

INTERIM RESULTS 2014/2015

FULL TRANSCRIPT

SLIDE – INTERIM RESULTS 2014/15

SLIDE – CAUTIONARY STATEMENT

SLIDE – PHILIP BOWMAN

Ladies and gentlemen, good morning and welcome to the 2015 interim results presentation for Smiths Group. Before I begin, can I ask you to check that your wireless devices are turned off?

As usual Peter Turner, our Finance Director, is alongside me. However, this will be his last appearance here as he will step down on 24 April. Although we are well advanced with a search for his successor, we may not have someone on board by that time. So we announced this morning that Rob White will be appointed Interim CFO to cover any transition period. Rob has been VP of Finance for Smiths Medical for six years and he will have a handover period with Peter. I would like to take this opportunity to thank Peter for his valuable contribution to Smiths Group and wish him every success and happiness in the next stage of his career.

The divisional presidents and senior members of the corporate team are seated in the front row. All of the team will join Peter and me in answering your questions at the end of the session.

SLIDE – AGENDA

I will start by giving a brief outline of the results before handing over to Peter to review the financials in greater detail. Each of the divisional presidents will then present their results before I conclude with our priorities and outlook for the rest of the year.

SLIDE – RESULTS OVERVIEW

So now to today's results.

Revenue grew by 1% on an underlying basis but foreign exchange continued to hold back overall reported revenues which declined by 2%.

Headline operating profit was down 3% on an underlying basis mainly due to Detection and Interconnect. Overall profit performance was in line with our budget expectations although the divisional mix was a little different.

Earnings per share declined 3% but operating cash conversion remained strong at 88%.

The Board has increased the interim dividend by 2% to 13 pence. As I said at the year-end, in order to underpin progressive returns to shareholders, the Board has agreed to exercise flexibility in applying the 2.5 times cover to take account of short-term impacts such as foreign exchange. We expect to rebuild cover over the medium term.

Return on capital fell 120 basis points to 15.4%. This measure is calculated on a 12-month basis and so the decline mainly reflects one-off charges in Detection last fiscal year. Returns should improve as these charges drop out of the 12-month rolling period.

Our restructuring programme, "*Fuel for Growth*", is on track to deliver £60m of savings by the end of 2017. We have delivered £20m of annualised savings since its launch 18 months ago. These savings are earmarked to provide the 'fuel' for investment in growth projects.

With this in mind, we have launched a new cross-divisional initiative designated "*Engineered for Growth*" to provide fresh momentum in four key growth areas: sales & marketing effectiveness, quality improvement, product innovation and expanding our business presence in China. This focus will help accelerate divisional growth in

each of these priority areas through sharing of best practice, improving our capabilities and investing in key resources. I will cover this in more detail later this morning.

SLIDE – DIVISIONAL PERFORMANCE HIGHLIGHTS

I will now provide a brief overview of divisional performance.

Smiths Medical saw strong growth which reflected its consistent investment over recent years in infusion pumps as well as a targeted sales approach that drove some excellent results. We also saw a recovery in disposables sales following the distributor destocking in the first half of last year.

John Crane delivered a resilient performance which benefited from its focus on aftermarket services for our rotating equipment customers. The upstream business faced a slowdown in customer demand because of the lower oil price while our first-fit OEM business also started to soften.

The action plans in Smiths Detection are beginning to stabilise performance, but trading conditions remain challenging with volume and price pressure. The benefits of our actions have not yet fed into these results but looking to next year, the order book is stronger with recent contract wins and the cost savings will start to bear fruit.

Smiths Interconnect also faced tough trading due to the phasing of certain programmes and some delays in customer spending – particularly in telecoms. We saw strong growth in data centres offset by challenging conditions in telecoms and connectors.

Flex-Tek delivered another solid performance with growth in residential construction, specialty heating elements and in hoses for aerospace and automotive applications. Increased investment in marketing and new products held back margins slightly.

SLIDE – PROMOTING RESPONSIBILITY: DELIVERING CONTINUED IMPROVEMENTS IN KEY METRICS

Turning now to our safety and environmental record.

We have made good progress over recent years in delivering improvements in our key safety metrics. Although the recordable incident rate rose slightly in the period, largely due to John Crane, more than 80% of our sites have been incident free since the beginning of the year.

I have long highlighted the importance of tracking leading edge indicators in driving further improvement. And three years ago we introduced a leading safety activities programme designed to improve the safety culture, engagement and reduce injury risks. Our full year goal is to complete at least of 90% of these activities with a mid-year target of 45%. For this year, we are already at 57%

In terms of environmental metrics, we have again recorded further improvements on energy, greenhouse gases, water and waste. We are targeting a 15% reduction in these by the end of FY18 – except for water usage where the target is 10%. We are generally making good progress in all of these except energy, whose consumption has been affected by lower winter temperatures. We expect to make further progress as we continue to simplify our footprint and invest in enhanced manufacturing processes and more energy-efficient plant.

So with that introduction, I will now hand over to Peter.

SLIDE – PETER TURNER

Thank you Philip and good morning everyone.

As you know this is my last results presentation at Smiths and I would like to thank you all for your engagement and support over the past five years. I would also like to extend my thanks to the team at Smiths and wish them well for the future.

Now turning to the business of the day.

SLIDE – HEADLINE PROFIT PROGRESSION 2014 to 2015

I will start by looking at the main drivers of the profit progression for the Group as a whole.

Starting with last year's PBT of £215m. Volume growth added £4m, with growth in Smiths Medical partially offset by declines at Interconnect and Detection.

Adverse price and mix in Medical, Detection and Interconnect offset gains in John Crane to result in a £4m reduction.

Cost inflation was a £13m headwind, principally driven by employment-related cost increases in our larger divisions.

We achieved more modest net operational efficiencies of £1m. Outside the restructuring programme, progress was more muted with the weaker volume at Interconnect and Detection, but also due to some factory inefficiencies at John Crane.

We invested an additional £8m with a combination of increased R&D and sales & marketing initiatives. As planned, these were funded by cost savings from our *Fuel for Growth* programme.

Net foreign exchange was a £1m negative – with £6m from translation partially offset by transactional gains.

Finally, interest was a £6m benefit following the repayment of the US\$250m bond in May last year.

We have included the usual translation foreign exchange “ready reckoner” on the slide, and the divisional causals are also in the appendix.

SLIDE – GROUP CASH CONVERSION

Turning now to cash conversion. At 88% – it is slightly better than last year, and a continuation of our strong track record in this area.

Capital expenditure increased slightly – driven mainly by investments to restructure the business as part of “*Fuel for Growth*” and some growth investment in various divisions including manufacturing capacity expansion in John Crane.

The capitalised development costs fell as we are now expensing more of our Detection R&D spend than in the past, as well as some of the larger programmes such as XCT coming to the end of their development phase.

Overall, this is a consistently strong cash performance and cash generation remains a key focus for the Group.

