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bringing technology to life

INTERIM RESULTS 2015/2016
FULL TRANSCRIPT

SLIDE – INTERIM RESULTS 2016

Andrew Lappin: Good morning, ladies and gentlemen. Welcome to Smiths Group's interim results presentation. My name is Andrew Lappin, I'm the head of corporate affairs here at Smiths. Before I begin, I'd just like to ask you to check your phones, your mobile devices are all switched off. We're not expecting a fire drill this morning so if we do hear one, the emergency exit's at the front of the room.

SLIDE – CAUTIONARY STATEMENT

And I'd be grateful if you'd read and inwardly digest our disclaimer slide. Thank you. It's now my pleasure to introduce Andrew Reynolds Smith, our chief executive.

SLIDE – ANDREW REYNOLDS SMITH, CHIEF EXECUTIVE

Andrew Reynolds Smith: Thanks very much indeed and good morning everyone. Very much appreciated, everyone being here today, particularly as I know there's a finance guy even more important than Chris O'Shea speaking later on this afternoon. I'll leave you to make your judgements once you've heard what Chris has got to say, but it's fantastic to see everyone here at my first results presentation.

You know, I was reflecting on the way in, my journey through the technology business over the years that has – that has brought me here today. Because I started out at 16 years old as an apprentice at Texas Instruments, running test programmes for what were the most advanced semi-conductors in the world at that time, and very different now, but just to give you a feeling, the way that technology's come on in my life, we used to load the test programmes using punched cards, which – I'm hoping most people in the room aren't old enough to remember that, but it certainly illustrated to me as I was reflecting on my journey to today. The biggest concern always was dropping the pack of cards before you loaded them, because sorting them out again was not easy. But anyway, thank you again for everyone being here today.

I'm joined, as you can see, by Chris O'Shea, our Chief Financial Officer, as well as Bill Seeger, non-executive on our board. I'd also like to thank, before we kick off, the invaluable folk who help make these events happen.

SLIDE – AGENDA

There's an awful lot of activity that goes on behind the scenes, so to Andrew and the team, thanks very much indeed.

I wanted to start talking really about the first half results, and then afterwards have Chris cover the financials, and then I'll move onto my initial observations and priorities. I started at Smiths a little over five months ago now, and since then I've really been dedicating myself to seeing the company, experiencing the company and getting to really understand what makes it tick and what we can do best to take things forward: in short, where the potential is in this business. How do we be the best at what we're doing, as you saw on the opening slide?

And I've been especially pleased by the quality and passion of the people, the depth of the technology and the capability that I've seen across this organisation. Based on what I've seen, I've got a really good feeling in my stomach about how we can build something really special. I could see the potential in this business during my due diligence before joining and my view continues to be reinforced as I've travelled around the world to our different sites and reviewed strategy and the way forward. Smiths is a global company with some really outstanding – in fact, I would say, if I was asked to comment on one of the most significant first impressions for me, it's been the depth and quality of what are some really quite eye-opening technologies.

You know, Smiths has been around for 160 years and that's 160 years of change and development in a business that's, you know, really developed a powerful DNA of innovation. We aim to unlock that DNA as we create our future and as our culture and values evolve. I'm confident that we can build on what is a strong platform and I can see clear opportunities and the potential of the future. There is some real scope for improvement in positioning us to deliver sustainable growth and shareholder returns.

And now, if you'd let me, let me take you through our first half results.

SLIDE – H1 RESULTS OVERVIEW

From a trading perspective, this is a solid set of results, demonstrating the benefits of our range of end-market exposures. On an underlying basis, Group revenue was down 3% and headline operating profits down 6%. This was in line with our expectations. This was largely driven by declines in John Crane, with the other four divisions either up or close to flat.

As we stated earlier in the year, John Crane's performance was impacted by persistently tough oil and gas markets. However, the business model prevailed and our after-market revenues prove more resilient. We benefited from continued growth at Medical and good profit growth at Detection. Performance at Interconnect and Flex-Tek was in line with expectations. The Board has declared an increased dividend at the interim of 13.25 pence per share.

SLIDE – JOHN CRANE RESULTS IMPACTED BY CHALLENGING OIL AND GAS END MARKETS

I'll now turn to the performance of each of the divisions in the first half. John Crane's underlying revenue fell around 11% against the backdrop of difficult market conditions. Our first-fit sales – those sales that go into the original build, the refineries for example – fell 15%. But aftermarket sales, as we've said, prove more resilient, declining only 7%. Aftermarket revenue as a percentage of total was slightly up at

58%. We do continue to see high capacity loading of the refineries around the world. The world is still consuming 95 million barrels of oil a day, despite the supply side issues that appear to be driving the current situation.

That said, we're seeing some facilities postponing operating expenditure on upgrades and retrofits. This is driving an increase in preventative maintenance activity, as efforts to improve reliability and efficiency increase. That's a good thing for us. John Crane's headline operating profit margin fell 330 basis points to 19.9%. This was driven by lower volumes and also by investment in strategic first-fit projects to increase our installed base. These investments reduce margins by around 90 basis points in the period, but are an important reflection of our commitment to the long-term aftermarket and our investments in that long-term business case.

As you would expect, we're also taking firm action to position John Crane in the current environment by addressing the fixed-cost base. During the last year, we've cut headcount by 4%. Further actions are now underway, primarily focused on improving the flexibility and the efficiency of the way our business operates. To put more simply, making the business more capable and more flexible to take advantage of the ups and the downs in the market as they occur.

I think it might be helpful to pause for a moment to really take a closer look at what I think sets John Crane apart from many of its oil and gas peers. First of all, 40% of revenue is derived from non-energy sectors such as pharma, chemical and paper. This remains a key focus of the division with, for example, a recently secured first-fit project in South Korea in the biotech industry.

Secondly, within the 60% of the business that is energy related, our split is around 75% downstream, that's the refineries; 15% midstream, that's the pipelines; and 10% upstream, broadly around exploration and production. So John Crane's total upstream exposure is around 6% of total revenue. When you think about that in terms of Smiths Group overall, it's less than 2%.

But what really sets John Crane apart is its customer service, the quality and the pure technology. You know, these are products with tolerances of a few microns that operate at 20,000 revs per minute. And these are not rubber O-rings. These are products that sell for between $20,000 to $50,000 and cost many tens of thousands of dollars to refurbish and service. It was an important part for me in understanding how that business operated.

I saw customer service in action when I visited John Crane customers in Texas in December. I met senior management, maintenance crews and I have to say spend a bit of time switching between hardhats and Stetsons. Neither of them suited me, I was told. And it's really about, you know, dedicated service, trusted relationships and products that customers value and rely upon to keep high-value assets running.

A refinery is a large investment that runs for many decades and our seals are mission-critical and require multiple interventions every few years. We continue to enjoy, as we go through this difficult period, high levels of stickiness with our customers. So we plan to keep expanding our installed base of seals and other mission-critical components in order to secure that long-term aftermarket revenue in the long term.

