to calculate the liabilities and expense. The actuarial assumptions used by the Company are long-term assumptions and may differ materially from actual experience in the short-term due to changing market and economic conditions and changing participant demographics. These differences may have a significant effect on the amount of pension expense recorded by the Company.

Pension expense associated with our defined benefit plans was $24,962 in fiscal 2004, which was based on a weighted average discount rate of 5.57% (calculated using the projected benefit obligation) and a weighted average expected long term rate of return on plan assets of 6.92% (calculated using the fair value of plan assets).

The expected rates of return on the various defined benefit pension plans' assets are based on the asset allocation of each plan and the long-term projected return of those assets. If the expected long-term rate of return on plan assets was reduced by 50 basis points, projected pension expense in 2004 would have increased approximately $1,000. The discount rates used for defined benefit plans are set by benchmarking against investment grade corporate bonds in each country (e.g., in the U.S., Moody's AA or better). If the weighted average discount rate was reduced by 50 basis points, pension expense in 2004 would have increased by approximately $2,200.

Accrued Expenses and Contingencies

Management estimates certain material expenses in an effort to record those expenses in the period incurred. The most material accrual relates to environmental proceedings. Environmental accruals are recorded based upon historical costs incurred and estimates for future costs of remediation and on-going legal expenses which have a high degree of uncertainty. When no estimate in a given range is deemed to be better than any other, the low end of the range is accrued.

Self-insured workers compensation insurance accruals are recorded based on insurance claims processed including applied loss development factors. Employee medical insurance accruals are recorded based on medical claims processed as well as historical medical claims experience for claims incurred but not yet reported.
Differences between estimates and assumptions and actual results could result in an accrual requirement materially different from the calculated accrual.

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Income Taxes

Significant judgment is required in determining our worldwide income tax expense provision. In the ordinary course of a global business, there are many transactions and calculations where the ultimate tax outcome is uncertain. Some of these uncertainties arise as a consequence of revenue sharing and cost reimbursement arrangements among related entities, the process of identifying items of revenue and expense that qualify for preferential tax treatment and segregation of foreign and domestic income and expense to avoid double taxation. No assurance can be given that the final tax outcome of these matters will not be different than that which is reflected in our historical income tax provisions and accruals. Such differences could have a material effect on our income tax provision and net earnings in the period in which such a determination is made.

We record a valuation allowance to reduce our deferred tax assets to the amount of future tax benefit that is more likely than not to be realized. While we have considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance, there is no assurance that the valuation allowance would not need to be increased to cover additional deferred tax assets that may not be realizable. Any increase in the valuation allowance could have a material adverse impact on our income tax provision and net earnings in the period in which such determination is made.

United States income taxes have not been provided on the undistributed earnings of foreign subsidiaries (which totaled $992,459 at July 31, 2004) since substantially all such earnings are expected to be permanently invested in foreign operations. Dividend distributions in excess of current earnings or the sale or other disposition of an investment in a foreign subsidiary would cause temporary differences related to undistributed earnings to become taxable. Determination of a hypothetical deferred tax liability, based upon the undistributed earnings of foreign subsidiaries, is not practicable due to the indeterminate nature of underlying assumptions.

Results of Operations 2004 Compared with 2003

Review of Consolidated Results

Sales for the fiscal year 2004 increased 9½% to $1.77 billion from $1.61 billion in fiscal year 2003. Exchange rates increased reported sales in the year by $109,892, or 6½%, primarily due to the strengthening of the Euro and to a lesser extent the British Pound and Japanese Yen. In local currency (i.e., had exchange rates not changed year over year), sales increased 3%. Overall, a decrease in pricing reduced sales by about 1%, which was offset by an increase in volume of 4%. Sales growth was negatively impacted by a decline in Aerospace segment sales attributable to last year's non-recurring sales related to the Iraqi conflict. Excluding the impact of these non-recurring sales, consolidated sales in local currency increased 4%. Sales growth was strong in our Microelectronics segment as the semiconductor industry continued to rebound. Sales in our Medical segment were up in the mid-single digit range. BioPharmaceuticals segment sales were flat, while General Industrial segment sales posted low-single digit growth. By geography, Asia reported double-digit sales growth, while the Western Hemisphere achieved mid single-digit growth. The growth in Asia and the Western Hemisphere was partly offset by a decline in sales in Europe, primarily attributable to lower Aerospace sales. We expect overall sales in local currency to grow in the mid-single digit range in fiscal 2005. For a detailed discussion of sales, refer to "Review of Market Segments and Geographies."

