

INTERIM RESULTS 2011/12

FULL TRANSCRIPT

SLIDE – INTERIM RESULTS 2010/12

SLIDE – CAUTIONARY STATEMENT

SLIDE – PHILIP BOWMAN

PHILIP BOWMAN: Ladies and gentlemen, good morning and welcome to the 2012 interim results presentations for Smiths Group. The usual advice please, to avoid interference with the sound system, I ask you to check that your mobile phones, BlackBerrys, iPads and assorted paraphernalia are turned off. Peter Turner, our Finance Director, is alongside me and the divisional general managers and some of the senior members of the corporate team are seated in the front row. Unfortunately Srini Seshadri, from Smiths Medical, is unable to join us today as he's recovering from some minor surgery but Rob White, his Finance Director and Stuart Morris-Hipkins, Vice President of Global Sales & Marketing, are with us and they will join Peter and me in answering your questions at the end of the session.

As in the past presentations, I will give a brief overview of the interim results before asking Peter to present the financials in more detail and later, I will review the operational progress in each of the divisions and set out our priorities for the remainder of the year.

SLIDE – DELIVERING AGAINST OUR OPERATIONAL PRIORITIES

The trading environment has remained tough particularly for those businesses with exposure to government procurement or government funded customers. At the

same time, further quantitative easing has driven down gilt rates resulting in a steep increase in our pension funding deficit, a situation that will, of course, impact many other companies. Overall, I believe we have made good progress in the areas we can control despite these challenging conditions. These results again demonstrate the benefits of our portfolio of businesses and the diversified exposure to sectors and to geographies. Last September I set out the priorities for this year in terms of the operational improvements and actions to drive Smiths Group forward. We have made good progress against them and they are summarised on the slide. I particularly highlight the investment we have made in a range of initiatives to drive sales growth. Our investment in new products over recent years is delivering results and our best pipeline of innovative launches is planned for the next 18 months.

We also continue to expand our resources in higher growth emerging markets. Indeed this year, we aim to increase our head count in these markets by recruiting approximately 350 additional people, primarily in sales and marketing roles.

Emerging market sales grew 24% in the period and increased as a percentage of total sales by 2½% percentage points to 15%. Much remains to be done but we are moving firmly in the right direction. The Performance Improvement Programme in Smiths Detection is on track and delivered £5 million of savings in the first half of the year with a further £10 million of benefits to be delivered in the second half. We focused on reshaping the business to reduce the breakeven point, strengthening the sales teams and giving them better data to manage their customers and build a solid foundation to support further medium term growth. Our order book is significantly stronger than at this time last year as the benefits of these initiatives start to become apparent. The group wide restructuring we began in 2008 continues to deliver the benefits that we promised. We are in line to meet the £70 million saving target by the end of next fiscal year. Cash generation remains a key priority. Conversion in the first half year improved over last year and we are continuing to target conversion of between 90% and 100% for the full year.

We have extended our portfolio and presence through two acquisitions in the period. Power Holdings transforms Interconnect's offering in the area of power management and John Crane's aftermarket capabilities for its bearing businesses have been expanded by the purchase of Turbo Components Engineering. Both acquisitions are performing in line with our expectations. At the same time, underlining our commitment to more active portfolio management, we have identified some non-core activities which we will seek to divest before the end of the fiscal year. I will return to these themes in more detail in a moment, however the key message for today is that we have continued to progress in challenging markets while increasing investment in new products and emerging market infrastructure to drive medium term revenue growth.

Whilst this investment may not necessarily generate higher earnings today, I am confident that executed properly it will drive shareholder value over the medium term.

SLIDE – PROMOTING RESPONSIBILITY: AN INCREASED FOCUS IS DELIVERING IMPROVEMENTS

As I've commented a number of times previously, providing a safe working environment within all our facilities is a key priority. I am pleased to be able to report today that the steady reduction in both recordable and lost time incident breaks continues. In addition, you will also see we have made good progress against a range of environmental metrics and these reductions have been achieved over the past 18 months.

So with that brief introduction, I would now like to pass over to Peter.

SLIDE – PETER TURNER

PETER TURNER: Thank you Philip and good morning everyone.

SLIDE – INTERIM RESULTS 2012

I will kick off as usual with a slide to summarise the key financials. You will see that we have continued to move forward in the first half although the rate of progress has been moderated by those businesses with exposure to government funded customers. Headline sales were up 3% on the prior period, benefitting from currency translation and recent acquisitions. On an underlying basis, sales rose 1%. Headline operating profit was up 2% on both the reported and underlying basis. As we move down the P&L we see the impact of the headline tax rate being slightly ahead of last year at 26½%, a rate which we expect to maintain for the full year. The interim dividend at 11.75 pence per share represents a 4% increase on last year. As you know, the Board has adopted a progressive dividend policy for future payouts, subject to maintaining a cover of around 2½ times.

So let's get straight into a bit more colour on the performance at a divisional level, starting with John Crane.

SLIDE – UNDERLYING HEADLINE SALES AND PROFIT PERFORMANCE

A really strong performance with good growth in both OEM and aftermarket volumes. We have leveraged this growth well at the operating profit level. We have margined up 190 basis points in the first half. Smiths Medical has done a good job in continuing to move its profits forward against a backdrop of lower hardware volumes with continued delivery on its value engineering programme more than offsetting some price weakness. In both Smiths Detection and Smiths Interconnect you can see the impact of their exposure to government demand, lower volumes and the effect on operational gearing, together with adverse mix leading to lower margins in the period. We will talk a little later on what we're doing on restructuring

to address this looking forward. Finally Flex-Tek, another strong performance with benefits from mix and efficiency in the period.

SLIDE – PROFIT PROGRESSION 2011 to 2012

Pulling all these together, the next line summarises the key movements in the half. You can see that pricing generated £5 million of benefit driven by aftermarket and John Crane and increases at Flex-Tek. Positive volumes of these divisions were offset by declines at Detection, Interconnect and Medical. The volume impact was also affected by the adverse operational gearing of Detection and Interconnect where we also saw adverse mix of £4 million with a reduction in military demand. We continue to make good progress across our operation efficiencies both in terms of restructuring and value engineering which more the offset some modest cost inflation. We invested £4 million in future growth drivers such as increased sales and marketing and new product development. Along with the other movements you can see set out here, this resulted in a pre-tax profit of £217 million for the half.

SLIDE – GROUP CASH CONVERSION

Now turning to cash conversion, at 82% this is slightly below our four year guidance of 90% to 100% which is often what we see in the first half. I am confident we will report higher levels of cash conversion at the full year.

We will see the main movement is in working capital largely in John Crane, commensurate with its growth, with smaller increases across the rest of the group. Cash generation remains a key priority for the group providing the resources to reinvest in our business for future growth as well as to grow the dividend, subject to maintaining a healthy balance sheet and the constraints of our legacy liabilities.