SLIDE – RECONCILIATION: HEADLINE OPERATING PROFIT TO STATUTORY PROFIT

I’ll now give some detail on the items that reconcile headline operating profit to the statutory numbers.

Starting with the exceptionals at the operating profit level which amounted to a net charge of £19m in the period.

The £19m restructuring charge relates mainly to the *Fuel for Growth* programme. I will give some more detail on this shortly.

There was also a £12m charge associated with the John Crane Inc. asbestos litigation. As we said last year, this has now reverted to the trend of typically around £20-25m a year.

We also rolled forward the provision for Titeflex litigation for product claims. As with John Crane Inc, this is a rolling 10-year discounted provision which is reviewed every six months.

We also had a £13m gain from the changes we made in August last year to the US pension plans – as I described in the year end presentation back in September.

The ongoing amortisation of acquired intangibles was £18m. In addition, we have a £26m goodwill impairment charge for John Crane Production Solutions, the small upstream business that supplies products and services for artificial lift. This impact has been triggered by the significant drop in oil prices, which has adversely affected our upstream customers and their investment plans.

SLIDE – FUEL FOR GROWTH – DRIVING EFFICIENCIES TO SUPPORT GROWTH INVESTMENT

Philip mentioned that our *Fuel for Growth* programme is on track and this slide presents the costs and savings by division.

The two columns on the left-hand side set out the costs and annualised savings incurred to date and on the right are the expectations for the whole programme. The overall expectations of savings and costs are unchanged but we have slightly increased anticipated savings in the current year to approximately £25m – slightly ahead of the original plan.

The savings are beginning to come through in the divisions... although the Smiths Detection savings will not start to accrue until later in the second half with the closure of three North American sites.

To date, we have incurred costs of £44m which have been treated as exceptional. This has delivered annualised savings of £20m so far.

SLIDE – PENSIONS: DEFICIT INCREASES £96M TO £338M ON LOWER BOND YIELDS

Turning now to pensions, you will see the net deficit has risen £96m since July last year to £338m. This has been driven mainly by a reduction in bond yields in the UK

and US as well as a change in mortality assumptions in the US plans – based on the latest published data.

Asset returns, along with cash contributions to the schemes, largely offset the increase in liabilities.

We continue to invest in UK gilts in the escrow which are also shown here at £139m. Of course, you'll know that the net deficit is higher on both an actuarial and buy-out basis.

We are expecting cash contributions for the year to total around £80m – in line with last year as detailed on the slide. In addition, we continue to invest £24m into the escrow.

I should also remind you that the triennial review for the two UK schemes will begin at the end of this month and will likely conclude next year.

SLIDE – GUIDANCE – FINANCIAL ITEMS

So, finally looking ahead to the rest of the year. Here is a summary of some of the key financial items.

We expect the headline tax rate to be in the range of 26-27% for the year and cash conversion will be between 85 and 95% - slightly below our usual run-rate reflecting our plans to invest more in capex to restructure and grow the business.

I have already covered the pension contributions.

At current exchange rates, we foresee net debt of approximately £850m at the year-end, subject to M&A activity and future FX movements.

I will now hand you back to Philip.

SLIDE – PHILIP BOWMAN

Thank you, Peter.

SLIDE – ENGINEERED FOR GROWTH

At previous meetings I have emphasised the need to improve revenue growth. Reviewing our progress over the past seven years, I think we have made good headway in improving margins, cash conversion and returns on capital. We have also consistently increased our investment in new product development and in building our presence in high growth markets.

However, the difficult economic environment of recent years has undoubtedly made revenue growth more challenging.

To give fresh impetus to our top-line, we have launched a cross-divisional programme called “*Engineered for Growth*”. Unlike “*Fuel for Growth*” which focuses on cost savings to fund investments, this initiative is about gaining real momentum in four specific areas: sales & marketing excellence; quality improvement; customer-led innovation; and expansion in China. We are encouraging cross-divisional collaboration and the sharing of best practice. We are also improving our capabilities and increasing investment and resources in targeted areas.

SLIDE – ENGINEERED FOR GROWTH

I will give an outline of our four priority areas in turn.

As an engineering business, we have taken great pride in delivering technological solutions but less so in satisfying customer needs. To address this and to become a more market-led business, we are upgrading our sales and marketing capabilities. A Sales & Marketing Council has been established to improve customer insight, market segmentation and sales pipeline management with a common set of leading indicators.

A newly launched global Sales Academy delivered its first training course for US-based managers in January. Similar sessions will be held in Europe and Asia.

We also see very real opportunities to improve quality. This is not to say our products are poor, but to acknowledge that we can lower the cost of poor quality by reducing defects, re-work and scrap. Getting it right first time will improve our responsiveness and customer satisfaction. Definitions for calculating the cost of quality and tracking improvements have been agreed and we are already seeing good progress in several divisions. Aside from the direct financial benefits to margins, there is of course the equally important long-term benefit of enhanced customer satisfaction.

SLIDE – ENGINEERED FOR GROWTH

We have consistently increased our spend on new product development over recent years. Our challenge is to generate an appropriate return on the investment and accelerate our speed to market. Again, we need to become more customer-led. We have held our first Innovation summit to ensure that technical knowledge is shared more productively and that the best ways to prioritise our spend more effectively are in place. Another key area is talent development, to ensure we attract, retain and encourage the best engineers.

The importance of China to any business with global aspirations is clear. However, it is a market we were slow to enter. Last year, Smiths revenues in China totalled a modest £113m, with our substantial investment clearly not yet adequately reflected in revenue or profit growth. For this to happen, we need to change our business model to allow divisions to work together more closely in the Chinese market and truly leverage the strengths of Smiths. Our plans for driving this growth there are now taking shape, albeit faster in some divisions than in others.

We are also in the process of making a small number of leadership appointments in key areas such as legal and government affairs as well as a senior representative for the whole of Smiths in China. It is a bold departure from our traditional organisation structure but one that I and the Board believe is necessary if Smiths is to raise its profile and grasp more effectively the opportunities in this huge market. Each of the

divisions are now delivering their strategic plans for China. John Crane, for example, is undertaking a major long-term investment in its manufacturing and service centre in Tianjin.

Becoming a world class engineering company must be our aim. You will hear some examples of these initiatives in action during the divisional reviews.

So with that brief overview, I will now ask Duncan Gillis to take you through John Crane's results and outlook. Duncan...

SLIDE – DUNCAN GILLIS

Thank you Philip, and good morning.

SLIDE - JOHN CRANE: RESILIENT PERFORMANCE REFLECTS STRENGTH OF AFTERMARKET BUSINESS

Overall, John Crane posted solid results. Underlying revenue grew 1%. However, excluding upstream oil services, revenue increased 3%. The growth was driven mainly by the strong aftermarket rotating equipment business. This was partially offset by a slight decline in first-fit rotating equipment sales and the weaker upstream oil services segment. Headline operating profit margin was maintained at 23.2%.