Cost of sales in fiscal 2004, as a percentage of sales, increased to 50.8% from 50.2% in fiscal 2003. The increase in cost of sales, as a percentage of sales reflects the impact of product mix as well as volume changes in our Aerospace segment and the impact of a pricing decrease in our Medical segment. We are expecting a modest improvement in cost of sales, as a percentage of sales, in fiscal 2005 due to price increases and as the impact of our cost reduction initiatives (see below for a discussion of our cost reduction programs) ramps up.

Selling, general and administrative expenses as a percentage of sales in fiscal 2004 decreased to 33% as compared to 33.2% last year. The improvement in selling, general and administrative expenses reflects synergies achieved related to our FSG integration efforts and the effects of our cost reduction programs, partly offset by increased pension and consulting costs as well as the impact of foreign exchange. Foreign exchange is estimated to have increased selling, general and administrative expenses by approximately $42,700 in fiscal 2004. The increase in consulting costs relates primarily to our cost reduction programs as well as Sarbanes-Oxley compliance initiatives.

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We continue to move forward with our four cost reduction initiatives. We are targeting $10,000 in savings on an annualized basis related to our Indirect Expenditure cost reduction initiatives for items such as freight, office supplies, parcel delivery and travel. As we are still in the startup phase, net savings from the program approximated $2,500 for this fiscal year in the Western Hemisphere. In fiscal 2005, the programs will expand to Europe and Asia and our expected savings as a result of the program should approximate $10,000. Our other three cost reduction initiatives, which focus on our cost of manufacturing, are the Direct Materials (Strategic Sourcing), Continuous Improvement Program and our Manufacturing Rationalization Program. We expect to achieve $10,000 in savings in fiscal 2005 and continuing savings in fiscal 2006 as a result of these efforts. We are also in the process of creating an integrated business approach within the Company that will be organized around three operating segments: Life Sciences, comprising Medical and BioPharmaceuticals; Aeropower, comprising Aerospace and the Machinery & Equipment portion of the current General Industrial segment; and Process Technologies, comprising General Industrial’s Food & Beverage, Fuels & Chemicals, Power Generation, Municipal Water divisions and Microelectronics. Each of these vertically integrated segments will now have global responsibility for its own manufacturing, research and development (“R&D”), sales and marketing enabling us to better meet our customer’s current and future needs while achieving greater efficiencies and profit growth with this leaner, customer-centric structure. We are expecting to achieve a modest improvement in selling, general and administrative expenses, as a percentage of sales, in fiscal year 2005.
R&D expenses were 3.2% of sales in fiscal 2004, on par with last year. We have programs in place to monitor spending and ensure that R&D resources are used efficiently. We expect R&D as a percentage of sales to increase slightly in fiscal 2005.

In fiscal 2004, we recorded restructuring and other charges, net, of $12,477. The restructuring and other charges, net, reflect severance and other costs incurred as a result of the streamlining of our manufacturing operations in the United Kingdom (“U.K.”), Japan and Germany and reorganizing our Medical and BioSciences management structure, as well as the sale of certain insignificant non-core manufacturing businesses in Germany. Additionally, restructuring and other charges, net, reflects an increase in our environmental liabilities of $20,837 principally as a result of a change in the estimated duration and costs of the remediation effort at the Ann Arbor, Michigan facility of the Company’s subsidiary Gelman Sciences, partly offset by a gain on the sale of our investment in Oiltools International and non-recurring income related to a decrease of pension liabilities in Germany. The adjustment to pension liabilities was due to an over accrual of pension expense that occurred during the preceding five-year period, the effect of which was not significant in any period.

In fiscal 2003, we recorded restructuring and other charges of $47,524 reflecting the write-off of in-process research and development acquired in the FSG acquisition of $37,600 and restructuring and other charges of $9,924 (primarily severance and other exit costs). The fiscal 2003 charges were primarily related to the FSG acquisition and the realignment of our Life Sciences business, including the transfer of Medical manufacturing from Ireland.

The details of the charges for the years ended July 31, 2004 and August 2, 2003 can be found in the Restructuring and Other Charges note accompanying the consolidated financial statements. In general, we expect to recover the costs of the restructuring-related charges within two years from the date of the charge.