SLIDE – IMPROVED RETURNS ON CAPITAL FROM JOHN CRANE, FLEX-TEK AND MEDICAL

The last of our four key financial metrics is return on capital employed. As you can see, we have made good progress in Flex-Tek, John Crane and Medical but these were offset by lower returns in Interconnect and Detection. Smiths Interconnect was affected by the lower profits and the inclusion of the additional capital following the acquisition of PDI in October. Smiths Detection's returns reflect the lower profit level but the delivery of the division's performance improvement plan will restore returns to more acceptable levels. The definition of return on capital is poor. It has been adjusted for both years to exclude significant litigation provisions which I will come to in a moment.

In summarising our performance in the first half against our four financial metrics, you can see the consistent theme in good progress of much of the portfolio offset by the headwinds in our businesses with significant exposure to government funded customers.

SLIDE – RECONCILIATION: HEADLINE OPERATING PROFIT/STATUTORY PROFIT

I will now move on into some detail on the items that reconcile the headline operating profit for the statutory numbers, starting with the exceptionals which amounted to a charge of £88 million in the period. The £11 million restructuring charge was a combination of both the group wide and Detection cost saving programmes. I will say more about this in a moment. There was also a £16 million charge relating to the John Crane asbestos litigation. £7 million of this relates to the reduction in the US risk free rate which affects the discounted value of the provision with the balance due to its rolling ten year nature. Overall the experience is broadly in line with that of recent years. In addition, there were two new items. The first

also relates to product liability litigation. Over recent years Titeflex Corporation, part of Flex-Tek, in common with other players in the marketplace, has experienced product liability claims relating to alleged defects in its flexible gas piping products. The cost of defending these insurance subrogation claims is varied, typically around £3 to £5 million a year and this has historically been charged against headline operating profits. The continuing progress and pattern of claims now provides sufficient evidence to recognise a provision for future costs in these accounts. We have estimated the cost to defend future financial claims over the next ten years resulting in an exceptional charge of £52 million.

The other exceptional item is an £8 million charge which reflects our decision to change the basis for estimating the accrual for rebates to distributors in Smiths Medical. This one off change has been promoted by the availability of better data and estimation techniques which have highlighted that the accrual should be £8 million higher. The amortisation of acquired intangibles of £25 million is higher than last year reflecting the impact of recent acquisitions.

SLIDE – EXCEPTIONAL ITEMS: RESTRUCTURING PROGRAMME DELIVERING BENEFITS

Now moving to the restructuring programme in more detail where we continue to make good progress first with the group wide scheme shown in the top half of the slide. You will see that we have generated £5 million of savings in the period and we expect to deliver a further £6 million of savings in the second half. On the Detection performance improvement, we have delivered £5 million of savings against our targets for £40 million and we expect a further £10 million of savings in the second half. We have incurred costs of £14 million of which £11 million has been treated as exceptional.

SLIDE – PENSIONS: DEFICIT INCREASED TO £459M, LOWER DISCOUNT RATES

Moving to the balance sheet and first turning to pensions, you will see the net pension deficit has increased by £260 million to £459 million since last July. Partially offsetting this, we now have built up £46 million in the escrow which is invested in gilts. Movement in the period has been driven primarily by a reduction in the rates at the long end of the corporate bond curve which results in a significant increase in the discounted liabilities. I should also like to remind you of the likely cash contributions to the scheme this year. These could amount to around £110 million. The £36 million payment for the Smiths Industry Pension Scheme in line with our normal contributions last year, a contingent one off payment of £50 million in May 2012 to the TI Group Pension Scheme consistent with our agreed funding plan and a £24 million contribution to the US and other smaller schemes. In addition we are making the monthly contribution to the escrow account on behalf of the Smiths Industry Scheme of £2 million a month. As you know, we have closed these schemes to future accrual and have funding plans in place. The process for the latest tri-annual reviews of the UK schemes will start shortly, although it is unlikely we will know the outcome for some time.

SLIDE – STRONG BALANCE SHEET SUPPORTS INVESTMENT

Now moving to net debt, in terms of movement there was a net outflow of £168 million on acquisitions for both Power Holdings and Turbo Components & Engineering which, along with the payments for the final dividend, resulted in an increase in the net debt of £228 million to £957 million. Given by earlier comments on cash conversion and the pension payments, we expect the net debt to be between £850 and £900 million at the year end. You can see from the slide here

we have a strong balance sheet with good liquidity to support our investment plans to drive value creation for shareholders which is a great point to hand back to Philip.

SLIDE – PHILIP BOWMAN

PHILIP BOWMAN: Peter, thank you.

SLIDE – CREATING SHAREHOLDER VALUE THROUGH LONG-TERM PROFITABLE GROWTH

As I noted in my opening remarks, the past six months has been difficult for some of our businesses, particularly those exposed to government controlled spending, yet at the same time, some of our other businesses have delivered record results demonstrating resilience for the group as a whole. The results today demonstrate that we continue to see significant opportunities to drive shareholder value.

Throughout the rest of the presentation, I would like to highlight some of the key actions we're taking and will continue to take to deliver this.

First, we have continued to invest heavily in the drivers of medium term revenue and profit growth. In all our businesses, we remain committed to new product development and innovation. Over the past 18 months we have run a cross-divisional process to divine and implement a consistent gate driven approach to new product development. We believe that this will deliver a higher quality new product pipeline and improve the effectiveness of our new product investment. This is an ongoing process that is beginning to help deliver some significant new product launches but also stepping up our investment in the emerging markets by expanding our sales and manufacturing capabilities in the Middle East, Asia and Latin America. As I mentioned earlier, we saw a 24% growth in emerging markets sales this half year.

Second, there remains further scope to drive operational improvement across all our businesses, although the scale of the opportunity varies by division. In John Crane, Smiths Medical and Flex-Tek, it is more about a process of continuous improvement where benefits largely will be reinvested to accelerate revenue growth. In Smiths Detection and Interconnect, we are taking more of a step change to re-engineer the cost base and improve margins. Another active cross-divisional initiative seeks to standardise and improve quality assurance while establishing the root cause of and measuring the cost of poor quality. As these new processes gain traction, we believe that margins will benefit.

Third, cash conversion remains a key priority. This underpins our investment in organic growth drivers and in bolt on acquisitions as well as allowing us to fund a progressive dividend and meet the cash costs of the legacy liabilities.

Finally, we continue to see value enhancing acquisitions that add complimentary technologies, open up new markets and geographies and leverage our existing sales infrastructure. As I noted earlier, we have completed two more acquisitions that are performing well, meeting both our strategic and financial criteria. Trading conditions in some of our businesses are likely to remain challenging. However, you will see in the next few slides that we are continuing to invest and that there are still many opportunities within our control where we can drive value and improve returns.