SLIDE – SMITHS MEDICAL REPORTED UNDERLYING REVENUE GROWTH. AGAIN.

Turning to Smiths Medical, the business continue to deliver in the first half. Revenue grew by 1% and profit by 4%. The sales growth was driven by infusion systems and vital care, offsetting small declines in vascular access and specialty products. Profits were up because of increased underlying revenue and because of tight cost controls and the benefit of some of the restructuring that's been carried out over the last year. And I'm pleased to say margins are now back above 20%.

We were pleased also with the performance of infusion systems in the half; it was against an especially tough comparative period and we also benefited from a bigger installed base of portable infusion pumps, alongside strong sales of syringe pumps downstream.

We're also taking steps to revitalise our programme of focused and targeted R&D, with funding increased by 50 basis points to 5.8% of sales. For example, in China, we launched our Graseby F6 syringe pump that has been developed for the first time from the ground up by our Shanghai R&D team, in close cooperation of course with Medical's new global technology centre in Minneapolis.

Our overall Asia-Pacific market presence in Medical continues to develop too. China grew by 9% and India by 20% as our direct presence in those markets deliver some positive results. This is part of our drive towards channel-to-market simplification in the medical division and more broadly. It's probably wroth highlighting that more than 80% of sales come from an aftermarket of consumables and disposables, rather than initial capital goods only. It's a very important characteristic of the business and a feature about how we think of creating value in the future in Smiths Medical and across the Group.

SLIDE – SMITHS DETECTION MANAGEMENT ACTIONS DELIVERED PROFITABLE GROWTH

I was particularly pleased by Detection's first half numbers. And we have the finance director in the room here, so Lily, thank you for that. A good revenue performance and much improved profits were due to the action that's been taken by management to drive value engineering and particularly for me, rigorous approach to programme and contract management.

Revenue grew by 4%, a strong performance in ports and borders, and continuing progress in military. This was offset by some weakness in the period in transportation and critical infrastructure. Headline operating profit grew by 38% as a result of increased sales, a strong business mix, and growth in the aftermarket. The value we get from activities like servicing contracts and upgrades now stands at 38% of sales, that's more than double where it was only a few years ago when the focus was primarily on device sales. The market continues to respond and evolve in an increasing global threat environment.

Highlights, which go some way to demonstrating that, include business wins in the first half such as our first XCT scanner in Asia-Pacific at Hokkaido Airport, checkpoint equipment in South Korea, wins in aviation security in Saudi and Kuwait, and an order for baggage scanners for the Indian airport authority. In addition, I'm delighted to be able to announce today a $65 million, five-year agreement with the US Federal Protective Service to provide x-ray systems for government buildings right across the country. Company-funded R&D in Detection in the period was 5.1% of sales. We put a greater focus on allocating capital with clear commercial potential.

SLIDE – SMITHS INTERCONNECT PERFORMANCE STABILISED

Interconnect delivered a stable performance in the half. Revenue declined 3% with underlying profit flat year on year. Operating margin went up 50 basis points, driven by the performance of Connectors and Power and by the benefit of restructuring and cost controls. These more than offset volume-related margin reduction in our microwave business unit.

In Connectors, underlying revenue was broadly flat and we saw semiconductor sales decline in part due to a tampering of the smartphone market volumes and a changing brand mix as Asian competitors emerge. However, sales in the medical sector and commercial aerospace increased. Microwave sales were down 8% due to some programme delays in defence and telecoms. And revenue at Power improved slightly. Overall, Interconnect's performance has stabilised. Thanks to a highly disciplined management approach, the business now has a greater focus on product development and key customers which will take it forward and on generating growth in Asia.

SLIDE – FLEX-TEK DELIVERED A SOLID PERFORMANCE

And finally, for the half, Flex-Tek delivered another solid performance. Revenue declined 1% year on year due to passing through of lower nickel prices and because of some easing in orders from Titeflex's industrial customers.

Operating profit fell 5% on an underlying basis with margins down 50 basis points. This was largely due to the full transition to a range of innovative, new flexible gas piping used in the US construction home-build market. Overall, the division saw a number of market segments grow including aerospace, housing and medical. We were pleased too with our performance in China from the Flex-Tek business where revenue grew double digits.

I'd now like to hand you over to Chris who's going to take you through the financial performance in a bit more detail. Thanks, Chris.

SLIDE – CHRIS O'SHEA, CFO – H1 FINANCIAL PERFORMANCE

Chris O'Shea: Thank you. This slide goes to show that there's only so much you can do with Photoshop. Well, thanks, Andy, and good morning everyone.

Like Andy, I'm very happy to be here in my first results presentation as CFO of Smiths Group. I'd like to take some time to cover the financial results for the sixth-month period to the 31st January 2016.

SLIDE – RESILIENT FINANCIAL PERFORMANCE

Looking now at the key financial for the half, revenue for the period was £1.372 billion, a decrease of 3% from the prior period. Excluding the impact of acquisitions and disposals and currency translation effects, headline operating profit fell 6% to £217 million which resulted in the margin decreasing by 60 basis points to 15.8%. We were pleased to record an improvement in headline free cash flow which rose 32% to £174 million. Return on capital employed was in line with the prior period at 15.4% with weakness in our John Crane business being offset elsewhere, most notably in Detection.

Earnings per share for the sixth-month period were 35.2 pence, reflecting low trading profits and a higher interest charge, partially offset by half a percentage point reduction in our effective tax rate to 26%. The Board has declared an interim dividend of 13.25 pence per share, 2% growth over last year.

Now we'll take some time to take you through the results in some more detail.

SLIDE – GROUP REVENUE FELL 3% ON AN UNDERLYING BASIS…

As you can see in slide 13, the net impact of acquisitions and disposals and currency translation effects was a reduction in revenue of £2 million. Our revenue weakness was principally driven by softness in the market served by our John Crane business where revenue fell by 11% on an underlying basis. Growth in our Medical and Detection divisions more than offset the falls we witnessed in Interconnect and Flex-Tek. All in all, underlying revenue fell by £42 million to 1.372 billion.

SLIDE - …WHILST PROFITABILITY REMAINED RESILIENT

Moving on now to headline operating profit. The net impact of acquisitions and disposals and currency translation effects was an increase of £1 million. On an underlying basis, profits fell by £16 million with improvements in results in Detection and Medical were more than offset by the impact of lower revenues in John Crane. Overall, this resulted in headline operating profit falling to £217 million, down 6% on an underlying basis from the prior period.

The Group’s operating margin was down 60 basis points to 15.8% with a decline in John Crane margin more than offsetting the increase at Detection, Medical and Interconnect, where good cost control offset the impact of lower revenues.

SLIDE – CASH CONVERSION EXCEEDED 100%...

Let’s look at cash flow now. For those of you that know me, it will be no surprise to you that my primary focus is on cash. Over the past few months, we’ve spent a lot of time with our new colleagues discussing the importance of cash flow and how to generate the resources required to grow the business. Therefore, I'm very pleased to tell you that we converted 100% of our headline operating profit into cash, which is good progress than the 88% we managed in the same period last year.