The following table summarizes the activity for fiscal 2004 related to restructuring liabilities that were recorded in fiscal 2004, 2003 and 2002:

	Severance	Lease Termination Liabilities & Other	Total
Fiscal 2004			
Balance at Aug. 2, 2003	$ —	$ —	$ —
Additions	4,117	538	4,655
Utilized	(2,765)	(538)	(3,303)
Balance at July 31, 2004	$ 1,352	$ —	$ 1,352

Fiscal 2003			
Balance at Aug. 2, 2003	$ 6,657	$ 2,530	$ 9,187
Utilized	(5,167)	(1,770)	(6,937)
Other changes (a)	(428)	(510)	(938)
Balance at July 31, 2004	$ 1,062	$ 250	$ 1,312

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	Severance	Lease Termination Liabilities & Other	Total
Fiscal 2002			
Balance at Aug. 2, 2003	$ 1,447	$ 303	$ 1,750
Utilized	(788)	(74)	(862)
Reversal of excess reserves (b)		(72)	(72)
Other changes (a)	(26)	(153)	(179)
Balance at July 31, 2004	$ 633	$ 4	$ 637

(a) Reflects the reversal of excess restructuring accruals related to the FSG acquisition that were originally recorded as adjustments to goodwill in accordance with EITF 95-3, Recognition of Liabilities in Connection with a Purchase Business Combination.

(b) Reflects the reversal in fiscal year 2004 of excess restructuring reserves recorded in the consolidated statement of earnings in fiscal year 2002.

Net interest expense decreased $3,937 compared to fiscal 2003. The reduction in net interest expense reflects decreased borrowings as we continue to utilize cash flow to pay down debt. Refer to the Liquidity and Capital Resources section of this Management's Discussion and Analysis for a discussion of the reduction in net and gross debt. In fiscal 2005 we expect interest expense to be flat compared with fiscal 2004.

In fiscal 2004 the underlying tax rate was 24% compared with 22% last year reflecting increased earnings in higher tax rate jurisdictions. We expect an underlying tax rate of 24% in fiscal 2005.

Net earnings in fiscal 2004 were $151,573, or $1.20 per share, compared with net earnings of $103,202, or 83 cents per share in fiscal 2003. In summary, net earnings benefited from organic sales growth, increased gross profit dollars generated by a higher level of sales, decreased interest expense and the benefit of foreign exchange rates. An increase in selling, general and administrative expense dollars (pension and consulting related to the cost reduction program and Sarbanes-Oxley initiatives) and the impact of a higher underlying tax rate partly offset the above. In addition, fiscal 2004 included restructuring and other charges, net, of $12,477 (primarily an adjustment to our environmental reserves, restructuring costs related to our U.K., German and Japan operations and the reorganization of our Medical and BioSciences management structure partly offset by a gain on the sale of our investment in Oiltools International and an adjustment of pension liabilities in Germany), whereas fiscal 2003 included the write-off of in-process research and development acquired in the FSG acquisition of $37,600 and severance and other charges of $9,924. We estimate that foreign currency translation added approximately 7 cents to earnings per share in fiscal 2004. We expect earnings per share for fiscal year 2005 to be in the range of $1.38 to $1.52 per share. In light of the cost reduction initiatives, we expect to incur severance and other restructuring costs in fiscal 2005; however, since these costs are not estimable at this time, this range does not contemplate such charges.

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Review of Market Segments and Geographies

Market Segments:

The table below presents sales for the fiscal years ended July 31, 2004 and August 2, 2003 by market segment including the effect of exchange rates for comparative purposes.

	Fiscal 2004	Fiscal 2003	% Change	Exchange Rate Difference	% Change in Local Currency
Medical	$ 347,598	$ 317,051	9½	$ 15,372	5
BioPharmaceuticals	373,593	351,874	6	23,713	(½)
Total Life Sciences	721,191	668,925	8	39,085	2
General Industrial	666,771	595,210	12	52,416	3
Aerospace	178,178	185,431	(4)	6,897	(7½)
Microelectronics	204,607	164,069	24½	11,494	17½
Total Industrial	1,049,556	944,710	11	70,807	3½
Total	$ 1,770,747	$ 1,613,635	9½	$ 109,892	3

Life Sciences sales increased 2% in fiscal 2004 compared with last year. Life Sciences represented approximately 41% of our total sales in fiscal 2004 consistent with last year.