In total, aftermarket revenues grew 3% on an underlying basis. However, when upstream oil services sales are excluded, revenues rose 7% illustrating the strength of our rotating equipment business. Global energy demand has remained robust and many refineries are operating at full capacity. The business continues to renew and win large contracts. A couple of recent wins include a global agreement with a major Saudi petrochemical company and a gas seal reliability management contract in Singapore.

Upstream oil services, which represent a relatively small part of our business and are reported as part of our aftermarket business, declined as the low oil price put pressure on upstream customers.

Underlying sales of first-fit original equipment decreased 2% as market pressures in Europe were only marginally offset by demand in North America. Although we are seeing some delays or cancellations, we continue to increase our share of new downstream business. These included an exclusive agreement for part of Kuwait's Clean Fuels Project to upgrade two refineries. This is one of the largest projects John Crane has won in the past 10 years.

SLIDE – JOHN CRANE: A STRONG PLATFORM FOR VALUE CREATION

Constraints on our rotating equipment production, reported last year, have been resolved through increased machining capacity and output in our lower cost factories resulting in less use of outsourced manufacturing.

Emerging markets continue to offer a strong platform for growth, with revenues up 11%. They now account for 25% of John Crane sales. Mexico and Nigeria saw particularly strong increases.

We continue to make good progress with our cross-selling initiative to promote our broader portfolio of filtration systems, bearings and couplings. For example, we've invested in capabilities to service bearings at sites in Canada, Germany, Dubai and Singapore.

Our investment in innovation rose 28%, underlining our commitment to meet future market needs. For instance, we introduced the AURA 220, the first of a new generation of advanced gas seals that will help customers cut operating and transaction costs. We've also accelerated our new product development process, and I have more confidence than ever in our broad pipeline of exciting new products.

We continue to strengthen our aftermarket services in strategic locations around the world and in the past two years have upgraded about 10% of our 230 service centres. Singapore, Malaysia, Dubai, Saudi Arabia, Egypt and Kuwait have all seen centres opened or upgraded.

SLIDE – JOHN CRANE: OPERATING IN A LOW OIL PRICE ENVIRONMENT

John Crane's strong focus on the aftermarket should support a continued resilient performance in the current low oil price environment. The predictable revenue from our installed base supports an aftermarket that now accounts for almost two thirds of total sales. Our customers continue to depend on us for services and repairs provided by our aftermarket business.

Furthermore, our bias towards mid and downstream applications in oil and gas also helps, with refineries and petrochemical plants running at full capacity because of the low-priced feed stocks.

In addition, we have a relatively limited exposure to upstream applications, which has been hardest hit so far by the low oil price.

We also have experience with managing the business through cyclical downturns and have already identified a comprehensive action plan to preserve margins in this challenging environment. These plans include a cost-reduction programme to address discretionary spend and overheads. We typically operate with over 20% of our machining capacity outsourced and are able to pull much of this back in-house. Our focus on aftermarket services means that we should see a positive mix dynamic as the lower margin OEM business typically comes under the greatest pressure versus our aftermarket business.

John Crane is prepared for the ups and downs of the business cycle. While we are not immune, I believe our robust business model means that we are better placed than many to endure a lower oil price environment.

SLIDE – JOHN CRANE: OUTLOOK

At constant currencies, trading performance in the second half may be slightly lower than last year as our upstream segment contends with the difficult market conditions caused by weak oil prices. But I expect mid- and downstream orders to show resilience and our cost saving initiatives should help to underpin operating profit

margins. The current order book is solid, but project delays are possible in the current environment.

I will now hand over to Jeff.

SLIDE – JEFF McCAULLEY

Thank you Duncan and good morning.

SLIDE – SMITHS MEDICAL: STRONG GROWTH FROM FOCUS ON INFUSION AND DISPOSALS RECOVERY

I am very pleased to share our results with you today. We delivered strong underlying growth in the first half, building on the momentum of the previous six months. Growth was driven by our focus on infusion products and a recovery in disposables, helped by competitor disruption and a soft comparator period. The figures provide early support for our strategy of accelerating new product development, improving sales & marketing impact, and improving our cost structure. While there remains a lot to be done, I am delighted with our initial execution.

Headline operating profit rose 9% on higher volumes, tight cost controls, and the initial benefits of restructuring. Margins increased to 19.0%.

Medication Delivery sales rose 19% on strong performance in ambulatory infusion, particularly the continued success of our CADD product line which was featured in a targeted sales initiative. This growth also reflects the launch of a new pump in China.

Vital Care underlying sales rose slightly, despite flat procedure volumes and price pressures in developed countries. Our key product lines all grew by varying degrees despite difficult market conditions, but helped by a soft comparator period marked by distributor destocking.

Underlying sales of Safety Devices increased 3% as PIVC and safety needles returned to growth with targeted account conversion programmes and improved sales and marketing execution, also helped by a softer comparator period.

SLIDE – SMITHS MEDICAL: BUILDING A PLATFORM FOR SUSTAINABLE GROWTH

I am confident we are building a solid foundation for a more competitive, higher growth, higher margin business. Investment in new products continues to rise and we are prioritising products that we expect to deliver the strongest returns. Overall R&D investment rose 13% to 5.3% of sales.

Sales of the CADD Solis PIB pump grew sharply and Medfusion 4000, Jelco IntuitIV and ViaValve – products all launched in the last 2-3 years – have performed well, supporting our thesis for additional investment in new product development. Our new product pipeline will include key launches in vascular access, temperature management, pain management, airway, and infusion over the next 2-3 years.

We are also maintaining our investment levels in the faster growing emerging markets. In China, our focus on key product registrations, improved sales alignment and incentives, and recent new product launches delivered a step function improvement in results, with sales in China up 17%. In India, our transition to a direct selling model helped increase sales by 43%, and we continued to deliver healthy revenue growth across our South East Asia distributor markets.

At now around 10% of our total revenues, the emerging markets offer meaningful growth potential to counter the sluggish markets of more developed countries. So, we will continue to focus on expanding our presence and improving our performance in these key markets.

We continue to see real opportunities to improve productivity and service levels. We are in the first year of a multi-year programme to optimise our manufacturing network and footprint, streamline supply chains, and improve vertical integration, as previously highlighted. More recently, we have begun to implement an organisational redesign to reduce management layers and increase spans of control – speeding decision making and reducing SG&A. This will have a more immediate impact than our network optimisation and is already providing benefit.

SLIDE – OUTLOOK

Looking ahead, we expect growth to slow in the second half against last year's strong comparator period. Medication delivery should continue to perform well on the strength of recent product launches, and our continued focus in sales and marketing. Performance, however, is likely to revert to levels more in line with market growth. Vital Care and Safety will be more challenged against last year's strong second half performance. We are increasing our investments in new product development, especially in these segments, to improve our competitiveness and return to market growth rates in the mid-term.