SLIDE – JOHN CRANE: DELIVERING SALES GROWTH, IMPROVING MARGINS AND RETURNS

Now moving on to the individual divisions, underlying sales at John Crane rose 13% reflecting higher orders for first fit OE equipment and increasing aftermarket sales across all our sectors. Aftermarket revenues grew by 12% benefitting principally from strong demand in oil, gas and petro-chemicals. First fit original equipment sales rose 16% as customers continued to invest more in new projects, particularly

in the oil, gas and petro-chemical sectors in the Middle East, Latin America and in Asia. We continue to invest heavily in new OE projects to ensure that we have a robust pipeline of future annuity style aftermarket revenues. We experienced growth in all regions with notably strong performances in the Americas for both aftermarket and OE sales. We also saw good growth in Asia Pacific and in the EMEA region. However the bright spot in EMEA was the Middle East where we experienced growth in excess of 25%.

SLIDE – JOHN CRANE: INVESTING IN FUTURE GROWTH: NEW PRODUCTS & MARKETS

Our product diversification strategy is paying off with new product lines in hydro-dynamic bearings, power transmission couplings and filtration systems. We are expanding our addressable market by both increasing the range of products we sell to existing customers and by growing the customer base, particularly in emerging markets. Representing 16% of our total rotating equipment revenue, the new product lines achieved organic sales growth of over 14% in the first half. Integration of TCE is progressing well and its acquisition provides a template which we are replicating to expand our bearings aftermarket business. We have plans to grow new product development in John Crane by around 15% a year over the next few years. John Crane Bearing Technology has invested in a major test facility in Germany and joined a leading international research consortium. Our sales and service network continues to expand to support growing market demand in all regions. Service centres have opened or expanded in several markets and our first site in Turkey will open later this year. We have expanded John Crane's seals offering in China and our presence in that market has also been strengthened with the opening of a new training facility. We are now meeting local demand in Brazil with the manufacture of advanced seals and filters in a facility in Sao Paolo.

SLIDE – JOHN CRANE: OUTLOOK

John Crane's order rate remains strong and is expected to support sales growth in the second half although the rate of growth may ease against a strong comparator last year. Margins will benefit from the additional volume and the full year impact of the cost savings initiatives. However, this will be offset in part by strategic reinvestment in longer term growth opportunities.

SLIDE – SMITHS MEDICAL: DELIVERING MARGIN GROWTH IN A CHALLENGING MARKET

Turning to Smiths Medical, Smiths Medical continued to deliver margin improvements from its operational initiatives particularly from value engineering. Reported headline sales were flat and improvement on the trend in 2011. Underlying revenues declined 1% in what was a tough operating environment for all medical device companies. Its reflected lower volumes was a result of a slowdown in procedures caused by budget constraints in Europe and unemployment in the United States. We also saw adverse pricing movement in Europe and in Japan. Sales of safety devices grew by 2% primarily due to the strong performance of safety needles and arterial blood sampling devices in many developed and emerging markets. Interest in both safety needle and capita products remains high in developed markets and it is growing in emerging markets. Medication delivery sales, excluding diabetes, declined by 3% although ambulatory infusion sales grew 2% through the continued success of our CADD®-Solis pumps and dedicated disposable sets. However, we experienced slower sales of the Medfusion 3500 ahead of the launch of the new 4000 model. Vital care sales declined 2%, depressed by sluggish procedure volumes in developed countries and reimbursement pricing pressure in Japan. The assisted reproduction business grew

by 19% while other vital care segments saw single digit growth. Our continued focus on eliminating unprofitable SKUs led to a revenue decline in patient monitoring and in kitting products.

SLIDE - SMITHS MEDICAL: INVESTING IN GROWTH OPPORTUNITIES

We are stepping up our investment in the growth drivers at Smiths Medical this year both on new product development and emerging market penetration. Our total first half R&D spend of £16 million amounted to 3.8% of revenues. The US launch of Medfusion 400 last month leaves us well positioned to support further growth in the hospital syringe pump. The CADD®-Solis VIP ambulatory pump was introduced in Europe and the initial level of customer enquiries is encouraging. CorrectInject our new spinal anaesthesia safety device is currently being launched into the UK market. The emerging markets have benefited from the successful launch of a new range of Graseby pumps developed in our China facility. We are now in the process of adding around 300 additional sales heads this year in target markets, including China, Brazil and India. We are already seeing early signs of success with this strategy with robust sales growth in the first half in markets such as India, up 40% and Latin America, up 11%.

SLIDE – SMITHS MEDICAL: OUTLOOK

Mature markets are expected to remain challenging in the short term as healthcare funding pressures and unemployment levels put pressure on price and procedure volumes. However, this should be offset by our increased focus on emerging markets, particularly in Asia, which should help contribute to sales growth in 2012 and beyond. We will also continue to drive savings that will be reinvested to fuel investment and new product development and further expansion of sales and marketing resources in growth markets.

SLIDE – SMITHS DETECTION: PERFORMANCE IMPROVEMENT – ACHIEVEMENTS TO DATE

Moving on to Smiths Detection, the Performance Improvement Programme which I announced at the start of the period and which Peter just referred to, is on target to deliver £15 million of benefits this year. Annualised savings of £40 million are expected by the end of the 2014 fiscal year. Site rationalisation and head count reduction has begun to take effect. We have already announced the closure of a major New Jersey office scheduled for completion by July. To date, various initiatives have reduced overall head count by more than 150 heads with further reductions planned for the second half of the year. We are also reviewing our global manufacturing footprint to reduced fixed costs and importantly, to align more closely with the needs and requirements of our customers. The new footprint will focus on three hubs, the Americas, Europe and a new site which will open in the fast growing Asia Pacific market. Pacific operational initiatives have also been implemented that include sourcing efficiencies and the value engineering project similar to the successful one we have implemented in Smiths Medical. We are also simplifying the business by exiting some small non-core technology areas building on the successful disposal of a food inspection business last year.

SLIDE – SMITHS DETECTION: VARIABLE ORDER FLOW HAS AFFECTED SALES

Turning the first half results, underlying sales fell by 11% largely reflecting government budget cuts, particularly in the military sector. This result masks the strong growth we experienced in critical infrastructure and an increased level of activity in emerging markets. Margin performance down 460 basis points was disappointing. This decline was driven by the gearing effect of the fall in sales

volumes, the impact of some low margin contracts dating back from previous years, adverse mix of lower military sales, restructuring costs of £3 million charged against headline operating profits.

Sales from the transportation sector remain flat despite materially lower spend by the TSA in the United States. In Europe some operators are pressing ahead with upgrades to the X-ray screening systems and 50 of our aTiX systems were ordered by Frankfurt Airport. Critical infrastructure revenue grew 21% as greater focus on the markets supported by increased sales resources helped secure new contracts. These included the first order for the new radiation detector RadSeeker totalling \$4.5 million. Sales to the ports and border sector fell by 26% as a result of lower government spend. However, tender activity has strengthened as countries recognise the revenue generating potential from better contraband detection as well as strengthened border security.