Within Life Sciences, Medical segment sales grew 5% driven by mid-single growth in Medicals Blood Filtration submarket. Sales in Medicals Critical Care submarket were flat compared with last year. By geography, the Western Hemisphere and Europe posted good growth in Medical sales year over year. Sales in Asia, which comprises the smallest portion of our Medical business, were down. There continues to be increasing core market demand for our blood filtration products and we offer a broad product portfolio to our customers. New water filtration products for medical applications such as the Aquasafe filter are growing. We have introduced our enhanced Bacterial Detection System to blood centers and it has just begun contributing to sales as blood centers comply with an American Association of Blood Banks standard, which requires all platelets to be tested for bacteria. The blood bank market is highly competitive throughout the world and is characterized by various national and private tender processes. We have successfully extended for a further year (through April 2005) our contract with our largest blood bank customer, while another large blood bank customer has notified us that their contract will not be renewed beyond its 2006 expiration. We expect to maintain our overall market share. Overall, we expect sales in our Medical segment to grow in the mid-single digit range for the full year fiscal 2005.

BioPharmaceuticals segment sales declined slightly in fiscal 2004. Within BioPharmaceuticals, sales in its Pharmaceutical submarket (which comprise approximately three quarters of our BioPharmaceuticals segment) were flat, reflecting the recent distress in the plasma fractionation industry. In addition, the timing of capital orders in the biotechnology industry negatively impacted sales growth. By geography, mid single-digit growth in Asia was offset by a decrease in the Western Hemisphere. Sales in Europe were flat. Industry reports suggest that the plasma industry is projected to recover progressively through fiscal 2005, and it is our expectation that we will recoup most of these sales. In BioSciences, the other BioPharmaceuticals submarket, sales were down 1½%. The decline in BioSciences reflects a weakness in the laboratory portion of the business, which continues to be affected by research spending cuts. Our strategy for growth in this business is through the introduction of new products and applications. An example of our expansion in the diagnostics market is our PallCheck Luminometer and recently for the first time the FDA approved the manufacture of a prescription drug that uses this microbiological test. As such, based on the FDAs approval there is potential for this method to replace traditional technologies in the future. Sales in the Specialty Materials part of our BioSciences business were up 6%. By geography, the decline in BioSciences sales reflects shortfalls in Europe and the Western Hemisphere partly offset by growth in Asia. Overall, for the full year fiscal 2005, we expect sales in our BioPharmaceuticals segment to grow in the high single digits.

Our Industrial business accounted for approximately 59% of total sales in fiscal 2004, consistent with last year. Industrial sales grew 3½% as compared with fiscal 2003. Growth in Microelectronics was strong, while General Industrial segment sales, which account for about 63% of our Industrial business, were up 3%. Aerospace sales were down 7½%.

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Within General Industrial, all submarkets contributed to the increase in sales in fiscal 2004. Sales in our Power Generation submarket increased 15% with all geographies contributing to this gain. The Western Hemisphere has benefited from a large water filtration sale to a power station in Denver, Colorado and all geographies have benefited from our Total Fluid Management approach. Sales in our Fuels & Chemicals submarket grew 3½% reflecting strong sales in Asia partly offset by a decline in the Western Hemisphere. Sales in Europe were up modestly. We expect continued strong investment by customers in the Fuels & Chemicals market into fiscal 2005. Sales in our Machinery & Equipment submarket increased slightly, as strong growth in Asia and modest growth in the Western Hemisphere were largely offset by a decline in Europe. Sales in the Western Hemisphere and Europe have been negatively impacted by difficult industry conditions. In addition, sales in Europe were reduced due to the sale of our German machine and tool unit in the second quarter of fiscal 2004. Excluding the sales related to the machine tool unit, Machinery & Equipment sales were up 3%. The business outlook has been improving in the Machinery & Equipment submarket due in part to the large global acceptance of our new flagship product, Ultipleat SRT, which we launched in the second quarter. Sales in Water Processing increased 5½%, driven by strong growth in the Western Hemisphere. Sales in the Western Hemisphere have been positively impacted by more stringent EPA regulations. There continues to be significant potential in our Water Processing business. We expect continued growth in Asia as water shortages and population pressures, in China, in particular, are creating new opportunities for our products. Sales in our Food & Beverage submarket increased 2%, driven by strong growth in the Western Hemisphere. In the fourth quarter, sales in this market reached a record $50 million. We have successfully applied our Total Fluid Management solutions to the wine, soft drink and spirits market and we are now the sole supplier of filtration and separation products to some large global customers. Overall, we expect sales in our General Industrial segment to grow in the high single digits in fiscal 2005.
Aerospace sales decreased 7½%, reflecting a decline in Military sales of 15% (in Europe and Asia) partly offset by an increase in Commercial sales of 1½%. The decline in Military sales reflects a difficult comparison, as fiscal 2003 reflected non-recurring sales related to the Iraqi conflict estimated at about $15 million. Excluding the impact of the nonrecurring sales, total Aerospace sales increased 1%. Military sales comprised approximately 50% of total Aerospace sales compared with 55% last year. We expect low single digit growth in Aerospace sales in fiscal 2005.