Despite ongoing price pressures and transaction FX headwinds, margins are expected to show modest improvement for the full year, reflecting the benefits of operational efficiencies and our restructuring.

I will now hand over to Richard.

SLIDE – RICHARD INGRAM

Thank you Jeff and good morning.

SLIDE – SMITHS DETECTION: TOUGH TRADING ENVIRONMENT; ACTIONS ARE STABILISING PERFORMANCE

In an increasingly competitive market, Smiths Detection has implemented a range of initiatives to reshape the business and return it to profitable growth. While progress has been made in key areas, sales and profits declined in the first half as trading remained extremely tough. A number of major programmes were also delayed, with a corresponding impact on performance in some of our end markets.

Underlying revenue fell 5% while margins were squeezed by lower volumes, price pressure and adverse mix. These more than offset the benefit of our stronger control measures, especially in programme management.

Transportation, which accounts for about half our revenues, fell 5% amid challenging market conditions, particularly in the US. However the order book has markedly improved with major contracts from Abu Dhabi, Heathrow and Manila airports -- ranging from hold baggage X-ray systems to eqo body-scanners.

Ports and borders, representing around 15%, declined in EMEA and North America because of lower volumes and increased price pressure. But Latin America remains a strong growth prospect. Orders in the period here included cargo inspection systems worth some £14m for Nicaragua and Paraguay.

Underlying military revenues grew slightly as defence budgets remained constrained. Long term contracts underpin this business and we secured an additional order of more than \$9m from the US Department of Defense.

Critical infrastructure performed well, rising 36% on the back of strong US and Middle East sales. The New York Court Authority ordered networked X-ray equipment for 35 courthouses and our X-ray systems are now used to safeguard a range of Saudi Arabian government ministries and other key buildings.

SLIDE – SMITHS DETECTION: BUSINESS IMPROVEMENT PLAN IS GAINING TRACTION

The business recovery plan I outlined here last September is showing signs of building momentum.

The aftermarket is a strong profitable revenue generator and – with an 11% increase in the first half - now accounts for more than a third of overall revenue.

Recent contract wins such as Heathrow and Abu Dhabi will help to expand our installed base. They will be supported by multi-year service agreements.

The growing importance of emerging markets is also underlined by the completion of a major cargo handling order for the new Al Maktoum International Airport in UAE and the Manila Airport contract.

Greater focus on building a culture of execution and accountability has helped minimise completion problems in our major programmes. We have introduced new standard processes for all projects which are scrutinised monthly by senior managers.

To reduce our global footprint, three North American sites will close by the end of April and their activities are being consolidated among existing plants. Our product portfolio is also being streamlined with R&D focused more tightly on a smaller number of potentially more attractive prospects.

Reflecting this, company-funded R&D fell to 6% of sales as some major capitalised development programmes, such as XCT, concluded and we concentrated on developing products more closely aligned with market and customer needs.

New products, geared towards transportation and critical infrastructure in particular, include Checkpoint.Evo, a software solution that greatly enhances airport inspection and integration capabilities. And the new HI-SCAN system was launched to meet global requirements for 100% inspection of air cargo on passenger flights.

SLIDE – SMITHS DETECTION: OUTLOOK

Looking at the rest of the year, the rate of sales decline in the first half is likely to persist. However, recent contract wins and the strengthening order book are expected to support improved revenue from FY16 onwards. Headline operating margins should recover in the second half against a comparator period affected by one-off charges. Compared with the first half, like-for-like margins in the second half will continue to be relatively soft in certain markets, partially offset by the benefits of cost reduction initiatives. Margins in the medium term are expected to improve as the product initiatives and other costs savings take effect.

I will now hand over to Roland for Smiths Interconnect.

SLIDE – SMITHS INTERCONNECT: ROLAND CARTER

Thank you Richard and good morning.

SMITHS INTERCONNECT: PERFORMANCE AFFECTED BY TOUGH TRADING CONDITIONS

Smiths Interconnect's reported and underlying revenue fell by 6%. This is mainly due to delays in customer spending, and programme slowdowns in many of our end markets. And this was only slightly offset by growth in data centres.

Margins came under pressure because of the negative operational gearing from the lower volumes. Revenue also declined in the higher margin sectors causing adverse mix. One of the challenges we face is that our business is becoming more seasonally biased to the second half. This makes managing cost absorption throughout the year more difficult.

Looking at our business units: underlying revenues at Connectors fell 4%. This was mainly due to export licence delays affecting European defence customers and lower demand from two large medical customers.

However, revenues in the second quarter improved slightly on the back of a recovery in defence and medical, and strong demand for our new semiconductor test products. And at Connectors, we have an improving order book for the second half.

Microwave sales decreased 12% as our US network operator customers slowed the rate of capex on 4G deployments, reducing demand for our wireless telecoms products. As well as this, a change in timing of certain orders for our high performance cable assemblies caused a large reduction in first-half sales of test equipment.

Underlying revenue at Power rose 4% as data centre sales grew. This was particularly the case in the US where we won contracts with existing colocation customers, and attracted new enterprise customers in financial services and IT. The industrial product and power protection markets remained soft, especially in US telecoms again as customer spending slowed.

SLIDE – SMITHS INTERCONNECT: FOCUSED ON GROWTH INITIATIVES AND EFFICIENCIES

R&D investment remained at 6.5% of sales with the customer-funded portion flat, in line with stabilising defence budgets. We continue to focus our new product development spend on markets with higher growth potential. For example, revenues from our new semiconductor test socket are growing strongly and this month we launched a new piece of test instrumentation for analysing cables and antennas.

As part of the Group's focus on quality, we have analysed the main causes of poor quality and we are working on our action plans that should drive a significant improvement in this area.

We continue to increase our investment in emerging markets, particularly China. However, during the period, revenues were impacted by the timing of certain test equipment orders that benefitted the prior year. In addition, the Chinese commercial aircraft programme was delayed – not yet moving from design and qualification to the production phase.

We continue to work hard at driving cost efficiencies in procurement, value engineering and lean manufacturing.

SLIDE – INTERCONNECT: OUTLOOK

Looking to the rest of the year, we expect to see continued strength in data centre and semiconductor test. Other commercial markets, such as medical, also show positive trends. Defence is starting to display signs of modest growth. Although individual programme dynamics will be a greater influence on our future performance. US wireless operators are likely to continue restricting infrastructure investment. But there are new network deployments in Asia and Australia that provide opportunities.

Overall, we expect that the second half performance will be better than the first but will remain below prior year levels.

Thank you. I'll now hand over to Tedd.

SLIDE – FLEX-TEK: TEDD SMITH

Thank you Roland and good morning.