Military revenues recorded a fall of 42% as US defence spending reverted to lower levels reflecting troop withdrawals and funding cuts. More encouragingly, despite this backdrop, we have had some recent contract winds in the military sector.

SLIDE – SMITHS DETECTION: INVESTING IN FUTURE GROWTH THROUGH NEW PRODUCTS

Smiths Detection remains committed to driving growth by developing its principal technologies, products and systems. Total R&D spend was £20 million in the half year or 9.1% of revenues. This year sees the highest number of product launches in the history of the business. We have already launched RadSeeker, a new radiation detector and the Guardian Portable Chemical Identifier which uses our first product with miniaturised mass spectrometry. Tomorrow will see the launch of our latest air cargo screening system pictured on the right hand side of this slide. We are also making very good progress with our next generation explosive scanner for whole baggage that we are developing in conjunction with Analogic. This is a

significant investment and we have built four prototypes as well as eight LRIP units to allow us to fully test this equipment in various operational environments ahead of certification. The combination of advanced X-ray and three-dimensional computer tomography offers greater security screening and higher throughput. Initial feedback from airport operators is very positive. We see a significant market opportunity in terms of meeting new mandated detection standards and the replacement cycle for equipments installed in the years immediately after the events of 11 September 2001.

SLIDE – SMITHS DETECTION: OUTLOOK

Despite a difficult backdrop, the current order book is ahead of the same period last year and, subject to the inherent uncertainty over the timing of shipments and customer acceptances, is expected to support a similar level of sales for the full year. Headline operating margins will benefit from the cost savings and operational efficiencies driven by the restructuring initiatives as spoken of earlier.

Meanwhile, product launches will provide opportunities and new technologies. A focus on expansion into emerging markets will help offset lower government spending in western countries. We have been working hard to improve the order backlog for 2013 delivery. Recent contract wins including a major contract for an airport in the Middle East and two large customer screening contracts in India and Brazil mean that the order book for 2013 is already at twice the level it was for 2012 at this time last year.

SLIDE – SMITHS INTERCONNECT: CHALLENGING TRADING ENVIRONMENT AFFECTED PERFORMANCE

Turning next to Smiths Interconnect, reported sales grew by 7%, driven mainly by the acquisition of Power Holdings Inc. Underlying revenues declined by 6% against a strong comparative period while margins fell 500 basis points to 13.1%. Excluding

acquisitions, the weaker margins stem mainly from the lower volumes and associated operational gearing as well as adverse mix and pricing pressure. We have already taken clear action to cut costs in the first half. Headcount reductions were made in several facilities and one manufacturing plant was closed. A significant proportion of manufacturing capacity at two other facilities was transferred to lower cost countries as part of an ongoing rationalisation. We also continued to benefit from procurement initiatives that helped us offset cost inflation. Within market perspective wireless telecoms proved a notable positive in the period with underlying sales growth of 12% largely as a result of expansion in Asia and Australia. The push to optimise network performance was also behind revenue growth from test equipment, particularly in Europe and in China. The military and aerospace segment declined 15% reflecting defence budget cuts and delays to some military programmes. However, towards the end of the half year, military bookings began to show some signs of recovery. Underlying sales to the rail, medical, automation and test markets fell 7% reflecting a fall in demand for medical and semi-conductor customers offset by a strong showing in sales to the industrial and transportation segments.

Looking ahead Smiths Interconnect will align its reporting segments to its three technology areas, Connectors, Microwave and Power as shown on the slide.

SLIDE – SMITHS INTERCONNECT: INVESTING IN GROWTH DRIVERS

The acquisition of PDI was completed in October 2011. The business is performing in line with expectations and the integration should be complete before the end of this fiscal year. Its lower relative margins are being improved through operational and procurement initiatives. PDI transforms the power offering of Smiths Interconnect by adding a range of power related products and access to attractive higher growth end markets such as data centres and alternative energy applications. Company fund in product development grew by 8% to £11 million and

we continue to focus this investment on the best returns as seen by over 30% of sales coming from products developed in the last three years. These include millimetre wave components for a new poor weather radar system for helicopters and major product enhancements for our wireless telecoms test equipment.

SLIDE – INTERCONNECT: OUTLOOK

In terms of outlook, defence and other government funded sectors, particularly in the US and Europe are expected to remain challenging. This will constrain the full year underlying performance. However, margins are expected to improve reflecting the benefits of first half cost cutting and other operational initiatives. In the wireless market, the second half is likely to be weaker however we are well placed to benefit from an expected increase in capital investment by network operators over the medium term. In Connectors, industrial markets are expected to be mixed. Currently we are seeing improvements in the USA offset in part by further weakness across Europe. Smiths Interconnect is an important focus of investment to drive future growth. At the same time, we are implementing a programme to reduce costs and improve both returns and margins against the backdrop of difficult markets.

SLIDE – FLEX-TEK: MARGINS BENEFIT FROM OPERATIONAL LEVERAGE

So finally, to Flex-Tek. Flex-Tek's revenues rose by 2% and margins were up just short of 400 basis points. Primarily these improvements were driven by good sales growth in aerospace components and better pricing. Weakness in the household appliance sector and a flat US residential construction market, held back overall progress. Change in treatment for litigation costs that Peter referred to earlier is also adding a £2 million benefit to operating profit in the period.

In fluid management, sales of components to aerospace customers rose 14% helped by robust demand for major airframe platforms and jet engines and the order book for our commercial aviation OEM business remains strong and we have gained market share in our overhaul and repair business. Revenue from the construction market rose 4% despite the sustained weakness in US housing. This reflects, again, in market share achieved principally by cross-selling our ducting flexible gas piping and heating element product lines to the US distributor market. Sales at Heat Solutions fell 12% on the back of weaker demand for appliances from the residential market.

SLIDE – FLEX-TEK: OUTLOOK

Flex-Tek has also increased new product development spend in heat solutions and fluid management and is investing more in its manufacturing facilities in China and in India. The first half results lay a solid foundation for the rest of the year. A strong backlog supports aerospace sales and Flex-Tek is well placed to exploit any upturn in the residential construction and appliance markets.

SLIDE – SMITHS GROUP – OPERATIONAL PRIORITIES FOR 2012

Returning then to the performance and prospects of the group as a whole, trading conditions across most of the markets are likely to remain challenging with ongoing pressure on government spending continuing to constrain some of our businesses. However, we do have strong order books in those businesses without major government exposure such as John Crane. There are also encouraging signs of a solid order book in Detection for delivery in 2013. We see no reason to change our operational priorities which after several years focus on improving the key metrics of margin, cash conversion and return on capital, are now very firmly directed to delivering improved medium term revenue growth.