Microelectronics sales grew 17½% compared with last year as the recovery of the cyclical semiconductor market continues. In the fourth quarter sales increased 27%, marking the third consecutive quarter of achieving strong double-digit growth. Growth for the year was driven by the Western Hemisphere and Asia where sales increased 13½% and 26%, respectively. Sales in Europe, the smallest of our Microelectronics’ markets, declined 1½%. While last year we initially saw growth in the macro side of the semiconductor market (digital displays, information storage, ink jet printing), we are now beginning to see growth across the whole spectrum of the market, including increased OEM activity and fab upgrades and production. We are well positioned to take advantage of this recovery with our leading edge products and by applying these products across the digital desktop. One of our strategies for this business is to reduce vulnerability to cyclical changes. We are working on several new initiatives, particularly breather filter sales to the thin film rigid disc market, which we hope will generate sales by the time the next downturn occurs in the semiconductor industry. Industry indicators support our current projection of low double-digit sales growth in this segment in fiscal 2005.

The consolidated operating profit as a percentage of sales declined to 17.5% from 17.9% last year.

In Life Sciences, overall operating profit was 20.6% compared with 20.9% last year reflecting a decline in BioPharmaceuticals operating profit margin partly offset by an improvement in Medical.

Within Life Sciences, Medical operating profit improved to 18.5% from 18.2% last year. Operating profit dollars increased by $6,388 or 11%. The improvement in operating profit reflects manufacturing-based cost reduction programs and synergies realized as a result of the reorganization of the Critical Care and Blood Businesses (refer to the Restructuring and Other Charges note accompanying the consolidated financial statements for discussion of actions taken in fiscal 2003) partly offset by a decrease in pricing. Operating profit in BioPharmaceuticals declined to 22.7% of sales, from 23.4% last year reflecting a change in product mix. Operating profit dollars increased $2,482 or 3%, reflecting increased sales (on a reported basis).

Overall operating profit margins in Industrial declined to 15.3% from 15.7% last year. General Industrial operating profit improved to 11.7% from 11.3% last year, while operating profit dollars increased by $10,733, or 16%. Aerospace operating profit declined to 24.5% from 28.4%, while operating profit dollars decreased $8,959 or 17%, reflecting lower military sales as discussed above. Microelectronics operating profit increased to 18.8%

from 17.1% last year, while operating profit dollars increased $10,373 or 37%. The increase in Microelectronics operating profit margin and dollars reflects the strong growth in sales as discussed above.

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Geographies:

The table below presents sales for the fiscal years ended July 31, 2004 and August 2, 2003 to unaffiliated customers by geography including the effect of exchange rates for comparative purposes.

	Fiscal 2004	Fiscal 2003	% Change	Exchange Rate Difference	% Change in Local Currency
Western Hemisphere	$ 667,535	$ 630,307	6	$ 3,251	5½
Europe	735,969	671,660	9½	81,496	(2½)
Asia	367,243	311,668	18	25,145	10
Total	$ 1,770,747	$ 1,613,635	9½	$ 109,892	3

By geography, sales in the Western Hemisphere increased 5½% year over year. Exchange rates increased sales by $3,251, primarily related to the strengthening of the Canadian Dollar, resulting in reported sales growth of 6%. Operating profit increased to 14.9% of sales as compared with 14.6% last year. Operating profit dollars increased $11,200, or 9½% reflecting the increase in sales.