Our capital investment of £42 million was almost 95% of depreciation and amortisation. We saw a £10 million outflow of working capital in the first half with inventory relatively flat and a strong reduction in trade receivables being more or less offset by a similar reduction in trade payables.

Adjusting for £8 million of other items, including the impact of share-based payments, our headline cash flow from operations was £218 million, £1 million higher than headline operating profit.

SLIDE - …RESULTING IN A 32% IMPROVEMENT IN HEADLINE FREE CASHFLOW

Our headline cash outflow and interest in the period was £19 million. And we made cash tax payments of £25 million. As a result, headline free cash flow was £174 million for the first half of the year.

SLIDE – NET DEBT HIGHER DUE TO FINAL DIVIDEND AND FX

Turning to slide 17, I'd like to take some time to walk you through the movement in net debt. The re-translation of our opening net debt over £818 million to current FX rates caused an increase of £108 million, principally due to the strengthening of the US dollar but also partially due to the strengthening of the euro. The cash outflow in the period related to non-headline items was £102 million. And this is primarily due legacy pension and litigation liabilities.

As previously announced, our cash contributions to pensions will fall substantially in 2017. The net effect of headline free cash flow of £174 million, the 2015 final dividend payment of £111 million and other on-going activities was an underlying reduction in net debt of £42 million. And at the end of the half, our net debt was £986 million.

SLIDE – THE GROUP HAS A GOOD RANGE OF DEBT MATURITIES

As you can see on slide 18, we have a consistent financing strategy with a well-diversified debt portfolio consisting principally of US dollar and euro bonds with a range of maturities out to 2023 and a revolving credit facility. These facilities have a combined weighted average life of 4.6 years at the end of the half.

The upcoming maturity of the £150 million sterling bond will be met from the £461 million of cash we held at the 31st January. The Group's $800 million revolving credit facility was recently extended for a further year and will now mature in February 2021. This facility is currently undrawn.

SLIDE – SUBSTANTIAL PROGRESS MADE ON PENSIONS

During the period, we announced the conclusion of a pension funding exercise after agreement was reached with the trustees of both of our

UK pension schemes. The agreements now mean that we have significantly lower pension deficits and this has enabled us to substantially de-risk pension schemes in the UK where only 5% of the SIPS scheme, and 25% of the TI scheme, is held in equities. In the US we have no equity exposure at all. This has reduced the value and risk in our pension schemes and from 2017 will result in an increase in free cash flow of £50 million per annum against the normal year of pensions.

In the current year, our contributions will be £27 million lower than we had anticipated at the time of presenting a full-year 2015 results. So we expect to contribute £124 million in 2016 and you can see that falling to £50 million in 2017 onwards. We are, of course, a responsible employer and we're happy to be able to reduce the contributions whilst continuing to meet our commitments to our pensioners, both current and deferred. Taken together, these actions mean that we have certainty of funding over the next three years for all Smiths Group Pension Schemes. And we're happy to have concluded this exercise and look forward to the benefits that this will bring to the group over the coming years.

SLIDE – A STRONG FINANCIAL FRAMEWORK

Andy will shortly outline his observations in Smiths and our priorities for how we will run the business going forward. But before I hand over, I want to pause and highlight my priorities for strong financial management. We'll extract efficiencies across the businesses and we'll focus on intelligent cost control. And by that we mean we'll ensure we get the appropriate value for every pound we spend. This will enable us to further invest in growth opportunities.

Having visited a number of our operational locations, we can see opportunities to increase plant utilisation and therefore use our capital assets more efficiently. We've got a lot of money in working capital. We have around £900 million and a combination of trade receivables, inventories and trade payables and it's clear to me there's considerable scope for improving our working capital position, freeing up more cash for targeted investment in growth-generating opportunities.

A previous boss once told me, cash is not king. Cash is god. I happen to share his view. Our focus on generating cash will be consistent and constant. We'll have a rigorous approach to the allocation of capital with a priority of investing in areas of the business which will drive sustainable, long-term returns. In summary, a disciplined financial management will underpin our approach to managing Smiths Group.

I'd now like to hand you back to Andy who will take you through his initial observations in the Group.

SLIDE – ANDY REYNOLDS SMITH – INITIAL OBSERVATIONS

Andy Reynolds Smith: Thanks, Chris, and god bless you my son. As I said earlier, I joined Smiths in late September and it's been a fascinating journey the last few months for me. It's really been for me about assessing where we are in terms of being the best at what we do, our ability to execute, and the positioning that we have in the market and our own competitiveness as we move on our journey towards leadership.

SLIDE – SMITHS GROUP TODAY

And I can see some significant opportunities for improvement and potential for value creation and particularly for growth across the group. And these are playing an important part in the development of our vision and strategy for the future.

Both Chris and I have spent a lot of time getting to know our businesses, traveling the world and visiting sites across Europe, the US, China, and meeting well over a thousand of our new colleagues in every situation from strategy reviews to town hall meetings. And it's been an incredibly productive time, giving us a clear sense of our areas of strength and an understanding of where we can do more to improve. There's a lot of goodness here and a lot of potential.

The good news is, we do have five good businesses, all of them on a different part of the journey towards leadership, all of them in end-markets with market leadership positions and long-term structural growth drivers. Among our 23,000 people, we've got a deeply embedded passion for innovation and development of the business. We have a very strong engineering and science base. It was my first and strongest impression, the depth of the technology capability in this business.

We're a global business with some really important market leadership positions around the world which we can build on.

SLIDE – HOW WE LOOK AT EXCELLENCE AT SMITHS

I've also seen some great examples of excellence across the group. And I'd like to talk you through some of those areas in the way and the categories that we are thinking about excellence in building this business for the future.

We're going to sharpen our focus significantly on doing the things that customers value and are willing to pay for. As a group, we are going to be doing more to drive simplification and speed of decision making, and a culture of continuous improvement right across the group, right across the business in an existing way that builds on our existing strengths and improves our ability to execute.

Some of the strengths in technology first, like the cutting-edge technology I saw at Detections operations in Wiesbaden, with complex algorithms and outstanding software engineers, building technology that can detect materials on a molecular level, building image libraries that can piece together threats like disassembled ceramic handguns hidden in different bags as people try to check through. And new products like XCT which combines x-ray and computer tomography imaging for high-speed hold baggage screening. Great examples of how we're helping to make global travel safer and more efficient.

But of course, our innovation is not just in Detection. There are other examples of technology excellence including patient-friendly portable infusion pumps for premature babies where the level of delivery of the drugs is so crucial and the sophistication so high and our position is leading. New gas technology seals that help industrial plants run better and cleaner, and high-performance connector systems for the satellite sector. We have more than $250,000 of Interconnect ultra-high performance product on every SSL satellite that's launched, for example. And that number is increasing.

I've also met with a number of customers to get a sense of where they are, to get a real feel of the strength of the relationships that we have and the level of customer intimacy that we have in places across the Group. We're going to need to keep building on this intimacy and increasingly develop a strategic alignment with our customers as we move hand in hand forwards.