So where are we focusing our efforts? Driving out the benefits from both the comprehensive improvement programme in Smiths Detection and the remainder of our previous re-structuring initiatives remains a key priority. In parallel, we will deliver further operational efficiencies to embedding continuous improvement processes within each of our divisions, a sharper focus on driving top line growth to increased and more effective NPD investment, leading to expanded new product pipelines across all divisions. Greater investment in sales and marketing resources in emerging markets will drive an increased percentage of our revenues from these faster growing economies, a sustained focus on cash generation to help fund these growth initiatives and bolt on acquisitions as well as a progressive dividend, effective management of legacy liabilities to minimise the cash drain and the constraints that these liabilities place on both the balance sheet and on future strategic options.

The operational improvements made to these businesses over the past four years has built a solid foundation, not only to weather the economic down turn but also to generate future growth and improved returns. We remain confident of meeting expectations for the full year.

SLIDE – QUESTIONS AND ANSWERS

A brief infomercial before I conclude, we are hosting an Investor Day on Smiths Detection at the HAC in the City of London on 29 May where Mal and his management team will make presentations and demonstrate products. I do hope that as many of you as possible will be able to join us for what will be a more detailed discussion of the strategy and operations at Smiths Detection, as well as an opportunity to see that technology close up and ask questions about the products. That brings an end to the formal part of the presentation but Peter and I, along with other members of the senior management team will be pleased to take any questions. In terms of housekeeping, can I just remind you please wait for the

microphone so everyone can hear your question and would you please identify yourself with your name and the company you represent. Once again, thank you for joining us this morning. Okay, third row on the left.

MARTIN WILKIE: Thank you. Good morning, it's Martin Wilkie from Deutsche Bank. A couple of questions. Firstly you mentioned about some targeted disposals. If you could just clarify what sort of size those disposals might be and given that the pension deficit has increased during the half, do the trustees have a claim on any of those disposal proceeds or would all these be below the radar in terms of disposal size? Then a second question just on Interconnect. Obviously quite a big margin change year on year and if we could just get some more clarity on the margin differentials across the different product lines in that business just so we can understand how margins could recover again when we see some recovery in wireless, for example. Thank you.

PHILIP BOWMAN: I think in terms of disposals and whether they are or are not going to be under the radar, I would say primarily the disposals will be a relatively small size. As I said in the comments on Detection, we are cleaning up a number of peripheral businesses around the edge of that and I don't suppose really you would expect me to set out, in great detail, what our plans are going to be ahead of time. Clearly if it was a substantial disposal, the pension fund trustees, I have no doubt, will be holding out the collecting plate very quickly but we are talking about relatively small sums of money.

In terms of Interconnect, I think Ralph is best placed to talk a little about the different margins across the different businesses there.

RALPH PHILLIPS: With Interconnect, the first half, you saw a drop off in several of our markets and that really hurt the margins. We really haven't quoted the different margins (inaudible) or the various end markets previously but I would say that they are very

representative across the board. There is no one business or one market that is dramatically lower than the others. They vary project to project and half year to half year but for most part, they're pretty uniform whether it's medical or whether it's mil-aero. Mil-aero tends to be more dampened because of the oversight from the US government on pricing but for most part, they vary. They're pretty nominal across -- they're very nominal across the board.

PHILIP BOWMAN: Okay, next question in the centre please, same row.

ALEX TOMS: Hi, it's Alex Toms from Bank of America Merrill Lynch. Just three questions from me. First of all on Detection, I guess that the key one on IMS you were talking about sales being slightly down and they have ended up kind of being worse than that and combined with that, the kind of order book, you were talking about being better year on year. Can you just give us -- I know the business is lumpy but just kind of what you saw in Q2 there? Also, in Detection, obviously military has come down a long way. I suspect that's a highly profitable part of your business, can you -- like Martin's question, can you give us a feel for the differential there or the impact of that? Then the third question, medical margins, you talked a lot in the presentation about investment levels. Have medical margins kind of -- are they -- can we expect those to flat line from here or is there further medical margins can move up? Thanks.

PHILIP BOWMAN: I think I will answer the question on medical margins first. We are not going to hire an additional 300 people in sales and marketing in developing markets without clearly an impact. What we are trying to do, and I sort of flagged this last September, is to generate sufficient improvement in underlying performance out of value engineering and other operational efficiency initiatives to fund this additional investment. So I think we were fairly clear in September saying, "Don't expect the margins to continue going up forever because we are going to invest more". If you

look over the last four years, the percentage of revenue spent on new product development has moved from just over 2% to close to 4%. Over the course of the next 3 years, we want to move that up further. Certainly the long term goal is to get that towards 5%. So over the period, certainly we are looking at reinvesting. In terms of Detection, I did say in terms of the outlook for the second half that you always have the uncertainties over when you will be able to ship an order and when the customer will actually come and sign the acceptance certificate. That had an impact clearly on the first half of this year but I will pass over to Mal to talk about that and also talk a little bit about margins.

MAL MAGINNIS: Thank you Philip. The first half clearly we moved some major contracts out into the third quarter. That's fairly typical of the business, I'm afraid. My focus has been to build up the backlog. The larger the backlog in this business is, the more room I've got to be able to move projects around and the delivery of those projects. I have lacked that backlog in the first half. I'm building that backlog to the second half which will allow me to have the confidence to be able to build into a flat year on year. Thanks.

PHILIP BOWMAN: Right Mal, the question about margins, military margins.

MAL MAGINNIS: Sorry, yes. The military business and in fact any of the sense of business, the non-complex major projects, always have a strong margin. We have seen the programmes move back to the normal budget cycle so those margins will remain and of course, the margins are critically linked to my management of costs. One of the core projects for my first six months is to move those costs out. As soon as I get those costs out, which we currently are being successful with, we will be able to then leverage the projects in the second half to restore the margin.

PHILIP BOWMAN: Thank you Mal. Next question. On the right here, second row.

NICK CUNNINGHAM: Nick Cunningham, Agency Partners. Given that you've been charging £3 to £5 million a year, I think, to Titeflex, previous to taking the provision, do we now add that back to baseline profits for forecasting going forward and will there be any annual adjustment to that provision? Then perhaps slightly related on the asbestos provision as an annual component to that, the first half charge was a bit more than half what I thought it would be for the year so is there any guidance as to what the year number would be and how we look at it going forward? Thank you.

PHILIP BOWMAN: Okay, Nick I think in terms of CSST yes, clearly, since the costs of dealing with this litigation will be charged against the provision, it is appropriate to revamp your operating profit forecasts. In terms of provision, we will be adopting an identical approach to that of the asbestos provision so the provision will be reviewed on a half-yearly basis and there will either be an increase or a decrease in provision depending on clearly claims experience and expectation.

In terms of the asbestos provision, Peter commented that £7 million of the increase was due to a reduction in the US risk free rates and therefore that changed the discount rate. In terms of overall experience, I would like to ask Michael Herlihy, our general counsel, to make a few comments, Michael.

MICHAEL HERLIHY: Yes, I can be fairly brief, thankfully, in terms of actual claims experience and the first six months this year was fairly uneventful and certainly quieter than the same period last year. So not a great deal really to add I think, Philip.