In Europe, sales declined 2½% compared with last year. The decline in sales reflects the impact of the non-recurring Aerospace sales related to the Iraqi conflict, which were recorded in fiscal 2003. The strengthening of European currencies added $81,496 in sales resulting in reported sales growth of 9½%. Operating profit declined to 14.4% of sales from 15.9% last year, while operating profit dollars were flat. The decrease in operating profit margin primarily reflects a shift in product mix and the decline in Aerospace sales.

Sales in Asia increased 10% as compared to last year. The strengthening of Asian currencies added $25,145 in sales, resulting in reported sales growth of 18%. The increase in sales resulted from strong growth in General Industrial and Microelectronics sales as cited above. In addition, sales have been favorably impacted by a shift from the way FSG recorded sales through their U.S. and European manufacturing sites to the way Pall records sales through local sales companies. This shift resulted in sales being recorded in Asia that would have been recorded in the Western Hemisphere and Europe under the FSG methodology. Operating profit increased to 16.8% of sales from 16.6% last year, reflecting the strong sales growth as discussed above. Operating profit dollars increased $10,262, or 19½%.

General corporate expenses increased $5,405 compared with fiscal 2003, reflecting increased pension, consulting and insurance costs partly offset by savings achieved as a result of our cost reduction program.

Results of Operations 2003 Compared with 2002

Review of Consolidated Results

Sales for the fiscal year 2003 increased 25% to $1.61 billion from $1.29 billion in fiscal year 2002. Exchange rates increased reported sales in the year by $97,627, or 7½%, primarily due to the strengthening of the Euro and to a lesser extent the British Pound and Japanese Yen, partly offset by the weakening of the Argentine Peso. In local currency (i.e., had exchange rates not changed year over year), sales increased 17½%. Overall, pricing had a positive impact on sales, contributing 1% to our top line growth. For a detailed discussion of sales, refer to Review of Market Segments and Geographies below.

Compared with last years pro forma sales (which include FSGs sales for the nine months ended March 31, 2002), sales increased 8½% with all segments contributing to this gain. Growth was particularly strong in Aerospace (which did not benefit from the FSG acquisition), Microelectronics and BioPharmaceuticals. The pro forma sales growth is provided to give an indication of what comparable sales growth would have been had the acquisition occurred at the beginning of fiscal 2002. However, it is not necessarily indicative of what would have occurred if the acquisition had been consummated at that date due to many factors. These factors include different market approaches and routes to market (e.g., direct sales versus distribution), product rationalization and pricing.

Cost of sales in fiscal 2003, as a percentage of sales, was 50.2% as compared with 50.7% in fiscal 2002. The year over year comparison of cost of sales reflects the benefit of foreign exchange partly offset by the effect of FSG product margins. In addition, the year over year comparison reflects the inclusion of a one-time purchase accounting adjustment of $6,014 in fiscal 2002. We consider this item to be non-recurring in nature because, although we acquired the manufacturing operations of FSG, this adjustment was required by SFAS No. 141 as an elimination of the manufacturing profit of inventory acquired from FSG and sold in fiscal 2002.

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Selling, general and administrative expenses as a percentage of sales in fiscal 2003 declined .9% to 33.2% from 34.1% in fiscal 2002. The percentage improvement in selling, general and administrative expenses reflects synergies achieved related to our FSG integration efforts and the effects of our cost reduction programs, offset by the impact of increased bonus, pension, consulting and insurance costs, foreign exchange (estimated to have increased selling, general and administrative expenses by about $35,500 for the year) and expenses related to the integration of FSG. We have identified $30,000 in annualized cost synergies that we expect to realize by the end of fiscal year 2004 as a result of our integration of FSG. In the third quarter of fiscal 2003, we achieved the run rate to accomplish this objective. We are continuing to evaluate other potential cost savings as well. In fiscal 2003, pension costs increased approximately $4,000 (excluding increases related to FSG pension) due to the downturn in the equities market and decreased interest rates. In addition, insurance premiums increased approximately $2,000.

Research and development (□R&D□) expenses declined to 3.2% of sales from 4.2% in fiscal 2002, reflecting the elimination of shared research costs with V.I. Technologies (□VITEX□), partly offset by the impact of FSG□s R&D. As a result of the modification of our partnership agreement to eliminate shared research costs, the fourth quarter of fiscal 2002 included our final R&D payment to VITEX.