We also have some great examples of brand power, too many to mention. But examples include Medical's Portex trach tubes, these are products that are asked for by name every day in hospitals, operating theatres and emergency rooms.

I've also visited several manufacturing sites that have given me some insight on how we approach production excellence across the group. It's an approach I saw in Interconnect's operations in Shanghai where their cost and time per part – per employee has improved tenfold in the last three years due to the introduction of single piece flow. At Detection in Wiesbaden, there was a small team who decided to organise part of the shop floor more efficiently using 5S and sell-manufacturing techniques. Andreas there, the team leader, said to me, 'I've been here 26 years and my job today was to show you that we're willing to change.' Well, I hope you're listening this morning, Andreas, because I heard you and I saw what you did. There are many examples like this taking place across the company, each in their own way delivering improvement, and we will take a more consistent approach group-wide and do more.

The operations across the globe and with bought-in components and materials make up nearly two-thirds of our total cost of sales. So it's an extremely important part of our future structure. A key question for me therefore, is how efficiently do we manage our supply chain? Put simply, the flow of value in the business, the order to cash cycle as I'll set out in a minute, I believe, has significant potential for us here.

Programme management, has also been the key area of attention for me. In many of our businesses, we have long-running contracting programmes in multi-year service contracts, and some of these have caused difficulties historically. As a reminder, 55% of our group revenues comes from aftermarket sales and servicing. That's a figure I believe we can grow as we develop our business model.

And finally, as we speak about excellence, it all comes down to people and leadership. There's no doubt in my mind they provide the inspiration and platform on which our future success will be built across Smiths. I'm often asked about competitive advantage and where it lies. And there are many forms of competitive advantage of course, operationally and technically. But for me, the one truly sustainable competitive advantage is our people, and ensuring that we develop them and give them the opportunities to be the best they can be.

By striving for excellence in these six categories - technology, customers, production, supply chain, programmes and people - and by spreading best practice and consistency of ruthless and rigorous execution across the whole of Smiths, I believe we can unlock significant value to fuel and develop the growth for the future.

I now want to look briefly at two areas where it’s already clear for me that we can improve, first our customers and then in our operations. Doing better at both of these will underpin our ability to grow above the market in the future.

SLIDE – CUSTOMER INTIMACY

We must become much more customer centric. Our aim is to broaden and deepen the value and content that we supply to our customers, not just at the time of initial delivery or installation, but throughout life. As I’ve indicated, I believe we can drive up the share of through-life revenue in our aftermarket, servicing, consumable and disposable sectors over time. Customers need solutions. The world is moving quickly. And it’s clear to me that we must do more to align our innovation capabilities to their needs as we seek to improve the breadth and depth and content of the value that we bring.

Trends such as digital industrialisation are reshaping customer and consumer expectations and the service offering that we should be providing. That’s an obvious area where we need to innovate and extend our capabilities. I visited in Texas the INEOS – one of the INEOS refineries, which is one of the world-first installations of our condition monitoring technology where a nerve centre capability is put in place to monitor all the pressures, flows, temperatures throughout the operation and then targeting the right levels of maintenance and repair. It's going extremely well and I think it's a technology that you'll be hearing more about in the John Crane model.

We also need to develop a clearer sense of the technology trends that are going to shape the future, thinking about technology and those technologies which will disrupt the future over a 15- to 20-year time horizon is an important part of the way that we'll be thinking. Over time, my aim is an expectation to increase the amount we spend on R&D. But we also need to ensure that it is deployed in a much more focused and commercial way.

SLIDE – INCREASE OPERATIONAL INTENSITY

I'd now like to look a little bit at operations and some of the potential that we see in the shorter term. I've come from an industry that is used to an intense and ruthless focus on operations. So I have an idea of what good looks like here. Smiths enjoys a reputation of strong margins when execution is robust and deservedly so. But that might lead you to conclude that we've optimised our operational efficiency. But of course margins alone do not reflect the efficiency of the business. We have some great examples of lean manufacturing across the group, but I do see a real scope to make operations better in terms of plant utilisation, reduced inventories, and improving the flow of value in our operations. Basically cutting the time between taking the order and getting paid; and that's something that the customer values as highly as we do.

A key early focus for both Chris and I is around working capital. One particular example I will pick on is our average stock turns across the group are 2.5; in rough terms that means that we rotate stock about once every four months. That's not good enough. As I look at the opportunities to improve, improving this by one turn would free up cash flow of over £100 million for investment in the growth in our business. We will and should be aiming to fund investment in new capabilities and growth through savings we can make in our operations, thereby enabling us to protect our margins.

But it's about more than freeing up financial firepower. A more rigorous culture of continuous improvement is critical to ensure better consistency of execution. At times in the past, I think it's fair to say that Smiths has not always been consistent across all its divisions in terms of execution. Another thing that's clear for me is that in recent years, growth has been a challenge.

SLIDE – ABOVE MARKET GROWTH

This is a company that can grow. With the right actions, I'm absolutely confident we can grow above the markets that we serve. We have good quality businesses that need more focused investment in growth opportunity, and more rigour and consistency of execution.

80% of our revenues come from only five market sectors. Attractive markets: healthcare, security, energy, defence, and having reviewed our top product lines, we found that only half are growing. The other half are flat to down. The questions that we're working through, of course, is why, and the answers we're getting is it's not only a function of the market, it's a function of the sub-segmentation of the market, and it's to do with our own competitiveness. We're working on addressing all of these things. We're changing our approach to view, from the customer and market attractiveness perspective, of course underpinned by technology and innovation, but looking very hard at our own competitiveness, our relative market position to assess the point on the journey and the process that we will take to move through the journey.

I think it's giving us a good sense of the relative market strengths and the future direction of our business.

SLIDE – ASSESSING OUR MARKET ATTRACTIVENESS AND COMPETITIVENESS

For me, the key to driving sustainable growth is to understand what we need to do more of, and what we need to do less of, focusing more clinically on these attractive market segments and the capabilities that we need, will help us to identify where we need to position ourselves in the right growth-orientated markets, where we need to get closer to our customers, where we need to sharpen our own competitiveness, and where we can expand our geographic exposures. It's already clear to me, for example, that we don't do enough in Asia Pacific. These markets account for just 15% of group revenues, with China at only 4% and India at only 1%. This will present an opportunity for us in the future.

Our approach will be guided by what we're calling squaring the circle.

SLIDE – SQUARING THE CIRCLE

There's a clearly a virtuous circle of growth, investment and returns, but we must have a balanced focus in every investment decision on both growth, margin, return on the capital that we have employed, and cash, and we'll continue to do that throughout our decision making.

By the way, aligning these measures with how we incentivise our people in the future, throughout the organisation, will be an important part of focusing attention on these growth drivers.

I hope that some of these reflections have given you a sense of the approach that we're taking to developing and running the business.