PHILIP BOWMAN: Yes, right at the back please.

BEN UGLOW: Yes, it's Ben Uglow, Morgan Stanley. I wanted to follow up on Mal's response to the change in revenue and operating profits in Detection. Year over year you've had around a £30 million decline in the revenue. How much of that roughly was

related to pushing out contracts into the second half? How much of the revenue decline was related to deferral and then related to that, when we look at the decline in margin or, let's say, on an underlying basis ex-restructuring, about £11 million of operating profits, is the majority of that decline related to that contract deferral, i.e. is -- or those contract deferrals, is that the main effect in your margin trend or is it underlying volumes? So that was question number one.

Question number two is really a follow up to what Mr Bowman said at the last meeting vis-a-vis M&A, I wanted to know if you were still interested as much in acquisitions as divestment and how you see the balance of your expenditure between acquisitions and disposals?

PHILIP BOWMAN: I think going back to your question on Detection, if I go back to the specific comments I made, I did comment about the impact of low margin contracts from prior years that came through here. That did have a significant impact on margin in the first half of this year. Secondly, Mal talked a little bit about military sales, clearly with a reduction in the level of military sales, that had an impact in terms of margin as well. In terms of deferrals, Mal, that's a question you will have to answer.

MAL MAGINNIS: Thank you Philip. Yes, of the titled deferral about £15 million has moved into the second half. That's no particular surprise given the way the business prime contracts work but of course the difficulty was I didn't have the capacity to move in the major military programmes to cover those movements in margins. That's why it's so critical for me to build the backlog. If I have a solid backlog, then it gives me the opportunity to move programmes around as I need. I didn't have that in the first half and, as Philip mentioned, I had unfortunately some legacy projects at very low margins coming in to the year which further damaged that.

PHILIP BOWMAN: Thanks Mal. I think in terms of M&A, I think we've been pretty consistent in saying we're looking to continue to build the business, particularly Interconnect and John

Crane through bolt on acquisitions. We continue after the two acquisitions in the first half of the year to evaluate a number of other alternatives and opportunities. In terms of divestments, I think I refer you to the earlier answer that I gave. Yes, we are doing some tidying up but it is around the edges. It's not a substantial amount of money. Okay? Yes. In the second row towards the middle.

ANDREW CARTER: Morning, it's Andrew Carter from Royal Bank of Canada. I guess three questions please. You've been very clear that the -- some of the issues in the first half related to western government spend declining. I think last time you reported you gave us a sort of a percentage of sales that were directly targeted at western government customers. I wonder if you could just update on where that is. Could you estimate what the decline on that year on year was in the period? And then I guess just following on on some of the comments about pensions, recognising that there is a tri-annual review going on, could you just give us an idea as to what, at the moment, you think might happen in terms of cash contributions going forward and would you just confirm also, is that a tri-annual review for both of the UK schemes?

PHILIP BOWMAN: In terms of the pensions, the tri-annual review, as I think I'm right in saying, one of them is at 31 March and the other is at 30 April so it is of both the UK schemes. I'm not going to be drawn on cash contributions at this stage. We are expecting a statement from the pension regulator at the end of April which is a guidance to trustees in terms of tri-annual reviews in the context of continued quantitative easing. It's very unclear exactly what that statement will say but in correspondence with the Chancellor we are given to believe that there will be some news in that which may affect the way that the review would be conducted. Don't know that but that is a possibility. So I think on that basis, it's a question of simply looking at what the remediation period is. If you look at major schemes across the UK, well over a third of those I think I'm right in saying now, have remediation periods of over ten years. Clearly one's method of addressing this, if we believe that quantitative

easing is not here forever, and it can't be with us forever, would clearly be to agree a slightly longer remediation period with the trustees. So for all of those reasons, I really am not in a position to give any guidance at this stage. We have given you guidance for the current year and in any event, whatever we agree with the trustees, probably won't be to another 18 months or longer into the future. Certainly my experience of the first tri-annual review we had at Smiths, we were nearly two years before we had a change in contributions agreed.

In terms of the question about western governments, I am going to pass you to my colleague Peter.

PETER TURNER: Thanks Philip. Andrew, I mean I think the overall blend in the total is, you know, slightly lower clearly, given the mix of growth we've seen in the first half but I mean you're talking within the range, maybe a couple of percentage points lower. I think in terms of the overall decline in that population of revenue, it's looking something towards high single digits across the portfolio as a whole.

PHILIP BOWMAN: Okay. Yes on the left hand side,

RAMI MYERSON: Good morning. Rami Myerson from UBS. A couple of questions. On John Crane, you've talked about growth slowing down, could you give us an indication of where you see the growth slowing down and how the order book has shaped up so far this year and how pricing is impacting the business at the moment? Are you still seeing an improvement in pricing or is that stabilised or is it deteriorating? On Medical, for some time we've been waiting for signs of organic growth in the medical division and we haven't really seen them quite yet. Should we expect any organic growth in the second half of this year? Potentially do you think there could be organic growth in 2013?

PHILIP BOWMAN: Okay, I can pass the first question on John Crane to Paul but before I do that, I will just comment. What I did say is that we had stronger comparative figures in the second half of this year than the first half and therefore relative growth might fall but Paul will give you, I hope, an overview of what he sees and hears from his customers.

PAUL COX: So what we do see at the moment is our continued similar levels of orders and continued investments in capital projects across the globe. So as Philip is noting, the -- whilst we're at a level, if you look at the comparative from first half to second half, it will be a -- it will show, you know, closer to single digit sort of growth rates in the second half even though we are seeing strong orders and continue to see strong activities. The question around pricing, pricing remains stable and we remain able to get price and we were a contributor in this first half to the pricing success at Smiths.

PHILIP BOWMAN: Paul, would you just like to comment a little bit on geography? What we're seeing in different geographies in terms of demand?

PAUL COX: Yes. The strengths really are in terms of where they manifest themselves for us in terms of orders is actually strongest probably in the Americas, following by Asia Pac and followed by EMEA with the bright spot in EMEA, as Philip noted, was in the least. I will point out that we have, you know, a lot of activity going on in Canada. We have a lot of activity going on in South America. A lot of activity associated with North America and the US in particular, is around installations. There are going to go into the likes of Asia Pac, Middle East so there's a real installation boon going on in the Middle East so that's where a lot of our equipment is going. You see that we're actually putting in infrastructure to support that for the future and that's our focus is to get the infrastructure in place.

PHILIP BOWMAN: Paul, thank you for that. If you could pass the microphone to Stuart, I'd like to ask Stuart Morris-Hipkins to address the question about when do we reach the inflection point in terms of restoring top line growth to medical.