SLIDE – FLEX-TEK: GROWTH FROM US CONSTRUCTION & SPECIALTY HEATING; STRONG MARGIN BOOST

Flex-Tek's revenues grew again, helped by a further improvement in the US home construction market, growth in sales of specialty heating elements, and aerospace and automotive hoses. Despite increased volumes, margins were slightly down because of higher investment costs in marketing and product development.

Fluid Management revenues rose 1% on growth in commercial airframe and automotive applications. This was partially offset by lower revenue from satellite launch vehicles and military gas turbines.

Construction sales rose 4%, supported by improved demand for HVAC ducting and flexible gas piping products as well as an increase in single family home starts.

Revenues from Heat Solutions rose 13% on the back of increased sales of specialty heating elements and improvements in the household appliances sector.

Flexible Solutions saw revenue decline 2% mainly because of a very strong prior year comparator period when new sleep apnoea products were launched. Floorcare remained weak.

SLIDE – FLEX-TEK: INCREASED INVESTMENT IN NEW PRODUCTS AND SALES & MARKETING

Our increased R&D investment – up 23% – is proving highly effective at gaining approvals on products for next-generation airplanes and new heating technologies.

Healthy growth in Fluid Management is generated by demand from quieter, more fuel-efficient aircraft for our light-weight, ultra-strong hoses. Sales opportunities for our specialty heating elements continue to emerge in higher margin markets. Our investment in additional sales and marketing capabilities is effectively complementing the proven strength of the businesses and management.

We have also developed investment plans to expand our facility in Laconia to support the anticipated growth in aerospace applications. In addition, it will deliver efficiencies and support quality improvements. The expansion will also allow us to enhance our dedicated R&D resource to really drive innovation.

SLIDE – FLEX-TEK: OUTLOOK

Looking to the rest of the year, US residential housing should show steady improvement. Commercial aerospace demand will remain muted until the new programmes that need our Fluid Management products start to ramp up again.

A general improvement in economic conditions is expected to benefit Heat Solutions while floorcare is likely to remain weak.

Overall, I believe we will continue to make steady progress.

I will now hand you back to Philip.

SLIDE – SMITHS GROUP – OPERATIONAL PRIORITIES FOR 2015

Thank you Tedd. Looking ahead, we remain committed to building on the progress already made in rebalancing the Group towards commercial and higher growth markets whilst reducing dependence on government contracts and developed economies.

We will also focus on successfully executing the divisional improvement plans through greater investment in growth drivers, many described here this morning. These include increased spend on new product development, sales and marketing

and expansion into new markets. We will also focus on driving improvements in quality and service to better meet and indeed exceed our customers' expectations.

Over the past seven years, value engineering, site rationalisation and organisational change have all helped drive operational efficiencies across the Group. That said, significant opportunities still exist through the Fuel for Growth programme. As I said earlier, this has already generated £20m of annualised savings and most of the projected £60m savings are earmarked for funding the investment capacity to accelerate our revenue growth.

In terms of outlook, we expect to deliver improved underlying performance in the second half. Smiths Detection will benefit from a soft prior year comparator affected by one-off charges. John Crane will probably see a slight easing in trading as upstream customers adjust their expenditure to the lower oil price and with the potential risk of deferred OEM projects. The growth rate at Smiths Medical will slow versus the strong first half performance. Smiths Interconnect expects some recovery but will not achieve the revenue and profit of last year. Flex-Tek should continue to perform well.

We remain focused on investing to drive sales growth in what are attractive long-term markets, and on delivering further operational improvements, while generating strong cash conversion and returns.

SLIDE – QUESTIONS AND ANSWERS

That concludes today's presentation. Peter and I, along with other members of the senior management team, would be pleased to take any questions. In terms of housekeeping, may I just remind you to wait for the microphone and preface your questions with your name and the company you represent?

Once again, thank you for joining us this morning.

Martin Wilkie - Deutsche Bank Research - Analyst

Martin Wilkie, Deutsche Bank. A question; on John Crane you've given quite detailed views on the growth outlook and margin resilience. But on pricing in particular, it sounds like mix is going to be good because of the aftermarket, but on pricing obviously we are hearing from elsewhere in terms of requests, almost sort of blanket requests from oil and gas companies about price down.

Just a comment on what you're seeing and how you react to that, and how you deal with that would be very helpful. Thank you.

Philip Bowman - Smiths Group plc - Chief Executive

Okay. I will pass that one I think to Duncan.

Duncan Gillis - President, John Crane

Yes, Martin, in the aftermarket business we have customers asking for price concessions, but we're able to explain our value proposition in terms of driving productivity in this environment, maintaining their operations, and so we're able to push those off quite effectively.

In the upstream business it's a little bit different, and you read a lot about, particularly in North American shale, lowering the break-even point. So there, we're trading off volume for pricing in order to continue to grow share in this environment, prepare ourselves for the next step as things come back and we start to see growth.

And then in our rotating equipment OEM business, we really haven't seen a lot of changes from historical. There's pretty good discipline in the market. Project startups are pretty robust right now; we're seeing some cancellations, but not a lot. Deferrals are occurring but again not a lot; we're a little bit concerned about that, going forward. So nothing unique in terms of price pressure there.

Philip Bowman - Smiths Group plc - Chief Executive

Duncan, thank you for that.

Nick Wilson - *Espirito Santo Investment Bank - Analyst*

Nick Wilson, BESI. Staying with John Crane, one question please. You mentioned the small size of John Crane production solutions, but I'm just wondering any kind of quantification, 5% of divisional sales, 10%, just to give a feeling for that?

And then I understand that Detection is a lumpy business, so is there any assistance on what the total order book is now? Or alternatively, if you can't give that, a rough kind of growth projection just particularly in terms of top-line delivery of major contracts as we go through 2016, please?

Philip Bowman - *Smiths Group plc - Chief Executive*

Nick, I'll first refer to Duncan in terms of the upstream component, please.

Duncan Gillis - *President, John Crane*

So Nick, as we've talked previously, our upstream business is about 15% of total revenues, midstream is about 15%, and downstream is 70%. We haven't historically disclosed production solutions specifically as a piece of that upstream, but it's not more than half of that.

Philip Bowman - *Smiths Group plc - Chief Executive*

Duncan, thank you for that. In terms of Detection, one observation that I have made in a number of presentations is that we've been very focused on driving the proportion of our revenue that comes from recurring aftermarket contracts in the same way, of course, as we've seen with John crane.

And I think in the period I've been with Smiths, that's gone from high single digits, we're now over 30% of our revenue comes from that. So while the business is still lumpy, we're doing a lot of work to try and reduce the extent of that.

In terms of growth for next year, Richard, I'm not sure you probably want to commit yourself to that?

Richard Ingram - *President, Smiths Detection*

I can give a bit of flavor --

Philip Bowman - *Smiths Group plc - Chief Executive*

A little bit of flavor.