SLIDE - PRIORITIES

My priorities are going to be, in the next months, really broadening and deepening our approach to customers, to understand clearly what value we can bring, and what value and content is a key underpin of growth above the market, intensifying our focus on operational excellence in the business across particularly production, supply chain and program management, and positioning Smiths to develop the capabilities and leadership for above market growth through a more focused approach to market segments, customer attractiveness, and our own competitive positioning. Cutting across all of these will be a disciplined and rigorous approach to financial management and capital allocation, as Chris has outlined, focused on sustainable growth and enhanced returns. I hope from my comments today it's clear that I see considerable potential in this business.

SLIDE – GROUP OUTLOOK

Finally, before opening up to question, I'd like to provide you with a summary of the group outlook for the second half. We're expecting global energy markets to remain challenging in the second half, and are taking action to ensure that John Crane is well positioned in that environment. I expect Medical to deliver similar revenue performance in the second half, driven by growth in Infusion Systems, and Vital Care. Medical's margins should benefit further from the effect of operational efficiencies and restructuring actions. Thanks to its strong order book, Detection is expected to see high levels of sales growth in the second half, but the margins we saw in the first half are likely to moderate, given contract mix and investment in new business capabilities. As previously guided, the Group's performance is slightly more weighted to the second half than usual. Our expectations for the full year remain unchanged.

Thanks again for this morning, appreciate your patience on this busy day. That concludes the presentation from me, and very happy to take any questions, and I'm sure Chris feels the same. Thanks very much.

QUESTIONS AND ANSWERS

Mark Davies Jones – Stifel: Thank you. Mark Davies Jones at Stifel. Can I start with one fairly general one, and one more specific? On – I'm here, sorry. On China and growing the share of the business in the Far East, that's been an ambition for some time of the group, and clearly progress has been relatively slow. What do you think needs to change? Is it, how you go to market as a group, or as a set of divisions? Or is it going to require some M&A?

Andy Reynolds Smith: I think it's a bit of all three. I think one of the challenges that you face in China is that typically because our businesses are relatively small there, the critical mass that you have, particularly in terms of management and leadership on the ground depends on smaller units. So we will be doing some work to try and create more of a leadership critical mass and on the ground strategic capability, to help the divisions as they develop.

Part of the other issue is channels to market. In common with lots of companies, the first step in is through third parties, and I think as I mentioned in my comments, driving a channel to market simplification and a bit of a more direct access approach there is really important for us. We're also very open minded about the market and the technology, particularly now developing some of our core technologies on the ground in China, which for me is crucial. It's a balance of risks, as with all of these things, but it's an important part of the way that we go forward. So more horsepower, I think, in a more structured and focused way.

Mark Davies Jones: Thank you. And the more specific one is the outlook for Crane through the balance of the year. Typically, the seasonality has pushed margins up a little bit second half versus first half. Is that still a pattern you'd expect and should the cost savings be effective already in the second half?

Chris O'Shea: We would expect to see an increase in margins if other things remain equal in John Crane in the second half versus the first half, and there have been some actions taken in the first half that should drive out some cost.

Mark Davies Jones: Thanks very much.

Chris O'Shea: I would also like to add, Andy was a bit too modest to tell you, but in terms of China, when Andy was responsible for GKN's business in China and when we visited there in January, clearly has a lot of contacts, a lot of empathy there. I think you really have to focus on that business and you've now taken direct responsibility for China, so I think that will help bring a focus to that, and will really help us, I think, as a group.

Andrew Reynolds Smith: Thanks, Chris.

Andy Simms - Citi: Good Morning. This is Andy Simms from Citi. Just couple of questions if I can. Firstly on investments, is there a level of investment required on anything such as sales and systems to achieve what you want going forward? And then secondly, just on the CAPEX number we've seen in the first half. Can you give us an idea about where that might end up for the full year?

Andrew Reynolds Smith: Let me take the first part of that Chris. I think as we sharpen up our focus on understanding markets, the attractiveness of the markets, the segments by product line and so on, we are continuing now to develop our business intelligence or our analytics, which helps to drive the sustainability of that. So that's a key focus of how we are taking things forward and driving the decision making. And I'll pass the second piece over to you Chris.

Chris O'Shea: Absolutely. CAPEX should be broadly similar in the second half through the first half. There are some things that are going to – won't be repeated, for example, a new facility at Laconia for the aerospace business in Flex-Tek, but it should be broadly similar. I would say, if underlying your question on systems is, are we are going to implement an ERP across the group? The answer is absolutely not. So there are some system improvements, but there is not a major investment required in order to run the Group.

Andrew Simms: Just – sorry. Just coming back on the CAPEX side. How do you see that as a long run number? Is it sustainable around the same level of depreciation or does that have to go up?

Chris O'Shea: I think it really depends. Broadly, yes. So we do have some capacity in the existing asset base. The question is whether the capacity is in the right place. So with 4% of revenue in China, we have clearly got a lot of capacity in the US. There is a point at which we maybe want to build more capacity elsewhere. So all in all, we've got around £300 million of PPE in the balance sheet. So this is a capital light business. We see nothing that would change that.

Andrew Simms: Thank you very much.

Alex Virgo - Nomura: Thanks. This is Alex Virgo, Nomura. I just wanted if you could dig into John Crane a little bit. In the first half can you break out the decline in the after-market business a little? Maybe you can tell us how much of that down 7 was due to project delays and deferred maintenance? And how much of it is the overall aftermarket falling, if you see what I mean? And then on the OE side, can you talk a little bit about how much of the decline was the artificial lift system, specifically, the upstream specifically, which I imagine got absolutely cratered. And how much of it was the broader oil and gas supply chain? Thanks.

Chris O'Shea: Okay. Maybe I can take the last bit first, but we won't break out the John Crane production solutions. But the artificial lift, it is fair to say that that business has seen more of a hit than the refining business. And that has contributed to the higher level of first fit. Our OE drop versus the aftermarket.

Andrew Reynolds Smith: I think on the aftermarket business overall has been for me really, just how resilient that is, that aftermarket and downstream piece. I mean the start point with it is, this is not a demand side challenge we've got in the market at the moment. So we are still refining 95 million barrels of oil a day. So those refineries are still running really hard. And they need to keep running, running hard.

We are seeing people looking at potentially delaying refinery retrofits, for example, where they would go through a midlife upgrade and move more towards an extended, preventative maintenance program. So there are some switches going on like that. I think overall, people are just trying to delay; not cancel, because they can't, because the implications of something failing outweigh any benefit I think you might see from cutting corners.

So yes, it is being squeezed. It feels like it's being pushed out. What we are not seeing is any squeezing on the stickiness of our share in that aftermarket. And over time, the expectation is that if you are going to keep the refineries running, you have to maintain and repair and replace. So I would say at the moment we are seeing more push out than cancellation.