STUART MORRIS-HIPKINS: Thanks Philip. If you look at the results we've got some great growth coming from some of our consumable lines but in the second half and in fiscal 13, we've just launched Medfusion 4000, a next generation syringe pumped into February into the United States. Then Graseby 2000 and 2100 into our emerging markets. So we've got a good hardware pipeline that we see as growth. See growth in the second half and into fiscal 13. Secondly we've made investments into our emerging markets in China and India and Brazil and into the Middle East and we'll see growth coming from those emerging market investments in the second half and in years to come.

PHILIP BOWMAN: Thank you Stuart, very much. Yes please, in the second row.

GLEN LIDDY: Good morning, it's Glenn Liddy from JPMorgan Cazenove. In terms of the medical business in the next year or two, what is likely to be the bigger driver of growth that you may see? Is it the new products or Asia or the emerging markets and what proportion of revenue is currently emerging markets? In John Crane, you've been investing in expanding your distribution service network, how much further can that go in terms of time horizon? Is it another couple of years or are we nearing the point where you've saturated your opportunities?

PHILIP BOWMAN: Thank you Glenn. Stuart, would you like to take the microphone again please?

STUART MORRIS-HIPKINS: Yes, we'll see growth again coming from new products. We've got a rich pipeline in our new products across our infusion and safety and our vital care lines so this is something that we've been investing on for in a number of years. So we'll

see growth coming from new product development. We'll see growth coming from our emerging markets and then the portfolios we target in those emerging markets. The plans are in place to see that growth coming through. In terms of percentage, I'm not sure that we've shared direct numbers as a total, but we have strong growth coming from our Latin America, Middle East and Asian markets in general.

PHILIP BOWMAN: Thanks Stuart, very much. Paul, if you'd like to address whether we're approaching saturation with the number of customer service centres?

PAUL COX: Saturation is an interesting question. It's really not around numbers although we will be continuing to move up the numbers because there is a number sites and a number of installation are going up. The way to think about it is we will be continuing to evolve our capabilities so we have effectively three levels of service centre. We may put in and generally start at a low level service centre. We will evolve those and actually a good example of that is our recent expansion in Dubai where we've gone from a core stocking sales service engineering capability to now a full service centre, full super service centre capability in Dubai to service the Gulf region. So you will see as we go along in China, in the western part of Saudi, in Russia etc, we will be continuing to evolve in that capacity and capabilities and because our main purpose is to keep our customers running and in order to do that and do that the best, we have to actually have more capacity and more capability local to the customers. Then we will get rewarded for that in the aftermarket.

PHILIP BOWMAN: Thank you for that, Paul. Now no one can leave until there is a question to Tedd Smith on Flex-Tek so someone has to come up with a question for Tedd. Mr Morris, you've been relied upon for questions on stranger subjects.

SANDY MORRIS: Gee thanks. Maybe I should just pop over and cheer Srimi up a bit then as well. I mean if we want to go straight to Tedd, if you'll forgive me, we used to split this

business up sensibly because we used to show aerospace (laughter) sorry with respect to -- we used to actually clearly show aerospace and now we seem to bundle it into fluid management. So I mean in a way, it would be nice to know quite how fast, within fluid management or how much of fluid management is aerospace please.

PHILIP BOWMAN: Tedd, perhaps you'd like to explain as part of this why we have structured the business as we have.

TEDD SMITH: Thank you, Sandy, for coming through for me. The business is about 80% aerospace. It's structured around capabilities between doing rigids and Teflon or flexible type products to go into, you know, high pressure applications across industrial and aerospace activities so that's why it's structured that way.

SANDY MORRIS: Well Tedd, in the past I thought I'd reach out and connect now that I'm American. I'm afraid I'm going to get a bit gritty on -- a bit nitpicky on medical. We've had exit from diabetes, SKU rationalisation and flu seasons. Is there anything in this first half or, you know, going forwards, that I need to worry about or are we now looking at the base?

PHILIP BOWMAN: I think there is still clearly, in the first half numbers, a little bit of diabetes left but apart from that, Stuart, if you would like to comment on that?

STUART MORRIS-HIPKINS: Yes, I think you're looking more at a ball of a base. Again we do have residual sales in diabetes. We've articulated in the release around some of our other lines like kitting that we will continue to look at our portfolio. There may be some further key rationalisation in some of our portfolios but the real focus now is investment into our emerging markets which we've added 300 heads. We will have 300 heads by the full year. The launch of all of our new products and then

continued focus on our other lines in safety, infusion and vital care products. So you're looking now at more of a base now going forward.

SANDY MORRIS: Right, and then before you disappear, in terms of procedures, I can understand how the discretionary stuff in the States, you know, people decide not to do it and so on, but with employment and everything sort of trending the right way, surely there must be a kind of backlog of procedures in the hospitals. So I don't know whether the hospitals are under utilised in terms of what they're doing and hence could bounce back or whether actually the hospitals have just kind of cut back in capacity so we are where we are, if you see what I'm getting at.

STUART MORRIS-HIPKINS: I mean unemployment is still relative. I mean it's just over 8% right now in comparison to the normal around 4% to 6%. What we've seen in general costs, they're not cutting back. The procedures are there but the procedures are flat. So as before when we looked at the hospital procedures were in a decline position, they have now flattened off. As the unemployment comes back down to normal levels, we should see an increase in the procedure rates.

SANDY MORRIS: Right, now I will stop and just a tick. So when people like Covidien point to devices growth of 5% to 8% this year, I mean that's essentially coming out of emerging markets so hence our drive into emerging markets would be broadly it, would it?

STUART MORRIS-HIPKINS: Well again, you've got to look at where Covidien is growing their portfolio. I'm not going to comment on what Covidien say about where their growth is coming from but in terms of them looking at the market itself, and look at procedure volumes, it is flat largely in the developed market. In the emerging markets, there is more infrastructure spend going into acute care facilities. There is more opportunities there for the types of products that Smiths Medical offers for those top

tier hospitals and so if Covidien are making comments, then I'll leave Covidien to continue to make comments where their growth is coming from.

SANDY MORRIS: Yes, I mean sorry, I shouldn't do that to you. Two last things. One just on Medical. Can someone explain this distributor rebate thing and is this Japan? The second thing is, in Crane it's lovely but it's all massively skewed to all gas at the moment with the rest of the business, in the sort of analysis, looking pretty flat.

PHILIP BOWMAN: I think in terms of the rebate in medical we'll pass to Rob White, who better to answer the question.

ROB WHITE: Yes. The distributor rebate issue in Medical actually relates to the US. Essentially when we sell products through the distribution channels, the sale price that we sell to a distributor maybe different than the sale price the distributor sells on to an end user. In some cases, it's higher. Therefore at the time of sale, we have a liability for future rebate claims to back to distributors. However, we don't know how much those rebate claims will be because we don't know with absolute certainty the lag period between the point of sale to a distributor and the onward sale from the distributor to the customer. We can only estimate it. With the benefit of better information which we've developed over time, we have a clearer view as to what that accrual should be and we've made the appropriate adjustments in the half year accounts.