Richard Ingram - *President, Smiths Detection*

Yes, good morning again. So just to give you some calibration, obviously absolute numbers are a little more difficult to talk about. You'll have seen in the press the scale of the Abu Dhabi announcement, it's a multiyear program, but obviously that's significant.

The objective we set ourselves against our internal budget was to drive our order intake at 110% of the budget, and it's safe to say we're in the first half we did very well against that objective. So that does tee up 2016 for some year-on-year growth, albeit you'll be wanting -- you've seen some decline in the first half. But I think it's safe to say we'll see a good chunk of that revenue coming through into executable programs in the first and second half of 2016. And we did okay on order intake, and we still have more to go at.

Philip Bowman - *Smiths Group plc - Chief Executive*

Richard, thank you for that.

Glen Liddy – *JPMorgan Cazenove - Analyst*

Glen Liddy, JPMorgan Cazenove. On John Crane, you said that the refineries are running very hard. Is that part of the deferral of maintenance that they catch up with later, or it's the deferrals in different areas where it's just the slowdown in the business rather than the cycle of maintenance?

And so the Detection business, you've won several big contracts recently, Heathrow, Abu Dhabi, and others. Could you give us an update on whether these are coming with attractive aftermarket opportunities to make up for the size of projects that often come with relatively modest margins for OE?

And then finally on Medical, you mentioned that the peers have had problems in infusion systems. Are those problems behind them from an FDA perspective, and is that part of the reason for returning to a more modest growth in the second half? Thank you.

Philip Bowman - *Smiths Group plc - Chief Executive*

Glen, thank you very much. Duncan?

Duncan Gillis - *President, John Crane*

Glen, the refineries are running hard and so the major shutdowns are being deferred, and we'll see those if and when demand starts to slow down. We don't really expect it to slow down, which is one of the reasons why our aftermarket business is so strong. So what we're seeing is a lot of repair work, a lot of service calls on site, in order to keep the pumps moving, ensure the seals are sealing properly in order to drive productivity, and that's what's driving that 7% growth that I talked about earlier.

Philip Bowman - *Smiths Group plc - Chief Executive*

Thank you. Richard, do you want to pick up the Detection question?

Richard Ingram - *President, Smiths Detection*

Yes, in fact both of the major contracts that we've talked about recently, Heathrow and Abu Dhabi, come with aftermarket contracts, which are already outlined. In one case, they're actually signed in detail; in the other case there's just some detail to put around that, but we have captured the aftermarket obligations.

I think, if you look at the nature of our products, as the requirements become more complicated, as the future threats are not yet known and, therefore, we're working towards more upgradeable systems, that does play in our favor in terms of being able to lock in the aftermarket at the point of OE sales. So it's a critical part of our strategy; we don't always succeed but in this particular case, we've done pretty well in the first half of this year.

Philip Bowman - *Smiths Group plc* - *Chief Executive*

Thank you, Richard.

Jeff McCaulley - *President, Smiths Medical*

So, Glen, two things on our competitor disruption, largely due to quality. Most of that is behind them now; most of them took action very quickly to do other things in the market, and so the impact in terms of head to head competition in the market has been lessening over the past couple of years. Probably the bigger impact is that a number of our competitors end of life some of their products when they had the quality issue. And that end of life-ing gave us a real opportunity to be incredibly aggressive in the marketplace, and we have been.

I think some of that opportunity starts to wane a bit, as we go forward. We still feel very good about our position; we feel very good about our competitiveness of our portfolio and what we're doing in sales and marketing. So we think we'll continue to be a share taker, but there will be less opportunity for some of those end of life product conversions that there's been in the last couple of years.

Philip Bowman - *Smiths Group plc* - *Chief Executive*

Thank you, Jeff.

Alex Toms - *BofA Merrill Lynch* - *Analyst*

Alex Toms, BofA Merrill Lynch. Three questions from me. Another question on oil and gas; can you just maybe talk about the impact potentially of destocking, whether that's an element we should think about, if there's much through distributors?

The second question around the Engineered for Growth program; is there any costs associated with that over the next two or three years?

And the third question is on Interconnect; you've talked about this, I think, for the last couple of years in terms of the seasonality moving into the second half of the year. What's driving that, because obviously you don't see that -- you see that on a calendar basis for a lot of companies but not on your yearend? Thanks.

Philip Bowman - *Smiths Group plc - Chief Executive*

Alex, in terms of the Engineered for Growth, I go back to the comments that I made in the presentation. We have the Fuel for Growth program in place, which will deliver at least GBP60 million of savings by the end of 2017, and we have earmarked most of that for the investment to support growth initiatives. So yes, the answer to your question is there are costs associated with it.

Clearly, setting up the sales academy, training people, bringing people in from around the world to train them on a regular basis has costs. Equally, the infrastructure we're building on a Group basis within China has costs, and there are similar costs associated with the other ones. So the answer is that, but the overall intent was always to finance those from additional savings.

Duncan, destocking in oil.

Duncan Gillis - *President, John Crane*

Alex, our distributor business is -- first it's a small part of our business and secondly, the vast majority is outside oil and gas and so we're not seeing any impact there. In fact, our distributor business grew at double digits in the first half quite strong, so we're in good shape there.

Philip Bowman - *Smiths Group plc - Chief Executive*

Thank you, Duncan. Roland, seasonality of Interconnect.

Roland Carter - *President, Smiths Interconnect*

Thank you, Alex. Firstly, let me remind you, last year we did mention we had a very strong H2, but there's no doubt that Interconnect will continue to be a seasonal business. So what's driving that? Firstly, it's the telecoms and data center build out, so short answer to that is it's weather. There's only a season where we do actually build out the towers and the components that go into that.

And then, of course, with the semiconductor market, that's much to do with the push for those two events that we're all familiar with, one, Thanksgiving and one, Christmas, so we do see a strong push just towards the end of the financial year in those markets. This effect will not lessen as Interconnect continues to focus on those markets.

Alexander Virgo - Nomura - Analyst

Alexander Virgo, Nomura. A couple of questions, please. One for Duncan again, I'm afraid. Just the GBP26 million impairment, if I think your numbers you just gave on production solutions imply it's maybe, what, GBP75 million to GBP100 million in revenue, so GBP26 million sounds quite a big number. I just wondered if you can talk around that.

And then on Medical, I think you mentioned a GBP4 million headwind on price mix driven by Medical in the context of the strong organic growth. I wonder if you could talk about the pricing and the mix, what's actually one or the other?

And then lastly, just can you give us a figure for the EM exposure in Medical now?

Philip Bowman - Smiths Group plc - Chief Executive

Duncan, do you want to -- Peter, okay, very good.

Peter Turner - Smiths Group plc - Finance Director

The GBP26 million is GBP26 million out of GBP31 million of goodwill in that cash generating unit and that's basically part of GBP70 million of assets before the impairment. Just to give you some dimensions around that.

Philip Bowman - Smiths Group plc - Chief Executive

Jeff, please.