Alex Virgo: Okay. Thanks. And then last one just on the 90 bps that you called out related to strategic or loss-leading I guess on first fit for the aftermarket benefit subsequently. I guess two parts: one, when do you expect to see the benefit coming through on the aftermarket? And second one is I would imagine that that's only going to get bigger. So as we think about your comments on the second half in John Crane and looking forward maybe into 2017 as well, are we likely to see that 90 bps? Should we think of that as just price, or is it a bit more than that and should we expect it to become more of a headwind as we move through the next 12 to 18 months I guess?

Andrew Reynolds Smith: Yes. I mean that reference was specifically related to a large program in Kuwait. And it was more about us making a strategic decision to invest in something to increase our installed base, rather than increased competition to protect the installed base we had. And clearly those are tough for first fits, but that was really about that expansion of installed base, rather than maintaining it.

Chris O'Shea: I think if I could add – we look at these proposals on a lifecycle value basis and sometimes there is – we have to give [inaudible] the value we think our products are [inaudible]. Sometimes you get it up front, sometimes you get it after the [inaudible]. But also the bear in mind, the refining business is a tough business and has been for 25 years or more. So these guys work with very tight margins. So it is not that the low oil price is causing them to look more at the cost base, they've been like that for as long as I can remember. They are making some money just now, which is quite unusual in that business. So that's why we are deferring the maintenance, but there is no change in the market dynamics as far as we see.

Every project, especially the big one, in dimensions, in Kuwait, we will look at the 20 years to 40 years annuity that we receive, not just price of the first fit. And that's probably a little bit of a change in that we are more actively involved in reviewing these things now. So we said to the team, bring us everything that you've got rather than you've got – in the past maybe they had a limit and that's not smart business.

Andrew Reynolds Smith: In answer to your specific question normally starts to come through about two plus years after first fit.

Alex Virgo: Great. Thanks, gentlemen.

Robbie Capp – Merrill Lynch: Good morning. It's Robbie Capp with Merrill Lynch here. Three questions if I may. Firstly as you say, if you look Smiths and the margins you are making, metrics we can look externally like sales per employee, etc., it does look very efficient as is. Can you give us some help in, kind of, some of the metrics you are looking at maybe by division, how it compares to best-in-class, so in terms of asset turnover. In terms of working capital as a percentage of sales, maybe we start with that one?

Andrew Reynolds Smith: Okay. Yes. Perhaps starting with working capital, if I look at the inventory number that I had mentioned a little bit earlier, turning inventory at 2.5 times. Well, there are different business models clearly. And models depend in some cases on stock on the shelves, stock as it moves through the operations, stock when it's in raw.

If I look at the turns today, I see the opportunity, because simply when I break that down, I see adequate stock on the shelves and I see it moving too slowly from raw through the plants. If I look at that level of turn, typically, you would say in a very high volume operation turns of ten, plus. In fact most of the automotive world you would see turns significantly higher than that; whichever way you look at turns of two to three from a raw material and work in progress perspective, that tells you it simply is taking too long to get through your operations, because the tie between the customer demand and the customer order and what you're asking your suppliers for isn't flowing. So that means there’s waste. And that means if the customer gets a slower reaction and it means we hold stock on our balance sheet.

So I have a very high level of confidence that we can focus in the right way in that area and improve over time. And Chris, if you want to talk about some of the other metrics perhaps?

Chris O'Shea: I would fully agree with Andy. I think the answer is for us to look at the elements in detail and they will be different business by business. So as Andy says, one of the things we hear, because the inventory is high, is, well, you need to because it's a service-led business. So why does John Crane get such a good margins?

Because it can respond in the middle of the night and fix something that goes wrong at a refinery.

But you have to peel that away, and you have to really lead people to come up with the right answer. So I think there is no one metric that we'll apply across the Group. If you look, for example, at receivables, we have about 65 days today. Is that good or bad? It depends on the mix of your business. In the US you get net 30, net 45; you sell into Italy, it's a sport to pay you late no matter what, so you get 120; in Japan you get 110 days. It's a matter of honour to pay you on the day.

So inventory – sorry, receivables depends on your mix and where you do business. But I think there will be a range of measures that we'll put in place, but the key thing for us is to challenge conventional wisdom and the only way to do that is to get on the business and visit, and spend time with people.

Alex Virgo: Thanks. And the second one, a bit more specific on the Medical side. Obviously, a very strong margin in the first half. Despite the fact that you've got R&D coming up, you talk about growth margin pressure, not much volume leverage on just the 1% growth. Can you talk more about where that's coming through? How sustainable that is? Where you are cutting the costs? And how much mix played into that?

Andrew Reynolds Smith: I mean there have been a couple of key areas. First of all, I mentioned that we've been investing in a more focused way in some of the R&D. I think for me innovation in R&D is all about small incremental innovation that comes through rapidly and enables you to maintain and increase value. We've been doing that.

The particular areas of benefit that we've seen around infusion pumps have been on the portable pump side or the ambulatory, where there has been an increasing demand because the hospitals that have been seeking more home care. That sector of the market has increased more quickly. And of course, we've got good content of disposables and consumables that link with that once those portable pump systems get out into the market as well.

As far as leaning the thing and the cost savings, I would say most of the benefits there have been coming through a strong focus on channel to market simplification. I think, like a lot of companies overtime you build up a legacy structure of agents and distribution that in some cases is optimal and some cases is not. And the Medical guys have been really looking at that very, very carefully to see whether value is in that and how efficiently we can get stuff to our customers. And that's actually been yielding some quite significant cost savings, which we are large part of what you are seeing now.

Chris, do you have anything to add to that?

Chris O'Shea: I will add - we believe in the medical market you see between 1% and 2% price pressure on an annual basis. The Medical team believes and Andy and I believe as well, the only way to see off that pricing pressure is to innovate. And that's why the R&D spend goes up. So we would like it to be a bit higher. And any fool can spend money, you have to make sure to spend on the right thing. So we will push it higher in a smart way. But the pricing pressure always has been there and always will be there.

Alex Virgo: Thanks. And just one more for you, Chris. Just in terms of the charges, quite significant reduction in the asbestos payments for John Crane, which is a credit for the Titeflex as well. What's going on there and what can we expect for this year in moving out?

Chris O'Shea: If I could tell you that, I would tell you the result of the referendum and the oil price at the end of the year.

Andrew Reynolds Smith: Not the Scottish referendum!

Chris O'Shea: No, I know the result of that one! I think we continue to manage that liability. We are not the only company to have legacy asbestos liabilities. And I think it's very well managed and we have a good record of defending our claims. I think on average we have paid around $1 million per claim as we lost them.

And sometimes you have a good day, sometimes you have a bad day. So I don't know where it will go going forward, but we do regularly review the provision. Similarly for Titeflex. So we keep that under review and manage it, and we are responsible as well; where we're liable, we pay. So we will continue to manage that. I think it's well managed by our legal team. I don't know where it's going, but it's not getting worse.

David Larkam - Numis: David Larkam from Numis. Couple of questions. Firstly, just on the increased investment you want going forward. You said that's going to be sort of funded through internal savings. So have we got sort of Fuel for Growth version two coming through? And if that's the case, are we going to see those charges now moving above the line rather than below the line which they have traditionally been? And then secondly, can you talk about the shape of the Group? I mean, have you got the financial and management bandwidth to look after five separate businesses?