SANDY MORRIS: Lovely. It just opens up another question or two but I'm going to --

ROB WHITE: Do you want --

SANDY MORRIS: No, I give up. It's all right. I surrender.

PHILIP BOWMAN: I think on the subject of procedures, I mean one observation I would make ... I had a shock the other day. I was invited to a dinner party by a neighbour who is a consultant in an NHS hospital. What he didn't tell me before I got there, that everybody else round the table, of which there were about 16, were also NHS consultants. So you can imagine it was an interesting evening but we did get on to the subject of procedure rates and what I found interesting was they said that until probably about the end of September, middle of October, despite all the talk of, you know, financial cut backs and everything else, there was really no impact at all from their experience in terms of procedure rates. Sometime around the middle to the end of October, procedure rates started dropping off as a direct result of what was happening. I think that's an interesting anecdotal piece of information and I think if you go to some of the European continental countries, you would hear exactly the same but significantly more loudly.

Paul, you have a question about John Crane.

PAUL COX: Sandy, the bowels of industry is aside from the power industry generally driven by GDP kind of characteristics and so, yes, we're not seeing quite the same kind of level of growth. We did see growth in all those areas, but obviously we do tend to focus on the oil and gas, petro-chemicals because it's over half the business today. We're seeking to increase our exposure with the power water side of it but that's, again, a smaller part of the business so we don't talk about it quite as much.

SANDY MORRIS: (several inaudible words)

PAUL: We like it a lot.

PHILIP BOWMAN: Okay Paul, thank you for that. Yes, in the centre please.

JONATHAN MOUNSEY: Hi yes, Jonathan Mounsey from Exane BNP Paribas. A couple of questions on Detection. You talk about the order book having improved year on year, could you give us some colour as to the book to bill and perhaps the a -- how of that order book actually covers sales at the moment and then also, you've talked previously about opportunities in Detection so you mentioned today the CT X-ray hybrid machines but you haven't mentioned is the regulatory change in Europe to liquids and gels. Are we already seeing that in the first half? Are airports starting to buy and what's the size of that opportunity given that the airports need to have those machines in place and able to screen over 100 ml by April next year?

PHILIP BOWMAN: Mal, would you like to take the question on regulatory changes?

MAL MAGINNIS: Yes, just on the regulatory changes, just to remind everyone that the liquid explosives regulation change is only one aspect of the total EU change. There is a range of other threats that you manage within passenger screening so the liquid explosive part is only one part of it and you need to remember that some of the airports have already invested in high technology equipment such as our aTiX machine which can already pass those requirements. However, we do see some of the airports at the lower end of the technology spectrum having to invest in some adjustments and I am seeing that come through and that is part of the order backlog improvement in Europe. But I would stress that the general order backlog improvement is due to the better product mix and the better focus and re-energy in the sales force across all the markets. So I would not over-emphasise the issue of the regulatory liquid explosives, I would look at the general regulatory picture. For example, the baggage system, EU level two to three movement and the TSA change in regulations, all of which lead me to the second part which is on what are the other product lines including our new baggage system. The key issue for me is to re-energise the product line for the market space. That's what will lead to additional growth and restore our position and we're seeing with the overall products

that Philip mentioned, the new air cargo machine, the GC mass spec machine, the new baggage machine, all of these are growth market sectors for us to go into and that's the reason we're doing them. It's why we have the largest portfolio release this year that we've done for a long time.

PHILIP BOWMAN: Thank you Mal. Yes, on the very end.

TIMM SCHULZE-MELANDER: Hi, good morning it's Timm Schulze-Melander at JP Morgan. Just one quick question for you, Philip. On civil detection we've seen those low margin backlog impact into the P&L, with military and ports and borders being down, could you just comment about the pricing environment in those two parts of the Detection business and when should we expect that to flow through into the income statement?

PHILIP BOWMAN: I will ask Mal to answer that I think, please.

MAL MAGINNIS: On the pricing side you've got two completely different markets. Obviously there's the military is a fairly sustainable market and what we've seen there is mainly the programme movement as the US moves from a war based budget programme into a more consistent normal programme. So I see no change in the price or margin approach in the military side. In the ports and borders, this has been a fairly complex market with various changes in the market base technically and in the competitive landscape. What I've done within the business is to focus us at the market sector where we have the advantages and where we can perform the best. At the moment, the backlog that we spoke about is significantly in the ports and borders area. That has been a significant part of that growth as well as transportation and that will assist me restore the margin once I fix, with value engineering, the cost base and also by adjusting some of my manufacturing structure. That is going to give me a particular leverage in ports and borders. So

again, I see the price certainly not moving anything particularly but I see my margin improving both by volume and by the product.

PHILIP BOWMAN: Thank you Mal. On the end please.

CHRIS DYETT: Morning, Chris Dyett from Investec. Three quick questions from me. Firstly, kind of going back to disposal, I know you're not going to give us an idea of the business you're going to sell or an idea of kind of the timing, but can you give us a kind of an idea of, if you were to say look at the list, broad kind of approximation of the value of those business. Are we talking £50 million worth of value or £500 million worth of value? Second question, it's a bit of a cheeky one is, as you look across your portfolio, are there any other major product liabilities that we should be aware of that you charge against the P&L that in two years' time you're suddenly going to find that you'll have a position against? And thirdly, just in terms of Detection, and it kind of goes to a series of questions we've had here, but obviously the order intake has been listed better over the last several months, are we to assume that the books' margin against those contracts is better than some of the contracts you won say, kind of, nine months, 12 months ago which have impacted the first half?

PHILIP BOWMAN: I mean, I think in terms of the answer to that question, the answer is yes. By and large the margins are materially better than the contracts I referred to in the presentations and those contracts were not necessarily won in the last, you know, nine months or so ago. Some of those contracts have been in the system for a very long time and that, of course, is one of the challenges. Where that happens, you tender for something in good faith with a delivery date. You then find that the infrastructure isn't ready and by the time it is ready, the world has moved on so there are improvements we've made in our contracting procedures to deal with that.

I think in terms of giving you any indication of a quantum of disposals, I'm afraid unfortunately I'm not going to be drawn on that and in terms of whether there are any other product liability areas, I will ask our general counsel to address that.

MICHAEL HERLIHY: Thanks. I mean like all manufacturing companies, particularly operating in the US, we have a range of claims and litigation. Question do we have any others that we should be providing for today, I think along with, "Have I stopped beating my wife yet?" the answer to that is, "No". "Will we have in two years' time?" I think the answer is, "Ask me in two years' time", but no, there's nothing else I think we want to talk about here today. Thank you.

PHILIP BOWMAN: Michael, thank you for that. Any other questions? Looks to me as though we've come to the end of the questions. It remains, I think, just to thank all of you for being here this morning. Thank you for your time. Thank you for your interest and thank you for your questions. No doubt we will repeat the ritual in approximately six months' time. Thanks very much.