Jeff McCaulley - President, Smiths Medical

We've talked about price mix in the industry being somewhere in the 1% to 2% range and being pretty consistent over the last number of years, and that's very much

where we see the business today. A little closer to the 2% range than the 1% range we've seen in the last couple of years, so maybe a slight increase in price mix pressures. Some of that's just driven by the competitiveness within the marketplace.

Overall, I think our emerging markets exposure was the other question, so about 10% of our business comes from the emerging markets today, and that's actually not far from where a lot of our competitors are. It's certainly not the back of the class, but it's not the front of the class either. So we believe there's absolutely opportunity to be a big player in the emerging markets and participate more fully in the growth there.

Philip Bowman - *Smiths Group plc* - *Chief Executive*

Jeff, thanks very much.

Sean McLoughlin - *HSBC Global Research* - *Analyst*

Sean McLoughlin, HSBC. Two questions from me. Firstly on R&D, this was actually down in the first half. What's your view longer term on R&D? As you see more and more product launches will this be coming down, or will you continue to drive higher R&D as you drive higher sales?

Secondly, just on cross-divisional collaboration, something you mentioned a couple of times; you had the example of China. I'm just trying to understand, what concrete synergies do you think are realistic? And also on a product level, not necessarily through legal and other aspects that you mentioned. Thanks.

Philip Bowman - *Smiths Group plc* - *Chief Executive*

Sean, I think two things. One is R&D spend, and I think if you reflect back to some of the presentations over the past few years, one of the observations that I've made fairly consistently is that, as a Company, we had underinvested in new product development. And that was particularly true within Medical where the spend had been at a very low level for a number of years.

You're faced, as a public company, with the inevitable challenge of trying to deliver earnings progression, and also ramp up your spend on new product development. And we've been very focused on trying to do both over the past period of time.

The change in the first half of this year, as Richard explained, was largely due to the end of the XCT program. That was a substantial investment for that piece of new technology. The good thing is we've now seen some significant sales of that equipment, which is clearly encouraging and will give us some reference sites which we can use, I think, to develop further sales from that.

In terms of investment, my belief is we continue to need to raise, over time, our investment. That's particularly true within Medical. A lot of our investment over the last six years since I've been at Smiths has gone into the infusion franchise; that's paid off. You've seen today 18% growth, which was a very good result.

But in some of the other franchises we are going to have to invest more. You will have seen the R&D as a percentage of sales in Medical went up again in the first half of this year. John Crane, 28% increase in spend on new product development in the first half of this year. So clearly a focus there, and I think some interesting new products coming out of that.

But the bottom line is, I think we can, like most things, probably be more effective in targeting our spend, and that's something certainly Richard Ingram is focused on in Detection. But nevertheless, ultimately the future of a business depends on keeping at the forefront of technology and introducing new products, so I think the number goes up.

In terms of the cross-divisional initiatives, and in particular China, I think this is one of those questions where you, in many ways, wouldn't want to start from here. I think if we would go back in time, if we had gone through a process perhaps of concentrating our various initiatives in China in one location rather than spread all over the country, if we had had a greater degree of leadership in China, particularly in terms of dealing with customers and dealing with regulatory matters, I think that would have been a significant step forward.

And I think the problem we have is, none of the businesses really have critical mass within the country and the Smiths brand, as a result, is not widely recognized. And I

think what we need to do is get greater recognition from that brand and leverage the resources we have at that country.

I think the interesting question, of course, is in part the one you asked; how does that apply on a product-by-product basis, and I think that is more difficult. But I think in terms of brand presence resourcing back office government affairs, which is particularly important there, I think that gives us a real opportunity. And that's the path we're going down and we'll watch that very closely as it evolves.

Robert Davies - Morgan Stanley - Analyst

Robert Davies, Morgan Stanley. One more for Duncan. Just on the 2016 outlook for the business, you mentioned obviously 2015 is going to be underpinned by the mid and downstream business. How do you think about your 4% to 6% growth target into 2016, given the risk you see around cancellation deferrals? I guess just some sort of color on what you're seeing there.

The second one was around M&A and just how you're thinking about picking up assets potentially for the John Crane business, given the move oil price? Thanks.

Philip Bowman - Smiths Group plc - Chief Executive

Thank you for that, Robert. Duncan.

Duncan Gillis - President, John Crane

First, let's go with M&A first. We have a good pipeline, right now, of deals that we're looking at. Since I've come in, we've looked at over 100 companies. I don't know if it's lucky or smart, but feeling pretty good about not having bought anything when prices were high.

As you all know, prices are sticky coming down but they're going to come down. And we're seeing more activity now in terms of willingness to have what I would call more realistic prices. Having said that, we're going to continue to be very selective.

When the Board of Directors made a decision to reduce the hurdle rate there was a lot of consternation, I remember, that we might do some unwise deals, and we've

refrained from doing that. And we're going to continue to be selective and look for the right deals, but it's a good pipeline.

Sorry, Robert, your first question?

Robert Davies - *Morgan Stanley - Analyst*

[Just around the 2016 year].

Duncan Gillis - *President, John Crane*

[2016, yes]. So let me back up. I talked about the backlog a little bit. Our backlog, just to give you a sense, and these are at constant exchange rates, our backlog is up end of January about GBP18 million, or about 10%, versus where it was at the beginning of the year. You remember I said at the beginning of the year that we had an elevated backlog because of our manufacturing issues.

And last year, for the first half, we ended the first half at a record backlog for a first half. And this year, the backlog is higher than that by a couple of million, so it's another record. So the backlog looks solid, as I said; it's pretty good. And the issue is, we don't know if projects are going to be deferred; I talked a little bit earlier about this Kuwait project.

We closed that deal in December. I thought we were going to start to see orders in January; we're now just starting to see orders start to trickle in now. It's across a lot of different EPCs and pump suppliers. The pump OEMs are the guys who actually place the orders with us.

So because of that, I'm a little bit hesitant to say what's going to happen in the second half of this year with that part of our business, the aftermarket business will continue to be strong. And so that then plays into, how do you think about next year, because it depends a little bit on what those deferrals looks like.

Right now, we're looking at -- it will be below the 4% to 6% next year, no doubt. It'll probably be a similar outlook to what I'm saying for the second half right now, in terms of down a little bit, until we get closer and get a better sense as to what we're

looking at, but we'll see. And we're going to continue to build that backlog and continue to drive the first-fit projects, but also take advantage of what is a very strong aftermarket in our rotating equipment business.

Philip Bowman - *Smiths Group plc* - Chief Executive

Duncan, thank you. The other observation I would make simply is, there are a variety of views as to where the oil price will be in 2016, and that, clearly, is going to have an impact. There were the bulls and the bears on that, and our crystal ball, I'm afraid, is still at the menders.