Andrew Reynolds Smith: Okay. Well, I'll let Chris answer the above the line, below the line philosophy in a second. But the key thing for me is how we build in systemic process-based improvements in the business that underpins sustainable growth. Sometimes it's important to do some things that give you a jump forward. But this for me is about building in that systemic improvement in our innovation process, in our investment processes so that we incrementally develop the resources to deliver it. And it sustains in the long term. So this is not a return to Fuel for Growth. And that really is part of developing that systemic capability overall for the business. Chris, I'll let you answer the philosophy question where you are I are relying on above the line, below the line and then I'll come back to David's question.

Chris O'Shea: I'll say in short, no; there will be no Fuel for Growth II. I think that where you have a material restructuring programme and that is quite limited in the number of actions, then it can make sense to report that separately; where you have a program that has 100 or 200 small things, that's part of normal day-to-day business. So those types of things will go above the line, they won't continue to be below. But there might be occasions if we did a radical restructuring where we were report separately. But the trend will be for fewer below the line items. Something that Andy and I are both very, very clear on, and the business is also very clear on that as well.

Andrew Reynolds Smith: I think over time for me this is now really about creating a clear understanding of our positioning in each of the market that we serve, how attractive those markets are, and our own competitiveness. And from that we'll be making some judgments about where we are in that journey towards achieving leadership positions.

And we are not in the same position with all of our businesses or with all of our sub-segments. So you can expect some thinking around focusing in the future. And I think over time here, we will likely see a strong focus and simplification around the way that we are doing things.

Robert Davies – Morgan Stanley: Morning. Robert Davies from Morgan Stanley. Just a couple of questions. First one just on John Crane and just trying to flesh out some of the trends you're seeing there between your different customers within the downstream and midstream segments where you can give us a bit more colour if there is, I guess, a difference in messages between different customers, what they're saying to you. And the second one is just around the Medical guidance of the sales being the same in the second to the first half. Don't you typically see a sort of better second half? I just wondered why the number was so low.

Chris O'Shea: I can do the second one. First, we expect the growth rate to be similar in the second half rather than sales to be the same.

Robert Davies: Okay. Thanks.

Andrew Reynolds Smith: Obviously, an interesting question on the different views around the world at the moment. I think the overwhelming view is that this is broadly driven by supply, not demand. Everyone is sharing expectations. The amount of consumption and demand that exists is staying solid. Potentially, some expectation that what happens on the supply side eventually is going to affect that. Question of how long that takes.

And people are broadly taking the same approach. I mean they are quite reluctant to delay major activities. I think people are looking at it and saying, 'How do I now progress through the next period', rather than, 'What do I need to do structurally', seems to be the order of the day in the general conversations that are taking place. And I think we are broadly seeing that. We are seeing delay and push out rather than anything structurally changing in the way they are approaching their investments.

Sash Tusa – Agency Partners: Sash Tusa from Agency Partners. On Detection, Safran has very much indicated that they are looking at divesting their detection business. Have you seen any disruption up till now in terms of that business being fattened up for possible sale and hence disrupting your own business? And if that business is sold, what do you think is the balance of opportunities for Smiths compared to threats from that business under a different owner?

Andrew Reynolds Smith: Okay. I think the simple answer to that one will be we haven't seen any change in market behaviour amongst of the competition of late. I think everyone is seeing a fairly healthy inflow of questions about how do we take the business forward. You wouldn't expect me to comment on the acquisition side of things and I won't. But you also know that we have a responsibility to continue looking at all the opportunities as and when they arise on a continuous basis. So we are continuing to focus just on getting our Detection business well on the road to progress, because it's really been quite pleasing what's been achieved over the recent year and a half.

Chris O'Shea: I mean, in terms of who would own this, we don't mind competition. It is a good business, we compete well with it and we'll continue to compete well with it in the future.

Kerstin Landau – Allianz Global Investors: Kerstin Landau, Allianz Global Investors. I was interested in divisional disclosure; I have the feeling we skipped the EBIT bridges and correct me if I am wrong, I would be keen if they will come back per division for full-year, and if not why not? So is it lack of trust in the available data? And for the [inaudible], I'm getting a bit more comments on that.

And second question, I mean we spoke about John Crane already, a bit on pricing on the OE. I would be very much interested how the aftermarket looks; are we still positive with respect to pricing? Thanks.

Chris O'Shea: And so for the first one, we absolutely have the data. There is always a balance when you put these things together. How long do you speak for and how long do you get people to ask questions. So – but we'll take your feedback on board.

Andrew Reynolds Smith: I guess as far as the aftermarket from a pricing perspective, we have not seen any material change. We're maintaining our shares, in some cases improving them. And pricing is not really playing a role that we've seen at the moment.

Kerstin Landau: Is it still slightly positive?

Andrew Reynolds Smith: I beg your pardon?

Kerstin Landau: Sure. Aftermarket is still slightly positive can you confirm that, aftermarket pricing at John Crane?

Andrew Reynolds Smith: I don't have the -–

Chris O'Shea: I would say it's broadly neutral.

Andrew Reynolds Smith: – year-on-year price movement, but…

Chris O'Shea: As I would say, I mean these are customers which have been very price-focused for decades. So I would say it is broadly neutral. We're not seeing -– we don't have the opportunity to put our prices up 10% unfortunately. By the same token, we don't require to take them down substantially, so it's fairly flat.

Jonathan Hurn – Credit Suisse: It's Jonathan Hurn from Credit Suisse. Just two questions please. Firstly, just in terms of the R&D. Where do you think that has to go as a percentage of sales? And following on from that, can you just give us an indication of the payback on R&D by division? Where does it come through sooner?

Andrew Reynolds Smith: Yeah. One of the key things that I've been focusing on really is not so much the percentage, because I look at the percentage overall. My bigger concern is how well we're spending that money at the moment. We demonstrably haven't been doing that well enough in some divisions, so it's not been a matter of quantum, it's been a matter of -– we've been investing in things and they haven't been saleable, or it has been extremely difficult to get them into production.

So that's my first focus. I mean I have a feeling, a strong instinctive feeling, that for a technology-heavy, asset-light company we will need to focus strongly on R&D and innovation to maintain a leadership position. I can't put a number on that at the moment. The other key thing then for me is just how do you track, how well your investments turn into sales and profits. And that's something we're looking at across the group at the moment as part of understanding the efficiency with which we're investing. So I can't give you a number at the moment. Directionally I feel it ought to be better and more. And we'll come back to that progressively.

Chris O'Shea: I think on the payback it depends on the markets that you are in. So when you're in the med-tech market or you're in the detection market it can take quite some time to get new products qualified. So it might take a couple of years to get something qualified in Detection, could be similar in Medical. So we have to work that into our process. But we're having a review of the time it takes to do certain things and certain of the technology functions. And we feel, and the divisions agree, that it's far too long just now so we need to improve that quite substantially. But we'll always have this regulatory issue.