In fiscal 2003, we recorded restructuring and other charges of $47,524 reflecting the write-off of in-process research and development acquired in the FSG acquisition of $37,600, severance costs of $6,415, asset write-offs of $1,122, and other exit costs of $2,387. The fiscal 2003 charges were primarily related to the FSG acquisition and the realignment of our Life Sciences business (refer to the Segment Information and Geographies note accompanying the consolidated financial statements for further discussion of the reorganization of our Life Sciences business) including the transfer of Medical manufacturing from Ireland. In fiscal 2002, we recorded restructuring, other charges and adjustments of $32,836, reflecting severance costs of $4,134, asset write-offs of $514 and other exit costs of $679, a one-time purchase accounting adjustment of $6,014 included in cost of sales, an addition of $7,000 to a previously established environmental remediation reserve and a $14,495 write-down of two strategic investments.

The details of the charges for fiscal 2003 and fiscal 2002 can be found in the Restructuring and Other Charges note accompanying the consolidated financial statements. We expect to recover the costs of the restructuring-related charges within two years from the date of the charge.

Net interest expense increased $10,107 in fiscal 2003 as compared with fiscal 2002 reflecting increased borrowings (during the first nine months of fiscal 2003) to fund the FSG acquisition partly offset by the effect of our □receive fixed, pay variable□ interest rate swaps. Refer to the Financial Instruments and Risks and Uncertainties note accompanying the consolidated financial statements for a discussion of our interest rate swaps.

In fiscal 2003, the tax rate was 27.9% due to the non-deductibility of the in-process research and development charge taken in the first quarter. The underlying effective tax rate for fiscal 2003 was 22% compared with 24% for fiscal 2002. The improvement in the underlying effective rate in fiscal 2003 was a result of fine-tuning our tax planning strategies in the first quarter of fiscal 2003.

Net earnings in fiscal 2003 were $103,202, or 83 cents per share, compared with net earnings of $73,234, or 59 cents per share in fiscal 2002. In summary, net earnings in fiscal 2003 benefited from organic sales growth, the impact of the FSG acquisition, the controlling of expenses and the benefit of foreign exchange rates, partly offset by the effect of lower margins on sales of FSG products, restructuring and other charges and increased interest costs related to borrowings to fund the FSG acquisition. We estimate that foreign exchange translation added 7 cents to earnings per share for the year.

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Review of Market Segments and Geographies

Market Segments:

The table below presents sales by market segment with the prior period restated to reflect the Life Sciences reorganization (as discussed in the Segment Information and Geographies note accompanying the consolidated financial statements), including the effect of exchange rates for comparative purposes.

	Fiscal 2003	Fiscal 2002	% Change	Exchange Rate Difference	% Change in Local Currency
Medical	$ 317,051	$ 311,037	2	$ 13,960	(2½)
BioPharmaceuticals	351,874	293,809	20	22,073	12½
Total Life Sciences	668,925	604,846	10½	36,033	4½
General Industrial	595,210	407,382	46	46,026	35
Aerospace	185,431	158,753	17	8,331	11½
Microelectronics	164,069	119,839	37	7,237	31
Total Industrial	944,710	685,974	37½	61,594	28½
Total	$ 1,613,635	$ 1,290,820	25	$ 97,627	17½

The table below presents estimated pro forma sales growth, based upon an estimate of FSG sales in each of our segments for the nine months ended March 31, 2002 for comparative purposes. The pro forma sales growth is provided to give an indication of what comparable sales growth would have been had the acquisition occurred at the beginning of fiscal 2002. However, it is not necessarily indicative of what would have occurred if the acquisition had been consummated at that date due to many factors. These factors include different market approaches and routes to market (e.g., direct sales versus distribution), product rationalization and pricing.

	Fiscal 2003	Fiscal 2002 (Pro Forma)	% Change	Exchange Rate Difference	% Change in Local Currency
Medical	$ 317,051	$ 311,037	2	$ 13,960	(2½)
BioPharmaceuticals	351,874	308,406	14	22,073	7
Total Life Sciences	668,925	619,443	8	36,033	2
General Industrial	595,210	562,630	6	46,026	(2½)
Aerospace	185,431	158,753	17	8,331	11½
Microelectronics	164,069	143,330	14½	7,237	