Sandy Morris - *Jefferies* - Analyst

Forgive me; while we've danced the light fandango around upstream, we used to say it was 15%. I thought by the end of 2014 we were talking nearer 10%. And I think as long as we confuse John Crane, because of the lifting rods business, we're going to continue to have this issue.

So the good news to me is we've got the aftermarket which is higher margin, which has now been growing consistently in mid-single digits. So whatever revenues do because of lower oil, I'm sitting here thinking I can be relatively chilled about profits, can I; is that right?

Philip Bowman - *Smiths Group plc* - Chief Executive

Duncan?

Duncan Gillis - *President, John Crane*

Sandy, I understood the question until the end, you could be relatively what about profits? Cheerful, I think (multiple speakers)

Philip Bowman - *Smiths Group plc* - Chief Executive

Cheerful? I thought you said chilled.

Sandy Morris - *Jefferies* - Analyst

Yes, I was trying to be cool. (laughter)

Duncan Gillis - President, John Crane

In terms of profits I think your point about, and I think I said earlier, the mix will be favorable. And so we feel pretty good about margins and pretty good about positive mix because of the aftermarket piece of it.

In terms of the upstream business, I do think we go back and forth between total upstream, which has production solutions business, but also has seals that we provide to ESP suppliers; it has seals we provide to one company that manufactures drill bits. And so we've got other pieces in there as well, some of those drill bits are for mining and some of it for shale, so there are other pieces in there.

And then there's some offshore business that we do in the North Sea and in the Gulf that gets thrown in there as well, or the pre-salt work off Brazil. So I think that's why we get confused about the 15% versus the smaller number where we focus on just production solutions. But profits should have the potential to be decent with the mix, but we'll see.

I think Philip's point about oil prices is right, in that we're assuming, right now, that prices stay below this \$50/\$60 range through the middle of next year which will encompass our entire fiscal year. Some people believe it will come up sooner, some people believe it will last longer. We make an assumption and then we'll adjust based on what we see in the marketplace.

Philip Bowman - Smiths Group plc - Chief Executive

Sandy, should Duncan sit down or do you have a follow-up?

Sandy Morris - Jefferies - Analyst

No, I'm finished with Duncan. I was just going to start on Jeff, if Jeff will forgive me. Two things really; we know this competitor has had awful quality problems [debarred] and all of the rest of it, but his big USP used to be that he was well into the hospital network stuff and he was unique. And now, how close are you to that or are you already there because this is going to determine now the playing field, going forward, I think?

Jeff McCaulley - President, Smiths Medical

I'm not quite sure what you're driving at.

Sandy Morris - Jefferies - Analyst

His pumps are totally integrated into the hospital IT systems, which is something we talked about years ago; it went a wee bit quiet but you make reference to it again now.

Jeff McCaulley - President, Smiths Medical

One of the competitors that you're referencing is more so integrated because of the connection with the fluid business and very few people have that connection. So that the big connection that a lot of people have been working on is more the inner operability, how well the pumps connect with hospital systems and the like.

We've been developing that; we're launching most of our inner operability; we launched the first phase of that within the last year. We're launching another two phases of that this year, so we're well on our way to have the kind of connectivity that hospitals want within their infusion pump system. So I think we're going to be very much on par with where the market is going, relative to that kind of connectivity within the facility.

People bring different benefits of their products to the relationship within hospitals and some have other lines of business whether it be fluid businesses. Some have other lines of business whether it be vascular access, like ourselves. We have some competitors with dispensing systems.

People are trying to leverage different ways to have broader relationships with hospitals. But I think ours is very effective and we've been building out in the dimension that I think is most relevant to our customer. So I continue to feel very good about the competitive position we have and about what we're doing to continue to build out that competitive position. So I really do believe we will continue to see strong performance within our ambulatory infusion as well as within our syringe infusion.

Philip Bowman - *Smiths Group plc* - Chief Executive

I think, Sandy, we've been, to one extent, lucky. There was a lot of hype and a lot of noise four years ago about hospital management systems. If you look at the actual rate of adoption in the US, it has fallen far, far shorter than the original forecasts.

Whereas I think would have said we were going to face a significant competitive challenge because we were late in developing the interfaces, the reality is that, because adoption has been much slower, actually we are now increasingly well positioned, competitively, compared with what I thought might have happened.

Jeff McCaulley - *President, Smiths Medical*

I would even add, people talk about meaningful use of EMR systems, and that's fallen well below what people expected. The use of how our products connect to those systems is even much less, so fortunately we haven't seen the industry move as quickly as was once predicted.

The good news is it's given us a lot of time to catch up and we're in a position now where we are launching most of the features and functionalities that are necessary to be competitive in that kind of connectivity.

Sandy Morris - *Jefferies* - Analyst

And one last one, Jeff, just on Detection. The first half profitability actually surprised me quite a bit, given we were presumably trading out these zero margin, well they're supposed to be zero margin, contracts.

And I know our aftermarket is there, but we're talking about it being a little bit softer in the second half. So can I just assume that this is closing out contracts that may have slightly benefited the first half and it's just a kind of run of the mill thing, please?

Philip Bowman - *Smiths Group plc* - Chief Executive

Richard?

Richard Ingram - President, Smiths Detection

You can assume what you like. But to give you some flavor, yes, in the first half we had one program with the TSA with quite low margins against it but some very good pickups in the aftermarkets.

Into the second half I think the margin, if you shift around the globe a little bit, as we start to deliver the OE front end of the two programs that we've just talked about, Abu Dhabi and Heathrow, what we're seeing characterizing our businesses over the life of the contract, these are quite attractive programs. But you have to prime the pump with some hardware deliveries which are quite low margins.

So it's really dependent upon how successful we are in pushing those revenues. We're going to push as hard as we can; we may as well get it done. And somewhat perversely, the more you push to get those programs primed the weaker the margins will be, so that's really the kind of pieces of the jigsaw moving around.

Peter Turner - Smiths Group plc - Finance Director

One other thing I'd add, Sandy, is we've got some transactional FX gains in the first half as well in Detections, so that's giving a little bit of benefit to the margin. So as you wade through the appendices you'll pick that up.

Sandy Morris - Jefferies - Analyst

Yes, I noticed that. And Medical still had a headwind, though, so Medical probably did quite well.

Peter Turner - Smiths Group plc - Finance Director

They did.

Jeff McCaulley - Smiths Group plc - President, Smiths Medical

Thanks, Sandy.

Philip Bowman - *Smiths Group plc* - Chief Executive

Sandy, Medical continues to be a victim of Abenomics. We manufacture in the US, we sell in Japan, priced in yen for four-year fixed term contracts. So there's not much you can do. Hedging can ease the pain in the short term, but other than manufacturing in Japan, which I'm not recommending, that's been the main bug bare for Jeff.

Any other questions? No. If not, I'd like to bring the session to a close; to, once again, thank all of you for attending. Thank you for some good questions. The next event I think is in September, so thank you all very much.