Jonathan Hurn: Second question just to come back to your comments about unlocking the potential in Smiths, and you're saying obviously there is a lot of potential there. And I know it's early days. Can you just give us a little bit of a flavour of the time scale when you start to see or where you think the first benefit is, is that three year view or is it a five year view, please?

Andrew Reynolds Smith: Yes. You're referring to everything from growth to improvements financially in the business, I guess. We're in process of working that through. A key piece of it for me though is, as we work through the relative business positions and the attractiveness of their position, and the sub-segmentation of their position, and the competitiveness, because that's really going to dictate how and where we drive many of our activities. So I expect we can see over the next months some of the results of that becoming clearer and then over time will become very focused on certain areas of improvement whether it's the working capital we mentioned earlier, or where we expect to be from a growth perspective as we go forwards. But we have to get that foundation in place first. Thank you.

Sandy Morris - Jefferies: Very quick. This is where you discover if I knew nothing about GKN, it's worse here! The asbestos thing was interesting, because we lost a couple of cases. And this is the first time for years we've lost cases without having to pay out a $1 million or $2 million; that's the only thing that was interesting there, but that's in the weeds. And coming back to this John Crane thing if Kerstin and

Alex will forgive me for bringing it back up, the reason we're all scratching around is we moved a bunch of sales out of the aftermarket into OE last year, we did one of these reclassification jobs. My impression was because these aftermarket sales were more OE, it would make the aftermarket more robust, if you see what I'm getting from. And we've got minus seven, which is about as bad as I can ever remember John Crane doing, albeit against the worst backdrop that I can ever remember. The OE has done this before. That's why we were scratching around in this aftermarket bit trying to get a feel for whether it's just shutters done on all CAPEX by the oil majors integrated guys. And therefore, it is a deferral. I mean its feels like that, Andy, if I might say so. But I guess we're going to keep pestering you for sort of anecdotal evidence.

Andrew Reynolds Smith: Yes. And perhaps I wasn't clear enough in my earlier comments, as far as new refineries being commissioned, we are absolutely seeing those things being delayed and shuttered. As far as significant retrofits midlife of refineries, we're seeing those decisions being delayed also. As far as efforts to keep existing refining capacity running efficiently, we're seeing still a strong focus on that. So we're seeing some maybe delays, some slightly different approaches, but in essence to keep what's there running seems to be pretty robust. But you're absolutely right. The number of pure new refineries being commissioned is slow at the moment. So Chris, if you've got any other thoughts to it?

Chris O'Shea: I mean obviously, the anecdotes will come through because eventually the expenditure has to come through. I think a levelling off of the oil price will help the refiners and I think gives the more of a [inaudible] levels of higher or low, it doesn't really matter; if it gives more of a view of the profitability over the medium term then they’re more likely to do the routine maintenance and the retrofits. The worry for them I think is they make so little money in such a short period that when they start to make money they have an uncertain future; they’ll defer everything that they possibly can. So some stability there I think will help; the initial shock will always cause a movement. But really we'll only be able to provide the anecdotes when we see that coming through later on.

Alasdair Leslie – Societe Generale: Hi, good morning. Alasdair Leslie from Soc Gen. Just a question or two on Detection. Contract mix I think is going to be a drag again in H2, but maybe from 2017 onwards, if you could just kind of call out the portion or the mix of the portfolio that is still going to be kind of represented by lower margin contracts. And then, linked to that, you obviously talked about the importance of programme execution in your presentation. You've come from a background at Driveline which very much, I guess, revolved around multiyear programmes and execution. And I guess obviously, sometimes you had to kind of balance taking on some strategic programs against returns. So are you happy to kind of devolve that responsibility at the divisional level, in terms of Detection? And how actively involved you're going to be in terms of oversight of these contracts?

Andrew Reynolds Smith: Okay. Well let me have a chat about the program piece. And then perhaps, you can pick up on the first point there Chris. I think from a programme perspective, I mean this is one where across three, probably four, of our divisions we increasingly have substantive long-term contracts of some size, that’s important that we get right. We have some history of not always having done that. And for me it falls into a couple of categories. It falls into the category of getting the contract right on the way in. In terms of the commercial terms and the lifetime liabilities of that contract and that's something that we'll be looking at sharpening up in the division, but more broadly across the group because getting a contract right on the way in is really important.

The second piece of it then is the ability to execute it. And I think in simple terms what that means for us is getting the cost right, really understanding the cost and particularly when it’s technologies that are revolving quite quickly, getting that costed correctly. It includes a high proportion of externally-sourced, pretty neat technology that we're buying from, you know, companies that are not selling the same thing for 30 years on the trot; it’s really quite breakthrough stuff in many cases. So getting that costing piece right and really understanding our ability to put it together at the right cost and get it where it needs to be at the right time.

So it's the program execution and the contract robustness that I think is crucial. Particularly, as in the Detection business we're seeing approaching 40% now around servicing, training people to use the equipment, maintaining the equipment, updating image libraries, and that's a huge piece of the story right now, because the pace with which these threats are being identified and your ability to detect them and getting them out there into the image libraries, and the databases and into the algorithms of the machines is quite an undertaking right now.

So us really getting a grip of all of that and our ability to exploit it is really important at the moment. Can I pass the other one to you Chris?

Chris O'Shea: Absolutely. So I think in terms of the programmes in Detection it's difficult to say, because we expect them to come through in the second half, but we don't control the point of revenue recognition essentially on this, so the customer has to have acceptance. So we think that will be in the second half but some could actually strain to the first half of 2017, so I can't be precise in terms of the mix there. I mean, I think if I would add to Andy's point to be clear, the big contracts do come to us for approval. So last week, we spent some time – they have to go through the Detection team first but then they have to come to us for approval. So in general we have to devolve the right amount of accountability. But when you talking about a large multiyear contract with a lower than ideal margin, then Andy and I would certainly review that and give the final yes or no.

Alasdair Leslie: Thank you.

Michael Blogg - Investec: Morning. Michael Blogg from Investec. Can I just ask – there was a question earlier about metrics, but metric across the group for cash conversion has been extremely good in your first set of results – and I hope you're taking full credit for that Chris. But what do you think the range of cash conversion should be, bearing in mind your earlier comments about potential?

Andrew Reynolds Smith: Potential growth?

Chris O'Shea: Yeah. We said in the past, I think, 85% to 95% on the cash conversion; for a business that’s shrinking I don’t think that's particularly good, for the businesses growing that's not so bad. So I would say that that's a reasonable range for us to have just now, because we are looking to bring growth into the business, but if we see markets working against us then – and we see a revenue coming then we would expect the cash conversions. And my expectation is it should be a minimum of 100%.

Michael Blogg: Thank you.

Andrew Reynolds Smith: Well, thank you very much everyone. Really appreciate the support this morning and the questions. Very much looking forward to playing out the progress on the story with you over the next few months. And enjoy the rest of your busy day. Much appreciated you being here this morning. Thank you very much.